



“Ircan International Limited
Q4 FY2019 Earnings Conference Call”

June 07, 2019



ANANDRATHI



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Moderator: Ladies and gentlemen, good day and welcome to the Ircon International Limited Earnings Conference Call hosted by Anand Rathi Share & Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rachit Kamath from Anand Rathi Share & Stock Brokers Limited. Thank you and over to you Mr. Kamath!

Rachit Kamath: Thank you Bharat. Good afternoon to all the participants. On behalf of Anand Rathi Shares and Stock Brokers, I welcome each and everyone to Q4 and FY2019 earnings conference call for Ircon International Limited. From the management, we have Shri. S.K. Chaudhary, Chairman & Managing Director and Shri. M.K. Singh, Director of Finance. We will first have opening remarks from the management post, which we can proceed to a Q&A session. Without any further delay, over to you Sir. Thank you.

S.K. Chaudhary: Good afternoon. I am S. K. Chaudhary, Chairman and Managing Director. As you have seen now the yearly results are out for the financial year 2018-2019 and the company has done on a standalone basis, the total revenue of the company has increased by 14% from Rs.4121 Crores to Rs.4680 Crores and on consolidated basis the revenue has increased from Rs.4213 Crores to Rs.4919 Crores, which is approximately 18% higher as compared to the total revenue of last financial year.

On consolidated results basis EBITDA has increased by 8% to Rs.690 Crores for the year 2019 compared to Rs.637 Crores for the year March 31, 2018. Profit after tax has increased by 10% to Rs.450 Crores for the financial year 2019 against Rs.409 Crores for the corresponding period last year. Earnings per share have also increased to Rs.47.85 against Rs.41.83 last year.

This is the basic financial highlight of the company. The total dividend for financial year 2019 has been declared it is Rs.21.54 per equity share, which is 215.45% of face value. Trade receivable of the company has come down from 61 days from last year to 51 days in this financial year.

As you know, Ircon is an infrastructure company and it does work in all sector of infrastructure primarily in railways, highways, large bridges, then workshops, these workshops are railway workshops, hangers, electrification both railway electrification and other electrification of metros and Ballastless Track for metro and these kind of projects which we do in India and overseas.



Ircon International Limited
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The company is ranked among a top 250 contractors in the world. The company is also among the top 50 profit-making PSUs in India and it is a continuous profit making company since its inception in last 43 years.

We have done a number of projects outside India and also doing major projects in India. These are about the company's details, which I wanted to tell you.

As you know that we are also basically infrastructure and in construction business. We get works in two forms one work are nominated by railways, which are given directly to railways as railway execute the works in three sessions, their own construction division then some works also done by RVNL and some works are done by Ircon.

In Ircon's case 50% of our revenue is from railways, which are on nomination basis, but total revenue in railways sector is 85% approximately, which is 35% is other railways, which are foreign railway projects as well as the projects which we are doing for DFC and toll connectivity projects, but these are railway projects, segment overall is 85% out of that 50% is from Indian Railways then we are working in Algeria that is also railway project, we are working in Bangladesh that is also railway project, we have secured a work in Sri Lanka that is also railway project. So like this our sector in railways is the main focus. The company name was earlier Indian Railway Construction Company, which has been changed to Ircon International Limited, but we are also doing highways and around 12.5% of our revenue is from highways and then electrical works and building works, which constitute the rest of it. So these are the things, which are the company's total segment in which we operate.

The company has many subsidiaries, which are the road subsidiaries and the projects are in the toll as well as hybrid annuity model in different states of India then we also have coal connectivity projects in joint venture companies with subsidiary of Coal India Limited, the respective state government and Ircon. So these are the three partners who are the owners of this project. We are the executing agency. We are doing the construction part of it. So this is the main thing.

Moderator:

Thank you. We will now begin the question and answer session. The first question is from the line of Ajay Sharma from Maybank Asset Management. Please go ahead.

Ajay Sharma:

Thanks for the presentation. Just wanted to check on the overseas project. Have we managed to secure the project from Malaysia and how big is the project and over what duration will it be executed and with what kind of margins?



S.K. Chaudhary: These projects are on negotiation basis on Malaysia, which we are trying and I have recently visited Malaysia, met all the higher authorities in the government, concerned ministers and other people. We will be submitting our proposals maybe next week to them and it will take some time in Malaysia because it is in negotiation basis and may take three to four months to materialize and we can get the work order. The projects are quite large. As you are well aware that Malaysia, China has a lot of influence, but India has its equivalent influence and we have done almost 18 projects in Malaysia. We have a permanent office. We have all the machineries in Malaysia. So they appreciate they know the contribution of Ircon and I was called in this meeting, by themselves only to come and meet them, so that is why I came back about a week back from there for a week visit and Government of India and Malaysian Government we are in talks and hopefully that it will materialize and as you said the project size will vary because we are talking of two, three projects, if we put together all the projects the rough cost will be around 14000 Crores, this is very rough because when you do the negotiation kind of thing that you have to do lot of engineering and alignment changes so the cost may vary little bit 1000 Crores this or that way.

Ajay Sharma: Secondly what are the MoU targets we have agreed with the government for this year?

S.K. Chaudhary: MoU target with the government is 5200 Crores for this year. Last year MoU target was 4,200 Crores, which we have already crossed as you know that we have surpassed that by more than 10%, 15%, standalone basis. Next year is 5200 Crores, which we will definitely cross. I expect a figure of around 5600 Crores we will reach if we have from the existing order itself and if these orders in Malaysia and Sri Lanka because yesterday also we got a call from Sri Lankan Government where they are asking an offer from us for two road projects, which we will be submitting to them within a week or ten days. This is also again on negotiation basis.

Ajay Sharma: How big are these projects?

S.K. Chaudhary: These projects are also quite big maybe around both of these projects will be around 2000 Crores or something.

Ajay Sharma: 2000 is it?

S.K. Chaudhary: Yes.

Ajay Sharma: Right. And is there any profit target also on the MoU?

S.K. Chaudhary: Yes, definitely profit target is there. Those figures are given. They generated two, three things that how much PAT you will earn then they will give the other financial, PAT to



network and operating margin so all these ratios they give and those we will definitely achieve and last year was also excellent and this year also we are excellent. And hopefully next year also we will be excellent.

Ajay Sharma: Sir just to clarify, this 5600 Crores is on a standalone basis or this is consolidated?

S.K. Chaudhary: I feel that around 5300 will be on standalone roughly and balance will come from one subsidiary is there Ircon Infrastructure Services Limited, which does the PMC works and that PMC works they are executing in Delhi and for Concor, Department of Science and Technology, Skill University, Ministry of External Affairs, two projects in Myanmar and Kendriya Vidyalaya, so that is the Project Management Services which we are providing. So around 300 Crores revenue will be from that side.

Ajay Sharma: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sanil Kothari from Unique Investment Consultancy. Please go ahead.

Sanil Kothari: Thank you very much Sir for the opportunity. Sir, my question is regarding railway usage there is any projects of the railways have done by railways their own then Ircon and RVNL. So if you can just make us understand what is Ircon's speciality or ability which gives maybe more project or opportunity to do more work of the railway and my second question is that is now talk about the nomination projects, the fees or maybe margin which is, which has been given to our Rail Vikas Nigam or rakes or Ircon that can be curtailed so any thoughts on those things?

S.K. Chaudhary: No that is almost same, it is 8.5%, which they give, and they do not differentiate between the organizations. It is the same amount, which they gave, and they also give some establishment cost apart from that because these are the works, which sometimes go quite long. So alone 8.5% cannot survive, that is why the establishment cost is also given by them.

Sanil Kothari: Any change is possible and what we hear is that, that rate 8.5% can be reduced?

S.K. Chaudhary: That will not be reduced, but they will put a cap on establishment maybe around 3% to 4% extra from 8.5%.

Sanil Kothari: But original nomination project 8.5% the management fees will remain?

S.K. Chaudhary: That will remain.



Sanil Kothari: Sir my next question is, if you can update on this Bandra East Commercial Project, what type of investment we made and what our plan is in future. Will those projects will be owned by us and will give on rent or we will sell it out how is the structure of this project?

S.K. Chaudhary: Before I come to this question you also asked what is the Ircon speciality in this right. Ircon if you know is the company, which has done, works of around 250 kilometer per hour speed of railway in 1984 to 1987 in Iraq. Ircon owns all the railway machineries, which are required for execution of work in India and all other countries, which no other company has even RVNL does not have the machineries. We definitely bring all the machineries, which are the latest as you know that the DFC has a specialist requirement of this new track laying machines that we have already imported from USA. And we are assembling in Gujarat because our portion is Gujarat and Maharashtra and we will start doing lying of track after these monsoons. Now you are asking second question is Bandra? This Bandra plot what we have done is that we have RLDA was owner of this plot because RLDA is the Rail Land Development Authority, which was created for all the plots and all the land has been handed over to them by the railways. So we signed a MoU with RLDA for exploitation of this plot. The mandate given to us is that we have to find a suitable developer for doing this work. And for doing that work, we will charge our project management consultancy we will do the completion of this project through the developer and then developer will give the cost of this project along with some other proceeds, which will be part of the bid. The bid is already invited. It is in the website. We are expecting few clearances of MMRDA, which MMRDA has promised that they will do this entire thing on our behalf and on railways behalf. So once this thing is over, we will definitely because the main issue is that plot has a connectivity from the expressway, which MMRDA only can give and they are ready once some clearances are required from the railways, once these are over then you will find that the development will start.

Sanil Kothari: Sir what will be the basic economics of these projects we will be investing and owning those assets or we will just as a consultant we will work?

S.K. Chaudhary: No, what we are doing is that for we do not want to own this project. We will find a developer, who will develop it at the lease period for him is around 99 years. So he has a long lease. He has also has power to do sublease further to other people so that they can sell it and make money. What we are planning is that this project is commercial project now. So what we have discussed with MMRDA is that we should have commercial as well as residential, a combination of both, which MMRDA has agreed in principal. Our role is to get 8% PMC charges for getting and finding a developer and getting the project completed through the developer. That means we will give them a time period of four years, or five years in which he has to develop this so that is the total cost. So whatsoever will be the price that we will charge from them and balance we will pass onto the railways?



- Sanil Kothari:** So there will not be any major capital investment in this project.
- S.K. Chaudhary:** Yes, definitely.
- Sanil Kothari:** Sir my last question is, this year's performance is really very good, but any clarity on last quarter results, it has very lower margin compared to...?
- S.K. Chaudhary:** See, generally what happens in a construction company lot of things do happen in a quarter-to-quarter if you review we are not a production line. That in a production line we do this much of units production, this much is the input cost, this is the output cost, this is my profit. So there quarter-to-quarter you can do that, but in a construction company certain things takes place say for last quarter what happened in financial year 2018 we had tax refund of 42 Crores, we got an exchange gain of 32 Crores and in financial year 2019 we had tax expenses of 35 Crores, which was not there in financial year 2018. This all put together, if you add together it is 204 Crores. So we have to do this accounting and that is why it happens, but that, if you take year-to-year, year-to-year we have grown. So it happens in a construction company whenever you view the construction company a one quarter can be very sudden gain because of some other things, say I may get a tax refund of 50 Crores, 100 Crores, in one quarter, so that quarter will show you a very, very quantum jump in the profit but that is not the true picture, the true picture comes once the annual results are there.
- Sanil Kothari:** So there was no abnormal project cost overrun or anything in last quarter?
- S.K. Chaudhary:** No. There is nothing like that. I explained you that these were the three basic reasons, which were having impact on financial year 2019 Q4.
- Sanil Kothari:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Fountain Investments. Please go ahead.
- Keshav Garg:** Sir I wanted to understand that RVNL has been growing by 50% of its revenue, and its margins are also very healthy and its business model is very simple. So for our incremental business why do not we consider following the same model of RVNL?
- S.K. Chaudhary:** RVNL model is only one client, one organization. So it is an extended arm of the railways, if you can see it is not a PSU. They have only one client. They do not have any other clients. So they get the work from there, but if you see their profit on the turnover which they have done and the profit which we have done you compare both and then the result you will get that what they are doing. Their profit you compare to us is less, percentage wise.



- Keshav Garg:** Sir also this quarter fourth quarter our international business has again made a loss, I mean few years' back our main profit used to come from international business and since past one year you have been saying that you are expecting higher margins in international business. Sir when will this actually materialize?
- S.K. Chaudhary:** One project we have already got in Sri Lanka I told you in the month of April 2019 only, other projects as I said and explained that I was in Malaysia last week, called by the minister himself with an official letter and I went and met all of them. We are submitting proposal this coming week to them was around three projects which are around 14000 Crores. It is on negotiation basis, it will take around four to five months to materialize.
- Keshav Garg:** Lastly in media recently there was news that Ircon is looking to raise equity capital is it true?
- S.K. Chaudhary:** As you know that as per SEBI guidelines 25% have to be disinvested. So 15% more government is planning to disinvest in Ircon. We have also said that 10% you give it to us where we can issue fresh equity and that money we want to take with us. Otherwise this money does not come to any of the PSU. This goes to the government kitty and PSUs are simply disinvested. The money does not come to PSU. It goes to Consolidated Fund of India. We have tried for this for which the secretary has agreed and the file is today with the Minister of Railways. Once it is cleared then it will be sent to the Secretary (inaudible) 23.47. Then the Cabinet will clear it for this approval. That the money of 10%, which will come, will use for Ircon's growth.
- Keshav Garg:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sarika Thorat from Union Asset Management. Please go ahead.
- Sarika Thorat:** Thank you for the opportunity. This 10% of the amount you would be using for the Ircon growth you said Sir then what kind of projects you are going to bid and kind of a capital you will be requiring for that?
- S.K. Chaudhary:** For any projects in the road sector if you see today are coming in hybrid annuity model or toll model and the project, which comes on EPC model, there the risks are quite high because lot of projects, which has been announced recently were on EPC model and again the people have quoted the rates at which I believe that they cannot execute. Even the basic price and the little bit overheads cannot get covered. So those people will be exposed after two years or three years who have done so. We do not deal with such kind of business. We will participate only in the projects where minimum 10% profit is assured. So for doing



such kind of work, I require my equity more. The equity already I have invested in HAM projects and the coal connectivity projects. I want further equity from the Government of India for doing this work.

Sarika Thorat: Last time you mentioned that you will be bidding for the Delhi, Mumbai bullet train as well as this Zoji-la Tunnel also, so what kind of a equity you will require approximate amount for these relative three projects?

S.K. Chaudhary: For tunnel we do not require because tunnel is not to be done by Indian company. Zoji-la Tunnel is done by only Japanese Company, only civil infrastructure work that is a wire ductwork and some building work will be carried out by the Indian companies. So for wire duct portion one tender is already out which is expected to be submitted in July we have a consortium with other companies who are working on it and we will be submitting that bid. Definitely because these are the very specialized works where initial investment will be there but no contractor anywhere in the world will definitely load the price of these in the cost because you never know that when the next these equipment's will be used. So you cannot keep such inventory on your books, so everybody will be adding to the project cost.

Sarika Thorat: Sir then this major project of Delhi, Mumbai bullet train Sir any number you can?

S.K. Chaudhary: That is what the same question asked high-speed railway.

Sarika Thorat: Sir and then on the consolidated balance sheet the other assets has gone up from FY2018 to 2019 so any reasons for that?

S.K. Chaudhary: What has gone up?

Sarika Thorat: Other current assets?

S.K. Chaudhary: Just wait a minute. You come to next question in the meantime BS is finding out the answer.

Sarika Thorat: As well as on the balance sheet the gross blocks has also increased and that you have added your intangible asset to the gross block this time, if I am correct. Sir will you explain that this approximately 960 Crores of the gross block addition during FY2019 what kind of asset these are?

S.K. Chaudhary: This is the road project, which has been completed and on which the toll has started.

M.K. Singh: Yes just to clarify that why the other assets has gone up. Actually it has moved from non-current to current. So non-current portion has gone down. This is the loan element, which



we took for Bandra plot and which is the pass through entry through our books. So it is the principal amount and the interest totaling around 791 Crores, which has been added to the current from non-current and that, is what is appearing in the other assets.

Sarika Thorat: Sir just to clarify that you said that total 15% dilution would be there going forward and out of that 15%, 10% you are asking from the government?

S.K. Chaudhary: 15% plus 10%.

Sarika Thorat: 15% plus 10%, okay.

S.K. Chaudhary: 15% will be disinvested and 10% we are asking for fresh equity.

Sarika Thorat: Okay and this specially will be using for the bidding of all these projects?

S.K. Chaudhary: For our work, 10% is for our work and 15% will go to Government of India for their use.

Sarika Thorat: Thank you very much for this explanation.

Moderator: Thank you. The next question is from the line of Kush Gangar from Care Portfolio Managers. Please go ahead.

Kush Gangar: Thank you Sir. Sir with reference to international business, of course we are talking about that we are going to increase and that is where good margin can be achieved etc. Can you share in terms of in terms of how difficult it is to do business with foreign countries compared to India because the railways contracts out here is you, yourself operate under their Ministry of Railways. So how easy it is there and what kind of risk do we see in these international contracts and at the same time whom do we compete with while bidding because that does not happen on nomination basis?

S.K. Chaudhary: International contracts also do happen on nomination basis where you have a track record of doing the things. So like in Malaysia we are negotiating on negotiation basis only, like if you know that China has been given on negotiation basis in Malaysia works and same way we are also planning to do the same. Large project of billion dollars was also done by us on negotiation basis. So that is not the case, but definitely some countries are risky to work and we do not work there. These are some of the African countries, which have a very different kind of a problems and we do not go to such countries. If you see that there is a rating from the DCGC which provides the rating of the country and you can find out that which are the countries to work with and which are the countries who have defaulted, the countries who have defaulted on the loan either on World Bank or ADB or having other loan we do not want to work there and we do not work.



- Kush Gangar:** Actually my question was more on the side of there could be delays in terms of land acquisition; it could be multiple approvals etc. So the chance is that our projects could get delayed and that cost would increase or escalate to that extent and there is operational risk...?
- S.K. Chaudhary:** It is much easy to work in the countries where I have mentioned to you and where we have a focus rather than here because in India anybody can go to the court and put a stay in road projects you find that somebody has gone to NGT, somebody has gone to other issues, royalty issues will come up, some DC will create problems, some Tahsildar will create problem, some lawyer will create problem this do not happen outside India.
- Kush Gangar:** What kind of mix do we target to keep in terms of domestic and international business?
- S.K. Chaudhary:** My wish is that as much more we can do it is better, but wish has to be it takes lot of time because there is lot of people are after the same works. So we have to concentrate quite a lot on negotiation and things where all the Government of India force Ircon, we work together and then we take those projects including our embassies with us.
- Kush Gangar:** Okay. But still any target in mind like because current we are approximately 8812, or 9010 then what kind of ratio do we want to achieve, I mean?
- S.K. Chaudhary:** This project of 14000 Crores out of this we materialize say around 7000 Crores initially then immediately that will come in order book then two proposals have been also asked from an negotiation basis by Sri Lankan Government that is also around 2000 Crores, so around 10000 Crores I believe that in this year we should get it, if everything goes well because of geopolitical scenario and the conservativeness in all the nations now after this China and US these two also effect, but the way we are tackling the things the Government of India is quite different and hopefully we will get it.
- Kush Gangar:** Sir initially you mentioned that 50% of the railway orders that we have 50% are done on nominated basis and balance 50% are on whatever bidding or normal regular process that is followed? Again there how does the process work in terms of selection, prequalification criteria and who are the competitors.
- S.K. Chaudhary:** Everybody is my competitor. L&T is my competitor, Afcons is my competitor, ITD is my competitor, Dilip Buildcon is my competitor, anybody is my competitor, whoever wants to do, GMR is my competitor, and Tata Projects is my competitor. So everybody who are in the line of business they are my competitor.
- Kush Gangar:** But still do you expect that on that then those on the balance 50% of the contract the margin will be higher or better than the nominated one?



S.K. Chaudhary: So far our results produce that. You are seeing our results and these results are not less. This is the minimum, which we are at operating. Once the foreign projects will come you will find and around 20%, 25% even these two projects of which two countries I have told you.

Kush Gangar: Apart from the L1 bidding any prequalification criteria's that are considered or what kind of?

S.K. Chaudhary: Any tender is called on two bid basis, there is a prequalification is done and then second after you are prequalified then my initial bid is open. So we are participating on all these projects, 50%, which we have taken, is on this basis only.

Kush Gangar: Sir, in terms of our order book, the age of the order book as we call it as like it is six whatever five years, six years, order executable order book. So what is considered as a good age because if say for example you are saying that they are likely to receive one other say 7000 or 10000 if things go well so our order book will increase for age of the order book would increase very much so how do you think what should be the right age of the order book that we have?

S.K. Chaudhary: For railway projects it is minimum four to five years for execution, railway projects. If it is a doubling and in doubling project you do not require land acquisition. So it is easy to do it, but say like projects which we are doing Jammu and Kashmir railway line where the everyday you find lot of different kind of challenges, the road is almost closed as you might have seen in newspaper and TV for two days in a week and lot of things do take place. So certain things goes beyond our hand that is why that we execute such project on actual cost plus our charges basis the whatsoever is the actual cost is there that has to be given by the owner and then we will take our fixed charges of 10% on that.

Kush Gangar: Any capacities that do we need to build to execute so many orders or so big size if we receive from the international basis or we have that capacity already I mean?

S.K. Chaudhary: We have a capacity to take further work around on 20000 Crores as on with the existing staff so there is no need of increasing further people and as you know that we are a Government of India undertaking Ministry of Railways, railways project we generally advertise in the railways and we take the interview of the officers who wants to come on deputation and we send them to these projects including our people. So a mix of people of both so we need not create a very large employees on our permanent role because once these projects are completed we send them back to the railways.



- Kush Gangar:** Sir the last question, in this balance 50% of the railway order which are on the nominated basis how does this bifurcation be done whether it is Ircon, whether it is RVNL, whether it is RITES I mean what kind of?
- S.K. Chaudhary:** See now railway is expanding quite a lot and one of a sudden this expansion is taking place. So only two organizations, first Ircon was there who was doing this work then the RVNL was created only for railway work so they wanted certain things to go out of the government system, they created RVNL. So RVNL is also given the works, Ircon is also given the works, and from last one year, one and a half years they are also give one or two works to the RITES, because RITES is primarily consultancy company they are not a construction company. On trial basis they have been given some electrification work and one project of construction. So once they are successful then further works will be given to them also.
- Kush Gangar:** So basically here is enough work to spread between the entities that is what?
- S.K. Chaudhary:** Quite a lot, they will be around 12 lakh Crores to 15 lakhs Crores of expenditure in next five years in railways alone. So out of that 50% or 60% will be only in infrastructure creation.
- Kush Gangar:** Thank you so much and wish you all the very best.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Can you quantify what type of revenue we can expect from our Bandra project?
- S.K. Chaudhary:** The revenue will be quite large. Because now the FAR given to us is 4 and we expect with a new regime the FAR will be 7 on that plot. So it is around 12 acres of plot 4.1 hectares so you can say around multiplied by 7 so that will be the total built-up area and the price, which is going on there multiplied by that will be the revenue of sales.
- Vipul Shah:** Yes, but our share will be 8% of commission that if I understood you correctly?
- S.K. Chaudhary:** 8% yes. 8% of the construction cost.
- Vipul Shah:** 8% of the construction cost?
- S.K. Chaudhary:** If it is a plot is 3200 and construction cost on that constructing this will be say around 5000 Crores and 8000 Crores of 8% of 8000 Crores will be given to me.



- Vipul Shah:** So it means still you have to receive certain approvals, all approvals have not come?
- S.K. Chaudhary:** Yes, that is going on. It is now the note is in the Ministry of Railways, the Ministry of Railways will give that approval then MMRDA will give the further approval.
- Vipul Shah:** So when should the work start according to your calculations?
- S.K. Chaudhary:** We have to find a developer. The only issue there is of connectivity from the expressway. So once that connectivity approval is given by MMRDA which they have promised to give and a mix used development of office plus residential then we will come out of it, we have already given the tender notice in newspaper, tender is already uploaded but the only thing is this approval as we are waiting for.
- Vipul Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manan Gandhi from Enrich Consulting Limited. Please go ahead.
- Manan Gandhi:** In the concall of second quarter you have told about one of big road project from a Gulf country. Any update over there?
- S.K. Chaudhary:** What is that? Come again, your voice is not clear.
- Manan Gandhi:** At the time of concall of second quarter we had maintained about a big road project from one of Gulf countries any update over there?
- S.K. Chaudhary:** We never said of Gulf countries, road project. We said the road project we are trying in Bangladesh and Sri Lanka. In Sri Lanka they have asked the price from us for two road projects on negotiation basis, yesterday only we received a mail from them. We will be submitting to them maybe within ten days time then on negotiation basis, it will be allotted.
- Manan Gandhi:** Secondly in Delhi-Mumbai DFC three companies are given work. Can I get a share of Ircon International over there?
- S.K. Chaudhary:** Ircon is doing 180 kilometers. The cost is around 2100 Crores of this work.
- Manan Gandhi:** And that to be completed in to 38 months?
- S.K. Chaudhary:** Now they have said 2022.
- Manan Gandhi:** What is current order book I mean say total order book not executable?



- S.K. Chaudhary:** Total order book is around 47000 Crores and the executable order book is roughly around 28200 Crores.
- Manan Gandhi:** Just a last question, you said about MoU with government what is your guidance over there?
- S.K. Chaudhary:** MoU generally every public sector undertaking signs the MoU with the concerned ministry and with the approval of Department of Public Enterprise and Planning Commission person and a person from Finance Ministry. This MoU targets are fixed on the growth basis every year-on-year where they give you financial targets and physical targets of completion of projects and you are ranked according to that after completion of this one year. So last year we got excellent, this year we are expecting excellent and next year also we will do excellently, because the pace of our execution has increased quite a lot. And next year target of MoU of topline is 5200 Crores and operating profit target which they have given is 7.5% PAT to networth target they have given 8.1%.
- Manan Gandhi:** Thank you Sir.
- Moderator:** Thank you. We move to the next question, which is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir, you were telling we are demanding 10% range of equity along with the disinvestment of Government of India, my point is that we are having 3000 Crores bank balances and if you disinvestment 10% more it will be 350 Crores only. So why you are asking 350 Crores when you are having 3000 Crores?
- S.K. Chaudhary:** See this money which we have has two components, cash and bank balance today after March 31, is 2930 Crores, out of that client advances with me is 2250 Crores, these are the client advance, which they have given to me for doing the work and the balance fund of mine is around 670 Crores. If I am eyeing for more projects I require more capital for using and growth of my company I am taking this fresh equity of 10%.
- Ravi Naredi:** So why are you to go for debt from the bank limit or like this?
- S.K. Chaudhary:** We are doing that. We will definitely do that. Our SPVs do that work like in coal connectivity we have taken a debt in which subsidiary of Coal India Limited is partner and Government of Chhattisgarh is a partner. One project we are already doing where the SPV has taken the loan, the second loan is under financial closure and financial sanctions out of the two banks have given the sanctions so far and the other banks are in the line to give it. Once it will be closed hopefully next 10 to 15 days so like we take loan in SPVs not in the



main company because those are the companies, which are executing this. We are in EPC business and in EPC business we do not want to take the loan.

Ravi Naredi: No, no, it is okay, but the hedging the equity is more risky and more expensive for the company even shareholders compared to take the loan from the banks that is why I am asking why should not go for the long investment of equity debt by 0.1?

S.K. Chaudhary: Because I feel that some of the projects which we are coming up now in HAM model are in equity based only and Government of India has put a certain restrictions on public sector undertakings where out of your total network you are supposed to put only 30% of your network only in equity so if I have to grow further in profitable business that is HAM or other projects then I will require fresh equity put in there. So that is why I am taking this money.

Ravi Naredi: Sir second point is in Malaysia you are talking about 14000 Crores order if we get how much margin we will earn from that project?

S.K. Chaudhary: As much as I want, I feel that this should be more last projects we got 30% and I hope that somewhere it depends on the clicking of the deal, but maybe around 20% to 25% definitely.

Ravi Naredi: Thank you.

Moderator: Thank you. The next question is from the line of Ajay Sharma from Maybank Asset Management. Please go ahead.

Ajay Sharma: Can I check basically looks like that your overall cash balance has dropped from last year. So where are you actually spending that cash?

S.K. Chaudhary: Cash is definitely used in the business only and last year some of the money, client advance has been used in the work and the fresh funds have been used in the further equity commitments which we have made earlier.

Ajay Sharma: How much actually is your requirement basically on an ongoing basis, which you need?

S.K. Chaudhary: Generally ongoing basis the projects which we are doing initial equity, which we have to put that is one is the cash requirement and we get grants from the NHAI, periodical grants of the 40% of the cost that keeps on coming there and the balance money we keep on pumping on those projects. So if you say in my business, all the money I put it there and then I am liquidating also these assets, which we have created the first project on the sale will come up somewhere in July. That is in Maharashtra where my toll revenue is 190 Crores so I will be selling that asset and my equity and the return on equity both will come



to me and I will use it further. In private companies, they do not have the ban on putting equity, they can take loan even for putting equity and for full network they invest in the equity. In PSUs, the cap has been fixed as 30% by Government of India.

Ajay Sharma: Coming back to the question of this equity raising of 10% and plus 15% disinvestment by government my point is that since the first disinvestment the stock is already down 15% or so from that price and if you try to put another 15% plus 10%, 25% into the market the stock is going to fall even more means I think and it is not a price you guys you want to really raise equity?

S.K. Chaudhary: Some time I get confused that how people look at the company. If you compare the company the ratios put together, all the competitors who are in construction business, I think that is the better way to look at it rather than seeing a company individualistic. I have a complete comparison of all the ten leading companies in India who are in construction business and you see their results in our results is a much, much better in anyway whatsoever the base we may compare it. So I do not know how the people look at it, how they analyze it, my stock is very less today 94 lakhs only in this the trading is very, very limited. We are observing that what is happening week-to-week basis in the trading I do not know how they look at it and how they value the company.

Ajay Sharma: No, Sir. My point is, if there was enough demand for the stock the stock would not be where it is today right?

S.K. Chaudhary: I do not know how they look at it. This answer has to be thought among yourself at the companies which are rated at AAA+ are now "D", rated at "D" so how do they rate it, how do analyze it, you compare the charts. Compare the financial results, compare everything of the ten leading construction companies in India and the results will be known to you that how it is being done.

Ajay Sharma: The point is, if you put more supply on the stock?

M.K. Singh: To supplement what CMD says that this is a requirement that we have to disinvest up to 25% in a period of three years. So since we have already done 10% so up to 15% it is a necessity for us that is number one. Number two, as explained by CMD already that we want to go in arranging money through equity route rather than taking the debt route because if you see our figures then we have a debt of around 3000 odd Crores which is although a pass through entry but it is nonetheless sitting in my books already.



- Ajay Sharma:** I understand all that point, but the timing has to be seen, if you have three years and if you yourself think the stock is much undervalued why would you want to raise equity at that price whether it is harmful for the shareholders?
- S.K. Chaudhary:** Sir this will be disinvestment this is government has to decide and owner has to decide. We are not the owner of the company; we are employees of the company. So the owner wish we have to follow.
- Ajay Sharma:** I understand it is not under your control, but the equity raising part is under your control?
- S.K. Chaudhary:** Definitely that money will come to the company for doing further business, the more the business the more the profit.
- Ajay Sharma:** But then you raise it when the price is higher. That is my point, why do you want to raise it now?
- M.K. Singh:** Point well taken. We will certainly arrange. This is only an initial time.
- S.K. Chaudhary:** Government will also sell that time only. Not so early. They have already started the process, but it will take minimum either eight to 10 months.
- Ajay Sharma:** I think the better thing will be once you get the Malaysia, Sri Lanka projects and show some better profitability that is the time to probably look at?
- M.K. Singh:** That we have in mind.
- Ajay Sharma:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ayush Bhutada from Equitas Investments. Please go ahead.
- Ayush Bhutada:** Sir, you mentioned that Ircon is also doing Ballastless track for Metros, so are we doing any current project over there?
- S.K. Chaudhary:** We have finished. We have done around 75% of Ballastless track in Delhi Metro and Kochi Metro. Now we are doing for our own work that is in Kashmir Railway project that is also ballastless track. So we are doing that because now these projects, the client is supplying the rakes and the fittings and it becomes only a labour contract. That is why we are not doing now for them.
- Ayush Bhutada:** Who are the other players who do this ballastless track?



- S.K. Chaudhary:** Very less. Very little bit players are there. Texmaco is one of them. Very small value contracts are left after the material has gone out from the main contract.
- Ayush Bhutada:** Is Ircon the leader in this, the ballastless track?
- S.K. Chaudhary:** Ircon is leader in this, but once this becomes on their labour contract, then we do not want to go only for doing labour work.
- Ayush Bhutada:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** This year inventory rises 332 Crores versus 142 Crores than last year, any specific reason?
- M.K. Singh:** I will come back to the inventory figure; yes we are taking it out.
- Ravi Naredi:** Second, whatever order book 28000 Crores we are having how many years it will take to complete all these projects?
- M.K. Singh:** Normally the project completion cycle is four, four and a half years. That is what we have in India and in foreign countries we have a quicker project cycle and in India it takes little more.
- Ravi Naredi:** How much topline we are expecting in this current year?
- M.K. Singh:** Around 5500 Crores to 5600 Crores. I think standalone will be around 5300 and consolidated will be 300 Crores so total 5600 Crores.
- Ravi Naredi:** If you find the inventory?
- M.K. Singh:** I mean that is the minimum. So somebody was asking about the inventory that is from 108 Crores last year it has gone to 277 Crores, that is on account of certain works which we have physically done, but the certification and the formality part of taking it formerly as a turnover is yet to be completed.
- Ravi Naredi:** Nice to hear. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sanil Kothari from Unique Investment Consultancy. Please go ahead.



- Sanil Kothari:** Thank you very much Sir. Sir in consolidated balance sheet, one entry of intangible assets worth 1278 Crores, can you explain this asset is intangible assets?
- M.K. Singh:** Actually all the works which are under construction in the SPVs and our subsidiaries they form as intangible in the consolidated.
- Sanil Kothari:** That is intangible. That is not work-in-progress?
- S.K. Chaudhary:** Work-in-progress we call it intangible here in our consolidated balance sheet.
- Sanil Kothari:** Second question is out of this 2700 Crores to 2800 Crores balance you said, 2200 Crores is of customer advance, so are we supposed to pay any interest on that advances?
- M.K. Singh:** Actually whatever interest accrues on these deposits on the clients money which we have those are ploughed back into the project as a credit.
- Sanil Kothari:** So the other income which looks to be 170 Crores roughly, is related to what?
- M.K. Singh:** Actually other income, 265 Crores out of which 190-odd Crores is pure interest and other breakups are interest on loans to subsidiaries, then bank interest and we have got some income tax refund also and interest component of that was 35 Crores, interest on bond.
- Sanil Kothari:** Sir, out of this 265 Crores you say 190 Crores is interest income, so not all of them is belonging to or owned by us? It is related to customer?
- M.K. Singh:** It does not come to us. In other income, I am taking only that portion, which belongs to us.
- Sanil Kothari:** Sir, 190 Crores interest income must be on 2000 Crores plus bank balance?
- M.K. Singh:** We have already given a lot of loans to subsidiaries, and then we have interest on bonds, then we have interest on tax refunds and like that.
- Sanil Kothari:** And that will remain as we go ahead, because quarterly also we have done 73 Crores or 74 Crores?
- M.K. Singh:** Correct.
- Sanil Kothari:** Thank you very much Sir. Wish you good luck.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the line of management for closing comments.



Ircon International Limited
June 07, 2019

S.K. Chaudhary:

I think we have explained the questions as asked by the various people. Thank you very much again. They tried to understand what our company is. But I would like to say once again that sometimes people do ask why your price is down on which we cannot answer, which market, and how the players play the game is not clear, if you see the earnings per share is quite good, operating profits is quite good, compared with companies like, if you want to compare, compare with L&T, compare with Afcons, compare with Ashoka Buildcon, compare with Nagarjuna, you can find that how it is happening. How the companies are proceeding. We do not compare with Gammon, NCC and all, which are already (inaudible) 1.02.59 companies, so a very few companies are there in India and if you see these things, you will not find any of the reason that why the price is like this, why I am quoting it at a PE multiple of 6 or 7, and others have quoted at 17 or 18. So this question has to be analyzed by analysts and they have to think that how the ratings are given and how do they analyse their results and how do they analyze our results. As far as management is concerned, management is totally committed and focused and delivering the projects and maintaining the profitability. Yes, we are very conservative in selection of projects. We take only those projects where we make money and that is the only way of remaining in the business. That is why we are in the business for the last 43 years and we are a profit making company, otherwise all other companies are facing difficulty in private sector even to pay salaries also nowadays. So we do not want to come into that trap. We are very clear that what we have to do. Thank you very much. We hope that these queries will answer your questions. Thank you.

Moderator:

Thank you. On behalf of Anand Rathi Shares and Stock Brokers Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.