



# “Power Mech Projects Limited Q3 FY2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Power Mech Projects Limited Q3 FY2021 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. 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. Chirag Muchhala from Nirmal Bang Equities. Thank you and over to you Sir!

**Chirag Muchhala:** Thank you Stanford. Nirmal Bang Equities welcomes you all to the Q3 FY2021 results conference call of Power Mech Projects Limited. The management is presented by Mr. S. K Ramaiah, Director, Business Development and Mr. J Satish, Chief Financial Officer. I now hand over the call to the management for their opening remarks post which we can take questions from participants. Over to you Sir!

**Jami Satish:** Thanks Chirag. Dear friends, good evening this is Satish. It is our pleasure in hosting call for Q3 and nine months FY2021. Happy to say that the bad is over for Power Mech and the operation has completely come to normal. As we could see the execution and the turnover momentum has gone from Rs.85 Crores to Rs.200 Crores plus per month. The performance for Q3 and nine months turned to be positive from negative. The impact of COVID continued to be on our operation for almost eight months. Q3 was a blended quarter for us as October and to some extent November month was impacted due to COVID especially sites like Maitree Bangladesh where we are executing a contract of Rs.830 Crores similarly Barh in India and Nabinagar in India put together the contract value is close to Rs.400 Crores, which required large number of manpower with low productivity that impacted to some extent month of October and November; however, December month was a great month for Power Mech as all sites were operating normal with full swing.

The reported total income for Q3 FY2021 is Rs.517.92 Crores and EBITDA is Rs.31.45 Crores and PAT is Rs.3.13 Crores whereas if we see during Q3 of last financial year the reported total income was Rs.547.44 Crores, EBITDA was Rs.74.21 Crores and PAT was Rs.36.41 Crores and the revenue mix for Q3 current financial year is as follows: Erection business has contributed Rs.133 Crores of revenue, civil has contributed almost Rs.184 Crores of revenue, O&M Rs.171 Crores of revenue and electrical business has contributed Rs.19 Crores and other income is close to Rs.11 Crores whereas during Q3 of last year the contribution from erection business was Rs.201 Crores, civil was Rs.147 Crores, O&M business was Rs.163 Crores and electrical was Rs.34 Crores and in terms of variation erection business is down by almost Rs.68 Crores as compared to Q3 to Q3 has come down by 34% and civil it has gone up by Rs.36 Crores, which is almost 25%, O&M more or less

flat slightly gone up by Rs.8.8 Crores, which is 5% whereas electrical revenue is down by almost Rs.15 Crores, which is 43%. Similarly the reported total income for nine months FY2021 is Rs.1142.32 Crores and EBITDA is Rs.21.05 Crores negative and PAT is Rs.81.26 Crores cumulative negative whereas last year for nine months the total income was Rs.1575.98 Crores, EBITDA Rs.211.52 Crores and PAT was Rs.99.91 Crores.

In terms of contribution, the mechanical business, which is close to Rs.280.53 Crores whereas last year it was Rs.559 Crores, there is a dip of Rs.279 Crores, similarly civil we did close to Rs.358 Crores of turnover whereas last year it was Rs.429 Crores this has come down by Rs.70 Crores. O&M is close to Rs.438 Crores whereas last year it was Rs.474 Crores, so there is a marginal dip of Rs.36 Crores, electrical business is close to Rs. 50 Crores whereas last year it was Rs.33 Crores so there is a dip of Rs.54 Crores. Comparatively, operation is completely positive towards normal direction during Q3 as compared to Q1 and Q2. Q1 and Q2 was washout quarter for us whereas Q3 is a blended quarter where we could see some sort of impact for one or two months, but whereas December was a complete normal quarter, so this is a positive sign for us.

The execution cycle has improved substantially with the projects like Maitree both civil and structural work at Bangladesh, Barh, Nabinagar and Neyveli, the domestic site where we execute the mechanical work there the manpower requirement was high and to some extent we had little setback even at Ramayampet canal work at Telangana. We can very much say and we are very much confident of seeing Q4 as a completely normal quarter with turnover momentum of Rs.200 Crores plus per month and this is expected to be continued as during the month of December we have crossed almost Rs.200 Crores of turnover and this momentum is expected to be continued going forward.

Operational cost to be completely proportionate to the normal execution level hence margins can be maintained. Depreciation cost will continue to be in the range of Rs.9 Crores per month going forward for the next few months and the finance cost there will be some reduction during Q4 as compared to last three quarters with reduction of overall debt level and the share of profit from JV expected to be marginal. So this will help us to reach to the normal level completely for the complete quarter of Q4 because the momentum of reaching to normal we could see from December month onwards, so the turnover of Rs.200 Crores per month versus loss in terms of actual cost and maintaining the margins. In terms of our receivables, the receivables are at around Rs.467 Crores as against Rs.542 Crores as on March 31, 2020, the inventory level continued to be around Rs.122 Crores and the retention money is close to Rs.290 Crores as against Rs.309 Crores as on March 31, 2020. If we see the peak borrowing of the company went up to Rs.590 Crores as we discussed during the last quarter due to delayed receipts from customers and the peak net borrowing went up Rs.460 Crores, but however now the debt level has come down from Rs.590 Crores

to Rs.530 Crores and the net debt level has come down from Rs.460 Crores to Rs.370 Crores, this is very positive indication and this will help us bring down the finance cost during Q4 of this financial year.

If we see the average collection has substantially improved, which used to be Rs.125 Crores to Rs.130 Crores per month, now we could see the collection picking up from Rs.175 Crores to Rs.200 Crores per month on an average. This has helped us to maintain our operating cash flow positive for nine months almost by Rs.52 Crores, which is really exciting. If we see last year for nine months, the operating cash flow was negative by Rs.68 Crores and for 12 months of last financial year it was negative by almost Rs.48 Crores, but whereas during this year for the nine months in spite of lot of challenges, tough time constraint we could still able to improve our cash flow so this helped us to maintain the operating cash flow positive by almost Rs.52 Crores and we are expecting the operating cash flow to be positive by at least Rs.65 Crores plus by end of this financial year. In addition the order book is quite healthy during this year up to date we have added close to Rs.3900 Crores of orders and we are expecting to add a few more orders before this financial year end and we are expecting some healthy orders from the O&M side and if all goes well we may add Rs.800 Crores to Rs.900 Crores from the O&M business itself. Considering our order booking, we are confident that year end we will have a backlog order book of close to Rs.7600 to Rs.7700 Crores, which is quite healthy. If we see the history of Power Mech the conversion ratio used to be almost 40% to 42% of our backlog order book. Now with the addition of O&M orders of Rs.800 Crores our backlog of O&M business will go up quite healthy, so we are hoping of some positive growth in the O&M business too. If we take the conversion ratio of 38% to 40%, which is quite conservative, we are very comfortable that we will have a strong execution cycle for the next few years especially FY2021 and 2022. If we see the turnover execution cycle the run rate is close to Rs.200 Crores plus per month, December we had almost Rs.210 Crores to Rs.220 Crores and we are confident that January, February, March the execution cycle will be minimum of Rs.200 Crores plus per month, so this will leave a quite strong revenue cycle for us and this momentum will continue going forward. Now I request Mr. Kodandaramaiah Ji to add few more developments.

**S Kodandaramaiah:**

Thanks Satish, thanks Chirag and the team. As an update on the other aspects of the business and the marketing and order booking side, as we have seen the last year backlog was standing at Rs.4575 Crores and now with total order booking of last year of Rs.1953 Crores. Now as on February middle we have reached a figure of order booking of Rs.3904 Crores and the backlog has gone up to Rs.7353 Crores a rise of 60% compared to the beginning of this year 2020-2021 and the major growth areas have been back, in the ETC business mechanical side there has been a 13% growth in the backlog of Rs.2330 Crores against Rs.2054 Crores and the civil side there has been a quantum jump of , three times,

the backlog stands about Rs.3785 Crores against a backlog of Rs.1277 Crores, O&M is more or less static at about Rs990 Cr vis a vis Rs 996 cr, and in the case of Electrical the back log has come down from Rs 297 cr to Rs 247 cr. Now, the broad spectrum of the business breakup has been the power sector continues to dominate in the combination of works regarding the mechanical works, O&M business, civil, structural, and various other aspects that constitute 65.4% of the order backlog constituting Rs.4750 Crores and in the case of non-power it is Rs.2603 Crores, which is 34.6% of the apportioning to the non-power business. Now the domestic business has increased, there has been a dip in the international order booking in the current year maybe possibly due to the COVID conditions outside prevailing in many places and the domestic order backlog is Rs.6267 Crores constituting 85% of the backlog and then the international business is around Rs.1086 Crores constituting 15% of the backlog. Improvements of the ordering position and the improved backlogs available gives a good vision for us to carry on from here.

Now coming to some of the key aspects of the conversion and the way work is going on in many of the key projects what I would like to update is that in the case of Bangladesh there is a major job, which we are executing and that is Rs.830 Crores and there has been a setback there substantially in the first two quarters and there was pickup in the third quarter and out of this Rs.830 Crores about 35% work is completed, and now it is picking up and the billing is going up to Rs.20 Crores per month that is a positive side. Then in the Yadadri project also about Rs.800 Crores there is an upswing also in the billing, which is going up from Rs.12 Crores to Rs.15 Crores and about 15% of the work has been completed and the other major customer JSW two projects worth of Rs.400 Crores, we have completed almost 50% of the work. then the cross-country pipeline packages what we are doing with Adani and then two IOCL projects of about Rs.325 Crores we have completed 65%. Then Dangote is the major export job of \$76 and that is going up pretty well perhaps we should see an early end of completion and benefits of that, we have completed almost 70% of the job. Ramayampet canal has now picked up momentum out of Rs.373 Crores 40% work has been completed then Sadulpur railway electrification of Rs.350 Crores about 45% of the work has been completed. This is how the major projects are taking shape. One positive aspect is that perhaps we will see the end of the day in another six months for the Barh project even though we have got issues with Doosan and also Nabinagar in both the cases we are pursuing the issues with Doosan and BHEL contractually and we will see with the COVID getting eased out perhaps we should have some resolutions.

Now on the O&M side certain positive developments are there. We have diversified into material handling packages of non-power sector, Tata's Bhushan Steel project in Angul that is about Rs.80 Crores that is a major breakthrough and we have also taken the job earlier at Bara of about Rs.100 Crores so that has added to the total order booking on the O&M side. Now the focus is on the non-power side and the present backlog of about Rs.990 Crores to

be exact, the aim is to ensure the backlog to go up to Rs.1500 Crores and the focus will be some of the projects, which are getting renewed at Jharsuguda with Vedanta group, there is a good traction on that and if it fructifies perhaps might be positive in creating a backlog of Rs.1500 Crores at the end of the year that should be a quantum gain for the operations of the O&M business as it is a continuous revenue earner and also the road projects are taking shape that is roughly around Rs.800 Crores both in Mizoram and Karnataka state that is with other partners. Then the new initiative had been the drinking water project, which we have taken up in UP that is Rs.449 Crores, which is for Meerut and Etawah districts. Then the scope of the work is roughly around 450 villages to be provided the drinking water system. The concept of this drinking water is part of the initiative, which has come from the Ministry of Drinking Water under Jaljeewan Mission. The major scope is related to the piping system around 20%, then the bore wells and pump houses is around 43%, overhead tanks around 18% and then there is a scope for O&M operations for about 10 years, which stands at 5% of the contract value, which will happen after completion of the job which is around 21 months and there is a portion for 10% i on advance and 95% pro rata payment, so this is a major initiative which we have obviously taken and that should give us more similar opportunities because there is going to be huge investment in terms of the drinking water as part of the GOI initiative.

Now coming to the other aspects of the business what I would like to highlight is that we are following the traction related to the overall investments being planned in the country in the next five years, which has already started under the NIP (National Infrastructure Pipeline), which is a huge investment of Rs.111 lakh Crores with major investment in energy sector, roads, railways, Airports, Ports then urban schemes and also irrigation schemes, so this is where some of the new initiatives being pursued by the company, which has come in roads and the drinking water system is part of these investments is going on and railways we are already there and railways the investment is expected at about Rs.13.37 lac Crores within this period and we have seen that nearly Rs.1.5 Lakh Crores of investment is taking place in railways in each year and so many segments of railway development are taking shape. In fact NIP document has become a base document to follow the entire investments happening in various infra segments in the coming years for the purpose of tracking major areas of opportunities.

Then O&M is continued to be a focus area. Now the area what we are looking is at 39 plants which we are operating, 65000 megawatts of plants mostly under the IPP sector and recently we have made a major initiative in taking the orders from the NTPC that is about five plants for 7600 megawatts and the next focus will be captive sector which has got an installed base about 65000 megawatts that should be a major opportunity and the non-power sector related to steel and material handling, iron ore handling, coal handling and we have already made an entry as I said in the case of Tata Steel's, Bhushan Steel project and

*Power Mech Projects Limited*  
*February 17, 2021*

also Nagarnar with NMDC that is a major initiative. We are trying to look at a new initiative related to material handling business and we have made an initial tie up with Thyssenkrupp who are the world leaders in material handling packages and we are now working on a couple of projects jointly bidding it on a consortium or a joint venture basis because Power Mech has got the credentials to completely execute the job as a single point responsibility in undertaking engineering, civil, structural, mechanical, electrical jobs and Thyssenkrupp is happy to provide the engineering support and be the technology partner and excellent equipment supplier, this combination has been worked out and perhaps if this is successful the first project going to fructify is related to the Adani Enterprises Limited job coming up in Kurmitar, Odisha and project is estimated to be around Rs.450 Crores which should be shared between us and Thyssenkrupp and there are lot of other projects coming up in iron ore handling, material handling, coal handling.

Now certain other developments what has to be updated is that the O&M side, one factor which is going to change the O&M philosophy is that because of the reduction in the plant load factor from 70% to 52% in the present situation the opportunity in O&M has gone up because maintenance practice has undergone change and more shutdowns are coming in the power plants because of the operational matrix has completely changed because of the increase in the generation from the renewable sources and that is going to go up as the years pass by, but it is expected the plant load factor of the entire grid in the next 8 to 10 years would have come down progressively to less than 50% and perhaps major changes will undergo in the case of operating the coal fired plants and the maintenance costs are expected to go up.

As a matter of policy for the time being we have taken a backseat on the FGD business because FGD was not standalone working up as they are not very remunerative packages because of the low prices going in the market and there are lot of contractual issues involved in structuring it and also bidding it, for the time we have taken a backseat and more than that the value of the work was not substantial for our present operations.

Bangladesh we are there fully established, Rs.830 Crores we are doing Maitree project of 2x 660 megawatt and Bangladesh has got huge plans for expansion from the present capacity of 20000 megawatts to 31000 megawatts by 2030, mostly in the case of gas and coal fired plants because they want to ramp up their generation capacity for their growth and that is where the opportunity is expected and we should take it forward.

As far as the international business is concerned, yes for the time being the opportunities are not coming up much in the Middle East and other places. We are happy to complete the ongoing jobs in Nigeria and other projects, about 10 projects. Now as far as the deployment of the manpower resources and the workforce is concerned, it has come back to normal, it

was very low of 4000 to 5000 two quarters back, now it is reaching the pre-COVID level of over 13000 manpower at sites, that is where the confidence should come and what Satish was telling that we should be able to get a turnover of around Rs.200 Crores positively every month and with the expected backlog of around Rs.7000 Crores to Rs.7500 Crores perhaps next year we should look for a continuous generation of revenue and positive growth in the business. Thank you very much.

**Moderator:** Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Pratiksha Daftari from Aequitas Investment. Please go ahead.

**Pratiksha Daftari:** Thank you for the opportunity. I just wanted to understand that with the commodity prices rising and what we understand that probably cement prices are also rising how do we see the impact of these rising prices on our profit margins and how much of this is factored in the recent orders that we received and the current order book?

**Jami Satish:** It would not be a concern for most of our projects, we have little bit of supply component, more than 75% to 80% projects we have escalation price variation clause with the variation of the materials we have right to claim with the customers, so may be 20% - 25% where the prices are firm so it is inbuilt. There was a time when the prices were low we had enjoyed a better pricing. this should not be a worry for us and this should not impact our margins.

**Pratiksha Daftari:** Could you repeat the receivable number that you mentioned and how is it compared to last year same quarter?

**Jami Satish:** It is Rs.467 Crores last year it was Rs.542 Crores.

**Pratiksha Daftari:** What kind of collections are we receiving, monthly run rate for collections in Q3 and how is that compared to Q4 right now?

**Jami Satish:** It has picked up now, it used to be Rs.125 Crores, Rs.130 Crores, Rs.140 Crores, now it is ranging between Rs.175 Crores to Rs.190 Crores, Rs.200 Crores. December we have seen close to Rs.180 Crores to Rs.190 Crores, so we expected to be in that range maybe slightly better than this.

**Pratiksha Daftari:** How is this compared to the first half of the year?

**Jami Satish:** First half it was almost like 50% of the collection because Q1 was hardly Rs.100 Crores, Rs.110 Crores that was the run rate per month, now it has almost doubled.



**Pratiksha Daftari:** Do we have any targets for reduction of short-term borrowings and bring down the working capital cycle, how do we expect that to pan out for the next two, three quarters?

**Jami Satish:** Now the collection cycle is improving apart from this BHEL on an average is releasing Rs.7 Crores to Rs.8 towards final bills per month, so this is a healthy signal for us so this will help us to improve the operating cash flow. The cumulative nine months itself we had operating cash flow positive so this helped us to slightly reduce the overall debt. The peak debt which used to be Rs.590 Crores now the same has come down to Rs.530 Crores. There will be reduction in overall debt level during Q4 too. On an average there maybe reduction of Rs.8 Crores to Rs.10 Crores every month as per our internal cash flow planning.

**Pratiksha Daftari:** In short term borrowing?

**Jami Satish:** Yes.

**Pratiksha Daftari:** What is the cost of debt right now?

**Jami Satish:** It is close to 10% p.a Madam.

**Pratiksha Daftari:** Thank you.

**Moderator:** Thank you. The next question is from the line of Rishikesh Ojha from Robo Capital. Please go ahead.

**Rishikesh Ojha:** Just one question from my side, so roughly 40% execution on order book of 7000 and 11% EBITDA margin for FY2022, so do you think this is a fair assumption?

**Jami Satish:** It is possible. If you see the backlog order book to our conversion it used to be almost 40% plus, so we are assuming 38% to 40% of back log order book conversion to turnover during next 12 months is quite comfortable. Our normal margins used to be in the range of 12.5% to 13%, now because of COVID and all there was some impact in the operational cost, so that squeezed out **our** margin. However, during December we saw good execution and contribution in terms of the margins because of the absorption of the cost and this trend we are seeing going forward. Q4 is going to be complete normal for us and that is going to continue.

**Rishikesh Ojha:** Thank you very much. All the very best Sir.

**Moderator:** The next question is from the line of Darshil Jhaweri an Individual Investor. Please go ahead.

- Darshil Jhaweri:** Thank you Sir. I just wanted to check on the debt you mentioned Rs.8 Crores to Rs.10 Crores reduction so what is the debt outlook for FY2022 in the interest cost and on the margin front you mentioned like fourth quarter will be completely normal quarter, so 12% margin is what we are looking at going forward into fourth quarter and FY2022?
- Jami Satish:** In terms of debt yes there will be a reduction in the working capital as well as the term loan. We have close to Rs.530 Crores of debt at gross level and the net level Rs.370 Crores as we were successful bringing it down last four to five months, now this trend will continue. We are expecting at least if all goes well Rs.60 Crores to Rs.70 Crores of reduction in overall debt during the next few months. Can you repeat your second question?
- Rishikesh Ojha:** In terms of margins like fourth quarter in FY2022 12%, 12.5% margin is what we are looking at for next quarter?
- Jami Satish:** December we had very comfortable number which was very close to our normal margins, now though the execution cycle is completely normal, of course there is a little bit of additional safety cost added to our overall operational cost, which we have already factored the additional cost,. Hence we are expecting this to be completely normal margins for Q4 Sir and this trend going forward will continue.
- Rishikesh Ojha:** I understood by normal margin we are indicating a level in 12% kind?
- Jami Satish:** Slightly more than that.
- Rishikesh Ojha:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhruvam from HDFC. Please go ahead.
- Dhruvam:** Thank you so much Few questions, earlier you mentioned that the scope of O&M is changing because of the change in PLF stance so is it possible to share say for example earlier you were doing about Rs.100 Crores just as a random benchmark if we are doing Rs.100 Crores of execution for a project how much can that change by because there will be change in scope of work?
- S Kodandaramaiah:** You meant to say on the O&M side??
- Dhruvam:** You said the scope of work is increasing because of the lower PLF...
- S Kodandaramaiah:** There are two aspects which will be there and this is very important, one is that the long-term contracts, which we are operating at 39 plants that anyway we continue to make our efforts to expand into both in the power sector and the non-power sector. Now what I meant

to say when the PLF undergoes downward changes because of the share of renewable power has increased in the grid and it is at 24% as on today and progressively will reach about 50% at the end of this decade, then what happens is that power plants will come under terrible strain in operation, they have to operate on a day, night basis, normally thermal plants are operating as base load stations, so once of the change of operation matrix comes into the picture, there will be a lot of wear and tear in the equipment and after all the grid cannot work without the combination of Thermal and renewable power and obviously apart from the annual maintenance there will be more of day to day maintenance, more of preventive maintenance and all that is almost today it is almost 20% to 25% our business comes from that apart from the AMC long term contracts, so what I want to say that portion of the business related to recurring maintenance can go up that is where as a matter of fact it has to be implemented and the government has already told the NTPC to create some standard operating procedures for operating the thermal plants at a lower plant load factor and that regime will be followed by all the other utilities also down the line so that is the expectation.

**Dhruvam:** That is helpful. Second question was one thing I read through the press release of our new order wins, the recent press release, so it says that is part of a JV, so the order book that we have given is our scope of work or that is part of the whole 100%?

**Jami Satish:** This order we took with the support of a JV partner for the credential purpose, ultimately we will be completely executing the order and the complete financial obligations as well as the execution obligation will be taken by us including providing the performance BG. Hence it has been considered for 100% of order belongs to us.

**Dhruvam:** Anyway the whole execution will largely be us, so that will all be reflected.

**Jami Satish:** Yes.

**Dhruvam:** Got it. Now we have a very decent order book about Rs.7000 Crores plus odd Crores and even if I assume 30% or 40% execution that is about two-and-a-half years of order book and you are looking for even higher order book after the O&M I believe, so very decent order book, for the last few years if I understand you were building your non-power side of order book as the power sector was declining a bit, but that had some impact in your working capital if I see the working capital was increasing although the margins are steady, but still now with such a size of order book and that you have two to three years of visibility should we assume the incremental wins will be relatively probably better margins and also relatively at a better working capital given that you are sitting at a very comfortable position now?

**Jami Satish:** The strategy during the last four months we have been adopting of not quoting any projects where we do not see at least margins of 14% to 15% plus at EBITDA level. Honestly now we have given a clear cut direction to even our business development, not to quote for some of the projects, so maybe next few days the orders which we are likely to win maybe more from O&M side as we had a target of Rs.4500 Crores of new addition during the entire financials year and this may slightly exceed because of the O&M opportunity. Two projects we are expecting, which are larger contracts Rs 400 Cr each in the O&M space , if we win both probably it will add quite a large number otherwise we are confident that at least one project we will win where there is a renewal contract and the second O&M contract may be added during in the month of April. Hence only quoting those projects which are having largely higher margins with better working capital flexibility.

**S Kodandaramaiah:** What I would like to add, what you say is correct, now the order book is comfortable, I think we are not too hungry for orders in the sense, but we want good orders, down the line what happens is that when the base of the order back log is good, the follow up initiative of new order booking is to bag good contracts and safe contracts and better contracts I think that is the message, which is going to all the groups and that is one of the ways perhaps we can sustain and improve the margins.

**Dhruvam:** This win that you have got in UP I believe the Jal Shakti related win can this be a huge opportunity and I believe currently we have gone through JV, but in future can it be your independent and probably better margin profile also?

**S Kodandaramaiah:** We have joined hands with another company as Satish told for qualification, but entire work we will be executing to get full experience, and the JV is structured in a way it is recognized by the UP government also, therefore once maybe one, two projects we have to do that and what we have done with the T&D and electrical group also same structuring we have to repeat here, we have to complete one or two jobs and then we will be automatically be qualified and this is a huge opportunity and every district, every town perhaps every village the investment is going to be there as part of the NIP plan.

**Dhruvam:** In your commentary you were mentioning that the scope of work about 20% was piping, bore well was 40% I missed the remaining part?

**S Kodandaramaiah:** 20% for pipes and line systems then 43% is bore wells and pump houses and tanks because you need a bore well, you need a pump house, you need a overhead tank for storage, distribution and extracting water 18% is the civil work, 10% miscellaneous works, then about 5% goes to the final last meter connectivity to the households that is how the price breakup is structured and there is going to be a separate O&M contract, which will be a continuation of this once we complete the job after the contract period and this guarantee

period it is totally equal to 5% of the contract value with some escalation over a period of 10 years, therefore every contract we make it in the case of drinking water business there is going to be a 10-year O&M business also.

**Dhruvam:** Which is approximately 5% of the order value?

**S Kodandaramaiah:** Yes.

**Dhruvam:** Typically you used to take contracts where there is no raw material risk so should we assume these kinds of projects are also similar?

**S Kodandaramaiah:** The escalation clauses are particularly for the piping and other items related to material items .

**Dhruvam:** Thank you so much. All the best.

**Moderator:** Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.

**Anupam Gupta:** Good to see you coming back on track in the third quarter. Just a couple of queries on the total receivables, which you mentioned somewhere around Rs.470 Crores what portion is still coming from BHEL and how is the hedging of that portion?

**Jami Satish:** BHEL will be close to 35% and if we exclude Maitree because Maitree is a bit fast track project where we are getting paid within 45 to 60 days, some of the receivables in domestic it is going up to 75 days also.

**Anupam Gupta:** Except Maitree are you able to recover or that continues to remain largely?

**Jami Satish:** We are able to realize some 75 days, some 65 days, but on average the trend is 75 days .We have been working with them for almost 20 years and no cases of default as of now. Further Maitree being an exceptional project with lot of pressure from Bangladesh Govt the same is getting paid within 45 days.

**Anupam Gupta:** For the ex of BHEL which you said it is BHEL certified you said balance 65 that is largely you are not seeing any particular contract?

**S Kodandaramaiah:** No.

**Anupam Gupta:** The recent UP order which you got what sort of working capital cycle is likely there?

- S Kodandaramaiah:** 21 months execution cycle.
- Anupam Gupta:** 21 months is the execution you are saying right?
- Jami Satish:** This is like our regular monthly billing pattern, as we said it is going to be in the range of 45 days to 60 days and the good part is there is a mobilization advance clause also . So maybe first two months what we need to deploy towards working capital more or less it will be a working capital neutral for us for this project.
- Anupam Gupta:** Is anything left of that school order in AP?
- Jami Satish:** That story is over almost one-and-a-half years back.
- Anupam Gupta:** Okay, you are finally out of that.
- Jami Satish:** We have completely excluded one year back itself from the order book, now the order book which we have disclosed is completely healthy having fast track projects and does not include suspended or projects on hold.
- Anupam Gupta:** Execution which you mentioned, which effectively implies you to have 2600 Crores of revenue that is right?
- Jami Satish:** During December we had revenue of Rs.200 Crores plus and seeing the order books the execution likely to be healthy. Normally we have seen the first Q1, Q2 it will be less as compared to Q4, but this year the trend may be slightly different, the trend of Rs.200 Crores plus may continue for the entire year.
- Anupam Gupta:** Thanks a lot for answers. That answers all my queries.
- Moderator:** Thank you. The next question is from the line of Darshil Jhaweri from an Individual Investor. Please go ahead.
- Darshil Jhaweri:** Thank you Sir. I just wanted to understand what sort of order inflows we are targeting for FY2022?
- S Kodandaramaiah:** I think by end of the year we should land at around Rs.4500 Crores plus that should be reality and perhaps with the conversion happening at 38% to 40% Rs.2600 Crores to Rs.3000 Crores ,may be this momentum we have to maintain and it is possible because O&M will be continued to have opportunities in terms of non-power sector and also repair and maintenance jobs and rehab jobs and then non-power we are trying to make an entry into material handling on a EPC basis and that should be there and then this drinking water

system and then the opportunities in the civil side infrastructure side that will get more traction, more focus and as far as the conversion business is concerned on the ETC business that is traditional erection, testing and commissioning of the boilers and turbines, we are not discounting much, but recently we have taken Rs.176 Crores job from L&T and whatever orders are expected in future also some portion will definitely be there and may be 4000 to 5000 megawatts, which will be added in the capacity addition every year in the next couple of years, we will continue to track on that.

- Darshil Jhaweri:** So this Rs.4500 Crores of order inflows you are talking about FY2021 or FY2022?
- Jami Satish:** As of now we have kept a target as today the order backlog is quite strong, now incremental order booking we will take a call after Q2, so as of now we have taken a target of Rs.4500 Crores to Rs.5000 Crores for next year, maybe in the second half of next year we will take a relook of the targeted numbers.
- Darshil Jhaweri:** If I assume Rs.4500 Crores to Rs.5000 Crores of inflows, so my FY2022 order backlog may be close to about Rs.9500 Crores odd assuming the execution of maybe Rs.2500 Crores to Rs.3000 Crores that we are taking, so on that maybe 40% execution, so we will be targeting at least about 20% growth in FY2023 as well, so is my understanding?
- Jami Satish:** You are right Sir.
- Darshil Jhaweri:** Thank you.
- Moderator:** Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.
- Apurva Mehta:** Just broadly want to know that how is the competitive intensity when you are bidding vis-à-vis past when you were bidding, is that considerably gone down and you are very comfortable in bidding with higher margins or how do you feel that?
- S Kodandaramaiah:** I will bring out a certain facts. I think the traditional competition has come down and I would like to make a statement particularly in main ETC plant and some of the packages because of the obvious financial stress many construction companies have not been participating, and the very fact that BHEL had no other option except to give Rs.860 Crores of orders in Bangladesh for the Maitree project, more than Rs.800 Crores in Yadadri, even though ,there was competition that we were able to beat them and there were a series of orders, in each of the order we have made better effort to improve the margins there. Now as far as the new non-power sector business is concerned, yes there is a competition, but we expect to score over others, for example with Adani what we are discussing for the

Kurmitar mine handling job is that, Thyssenkrupp is a reputed technology provider, and also a very good equipment manufacturer and we are a strong execution company. For this combination also work in the business and the consortium and the joint venture approach is there we do not have to load each other's cost and there will be competition and there will be three, four parties and we are able to make a success in this competition. As far as the O&M business is concerned, yes, what we have established in 39 plants that itself gives a head start for us and then because of the huge base we have created in terms of operations, manpower and like recently we have taken with NTPC five projects and each of the project there was opportunity and we were successful there. There also five to six companies were in competition, but they do not have the depth and reach and we can mobilize it in terms of manpower and resources and also the speed with which we can mobilize that is where we are able to score over and in the IPP sector Vedanta in Jharsuguda and other plants where we are continuously discussing with them because another five years contract extension we are trying to engage with them that should be Rs.800 Crores to Rs.1000 Crores of business. Therefore as far as civil is concerned, I think the same problem what has happened is that the competition is slowly coming down because of especially with many of the contractors with poor financial health are not able to compete.

**Apurva Mehta:**

Currently when the budget was there, the people are talking of 100% electrification of the railways, so what kind of opportunities do we see because we are a strong player on this side, do you find huge opportunities coming in or this is a very long-term thing and the opportunities will come gradually only or do we see fast track project coming?

**S Kodandaramaiah:**

That is a good point from you. As part of the NIP the railways are going to invest plus Rs.8 Lakh Crores, already if you have seen the last two years the investment is going up more than a lakh Crores it is increasing on a compounding basis every year. There is an opportunity of modernization of 400 railway stations then next two, three years they want to complete the railway electrification and to broad gauge conversion and then the new bullet train projects, which are coming up, first they are trying to make a huge investment of more than a lakh in the first bullet train project, we do not have qualification we have to join hands with others and as the bullet train projects become reality and it is expected then every major city will have a bullet train project connectivity, and that should give lot of opportunities for companies like us as we have already entered the railway segment of business, because now jobs what have done in Andhra Pradesh and all railway jobs is coming to an end that should give us some references. Railway electrification job what we are doing in Sadulpur that will be getting completed in another year that should give us good reference. I think we will join hands with others and perhaps railways with solid investments is a very good opportunity as far as we are concerned, as we are working in five to six projects.



**Apurva Mehta:** So the opportunity has size is quite large, so are we very well equipped to execute kind of like 30% growth if we want to do or 35% growth, are we equipped to execute such type of large projects and large size orders we can execute, are we capable or we may need to gear up or we have to need something?

**S Kodandaramaiah:** If we go by the present operations itself, for example, we could not have said couple of years back 800 Crores to 1000 Crores jobs we can execute in a project site and what we are doing in Bangladesh, 830 Crores at least five contracts we are executing there and plus 2000 manpower is there, now Yadadri also is plus 800 Crores. Now for example Nigeria we are doing \$76 million, therefore today the manpower resources is over 13000, but what is happening is that in many areas we are doing better mechanization, the civil work there is more mechanization is coming in production of concreting and its usage and therefore manpower requirements are also optimized and as far as our own HR base is concerned, yes, we are gearing up and from 900 Crores to 1500 Crores to 2200 Crores we have done it therefore hitting growth of 20% to 30% should not be a challenge and we should be able to do that.

**Apurva Mehta:** Thanks a lot and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Chirag Muchhala from Nirmal Bang. Please go ahead.

**Chirag Muchhala:** Thanks. Two questions from me on the O&M side. Firstly you mentioned that in the non-power sector you intend to scale up O&M in both material handling equipment as well as iron ore related equipment side, so is it possible to quantify the current addressable market in India which this specific segment provide then who is doing O&M of this area right now or this plant owners themselves doing it or there are other companies who are doing it?

**S Kodandaramaiah:** If you look at the recent trends for example, Bhushan Steel they have given 80 Crores job in only a small segment of the business that is railway wagon trippler arrangement that is 80 Crores of job then Nagarnar we have taken about plus 100 Crores is also material handling job. Obviously now for example we are discussing with Adani about Kurmitar if it materializes already customer has told once the project is completed they want to enter into the O&M operation contract with us between the consortium of Thyssenkrupp and Power Mech and what I would like to say is that, for example the Coal India Limited has called contracts worth of Rs.15000 Crores, but we participated in one contract but the prices were highly competitive, all those contracts in Coal India whatever they called Coal handling contract, they have got a five-year O&M contract provision, therefore what is happening for the customer is concerned O&M in-house doing is costlier than O&M outsourcing it, and they would like to retain their core strength in technology upgradation, technical operation,

control room operation with the key people, NTPC for example why they started offloading the O&M also on a AMC basis and this practice was not there for the new plants earlier, and they are operating plus 60000 megawatts installed base. In the case of new plants coming up, instead of making new induction of NTPC manpower or with retirement of staff they would like to put more and more O&M contracts that is how perhaps the business should go forward.

**Chirag Muchhala:** In this non-power space, if we have any kind of opportunity mapping across India for these two, three sub-segments that have been identified, so any of that addressable market opportunity can be shared?

**S Kodandaramaiah:** Roughly what I said was that Coal India has called tenders for about 15000 cr in coal handling on the mine side projects, now as part of new policy coal mining itself is being given to private players and wherever such diversification or disinvestment takes place O&M opportunities will be available for the mine side Coal Handling plants. In the case iron ore is going to be huge demand thus and there is going to be ramping up the capacity of a steel manufacturing, and also Coal mining. Even traditional players like Coal India are outsourcing the O&M for the newly constructed coal handling plants at the mine side, and in case of the new players who enter they may not have all the organization to do O&M and obviously they would like to outsource the same, we have not done exact mapping, but on a project-to-project basis as on today we are doing it, but as the opportunity is there we will definitely do it and we will commit our numbers, and thanks for your suggestion.

**Chirag Muchhala:** It will be in the range of Rs.20000 Crores, Rs.25000 Crores?

**S Kodandaramaiah:** I think on a rough estimate we can take anywhere between Rs.25000 Crores to Rs.40000 Crores of investment are coming from the mining business. I will tell you one more thing. If Kurmitar happens with Adani whatever is there, they have already told us, that three more mines are coming up, then day before yesterday we had a conference call with JSW, and JSW has got a mine in Barbil, Odisha. Now all of them they are slowly looking at O&M and the new investment philosophy for the private players is that it is better offload it to the companies who have got expertise and who can give such services at a lower cost than in house operations.

**Chirag Muchhala:** You were saying that in Coal India's tender the competition was intense and pricing was not very attractive, but you are not witnessing this kind of competition and pricing in iron ore or related O&M?

**S Kodandaramaiah:** Iron ore handling is much more complex than a simple coal handling because there are so many technical issues involved and not many players are geared up, only a couple of

players are geared up, for example Thyssenkrupp is there, they are a fully qualified party, there is Flsmidth is there, but they have a philosophy, they only want to supply the equipment, and they do not want to give a total project solution and now other players basically for us they are not doing so well and L&T they have got their own priority, they have got material handling division, they have entered in a big way in the Coal India tenders and they have quoted at a very competitive prices that is why we backed out to quote for Coal India tenders, we quoted for only one job, our prices are higher, we joined with Promac India of Bangalore, but we are not successful, but afterwards we have taken step back, therefore we are looking at private players like Adani, JSW and we would like to expand on that.

**Chirag Muchhala:** Within power sector the areas where high capex is taking place like for example renewable power generation for FGDs, so do these areas offer O&M opportunity for us maybe one or two years down the line or there is absolutely no space for O&M in those projects?

**S Kodandaramaiah:** You are correct, FGD is a huge opportunity because 164000 megawatts is a mandated FGD conversion to take place by 2024-2025 and all of them also will come for O&M, in fact some of the projects where FGDs have been commissioned also are there, the O&M opportunity is coming up, therefore we will continue to pursue those operations and FGD is going to be a huge opportunity. As far as renewal power is concerned we have tried in a small way in Rajasthan with Reliance Power, but the volume of the work is not that manifold like what we get in the thermal or in a material handling or other non-power sector business, not like we have to employ 100, 200, 500, 1000 people, therefore that is where renewable we are not considering as on today, we are more focusing on the other manpower intensive opportunities.

**Chirag Muchhala:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Anand Loya an Investor. Please go ahead.

**Anand Loya:** March 2020 revenue was around Rs.2100 Crores and current year revenue is nil due to COVID, can I get any guidance for FY2023-2024 revenues and tractions?

**Jami Satish** As we discussed now if you take the conversion to opening backlog so 38% to 40% range definitely we are confident of converting the opening order book to execution because December quarter we did close to 200 plus of revenue per month. Now in Q4, we are expecting, which is going to be 200 plus per month, so it will definitely cross Rs.600 Crores for Q4 and for the entire year for next year is going to be definitely slightly more than this number and in terms of margin it is definitely going to be our normal reported margins, which used to be 12.5% to 13% and depreciation not much capex is happening, so more or

less we will continue to be the same in the range of Rs.9 Crores and finance cost we are trying to bring it slightly because we are working towards reduction because in Q2, Q3 we were successful to maintain the debt at a lower level and the finance cost kept intact. Now next year so definitely the margins front also will improve in terms of PAT also.

**Anand Loya:** What is the guidance for FY2023 and 2024?

**Jami Satish:** We are targeting again in the range of Rs.4500 Crores to Rs.5000 Crores of order booking, so with that our order backlog for 2022-23 will definitely cross Rs.8500 Crores plus, so with that if we take even 38%, 40% conversion there will be a reasonable growth for 2023 also and the margin front slightly should increase because of the absorption of the fixed cost the margin profile should improve.

**Anand Loya:** Thank you Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Chirag Muchhala for closing comments.

**Chirag Muchhala:** We thank the management for taking time out and sharing their valuable insights on this call and we also thank all the participants for their presence. Sir do you have any closing remarks?

**S Kodandaramaiah:** Yes Chirag. I think we should take it in a positive note with the turnaround happening from December 20 onwards and perhaps the fourth quarter will be back to normal and next year will be a growth story and obviously we have to focus in two things one is that how to consolidate our margins and improve the operations of the various segments of the business and that is a challenge for us and some of the new jobs what we have taken like drinking water system maybe we will take on material handling and some of the new non-power sector jobs, roads and then other infrastructure projects we have to give more focus and the idea is to take the good people into these segments and make the operations much better and the another area perhaps we are focusing is that wherever turnkey jobs are coming, EPC jobs are there we want to focus both on the procurement and materials management side, and logistics that is an improvement which we have to make it, and as far as the manpower requirements are there we are able to reasonably fulfill it for our traditional jobs and new jobs also we are taking care of and that is being reflected in what we are able to do in all these big ticket jobs and ultimately perhaps this trend should continue in the next two, three years and that is our wish and that is our effort. Thanks.

**Jami Satish:** One more thing, international we could not do much because of COVID, so financial year 2022 some focus will be there on international orders too at least to see that 15% to

*Power Mech Projects Limited*  
*February 17, 2021*

18% of our topline coming from the international market both from O&M as well as the mechanical business. Thank you very much all for joining the call. Thanks Chirag.

**Moderator:**

Thank you very much. Ladies and gentlemen on behalf of Nirmal Bang Equities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.