PATEL ENGINEERING LTD.

CIN: L99999MH1949PLC007039

November 7, 2023

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

SCRIP CODE: 531120

The National Stock Exchange of India Limited
Exchange Plaza,
Bandra - Kurla Complex,
Mumbai - 400 051

SYMBOL: PATELENG

Dear Sir/Mam,

Subject: Submission of Investor/ Analysts Meet Transcripts

In continuation of the letter dated October 30, 2023 related to the Investor Conference Call to discuss the Financial Results for the Quarter ended September 30, 2023 and pursuant to Regulations 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended), please find enclosed the Transcripts of the Company's Investor Call.

The said Transcript is also available on the website of the Company at https://tinyurl.com/2xdhvkbp

It is further confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

We request you to take the same on record.

Thanking you,

Yours truly,

For Patel Engineering Ltd.

Shobha Ranjit Shetty
Digitally signed by Shobha Ranjit Shetty
Date: 2023.11.07 10:12:46 +05'30'

Shobha Shetty
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"Patel Engineering Limited
Q2 FY '24 Earnings Conference Call"
November 03, 2023

MANAGEMENT: **MS. KAVITA SHIRVAIKAR – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – PATEL ENGINEERING LIMITED**
MR. RAHUL AGARWAL – HEAD STRATEGIC FINANCE – PATEL ENGINEERING LIMITED
MR. ADITYA BAJAJ – INVESTOR RELATIONS – PATEL ENGINEERING LIMITED

MODERATOR: **MR. GOPAL CHANDAK – KIRIN ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Patel Engineering Limited Q2 FY24 conference call hosted by Kirin Advisors. 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 star then zero on your touch-tone phone.

Please note that this conference is being recorded and now hand the conference over to Mr. Gopal Chandak from Kirin Advisors. Thank you and over to you, sir.

Gopal Chandak: Thank you. On behalf of Kirin Advisors, I welcome you all to Patel Engineering Limited Q2 FY24 conference call. From the management side, we have Ms. Kavita Shirvaikar, Whole-Time Director and CFO, Mr. Rahul Agarwal, Head Strategic Finance, Mr. Aditya Bajaj, Investor Relations. Now I hand over the call to Ms. Kavita Shirvaikar. Over to you, ma'am.

Kavita Shirvaikar: Very good evening to everyone and thank you for taking time to join this investor call for our company. The presentation summarizing the performance of Q2 FY24 and the press release along with the results have been uploaded on the stock exchange and I hope you all have had a chance to look at the numbers. Before we get into the detailed results, let me tell you that despite a few projects being affected by a very heavy monsoon season, this quarter has been reasonably good for the company and we have continued the growth momentum on a year-on-year basis.

To start with, I shall be giving you all a short brief of key highlights of the performance of the company in this quarter and then we'll be happy to answer any questions which you all may have. Before we deep dive into the financial performance, let me run you through the current order book and the operational highlights of the company for the quarter. The current order book of the company stands at INR20,000 crores. In this quarter, we have received the letter of award for the Dibang multipurpose project of 2,880 megawatts which is located in Arunachal Pradesh and client is NHPC.

This is currently India's largest ever hydropower project announced by the Indian government. We were earlier declared lowest bidder for this project. Total value is INR3,637 crores and our share is INR1,818 crores.

This project is under mobilization stage and shall start generating revenue from the next financial year. Further, in this quarter, we have also received the order for an urban infrastructure project received from Madhya Pradesh, Jal Nigam. The project is located in Ujjain and Indore.

This project is being executed in JV and our share in this project is around INR446 crores. In this quarter, we have also been declared as L1 for two schemes in an irrigation project by Maharashtra Krishna Valley Development Corporation. This is a pipe distribution network project and total value of these two schemes is around INR452 crores and our share is around INR188 crores.

We expect that Q3 and Q4 FY24 will be better in terms of order inflow but due to election year, there may be some shift for a few large order inflows to FY25. Now coming to the composition and breakup of the order book. 60% of our order book comprises of hydropower projects, 21% irrigation projects, 12% tunnelling and 3% of our order book is road and rest 4% from others.

Also, 62% of our order book is from central government PSU which are AA, AAA rated entities and 35% from state government and balance 3% from Nepal. Speaking about the hydropower sector which comprises the major pie of our order book, as per recent notification by the ministry, at present around 42 hydropower projects with an aggregate capacity of 18,034 MW are under construction and 30 hydropower projects with an aggregate capacity of 21,810 MW have received concurrence from the CA which can be taken up for construction and should come up for bidding shortly.

I am happy to inform you that out of the current 18,034 MW which is under construction, Patel Engineering is involved in construction of around 8,200 MW of projects which is 45% of the entire hydropower project being executed at present. This is testament to the dominating presence that we have in this industry. Recently in August, the government of India and the government of Arunachal Pradesh have come together to execute 12 hydropower projects in the state with a cumulative installed capacity of about 11,517 MW.

The projects have been allocated to PSUs namely NEEPCO, SJVN and NHPC and these projects should also come up for bidding and construction in near future. The government has also increased its focus on hydropump storage projects as these are necessary to achieve government of India's commitment of 500 GW installed capacity from non-fossil fuel sources by the year 2030 and net zero carbon emission by the year 2070. PSPs will help integrate intermittent renewable energy with the grid.

The government has taken various steps recently in order to ensure that pump storage gets commissioned on a fast track thereby accelerating the growth of India's renewable energy capacity. As per recent ministry update, there are 39 hydro PSPs of 47 GW being pursued to be commissioned by the year 2030. So, we see tremendous potential in the coming few years in this sector where the company is a dominating presence.

Now coming to the irrigation sector, where the company has increased its presence in the last few years and which comprises around 21% of our order book. India is one of the major players in the agriculture sector worldwide and it is the primary source of livelihood for 55% of India's population. To enhance the income of farmers, the government has taken initiatives across several focus areas.

Income support is provided to farmers through PM Kisan scheme. Crop insurance is assured through the Pradhan Mantri Fasal Bima Yojana and irrigation facilities are ensured under Pradhan Mantri Krishi Sinchai Yojana. Pradhan Mantri Krishi Sinchai Yojana is an umbrella scheme consisting of two major components being implemented by Ministry of Jal Sakthi namely accelerated irrigation benefit program and Har Khet Ko Pani.

Under initiatives like Pradhan Mantri Krishi Sinchai Yojana for 2021-26, there has been an outlay allocation of around INR93,000 crores which would benefit about 22 lakh farmers. Since August 2019, Government of India is implementing Jal Jeevan Mission in partnership with states to make provision of tap water supply to every rural household by 2024. As of August, and this year, out of INR19.41 crores rural households in this country, around INR12.75 crores households are reported to have tap water supply in their homes. As per a recent announcement by Government, they are extending financial support to states for capital investment with allocation of around INR1.3 lakh crore for 2023-24 for JJM projects. With the focus of the Government on providing every household in India with drinking water and proper irrigation facilities, there is again huge potential to be explored in this segment.

Another important sector where the company has a presence is the tunneling sector which comprises about 12% of our order book. Tunnel construction has become an integral part of infrastructure development in India. It has seen significant growth in the past few years owing to development across key infrastructure sectors including urban rail, roads and highways, hydropower, irrigation and water.

Similarly, increasing development in the metro rail sector has spurred tunneling activity. The roads and highways tunnels are also witnessing a rise, especially in the hilly regions. According to projects tracked by India Infrastructure Research, India has more than 2,500 km of compelled tunnel length out of which hydropower sector has the highest share of completed tunnels of over 1,200 km followed by irrigation, then railways, metro tunnels, water and sewage and roads.

With regard to upcoming tunnels, the tunneling sector offers a strong pipeline of around 1,300 tunnels spanning a length of more than 3,600 kilometers. Maharashtra has the maximum share with over 1,100 kilometer followed by J&K with over 460 kilometer and Uttarakhand with more than 280 kilometer.

Going forward, the overall outlook for tunnel development in the country remains promising. Many new projects are in the pipeline. The schemes and programs of the government such as Gati Shakti master plan are expected to boost the infrastructure capabilities in the country. On the operational front, in August this year, for our RVNL project, final inspection was successfully completed, and the section has been approved for operation of trains.

This rail line passes through dense forests and entire stretch is under core Naxalite belt of Bastar Division where the work was going on restricted hours, not more than six hours, seven hours per day under security cover provided by the government. Also, Q2 FY '24 started off with very heavy rainfall especially in North India and Himachal Pradesh especially so very heavy rainfall which was the highest in 70 years. The company took all necessary safety, precautionary and mitigation measures as practicably possible and also got full cooperation from client at site to recommence work post such temporary interruption.

I will now cover the financial performance parameters. Q2 FY '24 was a quarter of healthy performance for the company. On a consolidated basis, revenue from operations for Q2 FY '24 is INR1,021.3 crores which is up by 23% from INR830.34 crores in the corresponding quarter in the previous year. This is on account of strong order book growth and well execution of project.

Operating EBITDA for the quarter has increased to INR140.07 crores, as compared to INR118.6 crores in the previous year. Net profit is up by 63.4% at INR32.2 crores for the quarter as compared to INR19.7 crores in the previous year. On a consolidated basis, half year revenue stands at INR2,139.9 crores, which is up by 23.6% from INR1,731.4 crores in the previous corresponding period and net profit at INR70.49 crores, which is up by 38% year-on-year from INR50.96 crores.

On a stand-alone basis, revenue from operations for Q2 FY '24 is INR1,012.11 crores, which is up by 24.2% from INR814.46 crores in Q2 FY '23. Operating EBITDA is up by 22.2% at INR135.58 crores, as compared to INR110.94 crores in the previous year. Net profit is up by 168% at INR41 crores, as compared to INR15.35 crores in the previous year.

Half year revenue on a stand-alone basis stands at INR2,102.8 crores, which is up by 24% from INR1,695.5 crores in the previous corresponding period and net profit at INR172.02 crores, which is up by 241% year-on-year from INR50.37 crores in the previous corresponding half year. The sector wise revenue breakup on a stand-alone basis for Q2 FY '24 is from Hydro it is 49%, Irrigation 31%, Tunnel 15%, Road 3% and others 2%.

Now moving on to the debt position, the consolidated gross debt as on 30, September 2023 is INR1,992 crores. The same is increased from March due to replacement of high-cost advance of INR252 crores in Q1 FY '24. Further there is a cash and bank balance as on 30, September 2023 is INR257 crores. The consolidated debt to equity ratio has remained the same as the previous quarter at 0.67 as on 30, September 2023. The breakup of the debt, working capital debt is INR1,155.4 crores and balance is term debt, which is around INR836 crore, which is expected to be repaid over next three years, four years also from monetization of non-core assets and on surplus from operations.

The finance cost for Q2 FY '24 on consolidated basis is INR91.6 crores, which has reduced as compared to Q2 FY '23 INR103 crores. The broad breakup of finance cost, interest to lenders for Q2 FY '24 is INR54.8 crores. Interest on advances from client is around INR20 crores. Total advances from client as on 30, September is INR890 crores versus INR1,307 crores in Q2 FY '23. Balance amount of INR16 crores represents BGLC and other borrowing costs.

Other updates like gross block of plant and machinery as on 30, September is around INR1,100 crores. Total employee base is around 4,500 employees. On a consolidated basis, our diluted EPS from continuing operation has improved from INR0.41 as on 30, September 2022 to INR0.46 as on 30, September 2023. Debt divided by EBITDA has improved from 4.31% to 3.21% year-on-year.

Speaking about the arbitration claims, under the Vivad se Vishwas Scheme, which was launched for the settlement of pending disputes related to government contracts, the company has filed for various settlement amounts for projects which were under ongoing arbitration. We expect to realize some of these arbitration awards through this scheme and which will facilitate to release few bank guarantees which was given earlier for realization of this amount.

With this scheme, we expect some claims to be realized in shorter period of time than earlier anticipated. Receipts from this scheme will help us lighten the balance sheet and also augment working capital requirement for upcoming fresh orders. We continue to stay positive on the outlook of the sector and enhance government spending thus expecting steady growth in our revenue. We expect revenue growth of around 15% to 20% year-on-year basis.

That was small brief from our side. Now our team here shall be happy to answer any further questions which you all may have. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mr. Muralidhar, an individual investor. Please go ahead, sir.

Muralidhar: Good evening. Sir, may I know what will be the projected order book for the financial year, sir? Like what are the expectations?

Management: Projected? What you are saying, sir? Projected order book?

Muralidhar: Yes, sir. Expectations like what you are expecting the order book to be in this financial year, sir. It is already INR20,000 crores, sir. And what you are expecting in the coming two quarters, sir?

Management: Sir, we expect that the order book will be maintained or around 8% to 10% growth scenario. And some new orders may come but due to election period, some orders may shift in the next year.

Muralidhar: Okay, sir. May I know the reason for the drop in the margins, sir?

Management: So, normally a margin is in the range of 13% to 15% this year. This quarter specifically being in the monsoon period. So, the costs are little higher in that period.

Kavita Shirvaikar: But EBITDA is 13.5%.

Management: Yes, 13.5%.

Moderator: Sir, are you done with your question?

Muralidhar: Yes, sir. I am done, ma'am. I am done. Thank you.

Moderator: Thank you, sir. We take the next question from the line of Mr. Prashant from Unived Corporate Research. Please go ahead, sir.

Prashant: Good evening, madam. I just wanted to ask you on Subansiri Hydroelectric project. Now, the company is executing the powerhouse and HRT. So, how far is the progress and has it been completed for two units at least?

Kavita Shirvaikar: It is almost -- we are on track. We have completed. But because of now, there is some issue because of heavy rainfall and everything. Dam portion is -- some issue is facing. So, we expect by March at least one unit will be commissioned.

Prashant: Yes, but from your side, the work has been completed, or is it?

Kavita Shirvaikar: Yes, from our side, our portion of work is completed.

Prashant: Okay. For two units or one unit only? Just to clarify.

Kavita Shirvaikar: From our side, whatever work -- we are on schedule. We are on track. But because of rainfall, we see, we have to do the rework certain things. Like we have to again construct the dike and other things. So, that is in progress.

Prashant: Okay. But these are for only two units because there are some eight units in the project. So, how far we are?

Kavita Shirvaikar: As per schedule, by March, plan was to commission two units first. And then balance period, rest of the units balance period.

Prashant Kshirsagar: Okay. And secondly, your project on Dibang, what is the expectation that when the final -- on ground, when will the project start, you expect?

Kavita Shirvaikar: See, Dibang is a large hydropower project. Now it is an initial mobilization phase. So, we expect to revenue starts coming in from the next financial year.

Prashant Kshirsagar: Okay. So, you expect the work to start in the next financial year?

Kavita Shirvaikar: Yes, sir. Yes, sir.

Prashant Kshirsagar: Yes. And thank you, ma'am. That's it from my side. Thank you.

Kavita Shirvaikar: Thank you.

Moderator: Thank you, sir. The next question is from the line of Chirag Shah from White Pine Investment. Please go ahead, sir.

Chirag Shah: Hi. Thanks for the opportunity. Hi, Kavita. So, quickly, two, three questions. One, on this Vivad se Vishwas scheme, would you like to indicate what kind of realization you are expecting? Because you mentioned you expect resolution to be fast earlier or sooner than your initial expectation. Would you like to indicate or what kind of claims you have submitted in that scheme?

Rahul Agarwal: See, we have discussed with clients. Now, see, there are a lot of things where the clients will also have to come back. Because there are some places where advances were there, so they have to set off everything. They have to return our bank guarantee. So, on each individual basis, whichever will suit us, benefit us, because you have to give discount also in this. Whichever will suit us, that only we will accept. So, right now, putting a number is difficult. Maybe by next quarter, we can give some updates.

Kavita Shirvaikar: So, around 150.

Chirag Shah: Yes.

Kavita Shirvaikar: So, around approximately INR150, INR200 crores we expect realizing under this scheme.

Chirag Shah: Okay. And, so, this is in the near term, right? But overall, have you submitted more or is it the initial submission you are talking about for which you expect INR150, INR200 crores?

Kavita Shirvaikar: No, whatever we have submitted, out of which, see, we are not going everything under Vivad se Vishwas part of which are eligible. And we are submitting out of that, we expect to realize around INR150, INR200 crores.

Chirag Shah: Okay. And by end of the financial year, you can expect, or it can get spilled over post the election, actually?

Kavita Shirvaikar: We expect by end of the financial year.

Chirag Shah: End of the financial year. Okay. Second question was, if I observe that your order book seems to be stagnating as your execution is increasing. So, how should one look at it? Do you expect major accretion to order book only after elections or there is scope of some approvals happening in between?

Kavita Shirvaikar: We expect in between also to get some orders. But, yes, there is an uncertainty because of election. So, some large orders might get shipped to Q1 of FY'25 next year.

Chirag Shah: I was asking this because last year, we had around INR22,000 crores of order. Right now, we have around INR20,000 crores of order. And it is understandable. So, that's why I was asking. But would it be fair to assume that the drawdown will not be good. You would be able to maintain this order book at least if -- because there will be something or other coming up, right?

Rahul Agarwal: Yes, yes. Something or other will come up.

Kavita Shirvaikar: Right, right. Something or other will come up.

Chirag Shah: And major accretion -- so, if I have to just give a 20% increase in order book, we can expect post-election.

Kavita Shirvaikar: Yes, correct.

Chirag Shah: That kind of thing is a fair way to look at. So, INR25,000 crores of order book by end of next financial year is not a big challenge. That kind of submissions we have made?

Kavita Shirvaikar: Right. Yes, sir.

Chirag Shah: And last question if I can ask is just on this – on the margins. So, is there any risk of escalation clauses coming into and given the way the commodities of late have been behaving? Is there a risk that there could be a risk of escalation and margins can remain subject for one or two quarters?

Rahul Agarwal: We have a pass-through clause for escalation in all contracts. So, where more than 90%, 95% of the escalation is passed on to the client. So, we don't see a challenge that.

Chirag Shah: Okay. Great. So, 13.5%, 14% margin is not under a big worry kind of thing?

Rahul Agarwal: Right.

Chirag Shah: Great. I will come back for more questions. Thanks.

Kavita Shirvaikar: Thank you.

Moderator: Thank you. We take the next question from the line of Arushi Shah from Sushil Finance. Please go ahead.

Arushi Shah: Hi. I have two questions. First is the debt I heard that we have been increased. The debt has increased over last quarter from March. And what is the cost of refinancing it? Can I get the color on that please?

Rahul Agarwal: Basically, the debt on an overall basis, the serviceable portion is not increased. The lender's debt has increased but corresponding client advances have reduced because there was around INR250 odd crores of client advances which was at a higher cost. So, we got it replaced from debt in Q1.

Arushi Shah: Okay. So, the financing cost per se hasn't increased?

Rahul Agarwal: Yes. So, both put together, I would say in March, advances plus debt was around INR3000, INR3050 which is combined today around INR2900. So, all combined we have reduced by INR100, INR150 crores.

Arushi Shah: Okay. Got it. Thank you. And also secondly, could you comment on your bottom line? I see a little bit of dip in the margins. So, is it like temporary because of the H1 and can we see improvement in the H2 or something like that? The bottom line.

Rahul Agarwal: Basically, we have been maintaining EBITDA margins around between 13, 15 depending upon what sort of work we are executing in that quarter. So, that will maintain, and we don't see interest costs increasing. So, bottom line should not be a challenge.

Arushi Shah: Okay. And for a long term, if I see a visibility, like what is your plan, like say for five years and what are the things that are on your mind or some sort of strategies which you would be looking at overall from a very broad perspective?

Kavita Shirvaikar: See, now as we discussed, there is a huge opportunity available in the sector where we operate in.

Arushi Shah: Okay.

Kavita Shirvaikar: So, we expect from next year post election, we expect huge inflow order book inflow, and we expect to maintain the 15% to 20% revenue growth as well as order book growth.

Arushi Shah: Okay. And any other geographies that we will be exploring?

Rahul Agarwal: Right now, there is enough work in India. So, right now, there is no plan.

Arushi Shah: Okay. Okay. Thank you, sir. Thank you and best of luck.

Rahul Agarwal: Thank you.

Moderator: Thank you. We take the next question from the line of Jainam Shah, an individual investor. Please go ahead, sir. Mr. Jainam, your line is in the talk mode, sir. Please go ahead with your question. Hello, Mr. Jainam. Can you hear us? Hello, Mr. Jainam. Can you hear us, sir? As there is no response from the line of the current questionnaire. We move on to the next question. The next question is from the line of Ananya from Tea Square. Please go ahead.

Ananya: Hello. So, my first question is how do you ensure cost effectiveness and efficiency in projects to maintain a competitive edge?

Rahul Agarwal: We have our monitoring teams who monitor the cost, and we have tight team budgets and all where we monitor everything. And based on our past experience, we have all ballpark numbers where what cost should we get for what sort of work. And that's why we are confident that we are expected to maintain EBITDA margin of 13% to 15%.

Ananya: Okay. Alright. And are there any plans for fundraising or debt reconstructing in near future?

Rahul Agarwal: Nothing in the near future.

Ananya: Alright. Okay. So, is there any strategy for maintaining and expanding your customer base?

Rahul Agarwal: See, right now the projects what we are doing, similar clients are there. So, unless we foray into different segments, we don't see the customer base changing.

Ananya: Okay. So, last question from my side. Can you provide more insights into the order book including distribution of orders among different segments? And like expected execution timelines?

Rahul Agarwal: We have book to bill ratios around four to five years. And 60% of order book comes from the hydro segment. Around 21% from the irrigation segment. 12%, 13% comes from the tunneling segment. And rest is urban infrastructure, roads and others.

Ananya: Okay. So, sir, do you have any delays in your current projects and completion period?

Rahul Agarwal: No. All our projects are running on schedule. Monsoon, obviously, there were some disruptions. But post-monsoon, we expect all projects to run properly.

Ananya: Alright. Okay. Thank you. That's it from my side. All the best.

Moderator: Thank you. The next question is from the line of Deepika Chadda from Konjin Invest. Please go ahead.

Deepika Chadda: Hello, sir. I wanted to ask you one question. What sets you apart from your competitors in the heavy civil engineering sector, particularly in hydro, irrigation and tunnel segments?

Rahul Agarwal: You are talking about names of the competitors?

Deepika Chadda: Yes. And what sets you apart from?

Rahul Agarwal: Yes. So, see, generally, when we build our competitors, like L&T, Afcons, MEGHA, for hydro segment, Jayaprakash. So, and we go to irrigation or tunneling, then depending upon the type of work, there are various other players as well.

Deepika Chadda: Okay. And how do you manage your relationship with government agencies and PSUs?

Rahul Agarwal: So, we have cordial relationship with them because we have been working with them for a long period. And hence, most of the directors of projects and everyone are similar ones who are working, we are working with them in other projects.

Deepika Chadda: Okay. And what is the current competition scenario in bidding process of hydro and tunnel?

Rahul Agarwal: So, that's what normally in hydro, around five, six bidders are there. Irrigation, depending upon state to state, the number of bidders may change.

Deepika Chadda: Okay. And how do you intend to leverage your strong order book and customer base for future growth and profitability?

Rahul Agarwal: See, we are pretty confident that we have a good share in the hydro segment and the clients also, because of our fast execution, executed projects, we have a good rapport with the clients. And it is all competitive bidding projects. So, once we get the projects to competitive bidding, we don't see a challenge in execution.

Deepika Chadda: What is the quantum of hydro projects going in India?

Rahul Agarwal: Quantum wise, around 18,000 megawatt is currently under execution, out of which we are doing 8,200 megawatts. So, around 45% of the current execution, which is under execution. And what is under pipeline is 21,000 megawatt is already approved to be starting construction. And another, if you add PSP, that is another 11,500 megawatt. So, there is enough scope of work coming up.

Deepika Chadda: How much you can bid in that?

Rahul Agarwal: See, we will bid selectively, but in the past, if you see, we have been in the range of 25%, 30% share.

Deepika Chadda: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Vishal Periwal from IDBI Capital. Please go ahead.

Vishal Periwal: Yes, sir. Thanks for the opportunity. One clarification, the Dibang project in JV that we have wanted. So, what is our role and what is the JV partner role in that project?

Rahul Agarwal: So, it is a 50-50 project. So, the work will be split up. It will be executed by the JV and the revenue will be split up 50-50.

Vishal Periwal: Okay. So, in terms of segregation of work, like technical work and then financially support is provided?

Rahul Agarwal: That we both will work out together with what we are doing.

Kavita Shirvaikar: It will be executed under separate JV.

Vishal Periwal: Okay. Okay. And you did mention, like, there was a flood and then some bit of rework is being done. So, does this have any impact on us in terms of like redoing the work or probably it is covered under some sort of insurance? So, that can clarify.

Management: No. So, that is covered under insurance for the clients. For us, whatever work we do will get paid by the client.

Vishal Periwal: Okay. So, basically, I mean, in terms of, I mean, the client is getting it from insurance, but from us, I mean, like, no redo of work that is required. No.

Management: No. It is extra work, we would say, that we have to do it and we will bill it to the client, and we will recover.

Vishal Periwal: Right. Okay. And then you did mention, like, you know, around 21,000 megawatt of project, which we probably will go for construction in hydro. So, this is you are saying, this will be an opportunity and tendering will be happening for these many megawatts?

Kavita Shirvaikar: Yes. Based on, we evaluate each project separately and based on cost estimate and other parameters, execution parameters, technical parameters, and then we select for bidding. But, yes, these many opportunities available in the sector for bidding.

Vishal Periwal: Okay. So, but if I get a more granular thing, so, is it like, you know, these tenders are open as of now or they will be coming up in…

Kavita Shirvaikar: They will be coming up in near future.

Vishal Periwal: Okay. Okay. And one last question. In terms of our order book, I think it is quite segregated. Directionally, can you, I mean, can you give some direction, like, you know, margin-wise, which side of the order book get a higher margin and then probably some trajectory that you can just provide? If not, I mean, number-wise, maybe a qualitative aspect that you can provide?

Management: Hydro is generally, you know, 100-200 basis points higher and the others are 100-200 basis points less as compared to our average of 13-15%.

Vishal Periwal: Okay. So, it is basically hydro one side and rest are other side. Is that clear?

Kavita Shirvaikar: Yes.

Moderator: Thank you, sir. The next question is from the line of Aman from Kawad Investments. Please go ahead, sir.

Aman: Yes, ma'am. First of all, I congratulate you. It has been an immense journey traveling with you. And second thing, I was very curious about getting to know you because we are positioning ourselves as a hydro power sector leader in India. When you quantify that 18,000 is there and we are doing 8,000. I just wanted to know your perspective and the facts. Like, in the scale of renewable energy, hydro is only one part and there are other?

How do you see hydro being placed in the scale of renewable energy in terms of that capex, the amount spent on the infrastructure and the return it gives on the infrastructure spent in the range, in the, what do you say, in the series of these renewable energy investments?

Like, if you can just categorize like hydro is on the top or solar is on the top or wind is on the top and delineating three or four other energy sources of renewable energy. If you can just give me a broad picture so that I can understand the future of India or not.

Management: See, we can explain you whatever information we have. So, there are three broad categories of renewable which is solar, as you said, solar, wind and hydro. So, hydro comes naturally to India because of the presence of various rivers and abundance of water availability sources in India. And if you see all large, developed countries where water is available, more than 60% of the energy requirement comes from the hydropower.

And because peaking power and all, whenever required, the peaking power requirement can only come from hydropower. Solar and wind are other sources where renewable can be done, but then solar will need long, large spaces of land. And wind can be done only in locations where the wind is suitable enough to have a wind power.

So, yes, these three are the broad basic categories because India is a vast country, and all sort of terrains are available. But again, because of abundance of, you know, availability of rivers across India and mostly in the north region, we see hydro as a large contributor to the energy.

Aman: Okay. And going forward by 2030, in India's portfolio, how much percentage do you assume that hydro will be playing a role?

Management: So, I mean, we see that there is no reason why India should also not move towards other developed countries where 60%-65% of the energy is coming from the hydro segment.

Aman: Okay. Sure. I just wanted to know your picture because I can judge it. But what is the average cost of borrowing which is going on right now currently? Which we have, because we have taken some loans and we have paid off some loans. And we have paid off long term and taken some current loans. So, I just was curious, what is the average cost of borrowing which is currently we are handling?

Management: So, it is around 11%-11.5%.

Aman: Okay. And our plan to whether reducing it or gradually as the economy reduces, it's our cost also reducing?

Management: So, yes. See, it will be coupled with economy as well as our performance rating improving. So, as and when the rating improves, this thing will go down. Plus, it should also depend upon how the overall MCLR, and other benchmark rates are moving.

Aman: Okay. And sir, as the government is also facing some financial crisis, do you see whether the guarantees for any deposit money or the limits have reduced, or have they come down or how is the position there?

Management: No, that…

Aman: For dipping as well as new projects or the ongoing projects, any such short status or have you been repaid your deposits at some amount?

Management: No. So, see, there is no challenge from the government side. Whatever deposits, whatever retention and all are there, we are getting released on time. The requirement of performance guarantees have reduced from the past. Earlier, it used to be between 5% to 10%. Now, it is in the range of 3% to 5%. So, requirement…

Aman: 3% to 5%.

Management: So, yes. Towards improvement and betterment towards the contractors.

Aman: And do you think that doesn't it invite more competition to the picture, or we will be dominating as madam said?

Management: See, there will be competition. Obviously, always new people will try to keep coming in. But we have our legacy of work done. With that legacy and experience, the bidding, whatever we do, and the cost efficiency is what we can bring in along with the confirmation or the confidence of the client that the projects will be completed by us on time and there will be no issues with the project. So, those things are always there.

Aman: Correct. So, on a quick note, we have recently seen that both REC and also PFC has been giving decisions and they have also given power to not only root funds to power sector, but also infrastructure as well. Are we seeing support from that side as well coming into our business or are we approaching them for support? Whether it is working capital or initial funding or debt to equity or whatever type of funding is required?

Management: So, we have moved from traditional banks also to institutions like IREDA. Now, we would see in future, depending upon what projects we get, to move to REC, PFC, we will see that.

Aman: Okay, because their average cost of lending is around 9% to 9.5%. So, it can reduce our burden as well and they have funds to give it to us? Okay, yes sir. Sure. Thank you for that and congratulations on your results and I hope that this sustains, and order books are little bit on the downside this year, this time, but do you expect the trajectory to go as madam or as the information remains at 20% CAGR going forward?

Management: Yes. So, this year, you know, till elections, we are not sure about how much, you know, big orders will come in and there may be a little shift, but on a combined, on a long-term perspective, we don't see a challenge in getting that 15%-20% year-on-year increase.

Aman: Okay. And just a small thing, tunneling has been seen as the most vibrant sector in our business. What do you expect, not only in the northern belt, but also, I presume that the southern side or the western or the eastern belt also, a significant demand of tunneling coming. Are we seeing ordered or bids coming in these sides like Gujarat side or West Bengal, Odisha side, these sides also for tunneling sector?

Management: Yes.

Moderator: Thank you, sir. We take the next question from the line of Chetan Dhruva, an individual investor. Please go ahead, sir.

Chetan Dhruva: Hi. Thanks for the opportunity. So, I had two questions. First one is regarding this revenue growth for the second half. First off, I think you crossed the 20% range that you had mentioned. Do you expect to maintain this because the revenue will be coming from the orders you already won? So, you expect to maintain this revenue growth rate in the second half?

Management: Yes, we expect to maintain. I mean, we generally should be maybe between 15% to 20%. Okay.

Chetan Dhruva: Okay. Sounds good. Second question is about the arbitration piece. You had talked about around INR4,000 crores of pending arbitration awards, right?

Management: No. INR4,000 crores is including under arbitration, out of which around INR1,200 is arbitration awards.

Chetan Dhruva: Of which you already won?

Management: Right.

Chetan Dhruva: Okay. So, when you go for this scheme, what kind of haircut is typically taken? Is there a haircut at all?

Management: It's a complex thing, but on a ballpark thing, we can say around 50% will get.

Chetan Dhruva: 50%?

Management: Yes. Reductions in interest, reductions in other things, all combined, it's not more than 50%.

Chetan Dhruva: Okay. But the benefit you'll see is that you'll accelerate the recovery of the money, right?

Management: Yes. Accelerate the recovery of money and saving on future litigation costs and all, that is the benefit you'll get.

Chetan Dhruva: I see. Okay. That's it from my side. Good luck for the future projects, sir. Thank you.

Moderator: Thank you, sir. We take the next question from the line of Mr. Rajeev Sharma from 5.40AM Finance. Please go ahead, sir.

Rajeev Sharma: Okay. So first of all, many congratulations for very good quarterly results. My question is specific to the debt position of the company right now. We started with a INR1,725 crores debt at the beginning of the financial year. Now we are sitting at almost INR2,000 crores. First, I want to know the breakup of the debt at present we are carrying with respect to yearly interest, pure interest and the advance from the client's interest that we are paying? That's one.

And then we'll move on to the target of achieving INR1,500 crores at the end of the year. And the target that we set at the beginning of the year of achieving around INR25 crores to INR30 crores quarterly savings, which have not accrued over the first two quarters. So, can I just request the management to explain the journey that we'll have over the next two quarters to achieve these things?

Management: So let me just give you a brief. So, we had debt of around INR1,750 crores in March and around INR1,250 crores- INR1,300 crores of client advances. So, all combined, it was INR3,050 crores approximately in March. Today as we stand, we have debt of around INR2,000 crores because of some shift of client advances to debt to reduce the interest cost. And we have advances of around INR900 crores. So, we stand today around INR2,900 crores as compared to INR3,050 crores as of March. So, we have reduced by INR1,50 crores in the last six months. That is one thing.

And interest cost if you see, that has come down. Last year we were touching almost INR100 crores per quarter. And this year we are doing around INR90 crores per quarter. So INR10 crores per quarter savings is already coming in this year as compared to the last year.

Rajeev Sharma: Which is only one third of the targeted figure. Because last year also if I remember correctly, we saved INR500 crores in the last quarter itself. Rather we repaid the debt. So, if we intend to do the same thing this year as well, then the savings of around INR70 crores approximately we'll be losing out. Not INR70 crores, INR60 crores?

Management: We have kept a target of reduction of debt by INR200 crores this year. INR150 crores, we have already done. Combined in terms of the debt and net advances. And next six months balance we should be able to do.

Rajeev Sharma: Okay. So, looking at the numbers, I have got still my doubts. But I will just draw your attention to this particular piece. We are behind the target. In revenue and rest of the things, margins you are holding on, that's excellent. But with respect to debt, the comfort level is little bit on the lower side. The way we are progressing this year. So that's what is my request...

Management: Absolute debt number is looking higher because of refinancing of one of the advance INR250 crores. Which was at the higher interest rate cost. To save the interest cost, we refinanced with the bank debt. That's why absolute debt number is looking higher. But overall if you combine, debt plus contractual advances, overall, it has come down.

Rajeev Sharma: Yes ma'am. So, my concern is not the overall number has come down with respect to interest cost. My concern is, what we targeted at the beginning of the year and where we are after H1. That is not matching. And we are only at one third of the targeted figure. So, if we achieve it, then we will add around INR50 crores to INR60 crores directly to the bottom line. Bottom line by the end of the year. So, this is what is my submission to the management? I hope you appreciate, and you would understand it.

Management: Yes, I think we both are on the same page. Because INR150 crores is already done. And another INR50 crores- INR100 crores if we do in this year further. So that should be enough for the reduction of the interest corresponding cost. Which was our target at the beginning. Right.

Rajeev Sharma: Fair enough. Thank you. I look forward to it. And for the next two quarters, I am sure, we will be able to achieve it.

Management: Thank you.

Moderator: Thank you, sir. We take the next question from the line of Arushi Shah from Sushil Finance. Please go ahead.

Arushi Shah: Yes. Thank you for the follow-up question. Can I get a ballpark number of how much contract or advancing do we receive as a percentage of our order book or something? A ballpark number?

Management: So, it varies from project to project. But it is generally around 8%- 10% considering mobilization advances and machinery advances.

Arushi Shah: Okay. Also, one more thing I just wanted to know is, there is something called classified asset held for sale because of the less-capitalization…

Moderator: I am sorry to interrupt you, Ms. Arushi. We are losing your audio, ma'am.

Arushi Shah: Sorry, sir. The asset held for sale, it appears in our presentation around INR289 crores, but it is not visible in the balance sheet. So, what is that about? Could you just give that clarity?

Management: Yes. So, see, this year we had sold a stake in one of our subsidiaries, which is Michigan Engineers. So, you see that INR289 crores, which is reflecting our asset held for sale, that is a reclassification of the assets of that subsidiary for the previous financial year. It is there in the balance sheet also and in the presentation also. It is just a reclassification for making it comparable. The subsidiaries that combine as held for sale.

Arushi Shah: Okay. Also, we were trying to encash some of our land parcels. How is that progressing? If you could shed some light, there.

Management: We are under discussion. I mean, let's see if something works out in this financial year.

Arushi Shah: Okay. So, nothing concrete on that side as of now?

Management: No, nothing concrete as of now.

Arushi Shah: Okay. Thank you for the follow-up, sir. Thank you.

Moderator: Thank you. We take the next follow-up question from the line of Prashant Kshirsagar from Unived Corporate Research. Please go ahead.

Prashant Kshirsagar: Thanks for the follow-up question. I just want to ask you, our company's role in Arun 3 hydro project?

Management: We are the civil contractors for that project, for construction of the hydropower plant.

Prashant Kshirsagar: Hydropower. But only the civil contractor or the dam part also you are planning to do that or is it some other?

Management: No, that part is being done by the other party.

Prashant Kshirsagar: Other party. And what is the progress on that project actually?

Management: Yes, I think one year, 1.5 years, the project will be over.

Prashant Kshirsagar: So, at this stage, we have completed, what percentage of our site we have completed in that?

Management: Around 70%.

Prashant Kshirsagar: 70%. Okay. Thanks a lot. That was my question.

Moderator: Thank you, sir. The next question is from the line of Ajay Kumar Agarwal from Gloster Limited. Please go ahead, sir.

Ajay Agarwal: Good evening, sir. Sir, between our standalone and consolidated results, there is an item called exceptional item, which is around INR92 crore in the previous quarter in the current financial year in the standalone, while it is only INR6 crores in the consolidated accounts. And then at the bottom of the consolidated result, it is mentioned that it is due to further provisioning in an investment in a subsidiary company.

So, if it is an impairment provision, will this result into some gain? Because it's a profit that has been reflected in the consolidated number. And there is a huge gap between consolidated and standalone, if you can throw some light on that.

Management: So, that was, that was in the previous quarter. That is because of the sale of one of our subsidiary, a stake in one of our subsidiaries. So, in standalone books, because that investment was at cost, so that gain has been reflected in the standalone books. However, when we go to consol, because in consol, their reserves are already there, so that gain will not reflect in the P&L of the consol results. That is why, and it was a transaction of the previous quarter.

Ajay Agarwal: Yes, that's right, it's for the previous quarter. And one last question, sir. Quarter 2, that is the current quarter in the current financial year, as well as in the last financial year, is relatively much smaller in terms of bottom line in comparison to the other three quarters. So, that is the seasonality that we are referring to the notes on accounts. So, we can probably expect quarter 1 like, or maybe better than quarter 1 like quarters in next half year.

Management: I mean, that has been the past trend.

Ajay Agarwal: Yes, okay, got it, sir. Any expectation of any interim dividend going forward?

Management: Not in the recent times.

Ajay Agarwal: Okay, that's it from my side, sir. Thank you.

Moderator: Thank you. The next follow-up question is from the line of the Deepika Chadda from Konjin Invest. Please go ahead.

Deepika Chadda: Thank you for the opportunity again. Sir, I had one question. What is the quantum of projects in irrigation segment? Also, how much we are planning to bid as we are adding these irrigation projects in our recent quarters?

Management: See, currently we have around 20% of the order book from the irrigation segment, which is around INR4,000 crores. The market is like around INR1.3 lakh crores for JJM projects and around INR90,000 crores for other irrigation projects, which comes under Pradhan Mantri Krishi Yojana. Plus, whatever projects state government comes up with their own budget. So, the market is huge. We will obviously not bid for everything, and we will bid selectively.

Deepika Chadda: Okay, thank you, sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Management: Thank you all for joining this call. If you have any further follow-up questions, you can send email to us or to Kirin Advisors and we will be happy to answer. Thank you.

Management: Thank you all.

Moderator: Thank you. On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.