



**“Power Mech Projects Limited
Q4 FY2021 Earnings Conference Call”**

June 22, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Power Mech Projects Limited 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. Mayank Bhandari research analyst at Nirmal Bang Equities. Thank you and over to you, Sir!

Mayank Bhandari: Thank you, Aisha. Nirmal Bang Equities welcome you all to the Q4 FY2021 results conference call of Power Mech Projects Limited. The management is represented 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 the participants. Over to you, Sir!

Jami Satish: Thanks Mayank. Good afternoon and thank you everyone for joining the earnings conference call for the quarter and year ended March 31, 2021. Along with me, I have Mr. S. K. Ramaiah - Director, Business Development and Mr. Jigar from SGA, our Investor Relation Advisors.

We hope you and your family members are safe and healthy and are taking all the precautionary measures amidst the second wave of COVID-19. I hope you have received the earnings release presentation and the results. With the country undergoing a severe second wave of COVID-19 infection, ensuring that we are following all the necessary guidelines to safeguard our employees at all our sites as well as ensuring that construction and maintenance operations are running smoothly.

Power Mech Projects have resumed smoothly across the board and the order book is ever increasing with not just the quantum of orders increasing, but also the quality of orders, partnerships and nature of work seeing a steady rise. The company is now into its 21 years journey with a clear vision into three decades, the first decade being characterized by the foray into power, taking on and completing several large projects and laying the groundwork. The second decade spent in the consolidating the progress made in the power sector and making strategic foray in to the non-power sector. Having diversified and proven with exceptional performance, the company aims to end the third decade growing up on its presence in the power sector as the country's largest O&M service provider and replicate the feat in the non-power sectors. With a greater focus on the new



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strategic areas of railways, water projects, material handling, steel, petrochemical and international footprint expansion too.

To update you with this quarter's development before your question and answer session, the reported total income for Q4 FY2021 is Rs.760 Crores, the EBITDA is Rs.79 Crores and the reported PAT is Rs.36 Crores whereas Q4 of last financial year the total income was Rs.598 Crores and the reported EBITDA was Rs.69 Crores and PAT was Rs.31 Crores and the revenue mix for Q4 is as follows:

The erections business has contributed Rs.166 Crores, Civil around Rs.329 Crores, operation and maintenance close to Rs.223 Crores and the electrical business had added Rs.36 Crores and other income is close to Rs.6 Crores.

In the same quarter in the previous year the mechanical business contributed Rs.189 Crores, in Civil we did around Rs.188 Crores, O&M business contributed almost Rs.173 Crores and electrical business it was Rs.42 Crores. Similarly, the reported total income for full year FY2021 is Rs.1900 Crores and the reported EBITDA is Rs.58 Crores and PAT is Rs.46 Crores negative.

Similarly if you see last financial year, the reported total income was Rs.2174 Crores, EBITDA was Rs.280 Crores and the PAT was Rs.131 Crores. In terms of segmental contribution, erection we did close to Rs.446 Crores whereas last year we did close to Rs.749 Crores Similarly, civil it was Rs.687 Crores whereas last year it was Rs.617 Crores. O&M it is close to Rs.661 Crores whereas last year it was Rs.648 Crores and electrical segment it is Rs.86 Crores whereas last year it was Rs.147 Crores.

The overall execution cycle has improved lot from 40% during Q1 of FY2021 that has improved to 100% level during Q4 of FY2021. Power Mech has developed bandwidth in terms of infrastructure and the capability to execute projects in the range of Rs.600 Crores to Rs.850 Crores per quarter.

Execution capability is well set across all the verticals. This is well-evident from our Q4 execution cycle of Rs.760 Crores, which is almost all-time high revenue in the history of Power Mech journey in a quarter.

COVID related cost including safety, material movement, manpower handling and lower productivity cost due to COVID protocols etc has come down comparatively as compared to Q1, Q2 and Q3. We have seen substantial improvement in our operations during the



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year similarly the margin profile is also expected to improve gradually and going to be healthy.

Power Mech has a large employee base working across the globe. Majority of subcontractor cost includes manpower cost also. The situation has much improved this time as compared to the first wave wherein there was a mass relocation and migration observed leading to shutting down of sites. This time the situation has been handled proactively with all safety precautions and measures taken at all sites resulting in seamless continuation and timely completion of the projects.

Finance cost in Q4 has been on downward trend because a lot of measures have been taken to control the finance cost with the continuous decrease of debt level, which is right now on gross basis stands at Rs.470 Crores, which after removing the deposits comes down to Rs.340 Crores at net level and will continue to be reduced over the next two years making the balance sheet further linear and efficiency being seen in the finance cost.

Moving to other balance sheet items, the receivables stands at Rs.534 Crores whereas it was Rs.542 Crores as on March 31, 2020. Inventory level has come down to Rs.115 Crores and retention money is around Rs.285 Crores whereas it was Rs.309 Crores as on March 31, 2020.

Receivables cycle is around 100 days as Q4 contributed largest revenue as compared to previous quarter of last year which got collected subsequently. January and February months generated almost Rs.424 Crores of revenue and the receivable cycle is around 65 days to 75 days excluding BHEL and AMTZ project. There is a significant improvement in the working capital cycle due to change in the business mix and customers mix and most importantly the monthly collection has significantly improved which used to be Rs.85 Crores to Rs.130 Crores just three quarters back, now it has improved to Rs.220 Crores to Rs.230 Crores per month.

Apart from this, the strong order base is building a lot of confidence going forward with a good liquidity position, healthy order book, and measures in place to manage projects in the uncertain environment. One of the positive development is the company has generated positive cash flow from operations during this tough time, which is around Rs.122 Crores and we are expecting this trend to continue going forward. Despite an extremely challenging year and major hurdles especially in a manpower intensive



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business and industry as ours we have been able to source very good quality orders beyond our target.

Overall, the company added close to Rs.4638 Crores of orders and as you all know during last year we did close to Rs.1950 Crores. So, this forms a strong foundation and gives the company a clear visibility for the next three years. The order backlog as of today stands at Rs.7333 Crores, which even at a modest execution rate of 38% to 40% and additional order coming in and avenues being explored gives a strong indication of the state of affairs and growth potential that lies ahead.

The Company is stepping up the turnover conversion with over Rs.200 Crores to Rs.240 Crores per month on an average being managed comfortably and the Company becoming a partner of choice for most of larger players across the country. Now, I request Mr. Kodandaramaiah to add few more developments. Thank you.

S Kodandaramaiah:

Thanks to our investor partners and thanks Satish. I think that is a positive note coming up from Satish on many aspects in a year where lot of issues we have to face obviously the problem of COVID is still continuing in the entire industry as well as in the business segment and day-to-day life. But looking from the business point of view and the company's working point of view, one thing which is very obvious is that in spite of these problems the market has been bullish in terms of investments, I think it is a very positive thing, but for these investments coming and customers taking new investments in an aggressive note, we would not have had such a huge order backlog developed in the last year. I think 2021 is one of the key years in our entire history having booked 4638 Crores of orders in a single year and if you look at the growth in this year's order booking it is almost 135% compared to the previous year 2019-2020 of about 1953 Crores.

Now coming to this year of how the business on the marketing it has worked for the company is that, today we have got a total backlog of orders built up to 7333 Crores from a base of 4575 Crores overall increase of 60% in the single year. The various segment wise in the traditional erection testing commissioning there is increase of 15% with the backlog going up from 2054 Crores to 2369 Crores. Civil segment had a quantum jump because of various diversifications into non-power sector, infrastructure from 1227 Crores to 3584 Crores, an increase of 192%. O&M has seen an outstanding performance in this year because that is where the base of the company's operations revolves around and also the margins are protected with increase from 996 Crores to 1168 Crores with a growth of 17.2% and electrical we did not add in this year because we are watching the



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performance of the ongoing jobs. Therefore, overall it has been a very good year in terms of marketing and business development and finding a new customers, new geographies with new initiatives.

Now coming to the segments on which it has been developed is that I think the entire growth story in terms of new orders has come from the domestic sector almost 4624 Crores of orders we added in the domestic alone, and in international obviously there was not much of activity in the Middle East market because of the COVID conditions nothing much could be done.

Now in terms of the segment wise breakup in the power and non-power sector, it continues to remain the same levels about 66% in the power sector and non-power sector is 34% and the overall business breakup between domestic and international is 86.6% and 13.4%.

Now, the key orders what we bagged last year the first, from L&T 176 Crores for Buxar 2x 660 mw project in Boiler erection, in Yadadri major combination of civil and structural, and mechanical works was 545 Crores, railways a combination of railways works from RVNL 113 Crores, 2 x 600 megawatt Singareni 5 years O&M contract is about 343 Crores then Kurmitar engineering, procurement, construction job has been taken with a good terms of payments with advances from Adani Group, along with joint venture partner Thyssenkrupp and that is of 198.25 Crores and two key water projects in UP 982 Crores, two road projects one in Karnataka and another in Northeast worth 1000 Crores. Then Khurja we have taken conventional civil work in the main power plant of 135 Crores and then miscellaneous other jobs were there. So this had been the narrative on key jobs what we have done.

Now coming to the current year perhaps you know we are looking at opportunities worth of 25000 Crores and then in EPC business, yes there are some opportunities coming up Khurja 2x660 mw is there, NMDC mineral processing and material handling , and these two projects are in anvil now apart from that we are pursuing some opportunities in Kudankulam Nuclear project 2 x 1000 megawatt, which is coming up. There is scope to do many of the jobs in urban area. Then, the total opportunities what we are looking at is 25000 Crores which has estimated penetration success of 4000 to 4500 Crores and here we are looking at key areas to develop the growth is the traditional erection testing commissioning and then in O&M to scale up 900 Crores to 1000 Crores. Last year we had a very good year for us in terms of O&M 833 Crores. On the Civil front the



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expectation is about Rs 2000cr.. Then, electrical we are looking a lot of opportunities that we have mapped up that is how the opportunities will be tracked.

Then coming to the key areas of the work going on is that apart of the traditional sector the key operation in non-power sector like the railways we are doing pretty well out of 649 Crores in about six jobs, completed for Rs.438 Crores and that is, Gudivada – Machilipatnam, is completed, another 5 jobs we have taken from RVNL that is in various stages of execution. Then the irrigation project is also now shaping up better. Kaleshwaram project about 373 Crores we completed 150 Crores.

Then, the road projects have just commenced. I think just we have to see the substantial progress will happen in the current year. Cross country pipelines out of 330 Crores we have done more than 200 Crores, major job is at Mundra and then Koyali and Ramanathapuram is under completion. JSW steel plant work out of 2 jobs, one at Dolvi and another at Vijayanagar, and regarding Dolvi almost the job is completed about 200 Crores, another 200 Crores job we are doing at Vijayanagar and both together about 70% of the job is completed.

These are the key jobs we have done and major works we are doing conventionally in the traditional power sector, Maitree in Bangladesh we are doing 855 Crores, Yadadri806 Crores, Bhusawal 285 Crores, North Chennai 246 Crores, Khurja new job at 135 Crores and then Nabinagar of about 290 Crores. Therefore these are all the jobs which are traditionally we are doing it and they are progressing well, but for the problems that we faced due to the COVID conditions.

Then on the electrical side Sadulpur, railway electrifications of 700 route kilometer is progressing well. We have completed around 60% of the job and two jobs are at completion in Northeast out of 5 jobs what we have taken up in the distribution and substation works. Then the other major initiative also the drinking water projects, two projects is 982 Crores in Uttar Pradesh, DPR is at completion stage. We hope in a couple of months we will take up these works.

Now on the export side not much of new growth story in terms of orders, but in execution we are doing pretty well at Dangote, \$76 million and that is we have completed almost 70% of the work and then the Maitree concrete job in Bangladesh about 855 Crores we have done about 270 Crores, 35% and some left over jobs we are competing in Middle East in Bahrain and Saudi Arabia.

Then, the other major initiative has been the EPC job which we have taken, in Odisha Kurmitar 198.25 Crores, the work has just commenced. We hope that we will integrate with the engineering functions and more challenges we have on the engineering and also working with a very strong partner Thyssenkrupp. As far as the business outlook and sentiments are concerned, the current year we are looking at some of the major opportunities.

As far as the business outlook and sentiments are concerned, current year we are looking at some of the major opportunities in piping segment in the Karumkulam project. Adani is planning to set up new projects and we have to see how they are going to shape up in terms of thermal units and retrofit of FGD unit which are on the anvil. Singareni 800 megawatts some opportunities are expected. Then I told you about Khurja for the CHP work, and Talcher NTPC projects are there. In export, we are focusing on a few projects in Dubai Municipality and O&M jobs.

On the O&M side perhaps in the first quarter itself we have figured out a major job in the case of Singareni Collieries with 343 Crores order, then we are targeting Vedanta, Vizag commercial gas project, then one thermal project 105 Crores of O&M opportunity is there in Jordan and we are pursuing that. There can be about Rs.200 cr opportunity in other parts of Middle East.

There are O&M jobs which will come up for renewals of about 12 such jobs in the current year and these jobs are expected to be about 140 Crores. Apart from that the overseas maintenance on the shutdown jobs it is going to be a lot of opportunities and that we are targeting about 200 Crores and there are opportunities coming in Vedanta and Balco. Therefore, let us see how we will excel based on the last year's achievement of 833 Crores in O&M side.

In non-power side, the key opportunities what we are pursuing of various industrial projects related to mineral processing, material handling, etc for NMDC, Hindustan Zinc, NTPC and these opportunities are around Rs.2000 Cr. Kirandul was a job where we were the L1. It was cancelled and almost supposed to get the order and it was cancelled and it has come for retendering. Bachel is a new EPC tender. We are joining hands in the case of Bachel with FL Smidth. They are world renowned leaders for mineral processing and in the case of Kirandul we have joined hands with thyssenkrupp group. Then RVNL certain jobs are there, then many mine side jobs related to many coal material handling projects of flood protection in Karnataka and the other opportunities we have apart from

the water projects and sewage treatment plants. These are the initiatives on the new businesses.

Now as far as the business outlook should be considered I think we should go by the NIP, National Infrastructure Pipeline, I think that has been a good guiding document to help us in focusing on many new opportunities and we are following it up on that basis and we continue to see how we can get new initiatives in O&M particularly in refinery, steel, mining and post material handling and mineral opportunities and O&M side NTPC has taken a lot of initiatives last year and we hope that will continue in the current year also, so these are the aspects I would like to bring it out. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Thanks for the opportunity, Sir. Sir, my first question is in terms of execution, so historically if we see we used to execute around 38% to 40% of the opening order book, so considering COVID related challenges in the Q1, how much execution we can expect for FY2022 and if you can share something about how was the April and May in terms of outgoing work?

Jami Satish: In terms of execution, if you see last two, three quarters the challenges were completely different. It was not experienced and the preparedness was missing because it is new to everyone. But gradually Q3 onwards things have substantially improved in spite of small, small challenges due to COVID and all, but the preparedness for executing taking all the COVID precautions, it is well set now. Now, we think that the movement is around 200 Crores to 220 Crores, it will happen per month at any cost, now we have seen even post March 31, 2021, April and May also the momentum of 200 Crores plus that movement we have seen and all these sites are working in full swing, of course small, small precautions are being taken because of the COVID based upon the local instruction and customer instruction, the protocol has to be slightly changed, the deployment of the manpower has to be slightly tuned to the customers requirement, but in terms of execution it is going 200 Crores plus per month.

Dixit Doshi: Thanks, Sir. Secondly, in terms of EBITDA margin, so historically we used to move around 13% margin and I understand for FY2021 as a full year, we had a bad Q1 and Q2 and therefore the margins are lower, but even if I see only the Q4 our execution was very good almost over 700 Crores, but the margins could not come to 13% or even higher, it



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was just around 10.5%, so how do you see margins going forward, is it because of the proportion of civil work is increasing in the overall fields and therefore the 13% margin may not be sustainable in the future?

Jami Satish:

Yes, there is lot of improvement in terms of the execution. Of course it is not proportionate to the execution, so I could say that Q1, Q2, Q3 the challenges whatever we had those challenges we have not seen in Q4, but we cannot completely ignore that the COVID is over. For example, as I was saying like the COVID protocols in terms of deployment of the manpower and the productivity, secondly the safety measurements for all the employees because we have a large manpower base of more than 15000 to 18000 across the globe, so we cannot ignore the safety cost and material transportation, manpower movement and all, so there is large concern is that the margin profile should go up gradually because the challenges what we have seen in Q1, Q2 or Q3 are different what we are seeing today. I am sure the margin profile should gradually improve with the environment changing because there is no reason that with the growth of our execution cycle in terms of the top line the margin should not increase and in terms of the O&M business, it is going up, so as you rightly pointed with the increase of the civil mix that with the small pressure in terms of the margin, but having said that the intention now is that retain the core civil excluding the railway to 25% to 30% and the O&M will continue to be 25% to 30%, so with the blended I am sure that we will come back to normal and plus gradually.

Dixit Doshi:

Just one last question from my side. Can you give the margin break up in terms of the four different divisions, which we report?

Jami Satish:

Historically, the mechanical & erection business, the domestic pie used to be around 12.5% to 13%, but whereas the international is 14% to 16% and for operation and maintenance the domestic used to be 17.5% to 18.5% and international it is close to 22% to 24%, but the pie is too small yet to grow, and civil it is in the range of 10% to 12% and whereas electrical it is 10% to 11%. That is being experienced and one more development is like in the business of railways and electrical, we are losing almost 3% to 4% as a royalty to build credentials, which we did three years to four years back, now Power Mech has built in-house capability for railway and electrical, so going forward that may straightly will add to our EBITDA margins, so that is a plus point for Power Mech.

Dixit Doshi:

Most of these contracts are fixed price contract I mean the kind of the raw material price increase and the inflation we may feel so are we able to pass on that price



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increase or we have to absorb in this contract, I mean these are fixed price contracts or we can pass on some cost?

Jami Satish: Actually, not all the contracts are fixed. Of course, around 20% to 25% contracts will be fixed because 18 to 20 months or shorter tenure, normally the contract will be fixed, but the rest 80% either it covers with escalation or PVC clause. For example O&M we have year-on-year, the escalation clause is predefined while taking the contract for 3 to 5 years and most of the BHEL the PVC clause and all are well defined. So, apart from that when we take any contract which is more than 14 to 16 months we build some factor for escalation which is 5% to 6% in our cost estimate.

Dixit Doshi: That is it for my side. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Aequitas India. Please go ahead.

Pratiksha Daftari: Satish, my first question was that now we are seeing, as a percentage of sales the employees cost it is coming down and on the same line the contract execution cost as the standard of sales has seen some rise, so I just wanted to understand that is there a material shift in the model that we are going by the subcontracted manpower is increasing and the payroll is coming down?

Jami Satish: See, there was a shift actually. Overall if you see the staff cost for Q1, it has gone up actually compared to Q1, Q2 and Q3, Q4 has gone up because of some of the international contracts, apart from that we have taken new O&M contracts in India especially like Singareni has started, Vedanta has started, so with the increase of the business and especially the O&M, the staff cost, I am talking about the staff which are in-house payroll, that has gone up and that trend will slightly again will go up during the next 12 months with increase of the business volume. Number two is the subcontracted manpower base, that also slightly gone up because of Maitree, Yadadri and Nigeria projects those are three big sites, which are in full swing, so in terms of manpower number, there is slight increase.

Pratiksha Daftari: Maitree, Yadadri and Dangote?

Jami Satish: Dangote etc these are all large contracts where the deployment is higher, but what will happen is going forward you will see that because the fixed cost of the manpower, which are all we wanted to keep it confined to a certain level, we do not want it to

increase so that will not grow proportionate to the biggest growth because if you see the order book is quite strong. So, we have to ensure that the execution momentum is not less than 200 Crores to 220 Crores so that cycle has to go for the entire year, so with the growth of the business the need of manpower may also go up, but we will not keep our manpower proportionate to the growth of the top line, so there will be a distribution between our payroll and subcontractor.

Pratiksha Daftari: I understood and right now with the second wave happening and with basically COVID cases going up in general in Q1, are you facing any new labor availability issues like do we see a concern on that?

S Kodandaramaiah: That is a valid question. You see the last COVID cycle if we see the manpower strength had almost halved, less than half in the May, June, July and August, then it picked up in the third quarter a little bit. In fact in the fourth quarter we reached a peak of 16000 people that is the key for our turn over in the site jobs is man power, I agree apart from the O&M augmentation what we have to make out, O&M business did not get affected much as the plants were operating at their normal levels, but what has happened in the second COVID wave perhaps up to March 21 it was reasonably going good and that is why we could exceed the target in fourth quarter, but now the impact in the April-May, the manpower strength has come to 11500, there is a dip of 25% to 30%. Now we hope with the second wave abating and for this year's turnover if we say 200 Crores to 250 Crores of monthly turnover, we have to augment the manpower somewhere between 16000 and 18000 for the site working to reach normal levels of monthly turnover apart from the O&M, we do not expect much of impact. Of course the key aspect is to see the progress is properly achieved in major projects like Dangote, Yadadri and then Maitree they are the major jobs and then the new jobs what we have taken in various infrastructure jobs also, where we hope with this downward trend of COVID continues then the manpower is expected to be back and will reach the figure of 15000 to 16000 and that the planned turnover should be possible, unless the third wave again creates a huge impact.

Jami Satish: The good part is wherever we have mobilized those sites are fine, any new sites we mobilize, probably we need to see how to deploy the manpower, the challenge continued we have to adopt different strategy to start the new contracts.

Pratiksha Daftari: Understood, got it. Satish, you have been seeing that there was a focus on reducing our debt level and year-on-year basis we see that the debt has come down, but on Q-on-Q basis, I do not know what was the debt reduction, but certainly the finance cost has

gone up, so for FY2022 what kind of net reduction do we target and is there a specific reason why we see the finance cost go up?

Jami Satish:

The peak debt during this year when our execution level had come down substantially by 50% and the execution have dropped from 200 Crores to 185 Crores to 110 Crores we have resorted to utilization of more debt. So the peak debt went to 590 Crores to 600 Crores. Today that has come down to 470 Crores so that reduction happened again from the realization of the working capital especially the final bills and improvement of the receivable cycle. Now the plan is at least to reduce by another 50 Crores to 60 Crores by next 12 months. The efforts are for slightly larger number, but we have to see how the collection pattern improves and all, today in spite of all the challenges good that last four to five months we are seeing the collection pattern is in the range of 180 Crores to 220 Crores, which is a very good cycle, so if that momentum continues, probably we should be able to comfortably manage the reduction because the operating cash flow, which is surplus by 122 Crores with the growth assuming that our retention money there will some realization on top of that one of the good development is the Andhra Pradesh AMTZ, which is a significant amount we have been working for realization, Government has put a condition that every payment has to be supported by a Government order, which is a new thing we are seeing in Andhra Pradesh Government. Now finally, with lot of efforts, they have brought a new Government order that the payment has to be released to Power Mech. Now, the Government order is released which is a public document. Now, that Government order is released for the release of the payment. They are working on the paper work so that starts realizing, that will give another 45 to 50 Crores of surplus cash. So, this 120 Crores of operating cash flow if we at least maintain at the same level we will be comfortable to reduce debt by another 45- 50 Crores.

Pratiksha Daftari:

Thank you.

Moderator:

Thank you. The next question is from the line of Vishal Biraia from Aviva India. Please go ahead.

Vishal Biraia:

Sir, of the 7300 Crores order that we have what proportion would be slow moving orders?

Jami Satish:

Thanks God there are no slow moving orders. Everything is excluded now. What we are talking is all running projects and there is no single contract, which has not started at ground. Even the new contract, which we got from Singareni recently that has also

been executed and manpower whatever is required, is deployed. So there is no single contract, which is slow moving or not moving at all.

Vishal Biraia: Any contracts where the payments from the clients are slow and that is the reason you have reduced the pace of execution?

Jami Satish: Not been the case sir. The experience is like see, it is like BHEL and non-BHEL. BHEL we think in domestic there are slight delays around compared to 90 days but BHEL in Bangladesh it is 45-50 days. But if we take out BHEL it is around 65 to 75 days. That is on track. Now, though the order quality is strong, now the focus is to choose the quality orders especially where the payment cycle is good that is very important otherwise what will happen is again we have to look for fresh working capital, which we do not intend to do. We have kept a decent target of 4000 Crores to 4500 Crores only because now opportunities are plenty we are looking for quality order of 4000 Crores, 4500 Crores and not beyond that so that we can comfortably sail through.

Vishal Biraia: One last thing, when you analyse the international markets, post COVID has there been a change in the competitive intensity or it continues to be as competitive as it used to be pre-COVID?

S Kodandaramaiah: In the international market what we have got is Bangladesh, what we are doing is we have got a good presence there and based on the new opportunities, definitely we will be taking the call on that. But in the case of Middle East yes, there has been a setback in the case of new orders and investments like compared to the earlier couple of years that has dried up now. But a few aspects, a few opportunities can come up and as far as the competition is concerned, yes, it is a question of competition what we have to work with EPC contracts with some developers and we have got a good presence there and we have got a manpower force of 2000 to 3000 people now established, we have got an organization working in various sites. We have got resources deployed. If, good opportunity comes, you know, we will be one of the preferred contractors to work with the EPC contractors and that is because of our strong presence in the last five, six years.

Vishal Biraia: Sir, just a follow up on this. When you say the Middle East orders have taken a setback, you mean that you would have lost market share there?

S Kodandaramaiah: No, not because a few opportunities did not come up last year.



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- Jami Satish:** Last 12 months would have seen not much traction in the international because of COVID problems and all, so maybe another six months, we may not expect much orders happening from the international side.
- S Kodandaramaiah:** We have not factored much of the international orders in this year's time, but a few here and there.
- Vishal Biraia:** Thank you very much. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Just to understand now you mentioned about the debt reduction of about 10% to 12% this year, so similar decline is what one can expect over the finance cost as well?
- Jami Satish:** There are two ways to interpret. See, one in terms of interest cost, we are expecting there will be some reduction, one of the element in the finance cost should come down, but as the business is going up, in terms of non-fund cost, it will slightly go up, but overall we will see that the trend will come down as compared to this year.
- Deepak Poddar:** The non-fund cost will go up because the business is increasing, but the debt related interest cost will go down?
- Jami Satish:** Interest cost will come down sir. You will see year-on-year during the next year we are expecting some reduction in the finance cost overall.
- Deepak Poddar:** Right. Understood that point and over the next two years, maybe by FY2023 any sort of execution level we are looking at so any sort of trend or comments that you can share on the next year? Maybe I know it might be a little difficult on your part but if you can?
- Jami Satish:** Deepak, what is important is that the internal bandwidth to execute the projects. Now we have the manpower base, we have the capability, we have the infrastructure today to execute in the scale of 600 Crores to 850 Crores per quarter. Now that is being set now and secondly now what is important for us to convert the projects which are on hand to ensure that all are getting completed as per the contractual schedule. Now difficult times. Q4 we still cannot say that the COVID is completely over and challenges are completely out, but still we could demonstrate 750 Crores which is a



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very good thing for us. We are so happy. So taking that momentum to 850 Crores will not be at all difficult in a normal scenario. So, there is a huge potential to improve the execution bandwidth. Now we have set for 850 Crores, now that is what we want to gradually take up to the next level over a period of time.

Deepak Poddar: 850 Crores a quarter so if I do the math, FY2023 at least 3300 Crores 3400 Crores kind of execution is quite possible?

Jami Satish: Bandwidth is already set now.

Deepak Poddar: That is it from my side. All the very best.

Moderator: Thank you. The next question is from the line of Satyan Wadhwa from Profusion Capital. Please go ahead.

Satyan Wadhwa: Good evening. I might have missed a little because I got disconnected, but just wanted to get a sense of what execution, you are looking at for the next three quarters, I would imagine that first quarter which will be a little bit of a dip due to the second wave of COVID and the reduction in manpower, so would 3000 Crores can go pass the right estimate for this year's execution and margin should stay at 4Q levels or slightly better than that?

Jami Satish: The execution now what we are targeting is 200 to 220 plus per month. That is the target and we are on track now. See, normally what happens if Q1 and Q2 comparatively will be less and Q3 and Q4 will be high. So, seeing the current scenario, definitely Q4 what we have done maybe Q4 of next year will be slightly better than Q4, but the target is to see that 200 Crores plus execution is taken care every month. That is the target now and in terms of margin profile, there is a lot of improvement in terms of margin profile. We are trying to come back to the normal estimates gradually because of COVID protocols and all, it is a little bit disturbed, but it is not so bad what used to be in Q1 or Q2. There is a substantial improvement in Q4 and this profile will gradually improve. On top of that the railway and electrical where we used to book the royalty, now we have built in-house credentials. Now the new projects whatever we are quoting, so we are not losing the royalty for borrowing the credential. So that should also help in terms of improving our margins.

S Kodandaramaiah: Satish, what you said is correct. The last four quarters, the backlog had been steadily increasing and together with the last quarter, the backlog of orders of 7333 cr. maybe



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the first quarter will have a dip because of Covid conditions still continuing and the second quarter to some extent monsoon will also play a usual role. Therefore, we don't expect too much in the first and second quarter, but if COVID fully normalizes, I am sure 750 to 800 Crores of getting the sales in the third and fourth quarter should be possible. There should not be any issue because to that extent we have got the resources, manpower, and manpower is also augmented for that and as far as the resources are there, we do not have to add up any new resource, we have to utilize the existing resources. A lot of big ticket contracts will be in the pipeline and there is a good season to perform..

Satyan Wadhwa: Is there a timeline for the current orders to be executed like looking to there is a stretch out beyond FY2023 order book of 7333 Crores.

S Kodandaramaiah: O&M contracts are anywhere varies between one and three years and some of the contracts are five years like Vedanta, Jharsuguda contract what we have taken and then the Singareni contract recently awarded is for five years. Some contracts are of two or three years, but the average lifecycle for an O&M maybe of one or two years and in that the renewals is expected to come over 15% of the order backlog in O & M every year, 150 Crores to 200 Crores will come as renewals. That is the average. In the case of infrastructure projects it will be anywhere between two and three years. That is the lifecycle type of the infrastructure projects, big ticket projects. In the case for example, latest job what we have taken with Adani along with Thyssenkrupp that has got a schedule of 25 months plus two months grace period. Then the drinking water project has a time of two years. Therefore we can say that the conversion of 40% should be valid with this backlog available that is where Satish is confident that per quarter up to 750 Crores to 800 Crores should be achievable. That should not be a challenge, provided if this Covid situation is normalized.

Satyan Wadhwa: Right, I was only trying to get a sense of what is the ramp up in FY2023 would be over 2022 in terms of execution growth. Will that be that 20% or it will be less, I was trying to get at that?

Jami Satish: Now, seeing the order book we have got backlog of 7333 Crores and we have kept a target of 4000 Crores to 4500 Crores this year, and existing order book has to be exhausted or to be completed within 2.5 years to 3 years maximum. Seeing the backlog to the conversion should not be less than 20%, 25% it has to be.

Satyan Wadhwa: Correct, you should typically be north 3500 Crores in FY2023, right?

Jami Satish: So, assuming 35% conversion also still because see what will happen is one important factor is the O&M, now today it is in the range of almost like 661 Crores which is more or less flat and 2022 taking Singareni and Vedanta, we have to do close to 740 Crores and that 745 Crores will be close to 1100 Crores or 1150 Crores in 2024, so that pie is well set. It is in autopilot mode is going on now what we need to work is only the rest may be around 70% we need to work.

Satyan Wadhwa: Thank you.

Moderator: Thank you. The next question is from the line of Amit Nehendale from Robo Capital. Please go ahead.

Amit Nehendale: Sir, congrats on good set of number and thanks for the opportunity. I had quick question on Q2, as things stand today slowly the lockdown is opening up and we were expecting Q2 to be slightly better, but I mean just referring to your comment that Q2 will be little softer, can you just share some light on that?

S Kodandaramaiah: I tell you the main point of Q2 is there are two things in this, positive thing is if COVID comes down the manpower is returning already, I told you the peak set of 16000 it has come down to 11600 now, it should go up to 13000 to 14000 and then 15000 to 16000, now what is going to happen is that along with the lockdown liberalization the monsoon sets in that is one of the factors we normally try to scale down the turnover in the second quarter to that extent that is why I was a little bit more conservative on that aspect, but by the time of August and September when things ramp up fully and then that is why I was confident as you know with the present backlog of order and the big ticket orders to be executed and the cycle time is well set, there will be lot of pressure from customers and also to deliver this year's target and already the pressure is there, therefore that is where I said up to 800 Crores per quarter should be possible.

Amit Nehendale: Thanks and one last question, for Q4 can you tell me what is the nonrecurring cost for Q4, COVID related nonrecurring cost in rupee terms?

Jami Satish: For this year, I could say it is around 6 Crores to 8 Crores that I could definitely say it is a nonrecurring cost because it can be transportation, it can be safety cost, it can be of productivity loss because of the COVID.



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Amit Nehendale: Could you repeat the number, I was looking the Q4 number because in Q4 there was a certain EBITDA margin of 10.4?

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That is 6 Crores to 8 Crores, Sir.

Amit Nehendale: Okay, sure. Thanks.

Moderator: Thank you. The next question is from the line of Sarthak Goel from Care Rating Limited. Please go ahead.

Sarthak Goel: Good evening everyone. Thanks for this opportunity, Sir. Actually, I have a few questions, how much would have been you know that in the Ministry of Finance and the Government of Andhra Pradesh and few of the governments have taken this initiative for an extending project timelines and releasing fixed security deposits for the EPC projects?

Jami Satish: In Andhra Pradesh?

Sarthak Goel: Government of Andhra Pradesh and Ministry of Finance they had in earlier October-November they had extended some project timelines and relaxed contractual obligation pertaining to fixed security deposits to be maintained by the contractors?

Jami Satish: Mostly, we do not have any contracts in Andhra Pradesh. So whatever we had is we have completed, but what I have come across is to support the cash flow the Government in few projects, not all the projects, wherever the execution portion is completed for that retention money they have supported to release though it was linked to the completion project thereafter warranty, but during the contract period itself for the portion, which is executed, they have released the retention money.

Sarthak Goel: Sir, coming on the figures basis on the balance sheet side could you give me amount like of how much will be the mobilization advance on a liability on the consolidated level and work done and not billed?

Jami Satish: Now it is around close to 76 Crores mobilization advance, and work done not billed it is close to 380 Crores to 390 Crores because see Q4 itself in March we would have done close to 320 Crores to 330 Crores with that amount so that will definitely will have a spillover amount.

- Sarthak Goel:** Sir, one last question regarding our loss this year at consolidated level I was seeing the taxation part of it, but deferred tax credit it refers to have a deferred tax asset correct, so it is because of a deferred tax adjustment over there, our PAT has reduced like from PBT level?
- Jami Satish:** Yes, you are right.
- Sarthak Goel:** Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Pratiksha Daftari from Aequitas India. Please go ahead.
- Pratiksha Daftari:** So, my follow up question was you mentioned that there are key sites right now that big sites that are going on is Maitree, Yadadri and Dangote, so I just wanted to know that what is the level of completion year and what kind of execution we expect on these key sites in this year?
- Jami Satish:** Madam, Yadadri it is now the billing is on an average 15 Crores to 20 Crores per month, similarly Maitree which used to be 6 Crores to 7 Crores that we have taken up to 20 Crores per month and Nigeria this is almost close to 10 Crores to 12 Crores that will also continue to be that trend probably maybe another four to five months. So these are the three big project. Of course Bhusawal is there, which is almost 5 Crores to 6 Crores.
- Pratiksha Daftari:** On a project level how much of completion is left to be done for these projects like how we will look at that?
- Jami Satish:** The Yadadri started just one year back will be close to 20% to 25% and Maitree is almost like size is 55- 60%.
- Pratiksha Daftari:** 55-60% completed for Maitree?
- Jami Satish:** Yes, Madam and Dangote it is almost like I could say it is 80% plus.
- Pratiksha Daftari:** This will be completed in another five to six months?
- Jami Satish:** We are targeting this year itself maybe probably by October-November or before December we should close the project that is the target.



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- Pratiksha Daftari:** and Bhusawal?
- Jami Satish:** Bhusawal, it is 25%, Madam.
- Pratiksha Daftari:** 25% complete, okay. I just wanted to verify this part, you mentioned that the margins for O&M business in India would be 13%, I would have assumed that it will be a little higher?
- Jami Satish:** No, O&M on an average it works to 17.5% to 18.5% and O&M international we take slightly larger percentage, but the quantum is small.
- Pratiksha Daftari:** This 3% royalty increase that we are expecting in railway project this will be typically categorized under electrical?
- Jami Satish:** Railways, there are two portions, Madam, one is the electrical comes under the electrical, apart from that what we do the track laying, signaling, culverts, and all comes under the civil today it is 7% of our total business that we wanted to take it up to 15% of our total business in the next three years.
- Pratiksha Daftari:** Understood. That is all from my side. Thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to the management for closing comments.
- Jami Satish:** Thank you everyone for joining us in this earnings call and the presentation and the results are already uploaded on the website. If you have any further questions, please do feel free to get in touch with any of us or with our consultant, SGA. Thank you very much and stay safe, take care. Thank you.
- Moderator:** Thank you. On behalf of Nirmal Bang Equities that concludes this conference. Thank you everyone for joining us. You may now disconnect your lines.