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RITES LIMITED

Q2 & H1FY20 Results Conference Call
November14, 2019

MANAGEMENT: MR. RAJEEV MEHROTRA, CHAIRMAN AND MANAGING DIRECTOR

MR. B.P. NAYAK, DIRECTOR – FINANCE

MR. PARMOD NARANG – CHIEF FINANCIAL OFFICER

RITES Limited
Q2& H1FY20 Results Conference Call
14th November, 2019

Moderator: Good afternoon ladies and gentlemen. I am Neerav moderator for this conference and welcome you all to the Conference Call of RITES Limited to discuss its Q2 & H1 FY20 Results arranged by Concept Investor Relations. We have with us today Mr. Rajeev Mehrotra – Chairman and Managing Director, Mr. B. P. Nayak – Director Finance and Mr. Parmod Narang – Chief Financial Officer. At this moment, all participant lines are in a listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question please press "*" then "1" on your telephone keypad. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Rajeev Mehrotra. Thank you and over to you sir.

Rajeev Mehrotra: Thank you Mr. Neerav. Good afternoon everyone, this is Rajeev Mehrotra CMD of RITES Limited. A very warm welcome to all of you, to this call on RITES Limited's financial results for Q2 FY20 and first half of FY20. I have with me our Director Finance Mr. B.P. Nayak, who has just joined last week and CFO Mr. Parmod Narang. Let me take this opportunity to introduce you to our new Director Finance, Mr.B.P. Nayak. He is a qualified cost accountant and B.Tech in Metallurgy from IIT Kharagpur. Prior to joining RITES he has worked as Executive Director Finance in SAIL, Bhilai Steel Plant.

RITES Limited is a Mini-Ratna Category-I Schedule "A" public sector enterprise and a leading player in the transport consultancy and engineering sector in India, having diversified services and geographical reach.

Now, I am going to talk about the highlights of companies results of Q2 FY20 and H1 FY20 and then we can open the forum for question and answers.

This year till date, RITES has reported its highest ever quarterly and half yearly performance, firstly I will be discussing numbers on consolidated basis and then on standalone basis. The presentation with performance analysis has already been uploaded on company's website for ready reference of investors. I am sure you all had a chance to have a look at it.

I will go through the consolidated numbers first. The company's total revenue on consolidated basis has grown to Rs.888 crore as against 478 crore in second quarter of FY20, registering a growth of 85.8% year-on-year basis. Company revenue from operation, has also grown by 68.5% to 746 crore from this 443 crore in Q2 FY20.

Operating profits of the company for the quarter which excludes other income has increased by 33.5% and stands at Rs.184 crore against Rs.138 in Q2FY19. EBITDA and PAT have also grown by 84% and 104% respectively and now stand at Rs.339 crore and Rs.237 crore. EBITDA and PAT margins stand at 38.2% and 26.7% respectively. Earnings per share has almost doubled and stands at Rs.9.3 for Q2FY20 as compared to Rs. 4.31 for Q2FY19. So that was all about the consolidated numbers.

Now, I am going to talk about the numbers on standalone basis and our almost 96% business is from standalone operations. The company has recorded total income of Rs.874 crore in Q2FY20 which is 88.2% higher on Y-o-Y basis. Company's revenue from operations has also grown by 70.8% to Rs.726 crore from Rs.425 crore in Q2FY19.

Operating profit of the company for the quarter has increased by 34.2% and stands at Rs.170 crore. EBITDA for second quarter FY20 has been recorded at Rs.328 crore which shows an increase of 88.1% onY-o-Y basis. PAT of the company is up by 115% to Rs. 233 crore in the second quarter of FY20 as against Rs.108 crore in Q2 FY19. The earnings per share stands at Rs.9.31 for Q2 FY20 as compared to Rs.4.33 for Q2 FY19.

From consultancy segment company generated revenue of Rs.255 crore against Rs.284 crore in Q2 FY19. Consultancy revenue is slightly lower largely due to prolonged monsoon affecting project management consultancy fee recognition and some projects not reaching their billing stages. Consultancy has given gross margin of 44.5%.

Company's leasing business has shown a steady growth of 23.8% over Q2 FY19 and recorded income of Rs.30 crore in Q2 FY20. Leasing business margin has remained healthy at 42.3% within this quarter. Further to continue with leasing growth, company has initiated process for acquiring 10 more locomotives. Those are in-service locomotives from Indian Railways for our leasing operations, which will take the number of locomotives to 70 very soon.

Exports revenue during the Q2FY20 stands at `262 crore as against Q2FY19 exports of `1 crore. Exports margins have been 26%. The increase in exports is due to continued export of DEMUs and locomotives to Sri Lanka. Company has decided to develop a prototype, passenger coach for exports to cape gauge markets. Similarly, we are also looking at developing prototypes for standard gauge markets.

The revenue from turnkey construction projects has reached Rs.179 crore in Q2FY20 with increase of 63.7% over Q2FY19. Turnkey segments gross margin stands at 4.2%.

Company's standalone order book now stands at Rs. 5833 crore as on 30th September, 2019 with a gross order inflow of Rs.507 crore in this quarter. This order book provides revenue visibility for next two and a half years. During the quarter, consultancy order book has improved and now stands at Rs.2474 crore at the end of Q2 FY20. Due to execution of Sri Lanka export order, the export order book has decreased to Rs.860 crore.

Now, I will give some highlights of H1FY20 consolidated results. The company's total revenue on consolidated basis has grown to Rs.1457 crore as against Rs.868 crore in H1FY20 registering a growth of 67.9% year-on-year basis. The company's revenue from operation has also grown by 65.6% to Rs.1284 crore from Rs.775 crore in H1FY20.

Operating profit of the company for the quarter has increased by 41.6% and stands at Rs.307 crore. EBITDA and PAT have grown by 52.5% and 66.7% respectively and now stand at Rs.505 crore and Rs.339 crore respectively. The earnings per share has also grown by almost 70% and now stands at Rs.13.22 for H1FY20 as compared to Rs. 7.78 for H1FY19.

With these numbers I can say that the company is on track to achieve FY20 targets and now we can open the line for question and answers. Thank you very much for your patient hearing.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Saurabh Poddar from Lucky Investment Managers Please go ahead.

Saurabh Poddar: Just had a couple of general questions, nothing too serious. We have about Rs. 1200 crore of own cash on the balance sheet as of September 19, just wanted to understand that, this Rs. 1200 crore cash amount is excessive cash or do you need part of it for working capital or any other requirements? So, if you could just help me with that?

Rajeev Mehrotra: The Rs. 1200 crore is actually our own free cash available, but this has certain commitments, which I would like to highlight. Normally working capital, advance tax payments, dividends in aggregate need Rs. 500 crore. Then, we have placed orders for 10 locomotives and we are keeping CAPEX for locomotives of about Rs. 100 crore. We are also expanding our capacity in certain cities like Calcutta, Lucknow, Nagpur, Delhi etc. and for the same some office buildings are being constructed. We have reserved about Rs. 200 crore for that including workshops for locomotive maintenance. There are some equity commitments for IRSDC and we are also keeping some provision for energy management and our JV. In total Rs. 150 crore, we are keeping as provision for these equity investments, we have not yet decided for any investments but then this is allocated internally. We are going to use about Rs. 36 crore for survey and office equipment. There is some liability of post-retirement benefits as well. So put together, these aggregate to Rs. 1026 crore. So if at all, you can say that the free cash is about 174 crore, which will be looked at when the opportunities are there for investment.

Saurabh Poddar: Okay, perfect. Thank you sir. And another question on the macro front. The government funding seems to be in a bit of a dire state, in terms of either we let our fiscal deficit slip a little bit or we divest or the government divest its stake in and some of the larger PSU do you see any CAPEX challenges on the Railway front or any CAPEX challenge in general in the sector you operate like airports, roads, rails, etc. Do you see it's been impacted significantly in the near term by funding challenges from the government?

Rajeev Mehrotra: Frankly speaking, in the orders we have in hand, we have not faced the situation where the project has been put on hold or halted till further orders, type of situation. And the businesses we have mostly already have payment terms lined up the way we like to do that business. So, I have not seen any project which has been put on hold because of this. I will not be able to comment on the macro allocation of projects but to the extent we are concerned, we do not have that situation. Rather the faster execution of order book is actually helping us to create better revenue as we have done this half year already.

Saurabh Poddar: Fair enough sir. And one last question, for the year what inflow do you expect in terms of orders, total for the entire any broad, ballpark expectations for order inflow?

Rajeev Mehrotra: There are different types of orders being pursued. There are some export orders in pipeline. We are also looking at some turnkey projects, some major consultancy work in India and outside India. A ballpark indication could be that we hope to end this year around Rs. 8000 crore.

Saurabh Poddar: Perfect, great.

Rajeev Mehrotra: This number of Rs. 8,000 crore, we have already shared in media today.

Moderator: Thank you very much. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, if I look at this quarter exports has actually driven most of the growth for the company. So, now going forward, you just said that order book is Rs. 860 crore as of now. So, what is the visibility that you can provide, let say next year and beyond that for exports as a segment?

Rajeev Mehrotra: Well for the current year we had given indication in the beginning that we might do exports of Rs. 450 to Rs. 500 crore. We are almost close to Rs. 400 crore in H1. Remaining H2 would also see around Rs. 100-110 crore of billing. So this year, we might end with exports of around Rs. 500 crore. There is another order from Sri Lanka which we will try to finish in next year that is FY21 and that order would be of around Rs. 600 crore. We are also pursuing a major cape gauge order in Africa where we have emerged as the only eligible bidder. But we are yet to submit the price bid, so I will not be able to indicate order value. I am trying to give you a direction that we are not only looking at the traditional export markets of broad gauge or meter gauge but also targeting to reach markets of Cape gauge or standard gauge. For Cape gauge which is there in most of Africa, we are developing prototypes so that the customers can readily see and then make sure that it suits their requirements. So the exports are going to be a focus for the company and railway production units priority as they have capacity to do that now.

Jehan Bhadha: Right. So sir in next year FY21 also we can achieve similar number what we will achieve this year.

Rajeev Mehrotra: We will be able to achieve slightly higher numbers for exports in FY21.

Moderator: Thank you very much. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: One thing on the DEMU, we completed entire billing this quarter or there is some leftovers which we will accrue in Q3?

Rajeev Mehrotra: All the DEMUs which were received as order last year have been exported by September. So the entire billing is done for DEMUs. The two new DEMUs which they have received order this quarter would actually get shipped sometime in 2021 only. We have five more locomotives on the way to Chennai port, which might get shipped to srilanka in December that would be the end of exports for the current year.

Chintan Sheth: Okay, but the billing already has been done right or not?

Rajeev Mehrotra: No, for these five locos billing is yet to happen, which I said could be around Rs. 100-110 crore which also depends upon exchange rate etc. So that is the indication for this year.

Chintan Sheth: Sure. And sir can you just highlight the opportunity of Cape gauge in Africa what kind of opportunity size is there in the market as well as standard gauge. Obviously standard gauge will come later on, as we develop the prototype and develop the capability for it. But for Cape gauge which we are working right now, what kind of opportunity we have currently?

Rajeev Mehrotra: Cape gauge market is huge as several countries still use cape gauge in Africa. The cape gauge is 1.06 meters which very close to meter gauge but slightly bigger than our meter gauge. We have in the past supplied locomotives to this market. But now, first time we are planning to do exports of coaches. There is a huge requirement of suburb services or long distance services there. Therefore we have decided to develop the bogies for them. We are already successful as the only bidder in tender which might get concluded by February end.

Chintan Sheth: What was the size typical?

Rajeev Mehrotra: Size I will not be able to disclose, because the size is yet to be frozen but indicative could be in the range of $70 to $90 million. We do not know the exact requirements of AC, non AC and size will also depend upon it.

Chintan Sheth: Okay. And sir you indicated Rs. 100 crore you have set aside for the 10 loco coaches we want to wet lease from Indian Railways. That will be the entire CAPEX for those 10 locomotive?

Rajeev Mehrotra: For the current year yes, that would be sufficient for the current year.

Chintan Sheth: And that will be incurred this year itself, entire?

Rajeev Mehrotra: Yes, hopefully by December itself.

Chintan Sheth: That will be huge growth for loco next year?

Rajeev Mehrotra: Yes, in fact the loco leasing, you would have seen there is already a jump of about 23% revenue and more demand is coming. Interesting development is that those people who own locomotive, they are retiring old ones and going for leased one. This is because of the comfort, availability of almost 95% up-time.

Chintan Sheth: So this 10 will be net addition or it will be gross addition and you will be required to retire few locos from your current member?

Rajeev Mehrotra: No, this would be a gross addition. Retirement I do not see any machine to be retired in next one or two years because this has a total life 35 years.

Moderator: Thank you very much. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

Dixit Doshi: Couple of questions. One, you mentioned that we have a commitment of IRFCC the station redevelopment JV, so by when we will be investing and how much money?

Rajeev Mehrotra: We are currently discussing only Rs.50 crore. We are yet to agree upon final terms and conditions, so this is still under discussion and if this happens it will be in the last quarter of the current year.

Dixit Joshi: And this Rs. 50 crore will give us how much stake?

Rajeev Mehrotra: This will be about 24-25%.

Dixit Joshi: Okay. Secondly, sir you just mentioned in one of the answer that you expect Rs. 8000 crore kind of order book by the year so that could be a huge jump in order inflow. So, from which segment you are expecting this, majorly?

Rajeev Mehrotra: Okay. For exports, I have already indicated $70 to $90 million, but I have tried to keep it broad because the size negotiations are yet to happen. Then about Rs. 1000 crore to Rs. 1200 crore you can say turnkey growth this year. We have not had much of turnkey inflows coming in during this FY till now. The railway ministry has decided to do some, limited tendering within the railways PSUs, for their ease of transparency. So, I think that process would start maybe this month itself and we hope to get some order inflows from December onwards. And since there is lot of lineup for doubling, third line and electrification, it is safe to believe that we might be able to get Rs. 1000 crore to Rs. 1200 crore from there itself, from projects we decide to bid for.

Dixit Joshi: Okay.

Rajeev Mehrotra: We will decide on the basis of our offices and the convenient place to operate a project from and based on that we will submit our bids.

Dixit Joshi: Okay. And rest would be mainly consultancy?

Rajeev Mehrotra: Consultancy about another Rs. 400 to 500 crore. So these are broad contours. Within this I think even if we reduce another Rs. 1000 crore execution. So around Rs. 2000 crore net inflows is being targeted. I am not sure how far we succeed but this looks likely based on the pipeline.

Dixit Joshi: Okay. So you mentioned that railway board is evaluating a tender process within the railway PSU, the total size would be how much?

Rajeev Mehrotra: That could be huge. For doubling work the figure available with me is Rs. 8000 crore and if you add electrification which is about Rs. 7000 crore so it would be around Rs. 30,000 crore safe number to take forward. This will go to 3-4 companies like IRCON, RITES, RVNL. I am not sure if they add up more projects because this is generating numbers since that number is not yet available with us, the projects will start coming out now only. So I believe this could be in the range of Rs. 30,000 crore.

Dixit Joshi: Okay. And lastly, if you can just elaborate a bit on the issues you faced on a consultancy which led to no growth in the consultancy segment this quarter. And, do you still hold your view that we can grow 10% on a year on year basis in consultancy segment?

Rajeev Mehrotra: Well, I think this quarter, we had a very peculiar situation where prolonged monsoon affected some of the rail project implementation. Lot of projects of NTPC, Coal companies etc. which we do, we faced excess rainfall and about for one and half months the construction activities were disrupted. This affected the billing. Also in case of a major foreign project where, last year Q2FY19, we had about Rs.20 crore billing. This quarter, no amount has come from there, but we are expecting around Rs. 24 crore in Q4 from the same project. So, let me again clarify that major projects revenue are not evenly distributed quarter wise, they rather have their own progress linked consultancy billing.

Dixit Doshi: But on a longer term trajectory, we can still grow 10% consultancy that will be good?

Rajeev Mehrotra: Some variation may be there, like for lease also we have given you a growth outlook of 10% and last quarter we had 23%. So cushion here and there but broadly 10% looks doable because of the investments coming from the government, private sector and overseas where we are working. 10% outlook is based on the overall scenario in India and abroad and I still hold that.

Moderator: Thank you very much. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: So, can you give me a break up within the consultancy business, domestic consultancy business revenue breakup in terms of how much was quality assurance and how much was let say metros, airports and roadways. Can you give a sense on that sir? For Q2 as well as H1 that would be helpful?

Rajeev Mehrotra: So Harshit inspection fee for the quarter is Rs. 89 crore and H1 is Rs. 174 crore. Other than inspection, all other consultancies put together Rs. 166 crore in Q2 and Rs. 314 crore in H1.

Harshit Kapadia: Okay. And within this Rs. 166 crore the bulk would be from which segment would it be metro, would it be airports would it be roads and highways?

Rajeev Mehrotra: The top three I can say, I'll have to get into further details, the top three would be rail infrastructure, followed by metro, and airports.

Harshit Kapadia: So, just wanted to know in the turnkey construction margin for this quarter was at all-time high of 4.2%. And if we look at the first half of margin for them is around 3.5% generally you guide at turnkey conception margins are in the range of 2.5% to 3%. So, do you think this margin would be between 3.5%and 4% and why is there sudden increase in this construction margins because we understand this is a cost plus model. So is there something new that you are doing that giving you leverage on construction business?

Rajeev Mehrotra: We are trying to minimize the cost, we have reduced about 1.5% manpower. This 4.2%, you have mentioned is gross, if you reduce overheads so net will come down to around 3.2%.

Harshit Kapadia: EBIT margin which you have given is around 4.2%?

Rajeev Mehrotra: That is without charging the overhead, after overhead this is coming to 3.36%. So this 3.5% indication is actually very practical upper limit.

Harshit Kapadia: Okay, this was helpful. Then you will also mention that in consultancy business you faced some headwinds in terms of prolonged monsoon, is it possible you can share how much of revenue loss or maybe revenue delayed would have happened because of that that's the reason why the consultancy revenues have declined. Have you estimated any sense on that?

Rajeev Mehrotra: I will say roughly 10-12% of the revenue, the revenue we are falling short in domestic consultancy. I will tell you how this happened like there is one project of NTPC Khargaon. There was flooding for a month in nearby area so you cannot take material, you cannot complete the fittings, and you cannot do digging for electrification. It's not only the construction rail infrastructure projects got delayed, there were delays in other projects also including one ICP project we are doing at Nepal border i.e. Virat Nagar. There also the flood waters delayed the work. So, there are few large projects where we found that the work was stand still for about 30 to 60 days. I am sure this will be made up may be in December or next quarter. The work is now going very fast. It is very difficult to quantify this but then it happens.

Harshit Kapadia: Just a sense give us on?

Rajeev Mehrotra: Maybe around 10-12% billing what I can say.

Moderator: Thank you. The next question is from the line Priyankar Sarkar from HSBC Global. Please go ahead.

Priyankar Sarkar: I just wanted to ask there is a reduction in the number of employees, especially the regular employee, from 2054 to 1976 which is a reduction of 78 people whereas the deputation and contract employees have gone up. Looking at the order book and now you are giving even a more optimistic order book of almost Rs. 8000 crore by year end. Why has there been a reduction in number of employees because largely it's an employee run business model that we are in and if you can kindly help us explain in which area are these consultants actually who has been, the number shave decreased which area would it be in?

Rajeev Mehrotra: Okay, largely these are retirements and out of retirement we are not filling vacancies of those which are in the non-technical categories. So, we are in the process of recruiting graduate trainees, so may be 50-60 guys will be joining by March. We are not crossing the opening numbers, we are trying to control the manpower cost because that is the biggest cost in our operations. But, we are not constrained to recruit more if the situation requires. So, as we find more need for recruitment we will do that. We are on in the course already. By March, this replenishment would be visible.

Priyankar Sarkar: Okay, sure. And sir the second question I had was on exports, so even if you said there's another Rs. 600 crores of orders pending for Sri Lanka. If we don't take a one year view, but we take in a three, four year view how should the investors look at this piece because it's been a bit volatile and how do you think we should actually look at it going forward on a three to four year horizon?

Rajeev Mehrotra: If you see overall rolling stock export from India, it's a very small number. We have four large production units, we have got two loco production units. So globally the market is very wide and we are exporting around $100 to $200 million per year, so there is scope to extend further, but there is also need to support this with line of credit. Most of these clients are also looking at long term line of credit. So, wherever the two possibilities are emerging, we are getting into those markets. We were not looking at cape gauge or standard gauge markets earlier, where other countries are doing a lot of exports, so that also we are picking up. The Sri Lanka DEMU exports, has really got attention of several customers and they find it value for money. So, what we are negotiating now is again almost a same product on a different gauge. So, to reply to your point, I see that exports in this range or maybe increased is a very strong possibility. But we will have to work upon customization for different gauges and also top it up with line of credit from India. That is how other countries are doing. So there is a scope, there is definitely scope of doing may be $100 to $200 million per year, 3-4 years down the line.

Moderator: Thank you very much. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: My first question is relating to our consultancy segments. Sir, can you help us break up the consultancy segment order book into railway and non-railway order book and within the non-railway if you can highlights in terms of segments or customers which will be our top segments or customers that will contribute to the non-railway order book?

Rajeev Mehrotra: Okay, I have the break up with me. The total order book as of 30th September in consultancy is Rs. 2474 crore. I'll just read maybe top four, five segments, this year we have building and airports Rs. 583 crore, then highways and airports Rs. 195 crore, rail infrastructure Rs. 1136 crore, Metros Rs. 130 crore, then railway equipment services Rs. 100 crore.

Kunal Sheth: Railway equipment's?

Rajeev Mehrotra: Design consultancy and engineering Rs.45 crore and Industrial Engineering and workshop is Rs. 55 crore.

Kunal Sheth: And quality assurance?

Rajeev Mehrotra: Quality assurance is Rs. 89 crore, so these are the top segments. Then there is lease rental Rs. 130 crore, that is yet to be recognized. Quality assurance we are talking only for one quarter, rest is annual.

Kunal Sheth: Yes, I get that.

Rajeev Mehrotra: Export is Rs. 861 crore.

Kunal Sheth: Export sorry is how much?

Rajeev Mehrotra: Rs. 861 crore. And turnkey contracts, turnkey projects also we have five categories building Rs. 136 crore, industrial engineering Rs. 924 crore, rail infrastructure is Rs. 50 crore, rail equipment's Rs. 38 crore. Then rail doubling, third line etc. Rs. 600 crore.

Kunal Sheth: As the consultancy order book, I want a sense of who would be or say probably your top five customers in consultancy in terms of order book? So, railways obviously would be the largest one.

Rajeev Mehrotra: Yes, then NTPC, Coal India, then several state power companies and some steel companies and ports. We are doing connectivity works for power projects, mining, ports, etc which is again a very significant portion within the consultancy and some part of that is what delayed because of monsoon. We are also having one infrastructure project outside India which is Rs. 105 crore. Then we are dong Mauritius metro which has got Rs. 64 crore billing due. Then PMC for DFC Rewari-Dadri JNPT Rs. 63 crore, passenger terminal at Srinagar airport is Rs. 62 crore. And there is one project for GUVNL of this is feasibility and DPR 2x650 megawatt Rs. 49 crore, GC metro Ahmedabad is Rs. 41 crore, so on. Then there are couple of other metro projects going on and these projects are in the range of Rs. 42-43 crore of each.

Kunal Sheth: And sir, if you can give us some sense of in terms of within the consultancy segments, who would be your key competitors, both in railways and non-railway especially on the, so I am assuming within the non-railway side, the metro and the highways are the larger segment outside the railways. So, if you can give a sense of competition in railways as well as?

Rajeev Mehrotra: Highways, there are several competitors may be about a dozen or two. But again, there the bidding in Quality-cum-Cost basis. So, wherever we are able to put CVs and price it aggressively, we are getting it. In metro also, there are some foreign consultants who are doing either on their own or in JVs with Indian companies. Some of the companies which are active in India on the metro side, are Systra from France, Egis, Aecom (a US company), OCI Japan, Nippon koei, Japan etc. So, these people are also normally working with us and may be one or two other local consultant's bids for projects. So, there is competition in metro, competition in highway, there is competition in airports also. Not so much in railway sector, because we have the team required, which the smaller ones do not have.

Kunal Sheth: So, large part of the railway order book is mostly nomination based?

Rajeev Mehrotra: Yes, the consultancy is mostly nominations.

Kunal Sheth: And in PMC?

Rajeev Mehrotra: In PMC also it is negotiated because the company like NTPC, Coal India etc., they want to have a comfort and certainty that people understand the technical job and we are able to coordinate with various departments involved in execution of projects. So, this again goes on a broadly negotiated terms. We normally do one MOU with the company and within that, such projects get covered. All the commercial terms and conditions are normally agreed as a master agreement. Then these projects follow under that.

Kunal Sheth: Okay, got it. And also if you can help us with the breakup of order inflow for this quarter between consultancy, export leasing and turnkey. The 507 orders that we have reported?

Rajeev Mehrotra: Give us 5-7 minutes we will take another question and come back to this?

Moderator: Thank you. The next question is from the line of Subramaniam Yadavfrom TCG Asset Management. Please go ahead.

Subramaniam Yadav: Sir, just wanted to check on the FY20 revenue target, can you give some color on the FY20 revenue target what we have mentioned about Rs. 2300 crore last year, the second half when you look at the export the major chunk of the export where in H2 of around Rs.200 odd crore, this year already we are about Rs. 380 crore in H1 which means the H2 revenue has already come into H1. So whether this Rs. 1000 odd crore the H2 what you are targeting, is it achievable kind of a number?

Rajeev Mehrotra: Yes, we believe that we will be comfortably able to reach those.

Subramaniam Yadav: Rs. 2300 crore?

Rajeev Mehrotra: Yes, Rs. 2300 crore is on the operating revenue excluding other income. We will ensure you that we will be able to do it.

Subramaniam Yadav: And sir the Rs. 100 crore the order from Sri Lanka what further you have got would that come into execution this year or next year?

Rajeev Mehrotra: We got order for Rs. 160 crore for two more DEMU's and this would get to shipped in about 12 month, so that one will be executed may be H2 of next year.

Subramaniam Yadav: Next year right, understood. And sir there is some change in policy in railways regarding awarding of the project that's what was told in the call. So, what are the changes then, how is it likely to impact our inflows sir this year?

Rajeev Mehrotra: They have to comply with the requirements of competitive bidding. So within the three-four railways PSUs, this would be limited bidding. But the advantage is that the cap of 8.5% should not be there.

Subramaniam Yadav: 8.5%?

Rajeev Mehrotra: This is standard fee for turnkey execution i.e. 8.5%. Once you are going for bidding and if there is a project at remote location, more transportation etc., you can price the project accordingly rather than every project in the same range. So, I think this will be more advantageous than, probably the previous situation. We can select the project of the location where we are present or we can be present.

Subramaniam Yadav: Okay. But has the policy been finalized and the awarding would start this quarter or would it again get delayed and the awarding process will be slow?

Rajeev Mehrotra: To my knowledge, all the modalities had been already frozen and actually this might start in this month or next month onwards. This is almost final now.

Subramaniam Yadav: Yes, but sir this turnkey about 8.5% cap you are mentioning we already are currently making about 4% margin right, on the turnkey side?

Rajeev Mehrotra: Yes. And if you allocate overheads also then this is about 3.5-3.6%.

Subramaniam Yadav: So around 3.5% kind of margin we can make in that, okay fair enough.

Rajeev Mehrotra: I think that would by and large, will be maintained.

Moderator: Thank you very much.The next question is from the line of Santosh Hiredesaifrom SBICAP Securities.Please go ahead.

Santosh Hiredesai: Sir, I had one question on the cash flows so, I see that receivables have gone up substantially during the quarter. Any specific project or any specific client that you have seen delay sir?

Rajeev Mehrotra: There is definitely a major increase in this but only because of one reason. That the shipments to Sri Lanka happened in September and it takes about four-Six weeks to get the bill cleared and then LC payment coming and getting released from Exim Bank, so there is nothing to worry, this will be cleared within this month itself.

Santosh Hiredesai: Okay. So this is all back by LC is it?

Rajeev Mehrotra: Yes, there is some delay in getting papers from there but then within four to six weeks normally this happens. So, this addition of Rs.268 crore is mainly because of receivable from Sri Lanka which would come through EXIM Bank to us.

Santosh Hiredesai: Sure, because in the past we had some issues with receivables from some of the foreign clients so I am just checking, so these are all secured?

Rajeev Mehrotra: No, this is absolutely different. This is completely LC backed payment supportive by line of credit.

Santosh Hiredesai: Sure. And sir second one in terms of the export segment order book I see that because we have executed this order it is in the quarter, we have moved from about Rs. 1170 crores to Rs. 860 crore in terms of the order book. So, in this case have we recognized Rs. 160 crore of incremental order that we have put out as per the Rs. 500 crore order inflow for the quarter?

Rajeev Mehrotra: No, the Rs. 860 crore order book includes this new order from Sir Lanka.

Santosh Hiredesai: Okay, now because what I was trying to understand is from end of Q1 to Q2 our order book has moved from Rs. 1100 odd crore to Rs. 860 crore which is roughly about Rs. 250 crore worth of orders that you have fulfilled. But, you also have picked up Rs. 160 crore of new orders that doesn't seem to be reflecting so I am missing that?

Rajeev Mehrotra: You are right, my colleague says, this was included in Q1 because we have already received the letter and we have notified to stock exchange I think it was in June, we had notified that we have received the mandate for this**.** Agreement was signed later, but this was included in opening order book.

Santosh Hiredesai: Okay, so this makes part of Rs. 1117 crore that we had shared earlier?

Rajeev Mehrotra: Yes.

Parmod Narang: Rs. 260 crore this time we have booked so you can reduce that you will get the same figure.

Moderator: Thank you very much.The next question is from line of Jonas Bhutta from Phillip Capital India Private Limited. Please go ahead.

Jonas Bhutta: Just two questions particularly on the consulting side of the business. Firstly, you had sort of guided for a 10 to 12% growth on consultancy for the full year FY20 where we have ended the first half with sort of flattish revenues which sort of implies a 20% growth in the second half. I understand that Rs. 25 to Rs. 30 crore were lost due to rain and weather related issue but how confident are you to achieve like a 20% even adjusting like 15 to 20% growth in the second half what give you that confidence, give that you are trying for the inspection, so inspection fees we understand that you do about Rs. 350 to Rs. 400 crore, even after knocking that off the implied rate of growth was quite steep. If you can throw some light on that, that is my first question and once you answer that I have another one consultancy.

Rajeev Mehrotra: I think on annual basis only this would be correct to see the segment's performance. So, there are certain major projects where billing does not fall in every quarter. So, I think it possible to make up for the gap in H2FY20. And, those major projects are still going on the Mauritius metro, port infrastructure including railway infrastructure here. So broad guidance of 10% still we hold that this should happen.

Jonas Bhutta: Sure, my second question was on the margins of this business. So now it has been almost six, seven quarters that we have been listed and we have tracked your consultancy margins again. They seem to be quite volatile and particularly when I refer this in this quarter when you have like a de-growth on sales but you still report sort of 44-45% kind of margins against the quarter where you have like 10-12% growth but your margin are 39%. So, what brings in this variability in margin over quarters because this is a more man hour rate kind of business which has to have some sort of linearity which is not at least as far as the last five, six quarters that we have been liking this company if you can just sort of elaborate on that, that will be useful?

Rajeev Mehrotra: Consulting margin we have reported in second quarter is 44.5%, this is before overheads. Last year also FY19 fully we have reported 43.9%, so I don't see much volatility on 44% to 44.5% and as we have said we are high-tech consultancy normally we try to maintain those margins. And, there are two important things to be kept in mind that the large project has consultancy also link to the project progress. If there is a delay due to monsoon, if there is a delay in execution by a contractor or if the billing stage has not come the revenue would not come. To give an example there is one important foreign project where in FY19 Q2 we booked Rs.20 crore in income but this quarter there was zero billing because the billing is actually due in Q4 of this year. And that billing is around Rs.24 crore. So, it's very difficult to compare quarter-to-quarter on the income but a more relevant would be annual guidance.

Moderator: Thank you very much. The next question is from the line of Rohit Natarajan from Antique stock Broking Limited. Please go ahead.

Rohit Natarajan: Sir my question is on, you guided that close to Rs. 1000 to Rs. 1500 crore you are looking at doubling on the construction segment. What is the typical timeframe in these particular projects gets starts and when does it get completed? Say let's assume you win this particular project in this particular quarter. When do you expect the revenue to begin?

Rajeev Mehrotra: About six months, you can say would go into designing, making the bill of quantities, the tendering another three months for work award. So, any project taken up now, would actually take at least nine months before any revenue from turnkey projects would start, so this would be at the end of Q4 FY2020-21. And by the time most of these turnkeys what we have in hand, would be almost 70-80% executed.

Rohit Natarajan: Okay. And sir then if I look at then the remaining order inflow guidance that you talked about which includes close to Rs. 700 odd crore from exports and Rs. 1000 odd crore from consultancy. If again what I am trying to gauge is that, how would your revenues in FY21 would look like, because if you start the execution on the remaining orders probably you won't have a 15% plus kind of growth in FY21 if I am not mistaken? Because those are I am assuming short cycle orders, both exports and your consultancy?

Rajeev Mehrotra: So you believe that 15% growth would not be there?

Rohit Natarajan: No, what I am saying is that if I push the construction segment to be a slow moving by FY22 onwards, and if I look at export should be extremely like short cycle kind of a number. Is that the assumption right?

Rajeev Mehrotra: Unfortunately no, because the exports what we get now would actually start getting revenue in the end of Q4FY20-21 at the earliest. So, the turnkey projects right now we have in hand is Rs. 2369 crore some of which will be executed this year. So we have got one full year to execute this Rs. 2000 crore and I believe at least 50-60% should get executed next year. So, next year also 15% looks a very achievable number. We are also working on some metro projects and we hope to get some bigger studies when these new projects come to us or the budget approved projects come out. And there the execution is short, some projects can be done with-in one year. Next two years is very good visibility.

Rohit Natarajan: Okay, I understand sir. Also just a small component which is this consultancy abroad we have seen this margin has actually come down from 70% to 34% in H1 and even in this quarter this number wasn't really great. So, what explains this kind of variations in consultancy of broad segment margins?

Rajeev Mehrotra: We have some major projects outside, one is metro, and there is port and infrastructure project. In one of the projects we have got revenue of Rs.20 crore in Q2FY19. Against which there was hardly Rs.4-5 crore of cost incurred that was for the mobilization and design of that project. After that the billing cycle is going to fall due only in the Q4 of this year around Rs.24 crore. Once that happens the current years cost would also get booked against that project. So, a safer analysis would be the annual performance of domestic or international billing rather than Q1, Q2 this can actually be confusing unnecessarily.

Moderator: Thank you very much. The next question is from the line of Siddhartha Grover from Equirus. Please go ahead.

Siddhartha Grover: My question is regarding the turnkey segment, because here we are RVNL is doing a 5% margin post all the overhead and Ircon also doing in the same range whereas your margins is only 3, 3.5% so why is there such a big gap?

Rajeev Mehrotra: I would not be able to comment on the past, but I can say going forward and everybody may get on bidding basis and such variations should disappear.

Siddhartha Grover: Okay. And sir anything that has internally discussed it seems you have an office present in some region where there is a doubling of the track being order. So, what level of management fees can you pitch in for?

Rajeev Mehrotra: It may not be very different, the differentiator would be the location of the project, certain projects would be North East, certain projects could be in remote areas so 0.5%, 1% here and there could increase but cannot be like 12% or 13%.

Siddhartha Grover: Okay. And sir just to confirm is there any cap on the management fees for the bidding?

Rajeev Mehrotra: No, not so far. But we have to see and I don't see any bidding happening with the cap like this.

Siddhartha Grover: Okay. And sir in terms of DND charges or any other charges will there be an overhead above management fees or will it be included in that?

Rajeev Mehrotra: Everything would be included. Our direct cost, our overheads, we try to absorb out of this before we come to gross margins.

Moderator: Thank you very much. The next question is from the line of Sagar Shah from Alphaline Wealth Advisors. Please go ahead.

Sagar Shah: My first question is regarding your business front actually, as we have seen you have registered almost three, you have clocked Rs. 391 crore of export sale which has led to the almost doubling of your revenue for this financial year. So, going ahead as you have guided the 10% despite the slump in the, despite the flattish growth that you have seen in the consultancy we'll achieve the 10% growth. For the exports can you suggest that at what ballpark number actually or what kind of number we will be settled in for the H2 actually, for export and for also turnkey?

Rajeev Mehrotra: H2 exports around Rs. 100-120 crore, seems to be the leftover billing for the current year.

Sagar Shah: That is all from Sir Lanka sir?

Rajeev Mehrotra: Yes, FY20-21 can see about 12 to 15% growth in exports over FY20.

Sagar Shah: Okay 12 to 15% growth for export?

Rajeev Mehrotra: Yes, because again there is a play of manufacturing capability to produce what gauge is required. There could be seen another 15% growth in FY20-21.

Sagar Shah: Okay, so you are very comfortable on that front, and for turnkey sir for H2 as well as 21?

Rajeev Mehrotra: Turnkey H2, around Rs.300-325 crore seems realistic.

Sagar Shah: Okay, sure sir. And in the order book as you have the ambitious target that you have started for almost around Rs.8000 crore actually for the end of FY20. So, which segment according to you will lead that figure actually?

Rajeev Mehrotra: This will be in mix. At this stage turnkey, exports orders and then we are also likely to get some highway projects overseas, some consultancy from outside India also are visible. It would be in a combination, say almost half would be turnkey, almost 50% of remaining could be exports and maybe another Rs. 600 to 800 crore of consultancy at least. And then of course leasing and other power businesses would also be there. Leasing is seeing 15-20% growth rather than 10% as given in the outlook. Therefore we have placed the order for 10 more locomotives that's the biggest order we have placed in the last 10 years.

Sagar Shah: Okay. My second question is related to your financial your financial front actually, we have clocked a 25.7% EBITDA actually for the H1FY20 consolidated EBITDA, excluding the other income actually. Will we maintain the same level for H2 as well?

Rajeev Mehrotra: You are saying EBITDA margin, H1 is 33% actually.

Sagar Shah: No, I am talking of excluding other income.

Rajeev Mehrotra: Okay. I don't see an affect to margin in H2 as compared to this. Because if you remove other income then we have maintained margins as of last year also FY19-FY20 we are maintain so there is no reason to believe that H2 would be different.

Sagar Shah: To be clear actually FY19 was around 28% and for H1FY20 its 25.7% and for your guided 23% excluding other income that is why I was concerned a bit that's why.

Rajeev Mehrotra: So, this is MOU target. This works at the minimum rate or the minimum hurdle we have to clear and not the upper limit. The MOU margin is something we must definitely strive upon but not the upper limit. So we can reach higher also.

Sagar Shah: And for this one, on the operational front actually we haven't don't well as you have said that still we haven't received the large receivable from the government of Sri Lanka for the locomotives and that is why we are falling front on the trade receivables actually. So, our working capital position and our receivable days won't be the same as last year after we get the payment for locomotives in this month as you have said.

Rajeev Mehrotra: Normally, it takes four weeks. Maximum four to six weeks and maybe this time there was some delay in Sri Lanka but I am told that it is in concluding stages. There is LC, there is line of credit from India so there is no credit risk on any party outside India.

Sagar Shah: And on the balance sheet front, just one actually book keeping question I had we have around on the balance sheet on the current assets actually we have on the other financial assets Rs. 209 crore on the current assets front. What are those actually, other financial assets under assets?

Parmod Narang: Other financial assets it is mainly the amount recovered from the client retention money and unbilled revenue, unbilled revenue is of Rs. 41 crore.

Sagar Shah: Unbilled revenue?

Parmod Narang: Yes, unbilled revenue.

Sagar Shah: But we have the figure is Rs. 209 crore?

Parmod Narang: On standalone basis it is Rs. 203 crore but otherwise the major amount is unbilled revenue retention money and amount recoverable.

Parmod Narang: There is a schedule to this, can we go to the schedule?

Parmod Narang: Yes, further you want details. Retention money is Rs.55 crore, then receivable from Government of Mozambique which has been received in October it is Rs. 39 crore. Then unbilled revenue is Rs. 72 crore which is up to the H1. In major amounts first is amount recoverable from Government of Mozambique, second is unbilled revenue and third is retention money these are the three major elements in this.

Sagar Shah: So when we get the money from Government of Mozambique?

Parmod Narang: It is received, October was the due date. Due date was 18th October and we have received that one.

Sagar Shah: So it has been parked where?

Rajeev Mehrotra: No, this is dollar than already converted into rupees. It was dollar payment. By December this will be paid off.

Moderator: Thank you very much. As there are no further questions. I would now like to hand the conference over to the management for closing comments.

Rajeev Mehrotra: I just want to explain one or two points which were raised but we could not reply. It was Chintan Seth question, the breakup of new order inflows of Rs. 507 crore is like this, consulting Rs. 350 crore, turnkey Rs. 132 crore, leasing Rs. 20 crore, exports Rs. 5 crore, so put together Rs. 507 crore. I think that is all. Thank you. If there are still any questions unanswered you can email to us we will respond at the earliest. Thank you all very much for participating in this conference call. We assure you that looking at the performance so far and the execution in-hand, we are very optimistic that we will meet the guidance given of revenue and profitability in March 20. Also, we are aggressively working on adding to our order book and we cannot share more details at this stage because till we reach a shape where we can share details with you, but we are very optimistic about it. And I am sure this will come effectively next conversation we have with you all. Thank you very much.

Moderator: Thank you very much sir. Thank you all for being a part of this conference call. If you need any further information or clarification, please mail at gaurav.g@conceptpr.com. Ladies and gentlemen, this concludes your conference for today. Thank you for using Chorus Call Conference Services and you may now disconnect your lines.

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