“IRCON International Limited Q4 & FY20 Results Earnings Con-call”

July 13, 2020

MANAGEMENT: SHRI. M. K. SINGH – DIRECTOR (FINANCE), IRCON INTERNATIONAL LIMITED
SHRI. ALIN ROY CHOUDHARY – GM (FINANCE),
Ladies and gentlemen, good day and welcome to the Corporate Access Conference Call of IRCON International Limited to discuss the Q4 and FY20 results hosted by Reliance Securities 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 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. Ankit Merchant, Research Analyst at Reliance Securities. Thank you and over to you, sir.

Ankit Merchant:
Hello, everyone. We welcome you all to Q4 FY20 IRCON post results conference call to discuss the quarterly performance. Joining us today from the management is Mr. M.K. Singh – Director (Finance) and Mr. Alin Roy Choudhary - GM (Finance) from IRCON Limited. We will first begin with the short commentary on the quarter 4 FY20 results and a quick update on the pandemic related disruptions followed by the Q&A round. Thank you and over to you, sir.

M.K. Singh:
Thank you so much. Ladies and gentlemen, first of all, wish you a very good evening to all of you. I hope that during these trying times you are safe and sound. This pandemic situation has really put us back a little about which I will be talking little later. I welcome you all to the conference call to discuss our financial performance for the 4th quarter and the fiscal year ending 31st March 2020. First, I will give you a short brief about our company, then I will talk about the financial performance of the company for Q4 as well as for the entire year ending on 31st March 2020.

As you are aware, IRCON International is a leading turnkey construction company in the public sector known for its quality, commitment and consistency in terms of performance. As you may have seen since last 2-3 years from the time we have been listed, we have been consistently performing well. We specialize in constructions which covers all the high-end infrastructure activities and services. Our major focus being on railways, highways, railway electrification, metro projects and other infra projects which we consider as our forte. IRCON operates not only in highly inaccessible areas like Jammu & Kashmir, Sikkim, Nathu La Pass etc., but we also participate in competitive intensive environment and we bid along with other infrastructure companies to get works and execute them on a strictly professional basis. Till date, we have executed many important projects of national importance. Domestically, we have completed around 3025 odd projects in India and internationally, we have executed around 110 projects in more than 24 countries till now. That makes IRCON a highly recognized global name in infrastructure sector.

The company has a strong aggregate order book of INR 30,700 odd crores as on 31st March 2020. As I stated in the beginning, we mainly work in the rail related infrastructure projects, so obviously our order book will constitute majorly the projects on rail related areas. So out of Rs. 30,700 odd crores, Rs. 26,000 crores comes from rail related projects. The key strength of the company is that it has diversified into various infrastructure sectors over the period of time and we are an established player in the field of highways, railway electrification, then making big workshops for Indian railways and for other clients. The broad geographical coverage has helped the company to diversify to DBFOT, EPC, hybrid annuity model and other type of contracts as
well, as the project development and operating through JVs and SPVs. You can be rest assured about the liquidity of the company. In fact if you have seen the figures cursory then you would find that we have a cash balance of around Rs.2500 crores with us. Out of which, Rs.675 crores is company’s own money and rest is the money which we have got in the form of advance from our clients. IRCON International Limited is financially strong enough and has all the resources to safely sail through these tough times which we are going through. We have already commenced operations wherever possible ensuring all the government directives with respect to social distancing and other necessary precautions in order to avoid COVID-19.

Now, I will give you a brief idea about the financials about which we have just had a BoD last Friday and we have passed our financials and also declared the intent to pay dividend.

So, I will first speak about the Q4 FY20 performance. In Q4 FY20 Revenue from Operations at Rs.1788 crores as compared to Rs.1533 crores in Q4 FY19 and PAT stood at Rs. 122 crores in Q4 FY20 as compared to Rs. 95.59 crores in the same quarter last year. The PAT margins stood at 6.69% for Q4 FY20 as compared to 5.95% in Q4 FY19. Core EBITDA for the quarter stood at 130 crores compared to 157 crores in the corresponding quarter of the last year. However, if you see the overall year figure, then this particular aberration will be more than covered. So talking of FY20 performance, as year as a whole, the turnover on standalone basis stands at Rs.5202 crores as compared to Rs.4415 crores in the last year, witnessing a growth of around 18%. Similarly, the total income stood at Rs.5442 crores against Rs.4680 crores of the last year. Core EBITDA has grown to Rs.477 crores against Rs.378 crores last year, showing a growth of 26% on year-to-year basis. PAT for FY20 for the year as a whole was Rs.490 crores as compared to Rs.445 crores which shows an increase of 10% and the PAT margins stood at 9%. The EPS has gone up from Rs.47.28 in FY19 to Rs.52.08 in FY20.

I am happy to share with you, you must have gone through the financial and also the announcements made by the company. The BoD has recommended a final dividend of Rs. 2.06 paisa per share face value of Rs. 2 after the splitting. In addition to the interim dividend of 13.45 per share which we declared and at that time, the face value of the share was Rs. 10. So if we take Rs. 10 as the face value, then for the entire year the dividend is roughly Rs. 23.70 paisa per share.

Now having shared the salient features of the financial, this brings me to the end of my initial comments. Now, I would like to leave the floor open for questions and I will try my best to answer all of them and others will be pitching in wherever necessary because I may not have all the written information readily with me. So maybe Alin and others who are also in the concall, they will pitch in with their portion as and when I ask them. So the floor is open for the question and answers.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
Mohit Kumar: Sir, I have two questions. First is, sir given the COVID situation, how do you see the execution in FY21 and given a strong order book, do you have any guidance on FY22? And sir, secondly on, do you think the railway CAPEX to be affected because of COVID in FY21 and have you heard anything from the Ministry of Railways on the bidding pipeline or something you can paint a picture on the order inflow and order pipeline?

M. K. Singh: Okay. I will try to answer both the questions. So far as IRCON’s project execution is concerned, obviously it did get affected in the month of April and May. But we started taking baby steps to retrieve our situation and we have now started actually going full hog also in some of the areas, but I can’t really say that it has come back to the normalcy as it prevailed in say month of February or in the month of January. So having said that, the first 3 months of the quarter have seen a downfall in terms of physical execution as well as in terms of financials which we are approximately trying to calculate but going forward since the labors etc. have been largely mobilized and our operation of execution largely depends on plants and equipment. So we hope to gear ourselves in top form, say in another one month or so provided the things keep on improving as a whole in the country. So we will have hiccups here and there and in the first quarter, we expect a significant drop in execution as well as in financials, but if we go down the second quarter, then as a guidance I can tell you that we will try to match whatever we have done in the current financial year. So under the circumstances, even this will be a wonderful effort if we are able to achieve this, but that is internally what we are aiming for and we are pushing hard to at least be where we have ended the year FY20, that will be great, number one. Number two, coming to railways and the scenario obtaining regarding CAPEX to be made by railways, I can tell you that it has now been a concept policy of the Ministry of Railways that being an important infrastructure company, the expenditure level cannot be allowed to come down because that is the only way to kickstart the activities everywhere. So that also includes same level of CAPEX as they have projected in the budget and especially in the areas where we work, for example, new lines, construction or gauge conversion or doubling or railway electrification etc., they are not going to lower the expenditure and we have a clear cut visibility that they will stick to what they have presented in the budget and I think it is around 1.5 lakh crores of expenditure on an annual basis in the Indian railway budget. And out of that, a large part of it would be in the construction activities of which IRCON is a part. We are doing railway projects and we do not foresee any reduction in the allotment of all these railway projects. In any case, all these railway lines have capacity enhancing projects of Indian railways which IRCON is doing, so they will in any case go ahead with the projection made so far as funds availability is concerned. And as you are aware, lot of funds for Indian railway projects are coming from extra budgetary resources like lending from LIC through Indian Railway Finance Corporation Bonds. So railway will be a glimmer of hope, I can tell you this much and we don’t see any shortfall in fund. Whatever we will require, they will give us.

Mohit Kumar: Secondly on sir, on highway side we haven’t seen you know winning any order, HAM order or any order for last few years, so how do you think, is the competition tough or is it that the order pipeline something is very low, can you please comment on that?
M. K. Singh: Yes. In hybrid annuity model, if you see the highway tenders and make an analysis, you will find that IRCON is the only public sector undertaking in the horizon. No other public sector undertaking bid for any of the NHAI projects. All the players in the market are private players. Given this scenario, we have had a hard look at the methodology in which we are making our bids and submitting them. So what we found that we are going to hit the jackpot very soon. In a tender which was opened last Thursday, we were second lowest by a margin which can be called by a whisker actually. So we have also participated in five or six HAM models, the results of which are awaited and we certainly hope to get at least 1 or 2 of them and we will continue doing being for the forthcoming Zoji-La tunnel tender which is roughly Rs.5000 crores. So we are in association with a known player in the field, from the private area and we are joining hands to participate in that. So we are upbeat about getting few projects in highway also.

Moderator: Thank you. The next question is from the line of Saurabh Poddar from Lucky Investment Managers. Please go ahead.

Saurabh Poddar: I had a couple of questions to you. My first question was, I think in Q3 the company guided for shifting about Rs.900 crores of loans and advances or equity investments to third party finance. Instead in Q4, I think there is a rise of Rs.600 crores in total in equity investments and loan and advances. Can you tell me the rationale behind that and as to why we didn’t go towards third party finance?

M. K. Singh: Yes. That is very right that you remember that we gave a guidance regarding shifting some of the loans which we have given to these SPVs. In fact, I am happy to tell you that we have tied up for the loans with two banks for two HAM projects. And the proposal is lying with NHAI for its final approval and the amount all will be in the range of what I had indicated in the third quarter results conference. So it could not materialize by end of the financial year, but certainly I think as I speak maybe it is getting approved. I can tell you only this much.

Saurabh Poddar: Understood sir, that is great news.

M. K. Singh: We are into tying up for take out loans even for Shivpuri Guna projects where our loan amount is almost Rs.564 crores to that SPV. We have got the in-principle approval from the lender and we are tying it up and I will keep my promise.

Saurabh Poddar: Got it sir, thank you. My second question was towards, sir, in terms of we do work on a very, we have a very strong working capital cycle and we also do get advances for projects. Do you see any fundamental change, while the government might not cut down on CAPEX in terms of railway and infrastructure because we are I think rightly one of the highest priority sectors in terms of CAPEX, do you see any change in payment structures because then our working capital get say quite significant, do you see any fundamental change given that it has been a tough, it is going to be a tough financial situation for the government to deal with going forward as well?
M. K. Singh: As I told you, the rationale for actually a good pickup in the remaining of the financial year would be how much government is able to put cash into non-government hands and that would also include spending on the infra projects through companies like us, RITES, RVNL etc. And as you have seen the financials which have been put in the public domain, we have around Rs.1800 crores of advances with them and the last quarter experience let me tell you what I have that whatever work we are doing in the first quarter for the railways, we are spending from their advances given to us, but those advances are getting recouped in no time. So I do not see or foresee any fund crunch from government side to us, they too are aware. As I told you, lot of resource where we are lending from LIC etc. So funding, everybody should rest assured, is not an issue thereby meaning that working capital management for a company like us should not be a headache.

Saurabh Poddar: Understood. My final question was towards your MoU, when do you sign this year’s MoU and actually I want to squeeze in another question in terms of what is the total order book, I think the executable order book you gave out, but the total order book is there, do you have any growth in that as well?

M. K. Singh: The executable order book is Rs.30,700 crores as I stated. The total order book would be around Rs.45,000 crores and that we have not taken into the executable order book as yet. So that is one figure which I can share with you and what did you ask, you asked something…

Saurabh Poddar: The MoU, the yearly MoU, when do you…

M. K. Singh: As you are aware, memorandum of understanding is between Department of Public Enterprises, Ministry of Railways on one side and then company on the other side. Because of the pandemic situation and the lockdown in the government machinery, we have had a meeting through video conferencing of a body called Permanent Negotiating Machinery, PNM and that was conducted by Secretary, DPE that has happened. We have indicated our targets because of the changed scenario, but since the things are still evolving, so the meeting of the Inter-Ministerial Group, IMG, has not happened as yet. But I think it should happen in one month’s time and we will be signing the MoU for our all the performance parameters by end of July or mid of August and that will be the FY21 target.

Moderator: Thank you. We take the next question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Sir, the first question was more from a data point of view. So basically the calculated order inflow, so a) if you can tell us what is the kind of order inflow that you have seen through the year because based on our calculation, it should have been about Rs.7,500 crores and where did these orders come from if at all that number is correct?

M. K. Singh: As you are aware, since you people keep a tab on the railway ecosystem, the railways have introduced bidding system amongst the PSUs for the projects which they want to get executed from PSU like IRCON, RVNL, RITES, (inaudible), etc. So I am happy to share that in all the
categories which they have made for giving the work to their PSUs, railways have included IRCON in all the groups. When I say groups, then I mean to say civil engineering work, workshop works, or railway electrification works and so on. In civil engineering, of course there are vast number of areas where we work. For example, new line construction, then making doubling or tripling of lines and so on. So we have been shortlisted and for the first time, they are going to invite limited bids from the PSUs shortlisted to award the work to PSUs based on the PMC fee and by this exercise, in fact let me tell you that earlier last we got any significant work from railways was in 2016 and most of the works were being given to RVNL because they were considered as extended arm of construction for Ministry of Railways. Now, RVNL is on the same pedestal as we are in terms of submitting our bids for getting the work from Railways. We hope to get at least Rs.7,500 crores would be an underestimation. We have good figure in our mind which of course I cannot disclose at this moment, it would not be proper, but we are very optimistic of getting good chunk of work from railways and bidding will happen within maximum 2 months and we hope to get good orders from them.

Jonas Bhutta: So my question was in FY20, what was the order intake and like you said you did not receive any order intake, is it?

M. K. Singh: Yes. From Ministry of Railways, of course we had one or two small work for railway electrification or we got a work last year of wagon repair workshop in ECoR Railway for Rs.546 crores. So of course, these small things, we do not consider as very sizeable order for us, but we did get in trickles and besides that, of course we have had success in highway also, this Vadodara-Kim came in FY20 only. So yes, it was in trickles. Let me tell you this way, it was not a significant order bagging in FY20.

Jonas Bhutta: An interconnected question sir, you said the order book including the non-executable part is Rs.45,000 crores, but in Q3, that number was Rs.62,000 crores sir while you executed…

M. K. Singh: We have executed. This year also, we have executed.

Jonas Bhutta: Between Q3 and Q4, you have executed only Rs.2000 crores sir, but the reduction has been Rs.7000 crores.

M. K. Singh: The exact figure of what is the total value of the order book, I will get back to you. Rs.45,000 crore, I just give you an approximate figure, it can be Rs. 47000-48000 crore also. We will have to see the exact order book and then get to you. Since we talk only on the executable portion, so I have exact figures for that.

Jonas Bhutta: Sir, my second question is sir we have almost Rs.1400 crores as loans and advances to subsidiaries, you had indicated that you were looking to sell out two road projects. I think to an earlier participant question, you did mention that the file is with NHAI, was it to the same effect or these are two separate things, just wanted to know how the company looks to release that Rs.1400 crores which is in loans and advances?
M. K. Singh: Yes. As I have shared on earlier occasions also that we have finalized an MoU with NIIF with regard to sale of our equity in the project which we have completed and where NHAI permits us to divest our equity. Even if it is in the construction phase, still we can sell 49% of our equity and for that, we are in advanced negotiation with NIIFL. Of course, details of which I can’t share for obvious reasons. We are in advanced stage of negotiation with them for the sale of equity to them mainly in three projects. One is IVKEL, that is Vadodara-Kim Highway Project under HAM model; then the second is Davanagere-Haveri Project, again in HAM model in Karnataka and the third is Shivpuri-Guna project for which the tolling is already underway, for which tolling has already started. So in these three projects, we are in advanced stage of negotiations and discussions for sale of our equity. For takeout loan, I stated in an answer to the earlier question that we have tied up with the banks, the lenders and in two cases out of the three, the file has already gone to NHAI for approval because that is the formality which we required to do. For third, we have got an in-principle approval from the lender and the follow-up actions are underway. So we are on course to what I had promised and what you have asked. This Rs.1400 crores is going to be sizably less very soon, sooner rather than later.

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

Chintan Sheth: Sir again on the subsidiaries, if you can provide toll collections happening right now in the 2 projects where collection has started?

M. K. Singh: Yes. As you are aware, we have 3 road projects where toll operations are underway. The first is in a joint venture with Soma Tollway which we call as IRCON Soma Tollway Private Limited, ISTPL. That is a project in Maharashtra. The second project where we are tolling right now is Bikaner-Phalodi and the third one is Shivpuri-Guna. Shivpuri-Guna toll is as per the expectation, of course little less. Then, Bikaner-Phalodi has not been very encouraging. There have been issues which we are trying to sort out with NHAI. And ISTPL has done very well for itself and we are getting revenue more than our expectations and we will earn a decent profit by end of the concession period and the end of the concession period is happening 6 years from now, and we have started getting good revenue from them. So far as Shivpuri-Guna, the second road project is concerned, there also we are getting decent toll amount, but it could have been little better, but since it is still a long way to go and a stretch is yet to be constructed, the target for which is FY21. Once we will have that12 kilometers stretch, then we hope to look forward to getting more than what we have in mind. For Bikaner-Phalodi, we need to really way our options and take a hard look as to how to make this whole thing going for us. So I must say at this time it is engaging most of our attentions.

Chintan Sheth: Right. And sir on the Bandra’s land project, what is happening there? And book-keeping question on what will be the equivalent amount on the asset side, we have debt of around Rs.1850 on the liability side related to IFRS loan. What will be the equivalent amount sitting in our current asset side, if you can provide that?
M. K. Singh: So far as Bandra plot is concerned, the situation is at a standstill, I must admit it and say you because that has not (inaudible) as on date for many of the stakeholders. The MMRDA which is a key player into the entire game and entire scenario of Bandra plot development, MMRDA has put certain conditions for Ministry of Railways to accept. They had certain agreements in the past to share the revenue by sale of FAR etc. And MMRDA wants Ministry of Railways to reiterate that they will agree to those sharing formula and the case is lying with minister himself actually, at the highest level now. So hopefully once that is decided, then we can go ahead with the bidding. Everything we are just keeping ready. The moment we get a green signal from MoR, we go for the bidding. So far as the figures of loan and on the asset side as well as on the liability side is concerned, Alin, can you just show them exactly because I do not have it readily available with me.

Alin Roy Choudhary: Yes sir. Actually, the entire loan amount is covered by payment from RLDA or Ministry of Railways and the entire amount has been shown under other financial assets. The entire amount of liability which is being reflected is covered by entire amount of assets shown under other financial assets.

Chintan Sheth: So it will be Rs.1856 crores as shown in the loans, borrowings that will be the equivalent amount sitting on asset side?

Alin Roy Choudhary: Exactly.

Chintan Sheth: Excluding that also, I see a slight jump in overall current assets and that too related to I guess additional loans given to subsidiaries, if you can point out which subsidiaries larger amount we have provided for this year, will be helpful.

Alin Roy Choudhary: Actually, in the fourth quarter, we have provided around Rs.214 crores loans, Rs.146 crores to IRCON Vadodara Kim Expressway and Rs.67 crores to IRCON Davanagere-Haveri Project. These are the Rs.214 crores which we have paid in the fourth quarter.

Chintan Sheth: No loans to coal projects?

Alin Roy Choudhary: In the fourth quarter, no, we have not bid any loan.

Chintan Sheth: Any plans for or any outstanding we have to pay over the course of this year in terms of loans…

M. K. Singh: So far as all those JV projects are concerned, that is the coal connectivity projects, we do not intend giving any loan to any one of these JVs. So far as these SPVs are concerned, the work where we are in a full swing like Vadodara Kim and also this Davanagere-Haveri, there obviously till the NHAI gives us approval, we have to keep on pumping money, but very soon we will have the lenders replacing us for giving money to these two projects also. So I do not see any further infusion of loan or for that matter even equity once we have the NIIF on board in these two projects also.
Chintan Sheth: Sir, lastly if I can chip in, what will be the use of this loans which will recover from SPV, how are we planning to utilize those, do we expect an incremental higher dividend payout from IRCON or we are going for growth CAPEX in form of bidding for projects or something like that, if you can directionally provide us some guidance on that front?

M. K. Singh: Ultimately, whatever cash we release from these places, so called financial investments which we have made, in fact you would all appreciate that these are essentially all structures made within IRCON. So everything is under control of IRCON and all the money, whatever we have lend to this 100% owned SPVs are ours only. Yes, we will substitute this so as to release our capital for new areas of work where we are eyeing participation from now onwards. For example, we are eyeing our participation into solar energy area. So again, we will require money for that and also some investments to be made by us to begin with. We have tied up with a very known company, of course I will not take names at this stage which is into this area and we have written to Ministry of Railways to give IRCON some work for solar energy generation so that we can proceed in this. We also intend participating in tenders of solar energy floated by REMCL which is a solar energy subsidiary of RITES. So as you see, new areas of business will require money. So all this money which are released, to some extent or to a large extent will go into these and of course we will also not forget our esteemed shareholders, definitely money is theirs and rightfully it will go to them also.

Moderator: Thank you. The next question is from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Sir, I have couple of questions. Firstly sir, although it is good to see that despite pandemic, we did a very good execution for the quarter, but there is an impact on margins. We see increase in cost of materials and other things, so any exceptional item where these are the kind of expenses that will be incurred in the future as well and some guidance on margins, if you can help us with that.

M. K. Singh: If you see the margin for the entire year, in fact…

Ankita Shah: No sir, for the quarter. I appreciate the entire year we have done an improvement in margins, which is commendable, but for the quarter, I just wanted to understand if there is any one-offs or anything or whether this kind of cost can continue going forward?

M. K. Singh: See, we always believe in the right mix of projects where we have good margins and where we have not so good margins. So yes, the turnover, it so happened that it came from those projects in Q4 where the margin was under little pressure. So that explains why Q4 margins have been little less, but as you all know that we do even in the FY20, our entire turnover, 81% of that constitutes from rail projects and rail projects have fairly good margin whether we are doing for MoR or whether we are doing it for the coal connectivity JVs, there are good margins. So the aberrations, although I do not consider as aberration in Q4 regarding margin, but it should even out and average out in the course of the year.
Ankita Shah: And sir what are the margins we get on railways projects?

M. K. Singh: It varies from project to project. In Jammu & Kashmir, we get 10% net after meeting all the expenses, our staff cost, our office cost, everything is reimbursable separately and then on the value of the work whatever I do, I get a 10% straight margin. Similarly in Sivok-Rangpo project which incidentally is a Rs.4200 crores project and where the turnover for FY21 will be coming in large number from this project, that is a really big number turnover from this project. There also, we have similar margins because these are difficult areas, so we have got good margins in that. The other railway projects, we have 8.5% of the Ministry of Railway projects, but again the rail related projects in the core connectivity area would have a margin of roughly 9-12%. So the margins are varying. Again, DFC is a rail project, but here the margin is low, it is not very high because we took that on a competitive bidding. So it is obviously expected that we cannot have such fantastic margins. The good thing is that in most of the railway projects, the establishment cost and other office expenses and fixed cost which we have, those are getting reimbursed to us. So even though 10% does not seem to be a very big figure, but if you see this as almost a net figure, this is a one-off margin.

Ankita Shah: And sir till the time the takeout financing or the asset sale is not done, how much could be the loss funding which would be required for the road assets? And any equity requirement for the under construction projects going forward for the next two years?

M. K. Singh: For road projects equity requirement, we do not actually foresee a huge amount of equity requirement because as I told you that we have an advanced level of discussion with NIIF. They will pitch in with equity or at least reimburse the equity which we have already invested. So far as loan is concerned, we are already tying it up. So loan infusion will also not be required. So the project should fund and finance for themselves and we will be happily taking the construction margin on the execution for IRCON.

Ankita Shah: Sir, do we have any experience in solar energy generation or this will be like completely new thing for us?

M. K. Singh: Yes, we did not have any earlier experience in solar generation, but we have tied up with a known player with excellent credentials and since we are doing it for Ministry of Railways, so we know Railways and they are our parent organization. So we feel safe working in a familiar ecosystem even though we may not have done solar energy per se, but then solar energy has not been a very old area of investments or old area of play for any big player in the country. So we do not start with any handicap as such. We feel confident enough to go into this and make some quick money for our shareholders.

Ankita Shah: Does it require huge investments, or it is very CAPEX heavy or investment heavy business proposition that we are looking at?

M. K. Singh: So we will be arranging funding of the project, of course. Everything cannot be inhouse investment. So we will have a good and optimal mix of equity as well as debt. So to that extent,
equity participation should be kind of going in a JV with somebody. So even if 30% equity is the total requirement, we will end up paying say around 15%-20% of equity and rest will come from the other partners and balance money will be arranged through market lending.

Moderator: Thank you. The next question is from Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Many of my questions have been answered. Just couple of things. Firstly, can you update any in terms of order pipeline from international segment? In last call, we were expecting some biddings for Ghana, Jordan, and even in some Sri Lankan projects. So if you can update anything?

M. K. Singh: Regarding Malaysia, there is an update that we have got an invitation from government of Malaysia for presenting our case for two of the railway projects which we have been mentioning in the past in various con-calls. But for this scenario, which is obtaining today, we would have seen some progress on that, but at least there is a crystallization of thought process in Malaysian government to call IRCON for consideration for two very important projects which will be roughly Rs.10,000-12,000 crores. So that is one which we are eyeing on very seriously and elsewhere also since the time we talked last time hardly anything has happened because of this scenario and the overall gloom in all the countries wherever we are operating. Nothing substantive has moved except for this significant news which I shared with you regarding Malaysia.

Dixit Doshi: And secondly sir in terms of labor, so I understand sir most of our work is executed by IRCON itself, but we also subcontract or outsource some of the work, so how is the situation let us say subcontractor level regarding the labor issue?

M. K. Singh: Labor issues were difficult, of course till end of June, but now it is brightening, the scenario is getting brighter day by day and we are getting labors. As I said, almost say in the month of June, we could do almost say two-third of what we did in last June. So the recovery is quite bright and the green shoots can be seen on all the fronts. The laborers are coming back and as I said, we have a very optimal mix of using the plant and equipment as well as the labor component. It is not only the raw labor and in large number that we require, we do lot of works which otherwise require lot of labor through plant and equipment and we ask our subcontractors to bring this equipment in fairly good numbers. So for example in J&K for all the tunneling, we require apart from labor of course we will require that, apart from that we require all the machinery, all the plants, heavy earth movers and so on, tunneling machines and so on. Similarly in DFC projects, we are doing lot of work through our rail equipment which we have purchased and most of the subcontractors have been able to get there at least half of the labors at site and in Bihar, we are working in a big way. So Bihar has been an area which has not been greatly affected by out flux of labor. Actually, there has been a case of influx into Bihar. So in that sense, we have 3 projects going in Bihar. So there we don’t face any problem. Similarly in Sikkim Rangpo project, there also the labors have come back by and large. So in totality, you can say around 70% of the strength have been restored back, what we had seen in February or January.
Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: So due to competitive bidding among the PSUs, do you expect any margin pressure on the broader level?

M. K. Singh: Okay. That is a very good question in fact because the things are going to change, so this is expected. Now I have shared with you that they have shortlisted PSUs for various categories and if I scan through the list, I find that except for one area of road overbridge and road underbridge. In this road overbridge and road underbridge, there are PSUs other than railway PSUs also which they are shortlisted. But elsewhere it is only three or four PSUs which are shortlisted depending on what has been their strength, the effective strength. So, if you take for example railway electrification, only three PSUs have been shortlisted and all 3 of them happen to be railway PSUs; RVNL, IRCON and RITES. So, I do not see any significant drop in the margin which we are getting because railways were giving us margin only after making a hard-nose bargain with us and seeing the costing etc. I do not see any significance fall, in fact maybe it is good for everybody that we may get actual cost and the definition of cost which they have now crystallized for bidding out these works to PSUs. Definition of cost is very good, in fact that net was suggested by us and they have included practically everything in the definition of the cost, so margin of even 8.5%-9% work they have been giving now should result into more saving for us rather than less.

Anurag Patil: So sir, the cost items, can you explain in short what would be considered, means any major change from previous consideration?

M. K. Singh: See, the definition of cost for a project obviously includes all the direct expenses into the project, then all the consultancies, all the technical inputs, all the cost pertaining to plant and equipment, the cost related to land, cost related to contract management like arbitration, court cases etc. So all these are on account of railways and they will bear all these costs pertaining to our project. And so far as the PSUs which have bagged the work, they will supervise the execution of the work and with some technical value addition, of course. So for that, the margin which we expect should be actually leading us to more savings rather than what we see at present. At present, a lot of things are being spent from IRCON’s own kitty also. So at that time we hope to maintain the same margin as we are doing today.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir, we expect one investor presentation along with the results. If you give the detailed one, it will be helpful for us. And sir, second, order book you are telling Rs.47,000 crores around in line and Rs.4500 crores is maybe taking in next few days. So how many years it will take to complete this project, sir? If you can give broader outlook it would be helpful.
M. K. Singh: That is why we only show the executable order book. Now, see we have crossed Rs. 5200 crores during the current year. Had the year been a normal one, we were aiming at Rs.6500-7000 crores of execution during the year. So with that if we take the executable order book, then it should be roughly four to four and a half years. That is what we look at. So at any given time, the executable order book will consist of workload for four to five years. That is the optimal level of executable order book which one should have in the domestic segment of IRCON. Of course in foreign, the scenario is different. You have to complete the entire value of the work in three and three and a half years at the best. So far as Rs.47,000 is concerned, that is why I said the difference between 30,000 and the rest is on the drawing board, is still on the anvil in the sense that land acquisitions will happen, approvals are yet to come. Forex clearances are yet to come. So all those time period unfortunately takes quite a bit of time in India. So Rs.47,000 crores in how many years is a difficult question because we count the years from the time it is converted into executable order book. So in executable order book, you have a visibility as to when we will be reaching there provided everything remains normal. We should be doing it in the expected time of four to four and a half years, that is the way we look at it.

Moderator: Thank you. The next question is from the line of Vipul Shah who is an individual investor. Please go ahead.

Vipul Shah: I think sometime last year in one of the calls, it was mentioned that you were pursuing an international order worth Rs.14,000 crores if I remember correctly. So can you provide any status on that where things stand right now?

M. K. Singh: As I hinted in my earlier part of answering question to one gentleman, we have been invited by government of Malaysia for discussions on two of their projects which will be roughly of the size which you are talking, depends how much we actually are able to negotiate as cost of the project, should be around Rs.12,000-14,000 in that range only. But (Inaudible) period because of the pandemic, things would have moved a little bit. And in fact let me tell you why it should be fairly reasonable thing for us because we have offered them a barter trade kind of payment and they have really liked this idea that IRCON will go for the barter trade for receiving the payments from them. So they will give us palm oil which we will sell at the high sea and get our money as fee for doing the projects.

Vipul Shah: But in that case, you don’t have any expertise in palm oil selling, right. So a minor change in realization can result losses for the company.

M. K. Singh: No, we have done it in 2003 earlier also on barter basis from Malaysia only and we have tied up with STC for actually lifting the oil and doing the sale for us. They will give us the money. We are not going to sell it on the high sea.

Vipul Shah: And generally sir, international projects are at lower margin, right?
M. K. Singh: No, on the contrary, they are on higher margin. In fact, the significant portion of the networth of IRCON has come from international projects. I will go to the extent of saying that around 70% of our networth is because of the surpluses generated from international projects.

Vipul Shah: So as a thumb rule, what should be the higher additional margin in terms of percentage?

M. K. Singh: It will be 15%.

Moderator: Thank you. The next question is from Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, can you please update us on the IRSDC work happening out, what is happening there and secondly sir on the Chhattisgarh railway, what kind of freight you saw in the Q4 FY20 and FY20?

M. K. Singh: So far as IRSDC is concerned, they have now gone into real dry mode, in the sense that a group of secretaries have been formed by union cabinet to see the redevelopment of stations being done by IRSDC. So as a matter of principle for IRSDC, they have decided that they will go for the PPP mode or redevelop stations entrusted to them. In first phase, they are taking 85 stations for such developments. Five of the stations have been already tendered and the tender is under finalization, the big five stations actually. So they are in the process of floating tenders for rest of the 80 stations also. Other than that, they have gone into an area of, area something called station facility management. So station facility management is again an area where large players have shown interest in manning the stations, in managing the stations. And the revenue inflow will be out of non-fare and non-freight revenue that will include advertisement, the eateries, the parking and things like that. So the station facility management is one vertical which IRSDC is pursuing very seriously. They have almost taken 14 stations under this station facility management and then the work they have already started, it is functional. IRSDC has also roped in a third equity partner now, in the form of M/S RITES. RITES is again a railway PSU. They have also chipped in, in the development of IRSDC. So they are the third equity partner. So now, the present equity structure of IRSDC would look like something like this. RLDA, that is Rail Land Development Authority which in effect is Ministry of Railway themselves, they would hold 50% of the equity for obvious reasons because stations are essentially their properties and they want only IRSDC to develop them. Rest of the 50% equity, 26% will be of IRCON and 24% of RITES. So that is the shareholder agreement which we have signed and this will be given effect very soon. An EGM is to be held to ratify this and then RITES will be on boarded, so far as IRSDC is concerned. So with three strong partners being part of IRSDC, we hope to see brighter days for and thereby it will bring benefits to all the shareholders especially to IRCON being we are the founding equity holders of IRSDC, so we hope to now get some return for all the efforts these years. So much so far IRSDC and they have raised their authorized share capital from Rs.80 crores to Rs.200 crores. So the increased share capital will be taken by RITES and by RLDA. We are not putting any extra money into that.

Mohit Kumar: Secondly on the freight which you saw on the railway line?
M. K. Singh: Freight, I am sorry, I couldn’t get you, which freight?

Mohit Kumar: The volumes which you saw on the railway line which you own, Chhattisgarh railway?

M. K. Singh: As I had told you that we have commissioned 44 kilometers of line and another 36 kilometers will be commissioned by end of September because of the COVID, otherwise we would have done it by 31st March in any case or at the most by 30th of April. But we got stuck for the last phase. So with these 80 kilometers of line commissioned, more important things in order to realize the full potential of loading for this section is to get the feeder lines, the sidings, the spur lines, those constructed. And for that, we are in the process of fixing agencies. Once we do that work, that will take at least 1-1.5 years more to complete all these feeder lines, sidings etc. Then we will realize the full potential of this line which is roughly 14 to 16 rakes per day, rakes means when I say rakes then the entire goods train. So 14 to 16 rakes is the forecast for loading of coal and that we can achieve only when we get all these sidings and spur lines etc. made. As on date, we are getting only 3 to 4 rakes per day, for the simple reason that the lines are not being fed by the associate lines so to say. So we will have to wait for the whole potential to be realized for another 1.5 years or so. So those freights will materialize. In fact recently we have got a letter of comfort from South East Coalfields Limited that they will offer the coal traffic to this SPV, the way it has been projected in the DPR. So that gives us more comfort. And there are many more players also on the way to this railway line, there would be many more coalfields also. They will also be pitching in with their requirement. They will come to load with us. So we expect a volume of traffic which is in consonance with the figures shown in the DPR and for that, we have got a guarantee from the subsidiary of Coal India Limited also. So SPV is fully confident of doing well once we complete all this per line sidings etc.

Moderator: Thank you. The next question is from the line of Aziz Bharmal from HSBC. Please go ahead.

Aziz Bharmal: Can you give me a management projection for the next three years past the COVID pandemic stage, where do you see a turnover to be in 22-23 and confidence level of your margins being about, somewhere at net 10%?

M. K. Singh: Yes. Thank you. As I said in the beginning that we are pressing the requirements for infrastructure expenditure in the country and that continues and since we operate in the areas of railways and highways, we do not expect any let up in these two segments and the spending will be great by government of India that is what we expect. Having said that, we do have certain figures in our mind going forward for next three years. As I said, had there been no pandemic, then our FY21 guidance would have been roughly Rs.6500 to Rs.7000 crores. Of course, that is not possible in the current year. But once the things normalize as I sincerely hope by FY22, we will be around Rs.8000 crores and year after that, it should be around Rs.11,000-12,000 crores. That is the understanding which I have seen the strength of the company and also the spread of work which will require to do. And in addition if we are sprinkled with foreign projects, then these figures will shoot up for sure and we will have to perform much better than what I have just indicated.
Aziz Bharmal: And you still have confidence of forecasting of bidding process or bidding tenders, you still forecast an average of 10% margin across the board?

M. K. Singh: Yes, that is right. We have been doing it since long time now, 10% margin and we are confident.

Aziz Bharmal: That was based on the nomination process, yes.

M. K. Singh: Yes, but nomination process was not something of a windfall for anyone of us. Actually, the strength of us lied in the foreign project. There the margin used to be 15% to 20% and at times even 30% and 35%. So that usually gave us a secular margin of 10% and we hope to have a right mix of projects which may include some value-added projects to be undertaken by us, so that our margin is protected at 10% level, that we will ensure. And as I explained, the bidding is limited to the PSU sector of railways. So we are used to working in that kind of margin only. So we do not foresee any downfall in the margin or any cut on that front.

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

Vishal Periwal: One question from me. You mentioned couple of ventures like railway development, solar energy, so any CAPEX plan that you can highlight or even in another ventures total CAPEX plan for the company for FY21 and FY22, any rough cut numbers or any number that you have (Inaudible)72:39 in MoU that you like to share?

M. K. Singh: See, for FY21, it is really an uncertain water going ahead. But in FY22, certainly our CAPEX would be in the range of Rs.800 to 1000 crores because then we see lot of our vision and lot of our projection materializing. By that time, we will have good CAPEX infusion. And for FY21, we will be little cautious in parting with our cash for obvious reasons. You never know what happens and given the scenario of lockdown and uncertainty, we need to sit pretty tight on our cash. So not lot of venturing out into CAPEX expenditure, but will certainly, I mean the areas which I have just now mentioned, those areas are under focus and if thosefructify, we will certainly not hesitate in putting CAPEX of their also. For example, solar or even in high speed, if we are going there, we will put in our CAPEX in those projects.

Vishal Periwal: And just one more thing, Rs.800 to 1000 crores for FY22, is it possible to give the segment wise like railway development of solar, any rough cut numbers?

M. K. Singh: No, I am sorry. I will not have any number for each of the segments stated just now. I will have to do some work on that.

Moderator: Thank you. We have one last question in queue. We take the last question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, one last thing, can you just explain the business model of IRSDC, how the revenues will be coming and will they invest significant amount of money or they will be just getting the fees or PMC margins?
M. K. Singh: Yes. The business model of IRSDC as I told that there are two clear cut verticals, one is station facility management, means existing system in the stations will have to be managed, so revenue coming from that stream. And the second is revenue generated out of PMC work done by IRSDC on PPP projects of redevelopmental stations. So these are the two broad categories of revenue streams for IRSDC. So I will just give you a specific example for this. If a station is bid out to some player say at Rs.600 crores odd of premium to Indian Railways, so out of Rs.600 crores revenue which the bidder is willing to pay to Indian Railways, he knew of course he gets to develop commercial spaces available in the stations etc. and then he has to build the mandatory area for the station use at the cost of the bidder. Still he finds that he will be able to pay to the railways as one time premium of say Rs. 500 odd crores. So out of 500 crores, 10% will be retained by IRSDC as their fee. So, essentially it is a PMC fee for overseeing the construction activities of the commercial area as well as the mandatory area of the railways. I am keeping a watch on the private developer who is there for developing the station. So that is one thing. Second is the surplus generated out of the station facility management. For example, if you earn more in advertisement or platform ticket or parking etc. and you spend less on the maintenance of the station, then you get to earn and that money is of IRSDC. So these are the two broad streams which they are now eyeing at.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Mr. Ankit Merchant for closing comments.

Ankit Merchant: Thank you everyone for joining us on the call and we wish the management all the luck and we look forward to meet soon. Thank you.

M. K. Singh: Thank you very much. And please engage with us in case you have any further query, anyone of you or any information which is required from usAnd I thank Reliance Securities and Gaurav from Concept IR for organizing this conference. Thanks a lot.

Moderator: Thank you very much. On behalf of Reliance Securities Limited and Concept Investor Relations that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines. If you have any further questions you can write an email to gaurav.g@conceptpr.com