



“IRCON International Limited Q2 & H1FY21 Results
Earnings Con-call”

November 12, 2020

MANAGEMENT: SHRI. S.K. CHAUDHARY – CHAIRMAN & MANAGING DIRECTOR

Ircon International Limited
Q2 and H1FY21 Results Conference Call
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Moderator: Ladies and Gentlemen, I am Vivian the moderator for this conference. Welcome to the Conference Call of Ircon International Limited arranged by Concept Investor Relations to discuss its Q2 and H1 FY '21 results. We have with us today, Shri. S.K. Chaudhary Chairman and Managing Director. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is being recorded. I would now like to hand the floor to Shri. S.K. Chaudhary for his opening remarks. Over to you, Sir.

S. K. Chaudhary: Good Afternoon to all of you. Ladies and Gentlemen, I Welcome you all to the conference call of Ircon International Limited to discuss the financial performance of second quarter ended September 30, 2020. Firstly, I would like to give you a short brief about our company for our new participants and then I will talk about the financial performance of company of Q2 FY '21 and then we can proceed to the question and answer session. Ircon is a Miniratna (Category-I) Schedule A Public Sector Enterprise where we are a leading turnkey construction company known for its quality, commitment, and consistency in terms of performance. Our forte is in construction, which covers a broad range of complex infrastructure activities and services. With a dedicated team of highly-skilled manpower, we not only operate in highly inaccessible terrains, but also in a very competitive environment. Till date, domestically we have executed 390 projects in various States and 128 International projects in 25 countries. This makes Ircon a highly recognized global name in the infrastructure sector. In this quarter, we have bagged two orders worth approximately Rs. 2300 crores.

Firstly, a work order for construction of nine road over bridges worth Rs. 400 crores from Ministry of Railways and second railway electrification work for various routes of 2250 kilometers worth approximately Rs. 1900 crores on competitive bidding basis among PSUs from Ministry of Railways. As of September 30, 2020, the total order book stands Rs. 31,300 crores. The breakup is which is as follows; Railways Rs.29,900 crores and highway is around Rs.1400 crores. Of the total order book, 80.53% of orders are on nomination basis and rest 20% are on bidding basis. Further, the domestic component of the total order book is 96.42% and international order stands at 3.58%. We have executed projects not only in the field of highways and railways, but have also diversified into DBOT, HAM annuity, and other type of contracts. These contracts have been executed on our own as well as through JVs and SPVs. We are planning to adopt light asset model and in this process we are trying to monetize our road and highway assets. We have already started the process and invited bids for Ircon

Shivpuri Guna Limited and tender has been opened on October 29, 2020, in which five firms have participated. The company will focus on its core competency in Railway segment. Ircon was not an exception to the COVID-19 pandemic and had been hit by as evident in Financial Year '21Quarter-1 results, however, we have revved up our operations significantly and construction activities have reached at pre-COVID levels.

Now, I will talk about our financial performance till September 30, 2020. The total income stood at Rs. 1015 crores as against Rs.1218 crores last year. Revenue from operation is Rs. 965 crore as compared to Rs.1160 crore last year. Core earnings before interest, that is EBITDA, stands at Rs. 66 crores as against Rs.89 crores in Financial Year '20. The company's core EBITDA margin stood at 6.84%. Profit before tax stood at Rs.103.54 crores for Q2 FY '21 as compared to Rs.137.21 crores in Financial Year '20. The company's PBT margin is at 10.2%, profit after tax reported is Rs.76.21 crores as against 87.7 crores in last year. The company's PAT Margin is at 7.51%. Earning per share for the quarter ended Q2 stood at Rs. 1.62 of face value of Rs. 2 per share. This brings me to the end of my comments. Now, I would like to leave the floor open for questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Venkatesh Subramanian from LogicTree. Please go ahead.

Venkatesh Subramanian: Good Evening Sir, season greetings, Diwali wishes.

S. K. Chaudhary: Good Afternoon and Happy Diwali.

Venkatesh Subramanian: Thank you so much Sir, I have basically two questions Sir, first question is with respect to the next, it is a big picture question because as far as Ircon is concerned, I think we are the nodal agency for implementing a lot of railway projects, how do you see the next three to four years panning out in the light of the post-COVID impact and do you see the company in terms of top line CAGR, do you think the company has the potential to post the 20% CAGR on top line and bottom line, that is my first question? You do not have to let us know the numbers, but broadly some sort of a positive affirmation would be good, that is number one. Number two, in terms of return ratio, the kind of excellent performance that we are going to, so the return ratio is in terms of return on equity and return on capital employed looks very depressed because I think there is a lot of money that is invested in this country, is there something that Management consider to do in terms of improving the return ratios, these are the two questions?

S. K. Chaudhary: Yeah, definitely as you said that what will be the top line in the next four years-five years, definitely we will be able to grow because we have an outstanding order book itself is around Rs.32,000 crores and we expect to get more orders in this current quarter and balance of this six months around Rs.3000 to Rs.4000 crores more, which we have to deliver in next four

years, so I expect that we will definitely grow to Rs. 6000 crore and every year say by 18% to 20% as we were growing earlier, I do not see that there is any issue except this year will be little bit of hit because we will not be able to grow, but we will try to maintain what we were of the last year, so that is one thing. There is no issue because with the sector in which we are there it requires, if economy has to boom then infrastructure has to come and investment has to be there in both the fields in railways as well as in highways. Even railways, we were seeing that lot of things have been privatized and lot of things will be monetized. As far as you said that our money is stuck in the PPP projects, you rightly said so. In fact why we did the projects of highway projects in PPP mode because we found that HAM and this road projects, the construction margins were better and the equity which we have invested that we generally try to take it out in the construction margins itself. After completion of these projects, as we said that we have already started talking to various banks and we have got the sanction letter from to banks to take out the money, which we have invested in two projects and we have also have an arrangement with National Infrastructure Investment Fund, we have an MOU with them, so we have done our study of this SPVs road projects in which they will be keen to take our equity replacement, so we are in talks with them, they have also done the due diligence, so this is the next steps which we will be taking shortly within next quarter.

Venkatesh Subramanian: Sir, just one more question to add on to this which is right now we have an order book of Rs. 31,000 crores and you are also expecting some pipeline, in terms of high-speed rail and bullet train, I know that we recently tried for the Ahmedabad-Mumbai corridor, is there like a blockbuster order that we look forward to in the next one or two years because there are many railway projects that are coming up?

S. K. Chaudhary: Definitely why not, but high-speed the tender itself you have seen that it is very aggressive, the estimate of the client was around Rs. 31,000 crores, but the price which they got is 25,000, so it depends on the bidder that what kind of strategy he wants to take. We do not want to do that kind of strategy. I believe that in a business if I do not earn money then there is no use of doing that business, so that is why our price of course was slightly higher but risk was also more being as a first project and when the new projects will come we will see that we have also gained lot of knowledge in this.

Moderator: Thank you. We have the next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Thanks for the opportunity, Sir firstly if you can just guide us, so even in our Q2, if we compare to the last year Q2, our sales is down say around 15% to 20%, so firstly how is the ground level situation in let us say October are we back to the pre-COVID level of construction and going forward do you see it as growing, and secondly, you just mentioned earlier that we are trying to do revenue equal to FY '20 and FY '21, so do you see that we can achieve whatever we lost in H1?

S. K. Chaudhary: As you rightly said in October, we just matched the last year exactly 100%, what we did last year is equivalent to this year of October and now onwards we feel that it will grow only, definitely 10% to 15% will grow for the balance year, so that is the hope we have that we will be definitely touching around 5000 crores of turnover and of course the COVID situation in Delhi is very bad, all other places it is not so but Delhi everyday 8000 cases, even today in my office I was just telling people again that I have to close the office at least for 50% of staff coming for next one month because the amount of the COVID spread in Delhi is quite high and risk is more because of the pollution, but yes in the projects we find certain difficulties and in J&K, recently in Punjab there was an agitation, the trains are not working, so if trains are not operating then transportation of cement and steel to the project sites becomes an issue, but anyway we have to follow these things and we are used to of this working and we are all sure that we will be touching 5000, no issue.

Dixit Doshi: Okay, that is good Sir, secondly Sir in terms of payments so obviously we can see that our receivables have not gone up in fact has come down in H1, but how do you see this going forward, are you getting the regular payments from Ministry of Railway or Ministry of Finance?

S. K. Chaudhary: So far there is no issue at all in the six months nothing, we did not face any problem or hindrance. We today, as on September 30th, we are having cash and bank balance of around 2700 crores and client fundraised is Rs.2270 crores. Our own fund is around Rs.425 crores and the deal which I am doing with the banks for replacement of my loan that itself will be releasing my funds of around Rs.800 to Rs.900 crores, so I do not find any difficulty in the payment even to me and even to my contractors who are working on our behalf.

Dixit Doshi: Sir, in terms of this high-speed rail projects, so we saw that the private sector participated and they have received the orders, so recently we also had a competitive bidding but that was among the PSU, so in near future like say over next one or two years, do you see that all the projects even the electrification and all the private sector will be allowed to bid or this will remain among the PSUs only?

S. K. Chaudhary: Private sector is also bidding, the core is inviting tender for private sectors, but there is so much of work that private sectors are not able to sometime deliver, even in if you find that BHEL has also took one order of railway electrification, Power Grid also took but they are finding it difficult to execute and deliver. You know that lot of logs are to be taken, lot of coordination is required because it is in a operating lines where these electrifications are being done, so the companies who have an experience in these, they can only deliver so that is what the Railway Board has also come out and some of the private companies definitely they are doing good job, KEC is doing good job and one or two more companies are, they are delivering better, nothing wrong.

Dixit Doshi: Okay, just one last question, is there any timeline regarding the OFS from the Government?

S. K. Chaudhary: OFS we have already had a talk with the merchant bankers and with the DIPAM Secretary also we had a talk so most probably maybe in December or January it should be there because the only thing is that we are just thinking that as soon as we take out this money which we have invested in the assets because the only issue that investors are worried that you are somebody was asking on return on equity and return on capital employed, so once we take out this money and put it in other projects that will be better. We are trying our level best, and hopefully, that already banks are doing the legal documentation which we would execute with NHA and we will take out this money hopefully by January and then it is the right time to go for all this.

Moderator: Thank you. We have the next question from the line of Raj Ojha, an Individual Investor. Please go ahead.

Raj Ojha: Thank you for this opportunity Sir, first of all I would like to congratulate for good set of number compared with last quarter, I have one question regarding your road asset Sir, so can you please help me to understand what is your plan to monetize your road asset?

S. K. Chaudhary: That is what I said recently just I completed that question, but I will tell you again we are liquidating our investments in the road and we have already taken the sanction letter from two banks, State Bank of India and Punjab National Bank. They are now, NHA has already given the clearance for that, so they are doing the documentation which is to be submitted to NHA because it will be replacement of loan, which we have invested the money in these road assets so that money we will take it out somewhere by January that is what I think and for equity we have already done a study with Deloitte for our valuation of this road assets and we have an tie-up with National Investment and Infrastructure Fund who will take this 49% to 50% of equity from these assets.

Raj Ojha: Thank you. Wish you a Happy Diwali in advance, Sir.

S. K. Chaudhary: Thank you very much and Happy Diwali to you too.

Moderator: Thank you. We have the next question from the line of Saurabh Poddar from Lucky Investment Managers. Please proceed.

Saurabh Poddar: Sir, I hope all is well at your end, thank you for taking my question, just wanted to ask you two questions, on the competitive bidding which I think we were strongly in support of, now though the competition will increase naturally but do you see margins that we can command, improve as well and are you seeing any signs of that in the new projects you won through the competitive bidding process?

S. K. Chaudhary: Margins definitely in EPC contracts if you see, the margins are very tight and they are quoting even in the minus side than the estimate. All the companies are minus 20, even recently bridges if you have seen, some of the companies have quoted 25% less than the estimate, it is their strategy of getting, that is why I said that we try to go in the investment model, suppose in a HAM project I invest it is 40:60, so 20% of 60 rather in case of Ircon we put 15% equity, so 15% of 60 is 9% and I take out during the construction say around 8%, so only with 1% of my money the SPV is there, so that is why we try to take more HAM projects and then after some time two or three years because these are generating so good revenue even in my Shivpuri-Guna project last year which I was getting, I am getting 15% more revenue every month, so that is the toll project I am running, so I find there is nothing wrong in this business, the only thing is that your money gets stuck for sometime, but if I do not use that money then in some form or other it will not be with me, lot of buybacks and dividend and other things Government is asking, so it is difficult.

Saurabh Poddar: Fair enough Sir, also I know it has been a tough year so far but have you seen any export opportunities crop up for you or the discussions have been pushed further away?

S. K. Chaudhary: Those discussions are pushed, definitely the negotiations were pushed, today I had a meeting with External Affairs Secretary, I was with him in South Block in the morning and we were just discussing that some of the projects on the nomination basis it can be done for the Government company, so he was very optimistic and hopeful because what we are trying is that the discussion is this that private companies had to take the work in the competition basis and even in foreign countries are not able to perform and it gives a very bad name to us in the country as a whole, so that was the discussion going on that how to stop and how to get this work done fast. Hopefully that something will move in the right direction let us see.

Saurabh Poddar: Last question Sir, is there any MOU signed with you from the Government side?

S. K. Chaudhary: MOU has been signed and consistently in three years we are excellent and I will put this year will also be excellent.

Saurabh Poddar: Sir, any target, what is the revenue target for the year on the MOU?

S. K. Chaudhary: Revenue target is definitely there, they said that you have to do more than what you did last year, so I said Sir it is not possible because the first quarter itself is lot of problem, but we will definitely match last year, so the outstanding they put is around Rs. 5200 crores, I was telling you that they have fixed my revenue as the best which I have achieved last year 5200 crores standalone basis, I said it is not possible because first quarter we were just half of what we did last, so definitely we will be achieving around 5000 crores may be 4900, so we will not get the 10 marks on revenue, we will get 8 marks, but definitely out of 100, we will be around 90% and above which is required for excellent, so we will be excellent that is what I was telling.

Moderator: Thank you. We have the next question from the line of Viraj Mithani from Jupiter Financials. Please go ahead.

Viraj Mithani: Good Evening Sir and Happy Diwali to all of you.

S. K. Chaudhary: Good Evening and Happy Diwali to you to.

Viraj Mithani: Sir, I have two questions, one is our venturing into this road projects HAM and other model, what are the risks we run because I understand we are new to this kind of work?

S. K. Chaudhary: No, we are not new to this work, we are operating toll road in Maharashtra, Dhule to Pimpalgaon and we have already done I think 12 years operation in that, we are earning it is in partnership with 50:50 private sector and Ircon and the revenue which we are getting is around Rs.100 crores each every year, so it is around Rs.200 crores per annum and we are happy we are making money there , no issue at all.

Viraj Mithani: What is the risk we run in this business, can you just quantify or just a broader base is like, like money getting stuck from Government, not coming, what are the risks we run in this?

S. K. Chaudhary: As far as we are concerned, no money is stuck in the Government and we are getting the average which we are having receivable from Government is 29 to 30 days so far and not much amount is outstanding, even total if you put together may not be much, maybe 200 crores as a whole, so outstanding is not much with the Government, and we already have the advanced funds with us of various projects to the tune of Rs. 2270 crores, so there is no issue for payments with us as far as Government of India is concerned.

Viraj Mithani: So sir in this Ham project we get advance from the Government before entering the project or we invest, how does it work the HAM project?

S. K. Chaudhary: HAM is like this, suppose I have taken a project of Rs. 2000 crores, so 40% of that, that is Rs. 800 crores will be paid to me after completion of every 8% of installment in five installments total, so in five installments they will pay me 40% during the construction and balance 68% that is Rs.1200 crores, out of that 15% I have to put being a AAA rated company, so we have to put around Rs.90 crores of our money and balance we take loan from the bank or we invest from our surpluses, so that is what we have done so far. We have invested from our surpluses the money in this HAM, which we are taking it out with the replacement of this loan which we have given to our SPV through banks and already we have tied up with SBI and Punjab National Bank for approximately Rs. 900 crores of loan that will come out from these projects and that will be available again with us for doing the next round of business.

Viraj Mithani: Sir, what percentage of our top line does HAM project constitute as of now as we speak?

S. K. Chaudhary: Our total if you see, your question is that how much money we have invested in these HAM projects or how much top line we get in these projects?

Viraj Mithani: How much money is invested in the projects and how much top line, hence going forward what is the vision?

S. K. Chaudhary: The equity commitment so far is Rs. 1175 crores, which we had committed not only in road projects, we are also doing the projects of PPP basis on the coal evacuation project, where the Coal India subsidiary, Ircon, and the State Government we three are the partners, so in the road projects we have around Rs. 600 crores of equity, commitment and in the projects of this railway projects, we have around Rs. 568 crores, so it is around Rs. 1175 crores, so far we have invested in these is around Rs. 1013 crores and the loan which we have committed or which we have given, the maximum we have given to our road subsidiaries which I was just mentioning to you is around Rs.1500 crores loan and this is the thing.

Viraj Mithani: This loan is given by our own money or we have borrowed for this?

S. K. Chaudhary: So far it is our own money which we are replacing with a loan of SBI and Punjab National Bank because after completion, my rate of interest is also which they are charging is very less, it is around 7.9% and the rate at which that time we invested was around 9%-9.5%, so SPV will gain the valuation as far as this replacement in loan will be there.

Viraj Mithani: Sir, my last question is this OFS would be at half the price of IPO or below the price, any sense on the Government side or your side too?

S. K. Chaudhary: Even I do not know because this will be decided by the DIPAM Secretary and other people, I am not aware of what valuation will come.

Viraj Mithani: Because some time ago there was an article in the press saying that DIPAM has decided not to come at a lower price and the previous IPO price?

S. K. Chaudhary: I have not seen that and from Ircon side there was no statement on this regard.

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

Ankita Shah: Sir, thank you for taking my question, what is playing the pressure on EBITDA margin, it is down to 6%-7% and the cost of material have gone up and what explains that and what is the outlook going forward?

S. K. Chaudhary: As far as cost of material is concerned, so much escalation has taken place in these projects because we are paying escalation to our contractors also, so it is not very significant escalation last year to this year which has happened and moreover the projects which we are doing on behalf of Ministry of Railways, the cost is passed on to them on actual basis and we take out our margins of cost plus 9.5%, so that arrangement is there, so cost generally does not hit to the company, cost hits only in the projects which we take on bidding basis which are road projects or other projects like one project we are lowest which we have not yet declared because LOI has to come, this is a Delhi to Meerut NCRTC Railway electrification total 80 kilometers Ircon will be doing, that project is around 730 crores, so those kind of projects definitely because there they have to be managed very expeditiously and with cost control where the margins itself kept is around 9%.

Ankita Shah: 6.8 is low so that is what I mean you take it to continue at these levels only or?

S. K. Chaudhary: No, it will improve.

Ankita Shah: Okay, you mentioned that your deal with NIIF on monetization is likely to be done by Jan, which are the projects are you targeting or in discussion?

S. K. Chaudhary: We have discussed with them with Shivpuri-Guna, this project which is a toll road and already in operation and that is for equity, so they are interested only in equity, loan we will be replacing with the SBI or PNB, and second project is Ircon Vadodara-Kim Expressway that is a Delhi-Mumbai Express part of that, one stretch is with us of 32 kilometers, so these two we are talking with them.

Ankita Shah: But Vadodara-Kim was under construction right now?

S. K. Chaudhary: Does not matter, in fact we have an MOU with them that even for new projects we will be putting equity as part with us with 50:50 ratio, so that MOU also stands with us even for new projects we can go together as a partner.

Ankita Shah: So total equity invested in Shivpuri-Guna is?

S. K. Chaudhary: Equity investor in Shivpuri-Guna is Rs. 150 crores.

Ankita Shah: So 50% of this will come below, assuming this deal goes through?

S. K. Chaudhary: This valuation is slightly higher now, it is not Rs.150 crores now it is around Rs.190 crores roughly.

Ankita Shah: So roughly 50% of this will come and in Kim-Vadodara since it is already under construction, balance part of the equity can be funded by NIIF and you would not have to put in any other incrementally in this?

S. K. Chaudhary: That is one possibility, yes, correct, but we will be definitely with the bank's assistance, we will be taking out the money of around Rs.900 crores from Shivpuri-Guna that is around Rs.542 crores which we have invested and the other project Vadodara-Kim Expressway, so this money will come out from the banks replacement of our loans through bank loans. Now, Rs. 950 crores is totally money from Ircon's money which we have put in these projects.

Ankita Shah: What is plan Sir, utilization of this fund?

S. K. Chaudhary: This money will be utilized again for further doing the projects either in HAM or other toll roads or any projects of this kind.

Ankita Shah: The focus is on roads?

S. K. Chaudhary: Yeah, road projects because in railway projects no projects in PPE basis is there, very less percentage are there in public-private partnership in other sectors because in ports there are no much business now, no other business expect roads I find.

Ankita Shah: There were new projects Sir doubling also that was coming on competitive bidding in railways any update on that and did we bid for it or who received?

S. K. Chaudhary: It is likely to come.

Ankita Shah: It is not done yet?

S. K. Chaudhary: It is not done yet.

Ankita Shah: There was a Davanagere-Haveri project was due for commissioning, has it been commissioned or is it delayed?

S. K. Chaudhary: Yeah, I think by December it will be commissioned.

Ankita Shah: Okay, this project is delayed?

S. K. Chaudhary: It is not delayed, it is on time, we were trying to complete it before the scheduled date of completion, but somehow it got delayed because of COVID otherwise we would have completed three to three-and-a-half months before the schedule.

Ankita Shah: Any outlook on inflows, in terms of how much inflows are you targeting for second half of the year and from where and any international pipeline you have?

S. K. Chaudhary: We have bid for many projects and we are hopeful of getting projects in Bangladesh we have bid for a signaling contract and a road contract. In India, we have submitted bids for

road projects which have recently come, so we are hopeful that we will be getting some of the projects and railways doubling projects which will come, we will be definitely doing that.

Moderator: Thank you. Ladies and Gentlemen, this would be the last question. Due to some prior commitments, the Management needs to go for a meeting, so I would like to hand the floor over to Shri. S. K. Chaudhary for closing comments now. I would like to announce analysts can send an email for their unanswered questions; the Concept IR team shall get back with respective analysts.

S. K. Chaudhary: I was just telling that keep faith in the company, company will grow and in spite of any situation, we are committed to deliver the consistent profit to all the stakeholders and keep an image of company to the highest level even in the public where the company is looked upon as a reputed company, and as an investor, I believe that infrastructure company you will definitely reap the dividend part of it and we have given quite a good handsome dividend and we continue to keep this policy of giving the dividend to the same extent which we are giving i.e 60% of our earnings which we are giving as a dividend and this policy will be definitely we will keep. Thank you very much.

Moderator: Thank you all for being a part of the 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 Service, you may now disconnect your lines.