



“Engineers India Ltd Q4 FY15 Earnings Conference Call”

May 28, 2015



MODERATOR: Ms. BHOOMIKA NAIR – IDFC SECURITIES LTD

MANAGEMENT: MR. SUDHIR KUMAR JAIN – GM, FINANCE & ACCOUNTING, ENGINEERS INDIA LTD
MR. R. P. BATRA – DGM, FINANCE & ACCOUNTING, ENGINEERS INDIA LTD
MR. VINAY KALIA – DGM, MARKETING, ENGINEERS INDIA LTD
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Moderator: Ladies and gentlemen, good day and welcome to the Engineers India Ltd Q4 FY15 Earnings Conference Call hosted by IDFC 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 conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair. Thank you and over to you ma’am.

Bhoomika Nair: Good morning everyone, welcome to Engineers India 4Q FY15 earnings call. The management today is being represented by Mr. Sudhir Kumar Jain – GM, Finance & Accounting, Mr. R. P. Batra – DGM, Finance & Accounting, Mr. Vinay Kalia – DGM, Marketing and Mr. Rajneesh Malik – CGM, Marketing. I will now hand over the call to the management for their initial remarks post which we will open up for Q&A. Over to you sir.

Rajneesh Malik: Good morning everybody. I am Rajneesh Malik, on behalf of EIL, IR Team welcoming you all. You can ask us the questions pertaining to the results one by one.

Vinay Kalia: We have a team of two people from marketing who will be taking your questions on the outlook and strategy and we have a team of my IR Head, Mr. Jain and Mr. Batra who will be taking over as the IR activities also soon. They will be taking all your questions on the financials, the line items, the Balance Sheet and P&L. We welcome you all to this conference and we are thankful to IDFC for arranging this earnings call at a short notice. Can we have the questions one by one from your side? The results are already posted and we had sent the presentation yesterday night. So I believe the details are already available with you on the financials, the Order Book and the outlook. So we can straightaway take your questions one by one. You may proceed please.

Moderator: We will now begin the question and answer session. The first question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram: Wanted to know the LSTK margins this quarter were pretty high, so is there any one off component there? Because I think a couple of quarters before we had taken some provisioning pertaining to CPCL, so is there any write back from there or something extra in the LSTK margin front for the 4th Quarter?

R. P. Batra: I am Batra. Basically there are two write backs, one is relating to the turnkey project we had done in earlier years. We have received the amount of around 76 crores. One of other project basically we had provided the liquidated damages. The contract is mechanically completed so as per the contractual provision we have written-back.....added to the tune of approximately 50 crores. So total around 126 crore is basically you can say that is included in the LSTK margin for the current quarter and for the total financial year due to the write back of liquidated damage for two of the turnkey contracts.



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- Ranjit Shivram:** So you mean to say 126 crores is the addition to the EBIT?
- R. P. Batra:** Yes.
- Ranjit Shivram:** Because our 4Q EBIT is at 63 crores so if we adjust for that then LSTK....
- R. P. Batra:** Then there is a loss for the CPCL project basically.
- Ranjit Shivram:** So how much is that? Like if we adjust it then numerically it comes to around approximately 60 crores loss for LSTK in 4Q, so is that right?
- R. P. Batra:** Yes it's right.
- Ranjit Shivram:** Regarding the order intake outlook how is it? Next year what kind of big orders are there in pipeline? In terms of your enquiry levels also how do you see that? Next year both in consultancy and LSTK what can be the realistic order intake target which we are looking at?
- Rajneesh Malik:** The realistic target that we are looking forward is about 1500 to 2000 crores in the indigenous segment, another 200 crores in the international segment.
- Ranjit Shivram:** How much will be consultancy and how much will be LSTK?
- Rajneesh Malik:** Most of it will be consultancy, 95% you can say, 5% at the most should be OBL and LSTK.
- Ranjit Shivram:** So looking at this context how about the revenue growth next year? Will that be again muted because currently our LSTK portfolio is lower and consultancy is largely 4 to 5 year execution so looking at this order book can we expect another flattish or kind of a marginal decline?
- Rajneesh Malik:** Flat, we do not expect major changes to take place.
- Ranjit Shivram:** So it will be kind of flattish.
- Rajneesh Malik:** Could be as flattish trajectory only.
- Ranjit Shivram:** And the consultancy margins any reason to believe that it can improve next year from the current year levels?
- R. P. Batra:** No, it's not expected to improve basically. It will be in the line of what we have reported for this quarter.
- Ranjit Shivram:** We are on this 20....



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- R. P. Batra:** Around 20% you can say, more or less like that.
- Ranjit Shivram:** And LSTK, how do you see next year? Will it be loss or it can be profitable next year?
- R. P. Batra:** It can be profitable but basically there is not enough left in the LSTK segment so I cannot say what will be the margin basically so turnover will be less as compared to this year basically all of the LSTK projects are on the verge of completion.
- Ranjit Shivram:** Last question from my side, any provision write backs under Other Income and how much is that?
- R. P. Batra:** No provision write back under the Other Income. Basically as per the accounting practice and the opinion we have taken whatever write back are there that has to be adjusted from the expenditures. In the current quarter and current year we have adjusted whatever write back are there from the expenditure incurred. So as such there will be no write back. That will be adjusted from the expenses. Due to that we have re-grouped the earlier years and earlier quarter presentation also.
- Moderator:** The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** What is the provision we have done in this quarter from CPCL project alone?
- R. P. Batra:** CPCL for this particular quarter?
- Dhananjay Mishra:** Yes sir and for the full project till date?
- R. P. Batra:** For the full project basically we have recognized the losses of more than 100 crores, around 110 crores we have recognized. That includes the foreseeable losses. Basically the losses which are going to incur in the future years, that will be around 75 crores, so total more than...110 is recognized in this year for the foreseeable losses.
- Dhananjay Mishra:** Do you expect any further thing from this CPCL project?
- R. P. Batra:** We don't expect any material future losses.
- Dhananjay Mishra:** What you have done this quarter, I think we have already provided 60 crores from CPCL in the last two quarter, right?
- R. P. Batra:** Around 60 crores, yes.
- Dhananjay Mishra:** And this quarter we must have done 50 crores?



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- R. P. Batra:** Yes.
- Dhananjay Mishra:** In PMC consultancy business have we started booking from Dangote and Orpic Oman orders in this quarter?
- Rajneesh Malik:** Yes we have started booking from both, Dangote as well as...a little bit because they are initial stages of the project and in the initial stages it is only the development takes place to the tune of 10% or so, so those kinds of developments have taken place and we have started booking.
- Dhananjay Mishra:** So probably from Q1 onwards we will have more bookings from these projects, right?
- Sudhir Kumar Jain:** See, regarding Orpic the bookings are reasonably good. These are rate based contracts against which manpower deployment is being done and the payments are getting through. So Orpic we have a reasonably good progress. Regarding the Dangote, there was a precondition that we need technology packages from licensors before we can start the job. So those packages were to arrive within 6 to 8 months' time, so there have been delays from their side. So the basic core engineering activities from EIL side have also got delayed because of lack of inputs. Hence the progress over the years has been slow for the last one year but progressively the major contributions from Dangote will start coming in from this year onwards.
- Dhananjay Mishra:** So probably from second half or in Q2 onwards.....?
- Sudhir Kumar Jain:** From second half. Orpic is going on smoothly, so their contributions are getting on.
- Dhananjay Mishra:** Earlier we had interaction with you. You had indicated that we have a good prospect from African market close to 500-600 crores and now you just mentioned that we are expecting 200 crores worth of order in international market, so any change in outlook from African market?
- Sudhir Kumar Jain:** Some clarity on that, about 1500 crores of orders we were targeting from India and around 200 crores of orders we are immediately targeting from the UAE hub that we have created just now. Yesterday itself we have secured another order from Abu Dhabi office to the tune of 134 crores. That is the first major order we have secured after the creation of the office. So it was one of the preconditions that we have an office before they start giving us big orders. Another order of around 18 crores has also been secured from Abu Dhabi office in this quarter. So this projection of around 200 crores were for the Abu Dhabi office, there are about 300-400 crores of targeted projects, majorly two projects in the African region and one or two projects in the South East Asia region. They are also in the anvil. But I cannot say with reasonable surety because it is still under the clearances from the government which are pending in Africa before we can take those assignments. In the South East Asian market the major projects are under bidding stage so the clarity is still there and we might be able to give you some announcements within one or two quarters.



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Dhananjay Mishra: In domestic market you are targeting 1500 crores, so we are expecting any development from BPCL, HPCL, this Barmer refinery and Numaligarh?

Rajneesh Malik: HPCL refinery expansion at Vishakhapatnam, that is likely to be a big EPCM job for us and there is one Gujarat refinery expansion that is likely to come from IOCL. And then there are some Mahul refinery project in BPCL, Bombay refinery, some little bit of expansions there also. And there is some expansion at NRL that is also likely to come, the Numaligarh refinery, Assam.

Dhananjay Mishra: These are the pipeline for....

Rajneesh Malik: Yes these are the ones that we see they are likely to come. And then there is some development at GAIL in Gandhar, a Phenol and Acetone project that is likely to turn up in coming I think in another 3 to 6 months' time.

Moderator: The next question is from the line of Tanuj Makhija from Ambit Capital. Please go ahead.

Tanuj Makhija: What could be the opportunity for Engineers India from the Bharat IV and Bharat V Norms when they are applicable?

Sudhir Kumar Jain: See, the last time when we did for III to IV and II to III, approximate opportunity was in the range of around 1500 crores per refinery. So we had targeted around 25,000-30,000 crores of expansion in three years coming from the quality upgrades. So similar targets we can continue this year. And regarding some of the overseas projects that question that was being put forward earlier also, so the opportunities in the African market are coming from Angola and Algeria. In Algeria we have been present for a very long time, so we are going for an expansion in Algeria. It is the Angola project which is a bigger project where they are looking for a Greenfield refinery but they are still waiting some clearances from their own ministries and government. So not sure of Angola, but yes, Algeria will definitely come. There is a petrochemical project in Vietnam, Long Son Petrochemical which is also being expected. And 200 crores from Abu Dhabi and there are one or two projects in Oman and Bahrain where we are already present to the tune of 80 to 90 crores, so that is overseas. Domestic market, some major projects which have already been shared when there is an opportunity in strategic storages in its phase of expansion which is targeted for next year and quality upgrade projects. We have just shared.

Tanuj Makhija: Can you provide the probable timeline for adoption of Bharat IV and Bharat V? And just a clarification, is the addressable opportunity for EIL Rs. 1500 crores per refinery or is that the total CAPEX required for the refinery?

Sudhir Kumar Jain: Its 1500 crores approximately per refinery, the kind of upgrades that would happen because these upgrades also result in revamp of existing units and considering about 15-20 refineries, that is kind of value I shared with you, 30,000 crores.



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- Tanuj Makhija:** And of which what is the addressable opportunity for your company?
- Sudhir Kumar Jain:** 70% to 80 % but the mode of execution would be different for each project some may say they want to go for consulting somewhere we may pitch in as an EPC contractor. And regarding the timelines that you have asked that is something a difficult question for even for us to answer. It would be linked to these statute and the guidelines which the Government of India comes out, which would be the deadlines for these which are mandated to the companies to install these projects. Last time it came through a Supreme Court guideline directive and there were strict guidelines, so virtually all the projects had to be commissioned within those guidelines. So we had a good part in that type.
- Tanuj Makhija:** My next question is can you provide some more clarification on the provision write back on the two LSTK projects, the size of the project and if you can again quantify please? I missed the first part of the call.
- R. P. Batra:** Physically we had done one of the project in last 3-4 years. The client had deducted the LD for that particular project. That particular project LD is around 75 crores that has been released during the current year in March so to that extent we have recognized in our revenue.
- Tanuj Makhija:** What is the name of that project and the size of that project?
- R. P. Batra:** Basically IOCL, LLDPE project.
- Rajneesh Malik:** LLDPE, HDPE plant at IOCL Panipat.
- Tanuj Makhija:** The size of the project?
- Rajneesh Malik:** 918 crores roughly about 900 to 1000 crores, in between that.
- Tanuj Makhija:** And the other projects?
- R. P. Batra:** Basically one of the projects we are right now undertaking, for that we had provided the liquidity damage on the basis of the delay in the contract but since we have completed the mechanical completion and as per the contract and the legal opinion we have obtained basically there will be no liquidity damages on our part. So on that basis we have written back the liquidity damage to the extent of around 49-50 crores.
- Tanuj Makhija:** Again the name of the project and size of the project?
- R. P. Batra:** GSPC project Gujarat State, Kakinada. It is an EPC project we are doing on OBE basis.
- Tanuj Makhija:** The size of the project?



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- R. P. Batra:** Around 1700 crores.
- Tanuj Makhija:** So is there a possibility of provision write back even for the CPCL project?
- R. P. Batra:** I cannot say right now basically that depends on the completion of the project then we have to give our justification for the delay on account of client that has to be negotiated so right now I cannot comment on that.
- Tanuj Makhija:** Do you have a similar liquidation damage clause in the CPCL project?
- R. P. Batra:** That is there in every contract basically.
- Rajneesh Malik:** CPCL is likely to be completed in February 2016 so the outlook right now it is difficult to get.
- Tanuj Makhija:** My last question is can you provide a status update on the Barmer refinery project?
- Vinay Kalia:** It is status quo I should say; there is still no clarity on that project that is why we are targeting that Vizag refinery.
- Tanuj Makhija:** Would the delay in the Dangote project affect your profitability on that particular project?
- Vinay Kalia:** Not the profitability but the revenues. This flow of revenues will get delayed because my efforts are directly linked to the deliverables which I am giving it. I am not working on the project because the inputs must not be coming to me.
- Tanuj Makhija:** But I am assuming you would have assigned employees to that project which would not be working right now but that cost would be incurred.
- Vinay Kalia:** Indirectly say you can check the Fixed Cost which are always fixed for EIL and you can check the utilization rates. One of the reasons when we said that our margins are coming down was the primary reason was that utilization rates were coming down.
- Moderator:** The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.
- Ruchir Khare:** I am sorry I just missed on that part, as of now we have provided for 110 crores for CPCL project, how much more can come into this or a provision of 110 crores should be okay for CPCL?
- R. P. Batra:** Seems to be okay.
- Ruchir Khare:** Secondly if you could throw some light on the competitive environment in the international business, in domestic we understand that typically we have a strong footing but in international



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what sort of competition do we encounter, number one. And margins are likely to be the same as we enjoy in the domestic orders per se?

Vinay Kalia: Base environment if you talk about then my competitive environment is quite similar and all the MNCs in India now whom I am competing in India as well.

Ruchir Khare: The reason for the margins in consultancy coming down has competition to do anything with it or it is just that the utilization rates are coming down?

Sudhir Kumar Jain: There are two factors both the factors are valid. One is the competition is growing up within the domestic sector also and in overseas. Second as a strategic initiative because we are building up the overseas business and our track record is relatively less in the overseas and we had been India focused all the time. So we do take strategic decisions in bidding at lower margins. So that is why the margins are muted. Third, obviously the utilization rates are low so it has a major impact, so if they go up from 70% to 90% levels you can have a 6 to 8% improvement in the margins.

Ruchir Khare: Lastly in the LSTK division what proportion of orders are fixed price nature and what proportion would be pass through?

Vinay Kalia: In LSTK business as of now if you talk about all the OBE projects are virtually nearing completion. If you talk about as of today the OBE versus fixed-price would be 50 to 50, balance order book. So it is majorly coker which is left out and some OBE projects. Going forward that is why my colleague had shared that the OBE projects are nearing completion.

Moderator: The next question is on the line of Ankur Sharma from Phillip Capital. Please go ahead.

Ankur Sharma: I had two questions, one in terms of your order booking for this quarter at about 300 odd crores have you taken in the Ramagundam fertilizer plant share as well in this Q4 number?

R. P. Batra: Yes we have taken that.

Ankur Sharma: What is the value approximate?

R. P. Batra: There is no share from the revenue from the Ramagundam project that is yet to take off basically. That is basically for the creation of assets, so revenue will not come immediately, it will take a lot of time.

Ankur Sharma: I mean what was the value of the order which was booked?

Rajneesh Malik: The booking, yes we have taken it in this quarter.



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- Ankur Sharma:** I mean what is the amount that is what I was trying to get, what is the value of that order?
- R. P. Batra:** 190 crores.
- Ankur Sharma:** The second question was in terms of the order pipeline of the market in the Middle East specially with the drop off we have seen in oil prices, so how is that looking like and has it also resulted in a lot more competition given the fact that what we are hearing is that the pie is actually kind of come down a lot, so if you could just share what are you seeing in that specific market?
- Vinay Kalia:** Correct, with the fall in oil prices obviously the downstream industry refineries and petrochemicals is the one that gets.... Production they continue to invest because that is a revenue generator for them but they have moved into downstream business also, it's a question of energy hub within their country, domestic demands and also for exports. So to that extent the downstream industries are effected definitely and the competition obviously because of the fall in the volume of the orders that come through, competition has picked up, it is more severe, the rate have also reduced, so one of the reasons when we are going in overseas in the recent times when we have to take a strategic call for a new entrant and the margins are also slightly muted, so positive like in the domestic market in coming 2-3 years in the overseas.
- Moderator:** The next question is from the line of Rajeev Mehra from JM Financial. Please go ahead.
- Rajeev Mehra:** I just wanted to get the numbers right. What is the current Order Book and what is the breakup between consultancy and LSTK as of today?
- Vinay Kalia:** We have shared this data in the presentations also. The current Order Book in consultancy is Rs 2454 crores and turnkey is 1186 crores.
- Rajeev Mehra:** My broader question is going ahead do you see the traction happening, you have given the order bid pipeline and the opportunity going ahead but if you look at your business segments that would be fertilizer and hydrocarbon. What is the traction going ahead? How would it be panning out? And at the peak levels when your Order Book was close to 7000 crores do we see, say coming down the line, next 2 to 3 years that peak levels reaching again? If you could just give a broad macro overview as to what's happening on that front?
- Vinay Kalia:** In March 11 when my Order Book was close to around 7500 crores would see that turnkey was virtually 5000 crores. We have already shared that since there are no major Greenfields coming up in the country and in overseas also the downstream is muted. So I may not see large volumes of Greenfields coming up. So opportunities for EPC business is also be less and over the years if you see, in March 11 my consulting was around 2584 crores in Order Book in 11 and in this year also it is close to 2454 crores. We have reasonably done well in terms of sustaining our consultancy business over the years in spite of so many issues in terms of growth, in terms of availability of new projects and slowdown in India and overseas, we have been able to sustain



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that, but yes because of the growth in competition and the pressure, because of the volumes are less the margins have reduced. We will definitely see this trend that the turnkey business will not be so high, so you will not be able to have such high Order Books as of 7000 crores but we should be able to do well in the consulting business.

Rajeev Mehra: My next question would be the newer businesses which you are planning to enter what is the status happening on that and would that increase significantly over the next couple of years? And the huge cash balance which you have, are there any opportunities which you are looking at maybe an inorganic growth by buying out companies in those space or what is the status on that? That would be my last question.

Vinay Kalia: There are 2-3 areas which we see have a good potential in the coming years. One is the water area and second is, yes, overseas business expansion that is part of the core business expansion; it is not inorganic in a sense. Another area probably we are looking at to a small extent is like infrastructure and smart cities and third area, how to build up the EPC competency and grow EPC business. Some of the issues we have faced, there is a good brainstorming going on internally, how we can integrate our EPC business and reduce the risk. Majority of risks are also coming through because we are outsourcing a lot of activities, virtually 90% in EPC gets outsourced through construction and through procurement. We are seeing how partnerships can be built-in so that this outsourcing can be optimized and that is why to have a better control on the costs. That is a long term strategy. As far as utilization of cash for these areas is concerned I do not envisage lot of utilization of this cash, maybe whatever revenues, profits we are generating in a peer, a portion of that can be utilized for organic growth. I still do not envisage lot of inorganic growth in this area.

Moderator: The next question is from the line of Pritesh Cheddha from Emkay Global. Please go ahead.

Pritesh Cheddha: First one clarification, we said that we have booked about 120 crore of write back in LSTK this quarter and we have provided for 60 crores on CPCL project. So net is 60 gain, that's how one should read it?

R. P. Batra: Pardon.

Pritesh Cheddha: I said we in the quarter have provided 120 crore write back in LSTK segment or turnkey segment and there is a 60 crore provision which is done on CPCL, so net of is 60.

R. P. Batra: Yes.

Pritesh Cheddha: Which means if you take that there is no profit in the turnkey segment this quarter on a normalized basis.

R. P. Batra: Yes.



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Pritesh Cheddha: My second question is we have fairly decent order backlog in consultancy at the end of this year which is closer to the peak backlog which we had in the consultancy. First, if you could tell us the medium term execution in both these areas which is consultancy and turnkey based on the projects that we have how should the execution pan out? And initially we commented that the margins will be similar to what it is in FY15 which is at about 24%. The fact is, the backlog is back to the peak, however, the margins outlook which we have stated is flat, so if you could throw some light there as well? One on, how do you see the execution in both these segments, and second the margins of consultancy specifically?

Vinay Kalia: Regarding consultancy margins we would have seen that consultancy has grown and it has stabilized again to the March 11 levels. The EPC business is still not there so the capacity utilization of manpower that was there, still not sufficient enough so that the margins can still pick up and secondly because of competition over the last 2.5-3 years whatever new projects we have been bidding and obviously there was a slowdown in the country so the margin that we were bidding got muted. Another reason for why margins were muted was that majorly the inflows were coming from Brownfield and small scale projects. So it's only when we are bidding for larger Greenfield assignments like we did Bina, the Bhatinda projects or we would have done Barmer or like Dangote where my competition is with very select few players there the margins are in the range of 35-40%. So another reason why consulting is growing we are able to stabilize and face the competition or also but the kind of projects that we are bidding we cannot claim such high margins.

Pritesh Cheddha: What is the execution for this 2400 backlog that we have and what is the status of the key projects which is there in the back log?

Vinay Kalia: As far as status is concerned probably you will see some delay happening because of the delays in the construction activities because these projects are quite complex so delays do happen of the order of 6 to 8 months being very complex projects. So our revenues get spread accordingly to the next 6 to 8 months. But typically if you talk about book to bill ratio, it should be in the range of 2.5 years in the consulting, in the turnkey it should be less than one year.

Pritesh Cheddha: That also gives a sense that actually you will have some utilization improvement over FY 16 over FY 15?

Vinay Kalia: The moment I'm able to secure some bigger green field where a single value is very large then the overall utilization level across all the disciplines takes up and the margins are also really good. So once you do very small value of multiple assignments then the billing picks up but the margin improvements don't happen and if I don't have to rely on turnkey and rely totally on consulting then I should prefer something in the range of 4000 crores of consultancy.

Pritesh Cheddha: Thank you.



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Moderator: Thank you sir. The next question is from the line of Inderjeet Singh from Macquarie Group. Please go ahead.

Inderjeet Singh: Your kind of broad indications for order inflows next year you seem to have very low number on the turnkey LSTK side, is it because you don't see opportunities or is it a decision taken consciously because we have issues in terms of cost overruns in some of the projects so we now want to be more effective on consulting company?

Vinay Kalia: There are two factors, first we had consciously decided we will not do EPC in overseas unless we are able to build the base in consulting, have big offices, understand the markets the litigation practices, the labor practices, construction practices and so on and so forth. So because of the risk profile we didn't want to go in EPC in overseas consciously. For India we have been doing EPC over past 15 years. This is probably the first project where we have been major overruns so that is why there has been brainstorming going on, on how to stabilize and how to grow and how to build further the risk taking capabilities in EPC business in India.

Management: Plus there have been lack of opportunities that you were asking and the opportunities have been lesser to greater extent in past 2-3 years that is why business was flat.

Inderjeet Singh: My last question is on balance sheet, again given the size of the cash that we hold are we really looking at an opportunities which requires us to hold this size of cash because over the period of time because of the environment our return ratios have really deteriorated and one of the key factors has been to hold on to that amount of cash, is there a thought process that even after kind of doing some strategic initiatives which should might have left with lot of cash and hence its good and to pay out large amount of dividend or do a buyback is that thought process which is being considered by the board at this point of time?

Vinay Kalia: In fact this was the strategic decision that was taken by the management that is why we ventured into this Ramagundam Fertilizer project which is an equity and the debt participation of... it's a 5000 crores project with 30 to 70 equity to debt ratio. 1500 crores that means 26% EIL is likely to put the equities that would be around 390 crores.

Inderjeet Singh: And that to spread over three years, right?

Vinay Kalia: Approximately 36 months, correct over three years.

Inderjeet Singh: So annual requirement is not going to be more than 130 crores odd?

Vinay Kalia: Yes hopefully should not be more than that.

Inderjeet Singh: So still we left with lot of cash?



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- R P Batra:** Yes and otherwise we are paying the hefty dividend basically as per the government guideline we have to pay 30% of PAT, right now we have paid more than the 60% of PAT as a dividend so we are paying a dividend consistently over a period of years. Right now we don't have any special plans you can say venturing into the future investments.
- Inderjeet Singh:** Then there is a stronger case for making a special dividend payout, government will also be happy even shareholders will be happy.
- R P Batra:** That depends.
- Vinay Kalia:** We were looking that one option when the SPO came out like the last SPO we thought that that would have been taken up but again that call has to be taken by the government of India being the largest shareholder. As far as we're concerned we are looking at only investments which can help me grow my core areas which will provide me an entry into a new business area like we are doing fertilizers. I made around 20 crores of provisions for building up the Abudhabi hub this year and we have now set up an office of 100 people and about 70-80 people are getting mobilized within next two months. As a consultant we have already secured two assignments of around 150 crores total. But even in these kinds of strategic investments I do not envisage a very large volume of outlook as that you have seen in fertilizer business is around 300-350 over a period of 3 to 4 years.
- Inderjeet Singh:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** On the fertilizer project so this 5000 crores project value how much would probably EIL look to garner going forward and when would it be decided?
- R. P. Batra:** Our fees is to the tune of 190 crores for this Ramagundam project.
- Manish Goel:** Which you have booked in the quarter?
- R. P. Batra:** No we have booked, we have shown it that..
- Manish Goel:** Basically you have taken in the order book.
- R. P. Batra:** Shown that we have booked it so it is likely to be done in the next three years as because the schedule for the project is about 36 months.
- Manish Goel:** Can you give us a breakup of order book between domestic and overseas because in order inflow you have given but order breakup outstanding order book if you can give the breakup?



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- Vinay Kalia:** I think we have given a chart which says sheet no. 31 of the presentation that we sent yesterday, order book position is 66% is for domestic and 34% is for overseas.
- Manish Goel:** That is the order booked, right?
- Vinay Kalia:** Yes.
- Manish Goel:** And last question on the LSTK so what could be our breakeven turnover of for LSTK and what are the fixed costs base just wanted to get a sense because the order book is low at 1100 crores so assuming that the exhibition would be over a period of time so ideally what should be the breakeven turnover at our end?
- Vinay Kalia:** I want to clarify two things which got missed out and there were certain questions which were being put forward on the LSTK, how the margins are varying. See the project goes on for a period of 3 to 4 years and normally we are booking revenues and the margins on a quarterly basis based on the revenue realization and there are certain provisions on the contingent liabilities for LDs and all which are also part of the profit margins because when we are estimating the cost, we do keep provisions for it in and it is part of the profit and contingency and miscellaneous loading. So net-net we have been suggesting that we maintain margins in the range of 6 to 7% so when the project starts because the billing is high, utilization is good margins seems to appear as in the range of 10 to 11% and obviously the payment come earlier and when the projects are completing virtually the payments are held up because of the milestones like mechanical completion and commissioning which is around 5% of the cost itself and obviously we have provisions for contingent liabilities also held up till the end of which are also part of the profit if they are return back. So net-net you will see variation in the margins on a quarterly basis, on a net average basis you can see margins have been in the range of 6% to 7%.
- Manish Goel:** My question was that on a full-year basis is it that 500 or 600 crores revenue is your breakeven turnover?
- Vinay Kalia:** In the aspect of the LSTK is that we are outsourcing the activities on the construction and the procurement so we do not have our own internal asset base so the maximum fixed cost been incurred if we don't get LSTK business so it is only the manpower which does both either consulting or EPC as the opportunity comes, like construction companies like L&T and all who have their own asset base.
- Manish Goel:** And in CPCL and project what exactly went wrong, is it that cost overruns or time delays or what is it that has led to such a high provision?
- R P Batra:** Basically its some cost overrun and also there but there has been change in the scope of work by the client so we have raised the change order with the client but as per accounting practice we cannot recognize the revenue on that account because the change orders are yet to be factored.



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But on the expenditure front we have recognize immediately so definitely there is a gap. We are expecting definitely a change order from the client at the end of the project so definitely at that time will be recognizing some revenue for that particular project.

- Manish Goel:** What could be amount due to this change of scope of work which you would have provided?
- R P Batra:** That is immaterial amount but right now we are in the process of basically arriving at the amount so it can be around 60 to 70 crores.
- Manish Goel:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Sheth:** Sir can you just give some sense that how is the profitability on this new orders in pipeline and once we receive that and expecting I mean flattish grows around same thousand crores so our peak will reach I mean 3500 crores in next year end, correct. So how do you see that profitability moving from this consultancy business going ahead?
- Vinay Kalia:** As far as current scenario is concerned we are not in a major expansion in the Greenfield region, we will be sticking to Brownfield projects the revamps and upgrade and also this slowdown in overseas market so margins will continue to remain in this range of 18 to 20%.
- Bharat Sheth:** For couple of years?
- Vinay Kalia:** Two years.
- Bharat Sheth:** Recently there was some news item that we having done work lot of this Connaught Place and we are looking from lot of opportunity in smart city and then we have done you say that Waterside also, we have done work on Yamuna River. So how do we see opportunity in those businesses whether it will be consultancy or EPC side?
- Vinay Kalia:** It will be majorly consultancy.
- Bharat Sheth:** And how is the profitability in those businesses?
- R P Batra:** In infra it will not be as high as oil and gas definitely.
- Bharat Sheth:** And how is your biggest opportunity when we really started bidding for what all these Ganga project or anything?



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- Vinay Kalia:** We need still more clarity on how the government is taking this initiative forward. We had discussions on this at various forums with the investors also. If they are talking about just cleaning the river creating activity then we probably don't fit in. If they are talking about river water management and the flood management system being build up across the city then we have a potential. But still there is lot of talk and let's see on the groundwork what all projects do come up.
- Bharat Sheth:** Government is also thinking of reviving this urea fertilizer several plants so do we see the opportunity for us from a consultancy point of view?
- Vinay Kalia:** Yes definitely that was one of the reasons why we invested in the Ramagundam project. Somehow as per the PSU norms our credentials were not getting accepted in India because of our limited experience in the fertilizer segment. So we wanted to have some fertilizer project to build those credentials for qualifying for tenders. However in the international market our all India's experience was acceptable to them for connect to the PMC so we are currently indicating to four projects in overseas markets in fertilizer as well.
- Moderator:** Thank you. The next question is from the line of Misal Singh from Religare Capital market. Please go ahead.
- Misal Singh:** I just wanted to understand in terms of your consultancy order backlog it set about 2450 crores at the end of '15 so what is the kind of revenue accretion that you're seeing in '16 and '17 from this backlog? Broadly I mean to understand because in the medium-term what kind of revenue you could see because..
- Vinay Kalia:** 1800 crores.
- Misal Singh:** So basically you're talking about roughly about 1800 crores of top-line in 16 is that a fair assumption to make?
- Vinay Kalia:** Yes.
- Misal Singh:** And in terms of margins we can go ahead and keep the same set of margins that you got in FY15 essentially for both the business?
- Vinay Kalia:** Yes the margins are remaining flat, there is no upscale improvement. I don't see upside in the margins.
- Misal Singh:** So 1800 crores of top-line roughly and similar kind of margins and in order inflows you are talking about order flows in 2016 to the tune of 1500 to 2000 crores?
- Vinay Kalia:** Yes.



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- Misal Singh:** So that's mostly 95% in consulting so that means your margins will probably improve in '17 because the mix in the order book of consulting would probably improve by the end of '16.
- Vinay Kalia:** Overall EBITDA is improving because mix of consulting is improving but I will also prefer improvement in the consulting margin which will happen once the utilization gets improves, first. Second once I start getting more Greenfields which I am not seeing visibility in next one or two years. So yes individual margins would remain muted but overall because the mix is changing yes you can say EBITDA margins can improve.
- Misal Singh:** On the numbers which you have reported, there is some restatement in other income and other expenses so can you please clarify that if you look at the annual numbers?
- Sudhir Kumar Jain:** Basically we are looking the expenditure for the contractual obligation for different projects; those were being charged to the profit and loss account. When a particular contract completes we are writing-back the provisions whatever the unspent provisions are there, we are writing that. Previously that amount was taken to the other income, now discussion with the auditors and opinions from the institutes we have taken that income has to be reduced from the expenditure so that's why we have reduced whatever income due to write-back of that particular project from the expenditure incurred that's why regrouping has been done for the last year also, for this year also we have noted this presentation.
- Misal Singh:** So that's mainly coming through in the consultancy business if you look at segmental wise?
- Sudhir Kumar Jain:** Majorly in the consultancy business. It can come in the turnkey projects also but right now it's majorly in the consultancy.
- Misal Singh:** Can you give me a broad sense of your total order backlog which is at about 3600 crores so which are the key orders that you have in that 3600 crores which will be undertaken for execution in '16?
- R. P. Batra:** The overseas orders are Dangote Refinery of Nigeria or take Liwa Plastics job in Oman and from the Indian sector it is IREP and Gail, Gas Authority of India Limited.
- Misal Singh:** And what are you expecting for Dangote in terms of the revenue booking in '16?
- Sudhir Kumar Jain:** It would be around 150 crores you can say.
- Misal Singh:** And there is a risk of delay there, right?
- R. P. Batra:** The delay has already occurred, I hope now they're not be more delayed.



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- Misal Singh:** You are not seeing too much of downside to the 1800 crores a revenue estimate that you are talking about?
- R. P. Batra:** Hopefully not.
- Vinay Kalia:** 17,00 to 1800 is what we are projecting.
- Moderator:** Thank you. The next question is from the line of Vivek Sharma from ICICI Securities. Please go ahead.
- Vivek Sharma:** Just wanted to understand, you mentioned that the Greenfield opportunity especially on the refinery side is not very visible in the next 1 to 2 years. Just wanted to get a sense that do you think that the situation could change maybe two years down the line with IOCL or Western Coast Refinery or the other refineries that have been planned do you think that can change in 2 years hence?
- Vinay Kalia:** It is difficult to predict the future but to some extent yes there is a need and we were seeing projects which were being targeted like Barmer Refinery, West coast Refinery obviously was targeted for the 13th plan for which we are making a DFR at the stage. Numaligarh was a targeted project but again there were some issues with the Ministry on how Numaligarh can be shaped up, so there are projects in the visibility but we are still not getting clarity on how these projects will be taken up because the government of India is involved, the ministries are involved some clearances are involved so the initial activities which we call as pre-project activities in terms of clearances, approvals are not coming forth although the projects are targeted. It would have been a concern for us if we do not have the visibility of the projects also.
- Vivek Sharma:** So what is the sense that you get when you speak to the OMCs and the Oil & Gas companies, what is the sense that you get there, are they willing to step up the CAPEX plan because irrespective of the economic environment they generally tend to do a certain level of CAPEX every year.
- Vinay Kalia:** That is why we were fortunate enough to even secure 2500 crores of business. I mean I understand 1000 crores was from overseas but the 1500 crores did come from the domestic business because minimum amount of CAPEX in terms of revamp and upgrade of the refineries keeps on happening so this is one area which happens. But over and above that we also looked at Greenfield ventures so as a strategic direction we thought we will expand the markets first and go overseas so that we have more markets to capture and also diversify.
- Vivek Sharma:** In the domestic market do you see there is the threat to business because of increased competition and the PSUs if they start going on a tender which is not on a nomination basis or which is the other competitors start bidding, do you think there is a risk to our business in the medium term?



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- Vinay Kalia:** The risk is already built in once our margins have got reduced one of the risks was that competition is grown because when we bid for revamp and Brownfield it is all through competition bidding. It is only when we come to Greenfield where the plant also knows that there are only select players against whom the tender would be invited and so here would have a fewer chance, we have there seen in the past also like Barmer Greenfield and there are only 2-3 players who would be bidding for it because of the price differential itself to understand that EIL is the most competitive and they go ahead with it.
- Vivek Sharma:** Would there be a market share number that would like to be there that you have X% of orders?
- Vinay Kalia:** Yes within India it should be close to 90%, I don't include infra and others in this.
- Vivek Sharma:** Thanks.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani:** In the domestic market you highlighted about some of the revamp and upgradation project, is it possible to name some of them and in our earlier discussions you had highlighted about that when the refineries expanding beyond a particular point then they actually prefer also adding the Petchem bio-chain so if you can throw more light on this?
- Vinay Kalia:** We did share some of the projects which have been held up for last two years now almost like Gujarat Refinery expansion, we have expansion which is due from Mathura and Panipat Refinery, these are all small field expansions. Bhatinda Refinery of HMEL and Bina Refinery of BORL, they were both due for Brownfield expansions with about a million tonnage.
- Bhavin Vithlani:** Bhatinda refinery and which is that?
- Vinay Kalia:** Bina Refinery, BORL both were going for small field expansion where about a million tonnage was handled. Gujarat was relatively larger expansion of around 5 million tons so you can say it is close to a Greenfield kind of an expansion. Barmer was a totally Greenfield expansion which is held up. Then you have those cross-country pipelines which keep on coming then you have regular business and upgrade of offshore platform of ONGC for which we have a rate contract. Then there was a semi-Greenfield expansion and partly Brownfield for Gail which become TATA expansion which was the larger size project so it is a mix and match that we used to get earlier. In future if we talk about the West Coast Refinery will be a Greenfield, Barmer will be a Greenfield. Kochi is talking about integrating their refinery into a petrochemical complex that would be a Greenfield expansion. We are looking at the Greenfield project in terms of a methanol plant that is a Greenfield but besides these then you have quality upgrade projects which are Brownfield small size projects. Mathura, Panipat and Bhatinda and Bina Refinery they are going for 1 to 2 million tons of expansion, they are Brownfield.



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- Bhavin Vithlani:** How big would be the size of IOC Gujarat?
- Vinay Kalia:** Gujarat would be close to 8000 crores worth expansion.
- Bhavin Vithlani:** And what stage is that in your opinion and is there any compulsion in terms upgradation of the fuel where the deadline is coming closer and hence you believe that in FY 15-16 for sure we will get the order?
- Vinay Kalia:** No this project is already delayed by more than one year. These were not quality upgrade projects where there were some mandatory. Regular expansions of old refineries have been moved just for modernization also, also for the first capacity they have to be increased as the demand picks up to upgrade the fuel quality and not just the fuel quality but revamp the old, remove some of the bottleneck which is there or inefficiency is in the existing system and **(Inaudible-60.45)**.
- Bhavin Vithlani:** Is there any compulsion in terms of regulations and hence IOC will have to go ahead with the CAPEX or they can conveniently delay because the market environment is not conducive so they can think about the expansion going ahead next year like they have done last year.
- Vinay Kalia:** No we were not linked to the mandate requirements, those will be the quality upgrade projects that would come out for Euro-4 and Euro-5.
- Bhavin Vithlani:** So there is a risk to the 1800 crores odd of order inflow that you had highlighted in case due to adverse market conditions these projects get postponed like they did last year.
- Vinay Kalia:** I can say that typically there is a base order of 600 to 800 crores that we have seen traditionally comes from the revamp and upgrades, small size revamps upgrades than regular business that you can say. And over and above that which obviously there is a question mark on their and when they can come up. That we share based on the reasonable estimate for the kind of projects which we feel can come up in the future.
- Bhavin Vithlani:** And you don't believe any of the fertilizer expansion can go ahead in this current year except the Ramagundam project that you are doing in joint-venture?
- Vinay Kalia:** Still not very short of it because still there are some concerns on the policy and the availability of the gas.
- Bhavin Vithlani:** Then if I may ask than what gives us confidence to Engineers India that we are going ahead with the equity investment in a Ramagundam project?
- Vinay Kalia:** For this project the gas was linked up, we are putting up the GSPC network, we are building the GSPC Onshore Gas Terminal and their offshore platform gas linkages was there.



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Bhavin Vithlani: Thank you so much.

Moderator: Thank you. That was the last question, I now hand the floor over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: I would just like to thank all the participants for being on the call and especially the management for taking time out to answer all the queries. Thank you very much sir.

Moderator: Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.