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“Engineers India Limited Q1 FY 2017 Earnings Conference Call”

August 24, 2016



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IDFC LIMITED



MANAGEMENT: **MR. RAM SINGH – DIRECTOR (FINANCE), ENGINEERS INDIA LIMITED**
MR. R. P. BATRA – DGM (FINANCE AND ACCOUNTS), ENGINEERS INDIA LIMITED
MR. VINAY KALIA – DGM (MARKETING), ENGINEERS INDIA LIMITED
MR. RAJNEESH MALIK -- DGM (MARKETING), ENGINEERS INDIA LIMITED

MODERATOR: **MS. BHOOMIKA NAIR – IDFC SECURITIES LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to EIL Q1 FY 2017 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 for an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you, ma’am.

Bhoomika Nair: Thanks, Jennies. Good afternoon, everyone. Welcome to the Q1 FY 2017 Earnings Call of Engineers India. The management today is being represented Mr. Ram Singh - - Director (Finance); Mr. R. P. Batra -- DGM (Finance and Accounts); Mr. Vinay Kalia -- DGM (Marketing); and Mr. Rajneesh Malik -- DGM (Marketing).

I will now hand over the call to Mr. Ram Singh for his initial remarks post which we will open up the floor for Q&A. Over to you, sir!

Ram Singh: Good afternoon, Bhoomika and good afternoon, everybody. Welcome to this Earnings Calls. Let me just start with the order inflows; the order inflows so far till 23rd of August is Rs. 2,175 crores. The break-up of this order inflows is domestic consultancy is Rs. 790 crores; overseas consultancy is Rs. 140 crores and EPC LSTK segment is Rs. 1,245. So the order book as on 30th June is about Rs. 5,467 crores; the break-up is domestic is Rs. 2,070 crores; overseas is around Rs. 1,500 and turnkey is close to Rs. 1,900, so this is the break-up of the order book as on 30th June. ‘

Our guidance for the order inflows for this current year we are upgrading it to Rs. 3,500 crores plus and the revenue guidance for consultancy, we are estimating a growth of in the range of around 15%. And EBITDA margin we anticipate to be in the range of around 20% now.

So with this I think we start the question-answers.

Moderator: Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Charanjeet Singh from B&K Securities. Please go ahead. Mr. Singh, your time is limited. Please go ahead with your question.

Charanjeet Singh: First of all, congratulations, on a strong order inflow finalization and sir, I would like to understand during this quarter in the turnkey segment we had may be some write



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back and how do we see the performance of the turnkey segment going forward in FY 2017?

Ram Singh: See turnkey order book which I had given you, the turnkey order book is not very-very strong so, going forward the revenues in this segment is going to be muted. As most of the projects in the segment are almost complete except for one project of ONGC and the new order which we have got from CPCL so, these are the two major orders in this segment. So, most of the other projects will be on the closure stage and we may have to write-back some provisions, so there could be some write-backs under this segment. So, one write-back you saw in this quarter of Rs. 27 odd crores so, similar numbers could be coming in the subsequent quarters.

Charanjeet Singh: Sir, what could be the total full year quantum of write-back which we could expect to happen?

Ram Singh: See we are in the final stages so, the number could be slightly higher than the what you have seen in the quarter one. The exact numbers will depend upon the negotiations and the final closure with the clients.

Charanjeet Singh: Okay. But we are confident in terms of getting these write-backs during FY 2017..

Ram Singh: Yes.

Charanjeet Singh: Sir, if you can please help us with an update on the sir Dangote order, how has been the progress and how has been the money repatriation from that particular order?

Ram Singh: See, Dangote the contract value was \$139 million and then we got a change order of roughly around another \$5 million. So, the contract value as on today is around \$144 million and plus they are also taking of east-west pipeline so, that we have not taken in the order inflows but that is also expected. So \$144 million is the contract value and so far, we have recognized only roughly around about Rs. 200 crores in our revenues and we have got the payments so, payments have not been problem so far. And we have a stand-by LC so, I think as far as the payments part is concerned, as of today the position is there is no area of concern as far as the progress is concerned the dredging at site is almost done. . So site is ready for construction activities, site office has already been opened and the ordering for long lead items have already been awarded , majority of the items like compressors, reactors, critical packages, heaters, those



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awards have already been done. So, I think going forward we are targeting completion of this refinery in the second-half of 2019.

Charanjeet Singh: Okay. And sir, one last question from my side on the order inflow guidance, we have upgraded the guidance significantly so whichever would be the larger orders in the pipeline and how has the fuel up gradation ordering expected to pick-up going forward in the coming quarter?

Ram Singh: See the main drivers of the demand growth will be the growth in the demand for petroleum products. See, the demand for petroleum products is growing very robustly as far as our country is concerned so, that will be the driving force for capacity addition in the near-term, that is why we are talking of Maharashtra refinery than expansion of the existing refinery. So, you take a time horizon of around three years. Many of the expansions and may be Maharashtra refinery could be coming. So, that is as far as a medium-term projection is concerned in the very short-term projection, HPC has already announced their Vizag expansion so, that is one opportunity and Namami Gange also we are confident of receiving the order shortly. So these are the two major orders plus there are small value other orders.

Charanjeet Singh: Okay. And sir, how large could be this Namami Gange order and what could be the margin profile of this order?

Ram Singh: See, margin profile in the water and waste water segment is your fees is typically around 8% range so, unlike Hydrocarbon sector the fees percentage in this segment is much lower but this is good size is big so, as far as Namami Gange is concerned we hope to get this thing in this quarter.

Moderator: Thank you. We take the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir, first on order intake guidance that you gave Rs. 3,500 what will be the split between consultancy and LSTK?

Ram Singh: See, LSTK will be roughly around Rs. 1,250 in this.

Madan Gopal: Yes, so full year also we will because we have bagged already...

Ram Singh: Rs. 1,250 crore .This is what we are estimating as on today and the rest will be all Rs. 2250 plus will be the consultancy.



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- Madan Gopal:** Out of which Rs. 800 crores we have bagged so far so another
- Ram Singh:** Yes, Rs. 790 plus overseas of Rs. 140 crores, Rs. 930 has already been bagged....
- Madan Gopal:** So roughly Rs. 1,000 so remaining another Rs 1200 we might be expecting. Broadly if you can give a picture of where these might come in from?
- Ram Singh:** See, roughly half of this will come from the Hydrocarbon sector itself so, and the other half will come from the Namami Gange based on our foray into the waste water management.
- Madan Gopal:** Okay. And this Hydrocarbon 50% so, Rs. 500 crores - Rs. 600 crores again for Euro-VI norms related or Vizag?
- Ram Singh:** This is not Euro-VI no, this is in addition to Euro-VI.
- Madan Gopal:** Sorry, I am not getting you are saying the Rs. 500 crores - Rs. 600 crores...
- Ram Singh:** In addition to Euro-VI this number which I am giving you this in addition to Euro-VI. Euro-VI is additional, most of the clients have already award the Euro-VI so, only MRPL and Kochi is left now.
- Madan Gopal:** Okay. Even BPCL, HPCL everybody awarded is it?
- Ram Singh:** BPC awarded last year IOCL is awarded this year and CPCL is also awarded this year.
- Madan Gopal:** Okay. Only two more refineries is left with order...
- Ram Singh:** Yes because the timeline if it is to be rolled out by April 2020 and the project has to be complete by September 19, so the timelines are very tight.
- Madan Gopal:** Okay. On the size of your orders for Bongaigaon refinery and Mathura refinery are lower then what it was for Haldia, Gujarat this is because of the plant capacity itself?
- Ram Singh:** I did not get your question.
- Madan Gopal:** The contract value that you have got for the Euro-VI from IOCL for Bongaigaon and Mathura...
- Ram Singh:** For all the refineries of IOC we have got the Euro-VI order.



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Madan Gopal: The value of that order for these two are Rs. 45 crores and Rs. 35 crores compared to say Haldia refinery or Gujarat refinery where you have got Rs. 160 crores - Rs. 125 crores?

Ram Singh: Yes, so we have got a combine order of around Rs. 550 crores.

Madan Gopal: But why is the value for Bongaigaon and Mathura lower is it because of...

Ram Singh: Because the scale of the units is much smaller.

Madan Gopal: Smaller, that is the only reason, so overall that is how it is, okay. So, what is the status of the Vizag refinery sir?

Ram Singh: Vizag, hopefully it should get cleared in this quarter.

Madan Gopal: In this quarter, okay. And sir, when I see despite good growth in the consultancy revenue in this quarter the margins are still at around 23%. So we will continue to see these numbers because if I reduce the cost for the consultancy seems to have increased year-on-year basis by 15%.

Ram Singh: No, see as far as margins in consultancy is concerned it is a direct function of the execution of the orders so, we have got all these orders in the first few quarters, the execution is not very strong initially it picks up gradually so, it will pick-up may be by the end of third quarter of this financial year so, once the execution of this order picks up, the translation to revenues will improve. So, going forward you will see improvement in the margins itself.

Madan Gopal: Can we hope for 30% plus margins here?

Moderator: Thank you. We take the next question from the line of Aishwarya Deepak from Reliance Mutual Fund. Please go ahead.

Aishwarya Deepak: Sir, just wondering about this order of this big refinery Maharashtra Refinery. So as I track Oil sector and what I have seen in the last three years - four years that there has been consistency talk that HPCL will put up some Ratnagiri Refinery and the land was the issues then environment was the issue, it kept on postponing and now again, suddenly our ministers are talking about such a big refinery of Rs. 1,50,000 crores of investment and though the refining margin outlook is not great and things would not be that good and this will do not that much money to spend that is the big thing. So,



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how we should see this refinery order coming and what are the milestones for this thing to happen?

Ram Singh:

Let me come to the basics, see the demand for petroleum products in the country is around Rs. 190 million tonnes and the capacity we take Rs. 230 million tonnes and you adjust for the EOU refineries which are exclusively for the exports so, the net refining capacity is only around Rs. 200 million tonnes and demand is growing at almost 9 million to 10 million tonnes every year so, I think there is no other option but to come with either significant expansion of the existing refineries or a big refinery. If you want to get the benefits of economy of scale I think this refinery makes perfect sense so there will be scale advantage but there will value addition of the petro chemical segment. All this economics will drive the Maharashtra Refinery.

Aishwarya Deepak:

Sure. But sir, here one more thing to look at, I mean as the time is progressing gradually even these **yo-yo 16.21** refineries are finding it difficult to place their product and they want to really into India and then that you are aware of the refining margins when you supply locally it is far-far better than exports.

Ram Singh:

Absolutely. It all make sense to have a domestic refinery vis-à-vis importing products from overseas.

Aishwarya Deepak:

But we are not importing sir...

Ram Singh:

No, I told you the demand supply scenario, no, it is just more or less very tight. So, five years down the line by the time this refinery comes it will be very difficult to meet the domestic demand unless we put up decent capacity.

Aishwarya Deepak:

So realistically sir, when do you foresee this refinery thing will move in and how the feasibility report status right now?

Ram Singh:

See, currently we are in the process of finalizing the site selection so, various sites have been examined , once we close on the site, we will do the configuration study and then the feasibility reports will be prepared and given to the owners for their approvals. So, this process I think will should happen in FY 2017 - FY 2018 because this the time cycle of this project will be minimum five years so, we are confident by next year the approval should be in place.

Aishwarya Deepak:

Okay. And sir, is there a land availability is an issue or how it is?



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- Ram Singh:** No, land we are trying to optimize the best land so that we do not have to spend a lot of money on site grading and other activities.
- Aishwarya Deepak:** Sure, sir. So, what I am getting from you that there is a very likelihood that this refinery...
- Ram Singh:** Yes, probability is good so, let us think on that basis.
- Moderator:** Thank you. We take the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** Sir, my question is with regard to the BS-VI projects. What kind of opportunity left? We already have Rs. 600 crores of PMC projects and Rs. 1200 crores of EPC projects. So, we have two more opportunities from this MRPL, HPCL, so what could be our share of opportunity in the same?
- Ram Singh:** Our fees could be in the range of around Rs. 150 crores to Rs. 200 crores in that.
- Dhananjay Mishra:** So only Rs. 150 crores - Rs. 200 crores order can...
- Ram Singh:** Rs. 150 crores - Rs. 200 crores.
- Dhananjay Mishra:** Okay. And sir, what was the contribution from Dangote in absolute term in this quarter, Dangote and Oman?
- Ram Singh:** See, our revenues from overseas in this quarter is around Rs. 100 crores plus.
- Dhananjay Mishra:** Okay. So majority came from this Dangote and Oman.
- Ram Singh:** , Te split up between the various countries. Nigeria isRs. 51 crores then our Middle East region is around Rs. 17 crores Algeria another Rs. 12 crores and the rest is from other countries.
- Dhananjay Mishra:** Okay, sir. And lastly sir, this Vizag Refinery, what could be the size of this refinery, if we get this order in next three months?
- Ram Singh:** See, we are in the final stages of discussion of HPCL so, hopefully sometime during this quarter we will give you the announcement.



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- Dhananjay Mishra:** Okay. This is PMC order, right?
- Ram Singh:** That is right.
- Moderator:** Thank you. We take the next question from the line of Deepak Narnolia from Birla Sun Life Insurance. Please go ahead.
- Deepak Narnolia:** My question is pertaining to your order inflow guidance of Rs. 3,500 crores plus during the year. So what is the break-up of that like Rs. 1,250 crores is for LSTK which you have already received and Rs. 140 crores you are showing for export orders.
- Ram Singh:** Because of the decline in the crude oil prices there has been a drastic reduction in the CAPEX by the oil companies so, till the situation improves and they revive the CAPEX the things are really challenging as far as the overseas segment is concerned.
- Deepak Narnolia:** So, roughly Rs. 1,500 crores is from LSTK and exports and rest Rs. 2,000 crores is from Namami Gange and fuel up gradations?
- Ram Singh:** So, predominantly it is will be domestic consultancy.
- Deepak Narnolia:** You mean Rs. 2,000 crores is for Namami Gange, fuel up gradation and Vizag?
- Ram Singh:** Yes, so, if you take the overall on aggregate basis roughly domestic consultancy will be in the range around Rs. 2,100 crores.
- Deepak Narnolia:** What is the break-up of that?
- Ram Singh:** We have already got from IOC roughly around Rs. 550 crores so far and then for Bangladesh we have got of roughly around Rs. 120 crores and then Namami Ganga we have already secured the first entry level activity is totaling to Rs. 80 odd crores and then we are doing some work for HPC Bombay Refinery .
- Deepak Narnolia:** Rs. 2,100 crores?
- Ram Singh:** Yes.
- Deepak Narnolia:** Okay. And what is the revenue guidance you have given sir?
- Ram Singh:** Revenue guidance is roughly around 12% to 15% growth in consultancy.



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- Deepak Narnolia:** 12% to 15% growth?
- Ram Singh:** Yes.
- Deepak Narnolia:** And one last thing about Euro-VI order, you said this, only MRPL and Kochi is left.
- Ram Singh:** That is right.
- Deepak Narnolia:** And remaining you have received. So what can be potential size of this MRPL and Kochi?
- Ram Singh:** Typically, one refinery is around Rs. 150 crores so, it could be Rs. 200 crores.
- Deepak Narnolia:** Further 200 crores of rupees?
- Ram Singh:** Yes.
- Deepak Narnolia:** And these fuel up gradation, orders are typically the PMC order with similar kind of margin.
- Ram Singh:** Other than CPCL all other orders for Euro-VI they are consultancy orders.
- Deepak Narnolia:** So they have similar margin profile?
- Ram Singh:** Yes.
- Moderator:** Thank you. We take the next question from the line of Kunal Sheth from Prabhudas Lilladhar. Please go ahead.
- Kunal Sheth:** Sir, just wanted to clarify, as far as our guidance is concerned so, we are seeing that 12% to 15% growth in consultancy and for turnkey sir, what are we guiding?
- Ram Singh:** See, turnkey most of the projects which we are undertaking they are in the final stages or other than two projects all the other projects are complete so, one is the ONGC Hazira which is not a very big value roughly around Rs. 300 odd crores and the CPCL BS-VI project is there. These are the two projects but the execution of BS-VI will take some time. We have to dismantle their existing facilities and then the work will start. So the revenues from this will start flowing from next final year. So, this year the



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revenue from turnkey segment could see a de-growth so, de-growth could be in the range of around 20%.

Kunal Sheth: Okay, got it, sir. And sir, for margin you said 20% EBITDA that is the for the entire....

Ram Singh: Overall, Yes.

Kunal Sheth: Overall, right?

Ram Singh: 20% , Yes.

Kunal Sheth: Okay. And sir, so this year we talked about a Rs. 3,500 crores inflow but what is the visibility in terms of you mentioned about other major opportunities being the Maharashtra Refinery but what are the other medium-term opportunities that can fuel our order inflow for 2018?

Ram Singh: See opportunities in the Hydrocarbon sectors are very bright. One is the expansion of IOC Refineries which they have been talking for a very long time so, we are taking of Gujarat expansion, Panipat expansion so, all these expansions could there is one set of probabilities. The next set of probability is the Greenfield refinery because the demand growth has to be met by corresponding addition in the refining capacity. So, our demand growth in the country is pretty robust and I think we are increasing our demand roughly in the range of around 8% to 10% so, this demand growth will require a corresponding commensurate increase in the refining capacity. That will drive down the CAPEX of in the Hydrocarbon sector and corresponding it will give us more opportunities.

Kunal Sheth: Okay. So, basically right now on the table is apart from HPCL, Vizag which is other refinery where we are on the discussion? Are we discussing with any of the other refineries in terms of let us say IOC, BPCL?

Ram Singh: We have done a lot of studies for all the refineries and we are doing something very-very good see line integration of the steams between one refinery and another refinery to add value then improving the distillate yields for the various old refineries and some of the refineries are having very small size CDUs so, we have given them the reports for changing CDUs to much higher size CDUs and then we are also talking of petrochemical integration with the refineries so, this is one big value proposition which the oil companies can take. Then as far as expansions are concerned even Bina



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Refinery they are currently doing low cost expansion from 6 to 7.8 MMTPA. They can go for further major expansion as far as the BORL is concerned. So, there are refineries which should be in terms of economies of much larger size and then we are also talking of value added chemicals. So the opportunities are pretty bright, I think gradually CAPEX cycle will pick-up.

Kunal Sheth: Okay. But sir, would it be safe to assume that FY 2018 will at least also see similar kind of Rs. 3,000 crores inflow or it could be volatile?

Ram Singh: In the Maharashtra Refinery see, currently we are doing land site selection so, if the approvals are in place FY 2017 - FY 2018 that is big opportunity plus the other expansion which I have already mentioned then seeing what we have done overseas in Dangote and Algeria I think the visibility will dramatically go up and that will give us more business opportunities. Iran is also opening up, so there are opportunities which are coming in Iran but that is linked to financing their projects. So, there are a number of opportunities which are in the anvil.

Kunal Sheth: Sir, what is the size of Maharashtra Refinery?

Ram Singh: Maharashtra Refinery we have already announced two phase thing, the first phase is 40 million tonnes.

Moderator: Thank you. We take the next question from the line of Sumit Arora from Swift Finance. Please go ahead.

Sumit Arora: Sir, just on the order inflow guidance, you know if I understand correctly you are in talks with HPCL for Vizag. But sir, just generally because the OMCs have categorically said that they have quite of a up gradation to do. So I honestly feel that our order inflow guidance of Rs. 3,500 crores out of which Rs. 2,100 crores have already come Rs. 1,400 crores - Rs. 1,500 crores extremely conservative because Vizag itself can be a Rs. 1,000 crores plus order. So what is your thought process so, can our order inflow guidance, can you far exceed your inflow guidance which you have given sir?

Ram Singh: See, we have said Rs. 3,500 crores plus so, obviously it will be higher than Rs. 3,500 crores but the timing is an issue, it can come in this financial year or it can get shifted to the next financial year.



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Sumit Arora: Okay. And sir, secondly, I wanted your thoughts because of the fact that now, currently India has to up gradate to BS-VI fuel and cumulatively if you see HP, BP, IOC the total CAPEX all the three of them put together will be about at least Rs. 3 lakh crore plus because HPCL is 50,000, IOC is 1.5 lakh and BPCL group is 1 lakh. So over the next three years - four years this is the kind of CAPEX. And sir, is my understanding correct that 5% of their order inflow comes to us so, what I am actually looking at is that you know there can be huge amount of order inflow for us over the next couple of years, is my thought process correct sir?

Ram Singh: The opportunities are there, we have already shared the opportunities in the previous question.

Sumit Arora: So thought process on the right side, correct?

Ram Singh: Yes, the things are on the growth path.

Moderator: Thank you. We take the next question from the line of Rohit Natrajan from IDBI Capital. Please go ahead.

Rohit Natrajan: My first question is what is the Phase I assumption in Maha Refinery Project I mean as in quantum of what to done in this particular project?

Ram Singh: The Maharashtra Refinery?

Rohit Natrajan: Phase I assumption for this Maharashtra...

Ram Singh: Basically it is a 40 million tonne refinery with a CAPEX of around more than 1 lakh crore.

Rohit Natrajan: Yes, sir, but for our scope of work done?

Ram Singh: We will do the entire EPCM work.

Rohit Natrajan: So this LSTK project?

Ram Singh: No, still you know the details are being worked so, once the details are finalized then only the exact detail we will be able to share with you.

Rohit Natrajan: But sir, a broad ball park figure would be..



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- Ram Singh:** It will be a consultancy and may be some of the units could be on the OBE basis also.
- Rohit Natrajan:** Okay. As I understand, sir, you also said something on PMC segmental margins could go up to 30%?
- Ram Singh:** Yes, we will see upside in the consultancy margins in the quarters to come.
- Rohit Natrajan:** But also I heard something like Namami Gange you said that the scope of margins are less?
- Ram Singh:** No, the fees element is much lower because in the Hydrocarbon sector we are doing premium engineering service however. There it is more construction driven activities so, that is why the fees is typically in the range of around 8% so, that is the situation.
- Rohit Natrajan:** No, sir, I mean my question is like when you said the incremental exposure now to Namami Gange orders will be as a part of your PMC or is it more to do with fixed expenses that you are incurring and operating leverage is what drives you to 30%?
- Ram Singh:** See, the incremental growth in the revenue and the incremental increase in the expenses are not same. if the execution is good you are having a good growth in the top-line so, obviously that will improve the margins.
- Rohit Natrajan:** Okay. Sir, just final question, are you revising the timeline for Brownfield like Numaligarh we were earlier expecting FY 2019 if I am not mistaken are we getting it to FY 2018 now? Do we see some sort of any picture on that?
- Ram Singh:** Numaligarh expansion?
- Rohit Natrajan:** Yes, Numaligarh Brownfield, Bhatinda, Bina? These three projects for FY 2018 which were earlier guided for?
- Ram Singh:** Numaligarh basically it is being with the incentives so, the company has taken up the project with the government so, after they get the approval then only the project will start.
- Rohit Natrajan:** Okay. So, any timeline on that sir?
- Ram Singh:** Timelines are difficult.



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Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment. Please go ahead.

Viraj Kacharia: Just had a couple of clarifications, earlier in FY 2016 we had taken a couple of provisions and there was also a change in impact, there was impact from the change in work on consulting side so, cumulatively there is an expense loss of revenue or an expense item to the tune of something around Rs. 100 crores. In Q1 we have seen somewhere like Rs. 27 crores reversal from LSTK. So, the remaining Rs. 70 crores - Rs. 80 crores, do we see any scope of recovery on those fronts, I mean you talk a bit on LSTK but on the consulting side also if you can provide some color?

Ram Singh: So, LSTK basically as I have told you we will be left with only two jobs in the current order book, one is the CPCL job and the other one is ONGC jobs. So these are the two jobs and plus for the previous jobs we are in the final stages of closure so, there could be similar write-backs as we have seen in the first quarter.

Viraj Kacharia: On consulting side, sir?

Ram Singh: Consulting side also there will be some write-backs of the completed projects.

Viraj Kacharia: Okay. So most of these accrue in FY 2017?

Ram Singh: This will come in 2016-2017 as well as in 2017 and 2018 also.

Viraj Kacharia: Okay. And sir, one more clarification was on this 8% margin which we talked about in Namami Gange, is it at the EBIT level which you are talking or is it at the net level?

Ram Singh: No, this is the fees with respect to the project cost.

Viraj Kacharia: Okay. So the order which we expect say around Rs. 1,000 crores roughly...

Ram Singh: The order size is roughly say you take Rs. 600 crores

Viraj Kacharia: So, from a margin perspective what kind of EBIT margins in consulting on the higher side we earn plus 30% EBIT margin but in water and waste treatment as a segment and the kind of projects which we are doing right now Namami Gange what kind of EBIT margins operational margins which...



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Ram Singh: We will try to have an optimum utilization of our resources and try to increase our margins in that segment.

Viraj Kacharia: Okay. Basically what I was trying to get is it more on the lines of how we have in LSTK or is it somewhere in between LSTK and consulting on Hydrocarbon side?

Ram Singh: No, here see, once we get our fees then we have certain expenditure and the balance become our margins. So we will be definitely be economizing our resources, we are not going to increase our manpower count in the very immediate future, no. So since the revenues will be increasing so, this will help us in improving the margins.

Viraj Kacharia: Okay. Second question was on the Fertilizer sector, we have been a co-partner basically in Ramagundam Fertilizer Project. Incrementally if you see in last six months to 12 months we have seen various private players and public players announcing orders of PMC to other private players for setting up Greenfield facility in Urea space in the domestic market. So, traditionally we have taken about us not having much credential on the domestic market as one of the major reasons why us not getting qualified for these projects. So is that only after RFCL projects we expect our qualifications credentials to improve and hence any opportunity from Fertilizer would only be materializing after that or if you can just provide any idea?

Ram Singh: , Opportunity is there we have not only done Fertilizer plants in the country, we did four Fertilizer plants overseas in the last few years. So as far as the PTR is concerned, the PTR should not be an issue.

Viraj Kacharia: Sir, I agree. The reason why I am asking is because even last time you guided indicated that overseas projects are not much counted when we consider credentials when PSUs or private players when they award these projects and the reason we were doing Ramagundam was primarily to build credentials in Fertilizer space. So the recent trend which we are seeing on three-four major Urea projects being announced and the PMCs for these being awarded to other players. So just wanted to get a sense of where we are in terms of getting traction on that front, in the domestic market specifically.

Ram Singh: In the Fertilizer sector also there are very prominent player so, just there is equal opportunity for the various competitors there is PDIL, there are other players, so we compete and then give our best shot.



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Moderator: Thank you. We take the next question from the line of Chinmay Gandre from Future Generali. Please go ahead.

Chinmay Gandre: Sir, we have raised our revenue guidance for the consultancy side to almost 12% to 15% growth this year versus I think previously it was around 1000 crores that we are expecting. Sir, but at the end of Q4 like we knew what was the backlog and also in terms of the order inflow the Rs. 3,500 crores which is there so primarily we were earlier working with Rs. 2,000 crores of order inflow which as primarily consultancy and more or less that Rs. 2,000 crores would be now Rs. 2,200 crores odd. So, this increase in revenue guidance on the consultancy side is there increase base of execution I mean just shed some light on that?

Ram Singh: Yes, see, you are right, the revenues are a function of the execution of the order book. So since these orders have come only recently the execution will pick-up after may be two quarters. So, in the first few quarters of the project cycle, of 3.5 years so, in the initial two quarters to three quarters the conversion to turnover is not significant but it picks up thereafter. So, you will see conversion to revenues picking up in the fourth quarter onwards.

Chinmay Gandre: Okay. But, no, my question is basically, we have revised on the upper side whereas the backlog for Q4 we knew...

Ram Singh: The backlog will get converted into revenues gradually so, there would not be right from zero date it will start generating revenues. So, the conversion to revenue will pick-up from the fourth quarter this is what I was explaining.

Chinmay Gandre: Okay. And on the consultancy side we are expecting like EBITDA margin near 30%-odd so, this primary includes like what quantum of reversals or write-back like Rs. 27 crores was for this quarter so I understand that it depends on how you close the projects and all but on a rough ball park it could be how much for the full year?

Ram Singh: We are in the final stages so, the figures will be known in the coming quarters so, we will be able to share with you the final figures in the coming quarters .

Chinmay Gandre: Okay. And my last question, sir regarding the turnkey project which we got so, more or less turnkey orders are like a year and a year and half project cycle is there so, the current turnkey order we would be primarily executing in FY 2018?



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- Ram Singh:** No, this has got a similar cycle to other BS-VI projects which is to be completed by somewhere around third quarter of 2019-2010 so, somewhere September 2019 is the target date.
- Moderator:** Thank you. We take the next question from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.
- Ranjit Shivram:** Sir, quickly it is just a bookkeeping. Our other expenditure has increased from Rs. 33 crores to Rs. 66 crores.
- Ram Singh:** That is provisioning, we have created some additional provisions.
- Ranjit Shivram:** How much is that sir?
- Ram Singh:** See we have created a provision for contractual obligations and for as per the new Accounting Standards we have to revise provisioning for doubtful debts also.
- Ranjit Shivram:** If you can quantify that?
- Ram Singh:** So basically see as per the contractual terms we have to make a provision for the various contractual obligations which are there. So normally what happens whatever contractual provisions we make and certain projects get complete so, we take an overall picture and then the write-backs are adjusted against the current quarter's provision but in this quarter there has been no write-back of the earlier completed projects so the net provision is a contractual obligation around Rs. 13 crores.
- Ranjit Shivram:** And doubtful debt?
- Ram Singh:** Doubtful debt is around Rs. 4.50 crores whereas corresponding quarter last year the figure was write-back of almost Rs. 9 crores that is why you see a quantum jump. See 4.50 crores we have made a provision vis-à-vis write-back of Rs. 9.50 crores so that makes it of almost Rs. 14 crores in the provision for doubtful debts and contractual obligation also there was a write-back of Rs. 4 crores in the last year's corresponding quarter. So, the cumulative difference is almost Rs. 17 crores as far as contractual obligation. So that is why you see a jump in the provisions number.
- Ranjit Shivram:** Okay. Okay. And the subcontract payment is where the adjustment for this Rs. 27 crores of LSTK write-back is accounted for?



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- Ram Singh:** That is right.
- Ranjit Shivram:** And sir, quickly on the Namami Ganga previously we were expecting this to be around Rs. 1,000 crores range, so are we now saying that it would not be Rs. 1,000 crores, it should be around Rs. 600 crores, is it right?
- Ram Singh:** You know this is based on allocation of the various works to the different companies so now we are estimating the figures may be somewhere between Rs. 550 crores to Rs. 600 crores.
- Ranjit Shivram:** Okay, Rs. 550 crores to Rs. 600 crores and Vizag will be around Rs. 700 crores to Rs. 800 crores?
- Ram Singh:** We will let you know.
- Ranjit Shivram:** But the overall project cost of Vizag will be around Rs. 20,000 crores is that right because that is an investment approval they have given?
- Ram Singh:** Yes, broadly it is in that range.
- Ranjit Shivram:** Okay. So roughly around 4% to 5% of that will be our portion?
- Ram Singh:** No, it will be in the final stages so I cannot commit any number?
- Ranjit Shivram:** Okay, sir. And lastly in our Euro-VI expansion we are expecting some Rs. 200 crores addition in terms of order book?
- Ram Singh:** That is right.
- Ranjit Shivram:** And one more this Mumbai expansion we will get some another around Rs. 150 crores - Rs. 200 crores?
- Ram Singh:** No, Bombay has already been awarded.
- Ranjit Shivram:** Okay, that is already there.
- Moderator:** Thank you. We take the next question from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.



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Khadija Mantri: With respect to Namami Gange Project you have received an entry level order of Rs. 80 crores. Could you please elaborate what is the scope of Engineers India in this and also what could be the additional scope of Engineers India going forward?

Ram Singh: These entry level activities are basically there are various ghats so, those are development of those ghats and plus there are certain crematoriums where the bodies are not fully burned out and then they are going to the river. So, it is doing all those base level activities. The expected order which we are talking of the second phase there it will be detailed treatment of effluents which are being discharge to the river and the other activities.

Moderator: Thank you. We take the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Sir, just one very quick question, you alluded to the fact that your staff strength is now expected to increase this year. Just wanted to understand how much of a top-line can you absorb without sort of resuming hiring for the coming years?

Ram Singh: See there are various options with the skilled manpower which we are having I can outsource and then manage there should not be a problem as far as the you know upcoming jobs are concerned.

Utsav Mehta: So would it be fair to say that current utilization still are around 70%-750%.

Ram Singh: Okay.

Utsav Mehta: So, that ballpark correct, right?

Ram Singh: No, the number is slightly higher.

Utsav Mehta: Okay. So we can absorb another 30% growth in terms of top-line and still maintain the same staff strength am I thinking this correct?

Ram Singh: Yes, we can achieve this growth with the existing staff strength plus if required we can outsource any additional requirements that are there but with the current staff strength we should be able to achieve this growth.

Utsav Mehta: Okay. But after that you will need to start hiring again?



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- Ram Singh:** So Yes, but currently this is good enough.
- Utsav Mehta:** Okay. And sir, just one more if I may squeeze in sir, just like Ramagundam equity investment the Maharashtra Refinery also we are expecting some sort of equity investment so, are there any other barring Maharashtra that we would be equity investments in? And what would be the quantum of equity in that?
- Ram Singh:** In the guidelines there are certain limits which have been set for equity investments. So the limit is on an overall basis 30% of the net worth of the company so, you know our net worth so, we can at best go up to 30% limits only.
- Utsav Mehta:** But will it be fair to say that this will be deployed over the next two years - three years as Maharashtra sort of materializes?
- Ram Singh:** The entire money will not be spent in one shot No.
- Utsav Mehta:** No, but the commitment would be through in the next one year or two years, I mean you would be able to commit this amount.
- Ram Singh:** Yes, once the approvals are in place.
- Moderator:** Thank you. We take the next question from the line of Ankush Sharma from Motilal Oswal. Please go ahead.
- Ankush Sharma:** Just two questions. One was on this BS-VI order from CPCL which we have got on LSTK basis. Now, was there a reason why we went on this route while the other orders are on the consulting mode so, was there a specific reason why we took this order?
- Ram Singh:** No, that is basically the client's requirement. So the client has chosen to award earlier also we have done this LSTK OB for Euro-IV for CPCL. So, they were very comfortable with that mode of execution. So that is why we have continued the same thing for Euro-VI also.
- Ankush Sharma:** Understand. And sir, who are the other competitors for this bid along with us?
- Ram Singh:** It is the choice of the client, so, that is how they have taken a decision to award the job to Engineers India.
- Ankush Sharma:** So, it on nomination basis, is that?



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- Ram Singh:** That is right.
- Ankush Sharma:** Okay, understood, okay. And sir, just secondly I think it has been discussed already on the Namami Gange order which you are expecting going into 2017 and I think you said that is going to an Effluent Treatment Plant worth close to about Rs. 500 odd crores so, is that again a nomination or is that being bid?
- Ram Singh:** See, the work has been distributed to certain number of public sector companies. So based on the allocation of work which has been assigned to us this is the estimated value of business .
- Ankush Sharma:** Okay. And I am assuming this would not be one plant but spread over couple of...
- Ram Singh:** Yes, it will be spread over mostly in UP and certain priority cities.
- Ankush Sharma:** Okay, so this is mostly in UP. So, these are effluent but anything on the sewage treatment side as well, anything you heard or by when can we expect something on the sewage treatment side?
- Ram Singh:** Which treatment? Sewage treatment?
- Ankush Sharma:** Sewage treatment on the Namami Gange and the Ganga side, sorry.
- Ram Singh:** So basically what we will be doing is the existing sewage we will be intercepting and then treating those sewages before it is discharged to the river that will be one major component of this job.
- Ankush Sharma:** Okay. Of the one which you are going....
- Ram Singh:** That is right. We have already done some work for Delhi Jal Board and we are doing a considerable amount of work for the State Government of Orissa.
- Moderator:** Thank you. We take the next question from the line of Rishikesh Bhagat from LIC Mutual Fund. Please go ahead.
- Rishikesh Bhagat:** Sir, will we see any pay revision or anything in next year?
- Ram Singh:** Yes, the government has appointed a Pay Commission so the wage revision is due from January 2017.



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- Rishikesh Bhagat:** Okay. So, will that be reflected in FY 2018 or FY 2019 the provision?
- Ram Singh:** It depends from the date they implement the new recommendation.
- Moderator:** Thank you. We take the next question from the line of Alok Rawat from Karma Capital. Please go ahead.
- Alok Rawat:** Sir, you have guidance for FY 2017 revenue as well as margin. Could you also give some color on FY 2018 revenue growth as well as margins?
- Ram Singh:** See FY 2019 the margins are going to be much better because of the improved execution of various orders and as far as order inflows are concerned it is function of how soon the approvals are given by the clients to the various projects.
- Alok Rawat:** Sir, given the current orders that you have as well as what you expect in FY 2017, can we say that revenue growth in FY 2018 will be more than 15% or could it even be as high as 20%?
- Ram Singh:** Yes, the thing should be much better.
- Moderator:** We take the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.
- Bhavesh Jain:** Sir, any thought process on this buyback as the PSUs are doing...
- Ram Singh:** See, government has issued instructions to all the public sector companies to restructure the capital, so various options are being considered.
- Bhavesh Jain:** Okay. So, are we looking at EIL is looking at his buyback option?
- Ram Singh:** I told you various options are being mandated so, we will exercise that option , whichever is most appropriate ..
- Bhavesh Jain:** Okay. And government is looking for FPO also?
- Ram Singh:** No, there is no FPO in the same.
- Bhavesh Jain:** Okay. And sir, what will be the execution timeframe for this Namami Gange orders?
- Ram Singh:** That will typically take three years to four years.



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Moderator: Thank you. We take the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: What will be the execution period for all this Euro-VI Project?

Ram Singh: Euro-VI they are slated for slated for commissioning sometime in September 2019, somewhere in third quarter that should be all commissioned.

Madan Gopal: And Vizag in case if we win it what will be the execution period for Vizag?

Ram Singh: Vizag again, it is four years.

Moderator: Thank you. We take the next question from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, actually on this West Coast Refinery Project this seems to be a very large project so, in terms of any kind of resource mobilization for man power and all those things so, we will have to scale up or we can manage with the current resources?

Ram Singh: If you see our historical we have managed an order book of Rs. 7,500 crores in the past. So, we have the capability and I think we are confident of doing that work.

Charanjeet Singh: Okay, sir. And hopefully, we should be able to close this order in FY 2018 or it can get pushed out to FY 2019 based on the timelines which you highlighted for the feasibility study and all?

Ram Singh: See, as I explained the growth in the demand for petroleum products will drive the addition to the refining capacity see these are typically long gestation period projects so, I think the approval should be happening sometime in next year.

Charanjeet Singh: Okay, sir. And sir, the last on the CPCL project the LSTK project which we have won, so how does this project in terms of the commercial terms vary from what we had earlier won from CPCL where actually we had also seen a lot of provisions happening for the **(Inaudible) 57:48.8** all?

Ram Singh: No, the earlier order from CPCL was on lump sum so that a LSTK project but this is not a LSTK this is a open book estimate with simply the cost plus basis. So any savings in the cost goes to the client **Charanjeet Singh:** Okay. So this is much more



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price variation in terms of if any scope change or anything happens so clients bears that all?

Ram Singh: Yes, the risk exposure levels are not there in this.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment. Please go ahead.

Viraj Kacharia: Yes, just one clarification sir, when we say 8% fees so, if the Namami Gange Project is say for Rs. 1,000 crores if we get say 5% of that so, basically say Rs. 50 crores will be fees and therefore we book order of Rs. 50 crores, is the understanding right?

Ram Singh: Yes, we will take into revenues only the fees which has been awarded to us.

Viraj Kacharia: Right. So from a typical margin perspective or the profitability perspective how does the profitability of projects in waste water or waste treatment, what kind of margins one earns in this segment?

Ram Singh: See, typically this is a new entry area so, the margins in this segment we have already shared with you, they are the margins are in this range because the engineering basically these are construction driven projects.

Viraj Kacharia: So, it will be more close to like what we earn in LSTK or...

Ram Singh: So but on a aggregate basis we will be having a much better margins.

Viraj Kacharia: Okay. Because in LSTK we earn somewhere around 4% to 10%.

Ram Singh: It depends upon what sort of contract we are able to enter into with the client.

Viraj Kacharia: Yes, it would not be as skill intensive as we have Hydrocarbon on the consulting side. So, it will be reasonable to understand that it may be at max be in the range of 10% to 15%?

Ram Singh: We will see basically the margins will be it is a function of the activities which we are required to take in that. So, but on an aggregate basis you will see a much better margin.

Moderator: Thank you. We take the next question from the line of Pritesh Chheda. Please go ahead.



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Pritesh Chheda: I said, the refinery upgrades get finished by quarter three of 2019...

Ram Singh: In the third quarter of 2019.

Pritesh Chheda: This is calendar year 2019?

Ram Singh: Yes, so I will give you the month also, somewhere around September-October.

Pritesh Chheda: Okay. And when does the engineering for these orders get...

Ram Singh: The work is in full swing so we are going full hog as far engineering is concerned.

Pritesh Chheda: Is it that the engineering gets completed in a year's time or it is more than that?

Ram Singh: Yes, much earlier.

Pritesh Chheda: Okay. And then I just was confused see, initially you mentioned that for refinery upgrades all the orders have been issued except MRPL and Kochi and then one of the gentleman asked you about certain number he gave that there is Rs. 300,000 crores worth of refinery upgrades of Rs. 3 lakh crores and in which 5% is engineering so, it is about Rs. 1,5000....

Ram Singh: No, that was this gentleman was basically stating what the Oil companies have stated in last year's AGM or something they have given some tentative CAPEX plans. So, the exact CAPEX of the Oil companies as and when it is approved...

Pritesh Chheda: So, sir, that is some total CAPEX including refinery upgrades may be Rs. 3 lakh crores?

Ram Singh: Yes, what they have stated as their CAPEX and this is I think one year back so, they will be revising those numbers.

Pritesh Chheda: Can you tell us what is the refinery upgrade CAPEX?

Ram Singh: No, this includes the entire CAPEX.

Pritesh Chheda: Greenfield, refinery upgrade?

Ram Singh: Everything, marketing also.

Pritesh Chheda: Everything, okay. Can you just give us the Euro-VI refinery upgrade CAPEX?



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- Ram Singh:** That is roughly around Rs. 30,000 crores.
- Pritesh Chheda:** 30?
- Ram Singh:** Yes.
- Pritesh Chheda:** In which 5% is Rs. 1,500 crores?
- Ram Singh:** That is right.
- Pritesh Chheda:** Right. And Rs. 1,200 crores is what you have received so far? No, Rs. 600 crores consultancy is what you have received so far.
- Ram Singh:** Yes.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Ms. Bhoomika Nair for her closing comments.
- Bhoomika Nair:** Yes, I would just like to thank everybody for being on the call and particularly the management for taking time out and answering all the queries. Thank you very much, sir.
- Ram Singh:** Thank you, thank you, everybody. Thank you, Bhoomika.
- Moderator:** Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.