"Engineers India Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Engineers India Q3 FY2021 earnings conference call hosted by DAM Capital Advisors 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you, and over to you, Madam.

Bhoomika Nair: Thanks Mallika. Good evening everyone. I would like to welcome you to the Q3 FY2021 earnings call of Engineers India. The management today is being represented by Mr. Sunil Bhatia – Director, Finance; Mr. Suvendu Padi – Company Secretary; Mr. R. P. Batra – Chief General Manager, Finance & Accounts and Investor Relations; and Mr. Vinay Kalia – Chief General Manager, Business Development & Investor Relations. I will now hand over the call to Mr. Bhatia for his initial remarks post which we will open up the floor for Q&A. Over to you, Sir.

Sunil Bhatia: Good afternoon, I welcome everyone to the earnings call. I will just brief you on the financial position of the company. During the nine months period from April to December 2020, we secured a business of 864 Crores and the order book as on 31st December 2020 was 8297 Crores. For the quarter ended December 2020 we achieved a total turnover of 837 Crores comprising of consultancy in domestic of 267 Crores, consultancy in foreign 92 Crores. So total consultancy was 358 Crores and 478 Crores was turnkey.

The turnover as compared to corresponding period of previous year was lower by 6% and as compared to the previous quarter of September 2020, it was higher by 22%. Business mix as on 31st December 2020 was consultancy 43% and turnkey 57%.

For nine months period ended December 2020, the total turnover achieved was 1988 Crores comprising of turnover domestic of 730 Crores, turnover consultancy foreign 249 Crores. So total consultancy of 979 Crores and turnkey of 1009 Crores. As compared to corresponding period of previous year, the turnover of 1988 Crores is lower by 15% compared to turnover of 2349 Crores achieved during corresponding period of previous year.

You will recall that last year the turnover of 2349 Crores included onetime impact of change order of 97 Crores in case we compare on like to like basis, the turnover of last year was 2252 Crores and the decrease as against 15% gets reduced to 11.7%.

We achieved a operating profit of 70 Crores during the quarter ended December 2020 almost at a same level of operating profit achieved during the previous quarter of September 2020 of 71 Crores and lower by around 10 Crores as compared to operating profit achieved during December 2019.

Other income has reduced to 48 Crores from 53 Crores achieved during September 2020 and 66 Crores achieved during corresponding period of previous year mainly due to reduction in the interest rate on fixed deposits.

Profit before tax achieved was 118 Crores during December 2020 quarter compared to profit of 124 Crores achieved during September 2020 and profit of 145 Crores achieved during corresponding period of previous year.

Profit after tax achieved was 88 Crores compared to 93 Crores achieved during September 2020 and 109 Crores achieved during December 2019.

EPS on annualized basis was Rs.1.39 per share compared to Rs.1.47 per share during September 2020 and Rs.1.72 during September 2019.

For nine months period operating profit achieved was 156 Crores as compared to 314 Crores achieved during corresponding period of previous year. 314 Crores of operating profit included two onetime impacts, one was 85 Crores due to variation order and impairment adjustment expenditure of around 26 Crores which we had accounted for in the corresponding period of previous year, in case it is offset then the operating profit has reduced by 39% as compared to corresponding period of previous year. Operating margin achieved was 8% as compared to 11% achieved during corresponding period of previous year on like-to-like basis. Other income achieved was 151 Crores as compared to 190 Crores of corresponding period of previous year mainly due to reduction in the interest rate on fixed deposits and profit before tax of 307 Crores compared to 503 Crores and profit after tax of 229 Crores compared to 301 Crores. EPS Rs.3.62 per share compared to Rs.4.76 per share.

Segment results: The segment profit we achieved on consultancy and engineering project of 91 Crores as against 93 Crores achieved during September 2020 and 90 Crores achieved during December 2019. Turnkey project segment profit remains at almost at a same level as compared to September quarter. We achieved a turnkey segment profit of 6.51 Crores compared to 6.27 Crores achieved during September 2020 and the segment profit on turnkey achieved was 15.96 during corresponding period of previous year.

Capital employed as on 31st December 2020 was 2463 Crores compared to 2380 Crores as on September 2020 and 2510 Crores as on December 2019.

As you all know that the buyback process is on, the offer got opened on 22nd of January and it will close on 5th of February. Buyback offer comprises of shares not exceeding 69869047 fully paid up equity share at a buyback price of Rs.84 per equity share for an aggregate consideration not exceeding Rs.586.90 Crores through tender route under stock exchange mechanism.

I would also like to inform you on the development with respect to our joint venture company RFCL. The commissioning of the RFCL project was targeted during December 2020, but because of some equipment related problem in the CPP plant being executed by BHEL, the commissioning got delayed. The problem has been rectified and the commissioning activities are on and now we are targeting commissioning of the project in February 2021.

Now the house is open for queries from your side.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Arfat Sayyed from Reliance Securities. Please go ahead.

Arfat Sayyed: Sir I just want to understand your project pipeline for next two years and what kind of project you are looking for execution also order inflow guidance for 2022 and 2023.

Vinay Kalia: We have already shared in the past that we have two committed orders one from Indian Oil for the Panipat refinery expansion and one for petro RFCC and PP project of BPCL. Both these projects are under phase I and phase II of execution and the main project execution for both the projects are being targeted by next year. They were being targeted earlier in this year, but because of the COVID impact there have been delays plus clients are also looking at the optimization of cost and reconfiguration; activities which we are already doing in phase I. The phase II activities of both these projects are targeted for next year (by middle of next year). Panipat refinery, the main project execution, would be in the range of 600 Crores and BPCL refining project would be in the range of 200 Crores. We are also looking for new refinery at Cauvery Basin at Nagapattinam for Indian Oil. Indian Oil in recent news have already announced Capex approval for this refinery. The bidding process had already been initiated by CPCL and we expect some orders to come through by the end of this year or beginning of next year. So this is another project that we are targeting by end of this year or next year. It is still under bidding process, values would be known in due course once the bids are announced. Subsequently we are looking for more projects in next year but only after the second half like Mangalore refinery expansion project for which the feasibility study has already been done. We are also looking at one or two small projects this year also from Numaligarh which could materialize by the end of this quarter, which is for the revamp and quality upgrade in Numaligarh refinery. We can also look at HMEL expansion next year which is a cracker expansion from 1.2 to 1.5 MMTPA. The cracker project is currently ongoing for 1.2 MMTPA and subsequent expansion is also being planned by HMEL in next year. These are large ticket value orders. There are some small orders from pipeline segment and LPG segment as well. So going forward as of now since we are coming out of COVID and project capex announcements are gradually taking shape again we feel that targets for next year could be in the range of 1500 to 2000 Crores, but the numbers would be finalized as and when the Capex plans get concluded by the NOCs. There have been some delays because of COVID and because of the shortfall in the cash flows in the oil companies, so it will take some time for us to rebound targets for the next year.

Arfat Sayyed: Thanks Sir.

Moderator: Thank you. The next question is from the line of Varun Patni from Prespero Tree. Please go ahead.

Varun Patni: Sir as you mentioned the IOCL and BPCL awards have been postponed to the next year what would be the guidance for the current year FY2021 given that we have already secured business of 853 Crores and how much of it is there for the next quarter.

Vinay Kalia: We are expecting one order from Numaligarh refinery in this year of about 100 Crores that can materialize within a month or so, we are expecting the opening of tenders for Cauvery Basin Refinery for which the bids have been submitted. We are expecting some announcements from Cauvery Basin because the Capex investments have also been approved by the Indian oil board. So we can expect another big order in this year also.

Varun Patni: But the bidding process is yet to be done for that.

Vinay Kalia: Bidding process has been done. Bids have been submitted and are under evaluation. They can opened anytime now.

Varun Patni: Another question I had was with respect to the order execution. So from the consolidated profit and loss statement we could see that the execution has been for 358 Crores for this consulting fee and if we look at the order book then if we had opening and the business secure less the closing the figure comes to 383 Crores. So what about the difference of 25 Crores if you could explain something about that.

R P Batra: Basically this is a sort of adjustment, there are certain reduction and addition in the scope of work over a period of time. So this type of reduction and addition takes place and the difference is only on account of some reduction in the scope of work for some contracts.

Varun Patni: So this is not happen first and this happens on a consistent basis.

R P Batra: This is a normal practice, sometime you find increase sometime you find decrease.

Varun Patni: And sir with respect to the NRL if you have some kind of update with respect to that.

Vinay Kalia: You are talking about the order that we are going to secure.

Varun Patni: No the divestment of BPCL and NRL.

Sunil Bhatia: See it will be informal, at various times as I said in our last meeting also that lot many things are taking place simultaneously. As you know that our buyback offer is there then due diligence process has to get completed, then whatever valuation is finally worked out, based on all these factors and our kitty, we will be taking considered view that whether we intent to go for taking equity stake in NRL or not and if yes to what extent. So as of now it is too early to say anything on that. Once the total process gets completed only then we will be in a position to comment on that.

Varun Patni: With respect to RFCL or we could expect the revenues coming in from February and March this year or it would be taking on from next fiscal.

Sunil Bhatia: See we are targeting to declare commercial operation date by February end or sometime in March so a very marginal part will come in the current financial year. Otherwise it will go to the next financial year.

Varun Patni: Okay thank you that was helpful.

Moderator: Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: My question was on RFCL do we have any plans for separate listing of RFCL in the future.

Sunil Bhatia: Not now because I think that decision will be taken by RFCL board, as per my understanding, after the total debt is paid off or major chunk of the debt has been paid off. So I think it will be taken in due course of time once the plant gets stabilized and it is into one or two years of operation only then the board will give some consideration to this.

Samarth Singh: Just given that gas prices are at historical lows and reduced subsidies due from the government and a combination of that with liquid equity markets I think fertilizer companies are getting great valuation to it. So perhaps we should think of not waiting for the debt pay down and doing a listing and taking some money of the table today that is just a suggestion is that couple of things it will also to get a good valuation for our investment it will help us take some money of the table and it will also give signal to the market that Engineers India management is very capable at investing in ancillary businesses and creating value for shareholders.

Sunil Bhatia: See your suggestion is appropriate for existing urea units where the different policy governs. As far as these new projects are concerned they are governed by a separate new investment policy in which gas price is a pass through so the price of gas does not impact the profitability of the company. In case the gas price is low the concession price to be given by government also comes on the lower side so a better proposition, as far as we understand, would be to plan once the plant gets stabilized. Also I would like to share with you that government borrows beyond 100% capacity utilization to meet the urea demand in the country.In case that happens in future also, once all the revival project and new projects are into commercial operations then government may resort to buying on merit order basis and RFCL cost of production & variable cost being amongst the lowest, so they will be in a better position to sell beyond 100% to the government. So when RFCL plant will get stabilized after one or two years operation and once the all new plants are there that should be the period when RFCL should venture into the market and that decision in any case will be given due consideration by the RFCL at an appropriate time.

Samarth Singh: And could you just give me on the balance sheet the cash debt and the customer advances, please.

Sunil Bhatia: Are you asking for EIL or for RFCL.

Samarth Singh: For EIL.

R P Batra: The cash is around 2500 Crores and there is no debt in the company’s balance sheet.

Samarth Singh: And the customer advances.

R P Batra: Customer cash advances are around 100 to 150 Crores.

Samarth Singh: And the last question from my side are there somewhere that the government is coming up with new targets for PSUs where immigrating is decided based on return on equity and the market value etc. So has that happened and does that apply to EIL as well.

Sunil Bhatia: No those parameters have not been firmed up by the government so the evaluation and MOU rating is presently based on the existing parameters.

Samarth Singh: Thank you very much.

Moderator: Thank you. The next question is from the line of Viral Shah from Prabhudas Liladher. Please go ahead.

Viral Shah: Sir what has been the reason for our margins being lower for the turnkey business because if you look at three, four quarters we are in the range of around 1.9% to 1.4% and we have been guiding around 3% to 4% EBITDA margins so what has led to that it is only the topline or there is something else is there.

Sunil Bhatia: You are talking about the turnkey segment.

Viral Shah: Turnkey segment sir.

R P Batra: Yes, turnkey segment you see basically right now we are executing the jobs which are cost plus jobs. Those jobs are negotiated at a fee on our plant and machinery. So whatever the expenditure is being incurred on that we are getting a certain amount of percentage as a fee. Over a period of time during the last few years the fees negotiated with the client are in the range of around 3% to 5% that we are sharing with you also. So taking into consideration that our margins basically are in the range of around 3%. You see that in December 2019 quarter our margin was 3% at that time. We were executing certain jobs wherein we had taken certain provisions for the completion of those particular jobs. Right now we are majorly executing two jobs one is the Rajasthan refinery project and another is the HPCL Vizag. These are cost plus projects and the margins are on the lower side. We have got the job under a strict competitive prices and we are also providing certain provisions for these jobs including the guarantee and warrantee liability. As and when those projects will be completed we might reverse certain provisions and as such margins may increase in that particular quarter. Going forward taking into consideration our present order book, we are expecting the margin to vary between around 3% maximum and minimum will be 2% something like that.

Viral Shah: Sir so is the understanding correct that you would have bidded for around 3% to 5% kind of margin but you have made a provisioning of roughly 1% so once the provisioning get released and at that quarter or that financial year to say the margins will be substantially higher is the understanding correct.

R P Batra: Yes you are very right in case no liability comes definitely there will be write back of the provision and the margin to that extent will increase during that particular quarter. See for any turnkey project the clear position emerges only when the contract gets closed. So during execution in terms of the accounting standard we keep some provisions and once the contract price is finally settled and closed then the clear position will emerge.

Viral Shah: No, I agree to that sir. Okay got it sir and sir that is also the main reason because your contribution of turnkey business has been substantial during the quarter and that is the main reason why your EBITDA margin on console level would have come down right is the understanding correct or there is some…

Sunil Bhatia: Yes your understanding is correct yes definitely.

Viral Shah: Sir second question is what is the status of our bid which you are suppose to bid for HPCL with IOC on HPCL refinery any update on that.

Sunil Bhatia: Could you repeat your question sir we could not hear that.

Viral Shah: Sir we were supposed to put a bid with Indian oil IOC right for bidding for the BPCL refinery any update on that strategic bids as these are supposed to put on.

Vinay Kalia: We have bid for the Cauvery Basin refinery of Indian oil. It is a CPCL refinery which is an Indian Oil group company. The bids have already been submitted about 2-3 months ago. Meanwhile CPCL is going for internal approval for the Capex. Now the Indian Oil board has announced the Capex investment for Cauvery Basin and we feel the bids would be opened soon.

Viral Shah: And do you know how much the participants would be there for the bid two, three or…

Vinay Kalia: There are two or three bidders at least in the bids that CPCL have floated.

Viral Shah: Sir apart from the pipeline which you would have announced and how is the projects which are looking globally could you touch up on the export market and the opportunities which might come up there as well.

Vinay Kalia: Foreign markets will still be sluggish because you know they are the crude exporting nations. They are dependent upon crude and its inventory for more revenues. Possibly due to lower crude oil prices, they have cut down lot of their Capex plans and are looking at revamp and quality upgrade projects, energy efficiency improvement projects, value maximization projects which are of small size. So we are not looking at large projects from their side. We might be looking at small annual rate contracts coming up from Middle East.

Viral Shah: That is really helpful that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir on this Barmer refinery part sir there are expansion expected there also. So what is the update on that, what scope of work have we eyed or are we having in this refinery.

Vinay Kalia: See we are already executing the Barmier refinery which is an integrated refinery with the petrochemical complex. We are the consultants for this refinery and one of the projects has also been given on a cost plus basis (which is the turnkey segment). Project is under execution as of now and we are the main PMC consultants for the same. Some more small value assignments could be coming from expansion of marketing their terminal and some value additions in the existing refinery.But the larger Capex is already committed and we are executing that.

Saket Kapoor: In fact where are we in that stage of completion, how much have been spent on the project and when it will be nearing completion.

Vinay Kalia: See the OBE or the cost plus contract is about 30% complete and the consultancy contract for the main refinery and petrochemical complex is around 20% complete. A lot of EPC packages have been already awarded and some more packages are yet to be awarded in the refinery complex. So sooner or later you will see the execution of main EPC Phase in the refinery.

Saket Kapoor: And the total cost of the project sir that we are handling the scope of work is there.

Vinay Kalia: That we are handling is around 45000 to 48000 Crores, but it is expected to increase further because Capex is being reestimated. As and when the EPC contracts get awarded the Capex number will keep on changing.

Saket Kapoor: And only 13%, 20% is what has been executed so there is a lot of revenue that is going to come from the as and when the project…

R P Batra: No basically we are executing two jobs, one is as a PMC that is around 1182 Crores another is OBE job where the contract value is around 3700 Crores so these two jobs basically we are executing. The Capex which I was sharing earlier, which is around 45000 to 48000 Crores.

Saket Kapoor: Regarding sir this buyback part of the story sir which is continuing right now sir what is the Government of India share sir in this, you must have consulted them. Sir out of the total I can say 686 you precisely mentioned what would be the tendering ratio of acceptance from the government side how much.

Suvendu Padhi: Government of India currently is owning 51.49% in EIL. While participating in the tender they have given a condition that they will retain 51% holding in EIL.

Saket Kapoor: Okay post this issue. Post the issues it will be 51% for them. So sir that is what is the calculation you have done sir how much is the tendering that is going to come from there.

Sunil Bhatia: It will depend on the participation by other shareholders till the closing date so I think government will be tendering during that time only after seeing what is the percentage or number of shares tendered by other shareholders. Government in clear that they do not want to go below 51%

Saket Kapoor: And sir looking at our RFCL project also coming on-stream and the cash we are generating and the cash which we have on the balance sheet…

Moderator: Sir this is the operator there is a disturbance coming from your line from the background I would request you to mute your line once the management answers your question.

Saket Kapoor: Absolute madam let me complete now madam. Sir I was talking about the cash flows which are generated for this quarter sir can you give the idea sir what have been the cash flow for this quarter sir.

R P Batra: Whatever profit is there that is basically more or less the cash flow generated during the current quarter. Also we have made the payment of the dividend in the month of October so considering that as of date we are having a cash and bank balance of around 2500 Crores.

Saket Kapoor: And there are no receivables that I wanted to understand how much what is the receivable for the nine months.

R P Batra: Net receivables are around 550 Crores.

Saket Kapoor: And sir going forward the cash which will be generated post this buyback what kind of dividend payout could we expect next we would be coming up at a annual number and how is quarter four shaping up sir in terms of the execution cycle where are we going to likely anticipate as you must have done the homework for that.

Sunil Bhatia: See quarter four execution we are seeing will be much improved as compared to previous quarter and as you rightly said that once the buyback is completed and then we will work out the dividend part and you must have seen previously also that during last couple of years there has been intent to maximize dividend and that intent will carry on. But it is too early to say to comment anything on the quantum of dividend which we may target.

Saket Kapoor: And lastly sir in today's union budget the figure of 34.5 lakh Crore capital expenditure capital outflow has been mentioned in terms of the Capex so looking at that in the segment which we operates what…

Moderator: Sorry to interrupt Mr. Kapoor sir this is the operator I would request you to rejoin the queue for follow-up.

Sunil Bhatia: Absolutely madam thank you.

Moderator: Thank you. The next question is from the line of John Gupta from Philip Capital. Please go ahead.

John Gupta: Sir just a firstly on book keeping question sir I just missed out on the number that you just gave the earlier participant on the Barmer project completion so how much of that is still pending and our consultancy backlog and how much of that in the turnkey backlog if you can give that separately.

Vinay Kalia: See from the overall perspective of the Capex investments and how the progress on the projects has happened. The overall progress on the projects is about 20% to 25%, but that is on the Capex side. The services percentage progress numbers for our revenue recognition would be different.

John Gupta: So as part of your backlog you would not have completed 20% you would have completed slightly higher right or because that is on physical sorry so that is on physical completion so it should be lower. How should one look at that.

Vinay Kalia: We have completed about similar range only we are also quite close to that.

John Gupta: Almost at the same level.

R P Batra: Yes almost at the same level.

Sunil Bhatia: So we have also closed about 20%.

R P Batra: Yes, in the consultancy the contract price was 1182 and in the order book it is around 900 Crores.

John Gupta: And on the turnkey side sir.

Moderator: Sir the line for the management has disconnected kindly stay on line till I will connect them. Ladies and gentlemen we have the management reconnected to the call. Thank you and over to you sir.

John Gupta: Yes sir you are mentioning the turnkey portion sir how much of the Barmer project is…

R P Batra: Around 20% we have executed. If we go by the contract price so we have recognized to the extent of around 20% both in the consultancy and the turnkey segment.

John Gupta: Sir my second question was when you mentioned the initial target for FY2022 in terms of order flows which is about 1500 to 2000 Crores just wanted to reconfirm that out of this 600 Crores which is Panipat and 200 crores which is BPCL**Rasayani** form part of that number.

Vinay Kalia: Yes.

John Gupta: And if you expect Cauvery Basin and Mangalore to flow through in FY2022 do you believe that the Cauvery Basin order also will be broken up into phases and that is why this order inflow number sort of looks muted.

Vinay Kalia: See there this Cauvery Basin. This year itself now that Indian Oil has announced the Capex plans they can come up in this year yes there are multiple tenderings in CPCL project also, so some of this can come up in this year at least.

John Gupta: So last when you had mentioned the total opportunity out of Cauvery Basin was anywhere close to 800 to 1000 Crores for the 9 million tonne refinery so the package that you are targeting in the fourth quarter will be somewhere in the 340 Crores.

Vinay Kalia: Those are on competitive bidding and there are multiple players so which one we get let us see and how much.

John Gupta: So it is not certain that if you get one package you will get the other, just like what happened in Numaligarh.

Vinay Kalia: Yes that is the case but yes few packages are there some are large and some are small so we have to see. We are hopeful of getting one package at least from this package.

John Gupta: And my last question was sir you mentioned that we have made some conservative provisions in the turnkey segment which is why our margins for the nine months are hovering around 1.5%, 1.6% could you quantify these provisions I know they are in the normal scheme of things and there is nothing extraordinary but just to give us the idea of…

R P Batra: Those are being disclosed in the our financial statement i.e. on what basis we are making the provision. For the turnkey project we are making the provision on account of guarantee warrantee at the rate of 1% of the value executed. So these provisions are accumulated over a period of the contract so when the contract is completed in case no liability comes on account of the guarantee and warrantee liability, those are written back at that point of time. So during the currency of the contract 1% of the provision is being made and those are written back when the contract is complete. Plus there are certain other provisions also like in the turnkey segment also. We are having certain LSTK project where we have certain outstanding and as per Ind-AS we have to make a provision based on the tendency of that particular contract. So such provision also comes into force for the turnkey segment as well as the consultancy segment. So principally there are two major provisions one is on account of the guarantee and warrantee liability and other is the provision for the doubtful debts. If you just see our track record normally we do not encounter any write offs on account of debts, but time gap is there. So during the currency of the project these things are accommodated and once, on the completion of the contract, these are resolved they are written back which add up to the profit for that particular quarter over the financial year.

John Gupta: Thank you all the very best sir.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Sir continuing the previous question can you tell us what is the cumulative provision as on 31st previous quarter ended for turnkey.

R P Batra: That I have to checkup basically I do not have right now that provision is not available with me right now.

Nitin Gandhi: May be can I get to be mail subsequently.

R P Batra: Yes we can communicate. yes you can talk to me and I will get it.

Nitin Gandhi: Sure thank you. The next question is considering the earnings volatility during the tough time are you likely to see the stable dividend policy at least because or is there any constraint for making total payout as a percentage of the profit during the year internally so that we can reach some colour on that dividend policy.

Sunil Bhatia: Things will get clear only when the offer for buyback is closed only then we will come to know of the total amount which is going towards buyback and the total amount which is available to us so I think at that point of time…

Nitin Gandhi: Let us assume it is going to be 100%, 2500 Crores your cash is there 600 Crores will go for the buyback then we will be left with 1900 and maybe you will add 100, 120 for the quarter for to be at least 2100 Crores.

Sunil Bhatia: Yes in that scenario we will estimate the total profit for the current financial year by estimating the quarter four number and then we see how much we can pay as dividend because we need to also see the cash availability with us for undertaking our normal operations of the business.

Nitin Gandhi: What is the normal requirement for the Capex.

Sunil Bhatia: Normal requirement for current year is around 75 Crores.

Nitin Gandhi: And considering the projects what we have on hand for next year FY2022 what do you expect this to be.

Sunil Bhatia: Next year we are targeting Capex of around 150 Crores which also includes some part of the building renovation of our office.

Nitin Gandhi: Thank you very much and I expect that it will stable dividend is maintained that is at least what we wish for, thank you.

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

Ketan Shah: Sir I have one question on the Numaligarh refinery sir along with oil India we have submitted a bid so can you update us how much will be our investments if we done the bid.

Sunil Bhatia: See we have submitted expression of interest along with Oil India and it was also informed that we may be going for minority stake holding but clarity will emerge only when the total due diligence exercise gets completed and valuation is firmed up. So it is too early to say anything on that because one is that whether to go for equity participation or not that will depend on completion of due diligence exercise. Once that decision is taken that okay, based on our commercial interest, we intend to have equity participation in NRL, then the quantum will depend upon the valuation and the kitty available with us after the buyback.

Ketan Shah: Sir is it right for me to say that it will be a very substantial cash outflow from our side because we will have 2500 of Crores of cash which we have and Numaligarh if we are able to get then substantial cash, which we have in our balance sheet will go towards that or what is the thought process or are we having an limit to which we will be able to spend such kind of money.

Sunil Bhatia: See with respect to limits, the board of directors of the company of Navratna status are empowered to invest in joint venture up to 15% of networth or 1000 Crores whichever is lower.

Ketan Shah: Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Yes thanks for taking my question. Sir the last year you had quarter three vis-à-vis quarter four certain volatility in terms of revenue as well as the profitability so is there something lumpiness or can you guide something for the Q4 execution considering we have already pass through one month and do you see any disturbing trend or you think that there could be another normal quarter with some requirement.

R P Batra : Yes we are expecting a normal quarter Q4 we are expecting a normal quarter in the last financial year. In Q1 there was a change order form the Dangote refinery that had basically contributed to the additional revenue and profit in that particular financial year. Otherwise during the current financial year we are expecting the Q4 to be a normal one.

Nitin Gandhi: Yes that is similar to what at least we had last year right YoY it will be better now.

R P Batra: Yes more or less it will be in line with that.

Nitin Gandhi: Okay thank you.

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

Neerav C: Sir I am referring to slide #8 and on that slide actually I see that the segment profit for the turnkey segment is consistently going down from 28% in FY2016, 2017 to just 1% in Q3 2021. So I want to know are we pricing this contract to aggressively and what is the reason for such a sharp decline in the operating profit or the segment profit for the turnkey project that is my first question.

R P Batra: Yes, in the earlier years basically we were executing the petrochemical projects in those projects there was a substantial margin. Those were the very complex project so margin were definitely higher than the project currently we are executing so you were talking about 28% profit that maybe one of the case in that particular quarter we may have written back the certain provisions we had created during the previous years. That maybe the reason for the 28% margin we were having otherwise definitely during those periods we were earning the segment profits of around 7% to 10% right now whatever turnkey project we are executing these are very simple projects. Basically offsites and utilities projects. So in these projects basically the margins are very less in comparison to the complex petrochemical plants which we had executed for MRPL during those period so that is principally the reason for decline in the margin in the turnkey segment.

Neerav C: Thanks a lot for your response. Sir in that case can we follow the strategy of executing more consulting work and moving away from the turnkey because our margins in consulting segment is consistently about 25% or more so does not it make sense to focus more on the consulting segment and get a better return on capital rather than focusing on the turnkey segment where our margin is just 1% right now and even it was in a single digit for most of the periods.

R P Batra: Yes, that depends basically on the client, in case client want to execute certain project in the turnkey segment. The major difference between the turnkey project and consultancy project is basically in the turnkey project the my revenue and expenditure includes the plant and machinery cost so in case you compare with the whatever efforts you are making even 2% to 3% profit is substantial in comparison to the consultancy segment where my principal cost is the employee cost. So I do not have a choice basically in case client wants to execute a particular project on turnkey basis, I have to secure a business and I have to deploy my workforce. So depending on the client choice we decide. However definitely our first preference will be in the consultancy but in case client insist for the turnkey segment we go for that.

Sunil Bhatia: See we are not executing turnkey by compromising with consultancy segment. This is the additional business which we take based on decision of the client and the exact profitability from turnkey gets established only when the contract gets completed so the example which you were giving that in one quarter it was 28% so that maybe due to the reason that one of the LSTK contract got completed during that quarter. So each and every turnkey contract is taken on its own merit and as an additional business to our consultancy segment.

Neerav C: Just my final point on this one sir. So in that case could we price the turnkey contract more aggressively because I think you mentioned earlier physically we keep the margin of 2% to 3% for the turnkey contracts and clearly based on the results what we see that does not seems to be now for the kind of risk which we take in executing those contracts so could we then kind of price the contract more aggressively so that we can actually get the better return on our capital and efforts and the rates which we take.

Sunil Bhatia: See the pricing is already done by taking into consideration all those factors. so that once that contract gets closed we should earn up a reasonable margin on the execution of the contract by safeguarding our interest. That point is well taken while we bid for any turnkey contract.

Neerav C: Sir in that case sir just a final point in that case could we assume the lower single digit as a profit margin for your turnkey segment and 25% plus for the consultancy segment that would be the ongoing run rate for two of these businesses.

R P Batra: Yes based on the current order book position definitely in the consultancy segment between 25% to 27% and in the turnkey segment around 2% to 3%.

Neerav C: Thanks a lot sir appreciated.

Vinay Kalia: Further I would like to say that to de-risk there are other strategies for example all these are cost plus contracts and these are utility and offsite contracts. They are not the petrochemicals, refineries and petrochemical plants where the risk is more and since it is a cost plus contract, all the plant and machinery cost is a pass through cost unlike a conventional LSTK contract. So while we do pricing and the profitability, we also take into the account whether we can de-risk through other modes of contracting or not.

Neerav C: Okay thanks a lot sir this was really helpful appreciated.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited for closing comments.

Bhoomika Nair: I would like to thank the management for giving us an opportunity to host the call and also to all the participants for their participation. Thank you very much sir for answering all the queries. Wishing you all the very best!

Sunil Bhatia: Thank you Bhoomika thank you so much.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.