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Date : 23-11-2017

**The Secretary**  
**National Stock Exchange of India Ltd**  
5<sup>th</sup> Floor, Exchange Plaza  
Bandra – Kurla Complex  
Bandra (E)  
**MUMBAI - 500 051.**

**The Secretary**  
**BSE Limited,**  
Rotunda Building, P J Towers  
Dalal Street, Fort  
**M U M B A I – 400 001.**

Dear Sir(s),

**Scrip Code : NSE: NCC & BSE : 500294**

**Sub: Transcript of the conference call.**

Please find enclosed herewith the transcript of the conference call that took place on 14<sup>th</sup> November, 2017 for discussing about Un-Audited Financial Results (**standalone**) for the Second quarter and Half year ended 30<sup>th</sup> September, 2017. Kindly take the above information on record.

Thanking you,

Yours faithfully

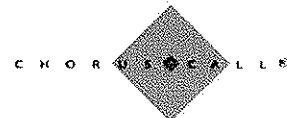
**For NCC LIMITED.**

  
**K Ramakanth**  
**Dy. Company Secretary)**  
Encl : As above



**“NCC Limited Q2 FY2018 Results  
Conference Call”**

**November 14, 2017**



**ANALYST:**

**MR. SHRAVAN SHAH - DOLAT CAPITAL MARKETS  
PRIVATE LIMITED**

**MANAGEMENT:**

**MR. Y.D. MURTHY - EXECUTIVE VICE PRESIDENT  
(FINANCE) - NCC LIMITED  
MR. S.V.N. BHANOJI RAO - VICE PRESIDENT  
(FINANCE) - NCC LIMITED  
MR. R.S. RAJU - EXECUTIVE VICE PRESIDENT  
FINANCE AND ACCOUNTS - NCC LIMITED  
MR. SIVA RAMA KRISHNA - MANAGER, FINANCE -  
NCC LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the NCC Limited Q2 FY'18 Results Conference Call hosted by Dolat Capital Markets. 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shravan Shah from Dolat Capital. Thank you and over to you Sir!

**Shravan Shah:** Thank you. Good evening everyone. I would like to welcome you all for Q2 FY2018 Results conference Call of NCC Limited. We thank the management for giving us the opportunity to host the call. From the management we have Mr. Y.D. Murthy - Executive Vice President - Finance, Mr. S.V.N. Bhanoji Rao - Vice President - Finance, and Mr. R.S. Raju - Associate Director Finance and Accounts. Without wasting much time, I would now handover the floor to the management for their opening remarks and then we can have Q&A. Over to you Sir!

**Y.D. Murthy:** Thank you Shravan. Good evening everybody, I am Y.D. Murthy, Executive Vice President - Finance from NCC. I have my colleague Mr. Sivarama Krishna with me, Manager Finance. Unfortunately Mr. Bhanoji Rao and Mr. R.S. Raju were not able to participate. They are in some other meeting today but we will take the conference call forward. Initially I will make my opening remarks and after that we will have a question and answer session.

In the second quarter of FY 2018, we have done a total revenue, i.e., the topline of Rs.1,342 Crores. That includes other income of Rs.42.2 Crores and EBITDA of Rs.124.4 Crores, i.e. about 9.6% EBITDA margin and PAT of Rs.20.3 Crores, i.e. 1.5% PAT margin. The topline is badly impacted mainly because of the GST and perhaps many of the participants may be aware, we have also taken expert opinion and all that. Whatever billing that we are doing to the client from 1<sup>st</sup> July 2017, we are giving it as a tax invoice, that is the services component plus the tax component. Based on the advice given by our experts, we have taken only the services component into our turnover because now GST is considered as a tax collected by us and deposited in the government, that is a tax collected by us on behalf of the government. So, the topline is impacted, but that is going to be temporary in nature and also there are certain issues particularly, in terms of vendors submitting the various raw materials and also various equipment for the construction projects, there were certain delays again because of the difficulty in the first quarter of the GST regime. All these have impacted the topline as far as the second quarter is concerned, but nevertheless, we are confident there will be good improvement as we go forward.

The finance cost has come down to Rs.88.8 Crores in Q2 as compared to Rs.98.6 Crores in the Q2 of the previous year and as for six months' finance cost is concerned, we achieved a level of Rs.174.9 Crores as compared to Rs.192.6 Crores in the previous year's first six months. So, good improvement in saving the finance cost. Depreciation is at Rs.29 Crores for the Q2 which is in line with similar number in the Q2 of the last year. Cash profit is about Rs.49.3 Crores as compared to Rs.79 Crores in the previous year. The company has booked other income of

Rs.42.2 Crores. Out of that, Rs.36 Crores is on account of interest income and miscellaneous income is about Rs.2.5 Crores and profit on sale of fixed asset is about Rs.1.4 Crores.

As far as the details of the finance cost is concerned in the second quarter, Rs.88.8 Crores of finance cost was achieved and in this interest on term loans is Rs.1.1 Crores, interest on cash credits and WCD is Rs.54.5 Crores, interest on mobilised advance is Rs.12.3 Crores, interest on others is about Rs.1 Crore, bank guarantee commission Rs.17 Crores, LC commission Rs.2.4 Crores and other finance service Rs.0.5 Crores, totally Rs.88.8 Crores.

Debt on the balance sheet as at 30<sup>th</sup> September 2017 is about Rs.2035 Crores. Order book, there is a good improvement. We have achieved an order book of about Rs.21,909 Crores at the end of the Q2. Now, I will give you the bifurcation of the order book. The debt at the end of Q2 is Rs.2035 Crores.

At the beginning of the year, we had an order book of Rs.18,088 Crores. In this, the building segment is Rs.7,730 Crores, Roads is Rs.563 Crores, Water, Environment, and Railways is Rs.3349 Crores, Electrical Rs.1609 Crores, Irrigation Rs.1,904 Crores, Power and Metal Rs.99 Crores, Others nil, Mining Rs.1874 Crores, International Rs.962 Crores.

Orders executed so far – before that I will give you the new orders received in the current year, in the first six months, Buildings Rs.4,381 Crores and Roads Rs.383 Crores, Water, Environment, and Railways Rs.2,521 Crores, Electrical Rs.684 Crores, Irrigation Rs.900 Crores, Power and Metals no order, Others Rs.489 Crores and Mining no orders, International no order. So, total orders received in the first six months of the current year is Rs.9,358 Crores. In this, orders executed, Buildings Rs.1,659 Crores, Roads Rs.186 Crores, Water, Environment, and Railways Rs.1034 Crores, Electrical Rs.261 Crores, Irrigation Rs.131 Crores, Power and Metals Rs.19 Crores, Others nil, Mining Rs.6 Crores, International Rs.287 Crores, total orders executed Rs.3,583 Crores.

So, the balance of orders at the end of September 2017, including GST, Buildings is Rs.10,451 Crores, Roads is Rs.760 Crores and Water and Environment is Rs.4,836 Crores, Electrical Rs.2032 Crores, Irrigation Rs.2,673 Crores, Power and Metals Rs.80 Crores, Others Rs.489 Crores, Mining Rs.1,868 Crores, and International Rs. 675 Crores, total is Rs.23,864 Crores. This figure includes GST also on the new orders received in the Q2.

Now what we have done is, we have removed the GST from the order book and given a net figure of orders minus GST. In Buildings the component of GST is Rs.1,244 Crores, in Roads Rs.77 Crores, in Water and Environment Rs.125 Crores, Electrical Rs.192 Crores, Irrigation Rs.23 Crores, Power and Metals Rs. 8 Crores, Others Rs.52 Crores and Mining Rs.235 Crores, total is Rs.1955 Crores. So, the net balance of orders after adjusting for GST, Buildings Rs.9,207 Crores, Roads Rs.684 Crores, Water and Environment Rs.4,711 Crores, Electrical Rs.1840 Crores, Irrigation Rs.2650 Crores, Power and Metal Rs.73 Crores, others Rs.437 Crores, Mining

Rs.1633 Crores and International Rs.675 Crores, total orders on the books of the company at the end of the Q2 Rs.21,909 Crores after removing the GST component.

So, this is as for as the order book is concerned and in the month of October, we received new orders of nearly Rs.6,200 Crores and the order book at the end of October is about Rs.28,109 Crores. The order recehas been pretty strong in the first seven months of the current year, we received Rs.14,886 Crores of orders.

As far as the loans and the advances are concerned to subsidiaries and associates, the figure at the end of the Q2 is Rs.609.6 Crores, it is more or less same like Q1 of FY 2018 when the figure was Rs.605.4 Crores and the investment in associates and subsidiaries, it is Rs.999.4 Crores as compared to Rs.1043 at the end of the Q1. Exposure to group companies, i.e loans and advances plus investments put together has come down to about Rs.1609 Crores compared to Rs.1648 Crores at the end of the Q1.

Retention money in the books of the company at the end of Q2 is about Rs.1,719 Crores, cash and bank balance is Rs.94.9 Crores. Inventories, raw material at cost Rs.299.9 Crores, work-in-progress at contract rate less profit margin Rs.1014.6 Crores, property development cost at cost about Rs.15.3 Crores, total inventory is Rs.1,329.9 Crores. Trade receivables Rs.1,906 Crores, debt collection period, there is a jump in the debt collection period mainly because of the GST and related problems. At the end of Q2, it is about 105 days, the previous quarter it is about 88 days.

Bank guarantee of Rs.291.5 Crores was invoked by one of our clients and we have fully met the liability on account of the bank guarantee without any problem and we have also maintained to see that our accounts are regular with the banking system. In any case we have gone for an arbitration award in this project, it is a power project we are executing as EPC contractor and subject to arbitration award, we are very confident as our retention money of Rs.360 Crores is lying with the client, and also our final RA bill of Rs.100 Crores is lying with the client. So, based on the discussion we had with our statutory auditors, we have not made any provision but definitely we have seen to it that there is no irregularity in our bank accounts on account of this bank guarantee invocation. That is all from the management side, now I request the participants to ask their questions.

**Moderator:**

Sure, thank you very much. We will now begin with the question and answer session. Participants who wish to ask a question may press "\*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "\*" and "2". Participants are requested to use handsets when asking questions. We have the first question from the line of Parkishit Kandpal from HDFC Securities. Please go ahead.

**Parkishit Kandpal:**

Hi Murthy Sir, just wanted to know this real estate monetisation which we have done, so what were the proceeds amounting to in this and how much we have received?

- Y.D. Murthy:** Which real estate monetisation you are talking about?
- Parkishit Kandpal:** Tellapur city, you said there is a Rs.59 Crores of exception.
- Y.D. Murthy:** That money is yet to be received. Since we send the memorandum of agreement with the incoming investor, and based on the MOA we have already made a provision for the potential of nearly Rs.59 Crores so that is reflected in our balance sheet. The money will be received within 90 days after the investor gets the state government approval, that process is on. He has given us an advance of about Rs.25 Crores that is to the project company to Tellapur Technocity Private Limited and the balance money will come on or before 6<sup>th</sup> March 2018, 90 days window is given to them and we have gone and met the Minister and the HMDA officials concerned to seek their blessings both the incoming investor and outgoing investor. The government is supporting the process, so I do not think there is going to be any problem in that.
- Parkishit Kandpal:** And what is the balance amount to be received?
- Y.D. Murthy:** We are likely to receive about Rs.63 Crores.
- Parkishit Kandpal:** And the entire diminution in the value of investment has been recorded during this quarter, there is no further?
- Y.D. Murthy:** Yes.
- Parkishit Kandpal:** Okay and sir, these new orders, which you said you have got in October, if you can just specify in which segment these orders, have been won. I would understand largely this is the Building segment or Rs.6200 Crores
- Y.D. Murthy:** We received the big orders, about Rs.2000 Crores in the Capital Region Development Authority, government of Andhra Pradesh for the new capital city of Amaravathi. It is a big order and is to be executed in 12 months and we are fully geared to execute that and also we received one more order of about Rs.635 Crores towards construction of residential accommodation for the MLAs and the IAS officers in the Bureaucracy, in the new capital city, these are the two big orders. We got one order from Pune metro also second about Rs.321 Crores, like that number of orders are there.
- Parkishit Kandpal:** Sir, this 12 months execution period for this...I understand this entire Rs.635 Crores of orders is from Andhra Pradesh?
- Y.D. Murthy:** Yes.
- Parkishit Kandpal:** So, have we received any advance here and how are we?

- Y.D. Murthy:** 10% advance is there, we received, we have recently given the performance bank guarantee. Now, the client will call us for signing the construction contract and once that is signed, we will become eligible for mobilization advance. All these orders are with mobilization advance.
- Parkishit Kandpal:** Is there interest fee or how much is the rate of interest on them?
- Y.D. Murthy:** Interest fee is there I think it is around 9% - 10%. I am not fully aware at this time unless they mention it in the contract; some interest is definitely there.
- Parkishit Kandpal:** We are confident of achieving this, executing it in 10 – 12 months?
- Y.D. Murthy:** Yes, that will add nicely to our topline.
- Parkishit Kandpal:** So, any guidance like in the medium term, you said that this year you are expecting after GST we are expecting mutant growth, only flattish kind of a trend. But for FY 2019 any colour on the guidance, this is a big order so it can release swing on the topline?
- Y.D. Murthy:** See, we normally work out a business plan based on the order book and also the expected orders in the remaining five months of the current year we can definitely generate a good growth in the topline but right now I cannot stick out and tell you the number for FY2019. See, I would like to tell all the participants please restrict your questions to two and total questions we take up is only about 20 questions, that is from 20 participants.
- Parkishit Kandpal:** And the last one Sir, trade receivables you said is Rs.1906 Crores, right?
- Y.D. Murthy:** Yes, that is right.
- Parkishit Kandpal:** Thank you. I will join the queue.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Aviva Life. Please go ahead.
- Nitin Arora:** Sir, my first question was related to this performance guarantee encashment which happened in November. If I am not wrong, this is the power plant, which you are doing with the ILFS, which is Himachal Sorang, right?
- Y.D. Murthy:** No, not that. It is a Nellore Power Project. The thermal coal project, here we are EPC contractor.
- Nitin Arora:** Sir, when this bank guarantee got encashed, so you have given the FDR there itself of Rs.300 Crores?
- Y.D. Murthy:** Why should I give? There is no FDR. See, the beneficiary when invokes the bank guarantee, the banker will tell me to provide the funds and if I provide the funds, he will debit my account. Even if I do not provide the funds, he will debit my account but it will result in a default or

irregularity in the account. So, we avoided all that because we knew beforehand that this BG is likely to be invoked and then we were able to take care of the requirement of the payment.

**Nitin Arora:**

Sir, can you just elaborate a little bit what really happened here? Why has he gone for a bank guarantee encashment and when this happened in November, our debt has already reached Rs.2000-Crore number? How do I look like when the balance sheet looks like in the year-end when you have already provided for this Rs.300 Crores of he has already done the encashment, which you have already paid to your banker. So I am just saying that normally the companies have to provide the FD. If you would have deducted it, I am saying it that way, if you could elaborate a little bit.

**Y.D. Murthy:**

No, you are confusing. At the time of issuing bank guarantee, the bankers will ask for a cash margin and that cash margin is put in FD, whereas in our case, because of our relations with the bankers and because of outstanding we are getting all bank guarantees without any cash margins. Now, as for as invocation is concerned, XYZ, whoever invokes the bank guarantee, he will call upon the banker and asks him to pay because it is unconditional bank guarantee. The banker in turn will tell us your BG is invoked, provide the funds. That is all. Now, you are asking the background see this is a Nellore Power Project, Sembcorp Gayatri is the client and EPC contract was executed by us but there were some delay in execution. There is a Chinese supplier who supplied the BTG and there is a delay in supply also and I am the prima facie contractor but the delay is there on behalf of the supplier, to that extent I will not be questioned or there will not be liquidated damages on me, if there are delays in supplies by the supplier and those liquidated damages, the owner can levy on the supplier. So, that is the background. Now, we have given enormous BGs as per the schedule, we have given them mobilization BGs also and the mobilization advance BGs have been already adjusted in our running bills and all our mobilized advance guarantees have been returned to us and subsequently cancelled. Now, this performance BG, because the client feels, the owner feels that there is a delay and he can levy liquidated damages and so he invokes the performance BGs. Now, we have gone to arbitration and the issue will be decided there and we took a stand, when my retention money is already with you, when my final running bill is not paid by you so far, why should we invoke the bank guarantees. That is the stand we took and let the arbitration decide.

**Nitin Arora:**

Sir, my second question was respect to this exceptional item, which you booked against the profit on sale of investment of a real estate project. What was the investment amount you had done here against that you have taken a diminishing value of Rs.58 Crores?

**Y.D. Murthy:**

Yes, our total investment in this project is, it is for Tellapur Technocity, it is Rs.158.39 Crore development in the outskirts of Hyderabad city. We have Tishman Speyer; a New York based real estate developer and ICICI Ventures as our partner and because of a variety of reasons and the project could not go forward for 10 years. We invested way back in 2007 and the fund raise of both Tishman Speyer and ICICI Ventures expired and both these parties wanted to exit from the project. In the meantime, because the project originally was for 400 acres and the development agreement was also signed for 400 acres and because the government does not have



title for nearly 300 acres, there is a High Court order saying that the government has no tilling. So, we requested the state government to downsize the project to 100 acres for which the money was paid way back in 2007. They were considering it positively but in the meantime, these two funds, because their fund life is over, and they have international investors, both of them wanted to exit from the project and with the concurrence of HMDA and the state government, we started looking for alternate investors and ultimately we were able to zero in on potential investor to sell the project on as is where is basis, which means he should get all the approval from HMDA and the government. The MOA was signed on November 6, our investment is Rs.158.39 Crores and we are likely to get about Rs.63 Crores as the consideration because there is a diminution in the value of asset. The other two partners are also suffering similar losses and the total loss for us is Rs.95 Crores and earlier we had made provision for about Rs.36.36 Crores and balance provision of about Rs.59 Crores we made in this quarter based on the MoA signed but the amount is yet to be received.

**Nitin Arora:**

Mr. Murthy just a very small question before I wind up, there is no doubt that our order intake has been very good as compared to the other players who have always been giving a GST issue where the orders they were not able to win and the GST was a problem for that. Now, given that there are some orders, which we need to execute very fast, when we talk about NBCC order or the Andhra order. Do not you think it could pressure our margins given the subcontractors, which generally comes in power or the supplier generally arm twist because you need to complete some projects monitoring by the PMO office, so just need your take on the margins? Thank you very much.

**Y.D. Murthy:**

See, first of all, the AP Road Project is Rs.2000 Crores and it is to be completed in 12 months. As for as the technical capability stands, which means we have to bill the client or execute a project of say Rs.170 Crores or Rs.180 Crores every month. We have got the capabilities. Recently we completed about Rs.1700 Crores road project in UP, that Lucknow Express Way, we have completed in one year of schedule and we have got the manpower and resources available and if the client supports us and if the client is able to pay our bills on time, as far as the company is concerned it should not be a problem. Likewise if you look at the NBCC order, again it is about two years period, is only a building contract we have got strong execution capabilities in buildings and off late buildings are being completed at a faster cliff mainly because of the technology available and also the execution capabilities available and mechanization that has happened. We are confident we will be able to execute and the plus side is all these will add to my topline going reward in a nice manner. So I am actually recouping the loss of turnover in the second quarter in the remaining two quarters of the current year and also provide a top line growth of much higher level, say 15% or 20% for FY 2019.

**Nitin Arora:**

Thank you very much.

**Moderator:**

Thank you. We take the next question from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

- Abhinav Bhandari:** Good evening Sir, just couple of clarifications. One is on this performance of bank guarantee again, since the client has encashed your bank guarantee as you mentioned that the supplier or the BTG contractor was the one was you know actually involved do you also have the case to encash of the bank guarantee of the supplier given that you are in between this chain?
- Y.D. Murthy:** No, it is not like that, I will explain you. There is a tripartite agreement between the suppliers and the EPC contractor and the owner and liquidated damages for delay in supply have to be borne by the supplier and whatever delay in execution, because I am prime EPC contractor, suppose there is a total delay of 700 days, out of that supplier delay 500 days. So, the client can ask me to pay the liquidated damages for the balance of 200 days. It is clearly written in the tripartite agreement between the three parties. That is where the problem started.
- Abhinav Bhandari:** Okay and just couple of rather clarifications – one is, this loss on the investment is actually non-cash item, right because when you spoke cash profit in the quarter, you said Rs.49 Crores. So, I am assuming it is a non-cash item. Cash profits have to be much more.
- Y.D. Murthy:** Cash profit, I told you Rs.49 Crores that includes net profit plus depreciation
- Abhinav Bhandari:** So, this loss on investment is a non-cash item actually right or is it a cash item?
- Y.D. Murthy:** It is not a cash item.
- Abhinav Bhandari:** Fine, and one more clarification. In the press release you mentioned that the management expects to equalize the topline, which you did last year. This you are referring to the GST bill revenue, which you did last year or excluding GST kind of revenue?
- Y.D. Murthy:** Last year there is no GST, in 2017 only there is GST. So, I will clarify. We have done a topline of Rs.8000 Crores last year. We were giving a guidance of 10% growth which means we should in FY 2018 Rs.8800 Crores but because off GST and because of what happened in the Q2, we are thinking that may be Rs.8000 Crores – Rs.8800 Crores guidance may not be achieved but there will not be any negative growth as for the current year is concerned. Definitely we will reach the number of Rs.8000 Crores plus, that is what we are saying now.
- Abhinav Bhandari:** Got it Sir, because from your television interview there was some confusion, which emerged out of it. Thanks for the clarification Sir.
- Moderator:** Thank you. The next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.
- Subramaniam Yadav:** Sir just wanted to understand, after the GST impact, whether our run rate of quarterly execution would be around Rs.2000 odd Crore or would that also take a hit because of the adjustment and all?

**Y.D. Murthy:** No, it will be around Rs.2000 Crores. In fact, in the Q2 what has happened, I will explain. There are certain irrigation and water projects given by various state governments, which are exempt from service tax. Earlier till June 30, I have enjoyed the service tax exemption on those projects; service tax is about 14.5%, right. From July 1, GST has come and the understanding is service tax is replaced by GST, i.e., say around 18% but the issue is the client was not able to tell us clearly, whether the GST exemption or equivalent of service tax exemption be available in the GST regime. So for a month or two, though the work has been done, we have not done the billing because unless we get clarity from the client side because they were all state government agencies, they were also ascertain from IRRs up and once I bill it, I will have to pay GST. So this has impacted the topline to some extent but all these things are getting sorted out quickly one by one and from Q3 onwards, this problem will not be there.

**Subramaniam Yadav:** Okay, Sir can you quantify the amount for which you have not billed yet?

**Y.D. Murthy:** No, on account of GST, in the Q2 impact is about Rs.505 Crores and what is not billed is may be around Rs.250 Crores. Some we could not execute because the suppliers were not able to provide us the raw material and the equipment required. So, combination of all these things put together we suffered a GST impact in the topline in Q2 of nearly Rs.500 Crores.

**Subramaniam Yadav:** Okay and Sir the margin in this quarter was quite high at 9.5%. Going forward also can we expect this kind of a margin or at 9% only?

**Y.D. Murthy:** That is a blessing because of GST.

**Subramaniam Yadav:** So this kind of margin can sustain.

**Y.D. Murthy:** The turnover has come down but the same margin is there, so the margin as a percentage has improved but nevertheless we gave a guidance for FY2018, the EBITDA margin around 9.25 to 9.5, I am confident we will be able to achieve that.

**Subramaniam Yadav:** Okay and Sir in terms of that projects like in AP and NBCC what are the liability clauses we are not able to execute the project in one year and one and a half year, so in the agreement there would be some liability clauses right?

**Y.D. Murthy:** I am not aware of that. First of all the construction contract is yet to be signed, unless it is signed and we go through it I will not be able to comment on that. NBCC I think is there, but it is still not there with us, there should be a normal usual construction contract liabilities as a contractor may be there but unless I see that I will not be able to comment on that.

**Subramaniam Yadav:** Okay so normally what are the liabilities in terms we are not able to do it?

**Y.D. Murthy:** No, delay in the execution some liabilities will be there from the client side likewise right of way of issues will be there as far as the owners' side is concerned....

- Subramaniam Yadav:** Okay Sir but in building contract there would not be any right of way right. so....
- Y.D. Murthy:** Not building, see right of way in building means, there is an existing building that needs to be demolished and then it is to be give it to us and our drawing approvals etc., is required well in time and all these things will be normally recorded in a bipartite meeting with the client and circulated and accepted by both the parties. So all these things will be taken into account when the project is coming to a clause.
- Subramaniam Yadav:** Okay. And Sir just to dwell on the Rs. 2000 Crore order on the AP you mentioned building what is the high rise kind of a thing., is it one plus two kind of a thing or one plus five floor kind of a building?
- Y.D. Murthy:** AP I was talking about the ring road, outer ring road of the new capital city Amaravati, the NBCC is a high rise building I think it is about 10 to 12 stories is there that is an issue for us.
- Subramaniam Yadav:** Okay fine Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Amber Singhania from AMSEC. Please go ahead.
- Amber Singhania:** Hi Sir, thank you for taking my question. First thing if you can just explain the tax write back which we have done, this is on what account how much more is pending and what is your annual tax rate going forward?
- Y.D. Murthy:** Mr. Shivaram Krishna will answer this.
- Shivaram Krishna:** Earlier tax provisions what we have made in the first quarter itself and we have reversed it to the extent of Rs. 38.5 Crores on account of favorable order pertaining to the JV, that is the 80IA exemption earlier got rejected and now it is allowed. The impact on taxes Rs. 38.5 Crore on account of reversal of earlier provisions and we received an interest of 17.8 Crore. All of this tax is shown as negative. I think as a year, we can end up what we reported in the last year which is around 15% to 16%.
- Amber Singhania:** 15%-16% on a full year basis. You mentioned Rs. 38.5 Crores and 17.8 is the interest on that which is sitting on the other income?
- Shivaram Krishna:** Yes, correct.
- Amber Singhania:** Any further write back is pending or expected to come in Q3, Q4 Sir?
- Shivaram Krishna:** As of now we don't have any information.
- Y.D. Murthy:** See this on basically 80-IA exemption which we have claimed, which was turned down at the assessing officer level, now it has gone to Income Tax Circulate Authority and they have upheld

our claim and also made payment with interest. We received similar payments last year and the year before. I think it is coming to an end now.

**Amber Singhania:** Okay. Sir secondly on the balance sheet side our debt has again gone back to around 2000 level now some Rs. 1500 Crores, Rs 1600 Crore assuming this bank guarantee money which you have paid is not coming back immediately because it is under arbitration now what is your outlook on the overall debt position for the full year as well as working capital and also if you can highlight about the Rs. 100 Crores money which you are supposed to receive from the real estate subsidiary, are we still holding those guidance true, so if you can just highlight on these parts?

**Y.D. Murthy:** Yes, see first of all the debt standalone balance sheet debt is Rs. 2035 Crores, the previous quarter is about Rs. 1800 Crores, so about Rs. 200 Crores increase is there from Q1 to Q2 and also you should appreciate, there is a momentum in our order booking and execution, so naturally more funds are required. As far as the BG invocation is concerned that happened on 7<sup>th</sup> November and that to some extent, the cash flow is impacted definitely yes, but you also have to appreciate and also keep in mind that we have bagged as on today nearly Rs. 28,000 Crores of orders and all these orders are coming with mobilization advance which is about 10%, some have been received, some are yet to be received which means what, about Rs. 2800 Crores of cash flow is going to be there on account of mobilization advance and our experience is normally mobilization advance to be utilized in a particular project takes about five to six months, so cash flow wise, we believe we are very comfortable definitely the mobilization advance will be used for the project for which it is given but relative adjustment is always possible to take care of any eventuality like a big bank guarantee of Rs. 291.5 Crores being invoked. So we are very careful on this aspect and we will try to see that the debt levels are at reasonable level. And as far as the subsidiary is concerned, the sale is yet to happen. We understand that by March 2018, the sale of properties identify will happen and they will be able to repay the loan taken from their end up to an amount of about 100 Crores.

**Amber Singhania:** Sir on the working capital side, if you can throw what is your guidance for the full year where we see ourselves because it has gone up a bit in this quarter, I assume it is also because of the GST impact so are we seeing it getting normalized by the year end and at what level we see it?

**Y.D. Murthy:** Working capital cycle got somewhat distorted, but things are improving again in October -- November some improvement is there, I am very sure we will bounce back and the working capital facilities that we enjoy from the consortium from bank is about Rs. 2058 Crores. I think we are using it in full. Other than that we got some machinery loans and equipment finance and some bill discounting. So overall we are very careful to see that the loans on the books of the company are not growing abnormally high and also the other important aspect is normally in the month of March because the clients are closing their books, we receive lot of payments particularly in the second half of the month of March and those money as and when we receive will be parked in our CC accounts, cash credit accounting depressing the year end debt level and that is likely to happen in the current year also. So I believe it should not be much of a problem as far as the standalone debt is concerned.

- Amber Singhania:** No Sir I was talking about net working capital, are you confident about maintaining the similar level of last year we had around 137 days of net working capital in FY2017?
- Y.D. Murthy:** Yes, in the second quarter we already told you debt collection period has gone up abnormally high because of some payment delays by the client again because of GST but all these are being sorted out. In the first quarter we reported debt collection period of about 88 days and before that it is about 75 days we will bounce back to below 90 days in the Q3 itself.
- Amber Singhania:** Okay thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vara:** Thanks for taking my question. Just one clarification on this bank guarantee in Q3 will you be taking it to the P&L exceptional items?
- Y.D. Murthy:** No there is a loss as such. See they have evoked a bank guarantee and have paid the money is now arbitration will decide, see my retention money of Rs. 360 Crores is there with the same client, my final RA bill of Rs. 100 Crores is with the same client 360 + 100 that is 460 and there is no reason why I should book a loss because my BG is invoked. See I have got bank guarantee limits of Rs. 8000 Crores and sometimes it happens that the client will invoke the BG and we have to answer that, we discuss with the client, we settle it across the table but we see to that we do not default as far as the BG payment is concerned on invocation that is what we have done even now.
- Abhijeet Vara:** Is there any possibility this BG amount might come back to you or some portion might come back to you?
- Y.D. Murthy:** It should, why it should not come back, in fact our arbitration case is there is no case for invoking the bank guarantee. They said they have put liquidity damages on us whereas we told that my retention money is still with you, my final RA bill is still with you. Even if you have any liquidity damages to be levied on the EPC contractor, they can be existed out of the money payable to the EPC contractor without taking a drastic step of invoking the performance BGs.
- Abhijeet Vara:** Yes, Sir that is in the worst case but as of now as things stands now, you think that 360 plus 100 plus the 291 of bank guarantee can come back to you?
- Y.D. Murthy:** Yes, absolutely, in fact that is our case, we are telling them they have to pay Rs. 700 Crores.
- Abhijeet Vara:** Okay Sure Sir and my second question Sir, I just wanted to check, if you can share the run rate of revenues in Q3, how has October and November being, are all the GST related issues behind us, have the billing been progressing smoothly?

- Y.D. Murthy:** Some improvement is there but to be very frank with you I do not have the numbers it will take a while before we get the Q3 numbers. We would normally have a review meeting might be by the end of this month that time perhaps I will be able to get the number and I will be able to share it with you.
- Abhijeet Vara:** Sure Sir, just one last question. What will be the amount of orders which will be 12 to 15 months of execution in your order book, the total quantum of orders?
- Y.D. Murthy:** I will flag this matter. Right now I do not have the quantum but I told you one road project of Rs. 2000 Crores project in 12 months some of the electrical projects are for shorter period 12 months, 15 months, 18 months like that, buildings are 24 months and above usually. We will look at the orders that are available with us up to 15 months and give you the numbers. You send me e-mail I will take care of that.
- Abhijeet Vara:** I will e-mail you Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Sharma from DHFL Pramerica Mutual Fund. Please go ahead.
- Vivek Sharma:** Sir good evening. In case of your contractor for the power project decides to levy an exit for you, will you get it back from the equipment supplier or how it pan out?
- Y.D. Murthy:** No he has to levy liquidated damaged on the equipment supplier for the delay in supply of equipment BTG right, and I am the prime agency contractor and I am responsible for erection also and I am responsible for various activities. So they have to segregate these two things, in fact they have raised a demand on the BTG supplier also and our condition is whatever delay is there on account of the supply delay that should not be added to my liquidity damages and that is already inputted in the tripartite agreement.
- Vivek Sharma:** So you do not foresee any major impact of this LD hitting you?
- Y.D. Murthy:** Yes.
- Vivek Sharma:** What kind of margins do you expect in FY2019 given the growth that you would expect?
- Y.D. Murthy:** See first of all FY2018 our guidance is about 9.25% to 9.5% EBITDA margin and in the second quarter we already achieved but for the first six months it is about 8.9%. For the year as whole surely we will go above 9% so may be 9.2%-9.25% or so FY2019 we have to see again the order mix and the execution issues like GST and all there could be further improvement in EBITDA margin in FY2019 may be achieve say around 9.5% to 9.75%.
- Vivek Sharma:** Thank you and best of luck.

- Moderator:** Thank you. Next question is from the line of Vibhor Singhal from Philip Capital. Please go ahead.
- Vibhor Singhal:** Good evening Sir. Thanks for taking my question. Sir just two questions one is again I would just want to delve a bit further on the GST impact that you quantified for the revenue as 500 Crore so you mentioned that around 250 Crores of work that you had done was not able to be billed am I right about that?
- Y.D. Murthy:** Yes.
- Vibhor Singhal:** Sir but I mean that number if we have executed should be executed somewhere in the balance sheet item in terms of inventory work-in-progress, our inventory is actually come down since those March levels by almost around 200 Crores so just wanted to get a clarity on that is basically do we expect this 250 Crores to recover in the next coming quarter and then there is a over and above that there is an execution in the next two quarters that you are looking at?
- Y.D. Murthy:** My understanding is Rs.250 Crore is already billed in the month of October and November and already some payments are also received.
- Vibhor Singhal:** Okay and over and above that of course the growth execution that you do in the month of two quarters will be definitely over and above that?
- Y.D. Murthy:** Yes.
- Vibhor Singhal:** On the same front Sir on the debtor side I mean as you had mentioned that our debtor collection period has gone up if I look at the total debtors reported in the balance sheet that of course includes the retention money has gone up by around 489 Crores to 500 Crores approximately in the last six months itself so I mean we were given to understand that last year our debtors were high because Telangana Irrigation Project did not have mobilization advance and as we start executing on them I think those debtors days would normalize so what has led to this significant improvement in the debtors days in the first six months over this period?
- Y.D. Murthy:** At the end of March 2017, our debtors quantum, the trade receivables is 1615 Crores now it has gone to 1906 Crores that is mainly because of certain client related problem particularly they were not able to get clarity on the GST payments and there are some delays in payments that is the valid reason but they are being sorted out and improvement is there.
- Vibhor Singhal:** Okay so do we expect them to be reversed in the next couple of quarters?
- Y.D. Murthy:** Yes, very much.



- Vibhor Singhal:** Sir lastly just on the debt number I think earlier one of the participant were asked (his so considering that you provided for the invocation of bank guarantee to the bank to the tune of 300 Crores what is the kind of debt number that you might be looking at the end of FY2018?
- Y.D. Murthy:** FY2018 it should come back to nearly 2000 Crores not more than that, that is our gut feeling. As I told you already 14800 Crores of fresh orders have received in the current year so far they are carrying mobilization advance, which means a cash flow of 1480 Crore into the system and definitely it will help us to see that our order execution our turnover execution will not be impacted and also the debt levels will not go too high.
- Vibhor Singhal:** But Sir this 300 Crore is due to an additional incremental debt right, which you expect to be netted off by the mobilization advances right?
- Y.D. Murthy:** Yes.
- Vibhor Singhal:** Okay thank so much for answering my question and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Just one question this quarter our other income was high so is it high because of the 17 Crores interest that you got on the tax front?
- Y.D. Murthy:** Yes absolutely.
- Parvez Akhtar:** But otherwise our normal quarterly other income should be somewhere around 20-25 Crores going ahead.
- Y.D. Murthy:** Yes.
- Parvez Akhtar:** Thank you. That is it from my side.
- Moderator:** Thank you. We will take the last question from the line of Navin Jain from Florintree Advisors. Please go ahead.
- Navin Jain:** Hi Sir. Sir my first question is on order inflow. You did you mention the order inflow of 28000 Crore so far in this year?
- Y.D. Murthy:** No the order book at the end of October is 28000 Crores. The order inflow in the first seven months is about 14000 Crores.
- Navin Jain:** Sir other thing was on the retention money so from the Nellore Project so by when this is supposed to come back to us and is that also disputed by the client?

- Y.D. Murthy:** Yes, there is also one dispute. Actually what is called is the preliminary acceptance test as EPC contractor we have to perform and then that should be accepted by the client. That means the project is accepted for regular operation but to conduct the preliminary acceptance test, the client has to provide us the necessary coal particularly the boilers of the kind of coal that it can take. what they have done is they have not supplied us the coal so we could not perform the preliminary acceptance test but they have declared COD commercial operation and they started generating power, they started supplying power and they generating revenue also and technically speaking because PAT has not been conducted my retention money payment is also getting pushed back to that extent. This is the actual board of contention between the EPC contractor and the owner. Now arbitration will decide all these things.
- Navin Jain:** Sir finally about your international project, so about 675 Crores is left so that you expect to complete by the end of the year?
- Y.D. Murthy:** See there is only one project in Muscat, the Batinah Expressway phase I is already completed and handed over to the client. The phase II also we are likely to complete by May 2018 that means the first quarter of the financial year 2019.
- Navin Jain:** Sir is there any incremental support that you would need to give to your international subsidiary during the year?
- Y.D. Murthy:** In terms of manpower and technical support we are providing because they have enough machinery with them. The focus is on executing completing the project.
- Navin Jain:** But in terms of funding nothing will be required?
- Y.D. Murthy:** No funding nothing is needed.
- Navin Jain:** Got it Sir. Thank you.
- Moderator:** Thank you very much. We will take that as the last question. I now like to hand the conference back to Mr. Sharvan Shah for closing comments.
- Sharvan Shah:** Murthy Sir last question. Sir we got a significant orders in seven months so now how do you do still we think can we get another 3000 to 4000 Crores in next five months because normally in the second half would be the better in terms of the tendering activity overall!?
- Y.D. Murthy:** Yes, it is quite possible because the sector is looking up and if you carefully examine in the road sector you cannot report any order accretion in the first six months but of course in the seventh month as I was mentioning we got that road project of the capital city. Other than that because of the Bharatmala and other initiatives by the center government and also by the National Highway Authority there is every possibility that we bag some orders in the road sector not only from NHAI from various other state governments also. Like Maharashtra talking about linking an

airport, which is, can express way we already submitted our prequalification bids and may be we will be looking at it positively when the tendering takes place.

**Shravan Shah:** Sir we will not be bidding for HAM or we are comfortable?

**Y.D. Murthy:** Yes, it may be one or two projects.

**Shravan Shah:** Thank you management for giving us the opportunity to host the call and thank you all the participant. Sir do you have any closing comments?

**Y.D. Murthy:** I thank Dolat Capital and Shravan Shah and also all the participants for their enthusiastic participation and we hope we answered all your questions and if you have any other doubts or any questions you can always call me offline or may be you can send an email my colleague Mr. Shivarama Krishna and myself are there to answer your questions. With these remarks I thank all the participants for their enthusiastic participation and I thank the organizer that is Dolat Capital. Thank you.

**Moderator:** Thank you very much. On behalf of Dolat Capital that concludes this conference call, thank you for joining us. You may now disconnect your lines.