



“Power Mech Projects Limited Q1 FY23 Earnings Conference Call”

August 22, 2022

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MODERATOR: **MR. PRASHEEL GANDHI – NIRMAL BANG EQUITIES PRIVATE LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Power Mech Projects Limited Q1 FY23 Earnings Conference Call hosted by Nirmal Bang Equities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prasheel Gandhi from Nirmal Bang Equities. Thank you and over to you Sir!

Prasheel Gandhi: Thanks and good afternoon to all the participants. Nirmal Bang Equities welcomes you all to 1Q FY23 Earnings Conference Call for Power Mech Projects Limited. From the management team, we have S. K. Ramaiah - Director, Business Development and Mr. Jami Satish - CFO. Without taking much time, I hand over the call to management for opening remarks post which we can take for Q&A. Thank you and over to you, sir.

Jami Satish: Thank you. Good afternoon all. This is Satish, and along with me I have Mr. S. K. Ramaiah - Director, Business Development. We welcome you all to the earnings call Quarter 1, FY22-23.

Let me take first through the financial highlights of first quarter '23. Performance for Quarter 1, FY23 continued to be healthy in line with overall plan set for the company. The reported total income for Quarter 1, FY23 is Rs. 749 crores. EBITDA is Rs.86 crores and the reported PAT is Rs. 39 crores whereas Q1 of previous financial year, the reported total income was Rs.628 crores. EBITDA was Rs.71 crores and PAT was Rs.31 crores.

The revenue mix for Q1 FY23 is as follows:

Erection business contributed Rs. 152 crores. Civil business including railway, water projects is around Rs. 376 crores. Operation and maintenance Rs. 196 crores. Electrical business 22 crores and other income around 2 crores whereas during Quarter 1 of last financial year, erection business contributed around 137 crores, civil business contributed around 284 crores, O&M business contributed 173 crores, electrical business 28 crores and from other income, it was around 6 crores.

Domestic business has contributed almost 83% and rest 17% business has come from overseas business. The mix between power and non-power business stands at 60% and 40%. We have seen growth across all the segments except electrical business whereas the company is conscious of growing in electrical business field. This is far the best and five times high Quarter 1 performance for Power Mech in its entire journey.



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Reported total income clocked a growth of almost 19% during Quarter 1 as against Quarter 1 of previous year. Similarly, EBITDA has shown a growth of almost 20% and PAT has shown a growth of almost 26% on account of controlled finance cost, depreciation and increase in margin profile.

Depreciation cost as a percentage to revenue remained lower side due to controlled CAPEX spending. Similarly, finance cost as a percentage has come down on account of reduction in overall utilization of limits.

Overall execution cycle expected to improve further on account of robust order book, stronger engineering skills, construction management and strengthening first and second level leadership in-house.

Power Mech is known for its execution capabilities. From a pure power sector player 7 years ago, the company has transformed itself into a multi-dimensional infrastructure player retaining its core competence in O&M and mechanical pie as we foresaw slowdown in the thermal power sector years back, post that Power Mech has demonstrated its execution capabilities in every segment we operated so far including railway, road projects, water projects, material handling, cross-country pipeline, international operations etc. Another important point to note is that Power Mech has experience in operating all tough territories including international territories.

During this 23 years journey including tough period of COVID, the company has built capabilities to deal with any adversity. We have instances where we were awarded few contracts without performance guarantees which shows the confidence of our customers. On execution front, the company is much confident to deliver on schedule.

We are also excited and happy to share new talent from reputed organizations joining Power Mech across all verticals. Few names include M. Srinivasa Rao joined as MD and CEO International Operations (Africa). Earlier he as associated with reputed company like Shapoorji Pallonji. Mr. Umesh Mehta joined as Chief Techno Commercial Officer having more than three decades experience. He was associated with some of the reputed companies like Vedanta, Sterlite, Vaaman Engineers. Mr. Vijaya Bhaskara Rao joined as Vice President, Contract Management and Business Development having 35 years of experience, and earlier he was associated with companies like Tech-Pro, Desein, APGENCO. Mr. Ashok Kumar Datta joined as Vice President, and he has almost 30 years of experience, and earlier he was associated with some of the reputed companies like Reliance Industries, Nirman, L&T. So, this shows the confidence on the execution front and the talent getting attracted from bigger organizations that gives lot of confidence among the team in terms of execution.



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And going forward, the overall working capital cycle looking to be improved. The average monthly collections continued to be in the range of Rs. 250 crores to 300 crores, and the same is expected to improve going forward.

Net current days excluding cash and cash equivalent continued to be in the range of 140 to 145 days during the period. This is again expected to come down during the year. Gross debt and net debt remained controlled despite growth in the business. Overall debt utilization and finance cost expected to come down during the financial year.

As you all would have seen, recently Power Mech has bagged a large contract in the space of FGD which is around 6,100 crores plus from Adani Group for its projects based at Mundra, Tiroda, Kawai, and Udupi on a complete EPC basis. These projects are to be executed over a period of 30 months.

Power Mech has created a separate unit to handle these projects headed by senior professional. Also, Power Mech has tied up with well-proven technology partners for technology support and also for equipment supply to install these FGDs and taken all necessary precautions to mitigate all contractual and external risks.

The major thrust into FGD EPC business is part of our forward integration and major diversification based on Power Mech's core competence of over two decades in power plant installation. Power Mech's vast experience and in-house core strength to handle any power plant will add lot in terms of value addition and execution of this project.

These contracts have 10% mobilization advance clause, which is interest free. Therefore, we do not see any incremental working capital for executing these projects. These projects are self-sustained. And the margins are expected to be around 11% plus at EBITDA level from these FGD projects. Also, there is a scope to improve further. That's because of our inherent strength in similar field. We will deploy need-based equipment in-house and new with a mix of additional CAPEX of Rs. 25 to 30 crores, which is part of our CAPEX plan for this year.

The order backlog for the company as on today stands at Rs. 24,000 crore plus including MDO contract and Rs. 15,000 crores plus excluding MDO contract. Up-to-date, during the current financial year, the Company added new orders of Rs. 6,948 crores. For the entire year, now the Company has set target for reaching 10,000 crores of new orders additions or expect to add new orders of Rs. 3,100 crores for the balance period of current financial year. As on today, the Company is already L1 for almost 1,500 crores of projects.

The Company has strong visibility for its three years growth. During the current financial year, the Company is confident of converting order book to revenue of around Rs. 3,600 crores plus



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conversion of revenue from this new FGD contracts. We will come with the revised target of revenue for the year in couple of days from the FGD schedule.

For FY23-24, the Company is expecting to have opening order backlog of Rs. 14,000 crores plus. This is excluding MDO contract. The Company is planning to convert opening order book to revenue by around 38% plus during FY23 and '24. The MDO project is going as per our original schedule.

After three years, the Company will consolidate its business model to sustain growth, and the focus will continue to be more on improvement of margins and cashflow. Post 30 months, the Company has opportunity of additional O&M contracts of Rs. 1,000 crores which will be executed over a period of 5 years. Yearly, it will add almost 200 crores plus in terms of revenue from this FGD order. And the O&M order is yet to be received.

In addition, the MDO contract will start generating revenue. Moreover, the Company has built strong in-house credentials and PQs in the field of railways, water projects, road projects, international operations, material handling, cross-country pipeline etc.

So, Power Mech will align its business model keeping opportunities in line with the NIP. Of course, operation and maintenance, both in power and non-power sector including international operations is expected to play a dominant pie in our overall business plan going forward also.

The promoters are intending to infuse fund into Power Mech by way of preferential allotment subject to Board and necessary approvals. Power Mech needs non-fund-based limit mainly performance bank guarantee from various banks. Infusion of equity from promoters will build lot of confidence among the lenders and will also help a lot improving the external credit rating. It will range around 1.3 to 1.4% of pre-allotment equity base and subject to consent of the Board and necessary approvals which will come within couple of days.

Now I request Mr. Ramaiah to add few more developments before we move forward to Q&A. Thank you.

S. K. Ramaiah:

Thanks, Satish, for your opening remarks and bringing out the various facts and the company's operations. Thanks everybody.

I think on the marketing and business side, as you know the COVID is behind us, and that has obviously opened up the market in a big way, and that is obviously reflected in the results and the opportunities and the new orders the company is bagging. And last year, at the end of the year, we had a backlog of 8,855 crores, and the first quarter, about 775 crores orders have been



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booked in the mechanical side 296 cr and in civil side 323 cr and then O&M side about 115 crores. And that is taking into the backlog of conversion in the first quarter, the order backlog now stands at 8,883 crores. And there is a modest increase based on the first quarter inflow of the orders, about 8.6% in the ETC business, and in O&M the order backlog stands at 1,208 crores, and then civil and infra, the order backlog is now 5,789 crores, and then electrical we are not adding much. It stands at 96 crores.

Last year the first quarter, the order booking was 343 crores. This year it has gone up to 775 crores. And the major orders which have been received are the Khurja coal handling. It is a very good opportunity. We are working with **thyssenkrupp** in partnership valued at Rs. 191 crores. Then the Godda 800-Megawatt boiler, M/s. Adani Power has entrusted the job to us because of the works owing to failure of the existing contractor at about 110 crores. That is going in a fast-track basis. Then there was a FGD civil work we have taken up at North Chennai from BHEL 119 crores, and then sheds construction Dabhol from the Railways of opportunities Rs.113 crores, and then O&M opportunities about 155 crores have been converted, from that on bridge construction work of 50 crores and other civil works about 41 crores.

So, that is what the breakup of 775 crores. The major orders in the pipeline with L1 status are the FGD orders for the civil and mechanical installation jobs, about 1,950 Megawatts at Haldia, Chandrapur, Budge Budge. That is for the CESC Goenka Group. And we stand lowest at 870 crores for about 1950 MW. This is not EPC job, but it is the site exclusion jobs along with civil works. And then Bangalore Metro, one depot construction is coming up and that is around 450 crores at Challaghatta. Then railway electrification jobs in Mangalore and Hassan about 88 crores, and then there is an O&M opportunity in Nigeria where we are already doing the installation job in Dangote. That's about 94 crores. So, these are the orders in pipeline.

Then coming to the business segment analysis, the domestic business stands now at the balance order backlog of 8,361 crores compared to 8,212 crores last year, and the international not much is happening, because our focus has now fully in the domestic side because of various opportunities, it is 522 crores.

The power sector business is around 43%, the order backlog 3,799 crores, and the non-power continues to play a key role, with Rs.5,084 crores. Now there are two distinct development scenarios which is going to give a big vision for the company in the next couple of years. One is the mine development operation in Jharkhand. That is 9,294 crores for 25 years. With that the backlog will stand at 18,177 crores as on June. But barring this mine development, now the new initiative which has happened in the FGD orders as Satish was speaking about 8,460 Megawatts for about 15 units of 330 to 360 Megawatt, for Adani Power at various of their projects in Kawai, Mundra, Tiroda, then Udupi., that the order has been received. And taking



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that into factor this new order, the backlog has gone up to 15,056 crores, and that also boost up the power sector and the mechanical job presence in the business.

And the domestic business has ballooned to almost 96% with a backlog of 14,531 crores. And the power sector business has jumped which was on the downward trend for the last couple of four, five years. And the backlog goes to 66% of the total order book of 15,056 crores and the non-power is 5,084 crores.

This is a very good ground to take off and then have a vision for the next two, three years. Major works we are executing in Udangudi, civil and structure job 345 crores. Then Buxar Boiler for L&T 176 crores, Bhusawal civil and structure work 285 crores, Maitree major job in Bangladesh 855 crores, Yadadri for the 5 x 800 Megawatt and various packages in civil, mechanical coal handling 813 crores, Ramayampet canal about 373 crores, and then Sadalpur electrification 350 crores.

And the major water projects which we are doing in UP about 2,775 crores, the present value, it can go up to plus 4,000 crores. Then road works what we are doing in Karnataka and Mizoram, about 780 crores. And then the latest job what we have taken from the Adani Group in the Khammam - Kodad road project in Telangana, 645 crores. And if we add up the FGD in the four projects, which is of 6,163 crores.

So, this is where the company's focus will be in the next two to three years. And the O&M continues to play a role in our bottom-line growth and also contribution of the revenue generation. With the major presence in Singareni 343 crores, Tuticorin 2x600 Megawatt, 391 crores. And then non-power jobs also we have taken the JSPL 66 crores, and then, Jharsuguda 4 x 600 Megawatt, 387 crores. And then international also now the focus on the O&M side because we have done lot of installation jobs that we are executing for 100 crores of various maintenance and over haul jobs including manpower supply. This is the presence in O&M side.

On the manpower side, the company continues to add people, as rightly said, both on the senior level and also the working level to strengthen the execution and oversight of the project execution, and it stands at about 32,000 with a contract labor of nearly 15,000. Some more additions have to take place to take care of the new order booking.

And as far as the opportunities are concerned, without the FGD, we had a target of 4,000 crores and with 1,500 crores in the L1 position and 775 crores perhaps, you know, we are still able to achieve those figures without the FGD. And if you add up the FGD, the order booking for this year can go up to 10,000 crores. Therefore, that should help us to understand at the end of 2023 assuming that the conversion of 3,600 crores can go slightly higher based on the



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Adani FGD order to plus 4,000 crores. The backlog by end of the next year, it should stand between 14,000 to 15,000 crores, and that is a very clear working model for us in the next couple of years.

And then the major areas of the work are the drinking water project 2,775 crores, the road projects 1,350 crores, and then Adani Power FGD is about 6,163 crores, and then O&M jobs around 400 crores. And then I think the business as Satish has rightly said, we have aligned ourselves with the national infrastructure pipeline aggressive investments. That is reflected in our order flow in the last couple of two, three years. And if you look at the order flow in the last two years, in 2021 it was 4,638 crores. In 2022, it was 4,231 crores.

And based on the projections including the Adani order, it is possible we can get around 10,000 crores in the current year, and down the line, obviously, the NIP investments will continue to be bullish with various investments in infra side, railways, then minerals and mining, then mine development, that is the major opportunity since we already entered there. In fact, Coal India is planning to undertake mine development operations for about 162 million ton.

And then drinking water projects continues to be funded well, and out of 19.1 crore of households, 50% have been provided in the the last couple of years, and we are working in about 3000 villages in UP under Jal Jeevan Scheme.

One more area perhaps is a long-term mission can be the operation maintenance of the thermal power plants will undergo basic changes with the increased capacity addition into renewable power and by 2024-25, it is expected to go up to 450 Gigawatts installed base, and the end of the decade, the present PLF stands at 58%. It has come down. It will further go down to 30% to 40%. So, in a way, the thermal plants will come under lot of stress in operation & maintenance because of the within the generation mix of the coal and renewable power, and that obviously calls for different O&M practices. The company is gearing up for that with its huge presence in both 67,000 Megawatts of operating base and working at about 40 plants. And in fact, it is more than an opportunity for us to work under these adverse conditions in operating those plants because in many of these cases down the line, the power plants are to be operated on day and night basis that will add up to the O&M cost also. But in a way, in can be an opportunity.

And railways are coming with big investments and we are already there. Perhaps with the 500 crores of working orders what we are executing, another 450 crores expected shortly. And then railways is going for 500 numbers of multi-modal terminals, cargo terminals, and the station redevelopments.



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And then the new opportunities what we are looking at is the metro project. Today, metro is going to be there in most of the A and B grade towns. And the total length has gone up to 702 kilometers and it is planned to go up to 1700 kilometers. And the opportunity is 280 to 320 crores per kilometer.

And then roads I explained you already, the investment in this area is nearly 2 lakh crores, and there is a compounding growth of investment of 20%. And we are working in about 151 kilometers of roads of 1,646 crores of orders.

Then as far as the electrical T&D (transmission and distribution), yes, we are taking a view on that, how to proceed on that because of the competition. We have successfully completed the four projects, and we are working another four projects in Northeast, Bihar, and Bombay. And we are watching the opportunities. There is going to be substantial investments in T&D also to strengthen the grid and bring down the transmission distribution losses, investment of nearly 3 lakh crores. And railway electrification is going to be a huge opportunity, and we have completed 640 kilometers of railway lane in the sadalpur section out of 727, and another 80 kilometers we are bidding for that and hoping to get that.

Therefore, this is what I can bring out about the opportunities, then order position and the marketing side. Yes. You can go for the next phase of the question-and-answer. Thanks a lot.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Abhishek from HDFC AMC. Please go ahead.

Abhishek: So, first question regarding the FGD order that we have received. Some understanding on how the revenues will be booked in '24, '25, and also if you could give some understanding on the payment terms, how much is retention money?

S. K. Ramaiah: I think this 6,163 crores will be spread over next 30 months, and the first year, we can expect about 10% of revenue. That is the maximum. Therefore, perhaps '23 and '24, you know, the revenue should be out of this, 50% should get converted. 40% to 50% percent. That can boost up the revenue, the other backlog of orders for the year '23-'24, because by the end of the year as I told, you know, 14,000 to 15,000 crores of backlog will be there, and that should give a vision of 4,500 to 5,000 crores of revenue beyond '23.

Abhishek: And so, what is the retention money that we have agreed on?

S. K. Ramaiah: It is around 10%.

Abhishek: After a year of completion.



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- S. K. Ramaiah:** No, no, that is at the end of the completion. Then we can get that payments back.
- Abhishek:** And sir, escalation clause and margins, how are those covered in this contract?
- S. K. Ramaiah:** I think, they are in line with the market expectations and the competition, about 11% to 12%, and all the advantage for us is we got more value addition for our side because our operations are well grounded with our in-house equipment, supervision, and our own construction expertise. And what we have to focus is on the procurement side . Then working capital should not be a problem because we are getting the advances, and we are going to tie up on matching basis the payment terms with the suppliers also. That is how we are planning to execute this job.
- Abhishek:** And I think the comment that was made earlier that next year you are looking at 38% execution on a 14,000 crores order book, opening order book which will be there. So, that would mean about 5,300 to 5,500 crores of revenue in '24. Is that understanding correct? And if you could comment on the execution capability ramp up, how the planning has been done at the company?
- S. K. Ramaiah:** I think, that is a very interesting question. You see how the execution comes up based on the expertise as Satish explained has been brought out for the 23 years. In fact, in the last couple of years and even during the COVID period, we have managed the projects much better than our competitors. That's why one of the examples I told, you know, the Godda project, the customer has removed the job from the other agency and given to us. Only the resource management what we are having it and the strong supervision base of nearly 6,000 to 7,000 engineers and supervisors are working online, on site.
- And then we have got a SBU-based project management approach of focused project implementation, and then delivery management, and the customer relationship. And for us handling this many projects is not a challenge at all, because we are quite used to work in about 40 to 50 projects, and what we may need in this case maybe another modest increase of the manpower about 5% to 10%.
- And as far as the resources are concerned, we have got a lot of resources in terms of the execution that we built up for the coal-based power plants. In fact, we have got the excess capacity of the resources in the construction equipment that can be gainfully deployed for all these jobs. And the in-house capabilities in the civil works, and then structural fabrication erection works, that also stands good for us, and the erection jobs is already our basic strength. And then O&M we continue to play a leading role. That's why we are preferred, by customer.



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Therefore, I think from scaling up from 3,600 crores for current year, I think the existing resources little bit of modest addition, scaling up to 5,000 crores is not a challenge. Because as you know, earlier we were on the range of 2,000 crores. Now we are expecting to go to 4,000 crores in the matter of three, four years, and that is how the company is scaling up its capability, resource management, and then optimal utilization of the resources.

Abhishek: And regarding the operating margins, we had highlighted in the previous call that we would expect an improvement led by O&M, and also royalty cost is going to go down. So, when do we start seeing improvement in operating margin, sir?

S. K. Ramaiah: I think, there's many of the projects which we are working on joint venture basis for consortium places are getting completed in another six months to one year. Then, you know, we will be better qualified to bid the project on a PQR basis, on a standalone basis. That should add up to our operating margins much better when we bid for the railways infrastructure jobs and many specialized jobs which we are working with others. And that is exact number at this stage we cannot factor it, but there is going to be some improvements in that.

Moderator: Thank you. Next question comes from the line of Pritesh Chheda from Lucky Investment Managers Private Limited. Please go ahead.

Pritesh Chheda: Sir, a few clarifications. You mentioned that the revenue for '23 will be 3,600 crores, and revenue for '24 will be 5,000 crores, and bulk of the FGD execution which means will slow down to '24. Is that correct on the assessment?

S. K. Ramaiah: I think that 3,600 crores was based on the order backlog of 8,855 crores what we built up in the beginning of the year, taking into account whatever orders we are going to build up in the current year also excluding the FGD orders, but with the FGD orders factored, you know, that should go up to or nearly 4,000 plus crores. And the next year, obviously, the backlog is the going up by end of the year because of the balance of the pipeline of the orders of 1,500 cores plus the FGD orders . That is how that projection has been given beyond '23, '24.

Pritesh Chheda: Sir, my second question is you mentioned that on FGD, you got 10% advance, and there will not be any incremental working capital is the assessment. So, which means when you move your revenue from 3,000 to 5,000, the movement in your working capital, absolute working capital requirement is hardly any.

S. K. Ramaiah: See it's not much. Why I can say is that, see, in this type of business, you also tie up back-to-back terms with the suppliers, and the rest of the resources we are putting from our side itself, like in a construction site, and all those things. There is infrastructure inputs. Therefore, that is already available that doesn't need the investment. What is required is the ordering on the



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supply packages, and those things we will try on a back-to-back basis with matching advances and all. That is how we are able to figure out without much of additional working capital.

Pritesh Chheda: So, is this assessment correct, right? Whatever is the absolute working capital today, and when you move your revenue from 3,000 to 5,000, the absolute working capital requirement will not rise in sync with the revenue.

Jami Satish: It will not. 10% mobilisation advance which is interest free need, but will utilize the, see that this project is going to be self-sustained or cash neutral.

Pritesh Chheda: It is cash neutral.

Jami Satish: So, we don't envisage any additional funds pumping into this project.

Pritesh Chheda: And, sir, my last question is, are these FGD orders one off, which takes you to these kinds of backlogs and revenue and post '24, we see a tapering off? Or do you see, you know, this higher base? Or what are the levers for this higher base sustaining?

S. K. Ramaiah: I think, you see, company has diversified a lot from what was 5 years back, 10 years back, and we are quite confident, you know. Of course, these are all one-time retrofit jobs. About 50% has been ordered. Balance 50% is in the pipeline. And we are targeting another 2,000 to 3,000 Megawatts, and that also should help us.

Pritesh Chheda: How many megawatts, sir?

S. K. Ramaiah: About 1,69,000 Megawatts is identified retrofit. In that, 50% has been ordered already in the market. Balance 50% is under the ordering process. And these ordering will be completed in the next six months to one year perhaps. That is to keep the deadline. Maybe the deadline of 2024 may not be fully possible. It can go up to another one or 12 to 18 months to take care of the balance order booking and execution.

But your question, specifically, I agree. What will be without the FGD in future? I think, today, the company is into infrastructure area. O&M side we are expanding in non-power sector, in the international market also. And then in the railways, we have made a big presence. And railways investments are going to be continuous, and they are investing more than 1 lakh crores in each year, and there are many jobs which are to our product or service profile, depots, maintenance depots, maintenance workshops, and then railway civil works. And therefore, railways is an area. Then road projects we have already established, and we are working with our own capabilities, and that will continue to play a role. Therefore, I agree, definitely, the opportunity is available.



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And then more importantly, the private sector will be coming with big investments in state infrastructure, and then the mining and metal. And what I can say is that the mining is going to offer a lot of opportunities. Today we have taken a mining development budget of 5 million ton. Our plan is to increase to 15 to 20 million tons the next couple of years, one or two years. That should give us a lot of top line growth and also bottom line in terms of the O&M business. Perhaps if this MDO is once implemented from 2024, it should add up to 400 to 600 crores of additional revenue on the O&M side, and we are looking another one or two projects, another 10 million ton. That should further take up the revenue to say 1,500 to 2,000 crores. So, we are having plans for filling up these gaps. We know these are all the opportunities. And then the infrastructure side, I don't think there is again any slowdown will be there. It is always going to be the upside only, the investment, and the company is rightly caught up with all these things. And that is how the order booking is coming.

Jami Satish:

This FGD has got the follow-up O&M of almost 1,000 crores. That's for five years. So, that will open 200 crores per annum. On top of that, this MDO project will stabilize. These two projects itself will add 1,000 crores top line after three years. So, that is once the FGD is over post three years will consolidate plus this 1,000 crores will supplement. On top of that, the PQs now what we have built in-house, that will help a lot in terms of bidding for larger projects. So, we will see that in terms of number of project because today we are operating 112 projects including O&M. So, we will see that the size comes down. Of course, O&M will continue. So, the number will be always larger. And based upon our PQs, we will target for larger projects. So, this will help a lot in terms of sustaining the growth going forward too. So, we will consolidate after three years where to move forward. And of course, the focus will continue to be on margins and cash flow because that is important.

Pritesh Chheda:

Sir, lastly, this out of 80,000 Megawatt which has been ordered, what is the megawatt that we have got? And our line of business here is largely mechanical, civil and erection including the equipment or without the equipment?

S. K. Ramaiah:

No, this job is a complete EPC job, 8,460 Megawatts for about 15 units of 330 Megawatt to 660 Megawatt, and it includes engineering, procurement, construction, and civil, structural, mechanical works. And then the technology partner we are going to rope in there, and there in the key equipment for the process equipment for the absorption and the technology part of the FGD, that will be sourced from them, and rest of the installation work and sourcing we will do it ourselves. And the civil and structural installation we do completely. That is how the plan is. Therefore, it well fits into our business model.

Moderator:

Thank you. The next question comes from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.



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Rohit Natarajan: My first question is more to do with the L1 that you have identified. It's almost like 1,500 crores. Can you highlight on what exactly these orders are and when exactly it is expected to be part of our backlog? The 1,500 crore L1 order?

S. K. Ramaiah: I told, you know, Yes, in this, there are about 7 FGD orders. Of course, with some EPC orders and ETC orders with Civil works. They are construction orders, about 1,950 Megawatts for about 870 crores, that is from the Goenka Group of CESC at Haldia, Chandrapur, and Budge Budge Stations, 250 to 350 Megawatt units. And then Bangalore Metro, we are L1 for about 450 crores. And then railway electrification job in Mangalore and Hasan also about 88 crores, and then one O&M job in Nigeria where we are already doing the installation job for the Dangote.

Rohit Natarajan: And sir, you also said that additional you are finding 3,100 crores kind of opportunity over and above what we have won so far.

S. K. Ramaiah: No, what I said was that we had a plan about 4,000 crores. In that 775 has been already bagged in the first quarter. I am talking about excluding the FGD and then we are pursuing opportunities worth of nearly 17,000 to 18,000 crores of opportunities in power, civil, non-power, electrical, O&M, water and then roads etc. Therefore, we are pretty confident maybe another 1,500 to 2,000 crores should happen apart from what is in order in the pipeline over and above the FGD orders what we have gained.

Rohit Natarajan: Sir, one more question is on the fund infusion part that you are talking of preferential allotment. How exactly can this improve, if at all, any credit enhancement that you are thinking either in terms of bankers giving you better non-fund-based limits, fund-based limits? What exactly is the picture over there, sir, if you could throw some light on it?

Jami Satish: See, normally, see we don't need funds. In fact, we are trying to bring down the funds base. So, what importantly required is non-fund in terms of bank guarantees and all. So, we have got close to 1,650 crore of limit. Of that, the utilization is around 900 crores. So, we have kept the limit to support our growth. Any good project comes, so I should be ready to support the non-fund based limits. So, this will help in terms of infusion from the promoters as a backup in terms of long-term equity. So, that gives lot of confidence to the bankers while they do the assessment for the non-fund limit. On top of that, that helps in terms of improving the internal credit rating for the bank. So, we can negotiate for better pricing and will also help for the external ratings.

Rohit Natarajan: So, if I understand it correctly, say let's assume 100 crore is the order. You would typically require a 20 crores kind of your non-fund-based limit. Is that the right way to look at the non-fund-based limit?



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Jami Satish: Now today it's ranging 3% to 10% project to project. So, on average, we can take 5% to 7% the PBG.

Rohit Natarajan: So, 5% to 7% would include what all things like your EMD or maybe the performance guarantees?

Jami Satish: See the EMD when we quote for the project, normally, it ranges 1%. But once the contract gets awarded so that the EMD will be released. So, what continues is the PBG performance bank guarantee for 6% to 7% or maybe 5% to 7%.

Rohit Natarajan: But what about the mobilization advance? What the client gives you, you will have to give some guarantee to that as well, right?

Jami Satish: That depends because if we wanted to draw mobilization advance, it depends on the customers to customers. Either it comes as a upfront mobilization advance or milestone-based advance.

Rohit Natarajan: So, when you say that you don't require much of increment in working capital, I thought maybe you are looking more to do play with very aggressively on this mobilization advance, so which means your need for non-fund-based limit will be much higher?

Jami Satish: Yes, if we draw, yes, we need.

Rohit Natarajan: So, if I see that current unutilized limit maybe somewhere around 700 odd crore, and if I go by the 20% metric of non-fund-based limit, probably your limits are like largely exhausted, right?

Jami Satish: No, see, not all the contracts we take the advance. For example, BHEL, every contract has got a clause of availing 10% mobilization advance. But we don't draw, because it carries 14% of interest. Normally, we don't take it. So, it ranges around 20% to 30% or 35% of the total projects. Not all the projects we avail that, and not all the projects will have that clause.

Moderator: Thank you. The next question comes from the line of Vivek Hinduja from Thrive Capital Partners. Please go ahead.

Vivek Hinduja: Sir, I wanted to ask that in the first quarter we heard reports of income tax raids on the premises of the company including that of the top management and the promoters. If you could put some light on the same, it will be great. And also has the IT department given any monetary claim on the company as a result of these raids?

Jami Satish: Yes. See 13th July to 17th July, they had search under Section 132. It's a search actually, so different premises. Now the matter is going on Income Tax Department, whatever the



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information they are asking, we have been providing. This they have come regarding some subcontractors pertaining to some projects where they had some concern. Okay. Even they have gone to multiple companies including Power Mech. So, we are providing all the information such till the matter is going on. It may take some more time. Of course, this will not impact as far as our operation is concerned, and we don't see any impact measure on our financials.

Vivek Hinduja: Because sir, as per the media report, we heard about some incrementing evidence being found on the premises. So, if you could throw some light on the same or maybe give some clarification?

Jami Satish: Yes. See media even we have come across because I do not know where from they get information and all. But honestly, it's not that the case. Okay. Yes, it's completely speculative because the information sharing and all still going on. It's a continuous process. It may take another three to four months. So, we are supporting with all the desired information with regards to contractors, projects, wherever they are needed. That matter is going on.

Vivek Hinduja: And no claim being made, okay, as of now?

Jami Satish: Because it takes time, it's the information flow and all, it will take time. We need to provide all the desired information to the satisfaction of the department. So, based upon the information flow, the case will be settled. So, it will take some time.

Moderator: Thank you. Next question comes from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.

Dixit Doshi: Firstly, one clarification from this FGD order of 6,100 crore. Does that include 1,000 crore of O&M?

S. K. Ramaiah: No.

S.K.Ramaiah: No, it excludes. It excludes.

Jami Satish: That 1,000 crores is in addition to 6,100 crores. That order yet to get. So, that will be a follow-up opportunity to this FGD.

S.K.Ramaiah: After the commissioning.

Dixit Doshi: So, we have not received that order. It will be tendered.



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- Jami Satish:** It's been tendered. We are L1, but the awarding part, they are broken into two components. Immediately, they have given the FGD, the EPC part of 6,100 crores. The follow-up 1,000 crores they will award later. That will be the opportunity of 200 crores per annum in terms of O&M.
- Dixit Doshi:** My second question is regarding this MDO project of Coal India, MDO project. So, from when the revenue will start flowing in?
- Jami Satish:** '24 Q4 onwards, sir.
- Dixit Doshi:** Q4 FY24. And as on today, how much is the current and net debt or gross debt and net debt?
- Jami Satish:** Today, we have got close to 490, and net is we have got deposits of 150, so around 340 crores net, which is expected to come down.
- Dixit Doshi:** And one last question. As on today, how much would be the retention money on our balance sheet?
- Jami Satish:** It's around 315 crores.
- Dixit Doshi:** 315, okay.
- Moderator:** Thank you. The next question comes from the line of Ankur, an individual investor. Please go ahead. Mr. Ankur, please go ahead with your question. Since there is no reply from the line of Mr. Ankur, we will go with the next question, and it comes from Faisal Hawa from H.G. Hawa and Company. Please go ahead.
- Faisal Hawa:** So, my question is that in the order that we have now taken on, what is the ROCE and the ROE that we are targeting for the orders which have been taken in the recent 1, 1.5 years? And will you be benefited due to the current commodity decrease in three to four months?
- Jami Satish:** Yes. See, these are pure cash contracts. So, in terms of margins, it will range 11% plus. So, definitely, we don't need to invest much except the CAPEX of 25 to 30 crores. So, it will help a lot in terms of improving the both ROE and ROCE because we don't intend to increase any debt. So, that will help to push ROE also.
- Faisal Hawa:** And what is the ROE which will come ultimately say 1.5 years then?
- Jami Satish:** Sir, it will definitely, my assumption is it should cross 18% to 19% plus blended, sir.



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Faisal Hawa: And, sir, we are looking at, you know, we are working to so many sectors. So, what is the risk management you are taking so that new approvals, new projects going back or some government intervention in those projects, does it affect the company? So, can you just list out key risk management principles or steps you have taken to really protect the company from going backwards? So, we are now being into many sectors. Many of them are unrelated sectors. So, what are the kind of risk management measures you are taking to avoid the company going backwards?

Jami Satish: Sir, for our industry it's one, the execution. Second is the service. And the third one is the material component. And we step in as a contractor. So, normally, everything in place, then we step in. So, most of the risk gets automatically mitigated. Now service component, of course, the manpower plays a key role. So, we see that the price variation clause is well protected so that for any changes in the labor and all, we are well protected. And the second part is the material component. Again, we have seen last two years, there is abnormal changes in the prices. So, whatever little bit cost impact we had we have observed that now going forward the projects which we are quoting, we have taken a call unless and until it's self-protected in terms of price variation clause escalation. We are not bidding for those type of projects.

And more importantly, once we execute and the payment part, the experience has been like once upon a time the receivable cycle used to be 45 to 60 days. That went up to 90 to 100 days. Now it's coming down to 75 to 80 days. And we are very particular about the customer in terms of the funding, the healthiness of the fund itself so that we are executing and we are getting paid on time. That's very important. So, excluding projects wherever the payment cycle is in the range of 60 days maximum. Of course, it goes up to 70, 75 days. The recent project has been always like all are like 30, 40 days maximum. So, the idea is to bring down the working capital cycle as much as possible. That is one of the areas where we are more serious about it.

Faisal Hawa: Sir, what is our order book ratio from government to private? And how is the competitive intensity in government orders presently? Is it very competitive? And even quoting less than the base price and how many orders have been lost in the last three to four months to very aggressive bidding?

S. K. Ramaiah: No, I think there are different segments in this. Mainly, the mechanical business, we are a leading player, and we will bid based on the margins what we can protect it. And as I told, you know, in some of the jobs, customer has terminated the existing contract given balance of work that has happened in Godda. Then we have got leadership in the installation business, mechanical business. And then civil side also, there are a few players are there. But even in that case, you know, in one of the jobs in Udangudi job has been terminated and given to us, 275 crores. Therefore, the competition is there. We are able to manage the competition and



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match with what is expected our cost and then our margins are there. And we have also particularly in the private side and the O&M side, we have got a preference because of our execution capability and conversion capability. And that's why we get a preference in the case of O&M side also and then in some of the private players also. But yes, the competition will be there in the government projects. You cannot avoid that. But there are lot of opportunities. Even if we can get a hit rate of 15% to 20%, it is okay for us, and we are prepared for that type of hit rate. That is what it is expected in the market when seven to eight players are there in the each of the segment.

Jami Satish: And see Power Mech since inception is quite conservative. So, not taken any projects with undue risk. We are quite selective, okay. And the strategy always continues to be conservative. We are comfortable. We will take the order. If we see there are some risks where we are not comfortable in terms of execution and the customer or the location, left out of the projects. So, the approach of conservative will continue.

Faisal Hawa: And what is our proportion from private orders to government orders?

S.K.Ramaiah: You can take around 50-50. Of course, with this FGD order, it will, of course, change. We have to rework on that. That is how it is. Most of the infrastructure projects are in government sector.

Faisal Hawa: Coal India also?

S.K.Ramaiah: Yes.

Faisal Hawa: Because now we are doing pretty well.

Moderator: Thank you. The line of Mr. Hawa got disconnected. We will take Rishikesh now from Robo Capital. Please go ahead.

Rishikesh: One question from my side. If you could please provide EBITDA margin guidance for FY23 and FY24?

Jami Satish: Sir, now it's we are working around 11% to 12%, and we think that margin profile to improve further. And as we discussed like the projects which we are quoting directly, so it can help us to save in terms of our cost for borrowing the credentials and all. That will also help adding EBITDA margin. So, we are expecting the margin profile to improve gradually.

Moderator: Thank you. The next question comes from the line of Deepak Poddar from Sapphire Capital. Please go ahead.



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- Deepak Poddar:** Sir, just wanted to check, what's current execution capability per month in rupees crores?
- Jami Satish:** Sir, now it's well set. It's in the range of 750 to 1,000 crores. It can be increased even up to 1,200 crores gradually.
- Deepak Poddar:** 750 to 1,000 crores, up to 1,200 crores per annum.
- S. K. Ramaiah:** Per quarter.
- Deepak Poddar:** Per quarter. Sorry.
- Jami Satish:** 1,000 crores per quarter. That is the range. Now for this FGD, we have created a separate unit headed by senior professionals. The team is well set now. So, this should gradually move up.
- Deepak Poddar:** So, the reason I was asking that is because, I mean, given the revenue outlook that we have for this year, ideally, given the second quarter is generally lean, so our second half execution per quarter should be close to about 1,200 crores, right? I mean, unless we have that, we won't kind of execute our annual target?
- Jami Satish:** See in the four quarters, in any financial year, Quarter 3, Quarter 4 will be always robust. Comparatively, if you see, it has more Quarter 1, Quarter 2, it used to be in the range of 450 to 500 crores. Now it moved to 600 crores, and now this has moved almost 750 crores, which is all time in the power mix journey. And Q4 last year we did close to 900 crores. So, this 900 crores to 1,000 is well tested now. So, what we need to work s to improve further. Now we are working on the creating of the resources, infrastructure to sustain the execution.
- Deepak Poddar:** So, basically, since the 900, 1,000 crores we have already done, so incremental maybe 200, 300 crores might be required by fourth quarter, I mean, by third, fourth quarter to increase your execution capability given the kind of outlook we have, right?
- Jami Satish:** It's now 900 crores is it's already tested for quarter four last year. And this year the target what we have kept is more or less it's quite comfortable because the incremental you will see Quarter 3, quarter 4 will have more volume in terms of absolute number. Gradually, you will see that number going up further.
- Moderator:** Thank you. Next question comes from the line of Ankur, an individual investor. Please go ahead.
- Ankur:** My question is with regards to the notification given to the stock exchange today that there is a Board meeting for preferential issue to the promoters. Now, you know, the company is at an



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inflection point. The profitability, revenue is going to be very, very good over the next two, three years. So, at this point, for the company to go ahead and do preferential issue to promoters is not really minority shareholder friendly. What would be nice if you have a rights issue which is given to all the stockholders of the company. If somebody subscribes, fine. If not, then promoter shareholdings will go up. So, that's my humble submission to the promoters.

Jami Satish: Yes. We will take a note of it, sir. Thank you.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

S. K. Ramaiah: I think lot of things have been covered up. I think we have got a very clear vision for the three years, and then the issues which can come up after third year perhaps we are gearing up also in both in the marketing side, business development side, and then the most important the operations side. Therefore, Company is well set for 4,000 to 5,000 crores of turnover in the coming year. And what is important is to sustain the growth and then the new opportunities will be there in infrastructure, O&M, mining and then railway, and then international operations also we will focus it now as the COVID is behind us. Therefore, I think this growth story will continue for the next couple of years, and the operations wise we are fairly comfortable with the present setup what we are having it and adding the headcount, critical headcount, and also the capabilities wherever it is requirement in different areas, that should take care of our conversion and then working of the projects. Thanks.

Moderator: Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.