



“Engineers India Limited Q4 FY2018
Post Results Conference Call”

May 28, 2018



ANALYST: Ms. BHOMIKA NAIR, IDFC SECURITIES LIMITED

MANAGEMENT- ENGINEERS INDIA LIMITED:

MR. R.P. BATRA – SENIOR GENERAL MANAGER (FINANCE & ACCOUNTS)

MR. VINAY KALIA – GENERAL MANAGER (MARKETING)



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Moderator: Ladies and gentlemen, good day and welcome to the Engineers India Post Results Conference Call hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Madam!

Bhoomika Nair: Good evening everyone. Welcome to the Q4 FY2018 earnings call of Engineers India. The management today is being represented by Mr. R. P. Batra, Senior GM (Finance & Accounts) and Mr. Vinay Kalia, GM (Marketing). I will now handover the call to Mr. Kalia for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

Vinay Kalia: Good evening and welcome you all to the Q4 FY2018 conference call on Engineers India. I will just summarize the results highlights for you and then we can open the forum for queries.

The company has registered a turnover of Rs.1788 Crores during FY2017-2018, which is an increase of 23% over the last year’s turnover of Rs.1449 Crores. We have registered growth in both these segments. In the consulting segment the turnover is Rs.1379 Crores as against Rs.1165 Crores in the previous year, which is an increase of 18% since last year. In turnkey segment the turnover for FY2017-2018 is Rs.408 Crores, again there is an increase of 44% as compared to Rs.284 Crores last year. Likewise we have registered operating profit of Rs.389 Crores as against Rs.277 Crores in the previous financial year, which shows a growth of around 40%. Operating margins registered during the year is 22% as against 19% in the previous year.

The PAT for the current fiscal FY2017-2018 is Rs.378 Crores as against Rs.325 Crores in previous year, an increase of 16%. We have paid an interim dividend of Rs.2.5 per share and Board of Directors has also recommended a final dividend of Rs.1.5 per share, which was subjected to the approval of shareholders totaling to a dividend of Rs.4 per share for FY2017-2018, this is compared to a dividend, the total annual dividend of Rs.3 per share last year.

The company has also recovered order inflows of Rs.1660 Crores in consulting for 79 in EPC totalling to Rs.2140 Crores. Major orders secured during the year is polymer addition project of over Rs.1000 Crores and two EPC projects from ONGC worth Rs.235 Crores and



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Rs.244 Crores. The order book position as on March 31, 2018 stands at Rs.7873 Crores compared to Rs.7762 Crores last year. The mix is quite similar to the mix of last year itself 53% consulting and 47% EPC. Now I leave the floor open for queries you may have on the results and the business outlook, we can take forward from here Bhoomika.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Aditya Sanghi from ADD Capital. Please go ahead.

Aditya Sanghi: Good afternoon. I only had one question with regards to your proposed investments in the fertilizer sector. In one of the earlier calls in Q1, it was noted that you would be investing close to Rs.340 Crores in revival of four fertilizer units with an additional investment prospects of another Rs.200 Crores to Rs.250 Crores just wanted to get an update on those plants?

Vinay Kalia: Sir, we have already made investments to the tune of over Rs.200 Crores in the fertilizer complex. The project is also being built by us. It is to be commissioned by December 2018 and as per the original agreement between the partners we were to rope in another equity partner, so if we are able to find another equity partner we would not be making any further investments, otherwise further investments will be made by the existing partner.

Aditya Sanghi: If you can also kindly elaborate on the new bids that you are looking to make for revival of additional units, which was mentioned as between Rs.200 Crores to Rs.250 Crores?

Vinay Kalia: We are not currently making any further bids in India for revival of fertilizer complexes. We are not bidding any further projects in India. We are only looking at consulting assignments from other fertilizer companies.

Aditya Sanghi: Great, thank you. Just one last question on this point. Is that a stated potential strategy for the company that you may look at asset investments in the future as well because that was not what you had followed in the last many years?

Vinay Kalia: We are only looking at investments for some strategic purposes like if I want to get in into a new business area where I need some competencies. In case of fertilizers, we needed some PTR. It was a precondition that we will invest in this project provided the project will be executed by EIL as an EPCM consultant. We needed this PTR for getting qualified for fertilizer projects in India and overseas also because last fertilizer complexes that we had done were about 15, 20 years ago. So fortunately with the commissioning of this plant we will now have a PTR in India. Also with the support of this project we have already got

three projects in international markets and they have been completed. We are also looking at another project in fertilizer complex in overseas based on the PTR we have developed recently. So it was a strategic reason to invest in this project otherwise we are not looking at investments per se for putting our funds.

Aditya Sanghi: What was the exit plan from this eventually?

Vinay Kalia: I did not get you Sir, can you repeat the question?

Aditya Sanghi: I just wanted to know what would be the potential exit from this investment?

Vinay Kalia: Currently we are not looking at exit from this because we had done a due diligence and the IRR were good while we invested, it was a precondition, so it is not that the IRR were not good and still we were investing just for getting a PTR.

Aditya Sanghi: Understood. Thank you very much. I appreciate the answers.

Moderator: Thank you. Next question is from Rohit Gupta who is an Individual Investor. Please go ahead.

Rohit Gupta: Can you elaborate what are the international possible orders that we were looking at currently?

Vinay Kalia: International orders, we are looking at some potential orders from Middle East majorly Abu Dhabi region, Oman, Bahrain and Kuwait. For the last two years because of the fall in the crude oil prices most of the clients in the Middle East had put on hold their investments in Greenfields and Brownfields, they were only going for revamp assignments. Of late as the prices have revived, and these Clients have started giving us expression of interest for major and mega assignments as well. Now, with the PTR of Dangote and the Greenfield projects we are doing in India as of now, we do get qualified for these projects. So we are now opening up our sales initiatives in these countries and fortunately we have been qualified for a number of major assignments as a PMC consultant.

Rohit Gupta: What can be the potential order from this do we have a view?

Vinay Kalia: Currently I cannot say because the market only last four to five months they have started giving us an indication of revival in the Middle East sector till last they were not making any investments, only US they have now announced and they have called us also and they have empaneled us also in two or three places, so it will take another five to six months

before you actually see realization of those UAEs. So this year might still be muted, but next year can show some good potential returns in terms of see an average project could be in the range of \$25 to \$50 million like we could secure in these regions.

Rohit Gupta: What is the status of the Barmer project initially like in the Q3 call you mentioned that you are expecting to secure that order this quarter?

Vinay Kalia: We are negotiating and finalizing the terms with HPCL, but yes Pre- project activities have also been initiated by client and we are executing Pre-project works, which is basically site enabling works, so works have started, but the main contract signing is taking time because the terms are being negotiated and we are hopeful that in another one-and-a-half months time we should be able to negotiate the main contract. Since main contract was getting delayed Pre-project works have been awarded to us.

Rohit Gupta: But there is enough visibility that this will fructify?

Vinay Kalia: As of now yes because we have started the works for site enabling and the contract is also being concluded.

Rohit Gupta: And Sir is there any progress on the mega refinery at Ratnagiri that project seems to have run into some shoes, will you be able to share some view on that?

Vinay Kalia: From a technical side, we are progressing as per schedule and targets given to us as far as finalization of DFR, market study, licenser selection, all the activities that are assigned to us we are working on it as per schedule. As far as the acquisition of land and investments are concerned, I think the owners are the best people to give you a response on that, but yes it is a very big investment so these issues might come up.

Rohit Gupta: Thanks Sir. That is all from my side.

Moderator: Thank you. Next question is from Ruchir Khare from Kotak Securities. Please go ahead.

Ruchir Khare: Good evening Sir. Thanks for taking my question. Sir, couple of questions from my side. First is about the HPCL Barmer project, so strategically we will be sort of taking orders only through the consulting route or it could be a mix of elastic also like it happened in Vizag?



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- Vinay Kalia:** First of all it is the client priority, my preference would be taking more of consulting because of the strong bottomline that I get, but I am expecting that clients would prefer both because they are negotiating on both figures.
- Ruchir Khare:** And Sir roughly this could be executable over what timeframe?
- Vinay Kalia:** For such a Greenfield you can consider four years.
- Ruchir Khare:** And Sir coming back to the fertilizer base, so fertilizer projects, which you are expanding currently, so these also typically follow the consulting route or again or it might be a mix of consulting or EPC going ahead?
- Vinay Kalia:** We have to make a choice, it is a conflict of interest you cannot do both as you very well know, so our preference is to take up only consulting assignments. Already we have done Overseas projects, two in Nigeria, one in Indonesia and Bangladesh, four projects we have already done with this PTR, this is the fifth one and now we are also negotiating another order from the same client.
- Ruchir Khare:** It should be open book estimate?
- Vinay Kalia:** No, we are doing consulting in overseas. They are not going for OBE but they are going for EPC and PMC.
- Ruchir Khare:** Overall order book of yours what would be the open book estimate I presume close to 100% now?
- Vinay Kalia:** Yes.
- Ruchir Khare:** And Sir Dangote how much is remaining now?
- Vinay Kalia:** As far as billing is concerned close to 45% billing has been done, but the progress is different, Engineering progress is very high, construction progress is low, & construction activities are picking up now.
- Ruchir Khare:** So what would be the amount in the order book currently for this project?
- Vinay Kalia:** Balance order book is close to Rs. 700 Crores approx. including Change Order



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- Ruchir Khare:** And Sir lastly probably Mr. Batra can address this, in the reported financials the balance sheet your reserve and surplus are coming down, is there any adjustment to this?
- R.P. Batra:** Basically in FY2017-2018, there was a buyback of shares to around Rs.659 Crores we have paid as a buyback proceeds, so that is why the reserves and surplus declined.
- Ruchir Khare:** Understood. Fine sir. That is it from my side. I will get back in the queue if I have more questions. Thank you Sir.
- Moderator:** Thank you. Next question is from Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** What is the write off amount for this quarter as you mentioned that Rs.26.4 Crores is for entire year? In the note you have mentioned that oil and gas exploration blocks including dry well written off amount is Rs.26.4 Crores, so what is for this quarter?
- R.P. Batra:** It is around Rs.22 Crores.
- Dhananjay Mishra:** Rs.22 Crores this quarter and this is to PMC business?
- R.P. Batra:** To our investment in the oil and gas block basically.
- Dhananjay Mishra:** So that was taken into other expenditure?
- R.P. Batra:** Yes that is part of other expenditure.
- Dhananjay Mishra:** Sir what is the outlook for FY2019 in terms of total order inflow overall?
- Vinay Kalia:** We are looking at a big order from Rajasthan refinery project and that is a very large order we are looking at possibility that we will have both consulting and EPC orders from Rajasthan Refinery project. Besides that, some of the projects, which are being targeted for next two years are Panipat Refinery expansion from 15 to 25 MMTPA, the Cauvery Basin Refinery of CPCL (this is a 9 MMTPA refinery) and Numaligarh Refinery Expansion. We are also looking at some mid size orders from BPCL for small scale expansions in their Mumbai and Kochi refineries. Bina is also expected to expand from 7.8 to 15 MMTPA. Now the timelines of these projects have not yet been finalized, yes the DFRs have been approved by their board. So we expect at least two of these five to six projects to materialize this year and we can have similar order inflows in the consulting segment as we have seen in this year and EPC segment may see a large inflow in the current year also.



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- Dhananjay Mishra:** Overall can we expect about 4000 including EPC?
- Vinay Kalia:** Condition to Rajasthan materializing yes you can see an inflow of at least Rs.2000 Crores in EPC and a similar amount in consultancy
- Dhananjay Mishra:** Sir have we signed MoU with ministries for this year target?
- Vinay Kalia:** That is being negotiated and finalized.
- Dhananjay Mishra:** That is all from my side. All the best.
- Moderator:** Thank you. Next question is from Bhavesh Jain from Envision Capital. Please go ahead.
- Bhavesh Jain:** Sir, this government is again talking about Namami Gange, so are we looking any order inflow for this year?
- Vinay Kalia:** Not much not in the current year, we not very clear of the model that they are proposing from Namami Gange, so we are currently not keeping much consideration for that in our order inflows.
- Bhavesh Jain:** Sir this year we have taken this Rs.22 Crores write off in oil and gas, any such more write off, which is there?
- R.P.Batra:** Yes, it can come, but that would not be material in nature.
- Bhavesh Jain:** Earlier we were talking about some merger of other PSU companies with our company, so any update on that?
- Vinay Kalia:** It was not a merger, the expression of interest was there for acquisition of PDIL. As I was sharing that there are multiple talks going on merger of small companies, merger of companies with oil majors and they are also floating EOI for acquisition of small companies, but still nothing material has happened.
- Bhavesh Jain:** And Sir any margin guidance for this year?
- R.P. Batra:** Margin for the consultancy segment shall be between 25% to 28% and for the turnkey segment between 5% to 6%.
- Bhavesh Jain:** Will do another buyback this year?



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- R.P. Batra:** No, right now we do not have any plan of buyback. As and when there is a plan that will be intimated.
- Bhavesh Jain:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** Just two questions. If you can highlight what is the status on the GAIL Kakinada petchem complex project, is that FY2019 or FY2020 prospect in terms of timeline? Second question was for the last two or three years we have had this tailwind of a provision write back in both our segments, going into FY2019 and 2020 these two years would also have a write back or a net creation and if you can provide some bit of clarity on the quantum of that? That would be helpful. Thank you.
- Vinay Kalia:** First, as far as Kakinada is concerned, the feasibility of this project is also through and board approvals have been there. We are not expecting this project before Q4 of this year, so it can come at the end of this year or it will go to the next year.
- Jonas Bhutta:** Size would be about?
- Vinay Kalia:** It could be in the range of Rs.1000 Crores. Regarding, second question on contractual provision, my colleague would answer the same.
- R.P. Batra:** Provisions basically are created as per the contractual provision with our clients and written back all the obligation under the contract is completed, so it is a continuous process. Whenever there will be completion of a project in case a major project is being completed there will be material write back, if minor projects are completed there may not be a material write back, but it is a continuous process.
- Jonas Bhutta:** Sir based on your estimate you would know that in FY2019?
- R.P. Batra:** As of date I cannot give you a figure as and when that will be available we can communicate that.
- Jonas Bhutta:** Thank you and all the very best.
- Moderator:** Thank you. Next question is from the line of Chinmay Gandre from Future Generali. Please go ahead.

- Chinmay Gandre:** Thank you for taking my question Sir. There are topline with respect to the consultancy segment on a Q4 basis, there was a margin of 4% decline, so we have a very decent order backlog, so anything you want to highlight on that front?
- Vinay Kalia:** Basically our turnover depends upon the execution in particular quarter, so in the last quarter of March 2017 there were certain high value projects, which were going to be completed, so there was a substantial turnover for that particular project in that quarter in comparison to the current quarter, so there is a minor variation between Q4 FY2017 and Q4 FY2018 turnover.
- Chinmay Gandre:** As a followup to the previous question Jonas asked basically is there any major projects, which is expected to be completed in FY2019?
- Vinay Kalia:** It is slightly difficult to predict because first of all, all contractual abilities are to be over, completion certificates have to be taken from client and Client issues it only after all clarifications, issues and all pending activities have been completed. So we are not able to track from quarter-to-quarter when the client clearances will be received for projects, but they do happen. If you have large value contracts, the time when they get completed you do get material write back, but it is a normal process. We have write backs in each quarter but only when you get large value write back we do report it.
- Chinmay Gandre:** Any topline guidance for FY2019 for consultancy and for turnkey like broadly how much we will be able to do?
- R.P. Batra:** Basically we are expecting an increase of around between 15% to 20% in the total turnover, maximum will be coming from the turnkey segment.
- Chinmay Gandre:** Thank you Sir.
- Moderator:** Thank you. Next question is from Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Sir I just wanted to check what is the status of CPCL Nagapattinam and also there was some talk of strategic reserves, so for both these projects what is the status?
- Vinay Kalia:** As far as CPCL Nagapattinam is concerned, it will go to the second half of next year. That is what we are targeting. This year more promising ones are the Rajasthan and Numaligarh Refineries. Few small scale expansions of BPCL may also come in this year.
- Bhoomika Nair:** The BPCL you are talking of the phase 2 Bina Refinery from 8 to 12?



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- Vinay Kalia:** We are talking about Mumbai and Kochi, they are also coming up with few small additional units in their existing refineries. These are small orders of Rs.150 Crores to Rs.200 Crores kind of orders. As far as ISPRL is concerned, they are currently looking at only two projects, one in Odisha for 4 million tonnes and second in Padur phase 2. Phase 1 of Padur we have already done, phase 2 is of 2.5 MMTPA. Cumulative cost would be around 11000 Crores and ISPRL is going for cabinet approval for the same and parallely they are also looking at PPP mode of execution for making these assets more commercially viable. Based on these two requirements which have come up we feel it will come up in 2019-2020 only.
- Bhoomika Nair:** The Bina Refinery expansion phase 2, what is the status there?
- Vinay Kalia:** Again DFRs were through, but it has not been targeted for this year.
- Bhoomika Nair:** So that will come in FY2020 or it could get pushed over to a longer term?
- Vinay Kalia:** Project is not coming in the first half of FY2020 that is the current feeler we have. We can give you an update on each quarter.
- Bhoomika Nair:** Right and the other thing was on IOCL you talked about Panipat, but are there any other plans that they are talking about expansion and also the Bharat Petchem?
- Vinay Kalia:** Not yet. Their immediate priority is Panipat Refinery and CPCL Refinery. CPCL as you know is also part of Indian Oil?
- Bhoomika Nair:** Ok
- Vinay Kalia:** They are looking at these two Projects, CPCL 9 MMTPA in Nagapattinam and IOCL 15 to 25 MMTPA in Panipat. So there are two big expansions. In Panipat they are planning to have another petrochemical complex once the refinery gets expanded.
- Bhoomika Nair:** Sir basically in petchem there are not too many projects apart from the GAIL one that you spoke about earlier?
- Vinay Kalia:** Yes because we are already doing one. As we have completed BCPL recently and GAIL Vijaipur also and HMEL has already started. Kakinada was being planned for this year. We were hopeful it can come in first half, but as of now it is going in second half of this year.
- Bhoomika Nair:** The other thing was that you spoke about earlier was on the international pipeline that you know the enquiry levels have started improving after a dull plus two, three years apart from



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the Dangote order nothing much has really come in, so you think that there could be some larger projects of similar size like Dangote, etc., which could come in probably FY2020 if not in FY2019?

Vinay Kalia: I cannot say something like Dangote may come up immediately, but I can expect medium size assignment start coming in, in the range of \$25 million to \$50 million.

Bhoomika Nair: Great Sir. Thank you so much and wish you all the best.

Moderator: Thank you. Next we have a followup question from Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: This is in respect to one of the earlier questions on the FY2019 revenue guidance Sir, so it suggests that since bulk of the growth come from turnkey, could you just explain on consultancy what are the challenges, what is our manpower utilization rate and is there an upside there and also in an earlier call you had sort of intent that you will look at higher temporary engineers to sort of address that challenge of flattish topline or the capacity constraint that you have on the consultancy side, so if you can just update on both these segments?

Vinay Kalia: Yes, currently the capacity utilizations are quite high in the range of 90% plus and considering that the workloads are seasonal in our business. Suddenly in very large assignments, the engineering phase workload will pick up for a few months and we will have peak load in engineering. It is similar to peak shaving requirement that you get in power, so to manage that we have we were thinking of going for outsourcing of additional people for the engineering phase. Subsequently when construction phase activities pickup, we shall have huge requirements in construction. So for both these Phases we are going for recruitments and also sourcing of employees. Even for overseas operations we will be going for sourcing of employees and direct hiring.

Jonas Bhutta: So would not that then sort of allow you Rs.2 Crores your revenues in FY2019 or that impact will only come in FY2020 Sir?

Vinay Kalia: It is not that the revenues will grow further and simply giving an arithmetic calculation of the order book and how the order book is shaping up we need the manpower to execute that order book. For executing this order book and the projections in the topline we have suggested, we need additional manpower definitely and so we are arranging that manpower. Since we need more of experienced manpower so we thought we will go in for sourcing of



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experienced staff as compared to recruiting more of trainees and then training them for two to three years.

Jonas Bhutta: In a way should we expect our consultancy revenues move forward around Rs.1300 Crores, Rs.1400 Crores band may be for FY2019 and 2020?

Vinay Kalia: Yes, for current two years.

Jonas Bhutta: Your sort of guidance on the margins also factors in that flattish topline right, so like 25%, 28% EBIT margin for consultancy prices in the higher employee cost and stuff like that?

Vinay Kalia: Yes.

Jonas Bhutta: That is it from my side. Thank you.

Moderator: Thank you. As there are no further questions I would like to hand the conference back to Ms. Bhoomika Nair from IDFC Securities for closing comments.

Bhoomika Nair: I would like to thank everyone for being on the call and particularly the management for taking time out and answering all our questions. Thank you very much Sir and wish you all the very best.

Vinay Kalia: Thank you for hosting this conference and thank you to all the investors and analysts for their interest in Engineers India. Thank you.

Moderator: Thank you very much. On behalf of IDFC Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.