ANALYST MEET Q1 -FY24

Santosh Rai: Good evening, everyone, welcome to the HCC's investor presentation for Q1-FY24. We will start with the order backlog positions, the order backlog position of the company as on 30th June, 2023 is Rs.13,568 crores. Like the previous quarter, the order is still spread largely across the transport sector, followed by Hydro, then Nuclear & Special projects and Water. We have submitted a couple of bids during the Quarter 1 of FY24 around 2,000 crores. And there are more bids under evaluation to the tune of 3000 crores. The focus of the company will remain again in line with what we have discussed in the past, that we are going to continue to focus on high value jobs in urban-infra, underground structures and hydro power space and couple of selective jobs in nuclear power sector. The key highlights for Q1 FY24 with the consolidated group revenue is at Rs. 2,564 crores in Q1 FY24 versus Rs. 2,228.9 crore in Q1 FY23. We have a consolidated profit of Rs. 52.7 crore in Q1 FY24 versus a loss of Rs. 280.7 crore in Q1 FY23. This quarter the Q1 of FY24, in fact we have done the highest turnover in the Q1 and it is almost 27% more as compared to Q1 FY23. We have a Standalone net profit of Rs. 18.9 crore in Q1 FY24 versus a loss of Rs. 150.8 crore in Q1 FY23. EBITDA margins are standing at 12.6% in Q1 FY24 compared to 10.4% in Q1 FY23. This top line growth what we are witnessing is a result of implementation of various projects streamlining initiatives, very tight control on operations and all the good practices are being put into the projects to speed up the progress. We have also achieved the project completion certificate for Munirka Flyover, it's a project in Delhi. And as a focus on the closing out of completed projects, we have been successful in closing two of our old projects called as Sone bridge and Sainj hydro-electric power plant. The demobilization is completed at these projects. And at Pare HEP at Arunachal Pradesh, the demobilization is in progress. Few of the operational updates, what you see before you is the Anji Khad bridge, almost 85% of the job here is completed. You can clearly see in the picture that the bridge is now connected on the other side, so a very delicate portion of the construction has now been successfully completed. We are completing the remaining connecting portions and we are targeting to complete this job by end of this year. Delhi Metro DC-06, is again our 4th project with Delhi Metro and here almost 90% of the project is completed. The tunnel works are completed and what we are doing is the final concourse slab along with the other finishing activities. The picture on your right is about the cross passages which connects the two tunnels together. This was difficult in this project because of the very high-water table but our project team has very successfully completed this exercise. Tehri PSP, what you see on the screen is that the electro mechanical works are in progress. Upstream surge shaft and lining is also in progress. All the works of civil and electro mechanical are progressing as per the schedule. Vishnugad Pipalkoti HEP which we have been discussing for the last few months, the TBM drive here has recommenced successfully from July 14 and with all the technical precautions we are moving ahead with the tunneling. This is a 12-km-long HRT with 10-meter diameter, construction by TBM has recommenced now. Nikachhu HEP is in Bhutan and you can see in the project that one of the radial gates is open that's basically for the flood control but 2 gates have been commissioned and the remaining one gate which will be completed by October 2023. It's progressing well. This is an important Tunnel project, T-49A in Jammu and Kashmir a part of the Udhampur-Srinagar Baramulla rail link project and this project is also nearly 90% complete. We have completed almost all the tunneling and lining works, now some remaining ancillary works are in progress. And some variations have been added which we believe we will be in a position to complete by March 2024. Rajasthan Atomic Power plant, now the handing over formalities have begun with department of Atomic Energy. Project stands almost 99% complete. Mumbai Metro, this project is a part of the Line 3 and you can see that the MEP works are in progress at different stations. In the picture on the left, you see the CST Station, where the mechanical, electrical and plumbing work along with finishing works are in progress. Kalbadevi which is NATM station, now we have started the OTE duct erection and other finishing works have already started here. These are the pictures of Girgaon and Grant Road Station, the picture on your right, showing Grant Road station where the final NATM works are in progress now, the lining and the final works will be completed here. Here, finishing works are in full swing along with ancillary building. Girgaon, the NATM here is still in progress, we have some 40-50 meters of work pending and that we are targeting to complete over the next few months. Together with this, all structural works will also be completed by August and then the finishing works will start at this station also. This is the picture of Mumbai Coastal Road project, you can see on the slide that the superstructure erection and the bridge erection is in progress. We are going to complete the bridge erection in this project by April-May 2024. Followed by the finishing works and the surface level roads are also being targeted to be completed by the end of this year. The works are progressing as per plan. Also, for the variation work which was introduced into the project, we have been progressing as per schedule and this will also be completed in line with the target completion date of June 2024. These are the financial numbers of the consolidated financials which are on the screen and in line with what we presented in the opening slides. We can discuss this at the end of the presentation. These are HCC's Standalone Financials, as you can see Q1 FY24 revenue is Rs. 1,230 crores up from Q1 FY23. Coming to HCC concessions, this is the BFHL project where the Bhagirathi bridge is almost completed except the left-hand carriageway. Target of the company is to complete all the civil works by December 2023.

Steiner AG the closing order backlog of the company as of June 30, 2023 is 892.5 million Swiss francs amounting to Rs. 8,054 crores. And for the Q1 FY24 the order intake of the company is 59.5 million Swiss francs amounting to Rs. 537 crores INR. Other key financials are given on the slide, thank you very much and now we will take questions.

Arushi Shah: I just wanted to know, the unbilled revenue which is sitting in our balance sheet, what is it basically. If I could get a rough idea of that, the contract assets which usually sits in the asset side.

Girish Gangal: That's right but along with these results, we are not presenting in the balance sheet. The first quarter we don't need to present any balance sheet. So, I am not aware from where you are getting these numbers.

Arushi Shah: No per say it is in the other annual reports, so previously also, I just wanted to get an idea what is it basically.

Girish Gangal: See Wherever its applicable to Work where I am unable to bill it because of the certain norms of a project unless I complete a particular portion I can't bill to the client. So that's in unbilled revenue.

Arushi Shah: Ok thanks.

Mahesh: The first question I have is what is the revised timeline for the debt SPV that we are making. There were some small procedural things that were pending. What is the revised timeline? When will the debt go off our consolidated balance sheet?

Girish Gangal: The company is already separate**;** debt will go from the consolidated balance sheet once the investor is inducted for which it is pending for some approvals from the bank. Now majority of the approvals have been received**.** So, we can expect by end of current quarter we should be through with separation of the debt from the consolidated balance sheet.

Mahesh: The second question is that if one looks at some of the construction companies, obviously every construction company has its own profile. But there is a lot more order winning activity there. So are we actually, let's say last 6 to 9 months, have we been more internally focussed trying to address the problems inside and have slowed down a bit on the bidding activity, I am talking about last 6 to 9 months.

Santosh Rai: Mahesh to answer your question, we have been through a period where we had taken a conscious call to first streamline our existing operations and focus on our projects delivery. Coupled with the other sets of requirements which were to be met with, especially the banking requirements. We have been working upon that and what you see the decline in order intake of HCC has been a function of that particular case. But as we speaking now, we are fully geared up. In fact, you can see that the company has already submitted direct bids which we are making for our metro clients and also for some of our road sector clients, plus some other sector also we are completely focused. So, you will see a good amount of increase going forward and as you rightly said the focus was, the previous journey was quite calculated and well thought of. Now as a part of our growth strategy, we are very well focussed on bidding for new jobs. We have identified a good set of bidding pipeline for us and we are working on that.

Mahesh: Thanks a lot. One last question, there is always some fluctuation in the profitability but over let's say long term, 6 to 8 quarters. What kind of net profit margin could one expect in Steiner AG?

Arjun Dhawan: Look I think we have not generally given a guidance on profit margins but in the past if you look at Steiner AG's business and what we expect to continue, it is safe to say that we should be doing 3 to 5% margins going forward. Now that's because we have lowered the risk in the business, a typical construction 3rd party TCGC business in Switzerland has been in the range of about 2 to 3% PAD. I think that we will be able to probably see some of that increase as we go forward. But at this stage, I won't say anything further, we can talk about this perhaps in the coming quarters when there is something for us to actually communicate.

Mahesh: Thank you very much and all the best for the future.

Chirag Shah: The first question I have is with respect to order book, can you indicate the number as I missed that during the presentation.

Santosh Rai: So, Chirag, as of Q1 FY24, our order backlog is Rs. 13,700 odd crores.

Chirag Shah: And has there been any inflow in order book.

Santosh Rai: Not in Q1. There are bids under evaluation which we have submitted now.

Chirag Shah: The second question is, how much worth of order you can bid today, given the amount of bank guarantee you have plus other criteria's, so what is the kind of order you can bid today and how many orders have we actually bid and waiting for the outcome?

Santosh Rai: As we have presented, I think already bids worth Rs.2,000 crores are already submitted which are under evaluation. We are currently in the process of evaluating bids worth Rs.3,000 crores and if you ask me in terms of our preparedness, we are prepared to submit bids to the volume of around Rs. 25,000 to 30,000 crores.

Chirag Shah: Ok, so is there, higher competitive intensity or it is more inward looking, house correction activity because the amount of bids that you are putting across and the amount of bids that you can put across there seems to be a reasonable gap. So, when the structure of actually submitting bids as you may not be alone in every bid right, so there would be some areas where you may miss out.

Santosh Rai: I think you have put the points fairly. As we said, we have right now for example in this Q1, in terms of numbers, we have around 5 bids, which are directly HCC bids which are under evaluation, which are already submitted. And we believe that we will be submitting another 15 to 20 bids going forward. You can see the activities picking up also in line with what are observing into the market and as you might have noticed we have declared that we are going to focus on certain type of jobs which are the inherent strength of the organization like large value urban infrastructure projects or projects in underground sector, hydro power space, so those are identified and you can see, I can say a very constant approach from us from Quarter 2 onwards.

Chirag Shah: One last question, one suggestion, can you make some comment on the announcement that you made with respect to fund raise. So, what is the thought process by when do you intend to complete the process, etc.

Girish Gangal: We are waiting for the right opportunity to announce that, right now, immediately, we don't foresee, we have taken in principle approval but maybe during the year sometime we will come out with exact plan.

Chirag Shah: Ok it's more of a in principle approval you're taking right now.

Girish Gangal: Ya that's it

Chirag Shah: One last request, if possible if you could keep sometime between the call and the uploading of results and ppt, so we get a chance to just glance through them.

Santosh Rai: Well, noted. Our apologies for that as due to some technical issue, we lost an hour but we will certainly address this issue.

Chirag Shah: Thank you and all the best

Sunil Shah: My question is what about the second agenda of the raising of fund, I think you have explained we have taken in principle approval. So, nothing much to add, thank you.

Keniel Omkara: So, this year majority of your old projects are going to be completed such as Tehri-PSP, Mumbai Metro and Rajasthan one and also Nikachu HEP hydro power plant, so should we expect higher revenue booking in coming quarters? Due to Completion timelines? Which will lead to some bump up in margins? Sequentially?

Santosh Rai: So, I think our operational performance is going to be a function of the kind of projects we are into and we can say that our target would be to do better that what we did last year and we are all set in that direction, because we can't make some futuristic statement here. You will appreciate that, but we will make an effort that we do better than what we did last year.

Keniel Omkara: Majority of your contracts are old contracts which were at cheaper cost when you had bided due to higher raw material cost and everything, the margins are sequentially lower over the last few years. So as your old contract gets out and the new contract comes in, your margin will sequentially bump up as soon as you get order book closed.

Santosh Rai: Look I think, that is going to be a mix of what we secure and how it happens but you will also appreciate that the new projects will also take 6 to 7 months to really come to a stage where they start generating margins.

Keniel Omkara: And would like to know for the Cube, have we got some equity consideration?

Atul: Yes, we have received the consideration and we have closed the transaction in March of this year.

Keniel Omkara: And have you received the full amount Rs. 650 crores or is it part consideration now?

Atul: Part of that is for the balance completion of the project, except for that, we have received the consideration.

Keniel Omkara: Would like to know in your results summary you have written that you have generated a good cash-flow amount, is it due to claims coming in or is it due to general business operations. Working capital getting reduced and operation margins increasing.

Girish Gangal: Claims plus it is on operational revenues.

Keniel Omkara: What would be the amount? Approximate, if you can provide?

Girish Gangal: We can't segregate in that manner, the cashflow available from the operations separately. I don't know from where you are getting these numbers?

Keniel Omkara: You have written generated a good cashflow amount during this quarter in your results summary on the first page.

Girish Gangal: It is a comment on the basis of the estimated revenue for what we are planning is higher by 27% from that perspective it is a comment that we have generated a better revenue.

Keniel Omkara: Ok understood and on the upcoming project bids, should we expect the bid amount to be in the range of Rs.3,000 to Rs.5,000 crores like your BKC bullet train orders? Or should we expect say around Rs.1,000 – Rs.1,500 crores where the majority of the competition is?

Santosh Rai: Keniel, I think as we have said in the first slide also, we are going to focus on projects where we have inherent strengths. And this is a bit difficult question to answer about what range it would be but I think we will be more focused on jobs which fit our execution capabilities and our strengths. Now, I think Rs.3,000 or Rs.4,000 crores is a kind of number where we are very comfortable executing on our own but if the sizes are big, we will also like to have right kind of joint venture share, partnership and other things. The size is not going to be a parameter basis which we will choose our projects.

Surya: In which segments do you see the most projects coming from in the next one year.

Santosh Rai: I will say urban infrastructure, roads, especially the greenfield express ways will continue to drive the segment. So, to summarize this will be the transport segment where you will see a lot of activities on going.

Surya: And what is the total amount of hydro tenders coming up for bidding in the next 6 months?

Santosh Rai: To our knowledge, I mean if you look at the hydro sector, in hydro we are going to consider pump storage and other things. We are clearly seeing that at least bid worth Rs.30,000 to Rs.40,000 crores are there.

Surya: And which state should contribute the highest?

Santosh Rai: North and North-east

Surya: You mentioned underground structures, what do you mean by underground structures?

Santosh Rai: They are largely metro tunnels for metro train or for example if you see nowadays lot of tunnels are being made which are below the mountain, so that's what we mean by underground structures. Tunnels for transportation and also tunnels for Hydro power projects or tunnels for any other purpose.

Surya: I have a last question for Mr. Arjun Dhawan. That in our resolution, the final stage which was the transfer of SPV debt to the investor has it been completed yet?

Santosh Rai: I think Surya that question was asked by someone else a while ago and we answered that question that there is some minor procedure pending for which these things are waited for.

Surya: So, by when can we expect all the pending approvals to be completed?

Girish Gangal: We expect by this quarter end, we should have the approval

Surya: What is our current debt on HCC consolidated basis?

Girish Gangal: Around Rs.5,200

Surya: And after the transfer of SPV debt to the investor what will be the total debt remaining on the group?

Girish Gangal: Something around Rs.2,600 to Rs.2,700

Surya: Ok so it will be a deduction of around Rs.2,600 or Rs.2700 crores?

Girish Gangal: You can say roughly 50%.

Surya: That's all, thank you

Riddhi: So, my question is regarding LAVASA, after the approval of the resolution plan how will it impact the liabilities which we have in our books?

Girish Gangal: As far as HCC per say is concerned, HCC has already taken a debt related to LAVASA corporate guarantee, so we don't foresee any change as far as HCC is concerned in its books. There is no impact pertaining.

Riddhi: So, I think there is a liability of Rs.1,000 crores in our book which is pertaining to LAVASA right?

Girish Gangal: That's right.

Riddhi: So that won't go away?

Girish Gangal: It has been accepted and it is already converted into NCD. That liability which we have taken in HCC books has been already converted into Non-Convertible Debentures with a varied payment term, so that cannot go away.

Riddhi: Ok and apart from that there will be no other liability?

Girish Gangal: There is no other liability. We have booked everything what we had.

Riddhi: Ok thank you.

Mayank: I was going through the results and we see an improvement on the year to year but we are not good at operational performance compared with quarter on quarter. If you compare the results with March, I think there is a stink in revenue and profit. So is there any reason or is it due to the nature of the construction thing.

Santosh Rai: Mayank that is largely the nature because in fact normally if you see for almost all companies the Q4 is normally something which is a very good one. We are seeing this as a good progression over what we did last year versus this year, compared to that nature. So, nothing abnormal here.

Mayank: Ok and coming to Steiner AG, the profit is very less, only Rs.11 crores, I think? So, it is very less, like the amount of profit it generates if we compare to that, it is very less. So, is there any significant reason?

Santosh Rai: I think Mayank that is also a function of, I can say the nature of those markets. Specially the nature of construction business in those markets wherein we have fixed but quite lesser value of these profits and the results are reflecting that.

Mayank: And I think you have posted the rights issue for value of Rs.300 crores, so any price will be finalized in the AGM or how does it work?

Girish Gangal: We have mentioned already we have taken in principle approval right now. So, whenever we decide and finally go for it, that time all these things will arise.

Mayank: Ok just the value is decided now.

Girish Gangal: Overall value, is the value approval we have taken in principle approval.

Mayank: I think instead of rights issue you mentioned raising capital?

Girish Gangal: When you take a in principle approval, naturally you would like to have various options which are available to raise capital to capital market. So, it can be preferential share, it can be QIP, it can be rights issue, it can be anything.

Mayank: And this amount will be used for further bidding the projects or how will it be? Because you mention like you have substantial cashflow right, so still require this or how it works? Or is it something like the promoter is looking to raise? Equity shares or how is it?

Girish Gangal: One this is for working capital requirement and growth, what we have shared is that only cashflow good in the sense because we have done a good turnover this quarter, the cash flow appears to be good. That doesn't mean that overall cash flow situation is such that we don't require any funding to come in through equity raising.

Mayank: And final question, we have gone through the restructuring, right? And we are not seeing anything what we expected like interest servicing you said like interest servicing will happen like another couple of quarters, I think. But the benefit is not getting any results like it is not getting transferred now. You mentioned that it will be transferred by end of this quarter.

Girish Gangal: You are linking two different points. As far as interest payouts are concerned, these interest payouts are only annual as per the resolution plan that happens only in March every year. Now what the questions were raised where about the investor, where we create a Special Purpose Vehicle (SPV) and where we transfer assets and liabilities to a separate company. The questions were raised by the earlier investor that when possibly these liabilities or this company will be de-recognized from HCC group, we are likely to get an investor in that company. So, that is likely to happen by end of this quarter when all the approval process from all the vendors is completed. So, interest payout and liability reduction are separate than the de-recognition of this SPV from HCC group.

Mayank: Correct. So, what is the different in financial obligation because is it going to reduce or something? As we are seeing very less profit now? We were expecting like debt resolution is done and we have passed a couple of quarters and I think it is almost like 9 months now. So, we are not seeing much improvement?

Girish Gangal: Because if you compare this quarter results and turnover with June of last year wherein we had resolution plan we had a loss of Rs.150 crores wherein this quarter we have a profit of Rs.20.

Mayank: OK

Girish Gangal: Similarly, if you compare March of 2022 and 2023, March 2022 we have a loss of Rs.400 maybe I don't remember exact number to the last digit. Whereas in March 2023 we have a profit of Rs.250. So, there is a substantial difference that has happened post resolution plan. I don't know from where you are getting the impression that we did not improve or we did not have results which are reflected.

Mayank: No, I am talking about finance cost

Girish Gangal: Finance cost last quarter if you see, last June, it was Rs.243 crores which has come down to Rs.137. So, it is a reduction which has already happened.

Mayank: Ok because I was checking the consolidated basis, there I don't see.

Girish Gangal: Till the time the SPV doesn't get de-recognized after the introduction of investor that cost will remain in the Consolidated books.

Mayank: Ok got it. The results were published before this meeting so that's why we didn't get time.

Girish Gangal: We apologize from our side. As there was a technical glitch as when you upload the results.

Mayank: Or else you can schedule the call at 6:30 if it is fine as at least we get an hour to go through it. That's it. All the best. Thank you.

Neeraj: I have just one question on the order book, I think you said, when Chirag was asking the question, you have capability of submitting Rs.25,000 to Rs.30,000 crores of orders, but you have only Rs.2,000 crores orders being submitted and by that run it will be another Rs.7,000-8000 crores additional. So, what is stopping our company to bid on a larger number because capability wise, we do not have any issue, just wanted to understand your thought.

Santosh Rai: We are working on the bids which we have identified and though you are rightly saying there are a lot of bids in the market but maybe they are not where we want to be. For example, we don't want to be on plain vanilla roads, there are a lot of tenders for that or you know there are some other sectors where we are not present. So, the sectors where we have identified the jobs, there are pretty large sized jobs and the work is already in progress. As I said, it is very difficult to say, will this be the thing. Maybe we are looking at job which is in excess of some value as what we are used to. So, we are working on those projects and you will see that our Q2, Q3 and Q4, we believe we will be in a position to submit this and we are also working on bids where we have a good hit ratio. So that we will do a good job and we have higher chances of winning such jobs.

Neeraj: So, I am curious, we won't run into a situation where we have not bid for projects assuming we want to bid on projects in which we have very high hit rates and high margins but those projects may not end up coming in and we may end up with a lower order book. So, I am just thinking on those lines, is there a possibility.

Santosh Rai: No, because naturally when we are selecting a bid, I think one of the important parameters is also the bid timelines and the bid scheduled risk. For example, it should not have that as you have rightly said that if we are working on something and it is not just going to come. So, we do this due diligence before finalizing our bid slate also, we are pretty confident that what we are working upon should be something which will get to an order in this financial year. And still there is a lot of time lost.

Neeraj: And what is your internal estimate of the order flow for this year.

Santosh Rai: We are targeting you can say anywhere between Rs.6,000 to Rs.9,000 crores.

Neeraj: Which will be a jump from the last few years of average, am I right?

Santosh Rai: Yes. And most of these bids are going to be for HCC on a standalone basis.

Neeraj: Ok. And the second related question is you have been bidding bids in a joint venture where I think you only required some financial capabilities from another party not obviously on the operational front. So, do you intend to do joint venture bids going forward?

Santosh Rai: No. As just in the initial part of the presentation we said that we are going to focus on bids where HCC has a much larger role in executing those jobs. We are focusing on jobs wherein we are fully in control of the project. Joint ventures, we will only look at projects where from a risk sharing prospective it makes sense for us to go into a JV. Otherwise, our effort is largely going to be to bid the jobs on standalone basis.

Neeraj: Ok, I will come back in the queue, if needed. Thank you.

Sanchita: I just wanted to ask that once this SPV stake sale takes place on a consolidated basis what would be our PAT margins post this deal happens?

Girish Gangal: Cannot make forward looking statement; And transfer of stake, the profitability cannot be estimated now. Because it is a function of various things, you know it can't be estimated. It is a combination of operational results, combination of arbitration and claim, etc.

Sanchita: Ok thank you.

Vishal: One clarification, initially you mentioned we can bid for Rs.25,000 to Rs.30,000 odd crores worth of projects, so hypothetically if we win everything does our bank guarantee allow us to take that kind of projects or it is only Rs.9,000 or Rs.10,000 that we can do? That's what the target is?

Santosh Rai: Vishal, I think it is a highly unlikely situation that there could be .1% probability that we secure everything that we bid but I don't think so that situation will arise and we do understand what kind of capabilities we have right now to take on our head as a simultaneous operation, so we believe that Rs.9,000 to Rs.10,000 is a good number for us to handle for this current year.

Vishal: So, in a way, one can say that, that is the kind of bank guarantee that is available with us to get the projects.

Santosh Rai: We are bidding for the jobs with a clear back up in our head.

Arjun Dhawan: I just want to interrupt here, while I think that at any point of time your existing sanction limits mathematically determine what your capacity is. It is also dependent on our rapid execution of our existing order backlog, return of those guarantees, that's actually proceeding well. And furthermore it also depends on our access to capital. Obviously, it goes without saying our internal technical strategic capacity, execution capacity does exist but frankly at this stage the interest that we are seeing with regard to whether it is partnerships, whether their strategic or financial or for that matter our ability to actually access capital, you know once we start to actually generate that, say Rs.6,000 - 8,000 - 10,000 crores of order backlog and execute, I don't think that would be the constraint. So, the goal is to be responsible about the kind of jobs we take to show the track record that this company is actually capable of executing and that is something that we plan to do not just when I use the word conservative, it doesn't mean that we will not grow fast but we will do that in a sensible manner.

Vishal: One more clarification,

Arjun Dhawan: Sorry to interrupt, there was a question by a lady before, I think it was by Sanchita, I think that while our finance team is always going to be reluctant to give you that kind of precise mathematical answers in terms of the improvement in margin, it goes without saying that a company, like ours that has actually been shackled to some extent by restrictions that we had to undergo while we were going through our debt carve out. Once we actually have all the parts of our business actually humming well, we have a clear access to capital which we now do, you will certainly see if you compare where our profitability has been historically and I am referring not only to sort of our EBITDA margins, we given the guidance in terms where we expect those to be in the low to mid-teens, along with the fact that we are now free to execute further. We are able to acquire good jobs, in the next year you should probably see some expansion in margins and you should see some of that actually flow to the bottom line.

Vishal: One clarification, I think there are fundraise, you did mention in principle approval, that has been taken and then there is a fundraise for the carve-out of the debt, so they are two separate things or they are one and the same thing?

Arjun Dhawan: Ya, they are two separate things.

Vishal: And what is the amount for the carve-out of the debt for the equity raise on that front.

Girish Gangal: I think the approval what we have taken is only for the equity raise at HCC level. There is no separate approval taken for a SPV for an equity raise. As far as SPV is concerned, the investor will come in there, that's all.

Arjun Dhawan: Ya they are two different things, the investor process, which is part of our resolution plan and then obviously this is a completely independent HCC in principle approval which is for the purposes of obviously our growth, opportunities that we see as working capital.

Vishal: So, in the carve-out of the debt, so the investor will come, so what is the amount that has been envisaged in that particular thing.

Girish Gangal: So, the expected investor is supposed to take 51% shareholding, depending on the evaluation of the company on particular date. And apart from that the investor is supposed to bring his priority debt of Rs.75 crores. This is the approval which is pending from the lender.

Arjun Dhawan: Basically around Rs.100 crores of capital, is basis on which we proceeded and that covers at least a couple of years of budget expenses and as we have discussed before the commercials are such that while investor is actually putting in a little modest sum compared to the assets on the books of the SPV, the investor's returns are also capped to actually account for the fact that these are largely HCC assets that will come back after the debts are paid and the priority that is repaid.

Vishal: Ok I will come back in the queue for more, thank you so much.

Speaker: My first question is regarding the finance cost so in quarterly results there is finance cost is approximately Rs.250 Cr and consolidated debt is approximately Rs.5,000 to Rs.5,500, so is it correct, or something is missing, as per this mathematics the interest cost coming out around 18 to 20% per annum so can you explain?

Girish Gangal: See finance cost typically is not only the interest cost what you are seeing, it consists of all finance related, bank guarantee cost, it also consists of any finance related fees what you pay to various financial institutions for approval of loan or documentation, so it is not only purely interest.

Speaker: So, interest will be going only on the Rs.5,000 to Rs.5,500 consolidated which is in our books right?

Girish Gangal: that's right

Speaker: Second question is just a clarification that the right issue, we have mentioned that up to 300 Cr. value of right issue will be there, so this Rs.300 crore, is the face value of share or we can say will be the final price,

Girish Gangal: As I said, this is the in-principle approval, so price and all those things will be determined or will be discussed…

Speaker: That I have understood, I just want to know that these Rs.300 crores of number of share we can say of one rupee each can be issued or total value.

Girish Gangal: total including premium

Speaker: So, including premium the value will be Rs.300 crores, right?

Girish Gangal: Right.

Speaker: And one more request, if it is possible, like in the PPT we are giving the project status by giving pictures, if in addition to that we can add a statement where we can see the total value of a particular project where we can mention executed amount and expected to be executed and balance amount which can be expected by some period like that. So that will be much easier, right now we are saying that we are having Rs.13,000 crore of projects in our hand, so if you can give that kind of slide that will give us a good idea that in a quarter or so, in the coming quarter how our revenue will look like, if you think it can be done like that, just a request.

Girish Gangal: We will review that but just for your information that in the presentation what we are presenting is only the important projects, there maybe 4 or 5 projects, whereas the order book which consists of maybe 40 projects, so in that we may not be able to compare or find out what is the value.

Speaker: So, in that way also, we can like out of Rs.13,000 crores, might be our main projects will be of Rs.6,000 or Rs.5,000 crores, so details can be given for only those?

Girish Gangal: We will review that internally.

Mahesh: In February, sometime, the government had introduced "Vivad Se Vishwas II" which had some sort of implications for construction industry. I am certain you would have analysed the same internally in HCC, what is our take on that?

Santosh Rai: Look this "Vivad Se Vishwas" scheme has been working in the industry for some time and we are aware of that, we are going to evaluate this on a case-to-case basis rather than looking at an entire situation. So, we believe this could be useful but we are in the process of evaluating and we will seek our board approval at the right point of time when we want to enter into it.

Mahesh: But prima facie, are there any cases where the scheme is relevant to us?

Santosh Rai: No, I mean for the industry if you really ask me, the court has appealed the arbitration award, the government is willing to pay 85% plus 9% interest and that will depend on the function, how old or new the award is. I believe there would be takers for that.

Mahesh: I am not talking about the industry, I am talking of HCC because why one of the things, all of the inside of the projects needs to be closed.

Santosh Rai: Mahesh as I said, we are going to evaluate on a case-to-case basis because we have several arbitration awards and they need to be studied in that fashion those which makes sense for us to really take it forward. We will take our board approval and then we will move ahead.

Arjun Dhawan: So, Mahesh, the answer to your question is yes, we have a lot of arbitration awards. It is definitely on one hand very attractive for us to consider the immediate liquidity that will obviously come from "Vivad se Vishwas" and that percentage settlement is ranged from 65 to 85%. As you will appreciate that to the extent that we have to leave a lot of money on the table, we also have an impact on our books that we have to ascertain. So as Santosh said, every award requires an analysis, we are in the process of completing that and we will then determine depending on our cash flow needs right, whether we want to proceed with certain awards or not because obviously the implications of going for it is that we would also have to actually leave certain money on the table and it would actually have an impact on our books. So, we want to do things in a way that maximizes to some extend the liquidity that would be generated for the purposes of growth alongside the money that we would be leaving on the table and at the appropriate time once we have evaluated this and taken board approval, we will be obviously communicating that to you. But yes, it is certainly an option, it is a free option in our hand and the industry's hand to do something, I think that the Finance Ministry has been very bold about, coming up with a one-time settlement scheme. No questions asked of the options of the industry. So, we will come back to you and will give you an assessment of it in a responsible fashion once we have decided internally and we will communicate a draft to you.

Mahesh: I was probing into this because mainly in the past calls, you have always mentioned the coverage of our claims plus awards viz-a- viz the debt that is outstanding. So, which is what I think is 2.3 to 2.4 times. So that number mentioned about 2.3 and 2.4 times I though implicitly meant that we assume that some of it might not come.

Arjun Dhawan: Are you implying that some might not come in the sense, you believe, I think first of all we have said multiple times before our arbitration awards and claims are in HCC quite boring, in the sense that they are all fairly quite repetitive, they are linked with extension of time where a client has actually given us extensions because of delays on account of the client whether it is land, environmental reasons, other courses that are not the responsibility of the contractor. Very different from other equity type claims or arbitrations and so on and so forth. In that sense they are highly predictable, they are fairly repetitive and that has actually been a function of why we have actually had the kind of support we had to buy some time to get them. Issue is really the process in courts which as you well know is a painfully long process. So as far as our awards are concerned, I fully expect that all of them, unless of course you probably have some freak occurrence to be largely upheld and when we actually consider taking a discount, a write down against any one of them we have to actually measure that very carefully against why we are doing so. The only reason we would do so is not because we don't believe in the strength of them but it's actually a question of saying ok, if we leave 20-30% on the table of 40% maybe in some cases because a 9% interest is very different from a 12% post award interest that you have perhaps from an old award, so there is a further haircut that you will need to adjust for, we will need to weigh that against our opportunity cost of applying that money to prepay debt or for that matter to growth. And if it makes sense in terms of pros and cons, we will consider.

Mahesh: Fair enough, thanks a lot.

Naitik Mohata: Thank you for the opportunity and congratulations on the progress that the company is making quarter on quarter to turn around the operations and I do hope that we are able to part away with the SPV as soon as possible and as indicated by the management. Just one clarification from my end, so last month the NCLT cleared a target platform for the acquisition of LAVASA corporation for some Rs.1,800 odd crores. So, I just wanted some insights from your or Mr. Dhawan in the way that affects HCC or the SPV per say, any quantitative or qualitative terms, does it make the SPV much more attractive to a forth coming investor or anything regarding that.

Arjun Dhawan: I think Mr. Gangal has already answered this question but I will give you a little colour. So first of all, the corporate guarantees that were given to LAVASA by HCC which have resulted in debt have fully been accounted for in the books of HCC, in fact, when we looked at the bifurcation of the debt between HCC and SPV, it is HCC that has actually got the LAVASA corporate guarantee debt holders on its books. The SPV has actually been largely effectively the working capital lenders, our CC limit and our term lenders that was spun off along with our awards and claims that's one from a point of view of clarification. Second, there is no commercial impact on HCC as result of this resolution in fact when

LAVASA went to IBC, we took the very painful and conservative decision to not only write off all our equity investment as an HCC group had in LAVASA, but also took the responsibility of taking on 100% of the debt obligation of the corporate guarantees onto HCC's books. So, it didn't matter what happened to LAVASA whether the resolution would have actually happened high or low, the settlement that we achieved, that our lenders achieved that and the reverse is true. In other words, now that LAVASA has actually been approved through NCLT, there will be no reduction in HCC's debt because the decision that was taken and the settlement that was achieved with lenders was basically understood that this is the fixed number in HCC and LAVASA and HCC are two separate items. So first of all, we have not had any local standee, lead shareholders of LAVASA so we only just received certain details of what is in the public domain in terms of order and I think once we actually look through it will be purely interesting academic exercise for us to hopefully wish the best for all of LAVASA's stakeholders to now after such a long delay to see something that HCC's group has started, hopefully prospers in the future. But as far as HCC is concerned, we have no commercial relationship with LAVASA including any potential liability in the future on account of whatever is decided in NCLT.

Naitik Mohata: Ok Sir that was really helpful, thank you.

Chirag: One question, given the nature of the contracts you do and the risk of environment in general, be it any time of projects you undertake, how are you ensuring that this escalation issues don't come up or you are well protected against that. For that you may need to inflate your initial application versus what you used to do in the past. So, if you can just help us understand internally how are you ensuring or trying your best that these kind of issues don't arise again in future.

Arjun Dhawan: So just a quick answer, I think these are fundamentals of risk management, you know when we actually price our tenders we do so responsibly, I don't we chase the market, we obviously need to be competitive but we are very clear in terms of the quality of our client, the quality of the contract, what the contract stipulates and what the contract does not. Many of our clients are very reasonable in terms of their own interpretations of the contracts and as far as aspiration is concerned it is a fairly reasonably mathematical exercise. Now, the question comes when projects get delayed and clearly when projects have been delayed on account of client, those escalations will obviously get paid perhaps working capital issues again, all of these matters are priced very carefully. Now if you ask me what the learning are, the learnings are very clear, I think that if you look at the way the government in the last 10 to 15 years has started to improve the quality of their detailed project reports, has started to procure the environmental clearances, the land, the right of ways, they have started to do that in a far responsible manner than was done in the past. And I think that is a learning that we have had in our India infrastructure evolution over the last 30 years. I think the government is very clear about the execution, the quality of it, the pace of it, but they have also ensured that the projects are set up to succeed. There is no point in just trying to have numbers not actually have execution on the ground. So, I think our learning has been as we scaled our business 20 years ago or 25 years ago to now, is that clearly we will not ever jump into a project and certainly central government projects are at the highest levels of kind of quality intelligence, at the state level it depends in the state you're in and the clients that you are working for. I think we have a clear learning in terms of understanding where, what, how and we price that accordingly into the way we think about our execution.

Chirag: And just to understand, what are generally the time durations of your projects or the projects that you intend to bid, whether 2-to-3-year projects?

Arjun Dhawan: Anywhere between 30 to 60 months, but on an average, we are looking at 40 to 48 months. And that average is driven higher by sort of our portfolio plus being in hydroelectric sector, so those projects are typically 4 to 5 years jobs, typically transportation jobs are complexity including for example, on bridges are generally anywhere between 30 to 40 months.

Chirag: You have explained to us very well on your thought process of how much you want to bid for orders and how you want to go about it. When do you think you will be prepared to accelerate the gears on that side.

Arjun Dhawan: When we execute.

Chirag: So, as the current backlog starts…

Arjun Dhawan: To be honest, what I can expect and thank you all for your support and encouragement and belief. But really, I think the proof in the pudding is going to be for us to actually have those very profitable jobs in our order backlog.

Chirag: Because even if you look at last 2 to 3 quarters, the bids that you are submitting and in which you are participating are like 2000 and 3000 maybe 5000 crore range not more than…

Arjun Dhawan: But I covered that, I think it is going to take us at least a few years before we start to on our own bid for Rs.3,000 to Rs.5,000 crores jobs. Where we are in our stage of evolution, our sweet spot is going to be Rs.1,500 to Rs.2,000 crores and if we do a job which is basically more than that, we will probably do that in joint venture just for the purpose of diversification of risks.

Chirag: So, the way I understand this and please correct me if I am wrong, that for next 2 to 3 quarters or 4 quarters you intend to bid for on quarterly basis Rs.2,000 to Rs.3,000 crores of orders, annualize Rs.12,000 odd crores, plus minus.

Arjun Dhawan: I think we probably plan to bid on twice that amount in order for us to achieve a result by the end of the year that would probably be closer to about over 12 months between Rs.7,000 to Rs.10,000, right Santosh.

Santosh Rai: Yes exactly.

Chirag: I was under the impression that you are looking to participate in Rs.10,000 to Rs.12,000 crores of orders.

Arjun Dhawan: No, double of that

Chirag: And when do we expect the pace from government side to really increase, in your ordering from the client side to improve so that you can participate in bigger orders in terms of aggregate value because even now the pace doesn't seem to be that aggressive, so are the orders not coming or you're not choosing.

Arjun Dhawan: To be really frank, we have to play catch-up. I think that the market for infrastructure jobs is very strong, both at central and state level. I think that we are frankly behind. And we will play that catch-up. A hard question was asked last time, I think that this is going to be lumpy for us like I said we are only going to be looking at 4 to 5 jobs a year that are highly profitable and best suited for our needs and so you going to have to hopefully be a little patient with us in terms of the lumpiness, I mean in terms of how we achieve this.

Chirag: Ok thank you very much and all the best.

Arushi: Can I get a tentative timeline for execution of our projects, is it possible to give a tentative timeline or ballpark number would do?

Santosh Rai: I think the order backlog that we have right now, we believe the average duration if we calculate, it would be between 36 to 40 months.

Arushi: Ok, what would be our maintenance capex if any we do on our regular basis for every project or overall business, just like a maintenance capex, as a percentage of sales and so on?

Santosh Rai: These usually arise in NHAI contracts which we have none actually as of now and normally our contracts are, I won't say they have maintenance pay but they have something called as DLP period that is called Defect Liability Period. We try to do everything in a manner that our expenditure during DLP is minimized to an extent of keeping some manpower. So, it would be a very miniscule number.

Arushi: And going forward, do we expect any kind of suppression in our costs side like probably the raw material or the subcontracting, do we expect a compression in any of those?

Santosh Rai: Of course, going forward we will take the advantage of economies of scale once we have these orders coming in and that will help us slightly here and there but these forces are so much market driven.

Arushi: Actually

Santosh Rai: So, it is very difficult to say anything on this, at this stage.

Arushi: Thank you and best of luck.

Chirag: Have we started increasing our team size of engineers and regulatory team? As over past few years many employees would have left because of the declining balance sheets.

Santosh Rai: Answer is yes, we have recruited lot of people who are required for the business and who are quite competent ones.

Chirag: And for our hydro power projects, are we going to bid on standalone basis or we are going with a joint venture partner based on our track record we have always bid on a standalone for Rs.2,000 to Rs.3,000 crore orders?

Santosh Rai: You can expect a similar trend except that if the job sizes are much bigger and more than size the technicality demand for us to involve some other joint venture partners. But we would always be looking for a partner who is contributing equally and is making the joint venture stronger for us.

Chirag: Ok understood, thank you.

Surya: You mentioned that in the next 6 months we are expecting around 40000 crores of hydro tenders coming up. I wanted to confirm is it right in the next 6 months?

Santosh Rai: If you take the announced jobs of hydro power, when we say hydro power, we also talking about pump storage plus hydro power both. And they fall under the category of hydro power. This number will stand true.

Surya: After the SPV debt transfer supposedly by end of this quarter, when will it reflect in our balance sheet? Whether it will be in the immediate quarter or in the next financial year on consolidated basis?

Santosh Rai: See if it is completed in this quarter then, Girish can you please answer this question.

Girish Gangal: Same quarter, September quarter.

Surya: Ok, thanks a lot

Santosh Rai: Thank you everyone for your encouragement and your cooperation. We look forward to see you in the next quarter. Have a good evening ahead. We close this call, thank you.