Transcript of the Webinar held on November 10, 2022, to discuss HCC Q2 FY23 Results

Santosh Rai: Good evening, everyone, welcome to HCC's Analyst meet for Quarter 2 FY 2023, in this webinar we are joined by our Vice Chairman, Mr. Arjun Dhawan, CEO, Mr. Jaspreet Bhullar, CFO, Mr. Rahul Rao and other members from HCC team. I am Santosh Rai, Operations Director and Chief Business Officer of the company.

We will start with the order book position, the company as of quarter ended 30th September has an order back log of 13,784 crore rupees and this is well distributed across the 4 business lines where the company operates. Majority of the order is still being laid by the transportation sector in line with the market conditions and Uttarkhand continues to be a state where we have the maximum order backlog as of now, followed by Maharashtra and Gujarat.

Key highlights for the financials at the consolidated level, the group revenue is at 2,499 crore versus 2,776 crores for Q2 FY 2022. Consolidated profit of 319 crore in this quarter versus a profit of 139 crore in Q2 FY 2022. Standalone E&C turnover is 1,249 crores in current quarter versus 932 in the previous quarter. EBITDA margin excluding other income is standing at 18% in Q2 FY 2023 versus 5% in Q2 FY 2022. Again, coming to standalone profit, it's standing at 313 crore in this quarter compared to a loss of 159 crore in Q2 FY 2022. This strong operational performance and earnings during this quarter are largely driven by the improved operational efficiency of the organization through a much leaner and efficient organization. We are fully on track on the sale of BFHL stake to the prospective buyer. And the debit carved-out resolution plan has been successfully completed.

This is a snapshot of how the HCC's balance sheet will look post debt resolution and you can see the position in September 2022 versus March 2022, both for the HCC and SPV. Highlights of this is that the annual interest cost accrual is going to reduce from 950 crore to 400 crore. The interest income accrual is going to reduce from 240 to 75 crore. HCC will continue to hold awards and claims worth 1,300 crore and 4,000 crores respectively. And the net asset value of HCC is also driven by Steiner AG, Land assets, BOT assets, BFHL definite sale terms signed and as I explained in the previous slide. We can explain these numbers in detail into the Q & A session for a particular question.

In terms of new business, the company has submitted bids worth 6,000 crores, they are under evaluation and we are also in the process of submitting new bids almost to the tune of 17,000 crore in the remaining part of FY 2023. Focus is going to continue to remain on high value jobs in sectors where the company has specific capabilities, largely in the areas of urban infra and hydro.

We will consolidate our order booking in existing geographies where we are having a lot of set ups so that we can economize the scale that we have. We are also exploring strategic collaborations with capable partners to mitigate our risks on certain complex jobs and to improve the winnability of the company. Post RP, the bankers will release the BGs which will facilitate normal business and we are looking to book orders with this support in our hands. In terms of operation update, what you are seeing on the screen is the Anjikhad bridge which is one of the longest Cable-stayed bridge which the company is making for Indian Railway and more than 60% of the job stands completed. What you are seeing is the segment launching which is in progress at the bridge site. This is the update for Tehri PSP, where the work is going on in full swing at the machine hall and the head race tunnel lining is in progress. Vishnugad Pipalkoti again the dam excavation on the left bank and right bank are in full swing and the work is continuing with full pace. These are the pictures of the TBM Adit and the TRT Outfall. Nikachhu Dam, majority of the dam concreting has been completed, desander work is also completed, in fact the site is more than 93% complete and the finishing works are now in progress. Tunnel T-49A which is one of the longest tunnel for the railways and an important part for the Udhampur-Srinagar Baramulla rail link project. What you are seeing on the screen is the preparation for the track laying and some of the portions where the lining is complete into the fag end and that work is in progress. These are some of the bridges connecting between tunnels and the work is in progress and is almost in the final stages here. Similarly, another bridge here. These are the pictures showing you the progress of the station works in the Mumbai Metro project, Grant Road, Kalbadevi, CST and other stations. On coastal road again we have achieved a good amount of progress, substantial reclamation work has been completed and now the activities are in full swing going on for the marine sections both for the bridges and also the bridges which are onto the land section. Other works like car park has also started on the project. Segment launching on the land and the main bridge portion and the marine portion. This is the dam project of Parwan dam project. I am not going to read these numbers as we have discussed them and for any specific comments, we will discuss in the Q & A session but this is the consolidated financials for Q2 of FY 2023 and they are compared both YOY and QOQ.

HCC standalone financials. In the concession business, the construction at Bhagirathi bridge is in full swing. What you are seeing is the super structure work on the river is ongoing. In terms of business performance, the turnover for the BFHL which is our package 3 of the NH34 project is 31.8 crore. Average daily collection is like 34.6 lakh and you can see the PCU growth but this PCU growth is largely over Q2 FY 2022 and the growth is due to the increase in traffic after Covid restrictions are gone. And the positive side to the RDHL Package 5 where we had the EOT award, now NHAI has deposited almost 317 crores in court against the total award of 935 crore.

Steiner AG, the company has a closing order back log position of around 7,365 crores as of 30th September 2022. Order intake during this quarter was 747 crore and the turn over for this quarter is 146 million Swiss Francs totaling to 1,183 crore Rupees at a PAT of 49 crores versus turnover of 232 million which is like 1,844 crores against a PAT of 223 crore versus the previous quarter. Thank you and we are ready for any more questions.

Saurab: I am an individual shareholder and I would like to know for the debt resolution, are all the approvals in place or is there any paper work or some kind of final approval is still awaited.

Arjun Dhawan: Saurab everything has been completed as far as our resolution plan is concerned.

Saurab: Ok thank you.

Hitesh Agarwal: I wanted to understand for the EPC business what is the revenue growth rate we are seeing, statistical revenue growth rate for the next two years and what will be the EBITDA margins in this business.

Santosh Rai: To the first part of your question regarding what kind of growth we are looking at for the next two years, we can say we are looking at growth to the tune of 10-12% on our existing revenue position. And the margins will continue to be in line with the industry standard for the EPC business which are like lower team kind of numbers that's where the margins will continue to remain.

Arjun Dhawan: I just want to add to that, the number from a growth perspective for the next year will be that because as we start to take on new jobs, now the lag with which they start to flow into our revenue growth and our earnings growth will certainly be there. But we certainly look to ramp that up and generate a 20+ percent growth and obviously we are working of a low bid so we are going to see a substantial increase in growth in our revenue and our earnings should actually see the, because of the operating leverage we have, to see us a greater benefit as we actually start to take advantage of some of the substantial net asset value that we have in terms of the realization of our remaining awards and claims, some of the sale of our non-core assets and of all the lightening of our balance sheet. So, the earnings should actually do better as a result of substantial top line growth as well.

Hitesh Aggarwal: Ok thank you.

Riddhi: There is an increase of 1,000 crore in non-current rate receivables so wanted to know what is resulting into that.

Girish Gangal: The non-current rate receivables are nothing but the awards which are left with HCC, you will appreciate on the debt resolution plan, majority of the awards and some amount of claims were transferred to a separate SPV. The awards which are left with HCC wherein the matters are going on further in the courts or otherwise, in the receivable, the possibility that the money could be received in more than one year, they have to be classified as non-current account receivables.

Riddhi: Ok because simultaneously there is a 1,000 crore increase in the borrowings also, so that's why I was asking**.**

Girish Gangal: Because of the resolution plan if you can see there is a comparative structure that Santosh has shown in his presentation. Earlier we had borrowings and we had unpaid interest which was lying as a current liability or non-current liability, whichever way you call it. So, all those liabilities got merged and we issued a fresh NCD. That's why they have moved from two to three heads into a one head of borrowings now, post the resolution plan. That's why you are seeing this change in borrowing.

Riddhi: So, in the standalone books you are saying that the 1,000 crore increase in borrowings is SPVs.

Girish Gangal: No, this is of HCC only; within HCC we have loans and we have unpaid interest for past. So now fresh NCDs are issued and everything has moved out to borrowings. That's why it is moved from current liability or current financial liability to the borrowing.

Riddhi: Ok… but I don't see current liabilities coming down. I think other financial liabilities have come down. Maybe it could be that.

Girish Gangal: Lavasa liabilities were classified there and also got shifted to borrowings now.

Riddhi: And in the consolidated books how will the SPV numbers be accounted.

Girish Gangal: SPV present is 100% subsidiary so it's a normal consolidation which happens with 100% subsidiary.

Riddhi: So, the debt which has gone, the 2800 those will be visible in the balance sheet. So, it is included in the 5,000 cr.

Girish Gangal: Very much

Riddhi: So now after this debt resolution should we expect that no more defaults on the debt and interest payments will come.

Arjun Dhawan: That you should absolutely expect that. I am sorry that you had to ask that question.

Riddhi: Just getting clarity. That's it, I got my answers. Thank you.

Hitesh Aggarwal: I wanted to ask, what are the plans for the QIP and if you could give any timelines for the QIP.

Arjun Dhawan: I think I addressed this the last time. We are going to time that for when we are actually going to need that extra liquidity for growth. At this point of time, we are in a fairly comfortable position but when we actually go to market to actually have that extra dry powder on our balance sheet, you will certainly as well as our stake holders and investors will be the first to know.

Hitesh Aggarwal: Do the promoters plan to reduce encumbrance on their shareholding?

Arjun Dhawan: Ya we certainly do, first of all its only part of the shares that are encumbered. But certainly, the goal is to actually to do that. Something, that we can also discuss offline, please.

Hitesh Aggarwal: Sure, thank you.

Avinash: In one of the slides, you spoke about bank guarantees getting released, just give us some information post the fee structuring what kind of bank guarantees you are talking about. You also spoke about the interest reductions and what is the possibility, what kind of interest rate we pay right now and one year, two years down the line what will it potentially come down to. Give us a sense of how the balance sheet improvement will help us.

Arjun Dhawan: Let me take that because I am not sure we go into that level of detail in terms of specific limits and working capital but broadly I will say that we have for the engineering construction business that we are close to about 5000 crores of operations bank guarantee, that's for our operations in new business, those are the sanction limits. There is obviously a substantial chunk of that, that is unutilized because our limits were not utilized or we weren't been able to draw down on a portion of that during the completion of the resolution plan. You would appreciate that during this time we have also completed many projects, many bank guarantees were returned to us, so we have a substantial dry powder and ought to utilize those for new business. That's one. We also had sanctioned to us a substantial portion of arbitration bank guarantees or court bank guarantees. These are special financial guarantees that have been sanctioned to us for the purposes of utilizing as security in court to actually take monies out against arbitration awards. Should we want to have that available to us in the short term and that would primarily be used for the prepayment of debt. And so the banks have that, we have arranged for that facility with the banks and as result of that we should certainly look forward to and our goal is to clearly actually not to de-leverage faster than the repayment periods that we have agreed to in the resolution plan. That's the answer to the second question. Third is that the overall debt in HCC largely is to the tune of approximately about our average cost of debt is close to about 11 to 11.5%. This is largely fixed rate debt that is over the course of next ten years, it is not going to really fluctuate with the change in the interest rate environment or with inflationary environment. And to be very specific we have the OCDs that are 11.5% yield to maturity and then we have other debentures mainly through the Lavasa debt that we have guaranteed and now I will cease to call that Lavasa debt, it's now HCC debt which ranges between 9.5% to 11.5%, so on an average that debt is yielding about 10 to 10.5%. So weighted average of all the debts in the HCC books is probably around closer to 11 – 11.5 and the SPV debt which is now off of HCC's balance sheet and also carries a yield to maturity of 11.5% and that's important to know because as we have said in the past the arbitration award assets that are in the SPV are generally carrying a post-award interest of a higher than 11.5% so you have a positive equity impact over the period of time that the awards get realized and obviously we care about that as we are 49% owners in that company and we are expecting a substantial portion to be recovered over the coming years once the leverage in that SPV is paid.

Avinash: Two more questions. One is what is the payment schedule for the current year and next year in terms of what we are to repay and in the SPV created for this restructuring does HCC standalone have recourse in case we realize more than what it is meant for.

Arjun Dhawan: I will let the team answer the second question. By the way the full debt repayment schedule should be available to you online but if they are not, I think the team can answer those questions. Could you repeat your second question in terms of recourse, I didn't understand that.

Avinash: So, whatever is realized as per the restructuring plan, so what we have transferred our claims etc. which is almost 2.6 2.7 …

Arjun Dhawan: It's two and a quarter cover

Avinash: 2.25 cover, so whatever is realized more than that as per the restructuring plan, does it flow back to the standalone?

Arjun Dhawan: absolutely does

Avinash: Ok thanks, that's all from my side

Arjun Dhawan: And the team can provide you with the debt repayment schedules, I think we have already shared that online in our previous presentations that is available online. But the team can provide that to you offline.

Avinash: Ok that's it from my side, thanks.

Rakshit: No questions in particular, just wanted to put on record to show our appreciations for the perseverance to get through with the debt resolution plan and wanted to wish the entire team all the very best for this new exciting journey ahead. So, we are very happy to be part of that journey and all the very best.

Arjun Dhawan: Rakshit that's very kind of you and it's probably us thankful to all of you as our most important stakeholders because this has been a longer journey than we all anticipated and certainly in this long journey we have not created as much value for you all as we would have liked. But look we are through it, it's been a colossal team effort with lot of people in the company having shown tremendous loyalty, tremendous will power in operations function, you can imagine a EPC company that's perhaps the function of our 100 year legacy that we have functioned without the support of working capital for the last 2.5 years and we have come through a fairly difficult period and hopefully now we can actually generate the kind of value that you all deserve.

Rakshit: Absolutely, thank you very much Arjun.

Mayank: Good evening everyone. Good evening Arjun. Congratulations on the debt resolution plan because that was the hot topic that was going on for the quarter but that's a full stop we have got there. I have two points, one is regarding the promoters shareholding, like in the debt resolution plan where you stated that there was no change in holding, but later on, of post this shareholding pattern we see that almost 7% is reduced, like is there anything going on in that area because we see like….

Arjun Dhawan: I am happy to discuss that offline and let me just point out that there is only a partial obligation you know with regard to the promoter group and the promoter group is where some of the shares are encumbered and some are not and some there is a certain minimum requirement for our holding and none of that is as far as our banks is unchanged in terms of our requirement and what you have seen is a reduction as a function of promoter leverage and encumbrances coming off. And we can discuss some of this; I would appreciate if we could do this offline.

Mayank: One more thing, I was going through the result, Steiner AG, there is a lot of reduction going on in Q1 and because the performance was like good, so is there any comment on that.

Arjun Dhawan: Ya, you know there is a little bit of lumpiness Mayank with regards to Steiner's result and that's a function of a few things, one as a company, Steiner is involved from a purely development and general contracting business to actually much more of real estate development company and when I say real estate development company that doesn't involve a lot of lock up capital we have as part of the track record of real estate development. In Switzerland it's a long affair to be able to meticulously plan real estate projects and actually have the buy in of a very democratic canton, it takes 3 to 5 years to get those permissions in place and these are usually options that the company has with landowners which then get, once the commissions come into place get funded by pension funds and investors so we really have about a billion and a half Swiss francs of track records with pension funds and other investors that have actually put money in the real estate portfolio which by the way has grown to a size that when will be finally completed, will actually be really about 5 to 6 billion in size. The businesses unto that generates a substantial fee, it generates very lucrative construction contracts for the contracting arm and the reason I am actually giving you a little bit of this history is that in this last about 6 months, we have had such a substantial increase in rates driven by the federal reserve playing catch-up because they were behind the curve for so long. You had around the world a shakeup in most of the systems. Switzerland is by the way an incredibly stable country, very little, relatively speaking very conservative leverage which is given on personal loans, mortgage rates by the way irrespective of where the rate environment is always remain at 5% which is wonderful because you don't have accesses that get traded in the system and so, but what has happened is that most pensioned funds, that when they invest in multi-class assets, they have certain caps in terms of how much they can put in one sector and in many cases the cap in real estate is 30%. So, what's happened ironically is that while real estate has remained extremely stable, but in fact in inflationary environment it has become the sort after asset class, so in fact we are more excited now about the future of the business. The irony has been that because equity portfolios, the value of equity portfolios has fallen 30-40% in some cases as a percentage of the total value real estate has hit the caps, the sectoral caps have been hit for real estate in so many pension funds that they had to take a pause before they were actually able to put money back in. So there are some projects that we have, that where stuff is signed and we are just actually waiting to commercialize them, sell them and actually have those monies flow and that perhaps has created a little bit of a working capital impact in the short run and at the same time what that does is create a because there is a lumpiness to some extent outside of the contracting business which is more regular, there is a bit of lumpiness in terms of when some of these portfolio sales take place and when those happen you actually see some of those profits. But otherwise, there is a fair consistency in earnings. It is a much longer answer than you would have expected but it is important that actually that point is clarified.

Mayank: Thank you Arjun, how do you see our India business now that everything is resolved? How do you see HCC over the next few quarters? Is it like we are taking time to pick up? Or is everything on track because debt resolution plan was?

Arjun Dhawan: So, we are very privileged to be a part of the India infrastructure story. To be very honest we are fed up with dealing with issues that are not related to engineering and construction. And I say that in a good sense, the resolution plan sucked up a lot of time management in the past number of months. Our focus now is squarely on strong relationships with our clients, winning large new jobs and obviously focusing on a certain size and a certain kind of complexity where the competition is less and the only benefit of not having grown in these past few years is that we see a very large market before us where we can be very selective about where we are part of a very small club in terms of finding the opportunities that we need to do. And we will always be conscious and conservative on pricing and risk as well. I think in terms of growth while Santosh has communicated, fairly conservative growth in our top line, I have to be a little more positive and I think the only constraint we will have in growing faster and faster responsibility of course is capital. So, I think from here on give us the next 3 to 6 months to build that order back log and then talk about that intelligently with you.

Mayank: Thank you Arjun and all the best. Thanks for the elaboration.

Arjun Dhawan: Thank you

Ashish: Congratulations Arjun for finally getting the debt resolution done. Couple of quick questions. 'A' is that from the India businesses to take off from what your last answer was, do we need an equity infusion or how do you kind of see that, do we have sufficient room from a working capital perspective to start growing for at least the next 12 months. And 'B' was when do you expect the closure of the sale of the road asset and what kind of liquidity do you expect out of that?

Arjun Dhawan: The closure of our sale of Baharampore-Farakka should be announced relatively shortly. I mean it is going to happen this quarter, but it is definitely not going to happen towards the end of this quarter. I am expecting to close the same in the coming weeks. That's the answer to the first question. The second is in relation to equity, now certainly the one thing that I imagined any equity shareholder including as a promoter group is conscious of is having a dilutional shareholding and certainly dilutional shareholding is not accretive. Now we will be extremely conscious of raising funds that are exclusively going to be accretive towards earnings and I think that's the most responsible thing that we could do for our shareholders is generate that strong EPS growth. I think that's one. As I have already said we are going to time that when we think we need that dry powder and certainly it's going to take probably from here on Santosh correctly if I am wrong but it is going to take at least 3 to 6 months before where we are really in a position to mobilize maybe not just 3 months probably 6 months before we are mobilizing in a big way any major project which is going to require perhaps some additional working capital support or require more funds for growth. But obviously you can't time the market, we have got to be sensible about when we do it so that we have dry powder when we need it. We are seeing a lot of opportunities, there is tremendous interest in partnerships that 3rd parties have in doing projects with us and certainly when we are looking at projects that are more than a couple of 1,000 crores in size and sometimes, we are looking at 5,000-6,000 crore mega projects. Those are projects where we have to actually diversify and be in joint venture on. So, the sensible thing to do is to have the plan in place. We are obviously conscious of the fact that we are very asset heavy but those are illiquid right and before obviously monetizing or raising equity my first goal is clearly to be able to generate value and to generate cash flow against the substantial non-core assets and the remaining claims and awards that we have, including some of the land assets and so on and so forth that are non-core before we actually raise equity. So, the problem is when it comes to these illiquid assets, you have got to do that at the right time and generate the right value. And these are event driven so typically you are sometimes thinking about that not on a monthly basis but you are thinking about that on a quarterly and semiannual basis. So, the way we are thinking about the business, I hope we are going to be a little patient with how we think about it and when we judiciously think of actually raising the equity.

Ashish: That's helpful Arjun but to understand how much capital liquidity are we looking to get out the road asset after repaying the ….

Arjun Dhawan: Atul we want to talk a little bit about that sale, I think we have already communicated that the enterprise value is close to about 1,300 crores and the base equity is 600 crores, there is a substantial earnout on top of that and there is also a 300 crore loan facility available to us which is a securitization of actually future revenue share, overloading revenue that we have. So, if you look at some of the parts, I think we have communicated this in the past, you can get the information offline so you can know precisely the kind of liquidity that will flow to us upfront as soon as the deal closes and then we have obviously about a 300 crore facility which is available to us which we can draw down anytime on and in addition to that there is another approximately 300 crores of earnout that will be in two phases. One which will be about 12-18 months from now and then there will be another which will be from about 24 months from now. Atul, do you want to add anything to that.

Atul: You have covered it mostly

Ashish: maybe we can discuss this offline

Arjun Dhawan: We can get you that specific details offline Ashish. Sandeep kindly make a note of wherever follow up is required and we can get that information.

Ashish: I will drop a message and connect offline

Arjun Dhawan: Thanks Ashish for your best wishes.

Avinash: So, one is because of the working capital issue, BGs– we were not able to draw down against our sanctions etc. so, our ability to grow one reason was working capital, anything from regulatory stand point, from regulators etc. which we can do now, which we were not able to do for the past 3 years? Become part of some consortium wherever we are bidding etc. What specifically we were not able to do otherwise than working capital that we will be able to do now?

Arjun Dhawan: Part of your question was not clear. There are no restrictions on us from a regulatory perspective. I am not sure what I understand you mean with regard to consortium, are you talking about us getting into joint ventures or are you talking from a banking perspective but let me put it this way, we are not constrained, we are not in default, our debt has now been restructured in a way where substantial de-leveraging is taking place and the tenure, the duration of our debt is now being extended such that we have more and enough time to kind of meet our obligations also and grow the business and so as far as we are concerned relatively to any of our other competitors in the market, we are not in any disadvantage and we are certainly looking forward to just getting back to business.

Avinash: So, where I meant from a regulatory perspective, were we barred from bidding anywhere? If at all?

Arjun Dhawan: No, we are not barred from bidding anywhere

Avinash: That answers my question, thank you.

Sandeep Sabharwal: Are there any more questions?

Santosh Rai: Sandeep I don’t think there are any further questions, so with no further questions I would like to thank all of you for attending this call and look forward to seeing you in the next quarter. Thank you very much.