

## Q2 FY09 Post Earnings Conference Call Transcript

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## Moderator - David

Good evening, and welcome to the post results Conference Call of IVRCL, hosted by Prabhudas Lilladher Private Limited. For the duration of this Conference, all participants lines are in a listen only mode. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call you may signal an operator by pressing "\*" and then "0" on their telephone. I would now like to hand the conference over to Ms. Rupa shah from Prabhudas Lilladher. Thank you and over to you Ms. Shah.

## Ms. Rupa shah - Prabhudas Lilladher

Hi, everyone and welcome to Q2 `09 Conference Call of IVRCL. We have with us Mr. Sudhir Reddy - MD, IVRCL, and his team members represented by Mr. Balarami Reddy, Mr. Ramkumar and Mr. Sekaran. Now I would like Mr. Reddy to open the session with some comments and post which we can open the floor to Q&A. Over to you Mr. Reddy.

## Mr. Reddy, IVRCL

Thanks. Good evening everybody, and like Rupa said, we are all here, and wish you a very Happy Diwali. I know you guys are going through some bad times, we really regret that particular scene, but as a company I really can only do a little bit, that is I can work in my company's side, but I cant really support you in that point. At IVRCL, this particular quarter we did about 1,159 crores of turnover. As you know, we had done at the similar time, last year, we had done about 699 crores. So, there is clearly a very nice growth of 66%, on the topline. Of course, we have taken a hit very badly in the interest side too, but the profitability has also gone up, quite considerably. In going by the events, they are not going to really affect us, the events surrounding us, because we are sitting on fair amount of orders. Last received orders is close to about 14000 crores. And we are expecting another 1500 to 2000 crores worth of orders, shortly. And to add, that will it affect our business in future?, I am not very sure, because for next two years, at least I don't foresee getting into any kind of trouble or problem. But in the event of any economic slowdown, then, internationally a lot of countries would have spent money in the infrastructure side, so I am expecting and hoping the same would happen in the infrastructure side. As you are aware, we have also not taken up any BOT projects in last one year because of uncertainties, which were there in the market, both in the diesel, Bitamin, mostly in the road side, I am talking about, diesel, Bitamin or interest rates. Those uncertainties have come to be certain. Yes, the cost of finance is higher, but at least today, I know at what price I can bid. Today if we bid for BOT project we will assume rate of interest at 14%. If at all it comes down, it is again benefit for us. That is a different story. We would probably, as we keep on getting pre qualified very often by NHI, even though we have not bided, we would probably at this quarter look at to bidding, and all the 4 BOT's what we have right now, totaling about 1600 crore rupees, are almost coming to a completion stage, and hopefully in the next two or three quarters, it will come into revenue. So, 1600 crores worth of BOT projects, and as and when the revenue happens it will be almost 2 crore rupees a day of revenue, with a minimum, the kind of IRS what we have, and I am sure at that levels, definitely they are quite positive and it might also go up to the next level. In the order book position of 14000 crores, again we are close to 65, 70%, of our order book is just in the water sector. Within water, again we can sub divide into drinking water, into irrigation, into power related water, into industrial water, de salination, all those treatment plants. These are the basic numbers. By now, you will have also seen, so as to repeat myself again, we did about 1159 crores, of turnover this quarter, that is on the half year basis. The whole group, including Hindustan Dorr Oliver and IVR Prime did about 2375 crores this first year, with BBT of 160 crores, and a PH of 126 crores. Given the circumstances, we as management are

fairly pleased, at the way things have turned around, even though no great efforts have been put in by us, it is something which, we have to complete the jobs and we are completing the jobs. I would like to take you questions and probably explain you better. Thank you.

**Moderator - David**

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press "\*" and then "1" on their touch tone phones. If you wish to remove yourself from the question queue please press "\*" and "2". Participants are requested to use only handsets when they ask their questions.

Anyone who has a question may press "\*" and "1" now.

Our first question from the line is from of Deepal Delivala of Citibank. Please go ahead.

**Ms. Deepal Delivala - Citibank**

Good afternoon everybody. Sir, my first question is on the sharp increase in the other income, roughly to the tune of 17 odd crores.

**Mr. Reddy, IVRCL**

That is the dividend received from IVR Prime.

**Ms. Deepal Delivala - Citibank**

Ok, so is that the whole amount?

**Mr. Reddy, IVRCL**

Yes.

**Ms. Deepal Delivala - Citibank**

And sir, what is the sharp jump in interest, because it has jumped on a quarter on quarter, also right?

**Mr. Reddy, IVRCL**

Yes, last quarter to this quarter it is from 19 crores to 30 crores. Out of this 30 crores, 3 crores, foreign exchange loss is also included. So, if you take 27 crores, the interest rate has gone up very huge. Last year we have at the rate of around 9%, first quarter it has gone upto around 10%. Q2 is around 12%.

**Ms. Deepal Delivala - Citibank**

Right now it is around 12%? This is a combination of all these things?

**Mr. Reddy, IVRCL**

All these things.

**Ms. Deepal Delivala - Citibank**

Ok.

Mr. Reddy, IVRCL

We had a huge growth.

Ms. Deepal Delivala - Citibank

Yes of course. Over and above that, just to see if there is anything additional included in the interest cost as well, could we get some balance sheet numbers on the working capital side?

Mr. Reddy, IVRCL

What numbers you want?

Ms. Deepal Delivala - Citibank

Sir, the balance sheet, working capital, basically, the debt numbers, and all your debtors inventories, creditors, numbers.

Mr. Reddy, IVRCL

That is around 1450 crores.

Ms. Deepal Delivala - Citibank

Ok. And sir, debtors?

Mr. Reddy, IVRCL

Debtors is around 900 crores.

Ms. Deepal Delivala - Citibank

Inventory?

Mr. Reddy, IVRCL

Inventory is around 200 crores.

Ms. Deepal Delivala - Citibank

And creditors?

Mr. Reddy, IVRCL

Creditors is around 800 crores.

Ms. Deepal Delivala - Citibank

And sir, cash on the books?

Mr. Reddy, IVRCL

150 cores.

Ms. Deepal Delivala - Citibank

And sir, in terms of PODL, sir how much is loans and advances?

Mr. Reddy, IVRCL

Prime urban is 260 crores. That's only for IVRCL. There is no outside debt in those books. There is no bank debt, there is no NBFC debt, any form of debt is not there.

Ms. Deepal Delivala - Citibank

So, this 260 crores, is what IVR Prime owes us, right?

Mr. Reddy, IVRCL

Yes.

Ms. Deepal Delivala - Citibank

And sir, what is the total loans and advances numbers we have on the balance sheet?

Mr. Reddy, IVRCL

IVRCL - That is 1450

Ms. Deepal Delivala - Citibank

So, 1450 you said is debt number?

Mr. Reddy, IVRCL

Debt only I am talking about.

Ms. Deepal Delivala - Citibank

But sir, there must be loans and advances given to subsidiaries?

Mr. Reddy, IVRCL

Subsidiaries is around 400 crores, total, including this 260 crores.

Ms. Deepal Delivala - Citibank

Ok 400 crores total. Sir, my question is also on IVR Prime, is there any incremental support that IVR Prime needs from IVRCL in terms of cash, support, either in terms of loans from the company or any such thing?

Mr. Reddy, IVRCL

Not envisaged anything right now, and we do not foresee any such need immediately or in the medium term.

Ms. Deepal Delivala - Citibank

Ok sir, I will come back with more questions if I have any.

**Moderator - David**

Thank you very much. The next question comes on line from Mr. Amar Kedia of Nomura, please go ahead.

**Mr. Amar Kedia - Nomura**

Sir congratulations on a good set of numbers. What is the break up of your order book?

**Mr. Reddy, IVRCL**

Water is 9500 crores.

Buildings is 2800 crores.

Power is around 800 crores.

Transport is around 700 crores.

**Mr. Amar Kedia - Nomura**

Ok, sir, can you provide me a similar break up on the sales side?

**Mr. Reddy, IVRCL**

Water is 600 crores.

Buildings is 200 crores

Power is 185 crores

Transport is 175 crores.

**Mr. Amar Kedia - Nomura**

Ok, thank you so much.

**Moderator - David**

Thank you very much. Next question, comes on the line from Mr. Kothari, of Lotus Mutual fund, please go ahead.

**Mr. Kothari - Lotus Mutual fund**

Good evening sir, I wanted to know what are the current loans and advances to IVR Prime?

**Mr. Reddy, IVRCL**

260 crores.

**Mr. Kothari - Lotus Mutual fund**

And what is the investments made in the BOT projects till date?

Mr. Reddy, IVRCL

It is around 247 crores as of today. Another 23 crores, we have to put.

Mr. Kothari - Lotus Mutual fund

Ok. And you said, the revenue would be flowing in from?

Mr. Reddy, IVRCL

That is March quarter, some small amount will come.

Mr. Kothari - Lotus Mutual fund

Ok, thank you very much, that's it from my side.

Moderator - David.

Thank you very much. Next question comes on line from Mr. Tanuj Shori, from Nomura. Please go ahead.

Mr. Tanuj Shori, Nomura

Hello sir, just wanted to know, in the water segment which forms 65% of order backlog, what is the contribution of AP?

Mr. Reddy, IVRCL

AP will be about 30 to 40%.

Mr. Tanuj Shori, Nomura

30 to 40% of the water segment or the total order book?

Mr. Reddy, IVRCL

Only water. Out of the total 65% order, 40% is from AP.

Mr. Tanuj Shori, Nomura

And other would be from?

Mr. Reddy, IVRCL

Others, Maharashtra, Madhya Pradesh. Another 10, 15 states.

Mr. Tanuj Shori, Nomura

Ok, sir, whatever our interaction has been, it is expected that AP govt. would finish off irrigation order by the end of this year or another 6 months. So, after that, next year, what is your view on the order inflows, actually from the water segment?

Mr. Reddy, IVRCL

No, I think you didn't get the facts right in AP. The fresh orders which I have received from AP also, you know, is close to 1000 crore Rs. or 800 crores Rs. and I think I am expecting another 1000, 1200 crores Rs. worth of work. What we

have heard is the work that has begun for certain sections. There is .....which is about 20000 crores worth of order, there is Godavar drinking water supply to Hyderabad which is where we are executing work, plus plenty more work is expected from AP govt.

**Mr. Tanuj Shori, Nomura**

Ok, so that will show in the order book next year?

**Mr. Reddy, IVRCL**

Yes. Not next year, probably next month itself.

**Mr. Tanuj Shori, Nomura**

Then 010 order inflows any view on them?

**Mr. Reddy, IVRCL**

Very tough for me to predict that, we both belong to the same country, so why predict those order inflows, but I think, my gut feel is that like, Madhya Pradesh, I was told, would spend more than 20000 Rs. in water, first 6 to 7 jobs that have been bided, 3 jobs we are the lowest, 2 jobs we have already informed all the shareholders, 3rd job, we have also informed, so likewise there are a lot of opportunities breaking out, back again even in Gujarat there are a lot of opportunities, so is the case with Maharashtra, Jharkhand, Bihar, Rajasthan, so very tough for me to give a number, but I am quite hopeful that with the kind of jobs that are coming in, everybody will ultimately will copy what Gujarat and Andhra Pradesh have done. They need to do better than that, I guess. But at least, even if they do, the rumour is that anywhere from between 12 to 13 billion dollars worth of irrigation projects will happen in this country.

**Mr. Tanuj Shori, Nomura**

Ok, and sir, last book keeping question, what will be irrigation as a percentage of water, as of now?

**Mr. Reddy, IVRCL**

For us, water is the same. Are you differentiating? Water, do you mean to say is drinking water?

**Mr. Tanuj Shori, Nomura**

Yeah.

**Mr. Reddy, IVRCL**

In India, in rural India, irrigation water is also drinking water. So, I guess you can take 60% towards irrigation water and 40% for drinking water.

**Mr. Tanuj Shori, Nomura**

Ok, thanks a lot sir.

**Moderator - David.**

Thank you Mr. Shori. Next question comes from Mr. Sanchin Relekar from Tata mutual fund Go ahead please.

**Mr. Sanchin Relekar from Tata mutual fund**

Congrats sir. That figure is 1450 crores, which is a significant jump in that, because you are growing also fast and your execution is also much above your guidance actually.

**Mr. Reddy, IVRCL**

66% growth.

**Mr. Sanchin Relekar from Tata mutual fund**

Yeah. Are you saying that you will maintain the same pace for the half year also?

**Mr. Reddy, IVRCL**

We should, because there are milestones associated. If you remember or recall our conversation, the number of times when I was in Bombay or this call, we have been projecting that we would grow at 40 to 45%. And this quarter may be higher because of lower pace of last year. Blended average I think we should do about 35 to 40% of turnover. Let me stick to that. If we do better that's all good for all of us.

**Mr. Sanchin Relekar from Tata mutual fund**

What about the debt figure, year end?

**Mr. Reddy, IVRCL**

It also functions on what kind of works we have and how much of work they have to complete, so proportionately per year calculation, another 150 to 200 crores, maybe higher.

**Mr. Sanchin Relekar from Tata mutual fund**

And what about the cost of borrowing now?

**Mr. Reddy, IVRCL**

Cost of borrowing, it is about 12% today, and it is still expected to, increase further, another 50 basis points to one percent.

**Mr. Sanchin Relekar from Tata mutual fund**

Ok, your 12% is incremental cost of borrowing, or the average?

**Mr. Reddy, IVRCL**

Average.

**Mr. Sanchin Relekar from Tata mutual fund**

So incremental will be how much?

**Mr. Reddy, IVRCL**

What do you mean by incremental?



Mr. Sanchin Relekar from Tata mutual fund

If you had to take a new debt, what cost it would come now?

Mr. Reddy, IVRCL

Most of the debt is linked to PLR. We have working capital limits. So, if it increases, automatically everything will increase. If we take BOT, it is actually coming down now. If it comes down, very good, so let us not predict. We are not God.

Mr. Sanchin Relekar from Tata mutual fund

Ok, thank you sir.

Moderator - David

Thank you very much Mr. Relekar. Next question comes from Mr. Rishabh Chaurauli, of JM Financial, please go ahead.

Mr. Rishabh Chaurauli, of JM Financial

Just a clarification on the debt figures. We ...a debt of around 1450 crores, does this include our contracting advances also?

Mr. Reddy, IVRCL

No, it is not included.

Mr. Rishabh Chaurauli, of JM Financial

So, what is that amount?

Mr. Reddy, IVRCL

That will be around 200 crores.

Mr. Rishabh Chaurauli, of JM Financial

And sir, you have guided on the BOT projects contributing around 1600 crores, revenue for?

Mr. Reddy, IVRCL

No, I did not say that. I said 1600 crore worth of assets we own.

Mr. Rishabh Chaurauli, of JM Financial

So, what could be the revenue from BOT projects?

Mr. Reddy, IVRCL

BOT projects at the peak, will be about 1 crore Rs. per day.

Mr. Rishabh Chaurauli, of JM Financial

2 crore Rs. per day?

Mr. Reddy, IVRCL

No, 1 crore a day.

FY10?

Mr. Reddy, IVRCL

Yes.

Mr. Rishabh Chaurauli, of JM Financial

Fine, thanks a lot sir.

Moderator - David

Thank you very much.

Next question comes on line from Mr. Lokesh Garg, from Kotak Securities. Please go ahead.

Mr. Lokesh Garg, from Kotak Securities

Good evening sir. I just wanted to get the gross interest and net interest, figures, if you have those?

Mr. Reddy, IVRCL.

Gross interest is around 45 crores, net interest is 30 crores. Net gross interest, 3 crores, foreign exchange loss and 4.5 crores bank guarantee, commissions and bank charges.

Mr. Lokesh Garg, from Kotak Securities

Then the figure I missed out on while noting down answers is that on the working capital side, what is loans and advances, outstanding at this point of time, all included?

Mr. Reddy, IVRCL

That is loans to subsidiaries.

Mr. Lokesh Garg, from Kotak Securities

What is the amount of that?

Mr. Reddy, IVRCL

Loans to subsidiaries, around 400 crores.

Mr. Lokesh Garg, from Kotak Securities

And total loans and advances?

Mr. Reddy, IVRCL

1450

Mr. Lokesh Garg, from Kotak Securities

So, debt and loans and advances are the same? That is what was confusing actually.

Mr. Reddy, IVRCL

Yes, that's the same.

Mr. Lokesh Garg, from Kotak Securities

Another thing I wanted to understand, you said, one crore per day. Total charges to be collected at some point in FY010 and also, project start off.

Yes.

Is there some other metrics you could share with us on those projects in terms of PCU.

Mr. Reddy, IVRCL

Yeah, the other metrics whatever is available to us because of fixed ratings and.. .blended IIRs in those projects is almost 31 %. And in the desalination plant there is almost an annuity there, it is almost 18%.

Mr. Lokesh Garg, from Kotak Securities

Would you able to share total PCU's of all those 4 projects?

Mr. Reddy, IVRCL

Only 3 projects is PCU, the other is water, the other is 100 MLD. The total PCU, I don't have that number. These projects which we are running are not based on PCU's actually, there are 6 different vehicles which are running on this project. So, it actually not easy to calculate the PCU, the new projects are being bided now.

Mr. Lokesh Garg, from Kotak Securities

Usually companies have a conversion factor to turn a truck into a PCU actually, which is equivalent to about 3 or 4 PCU's, something like that. I just thought maybe you have those numbers.

Mr. Reddy, IVRCL

That is correct, but we don't have those figures right now, so we will share them later.

Mr. Lokesh Garg, from Kotak Securities

Sure sir, thanks a lot, these are my questions, maybe I will come back later.

Moderator - David.

Thank you very much Mr. Garg. Next question comes from Mr. Kenny Jain, of Voyager investments Please go ahead.

Mr. Kenny Jain, of Voyager investments

Sir, initially you mentioned that your book will yield a revenue of 2 crore Rs. a day?

Mr. Reddy, IVRCL

No, no, no, that was a mistake, I corrected that guy in front of you, and I stand corrected, it was one crore Rs. a day.

Mr. Kenny Jain, of Voyager investments

Sir, in the balance sheet there is an element of other current assets. It include retention money, unbuilt revenue and other deposits. What is that at the end of Q2 09?

Mr. Reddy, IVRCL

The retention money, that is in each and every bill, the government deducts 5 to 10%, and it will be given after completion of the project. That is retention money. Unbuilt revenue, that is as per the new accounting standards, A7, you have to take the proportionate expenditure whatever incurred, corresponding revenue you have to take, whether you bill it to the department or not. Total turnover what we are supposed to take minus already billed is called the unbuilt revenue.

Mr. Kenny Jain, of Voyager investments

So, what is the total amount. Because if we see FY 08 balance sheet, other current assets was 1070 crores. So, what is other current assets at the end of Q2 09?

Mr. Reddy, IVRCL

That will be same proportionate to the turnover.

Mr. Kenny Jain, of Voyager investments

Ok, sir, one last thing, what is the full year estimate of interest and depreciation from your side?

Mr. Reddy, IVRCL

Interest will be around 125 to 130 crores, debt will be around 45 crores. Depreciation will be around 45 crores.

Mr. Kenny Jain, of Voyager investments

Fine sir, thanks a lot.

Moderator - David

Thank you very much. Next question comes on line from Mr. Navin Jain, from Reliance equities. Please go ahead.

Mr. Navin Jain, Reliance equities

Sir, you mentioned your advances from contractors is about 200 crores right now, mobilization advances. If I see your balance sheet, march 08, it was about 260 odd crores, so it has in fact come down, in spite of order book growing handsomely. So, is it that in the new projects we are not getting advances?

Mr. Reddy, IVRCL

No, no, we do get, some projects we don't get, some projects we do get. Some projects when you get, that could be at a very high cost. It could be PLR, 3 or 4, and plus bank guarantee cost and all, so sometimes you also avoid not taking a bank guarantee, you know mobilization advance.

Mr. Navin Jain, Reliance equities

Ok, so all the new projects that we have got, they had all had interest against advances?

Mr. Reddy, IVRCL

Yes, we are hoping, we are trying to bid for places where there is no ....but that doesn't exactly determine our wish to do a contract or not.

Mr. Navin Jain, Reliance equities

And if at all you get, whatever mobilization advances you have, about 200 crores, what is the kind of interest you are paying on those?

Mr. Reddy, IVRCL

It is ranging from 10 to 13%.

Mr. Navin Jain, Reliance equities

So, none of these mobilisation advances are interest free?

Mr. Reddy, IVRCL

Interest free is also there. All which we have received 400 crore projects in Madhya Pradesh, it is interest free, so like that some of the other projects also, interest free, those are not built into the tender itself. If there is interest, it will get built into the tender. When I am preparing my tender I will consider this also as my cost.

Mr. Navin Jain, Reliance equities

So, in any of these AP projects, have we got any advances?

Mr. Reddy, IVRCL

Yes, in every project advance is there. It is 12%

Mr. Navin Jain, Reliance equities

Ok, the cost is about 12%

Mr. Reddy, IVRCL

Yes.

Mr. Navin Jain, Reliance equities

And sir, how about this Chennai desalination project, is it on target to start in January?

Mr. Reddy, IVRCL

Yes, no delay is expected.

Mr. Navin Jain, Reliance equities

Ok, thank you sir.

Moderator - David

Thank you Mr. Jain. Next question from Ms. Fatima Pacha of ICICI Prudential. Please go ahead.

Ms. Fatima Pacha - ICICI Prudential

A couple of questions, first on the operational side, you have had a very great set of numbers, but considering in an operational level business and generally when you grow at a very high pace, you should see a margin expansion, is it that the raw material increase in cost this quarter has had a significant impact, and the margins YOY basis has remained flat?

Mr. Reddy, IVRCL

Most of our projects, we had our escalation clauses, so reduction in commodity prices are not actually going to affect, on the margin side directly. But the way it is affecting us is that, last quarter we had seen a huge amount of escalation built into the revenues, so it doesn't actually have any margin, last quarter we had booked about 100 crores of revenue from price escalation itself. If we remove that as our topline and calculate our margin, it is much higher than what it is today. But the indirect impact which is coming on the working capital side is slightly different, earlier when the prices were continuously going up, we had no choice, and of course when the metal was not available, we had gone and bought the material in advance, rather than waiting for work to start.

Ms. Fatima Pacha - ICICI Prudential

We had huge inventory?

Mr. Reddy, IVRCL

Yes, we had huge inventory. Now we are trying to reduce that, we are trying to compress our inventory cycle, we are trying to buy instead of a week or ten days material, we are trying to buy the next one month material actually.

Ms. Fatima Pacha - ICICI Prudential

There is a significant volatility there, so are we holding off purchase, waiting for a better price or something like that, because that's what the steel market players are talking about.

Mr. Reddy, IVRCL

No, we can't do procurement as we like it, we have to balance the time in which the project has to be completed, and also the price. Ultimately at the end of the day we have price escalation clause. We don't need to bother about the price side of it, but at the same time there is going to be a saving coming on the working capital side of it, we don't need to put in our working capital to buy the material, so that's a balance we are trying to create between margins and the requirement.

Ms. Fatima Pacha - ICICI Prudential

Sir, all these projects that we have got from the government, there is nothing like a financial project, because it's not like a private capex, how are we ensured of our payments, is there a bank guarantee given upfront or anything, so that we are assured of our payments, so that no deferred payments, any bad debts or anything of that sort?

Mr. Reddy, IVRCL

Its like you just have to hope that the government will pay.

Ms. Fatima Pacha - ICICI Prudential

Is it possible that the government is not able to raise debt at the time, when you require the money, or that there would be some default in payments, something like that? All the states are absolutely in the best of finances?

Mr. Reddy, IVRCL

Yes, you are absolutely right, that worry continues to be with us, and we hope to try and get as much as intelligence through our own sources, but mostly in a water project, governments are not playing the game any more, because in a water project, when a water project gets stalled, that much of election votes, please remember I was told there are 256 million voters in rural India. And rural India, is nothing but water. Not a nano plant, or not any those kind of things. Not even roads. So irrigation projects, right now, see govt. of Andhra Pradesh, they were all very surprised that, from where will he get the money. But he is paying. So, I really don't know, but we have no choice, we cannot question the government, we just have to hope that the scheme of funds will continue, what we felt was very violent and states like Jharkhand and Bihar, they are paying faster than anybody else.

Ms. Fatima Pacha - ICICI Prudential

Because it has a mining boom.

Mr. Reddy, IVRCL

But earlier also it had the mining boom and all, I guess. But the desire to get the work done and the desire to pay is also needed. I guess that is also part of it. Best paid, Maharashtra, if you look at few years back, ultimately gave us Maharashtra Krishna valley bonds, but this is a worry, we have to continue to live with it, we have to keep our fingers crossed and work for government of India, which is safer rather than work for a private sector and hearing one fine day that we are ...

Ms. Fatima Pacha - ICICI Prudential

I agree.

Sir, on the FOREX front, is this the SEC amount?

Mr. Reddy, IVRCL

Yes, that 7 million shares.

Ms. Fatima Pacha - ICICI Prudential

Sir, at the beginning of the year, we are talking about, I think at the end of ...quarter we are talking about 110 crores CAPEX, sorry, 110 crores of interest expense, now the number I think they are talking about is 125, 130 crores.

Mr. Reddy, IVRCL

Yes, it is.

I hope we had some parameters to measure the rate of interest. But unfortunately banks themselves were pretty surprised, the way they are increasing the cost of finance, so I guess, we are all bound by that, but please remember, these rates are what I am taking when I am bidding now.

Ms. Fatima Pacha - ICICI Prudential

So, you have done it for next year?

Mr. Reddy, IVRCL

Hopefully, if it comes down.

Ms. Fatima Pacha - ICICI Prudential

Sir, interest expense, are we on target in terms of debt? or are we overshooting this?

Mr. Reddy, IVRCL

No, debt we are not over shooting. We have expected in the same level.

Ms. Fatima Pacha - ICICI Prudential

Thirdly for the bank guarantee, we generally look at the bank financials, so are the bank guarantees like an interest rate that you give, on the amount that they are guaranteeing for?

Mr. Reddy, IVRCL

No, no, no. Yes, .5 to us, it ranges for probably large companies from .2 or .28, to as much as 3% of commissions they charge or probably more also, depending on who the client is. But for us we are getting a blended average of .5

Ms. Fatima Pacha - ICICI Prudential

Would you say that because of banks, interest rate has gone up, it has been more or less static for 2 to 3 years?

Mr. Reddy, IVRCL

Yes. The number of bank guarantee is what we take and also, please understand this growth of 66%, our utilizations factor is also growing by 66%. If I have achieved about 14000 crores of order book position, I am sure I would have bided 3 times, 4 times, more than that. So, for every EMD, I need to give a bank guarantee. So, whether I get a job or not, I need to do that excess of .28 or whatever.

Ms. Fatima Pacha - ICICI Prudential

What would be the dividend income from IVR Prime?

Mr. Reddy, IVRCL

Dividend income is 16 crores, from IVR Prime.

Ms. Fatima Pacha - ICICI Prudential

Sir, any concerns of selling off of ...IVR Prime? (unclear)

Mr. Reddy, IVRCL

I think it is too difficult right now to comment on that.



**Ms. Fatima Pacha - ICICI Prudential**

Ok, thanks a lot sir.

**Moderator - David**

Thank you very much. Next question comes from Mr. Manish Balwani from Dawnay Day. Please go ahead.

**Mr. Manish Balwani, Dawnay Day**

Good afternoon sir. Congratulations on a good set of numbers. I just have one question regarding the shareholding pattern. FII's holding 56%, of shareholding, so this seems to be a concern, so do we see a promoter shareholding increasing now?

**Mr. Reddy, IVRCL**

No.

**Mr. Manish Balwani, Dawnay Day**

And what is the current FII holding?

**Mr. Reddy, IVRCL**

56%. One FII is leaving, so some FII could be buying. So, 50, 55 range.

**Mr. Manish Balwani, Dawnay Day**

Ok, thank you very much.

**Moderator - David**

Thank you very much Mr. Balwani. Next question from Mr. Vishal Sharma of BNP. Please go ahead.

**Mr. Vishal Sharma, BNP**

Good afternoon everyone. Sir, your road BOT's are going to be operational very soon. Is there any interest preset on them?

**Mr. Reddy, IVRCL**

After operations, 6 months is the fixed rate. After that, the re set time will come. Reset time, whatever is the market, we have to take that.

**Mr. Vishal Sharma, BNP**

Ok. When you gave your gross interest and your net interest, now the difference between that, is the interest you earn from loans and advances, that you gave IVR Prime, is that correct?

**Mr. Reddy, IVRCL**

It is not only IVR Prime, wherever we have given to subsidiaries, everything we have touched.

**Mr. Vishal Sharma, BNP**

So, the 260 crores, is what you said?

**Mr. Reddy, IVRCL**

Total facilitated loans is 400 crores.

**Mr. Vishal Sharma, BNP**

So, the difference will be on all the 400 crores?

**Mr. Reddy, IVRCL**

Yes.

**Mr. Vishal Sharma, BNP**

Ok. And continuing on Fatima's questions on the state level details, which would be the states that you would actually like to work for? Just your favourites, basically?

**Mr. Reddy, IVRCL**

Don't ask me such questions.

All over

**Mr. Vishal Sharma, BNP**

That's very diplomatic.

**Mr. Reddy, IVRCL**

The way we try and work, is like if you take our building projects, we are comfortable in executing in couple of locations, so you like to pick up jobs in Pune region, in Bangalore, probably Delhi and Calcutta. So, it is not, our requirement of state. It is actually like, our execution capability in that location or region, which will decide where we would like to work in. Which factor, basically.

**Mr. Vishal Sharma, BNP**

And when it comes to water projects?

**Mr. Reddy, IVRCL**

All over. We are present in 14 states today.

**Mr. Vishal Sharma, BNP**

Can you give break up of 1450 crores, how much is long term, how much is SCB and how much will be working capital out of it?

Mr. Reddy, IVRCL

Around 1100 is the working capital, balance 350 is fixed, some portion is working capital, some portion is term loan. But it is fixed.

Mr. Vishal Sharma, BNP

And just to verify your net working capital is 850 crores, if I am not wrong?

Mr. Reddy, IVRCL

No, that is not correct. It is around 2300 crores, net working capital.

Mr. Vishal Sharma, BNP

And if I could just get the break up sundry data is 900, inventory is 200 crores, creditors is 800 crores, cash is 150, ...is 700, subsidiaries is 400, balance is other current assets.

Mr. Vishal Sharma, BNP

Can you just name some of your biggest projects that you are currently working on? In terms of values?

Mr. Reddy, IVRCL

There are many of them. ONGC is there, 900 odd crores, .....780 crores, about 10 or 15 projects like this, which are about 800 to 900 crores.

Mr. Vishal Sharma, BNP

Alright sir, thank you so much.

Moderator - David

Thank you Mr. Sharma. Next question from Tina Virmani of Kotak Securities. Please go ahead.

Tina Virmani, Kotak Securities.

My question is regarding your income tax. What is the status regarding the claim for deduction under section 80IA? The company has been paying lower tax rate and now probably you are availing benefits under section 80 IA? So, what is actually the status on that front?

Mr. Reddy, IVRCL

The government has appointed a special bench for that, still they have not decided anything. So it might take some time, it might take a year or two. We have to continue with that, but we have very good hopes that we will get that benefit.

Tina Virmani, Kotak Securities

Ok, but is the company making any provisions for that?

Mr. Reddy, IVRCL

At the year end, a separate reserve we are creating. And there is no cash outflow because we are paying as per the full rate, but I am taking it as a refund to be received from the department. If anything bad goes, I will not get that amount and it has to be adjusted from that reserve. If I get in our favour, I will get with interest that total amount.

Tina Virmani, Kotak Securities

Right. And my second question is regarding your margins, though we have seen the company has significant amount of variable pricing clauses, but in the last two quarters, quarter 1 and quarter 2, overall your margins are in the range of 8.8 and now this quarter, it is 8%, how do you see full year operating margins, to be in the range of? Are they expected to be in the range of last year, or are they expected to be lower?

Mr. Reddy, IVRCL

Margins will be totally dependent on the project mix, which we have. So, it is difficult to give one .eg. on which we will be working on. Normally I would say, it should be in a range of 9.5 to 9.9, which is very close to whatever we achieved last year, but depending on the project mix it can range in that margin. EBITDA margins.

Tina Virmani, Kotak Securities

I am asking on a full year basis.

Mr. Reddy, IVRCL

We have operating leverage.

Tina Virmani, Kotak Securities

Ok, you expect them to be in a range of 9.5 to 9.9, for the full year, based on the current order book situation?

Yes.

Tina Virmani, Kotak Securities

Ok sir, thanks a lot.

Moderator - David

Thank you very much. Next question from Lokesh Garg of Kotak Securities, please go ahead.

Lokesh Garg, Kotak Securities

My question is related to the other expenditure, in the breakup you have given us, this item under absolute, has also gone down, both on a YOY basis as well as on a Sequential quarter on quarter basis. Now what is it we should understand from this, what does it constitute of? This decline or the item itself?

Mr. Reddy, IVRCL

This quarter there is a re classification, that the other expenditure, earlier it is nationary labour expenses, and other expenditure was there in other expenditure. Construction expenditure. There is a classification change here. Nationary labour and other construction expenses, has added there itself. So, other expenditure, is only, other than staff cost, administrative expenses. Just a re grouping has been done, last years figures have to be corrected accordingly.

Lokesh Garg, Kotak Securities

Ok, thanks a lot sir.

Moderator - David

Thank you very much Mr. Garg. Next question comes on line from Mr. Ravi Kiran from Deutsche bank. Please go ahead.

Mr. Ravi Kiran, Deutsche bank

Most of my questions have been answered, I just want one clarification, what is the amount of retention money in the balance sheet?

Mr. Reddy, IVRCL

It will be around 300 to 325 crores. 375 crores.

Mr. Ravi Kiran, Deutsche bank

Ok. Thank you sir.

Moderator - David

Thank you very much Mr. Kiran. Next question comes on the line from Deepak Dawal, from Citibank, please go ahead.

Mr. Deepak Dawal, Citibank

Sir, two questions. Number one, what is your order inflow outlook. I know you mentioned you will get 1500 to 2000 worth of orders, immediately. Sir for the full year, what is the kind of order inflow we will be looking at?

Mr. Reddy, IVRCL

5000 crores, already in the first half year we have received. Another 1500 is in the pipeline, already we have confirmed, L1. You can take it another 3000 crores, approximately, maybe total 10,000 crores, 9000 to 10000 crores is expected in this financial year.

Mr. Deepak Dawal, Citibank

Ok, this financial year. Second question, is given that elections are coming up, and you see a flurry of orders from the AP government and as well as the other governments, is it like they are pre ordering everything in expectation of a lull in ordering out, running into the elections and are we expecting any kind of delays or stalling of projects,

Mr. Reddy, IVRCL

No, I don't think so, because infrastructure projects are something, which take a couple of years to get created. These are not something that can be caused just because of the elections. Before the elections normally you get only promises, so, I don't think election is something which is an impediment.

As per the election law, I think 2 months or 3 months, they cannot award some new work or something like that. Just that lull, but there is enough of orders in hand, and I don't think they are pretty worried about that particular area.

**Mr. Deepak Dawal, Citibank**

And second thing is, probably a more logical question, but given the fact that your interest rates have more settlement ease, going forward, maybe not immediately, but maybe 6 months down the line, and the commodity cycles have come off, can we expect an improvement in working capital?

**Mr. Reddy, IVRCL**

Yes, definitely.

**Mr. Deepak Dawal, Citibank**

So, if one has to look 6 to 9 months down the line, you would have a margin improvement because of commodity prices, not to a very large extent, but to a small extent, as well as inter-locked, cooling off in terms of the asset amount?

**Mr. Reddy, IVRCL**

Could be a marginal one, because in construction projects you have a mix of projects which were bid 2 years back, to a project which were bid 2 months back, so, whatever little bit of changes you find, could be very minute changes.

Working capital change will not affect because interest rates have come down. Working capital change have to be affected, why we have taken the additional effort because of the current shortfall in the country, we are putting the request to the government, wherever there is no provision to take back the retention money, just giving the bank guarantee, we are requesting and trying to get that money back, which will ease out the working capital requirement.

**Mr. Deepak Dawal, Citibank**

And sir, one of the other construction companies, one of your competitors mentioned, that they are requesting, or you are as an industry requesting the respective state governments not to charge interest on the mobilisation advances. Are there concrete talks going on or are these just pure requests to the government?

**Mr. Reddy, IVRCL**

We have no idea, where, who is requesting whom. Once a contract is created and once we get a go ahead and get the job, we cannot get the ....because then the guy who is second lowest, third lowest, it will become a legal problem. It's a contractual obligation. So, if some guys are talking out of their heads, I don't want to be party to that.

**Mr. Deepak Dawal, Citibank**

Sir, my last question, you mentioned 35 to 40% growth in the topline. Next year, what is the kind of guidance we should look at?

**Mr. Reddy, IVRCL**

Same, with the kind of orders what we have, I think we would continue with the same kind of guidance of 35 to 40%.

**Mr. Deepak Dawal, Citibank**

The margins should be in the same broad range?

Mr. Reddy, IVRCL

Yes. I hope so, absolutely.

Mr. Deepak Dawal, Citibank

Thank you so much sir.

Moderator - David

Thank you very much. Next question comes on line from Mr. Navin Jain from Reliance equities. Please go ahead.

Mr. Navin Jain, Reliance equities

Sir, just a question on working capital. Net working capital has expanded to 2300 crores, in just the first half and as a result of that, to fund that, we have taken a lot of new debt. So, given the fact that the interest cost is rising and hitting up on our net margins, how do we propose to counter that, because if I see, your current assets are increasing, in line with your revenue growth, but the current liabilities are not increasing, in the same proportion. How do we propose to counter this situation?

Mr. Reddy, IVRCL

That will be affected with the increase of the credit aspects, reflected in these two quarters because now materials are coming down and there is pressure on the suppliers, to sell the materials first and give more credit. Earlier, unless I pay the advances they are not in a position to supply. That situation will change now.

Mr. Navin Jain, Reliance equities

So, going forward you expect current liabilities to ?

Mr. Reddy, IVRCL

Yes, some easing., demand and supply scenario, right now we are in.

Mr. Navin Jain, Reliance equities

Ok, and how about the current assets, something like datas and or even retention money you already mentioned that you are requesting for release of retention money against guarantees,

Mr. Reddy, IVRCL

We are trying with the government, some governments might consider, some might not. Retention money might be a good chance of getting it back, but not rate of interest. Even this retention money if you take it back, you could always find some smart alec, government officer who will say I will charge you the interest component, because that is the money, what he is earning interest.

Mr. Navin Jain, Reliance equities

Ok sir. Are there any internal targets of the company regarding the net working capital by the end of the year?

Mr. Reddy, IVRCL

No. No, we are not working with any targets.

**Mr. Navin Jain, Reliance equities**

Ok, thanks a lot sir.

**Moderator - David**

Thank you very much Mr. Jain.

Next question comes from Mr. Ashwini Agarwal of Jemita advisors, please go ahead.

I had just this question on retention money, have you had instances of retention money not being paid to you because of some technical issue, or because of some issue?

No. Normally you will get it. Only thing is that it will get delayed. Once the work is done and over, there is a delay, we need to pursue it vigorously to get the money out of it. Not that they don't have desire not to pay. Just that the work keeps going on, the work gets completed, but eventually we will get the money back.

So, historically, never have the companies have to write off any retention money?

**Mr. Reddy, IVRCL**

No, no, not with the government, it might happen with the private sector.

Ok, thanks a lot.

**Moderator - David**

Thank you very much. Next question comes from Mr. Tanuj Shori of Nomura, please go ahead.

**Mr. Tanuj Shori of Nomura**

How much of the debt has to be repaid in one year? Short term debt, I presume working capital loan?

**Mr. Reddy, IVRCL**

Everything is working capital loan.

Mr. Tanuj Shori of Nomura

Ok sir, then are you facing any problem in rolling over this?

**Mr. Reddy, IVRCL**

It is not rolling over, it is renewal. Already they have got renewals in this year.

Ok, thank you sir.

**Moderator - David**

This was the last question. I would now like to hand the floor over to **Ms. Rupa shah**.

**Ms. Rupa shah**

Yes, thank you, the management of IVRCL, and the participants, thanks a lot and good evening.





Thank you Rupa.

Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited, that concludes this evening's conference call. Thank you for joining in and you may now disconnect your lines.

Thank you.

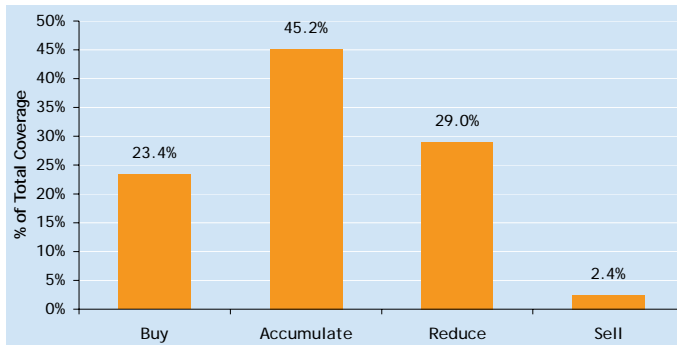
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