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Website: http://listing.bseindia.com

Ho-425-S Dated: 23.02.2021

Manager – Department of Corporate Services,
Bombay Stock Exchange Ltd.,
Registered Office: Floor 25,
P J Towers, Dalal Street,
Mumbai 400 001

Dear Sir/Madam,

Furnishing of Information as per
SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Scrip Code : 533033, Scrip Id: ISGEC

Sub: Transcript of the Earnings Conference call with analysts and investors relating to Financial Performance of the Company for the quarter ended on December 31, 2020

1. This is further to our letter bearing Ref no. Ho-425-S dated February 8th, 2021, wherein we had given an advance intimation of the upcoming Investor Conference Call organised by the Company on February 12th, 2021 at 16:00 hours (IST) to discuss the financial performance of the quarter ended December 31, 2020.

2. In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of earning conference call held with analysts and investors.

3. The above information is also available on the website of the Company www.isgec.com.

4. The above is for your information and records, please.

Thanking you,

Yours faithfully,
For Isgec Heavy Engineering Limited

SUDERSHAN KUMAR KHORANA Digitally signed by SUDERSHAN KUMAR KHORANA Date: 2021.02.23 14:49:37 +05'30'

(S.K. Khorana)
Executive Director & Company Secretary
Contact Number: 9810188045

Encl: as above

"ISGEC Heavy Engineering Limited Q3 FY-21 Earnings Conference Call"

February 12, 2021

MANAGEMENT:	**MR. ADITYA PURI–MANAGING DIRECTOR.**
	MR. S. K KHORANA – EXECUTIVE DIRECTOR & COMPANY SECRETARY.
	MR. KISHORE CHATNANI - CHIEF FINANCIAL OFFICER
MODERATOR:	**MR. RENJITH SIVARAM – ICICI SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the ISGEC Q3 FY21 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renjith Sivaram from ICICI Securities. Thank you and over to you sir.

Renjith Sivaram: Thank you. Good afternoon all, on behalf of ICICI Securities, I welcome you all for the Third Quarter FY21 Earnings Call of ISGEC. We have with us the management of ISGEC represented by Mr. Aditya Puri – the Managing Director. Mr. S.K. Khorana – Executive Director and Company Secretary and Mr. Kishore Chatnani who is CFO. So we will start with a brief update on the results by Mr. Puri followed by Q&A. Over to you sir.

Aditya Puri: Good afternoon, everyone. And thank you for joining us on our earnings conference call. I hope that you and your loved ones are all well and safe. This is our fifth investor conference. I hope you're finding our interactions useful.

I look forward to a fruitful discussion. We have also uploaded our presentation on BSE and our website earlier today. Many of you are familiar with our business, for the benefit of the new investors and analysts joining for the first time, I will give a brief introduction about our business.

We are a diversified heavy engineering company engaged in manufacturing and project businesses. We manufacture process plant equipment, presses and iron and steel castings. We execute turnkey projects for setting up boilers, power plants, sugar plants, distilleries, factories and bulk material handling facilities. We've also developed strength in construction. We address the requirements of a wide spectrum of industries mainly power, fertilizer, sugar, and distilleries, oil and gas, automobile components, steel, cement, chemicals, railways, space, imports. We are number one or number two in almost all our product lines in the country. Our presence across multiple industries and geographies helps us to spread any sectorial or geographical risk.

Let me now talk about our consolidated financial results for the quarter:

We are happy that operations and revenue have largely recovered though there is some shortfall in revenues in this quarter as well. The consolidated revenue for Q3 of FY21 is Rs.1423 crore compared to Rs.1715 crores for Q3 of FY20 that is a decrease of 17%, for nine months of FY21 our consolidated revenue is Rs.3850 crores compared to Rs.4354 crores for nine months of FY20 that is a decrease of about 12%. The consolidated EBITDA for Q3 of FY21 is at Rs.132 crores that is 8% higher compared to Rs.122 crores for Q3 of 2020. For nine months of FY21 our consolidated EBITDA is at Rs.375 crores that is 31% higher compared to 286 crores for nine months of FY20.

The nine months EBITDA margin improved by 311 basis points driven by savings in legal expenses, saving in employee costs and reduction in travel expenses due to lockdown, increased efficiency and because of higher sales and profitability in Saraswati sugar mills. The consolidated profit after tax for Q3 of 2021 at Rs.65 crores that is 3% higher than the Rs.63 crores of Q3 of 2020. For nine months of FY21 our consolidated profit after tax is Rs.184 crores which is 35% higher than the profit after tax of Rs.136 crores for nine months of FY20.

I will now talk about the order booking:

The consolidated order booking for nine months of FY21 is Rs.1,467 crores, the orders in hand as on 31st December 2020 are Rs.6,863 crores against Rs.6,935 crores as of 31st March 2020. The order book positioning continues to be good. Of our consolidated order book about 78% is for the project business and 22% is for the product business. The order book includes Rs.1,080 worth of export orders, which is about 15% of our total order book. The order book includes ISGEC Hitachi Zosen, which has orders in-hand for about Rs.550 crores. During this quarter we had got orders from the private sector and from the PSU sector. The enquiry level from both PSU and private sectors is good.

Overall, demand trends are encouraging. Many new Orders from sectors such as railways, coal, power, water, process industry and material handling are expected to be finalized. In addition, orders for air pollution control equipment and FGD which are mandated for compliance with environmental norms are also expected to be finalized. All our factories are working at good capacity utilization and there are no labor issues. Project sites are running normally and there are no supply, logistics and manpower difficulties now.

Offices are now working with 70% workforce and the rest of the people are working from their homes. In the wake of COVID-19 related disruptions, the company had imposed a salary cut from April onwards for all employees drawing annual compensation above Rs.8 lakhs. In November 2020 we had restored the salaries of junior employees at levels of manager and below. From the 1st of January we restored the salaries of all the employees. The Managing Director and the Whole Time Director have taken a cut in compensation by 75%.

Due to COVID-19, the economic activities in some of our overseas markets have been disrupted, and order finalization is slow. Though we have a large number of inquiries from our target countries. Overall, we’re optimistic about our positioning in the market and with our presence in multi segments and geographies, robust balance sheet, state of the art infra and manufacturing capabilities, technology partnerships and right use of the right quality of people. We will continue to focus on increasing our shareholders wealth and strength and our financial metrics.

In view of the good profitability, the board has decided to declare an interim dividend of Rs.2 per share. This will result in a dividend payout of Rs.14.7 crores Our efforts to sell CPBI Philippines and related companies have been continuing. However, discussions have been slow since the onset of the COVID-19 pandemic. We're continuing to look for buyers and also keeping the option of completing and running the plant before a buyer is found and the economics of running the plant seem favorable. I will be happy to answer any questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Deepika Gupta from Aequitas Investment. Please go ahead.

Deepika Gupta: Sir, I wanted to know how does the increase in raw material cost impact our manufacturing business as well as our EPC business on private PSU as well as export orders?

Aditya Puri: So, you're mainly talking about the commodity price, which is steel, copper, aluminum. As far as our orders from the PSU sector, which today is about 50% of our orders, they are covered by the escalation clause. So that should be okay. In the rest of the orders, we give some increase in steel cost, but we have contingencies, we always keep contingencies, and we think that we will be covered by those contingencies. Further, steel now is on a slight declining trend and in new orders we are factoring the increase in commodity pricing. So, there will be an impact which will be very minor.

Deepika Gupta: Okay. And what about the impact of increase in freight rates and are we facing any unavailability or shortage of any parts in execution of our order?

Aditya Puri: Domestic logistics is not a problem. From time-to-time there were some problems in some containers for export, availability of containers for export. Southeast Asia, there was no problem but Central America and Africa there was a bit of a problem, but things are easing out. There is not a major problem, shipments may get delayed by a week or so 10 days, but it's not a major problem.

Deepika Gupta: So basically, none of these factors are hampering our execution?

Aditya Puri: They're not. On a day-to-day basis it's a little tedious but not over a long period of time. And for the export orders in most cases the freight is borne by the buyers.

Deepika Gupta: Okay. Also, our manufacturing revenues, although they have recovered and they are better than Q2 also, do we see them back to pre COVID levels sooner?

Aditya Puri: Yes, very soon they would be back.

Deepika Gupta: Okay, and what about EPC execution that was done, but in the past, we've also executed, higher amounts of sales for EPC division.

Aditya Puri: So, what happened was that in this Q3 particularly around Diwali time again, there was a spurt of COVID at least our company felt that there were a lot of spikes and we did face disruption, but work is now back to normal and is going in full swing. So, I can confidently say that work at the sites, EPC site is back to normal.

Deepika Gupta: Okay And could you give us like the power order book is Rs. 2000 crores or 32% of my total order book. So what are the FGD orders to be, or what amount of FGD orders we can look for execution and FY22?

Aditya Puri: Kishore, can you give the figures?

Kishore Chatnani: Deepika as you know we follow the percentage completion method. So we expect to book 450 crores in the next financial year.

Deepika Gupta: Okay, also in your opening remarks, you mentioned that material handling is an opportunity where you see orders coming from like what kind of ETC orders you see in that segment?

Aditya Puri: So we are already doing material handling for MAHAGENCO in Maharashtra and for some other companies. So say we do see demand increasing in steel, aluminum, power and all these required material handling project.

Deepika Gupta: And I believe Hitachi and Eagle did not contribute much to my bottom line, if you could give us the performance separately, and what is the outlook for them, I know Hitachi has a good order book?

Aditya Puri: So, the Hitachi order book is good but the number of orders in numerical terms are low, they're not low, we are not uncomfortable with the low orders. But the mix is such that we have fewer number of larger value orders, so there was hardly any turnover of Hitachi Zosen in this quarter because hardly anything was shipped out this quarter, but we think the year will still be good.

Deepika Gupta: Okay, and what about the outlook for Hitachi for FY22, do we see sufficient execution there and like if we could quantify that?

Aditya Puri: It should be fine we are not seeing any, as I said in my opening remarks, we have 550 crores of orders. So, it should be fine.

Deepika Gupta: So what is the timeframe for execution of these orders?

Aditya Puri: It could be anything from 10 months to 18 months.

Deepika Gupta: Okay, and this also has a price variation clause?

Aditya Puri: This does not have a price variation, in most cases no.

Deepika Gupta: Okay. What about the Eagle Press?

Aditya Puri: So, in Eagle Press there is a slowdown there because of the COVID situation in both US and Canada. But we will still be at least EBITDA positive hopefully by the end of the year, But the COVID intensity is now reducing and order booking is beginning to start again. So, the prospect is okay in the short run there may be a little bit of a hiccup but otherwise it's okay.

Deepika Gupta: Okay. And could we have the revenues for Hitachi and Eagle for Q3 and nine months?

Aditya Puri: So, Eagle itself is a very small company, it does not expect to contribute significantly to the bottom line of our company or to the sales turnover. We expect a turnover at its peak soon, when it was not under our control, it had done probably about 180 crores or 200 crores. But as far as Hitachi is concerned, Kishore would you like to give the turnover?

Kishore Chatnani: This quarter, Deepika your question is about this quarter?

Deepika Gupta: Yes.

Kishore Chatnani: This quarter Hitachi has Rs. 27 crores turnover and Eagle has Rs. 25 crores turnover. So, they are pretty small in our scheme of things for the moment, Eagle is small, Hitachi will be good for the year.

Deepika Gupta: Okay. And our sugar business did really well. When is that distillery going to be coming on stream?

Aditya Puri: So, it will be ready by May and certain statutory approvals are required that may take a little while, but it will be ready by May.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir continuing on the sugar distillery. So you said plant would be ready in May, but ideally, by what time should we start the commercial production and what kind of revenues we can expect from the distillery?

Aditya Puri: We can start commercial production, maybe 60 days after the plant is completed. It could be earlier, it could be slightly later, but I'm just giving you a ballpark figure maybe 10, 15 days here or there. And the revenues Kishore, can you just throw light on that, but it would be around 170 crores.

Kishore Chatnani: Yes, that's right if we're talking about 12 months, we should be doing something like Rs. 160 to Rs. 170 crores.

Aditya Puri: But in the first year it will be lower, but that's the capacity.

Manish Goyal: The capacity is how much, 110 kilo liters per day?

Aditya Puri: Yes.

Kishore Chatnani: Capacity is 110 kilo liters per day. If you run on C-heavy molasses, of course the capacity it turns out to be higher if you run on B-heavy molasses.

Manish Goyal: Sure sir, and sir you did mentioned that on Eagle press that it will be EBITDA positive. But at the bottom line, I believe the losses are very high, in fact, last year also Eagle press losses were relatively high. So what kind of order book we have over there and can be expect it to turn around next year at the PAT level sir?

Aditya Puri: So, this year is going to be much better than last year and we expect next year to be positive at the profit level.

Manish Goyal: And sir Hitachi?

Aditya Puri: Hitachi is positive, Hitachi was negative only this quarter because of the very low billing and that's because I explained, it's got lumpy orders.

Manish Goyal: And sir on Cavite Biofuel, has there like the process started in terms of looking for buyers or still the COVID is impacting the process for the buyer?

Aditya Puri: Yes, COVID is impacting and we are also not able to go there as the flights opened only for three or four days and then Philippines is one of those countries where it's totally closed. It's not like other countries where you can go, so that is impacting. There is interest and as I said in my opening remarks, there is interest from people to purchase but right now we're not able to effectively market it and, but we might think of completing the distillery and running it also because the numbers been good.

Manish Goyal: Okay. So in that case sir we would be requiring to complete the pending work and if that is the case by when do you think you should be able to start running the distillery?

Aditya Puri: So, after we take a decision and we hope to take the decision in a little while, it will take about 12 months.

Manish Goyal: Okay. And sir just wanted a housekeeping question on sugar business, what was the subsidy which we received in this quarter and also in last two quarters in the sugar business?

Aditya Puri: So, you know the Central Government is giving subsidies for buffer stocks, I don't know if you understand buffer stock. So, the government says that if you store a certain amount of sugar in your godown and you cannot sell out of it than the government pays for the interest, storage and insurance of that sugar. So, there is buffer stock subsidy, then the government is also giving subsidy on the export of sugar. So, there is that subsidy and then there is a subsidy by the state government on key interest.

Manish Goyal: Yes. So, would it be possible to share that number sir, please?

Kishore Chatnani: This quarter you are talking in terms of accounting or cash flow?

Manish Goyal: No, like in our P&L what we have reported,

Kishore Chatnani: This quarter we received 29 crores 3 lakhs.

Manish Goyal: And is it shown under other income or it is part of the total income?

Kishore Chatnani: It's shown under other income and it was similar case in Q2 and Q1 also. You will see when we publish the balance sheet, there is a process to be followed about what can go into operating income and what into other income, as agreed with the auditors and of course as per the accounting standards, so subsidies which accrue during the season, for example cane subsidies, that can be directed from the cane cost and if subsidies are accrued after the season, then they have to be or if the sugar is quoted is of previous season, and we are exporting in this season, this year so therefore, it comes into other income.

Manish Goyal: Okay. So Mr. Kishore for nine months, how much would be the total subsidy amount sir?

Kishore Chatnani: Maybe I'll have to look for it. I don't have it in front of me, but give me two or three minutes I'll certainly, I'll answer it in a few minutes.

Manish Goyal: I have two more questions. So, this declining other expense on consolidated is roughly 25% on Y-o-Y and nine months it is 30% decline. So, how much of it is attributable to say we are not incurring any legal expenses on the Cavite legal case, and how much of it is something which is sustainable which you'd have cut, and we see this as a sustainable?

S.K. Khorana: Manish it is likely you see one is the traveling, the other is legal. Traveling is not there because of COVID we may sustain it long run or not. But so far it has been sustained to a large extent.

Kishore Chatnani: Let me add to what Mr. Khorana said, so legal expenses last year were about Rs. 45 crores, so this year there is no legal expense.

Manish Goyal: So, the first time was in nine months last year sir?

Kishore Chatnani: Actually it happened all of it in the first six months only. So yes, it's included in the nine months.

Manish Goyal: And this year how much it is, sir?

Kishore Chatnani: There is no legal expense, it's minor Rs. 1 crore or something like that. So just let me talk about what comes in other expenses, what heads come in other expenses. So, there's power, other manufacturing expenses which is largely subcontracting in the factory. There is repair and maintenance, there is electricity and water charges, then packing forwarding and transportation which is a big, big expense and packing forwarding expense because exports is lower this year, packing forwarding is much lower. Then as you said the legal expenses are lower. So, there are two, or three things which are contributing to really the lower other expenses, one as you rightly pointed out is legal expense, second is less of subcontracting outside because manufacturing is less, thirdly lower traveling expenses and lastly, actually it's a big number, lower packing, forwarding and transportation expenses.

Manish Goyal: Okay And last question sir, on the pipeline you did mention encouraging trends, I missed out so if you can just highlight as to how is the pipeline and is that a number of order pipeline value how much it is and how good it is, if we compare it with last year sir broadly?

Aditya Puri: So, the pipeline is very large and as I said in the last quarter, private sector had also started investing. So, the pipeline is large both from the PSU sector and from the private sector. And therefore, we are confident about order booking, we are also confident that, because of the budget and other stress measures on infrastructures, railways we should get our share of business from there. Also, steel and aluminum with commodity prices going up, we think aluminum already there are some projects that have been announced. Steel also we think investments will come in and all this is good news for us.

Manish Goyal: Okay, and I would also like to know, on the distillery side. The government has come out with an incentive scheme. And I believe a lot of distilleries licenses have been given. So, order started on the distillery side, if you can just throw some light on?

Aditya Puri: Yes, they have started, we have shaken hands for one or two orders, but they haven't formally come.

Manish Goyal: But can it be a very large opportunity in the coming years sir for us?

Aditya Puri: So, it depends on how many distilleries actually come up and how many distilleries are able to make finance arrangement. So if a lot of distilleries do come up, it could be good business for us.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi Jain: My first question is with regard to our guidance for next year. Any rough guidance you plan for next year sir?

Aditya Puri: It's too early to say but things look good.

Kirthi Jain: Okay. Sir, currently we have done like 8% operating margin on the blended basis. Do you think we can sustain this margin?

Kishore Chatnani: If we talk about the blended as you're saying, including the project business and the manufacturing business, we should look at sustaining around 7.5%.

Kirthi Jain: Okay. Sir in terms of order flow, we have announced few orders on the exchange also. So should we expect the exit order book to be around Rs. 7000 crore or how we should expect the closing order book sir this year?

Aditya Puri: I wouldn't say I can't take a bet on Rs. 7000 crore, but it will be somewhere in that region. Somewhere between 6 and 7.

Kirthi Jain: Okay. Sir connecting to Manish's question earlier, sir the decision on whether continuing setting up the plant or will be taken anything you've told during Manish's question?

Aditya Puri: So, this is the Cavite plant?

Kirthi Jain: Yes, Cavite.

Aditya Puri: It's not too long. In the next few months we will decide.

Kirthi Jain: Okay, sir last question is like any new product or new services, we are bringing in, in the EPC side to further grow the business?

Aditya Puri: We continuously look for new opportunities. So, I cannot disclose anything right now, but as was disclosed to the stock exchange, we did sign an agreement for these combustion modification to reduce the Nox content from the gases of these, few gases of coal-based power plants. So, this happened maybe two months ago.

Kirthi Jain: Okay. So, FGD orders when can we expect next set of FGD orders, anything we are planning for getting a set of FGD orders?

Aditya Puri: For FGD, the state governments have now started coming up with tenders, that's point number one. And point number two is NTPC lot six tender is also going to be submitted next week. So we think that FGD orders now in the market, there would be a continuous flow.

Kirthi Jain: Okay, sir just one last question to Kishore sir, sequentially our manufacturing business has increased by around 12%. But the manufacturing margins have dropped from say 15% to around 10% any particular reason or?

Kishore Chatnani: Kirthi I don't know 15%, which period are you referring to?

Kirthi Jain: September 2020 quarter we did 248 crores of manufacturing business, 36 crore of EBIT we did sir?

Kishore Chatnani: So, do you know that one quarter can vary, there could be a lot of aberrations in that, you have to see over a long period of time.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: My question is, do you think structurally there is a case for ISGEC going to say 9% or 10% PBIT margin or the core business that is manufacturing plus EPC business, because most of the engineering companies with our kind of capabilities are actually doing such margin?

Aditya Puri: Yes, there is, and I have explained earlier also why our margins would though we were getting into new lines of businesses and all there, is a case for it yes. And we are working towards that.

Deepesh Agarwal: Okay, so it should take two to three years or we can expect that something else?

Aditya Puri: Yes.

Deepesh Agarwal: And sir what we understand sugar CAPEX is improving in the country with some of the companies going for a large expansion and even oil and gas orders, so how you see the opportunity by moving for us now?

Aditya Puri: We've got good orders in sugar; we've got an order for a very large factory in the South. And we also got one for a smaller one in the West. So sugar business and distillery a business seems to be on a good path.

Deepesh Agarwal: So do you expect further sugar CAPEX announcement or?

Aditya Puri: There would be some, I am sure there would be some.

Deepesh Agarwal: And sir on a technical side globally if I see, fuel cells are actually posing a risk to captive power businesses. So are there any steps which you are taking to build up capability in fuels and technologies or hydrogen generation?

Aditya Puri: Yes, we've looked at it and I can't disclose to you what it is but there is something that we are not sitting silent on that, let me put it that way.

Deepesh Agarwal: Okay. And sir lastly, one more clarification, when you give an order book breakup our 32% is from power. So is it purely a utility customers or this will also include captive power, which you will be building for the cement or a metal, customer?

Aditya Puri: Yes, this includes FGD orders and also includes orders which are for in-house power consumption.

Deepesh Agarwal: Okay, so not entirely everything is linked to the utility scale customers right?

Aditya Puri: No.

Moderator: Thank you. The next question is from the line of Mr. Ankit from Bamboo Capital. Please go ahead.

Ankit: Sir, I was looking into order inflow and quarter-on-quarter we have seen significant improvement in the order book, Q1 was almost like a washout Q2, we saw some improvement in Q3, we have done relatively better compared to the past quarter. And over the nine months, you're seen order inflows close to 3400 crores. Given the current inquiries in-hand how do you think the order inflow will look like for FY22?

Aditya Puri: I personally feel it should be good, however I can't put a number to it.

Ankit: Because earlier we have seen having pending order book of around Rs. 8000 crore. So, is it possible that?

Kishore Chatnani: We did have one year, but that as Mr. Puri has been saying many times earlier, orders tend to come in bunches and there is no steady even distribution of orders. So, it can happen at some point of time, but that is not to be considered as a normal level.

Ankit: Sure, and sir, on the margin fronts is it possible for us to go back to 9.5%, 10% PBIT margins. And, if I had to look at broadly, our margins are going on the machine and manufacturing have been quite suppressed, and even EPC has been quite suppressed, EPC largely because we had this legal expenses for the past two years. So going forward, do you see that the machine side we can go back to double digit kind of margin, EPC inching towards 7%, 8% kind of margins?

Aditya Puri: Yes, we can.

Ankit: Okay. And what will be the levers for that, what will be the reasons improvement in margins?

Aditya Puri: So, one is obviously efficiency, manufacturing and project execution and secondly, is to go up the technology scale. So I really don't mean, going into places where competition is less. So, that is one of the key levers to improve profitability, execution, efficiency and changing the product portfolio, it may be just a marginal shift in product portfolio, but that will make a difference.

Ankit: Sure. And sir lastly on is it four, five years back was largely dependent on private sector and working we were almost like a negative working capital company if we include that customer advances and last three, four years primarily record of the Philippines project as well as we are bidding for more PSU and government, today our working capital has elongated quite a bit. Currently, we have 56% of orders from private sector and 44% from PSU, let's say over the next, year or two, the private CAPEX picks up significantly, do you think the shift between private and PSU can tilt more towards private which can eventually lead to some improvement in the working capital management?

Aditya Puri: No, it certainly can, private will certainly lead to an improvement in the working capital situation. But, I would also like to say over here that from many of our PSU orders, we are not taking advances because PSUs advances come at a rate of interest which is quite high. So, we are deliberately not taking, we could have taken those advances and shown a lower working capital requirement, but we are deliberately not doing that.

Moderator: Thank you. The next question is from the line of Mr. Vipin Goel from ICICI Securities. Please go ahead.

Vipin Goel: Sir as you rightly mentioned earlier that, the FGD execution for FY22 would be Rs. 450 crores. So, of this 32% order book, what number shall we assume is for the pending FGD orders?

Aditya Puri: Pending FGD, orders as of now are something like Rs. 850 crores.

Vipin Goel: 850 crores, so the remaining of this 850 after 450 will be included by FY23?

Aditya Puri: That's right. And there are some other orders in process.

Vipin Goel: Okay. And then sir, from the upcoming state FGD tenders from the payment terms how are they different from the NTPC LOT-6 tender, for example in the later tender's payment terms were relax so?

Aditya Puri: Yes, so they are more towards the relaxed side.

Vipin Goel: The state tenders?

Aditya Puri: Yes.

Vipin Goel: Okay. Sir the Philippines plant, last quarter you had commented that some 70% of the work is pending?

Aditya Puri: No, it's completed.

Vipin Goel: It's completed sorry, so shall we assume that the remaining, that the status is the same and?

Aditya Puri: Yes, because we are not working over there because of the COVID thing, we are not working over there.

Vipin Goel: Sure sir. And then just last one, bookkeeping question if you can give the order book breakup for standalone and consolidated for export and domestic?

Kishore Chatnani: Standalone as far as in-hand is concerned the standalone is Rs. 6192 and consolidated is Rs. 6863 as on 31st, December 20.

Vipin Goel: And of this 6192, what's the mix between project products and exports?

Kishore Chatnani: 5300 and product is 800.

Vipin Goel: And exports?

Kishore Chatnani: Rs. 809 crores. On standalone the export is Rs. 809 crores.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: On Cavite till date how much money we have invested in the sense like we had receivables and LC which was encash, so what is the total amount and how much further we have invested number one. And number two, in case we start the plant again, sorry do you want to complete the pending work, what will be the amount required to be invested and how will it get funded sir?

Aditya Puri: Yes, so these figures will work out, we have the figures, but we shortly give them to you a little later in the call. We have taken a decision to go ahead to complete the plant. So, we'll just watch with improvement in COVID situation what the interest in the plant is and then we'll take a decision on that.

Manish Goyal: Okay. But at least the number in terms of how much exposure already we have towards Cavite.

Kishore Chatnani: That's Rs. 254 crore, the same that we have informed earlier.

Moderator: Thank you. The next question is from the line of Darshil Shah from Cap grow Capital. Please go ahead.

Darshil Shah: So, I have a question regarding your Canadian subsidiary Eagle press. So, I was going through your annual report of Eagle press FY20 and I was just wondering what exactly happened that the company had to take a huge write off on the books?

Aditya Puri: Which write off are you saying?

Kishore Chatnani: There is no write off.

Darshil Shah: Sorry, the losses that the company incurred actually almost all of the equity got wiped off in FY20 right in Eagle press?

Aditya Puri: It's important to understand that when ISGEC bought Eagle, it paid very little out of its own resources. It formed an investment company which took a loan, and this company was later taken over by Eagle. So most of the interest cost of acquisition of Eagle has been borne by Eagle itself.

Kishore Chatnani: So, what we did was that the acquisition cost was something like 13 .5 million Canadian dollars. So, we put in 4.5 million as equity and we put in 10.8 million through loan from a bank. So, the interest of that loan, because we had formed a company called ISGEC Canada. And that ISGEC Canada took the loan, then immediately on acquisition it amalgamated with Eagle press. So effectively, the loan got transferred to Eagle press. Eagle press is servicing the loan on its own using the interest, it's paying the interest on that loan, the money which we would have spent for acquisition. So, Eagle press is paying interest on that. Secondly, as required under IndAS perhaps also under IFRS, that when you acquire you put a fair value to assets. So, therefore, the depreciation also, we put a fair value, the fair value came out higher the depreciation which is also being charged there. So, if you look at the loss, after excluding interest and depreciation, most of it is because we bought it through finance and we amalgamated it, then the situation is not so bad as you're describing. Also we were carrying, till September this year we were carrying the load of our management and the Eagles previous management because under the terms of the agreement, they were to stay on for two years. So after September, that management cost is also gone away and when you take over a unit overseas, there are a lot of costs which are associated with, running it the way want to run it. There is still time for it to stabilize and make money.

Darshil Shah: Yes, I was looking at some of the schedules of the balance sheet and was wondering because your interest cost spiked like almost 3x from FY19 and depreciation increased so much, but there was no major CAPEX. So, I was just wondering what exactly happened over there?

Aditya Puri: That's what he just explained why the interest and depreciation spiked.

Moderator: Thank you. Next question is from the line of Deepika Gupta from Aequitas Investment. Please go ahead.

Deepika Gupta: Sir, I wanted to know, do we have like a target ROE that we plan to reach?

Aditya Puri: We have some figures which we will probably tell you at the next conference. Yes, we have some figures, and we want to improve it from our current levels.

Deepika Gupta: Okay. And in the other expansions, I do understand that they've gone down for a variety of reasons. But how much of this is going to come back, how much of our savings are going to come back now and going to hit our P&L?

Aditya Puri: So, it will play out over a period of time, but we can although in the country travel is open. We are still seeing a lower level of travel. So this year if you take Q1 as a write off in terms of sales, there were obviously sales but this year our sales per person is going to be higher than what they were last year. So, productivity of the manpower has also gone up. So, some part of it will come back, but a lot of it will not come back, a lot of it will be like a permanent reduction.

Deepika Gupta: Okay. And if you could give us the working capital number?

Kishore Chatnani: Net Working capital is 950 crore.

Deepika Gupta: Okay. And what is the outlook that we have for the railways business like our order book in railways business has been continuously rising. So, what kind of outlook do we have for FY22 for the railways business?

Aditya Puri: So, we have seen that there are going to be investments. So what we're doing for the railways basically is building factories for them, which includes shed and in many cases, machinery, heavy, complicated machinery, which we outsource and sort of setup the plants for them. So OB both Cosmo, Rites, RVNL do have a plan to set up many more factories and we hope that we can win some of those tenders, so the outlook for the railway seems to be good.

Moderator: Thank you. As there are on further questions. I would now like to hand the conference over to management for closing comments.

Aditya Puri: Thank you and thank you so much. Thank you everybody for coming, for participating in this investor conference. And we look forward to talking to you again, soon and stay safe till then. Thank you.

S.K. Khorana: Thank you very much everybody.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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