AFCONS INFRASTRUCTURE LIMITED

Shapoorji Pallonji
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Date: November 28, 2024

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The Compliance Manager	The Manager, Listing Department
BSE Limited	**National Stock Exchange of India Ltd**
Corporate Relationship Dept.,	Exchange Plaza, Plot No. C/1, G Block,
Phiroze Jeejeebhoy Towers,	Bandra-Kurla Complex,
Dalal Street, Mumbai 400001.	Bandra (East), Mumbai 400 051.
Scrip Code: 544280	**Symbol: AFCONS**

Subject: Transcript of Q2 & H1 FY25 Earnings Call

Pursuant to Regulation 30 and 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of the Q2 & H1 FY25 Earnings Call held on Monday, November 25, 2024.

The aforesaid Transcript is also available on the website of the Company:

https://www.afcons.com/en/investors-meet

This is for your information and records.

Yours faithfully,

FOR AFCONS INFRASTRUCTURE LIMITED

GAURANG MAHESHCHANDRA PAREKH

Digitally signed by GAURANG MAHESHCHANDRA PAREKH
Date: 2024.11.28 11:53:08 +05'30'

Gaurang Parekh
Company Secretary and Compliance Officer
Membership No.: F8764
Encl: As stated above

“Afcons Infrastructure Limited

Q2 and H1 FY25 Earnings Conference Call”

November 25, 2024

MANAGEMENT: **MR. SUBRAMANIAN KRISHNAMURTHY– EXECUTIVE VICE CHAIRMAN – AFCONS INFRASTRUCTURE LIMITED**
MR. PARAMASIVAN SRINIVASAN– MANAGING DIRECTOR – AFCONS INFRASTRUCTURE LIMITED
MR. RAMESH JHA – CHIEF FINANCIAL OFFICER -- AFCONS INFRASTRUCTURE LIMITED
MR. HITESH SINGH – HEAD CORPORATE STRATEGY – AFCONS INFRASTRUCTURE LIMITED

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Afcons Infrastructure Limited Q2 FY25 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, ma'am.

Bhoomika Nair: Thanks. Good afternoon, everyone, and a warm welcome to the Q2 and H1 FY25 Earnings Call of Afcons Infrastructure Limited. We have the management today being represented by Mr. Subramanian Krishnamurthy, Executive Vice-Chairman, Mr. Paramasivan Srinivasan, Managing Director, Mr. Ramesh Jha, Chief Financial Officer and Mr. Hitesh Singh, Head Corporate Strategy. At this point, I'll hand over the floor to the management for their initial remarks, post which we'll open up the floor for Q&A. Thank you and over to you, sir.

Subramanian K: Good afternoon, ladies and gentlemen. This is Krishnamurthy Subramanian speaking to you. I am pleased to welcome all of you to the maiden Earnings Conference Call of Afcons Infrastructure Limited. Our financial results and investor presentations have been uploaded on the exchanges, and I hope you had a chance to review them. Joining me today, Mr. Paramasivan Srinivasan, Managing Director, Mr. Ramesh Jha, Chief Financial Officer and Mr. Hitesh Singh, Head Corporate Strategy.

At the outset, I would like to express my heartfelt gratitude to all our shareholders for their support in making our IPO a success. We have consistently set ourselves apart through the quality of our projects and dedication to timely completion. In the post-IPO phase, we aim to demonstrate the same distinction. Our mission of total satisfaction and enhanced value creation for all stakeholders now would extend to public markets.

Talking about performance, I am pleased to share that Afcons has achieved robust financial and operational results for Q2 and H1 of FY25, showcasing highest-ever EBITDA, PAT and order book. Our EBITDA margin for Q2 FY25 has reached a record high of 13.8%. For H1 FY25, EBITDA margin improved by 200 basis points to 12.7% compared to the previous year. Our past three years, we have made substantial progress in enhancing our EBITDA margins, moving from sub-10% level to over 11% in FY24.

PAT for Q2 FY25 grew by 30% year-on-year, reaching 4.4%, while H1 FY25 PAT rose by 16.3% year-on-year to 3.6%. Our total income for Q2 FY25 stood at INR3,090 crores, while H1 FY25 figure was INR6,303 crores. There is a marginal drop in revenue on a year-on-year basis. This is on the anticipated lines because 1) Our Order Book was muted for the last two years, which was consistently calibrated because of bank guarantee constraints. Also the general elections because of which we faced delays in bill certification and payments from select customers and also there was an impact of a severe monsoon in some of the projects.

Due to these reasons, the debt also increased and these aspects will be explained in detail by our CFO, Mr. Ramesh Jha. As of September, our order book stood at INR34,152 crores, of which we have received an order inflow of INR.8,925 crores in the first half of the year, along with L1 bids amounting to INR10,154 crores. With a robust pipeline, proven ability to complete the project within timelines and consistency in delivering high-quality construction, our company enjoys competitive advantage and solid revenue visibility in the next few financial years.

Now, let me speak about the sector growth prospects. India is poised to be the fastest growing construction market globally, expected to reach INR38.5 trillion by FY28. With the Indian government's focus on enhanced infrastructure spending, it is anticipated the industry will grow at the CAGR of 10% between FY23 and FY28. Furthermore, in the construction markets in the overseas regions where we operate, we are expected to outpace most major global markets from 2024 to 2033. With our strong domestic and international presence, we are poised to tap into these abundant growth opportunities.

As we move forward, our stakeholders will not only benefit from strong financial returns, but also the impact that it would create on the nation and its people through the projects that we would be executing. We remain committed to our mantra of sustainable, profitable growth by maintaining an order book matching execution capability, rationalizing costs, improving execution efficiencies and consistently developing capabilities and capacity for project delivery.

I take this opportunity to hand over the call to our Managing Director, Mr. Paramasivan Srinivasan to introduce Afcons Infrastructure to all participants and offer a deeper understanding about us and our future path. Thank you.

Paramasivan Srinivasan: Thank you, Mr. Subramanian. It has been, I would say, a great journey, Afcons and first welcome all of you for the session today. Being the first earnings call by Afcons, I would consider it a privilege to take you through briefly on what Afcons is all about so that there is a clarity as to which company we are looking at.

Afcons is a 65-year-old construction company having been formed in the year 1959 with the Rodio of Switzerland and the Hazarat & Company of India joining together as Rodio Hazarat & Company. And sometime in 1973, when the Foreign Exchange Regulation Act was introduced in India, Rodio wanted to exit India. That was the point when employee-led consortium paid off Rodio, took over the company and it became an employee-owned company with the Hazarat & Company stake.

So, Rodio Hazarat & Company became Asia Foundation and Construction Limited in 1975-1976. And then Afcons continued to do well. They used to have huge bank deposits at any point of time and it went on. Sometime in early 90s, for the funding needs of the company, when Afcons in the 80s entered into the road segment, there was huge funding needs for equipment and all. So, in the early 90s, they placed shares with SCICI, Shipping Credit Investment Corporation of India.

And subsequently, in the second half of the 90s, Afcons again placed shares with ICICI. When SCICI merged with ICICI, ICICI was holding 47.3% stake in Afcons. When 2000, ICICI was going for an ADR issue, they had to necessarily consolidate or exit. That was the time. Shapoorji Pallonji paid off ICICI, took over 47.3% and later issued open offer and other things for the employees. Subsequently, as needed, they pumped in funds. Before this IPO and offer for sale, Shapoorji Pallonji was holding 99.5% in Afcons with 0.5% with employees and ex-employees.

During the course of placing the shares, sometime in 1996, the name of the company from that of Asia Foundation and Construction was changed as Asia Afcons Infrastructure Limited. That is the genesis of the name also. And in 2000, when Afcons was taken over, Mr. Cyrus was responsible for this organization and he played an important role in structuring the whole thing as a professionally run company with ownership and management are kept separately.

So he followed a model that there will be a management which will run the show and there will be an owner and that model has worked very well in the case of Afcons as Afcons, if you look at it over the last two decades, we have grown over 18% CAGR over a 20 year time frame, if you look at it, and which is unprecedented on a consistent 18% CAGR in an Indian context is something which is very, very unique.

And if you take even last 5 years, we have a CAGR of around 16% on an enhanced base. So with that kind of growth, we are poised to maintain the growth at 15%-16% CAGR over a medium to longer term. And Afcons also decided a few other things along the way. One, we did re-entry into overseas market, Afcons used to work in the overseas market in the past, in 1970s it worked in Iraq, then Eritrea, which is currently in Eritrea, part of Ethiopia, then Oman, Sri Lanka, quite a few countries. But post 1993, Afcons had stopped working in overseas market. 2005, Afcons re-entered into overseas market and last about close to two decades, we have done close to about 70 projects abroad.

And quite, I would say, most of the projects have been delivered on or ahead of schedule to the satisfaction of the clients, resulting in recurring orders from many customers. And Afcons is present in practically all infrastructure segments. And our business is split into five verticals, urban infrastructure, which consists of elevated metro, underground metro, and bridges. There is a surface transport, which is roads and rails. And there is a hydro and underground, which consists of tunnels, NATM tunnels, dams, water projects, barrages, all that. And we have marine and industrial, which does substantially wars, jetties, ports, and other LNG tanks, similar. And oil and gas, these are our various segments.

In terms of looking at the time of Afcons starting the work, when Shapoorji took over, Afcons had an average order size of about INR27 crores. Today, our average order value is in excess of INR1,500 crores. That is the situation. In our case, on order book, we will always have an annual guidance, not a quarter-on-quarter guidance. For the simple reason, a few orders could change the composition of the order book. Therefore, we are looking at an annual order book guidance in general, and not quarter-on-quarter order book this thing, because orders could spill over to different quarters, and a single order value could be very different.

Today, our biggest value of the order is about INR5,700 crores. So, if you take that kind of an order book, it can heavily skew. Therefore, order book guidance will be on an annual basis. And we have always been maintaining Afcons, for the sake of your information, we are a five-star export house, as characterized as per the new policy guidelines of the Government of India. We have already got a five-star export house status, and that recognizes our consistent export performance. Over a period of last several years, we have been having about a 70:30 ratio in terms of turnover.

While our current pending order book is skewed towards domestic order book, in due course of time, we are sure we will move to 70:30 ratio between domestic and overseas market. Significantly, Afcons has been rated by engineering news record on a consistent basis. As per engineering news record statistics of 2023, we are the 10th largest marine player in the world, 12th largest bridge player in the world. In both these categories, there is no other Indian construction company within the top 25. And in aqueducts, we are the 18th largest. In overall transportation, we are the 42nd largest.

So, these are significant achievements, and ENR categorizes the turnover outside of the home country. So, whatever these numbers reflect, these are reflecting the turnovers outside the home country for all the companies. And wherever we have worked, another significant aspect is due to our engagement with the local populace in the respective countries by multiple manners. One, by engaging them as our employees, by workmen, by engaging them as subcontractors, by involving into large-scale CSR activities. Afcons had, wherever it had gone, had created a niche, and in the process, enhanced the image of India in such countries. That is a very significant thing.

Wherever we have worked, more and more works are offered, or at least there is an intention to give more works to the Indian companies in such kind of countries. We could create a difference in that manner. And we also follow good HR practices. That is something which we will cover in the later part. In terms of competitive advantages, if you look at it, Afcons have got a strong risk management practice. In fact, we have a practice of go, no-go in any project. We have a standard formula while we look at it. If the project is all, the cash flow, number one, we look at the client risk. If the client is risky, we don't participate.

And if, in terms of, the second we look at it, the project should be cash flow positive also. If substantial payments is going to come towards another project, the project is going to be cash flow negative, we generally try to avoid participating in such projects. Then third, we look at the capex expenditure. Fourth, possible competition. So with all these, if you look at it, over a longer tenure of 20 years, if you look at it, we have a hit ratio of around 18%. If you look at the last four years ratio, we have a hit ratio of in excess of 22%. So, which clearly conveys that practically every 4 to 5 jobs, we bag one job. That is something which is significant.

And we have a robust contract management system. Therefore, we are construction companies have to handle disputes as a part of its body politic. Therefore, we have a well-developed contract management team towards that. And in terms of knowledge management practices, globally, we are recognized as the best. In terms of knowledge management, we are rated as the most admired or innovative knowledge enterprise for 8 years in succession at India level, Asia Pacific level, and global level. It will not be out of place to mention, that no other Indian construction company have won this award, even for one year.

So that recognizes the value of knowledge management. And this thing typically, companies in the IT sector, or companies like NASA, Google, in India, if you take TCS, Tech Mahindra, Infosys, Wipro, these are the companies, they win this kind of awards. So knowledge management practices is something which is very unique to Afcons, and probably the only construction company to have a chief knowledge officer in our roles. And we have an excellent strategic equipment base. And in certain sectors, we have fantastic base of strategy equipment, marine equipment, if you look at it, we have a largest marine equipment base.

And if you look at tunnel boring missions, 16 tunnel boring missions, four are on the way. With this kind of thing, we believe we are strategically well positioned for a sustainable medium to long term growth. And we follow the strictest government standards. Sometime in 2006-07, Afcons wanted to list initially that DRHB was filed, approved everything. Later on, we withdrew that. And from that time onwards, we have been operating with good independent director, and properly both governed. And one of the probably few companies to be completely professionally managed.

And therefore, we have a strong governance structure, and long standing senior management team, our average senior management team experience is about 23 years. And going forward, also, we are looking at continuing to focus on complex, large value jobs, and continue to have overseas presence. And we will continue to focus on knowledge management, risk management practices at all levels. Before I hand over the thing to my colleague, Mr. Ramesh Jha, for taking through the financials, I'll just give an overview of where we stand on the order book.

As of 30th September, our order book stands at INR34,152 crores, excluding L1 projects. INR10,154 crores is L1 project, we have since received a couple of jobs. So now it's around INR7,700 crores is L1 as of now. This order book is well diversified across various infrastructure verticals, clients and geography. Currently, 80% of our order book is from government clients, is approximately split between 50-50 between centre and state. And we have currently a stable government at the centre, and with recent election results of Maharashtra, we are poised to have a stable government in the state as well.

And so we look forward to in the stable government in Maharashtra, Madhya Pradesh, Uttarakhand, Uttar Pradesh, Rajasthan, all have stable governments. So we believe we have a good period ahead in this thing. We are also looking at in the overall order book, the government's focus on in the infrastructure vertical, we are well positioned to capture the market appropriately, typically, comfortable to have between 2.5x to 3.5x book to bill ratio, primarily because we believe below 2x creates order booking pressure, above 4x creates execution pressure. That is how we want to operate going forward as well.

We will continue to be selective in picking our orders. And we will continue to say no also in some of the good orders, which people consider as good order, or the thing if the commercial terms are not appropriate to us. So these are things which we follow. And to provide a full insight on the financial performance, I now request our Chief Financial Officer, Ramesh Jha to take over.

Ramesh Jha: Good afternoon, everyone. Just to take you through the financials in detail. So in the second quarter, we have done INR3,090 crores of top line as compared to INR3,433 crores in the previous Q2 FY24. And as far as half yearly numbers are concerned, we have done INR6,303 crores as against INR6,655 crores. So there is a marginal drop in top line of around 5%. And this decline is on the anticipated line, because our order book was muted in last 2 years, which was consciously calibrated by us, because we were having bank limits constraint.

Also, this year, because of general elections, we faced delays in our bill certifications and payment from select customers. And there were impact of a severe monsoon in some projects. Having said this, generally, we do 40% to 45% turnover in the first half. And we are very much there as far as our annual plan is concerned. In the total revenue, when I have talked about, we have considered other income also.

And our other income needs to be understood in the perspective of business, wherein we have explained that major contributors of our other income are arbitration award, foreign currency exchange gain and miscellaneous incomes. And they are recurring in nature and they are a very much integral part of our business. So that we consider as part of they are our other operating income.

Now moving on to the margins. For the quarter, we have done INR427 crores of EBITDA in absolute terms. And in terms of percentage, we have done 13.8%, which is one of the highest in the company. With this, as compared to previous year in the same quarter, we had done INR394 crores. So this year, the number was for the quarter was 8.5% higher. For the half year ended, we have done INR799 crores of EBITDA, which is 12.9% higher than the previous year of INR708 crores. The EBITDA for the half year is around 12.7%. And this has improved by more than 200 basis points if we compare the same number of the previous half year.

As far as profit after tax is concerned, for the quarter, we have done INR135 crores, which is 30% higher than the similar quarter for the last financial year. Whereas for the half year, we have done INR227 crores of PAT, which is 3.6%. And this is 16.4% higher than the same for the last financial year, half year. Now, when we talk about this, these profitability numbers have contributed in enhancing our net worth. Our net worth has reached close to INR3,800 crores, to be very precise, INR3,794 crores. And in this period, in line with generally the trend we face, the first half of the year, bearing bill certification and payments are not up to date.

We saw the similar trend this year as well. We saw an elevated working capital requirement this year. This year also our working capital in September was at an elevated level. But this year, it was further amplified because of the general elections related less traction in some of the sections. And some customers, the bills were not getting certified and payments were not forthcoming. But we are seeing the situation slowly improving. Hopefully, year-end, we see much improved situation.

This enhanced working capital requirement has contributed to our debt, which has increased during H1 of FY25. Our debt increased as we saw limited traction with some of the customers, and there were delays in certifications of bills, leading to jump in working capital requirement, as I explained.

We had to fund those projects to run the operations. Generally, this trend remains every year, wherein bill certification and payments are not up to date. So, we see an elevated working capital requirement and borrowing in Q2 generally, I am saying. But this year, it was further amplified. So, the net debt, we have closed September with INR2,640 crores. And on the net debt basis, our debt to equity was around 0.7. And because of 40% to 45% of turnover only, which happens in the half year. And this elevated working capital requirement, the capital employed in the business has gone up.

And that has impacted the return what we achieve annually. So, the return on capital employed was around 16.5%, which generally is in line with the number we do it for the half year. But as things improve in the second half, we see that these numbers will go back to the levels we had achieved for FY24 as well. And also I would like to highlight that these returns on say capital employed or return on equity needs to be looked at on an annual basis only. As far as capital equipment addition is concerned for the half year, since our order booking got shifted during the year. So, the capital addition also has got shifted in line with the project we will be looking at.

With this, I think the order book MD has already explained. So, I conclude my remarks on the financials. And I thank all the esteemed stakeholders, including our employees, business partners, vendors, auditors, bankers for their wholehearted support in the long-term growth journey of Afcons. On behalf of Afcons, I thank everyone for attending this call. Now, I request the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.

Ankur Sharma: Good afternoon. Thanks for your time. I had a couple of questions. Firstly, on the top line, which did degrow about 10%-11% in Q2, if you could help us understand the split between domestic and export growth. And secondly, within domestic, while we understand because of elections, monsoons, all the factors that you highlighted leading to this kind of a slowdown on execution, how are you seeing things kind of shape up in the second half? Are you starting to see a pickup now that monsoons are over? Are we starting to see things kind of getting back in shape and therefore second half being significantly better?

Paramasivan Srinivasan: I will answer the second part of the question. The first part of the question breakup will be given by my CFO. I am Paramasivan here. In terms of the second half of the year, we would expect for the year top line flat to normal. That is what we had indicated this thing. And considering the previous two years of calibrated order growth, we had this thing, we will have a flat growth in the top line in the current year.

While we look forward to in 2026, while if we consider including L1, we are fully booked for our 100% of our order book is in place for 2026. And for 2026, we expect 20% to 25% growth comfortably from the current position. As I conveyed earlier, our medium to long term CAGR, we would maintain at 15% to 16%. That is the general guidance. Ramesh, you would like to give him clarification on export and domestic turnover?

Ramesh Jha: So as far as the turnover for the half year is concerned, 29% was from overseas market and 71% was from the domestic market.

Ankur Sharma: So I was looking for growth rates. I understand the split between the two. I was trying to understand what was the growth rate between domestic and exports.

Ramesh Jha: So see, as far as the growth is concerned, since the pending order, whatever we were having, we expect the same trend to continue in the range of say, around 30% from the overseas market and 70% from the domestic market. It is a balance year.

Ankur Sharma: Okay, sir. Secondly, sir, on the order inflows, as you highlighted, we bought about INR9,000 odd crores in the first half plus the L1. So, how much are you targeting for the full year? And also, if you could help us understand, which are the key end segments, where you're getting these orders from? Are these more domestic? Are these more exports? Some more color there? And also, what is your order pipeline? If you could give us a number, how is that looking like? If you have that with you?

Paramasivan Srinivasan: In terms of order book, including L1, you would have observed, we have in excess of INR20,000 crores. Already, we had at the beginning of the year, we had set ourselves a target of INR20,000 crores, which we have practically crossed for the year, if all the L1 jobs come into our kit. We have already submitted quite a few bids, and we are submitting further bids. And therefore, we expect a further order booking of not less than INR5,000 crores. Okay. And taking that into consideration, it will be safe to assume that we may be booking an order for the whole year of INR25,000 crores, which will be the highest in the history of Afcons.

Before that, one of the years, two, three years before, Afcons had booked INR17,400 crores, which was the highest ever order book Afcons ever had. So, with this order book, not only 26 revenue visibility is in place, there is substantial revenue visibility for 27 as well with that. And in terms of this year, of the orders booked, substantial orders are from the domestic market. And therefore, the current pending order mix is shifted slightly about 85-15 between domestic and overseas.

While this is a temporary phenomenon, going forward, we would like to sustain a 30-15, the short term one or two years, it could be 75-25 because of more domestic orders. This is in terms of order booking pipeline, I request Mr. Hitesh Singh, our Head Of Strategy, to take you there.

Hitesh Singh: Hi, Ankur. In terms of order pipeline, generally we keep a track of around next 2 years of visibility. So, in terms of our total addressable market based on the kind of project we focus on, that's a large value complex project, we have an addressable market of around INR3.2 lakh crores. And as visible in our current pending order book, similarly the available market is the highest in the urban infrastructure space. When I talk about urban, I am talking about underground metro, elevated metro and bridges put together. It is close to a INR1 lakh crore, that is the visibility we have, followed by surface transport, which is for us the rail and road business, which is around INR60,000 crores.

And marine and hydro, both we have around INR50,000-INR50,000 crores each of visible order pipeline. And if we look at the overseas versus domestic, it's close to the same ratio which we generally target, around 70% of our pen order pipeline or the visible order pipeline is around 70% from the domestic part and 30% is from the overseas market. So, that's been the pipeline for us.

Ankur Sharma: And just one last one, before I get back in the queue is on the operating cash flow. And then clearly, that is about INR400 odd crores negative for the first half. And I think again, you did touch upon the reasons behind it. How do you see that for the full year? Can we expect cash flow to be positive and we generate a reasonable amount of operating cash flow for the full year? Would that be a reasonable assumption?

Ramesh Jha: We will be generating operating cash flow positive for the full year, because as I explained that during first half year, generally the payments are not up to date and that gets updated by the year end. And also, for the half year ended, we have not received any sizable advance, which we generally receive. And there were recoveries happening for the earlier projects. So, that's where the numbers are negative. But I think, since we have got a number of projects, we will be getting those advances and that will help and we'll be getting the payments which were stuck. October onwards, we are seeing improvement in payments from the customers. So, we'll see a good cash flow for the full year.

Ankur Sharma: Great, sir. All the best and thanks again.

Moderator: Thank you. The next question is from the line of Sagar Tanna from Alchemy Ventures. Please go ahead.

Sagar Tanna: Sir, despite a negative top line growth, we had a nearly 200 bps improvement in operating margins, EBITDA margins. Can you explain the reason for that? And what can be the sustainable margins for the full year and going forward?

Ramesh Jha: You see as far as the margin for full year is concerned for FY24, we had clocked 11.6%. And I think what we can talk about in terms of margin is we'll - our endeavour will be to maintain 11% plus margin and coming back to your first question of the reason contributing the higher margin for the year. So, the company is focusing on operational excellence and we are trying to contain our cost wherever possible.

And so we are we are trying to rationalise our cost wherever possible and that has helped us to improve the margin. Also, during this period we had award wherein we got a sizable interest and that has also helped us to improve the margin.

Sagar Tanna: So, if we exclude the interest on the arbitration award, which is mentioned in the notes of results then can we assume a normalised margin of 11%, 11.5% which we had clocked last year, is it a fair assumption?

Ramesh Jha: Yes, it's already there. I mean it's there for anybody to calculate. So, it's 11% plus.

Sagar Tanna: And that is what is the sustainable margins going forward. Is that correct?

Ramesh Jha: Yes. So, see what I'll say is we are into the business of construction and the margin in a quarter varies based on the nature, type and quantum of work executed. So, quarterly results may vary in different quarter and may not be indicative of the annual result and construction is full of contingencies. There could be some contingency which we may not be able to save. So, our guidance will remain that we will be clocking around 11% margin.

Sagar Tanna: Got it. Thank you.

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

Ashish Agarwal: Thanks. Sir just some clarification. When you've given this 11% plus this includes other income, am I right?

Ramesh Jha: Yes.

Ashish Agarwal: Secondly, this other income this 74 crores of interest income which we got, this the cash has come in or this is on the approval basis?

Ramesh Jha: So, the cash has had not come before September, but subsequent period it has come.

Ashish Agarwal: Got it. And what was the forex gain, so to speak translation gain in the first half which is part of other income?

Ramesh Jha: So, forex gain in this half year was not a sizable portion. It was a very minuscule amount.

Ashish Agarwal: Okay, but because in the cash flows it looks like it's around INR75 crores. That's why I was trying to understand because there's a net foreign exchange difference?

Ramesh Jha: In other income, there is no foreign exchange gain.

Ashish Agarwal: Okay, got it. So, this INR190 crores of other income in the first half includes this INR75 crores of arbitration income and the rest will be miscellaneous income, am I right?

Ramesh Jha: So, the breakup of that other income is for the half year we have got arbitration interest of around INR93 crores. And we have got some projected loss which we account in any project that has been written back because we have already incurred those actual expenditures. So, that is another aspect and then there is a balance in miscellaneous income.

Ashish Agarwal: Got it. And lastly, what is the capex plan for the second half of 2025 and if possible for F26?

Ramesh Jha: So, see for a specific number for the capex since we had for this financial year, we had planned a sizable capex related to we were buying three TBMs. Now, those three TBMs, we were expecting one of the TBMs to come before the half year which has got shifted. So the number we were looking at for the full financial year, we are looking at a reduced number for the total capex for the year.

Ashish Agarwal: But if you can quantify that?

Ramesh Jha: It will be difficult to put a number at the moment because we will have to see because some of the projects which we were expecting say by March or in the first quarter of June. So, all those orders got shifted. So, we will try to optimize the utilization of those equipment and as per the requirement, we will try to plan it.

Ashish Agarwal: But if I have to put a number for next six quarters let us say for rest of F27 and F26, what kind of capex? Is it fair to assume it will be roughly 3% to 4% of your revenues?

Ramesh Jha: Generally, we try to maintain in that range only. The capex generally is in that range only of the top line.

Ashish Agarwal: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ashish Shah from HDFC AMC. Please go ahead.

Ashish Shah: Yes, good afternoon and thank you for the opportunity. So, first question is on the Q2 being solved, you did give some broader perspective, but a little more detail if you can share which segments and which particular type of projects were more impacted and more importantly, as we now are here almost in the end of November, how has the improvement happened or if at all it has happened?

Ramesh Jha: So, specifically if I can talk about then water related projects was one segment where we have seen less of traction. Generally, there was a bill certification and payment related issues. So, we had three projects or so in that and our project like we are doing one project in Rajasthan, then couple of projects in Bihar and some other projects where we - because of monsoon related issues we saw the turnover going down.

Ashish Shah: Apart from water anything significant sir which could have attributed to this slightly lower than expected performance?

Ramesh Jha: So, see, as we said that generally we in first half of the year, we generally do 40% and 45%. And we are largely there in terms of top line. So, these were the projects where we had seen difficulties, water projects and some of the projects, bridges project where due to severe monsoon, we could not work.

Ashish Shah: Sure. So, sorry also there was a little bit disturbance. So, I missed the number for FY25. You said for the revenue, you said flattish or something I maybe missed?

Ramesh Jha: So, what we have talked about, what MD has talked about that we are looking at flat to a nominal growth.

Ashish Shah: Okay.

Paramasivan Srinivasan: In terms of FY25, we are looking at a flat to nominal growth and in terms of FY26, we will have 20% to 25% growth.

Ashish Shah: Yes I got that.

Paramasivan Srinivasan: And on a medium to longer term, we are looking at a CAGR of 15% to 16% which we have explained in the last 5 years. And as far as EBITDA is concerned, we are looking at 11% plus.

Ashish Shah: Correct, sir. Also, for the L1 positions we did say that the INR10,000 odd crores number is now come down to 7,000 because maybe the LOAs have been received. So, a broad color if you can share on which are major orders in this L1 positions and by when do you think that these could be converted into firm orders?

Paramasivan Srinivasan: The first part, Hitesh, can you take them through?

Management: Sure. Ashish Hitesh here. So, in terms of L1 order which are pending currently with us is two projects. One is Nagpur-Gondia Package Number 1 and Nagpur-Gondia Package 2. Both are around INR2,500 crores and INR2,800 crores. And one project we have got in Vishakhapatnam for DRDO, that is around INR954 crores. So, that is where the L1 as on date is INR6,402 crores.

Paramasivan Srinivasan: There is one more. Bhopal metro is also there.

Management: Bhopal metro is additional.

Paramasivan Srinivasan: This Bhopal metro and Vishakhapatnam, we expect in another couple of weeks by mid-December we should have it in hand before that because it has gone for institutional approval Bhopal metro. It is ADB funded job. Therefore, it has gone for ADB for approval. Here it has gone to Navy for approval. So, both of these we expect by middle of December. In terms of Nagpur-Gondia Expressway, I think once the government formation is completed, they will go ahead with the process. The timing, I am not in a position to say because there is a land acquisition related payment is to be made. After making the payment, they will release this order.

Ashish Shah: Right. And maybe just one last thing what is the kind of order book which comes from Bangladesh at this point of time and how is the execution on the ground on those projects?

Paramasivan Srinivasan: On Bangladesh, we are doing four projects, three road projects and one railway projects. Out of which one road project, we had right from the beginning we have maintained the position because the order itself was given after 19 months of the submission of date. Therefore, without rate revision, we will not commence the work.

So, now the government is in the process of accepting it. And therefore, most likely the order will be formally agreed to be foreclosed for that. That is a small job around INR600 crores. And the other two jobs one job there are two road jobs. Of these two road jobs put together, will be roughly around INR600 crores, INR700 crores balance work and that is something which we will just about start.

We are waiting for some payments to come from government of Bangladesh and government of India. It's all government of India funded jobs. The other one a railway project is a joint venture between Afcons and KPTL and there 50-50 is the age and there nearly about 60% is completed, I think. Hitesh, correct me. And the balance part of it is under execution. They are also giving land in bits and pieces. Therefore, it's going slow. And in terms of payment as it is an Indian funded job, we don't foresee any payment related risk.

Ashish Shah: And sir what's the outstanding value of this order, the railway one for our share?

Paramasivan Srinivasan: Railway and road put together, Ramesh or Hitesh, can you give the exact number? I don't have the number with me.

Ramesh Jha: So railway job for our portion of balance will be anywhere between around INR300 crores or so.

Ashish Shah: Okay.

Ramesh Jha: And also to add in those contracts, since in between the work got stopped because of this unrest, contractually we are in a very strong position to get any compensation which needs to be raised.

Ashish Jha: And sir in terms of outstanding receivable, is there anything sizable which is pending?

Ramesh Jha: Not sizable. The receivables are very many minuscule.

Ashish Shah: All right. Thank you.

Moderator: Thank you. The next question is from the line of Aditya from Investec India. Please go ahead.

Aditya: Hi, good afternoon, sir. So in the order and flows that we've had this year and in the last couple of years also, we've hardly got any hydrocarbons order. Even in the pipeline that we are speaking about, we're not looking at any oil and gas orders. So if you could just spell out what is really the strategy over there? Is that a focus area for us or we are likely to be staying away from that segment?

Paramasivan Srinivasan: On hydrocarbon sector, Hitesh you would like to respond or shall I respond. On hydrocarbon sector we have kept this thing. We have been making presentations to the government and also to ONGC. We have requested for certain change in contracting methodology and also change in contract administration and while we learned that it is in principle accepted, it is not put into action. So we have taken a position with respect to ONGC that till such time these corrections are made, we will not be submitting the bids.

That is one of the reasons you find that some of the recent bids of ONGC offshore projects are all going on a single bid basis and with respect to onshore, we will selectively participate as we find in general, whomever had worked in oil and gas sector in India, most of them have lost money. Therefore, we want to be very cautious in terms of our movement. Therefore, we are not looking at any big jobs in oil and gas.

We are looking at smaller jobs in the onshore oil and gas. And offshore, we will get into once the contracting methodology and contract administration pattern undergoes change.

Subramanian K: In other words when the environment of oil and gas undergoes a change, we are there because we already have done a couple of very high-tech projects. We are qualified to do so. But we want the environment to be in proper shape before we participate.

Aditya: Perfect. That's very clear. So my second question is Middle East an area wherein we want to be penetrating over a period of time because as of now, our international presence is mainly in Africa?

Subramanian K: Saudi Arabia would be a focus point, but I am sure I will answer that. Middle East, the main focus would be on Saudi Arabia which is undergoing a good growth momentum at this point in time, but other areas would be very, very selective coating and very specifically select projects only we will look at.

Paramasivan Srinivasan: Middle East, in our experience what we have found, Middle East is not giving an opportunity for a profitable growth. Number one, Middle East projects are by and large cash flow negative because there is a 10% cash retention. And the cash retention is paid after all the clearances are obtained, which one has to take 19 different agencies' approval. So for that, it takes 18 months to 24 months for getting those NOCs towards getting the final payment retention and all out.

Second, once there is a 10% advance, there's a 10% retention. And the payment time cycle is 28 days for the contractors for the PMC to certify and another 56 days for the payment. Effectively, it takes 4 months with holidays in between. Therefore, there is a cash flow negative all through the project and taking all that, we have taken a call that we will be very selective.

We will look at some select big projects where we will have some local partner who will manage the local environment and we will do only execution. Those are the kind of approaches we are following. This is other than Saudi. Saudi's selected markets we will be definitely looking at and some select big projects we will be looking at Middle East. That's what we are looking at.

Subramanian K: Middle East, we may add another point, there is no proper dispute resolution mechanisms present. So overall, it's not very high on the priority list, but however if some projects, we may look at it depending on its importance and criticality and the customer's willingness to modify the terms.

Aditya: Understood. So even Saudi you are saying is not very high on priority list, you will be fairly selective, even while approaching Saudi?

Subramanian K: Saudi we are very seriously looking at because they are more open to the contractor's points.

Paramasivan Srinivasan: And there also we will look at select clients. We have identified our select clients who are known to perform a contract on time. So such kind of plans will be only we will be looking at.

Aditya: Understood. And even for something like this, would we need a joint venture with a local partner and would it be project specific alliances or are we looking at a more kind of a permanent solution to this?

Paramasivan Srinivasan: We will generally look at project specific joint ventures. In Saudi, we could look at a larger joint venture also. Typically, otherwise we look at project specific joint ventures where we need.

Ramesh Jha: Sir just to add here in Saudi we have already incorporated an organization wherein we have taken a local partner to manage the local environment. So that company incorporation is already in place. And Afcons will be 90% ownership in that entity and 10% is the local partner.

Aditya: Perfect. That's very helpful. Thank you so much.

Paramasivan Srinivasan: Thanks, Aditya.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Thank you for the opportunity. Sir, post the IPO proceeds, what are our current debt levels, debt numbers both the long term and the short term debt?

Ramesh Jha: You see as far as debt is concerned, I think at the moment, if I can give you some color we will be on a net debt basis will be sub INR2,000 crores. And maybe bifurcation will be 50% will be long term debt and 50% will be short term debt in that.

Saket Kapoor: And sir what should we exit the years in terms of this debt number going in which direction?

Ramesh Jha: So as we have talked about that in the second half, we'll be looking at a substantial improvement in our cash flow. So we'll look at a very significant improvement from the existing position.

Saket Kapoor: Okay. Sir can you give some color on the current maturities which we have that we will be repaying by the end of this fiscal?

Ramesh Jha: So see the term loans we have talked about in the range of say INR1,000 crores odd, those are all long term loans repayable over a period of anywhere between those are all 5years, 8 years kind of a loan. So the repayments will not be that significant in this financial year. I don't have the exact numbers at the moment. And the working capital loan remaining INR1,000 crores are all continuing facility which we avail and pay off as and when the surpluses arises. And those limits are always available. So we have got a very sizable bank limit which is available to us.

Saket Kapoor: Sir when we look at our employee cost as a percentage of sales and also the finance cost, taking into account the vagaries of monsoon for this quarter, as a year as a whole what should be the percentage number which we should pencilling in as employee cost, and as finance cost as a percentage of sales?

Ramesh Jha: So the employee cost anywhere it will be on the overall year, it will be somewhere around 10.5% or so and finance cost, it will be somewhere around 3.5% to 3.6%.

Saket Kapoor: Okay and for the long term going ahead in order to bring the efficiency and improve the margins are these two variables monitorable and do we look at a lower number going ahead or do we find this as the historical and the industry averages only that we need to maintain for the continuity of business?

Ramesh Jha: So as far as the employee cost is concerned, the way management is looking at we are looking at per employee turnover should go up. And that's where we are working on. So as things stands, we are expecting that the in terms of percentage, it should come down. That is one that's a medium term guidance and as far as finance cost is concerned, I think in terms of percentage it should further improve.

Subramanian K: Our argument is rather than directly attacking these cost components which come out of a project duration, improved project performance by way of earlier completion by our technology, knowledge management and innovation practices would remain the driver. And naturally all the components of cost would be impacted negatively means with a reduction by this strategy.

Saket Kapoor: Okay, sir small point on the water segment. I missed your commentary on the same. Can you elaborate? What was the business environment and what portion of our order booking is towards the water segment and the scope of work for us?

Ramesh Jha: So as far as water segment is concerned, what we saw that ever since the elections were announced sometime in March, April, after that there was a complete lull in terms of activity with those agencies and we had seen the bills were not getting certified and there were no payment allocation from the ministry to respective state agencies which were executing the project.

So payments were not forthcoming. And after the election result, there was a change in ministry and a new regime at the helm of the affairs. They were trying to understand the whole set of things and it took a lot of time to get bills certified and paid. So that's the difficulty we were facing. And as far as…

Management: And currently the pending drinking water supply projects will be around INR1,100 crores to INR1,200 crores in the pending order book.

Saket Kapoor: So we are participating in the Jal Jeevan scheme and the AMRUT 2 scheme with respect to our order book and execution?

Subramanian K: Yes Jal Jeevan we are participating, but our participation is limited as explained by Hitesh.

Saket Kapoor: Sir, I missed your last comment.

Subramanian K: Yes, we are participating, but we are being cautiously we are approaching this segment. It was a new segment for us.

Management: So it is not a high technology segment, but it has a special value. So we are participating and helping in the process, but the exposure is limited.

Saket Kapoor: Okay, sir. And last point on this, we are also looking at AMRUT 2 scheme being rejuvenated with interlinking of rivers being a major thrust from the government side going ahead. So what kind of opportunity do Afcon as an engineering concern find in this scheme?

Paramasivan Srinivasan: We look at the opportunities very closely. And interlinking rivers, we are well positioned both in terms of our presence in marine segment and also in water and irrigation segment. And therefore, we look forward to a significant job coming through the interlinking of rivers going forward.

Saket Kapoor: Okay, sir. Can you give the size of opportunity which we are looking forward going ahead?

Paramasivan Srinivasan: Today, we are not in a position to convey what is the size of the opportunity for the simple reason. As of now, only Ken-Betwa is taking some shape. Therefore, till such time the interlinking of rivers take shape, it will be only a wild guess whatever number we give. Therefore, I don't want to give any number at this point, but this is an opportunity which we will be seriously looking at.

Saket Kapoor: And lastly, sir, on the IPO proceeds, we received INR1,250 crores from the IPO which towards the company and fresh issuance was to the tune of INR4000 crores. How was the proceeds bifurcated?

Ramesh Jha: Yes. So, we have received - the company has received INR1,250 crores and after adjusting for the issue expenses, the proceeds have been used by company. Of this, we received some after the expenses, we received some INR1,223 crores. We have used a large portion of it towards repayment of debt and towards working capital we have already utilized. The capex plan is earmarked for the capital payment what we are having.

Those are going to be utilized in due course of time because some payments are happening in November, some payment is happening in December and some in January. And we are left with a small portion of general corporate purpose which is earmarked for some of the forthcoming general corporate purpose expenditure by, say, this month end or maybe first week of December.

As far as the company's proceeds are concerned, the OFS portion has gone to the selling shareholder which is Goswami Infratech and they have used that towards repayment of the parent level debt.

Moderator: Thank you. The next question is from the line of Vijay from Avendus Spark. Please go ahead.

Bharani: My name is Bharani from Avendus. So, I have a question on margins. Now, can you give a split of margins between different segments like how much it is in hydro and underground, how much it is in elevated metro and how much is it in bridges?

Ramesh Jha: So, as far as margins are concerned we are not giving segment-wise breakup of the margins. So, we will have to look at on a composite basis, but broadly I can, I can give you a guidance that generally our margins are better in underground metro in hydro and underground, in marine and also in overseas projects, we generate a better margin, but notwithstanding that even in other sectors, since we have talked about our risk management framework and our - the company's thrust or focus on project selection metrics. So we try to identify projects where we generate a better margin.

Bharani: Okay, the reason why I am asking is the trend generally we are noticing across your sphere is that margin compression is happening. It is heartening to see Afcons doing the 10% plus without other income on core EBITDA margins. However, generally when economies mature, clients get more aware of how to eke out extra money out of the EPC contractors. Generally, the contractors face margin compression. Do you see that risk playing out for generally us too, because we are one of the largest contractors in the country?

Paramasivan Srinivasan: This is where our risk management framework takes care of that. We are very selective in our jobs. And therefore, you will find in our case over a period of time, if you look at it our financials, we have consistently been improving on margins. So, while the margin compression could happen in general and primarily because of our project selection framework, we have been in a position to improve our margins on a consistent basis.

Therefore, we do not expect any kind of margin compression pressures at this point of time and whichever due to our own practices, we will be in a position to manage it much better.

Bharani: Okay, loud and clear. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Ronak Agarwal, an Individual Investor. Please go ahead.

Ronak Agarwal: Yes. Sir I just wanted to understand that in your finance cost there is a component of around INR150 crores of bank guarantee commission and other charges. I just wanted to understand like what is the nature of such a commission and is that something which will be – we will be occurring year-on-year or quarter-on-quarter? And the second question, sir, is on the net profit margin. So, you have given an EBITDA guidance. So, can you also just give a guidance that how your net profit margins will be on a long term basis?

Ramesh Jha: So, answering to your first question of bank guarantee commission, bank guarantee commission for the half year ended, we were around INR88 crores we have incurred. And maybe you might be referring the last year's number of when we are referring INR150 crores odd. So, see, this bank guarantee commission is very much integral to construction business wherein a company is required to provide performance guarantee and advanced payment guarantee and retention guarantee to their customers.

And that is a very much, a very obvious requirement for the contractor to provide. So, that expenditure will be a continuing requirement and that will be a continuing expenditure for the company. As far as the guidance on the net profit margin is concerned, so at the moment what we are talking about is EBITDA margin only and basis that since we have talked about that, we are looking at reduction in our finance cost and all that. So, that should automatically translate into the net profit margin.

Ronak Agarwal: Got it. Sir basically sir that 3.5% to 4% which we spoke about earlier for the finance charges, that would include this bank guarantee commission, etc. So, that would be the – let us say a fair estimate of the bank finance charges for the company?

Ramesh Jha: Yes.

Ronak Agarwal: Got it. Thank you, sir.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Securities Limited. Please go ahead.

Anupam Gupta: Yes. Good afternoon, sir. The first question is, you had mentioned in your remarks that your working capital constraints had limited your order inflow sort of which you saw over the last year or so. Post the IPO, what sort of resolution have you seen and what incremental improvements do you see in the constraints which were there in the last 1 year?

Ramesh Jha: No. So, what constraints we were talking about in terms of bank limit which was there, but those issues were already solved prior to the IPO because in FY24 itself we had got our bank limit enhanced from the banks. So, we had a sizeable enhancement in our bank limit and that bank limit will take care of companies maybe couple of years order booking requirement.

And generally banks as per the prudential norm, they sanction nine times of the net worth, the total bank limit. And today, if you look at from the network perspective before IPO, we were somewhere around 6 or so. And post this IPO, we will be somewhere around say 4.25 kind of range. So, we will have enough headroom if there is a requirement for further bank limit to go back to bank for asking for the limits. So, I hope this answers your question.

Anupam Gupta: So, the things I want to quantify this, what are your fund-based and non-fund-based limits at this point of time and how much is utilized?

Ramesh Jha: So, we have around INR20,700 crores of total bank limit. Of that INR1,800 crores is fund-based limit and INR18,900 is non-fund-based limit. In terms of utilization towards the fund-based limit maybe we will be somewhere around, say, 50%, 55% kind of utilization we will be having. And as far as non-fund-based is concerned we have got a sizable limit which is free. We will be utilizing somewhere around say INR14,500 crores to INR15,000 crores kind of a bank limit.

Anupam Gupta: I understand. Okay. And the second question is you mentioned that the mix of the order book is more towards domestic at this point of time. And generally, what we understand is and you also said that overseas has higher margins and I would assume overseas would have lower operating cycle as well. So, given that the mix is more domestic at this point of time, do you expect some pressure of margins because of that and similarly, on working capital or that is not the right way to look at it?

Paramasivan Srinivasan: See, we have - while in general whatever you have stated is right. Currently, we have by and large focused on selecting the jobs in such a manner, in the domestic market also which are reasonably good margins. And also in terms of operating cycle, we don't expect much of an issue on account of this.

Therefore, we don't expect on account of some change in the mix of between domestic and overseas jobs at this point which is short term I would call it. There will be change in the margin pattern. We will be in a position to sustain our margins, as informed by our CFO, North of 11% at EBITDA level.

Anupam Gupta: Sure. Okay. And just one last question, if you can help. Generally, how much of your work do you subcontract annually or is it largely done yourself captively?

Paramasivan Srinivasan: We look to have about 30% of our work subcontracted. Today, we are somewhere between 22% to 25% of our work getting subcontracted. We intend to move to 30% subcontracting. We don't give back-to-back subcontract totally. Any activity-specific subcontracting, we give it which typically, less value-added jobs is the kind of work where voluminous work, where subcontractor also will be very comfortable. Those are the kind of work we try to give on subcontract basis.

Anupam Gupta: Sure. Okay. That's all from my side, sir. Thank you.

Moderator: Thank you. Thank you. Ladies and gentlemen, we will take this as the last question. I now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Yes. I would like to thank the management for giving us an opportunity to host the call and answering all the queries very patiently. Wishing you all the very best and thank you to all the participants for the participation. Thank you very much, sir. Any closing remarks from your end?

Subramanian K: Thanks a lot for this excellent investor conference, earnings conference rather. It has been very enjoyable and nice for us as we are participating in it for the first time. We would like to engage more and more with all of you. Thank you for this opportunity.

Paramasivan Srinivasan: We also look forward all of you to stay with us in the longer term and you will find the value grow.

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

Paramasivan Srinivasan: Thank you.