



“Jash Engineering Limited Q1 FY21 Earnings
Conference Call”

August 31, 2020

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LIMITED**



Diwakar Pingle:

Good morning to all of you and welcome to the Q1 21 earnings call of Jash Engineering Limited. We have with us Pratik Patel, the Managing Director and Mr Dharmendra Jain, the Chief Financial Officer from Jash Engineering. Mr Patel will give a brief overview of the quarter gone past and explain some of the numbers that you see and then talk about the outlook of the company going forward, after which we would throw open the floor to Q&A. The Safe Harbour clause that you all know applies to this particular meeting. This meeting is being recorded, transcript of this call will be available 72 hours after this presentation is done and it will be uploaded onto the website of the company. With that said I would now like to hand over the call to Mr Pratik Patel. Over to you sir

Pratik Patel:

Good morning everyone. First, I will start with, I think most of you must have been with us before but if you are not then I would just like to brief little bit on the company. The company comprises of three main businesses company wise - one is Jash Engineering, which is the mother company, another is Rodney Hunt which is in America and third is Shivpad. The fourth Mahr Maschinenbau and E&M Hong Kong, the other two are mostly marketing type of organisations or development type of organisations and they don't produce anything significant, so we will not talk much about those two companies. Coming to Jash Engineering Limited, we have four plants in and around Indore and due to lockdown, which was suddenly announced, in fact for us it was very sudden because in Indore it was announced few days before Modi ji announced it. So when it was announced we were not geared to have it done in a very planned manner, it was haphazard. And as a result of that, we have lot of issues about billing and about things and material ready, material not being able to dispatch and so on. However once the lockdown was lifted, it was mid of May and we lost close to 6 to 7 weeks up to middle of May. So only things which have gone on were marketing activities, but production activities were at a stop. So if you see in the first quarter in Jash Engineering Limited standalone, we have done around 24 crores worth of billing in sales which is quite low in comparison to last year of around 42.55 crores. However despite the drop in the sales, the resultant loss is very less, the resultant loss of 81 lacs is there but it is very less when you see that we paid all of our workers, contractual people as well as staff complete salary for the closure period. During the last call I had informed that this year we can expect to have better margins based on the orders which we already have. We had done the reestimation of all the jobs in April and we had observed that our margins this year would be few percentage points better than last year. So that was in Jash Engineering. Rodney Hunt also faced similar lockdown, in fact I need to point out something about lockdown. After the lockdown lifted for next 2-3 weeks, we still had trouble in finishing the material and sending it out because critical parts going into finished products were missing. Bombay was still in shutdown mode, so businesses in Bombay, the traders were not supplying essential parts required for us. Even Chennai had extended shutdown, so Chennai was not able to send the parts we wanted from our suppliers. Even today I would say we are facing these challenges because some of the companies are in areas where such lockdown has been quite prolonged, and the situation is still not stable there. So this was another reason why we were not able to do enough billing in the first quarter. Coming to Rodney Hunt America, Rodney Hunt America also face the same lockdown, but they had a worse situation because more than 70% of the supply is from India and India is shut down. Even if Rodney Hunt is working, they are not able to do anything because we do not bill. So Rodney Hunt did around 1.5 million as against 2.5 million last year. And the

drop of 1 million in Rodney Hunt sales is mostly because India did not contribute anything major to the sales of Rodney Hunt in the first quarter. We started Indian operations in middle of May, third week of May and by the time we dispatched material it would not meet the site. It takes 6 weeks from India to reach site in America and this material will not reach America in time for billing in first quarter. So that was one of the reason of loss, of drop in sales of 1 million dollars. Mostly it is coming from Jash compared to last year what Jash did for America. this year we did .9 million less and the drop in sales is around 1 million so it's nearly this on account of India. The third contributing company is Shivpad, in Shivpad in spite of prolonged shutdown in Chennai we have not done that bad in Shivpad we did within the first quarter close to 2.36 crores versus last year 2. something crores, so nearly the turnover was same between last quarter and this quarter in Shivpad. And the reason more was because these were all goods which were produced mostly in March. Very little production happened in Chennai in the month of May and June because even in June Chennai had some lockdown. So Shivpad the drop in sales is not very bad and as a result of that Shivpad has the same type of margins as last year, not big difference in margins also for Shivpad. So this is the situation which we have faced in the first quarter as a result of which our consolidated sales turnover has come down from around 57 crores to around 38 crores. Around 20 crore drop being consolidated sales from last year.

I would like to add one thing here, that surprisingly in spite of opening up of the country what we are seeing is relatively slow approvals taking place in the month of July and August. In fact we had more approvals from clients in the month of May and June but that's much lesser in July and August and that is very, because we thought that with the opening up of the country, the pace of approvals will increase. What we are finding out is when the government officials and consultants were working from home, they were able to clear things faster. But once the offices have started and with government, most of the places have started with 50% people. There have been some issues about some things but now that are becoming better and that gives us some worry and as a result of that only we have reduced our forecast from 350 odd crores to 320 odd crores. We hope that this would improve after September October and when it improves, when we have the next call after the end of second quarter, we would be in a position to revise this figure hopefully upwards

Diwakar Pingle: Should we start the questions now sir?

Pratik Patel: Yes

Diwakar Pingle: Thank you again, thank you for the initial remark and statements and as I said I can project is sheet again when you want to ask questions, but we'll start the Q&A session right now. Anyone who wishes to ask a question can put on the chat board and put it on everyone mode, please don't write to me privately so that people know that we're coming according to the queue. I would appreciate if you put it on the chat in everyone mode. The first question comes from the line of Zaki Naseer. Zaki please go ahead.

Zaki Nasser: Namaskar Pratik bhai, namaskar Dharmendra ji. Pratik bhai I know it's been a difficult quarter with lot of closures and work stoppages, and you have been good enough to explain how you

intend to go ahead with the full year. So there are 2 small questions, one is I mean I know you have several plants and work stoppages in one also affect the other. How is the situation now? My next question would be there is a slight hike in steel prices over the past month so I would hope that most of your contracts would have this escalation clause and I would also want to know as on 1st August you had given an order book position around 388 crores consolidated, how is this panning out sir? Thank you.

Pratik Patel:

So first question was what is the status of the four plants. So now they are all working at normal. Within our company we have no problems, but yes, we are facing problem in suppliers. Most of the raw materials components are coming from big cities like Mumbai and Chennai for us. And there they have definitely some problem we are not able to get all the deliveries as per the commitments so production wise, we are still working 20 hours out of 24 hours. 4 hours drop is there because we have night time curfew and in between shifts we need one hour for clean up because of the mandatory requirements of spraying and all these things. We need to strike off breakages between shifts so earlier last year we were working three shifts, this year we are working 20 hours two shifts mostly 20 hours total. So no big in issue in our plants. As far as corona situation is there, I was personally in fact I had 12 days of quarantine and then I am ok now. In Indore we still have rate of 200-250 people per day but in our company except me, no one else, one worker was also infected but he found out only when he went for hernia operation. So he was also asymptomatic like me I was asymptomatic. I just went into isolation for safety. I had a CP count of 31.5 so it is not infection which I can pass on. So corona has not affected so much day to day operations after we started, so that was plant wise. Steel material wise which you said Zaki we do not get price escalation. If there is an escalation in price, we have to bear it but you have to remember that this prices went down drastically and then has come up. So it is not that it was up, and it has gone further up. 3-4 months prices have gone down as the economy is opening the prices will come back to normal and we have already accounted for that in our costings because the jobs which we had taken were prior to corona. We have not considered low steel prices. But your point was regarding order booking, so our order booking is still strong. We had in August one of the largest spike in booking of order because of one big job from Hong Kong and jobs from Suez etc. So order booking wise we still are doing reasonably okay. Every month will not be like August but yes, we hope that our order booking will not be down. If we see our pipelines, then Singapore alone in next three months or four months we would be negotiating orders worth close to 120 crores. And I am not hopeful of 120 crore fully getting by my company but yes, we have a good chance of getting major portion of that. so we do not see big issue in order booking. the main challenge would be executing of those jobs because projects are getting slow down because of Corona. so that is a bigger challenge than getting orders.

Zaki Nasser:

and Pratik bhai, one last thing is how do you see, approximately one third of your orders are from India and balance are from outside India how do you see this India versus South East Asia and US order book and how do you see the governments in different places reacting to this Sir because you have a first-hand feel so..

Pratik Patel:

So let's come to America first. America it is business as usual, America there has been no change. In fact we have seen some order cancellation because we have not been able to deliver. So around

\$200-300 thousand worth of orders got cancelled because there was no way we could have delivered after 7-8 weeks. So not a big change in Europe also. Southeast Asia, Singapore is still under shutdown, no project sites are allowed to operate. So Singapore has slowed down but most of the orders which we have for Singapore are not really meant for this year they are all meant for next 2 years. So even these projects which I am talking of in Singapore they are not meant for this year. This is all 2- or 3-years deadline is there for execution, so overall I would say not too much affected. In India also it is starting up, but one thing has become a big problem in India is that the government does not relax the banking fund availability. I think it's ending in September, but if they do not extend it some companies will find it difficult to lift material. In fact even today I have got more than 22 crore worth of finished material lying in my plant which we do not want to dispatch. I have got around 5-6 crore worth of material which I am not dispatching because L&T has not paid our money. So this would be the challenge rather than something to do with Corona. Financial issues are the big challenge in India elsewhere I don't think this is a problem.

Zaki Nasser: Ji Pratik bhai.

Diwakar Pingle: Zaki can you just come back? We'll have the next question from the line of Uzair. Uzair go ahead and as mentioned I think we can go with this Q&A as long as possible that's not a problem. But just to ensure that everyone gets a chance we'll do two questions and then come back again with you so I think the management is available, not a problem you can ask as many questions as you want. Uzair please go ahead.

Uzair Fahmi: Thank you Diwakar. Good morning to Diwakar and Dharmendra, good morning to the Management team. I have a couple of questions. The first question from my side is, I probably missed the first few minutes of the presentation so probably you already have answered it but my first question to you is that in the July update I was seeing in one of the slides that you expect a consolidated revenue of 42 crores and now I see that it was around 33 crores so roughly around 25% less than what was expected in July. So I just want to understand what has changed between the July update of the management projection for Q1 vs what actually panned out. So this is my question 1.

Pratik Patel: Anything else or only one question?

Uzair Fahmi: I have another question but maybe after your answer, maybe then I ask the second question.

Pratik Patel: So what was the consolidated figure for this year. This year consolidated figure was 33 vs we were expecting around 40. See one of the biggest reason was that as I said we are not delivering material to clients who have not been able to open LC or who have not been able to pay the old supplies. So we had close to 4 crore worth of material for Va Tech Wabag which was ready, inspected but we did not supply. We had few crores of materials for Larsen and Toubro which was ready and inspected, we did not supply. At the same time we had some materials which we could not supply because some critical components which are very small components value wise may be 1% of the complete product, but this did not come to us in spite of suppliers promising

it is coming. And when we are looking at consolidated, we also have to consider that we dispatch from Jash the material for USA, but this has not reached USA client's sites by end of June, by end of quarter. And as a result it has not reflected in the sales. Major is on account of problems with clients, we have seven and half crores worth of outstanding from Larsen and Toubro - they are not paying, how can I send. You know Larsen and Toubro does not pay advance, Larsen and Toubro does not pay before delivery, so 18% more of taxes you have to pay to dispatch the material and that is why until some part payment or old payment comes in, we hold dispatch just to create some pressure. And in this board meeting we had agreed discussion about this that whether we should run after turnover or we should ensure that our payments are made in time. Last year we had given material to L&T and we still regret it. So this year we are going for a conservative option because it is the start of the year, so I don't want to take risk. As the year comes towards end, maybe we may dispatch some material in spite of not getting the payment. But this year we would play conservative based on last year experience. So we also have the material for BG Energy which is ready, but we are not dispatching because we did not get the payment, assured payment by the client. So they have given as a counter guarantee but we did not get the payment and so we stopped the subsequent dispatches also for them.

Uzair Fahmi:

Right, second question is kind of related to this. You know I was looking at the financial statements and one of the things that really stands out is how the working capital changes are usually negative for this. It's primarily probably on account of the account receivables still pending. Now in the light of this coronavirus which has already tightened the budgets of the municipalities and governments, do you think or do you forecast that this year your profits are probably not going to translate that much into cash flow from operations, is that a valid risk and how does the management plan to address this? If I can have some comment on that, it would be great.

Pratik Patel:

We are a manufacturing company with fixed overheads. One of the biggest expenses we would be having is that of salary, finance cost and electricity. If we do not achieve a certain level of turnover, then the overheads starts eating away your profits. So for us it is critical that we achieve certain level of turnover. As I had already mentioned last time also at the start of the year, what is our margin position on the orders which we had in hand. So start of April we had worked out all the orders which we had in hand between 32 to 40 crores, we had done the re-estimation and in the re-estimation we had observed that our margins were coming close to 20% as against 17% last year at the same point of time. So margin improvement is already there. Now margin improvement is there, and turnover projections are met, then profitability will be up, cash flow will be different than the profitability. Profitability of the company would be up, cash flow can still be strained on account of payment terms with the client and how much we have given flexibility in payment terms. But as I have said that in the board meetings, we have taken a call on whether we will not be so relaxed with all the clients. We'll evaluate what happened with these clients in past so I hope that cash flow would not be constrained that much. But yes cash flow of our clients is constrained because municipal corporations did not pay for first quarter and even for four months but slowly slowly, we have seen that funding has started from Municipal corporations not all, wherever there is multinational financing like from World bank or from JBIC or etc. that things have not gone bad. So Bangalore is paying in time, Bombay has

been paying in time so big cities where they have got their funding from World bank or other Financial Institutions, there cash flow of our clients has not got affected and if they fund project to project then also we are not affected but if they use this funds elsewhere then we will get affected.

Dharmendra Jain: We have also taken some measures for that because earlier we are doing expansion with our fund but now we are going for the term loan of the expansion and because of that US term loan has been finishing in October itself so our outflow in the term loan repayment so it will also increase our cash flow situation. So it's not that working capital in that scenario is a major issue, but third thing is that our ratio of other bookings is also improving for the export so our realisation in export is very good. Not holding the material after finished and payment is also certain. So these 2-3 issues will help us maintaining the working capital funds in this situations.

Uzair Fahmi: Alright, Diwakar can I ask one more question?

Diwakar Pingle: Sure sure, go ahead just 1.

Uzair Fahmi: Just a quick question to the management you have a strong order book of around 380 crores, I just want to understand how much time does it take to realise this revenue and complete all these projects in terms of years?

Pratik Patel: So it depends upon order to order out of 380 crores as I said around 50-60 crores worth of orders are not meant for this year, they are meant for next year that's for Singapore so not all orders are for execution in this year point number one. Point number two is there are some orders which are small, when I say small few lacs to 1 crore, 1.5 crore. These are all required to be executed within three to four months at a normal pace. Orders up to 5 6 7 crores generally we are getting 7 to 8 months to execute so out of 380 crores what we are looking for is, with the team whatever we have already done, we are looking for another 250-260 odd crores to be executed this year. 380 crores also includes Jash USA, so in Jash USA when I say 260-280 crores, I have to add their contribution also, that is how we arrived at 320.

Uzair Fahmi: Thank you.

Diwakar Pingle: Thanks Uzair, the next question from Mr Sanjay Shah's line go ahead Sir.

Sanjay Shah: Good afternoon gentleman. Sir can you highlight upon our Pithampur plant, what is the stage of expansion what we have done and what are we going ahead?

Pratik Patel: So Sanjay bhai what I understood what is the status of Pithampur plant, was your first question. Pithampur plant it started production in August unit 4 and now it is doing full-fledged. The whole production has streamlined, and it is going all full-fledged now. So that was unit 4. In unit 3 we have again commenced expansion and this expansion should have been over by October but now it is getting extended because of Corona and this would now be over most probably by February March. The shape would be ready in December, the installation of machinery may be over in January, all this machinery close to 20 container load has come from America from Rodney

Hunt and this machinery has just reached our plant 2 weeks back. So we aim to install once the shape is ready in October November, we will start installation of this machinery also and upgrade this machinery to latest electrical specifications of India. We find some problem in upgrading the machinery because these vendors are mostly based in Ahmedabad and in Pune and in Bombay and they are not willing to travel so we have some issues there, but we hope that by October they would be willing to travel. October November, I do not know that for sure that's why I said it may go up to March.

Sanjay Shah:

So what will that capacity be after that expansion?

Pratik Patel:

See Sanjay bhai what is our main plant? If Unit 3 we make cast iron products for Exports, valves and cast-iron gates for Exports. Rodney Hunt does significant amount of cast iron products for America and presently these are all maybe in unit 1, so casting is also done in unit 1, machining and assembly is also done in unit 1. Our aim is that by next year all of these things should be done in unit 3. So once in unit 3 we start doing this, unit 3 we will do two phases of expansion we are now doing First phase wherein we will be putting machinery facility for machining the castings coming from unit 1. In the second phase we will be putting assembly, testing and painting facilities which will be done in next year up to October November. But after addition of these facilities we should be able to serve additional 40 to 50 crore worth of turnover every year in unit 3 cast iron. And at the same time it would spare up my facility in unit 1 so I can be more aggressive in domestic if required. I say if required because if domestic market does not improve then I will not be aggressive, but if domestic market improves then we will not let go of our market share for export business.

Dharmendra Jain:

It will reduce our transit time also so that we can be faster in the delivery.

Sanjay Shah:

Sir can you highlight upon the condition at our Rodney Hunt, what are the sitting right now? Are we above the break-even level and what future do you see at Rodney Hunt Sir?

Pratik Patel:

Diwakar can you put this quarter wise projection portion on the screen? So if you see Quarter 2, Quarter 2 56 + 15 71 + 6 around 77. The marketing department has given to me figures of 86.5 which I have reduced to 77 because we feel that some clients will not be able to pay so we are not going to deliver the material by end of September. So as against last year what my turnover was. Say just talk of Jash Engineering, last year it was 88.5 crores for Jash Engineering, if you are looking at this year, we have said 80 crores the quarter 1, quarter 2. So when you consider that 43 crores becomes 88 crores last year, now 24 crores becomes 80 crores this year. So there is a significant increase in turnover in quarter 2 in Jash Engineering standalone. When that happens the profitability will be back to normal, standalone Jash. Shivpad is not a problem, Shivpad is already, we have same margins as last year so I will not focus on Shivpad. Shivpad is doing good, it will do good. Let's go on Rodney Hunt. Now quarter 2 Rodney Hunt we have seen only 15 crore. Why? Major amount of, 70% of Rodney Hunt production we are doing in India. Now even though India started in May, we have not been able to start everything so that the billing in September can take place for America. Remember to get billing in America, I need at least 6 weeks in transit so for Rodney Hunt billing, my period for September has ended

already. If I had dispatched material by 15th of August, there is a possibility I could have done the billing in end of September for Rodney Hunt. So this 15 crore is based on whatever we have dispatched till now. So Rodney Hunt addition in sales will happen more in the third and fourth quarter because now we are producing 20 hours in a day. So as things improve at Jash, things will improve at Rodney Hunt at a slag of 6 weeks. Breakeven of Rodney Hunt, if you see last year it did a loss of around four hundred thousand it may be plus minus but around \$475,000. If we do anything more than 14 million at the current pricing, we should break even. We already have orders in hand of 16.3 million, we have done turnover of 1.5 million, so 16.3 + 1.5 million amounts close to 17.8 million. So we're quite hopeful that we will cross 16 million this year. The challenge again at Rodney Hunt would be to get within next two months as much as manufacturing approvals as possible. All submissions are mostly done, we are after America to get approvals done so that by February 15th, we can do everything required billing. So 16 million dollar, if you can share the screen once again, 110 crore is what we have projected, so around 110 crore that we have considered when you put into Millions it would be around 15 plus something.

Sanjay Shah: Right sir, I will come back in queue for few more questions. Diwakar can you put me on the queue?

Diwakar Pingle: Thanks Sanjay bhai, I think let's just stick to two questions please, we have the next question from the line of Sandeep Daga, please go ahead.

Sandeep Daga: Good morning, I just have one question Diwakar, not even two. See post covid, there is a huge, both sentiment and the need for global companies to de-risk their sourcing away from China. Do you see yourself being beneficiary of such a theme and different markets where you operate? And I am not talking about this year Pratik Patel, let's talk of the next few years, do you see some kind of shift happening or that sentimental shift or the need to de-risk leading to you benefiting out of it whether it is in the US or elsewhere in the world?

Pratik Patel: In US definitely. US the sentiments let me say the sentiments for even India has little bit spoilt, like Modi ji is looking for Atmanirbhar, Trump is pushing for Make in America. So what we are saying in US also is that we are being considered as a major producer in India and not in America. Though we have a plant in America but yes for China, there has been a huge negative sentiment in US. So even our competitors who are purchasing from China will face problem. In fact, you know during every crisis, doesn't matter the crisis is in America, during every crisis some people benefit, some people have a disadvantage. Now I see that fortunate for us, why, because I already have a production base in India also and in America also. Now for me I can overcome that by being around that yes, I have a plant in America, I will produce something in America, I will produce something in India. I can do that so I can play around with that. But many of my competitors would not be able to do that. Chinese company, I would say supplying in America is going to get obstructed in a big way if Trump continues. If Biden comes, then too there would be some problem in Chinese companies supplying to America. But most of the components you have to understand today in America is coming from China. Even our competitors are buying mostly from China and that may lead to problems if Trump is coming again. I don't know if

Biden would have the same type of approach, but overall America has to diversify because they are too dependent on China. Elsewhere in Europe also you can see negative sentiments for China but how much would it relate into business in the long term I cannot say because Europe is affected hard. Wherever we are there, I don't see much change as of today but in times to come, I am sure China would not be the sole supplier of components, of casting, of equipment etc. to these countries. Southeast Asia there has not been any big change. Middle East and Southeast Asia both I would say not very big changes. It may be there, but it would not come so soon. Southeast Asia is too dependent, it is too dependent it cannot immediately change. And Chinese company like in Singapore most of the projects which we are doing, they are in JV with China companies. So Singapore company is in JV with China company because these projects are so big, each of these projects is more than 400-500 million dollars and today Singapore for such big projects, you need cheap funding and that comes only from China. So these are all projects done in association with Chinese companies where China company is generally doing the funding and the civil work.

Sandeep Daga: Thank you.

Diwakar Pingle: Thank you Mr Daga. The next question comes in line of Ashish. Ashish please go ahead.

Ashish: Thank you, couple of questions from my side. One I think you mentioned that the margins should improve this year and going forward so is it due to a higher proportion export or is it typical operating leverage playing out or is it due to better concentration of a different product mix, that's the question number 1. Two, the other thing you mentioned about the fact that 20-22 crores of FGs are lying today with us, which we are not dispatching because customer have not paid advance or have not paid their past dues and you also mentioned last year you burnt hands with L&T in some deal. Can you throw some light why theoretically marquee customers like L&T etc. are also not paying and also how do you think this will resolve going forward? So these two questions.

Pratik Patel: So first question was pertaining to margins. Long-time back I think 2 years back, we had told the stock exchange and published also that we are focusing shift from India to out of India. Why we need to do that? If you see it is typical now in Maharashtra and Andhra, change in government in Maharashtra and Andhra resulted into complete different philosophy for doing the projects. So in Andhra he says now I do not want capital in Vijaywada and all projects worth thousands of crores are stuck. This can happen only in India. In Maharashtra, Uddhav says now I do not want a specific project just imagine a contractor is not coming there for a few days, he is coming there for the long term. L&T got jobs for coastal lining in Bombay and then it went into ports and it got stuck. This is so frequently happening in India that in India you cannot put all your eggs in one basket. So that is why our focus was to increase our exports which was around 20-25% to 65% in 4-5 years' time. Export has at least 2-3 advantages. One advantage is if your material is ready, it goes, it is not lying because of want of payment, they give you a LC. Two, export projects generally do not get into abeyance or get delayed unnecessarily for indefinite amount of time. Export projects if they get delayed It's two or three months, not for two years. So you have certainty in exports, you have earning certainty in exports. You know that okay 2

months 3 months delay done, but it will be done. In India, the delay would be like for what we are doing for L&T Passavant job - my equipment was supplied last year I am still not paid. Because in Delhi the priority of Kejriwal is different, so Indian political situation is such that you cannot have surety over anything. Now I am a manufacturing company with a fixed overhead. If I am not able to bill, my overhead will kill my company. So my margins are improving and going to improve because I am shifting from India where there is an indefinite wait after the material is ready, to an area where I am able to supply or put penalty on them. And overall margins are also better and fortunately every year we have been able to get some advantage out of the currency fluctuation as well. So as a result of all these three issues which I have said, margin is better because of increasing export commitment from the company. That is point number one.

See there is no ready solution but fortunately the good offices of Gadkari ji we are now again in MSME, so we are in MSME so we can issue notices so we have issued notice to L&T which they have not liked, we have issued notice to Tata projects, we have issued notice to BGR saying that we are MSME company, you cannot do this and if you do this you have to pay a hefty interest and it increases our leverage little bit. But until you really want to challenge their imports there will not be a big improvement from such companies like BHEL, L&T who just do not give a damn about... when they get the payment they make the payment, if they don't get the payment they don't make the payment. That is the situation.

Pratik Patel: What can I do? So you don't like it but that happens so that is why we have to now give notice under MSME and as a resultant of that L&T has made commitment to make some payment this week. But is it out of 7.5 crore how much will come, we still have no clarity. So I is not to do too many jobs which such clients, another is don't deliver. This 7.5 crore would never have been become 7.5 crore if I had not delivered 3-3.5 crore worth material under the pressure of achieving some sales. There is always the pressure of achieving the targets and sales, you go in problem. So you have to be very strict about not delivering material until some payment is not received. And if possible, get LC, so in case of Wabag we did not deliver material for refinery in spite of so much pressure, just by saying we want LC you open up the LC then only we will deliver.

Ashish: But L&T I remember in the last call also you mentioned that L&T typically doesn't give LC so I have you started taking LC from L&T also?

Pratik Patel: They will not give.

Dharmendra Jain: Even they will not pay advance.

Pratik Patel: They don't pay advance, they don't give LC they pay when they have the money. They are very clear that our suppliers run the company, our suppliers are our financiers. So there is no hide and seek.

Ashish: Okay got it.



- Diwakar Pingle:** Thank you Ashish, the next question is from the line of V P Rajesh. Go ahead VP.
- VP Rajesh:** Thanks Diwakar. Mr Patel my question was just trying to understand your business a little better in the US. So, let's say if you are producing the material here what is the cost differential between producing here versus producing in the US? Is there a huge differential?
- Pratik Patel:** So when I produce in India and when we sell in America, we are getting 48% for taking care of our overheads in America. So, suppose the material is of 100 rupees and Jash engineering has 10 to 15% of margin of profit already, then that 100 rupees becomes 148 and that is their cost, to which again they will again add some profits. So, the differential is quite huge. Raw material prices mostly are same in US, pricing is higher in casting not in fabricated, not too much. Basically, it's the overheads which is coming because of selling in America, it is phenomenal. So, we have in America I think in my company there are 3-4 people who are paid more than me. My salary in India vs their salary in America 4 people, at least 5 people who are being paid more. So America is very costly overhead wise we do design engineering here for US products also and for Indian Products also. So that brings a cost reduction and then we do manufacturing of certain projects completely in India. In America we do very little portion of our turnover. So this year also in America we will do between 4 to 5 million dollar in sales, balance 11 million dollar of business will come from products made in India.
- VP Rajesh:** I see, so it's roughly one-third production there, two-thirds over here for the time being.
- Pratik Patel:** It's not planned like that. My planning would be 30-35% America, 65 to 70% India. But sometimes it can vary depending upon the size of order and upon the type of jobs. When there is any essential requirement in America then I have to do it in America.
- VP Rajesh:** Right and given that the infrastructure spending is likely to increase in the US, so having this US presence I assume is helping you to bid for those contracts? You are sort of approved quote unquote vendor over there.
- Pratik Patel:** Yes, so America business for water control is between 125-150 million dollar. When Rodney Hunt and shut down in March 2017 they were doing 33 million dollar. Rodney Hunt at their peak was doing close to 70 million dollar in 2008. But 2000 their first, 2000 also was very high infrastructure spending. Then it started going down after the crash of 2008. But in last 10-15 years America has not invested huge in their infrastructure. Trump changed that, Trump thought in America that our infrastructure is even bad than the third world countries. And if you go to American airports you can really feel that they are not so good anymore, most of the airports. And it's the same in many of the facilities including in the treatment they are not so good presently. So yes America will invest and has to invest because the growth is still there in population in America.
- VP Rajesh:** Ok thank you I will come back in the queue for any follow ups

- Pratik Patel:** And I believe that one portion I did not reply to you, one portion is American business we see more growth in America than anywhere else in the world today. But we have one big advantage. The big advantage is because we are based in India for our engineering even if we are producing in America, engineering is a big cost and that we are doing it in India so that makes us competitive in America.
- Dharmendra Jain:** And in India we are purchasing bulk and in US if you purchase from trader in small quantum then it will make a very big difference in raw material cost.
- Diwakar Pingle:** We'll take more on this, Zaki follow on question from you. We'll restrict it to one right now, Zaki go ahead.
- Zaki Nasser:** Pratik bhai, I would like to know that see a little bit of slow down, a little bit of payment cycle slow down, how do you see your debt levels at the end of current year and how they are now?
- Dharmendra Jain:** So end of this year the USA debt has been, we expect full US debt around \$300000 and rest of India because we have taken a moratorium for 5 to 6 months so I don't see any much change in the Indian debt. Somewhere it will reduce but same will be increased by adding some term loan for the expansion so we feel it will be at the same level Indian debt whatever we are in March '20.
- Zaki Nasser:** So what will be that level sir 100-n?
- Dharmendra Jain:** It's around 60 is the working capital limit, around 60 crore and around 20 is term loan debt so 80-85 consolidated, it will remain the same, hardly 5 crore here or there may be.
- Zaki Nasser:** Ok thank you Dharmendra bhai.
- Diwakar Pingle:** Next question in line of Sanjay Shah. Sanjay bhai please go ahead.
- Sanjay Shah:** We would like to understand about the top customer wise break-up of our 380 crore order and number 2 is regarding that our payment difficulties what you have cited in India is common we hear from all corporates, so how do you defend ourselves, how do you see just protecting them from all this? Are there any defaults in this? And what strategies are being adopted in future?
- Pratik Patel:** Sanjay bhai defaults is also very less, 1-1.5 crores as a result of 15-20 people not paying you certain percentage, not 90% payment you have got 10% they may have deducted something laterally etc. etc. which is very typical in India that once they have the material in hand, the balance payment they will cut little bit like that, or they may not pay and then you have to take it into bad debts. So major default in India we have never seen because you make the product as per the project requirement and now take a stock of where we are stuck in India major default Larsen and Toubro Passavant now they are JV and as a JV they are fighting as a result of which L&T is not supporting this project. Ultimately L&T is worried not to get blacklisted because if you get blacklisted in any place in India you are gone. So ultimately L&T will have to complete the project putting Passavant aside so that money will come back. But I have lost interest already

of close to 6-7 months and I will lose interest until the whole money is paid. So what was a profitable product in the long run has become non profitable. So that is the only worry we will have for such type of jobs. We are insisting for LC in most of the cases and as I said wherever we are not getting LCs now we are not dispatching material until the whole payment has come back. So that may delay my billing, that may delay their projects, but because they have not paid, they have to be ready for it.

Dharmendra Jain: But Sanjay bhai if you see our bad debts list L&T is not there in last 3 years, nowhere there in the bad debts. Their some deductions are there but there is no bad debts on L&T's part.

Sanjay Shah: Can be taken that these are our good recoverable amount only because of circumstances they are being delayed?

Pratik Patel: Exactly but we will have interest loss.

Sanjay Shah: Right, sir my second question was regarding the breakup of customers if you can.

Pratik Patel: So it is not that easy to give you but I think let us talk of India, the top customers in India. So we have three orders from Singapore if you consider Rodney Hunt as a single client then Rodney Hunt is the biggest customer for us and Rodney Hunt has number of projects which is MSD, which is a 5 million dollar job, 3 million dollar job and we just got the job last month for the naval project nuclear submarine Naval base. And now two more projects similar to that are coming up, so that two projects alone are 5 million dollars in America and some other projects in Houston etc around 7-8 million dollar and all others are small orders. In India we have big orders from Go Brothers which is around 11 million dollar which is close to 55 crores plus, 57-58 crores from Singapore. We have in Singapore another few orders amounting to 20 crores at various stages of production or approvals now. Same in Hong Kong we have got a big job of around 2 million dollars and we have got other jobs also around half a million dollars. So in Hong Kong ultimately, we expect to do around 30 crores worth of orders in the next few months. So that was on the export. Same we have in Middle East we have got 3 jobs in Qatar, Middle East and Qatar around 23-24 crores, out of which one project alone is of 18 crore. In Suez France we have got 2-3 jobs now and in France we have got jobs but all these jobs as 4-5 crore, so that is how the complete order book is being built up domestic as well as export. If you want, we can share the list of orders in hand but to tell all the names here would be difficult. But 380 crore maybe close to 100 clients.

Sanjay Shah: In India any big order from a single client?

Pratik Patel: Larsen & Toubro and Wabag are our biggest clients in India. Wabag every month I would say we are doing between 1.5-2 crores. L&T every month 2-3 crores L&T presently also we are negotiating two big jobs. I do not know whether we will be taking those jobs but we are negotiating with it.

Sanjay Shah: That's great sir we are in exciting stage of take-off. Thank you and good luck to you sir, thank you.

Pratik Patel: L&T nothing is exciting but we have to do it to survive in India. They are the biggest company in India presently.

Diwakar Pingle: We'll move on to the next question please. Uzair, follow on question and then we'll take the last question from Shailesh Raja. Uzair go ahead.

Uzair Fahmi: Thank you Diwakar, just one question. Since you mentioned that a lot of your strategy revolves around increasing the exports this year and also in the upcoming years to avoid the concentration of portfolio in the domestic business. I want to understand that one of the things that has happened is weakening of the Indian Rupee. Is that something that will positively drive your business this year and in the coming years? Is that a significant factor will increase the sales, may be the production remains similar but I just want to understand the bifurcation of the sales growth that your projecting between the actual volume growth or the margins growth, versus what you will get from a weaker Indian rupee compared to last year?

Pratik Patel: So you have to first understand how we do the costing. So suppose I am bidding for a project anywhere in the world. The US dollar is say 74, 73.4 something like that today. Then we would be discounting it by 2-3% in our costing because the rate fluctuates and can come down anytime. So generally if we are re-negotiating an order or if we are negotiating with a client, we may go down to 2% or 3% but never less than that. So this is at the time of negotiation of the order or boarding between 4 to 2% differential we keep. Now we have got that order so when we get that order this 2% of 4% differential which we have got, will add to a profitability right, provided it is 2 or 4%. It can become 5 also later on, it can become 1% also later on. During the execution this 2 & 4 will remain and based on the date of our billing whatever is the difference, we will be putting it in our invoice. Now once our invoice, and sent the goods, we have 60 days payment terms, 90 days payment terms, by LC, etc. So on the date of realisation if at the time of billing it was 74 and when we realise it is 73, then I have made one-rupee loss, if it has become 75 then I have made one rupee profit. So that is additional profit or loss depending upon what is the price-dollar variation in 1, 2 or 3 months what was the payment terms. So we try to secure ourselves at the time of boarding by putting at least 3-4% and the time of negotiation by adding at least 2-3% and subsequently after billing it is not in my hand. It is a matter of luck, it can go down, it can go up. But we are hedging it so hopefully we do not have a big loss.

Uzair Fahmi: Sure sir, my question was slightly different. I understand the point that you mentioned about how do you go about costing and it's really wonderful to know. My main point was you are saying that you expect to do around 16.5 million dollars or 17 million dollars in Rodney Hunt this year. One of the things is that of course there is an additional production that gives you revenue and profit, but there is also an undeniable fact that the INR has really gone for a toss against all the major currencies this year compared to last year. And you have increased your exports also during this time period, so is that something that you have already budgeted in when

you displayed the year-end forecast or can we say that these are kind of a windfall game and which will fall outside of the 320 crores that you are projecting?

Pratik Patel: See in the 320 crores today we are considering the rate at 74. If it goes above 74 it is a windfall game you can say, if it becomes 78 it would be windfall game. So this is being considered presently our billing at the rate which we have considered in our costing. So suppose if we had considered 72 rupees in our costing, we are considering at that rate. However, when we are doing the billing, we do not know what will be the rate so it could result into more profit or it could result into less. Revenue also, it will increase the revenue or it will reduce the revenue depending upon what is the rate. So any increase in US dollar definitely helps the company both revenue wise as well as profitability wise.

Dharmendra Jain: But because it's uncertain so we can't predict and we can't give effect on the costing estimation.

Pratik Patel: So means we are doing it safely, we have a vector detail, definitely that vector helps us when the rate increases.

Dharmendra Jain: And even again, there is a RBI guideline so you can't keep the currency whatever the outstanding at any point of time so we should keep track on that and we will filing the return for every quarter so you should not cross the limit, otherwise you will be penalised by the banks.

Pratik Patel: So it is not that the arbitrage of the dollar goes into our favour, we do not consider it in our revenue that we are projecting it. So today when I have projected 320, I have not considered that the dollars will become 76. It has been considered at the rate at which we have done the booking of the order.

Uzair Fahmi: Just one thing

Diwakar Pingle: We need to wind up please, the next question is from the line of Shailesh Raja.

Pratik Patel: If you have any questions you can write to me separately or you can write to Diwakar and I will try to reply on email.

Diwakar Pingle: The last question is from the line of Sailesh Raja, Sailesh please go ahead.

Sailesh Raja: Thanks for the opportunity sir. Historically how was the US big book, 3 months before and 3 months after our selection for our kind and range of products and how confident are we in maintaining 350 plus crores order backlog considering covid related challenges, do you think next year same time we will be sitting with similar kind of order backlog 350+ crores?

Dharmendra Jain: I think next year we will be sitting with a bigger order backlog, we'll come to know in December. In next 3 months in Singapore alone we have around 120-125 crore worth of orders under finalization and these are not meant for supplying this year, these are for all meant for supplying in next two years.

Pratik Patel: So the projects which we are already negotiating in Singapore, let's forget all the projects in Bombay, there is 14000 crore projects in Bombay is getting extended after extended. People are dying by fatigue but nothing is happening in Bombay. So we are focusing mostly now on export jobs and in export jobs we believe that 150-175 crore worth of projects will be coming in finalisation in next 3-4 months, 5 months maximum. Out of which my gut feeling says I should be able to get 35% of the jobs. So we do not see weakness in order booking in time to come. If we all talk of India becoming the superpower and this and that, India does business like this, then we see good potential for growth but I do not know what is going to happen because our political system has become so defunct that what will happen I don't know. So we are focusing more on exports and I believe that from exports we will be able to do the same type of order booking next year also. In fact before that or this year we will get an idea because my projection, my personal projection for order booking is that we should have standalone 250 crore to 275 crores order booking by end of the year, plus Rodney Hunt plus Shivpad. So maybe 300 crore order booking should pending order position as of March 31st 2021.

Sailesh Raja: Very good sir, what is the expected PBT, break-even capacity this year FY21 and what are the plans to reduce it further in next 2-3 years and could you please update on what was our contribution in FY20 and what is the expected contribution in FY21? PBT break even, at what level of capacity we can reach PBT?

Pratik Patel: See it is not like that. We are not a mass production company, so the capacity that's why I said that we have to consider from the point of view of turnover. So suppose I do X turnover then I will break even. If I don't do X turnover and if it is less than I am making loss then it is a big profit coming up. So as you go towards the end of the year your monthly costs are same every month.

Dharmendra Jain: And each company to company, it differs if you see instead of Jash itself, this quarter is praiseworthy. We have not done measured profits we have not done too much loss in this quarter. Same way in US we told that 16 million is our break even, 15 to 16 million, whatever in between.

Pratik Patel: Shivpad is in profit, Jash Engineering 81 lacs loss on sales of 24 crores. So when Jash Engineering will do 80 crores as projected this second quarter, total by the end of second quarter, we should be in reasonable profits and as this goes up, the profits will go up.

Dharmendra Jain: Shivpad doesn't have much fixed cost, they don't have a plant there, so they will outsource every product.

Pratik Patel: So I would put it to a financier in a different way. 206 crore was my turnover last year and in 206 crore I have made close to 23-24 profit before tax. Now in 206 what will improve or decrease this year. First salary and wages, so salary and wages will grow every year at say 10%. So on an average you can consider salary and wages will grow 10% every year. What is the next second biggest thing? Bought out components and raw materials, so raw materials, if we had done 206 same as last year, so if 206 we had done, maybe 4-5 crores or 3 crores, because of salary increase or salary and wages increase and next is electricity cost they have not increased much. This year



we are installing solar in both our plants so our cost will come down by 20 lakh rupees, consumption cost. So in electricity I will not get affected much. Then raw material and bought out, so raw material and bought out this year because of covid has been lower than last year or maybe same, not much of a difference but it has not increased a lot. Considering 206, our cost will increase only in salary and wages and power consumption will remain the same, so I do 206 crore this year. My cost will increase not by more than 5 crores, so my 23-24 crores will come down by 5 crore. But if I increase the sales, then if I increase the sales by 10 crores, out of that at least 4 crores will go towards overheads and profit, because bought out material and component cost remains the same, 50-55% to 60% so 40% is coming towards the profit. So 4 crore vs whatever is the increase, 4 crore so it remains the same. But if my margins are included in 206, if my margin was 17 and in 206 this year my margin is 20%, then it will bring the additional profit to me.

Sailesh Raja:

That was my question Sir, how was the contribution portion that will improve?

Pratik Patel:

And because, problem for me is not Jash Engineering standalone or Shivpad, we have no problem with that we will resolve within manageable thing. It is Rodney Hunt, if I make Rodney Hunt 1 million dollar profit which is my target, I cannot promise it, it is my internal target, then what was 0.5 negative becomes 1.5 positive. 1.5 million dollar I am talking about, so if I do more than 15 million dollars as I go up from 0.5 to 1 million dollar in profit, I expect the compound growth at least. It depends on how much we go over 15.

Diwakar Pingle:

Thank you sir, I think that was a patient explanation. I think that's all we have time, we have kind of exceeded our time. In case, you have any other questions, please write to us and we will be happy to answer it immediately and also on the chat board I put out another message for all the people. Take a look at it and send us the details. Thank you so much and Mr Patel, any closing comments?

Diwakar Pingle:

Got it sir, thank you so much and appreciate everyone for joining the call and we will keep you posted on the company's development. My email and Siddhesh's email is there, the problem with Zoom calls is that we are not able to get your email id and phone numbers unless we have the registration process, for which we don't have the facility right now. So I would appreciate if you just put it down, send us a mail and we will be happy to have you on our mailing list also and keep you posted about any other company's development in future. With that said I would like to thank all of you and have a good day ahead, thank you.
