



“Dhruv Consultancy Services Limited
Q1 FY2024 Results Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to Q1 FY2024 Earnings Conference Call of Dhruv Consultancy Services Limited hosted by Kirin Advisors. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gopal Chandak from Kirin Advisors. Thank you and over to you.

Gopal Chandak: On behalf of Kirin Advisors, I welcome you all to the Dhruv Consultancy Services Limited Q1 FY2024 con call. From management side, we have Mr. Pandurang Dandawate - Director, Mr. Rajesh Sindhav – General Manager – Finance and Accounts. I now hand over the call to Mr. Rajesh Sindhav. Over to you.

Rajesh Sindhav: Hello, everyone. It is a great pleasure to welcome you on the first conference call of FY 2024. Let me start by giving you the financial highlights of Q1 FY2024. It is a great pride to inform you we have doubled our net profit in first quarter of FY24 to 85 lakhs on total income of Rs. 11.51 Crores. We reported EBITDA of Rs. 2.76 Crores registering the rise of 89% while our EBITDA margin improved substantially to 23.97% noting a rise of 1543 BPS. This was possible due to the completion of high-margin project in the reported quarter. Net profit margin was at 7.38%. Improved profitability is testament to our strict control on cost. Our current order book stands at Rs. 250 Crores giving us earning visibility of next three to four years. Our quality of work and timely completion of the projection have earned us many prestigious projects in FY2023 and we strongly believe the trend will continue in the current year. Your infrastructure consultancy company is operating in sector with substantial growth potential. The significant allocation of fund in the union budget in 2023 for infrastructure project particularly in road segment present promising opportunity for your consultancy business giving the large ear-marked budget of road and railways. It is clear that the government is focused on improving the logistic efficiency reducing the overall logistic cost and boosting the competitiveness of Indian Export. Your company expertise in the infrastructure consultancy will be instrumental in ensuing successfully planing, designing and exhibition of the projects. The government allocated the Ministry of Road Transport fund Rs. 2.76 lakh Crores. This means there is a huge scope of consultancy services. The consultancy services account for 10% to 15% of the project cost and that means the consultancy business has an opportunity worth of Rs. 41,000 Crores. Dhruv Consultancy is one of the oldest companies of the segment and currently we have score of 95%, which strongly qualified in the bid of new projects. Further your company has been short listed for potential project in Cambodia, Bangladesh and Zambia and expected to receive an order very soon strengthening our

presence in the international market. We look at FY2024 as full of opportunity for the growth. Now I am happy to take questions from all if any. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have our first question from the line of Yashwanti Khedkar from Kojin Finvest. Please go ahead.

Yashwanti Khedkar: Thank you and good day to everyone. I just wanted to ask you like what is the inflow during the current year.

Rajesh Sindhav: The order which has been inflow for the first quarter up to July is around 38 to 40 Crores.

Yashwanti Khedkar: 38 to 40 Crores, so order book stands around 250 Crores to 270 Crores is that right.

Rajesh Sindhav: Yes.

Yashwanti Khedkar: Okay and any advancement on overseas project?

Rajesh Sindhav: Dandawate sir, can you give the answer on that?

Pandurang Dandawate: Yes overseas, we are shortlisted for seven countries and financial deals are already submitted. Results are awaited. We are hopeful for getting at least one or two works in Nepal and Tanzania, so our business development team is already there doing the ground network and also working with the local associate partners, so we are hoping to get at least one or two orders in coming quarters.

Yashwanti Khedkar: What would be the quantum of those two orders?

Pandurang Dandawate: Roughly, you can say one ticket size is 20 to 25 Crores in Indian rupee.

Yashwanti Khedkar: This will be our first exposure.

Pandurang Dandawate: This will be the first exposure. We have got already one work, but yet to be converted into letter of acceptance that is ADB work, Asian Development Bank funded, but I cannot say it is international work because the work is in India only funded by ADB.

Yashwanti Khedkar: As we are seeing a rise continuous order inflow, have we made any provisions for rise in talent pool.

Pandurang Dandawate: Yes, talent pool, we have already added 20 fresh graduates from various engineering colleges. They are already on board. Plus that is at the bottom level because bottom needs to be strengthened before you go to the top. Then some of the extraordinary performing personnel in the head office, they have been promoted to the higher post and additionally we have hired some private expertise in design field. We have got full-time design head for the structure who is having 20 years experience out of which 15 years overseas experience, so we are already now in process of adding it.

Yashwanti Khedkar: Okay they would be in the contract basis right.

Pandurang Dandawate: Few of them are on contract basis; few of them on the payroll, depending on the nature of the work.

Yashwanti Khedkar: Okay. Are we the L1 leader for any prospective project?

Pandurang Dandawate: Yes, it is already disclosed on the website. Five or six projects, we have got letter of acceptance and another three, four projects we are L1 in the bid process. One is Vijayawada-Bangalore Expressway and second is in Bihar, third is in Andhra Pradesh. I do not remember the name of the villages, but three or four projects, we already are L1 in the competitive bidding process.

Yashwanti Khedkar: Okay, and as per the infra-allocation which the government had done in the last budget, what kind of size you expect in the current year for infra project?

Pandurang Dandawate: As we are aware this is also the 10th year of the present government, NDA and huge provisions are made already in the budget and they are planning to complete the targeted length or untouched length in a mega force way, so we are expecting a huge, you can say boost in consultancy assignments in another 8-9 months, so definitely our top line should go up.

Yashwanti Khedkar: Okay, so what kind of growth you expect on a top line?

Pandurang Dandawate: 20-25% growth.

Yashwanti Khedkar: What about your guidance in the EBITDA margin. Will we be able to maintain them or there is a scope of doing better than this?

Pandurang Dandawate: We will be doing better because lot of loans were closed, which were high interest loans. We are spending for traffic survey project of IHMCL that is Indian Highway Company that is IT Wing of NHAI and that payments are expected to be received in the second

quarter wherein only expenditures are done in first quarter, so I am expecting a better EBITDA margin also because of this IHMCL.

Yashwanti Khedkar: Last, we had this Ganga project, any other prestigious project we have bagged in the current year till date.

Pandurang Dandawate: That is already I have told Bengaluru-Vijayawada Economic Corridor. It is also access-controlled expressway. Under our one assignment, there are seven contractors working, so it is a biggest ever assignment as far as number of packages are concerned. Normally, there are two or three in one assignment, but here there are seven.

Yashwanti Khedkar: Okay that is great. Very congratulations for that and all the best for your future performance.

Moderator: We have our next question from the line of Bharat Kumar from Sadguru Enterprises. Please go ahead.

Bharat Kumar: I want to ask one question, why our margins are lowering than earlier every year?

Pandurang Dandawate: As I already explained in first question answer that first time talking about quarter; quarter is increasing if you are seeing, year on year decreasing. Quarter is increasing year on year I do not feel it is decreasing. Rajesh am I right.

Rajesh Sindhav: Yes, In the current quarter we have performed well as compared to the previous quarter and the previous same period. We are focusing on improving our profitability and EBITDA margin by controlling the cost as well as taking a good profitable contracts, bidding with good profitable contracts, so there is a chance of increasing the profit margin in the coming days and coming period.

Bharat Kumar: Okay I want to link this to our working capital cycle. Is it affecting your margins?

Rajesh Sindhav: Yes, definitely because we are dealing with the government authority and the cycle of raising the bill and getting the money from the government is taking time so definitely increasing on expenses side on account of the finance cost.

Bharat Kumar: So, what is our working capital cycle average?

Rajesh Sindhav: Average working capital cycle is more than 90 days.

Bharat Kumar: What efforts that we are putting to lower it.

Pandurang Dandawate: Effort cannot be, because it is a part of contract agreement, 30 days we have to perform number one, and bill process takes 15 to 20 days, so 45-50 days are there then you add holidays and you are working with government, so they have their own priorities, all the officers so it cannot be reduced below 90 days. It is already reduced from 120 days to 90 days.

Bharat Kumar: But the average working capital cycle is going to be 90 days in future also?

Rajesh Sindhav: Yes. It will remain minimum as it is.

Bharat Kumar: Wish you all the very best for the success. Thank you.

Moderator: We have our next question from the line of Shivam Sharma from PCR Capital. Please go ahead.

Shivam Sharma: My question was how many new projects we have bagged in the current financial year.

Pandurang Dandawate: Current financial according to me 13 or 14 projects are bagged. Few of them are yet to be disclosed on the exchange because the letter of acceptance is yet to be received, but order book almost you can say last year we bagged 20 projects. In first quarter only we got 14 projects. We see the straight impact of you can say the election year.

Shivam Sharma: Okay, great and how does the company position itself to win bids against competitors.

Pandurang Dandawate: We are now excellently positioned in three ways. Number one, in eligibility criteria we are now top one or two in India. Previously last year we were scoring 95 marks, 94 marks out of 100. Current year we are scoring 96 to 97 marks so more the marks, more the possibility of winning the bid compared to other competitors. Secondly, we are always you can say supported or congratulated by the client because of early completion of the project. I can give example of elevated road at Ahmednagar in Maharashtra, which is completed three months ahead of schedule. Of course the main effort is of contractor, but consultant and contractor and client if they work together for a specific goal then things can happen early, so we got this quality certificate or appreciation certificate from the client under the signature of honorable minister appreciating the company, so more and more projects are being completed ahead of schedule and that is giving added advantage to Dhruv compared to other competitors.

Shivam Sharma: Okay. My question is what competitive advantages company brings to this international projects.

Pandurang Dandawate: See honestly speaking, we have to receive the first work order from the international market, so we are not really tested. Once we receive one order at least from government sector side that is World Bank funded or ADB funded or African Development Bank funded project then we can comment upon your question. Unless we perform we cannot comment upon it.

Shivam Sharma: Also the companies' wide geographical presence across 23 states right.

Pandurang Dandawate: Now 28.

Shivam Sharma: 28, okay so could you provide insights into how this existence reach.

Pandurang Dandawate: Except I think two states we are all over India, so exactly what you want.

Shivam Sharma: How is this existing reach has contributed to securing projects and building the company's brand?

Pandurang Dandawate: Basically, see getting the works in North East part of India was easy, but performing on the north east part is very tough, so we tested ourselves in North East part of India, Manipur then Meghalaya, then Tripura, all that Seven Sisters and we proved ourselves by completing the projects in time or in a reasonable time, so that has given added an advantage or big edge of Dhruv on other competitions that is one. Secondly, India is very diversified in terms of geographical, historical, religion wise, language wise and now we are in real sense pan-India Company. Previously, three years back it was purely Maharashtra-based having dominant project in Maharashtra with few footprints in Gujarat and Karnataka, so now we proudly can say we are pan-India and we have already appointed a full-time liaising officer in Delhi to liaison with NHAI Headquarter on delivery.

Shivam Sharma: Got it. How is the competition in the international bidding that you are participating?

Pandurang Dandawate: Normally six or seven bids are coming and the bids, we do not know the names of the locals because we are competing in 16-17 countries and different, different company names. We are also associating with some locals as per the contact provisions so I am not very sure as on now that where we stand exactly in the international market unless we get one work and unless we perform another one here. We are now on the verge of entering into it, almost we have entered. One work has already explained in first question ADB funded project we already got. We have now entered into agreement with ADB, but the work is in India only.

- Shivam Sharma:** When are we expecting the international orders?
- Pandurang Dandawate:** In another one or two years, we should get flooded with the orders because competition is not too much, six or seven bids are coming and since our company is public limited listed so that added edge is there in international market also because World Bank also looks us in a different way than other consultants.
- Shivam Sharma:** Okay. Thank you.
- Moderator:** We have a question from the line of Deepika Chaddha from Kojin Finvest. Please go ahead.
- Deepika Chaddha:** Could you highlight some of your clients, especially government agencies or authorities?
- Pandurang Dandawate:** We are dominantly working with Government of India; the client is one is National Highway Authority of India. They have N-number of subsidiaries, but I will term it as NHAI and second client is a MORTH that is Ministry of Road Transport and Highways. They are our main clients contributing to 80-85% of our order book. Apart from that we have stated authorities like UPEIDA we are doing Ganga Expressway. In MMRDA we are doing some works in Mumbai City and in and around Mumbai City. Then in PMRDA, we are doing prestigious elevated road at University Chowk in Pune which is a bottleneck today. Every time we have to stop at least 20 minutes there to cross the junction.
- Deepika Chaddha:** Okay, so what is the expected time to deliver this order?
- Pandurang Dandawate:** Normally, our assignment for construction period is 24 months, six months development period, 30 months and defect liability period is again 36 months so our assignments are 72 months.
- Deepika Chaddha:** Okay. Can you provide the long-term vision or strategies which you will do for next few years?
- Pandurang Dandawate:** Good question Madam. Basically, when we are on the verge of entering into international market, we are now also in the process of acquiring one consultancy firm's asset, which is exclusively working in a private sector in international market. They are doing the industrial structure design and design for further private entities across the border, so because of COVID and because of some reasons, the company is in a financial crunch, small size company maybe I think 7 or 8 Crores size and we are in the process of

acquiring major assets of that company. Once that has happened then we will have exposure to a new vertical of industrial structure design in international market.

Deepika Chaddha: Okay, so the players are from which country?

Pandurang Dandawate: It is Arabian Countries. Company is Indian. They are working for European and American firms, but the projects are in Arabian Countries.

Deepika Chaddha: Okay, so are there any specific sustainability initiatives that the company has taken.

Pandurang Dandawate: Basically, you see we have to go with government because our majority of the orders are from Government of India. 20 lakh Crores was the provision for the road sector when this outlay declared as a part of a financing document I think Ministry of Finance Government of India that is NIP, National Infrastructure Pipeline. They have made a provision of 20 lakh Crores out of that 20 lakh Crores only 15 lakh Crores will be spent by end of this Modi-2 era. Then again they have the use plans of expansion if they are back in power and the development process whomsoever comes in power will be continued that we have experienced from 2004 to 2014 also. The development was not stopped. Speed maybe low more or less slow or fast, but this opportunity for the consultancy will be continued for infinite period so we do not have to care about any particular, you can say like other businesses in private sector. We do not have to do any strategy at ourselves. We will go with the flow.

Deepika Chaddha: Okay, so how much orders do you have IHMCL?

Pandurang Dandawate: NHAI, MORTH, IHMCL all including together, we have an executed order book of about 270 Crores to be completed in another three years.

Deepika Chaddha: Okay, as the company plans to diversify into sectors, how will you manage potential risks which is associated in entering in these sectors?

Pandurang Dandawate: No, we are not diversifying ourselves. Our core sector remains highway. We will remain in highway. Last two years we tried for solar. We tried for bio mining, but both the segments not doing well in terms of financing because at the end we need the timely payments and also solar is very dim, so our highways sector core area remains there. Diversifying within the consultancy firm in highway that is the design structure so we are in the process of acquiring one firm, which is already having a nice setup of doing the design, only they need a proper infrastructure and timely payment and some financial support to sustain their company. The moment 3-4 Crores are pumped into that company, they are going to get additional 10 Crores order book from a private sector in

international market, so we are already taking care of that. However our core area remains highway, supervision, designed, EPR for which we have 100% in-house team of manpower, 100% in-house equipment, 100% in-house software, and 100% in-house finance. Thanks to the equity market, so I do not need any special effort to take care of any additional vertical.

Deepika Chaddha: How you attract and develop talent, which is a required expertise in this segment infrastructure and project management.

Pandurang Dandawate: There are three ways. First way, we are hunting from the engineering colleges even we have got now proud to announce that we have got invitation from IIT Bombay for campus, which is a prestigious thing for a company, so we are going and taking the campus in selected engineering colleges and IITs and getting the fresh graduates or postgraduates that is a part one. We have to make our organization younger and more you can say wide based foundation. Secondly, we are acquiring the skill management as per the project requirement from the. Market, which is easily available through the various websites and various Naukri.com and other platforms. Thirdly, I myself was a government employee. I was executive engineer PWD 20 year's back. I could have been retired as a secretary PWD here or chief engineer maybe or secretary maybe, but the added advantage is my classmates and batch mates they are also get retired. Already few of them are getting retired, so we are trying and getting successfully their assignments to the company for another four years since their retiring at the age of 58 or 60 under another five years they can work in industry, so their vast experience, knowledge, and network are going to help company in a great way.

Deepika Chaddha: What is the current team size that you have?

Pandurang Dandawate: Now of sites are 60 plus working all over India, 28 states of India and 10 of them are DPR or operation maintenance type of work and 50 are construction.

Deepika Chaddha: Can you bifurcate between junior and seniors?

Pandurang Dandawate: It is a pyramid structure; one CEO, then VP development, then you can BD, vice president business development apart from management I am of course talking and equal to that CFO is there, company secretary is there, they are at equal levels. Below that there are 20-25 coordinators named as GM or assistant GM, so it is organized structure, 25% is the top management or you can say senior management including mid level and 75% is the junior level.

Deepika Chaddha: Okay. This is my last question so what will be the margins in international orders?

Pandurang Dandawate: They should be very high. The reason is that ticket size is 20 to 25 Crores and income will be in Dollar so of course you can understand the strength of the dollar. Thirdly whatever we are doing in India same things we have to deliver abroad. For India, we have ticket size of 10 Crores expenditure is 8 Crores now there is EBITDA of 20%. There the expenditure will be 1.5 times. Of course, I have not done any work as on now, but I have analyzed from the other consultant's balance sheets so expenditure is 1.5 times so expenditure will go from 8 to even double 15 Crores and the ticket size is 20 or 25 Crores so EBITDA should go 30-40%.

Deepika Chaddha: Okay. thank you so much.

Moderator: Thank you. We have our next question from the line of Jatin Koradiya an Individual Investor. Please go ahead.

Jatin Koradiya: Thank you very much for the opportunity. I have a couple of questions. The first one is on the order book that you mentioned is the 270 Crores and you also mentioned that the execution timeline is three years or so probably. My question is since the order inflow is pretty much large quarterly as we see, what is the execution target that you have; is it like three years that would possibly be like 20% growth on the current year's revenue.

Pandurang Dandawate: Definitely, see it straight away depends on order book or new orders to be added. Last year normally our order book is 92 to 100 Crores even in CVOID also it was 70-80 Crores then it increased to 90 so average I am saying of the last five years other than last year was 80 to 100 Crores, last year it was doubled 200 Crores order book, it is double impact. First impact is spillover of the COVID and second impact is the government period is nearing completion. We are in the 10th year of this government, so more and more orders are coming for the projects, constructions, consultancy design, and each field What I can imagine current year it should cross 200 Crores.

Jatin Koradiya: Understand that is on the order inflow. You are expecting more order in flows, you would imagine possible that the growth could be better if the orders continue, but my question is more on the execution side, if this rate of order inflows keep coming assuming then do we have the capacity to execute them faster.

Pandurang Dandawate: Yes, our business is very simple to understand. We do not have to put additional equipments or any additional capex if we go get the new work order, everything is on rental basis like we have to go for vehicle it is on rent, we have to go for office that is on rent then it is very minimal expenditure, nominal deposits and monthly rent that is also at the end of the month, the manpower also the payment is at the end of the month. Mobilizing expenses are definitely there, but they are not attributing to great extent, and

very importantly now we have started getting the orders with better number or better margins. The reason is that previously we were scoring 94 or 95 marks and now we are scoring 96 or 97 mark, so plus two marks adding our numbers you can say in the bid process, 10 Crores ka hum 11 Crores dal rahe hey abhi that additional 1 Crores is the net gain to the company because expenses will remain same whether my bid is 10 or my bid is 11 so because of better technical expertise and better financials, we are scoring one or two marks in each assignment and the manpower we are easily getting because there is one website named INFRACON. We have to draw the CV of the personnel from the INFRACON website and we have to take consent of that person. The persons are very compatible with Dhruv for three reasons. Number one, I myself being a government employee, lot of my classmate batch mates, they are retiring and they are eager to enter into Dhruv for assignments. Number two the public limited nature of company. Number three the presence of company in 28 states of India, so all over India people are getting the jobs near to their native places.

Jatin Koradiya: Understand, so in summary can we understand that while order book is 270 and since the order flow is pretty much higher, can we possibly cross the 270 Crores execution in three years, right?

Pandurang Dandawate: Definitely that is actually mandatory. If we do not complete our assignment in three years then we may be penalized or we may get bad name, so we have to complete.

Jatin Koradiya: My second is question on margins just to know in previous years 2017, 2018, 2019 our margins were pretty high compared to our annual average margin in the last year or previous one so what is in general outlook on margin going forward and in addition second question in the same line of margin like this quarter we did like some 22 something margin so it is quite fluctuating between previous quarter and this quarter, so how is it going to be on FY2024?

Rajesh Sindhav: I can answer these things. In earlier period 2017-2018, 2018-2019 there was not a matching concept of debt in some quarters in one year the expense has been recorded, but the revenue part which has been recorded in the subsequent period due to the billing cycle so that is why the margin was not in the same line. It is been fluctuating in one period and it has been declined or increased in the next period. However, we have moved from IGAAP to Ind-AS, Now we are following the POC method so now the margin was in a stable level in all the quarter maybe it has been increased and decreased due to the performance of the project we are doing so in the current quarter the margin was slightly in a higher side. We have started full pledged traffic survey project which is contributing around 30% of the EBITDA margin in the current quarter, so that was not the project

which was in the previous quarter on previous year and that is why the margin is fluctuating and henceforth the margin will be stable. We will see that.

Jatin Koradiya: Okay and what is this stable margin that you may be guiding on annual basis.

Rajesh Sindhav: On annual basis if you see the EBITDA margin around 14-15%.

Jatin Koradiya: Okay 14-15% is what we can expect on the top line. Okay am I right sir 14-15%.

Rajesh Sindhav: Yes.

Jatin Koradiya: The last question that I have. You mentioned about possibly acquisitions that you may be looking. I just wanted to ask how do you plan to finance that?

Pandurang Dandawate: Basically our preferential issue is still open. We have received 5 Crores and 20 crore yet to be received and we are hoping to get that 20 Crores preferential issue closed in another two or two and half months because initial sanctions of the exchange is less so we have to get the first approval. Because of some issue of our investor which is a US-based and it was trust and some legal issues were there, investment was delayed but that is now cleared and we are expecting now to get that 20 Crores preferential issue in another two and a half month then we are going to finance this new asset acquisition from that.

Jatin Koradiya: Understand. Thank you very much for answering my questions.

Moderator: As there are no further questions, I handle over the call to Mr. Gopal Chandak from Kirin Advisors. Please go ahead.

Gopal Chandak: Thank you everyone for joining the conference call of Dhruv Consultancy Services Limited. If you have any queries, you can write to us at vastupal@kirinadvisors.com. Once more thank you everyone for joining the conference.

Pandurang Dandawate: Thank you everyone on giving your questions and we hope we have given the answers to your satisfaction.

Moderator: Thank you Sir. On behalf of Kirin Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.