

GPT Infraprojects Limited Q1 FY 2017 Conference Call

August 11, 2016



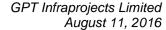


Management: Mr. Atul Tantia

- Executive Director, GPT Infraprojects Limited

Mr. A. K. Dokania

- Chief Financial Officer, GPT Infraprojects Limited





Moderator:

Ladies and gentlemen, good day and welcome to GPT Infraprojects Limited Q1 FY17 conference call. As a remainder all participant 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.

I now hand the conference over to Mr. Atul Tantia, Executive Director, GPT Infra, thank you and over to you sir.

Atul Tantia:

Good afternoon everyone and a warm welcome to our first quarter earnings conference call for the quarter ended 30th June 2016. I have with me Mr. Dokania – our CFO and Stellar IR Advisor our IR firm. I hope you all have received the updated investor presentation and the same is uploaded on our website and the Stock Exchanges for your reference. We will do a brief summary of our performance in terms of the operational and financial performance for the quarter and our strategy, thereafter I will take questions from the participants.

As you all are aware, railway presents a huge opportunity in terms of the business or investments. Indian Railways have been embarked on a large CAPEX program of 8.56 trillion focused on network decongestion and cost optimization. The long-term assured funding and stream lining of IR's internal process via delegation of powers is firing up the execution. There has been a lot of momentum in railway tenders and orders being awarded by the government.

In FY16 railway tenders were up almost 128% and railway awards were up almost 82% year-on-year. There are 30,000 level crossings out of which almost 11,000 are unmanned in India. Removal of unmanned rail crossing is a huge priority for the present governments through building of ROBs and RUBs. This again presents a huge opportunity area for us. The Centre, in fact, has sanctioned almost ₹ 2,300 crore for building of road over bridges in West Bengal, which is our focus market. These include building 19 road over bridges and we are well qualified and are looking forward to these projects. We expect significant increase in the order inflow this fiscal by participating in such projects not only in West Bengal but other states too. We have the expertise in construction of large bridges for railways and our current order book constitutes almost 70% of orders from railways and railway PSUs.

India's ambitious ₹ 82,000 crore Dedicated Freight Corridor project is going on a fast track. With an aim to meets its target, Dedicated Freight Corridor Corporation of India Limited has stepped up awarding contracts for speedy execution of contracts in both the Eastern as well as the Western corridors. DFC will award contracts worth almost ₹ 14,000 crore in the current financial year in a bid to quickly wrap up the work by 2019. The DFC is in line for commissioning of both the corridors.

In addition to this, the government has also announced three new dedicated corridors in their last budget, the North-South, East-West and the East coast corridor, which involves the construction of almost 5,700 km of railway tracks. Therefore, DFC presents an additional



growth area for us both in terms of sleepers manufacturing as well as railway works, especially bridges.

As you are all aware, GPT is a railway focused infrastructure company with EPC being one of its core capabilities. Thus, we are well positioned to tap these opportunities across segments, including construction of ROBs, RORs, which is rail over rail, RUBs, bridge works as well as sleeper manufacturing for the dedicated corridor. We already have got a contract from GMR Infrastructure Limited for the Eastern railway freight corridor, we expect commissioning of both the factories in Uttar Pradesh in the second quarter of this financial year and this will help us in terms of our business volume going forward from the second half of this year.

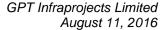
Now let me come to the financial performance for this quarter. This quarter has been a robust quarter again for us and we have reported a 30% increase in business volumes from ₹ 105 crore in Q1 FY16 to ₹ 135 crore in Q1 FY17. This has been on the back of higher execution in the contracts. Of the total revenue EPC contributed almost 85% in Q1 FY17 up from 77% in Q1 FY16. This growth signifies a clear rebound in the sector. EBITDA came in at almost ₹ 20 crore, which is a growth of 16% with EBITDA margin of close to 15%. The company has established a hurdle rate margin below which we do not prefer to bid for contracts.

Profit after tax has grown disproportionately, higher than our revenue. PAT for Q1 FY17 stood at ₹ 5.1 crore as compared with ₹ 3.1 crore in Q1 FY16. The PAT margin was 3.7% for Q1 FY17. This is a profit after tax after accounting for the minorities in our subsidiaries.

Recently, as we intimated investors that we received a rating upgrade in terms of our debt rating from CARE. Credit rating for bank facilities of the company has been revised by CARE Ratings to BBB from BBB- with a the positive outlook.

We have been continuously communicating that we are committed to improving our working capital cycle. We have successfully been able to do so for this quarter also. As of 30th June 2016, our working capital cycle stood at 136 days compared with 152 days as of 31st March 2016 and 232 days as of 31st March 2015. This is after adjustment of interest free mobilization advance. Many of the contracts that we are receiving have commissioned, and interest free mobilization advance are being given especially in the multilateral funded contracts. Without the adjustment of interest free mobilization advance, which we are reporting as per last quarter, the net working capital cycle would have been 161 days as of 30th June 2016 as compared with 169 days as of 31st March 2016.

Our total unexecuted order book stands at approximately ₹ 1520 crore, which represents 2.8 times trailing 12 months' revenue. Average execution of this order book is almost 2 to 2.5 years. Of the total order book, EPC contributes almost 74% and the rest is the sleeper order book, largely a contract from the dedicated corridor in UP. Our average ticket size has moved up from ₹ 40 to ₹ 50 crore to almost ₹ 80 to ₹ 100 crore. The Board has also declared an





interim dividend at the rate of 10%, that is, ₹ 1 per share on the face value of equity shares. Also, as you all are aware; we have got listed on the national stock exchange on 11th July 2016.

Going forward, we believe that we are on track to achieve our guidance for the year, that is, \ref{thmu} 700 crore in terms of revenue at an EBITDA margin of 15% at the consolidated level. Also, we have been able to reduce our working capital significantly in the last couple of quarters. We aim to reduce it to further by 135 to 140 days by the end of the year. Going forward, we would continue to focus on profitable contracts. We aim to achieve a 30% CAGR for the next 4 years and reach topline of almost \ref{thmu} 1,500 crore by FY20.

The growth has come from all the areas of operations and there is a significant pickup in the awarding of contracts by railways, which continues to be our focus segment. Moreover, DFC is an additional driver for growth for us and we have made inroads there. In sleeper manufacturing, we have profitable foreign operations in South Africa and Namibia, which continue to do well. This is all from my side and I would now request you to open the floor for questions.

Moderator:

Ladies and gentleman, we will now begin the question and answer session. We will take the first question from Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal:

Yes, just want to understand on the order book. Last quarter we had an order book of around ₹ 16.5 billion, this quarter is around ₹ 15.2 billion. So from an order flow perspective, what are the large opportunities that we are seeing in this financial year, if you could throw some light over there? What is the order inflow that we are expecting this year and how is the bid pipeline looking. Also secondly on the debt side, can you share what is the current debt on the balance sheet and how do we see that going ahead? Thirdly, we have taken this resolution to raise money of around ₹ 75 crore, if you can highlight what will be the usage of these funds.

Atul Tantia:

In terms of the order book, we have a target to achieve new order inflow for this financial year of almost ₹ 1,000 to ₹ 1,100 crore and we are on track to achieve that. We are now submitting couple of large bids also. In some cases we have now submitted bids for contracts up to ₹ 200 to ₹ 250 crore. We are expecting contracts of almost ₹ 250 crore to be awarded soon, we expect those contracts to be awarded hopefully in the next 3 to 4 weeks. The order inflow would be largely from the railway segments and as I said railway presents a huge opportunity for us because we want to do a lot of network decongestion and also expansion of the railway network. So that would continue to be a major focus area for us. In terms of your questions with regard to the debts, debt on our balance sheet primarily comprises working capital debts and some long-term debt. Long-term debt is roughly about ₹ 10 to ₹ 12 crore, which is largely equipment finance, a small term loans, which would be repaid by the end of this financial year. The working capital debt is close to ₹ 200 crore on our balance sheet today. With regard to your third question on using the funds for this enabling resolution for ₹ 75 crore, it would be mostly for long-term working capital and also partly some CAPEX, generally normal working capital, normal capital expenditure for construction business. It is basically to strengthen our





balance sheet and also enable bids for larger projects in the future. We would like to maintain healthy debt to equity ratio so we don't want to over leverage ourselves too much as we are growing the business 30%-35% every year.

Ankit Agarwal:

Okay and this debt number, how will this move towards the end of the year?

Atul Tantia:

₹ 200 crore is the short-term debt and ₹ 10-12 crore is the long-term debt. We expect the debt to move up may be by 5% to 10%, we don't expect the debt to move up too much because a lot of the cash flow which was stuck in terms of the working capital cycle is getting freed up so that will enable us to grow the business further.

Ankit Agarwal:

And this 135 to 140 days that you have mentioned this is on 160 days or this is on the 136 days that we have already reached.

Atul Tantia:

We have not reached, this is on basis of 140 days. The 160 days is not net off the advance.

Moderator:

We have the next question from Shirish Rane from IDFC Securities. Please go ahead.

Shirish Rane:

Sir, couple of questions, first what is the absolute ₹ crore on working capital this quarter end. I mean the absolute amount, not the days amount, but absolute whichever way you put it. The second, you mentioned this L1 order of ₹ 250 crore, can you elaborate whether this one is a sleeper order or is it railways or some kind of a track laying order or what kind of an order is it?

Atul Tantia:

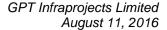
Absolute net working capital in terms of a gross number would be close to ₹ 235 to ₹ 240 crore, this is without net off of the interest free mobilization advance. If we adjust that it would be lower. Now to come to your second question in regard to the L1, I will not call it L1, but as we are, because in one case we were the sole bidder in one case it is not public tender, it was a private negotiation. One is the large contract for construction of a railway bridge over Yamuna in Delhi for Northern Railway. That is almost ₹ 100 crore. In addition, we are negotiating with Tata Projects for a factory in Surat for manufacturing of concrete sleeper. It is again around ₹ 110 crore and then we have couple of two more smaller contracts which would add up to ₹ 250 crore.

Shirish Rane:

Sir you said you were the only bidder in Yamuna Bridge Project in all fairness. So any reason why we were the sole bidder, I mean was it too small for others or is there any specialty which makes us the only bidder for this project?

Atul Tantia:

I will give you the background. This was a left over work of Larsen & Toubro. Larsen & Toubro got this project 7 years ago. So they had abandoned it seven years ago because of some disputes with the railways. Generally larger companies do not want to do left over work, they want to do a virgin contract, I would say. So there were not too many bidders. There was another bidder who also bid but he was technically disqualified so in terms of financial bid only our bid was opened.



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Shirish Rane:

Sir in terms of overall revenue we are targeting $\ref{targeting}$ 700 crore, I mean based on the current order back drop of $\ref{targeting}$ 1,520 crore, do you think that $\ref{targeting}$ 700 crore is achievable or you think you need more orders in the next 1 or 2 quarters to achieve $\ref{targeting}$ 700 crore, I mean how is your thinking on that line?

Atul Tantia:

So we have done about 135 crore for this quarter which is almost 20% for the target for the year of ₹ 700 crore. As I said the 2 sleeper factories would get commissioned in the second quarter so in the second half we expect almost ₹ 40 crore of revenue from the two sleeper factories in UP. In addition to that, the first half is almost always 40% of the year's revenue. So we should be able to achieve the number for the year and obviously as we grow the business we will have to take on new orders in the next 1 or 2 quarters. Like I said in my opening remarks, the target for the year is to get ₹ 1,000 to ₹ 1,100 crore of incremental new orders and we target to close the year at ₹ 2,000 crore of net order book as of 31st March 2017.

Shirish Rane:

Just one clarification sir, based on the 31st March order backlog and the current order backlog does that mean the 1st quarter and till date we did not get any order?

Atul Tantia:

Yes you are right that is always historically so because the budgets for the government, specially railways, come out with a tender generally during monsoon because till May or June they are quite busy in terms of their budget allocation and initiation of the contracts. Now is the time when we are seeing lot of tendering activity picking up and we have submitted a lot of bids and we expect them to start getting awarded soon. Nowadays the time to award a contract has been quite shortened so it does not take long time to award a contract.

Shirish Rane:

Sir, the last question I had was on the margin outlook. We are talking about 15%, first quarter was 14.8%. Based on the current environment on the cost structure, especially cement and steel, are you comfortable with 15% or you think that this is easily doable, I just wanted to get your sense on the margins?

Atul Tantia:

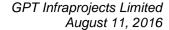
All our contracts, whether it is concrete sleepers or whether it is EPC construction, have a price variation formula. So it does not get affected by the increase or the decrease in the cement and the steel prices as such because there might be (+/-1) month lag but it does not get effected in terms of the margins. In terms of achieving a margin target for the year of 15%, I think it is quite achievable because as we grow the business in terms of volume the overhead do not go proportionately. We should be able to achieve or we have an internal target to do a margin, so far in the north of 15%. I think 15% is the target we should be able to achieve for the year.

Moderator:

The next question is from Senthil Kamaraj from New Berry Advisors. Please go ahead.

Senthil Kamaraj:

My first question is regarding the competitive scenario present in the railway tendering book, like number of players and how do you see any margin getting impacted because of orders coming in and activity picking up?





Atul Tantia:

The competitive scenario is there obviously. I would not say that there is no competition in terms of the railway orders, but the we are bidding in terms of the bridges, especially between \ref{thmu} 100 to \ref{thmu} 200 crore, there the competition is not too intense so we see may be 3 to 4 bids generally not more than that and in terms of the margins we have a hurdle rate of 14% so we don't bit for contracts below that. I think we have been able to achieve our numbers historically also. There are lots of opportunities in the market and I think that we will be able to maintain our margins at 14%.

Senthil Kamaraj:

Okay sir, and my second question is regarding the announcements you made yesterday of raising $\ref{thmodel}$ 75 crore and the second one is giving an interim dividend so I think two announcements contradict each other.

Atul Tantia:

It does not contradict each other because we have received an interim dividend from our subsidiary in Africa and as per our dividend policy we have distributed the same to the shareholders almost what we have received so in terms of the cash flow we have matched it and distributed it back to the shareholders. It does not mean that if we are distributing dividend we don't want to raise capital. So the capital raising, etc., is a separate exercise. And just to add to that it is more tax efficient to do it, so from a tax efficiency it also makes more sense.

Moderator: Yes, the next question from Rita Tahil Ramani from Edelweiss. Please go ahead.

Rita Tahil Ramani: Sir one is ROB and RUB, you mentioned how many is the current order inflow expected from

these projects.

Atul Tantia: The central government has targeted to build about 917 ROBs and their investments size is

almost ₹ 7,000 crore, so that is the market size as such.

Rita Tahil Ramani: Okay and how many of these projects have already been sanctioned?

Atul Tantia: Entire lot is sanctioned and they want to construct it by 2019.

Rita Tahil Ramani: Okay and what is the current order inflow from these orders for you?

Atul Tantia: We have got three contracts for construction of ROBs and RORs I would say, ROR is rail-

over-rail, especially in Uttar Pradesh where in there is lot of network decongestion that we want to do. We are seeing lot of order activity in terms of RORs and we have got one contract for ROR in West Bengal already and we are bidding for couple of more in West Bengal and

UP especially.

Rita Tahil Ramani: Okay, sir how much would the size of these contracts be around?

Atul Tantia: These contracts would be around ₹ 150 crore, depending on the size.





Moderator: As there are no further questions from the participants, I now hand the conference over to Mr.

Atul Tantia for closing comments.

Atul Tantia: Thank you everyone for participating in our first quarter earnings call, as I said we have

uploaded the presentation and the results on our website as well as on the website of the stock exchange. In case of any further queries you may get in touch with Stellar, our IR advisors, or with us. The contract details are on the last slide of the presentation. Thank you and have a

good day.

Moderator: Ladies and gentleman on behalf of GPT Infraprojects, that concludes this conference call for

today, thank you for joining us and you may now disconnect your lines.