



“GPT Infraprojects LTD Q1 FY-19 Earnings
Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to GPT Infraprojects Limited Q1 FY19 Earnings Conference Call. 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.

I now hand the conference over to Mr. Atul Tantia – Executive Director at GPT Infraprojects. Thank you and over to you sir.

Atul Tantia; Thank you Stanford. Good afternoon everyone and a warm welcome to our Earnings Conference Call for the first quarter ended June 2018. I have with me Mr. A. K. Dokania – our CFO and representatives from Stellar IR Advisors, our investor relations advisor. I hope that you all have received the updated investor presentation. We also have uploaded the same on our website and also on the website of the stock exchanges for your reference.

We will begin the call with an update on the financial performance of the company during the quarter followed by some key business as well as sector updates. As mentioned in the previous calls too, GST and IndAS implementations have been the major changes in the accounting policies and financials till Q1 FY19. Due to GST, revenue for this first quarter is not comparable to first quarter FY18, and the same is lower by almost 10% compared to previous year. However, due to input tax credit availability, there is no major impact on the earnings.

With regards to IndAS, during the quarter, the company has adopted IndAS 115, which is the revised revenue recognition standard for construction contracts as applicable from 1st April 2018. The company has elected to adopt the modified retrospective approach to recognize the impact of IndAS 115. The impact of IndAS 115 on the financial results in the quarter ended June 30th, 2018 is approximately Rs. 1.5 crores. Also, on our associate in Namibia, part of the concrete sleeper business, and GPT owned 37% stake which used to be consolidated till FY17 is not consolidated anymore as per IndAS standards. Only the earnings will be recognized as a profit / loss from the associate company.

Now coming to this quarter's performance, we have reported consolidated revenues of Rs 153 crores in the first quarter of FY19 compared to Rs 135 crores in the same period of last year, recording a growth of 13.2% year-on-year. Of this, infrastructure contributed almost 78% and balance 22% came from the concrete sleeper business.

We have seen a significant improvement especially in the sleeper business, both in India and Africa. Our South Africa business has seen a significant uptick in execution, more so from second half of last year, as mining operations have picked up in the country. With improving execution, we expect higher returns on the investment made by us in our South African subsidiary. Similarly, our Indian sleeper business too should benefit significantly this year on the back of higher execution of the sleeper contract for the Eastern Dedicated Freight Corridor.

On the infrastructure business segment too, there has been an uptick in both order inflow as well as execution. The construction work for most of our projects are going on in full swing. In this month, we have received the largest single order valued at Rs. 362 crores from RVNL, which is construction of approaches and viaducts for a bridge over river Ganga near Varanasi. We expect a significant improvement in performance of infrastructure segment this year.

Our EBITDA for Q1 FY19 came in at Rs 21.9 crores compared to Rs 20.4 crores in the corresponding quarter of last financial year, a growth of 7% year-on-year. The EBITDA margin stood at 14.3% versus 15.1% in the first quarter last year. The consolidated profit after tax and share of minorities for Q1 FY19 stood at Rs 5.3 crores compared to Rs 5.1 crores in the last year, recording a growth of 4.1% year-on-year and Rs 4.9 crores in the last quarter of FY18, posting a growth of 9.4% quarter-on-quarter. The net profit margin in Q1 FY19 stood at 3.5% versus 3.8% in Q1FY18.

The working capital days have come down to 145 days as on June 2018 from 152 days as on March 2018. This is compared to the highs of 232 days in the year ending March 2015.

In terms of order intake, we have received four orders accounting to almost Rs 510 crores, and additionally we are L1 in contracts of almost Rs 250 crores. Generally, there is a two to three months of lead period from declaration of lowest order to receipt of order. One of these orders, as I said earlier, received this year is the largest single order in the history of the company. This order of Rs. 362 crores has been awarded by Rail Vikas Nigam Ltd, and the scope of the work includes construction of roadbed, viaducts, bridges, RUBs, ROBs, track linking, and general electrical works for the rail-cum-road bridge at Ghazipur near Varanasi. On completion of the above order, which is over the next two-two and half years, we will be eligible to bid for single orders up to Rs 1000 crores on our own.

Currently, our unexecuted order book stands at Rs 2236 crores, excluding L1 orders, which gives us a book-to-bill ratio of over four times of the FY18 revenues. Of this, the infrastructure order book is 80%, and the balance is sleeper manufacturing order book.

As far as our business prospect in the coming years is concerned, we are very positive on the ongoing boost in the infrastructure activity, especially in the Indian Railways, and being one of the pioneers in our segments, we believe we would significantly benefit from the same. We are bidding for various projects in the EPC space of higher ticket size, and we expect a better order inflow over the last year.

Further, our focus on profitability will continue with EBITDA hurdle rate of almost 14% coupled with better working capital cycle, thereby enhancing the overall profitability.

That is all from my side. I would now request the moderator to open the call for any questions and answers. Thank you.

- Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Rohit Natarajan from Antique. Please go ahead.
- Rohit Natarajan:** I just had these concerns on our concrete sleeper segment. If you could throw some color on what exactly explains the softness in these numbers. I believe the order backlog is extremely strong, but there seems to be some miss in numbers and subsequent impact on operating profit.
- Atul Tantia:** In terms of the concrete sleeper business, as we have explained earlier also, the softness is because we are comparing to the previous two years ago. So, the segmental revenues do not account for the Namibian operations because they are just coming in line from the profit from the associate, and in addition to that, the segment profit accounts for our much higher depreciation charge on the two factories in UP, which we have recently set up for the Eastern dedicated freight corridor. So, that is why the EBIT in the concrete sleeper business appears to be much lower, however, at an EBITDA level we are at quite a comfortable number.
- Rohit Natarajan:** Okay, thanks for that clarification. My second question is related to the GST in your initial remarks that you said. So, if I understand it correctly, the infrastructure revenue that you have booked in this particular quarter is excluding the indirect tax component, and the base year will have that kind of a number?
- Atul Tantia:** Correct.
- Rohit Natarajan:** So, if that is the case, because if I look into the kind of growth that we have, 11% is Y-O-Y reported consolidated number. So, is it fair to assume that we stand by it?
- Atul Tantia:** 13%.
- Rohit Natarajan:** I am talking about consolidated overall revenue. So, you mean to say....
- Atul Tantia:** Overall was 13%.
- Rohit Natarajan:** So, on that we have to add up the indirect taxes, and that would actually give us the clearer picture.
- Atul Tantia:** Correct, so it would be almost 21-22% of growth on an apple-to-apple basis.
- Rohit Natarajan:** But, this impact is technically speaking EBITDA neutral, so essentially EBITDA should have a stronger growth, but if I deduct the concrete sleeper segment, you mean to say infrastructure segments margins should have offset the base case scenario.
- Atul Tantia:** Yeah, so on an overall EBITDA perspective, we are still north of the 14% that we have settled the hurdle rate at, so we are at 14.3% on an overall EBITDA perspective for this quarter also.
- Rohit Natarajan:** Okay, so that is it from my side. If there are any other questions, I will get back into the queue.

- Moderator:** Thank you. The next question is from the line of Animesh Shah from Shah Investments. Please go ahead..
- Animesh Shah:** I have a question on the recent order, which we have received of Rs 360 crores, which is one of the largest in our history. So, just wanted to know what is the scope of the work and also wanted to know are we eligible for any bigger order of this size going forward?
- Atul Tantia:** I didn't get the second part of the question. Sorry, your line is breaking.
- Moderator:** Mr. Shah, may we request you to please use your handset, your voice is breaking.
- Animesh Shah:** Sir, I was trying to ask you that are we eligible for any such kind of a big order going forward? That is my second question.
- Atul Tantia:** So, like I said in my opening remark, the scope of the contract with RVNL, includes construction of roadbed, viaducts, bridges, RUBs, ROBs, track linking, and general electrical works for the rail-cum-road bridge at Ghazipur near Varanasi. Upon completion of this order, which is over the next two to two-and-half years, we would be eligible to bid for single order of approximately Rs 1000 crores in our own name.
- Animesh Shah:** Okay, and sir I have seen that we have a order book of around Rs 2200 crores, so how many years of revenue visibility we will be able to see, and what will be our execution period for this kind of an order book size?
- Atul Tantia:** Typically, the order execution cycle is two and half to three years. So, this balance order book of 2236 crores is to be executed over that period.
- Animesh Shah:** So, do we see any execution difficulty or challenges in the near future to execute all these orders?
- Atul Tantia:** Our average ticket size of contracts is increasing. So, like I said this Rs 362 crores is the single largest contract that we have received recently. Earlier, about three years ago, our average ticket size was Rs 75-80 crores. Now, the contracts that we are receiving in the recent past are much higher sized contracts, which are Rs 200 crores plus. We have almost six to seven contracts, each in the range of Rs 200 crores plus. So, the focus of the management is on larger contracts, so execution should not be a challenge.
- Animesh Shah:** Okay, and sir last question from my end. What is the revenue from our South African subsidiary.
- Atul Tantia:** Last financial year, revenue from South Africa was close to Rs 75 crores.

- Moderator:** Thank you. A reminder to the participants, to ask a question please press * then 1. The next question is from the line of Rachit Kamath from Anand Rathi. Please go ahead.
- Rachit Kamath:** Just wanted to know the debt figures for the company on the standalone and consol level?
- Atul Tantia:** The debt on a standalone basis is purely working capital debt, so the debt is approximately Rs 215 crores, and on the consol basis, there is a small debt in the South African subsidiary. The total debt is almost Rs 230 crores.
- Rachit Kamath:** Okay so, around Rs 15 crores of debt.
- Atul Tantia:** Yeah, in that, there is a small term loan for South Africa.
- Rachit Kamath:** Sir, now in the road sector, the government has started with the Bharat Mala, but similarly in the Railways, they are coming up with something similar along the lines of Bharat Mala style project. So, what opportunities do we see in that, like do we see the concrete business going to lead, to increase from 20-22% to around 30-40%?
- Atul Tantia:** On an overall basis, I think both these sectors, both the infrastructure as well as concrete sleeper would go in tandem. Recently today, if you have seen the newspaper, in Economic Times, there is an article in which the Railway ministry has sanctioned the East Coast Dedicated Freight Corridor, which would be an 1100-km corridor, which would connect from Kharagpur to Vishakhapatnam. This would also allow us greater business opportunities going forward.
- Rachit Kamath:** So, are we going to go for this, like, so what will be the approximate project size we can bid over here?
- Atul Tantia:** We can bid for projects from Rs 300 to 500 crores in these contracts.
- Rachit Kamath:** You said your eligibility will grow to Rs 1000 crores, right? Prequalification will increase to Rs 1000 crores.
- Atul Tantia:** Yeah, post the completion of the execution of this contract of Rs 360 crores, so that will be another two to two and a half years.
- Rachit Kamath:** So, two and a half years, okay. Sir, you know this RITES company, right? It is a PSU company in the railways section, so do we see any opportunities from them because even their current order backlog is around Rs 2500 crores, so just asking?
- Atul Tantia:** RITES, yeah that is a Railways PSU.
- Rachit Kamath:** Yeah correct. Sir, so do we see any opportunities from them because even they have a current order backlog of around 2500 crores if I am not mistaken?

- Atul Tantia:** We bid for contracts with RITES, RICON, RVNL, DACC, everyone.
- Moderator:** Thank you. The next question is from the line of Kaushal from Dhanki Securities. Please go ahead.
- Kaushal:** Sir, I had a few questions. First of all, sir, have you received this money, which was under arbitration, and we had won this award with NHAI?
- Atul Tantia:** No, we have not received the money yet. The NHAI has filed an application in the Delhi High Court challenging the arbitration tribunal, but our lawyers are quite confident that the Court will find it in our favor. We have also given a note to that effect in the accounts.
- Kaushal:** So, any timeline which you feel, is it likely to come by, let's say, the second quarter end or something like that or how is it?
- Atul Tantia:** So, as per the amendment to the Arbitration Act, the outer timeline is one year. So, it is now subjudice and that is the only time limit we can give for the NHAI.
- Kaushal:** But, we had received the order, I think, last September or November if I am not mistaken?
- Atul Tantia:** November end we received the order.
- Kaushal:** Correct, so is it likely that by this November that issue should be resolved?
- Atul Tantia:** No, NHAI has only challenged the award about two and half three weeks ago, so I guess the one-year clock will start from then.
- Kaushal:** Also, sir as far as the interest is concerned, there was a possibility that a rating upgrade will happen and consequently our interest cost could reduce. So, any development on that front?
- Atul Tantia:** Currently, we are BB by CARE, we have applied for a review of the ratings, this is due in September, so we will come to know only about that time.
- Kaushal:** As far as the working capital days are concerned, we have made a fair amount of progress in the last few years, but where would you like to take that figure by the end of financial year '19?
- Atul Tantia:** Preferably, between 100 to 120 days at the end of the year.
- Kaushal:** Okay, so 120 days, you think, is possible by the end of this year?
- Atul Tantia:** Yeah.
- Moderator:** Thank you. The next question is from Animesh Shah from Shah Investments. Please go ahead.

- Animesh Shah:** Sir, as we have seen, we have too much opportunity in the road sector, and the orders are flowing in a very big way. So, are we planning to get into either in EPC or in HAMs in the road sector?
- Atul Tantia:** No, we are basically a railway focused company, so honestly we do not focus on the HAM projects or the EPC projects of NHAI. Railways themselves provide a large opportunity for companies like us, and the focus will continue to be on the railway contracts. We do some bridges for MoRTH, but we do not do roads per se.
- Animesh Shah:** Okay. There was a recent IPO of RITES, so are we looking for any tenders from RITES, what is the outlook from the RITES prospect?
- Atul Tantia:** See, RITES is, as I said earlier to the previous gentleman, RITES is already part of our clientele. We do bid for contracts with RITES, RVNL, DACC, even the Railways, so we are always on the lookout for good tenders that come out from RITES. That will always be part of our client book.
- Moderator:** Thank you. The question from the line of Rachit Kamath from Anand Rathi. Please go ahead.
- Rachit Kamath:** Sir, please give us a guidance for FY19 and following that year, FY20, like any thoughts on the topline.
- Atul Tantia:** FY19, we expect revenues to be close to 700 crores and almost 25% growth for the next year.
- Rachit Kamath:** Sir, wasn't this number (+800) before, I mean, in the past quarters.
- Atul Tantia:** No. That was I think you are talking about pre-GST times, so that was prior to GST. So, GST impact is almost 10%.
- Rachit Kamat:** Okay, and we are maintaining the 14% EBITDA margin?
- Atul Tantia:** Yeah, at EBITDA levels we will be north of 14%.
- Moderator:** Thank you. 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 Q1 FY19 Earnings Call. As I said earlier, we have updated revised presentation on our website and the website of the stock exchanges. In case you have any further queries, you may get in touch with Stellar Advisors or please feel free to get in touch with us. Thank you for participating in the call today. Have a good day.
- Moderator:** Thank you very much sir. Ladies and gentleman, on behalf of GPT Infraprojects, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.