GPT Infraprojects Limited

Q1 FY 2016 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q1 FY16 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. Please note that this conference is being recorded.

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

Atul Tantia: Good morning everyone and a warm welcome to our earnings conference call for the first quarter ended June 2015. I have with me Mr. Gaurang Vasani of Stellar IR Advisors, our IR advising firm; Mr. A. K. Dokania – our CFO. I hope you all have received the updated Investor Presentation, which is also available on our website for your reference.

I will do a brief summary of our operational and financial performance for the quarter and then we will take the questions.

Since some of you are attending the call for the first time, we will start with a brief overview of the company. GPT is an infrastructure company based out of Calcutta. We primarily focus on railways with two major business segments: EPC and railway sleepers manufacturing.

We started Railway sleepers in 1980 and set up the first factory at Panagarh in West Bengal in 1982. We were the pioneers in this field in India. Since then, we have manufactured more than 10 million sleepers in India at our Panagarh facility. We have also exported sleepers to Bangladesh and Sri Lanka from Panagarh. We are present across the entire value chain in terms of design of track super structure, transfer of production technology, investment in plant and machinery, establishment of concrete plants, and obviously manufacturing of concrete sleepers.

We presently have three manufacturing locations. The first one, as I said, is in Panagarh, which has an annual capacity of 480,000 pieces. The second one is at Ladysmith, South Africa, which was set up in 2008. The unit recently completed its expansion and now has an annual capacity of 500,000 sleepers. The third plant is in Namibia, which was established in 2010-2011 in partnership with the Government of Namibia under a PPV model and has an annual capacity of approximately 200,000 pieces after the completion of its recent expansion. Like I said, we have exported sleepers to Sri Lanka and Bangladesh where we have supplied dual gate sleepers, turn out sleepers and major variety of sleepers. In the past, we have established two plants in Mozambique for a World Bank funded projects, and set up two turnkey projects for sleeper manufacturing in Myanmar under international lead funded line of credit.

Our strategy is to grow the sleeper business both in India and abroad. This will be through opportunities for connecting mines to ports in Africa. We believe that Africa and Middle East is a high growth market for us, and that will lead to lot of growth opportunities. That is why we completed the recent expansion.

In the domestic market we see several opportunities in the dedicated freight corridor projects. We feel that there will be lot of opportunities for setting up sleeper plants wherein company is having heavy haul experience, and would be able to setup facilities for project specific contracts in a time bound manner.

Our client base includes Indian Railways, PSUs such as IRCON, RITES, and a host of private steel and cement plants in the Eastern part of the country. Our global clients include Transnet, TransNamib and RICON, which is a joint venture between RITES and IRCON. In FY15 we recorded Rs. 91 crores of revenues in this segment with an EBIT margin in the range of 10% to 12%. Our current order book stands at almost Rs. 237 crores in this segment with almost 41% coming from South Africa and 40% from Namibia and the balance in India. In India, normally we get biennial contracts from railways so that is why the Indian order book is standing at a lower percentage right now.

Now let me switch to the EPC business. In the EPC business, we are a leading player in the construction of bridges in India. We are one of the three to four companies involved in the construction of mega steel bridges for railways and have one of the largest order books for railway steel girder construction in the country today. We have also diversified into flyover construction, airport tarmacs, industrial and urban infrastructure.

Our core competence is in steel girder bridges with a strong execution track record. Some of our landmark projects include a double-decker bridge for IRCON over Ganga in Patna, bridge over River Barakar in Eastern Railway in West Bengal, and bridge over Mahanadi for RVNL. We have also done a bridge over Kosi in North Bihar, which is one of the mega bridges for railways. We have also completed a carriage cum loco repair workshop in Harnaut, near Nalanda for East Central Railway.

The railway market in India has lot of opportunities both in the Dedicated Freight Corridor market as well as the doubling of lines, track renewals and shifting to heavy haul traffic. The participation would also include contracts, which would be awarded under PPP model. We believe that we are adequately positioned to tap this opportunity on our background of established track record on completion of projects.

In the last year, we had recorded revenues of Rs. 290 crores in this segment with an EBIT margin in the range of 13% to 14% over the last three to four years. Our current order book stands at almost Rs. 1,200 crores, of which the railway bridges is almost 49%, industrial projects 16%, and others 35%. Key projects under execution right now are civil work for substation works in for BHEL in Agra, earth work in bridges in Ahmedpur for Eastern Railway, which is almost a Rs. 150 crores contract that involves track linking, track renewals, minor bridges, culverts and the likes. Other projects include a mega bridge for railways over Yamuna near Kalpi in Kanpur for RVNL, and a bridge over River Pular for North Bengal Development Authority in West Bengal.

In terms of our first quarter performance, the company recorded revenue of Rs. 105 crores as compared to Rs. 82 crores for Q1 FY15, which represents a year-on-year growth of almost 28%. The growth was largely driven by our infrastructure business. Our EBITDA for the quarter was around Rs. 17.2 crores compared to Rs. 16.3 crores in the corresponding quarter last year, a year-end growth of almost 5%. EBITDA margin was in the range of 16%. Profit after tax grew from Rs. 2.3 crores in QY FY15 to Rs. 3.7 crores in QY FY16, a year-on-year growth of 62%. This quarter we have reduced our interest expense by almost 14% year-on-year. The PAT margin was 3.5% in QY FY16 compared to 2.8% in the corresponding period last year. Our total order book stands at nearly Rs. 1,460 crores for both the segments: sleepers and infrastructure. Our average execution period is almost 2 to 2.5 years.

As you are aware, in the past, this sector has faced working capital issues and the same affected us. However, we have taken steps to reduce the working capital cycle by focusing on pending collections in current projects and focusing on contracts, which have mobilization advanced conditions. Besides, we are also working on reducing our inventory holding period and striving for more effective transition of machinery and manpower.

For the full year, we expect top line to grow by 25% to 28% and continue to maintain our EBITDA margin in the range of 14% to 15%. We also strive to reduce our interest cost by almost 12% to 15%.

I think this along with my presentation circulated to you gives you a brief overview of our performance for the last quarter. With this, we can open the floor to any questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session.

We have the first question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is, fiscal year-to-date what sort of traction have you seen in Indian Railway contracting activity pick up in CAPEX? They have budgeted for almost 52% increase in CAPEX this year. So being a supplier to Indian Railways, what sort of traction are you seeing?

Atul Tantia: In terms of new contracts from Indian Railways in this fiscal year, we have seen lot of movements. However, there is a lot of focus in Indian Railways currently to fund the existing contracts. The newer contracts are getting awarded also. We ourselves have got close to Rs. 150 crores of new contracts in this fiscal year from Indian Railways, which is almost 50% of our growth in the order book for this year.

This would compare to maybe around Rs. 50 crores to Rs. 60 crores, which we received in the similar period last year. You can say almost a growth of two, two and a half times for us.

Sumit Kishore: Okay and would you say that overall also there is a similar traction that you are observing of 50% or higher growth in contracting activity as compared to the same period last year not only for you but for railways in general if you could make a comment?

Atul Tantia: I think for railways, in general, there is an uptake in the contracting activities. However, I think that it would not be in the range of 50% because there are not too many people who are able to build that. In the newer contract where we are bidding we are not seeing too much of competition. So, I think that there is an uptake of close to 15% and 20% rather than 50% in investments in Indian Railways.

Sumit Kishore: Okay, and if I am right, you focused on sleepers and the bridges etcetera so what sort of traction are you seeing in the Dedicated Freight Corridor related jobs as well?

Atul Tantia: We are currently negotiating a contract with one of the companies, which got a contract for the Eastern dedicated freight corridor recently. We ourselves received a small package in joint venture with IL&FS in for Dedicated Freight contract. It is a Rs. 140 crores contract and joint venture with IL&FS.

Sumit Kishore: In Eastern Freight Corridor?

Atul Tantia: In the Eastern corridor, right, and it is near Jhansi. It is a construction of bridges and track work for DFCC. There are projects, which are coming up for dedicated freight corridor. There have been two contracts in the Western part, which have been recently awarded to a joint venture of IRCON and Tata Projects. So there are lot of contracts which are getting awarded in the Eastern as well as the Western Dedicated Freight Corridors.

Sumit Kishore: Okay, and so bridges are also awarded as part of a single EPC contract or you have separate contracting activity for bridges?

Atul Tantia: It depends. The mega bridges are awarded separately but bridges, which are say about Rs. 100 crores, Rs. 120 crores would be awarded as part of this package. Recently GMR has got a Rs. 5,000 crores contract as you might be aware in Eastern corridor. They have two large bridges. So we are also in talks with GMR to sub contract those two bridges out from their package.

Sumit Kishore: So typically competition for in your category for sub-contracting activities as well as, you know, for bridges in general, how many players do you think would be vying such contracts right now in Eastern areas where you operate?

Atul Tantia: We actually are not limited to Eastern India. We are doing lot of contracts also. We are on contract for Cochin Port Trust where we are doing a flyover. We have four to five contracts in UP. We have contracts in Madhya Pradesh, and Chhattisgarh as well. In terms of competition, I think that earlier we used to see maybe six or seven bidders in a project. Now we are seeing maybe two to three bidders. Because lot of companies are still facing issues with regard to the issuance of bank guarantee earnest money deposits for that.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Canara Robeco. Please go ahead.

Yogesh Patil: Regarding your concrete sleeper business, what is the utilization right now?

Atul Tantia: We have recently expanded our capacity in South Africa and Namibia where we are utilizing almost 60%-65% of our capacity right now. I think we are doing similar numbers in India too. So we are doing close to 65% to 70% in India.

Yogesh Patil: But in standalone sir, I saw in your segmental in concrete. We made loss of roughly Rs. 4.7 crores. Is there something up-fronting cost or is it one-off or is it the business if you compare year-on-year there is loss?

Atul Tantia: Yes, because the stock is lying in inventory at cost, so revenues haven't been recognized.

Yogesh Patil: Okay, that is one of the reasons.

Atul Tantia: So dispatches have not happened, but production might have happened.

Yogesh Patil: Okay cost is upfronted. And sir, my second question is who are the competitors in your concrete sleepers in India?

Atul Tantia: Well, in India concrete sleepers is more a region specific business. There are about 60 odd players in the country and since it is quite a heavy item, one sleeper weighs almost 300 kg, so transport from one location to the other is cost prohibitive. Railway gives you orders based on their requirement in the region.

Yogesh Patil: Just for a case what is the volume versus last quarter versus year-on-year, volume growth or de-growth in concrete?

Atul Tantia: Volume growth de-growth, we can get back to you. I mean we can answer you offline. I do not have that available right now.

Yogesh Patil: Okay, and one more thing. In DFC Eastern and Western roughly, how much demand do you see? What is the expected demand only for DFC?

Atul Tantia: For concrete sleepers?

Yogesh Patil: Yes concrete sleepers.

Atul Tantia: We have to set up a new factory for concrete sleepers for DFC. It is very difficult to supply from an existing factory because it is a new design, and again since freight is prohibitive the contractors would like to set up the factories along the track, and one kilometer is typically 1670 sleepers, so I guess you can multiply.

Yogesh Patil: Okay so it is not fungible, right, it requires a different machinery or different quality of cement?

Atul Tantia: Well, it requires different production techniques, in the sense that it depends on how fast or the capacity you want to build up. It depends on the level of automation. Our South Africa and Namibia factories are more automated compared to our India facility because the cost of labor is quite high there compared to what is there in India.

Yogesh Patil: We are expanding our capacity in future for DFC?

Atul Tantia: No, we are in talks with a couple of the larger contractors who have contract for DFCC. We would be setting if we are able to get one of those contracts. We will set up the facility for the contractors along the track. We will not, what you call, expand our capacity in the existing locations.

Yogesh Patil: Just take it for 200,000, how much would be CAPEX require?

Atul Tantia: 200,000 per year?

Yogesh Patil: Per annum, Yes rough number.

Atul Tantia: We are doing 200,000 per year, you will require close to Rs. 8 crores to Rs. 10 crores maybe.

Yogesh Patil: Rs. 8 crores to Rs. 10 crores, okay that is not a big number, okay.

Moderator: Thank you. We have the next question from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

Kunal Sheth: In most of the domestic orders that you bid, generally you bid alone or you bid with some JV partners especially on the EPC side?

Atul Tantia: Well, right now we have five or six contracts, which we are doing that are Rs. 100+ crores and we have completed some contracts, which are Rs. 80 crores to Rs. 90 crores. We have credentials wherein we can bid for contracts around Rs 250 crores individually. But as you migrate to larger contracts, you will obviously need joint venture participation. That is how it happens in this industry. Even the larger players have consortium agreements. But now the recent contracts that we have got are mostly in our single name. We do not have lot of new joint ventures.

Kunal Sheth: Okay, so generally, we look for any strategic tie up, or it is kind of based on contract-to-contract?

Atul Tantia: It is contract-to-contract. We are not doing strategic tie ups. It depends on the credentials available with the joint venture partner.

Kunal Sheth: In the domestic business you talked about working capital being stretched over the last two to three years and we are doing some work on reducing our working capital. So any targets that we have set for ourselves for reducing working capital over the next one or two years?

Atul Tantia: Well, right now I think our working capital cycle is close to 8-8.5 months and that was as on March. So the target is that we should reduce it to 6, 6.5 months by next March. March '16 we should come to 6-6.5 months. So almost a 2-month reduction in working capital cycle.

Kunal Sheth: Okay, so and this would be minimum cycle which will?

Atul Tantia: No, this is not the optimum. Optimum is 5 to 6 months.

Kunal Sheth: 5 to 6 months, okay. So after March '16 also there will be some room for improvement?

Atul Tantia: Yes, so you will also see that our interest cost has come down this quarter by almost 14%. As I said in my opening remarks that we expect interest cost to come down on an annual basis by almost to the same number 14% to 15%. That itself represents a reduction in working capital cycle.

Kunal Sheth: And sir, also if you can throw some light on your South African business. In terms of opportunities, what are the kind of CAPEX that the government there is talking about or growth opportunities there over the next two to three years?

Atul Tantia: Well South Africa, we are supplying to Transnet, which is the railway freight operator in South Africa and we have a contract with them -- the balances of almost three years wherein we will be supplying close to 1 million sleepers for them. South Africa is a market, which is heavily dependent on commodity prices. So the growth happens with the upward movement in the commodity prices and right now the growth is subdued because commodity prices are suppressed. But their investment cycle has not slowed down. They still want to grow their investments in the railway sector wherein they will be investing for new lines or renewal of existing lines and upgradation of the lines to carry more traffic load. The government is spending lot just as in India. In India they are a lot focused on infrastructure spending because that is the way they think they will come out of the slowdown that they are facing recently.

Moderator: Thank you. Next question is from the line of Milind Muchhala from Barclays. Please go ahead.

Milind Muchhala: Just a couple of questions. I just needed some more clarity about the order inflow – in the order book because I was just looking at the BSE announcements that were there and on 3rd of June when we had got an order inflow of Rs. 62 crores. It was mentioned that the order book stands at Rs. 2,058 crores, and then on 6th of August there was an order inflow of Rs. 52 crores and then it mentioned that the order book stands at Rs. 1,691 crores. So were there some orders that got canceled in the interim?

Atul Tantia: The orders were not canceled. We had operated our list in terms of orders that were closed and orders that were completed. So that is why as on 30th June we have updated that list. That is why you might have seen that movement.

Milind Muchhala: No but the reduction is like almost Rs. 400 crores so?

Atul Tantia: There are many contracts which are completed. This is a gross order book. So this announcement was with regard to the gross order book I think rather than the net order backlog. That has been updated in some sense. There are a lot of contracts which we have completed in the last 3 to 4 months which were totally.

Milind Muchhala: Would not that get reflected in the revenues per se?

Atul Tantia: No, this is historical completion so this is not the order backlog. This is the gross order book. If you see the number, the numbers that we have mentioned is from gross order book.

Milind Muchhala: Okay, so this Rs. 1450 crores that we are mentioning right now?

Atul Tantia: Is the net order book. This is the outstanding order book. This includes the sleeper business.

Milind Muchhala: And this you expect it to get completed over the next 2 to 2.5 years?

Atul Tantia: Correct.

Analyst: So in case of the sleeper business then what are the sustainable margins that we can look at?

Atul Tantia: I think in terms of India on a gross number the EBITDA level is close to 14% for sleepers also.

Analyst: This is for both India as well as outside India?

Atul Tantia: I am talking about consolidated basis, Yes.

Analyst: Because if I look at the history so I think over the last few years we have been doing EBIT margin of closer to around 8%, 9% for the sleeper business?

Atul Tantia: No, I am talking about EBITDA. I said EBITDA I did not say EBIT. Because depreciation in South Africa and Namibia is quite high, they follow IFRS. So the depreciation number is very high. I think depreciation is close to 8% to 10% of the revenues.

Milind Muchhala: And sir, over the last few years we have been stuck in this consolidated revenues of somewhere between Rs. 400 crores, Rs. 450 crores. And I believe earlier, what you kind of mentioned, is that we did not want to compromise on our margins and that is the reason we were very selective in the orders that we took. So how do you see this scenario now panning out because I believe now the order flow scenario should be relatively better? So now, say over the next let us say two to three years, what kind of CAGR are you looking at in terms of revenue growth?

Atul Tantia: As I said in my opening remarks, we are looking at a CAGR of almost 25%, 28%.

Analyst: Okay, and sir any risk to that target?

Atul Tantia: No, there is no risk as such because for the next two years as I said we have a revenue visibility and I think that we should be able to achieve that growth number.

Milind Muchhala: Okay and so what are our plans on the borrowings that we have because again the working capital cycle would remain a bit stretched so?

Atul Tantia: No, we have reduced our borrowings compared to March '14. From March '14 to March '15 and again from March '15 to June '15 we have reduced our borrowings.

Milind Muchhala: Right, but now as the revenues go up then again that will lead to higher?

Atul Tantia: Yes, as I said we are looking at liquidity. We are focusing on many of our old outstandings. We are streamlining our cash flow from mobilization advances from new contracts that we are getting. We are not looking at any further increase in bank borrowings at the moment.

Milind Muchhala: And sir, in terms of the geographical presence are there any specific geographies where you are seeing greater enquiries coming through?

Atul Tantia: Nothing as such. I think it is across the board so we do not see a region specific spurt in enquiries on whatever. There is no region specific across the board.

Moderator: Thank you. That was the last question from the participants. I would now like to handover the conference back to Mr. Atul Tantia for his closing comments. Over to you, sir.

Atul Tantia: Thank you everyone for participating. I think that this concludes our conference call for this quarter. In case you have any questions, you can get in touch with Stellar IR or I think the presentation as well as the transcript. The presentation is already available on our website and this transcript will be put up on the website in a couple of days. So if you have any questions, you can get it in touch directly with them.

Moderator: Thank you very much, sir. Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.