# GPT Infraprojects Limited

# Q2 FY 2016 Earnings Conference Call

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**Moderator**: Ladies and Gentlemen, Good Day and Welcome to the GPT Infraprojects Limited Q2FY16 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 Infra for his opening remarks. Thank you and over to you sir.

**Atul Tantia**: Thank you. Good Afternoon, Everyone and Happy Diwali. A Warm Welcome to Our Earnings Conference Call for the Quarter ended September 2015. I have with me Vikas and Pooja from Stellar IR Advisors who are Investor Relations firm. I hope you have received the 'Updated Presentation' that Pooja had circulated to everyone; we have also uploaded on our website for your ready reference. We do a brief summary of our Operational and Financial Performance for the quarter and our strategy, and thereafter we take any questions that you may have.

As some of you may be aware from the last couple of conference calls we have been having, GPT is niche where we are a focused infrastructure player with two broad business segments; EPC which is about ¾ of our top line and Concrete Sleepers manufacturing for railways which is the balance 1/4. Majority of our EPC work is focused on construction of railways and other bridges which forms about 70% of our EPC order book. We have a strong foothold in steel girder bridges. Some of our credentials in the segment include construction of the longest rail-cum-road bridge over Ganga in Patna and construction of two out of the four mega bridges for railways.

As you are aware, there are huge opportunities across the segments and our strategy has been to grow our business proportionately. The Government of India is taking every possible initiative to boost the infrastructure sector and railways is a key focus area. In the budget 2015-16, the capital outlay for railways have been increased by Rs.100 billion. The Railway Budget for 2016 has proposed 970 road under bridges and over bridges, we consider the cost of approximately Rs.6,500 crores. Moreover, under the Setu Bharatam Scheme, the Road and Transport and Highways Ministry will undertake construction of approximately 200 new ROBs and rebuild 100 of the bridges. All these combined present a huge opportunity for GPT. We have already bid for four to five ROB and are waiting results for the same. Yesterday, we have already won order of almost Rs.113 crores for an ROB Project in West Bengal, Kolkata.

The other segment that we also focus on is EPC work for metros, which is a huge opportunity for us. We are already doing the work for Kolkata Metro Rail Corporation Limited, which is Rs.35 crores work for elevated corridor. In the EPC segment we have also expanded the industrial projects, which will be a focus area for us. We have an order for structures for BHEL in Agra for the substation works, which is one of the largest orders that we have till date. We are also doing Construction for Intake Well for Raghunathpur Power Plant for DVC.

In the Concrete Sleepers business, we are one of the key suppliers for Indian Railways for the Eastern Region and have long term contracts with Railways. Our factory at Panagarh has been operating since 1982, almost 33-years today. The Government is also focused on the faster execution of the Dedicated Freight Corridor, both Eastern and Western Corridor. As most of you might be aware, the Western Corridor has been funded by the Japanese Government and the Eastern Corridor has been funded by the World Bank. This presents an additional growth area for us. Dedicated Freight Corridor has a total track record of almost 6,000 kms because it is double lines and each kilometer of track required approximately 1,600 Sleepers.

Yesterday, we announced an order of about Rs.246 crores from GMR, which is executing a large contract on the Eastern Dedicated Freight Corridor. This is a World Bank funded contract and the payment conditions are 10% in advance.

In addition to India, we also have two manufacturing facilities for Concrete Sleepers in South Africa and Namibia which continues to be a key market for us with high growth opportunities. We have recently expanded our capacity both in South Africa as well as Namibia. In South Africa, we are one of the only three suppliers for Concrete Sleepers; in Namibia, a joint venture with the Government of Namibia, we are the only Concrete Sleepers supplier in that country.

Now, let me come to the Performance for this Quarter. This quarter's performance has been in line with our expectations; the revenues for quarter stood at Rs.97 crores as compared to Rs.92 crores in Q2 FY15, a year-on-year growth of almost 6%; our EBITDA for this quarter was almost Rs.15.5 crores compared to Rs.13 crores for the corresponding quarter last year, which corresponds to growth of almost 19%, with an EBITDA margin of close to 16%. We are relentlessly focused on maintaining our EBITDA margins even during the tough times over the last two years. As you see from our numbers, over the last couple of years, our revenues have almost been flat but our margins have been maintained at around 13% to 14% which signifies our continuous focus on projects that meet our target EBITDA.

The profit after tax has proportionally grown higher than our revenues; the reported PAT is Rs. 2.4 crores for this current quarter at a margin of 2.5%. The robust growth in PAT has been due to reduction in interest rates and interest expenses including finance charge by 9% year-on-year. Multiple of factors have contributed to this exercise; there have been debt repayments of almost Rs.6 crores; interest rates have been reduced by banks; also the newer contracts, like I said earlier, have interest stream of advance commissions; and last but not least we have better payments from the customers which have improved our working capital cycle. Having said this, we are continuously focused on improving our working capital cycle, which has got stretched in the last couple of years owing to slower payments and project certifications from client. There have been consistent follow-up from the management on the pending collections in the current projects which is regularly monitored by the audit committee as well as the Board. For the new projects, there are assured advance commissions. These have contributed to the better working capital cycle.

Having said this, this has been a very robust year for us in terms of order inflows. As you might have seen from the 'Presentation', we have received close to Rs.700 crores of new orders in FY16 so far. Our total unexecuted order book stands at close to Rs.1900 crores; this includes both segments for Infrastructure as well as Concrete Sleepers. The average execution period is 2-2.5-years. The EPC order book is close to Rs.1450 crores and the rest is Concrete Sleepers order book. This has also increased our average ticket size for the project; currently, we are executing 5-6 projects which are Rs.100 crores plus.

On the Balance Sheet side, our net worth is close to Rs.156 crores and total debt on a consolidated basis is close to Rs.220 crores. Cash and bank balance and current investments are Rs.18.5 crores as on 30th September.

For the full year we are expecting our top line to grow by at least 25% and the order inflow in both EPC as well as Concrete Sleepers have picked up, which will help us achieve our guidance for the full year. For Concrete Sleepers, the expanded capacity in South Africa as well as Namibia will also help us contribute to the growing top line in the future. We continue to maintain our guidance of EBITDA margin in the range of 14-15% and we will strive to reduce our interest rates by close to 15-20%. Having said this, this is all from my side and we are now open to any questions.

**Moderator**: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kunal Seth from Prabhudas Lilladher. Please go ahead.

**Kunal Seth**: If you can highlight in terms of Railways CAPEX, how exactly is the order flow in terms of new tenders panning out, and if you can throw some numbers in terms of what are the tenders actually coming out and how do you see the pipeline for the next 6-12 months?

**Atul Tantia:** In terms of Railways CAPEX, as I have said in my opening remarks, there is a lot of focus on ROBs and RUBs and also they have tied up with the Ministry of Road and Transport for construction of about 350-odd bridges. So in total they plan to construct about 1300 bridges over the next 2-3-years. This will be at a cost of close to Rs.9,000 crores. This obviously presents a huge opportunity for us. We have already bagged an order in this segment, which we announced yesterday of almost Rs.113 crores. We are negotiating with them for another 3-4 ROBs for which the results are awaited and we will inform the market as and when ready to come through. In addition to this, we are also bidding for other river bridge contract. So we are in constant touch with railways for newer contracts which are more significantly challenging; so Rs.100 crores plus contract, wherein we can contribute to our skills and that would also drive the margin going forward. For Railways, this is our EPC segment and in Concrete Sleepers segment also, there is a huge opportunity with the DFC contract that we announced yesterday. I think we will be able to enter this market significantly and people will start recognizing us for the opportunity; like I said, almost 6,000 kms require Sleepers per kilometer, so a huge opportunity that presents itself.

**Kunal Seth**: In the ROB, who are our key competitors whom generally have we seen bidding?

**Atul Tantia:** So for ROBs, the companies are Gammon, HCC, even L&T and some of the regional players. Even some of the Railways PSUs like BBJ bid for similar ROBs.

**Kunal Seth**: So given the opportunity is very large, what is the annual order flow we are looking at for the next 2-3-years – will it be upwards of Rs.1,000 crores per annum or more?

**Atul Tantia:** I think till date we have got almost Rs.700 crores of new orders and we expect another Rs.1,000 crores by March and obviously we like the order book to grow in line with our revenue growth.

**Kunal Seth**: In terms of working capital, we have seen some reduction. So what is our year-end target in terms of working capital days that we are looking at and management is working towards?

**Atul Tantia:** Working capital we have seen reduction of 234-days, that is on a trailing 12-months basis; for the year end we are looking at between 200 and 210-days of working capital cycle.

**Kunal Seth**: On a long-term basis, say maybe another one year down the line, can it go down further or this 200-days will be steady state basis or there is scope to improve further even after 200-days?

**Atul Tantia:** March '17 we should be between 180-days and 200-days.

**Kunal Seth**: So there is definitely further scope of improvement?

**Atul Tantia:** Our interest cost has also come down by almost 9-10%. By the full year we expect interest cost to come down anywhere between 15-20%.

**Kunal Seth**: Because of working capital coming down and interest rate also coming down, how much do we expect our interest cost to come down this year in terms of …?

**Atul Tantia:** Last year it was almost Rs.40 crores. This year we expect it to be almost Rs.33-34 crores.

**Kunal Seth**: This year we said that we are looking at a top line growth of 25-30%. What would be our long-term target in terms of 3-5-year target for sales growth?

**Atul Tantia:** I think we should maintain the CAGR of 25-30%. The new DFC contracts will give a bump up in the next 2-years because this Rs.250 crores order has to be executed over 2-3-years. So obviously this will provide an additional boost to the top line and the bottom line.

**Moderator**: Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

**Utsav Mehta**: Just a few on the macro scenario in the Railways segment. I just wanted to ask if there is a recognizable increase in the quantum of tenders that have been floated vis-à-vis the same time last year because if I looking at the government spending figures, there does not seem to have been a mark increase even though the budgeted number is huge?

**Atul Tantia:** The tendering has obviously picked up and what we are also seeing is that the competition is much less compared to previous. So, our strike rate has obviously also improved. That increases our chances to get better contracts. The government spending, you are right, has not improved as per the numbers put out by the government for the first half; however, in infrastructures, most of the government spending happens in the second half because first half is generally where you hit with monsoon and everything else, and this year monsoon was quite disproportionate, there were some stretches which were facing trouble due to huge monsoon effect. So the second half generally, Infrastructure spending is almost 60-65% of the full year.

**Utsav Mehta**: Just curious on this comment that you made in terms of competitive intensity reducing; why do you think that is happening?

**Atul Tantia:** I think it is happening because the management does not want to burn their fingers and repeat what they did in the last two to three years wherein people were bidding very aggressively for contracts and they landed in a lot of legacy orders which are not very profitable for some of the players.

**Utsav Mehta**: One of the themes that the government has been pointing out is focus on doubling of lines and I am guessing this would have a very positive effect especially for your second segment. Are you seeing this happening on the ground in terms of increased focus on line doubling?

**Atul Tantia:** Yes, we are seeing a lot of focus on line doubling, in some phases tripling or pole lines and decongesting of lines is our huge focus. There is an opportunity for us both in our EPC as well as Concrete Sleepers in this respect.

**Utsav Mehta**: Could you just provide some numbers on that, probably a rate of growth at which this particular segment is growing or something like that, just to give some sense in doubling and tripling, the quantum or the amount of tenders that have been coming out?

**Atul Tantia:** We will have to give to you offline, I cannot give you off hand right now.

**Utsav Mehta**: Is the execution happening as per expected timelines or are you seeing delays as far as on-ground activity goes for the DFC contracts?

**Atul Tantia:** Execution is picking up and all of the contracts that have been awarded already, land issues are not there. Land has been acquired and all the clearances are already in place. Execution is happening both in the Eastern as well as Western Corridors.

**Moderator**: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Atul Tantia for his closing remarks.

**Atul Tantia:** I thank everyone for participating in the conference. I understand that it is almost a holiday week for most of the people, so maybe people have already gone on leave or something. I think this sector and this segment has a huge growth opportunity for L1. We are on track to achieve the guidance that we have given. If there are any further questions that you might have offline, you can contact Pooja and her team directly, and the coordinates are on our website or it is also in the presentation that has been circulated. Happy Diwali.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of GPT Infraprojects, that concludes this conference. Thank you for joining us and you may now disconnect your lines.