GPT Infraprojects Limited
Q2 FY 2017 Earnings Conference Call

November 11, 2016

Management: Mr. Atul Tantia
– Executive Director, GPT Infraprojects Limited

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– Chief Financial Officer, GPT Infraprojects Limited

Moderator: Good day, ladies and gentlemen, and a very warm welcome to GPT Infraprojects Limited Q2 FY 2017 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 am now glad to hand the conference over to Mr. Atul Tantia -- Executive Director, GPT Infraprojects. Thank you and over to you, sir.

Atul Tantia: Thank you. Good afternoon everyone and a warm welcome to our second quarter earnings call for the quarter ended September 2016. I have with Mr. A. K. Dokania, our CFO, and the team from Stellar IR Advisors, our IR Firm.

I hope you all have the received our updated Investor Presentation for the quarter and the same is uploaded on our website and the Stock Exchanges for your reference. We will do a brief summary of our operational and financial performance for the quarter and our strategy and thereafter I will take questions.

As you all are aware, after years of under investment, Indian Railways has allocated multi fold increase in the CAPEX plan, which would be mainly focused on network decongestion and cost optimization. The long-term assured funding and streamlining of IR's internal process via delegation of powers is firing up the execution, and the same is evident on the ground. There has been a lot of momentum in the Indian Railway tenders and orders being awarded by the government every month and quarter-on-quarter.

GPT, being a railway focused infrastructure player, is poised to benefit from the increased railway spending. For GPT, the railway opportunities lie in the safety measures including track renewals, bridge work, ROBs, RUBs, and network decongestion and expansion, including the dedicated freight corridor. The Government of India has begun Setu Bharatam project – a ₹ 50,800 crore project to free the National Highways from railway crossing by 2019. Under these projects 208 new bridges for ₹ 20,800 crore will be built and about 1,500 old bridges will be reconstructed at the cost of ₹ 30,000 crore within the above-mentioned time frame.

As some of you might have read in the newspaper, the government has already appointed a technical agency to do the study of these bridges.

In addition, DFC presents an additional growth area for us both in terms of concrete sleeper manufacturing as well as bridge works and track works. There has been increased momentum in awarding of western and eastern dedicated freight corridors in order to meet the 2019 deadline for commissioning. The railways have announced a preliminary study for the construction of three new freight corridors, that is, the east west, north south, and the east coast corridor, which entails a construction of almost 5,769 km of railway track. This presents a huge opportunity for our concrete sleeper business as it enclaves requirement of approximately

20 million sleepers for three new corridors, which is a market opportunity for almost ₹ 3,500 crore.

We already have a sleeper-manufacturing order from GMR Infrastructure for the eastern dedicated freight corridor. I am pleased to announce that trial production has already begun at one of the two factories in Uttar Pradesh, and the second factory will commence trial production in this month.

Let me now come to the financial performance for this quarter. This quarter has again be a robust quarter for us and we have reported 25% increase in revenue quarter-on-quarter from ₹ 97 crore in quarter two of FY 2016 to ₹ 122 crore in the second quarter FY 2017, reflecting higher execution of orders and rebound in the infrastructure markets. If you compare year-on-year growth for six months, we have increased revenues by more than 27%.

In terms of the infrastructure segment for the quarter ended September 30, 2016, revenue came in at ₹ 103 crore, that is a year-on-year increase of more than 42%. The segment accounts for 85% of the revenue from operations. Sleeper segment registered revenue of ₹ 18 crore during the second quarter ended September 30, 2016. The segment makes for almost 15% of the net revenue from operations.

As I said earlier, the trial production has already begun at one of the two factories in Uttar Pradesh for the DFC project, this should bolster sleeper segment revenue in the second-half of the year.

EBITDA for the quarter came in at ₹ 17 crore, a growth of 11% and EBITDA margin at 14%. The company has established a hurdle rate below which we do not bid for contracts.

The consolidated net profit after tax and minority share for the second quarter stands at ₹ 3.1 crore compared with ₹ 2.4 crore for the second quarter last year, registering a growth of 29%. PAT margin was at 2.5%.

We have continuously been communicating that we are committed to improving our working capital cycle and this has again been evident this quarter. We have successfully been able to do so. In the quarter ended 30th September, 2016, our working capital cycle stood at 124 days compared with 136 days in June 30, 2016 and 152 days in March 2016. This is net of interest free mobilization advance received from customers. We also recorded good order inflow during the quarter so far and remain on track to achieve the targets for the year.

Till date, we have received ₹ 219 crore of orders for the infrastructure in concrete sleeper segment combined, which includes a ₹ 99 crore contract from Northern Railway for construction of bridge in New Delhi.

Our total unexecuted order book stands at almost ₹ 1,550 crore, with the average execution period in the range of two to two and a half years. Out of the total order book, EPC accounts for around 74% of the order book, while the remaining is concrete sleeper order book.

In addition, we are L1 in close to ₹ 375 crore of new orders which we expect to be awarded by this calendar year.

Going forward we believe that we are on track and we will be able to achieve our FY 2017 top-line guidance of ₹ 700 crore with an EBITDA margin between 14% and 15% at the consolidate level and a PAT margin of around 3.5%.

As guided we have been able to reduce our working capital cycle significantly. Our cash flows have seen significant improvement on account of higher execution of infrastructure contracts that is enabling our business to run smother and offer higher value to our shareholders.

This is all from my side, and I would now request the moderator to open the floor for any questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from Anurag Goyal from Ampersand Capital. Please go ahead.

Anurag Goyal: I have a couple of questions. One, there is a de-growth in the sleeper division as well as the numbers segments wise results shows there is loss also. What is the reason for that?

Atul Tantia: The sleeper segments revenues have grown from the last quarter I do not know why you are saying de-growth. The sleeper segment revenue came in at almost ₹ 20 crore for this quarter and the main reason for not a significant growth in sleeper segment revenue is mostly on account of slower performance in South African subsidiary, which have since picked-up. The South African market was affected by the crash in the commodity prices mostly coal. But that has been picked up in the first week of October so, we are quite hopeful that we will be able to make up for the under performance of the second quarter in Q3 and Q4.

Anurag Goyal: But if we see the standalone segment wise results, I think the South African business does not come under the standalone unit, right?

Atul Tantia: No, it does not.

Anurag Goyal: So, that is showing a loss of ₹ 11 lakh wherein, in the last quarter there is a profit of ₹ 1.5 crore in the segment wise result. I am talking about profit before-tax and finance cost.

Atul Tantia: Yes, so it is having ₹ 11.5 lakh in loss.

Anurag Goyal: Yes, wherein the last quarter it was ₹ 1.5 crore profit. Even on year-on-year it was a profit of some ₹ 8 lakh.

Atul Tantia: Yes, so….

Anurag Goyal: So, as you mentioned the South African business slowed down, but this standalone does not have the South African business.

Atul Tantia: Standalone does not have the South African business, so this ₹ 11.5 lakh loss is mostly on account of some foreign currency exposure because we had some exports to Bangladesh and Sri Lanka. There is some effect of this foreign currency.

Anurag Goyal: The auditor mentioned in the limited review, there was outstanding debtors of more than ₹ 35 crore standing from more than three years. Is there any update on that?

Atul Tantia: This is mostly on account of the contract we have done from Government of Tripura, Agartala and debtor movement is quite slow. We are getting some money ever quarter and the entire amount is part of the qualification, but the movement is quite slow.

Anurag Goyal: And similarly there is another case which is under arbitration in the SPV, which is about ₹ 19.42 crore.

Atul Tantia: Yes, so, it is Jogbani Highway Private Limited.

Anurag Goyal: Yes.

Atul Tantia: So, that SPV arbitration is in the final stage. We expect the award to happen by March in our favor. NHAI does not have any counter claim against us. And basically, in SPV we have taken a BOT annuity contract in North Bihar from NHAI. NHAI was not able to give the land despite 20 months of financial enclosure. And we had tenured the contract from outside.

Anurag Goyal: Okay and the last question is about the trade receivables. You have shown the current and non-current trade receivables. So, what is the difference in both?

Atul Tantia: So, as per the terms of the contract some amount of retention money is deducted from all our invoices which is payable upon completion of the contract. The current & non-current classification is only accounting classification, which is receivable in 12 months and which is receivable beyond 12 months. So, as per contract that money received beyond 12 months is retention money.

Moderator: Thank you. The next question is from Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: You said we are on target for achieving the year's revenue target but would we be still at ₹ 700 crore in terms of our expected revenues ₹ 700 crore - ₹ 750 crore?

Atul Tantia: Yes, so, we have achieved about 35% of the revenues of the target of ₹ 700 crore. Normally in infra sector it is anywhere between 35% and 40% in the first-half and 60% and 65% in the second-half. I think we are well within that band. Also, we have not giving guidance for ₹ 750 crore revenue, we have guided for ₹ 700 crore revenue.

Ashish Shah: Right. So, ₹ 700 crore is something we are confident of achieving in this year?

Atul Tantia: Yes, especially because the two new factories from the DFCC will get commissioned. It would start adding onto the revenues so, we expect ₹ 40 crore incremental revenue in the second-half from those two factories itself which was not there in the first-half.

Ashish Shah: Sure. It is around mid-November already now. So, have we seen any revenue generation starting or we are still away, we see some revenue generation in Q3 from this, from both the factories or at least one of them?

Atul Tantia: From one of them we should be able to see it because our RDSO approvals are happening in the first factory. The second factory, as I said in my opening remarks, the trial commissioning should happen in this month itself so, that will only see revenues in the Q4.

Ashish Shah: Right, sure. In terms of margins you said around 14% -15% is sustainable.

Atul Tantia: Yes, so we have done 14.5% for this first-half itself. So, that is the level that we have always said we have achieved that also.

Ashish Shah: Sure. Could you give an idea about the how the international arms have done, both South Africa and Namibia in terms of broader numbers like revenue, EBITDA, and PAT may be.

Atul Tantia: Yes, so South Africa has done revenues of ₹ 15.07 crore. In Namibia, our share of the revenue, that is 37%, comes to ₹ 5 crore.

Ashish Shah: ₹ 5 crore?

Atul Tantia: Yes.

Ashish Shah: Any indication on the EBITDA or PAT?

Atul Tantia: The EBITDA has been between 25% and 30%. I do not have the exact number in front of me, I can may be give it to you offline or….

Ashish Shah: And these are PAT positive?

Atul Tantia: Yes, both are PAT positive.

Ashish Shah: Okay. So, both continue to be PAT positive?

Atul Tantia: Yes, both continue to be PAT positive.

Ashish Shah: Sure. Also, could you just probably highlight which are the main orders in your L1 position of ₹ 375 crore and what is the timeframe in which we expect that they will be awarded?

Atul Tantia: The main orders in most of these cases are about ₹ 300 odd crore of bridges for railways in and around Northern and Eastern part of the country and there is some rehabilitation work in Bengal. That is in the L1 stage and we expect them to be awarded by early December or max end of December. We are hoping they would be faster but it is a question of how soon it can get over.

Ashish Shah: Right. And lastly on the DFCC side, so have you been bidding or have you been negotiating for any future contracts on DFC?

Atul Tantia: We have had discussions with L&T for the Western Corridor in terms of concrete sleepers and also Tata Projects for concrete sleepers. In addition, we are discussing for some bridges with Tata and GMR for Eastern Corridor.

Ashish Shah: Right. We expect something to turn in your favor by this financial year?

Atul Tantia: I think we expect from the DFCC market in this year about ₹ 100 crore of new business.

Ashish Shah: About ₹ 100 crore.

Moderator: Thank you. We have the next question from the line of Pratik Singhania from Param Capital. Please go ahead.

Pratik Singhania: Sir, question was regarding Q2. How much order did we win in Q2 and incrementally what is the level of order flow or the tender flow that you see from the government and the private players? Is the intensity increased or it has stagnated a bit?

Atul Tantia: We did not win any order in Q1. All the order wins are in Q2 so, the entire ₹ 219 crore is in Q2 there were no orders in Q1 because railways is always back-ended. The first quarter is always, in terms of fixing the budgets and everything, like that. So, Q1 was dry quarter as such and Q2 was entire to ₹ 219 crore. In terms of intensity of bidding, I think that has increased significantly. We have now bid for almost ₹ 2,500 crore of new orders, already out of which some of them we are L1 as I said in ₹ 375 odd crore of orders. In many cases the financial part is not opened so, we are not aware of the outcome.

Pratik Singhania: And what kind of order flow or the opportunity we see for Q4?

Atul Tantia: We expect to close the year between ₹ 1,000 crore to ₹ 1,200 crore of incremental new orders. Out of which we have already done ₹ 219 crore. We would expect the balance to be done in the second-half.

Pratik Singhania: Vis-à-vis if I say comparing it with the last year, how was the new incremental order got divided between the first-half and the second-half in terms of it coming to us?

Atul Tantia: Last year I think first-half and second-half, I do not have the number in front of me available. But last year the entire order inflow was almost ₹ 890 crore out of which ₹ 250 crore was from GMR. I would say the incremental order flow was almost ₹ 640 crore for the infrastructure segment and balance ₹ 250 crore from the concrete sleeper segment. So, ₹ 640 crore we expect to cross ₹ 1,000 crore this year.

Pratik Singhania: Okay. And sir, like in H2 can we see improvement in the concrete sleeper business because that business has been like not doing so well, the margins are fluctuating, sometimes revenue is fluctuating.

Atul Tantia: See, concrete sleeper this year we expect to close at almost ₹ 150 crore of revenues for the year. I think that we are on track to achieve that kind of number out of the ₹ 700 crore especially for commissioning of the two factories in U. P. for Eastern DFCC. And margin wise, the concrete sleeper business has been affected to some extent by the foreign fluctuations, especially our African subsidiaries have the consolidation of the balance sheet to the Indian parent, which is not there in the infrastructure. So, then that affects the concrete sleeper. So, margin wise on a standalone basis, I would say that the margins are quite stable but the consolidation of the balance sheet might lead to fluctuations in the margins on a reported number.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference call over to Mr. Tantia for closing comments.

Atul Tantia: Thank you, everyone for your participation in the Q2 Earnings Conference Call. As I said earlier we have uploaded this presentation on our website, BSE and NSE. In case of any further queries you may get in touch with Stellar IR Advisors, our IR firm or us. Again thank you and have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of GPT Infraprojects Limited, that concludes this conference call for today. Thank you for joining and you may now disconnect your lines.