GPT Infraprojects Limited
Q3 FY-17 Conference Call-

February 10, 2017

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 Q3 FY17 Conference Call. As a reminder, 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 the operator by pressing '*' and then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Atul Tantia – Executive Director, GPT Infra, thank you and over to you, sir.

Atul Tantia: Ladies and gentleman, good afternoon everyone and welcome to our earnings call for the quarter ended December 2016. I have with me Mr. A. K. Dokania, our CFO and Pooja from Stellar IR Advisors, our IR firm. I hope you all have received the updated investor presentation. We have also uploaded the same on our website and the website of the stock exchanges. We will do a brief summary of our operational and financial performance for the quarter and the 9 months and thereafter I will take questions.

In the Union Budget 2017 on the 1st of February, Finance Minister Arun Jaitley announced the largest ever allocation for Indian Railways of ₹1.3 trillion with a cross budgetary support of ₹55,000 crore. The budget has focused on making railways a better mode of transport by taking steps towards greater safety, cleanliness and passenger comfort and higher service levels. In addition, they have also announced funds for safety program to avoid accidents. Some of the measures will greatly benefit GPT. Unmanned level crossings and broad-gauge lines would be eliminated by 2020 under which we expect orders for ROBs and RUBs.

Also, the government has announced commissioning of approximately 3,500 km of Railway lines in 2017-2018, which is an improvement of almost 25% compared to 2016-2017 target of 2,800 km. GPT being a Railway focused infrastructure player is well poised to benefit from increased Railway spending. For GPT, the Railway opportunities lie in safety measures like track renewal, bridge works, RUBs, and ROBs and network decongestion and expansion including the dedicated freight corridor. The dedicated freight corridor is a growth area both in terms of concrete sleepers as well as bridge works and track works. Projects awarded for the DFCC have progressed rapidly over the last 12 months and the current contracts awarded stand at more than ₹500 billion.

Now let us come to the performance for this third quarter and nine months ended December 2016. Total income from the operations for Q3 FY17 stood at ₹107 crore and the consolidated profit after tax stood at ₹3 crore. The PAT margin was 2.8%, the performance of this quarter was subdued mainly due to the slowdown in construction activity on account demonetization of the specified bank notes by the Reserve Bank of India. For nine months FY17, our income from operations increased by almost 12% to ₹364 crore, from ₹325 crore in the same period last year, consolidated EBITDA for the nine months ended December 31, 2017 stood at ₹52.5 crore with a margin of 14.4%. Consolidated net profit after minority improved by 24% to ₹11.1 crore.

We continue to focus on improving our working capital cycle and cash flows. As on 31st December 2016, our working capital cycle stood at 121 days compared to 232 days on March 2015 and 152 days as on March 2016. We have also recorded an impressive order inflow during the year so far and remained optimistic for the full year.

We have bagged orders of close to ₹640 crore in this financial year so far, this comprises ₹600 crore of orders in the infrastructure sector, including a contract of ₹217 crore announced yesterday from RVNL for construction of major steel girder bridges in the Mathura Jhansi third line. Our total unexecuted orderbooks stands at nearly ₹1,860 crore with an average execution period of nearly 30 months. Of these, EPC order book is 79% and the sleeper order book is almost 21%.

We are encouraged by the good growth in the infrastructure segment. The sleeper segment should see notable growth in revenue in the fourth quarter with the commencement of commercial production in the newly set up factories in Uttar Pradesh for the dedicated freight corridor. Our underlying strength in execution capabilities for both infrastructure and sleeper remains solid and we are confident of closing the year with robust growth.

This is all from my side. I would now request the moderator to open the call for any question anyone might have. Thank you.

Moderator: Ladies and gentleman, we will now begin the question and answer session. We will take the first question from the line of Krishna Nalamothu an individual investor. Please go ahead.

Krishna Nalamothu: Sir, out of orderbook of ₹1,860, you are saying it is the average of 30 months. Can you give some guidance on how much needs to be executed in financial year 2018-19?

Atul Tantia: The financial year 2018-19, will see out of the ₹1,860, approximately ₹800 crore in financial year 2018 and almost similar amount in FY19 and the balance would spill to may be FY20.

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

Pratik Singhania: Sir, my first question is regarding this demonetization, exactly how did it impact our profitability for the quarter because of demonetization.

Atul Tantia: It did not impact our profitability par se. It impacted more of our execution on revenues, because from the 10th of November to may be till the 15th of December, workers at the sites were kind of on and off because they were standing in queues rather than working on the site converting the currency for the day-to-day needs so this led to a lower execution in November as well as early December. So that one month revenues were quite subdued, otherwise the revenue for this quarter would have been much higher.

Pratik Singhania: Sir, do we do subcontracting or we manage the labor and execution on their own and in that case, are the labor paid via a bank account or are they paid in cash.

Atul Tantia: We don't generally take labor on our role, labor is managed through petty contractors who outsource the labor on a piece rate basis rather than a per labor basis. Whatever labor or employees that we do take on our rolls are paid through bank accounts, even the labor at our factory at Panagarh are paid through bank accounts since last 5 to 6 years and the employees are paid since inception through bank accounts. We pay the subcontractors also through RTGS, NEFT, any additional mode and then they in turn make payment to the labor. Now we have started ensuring that they are paying their labors through bank accounts.

Pratik Singhania: Right sir, my next question would be for Q4, what kind of an order inflow we can expect based on your pipeline, bidding pipeline and the outcome of the tender.

Atul Tantia: We are L1 in close to ₹150 crore right now so that would happen in Q4 and take the full year to almost ₹800 crore. We are bidding for another close to ₹1,500 crore of orders in the next 2 weeks, so hopefully that gets converted to new orders then we could be anywhere between ₹800 crore and ₹900 crore for the year.

Pratik Singhania: You said ₹150 crore L1 and you are bidding for ₹1,500 crore.

Atul Tantia: ₹1,500 crore in the next two weeks.

Pratik Singhania: Okay and this tender would be what kind of a work.

Atul Tantia: It is mostly bridges, ROBs, there are three or four ROBs and then there are some bridges for NHIDCL which is National Highways and Infrastructure Development Corporation Limited.

Pratik Singhania: Okay and this kind of a work execution would be over next 30 months.

Atul Tantia: Typically 24 to 30 months is average order cycle.

Pratik Singhania: Okay, so the entire tendering and bidding process for this ₹1,500 would be over by, safely we can assume, Q2 FY18.

Atul Tantia: No, the order decision would happen in the next 6 months.

Moderator: Thank you. We will take the next question from the line of Senthil Kamaraj from Newberry Capital. Please go ahead.

Senthil Kamaraj: Sir, my question is with respect to the note section in yesterday's press release if you could just see the note number 6, you mentioned about the unbilled revenue and receivables accounting to some ₹10 crore, which auditors have highlighted like the recoverability is doubtful, so could you provide some highlight or could you throw some light on this.

Atul Tantia: This is in regard to a contract that we have done in Patna, wherein the work has been completed in September of last year and there is unbilled revenue of our portion of almost ₹10.7 crore. This includes debtors, security deposit, and retention money. This is pending for more than the last six months, the orders are saying that and basically a joint venture and client confirmation not happening so that we are in the process of following up. Hopefully more significant part of the money would be recovered by March and the balance in June and July.

Senthil Kamaraj: Any, just a follow-up question from your total orderbook, do you foresee any orders being dropped or have you dropped any orders in this fiscal year.

Atul Tantia: No, not in the history of the company, except for one contract which has gone under arbitration with NHAI in 2010-11. We have not dropped any order in our history.

Senthil Kamaraj: Okay and any expansion plans in terms of other geographies or other product lines in fact.

Atul Tantia: So we are always in the process of bidding for contracts in newer geographies like this Mathura, Jhansi. Though both the cities which are indicated in the contract are U.P., but 80% of the contract is in Madhya Pradesh, so obviously it is a different geography which we are done were the smaller contract earlier. We are entering new states and we have recently got a contract in New Delhi for bridge. We have bid for contracts even in Andhra Pradesh and we are L1 in the contract in Uttarakhand also, so we are bidding contracts in newer geographies all the time. We are agnostic to the geography that we do operate in.

Senthil Kamaraj: Okay, just the last question, in this year’s budget speech, the finance minister categorically mentioned about conversion of meter gauge to broad gauge in the North-East corridor, so do you think there will be substantial order wins for GPT as such being operating in that region.

Atul Tantia: So we have lot of contracts in that region already. In Manipur, we have close to ₹250 crore of contracts in Manipur and we have also done contracts in Tripura earlier.

Senthil Kamaraj: And is it forming part of your orderbook sir.

Atul Tantia: Manipur is already part of the orderbook. It is, you see in our presentation, it’s there in the geography felt a distribution of the orderbook also. And Tripura also we have done works earlier so in fact we are doing works even in Assam, so obviously we will benefit from that order.

Moderator: Thank you. The next question is from the line of Mihir Desai an individual investor. Please go ahead.

Mihir Desai: My question is sir, can you please elaborate on the orderbook of ₹217 crore which was announced yesterday? Can you give us some margin expectations out of this and who were the other competitors who had bided for it.

Atul Tantia: The order is of some ₹217 odd crore for bridges between Mathura and Jhansi for the third line between Mathura and Jhansi. All construction has bided in three states; UP, MP and Rajasthan. One large bridge over Chambal River which comprises almost 60% of the contract value and then there are few smaller other bridges. The L2 was ₹220 crore which is a difference of ₹3 crore or almost 1.5%. The estimate contract value was ₹207 crore and our order is ₹217 crore which is almost 4 to 5% above their estimate. We have a hurdle rate of EBITDA for bidding for new contracts of 13.5% and this order is higher than that hurdle rate, so it would be north of 13.5%.

Mihir Desai: I just wanted to ask sir, what is the orderbook expected at the end of FY17.

Atul Tantia: We are right now at an unexecuted order book of ₹1,860 crore. As I said we are L1 in our orders of almost ₹150 crore, so I think for FY17, we should see a total order inflow of almost ₹800 to ₹850 crore for the year.

Mihir Desai: Okay and also sir, what will be the expected contribution of our sleeper business in revenue in the fourth quarter.

Atul Tantia: In the fourth quarter, we would do revenue of almost ₹40 to ₹45 crore or slightly higher.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Sir, I wanted to know the opportunity in railways in terms of the size of the budget, in terms of what we are getting from the entire thing. I just wanted to get your views on the opportunities we can target not just in the immediate quarter, but can we grow to a significant size from the current revenues that we are running?

Atul Tantia: Our addressable market out of this ₹1.33 lakh crore is almost ₹40,000 crores to ₹45,000 crore, but that 40,000 crores to 45,000 crore also involves lot of the smaller contracts, which are awarded to very small contractors, so I think that we would get close to ₹1,000 crore to ₹1,500 crore orders in the next year from this and in terms of our numbers, I think that we have earlier also said and that we continue to maintain that stand that by 2020, we would achieve a revenue of almost ₹1,500 crore, so which would involve a CAGR growth of almost 30% compared with where we were last year.

Shekhar Singh: Okay, and sir in terms of margins, like your margins have fluctuated between 13% to 15%, so can we expect something better or somewhere around this margin. Secondly, your cost of funding for the debt, are you expecting any reduction over there?

Atul Tantia: We have a hurdle rate of 13.5% for EBITDA, so generally our margins are between 13% and 15%, you are right. I think that as per industry that is a good margin, most of our peers don't see that kind of margin and it had been difficult to maintain it at that level. As regards to the cost of fund this quarter, we have seen the banks pass on some of the interest rate benefits to us and other companies I am sure, so the cost of fund has come down definitely in this quarter and last year we had total finance cost of almost of about ₹38.5 crore, which we expect this year to be almost ₹35 crore to ₹36 crore, so we will see a cost reduction in terms of finance cost by almost ₹3 crore this year, which would translate to almost 100 to 125 basis points in reduction of finance cost as a percentage of revenue.

Shekhar Singh: Okay and sir in terms of CAPEX, what is the CAPEX requirement?

Atul Tantia: Most of the major CAPEX for the two factories of almost ₹25 crore has already been incurred, the balance would be incremental CAPEX to fund some of the newer contracts which would not be anything major, it would be almost ₹10 crore to ₹12 crore a year maybe, nothing major.

Moderator: The next question is from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Could you give us the order backlog for December last year and breakup between EPC and sleepers. Secondly, trial productions have started for the DFC sleeper plant. So is that on full stream now from beginning of January?

Atul Tantia: It is not on full stream from beginning of January, it is under RDSO approval right now and it will get full stream hopefully in this month.

Devang Patel: Okay and you mentioned something about some revenue expectations from sleeper division of ₹45 crore, what was that pertaining to I missed that please.

Atul Tantia: The gentleman asked me questions with regards to what would be the expected sleeper revenues in this quarter, so that was my reply for this quarter, we expect revenues from the sleeper business to come in around ₹40 crore to ₹45 crore.

Devang Patel: Okay, on the claims side, do we have anything which is getting cleared expeditiously and we could get some big chunk in the near term, government is also trying to release money which is stuck in arbitration, so do we have any receivables against that.

Atul Tantia: We recognize claims as and when we receive. We don't recognize claims based on our filing of the claim with the various departments and PSUs. We have an ongoing arbitration with NHAI which is also part of our footnote to the results. So there is an exposure of almost ₹19.5 crore with regard to Jogbani Highway Private Limited, which is an SPV that we had formed for the BOT contract. The arbitration hearings have now been concluded and we expect the award to be published in the next two months. We expect an award in our favor and hopefully the claim should be settled by June maximum.

Devang Patel: Is this ₹19.5 including interest accumulated?

Atul Tantia: We don't accumulate interest on that anymore, so ₹19.5 is a constant number I think over the last so many quarters, other than the arbitration fees or the loss that we are incurring.

Devang Patel: So in case it gets awarded in our favor, the amount will be higher.

Atul Tantia: It should be because only interest we will get of almost 3.5 to 4 years so would be almost 35% to 40% would be only interest component plus whatever additional money that we would get in terms of claims.

Devang Patel: Okay, on the working capital cycle we are doing very well; how much room is there for further reduction based on how the railways is functioning?

Atul Tantia: Currently our working capital cycle is almost 4 months, and we expect it to come down to 110 odd days by March. I have the orderbook, so the order book for December last was ₹1,828 crore compared with ₹1,860 crore for this December, so almost at the same level.

Moderator: The next question is from the line of Pratik Singhania from Param Capital. Please go ahead.

Pratik Singhania: Sir can you give me breakup between the African and the Indian business revenue EBITDA margins for the concrete sleeper business for Q3.

Atul Tantia: The EBITDA margin of the African business is almost 25%.

Pratik Singhania: 25% for African and for Indian.

Atul Tantia: I will just come back to you.

Pratik Singhania: Not a problem. Sir in what kind of a traction are we seeing in the concrete sleeper in the African market, like is there a volume growth there and what kind of a future do we see for our company in the next 2 to 3 years over there?

Atul Tantia: So the African market is still subdued, there is not much of growth happening. The market is quite flat and we don't see too much of a growth happening in the next 1 to 2 years unless there is huge change in the commodity cycle because in Africa, that business is primarily dependent on commodity trading and we expect revenues from Africa to be close to ₹60 crore to ₹70 crore every year for the next 1 to 2 years in a short term.

Pratik Singhania: Okay, so what kind of a capital employed we have in the African business.

Atul Tantia: Capital employed, we have an investment from the Indian business, I can give that number, investment from that Indian business into Africa is close to ₹14 crore.

Pratik Singhania: No, but over a period of time it would have generated its own reserves.

Atul Tantia: Yes, that number I will have to come back to you because I don't have it available offhand. Just to answer your question in terms of the revenue from Africa, it was almost ₹30 crore in the 9 months.

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

Atul Tantia: Thank you everyone for your participation in our Q3 FY17 Earnings Call. As I said earlier, the results presentation is uploaded on our website and the website of the stock exchanges. In case of any further queries, you may get in touch with us or with Stellar Investor Relations, who are our investor relation firms, again thank you for participating today and have a good day, bye.

Moderator: Thank you. Ladies and gentleman, on behalf of GPT Infraprojects that concludes today's conference. Thank you for joining us and you may now disconnect your lines.