GPT Infraprojects Limited
Q4 FY 2017 Earnings Conference Call

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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 Q4 FY17 Earnings 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 an operator by pressing '*' then '0' on your touchtone telephone. 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 Limited. Thank you and over to you, sir.

Atul Tantia: Thank you Karuna. Good evening, everyone and a warm welcome to our Earnings Conference Call for the quarter and year ended March 2017. 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 and we have also uploaded the same on our website and the website of the 2 stock exchanges for references. We will do a brief summary of our operational and financial performance and thereafter we will take questions.

Railway continues to be a strong growth driver for us. As you are aware Indian Railway has embarked upon a massive ₹8.56 trillion, with the CAPEX plan for 2015 to 2019, which is 90% more than in the combined CAPEX done in the previous 15 years. The performance in the first two years has been strong with nearly 59% and 29% year-on-year growth achievement especially for FY17 and FY16. The budget 2017 has allocated ₹1.31 trillion to Indian Railways in 2017-2018, the largest ever allocation increase of ₹14,000 crore over the last fiscal year. There is a huge focus on better safety through building in rail over bridges, ending unmanned crossing, etc. Indian Railways is targeting to eliminate all unmanned level crossings from broad-gauge lines by 2020.

The estimated fund requirement for building ROBs and RUBs is ₹40,000 crore. Further, the fund requirements for bridge rehabilitation is estimated to be over ₹3,000 crore. Additionally, the government has announced commissioning of the 3,500 km railway line in 2017-2018, up from 2,800 km in 2016-2017. All of these are areas of large opportunity for us in terms of our infrastructure business.

DFC is an additional growth area for us, both in terms of sleeper manufacturing as well as bridge works. Project award for DFC has been rapidly progressing over the last 12 months. The government has also announced to spend around ₹3.3 trillion to set up 3 new arms of the DFC corridors. The 5,500 km long new corridor would supplement the existing plans to lay 3,300 km two DFCs.

Let me now come to the financial performance for this quarter and the year. For the year ended March 2017, we have reported revenues of ₹513 crore, a small growth of only 2% from FY16. The growth has been lower than what was envisaged for the year, largely on account of a couple of factors. Few of our orders that we received in the state of Manipur, faced initial challenges due to the economic blocking in the state for which the work could not progress. However, I am glad to announce that post elections in Manipur in March, the economic blockade has been lifted and the economic activity has resumed project execution has picked up there. In addition, our sleeper manufacturing facility for DFC in UP saw delay in RDSO approval for commercial production. The pace of work in one of the two factories has now improved post approval from RDSO. For the other factory, we expect to get approval next month. So, the expected ₹45 crore to ₹50 crore of revenue from these two factories got deferred to the current financial year. The pace of construction activity was subdued in the third quarter due to demonetization initiative by the government of India, which trickled down to January of the fourth quarter.

In terms of new order inflow, we bagged almost ₹711 crore of new orders for the infrastructure and concrete sleeper segments in the last fiscal. In addition, we have received contracts worth ₹260 crore in the current 50 days for the new financial year. This includes ₹255 crore worth orders in joint venture in the infrastructure segment and ₹6 crores in the concrete sleeper segment. Our order is book stands at ₹1,850 crores which gives us a good revenue visibility for the next few years. Of these, EPC accounts for 81% of the order book and the rest for sleeper.

EBITDA for the year came in at ₹68 crore with margins of 13.3%. We continue to focus on profitability by maintaining our hurdle rates for projects. We have been continuously communicating that we are committed to do our working capital cycle. As on March 2017, our working capital cycle stood at 121 days, a reduction of 111 days as compared to March 2015. The consolidated profit after tax stood at ₹15.9 crore as compared to ₹12.8 crore in FY16, a growth of 24%.

Going forward, we expect the ordering activity to pick up as railways continues with its robust CAPEX. In the infrastructure segment, most of our orders in our current order book would see increased execution in the current fiscal, giving us confidence of much higher execution growth in the coming years. For the sleeper segment also we expect FY18 to be crucial with significant revenue flowing in from the two DFCC factories set up in UP. Our focus on improving profitability and growth would continue. This year the Board has recommended a bonus issue of 1 Equity Share for every 1 Equity Share of the Company subject to the approval of the shareholders.

That is all from my side. I will request the moderator to open the floor for Q&A.

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 Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Atul, first question is that you mention that the revenues have got impacted because of the Manipur project not giving you the revenues and some issue there. So, could you just tell me what the size of this project is?

Atul Tantia: ₹250 crore. Since March the activity has picked up and we have already had almost ₹25 crore in this quarter.

Ashish Shah: So, Q1 you are saying, you did already ₹25 crore out of this and when was this contract awarded to us, in FY16 or FY17?

Atul Tantia: 2016-2017.

Ashish Shah: The EBITDA margin, the consolidated EBITDA is about ₹15.6 crore and the margin is about 10.5%, right for Q4.

Atul Tantia: For the quarter.

Ashish Shah: Yes, for the quarter.

Atul Tantia: So there are couple of things, our Africa operations were subdued in this quarter because of slow pickup in Africa. Africa, as you might be aware, since we are having this discussion had a higher EBITDA margin compared to our Indian business and secondly, there is a note to the financial statement which says that we have revised the project estimate for some of the contracts, which led to a reduction in the profit for this quarter. That has impacted the profit for this quarter by about ₹5 crore to ₹6 crore.

Ashish Shah: So you are saying that the profit on the contracts which are under execution there, for the sleepers.

Atul Tantia: No, for the sleeper in Africa, the revenue in Africa was slow, so the EBITDA in Africa was low. What has happened is like I said the Manipur contract got deferred, so we increased the cost estimates for Manipur in terms of the overhead and the interest. So, that is why there is yet to be revision in the budget estimate and as per AS7 that has led to a lesser profit of ₹5 crore to ₹6 crore. So, similar contracts in Manipur have had that effect.

Ashish Shah: So, ₹5 crore to ₹6 crore is the Manipur impact and apart from that you are saying …

Atul Tantia: No, I am not saying that the entire ₹5 crore to ₹6 crore is Manipur. That was only done in this quarter, so that is why this quarter per se you would see the margins subdued by that amount.

Ashish Shah: But this is done, so I mean, going forward you would still expect 14%-15% margins for the EBITDA.

Atul Tantia: Going forward the EBITDA level 14% would be maintained.

Ashish Shah: Lastly, on the Africa business, could you give some sense on how is the order backlog looking there and what is the revenue visibility for this year?

Atul Tantia: So, South Africa we did a revenue of 67 million Rand in local currency terms last year. This year based on the order backlog, we expect a revenue of almost 100 million Rands. So, that would be a growth of close to 50% in South Africa. In Namibia, last time we did total revenue of 62 million Rand, however, our share of the revenue is 37% based on our shareholding in Namibia, as Namibia is an associate not a subsidiary. This year the Namibian subsidiary is expected to do a business of almost 90 million Rands, which again would be a growth of 45%, based on the order backlog. In terms of order backlog the original contract in Namibia is going to complete by September and we already in discussion with the government to sign another contract for the next 5 years.

Ashish Shah: So, just a question on this, so I understand even in South Africa a lot of revenue that we are doing and going to be doing in FY18 is contingent on more orders coming in, right? I mean the original orders would have gotten over or will get over soon. So, just wanted to understand out of this 100 million Rand that we are expecting in South Africa and 90 million Rand in Namibia what is the revenues from the order backlog already that we have and what is the revenue we expect from what we are going to negotiate now or what you are going to get now as new orders?

Atul Tantia: The South African revenue is 100% against order backlog that we already have. For Namibia, out of the 90 million Rand, we have an order backlog of 40-45 million Rand, and the balance would be from the new contract that we would sign. The new contract we already got an in-principal letter for approval, it is just now a question of the lawyers drafting the amendment to the old contract in Namibia. So we are going to sign that order in the next 2 to 3 months before the original order expires.

Ashish Shah: Just lastly what would be the EBITDA or PAT numbers that you could share for these entities?

Atul Tantia: South Africa in FY17 or FY18, what you are saying?

Ashish Shah: FY17, yes.

Atul Tantia: South Africa had a PAT last year of 2.5 million Rand, on a revenue of 67 million Rand, the EBITDA was almost 25%-27%. Namibia had a PAT of 10.4 million Rand on a revenue of 62 million Rand. The EBITDA in Namibia was close to 15 million Rand.

Ashish Shah: This is on 100% basis right, EBITDA and PAT both?

Atul Tantia: Namibia is 100 basis, South Africa is about 100% basis and in South Africa we exclude the minority in the end.

Moderator: Thank you. Next question is from the line of Rohit Natrajan from IDBI Capital. Please go ahead.

Rohit Natrajan: Finally, I wanted to know about this concrete sleeper segment, when the 2 new factories are operational, what could be the revenue traction from the particular newly opened factories?

Atul Tantia: The two new factories in UP which have been commissioned are against the ₹246 crore order from the JV which is headed by GMR Infrastructure. This ₹246 crore order will be completed over the next two years. We expect that this year we will have close to a ₹90 crore-95 crore revenue from two factories and the balance would be in the next financial year.

Rohit Natrajan: And then my second question will be related to the expected order inflow, is there any guidance that you would like to touch upon?

Atul Tantia: The target for the year is that new orders inflow for almost ₹1,500 crore, of which we have already bagged ₹260 crore so far in the first quarter of FY18. In addition, we are L1 in close to ₹220 crore of new orders. So, total I think by the end of Q1, we would have close to ₹500 crore of new orders out of the ₹1,500 crore target.

Rohit Natrajan: If that is the case and if I have to just use that thumb rule and make a guess there that probably we could be touching ₹600 crore-650 crore in revenue terms. That will be a fair assumption to make?

Atul Tantia: I think we should overachieve your estimate.

Rohit Natrajan: And one more thing that I want to touch upon on is tax credit, could you just throw some light upon what exactly is the normal tax rate that you can expect in FY18?

Atul Tantia: FY18 on consolidated basis, tax rate would be close to 25% because the tax in Namibia is at 18% in the subsidiary Mauritius has 3%, on the consolidate basis it will be close to 25% on a normal basis. I will give you the background. Because of the commissioning of the two new factories in UP there will be an additional income tax depreciation which has led to this year the standalone being on MAT compared to a full tax rate. That is why the tax this year per se is lower when you see visually.

Moderator: Thank you. Next question is from the line of Yash Agarwal from Crest Wealth. Please go ahead.

Yash Agarwal: Actually, I am looking at this company for the first time, could you just briefly explain me the difference between the infra, concrete sleeper and the international businesses. Just briefly what do you do out here?

Atul Tantia: We are into two primary segments – Infrastructure, which is a construction contracts for government agencies, primarily railways, wherein we build bridges and ROBs and core infrastructure for railways primarily, also some PWDs and government agencies like MoRTH and others. That is about 75% of our topline, 25% of the topline comes from manufacture of railway concrete sleepers. So, we have currently one factory in Panagarh near Durgapur in West Bengal, which is our manufacturing facility since 1982. We have recently set up two factories for the dedicated freight corridor in UP under ₹246 crore contract from GIL-SIL JV. And then we have one factory of railway concrete sleepers in South Africa and one in Namibia. That is our international business.

Yash Agarwal: So, basically 25% includes the international business of railway concrete?

Atul Tantia: Correct.

Yash Agarwal: And what would be the margin difference between the two businesses the EBITDA margin, operating margin?

Atul Tantia: In India both the businesses are almost at the same level. Internationally, the African businesses are between 25% to 30%, at EBITDA level.

Yash Agarwal: And India would be how much?

Atul Tantia: India is about 13%-13.5%.

Yash Agarwal: And so, this current backlog of ₹1,850 odd crore was the 31st March 2017 backlog?

Atul Tantia: Correct. It includes the new order received in this last 50 days. But does not exclude the execution in the last 50 days.

Yash Agarwal: And if I heard you right you said you will cross ₹650 crore in revenue this year, is that right? You should, I mean you target to?

Atul Tantia: Well, our target is much higher but I think because last year has been subdued because of some of the deferment of the revenues. I think we would see a 40% to 50% growth in the revenues for this year.

Yash Agarwal: And the two UP factories that you were talking about have been set up specifically for one order?

Atul Tantia: Yes, specifically for one order. So, they are projects specific.

Yash Agarwal: And this orders by GMR Infra, is it?

Atul Tantia: Yes, it is a joint venture between GMR Infrastructure and SEW Infrastructure.

Yash Agarwal: Is that your subsidiary?

Atul Tantia: It is not our subsidiary. We have got the order from them.

Yash Agarwal: So, post this order this factory will be done or like, I mean continue?

Atul Tantia: The assets belong to us. We will have to dismantle the factory and vacate the land.

Yash Agarwal: And so, out of the railway CAPEX for the year how much is our share that we address?

Atul Tantia: I think we address a close to 30% of the railway CAPEX.

Yash Agarwal: So, that includes this civil work and the concrete sleeper, is it?

Atul Tantia: Correct.

Moderator: Thank you. Next question is from the line of Ankit Agarwal from Centrum Capital. Please go ahead.

Ankit Agarwal: Sir, just want to understand, at the beginning of the year I think we were looking at what close to 170-odd crores from the sleeper business, right and so, just wanted to get a sense of as to what really happened and how are we seeing the business. Was there some sort of delay in execution or what sort of led to the short fall in revenues for this year and how do we see it next year?

Atul Tantia: The sleeper business last year did about ₹72 crore, compared to ₹170 crore target like you are saying. Out of that ₹50 crore were from the two factories were of the DFCC, in UP for GMR. So, the ₹100 crore short fall was primarily from there and the subdued operations in Africa. However, the Africa operations have picked up in the last two months.

Ankit Agarwal: So this ₹100 crore of short falls, you are saying that…

Atul Tantia: Will be made up this year. It is just a deferment of revenue, it is not the revenue that will not be made up, it is just deferment of revenue.

Ankit Agarwal: And so, that is why you are saying that adds straightway ₹100 crore this year. So, that is means 600 crores and then over and above that you will have some growth which basically would mean …

Atul Tantia: It will be a significant growth, I think.

Ankit Agarwal: So, this year in for FY18, we could be doing close to ₹360 crore of revenue, in sleeper business itself?

Atul Tantia: No. In sleeper business, we would not do that much, we will probably be doing close to ₹220 crore-225 crore of revenues.

Ankit Agarwal: And in Infra?

Atul Tantia: In infra, we will do nearly ₹500 crore.

Ankit Agarwal: And on the order inflow front also, was our expectation I think of close to ₹1,100 odd crore, right so the beginning of the year?

Atul Tantia: ₹1,000 crore was the order expectation. So, there were couple of orders which we were L1 in March but it got deferred. Like I said we are still L1 in about ₹215 crore in single order, which we are expecting to be announced in the next 10 to 15 days. That had it come in March, we would have been close to ₹1,000 crore because we already ₹711 crore and plus ₹215-odd crore, so we would at ₹950 odd crore.

Ankit Agarwal: And the ₹1,500 odd crore that we are expecting in this year, what will be the broad split? Is there any DFCC related orders that we are expecting in this?

Atul Tantia: No, there is no DFCC related order targeted for this year.

Ankit Agarwal: And the DFCC order is yet to commence?

Atul Tantia: No, like I said one of the factories has commissioned and the second factory will commission next month. The revenue recognition has already started from one of the factories, second factory will also start very soon.

Ankit Agarwal: So, this 1,500 could you give a broad split as to where will this order inflow be coming from?

Atul Tantia: Probably ₹100 odd crore would be sleepers, balance 1,400 would be Infra.

Ankit Agarwal: And the bidding will be through the year or have we already bid for some projects?

Atul Tantia: So, we have already got about ₹260 odd crore plus L1 in about ₹250 crore. So, in Q1 you will get about ₹500 crore plus balance ₹1,000 crore, we are expecting in Q2 to Q4. It is a continuous process, generally we bid every month and every week, I would say.

Ankit Agarwal: And how is the competitive intensity in the sector?

Atul Tantia: Competitive intensity is there but it is not very intense I would say, but still we have a hurdle rate and we do not bid below that.

Moderator: Thank you. Next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Could you give the total debt number including all long term, short term, current maturities everything for the consolidated entity?

Atul Tantia: So, that is about ₹220 crore long-term, short-term combined.

Ashish Shah: And also the current maturities and everything included?

Atul Tantia: It includes everything, current maturity is only ₹1 crore to ₹2 crore, not much.

Ashish Shah: And this would have gone down year-on-year, is it? From FY16, did it decline marginally?

Atul Tantia: FY16, it was probably at ₹230 crore, so ₹10 crore of reduction in FY17.

Ashish Shah: Secondly, Atul just wanted to check when I go through this list of the new orders you received the ₹711 crore, is there any order here where you see that there could be some execution bottlenecks or there could be some challenges or you think this is entirely executable starting may be sometime this year?

Atul Tantia: No I will tell you, if you see the list of ₹711 crore that is there on Slide #6 of our presentation, we have started billing in all the contracts.

Ashish Shah: So, you do not expect that any of these orders will become slow or there is no issue related to these projects?

Atul Tantia: No, in some of the contracts we have done significantly well like constructing of new Yamuna Bridge including RUB for Northern Railway. We have already done more than ₹15 crore of revenue recognition.

Ashish Shah: So, the problem then remains in which project now? Would I be right in saying that the entire order book now is executable? There is no project which is stuck or non-moving or anything like that?

Atul Tantia: Sir, there is no project that will be stuck. The only hindrance was the Manipur, which has been resolved by March before the new elections happen.

Ashish Shah: And anything that you could highlight on the old receivables from Tripura?

Atul Tantia: Tripura, the money the government has not paid yet. We have qualified it to that extent. The NHAI contract of a highway that is also under arbitration. The studies have completed and we expect a favorable award in the next one month.

Moderator: Thank you. Next question is from the line of Sandeep Kakkar from New Berry Capital. Please go ahead.

Sandeep Kakkar: We have recently started tracking your company. I just wanted to get a perspective on the total trade receivables as a 31st March, it stands at about ₹88 crore.

Atul Tantia: Yes.

Sandeep Kakkar: And if I read your notes to the results, I am referring to note 7 (b) and (c) and 8, which says about ₹6 crore plus ₹11 crore plus ₹39 crore is something which is disputed, is that out of this ₹88 crore amount? Is my understanding correct?

Atul Tantia: No, it is not. So, the ₹6.8 crore and the ₹11 crore is part of the other current assets of ₹173 crore, it is not part of the trade receivables. It is unbilled revenue. Out of the ₹38 crore which are qualified by the auditors, a very small part of that is in trade receivables which is about ₹3 crore to ₹4 crore the balance is all in current assets.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand over the floor to Mr. Atul Tantia for his closing comments. Over to you, sir.

Atul Tantia: Thank you, everyone for your participation in today's FY17 Earnings Call. As I said earlier, we have uploaded the presentations on our website and the website of BSE and NSE. In case you have any further queries, you may get in touch with us or with Stellar IR Advisors. Again, thank you and have a great day, bye.

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