“GPT Infra Projects Limited Q3 FY ‘18 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the GPT Infraprojects Limited Q3 FY '18 Earnings Conference Call. As a reminder, all participant lines will be in 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 '*' and then '0' on your touchtone telephone. Please note this conference is being recorded. I now hand the conference over to Mr. Atul Tantia – Executive Director, GPT Infraprojects Limited. Thank you and over to you, Sir.

Atul Tantia: Thank you. Good Afternoon everyone and a warm welcome to our earnings conference call for the quarter ended December 2017. I have with me Mr. A. K. Dokania – our CFO, and Stellar IR Advisors, our IR firm.

I hope you have all received the updated presentation. We have also uploaded the same on our website and on the stock exchanges for your ready reference.

Let me first begin with the key highlights from the Railway budget this year: The recently announced Union budget continued its focus on the development and investment in Railway CAPEX. The budgetary allocation for Railway CAPEX was increased by nearly 30% year-on-year to 1,48,000 crores for FY '19. Some of the other announcements included doubling of lines of approximately 1800 kilometers, which is almost on the same levels as FY '18 and electrification of 4000 kilometers in FY '19 against same target as FY '18. On safety aspects, track renewals of 3000 kilometers have been targeted in FY '19 and a target to eliminate 4267 unmanned level crossings over the next two years. Please note that in the full year FY '17, almost 1500 unmanned level crossings were made so the target has been more than doubled per se. There has also been significant allocation for the suburban railway lines in Mumbai and Bangalore.

While all of the above factors are positive for the sector, for our company in particular, Railway's clear focus on safety through building road over bridges in lieu of eliminating level crossings is of the most highlight. As per Railways' Medium Term Investment Plan, over the next five years, totaling Rs 8.56 lakh crores, allocation for safety which includes track renewals, bridge works, ROB, RUB, signaling telecommunication etc. stands at Rs 1.27 lakh crores.

Against the planned target, let me share with you some key factual data for points about Railway's performance in FY '17: 2857 kilometers broad gauge lines were commissioned versus an average of almost 1500 kilometers during 2009 to 2014. Electrification over 2000 kilometers was done, against an average of 1184 kilometers in 2009-14. Target for FY '18 and '19 has been increased to 4000 kilometers each year. ROBs and REBs constructed, almost doubled to 1400 bridges constructed compared with the average of 2009-14. On the governance front too, there have been positive changes in the working culture. There has been higher delegation of powers to functional levels, KRAs have been defined and tracked continuously for General Managers and DRMs. Digitized process have been adopted and other similar digital initiatives have been taken to ensure contract execution. As a result, we have noticed a considerable reduction in the time taken for project approvals and certifications.

Now, let me discuss the financial performance of the company during the quarter gone by, followed by some of the key business as well as sectoral updates:

As mentioned in the last concall too, GST and Ind-AS implementations have been the major changes in the accounting and financials during the current fiscal. Due to GST, revenue appears to be lower by approximately 10% compared to previous year, however, due to the input tax credit availability; there is no major impact on the earnings. With regard to Ind-AS, our Namibia subsidiary which is part of the sleeper business in which GPT owns 37% stake used to be proportionately consolidated until last year. However, this year only the earnings is recognized as profit and loss from the associate company.

Now, coming to the third quarter's performance:

We have reported consolidated revenues of Rs 115 crores in Q3 FY '18 compared to Rs 107 crores in the same period of the financial year. Of this, infrastructure contributed about 69% and the balance 31% came from sleeper division. Revenue growth optically looks lower for the infrastructure division particularly over the same period mainly on account of GST related adjustments as is stated earlier. We are seeing significant improvement especially in the sleeper business both in India and Africa. Our South Africa business has seen a significant uptick in execution as the mining operations have picked up in the country and track renewals have been emphasized upon. The same is reflected in our performance for this quarter. With improving execution, we expect higher returns on the investment made by us in our South African subsidiary. We expect significant improvement in performance of infrastructure division in the current quarter, the construction works on most of our projects are going on in full speed.

Our EBITDA for the quarter came in at Rs. 20 crores compared to Rs. 15 crores in the previous financial year, a growth of 31%. The consolidated net profit after tax for Q3 FY '18 stood at Rs. 6.2 crores compared to Rs. 3 crores in previous financial year after adjustment of minorites, a growth of nearly 105%. The net profit margin is at 5.4% versus 2.8% last year. Working capital days have reduced to 132 days from 139 days in September '17. In terms of order intake so for this fiscal, we have received orders of worth Rs. 544 crores and additionally, we are lowest bidders in contracts worth almost Rs. 520 crores. Generally, there is a two-month lag in terms of declaration of L1 and receipt of orders, so we expect this 520 crores to come in this financial year itself. Currently, our order book stands at Rs 1946 crores excluding L1 orders, which gives us a book to bill ratio of almost four times on FY '17 revenues. Of these, EPC order book is almost 84% and the rest is for the sleeper business. We will be making the GST rate adjustments in our order book after our annual results because most of the customers have already accepted the formula that Railway board has given, so post the pending finalization of the percentages, we will make the adjustments.

An update on the NHAI arbitration award: Last quarter, we had announced winning of the arbitration award against NHAI of approximately Rs 62 crores. The NHAI has not challenged the award yet in higher courts and has approximately one month more to do so. However, courts typically grant Government authorities one to two-month grace period, so hopefully by the time we have our earnings for the full year, we should have a positive outcome from the courts. In case, NHAI does decide to challenge the order as per the NITI Aayog policy, we will still get 75% of the award amount against the bank guarantee. So in either case it will release significant cash flow for the company and improve the balance sheet accordingly, providing incremental support for our growth phase.

In terms of broad guidance for this financial year, we expect to close the year at almost Rs 600 crores of revenues and net margin of more than 4%. I would like to reiterate our vision to grow to revenue of almost Rs 1500 crores in the next three to four years. Our focus on profitability would continue with the EBITDA hurdle rate of 13% to 14% coupled with better working capital cycle, thereby enhancing overall profitability. This is all from my side and I would now request the moderator to open the call for any Q&A.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have first question from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Sir, basically if I were to look at the break down in terms of revenues between two segments that we operate and infra still seems to be struggling, even if I were to adjust for the 10% of change that is there but GST which is not been able to recognize, there still seems to be some kind of drop, does it mean that GST negotiations are yet not done with the clients?

Atul Tantia: The Railway board has come out with a policy which has the GST, so the GST would be neutral in terms of the cost to us, so Railway has come up with the policy when they would compensate the contractors for the GST. Now, the various PSUs and zonal departments are fine tuning the adjustments for each and every contract, so that is taking a bit of time. With regard to the subdued execution in the infra division, you have to also appreciate that this year the monsoons were elongated, so typically October never got monsoon, but this year the monsoons were elongated and October had monsoon also. That was also one of the reasons why it was subdued, but I think that it has picked up quite smartly and we should expect Q4 to be much better.

Prem Khurana: When you said we would be able to deliver 600 crores of the top line, so this is including Namibia numbers on a proportionate basis, right, or is it excluding Namibia, so which essentially means if I were to exclude we would need around 250 to 260 odd crores of this in the last quarter?

Atul Tantia: We expect to do about 225 to 250 crores in the last quarter.

Prem Khurana: Excluding Namibia?

Atul Tantia: Yes, excluding Namibia.

Prem Khurana: Just if you could clarify, how much would be the Namibia numbers in terms of revenues, I mean if you were to for the same methodologies and IGAPP numbers, what would have been the number in this quarter, how much did Namibia contribute?

Atul Tantia: This quarter?

Prem Khurana: This quarter?

Atul Tantia: This quarter Namibia would have been approximately 5 crores.

Prem Khurana: Any specific reason why we are suddenly seeing traction in international markets because concrete was going little slower, I mean South Africa and Namibia put together were going little slow and there is a sharp jump in this quarter in terms of revenue contribution, so were there any issues which have been settled now?

Atul Tantia: No issues, per se actually South Africa economy again was going through a slowdown one or two years ago. Now the economy has picked up quite smartly and we had said in the last call also that on a local currency basis, we expect South Africa to double its revenues this year.

Prem Khurana: Just last one from my end, if you could share the status on GMR project, and the DFCC project from GMR and MN, Mathura-Jhansi project, have these two started moving now?

Atul Tantia: DFCC, the revenues have picked up, so that is why you obviously have a standalone basis the sleeper revenues to be quite good, and now this quarter, Q4 we will see almost full revenues happening for the DFCC project, so we expect one quarter to contribute almost 20 to 25 crores of revenue this quarter from the DFCC project and in terms of the Mathura-Jhansi, again the construction work is on and the work is going smoothly. There are about nine bridges, so work is on four to five bridges, the balance the designs are going on.

Moderator: Thank you, Sir. We have the next question from the line of Mithesh Desai from Desai Investments. Please go ahead.

Mithesh Desai: I have couple of questions, first, you have given a guidance of Rs 600 crores for this year and I think around 250 crores is still we need to do, so which segment will drive the growth? Next is related to our working capital situation, so what is your plan to improve it further?

Atul Tantia: In terms of the division which will lead to the Rs 250 crores, I think Rs 75 crores would come from sleeper, balance RS 175 crores from the infra division, so approximately 75:25 split. In terms of the working capital like we have said in the last call also, once the money from NHAI comes, the working capital would be in the 95 to 100 day range, so I think that can be assumed to be an optimal level and we would be in the 95 to 100 day rates going forward.

Mithesh Desai: What will be the guidance for the next year FY '19?

Atul Tantia: We would grow almost 30% to 35% because our order book is quite healthy and like I said earlier also we have almost Rs 1950 crores of orders in hand already and Rs 520 crores in the pipeline, so that would entail almost, we would expect to close the year at almost Rs 2200 crores of order book.

Moderator: Thank you, Sir. We have the next question from the line of Varun Agarwal from BOI Axa Mutual Fund. Please go ahead.

Varun Agarwal: One question on the NHAI arbitration, Rs 62 crores you said till March we expect to get the money and in case they decide to challenge, we will get the amount back, so we will set it off, basically set it off against the debt which is existing or how will it happen, basically will our debt go down, we will use the money to repay our debt or?

Atul Tantia: What we said in terms of the timing for the award, NHAI has another month to appeal and then typically courts given them another one month grace period per se, so by the time we announced our results for the March quarter which is sometimes in the third week of May, we expect the decision to happen whether they are going to actually challenge the award or not. As per the NITI Aayog policy, in case if they do decide to challenge, they have to give 75% of the award amount against a bank guarantee, which is almost Rs 45 crores. Now, this Rs 45 crores would go partly into reduction of debt and partly into the working capital, so it will not go 100% towards the reduction of debt, the debt which is approximately Rs 220 - 225 crores right now would come to almost 200 crores, so I would say 50% would go to debt and 50% to the working capital cycle.

Varun Agarwal: In terms of debtors, are there any lumpy once which are beyond like six months or something?

Atul Tantia: Debtors typically, we do not have any lumpy ones other than retention money. Retention money is as per the contract, so they are typically long, so we will get that money only upon the completion of the contract, that is, as per the terms of the contract. Other than that, there are no old debtors for which we would have to take a future provision per se.

Varun Agarwal: One question, generally on the execution trend, I mean do you see the overall execution trend improving or the execution getting shorter going forward in next couple of years, is that because of the faster approvals or the clearances in terms of the billing which company started, if you can elaborate a bit on that?

Atul Tantia: In terms of execution, the approval cycle has come down, however, we are now addressing more challenging contracts, so the larger size contracts, will have a longer execution cycle, they will not be smaller contracts. Now, we have added five contracts which are Rs 200 crore plus each and out of the L1 also we have one other contract which is Rs 200 crore plus, so they have their own challenges in terms of scale of operation and they also have typically 24 to 36 months of allocated time to complete the contracts.

Varun Agarwal: Are there any bonuses for the early completion here?

Atul Tantia: Unlike NHAI, there is no bonus to early completion of the contract.

Moderator: Thank you, Sir. We have the next question from the line of Mithesh Desai from Desai Investments. Please go ahead.

Mithesh Desai: Sir, you have a large quantum of order in L1, so when do we expect to get it converted into firm order and is there any cancellation risk?

Atul Tantia: We expect to get confirmed to some orders within March, there is no cancellation risk per se, so there are three contracts which form part of the Rs 520 crores, out of which in two contracts, negotiations have already happened and in one also we have been the L1 bidder, so there is no cancellation risk per se.

Moderator: Thank you, Sir. We have the next question from the line of Sandil Kamraj from New Berry Capital. Please go ahead.

Sandil Kamraj: Sir, my question is with respect to the standalone sleeper segment, so what is the product capacity and what is the current capacity utilization?

Atul Tantia: The total capacity is approximately 1.3 million per year in the standalone sleeper business and the utilization, not as of December, but the current utilization would be almost 65% to 70%. The GMR, the two DFCC contracts have now picked up. The facility at Panagarh has been at almost 75% to 80% utilized historically.

Sandil Kamraj: What about the international sleepers again?

Atul Tantia: International business, we would be doing this year approximately 60% in South Africa and Namibia would be almost along the same lines in terms of capacity utilization.

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

Atul Tantia: Government's increasing focus on Railway infra structure and our preparedness to capture these macro opportunity puts us in advantageous position to achieve higher growth rate for next few years. While focusing on revenue growth, we would ensure we remain focused on the profitability also and maintain discipline in choosing projects with better working capital cycle. We are quite excited to continue our journey towards revenue vision of Rs 1500 crores. We have also declared a second interim dividend for the year of Re. 1 per share, so the total dividend outgo would be approximately 3 crores against this account. Again, thank you everyone for participating in Q3 FY '18 earnings call. As I said earlier, we have uploaded the results presentation on our website and the website of the stock exchanges. In case you have any further queries, you may get in touch with Stellar Investors Relations or you can get in touch with us directly. Thank you.

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