



“GPT Infraprojects Limited
Q2 & H1 FY2019 Earnings Conference Call”

November 16, 2018



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Moderator: Ladies and gentlemen, good day and welcome to GPT Infraprojects Limited Q2 and H1 FY2019 Earnings conference call. As a reminder all participant lines will be in the listen-only mode. 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 now 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 earnings conference call for the quarter and half year ended September 2018. I have with me Mr. A. K. Dokania our CFO and Gaurang and Pooja from Stellar IR Advisors.

I hope you all have received the upgraded investor presentation and we have also uploaded that on our website and stock exchanges, for your reference. We will begin the call with an update on the financial performance of the company during the quarter followed by some key business as well as sector updates.

As for the Q2 FY19 performance, we have reported consolidated revenues of Rs.120 Crores in Q2 FY2019 compared to Rs.101 Crores in the same period of last year, recording a growth of almost 19% year-on-year. Of these, infrastructure revenue contributed about 64% and the balance 36% came in from the sleeper division. During the H1 FY2019, consolidated revenues were at Rs.274 Crores compared to Rs.237 Crores in the same period of last year recording a growth of 15.6%. Of this, the infrastructure contributed about 72% and the balance 28% came in from the sleeper division.

We are seeing significant improvements especially in the sleeper division both in India and Africa. Our South Africa business has seen a significant uptick in the execution more so from H2 of FY2018 as mining operations have picked up in the country. With improving execution, we expect higher returns on the investment made by us in our South African subsidiary. Similarly our Indian sleeper business too should benefit this year on the back of strong order book position. On the infrastructure business segment also there has been an uptick in both the order inflow as well as execution. Construction work of most of our projects is going on quite smoothly. We had received the largest single order of Rs.362 Crores from RVNL, Varanasi, under our infrastructure division in this financial year. We expect further improvement in the performance of the infrastructure division this year.

Our EBITDA of Q2 FY2019 came in at Rs.18.8 Crores compared to Rs.20.3 Crores in the corresponding quarter of last financial year. Similar figure for H1 FY2019 stood at Rs.40.6 Crores against Rs.41.6 Crores in the same period of last year, recording a marginal dip of almost 2% year-on-year. The EBITDA margins stood in at 15.6% for the Q2 FY2019 compared to 14.9% in H1 FY2019. Consolidated profit after tax and share of minorities for Q2 FY2019 stood in at Rs.2.9 Crores compared to Rs.3.9 Crores in the Q2 FY2018. However on a half yearly basis PAT has remained largely flat at Rs.8.2 Crores in H1 FY2019 compared to Rs.8.9 Crores in the

same period of last year. Working capital days is almost on the same level of almost 150 days compared to 152 days as on March 2018 and the highest of 232 days in March 2015.

In terms of order intake in the current fiscal year, we received orders totaling to Rs.510 Crores and our L1 in contracts were almost Rs.250 Crores. One of the orders like I said earlier received this year is the single largest order in the history of the company. This order is worth Rs.362 Crores by our RVNL, Rail Vikas Nigam Limited, Varanasi and the scope includes construction of road bed, viaduct, bridges, RUBs, ROBs, track linking and general electrical works on rail cum road bridge at Ghazipur via Varanasi in Uttar Pradesh. On completion of the aforementioned order which is planned over the next two and a half to three years, we shall be eligible to bid for single orders for almost Rs.1000 Crores on our own. Currently our order book stands in at Rs.2,119 Crores excluding the L1 orders, which gives a book to bill ratio of almost four times FY2018 revenues.

As far as our business prospects in the coming years, we are extremely positive on the ongoing boost in the infrastructure activity especially in the Indian Railways and being one of the pioneers in the segment, we believe we would significantly benefit from the same. As you might be aware Indian Railways have already commissioned the study for three more dedicated freight corridors and has targeted completion of the two existing corridors by March 2020. So we believe that our bidding prospects for EPC space of higher ticket size and expecting further order inflows compared to last year. Further as far as the profitability, our focus on profitability would continue with EBITDA hurdle rate of 13.5% to 14% coupled with better working capital cycle thereby enhancing overall profitability.

That is all from my side. I would now request the moderator to open the call for any questions and answers. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Gaurav Khanna from Alfa Traders. Please go ahead.

Gaurav Khanna: Thank you Sir for the opportunity. Sir I have one question on our profit margins, we have been executing in a good way, but our margins are not in line with that, so Sir can you elaborate on the reasons?

Atul Tantia: Thank you for the question. Our margins as we have always said our hurdle rate for EBITDA is 13.5% to 14% so if you see historically as well as for this quarter, we have always been north of that so even this half year EBITDA has been in fact higher than 15%, so margins have always been preserved.

Gaurav Khanna: Last year it was around 20%? I see in your presentation and right now it is 17%?

- Atul Tantia:** Last year, it was slightly higher due to some foreign currency fluctuations for the business in Africa. This year it is lower but our guidance and our historical numbers have always been around 14% to 15%. We have never guided for 20% EBITDA margin.
- Gaurav Khanna:** Okay. Sir any specific reason for increase in our raw material cost, which has increased so drastically if I compare it YoY basis?
- Atul Tantia:** The raw material cost if you are comparing half year, it has gone from Rs.34 Crores to Rs.50 Crores, so raw material is basically the material that is used in the sleeper business and for the construction, it is material consumed for construction or other contracts, so since the volume of sleeper business has gone up significantly by almost 65%, the raw material cost has gone up in proportion to that.
- Gaurav Khanna:** Sir, do we have any cost escalation clause in the contracts?
- Atul Tantia:** All our contracts both in the infrastructure as well as the sleep division have a price variation formula. So the raw material prices are either linked to Steel Authority of India prices or RBI indices and that there are other indexes for fuel, plant machinery and others and this is applicable both as I said infrastructure as well as sleeper business.
- Gaurav Khanna:** Sir have you seen any cost escalation recently in any of our projects?
- Atul Tantia:** Every quarter and every month, the indexes are calculated and obviously costs are going up and we are compensated by the formula.
- Gaurav Khanna:** Sir how do you expect our H2 to perform and how will our infrastructure business pick-up?
- Atul Tantia:** For the full year, we expect revenues to grow by almost 20% and so H2 would be in line with that and the bottom line should grow almost 25%.
- Gaurav Khanna:** Thank you Sir. I will join the queue.
- Moderator:** Thank you. The next question is from the line of Ashok Mathur, Individual Investor. Please go ahead.
- Ashok Mathur:** You have a very good order book, which now stands at about Rs.2,100 Crores, but that does not get reflected in the infrastructure revenue or the execution in the infrastructure revenue. So are there any slow moving projects or what is the reason because there is a corresponding increase in infrastructure revenue does not seem to be there as compared to the increase in the order book, which you have been showing over a period of time?
- Atul Tantia:** There are one or two contracts, which are slow moving. Other than that none of the contracts are slow moving. The contract that I am mentioning is only the ROB contract that was slow moving. Recently about two weeks ago, we have been handed over the land for that contract also. So

hopefully in the coming quarters, we should see the execution from that. The H1 of last year is really not comparable to H1 of this year because Q1 of last year was before the implementation of GST, so the taxes were part of the revenue. From post implementation of GST, taxes are not part of the revenue. So if you see this quarter, overall revenue has increased from Rs.98 Crores to Rs.117 Crores, which is a jump of almost 20% and infrastructure revenues have grown by almost 67%.

Ashok Mathur: The recent project, which you have won, what is the status in terms of, is the land acquisition complete for our infrastructure project essentially because it is large project for us?

Atul Tantia: That project is as I said earlier, it is from RVNL, Rail Vikas Nigam Limited. It is viaduct, ROBs, RUBs, for the rail cum road bridge at Ghazipur near Varanasi in Uttar Pradesh. The contract is already signed. The work physically on the ground has also started and we expect to build revenues from Q3. In December, we should raise the first bill.

Ashok Mathur: So you have already received the advance mobilization?

Atul Tantia: Mobilization advance and the bank guarantee have recently been submitted. We will receive it shortly.

Ashok Mathur: Sir in terms of Y-o-Y comparison in the second half during the GST impact would have got, we expect better execution going forward and even higher reporting of execution revenue going forward?

Atul Tantia: You have to also appreciate the fact that this year the monsoon was also much intense and the rains were much higher compared to last year, so the monsoon affect was much longer. Despite that, the revenue for the second quarter has grown by 67% in the infrastructure division.

Ashok Mathur: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Mohit Bansal from Ajinkya MPL. Please go ahead.

Mohit Bansal: Good afternoon Atul. Atul I had a couple of questions. My first quarter is regarding the NHAI arbitration award, what is the status on that?

Atul Tantia: NHAI arbitration award, NHAI has preferred an appeal against arbitration in Delhi High Court. The Delhi High Court has asked them to deposit Rs.30 Crores before they hear their petition, NHAI a week or two before Diwali have deposited that Rs.30 Crores with the Delhi High Court and the hearing is fixed for second week of December. Our lawyers are quite confident that we should be able to win the challenge from NHAI and there should be a positive outcome before March.

Mohit Bansal: They can obviously go to the Supreme Court as well right because if they prefer to take it to Delhi High Court then they can also prefer to take it to the Supreme Court, is it?

Atul Tantia: Yes they can. Obviously as per law they can, but as per recent trends since it was an unanimous award by the arbitration tribunal and the arbitration tribunal was also quite senior in terms of two retired judges from the Delhi High Court and one retired judge from the Supreme Court and if the Delhi High Court judgment is also in our favor generally as per the recent judgments supreme courts do not entertain such reviews, if there are two unanimous verdicts.

Mohit Bansal: The total arbitration award that we received was worth Rs.62 Crores?

Atul Tantia: Rs.61 point something Crores and plus interest since the date of the award, so the date of award is sometime in March. The revised date is in March of this year. So we will get interest at 12% since the date of the award.

Mohit Bansal: From the day we won the award?

Atul Tantia: Yes, so there were some technical clarifications. Initially, it was awarded in November of last year and then there was some revision, which led to the final date being awarded as March of this year.

Mohit Bansal: Alright, so December second week is when the hearing is in the Delhi High Court?

Atul Tantia: Correct.

Mohit Bansal: Okay. My second question is regarding the limits that we enjoy and what has been utilized, the various limits that we have?

Atul Tantia: We have working capital limits from consortium of banks led by SBI. There is a mix of both public sector as well as private banks and we enjoy cash credit, working capital limits of about Rs.215 Crores and bank guarantee limit of almost Rs.340 Crores.

Mohit Bansal: How much has been utilized out of these?

Atul Tantia: The utilization fluctuates every day, so I would not have the exact number off hand, but it is utilized optimally as per the requirement of the working capital.

Mohit Bansal: The reason I am asking is because do we have the limits because we have got an order book of close to Rs.2,100 Crores and I am sure that the execution will also increase because of the order book availability?

Atul Tantia: Recently even SBI as a lead bank of the consortium has appraised enhancement of the limit and so the other members are now appraising their share of the enhancement. So in terms of



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answering your question yes with the increased order book, the banks have also supported and the SBI as a lead bank has appraised an enhancement of the bank guarantee limits recently.

Mohit Bansal: Is it fair to assume that our working capital limits are fully utilized right now?

Atul Tantia: It is not fully utilized. The cash rate is a function where it is utilized almost every day because every day we receive payments from various customers, so at any point liquidity is available, but we receive payments and we make payments.

Mohit Bansal: By when do we think we will get the enhanced limit approved by the bank?

Atul Tantia: Like I said SBI as lead bank has already appraised the enhancement of the limits. The balance fund is in the process of getting it done, so hopefully in the next two months it should happen.

Mohit Bansal: What is the revenue guidance for this year?

Atul Tantia: It is 20% growth so close to Rs.640 Crores to Rs.650 Crores for this year.

Mohit Bansal: Thanks a lot Atul and all the best and thank you for answering my questions.

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

Varun Agarwal: Sorry Sir I missed the initial part of the conference call, so my questions are regarding the guidance? Are you revising the guidance downwards because earlier I think we had around Rs.700 Crores of revenue guidance?

Atul Tantia: Earlier we had Rs.675 Crores to Rs.700 Crores. Now it is Rs.650 Crores, so it is a Rs.25 Crores downward revision.

Varun Agarwal: Are we facing some headwinds in terms of execution or overall is it the election timing or what are the reasons?

Atul Tantia: I think mostly to do with the timing of the elections because with the three states having elections in November this month and next month and then being unsure of when the general elections are going to be and once the model code of conduct kicks in, lot of the officials are also deputed in terms of the election visionary. So how then the bills are going to be certified and revenues getting recognized is just a function of that because we anticipate that the elections might get announced sometime at the end of February or early March, so that month might see a dip.

Varun Agarwal: Most of our projects are from like Ircon or RVNL or from the Railway Authority, so do you see these players are being impacted due to the elections?

- Atul Tantia:** It is all railway officials' right, so they also get deputed for various election duties not the PSUs per se, but the railway officials also get deputed, so the Ircon or the RVNL officials will not, but the railway officials will.
- Varun Agarwal:** Does it impact the overall work in progress or the receivable cycle that might get impacted, but do you see execution also getting impacted due to that?
- Atul Tantia:** Pardon.
- Varun Agarwal:** Do you see execution also getting impacted or there are some approvals, which are required, which might get delayed, so is that the reason?
- Atul Tantia:** It is a mix of many factors, so both execution as well as approvals will get affected, so that is why we have revised it downwards by about Rs.25 Crores to Rs.30 Crores. It should be conservative rather than not missing the guidance later.
- Varun Agarwal:** In our note to accounts, we have mentioned one is the arbitration, which is pending with regards to BOT, so what is the status on that? How it is progressing there?
- Atul Tantia:** Like I just mentioned earlier NHAI has deferred an appeal with the Delhi High Court for the BOT contract that the arbitration that had come in our favor. The Delhi High Court had asked NHAI to deposit Rs.30 Crores with them before they would hear the appeal or the review of the arbitration award and NHAI has deposited that in the Delhi High Court about three weeks ago and the hearing is fixed for the second weeks of December.
- Varun Agarwal:** Once the case is decided this should be the final or there is a further action, which is available to NHAI?
- Atul Tantia:** The NHAI can always go to the Supreme Court if they want.
- Varun Agarwal:** There is a chance that it may get further spilled over to the Supreme Court?
- Atul Tantia:** If NHAI really want, they can go to the Supreme Court. It is up to their legal advisors and lawyers how they advise them.
- Varun Agarwal:** Sir in terms of the couple of more notes to accounts there are some references to some unbilled revenue, which has not been billed, so if you can explain that?
- Atul Tantia:** This is a continuing notes to the accounts, which is some unbilled revenue for the whole contract in the Agartala in Tripura and a couple of other contracts smaller contracts, which we have completed. Client has also recognized that there are dues however due to paucity of funds they have not certified the bills and we are unable to bill them to the client.
- Varun Agarwal:** So this Rs.17 Crores is related to private client?



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- Atul Tantia:** No. There is no private client in our case. It is all government clients. The provision of unbilled as well as the escalation as well as retention money is as per the contract.
- Varun Agarwal:** Basically it is not appearing in either receivables or appears has not been billed?
- Atul Tantia:** It is appearing in unbilled revenue.
- Varun Agarwal:** As unbilled revenue?
- Atul Tantia:** But it is appearing and part of that is also appearing in the receivables the part that is held as retention money by the clients. The entire contract has been clubbed together by the auditors in their notes.
- Varun Agarwal:** Similarly there have been two or three or more things, which I mentioned like Rs.28 Crores and Rs.20 Crores more, so these are also like similar things?
- Atul Tantia:** So that Rs.20 Crores more is there are two more arbitrations. They are in the joint operations wherein the arbitrators have been appointed by the clients. So the final bill and the money receivable is pending from them, so once the claim is received then only it will be recognized as revenues, so right now it is forming part of the unbilled.
- Varun Agarwal:** Sir total unbilled revenue, which is there... will be how much including and apart from that if there is anything material?
- Atul Tantia:** Unbilled revenue would be close to Rs.175 Crores.
- Varun Agarwal:** Out of which the arbitration cases included like these are the ones, which are mentioned. Apart from this, is there anything else large amount?
- Atul Tantia:** No. There are ongoing contracts apart from this.
- Varun Agarwal:** Whatever is like more than six months has been mentioned in the notes for accounts?
- Atul Tantia:** Unbilled revenue really does not have an ageing, but yes if it is old it is mentioned. I would not say whether it is six months or one year. So I will not say, but it is old, the orders I mentioned it on a conservative basis.
- Varun Agarwal:** Sure. Sir thanks a lot for answering my questions. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Kapil Joshi from Stewart & Mackertich. Please go ahead.
- Kapil Joshi:** Sir I want to ask, which are the newer segments you are most bullish about like, which can drive our company's growth?

- Atul Tantia:** Sorry I could not hear the question at all.
- Kapil Joshi:** Sir which are the major segments you are most bullish about, which can drive our company's growth, which can driver GPTs growth?
- Atul Tantia:** Our core competence in the infrastructure division is in terms of construction of bridges for railways and also other road bridges and also doing some railway track works. In terms of segments, it is that and then also in terms of clients like I mentioned earlier, railway is announcing three more dedicated freight corridors and two of the existing corridors are supposed to be completed by March 2020. So there is enough and more opportunities in railways itself as well as other client like MORTH and state PWDs and also in terms of concrete sleeper business railway has announced a policy of changing all the sleepers in the systems to a more wider based sleepers, which will involve almost 60% jump in the demand for concrete sleepers, so this will also drive the revenue growing forward in India and Africa like I mentioned, the revival in the mining segment has led to higher demand for concrete sleepers in Africa, which will keep on the growth in South Africa as well as in Namibia for us.
- Kapil Joshi:** Sir how do you see the sector in the next three months as you know the elections are coming and the execution will be slow, so what is your take on that?
- Atul Tantia:** Execution will be slow only during the election period. Prior to the election, I think that execution would be much higher because there is always a requirement of completing contracts, commissioning contracts, and inaugurating projects prior to elections. So prior to election we do not see execution being slow. During the election period of two to three months obviously that time there will be slow execution cycles slightly because like I said earlier in terms of officials being on deployed on various duties and general movement of goods and everything. So I hope that that would not be a very number in terms of hitting the revenues, but still there will be some dip in the revenues during that period.
- Kapil Joshi:** So we can expect some slowdown in Q1 FY2020?
- Atul Tantia:** Towards the end of Q4 of this fiscal and early Q1 for FY2020.
- Kapil Joshi:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Gautam Bafna from Wisdom Torch. Please go ahead.
- Gautam Bafna:** Sir with the upcoming elections do we expect significant slowdown in order inflow as well?
- Atul Tantia:** No, order inflow should not slowdown. This year we have already received Rs.510 Crores of new orders. We expect a similar number by March, so the order inflow of Rs.1100 Crores, which we had targeted, should get done in this financial year.



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Gautam Bafna: With the increased scale of operation, our working capital requirement would also increase, so now do we plan to fund that?

Atul Tantia: Working capital requirement is both healthy mix of debt as well as internal accruals. Like I said earlier to the previous gentleman that SBI who is a lead bank in the consortium they have already appraised the enhancement of the working capital limits, so that would be one factor and also the internal accruals would help us in growing the business. In fact our subsidiaries from Africa are regularly paying dividend. This first half we have received almost Rs.6.5 Crores of dividend from the subsidiaries in Africa, which add to the overall cash flow.

Gautam Bafna: For the orders, do we also get mobilization advances?

Atul Tantia: Generally in most of the contracts you really see a mobilization advance.

Gautam Bafna: Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Neha Mehta from Mehra Associates. Please go ahead.

Neha Mehta: Good afternoon Atul Sir. I actually had a question specific for railways. So what kind of orders are being rolled out there? Is the government focusing more on the safety-related work or adding more tracks?

Atul Tantia: The government is doing both of that, so if you see the orders for the ROBs and RUBs, they are for the safety-related works in terms of elimination of the level crossings and there is also a focus on adding more tracks in terms of the dedicated freight corridors and decongestion of the railway network in terms of doubling or tripling of the railway lines. So if you see one of the slides in our presentation especially slide 13, we have all mentioned some of the railway investment plan over the next five years from FY2016 to FY2020 wherein they have targeted Rs.8.56 trillion investment plan and there is breakup in terms of the network decongestion, safety, network expansion and rolling stock and others.

Neha Mehta: If you could highlight how would this opportunity actually help the Indian Railways on the whole or the companies like GPT in particular with such projects?

Atul Tantia: Obviously network expansion would help in terms if there is a network expansion, we would be engaged in both the construction of bridges, railway tracks as well as supply of concrete sleepers and safety like I said ROBs and RUBs we would be interested in that business as well for railways and network decongestion is again similar to the network expansion, so there also it would be bridges and track laying and sleeper business for us.

Neha Mehta: Okay Sir. Thank you.



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

Atul Tantia: Thank you everyone for participating in our Q2 FY2019 and H1 FY2019 earnings call. As I said earlier we have uploaded the results presentation on our website and the website of the BSE and NSE. In case you have any further queries, you may get in touch with Stellar IR Advisors or feel free to get in touch with us. Thank you and have a good day.

Moderator: Thank you. On behalf of GPT Infraprojects Limited we conclude this conference. Thank you for joining us. You may now disconnect your lines.