



“GPT Infraprojects Limited
Q2 & H1 FY20 Earnings Conference Call”

November 13, 2019



**MANAGEMENT: MR. ATUL TANTIA – GPT INFRAPROJECTS
LIMITED**



GPT Infraprojects Limited
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Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited's Q2 & H1FY20 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 "*" and "0" on your touchtone phone. I now hand the conference over to Mr. Atul Tantia. Thank you, and over to you Sir!

Atul Tantia: Thank you Stanford. Good afternoon everyone and a warm welcome to our earnings conference call for the Quarter and Half Year ended September 30, 2019.

I have with me on the call representatives from Stellar IR, our Investor Relation Advisors. I hope you all have received the updated Investor Presentation and Result Press Note and have gone through the same. We have also uploaded the same on the Company's as well as Stock Exchanges' website for your reference.

We will begin the call with a brief summary on the financial performance of the company during the Quarter and the Half Year under review that is Q2 and H1 FY20; followed by an update on the recent happenings in the railway sector. Lastly, we will move to the question and answer session.

To begin with, for the second quarter of FY20, we have reported a consolidated revenue from operations of Rs.131.3 Crores, higher by about 12% than Rs.117.3 Crores recorded in the same period of last year. Of this, the Infrastructure segment contributed about 80% and the balance 20% came in from the Concrete Sleeper division.

During the half year of FY20 the consolidated revenue from operations was Rs.273 Crores, 4% higher than Rs.264 Crores reported on the corresponding period of last fiscal. Of the total H1 FY20 revenue, the Infrastructure segment contributed about 80% and the balance 20% came in from the Concrete Sleeper division.

Despite the ongoing challenges in the business environment and second quarter being a seasonably weak quarter, we have been able to maintain our execution run rate and in fact have posted a revenue growth of almost 12% in Q2 FY20 and 4% in H1 FY20 when compared to the same period of last year. This growth has largely been led by Infrastructure segment wherein revenue growth was over 35% in Q2 FY20 and around 15% in H1 FY20 on a year-on-year basis. Although our concrete sleeper business continued to face contraction for the second quarter in a row, primarily due to slowdown in Africa Business, we do expect execution to gain pace again in the coming quarters both in India as well as Africa.

In terms of order intake, while the weak macro environment and lackluster market conditions has had an impact on the overall ordering activity especially in the Infrastructure space, we are happy to share that GPT Infraprojects was able to garner a few small sized orders during the past quarter amounting to approximately Rs.125 Crores. Additionally, we stand L1 in contracts worth almost Rs.200 Crores. The recent fallout of some NBFCs and problems with a few banks resulted in tight liquidity situation and lack of bank guarantees, which in turn has led to many companies including ourselves become most selective in bidding for new projects. However, the government's effort towards improving liquidity and a progressive step of reduction in corporate tax rate is indicative of its thrust on reviving the economy and we believe things will improve from here on.

As far our company is concerned, the overall order book stands healthy at around Rs.1800 Crores accounting for almost three times our FY19 revenues. Further, the construction work on most of our existing projects is going well and we continue to expect improvement in performance in the current fiscal.

In August 2018, we had bagged the single largest order worth Rs. 362 Crores in the history of the company. This order was from RVNL, Varanasi for Rail-cum-Road bridge works at Ghazipur. Completion of this order which is planned over the next two and a half years will enable us for single orders of Rs.1000 Crores and above. Work on this project is going on smoothly with a quarterly run rate of approximately Rs.20 to Rs.22 Crores.

Now, coming to the profitability, our continued focus on cost efficiency and disciplined bidding practice has led to consistency in profit margins. The EBITDA for Q2 FY20 grew by 13% year-on-year to Rs.21.2 Crores and 7% year-on-year Rs.43.5 Crores for H1 FY20. EBITDA margin improved marginally by 36 basis points year-on-year in Q2 FY20 and almost by 100 basis points in H1 FY20 to around 16% in Q2 and H1 FY20. The net profit came in at Rs.3.2 Crores, up 27% year-on-year in Q2 FY20 and remained flat at Rs.7.8 Crores in H1 FY20 versus H1 FY19. Accordingly, PAT margin has improved to around 2.5% in Q2 and H1 FY20. The consolidated Profit After Tax and Share of Minorities for Q2 FY20 came in at Rs.3.7 Crores compared to Rs.2.9 Crores in Q2 FY19 and Rs.7.8 Crores in first half of FY20.

Now coming to the industry scenario relating to project ordering and financial liquidity:

The traction in project ordering activity had mellowed down a tad bit in the first quarter of the fiscal and continued to be low in the Q2 of FY20 too, primarily due to elections in the first quarter. Further, given the current turmoil in the banking sector, bank lending has become sparser and obtaining bank guarantees which are integral part of our business has become a challenging process. These factors have further dampened the overall project

bidding activity. However, as mentioned earlier, the Government's thrust towards improving liquidity situation and the critical Banking system is ought to reap benefits in the longer term. Further the government's plan of investing almost Rs.18000 Crores to upgrade speed, connectivity, safety and existing railway infrastructure along with structural reforms like ease of doing business and improving governance, should augur well for ordering and execution activity in the railway sector over the next five years.

As far as our company is concerned, we have always believed in bidding discipline and challenging environment notwithstanding, our EBITDA margins continues to remain stable and well above our internal hurdle rate of 13% to 14%. Further, having strong project execution capabilities, healthy financial base and enviable growth prospects across our areas of operation, GPT Infraprojects is well-positioned to continue its growth trajectory. Areas like the DFCC, Bridge construction, Northeast connectivity and other EPC works present a great opportunity for the company.

That is all from my side. Now I will request moderator to open the call for any question and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mihir Desai from Desai Invest. Please go ahead.

Mihir Desai: Thank you Sir for the opportunity. Sir my first question would be that what are the concerns that are dampening our concrete sleeper's execution?

Atul Tantia: So, as I said in opening remarks it is primarily to do with respect to the slow down in the Africa business; however, in the last month the Africa business again picked up so like I said in the second half we should see an uptick back in the Africa business.

Mihir Desai: Also, can we get an update on the Africa's order book Sir for the concrete sleepers?

Atul Tantia: Africa order book of concrete sleeper is almost Rs.50 Crores right now and we expect order renewal to happen in the next three to four months.

Mihir Desai: Okay, three to four months, sure Sir. Sir my next question would be for the concrete sleeper itself, so I just wanted an update for our DFCC concrete sleeper order Sir?

Atul Tantia: Sure. As you might be aware, we have set up two factories for Eastern dedicated freight corridor in UP for GMR Infrastructure. The orders are progressing smoothly. There have been some issues with respect to delays in terms of the release of payments; however, we

have been in constant touch with them to resolve the payment issues and they are getting it resolved as we speak.

Mihir Desai: Sure. Sir my last question would be just wanted an update on the industry front. So, there is a slowdown which we are witnessing, and so just wanted an update sir are you seeing a pick-up in demand or ordering activity in coming quarters or H2?

Atul Tantia: Ordering activity should now pickup as lot of tenders are coming out and we have also quoted for. So hopefully we should see some pick-up in the second half of the year in terms of ordering activity and award of contracts.

Mihir Desai: Okay. Sure Sir. That is all from my end. If there are more questions, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Tanmay Jagdale from Motilal Oswal. Please go ahead.

Tanmay Jagdale: Good afternoon Sir. I wanted to understand what the working capital cycle looks like for this quarter. We understand that you said the bank lending has become sparse so what is your outlook for this year?

Atul Tantia: So, the bank lending has become sparse mostly with respect to the bank guarantees limits, so it does not affect really the working capital cycle like I said, it is mostly the non-fund limits which are becoming sparse compared to the fund-based limits. The working capital remains flat around 120 odd days.

Tanmay Jagdale: You are hopeful that this would be sufficient for the remainder of the year and your ability to take on newer projects?

Atul Tantia: To take on new projects we would require bank guarantees, obviously we are in constant touch with the consortium bankers to sanction and reduce the bank guarantee limits. In terms of execution of newer contracts, the fund limits-based size is sufficient.

Tanmay Jagdale: Because we have seen with a lot of companies in this space that bank guarantee limits are hard to come by so is there any plan B, in case these do not come by?

Atul Tantia: There is no substitute for a bank guarantee. If you need to give a bank guarantee, you need to the bank guarantee, there is no plan B for bank guarantee.

Tanmay Jagdale: All right and what would be the cost of debt now?



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- Atul Tantia:** Cost of debt would be about 12%. It depends on bank to bank.
- Tanmay Jagdale:** Okay and is there any plan to do any fund raise in the near future?
- Atul Tantia:** Not really.
- Tanmay Jagdale:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.
- Rohit Natarajan:** Yes. So, just to touch upon on this earlier question what exactly is the non-fund base limit? Can you just quantify how much is exhausted and how much is utilized portion?
- Atul Tantia:** So non-fund sanction is about Rs.334 Crores out of which about Rs.290 odd Crores is utilized.
- Rohit Natarajan:** Okay and in terms of the existing order backlog that we have, how much of this mobilizing advance have we received and how much is scheduled in the days to come or something like that?
- Atul Tantia:** I think total mobilization advance outstanding is about 25 odd Crores as on date and which is being deducted as per the schedule in the various contracts.
- Rohit Natarajan:** Okay. Is there anything that is expected in the days to come or something like that?
- Atul Tantia:** Mobilization advance against new order. It cannot be in the old orders.
- Rohit Natarajan:** Okay. So, any new orders where you have not received yet that is why I was just asking on?
- Atul Tantia:** There are one or two orders but it depends on we would like to keep the banker limits for them if and when we bag new contracts rather than giving it from mobilization advance at this stage.
- Rohit Natarajan:** Apart from that there is capital utilization and the manufacturing capacity that you have already across India and Africa, could you just talk on that in case both India as well as the Africa what their numbers look like?
- Atul Tantia:** Africa is in pretty low like I said in the first half of this year. Africa capacity utilization was less than 50% however the Indian operations have done quite well and the capacity utilization was 70% to 80%.



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- Rohit Natarajan:** Okay. So that is it from my side. Should there be any other questions I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Darshan Mehta from Ambit Capital. Please go ahead.
- Darshan Mehta:** In the earlier part of the call, you talked about some problem on receiving payments from DFCC, so can you just elaborate on that side so are we not receiving timely payments or what is the issue basically?
- Atul Tantia:** The issue of timely payments, we are working as a normal subcontractor of GMR, so our payments come from through GMR not directly from DFCC.
- Darshan Mehta:** So, is GMR facing problems on, I mean any payment problems from railways or something? If you can just give a color on basically how, are there any problems from receiving payments railways or something for the industry, I am not speaking specifically?
- Atul Tantia:** For industry the payments are stretched but not bad, I would say.
- Darshan Mehta:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Atul Tantia for closing comments.
- Atul Tantia:** Thank you everyone for your participation in our Q2 and H1 FY20 earnings call. We have uploaded the investor presentation on our website. In case of any further queries, you may get in touch with Stellar Investor Relations or feel free to get in touch with us directly. Thank you and have a good day.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of GPT Infraprojects that concludes this conference. Thank you for joining us. You may disconnect your lines.