“GPT Infraprojects Limited
Q3 & 9M FY20 Earnings Conference Call”

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MANAGEMENT: MR. ATUL TANTIA – GPT INFRAPROJECTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q3 and 9M FY20 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 phone. I would now like to hand the conference over to Mr. Atul Tantia, Executive Director. Thank you, and over to you Sir!

Atul Tantia: Thank you. Good morning everyone and warm welcome to the GPT Infraprojects Earnings Conference Call for the Quarter and Nine Months ended December 31, 2019.

I have with me on call, representatives from Stellar IR Advisors, our Investor Relation Advisors. I hope you all have received the updated investor presentation and the press note and have gone through the same. We have also uploaded the same on our website and the website of the stock exchanges for your reference.

We will the begin the call with a brief summary on the financial performance of the company during the quarter and the nine months under review, that is, Q3 and 9M FY20, followed by an update on the recent happenings in the business. Lastly, we will move onto question and answer session.

To begin with, for the third quarter of FY20, we have reported a consolidated revenue from operations of Rs.157.9 Crores which is higher by 14% compared to Rs.138.1 Crores recorded in the same period of last year. Of this, the infrastructure segment contributed about 86% and the balance 14% came in from the concrete sleeper business.

During the 9M FY20, the consolidated revenue from operations stood at Rs.430.8 Crores that is 7% higher than Rs.401.5 Crores reported on the corresponding period of last fiscal. Of the total 9M FY20 revenues, infrastructure segment contributed about 82% and the balance 18% came in from the sleeper division.

Despite the continual challenging business environment in terms of the liquidity situation, payment related delays and project ordering activity in India, we are happy to share that we have successfully maintained or rather improved our execution run rate of the existing order book, leading to growth in the top line. This growth was largely led by our infrastructure segment wherein revenue grew by almost 30% year-on-year in Q3 FY20 and around 21% year-on-year in 9M FY20. In August 2018, we had bagged a large single order from RVNL for Rs.378 Crores for rail-cum-road bridge works at Ghazipur in Varanasi and the work on this project is going on smoothly with a quarterly run rate of approximately Rs.25 Crores. The completion of this order which is planned over the next 18 months, would enable us to bid for single orders of Rs.1,000 Crores. The unexecuted order book for infrastructure segment as on December 2019 stands at healthy Rs.14 billion approximately, forming almost 3x FY19 infrastructure revenue.

While the infrastructure segment is poised for growth, the Africa business has shown slowdown in sleeper segment in the first half due to elections in the country. However the business has picked up since then and we expect the business to meet the earlier run rate of revenue in the coming quarters. We are also expecting new orders from customers of both South Africa and Namibia in the next few months. On the Indian sleeper front, in one of our key orders which is from the GMR infrastructure for DFC project, due to a slowdown in the offtake from GMR, the first 9 months have been slow compared to earlier. However, the track linking works of GMR has started in full speed since the middle of January 2020 and we expect significant offtake in the next two quarters. Consequently, the concrete sleeper division revenue for Q3 FY20 was lower from the previous quarters. That was largely on the overall execution front.

Now in terms of order intake, while the macro environment has been weak 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 secure a few orders although small sized and we currently have a healthy order book of Rs.16.6 billion which is almost 2.9x of our FY19 revenue. Additionally, we stand L1 in orders worth almost Rs.6 billion. Going forward, we expect revival in ordering activity stemming primarily from governments focus on infrastructure and improving connectivity. The recently proposed budgetary allocation of almost Rs.700 billion for financial year 2021 towards Railways is quite encouraging especially the increase in allocation towards constructing of bridges, doubling of tracks and construction of new lines and we are hopeful that the combination of government’s thrust coupled with RBIs policy should help ease the credit availability for businesses like ours.

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 Q3 FY20 grew by almost 19% year-on-year to Rs.24.4 Crores and by 11% year-on-year to Rs.67.9 Crores for 9M FY20. The EBITDA margins have remained steady in the range of 15-16% for the period under review, despite lower profitability in the concrete sleeper business due to the aforementioned reasons. The net profit came at Rs.7 Crores up by a significant 246% year-on-year in Q3 FY20 and showed a 53% improvement for 9M FY20 at Rs.13.9 Crores in comparison to the same period of last year. Accordingly, PAT margin improved to around 4.4% in Q3 FY20 and to 3.2% in 9M FY20. The consolidated profit after tax and share of minorities for Q3 FY20 came in at Rs.6.3 Crores compared to Rs.3.7 Crores in Q3 FY19 and Rs.14.1 Crores for 9M FY20 as compared to Rs.10.2 Crores for 9M FY19 and Rs.11.8 Crores in full year FY19.

Further we would like to highlight that over the period we have been able to de-recognize and receive some of the old outstanding dues, which now stands at Rs.27.4 Crores as on December 2019 which is significantly lower than the Rs.49.1 Crores as on March 2019. In Q3 FY20 alone, the amount was reduced by 7.7 Crores. These dues were qualified by the auditors on account of old receivables from contracts or unbilled revenues and trade receivables for certain contracts which have been outstanding for more than 3 years. We are quite hopeful to recover some more of these amounts in the coming quarters, which will help our liquidity position.

Now coming to the industry scenario for project ordering and financial liquidity: The challenges in the banking sector continue to drive our ability to bid for new projects. However, overall activity in our segment has started seeing some green shoots of recovery and we are hopeful that these factors will provide a fillip to the overall project bidding activity. The Honorable Finance Minister, in her speech articulated the government's infrastructure focussed spending plan. Areas like construction of new line, track renewals, road safety, ROBs, RUBs, bridge work, doubling of lines and road safety - level crossings have received an estimated outlay of almost Rs.30,000 Crores which is 33% increase from previous year. These areas are likely to provide us with opportunities in the coming quarters and with our strong project execution capabilities and healthy financial base and enviable growth prospects across our operations, we believe the GPT Infraprojects Limited is well positioned to continue on its growth trajectory.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Rohit Natrajan from Antique Stock Broking. Please go ahead.

Rohit Natrajan: Thank you for this opportunity. Sir as you mentioned in your opening remarks that the segments attributable for your company in the railway infrastructure budget has seen some 33% kind of a growth, my question is in terms of there is also a change in policy that is notified in the month of December from RVNL and another railway PSU company and is more confined to how the nature of bidding will happen from Ministry of Railways to these companies. If I put these two things together, one is the increase in infrastructure spending and second thing is the change in competitive landscape between companies like Aircon, RVNL and so on, how does that impact you in future for all the orders to come?

Atul Tantia: Well the change in the competitive landscape in terms RVNL, Ircon, the notification that you are referring to in December is that earlier these companies used to get orders on a cost plus basis from the Ministry of Railways, now they have been told they would also be participating in the bid to get the contracts. However, when these companies give out orders to the likes of us, that is, to the private customers, then they have their own bidding process wherein we participate and get the orders out of the bidding process. So as such for us, we do not see much of change in the process or any change in the margins because the competitive bidding process remained earlier also and continues to be the same.

Rohit Natrajan: No Sir, my point here is more on the scope of PVC that is the Price Variation Clause or where the fix component will be involved, will there be any tinkering around that aspect?

Atul Tantia: No, even the railway department gives PVC in the direct contracts that they give to us and other PSUs and the PSUs give PVC also, so that should not change. It is not the contract without PVC per se.

Rohit Natrajan: If I understand correctly, this is for the prospective orders whatever MOR is going to give it to them?

Atul Tantia: Yes but for the prospective orders also, it is not a fixed price contract where the contracts are with PVC.

Rohit Natrajan: The reason why I asked you is that both Ircon and RVNL have got very strong order backlog which they have right now in hand so this incremental policy impact will be for the new orders that Ministry gives to them and not on the existing order backlog?

Atul Tantia: Yes but the Ministry has not said that it will be a fixed price contract for them.

Rohit Natrajan: True. I understand. My second question is on what is the situation with your L1 position, when do you expect that to be part of the order backlog and when do we see the commencing of construction?

Atul Tantia: So L1 of almost Rs 600 Crores has been for almost 30 odd days and we expect it to be awarded in this financial year. Our construction typically nowadays takes about 3-4 months so post monsoon the construction for that would start.

Rohit Natrajan: Sir if I can ask you some questions for the next year FY21, what would be the execution that you have built in for Mathura Jhansi project?

Atul Tantia: Next year Mathura Jhansi would see an execution of Rs 75-80 Crores minimum.

Rohit Natrajan: Okay and for the level crossing order in West Bengal, which currently you have Rs 2.1 billion order backlog?

Atul Tantia: Level crossing order would see almost Rs 40 odd Crores of execution; there are two bridges in that and for one bridge, land has been handed over while for the second bridge, land is yet to be handed over.

Rohit Natrajan: And in GMR DFC how much it would look like?

Atul Tantia: GMR DFC like I said in my opening remarks, it depends on the offtake from them, the factories are geared up to do almost Rs 8-9 Crores each, every month. They have indicated at a senior level last week that they would see in the next two quarters a significant offtake, so if that does happen then from the two factories you will see close to Rs 100 Crores but it is subject to the offtake happening from GMR.

Rohit Natrajan: You touched up on the opening remarks that Ghazipur project is 18 months project so how much is the billing that you expect in FY21 to happen?

Atul Tantia: So like I said in the opening remarks, the current quarterly run rate is about Rs 25 Crores so we expect that to be maintained.

Rohit Natrajan: Okay that will be maintained, right. That is from my side. Should there be more questions, I will get back in the queue.

Moderator: Thank you. We take the next question from the line of Shruti Sharma, Individual Investor. Please go ahead.

Shruti Sharma: Hello Sir. Thanks for taking my question. Sir I have one book-keeping question; what is the working capital cycle for Q3 FY20 and 9M FY20?

Atul Tantia: We do not give the balance sheet for quarter.

Shruti Sharma: Any ballpark number if you can give?

Atul Tantia: It would be close to 130 odd days.

Shruti Sharma: Okay Sir and going forward do we see any increase?

Atul Tantia: As I said in the opening remarks, a lot of the old receivables are coming so we will see liquidity position improving and that will obviously improve the working capital cycle and with the offtake from GMR, our working capital cycle would improve further.

Shruti Sharma: Any development on the NHAI arbitration order of Rs 62 Crores?

Atul Tantia: Still subjudice in Delhi High Court; NHAI lawyers have not been present in the last couple of hearings so it has been deferred.

Shruti Sharma: Okay so we do not have any update on the same?

Atul Tantia: We cannot predict as matter is subjudice in Honble Delhi High court.

Shruti Sharma: Okay Sir. One more thing I wanted to ask on the infrastructure segment side, that execution of infrastructure segment is very strong so what is the outlook on the same?

Atul Tantia: As I said in the opening remarks that even the budget provides almost 33% enhanced outlay for the portion of the railway contracts that we have been doing so we expect the growth to be strong in the coming years also.

Shruti Sharma: What kind of percentage do we expect like what kind of order book do we expect in next two year, any numbers we have.

Atul Tantia: We do not give any quarterly numbers in terms of future guidance; normally we give annual guidance so we will do that post the March quarter.

Shruti Sharma: Okay Sir that's it from my side. Thank you so much for taking my questions.

Moderator: Thank you. We take the next question from the line of Mohit Bhansal from Ajinkya MPL. Please go ahead.

Mohit Bhansal: Thanks for the opportunity. Sir I had a question on the NHAI arbitration. There was a recent cabinet note, which mentioned some changes in the arbitration process - any changes which applies to us post that?

Atul Tantia: No there are none for us.

Mohit Bhansal: Okay, so it doesn't impact, but it said that the new arbitrations will have to go through AG opinion and then go into arbitration. Does that apply to old arbitration cases as well?

Atul Tantia: No only for new.

Mohit Bhansal: Sir last time you had mentioned about some new bank lines getting sanctioned, so just wanted an update on that?

Atul Tantia: They have been sanctioned.

Mohit Bhansal: Okay can you please help us with the total sanction of limit for the entity?

Atul Tantia: Total sanction limit is Rs 210 Crores for fund-based limits and Rs 343 Crores for non-fund based.

Mohit Bhansal: Okay Sir you have already guided for a flat kind of a growth for next year?

Atul Tantia: I did not guide anything for next year

Mohit Bhansal: So can you please give an outlook for the next year?

Atul Tantia: Like as I said on the previous question normally on a quarterly update call, we do not give a future guidance. We do that on the annual calls so in the call for the March results we will do that.

Mohit Bhansal: Okay alright Sir. Thanks a lot.

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

Mihir Desai: Thank you for the opportunity. Sir I had a couple of questions on concrete sleepers, so we have seen that the performance of our concrete sleepers has been a bit sluggish, so I just wanted to understand the key concerns in this business?

Atul Tantia: As I said, the key concern primarily with respect to the African business in the first half of this year is it being slow due to elections both in South Africa as well as in Namibia. However, like I said in South Africa, the offtake has picked up and we should see the earlier run rate coming back in the coming quarters. In terms of Indian sleeper business, the larger contract is with GMR infra so we had some issues with respect to the offtake of sleepers in the first 9 months however some of the funds have been dried up by them and we expect them to have increased offtake. Also, with the track laying works that they have committed, the coming couple of quarters should be good with them.

Mihir Desai: Do expect any renewal orders from Africa?

Atul Tantia: As I said in the opening remarks, both in South Africa and in Namibia, in the coming months we will see new orders.

Mihir Desai: Sir just wanted to understand the orders and breakup between our concrete sleepers and infrastructure business?

Atul Tantia: The orderbook is Rs 14 billion approximately for the infrastructure business and Rs 2.6 billion approximately for the concrete sleeper business**.**

Mihir Desai: Sure thank you Sir. If I have any more questions I will get in the queue.

Moderator: Thank you. The next question is from the line of Rikesh Parekh from Barclays. Please go ahead.

Rikesh Parekh: Thanks for the opportunity. Sir can you guide me on the order inflow both for concrete and infrastructure segments?

Atul Tantia: Order inflow you mean…

Rikesh Parekh: Already that we have received the order. Now the current order we got in the current year?

Atul Tantia: In the current year, I have the current order book outstanding which is 16.6 billion combined, this year the orders are slightly small so I do not have a total figure in front of me right now, but for the concrete sleeper business it will be approximately Rs 100 Crores and infrastructure would be almost Rs 180 Crores.

Rikesh Parekh: Utilization levels for our concrete sleeper business in India and South Africa?

Atul Tantia: In India, the utilization level for GMR has been low because of the offtake like I said in my earlier remarks. For Panagarh, the utilization has been almost 75%. For South Africa business, the first six months the utilization was less, again like I said in opening remarks due to the elections there. Now the utilization currently in South Africa is almost 70-75%.

Rikesh Parekh: Okay lastly, what is the current debt levels for us short-term and long-term?

Atul Tantia: On a consolidated basis, the fund-based debt is almost Rs 220 Crores within India as well as the African business combined.

Rikesh Parekh: Okay thank you.

Moderator: Thank you. We take the next question from the line of Jiten Rushi from BOB Capital Market. Please go ahead.

Jiten Rushi: So my question would on the order pipeline in the next couple of months what kind of order, which projects are we targeting as an inflow, can you please highlight on that?

Atul Tantia: So our core competence would always been in construction of large bridges for railways, railways track works, so the target would be towards that. Like I said in my opening remarks this budget has made an outlay of almost Rs 30,000 Crores for these segments of the business which is an increase of almost 33% from the last year.

Jiten Rushi: I appreciate that but any specific projects, which you have bided and expecting the bid open soon or you are planning to bid?

Atul Tantia: We are already L1 in Rs 600 Crores of orders so that is something that we have in L1.

Jiten Rushi: And when is this expected?

Atul Tantia: In this financial year.

Jiten Rushi: Okay and any further bids in the next couple of months like in terms of value that you are targeting?

Atul Tantia: It is very difficult to give a number for that.

Jiten Rushi: Okay so far can you just tell me the order inflow, I missed on that sorry?

Atul Tantia: The orderbook currently in Rs 16.6 billion.

Jiten Rushi: Order in flow so far year to date?

Atul Tantia: Net unexecuted order book is about Rs 16.6 billion.

Jiten Rushi: Okay Sir thank you. All the best.

Moderator: Thank you. Well ladies and gentleman that is the last question for today. I would now like to hand the conference over to Mr. Atul Tantia for closing comments. Over to you Sir.

Atul Tantia: Thank you everyone for your participation in our Q3 and 9M FY20 earnings call. We have uploaded the investor presentation on our website and the website of the stock exchanges. In case if you have any further queries, you may get in touch with us or with Stellar Investor Relations. Thank you and have a good day.

Moderator: Thank you, on behalf of GPT Infraprojects that concludes this conference. Thank you for joining us. You may now disconnect your lines.