"GPT Infraprojects Limited Q4 & FY21 Earnings Conference Call"

June 22, 2021

MANAGEMENT: MR. ATUL TANTIA – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, GPT INFRAPROJECTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q4 & FY21 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Tantia – Executive Director and CFO, GPT Infraprojects Limited, thank you and over to you Sir.

Atul Tantia: Thank you, good morning everyone. A warm welcome to GPT Infraprojects Limited earnings conference call for the fourth quarter, and the fiscal year ended 31st March 2021. Our investor relations advisor Stellar IR is also on the call. The presentation for this quarter has been updated on the websites of the stock exchanges, as well as the website of the company. We hope that you have had a chance to go through the same.

As you are aware COVID-19 pandemic has hindered the last fiscal as a challenging and unprecedented year on all accounts. With the overall business environment seeing signs of recovery, starting from Q2FY21 onwards, followed by the rollout of the vaccine for the frontline and healthcare workers, and last year's stellar union budget that is focused on giving impetus to the economy, it appeared that the worst of the pandemic was behind us. However, we find ourselves facing a second wave with several states facing restrictions again, which we hope will combat this successfully and swiftly. At GPT we have been able to face this challenge head on and have been able to deliver a robust performance in this year gone by. Our strategic focus on continuity of operations and financial prudence has not only helped us in maintaining the execution run rate with only a minuscule drop of 1.4% in revenue despite an abysmal Q1FY21, but it also added in the enhanced profitability, even in a challenging year like FY21.

On the ordering front too, we have seen a strong revival leading to a healthy order book for the company. The board has recommended a final dividend of 10% of the face value that is Rs. 1 per equity share for a FY21, which brings the total dividend to a total of 25% that is a Rs. 2.5 per equity share as against Rs.1.50 per equity share in FY20. The government's focus on Capex has led to a significantly higher outlay for the sectors that we operate in. The proposals to include a record allocation of 1.1 trillion, out of which 1 trillion is earmarked for capital expenditure within railways doubling of lines, new line addition, gauge conversion, road safety work. ROBs, RUBs, track renewal and bridge works have all received higher allocation. Further it is expected that the Western Dedicated Freight Corridor and the Eastern Dedicated Freight Corridor will be commissioned fully by June 2022. You might be aware that partly these corridors have been commissioned, and the speeds of almost a 100 kilometers per hour have been recorded on these lines. This is expected to boost the ordering activity further. We are having some contracts within the Eastern Dedicated Freight Corridor.

Notwithstanding the pandemic, the company has successfully bagged almost 10 new orders worth Rs. 932 crores in FY21. With this addition the average order size is increased from

Rs.40 crores to about Rs.110 crores over the last six years. Some of the recently bagged projects include 2 orders in Uttar Pradesh for construction of new bridges over river Yamuna in Agra and Jhansi totaling to about Rs.245 crores, an order for the repair of the rehabilitation of the second Hooghly bridge in West Bengal, in Guwahati we are constructing structures for bridges for NF railway, and road projects for NH 102B in Manipur. Incrementally we stand at L1 in orders worth almost Rs. 200 crores, further strengthening our order pipeline for the fiscal year ahead, as against an abysmal order inflow in FY20. With this our order book stands at Rs. 1,823 crores, which is almost 3x our FY21 revenues.

Now let me take you through the key highlights about the company's operational and financial performance during the quarter and fiscal gone by:

On the execution front most of our projects are progressing well, and we are closely monitoring the ground situation with respect to second wave of COVID-19 and any impact thereon. The company has undertaken to reimburse the vaccination charges for all its employees and laborers, which will lead to our employees feeling safe and their immediate family members are also feeling safe.

On the concrete sleeper side too, all our manufacturing facilities are operating normally. In Africa, international operations Namibia continues to operate at all-time high-capacity utilization with good cash flow and dividends to its shareholders. Continuing this trend of increased traction, our consolidated revenues for the past quarter, that is a Q4FY21 posted a growth of approximately 14% year-on-year and approximately 25% quarter-on-quarter to Rs. 214 crores, one of the highest quarterly run rates in the history of the company. For the full year of FY21, the consolidated revenue dropped by a marginal 1.4% year-on-year to Rs.609 crores, due to the impact of COVID-19 related restrictions in the Q1FY21.

In terms of a segmental break up, the proportion of concrete sleeper segment increased from 15% in FY20 to 21% in FY21 due to high deliveries, specifically the DFCC and South African contracts. The revenues from the concrete sleeper division in FY21 grew by almost 37% year-on-year to Rs.131 crores.

On our margins and profitability, the company’s ongoing cost optimization and profitability measures have benefited a lot. This has led to higher operating leverage and bearing fruit and increased profitability over the year and EBITDA margin starting at 14.85% versus 13.48% in the year gone by. The bidding discipline that we maintained while bidding for new contracts continues to be the primary factor for stability in the EBITDA margins for the company. Our consolidated EBITDA grew by 62% to Rs.26 crores in Q4FY21 and by 9% year-on-year to Rs.91 crores for FY21.

We are happy to announce that the company has reported its highest ever quarterly and yearly profit after tax on the background of improved execution, bringing in operating leverage lower depreciation and interest costs. In Q4FY21 PAT came in at Rs.8.4 crores versus Rs.~1 crore

Q4 FY20, and Rs. 20.2 crores in FY21 versus Rs.15 crores in FY20, up by 35% year-on-year. Our profit after tax in Q4FY21 stood at Rs.9.3 crores on standalone basis, the highest ever which includes the Rs.2.7 crore dividend from our Namibian operations and hence on a consolidated basis our PAT stood at almost Rs. 8.4 crores.

Our leverage and liquidity position has improved over the last year as we have mentioned earlier in our calls, we have been optimizing our working capital and in addition to pairing some of our long-term debt, we expect to release some old outstanding from various clients, which was at Rs. 49 crores in March 2019 and reduced to Rs.25 crores in March 2020, and despite COVID-19 has reduced to Rs.20.8 crores this year and is expected to further reduce by Rs.2 crores this year.

In addition, outstanding tax refunds are also being processed by various departments and will lead to easing out of the cash flows for the company. Further to strengthen the company’s liquidity portion in these challenging times, we have engaged actively with our working capital bankers to avail the special liquidity scheme announced by the Government of India. We have also applied for release of proportion bank guarantees from various clients, in partly completed projects as allowed by the ministry of finance and approximately it will be Rs.75 crores bank guarantees has been already released by various clients. Overall, we do not foresee any challenges in meeting our debt obligations or liquidity for the business. This has led to improvement in the current ratio from 1.05 to 1.2 this year.

With regards to the arbitration with NHAI, Jogbani Highway Private Limited, the subsidiary of the company, NHAI has approached the company to reconciliate the matter as per the guidelines of NHAI. As you might be aware, the case is long outstanding in Delhi High Court, and due to COVID-19 the hearings are not happening. Therefore, the management has opted for the same in order to fast track the dues from NHAI against the arbitration award of Rs. 61 crores plus interest. The company expects this process to conclude in this calendar year as for the conciliation process, thus providing further liquidity to the operations of the company.

Lastly, let me share with you some of the highlights of the key projects under execution for the current fiscal year:

Some of our key projects and execution include the Ghazipur order worth Rs. 378 crores by RVNL which is running smoothly, at a quarterly run rate of approximately Rs.30 crores and its closure is expected over the next 20 months. This will enable us to build for bid for single contracts up to Rs. 1,000 crores underscoring our execution capabilities in the infrastructure segment. In the concrete sleeper segment, the GMR order worth ~Rs.250 crores continues to progress well, and the cash flows from the same are expected to further ease the working capital requirements.

Going forward with our strong project execution capabilities and a robust order book, a healthy financial base, and enviable growth prospects, driven by buoyancy across our areas of operations, we believe that GPT Infraprojects is well positioned to continue its growth trajectory.

I hope that all of you are safe, and your families are safe and have been vaccinated by now. That is all from my side.

I will request the moderator to now open the floor for any question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Natrajan from Antique Stock Broking. Please go ahead.

Rohit Natrajan: I see this numbers is basically a function of the pre second lockdown and second COVID wave. What is the current situation especially that you have seen during the Q1FY22 the impact would have been much more starker. Also going forward, what could be the outlook in FY22 in terms of revenue guidance, margin guidance if any.

Atul Tantia: As I said in my opening remarks, the second lockdown has not had much of an effect on the operations because we have been able to vaccinate most of our employees and their family members. The company has encouraged everyone to get themselves vaccinated and the operations as we speak are on track and are normal. However having said this, some people are expecting a third wave in the country and in the world. If that does happen, there could be some impact on the operations. For FY22 we expect our growth in terms of our top line as well as to maintain our margins, within the next two to three years, we expect to achieve a revenue of close to Rs.900 Crores -Rs.1,000 crores for the company.

Rohit Natrajan: But you don't want to say anything on this immediate guidance for the FY22 as such.

Atul Tantia: Like I said, third wave can impact, so this year because it is quite uncertain, we will grow the business, but we cannot pinpoint a number.

Rohit Natrajan: My second question is more confined to the order and flow part. You said in the opening remarks about some residual works in DFCC is expected to trickle down as an order inflow for you. Are you referring to that concrete sleeper opportunities or are you looking at some EPC opportunities as well over there?

Atul Tantia: We are looking at both, in terms of DFCC, whether it is EPC as well as concrete sleepers. The Eastern freight corridor is not fully bided out, by the DFCC, they are still wanting to tender out for the EPC part as well. We will look at both the opportunities whether it is concrete sleepers as well as the EPC portion.

Rohit Natrajan: In terms of guidance that you have any ballpark number in terms of what would be the ordering flow for this fiscal year? I mean, is there any target that you are having in mind at this point in time?

Atul Tantia: The residual order book is about Rs.1,823 crores as on today, we like to have a residual order book of 2.5x - 3x of the revenues, we would like to keep that trend.

Rohit Natrajan: That means on an average you may clock at least Rs.600 odd crore kind of order flow for this fiscal year.

Atul Tantia: Rs.600 crores is what we have executed in this fiscal. Last fiscal also, we had order inflows of almost Rs.900 crores plus, we would be close to Rs.1,000 odd crores this year.

Rohit Natrajan: In terms of any capex are you planning to incur either in terms of the EPC opportunities or the concrete sleeper segment.

Atul Tantia: In terms of capex, it would be a normal capex that happens in any construction company for our projects, it would really be project specific in terms of the type of contracts that we do get, we don't anticipate a very large capex to happen for the next one or two years.

Moderator: The next question is from the line of Sadanand Shetty from Truequity Advisors. Please go ahead.

Sadanand Shetty: What has lifted the operating margins in a quarter that has seen unprecedented increase in commodity prices, especially you have steel bridges to execute. The second question is when you're talking about sustaining margins, your overall consolidated EBITDA at around 14.85% you are referring that to be sustained?

Atul Tantia: In terms of steel prices all our contracts whether it is EPC or infrastructure, as well as concrete sleeper segment, have a price variation formula wherein we are compensated for the increase or decrease in the steel prices. In that sense we are protected by the increase in the steel prices because they all pass through to the respective customers. In terms of a sustainable EBITDA margin we have always guided our hurdle rate for EBITDA to be 13%. We expect on a consolidated level our EBITDA to be close to 14 % to 15 %. We are in that ballpark this year as well 14.85% like you pointed out.

Sadanand Shetty: What are the cost optimization measures you have taken that has hindered you on operating margins side?

Atul Tantia: In terms of cost optimization, we have been able to reduce our interest costs and also have been able to reduce certain overheads since we are getting more larger contracts that leads to lesser overheads on the contract execution front as well, which leads to a better cost optimization for the company.

Moderator: The next question is from the line of Dipen Shah, an individual investor. Please go ahead.

Dipen Shah: I have a slightly broader question. If I look at the revenues for the company over the last five to seven years, we had a revenue of about Rs.500 crores in March 2016. We are at Rs.600 crores today. We have actually grown by 20% over the last five years. Now we are looking at almost a 50% growth in the next 2-3 years. Could you just let us know what has changed and what gives you the confidence that you should be able to raise your growth rates over the next 2-3 years? And the second question is that in terms of profitability over the last 10 years, you have your margins are in between 13%-15% and that's been pretty stable. One of the reasons is because the raw material prices are a pass through, but, would you say that there is a potential for the margins to grow beyond 15% once when you reach about Rs.900 crores – Rs.1,000 crores in revenue, or should we look at the margins to be in the range of 14% to 15% despite the revenue growth?

Atul Tantia: In terms of comparison of 2016 revenue to 2021 revenue over the last five years, revenue has grown by 20%. I would like to remind you that in 2017, the GST was implemented in the country, so revenues post 2017 are net of GST. That has an impact of almost 15% - 18% on the revenues. Over the last five years revenue if you normalize for the GST have grown by almost 40%, not 20%, like you've pointed out. Obviously, the last couple of years there was a pressure on the liquidity because of the general economy being not favorable in terms of infrastructure companies. However, with the turnaround in the economy, we expect that infrastructure will again be a huge focus for the government. This is why we are very optimistic that over the next 2-3 years, we will be able to grow by almost 40%. In terms of the margins, we expect the margin to remain in the 14%-15%, the growth and the revenue will not lead to an improvement in the margins. For EPC company, we believe that this is a good EBITDA level that an EPC company can achieve and because at the end of the day, we do get contracts through public tenders. If we were to bid higher rates for our contracts we would not be able to get the orders.

Dipen Shah: We have mentioned Ircon and RITES as our clients. Is it some kind of a subcontracting work which we do for these companies? If you can just explain it in a bit.

Atul Tantia: We don't do subcontract per se, Ircon and RITES are also railway PSUs, we do contract for them. It's not technically a subcontract because they bid out even to large companies like L&T and Tata projects as well. It's not a subcontract of Ircon and RITES. The government does mandate that some contracts are bided through Ircon and RITES.

Dipen Shah: Lastly, you spoke about receiving cash from various quarters is the next one quarter in the next one year. If you can just give us a number as to whether we should consider debt to reduce in the next one year by about Rs.40 crores- Rs.60 crores, because of the amounts which we have received and because of that the bank guarantees which are released, how should we need that debt figure over the next one to two years, sir?

Atul Tantia: Over the next one year from the operations, I would say that the debt would reduce by ~Rs.10 crores to Rs.15 crores. We have companies opted for the reconciliation with an NHAI. If the reconciliation with NHAI does happen, then obviously that money will be largely used to pay down the debt.

Dipen Shah: And that amount is ~Rs.60 crores, and you will receive a part of it right?

Atul Tantia: Well reconciliation is about to start, so I can't comment on a number that we will receive, but our arbitration award is Rs.61 crores plus interest.

Moderator: The next question is from the line of Rahul Jain an individual investor.

Rahul Jain: My question is, could you quantify the total old dues that are outstanding?

Atul Tantia: The old dues that are outstanding are already qualified by the auditors of Rs.20.8 crores.

Rahul Jain: How much do we expect it to be by the end of this year?

Atul Tantia: Like I said in my opening remarks, we expect Rs.2 crores – Rs.3 crores to further come down this year.

Rahul Jain: My second question is what is the execution period of the current order book of Rs. 1,823 crores?

Atul Tantia: ~2-2.5 years.

Moderator: The next question is from the line of Sadanand Shetty from True Equity Advisors.

Sadanand Shetty: What is the trend in average bidding size of your projects in the last 2-3 years and where do you see that is trending up in the next 2 years? That is the first question, and the second one is when will you be eligible for the Rs.1,000 crores bid of the tender?

Atul Tantia: Our average ticket sizes have increased from Rs.40 crores to almost Rs.110 crores now, we are bidding mostly for contracts Rs.100 crores plus each. In terms of our capacity to bid for Rs.1,000 crores orders, the Ghazipur contract should get closed in the next 20 months. Then we can bid for Rs.1,000 crores single order in our own name.

Sadanand Shetty: What are the eligibility criteria?

Atul Tantia: It is normally 35% similar contract you should have executed in the past three years.

Sadanand Shetty: Means ~Rs.350 crores type.

Atul Tantia: Single order you should have executed in the last three years,

Sadanand Shetty: Your industrial contribution is very minimal. What kind of work you do for NTPC, Power Grid, KEIP, and UPIs?

Atul Tantia: NTPC we do mostly the railway sidings for their plants, Power Grid also we have done some foundation works for their transmission towers in hilly areas, EPR we have done an industrial shed in Bihar for them, KEIP again we are doing some work for the city in terms of sewage and water treatment.

Sadanand Shetty: You expect more business some of these customers have a very good Capex pipelines.

Atul Tantia: We are always in discussions with potential customers who are bidding out new contracts, we obviously bid for them. We have a hurdle rate of EBITDA, if we do get contracts in our hurdle rate we are quite happy to take them.

Sadanand Shetty: What is the contribution of mega bridges currently?

Atul Tantia: We are doing 2-3 mega bridges we are doing one for Ghazipur. We are also bidding for some of the new mega bridges that have been announced for the Government. We have done earlier the double decker bridge over Ganga in Patna for Ircon and East Central railway, we have done the bridge over Kosi in North Bihar again for railways, they are other two mega bridges that we have already done in the recent past.

Moderator: The next question is from the line of Mihir Desai from Desai Investments.

Mihir Desai: One question was on the follow-up question on the arbitration amount which you had mentioned that you will receive. That could go completely like you said for the debt repayment. How much working capital cycle will improve because of that?

Atul Tantia: Obviously if the debt repayment happens it leads to better ratios in terms of return ratios, ROCE as well as ROE, working capital cycles will also improve by almost 30 odd days.

Mihir Desai: By what time do you envisage that we should receive this amount, any ballpark

Atul Tantia: As per the SOP guidelines of NHAI, they generally want to conclude such consideration process in 6 months.

Mihir Desai: On the debt cost front, is our debt cost reduced? What would be our debt cost on a current basis?

Atul Tantia: Debt cost has reduced, and it is on current debt is just top of 10%, average cost of debt.

Mihir Desai: Do you see any further improvement in this debt cost or this is the average cost?

Atul Tantia: We should see almost a 50-basis points improvement in this.

Mihir Desai: My last question would be like apart from COVID-19, what kind of opportunity are you seeing, currently from our business, meaning on the order front end and what currently excites you from your end, running the business?

Atul Tantia: Due to the turnaround and the economy this is a sector wherein the government focus is there in terms of orders and in terms of growing the economy because this is one of the largest sector that employs in the country. Obviously they do a lot of investments for the national infrastructure pipeline that has been announced by the government, and we feel that we are well poised to capture this growth phase for the company.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Atul Tantia – Executive Director and CFO for closing comments.

Atul Tantia: Thank you everyone for your participation in our Q4FY21 Earnings Conference Call. I hope that everyone does stay safe, and their families are safe and if not vaccinated, they do get themselves and their immediate family vaccinated, because this is the only way we can prevent a third wave in the country. In case of any other further queries, you may get in touch with our IR teams Stellar Investor Relations, or feel free to get in touch with us directly. I wish that all of you do take care and stay safe. Thank you, have a good day.

Moderator: Thank you. On behalf of GPT Infraprojects Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.