GPT Infraprojects Limited

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GPTINFRA/CS/SE/2023-24

May 29, 2023

The Department of Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street
Mumbai – 400001

National Stock Exchange of India Ltd.,
Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051

Dear Sir / Madam,

Sub: Update on Conference Call held on 24th May, 2023 – Call Transcript

Ref.: Scrip Code – 533761; Symbol – GPTINFRA

In compliance with Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the Conference Call held on Wednesday, 24th May, 2023.

Kindly take the aforesaid information on record and oblige.

Thanking you,

Yours faithfully,

For **GPT Infraprojects Limited,**

MOHIT ARORA Digitally signed by MOHIT ARORA Date: 2023.05.29 11:16:00 +05'30'

Mohit Arora
Company Secretary

Encl. – As Above

"GPT Infraprojects Limited Q4 FY23 Earnings Conference Call"

May 24, 2023

MANAGEMENT: MR. ATUL TANTIA – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q4 FY23 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Atul Tantia – Executive Director and Chief Financial Officer. Thank you and over to you Sir.

Atul Tantia: Thank you. Good morning, everyone and a warm welcome to the GPT Infraprojects Limited Q4 & Year Ended 31st March 2023 Earnings Conference Call. The results presentation and the press release along with the financial results were uploaded on our website and the website of the stock exchanges and I hope you have had a chance to review the same. We are also joined by Stellar IR, our Investor relation advisors.

I am happy to announce that the Fiscal Year 2023 marked the best year for the company in its history on all parameters, that is Revenue, EBITDA, PAT, ROCE and Cash Flow. This achievement is attributable to our strong execution capabilities, steady focus on cash flow and the realization of old receivables from customers which improved our return ratios leading to ROE and ROCE being 14% and 17% respectively.

As per the dividend policy of the board and in order to reward our shareholders for the robust performance of the company the board has recommended a final dividend of Rs. 1.5 per share. This will lead to a total dividend payout for the year of Rs. 2.5 per share, that is 25% of the face value. You will recollect that in November 2022 the company had allotted bonus shares in the ratio of 1:1 after approval of the shareholders. Post bonus, the dividend is in the highest in the history of the company taking the total payout to Rs. 14.5 Crores for this year.

Now moving ahead to our financial performance for the full year 2023:

Our revenues from operation were Rs. 790 Crores on a standalone basis which compared to Rs. 669 Crores last year representing a growth of 18.1%. On a consolidated basis the revenues stood at Rs. 809 Crores compared to Rs. 675 Crores for the last year representing a growth of 20%. In both the standalone and the consolidated numbers, we have exceeded the target set out of 15% growth at the beginning of the year. This growth was driven by significant execution in the infrastructure segment which accounted for 88% of our total revenues.

Our standalone EBITDA for the year stood at Rs. 96 Crores compared to Rs. 88 Crores in FY22 with EBITDA margin at 12.2% compared to 13.1% last year. The EBITDA was slightly muted on account of impairment of the investment in the associate in Namibia due to foreign exchange fluctuations and change in the discounting rates. Operationally, adjusted EBITDA margin was well above our EBITDA hurdle at 12.5%, which we have guided historically.

On a consolidated basis as we had announced earlier the South African business has resumed operations after receiving orders in October 2022 which led to growth in the top line. However, due to the volatile currency fluctuations in South Africa and Ghana there were some mark-to-market losses. The currency has recovered since March as on date. However, as on March we had booked some mark-to-market losses. This led to a muted EBITDA margin of 11.4% for the consolidated results.

Again, if we were to adjust this currency fluctuation and the impairment of Namibia investments, we would be meeting our threshold EBITDA rate of 12.5%. The profit after tax grew by 40% to Rs. 34.5 Crores on a standalone basis due to reduction in depreciation and interest costs and the profit after tax after minorities and after jointly controlled entities grew by 29% to Rs. 31.4 Crores for the consolidated results. The deferred tax reversal was on account of the above mark-to-mark losses for the currency fluctuations in the foreign subsidiaries.

The strong performance is also quite evident in the cash flows from the operations of the company as well, which grew by an impressive 52% to Rs. 106.2 Crores representing an industry leading cash flow to EBITDA conversion of 110%. This is an account of reduction in trade receivables from GMR and realization of all old outstanding which has allowed the management to reduce debt and also invest in the new subsidiary in Ghana, RMS GPT Ghana Limited. This strong performance and good cash flows should also improve our external credit rating, which is currently **BBB+ Stable by CRISIL**. Any upgrade in the credit rating would also lead to a reduction in borrowing costs for the company as you are aware. Furthermore, our healthy order book of Rs. 2,276 Crores, which represents almost 2.81x our FY-2023 revenues provide strong visibility. It is worth mentioning that this order book represents one of the highest in our company’s history. To enhance profitability, we have implemented key measures such as optimizing working capital and reducing outstanding investments with various customers.

We remain positive due to our healthy unexecuted order book and improving financial deficiencies including improved cash flows and reduced debt position resulting from the reduction in receivables. We are focused on reducing our borrowing further by Rs. 20 Crores in this current financial year and refinancing our existing debt at lower rates upon the upgrade of the accelerating in the current year. This will be achieved by the expected strong performance this year as well as returns from the investment in the subsidiary in Ghana and full liquidation of the outstanding receivables from GMR. As you may be aware the Honorable Finance Minister in a budget speech on February 1, 2023, has announced a "Vivad se Vishwas Scheme" to settle all contractual disputes with Central Government and PSUs. The management is quite confident that the existing arbitration cases will be settled through this scheme once the same is made operational by the government in this financial year which will lead to a cash inflow of almost in excess of Rs. 50 Crores.

Now turning to the performance of our segments:

Our infrastructure segment demonstrates strong execution prowess throughout FY23 with a remarkable 24% increase in revenues reaching Rs. 712 Crores for the year ended 31st March 2023. This segment continues to be the backbone of our business, contributing almost 88% of our total revenues in FY23. In some key contracts for this segment like Ghazipur, Mathura, Jhansi and Nimtita the company has well exceeded the targets set forth for the Fiscal Year '23 which has led to the overall jump in the revenues as and we expect the team to maintain the momentum for the current year as well.

Regarding the sleeper segment generated revenues of Rs. 98 Crores for FY23. We anticipate increased momentum in this segment with the commencement of the operations of our factory at Ghana which has an outstanding order book of Rs. 123 Crores. The new factory which is expected to be commissioned in Q1 FY24 will have a capacity of 240,000 sleepers per annum. In fiscal year FY23, we secured orders worth Rs. 1,401 Crores including incremental orders from existing contracts. As of 31st March 2023, our healthy order book amounts to Rs. 2,276 Crores approximately 2.81x of FY23 revenues providing excellent growth of visibility for the Company. The company has expanded its horizons and is entering newer geographies like Maharashtra wherein we are doing three contracts in the Mumbai city for MRIDCL totaling to approximately Rs. 600 Crores and have also entered a new country for the sleeper segment by setting up a factory in the Republic of Ghana.

I would like to highlight that now we can bid for orders up to Rs. 1,000 Crores each in our own name expanding our potential opportunities for the growing segment of infrastructure business in the country. The future looks quite bright for the company and we are confident of repeating our strong performance in the current year as well and have targeted growth of 20% in revenues and almost 30% in profits for the FY2024 which would be a repeat performance of our last year. This is only possible due to the support of our entire team GPT and the various stakeholders who have reposed faith in us which has enabled us to perform better each year and deliver returns to the investors. We believe that the best is yet to come for the company and the management is quite confident of exceeding the targets set out.

Thank you and we look forward to addressing any questions or concerns you might have regarding our financial performance and future prospects. I will request the moderator to kindly open the floor to questions 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 Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Congratulations on the good set of numbers and the order book that we have. In one of the earlier concall, we mentioned that we are expanding in newer geographies especially in the in the Northeast also, so do we have any updates regarding that?

Atul Tantia: So, in Northeast we have couple of contracts. We have two contracts in Manipur for NHIDCL, we have contracts in Assam as well. So, we are doing a couple of contracts in Northeast out of this Rs. 2,276 Crores about Rs. 200 Crores is from the Northeast in terms of geographical spread so about close to 10%.

Aditya Sen: And also, any guidance on the closing order book or the order inflow expected in FY24?

Atul Tantia: So, historically if you see we are we like to keep our order book as close to 2.75 to 3 times our trailing 12 numbers. So, I would say that for the full year for closing order book for next year we should be around Rs. 3,000 odd Crores.

Moderator: Thank you. The next question is from the line of Chirag Shah from ICICI Direct. Please go ahead.

Chirag Shah: Sir just wanted to ask your guidance on the debt side did I hear it right that you would be reducing the debt by Rs. 20 odd Crores next year?

Atul Tantia: In the current year yes, Rs. 20 odd Crores if I also said that in terms of the settlement of disputes which they have come out with this “Vivad Se Vishwas” scheme too if we were able to that does get operational and we are expecting to get almost Rs. 50 odd Crores that will further reduce the debt by almost Rs. 40 odd Crores from there as well.

Chirag Shah: Even if you do not win the arbitrations or there is some delay in that the minimum debt reduction would be 20 odd Crores for the next year?

Atul Tantia: So, it is not the question of winning the arbitration we have borne the arbitration in most of the cases it is just a question of settlement and getting the money.

Chirag Shah: And on your guidance front you mentioned 20% revenue growth and 30% profit growth, is that right?

Atul Tantia: Correct.

Chirag Shah: And any improvement on margins given you said that your threshold console EBITDA margin should be at 12.5%, but given your execution rates will pick up given a strong backlog, so would operating leverage kick in and you might see some uptake on margins as well, is there any possibility?

Atul Tantia: So, it depends on how the WPI inflation does plan out as you might be aware that all our contracts which we have also said in previous con-calls as well have a price variation clause which is linked to WPI indices. The WPI for April is negative. So, having said that some of the prices are also cooled off in terms of steel and cement as well. So, it is not as if it will drastically hurt our margins, but I think that for the current year we are guiding for 12.5% margins if any operational what do you call efficiencies do kick in that will be a bonus on that as well.

Chirag Shah: And sir within your order backlog of Rs. 2,300 odd Crores are there any orders which are slow moving or there is some delay in execution just because there is some approval?

Atul Tantia: None of them.

Chirag Shah: And sir you mentioned that now you can bid for projects worth Rs. 1,000 odd Crores on your own strengthened balance sheet, so what would be that it would be the same it would be the same your traditional sector or you will foray into some new segments or sectors per se?

Atul Tantia: So, we are bidding for large contracts now as well. We have bid for some contracts worth Rs. 900 – Rs. 950 Crores, we have not been successful. Our strike rate is within our comfort zone of 20%-odd. So, I think that we would be bidding for contracts wherein we can do value addition and obviously this is an industry wherein you need prior experience. So, we have to obviously build for contracts wherein we have done similar work within bridges and roads and stuff like that. We cannot be bidding for contracts on our own name in vastly different segments.

Chirag Shah: And sir how confident are you that you will be ending FY24 with a backlog of Rs. 3,000 odd Crores?

Atul Tantia: Pardon.

Chirag Shah: So, I am just trying to understand what is the bid pipeline or the prospect pipeline that you might have put in bids into and given you are guiding for a order backlog closing of Rs. 3,000 odd Crores for FY24?

Atul Tantia: So, we are continuously bidding for large contracts like I said. So, if we were to get one or two large contracts that kind of secures that Rs. 3,000 odd Crores order book backlog. Last year itself FY23 we have got new order inflow of almost Rs. 1,400 Crores. So, in order to achieve a order book backlog of Rs. 3,000 Crores we would need a new order inflow of close to Rs. 1,800 Crores for this year, which is not quite different from what we got last year.

Chirag Shah: And sir lastly you mentioned that your ratings might get upgraded or it has been upgraded, so what would be the reduction in the cost of debt for you and what is the cost of debt currently?

Atul Tantia: So, rating has not got upgraded the rating agency which is CRISIL was waiting was waiting for the balance sheet and the results for this year. Currently, we are rated BBB+ Stable by CRISIL. The current cost of debt is in the range of 10% to 11%. However, having said that the finance costs which appears includes a whole host of things including bank processing fees, includes bank guarantees, which is a large chunk of our borrowings, funding and non-funding limits which are submitted to the clients. So, we expect a reduction of a minimum of 50 to 75 basis points upon upgrade of the ratings. Most of these banks have now linked their interest cost with the external rates so we expect that to happen.

Chirag Shah: And then my last question in the working capital cycle given there was a huge amount of release of receivables from GMR and some other contracts, so with the same trend continue or probably it might inch up a bit higher?

Atul Tantia: No same trend will continue because from GMR we are yet to receive about Rs.20 odd Crore so that will provide additional release of the working capital and also hopefully this arbitration disputes are settled that we will again provide a fill up to the working capital as well.

Moderator: Thank you. Next follow up question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Regarding the exceptional EBITDA loss that we did in the Namibia investment so should not that be recorded separately what I believe is that it should not be recorded in the EBITDA margins, it should be recorded as exceptional income, so please correct me if I am wrong on this?

Atul Tantia: So, it is not an exceptional income as per the management understanding as well as the auditors because it is as per IFRS every financial year you are supposed to do an impairment testing of the investments that you do carry. So, in this case the impairment testing was done which was certified by an independent chartered accountant and then also verified by the auditors and also the audit committee and the management have found it fit to take that impairment of the investment. It cannot be an exceptional item because next year it might be a gain as well depending on how the foreign exchange and the discounting rates do plan out

Aditya Sen: So, the quantum was Rs. 2.5 Crores, right?

Atul Tantia: The quantum is about Rs. 3.5 Crores because EBITDA margin was about 12.2%, had that not been there we would have been north of the 12.5%.

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 joining the conference call today. We hope we have been able to answer and address all your queries. In case you have any further questions do please get in touch with us directly or through our investor relation advisors. Thank you and have a good day.

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