GPT Infraprojects Limited
Q4 FY16 Earnings Conference Call

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Management: Mr. Atul Tantia
– Executive Director, GPT Infraprojects Limited

Mr. A. K. Dokania
– Chief Financial Officer, GPT Infraprojects Limited

Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q4 FY16 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 then '0' on your touchtone phone. I now hand the conference over to Mr. Atul Tantia - Executive Director, GPT Infraprojects for his opening remarks. Over to you sir.

Atul Tantia: Thank you, welcome everyone to today's conference call for the quarter ended March 2016 and the year ended 31st March 2016. I have with me Mr. A.K. Dokania – our CFO and from Stellar IR Advisors, our investor relations firm. I hope you all have received the updated investor presentation forwarded by Stellar to you. We have also uploaded the same on our website and the stock exchange for your ready reference. We will do a brief summary of our operational and financial performance for the quarter and our strategy and thereafter we will take questions from everyone.

Let me first start with discussing the current industry opportunity and the developments of the sector. I am happy to share with you some of the positive developments that have happened in the industry, especially the Railways. As you all know that the focus of the government is on reviving the Indian Railways, which have been suffering from under investment for several years. For FY16 Indian Railways have shown its highest ever capital expenditure of about Rs. 94,000 crores. Indian Railways intends to quadruple investments in the next 5 years by focusing on decongestion and new line construction. FY17 by an outlay has also been increased to Rs. 100,000 crores.

EPC opportunities constitute the largest part of this outlay closer to 50%. So there has been substantial amount of progress in terms of implementing the plan by the government with CCEA approvals for construction of additional Railway lines and bridges and projects being tendered and awarded. CCEA has approved Rs. 10,000 crore plan for construction of 6 Railway lines and a Railway bridge. India's ambitious Rs. 82,000 crore DFCC project is also progressing well. Contracts worth Rs. 24,000 crores were awarded in 2015/2016 as against contracts worth Rs. 13,000 crores finalized in the previous 6 years.

In the recent past, in fact even today, the newspaper speaks about the Centre sanctioning Rs. 2,300 crores for building road over bridges in West Bengal, which is a key area opportunity for us. These includes 19 ROBs and we are qualified in most of the projects. We will be participating in around 60% to 70% of these projects and expect significant inflow from these in the current year.

GPT is a Railway focus infrastructure company with EPC as one of the key capabilities. We are well positioned to tap this growing opportunity across the Railway segments. For GPT, opportunities lie in safety measures like track renewal, bridge works, ROBs, RUBs and network decongestion and expansion including the Dedicated Freight Corridor.

We have expertise in construction of Mega Bridges for Railways and our current order book, 70% of the orders come from Railways and Railways PSUs. The budget has also announced construction of 917 ROBs and RUBs to be constructed to replace 3,400 level crossings at a cost is almost Rs. 6,600 crore. In fact, we have already received Rs. (+100) crores orders for construction of 2 ROBs and a couple of more are in the pipeline.

DFCC presents an additional growth area for us in terms of sleepers manufacturing as well as bridge work. The DFCs will have a total length of 6,000 kilometers nearly and each kilometer of track consumes nearly 1600 sleepers. Thus the opportunity is as huge as Rs. 10 million sleepers. Recently in November of last year, we announced an order from GMR for almost 15 lakhs sleepers. The order is worth close to Rs. 250 crores for the Eastern Dedicated Freight Corridor. The DFCC will have close to 366 bridges, 870 ROBs and 200 RUBs on both the corridors.

Now let me come to the financial performance of this fiscal. This has been a robust year for us as we reported 29% increase in revenue from Rs. 390 crore last year to Rs. 503 crores this year. This has been on back of a strong order inflows and better execution. In fact, this has been the first time the company has exceeded revenues of Rs. 500 crores in its history. However, the EBITDA and the profit numbers have been muted due to foreign currency translation losses of Rs. 3.5 crores. EBITDA adjusted for FOREX loss for the year stood at Rs. 71.5 crores with margins of close to 14.2%. The adjusted profit after tax has grown disproportionately and much higher than our revenues. The profit after tax adjusting the foreign currency translation losses of Rs. 3.5 crore stood at Rs. 15.8 crore as compared to Rs. 4.1 crore in FY15 at a margin of 3.1%.

We are focused on improving our working capital cycle, which caused stress in the last fiscal owing to slower payments and project verification from clients. There are faster payments from clients with improved availability of funding from the Railways and other government PSUs. Also there has been consistent follow-up from our side with clients for pending collection. As on 31st March our net working capital days stood at 169 days compared to 238 days as on March 2015, a reduction of nearly 70 days. Going forward, we intend to bring this down further to below 150 days by FY17. This has been a robust year of growth in terms of order inflows, we received orders to the tune of nearly Rs. 890 crores in FY15 the highest ever order inflow in many years compared to Rs. 354 crore in the last financial year. Our total unexecuted order book stands at nearly Rs. 1,650 crore, the average execution of all these orders is close to two and a half years. Of the Rs. 1,650 crore, EPC order book stands at 75% and the rest is concrete sleepers order book. All our contracts are from government departments and PSUs. Our average ticket size of orders has improved from Rs. 40-50 crore to today almost Rs. 75-100 crore.

For FY16 cash generated from operations stood at close to Rs. 35 crore. The board has a formally approved dividend policy and this year we have declared an interim dividend of 20% that is Rs. 2 per share, which is the final dividend for the year. Going forward, for the next year

FY17 we expect the top line to grow to nearly Rs. 700 crores on a consolidated basis and we will continue to maintain our EBITDA margin level between 14% and 15%. Further, the efforts on bringing down the working capital cycle will boost the margins. We have a vision to grow at close to 25% CAGR for the next 4 years with target to reach a top line of almost Rs. 1,500 crore by FY20. We are confident of this growth on the back of huge opportunities in this sector, especially with better fund availability with the Railways. Delegation of decision making has improved the implementation of projects at railways. Fast track approval processes have shrunk the time between projects announcement and commencement of execution, which was earlier running into 2 years and has now come down in months.

DFC presents traditional growth opportunity for us and we have already made inroads there in terms of the sleeper orders that we have announced in November. We also have a strong presence in Africa; we are one of the only 3 suppliers of Concrete Sleepers in South Africa and the only supplier in Namibia. In these markets, railways are the means to connect the mines to the port and thus we see good growth prospects in these markets once the commodity pricing improves.

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

Moderator: Thank you very much, Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Ashish Shah from IDFC Securities, please go ahead.

Ashish Shah: Could you just elaborate a bit on the Rs. 2,300 crore opportunity that you spoke about in your opening remarks, could you just give some more idea on as what is the constituent of this Rs. 2,300 crore, what is the timeline and how far are we from these orders actually been placed?

Atul Tantia: The Rs. 2,300 crore opportunity is for constructing of almost 20 road over bridges in West Bengal. The Central government has sanctioned the funds for that. It is available in today's newspaper 'Telegraph' and we are qualified to bid for most of these projects. We have also been interacting with the government before the elections and now since the same government is back, they intend to award these tenders before the end of monsoon of this financial year and hopefully start the construction of the over bridges from October, November onwards. Typically, it is a two and a half year cycling, so the mandate, I would say to complete the bridges is before the general elections in FY19.

Ashish Shah: Any specific number that as a company we are targeting out of this total opportunity?

Atul Tantia: As I said in my opening remarks, we would be participating in almost 60% to 70% of these orders and our strike rate is almost 20-25%. So if I assume that, I think that we would be hoping to get close to Rs. 300 crores, Rs. 400 crores of these orders.

Ashish Shah: Also could you probably spend a little time on giving the outlook for the next 6, 12 months in terms of the order flows from your core Railways business. I mean are there any specific projects that you are eyeing at and you think that you will be surely able to get some share out of the orders awarded there and especially also in the Eastern side I believe there is still some works to be awarded on the Eastern Dedicated Freight Corridor, so whether we are eyeing some opportunity there?

Atul Tantia: In fact, we are in discussions both with the Eastern as well as the Western corridors for Concrete Sleepers. We already have a contract from GMR, which is worth Rs. 250 crores for the Eastern corridor. We are in talks with Tata Projects and L&T for the Western corridor for the contracts that they have recently received for our Concrete Sleepers segments. For bridges, we are in touch with Tata and GMR for some of the larger bridges in their package.

Ashish Shah: What is your total consolidated and standalone gross debt as on March '16?

Atul Tantia: The total gross debt as on March '16 standalone is close to Rs. 200 crores and on a consolidated basis close to Rs. 215 odd crores.

Moderator: Thank you very much. The next question from the line of Akash Sharma from Akruti Advisors, please go ahead.

Akash Sharma: Can you just explain me more on the foreign exchange loss which you mentioned earlier?

Atul Tantia: Sure. This is basically a foreign exchange translation loss, so we have two subsidiaries, one in South Africa and one in Namibia. When the accounts of these subsidiaries are translated into Indian Rupees from the South African Rand and the Namibian Dollar, it leads to historical balance sheet items like inventory, receivables and others being translated from the local currency to the Indian rupee and since the domestic currency has moved vise-vis Indian rupee almost 15%, we have recognized a translation loss of almost Rs. 3.5 crore. It is just a translation loss in the balance sheet. It is not affecting cash flows in South Africa, Namibia, it is not affecting the cash flows in India; it is just a translation loss as per accounting standards.

Akash Sharma: Sir, if I see your profit or income statement in the consolidated numbers I see a sharp jump in the other expenses, can you please elaborate on that?

Atul Tantia: We have also jumped in the revenues; so it is proportionate to that plus the other expenses include translation loss of Rs. 3.5 crore.

Akash Sharma: And sir, in terms of our EBITDA margin, how much we are in place and what we are comfortable? Currently I think if you see we have closed at 13.5%.

Atul Tantia: Like I said in my opening remarks, if you adjust for the foreign currency translation loss, our EBITDA margin is 14.2%. For our domestic construction contracts we have hurdle EBITDA of 13%, so all our contracts are above that. For our Africa business, the EBITDA is close to 25%, so on a blended basis we get EBITDA closer to 13%, between 13-15%.

Akash Sharma: And can you elaborate more on the DFC opportunities which are coming to the company?

Atul Tantia: So, as I explained in the previous questions, DFC opportunities is of two parts, one is for our concrete sleeper business and the another is for the construction business, which is bridges and track linking. DFCC will require 10 million sleepers, which is a huge opportunity. In November last year we got an order for close to Rs. 250 crores from GMR and as I said in the previous question, we are already in talks with Tata Projects & L&T for the contracts in the western corridor for DFCC. For bridges, DFCC present a huge opportunity of close to 360 bridges and close to 870 ROBs. We are also in talks with GMR and Tata for larger bridges for their respective contracts.

Akash Sharma: And in the initial speech you mentioned about the large opportunity in the railway sector, can you give me some numbers in terms of ordering? What has happened in the last 6 months or so or what you are expecting in the coming 6 months or one year, in terms of numbers majorly if you can provide me some?

Atul Tantia: Railway has a plan outlay of close to Rs. 100,000 crore for FY17 and EPC is the largest constituent of this plan outlay, it is almost 46%, so that is the number I guess Rs. 46,000 crore.

Moderaotr: Thank you. The next question is from the line of Nikhil Kothari from KR Choksey. Please go ahead.

Nikhil Kothari: Sir how do we protect ourselves from the competition in concrete sleepers as in if some player does some forward integration like some cement player entering this business, so how do we protect from them sir?

Atul Tantia: Concrete sleepers in India is for the traditional market of the track replacement and decongestion and it is a saturated market, I do not think any of the cement player would be interested in going backward or doing a forward integration in terms of setting up a sleeper factory. In last 35-40 years I have not heard of anyone who has done that and secondly, there are very low margins in it compared to their cement business. Thirdly, for concrete sleepers, you will require RDSO and Railway approval for setting up a facility which takes its own time and delays so I don't see that would be of interest of any cement players.

Nikhil Kothari: And sir what is the CAPEX guidance you gave for FY17 & FY18, how much CAPEX will be needed?

Atul Tantia: For FY17 we would require CAPEX of close to Rs. 45 crores, of which Rs. 20 crores would be for the two facilities that we are setting up for the Eastern Corridor for the GMR contract, one is near Kanpur and one is near Banaras, and balance is for the construction business.

Nikhil Kothari: And sir do we plan to increase the debt or the debt will be at the same level of Rs. 230 crores?

Atul Tantia: I do not anticipate the debt to grow significantly; it might go to a maximum of Rs. 250 odd crores.

Nikhil Kothari: And sir, by what time we will commence the production of sleepers for the contract that we received from GMR?

Atul Tantia: It is expected to commission by September of this year.

Nikhil Kothari: At what capacity do we operate in sleeper's business that we are increasing this capacity, so our plant is already running at 100% capacity?

Atul Tantia: The existing plant in West Bengal cannot supply for the contract in UP because freight cost is very prohibitive. It is not as if I can utilize my existing plant at 100% and not set up these facilities. In addition you get incentives if you setup facilities along the corridor for World Bank funded contracts. So from an economical face I cannot run the plant at 100% and supply for this contract.

Nikhil Kothari: Sir but I guess we had previously exported some sleepers to Sri Lanka also, so in that case how the economics are feasible for such long distance?

Atul Tantia: In Sri Lanka the quantity was 60,000, here it is in lakhs, around 15 lakh sleepers. You cannot setup a facility for 60,000 sleepers in Sri Lanka.

Moderator: The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Yes, sir could you give me the numbers of your international Operations South Africa and Namibia in the local currency terms as in what was the revenue, EBITDA and PAT for FY16 vis-à-vis FY15?

Atul Tantia: South Africa in local currency terms FY15, the revenue was 87 million and the revenue of this year was 97 million in local currency terms. In Namibia the revenue was 55-56 million in FY15 and it was 73 million in FY16.

Ashish Shah: And EBITDA?

Atul Tantia: EBITDA and PAT I will have to get back to you, I do not have it readily available.

Ashish Shah: But generically what are the margins on a very rough cut basis?

Atul Tantia: Rough cut basis EBITDA is close 25%.

Ashish Shah: And we are making positive contribution at PAT or there is?

Atul Tantia: We make a positive contribution to PAT. Both are dividend paying companies, so Namibia we have received a dividend in Indian rupees, close to Rs. 3.5 crore and Namibia is debt free.

Ashish Shah: Also just a question on how you manage this currency risk, is there any way that you could probably get your contracts in USD terms which probably leaves you less exposed to the volatility in these local currencies, is there an option of doing that of getting a contract in USD so that at least you are pegged to the USD-INR movement, rather than the local currency movement there?

Atul Tantia: This year has been an adverse currency movement in the African market, since we are a local company which is locally registered in both the geographies and we are supplying to the local railways there, the government contracts, it is not a private contract, so they will not accept any USD. Secondly, the entire intent of the contract is to have a local manufacturing facility. So, for a local manufacturing facility they will not give in US Dollar, they will obviously give in local currency terms. To add on to the fact, all may sales are in local currency and all my purchases are also in local currency. As such, on a local balance sheet I am not affected by the currency movement. We are affected to the extent of translation or consolidation of that in the Balance Sheet and Profit & Loss of the parent in India and the dividend we realize in Balance Sheet.

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

Atul Tantia: Thank you everyone for participating in our Q4 FY'16 Earnings Call. As I said earlier the results and the presentation are also uploaded on our website and the stock exchange. In case you have any further queries you may get in touch with Stellar Investor Relations who is our investor relation firm or get in touch with us. The contact details are also available on the website. Again, thank you for joining the call today. Have a good day.

Moderator: Ladies and gentlemen that concludes this conference. Thank you for joining us and you may now disconnect your lines.