"GPT Infraprojects Limited Q2 & H1 FY18 Earnings Conference Call"

December 04, 2017

MANAGEMENT: MR. ATUL TANTIA – EXECUTIVE DIRECTOR, GPT INFRAPROJECTS LIMITED.

Moderator: Ladies and Gentlemen, Good Day, and Welcome to GPT Infraprojects Limited' Q2 and H1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '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 ended September 2017 and the half year ended September 2017. I have with me representatives from our investor relations advisors, that are our IR advisors. I hope you all have received the investor presentation. We have also uploaded the same on our website and the website of the stock exchanges.

Let me start with a more significant and recent development for the company. Jogbani Highway Pvt. Ltd, a subsidiary of the company has won an arbitration tribunal against NHAI. And the three-member arbitration tribunal has awarded us sum of Rs. 62 crores unanimously. We had informed the same to the exchanges in the last week of November. Jogbani Highway had entered into concession agreement on 12th July, 2010, with NHAI for rehabilitation and upgradation of existing intermediate routes to two lane with paved shoulders from Forbesganj to Jogbani on NH57A in the state of Bihar under NHDP Phase III on design, build, finance, operation and transfer basis, having concession period of 15 years, including construction period of two years from the appointed date.

The concession agreement was terminated by Jogbani Highway Pvt. Ltd due to non-availability of land from NHAI even after delay of about 30 months and also due to other local hindrances. Based on the award we have now approached NHAI for the release of payment of Rs. 62 crores as awarded by the arbitration tribunal immediately. In case NHAI does decide to challenge the order in Delhi High Court, we would get 75% of the award amount as per the latest NITI Ayog policy against submission of bank guarantee.

In either case, it will release significant cash flow for the company and provide enough cash for the growth capital and improve the balance sheet significantly. This payment will act as a growth capital and immediately reduce the working capital days and significantly improve the return ratios.

We are very hopeful that release of this cash flow will be useful as it increases our growth going forward and we will be able to utilize the same for the railway CAPEX opportunity.

As you are all aware, Indian railways is going through a paradigm shift, railways have demonstrated their clear focus on safety through building railway over bridges and ending unmanned crossings. The Railway Minister in his first review has emphasized on crane safety and the target is to remove all the unmanned rail crossings within a year.

In addition to the increasing focus on safety, increasing CAPEX on decongestion of the railway network, on strengthening of the existing bridges and on dedicated freight corridor presents considerable opportunities for us. And we are continuously for these projects. So far in this fiscal we have received orders in excess of Rs. 700 crores, out of which our share is about Rs. 502 crores.

Currently, our order book is Rs. 2,023 crores, which gives us book to bill ratio of almost four times our FY17 revenues. Of this, EPC order book is around 82% and the balance is for manufacture of concrete papers. We expect and target to achieve an order intake for the financial year FY17-2018 or Rs. 1,200 crores. We have already received orders worth Rs. 507 crores in this first half and L1 for projects worth around Rs. 400 crores. Looking at the project pipeline we are quite confident to achieve the order intake of Rs. 1,200 crores during the current financial year. This will enable us to achieve over 35% revenue growth going forward.

In addition, our South Africa sleeper business is witnessing significant improvement. With improvement in demand and prices of metals, the activities in South African railway network expansion has picked up pace, which has resulted in higher demand of sleepers. Our capacity utilization has increased and we expect it to improve further. For this financial year we expect approximately 90% revenue growth in local currency terms from our South African sleeper business.

Let me come to the performance for this quarter. GST and IndAS implementations are major changes in accounting and financials during this current year. Let me brief you on the impact of the same on the financials of GPT. Due to GST, revenue will appear muted by almost 6% to 8%. As earlier, all contracts were inclusive of all taxes and now GST is being charged separately and revenue is being recognized net of GST. However, we will get input tax credit and hence there will be no impact on the earnings.

The major change as far as IndAS is concerned, we have 37% stake in our sleeper manufacturing facility in Namibia and as per earlier Indian GAAP standards we used to do proportionate line by line accounting of the same till last year. Going forward, from this year it will be equity accounting and hence it will not form a part of the revenue and earnings in this subsidiary will be recognized as profit from associate.

Because of these two changes revenue appears to be lower than our estimates. However, there will be no impact on the earnings.

Now coming to the second quarter performance. We have reported revenues of Rs. 99 crores in Q2 FY18. Of this infrastructure contributes about Rs. 72 crores, i.e. 86%

and sleepers contributed the balance Rs. 26 crores. The drop in revenue is mainly on account of execution in infrastructure business got delayed due to extended monsoon. And as mentioned earlier, GST's rate negotiation. We are happy to share that there would not be any major impact on margins on projects due to GST and most of the GST impact will be revenue and margin neutral for us.

Our EBITDA for the quarter came in at Rs. 18 crores compared to Rs. 17 crores in the previous financial year. The consolidate profit after tax war Rs. 4 crores compared to Rs. 3 crores in the previous financial year, a growth of 33%, with a net profit margin of approximately 4%.

In terms of working capital, GST has impacted the cash flow in the last quarter. The working capital has increased by 17 days to 139 days as of September 2017. However, with the GST resolution happening in terms of contracts and established processes, the working capital should normalize in the next couple of months.

With improvement in cash flow particularly, the improvement in the South Africa business, the Board has announced a divided of Rs. 1 per equity share.

Let me reiterate our projection for the year, EBITDA of approximately Rs. 90 crores and PAT of Rs. 25 crores. We have set a vision to grow to Rs. 1,500 crores top-line in the next three to four years, based on increasing pace of ordering from railways and higher execution by us. Our focus on profitability would continue with EBITDA hurdle rate of 13% to 14% and on better working capital cycle which would lead to disproportionate growth in PAT.

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

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Kunal Sheth from Prabhudas Liladher. Please go ahead.

Kunal Sheth: Sir, just wanted to check, if you can give some sense on how is the railway ordering moving in terms of if you can give sense of what is the pipeline looking like and what are the near-term tenders or order inflows you are likely to target for this year?

Atul Tantia: So, in terms of ordering activity for railways, railway has announced a large CAPEX program of almost 8.5 trillion over the next four to five years. Our inflow target for this year is Rs. 1,200 crores, out of which Rs. 507 crores we have already got and we are L1 in another Rs. 400 crores. So, we expect to close the year with incremental order inflows of almost Rs. 1,200 crores.

Kunal Sheth: Okay, so we are targeting Rs. 1,200 crores for this year, right?

Atul Tantia: Yes, this year.

Kunal Sheth: But otherwise sir, how has been the pace, as in while we have been realizing a lot about railway ordering and CAPEX, but has actually the pace kept in-line with the announcements or actually new tenders are taking time to come?

Atul Tantia: Obviously nothing can happen overnight, first the surveys need to be done then the estimates need to be done. So, obviously, it takes some time beyond the announcement for the tenders to actually happen. But I think it is much faster than it was previously.

Kunal Sheth: And sir, how has been the payment cycle, are we seeing working capital cycles improving because of faster payment from railways or things are still the same there?

Atul Tantia: So, the payment cycles are much better compared to what it was two years ago. The last quarter because of GST it got delayed a bit, but now it has again started to improve in the last two months because most of the cases railways has resolved the GST issues and they have come up with a circular wherein GST would be perfect neutral for all the companies.

Kunal Sheth: Okay, so they have already issued that clarification?

Atul Tantia: Yes. Now individual contracts are getting negotiated and that is getting issued for individual contracts.

Moderator: Thank you. Our next question is from the line of Ashish Sheth, who is an individual investor. Please go ahead.

Ashish Sheth: I wanted to understand that going forward where are we seeing the ordering activity in railways happening and which are the areas where we particularly are excited in terms of new orders in the future?

Atul Tantia: So, railway activity is happening in couple of areas in terms of ROBs and RUBs, because there is a plan to eliminate most of the level crossings, the unmanned crossings for sure and also the manned crossing from the larger intersections. So railway plans to eliminate almost 1,000-odd larger level crossings in next two years which would intake investment about Rs. 10,000 crores. In addition, there is a plan to build two, three more corridors after the two eastern and western corridors, after these dedicated freight corridors are built, that would also entail investment both in terms of our sleeper business as well as the EPC and the bridge manufacturing business for us.

Ashish Sheth: So, are we seeing orders growing because of this safety concern in our order book? And if you can highlight, how is it impacting our order book, what kind of orders are coming up for tender? And specially how it is showing in our order book inflow?

Atul Tantia: So, we have got almost six to seven contracts for construction of ROBs and RUBs recently. In fact, if you remember, we have announced earlier also that it completed contract for construction of a cable-stayed bridge over Burdwan Railway Station which was a unique bridge that was done by the railways for admission of an ROB. And even for the accord of contract for dedicated freight corridor, the sleeper business for the dedicated freight corridor. So, some of these projects are getting part of our order book and going forward we expect to add more contracts in terms of the ROBs, RUBs and the larger bridge works also.

Ashish Sheth: Okay. So, can you update us on how much orders are L1 or at least a brief idea about how is the L1 booking?

Atul Tantia: We are currently L1 in about Rs. 400 crores of orders and we expect to close the year almost Rs. 1,200 crores of new incremental orders, including the Rs. 500 crores that we have received earlier.

Ashish Sheth: Okay, so we are assuming another Rs. 700 crores of order to fructify in this financial year?

Atul Tantia: Yes.

Ashish Sheth: And can you update us on what is happening on the manufacturing side which we have made for DFCC and have they started taking sleepers and where is it, can you update us on that?

Atul Tantia: So, in terms of the two factories for DFCC in the September quarter we have recognized revenues of almost Rs. 10 crores and invoicing and the payments have already started for the same. And we expect for the year to close at almost Rs. 60 crores of revenues from those two factories.

Ashish Sheth: Okay, so Rs. 25 crores each in the next two quarters just because of DFCC to manufacturing site?

Atul Tantia: Yes, Rs. 50 crores in two quarters, it could be 20-30 or 25-25 whatever.

Ashish Sheth: And did I hear you correctly, when you speak about guidance or start talking around Rs. 25 crores of profit in this financial year, and this is against around Rs. 10-odd crores which you have done in the first half?

Atul Tantia: So, first half we have done Rs. 9.25 crores, second half is always disproportionate because in any infrastructure company second half is generally 60%. So you heard it right, it was Rs. 25 crores PAT for the year.

Ashish Sheth: Okay. And when we say Rs. 1,500 crores top-line company in next three to four years, this increased confidence due to what you are seeing on the railways side?

Atul Tantia: Correct.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Tantia for closing comments. Over to you, sir.

Atul Tantia: Thank you, everyone, for your participation in our Q2 FY18 earnings call. As I said earlier, we have uploaded the presentation of the same on our website and the website of the stock exchanges. If you have any further questions, you may get in touch with Stellar Investor Relations, our IR firm, or directly to us. Thank you again. Have a good day.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of GPT Infraprojects, that concludes today's conference call. Thank you for joining us. And you may now disconnect your lines.