GPT group

GPT Infraprojects Limited

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GPTINFRA/CS/SE/2020-21 March 26, 2021

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 08th February, 2021 – 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 and further to our letter dated 05th February, 2021, please find enclosed herewith transcript of Conference Call held on Monday, 08th February, 2021.

Kindly take the aforesaid information on record and oblige.

Thanking you,

Yours faithfully,

For **GPT Infraprojects Limited,**

ANATHA BANDHABA CHAKRABARTTY
Digitally signed by ANATHA BANDHABA CHAKRABARTTY
Date: 2021.03.26 14:55:35 +05'30'

A B Chakrabartty
(Company Secretary)
Membership No.-F-7184

Encl. – a /a.

"GPT Infraprojects Limited Q3 FY21 Earnings Conference Call"

February 08, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to the GPT Infraprojects Limited Q3 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 '*' and then '0' on your touchtone telephone. 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 and welcome to GPT Infraprojects Limited earnings conference call for the third Quarter and the nine months ended December 31st, 2020. Our investor relations advisors Stellar IR is also on this call. The presentation for this quarter has been uploaded on the website of stock exchanges as well as the website of the company. We hope you have had a chance to go through the same.

India's overall business environment has had a lot to cheer about in the past few weeks, starting with the rollout of the vaccine for the frontline and the health-care workers and followed by stellar union budget that is focused on giving impetus to the economy. There is significantly higher outlay for the sectors that we operate in. The proposals include a record allocation of 1.1 trillion out of which 1.0 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 by June 2022. This is expected to boost the ordering activity further. As you might be aware, we are having some contracts with the Eastern Dedicated Freight Corridor.

On the ordering front, the focus of the government on infrastructure has led to an impact on our order inflows as well. Notwithstanding the pandemic the company has successfully bagged eight new orders worth almost Rs 820 crores in YTD FY21. With this addition, the average order size has increased from Rs 40 crores to about Rs 110 crores over the last six years. In addition to the new orders we had disclosed in our last call, we have bagged two orders in Uttar Pradesh for construction of new bridges over river Yamuna in Agra and Jhansi totaling to about Rs 245 crores. In West Bengal we have bagged an order for the repair and rehabilitation of the second Hooghly bridge. In Guwahati we are constructing structure for bridges for NF Railway. Incrementally we stand at L1 in orders worth almost Rs 200 crores, which further strengthens our order pipeline for the current fiscal as against an abysmal order inflow in FY20. With this our order book stands almost at Rs 1900 crores, which is almost 3 times FY20 revenues.

Now let me take you through the key highlights about the company's operational and financial performance during this quarter. On the execution front, our operations have been improving month-on-month and currently we have achieved normalcy across all our infrastructure project sites with monthly execution rates back to pre-COVID levels.

On the concrete sleeper side too, all our manufacturing facilities in Africa and India are ramping up and we expect to close the year at the highest ever revenue for this segment. Continuing this trend of increased traction our consolidated revenues for the past quarter, that is Q3 FY21, posted a growth of approximately 8% year-on-year and approximately 19% quarter-on-quarter to Rs 171 crores. In terms of segmental breakup, the proportion of concrete sleeper increased from 18% - 20% to approximately 25% in the last nine months ended December 31st, 2021 due to high delivery, specifically in the DFC contracts. The revenues from the concrete sleeper division the nine months ended December 31st, 2020 grew by almost 36% year-on-year to almost Rs 100 crores.

Some of our key projects under execution include the Ghazipur order worth Rs 378 crores by RVNL which is running smoothly with the quarterly run rate of approximately Rs 35 crores and its closure is expected over the next 18 months. This would enable us to bid for single contracts up to Rs 1000 crores, underscoring our execution capabilities in the infrastructure segment. In the concrete sleeper segment, the GMR order worth almost Rs 246 crore continues to progress well and the cash flows from the same are expected to ease the working capital requirements.

On our margins and profitability, the company's ongoing cost optimization drive along with improved order execution and better liquidity management has borne fruits and led to an increase in the profit margin with our nine months EBITDA margin at 16.3% versus 15.6% in the nine months FY20. As mentioned in Q2 as well, not all of the margin expansion may be sustainable and our estimated cost savings of roughly Rs 5 to 7 crores per annum, is likely to be recurring in nature over the long term. For Q3 FY21, as you may be aware steel prices have increased significantly which led to a slight softening of our margins to 13.3% which remain within our long-term range of 13% to 14% hurdle rate for EBITDA level. The bidding discipline that we maintain while bidding for new contracts continue to be primary factor for stability in the profit margins.

In Q3 FY21, our EBITDA stood at Rs 23 crores as against Rs 24 crores in Q3 FY20. For 9M FY21, it is Rs 65 crores as against Rs 68 crores in the same period last year which is a marginal reduction of 3.5% on account of COVID-19 related disruptions in the initial first quarter of this financial year. Our profit after tax in Q3 FY21 stood at Rs 7 crores on a stand-alone basis which includes approximate Rs 2 crores dividend from our Namibian subsidiaries. Hence our profit after tax stood at Rs. 5 crores because the African subsidiaries dividend gets knocked off on consolidated basis. 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 in addition to pairing some of our long-term debt. We also expect release of 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 has reduced to Rs 22.5 crores as on September, 2020 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 position during these challenging times, we have actively engaged with our working capital bankers to avail the special liquidity scheme announced by the Government of India. We have also applied for release of proportionate bank guarantees from various clients in partly completed projects as allowed by the Ministry of

Finance and approximately Rs. 50 crores bank guarantees have all already been released by various clients. Overall, we do not foresee any challenges in meeting our debt obligations or liquidity for the business.

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

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

Moderator: Thank you very much. The first question is from the line of Rohit Natarajan from Antique Stock Broking.

Rohit Natarajan: First of all, congratulations on a good track record in terms of order inflow. As I see we have 19 billion of the order backlog plus 2 billion in L1 pipeline and even have a very strong outlay for the railway CAPEX going ahead. What is the order pipeline that you think could be the beginning of FY22 and what could be the execution? Do you think Rs 7 billion can be an achievable number in terms of execution in FY22 and will you sustain the margins or will you see some improvement in margins?

Atul Tantia: I think in terms of net order book as on 1st April, FY21, we expect it to be close to Rs 2000 crores and the 7 billion kind of execution that you are talking about in FY22, I think that we should be able to better that given the traction we are seeing in terms of new projects getting awarded and execution happening. You have to keep in mind that this financial year, the first quarter was kind of wiped out due to the lockdown and effect of that. So, despite that we have almost caught up to the 9 months of last year and last year we did about close to 620 crores. So I think given that background FY22, I am quite confident that we will be able to surpass the 7 billion number that you are talking about.

Rohit Natarajan: That's great to hear. My second question is more to do with margins part. I know historically we have maintained that historical threshold of 13%+ EBITDA margin even in the worst case. In case when we move to a bigger execution track record and for the kind of arbitrations that we have in pipeline, can we work around on the interest cost savings or maybe some operating cost overheads and improve the net profit margin maybe from 3% kind of levels to say 5%, is that a doable number?

Atul Tantia: In terms of margin, I kind of said in my opening remarks, we have taken some long term cost saving measures which we think would be about Rs 5-7 crores this year on a sustainable basis going forward. Obviously with the increased revenue and maintaining the hurdle rate of EBITDA it will lead to lower interest costs and as a percentage, and interest also we are seeing a reduction in the interest rates. So, I think that in terms of the PAT margin we obviously in one year cannot jump from a 3 to a 5, but obviously we will be kind of on that trajectory over the next two to three years, we will not achieve 5% in a year, but I think over the next two to three years we should be on that number.

Rohit Natarajan: I appreciate that part. You said something on the COVID-19 special MOF loans that you have availed. What is the interest rate on that loan in comparison to the conventional loans?

Atul Tantia: It's about 200 basis points lower, we have not availed but sanctions are in place, documentation is going on. So once we avail that we will reduce the higher cost debt and take an interest arbitrage of 200 or 250 basis points.

Rohit Natarajan: Finally, on the non-fund base limits, if I recollect the numbers Rs 350 crore is what the existing limits are, but you are already working something to improve on it? And Rs 200 odd crores is kind of number that you must have utilized it, is my understanding, right?

Atul Tantia: You are absolutely correct.

Rohit Natarajan: So this 150 crore that unutilized limit that you have can probably help you garner even more orders in case if you want.

Atul Tantia: We are wanting and yes that kind of headroom the management has in terms of comfort in terms of getting orders and obviously this year the order inflow has been good and we expect further orders that way in L1 to convert to letter of acceptances to the company.

Rohit Natarajan: And finally I missed out, if you have made any remarks on the Delhi highway projects arbitration situation, what exactly is the situation?

Atul Tantia: No, I did not concentrate on arbitration for the Jogbani highway. As you are aware the courts are right now not functioning. So we have next scheduled date appearing in the last week of March in Delhi High Court. Our lawyers are quite confident that it should come in our favor.

Rohit Natarajan: Let's assume that it comes in your favor. What exactly is the kind of terms of income statement impact that we can see?

Atul Tantia: Income statement in fact would be Rs 25 to 30 crores, close Rs 25 crores.

Rohit Natarajan: This pre-tax number that you will see some sort of an exceptional gain or provision that you must have written against some assets in the past?

Atul Tantia: Correct. It is exceptional or not, it is not sustainable, it may not be exceptional because exceptional means that it is not a part of the operating income or normal income for the company. But this is from the existing revenue segment only. It is not from any other exceptional line of business that we are doing. So it may not be exceptional but it may be one-off.

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

Mihir Desai: My first question would be on working capital requirements. As we see our order book the order book number is increasing. If we see our working capital days do you see any increase in these days? My question I asked because we have some government projects. So do we see any payment delay from those projects or what is your view?

Atul Tantia: First of all, all our contracts are government based contracts. We don't have any private contracts, so it's not some, all of them are government contracts. In terms of payment delays I think that it is an ongoing thing. We don't foresee any large payment delay and especially with the given government's focus on infrastructure and capital expenditure I am sure that that will not happen, in terms of payment delay that's the expectation of the management.

Mihir Desai: On an average if we want to take an estimate on our working capital days, how much should we assume on that?

Atul Tantia: I think for this year we would be at close to 125-130 days.

Mihir Desai: Going forward the margin which we are looking at current levels, which is 13%-13.5%, so how we should foresee this margin. Should this expand from this level for next, say, FY22 and FY23?

Atul Tantia: At EBITDA level we would be at 14% to 15%.

Mihir Desai: Lastly on the union budget I just wanted to ask a broad macro question. Like government is very much focused on railway projects. So do you foresee like a big amount of order inflow which we can receive in say 2 to 3 years down the line?

Atul Tantia: I actually did not understand you question because we are actually doing only railway contracts so railway continues to be a focus and there are a lot of new rail order also planned by the government, so we will continue to focus, most of the contracts will come from railways.

Mihir Desai: And where we able to like participate in almost all the projects, right?

Atul Tantia: Yes, so we are right now executing a contract which is close to Rs 400 odd crores. Like I said in my opening remarks, once this gets completed over the next 18 months, we would bid for contracts up to Rs 1000 crores. Having said that, we will be able to, I am sure garner new projects as and when required. In terms of credentials, it should not be a challenge.

Moderator: Our next question is from the line of Dipen Vora, an individual investor.

Dipen Vora: I have two questions, one around your India business and one around your international business. It may seem a little basic but I was just trying to understand how does the international business work and what are you seeing in terms of traction in those international markets? And on the Indian business I just heard you say that you are now eligible to bid for orders up to 1000 crores. Do you see anything in the pipeline given the fact that this union budget there was a lot of focus on infrastructure and a lot of outlay for DFCs, so do you see any large orders that are going to come out in the near future? And how are you placed to bid and win those?

Atul Tantia: In terms of the 1000 core number that you spoke about, what I said in my opening remarks and just a minute or two back is that, once we complete this Ghazipur contract, which is expected in the next 18 months, then we will be able to bid for 1000 crore contracts in our name. So as in today, we cannot bid for 1000 crore order in our name, just want to clarify that. In terms of order pipeline in the Indian business, like I said, railway continues to be the focus for the company and that's where our core competence has been. The budget also gives lot of emphasis on, like you said, for Dedicated Freight Corridor or three more Corridors that has been announced. And new contracts are always, we are on the watch for new contracts that are being announced by the railways and other departments of the government and that will continue to be the focus of the company. And I am sure that we would be able to bag new orders, a good number of new orders in the next one to two years. In terms of the Africa business we have two factories in Africa, one in South Africa and Namibia. They are supplying to the local railways in those two geographies. Namibia currently has an order backlog of almost 2 ½ years in terms of contracts from the local railways and local companies there. South Africa has, because of the COVID, there was supposed to be a tender which was supposed to happen by December but because of I am sure you are aware South Africa the COVID situation is pretty grim. So South Africa, their tender has been delayed but we have orders up to July right now and we expect by March hopefully there should be some movement on the order front if the COVID situation eases out. Having said that, the safety of our team members and our assets is of primary concern to us. So we are operating under very strict protocols to ensure that no one is infected and everyone is safe and secure.

Dipen Vora: Just to check, is there anything moving there? Like in India, we are seeing lot of opening up.

Atul Tantia: South Africa and in both the geographies our factories are operational. It’s not that our factories are shut down. Our factories are operations and they are working.

Moderator: As there are no further questions from the participants, I now hand the floor back to Mr. Atul Tantia for closing comments. Over to you, Sir.

Atul Tantia: Thank you everyone for participating in our Q3 FY21 earnings call. Just as a reminder, I think that one point that was missed in my opening remarks and probably, hopefully everyone has seen, we have also declared an interim dividend of 15%, i.e., Rs. 1.50 per share with the record date of 17th February, 2021. This is as per the dividend policy of the company. Further, if you have any other queries you may get in touch with our IR team, Stellar Investor Relations or feel free to get in touch with us directly. I hope that all of you take care and stay safe. Thank you and have a good day.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of GPT Infraprojects Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.