GAYATRI

24th November, 2017

To,

The General Manager, **The Department of Corporate Relations,** **The Bombay Stock Exchange Limited.,** **25th Floor, Phiroz Jeejeebhoy Towers,** **Dalal Street, Mumbai – 400 001**	**The Secretary,** **National Stock Exchange of India Ltd.** **5th Floor, Exchange Plaza** **Plot No.C/1, G Block** **Bandra Kurla Complex, Bandra (East)** **Mumbai -400 051.**

Dear Sir/Madam.

Sub: Transcription of Q2 FY-18 Earnings Conference Call held with Systematix Group Reg..,

With reference to above subject, please find enclosed transcription of Gayatri Projects Limited **Q2 FY-18 Earnings Conference Call held on November 20, 2017.**

For your kind information please.

Thanking you,

Yours truly,
For GAYATRI PROJECTS LIMITED

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“Gayatri Projects Limited Q2 FY2018 Earnings Conference Call”

November 20, 2017

ANALYST: **MR. JASPREET SINGH ARORA - SYSTEMATIX SHARES & STOCK**

MANAGEMENT: **MR. SANDEEP REDDY – MANAGING DIRECTOR – GAYATRI PROJECTS LIMITED**
MR. K.G. NAIDU - VICE PRESIDENT (FINANCE) - GAYATRI PROJECTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Gayatri Projects Limited Q2 FY2018 Earnings Conference Call, hosted by Systematix Shares & Stock Limited. 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 touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Jaspreet Singh Arora from Systematix Shares & Stock. Thank you and over to you Sir!

Jaspreet Singh Arora: Welcome to the second quarter concall updates on Gayatri Projects. We have Mr. Sandeep Reddy, the Managing Director and Mr. K.G Naidu, Vice President (Finance). I would Mr. Reddy to give us a brief on the results and key developments in the last quarter and then we can head to Q&A. Over to you Sir!

Sandeep Reddy: Thank you Jaspreet. I am pleased to welcome you all to our Q2 FY2018 Earnings Call. This has been extremely good quarter for us on both strategic and operational front, but before I discuss the quarterly performance in detail, I would like to spend a little time on our unique business model.

We have been in the construction business for more than 50 years and have a strong technical skill set and on the ground understanding. Over the last couple of years, we have relooked at our business strategy and have made significant changes in our business model. We have evolved from an asset heavy business model to an asset light business model and hence we have evolved into a pure play EPC business. We are one of the fewer pure play EPC companies in the sector with zero exposure to HAM and small residual exposure in BOT projects.

We have derisked and diversified our portfolio both geographically and business wise. As a pure play EPC company our book is largely comprising of road EPC projects, irrigation projects, land development and railways. We have a pan India presence and have projects ongoing in UP, Andhra Pradesh, Bihar, Orissa, Haryana, Northeast, Karnataka and Mumbai.

We have a strong and growing order book and have delivered superior financial performance. We have a strong project execution team and follow a cluster based bidding approach. As a result we will maintain a healthy EBITDA margin around 15%.

Now coming to some key developments in this quarter. On the operational and financial performance our order book continues to grow and currently stands at Rs.120 billion. This quarter we won an irrigation order the Kaleshwaram Lift Irrigation project; this is in a consortium with two other parties. Despite heavy monsoon in each of our key states we delivered strong financial performance. Q2 revenues are up 21% and EBITDA was up 37%. Our EBITDA margins were high at 18% and our PAT more than doubled to 24 Crores.

During November 2017 we achieve a major milestone in our value creation journey restructuring and demerger of our road BOT business. This is the final approval from NCLT. Consequently, the road business will be demerged and listed as a separate entity Gayatri Highways Limited. GPL shareholders will directly own 74% of this entity. GPL consolidated balance sheet would be recast as of March 31, 2017 to exclude the assets and liabilities of the BOT businesses. Key impact of this is that the GPL consolidated debt would reduce by more than Rs.25 billion.

Over here I would like to spend some time on our BOT portfolio. All our assets are now successfully commissioned and toll and annuity collections have started. In addition to distributing the assets to shareholders and separately listing as announced earlier, we continue to look for ways to monetize this portfolio.

Before I open the floor for Q&A, I would like to give you a brief outlook. We are committed to creating superior shareholder value through strong financial performance. There is a strong momentum of order inflow. We have a bid pipeline of nearly 23,000 Crores over the next two months. These are primarily road EPC orders of NHAI and other central government agencies. Here I would like to mention that we have one of the largest market share of NHAI EPC orders in recent years and have a high bid success rate of mid teens. We are on track for a 50% plus revenue growth in financial year 2018 and EBITDA margins are expected to maintain in excess of 15%, we are on track to deliver a three-year revenue CAGR of 30% to 35%. This is my conclusion and I will throw it open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Nilesh Bhaiya from Macquarie. Please go ahead.

Nilesh Bhaiya: Thanks for taking my question. Sir you have given a slide on BharatMala. So wanted to hear from you about the opportunities in BharatMala and also another question related to that is our order book has now diversified across states, so which are the states where we are seeing execution pickup relatively in compared to what it was two years back? So if you can throw some light on that? Thank you.

Sandeep Reddy: See BharatMala is nothing but a new name for the whole program of the 500,000 Crores or 700,000 Crores what they want to spend. Basically what I know of my information is that at least 40% of this would be pure EPC and maybe the balance 60% they want to distribute between HAM and BOT depending on the viability of projects and getting number of bidders and so I think this is the next three, four years program, which they are going to come out which we have seen now. All the new tenders are coming as part of that. See when we say BharatMala some tenders includes six laning of existing roads, some tenders includes connecting the ports, some includes new expressways, things like that and coming to states we are now quite strong everywhere. We are for example strong in UP now, because we have been working in UP for the last 10 years. UP definitely had its challenges last one year because of the election so the transition actually delayed some of the processes like land acquisition was delayed for at least seven, eight months, but now everything is I think fast track and UP now with the new government, we see UP as one of the good states and Odisha is another area where we are very strong and because we have a very strong presence there from the last ten years so where we understand the local problems much better than any new bidders. So we have a better risk assessment of both sites and we will also continue to bid in all states all over India. It does not matter so it all depends on a new state maybe our margins, our cost maybe little higher we bid with a higher costs and things like that.

Nilesh Bhaiya: Another question is related to our segments we have diversified into railways and mining so what is the opportunity that we see in those segments?

Sandeep Reddy: Yes, railways as I told you we have only got one as a consortium for the DFCC with L&T where we have a 10% stake but railways we see a good potential. We are only hearing but are still yet to see any tenders coming out of railways. Because the same skill set is required for railways only difference is that like a road we have to use the same equipment, the same manpower, the linear project only difference is the track laying. So that experience we have gained by doing the entire railway track on the sideline for the Tata Steel at Kalinganagar. So with that we are prequalified for tack laying also. So, we look at a good opportunity in railways I think based on what we will be hearing and your second question?

Nilesh Bhaiya: What about mining segment?

Sandeep Reddy: Mining basically we are specializing in underground mining services. We are basically an MDO where the equipment will be and the capex will be spent by the mining company, which are Coal India subsidiaries, Bharat Coking Coal for example. So we would basically be like an O&M contractor, mining those and setting up the mines, but that is a very highly technical and skilled job, so we have tie-up from Chinese companies like a company called China Coal and also company called **(inaudible) 8.42** who are actually are expert mining operators from China. So we look at good underground mining potential. I think we are going to come out because most of the underground mining is for coal, I think is our coking coal, which have good demand in future also.

Nilesh Bhaiya: Thank you sir for taking my questions. I will be back in the queue.

Moderator: Thank you. Next question is from the line of Akash Jain from Ajcon Global Services. Please go ahead.

Akash Jain: Sir my question is regarding the receivable days. What are we targeting for FY2019 and FY2020? Historically it has been around 133 days so can we expect a reduction in receivable days?

Sandeep Reddy: We will try to reduce it. Our target is to come out to lower levels at least a year wise because the problem is mainly in receivable days is because of EPC tenders, the payment schedule because these are now stage wise payment schedules even though you get paid for work done, but a lot of money gets blocked under receivables because of that say for example the payment schedule says as a finch five converts at a time and get paid, if I do three, I have to wait for the fifth so in a month if I cannot do five then I have to wait for next month to get so that is just more into the receivables. So that is one of the reasons we were not able to reduce the receivables days.

Akash Jain: My second question is as we are executing a large irrigation order what can be an improvement in the operating profit margins, because irrigation as such gives us higher operating profit margins?

Sandeep Reddy: That is why we are saying that when we tender in road also our operating margins are between 14% and 16%. So I will tell you reason why because we execute everything with our own equipment. If you see our capex has gone up because most of the future roads are concrete roads and if you see the concreting equipment has to be purchased in-house. We cannot subcontract because they are highly capex oriented. For example, our concrete capex is nearly 30 Crores for a 50 kilometers stretch so that adds up and we do everything in-house so that is why our margins will be much better.

Akash Jain: Post this NCLT approval for restructuring of road assets as some part of debt would go out so what would be the savings from interest cost post appraisal?

Sandeep Reddy: They would not be outside. I will tell you standalone debt is not changing because of this. The interest cost on standalone. Consolidated debt is going to go out because we are not going to consolidate the road asset. See today all the road debts to our share is about basically approximately more than 3000 Crores I think to our share of the debt and it is more of an accounting treatment that we do not need to consolidate the road debt actually, no savings of interest in the road.

Akash Jain: Thank you this is from my side.

Moderator: Thank you. We take the next question from the line of Viral Shah from Emkay Global. Please go ahead.

Viral Shah: Good afternoon Sir. Sir basically what will be our standalone debt number be as on second quarter?

Sandeep Reddy: We expect the net debt will be about around 2000 Crores.

Viral Shah: Sir we had an order inflow during the quarter right?

Sandeep Reddy: Sorry I cannot understand what are you saying?

Viral Shah: Sir we had an order inflow during the quarter right?

Sandeep Reddy: Yes.

Viral Shah: So we had a JV who are our JV partners in that project?

Sandeep Reddy: See the company called HES and NCC.

Viral Shah: Sir in terms of guidance we still stick to our guidance of around 3500 Crores of sales in a PAT of 200 Crores for the year as a whole?

Sandeep Reddy: No. I think we have shown about a 50% guidance which will be around 3100 Crores and the PAT is difficult to get it will be ranging between 150 and 200 that is what my guidance.

Viral Shah: Sir during the quarter first half, there was a tax reversal as well. So what is that amount pending till date or this reversal will continue for the second half as well?

Sandeep Reddy: No, there is no reversal for second half.

Viral Shah: So will be a full taxpaying company from second half right?

Sandeep Reddy: Yes.

Viral Shah: Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Divyata Dalal from Systematix Shares. Please go ahead.

Divyata Dalal: Good afternoon Sir. My question pertains to the bid pipeline that we have indicated of around 230 billion odd. Can you put some color into which segment is this into and what would be our order inflow target that we are looking for FY2018?

Sandeep Reddy: Our target inflow is I think around 5000 Crores of orders and majority would be road EPC, some irrigation also, we are I think as some couple of state government have called a few irrigation tenders.

Divyata Dalal: So that would be a part of this bid pipeline of 230 billion?

Sandeep Reddy: Yes.

Divyata Dalal: In terms of capex that we would incur for this year and next year?

Sandeep Reddy: Nothing but the basic total number of tenders which are now going to be submitted in the next few months.

Divyata Dalal: And we would be looking at pure EPC project.

Sandeep Reddy: These are pure EPC NHAI tenders.

Divyata Dalal: So we would not be bidding for HAM project?

Sandeep Reddy: We will not.

Divyata Dalal: And in terms of any states that we are looking for in terms of road EPC?

Sandeep Reddy: No. There is nothing. As I told you we are pan India everywhere so we are going to bid everywhere, if anyone bid in Jammu also.

Divyata Dalal: And in terms of capex what is the number that we are looking for this year?

Sandeep Reddy: This year as of now most of our capex is done maybe another 50, 20 Crores maximum before March based on our existing order book but if we win new order book then the capex will be there. As of now the new and existing order book we do not need more than 20 Crores.

Divyata Dalal: So what was the capex done in 1H?

K.G. Naidu: Quarter wise we have to analyze and then we have to give you the numbers because I do not have on hand.

Divyata Dalal: And in terms of growth target from next year what kind of revenue growth can we see based on the order inflow 5000 odd Crores in this year.

Sandeep Reddy: No. I am telling you in fact if you look at the growth this year as I told you our target is 50% over last year and next year also we would probably do around between 30 and 50 this existing orders itself considering that we do not even have any new orders if you do not get the worst case scenario itself will be have a minimum 30% over this year.

Divyata Dalal: In terms of our debt for executing this incremental growth what kind of working capital cycle will be work with?

Sandeep Reddy: No we are not looking. I think the next year also we do not look at any working capital additional debt. We are trying to work out from internal accruals itself.

Divyata Dalal: That is from my side. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Akash Jain from Ajcon Global Services. Please go ahead.

Akash Jain: My question is regarding as we have the highest market share in terms of NHAI orders so what is the revenue that we are looking from NHAI orders?

Sandeep Reddy: As I told you out of order book about 80% is road and everything is mostly from NHAI. Whatever this is the same so revenue our existing order book of 12000 or 13000 Crores includes about nearly 8000 or 9000 only from NHAI. So that will translate over next 24 to 30 months.

Akash Jain: Thank you.

Moderator: Thank you. Next question is from Parvez Akhtar from Edelweiss. Please go ahead.

Parvez Akhtar: Good afternoon Sir. Sir I am sorry if you answered this question but just wanted to know what would be the tax rate in FY2018 and FY2019 since we seem to be taking benefits?

Sandeep Reddy: No but section 80IA benefit, we can get back to you exactly because apparently 80IA I think the projects which have started before…

Parvez Akhtar: After April 1, you would not be eligible.

Sandeep Reddy: Yes would not be eligible so all our projects, which we won earlier in road, we will continue to take 80IA. So we have not yet worked out the exactly.

K.G. Naidu: But usually this is coming up to 40% Mr. Parvez. Suppose if I say 2000 Crores revenue then it will automatically is at around 800 Crores this year and next year it may come down because the number of BOT projects also has come down the projects we are getting is to usually it is coming around 40% of the gross revenue under 80IA.

Parvez Akhtar: Thanks that is it from my side and all the best for future.

Moderator: Thank you. We have the next question from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Good afternoon Sir. Thank you for the opportunity. Sir I am new to your company there is a slide on power assets in your presentation if you can elaborate on that Sir?

Sandeep Reddy: We have two large power plants and joint venture with Sembcorp of Singapore where we have two operating assets now. Asset one is called Thermal PowerTech and Genset company, which is having 2 x 660 megawatt coal based power plant in Krishnapatnam and we have 85% long-term PPA with Telangana and AP and the project is now running at full capacity and we are earning EBITDA to the extent of maybe 1500 Crores on the project one. Project two is called Sembcorp Gayatri Power Company, which is also next door. It is the whole complex where we have two more units of 660 but we have no PPA. It is a fully merchant model where we are running mostly on short-term contracts and IEX sales.

Saurabh Ginodia: And what would be the total investments we have made in the two power assets as of now?

Sandeep Reddy: We have made an investment of around 600 Crores as Gayatri Projects and we have a premium also inbuilt into one of the projects of nearly 240 so we have an economic value of maybe 850 Crores in both the power projects and then we have a call option from Sembcorp to increase our stake to 30% so this translates to around 15% 850 Crores in one project 18% and one project 13% on the average of around 15% but we can double our stake by increasing over next five years.

Saurabh Ginodia: So this power asset will remain in the main company post the demerger from?

Sandeep Reddy: Yes it will be under the investments actually.

Saurabh Ginodia: That is all Sir from my side. Thank you.

Moderator: Thank you. Well sir that seems to be the last question for today.

Sandeep Reddy: Thank you very much for attending our conference call and we look forward for the next quarter.

K.G. Naidu: Thank you all of you. Thank you Jaspreet and media.

Sandeep Reddy: If you have any other questions you can be in touch with to Go India people so that we can share with you our information.

Moderator: Mr. Jaspreet Singh Arora you may please go ahead.

Jaspreet Singh Arora: Thank you Mr. Reddy and Mr. Naidu and thank you all the participants. Look forward to connecting again in the next quarter. Bye!

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Systematix Shares & Stock Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.