

September 3, 2020

To The Secretary, Listing Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 Maharashtra, India <u>Scrip Code: 532767</u>	To The Manager, Listing Department National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 Maharashtra, India <u>Scrip Code: GAYAPROJ</u>
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Dear Sir(s), Madam(s),

Sub: Q1FY21 Earnings Conference Call

With reference to our letter dated August 28, 2020, please find enclosed transcript for **Q1FY21 Earnings Conference Call held on August 31, 2020 of Gayatri Projects Limited**. The same shall be hosted on Company's website at www.gayatri.co.in.

This is for your information and records.

Yours faithfully

Gayatri Projects Limited

Chetan Kumar Sharma

Chetan Kumar Sharma
Company Secretary &
Compliance Officer



Encl: As Above

Transcript

Gayatri Projects Ltd 1QFY21 Earnings conference call

Event Date / Time : **31st August 2020, 12:00 pm IST**

Event Duration : **24 mins 44 secs**

Presentation Session

Madhuri: Good morning ladies and gentlemen, I am Madhuri, moderator for the conference call. Welcome to Gayatri Projects Limited Q1 FY21 earnings conference call. At this moment, all participants are in listen only mode, later we will conduct a question and answer session. At that time, if you have a question please press star and one on your telephone keypad. Please note this conference is recorded. Now I would like to handover the floor to Mr Ankit Toshniwal from Go India Advisors. Please go-ahead sir.

Ankit Toshniwal: Thank you, Madhuri. Good afternoon everybody and welcome to Gayatri Projects Limited earnings call to discuss the Q1 FY21 results. We have on the call Mr Sandeep Reddy Managing Director of the company. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. May I now request Mr Sandeep Reddy to take us through the company's business outlook and financial highlights, subsequent to which we will open the floor for Q&A. Thank you and over to you sir.

Sandeep Reddy: Yeah, thank you Ankit. I hope you can hear me clearly.

Ankit Toshniwal: Yeah.

Sandeep Reddy: Yeah, ladies and gentlemen, thank you for taking out time to join us for our Q1 FY21 earnings call. I do hope that you and your loved ones are safe and healthy. We have uploaded our earnings presentation on the exchange and company website. I hope you have been able to view the same. Before I discuss the operational and financial performance, I would like to spend 5 minutes on our business strategy. We continue to maintain our focus on asset like business model and have a pure play EPC order book of 126+ billion. Our book to bill of four times gives us a high growth visibility for the next three years. Our order book is a very diversified geographically, our exposure to UP and Maharashtra constitute almost 30% of the order book. Road EPC companies continues to be our biggest segment and constitutes over 60% of our order book. De-leveraging and balance sheet strengthening continues to remain our key strategic priority, over the last three-four years we have significantly reduced our long term debt, have brought down our debt equity from 2.4 times to almost 1.6 currently. As stated earlier, we are committed towards fully reducing our long-term debt in the next 12-18 months. Our strong EBITDA to free cash flow generation and claims monetization will help us in achieving this objective. Over the next 8-12 months, we expect a cash flow of almost 4-6 billion which will go fully towards debt reduction. I will now briefly touch upon the operating and financial performance. On the order front, while the orders picked up in Q1 most of the new NHA1 orders or HAM projects and we

are not participating in that segment, we although noticed a very high level off competitive bidding in road projects and hence the company is going slow and not indulging an aggressive bidding, we have a strong order backlog and are on focusing on executing the projects on hand. During the quarter we won the irrigation water supply project worth about 1.4 billion rupees. Coming to the project execution, execution has picked up at most of the projects and almost all projects are on schedule after adjusting for Covid related delays. Purvanchal expressway is running fair ahead of schedule after adjusting for Covid related delays. The irrigation project in Telangana has picked up pace and company currently expect to finish the execution over the three-four quarters. The completion of Varanasi project has been extended by two quarters due to the extended monsoon and is now expected to complete Q4 FY21 as against the earlier schedule of Q1 21. Coming to our financial performance, our financial performance in Q1 was impacted due to lockdown restrictions imposed in March 2020 and further due to shortage of labor and raw material. Our gross margin remain intact, however EBITDA and PBT were impacted due to high operation leverage in the business and lower sales. We are regular in our debt amount as of 28th March & we have opted for moratorium and currently there is no default. Company is also restructuring its debt with bank and in the process of the same I will also sign the inter-creditor agreement. Going forward, we expect execution to significantly pick up from H2 onwards and accordingly and as mentioned in our last quarter call we expect FY21 to be same as FY20 in terms of revenue. We will be maintaining EBITDA margins at the minimum of 14-15% and we will aim for an order inflow of 30-40 billion. With this I will open the floor for question.

Madhuri: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing star and one again. Participants are requested to press star and one only once, pressing star one multiple times will put you out of the queue. So, the first question comes from Anil Sharma from AB Capital. Please go-ahead sir.

Anil Sharma: Yeah, hi. Thanks for the opportunity. Sir, just a couple of things I wanted to understand. The first in terms of the execution, what's the current rate of execution going on and is the company back to normal levels of execution?

Sandeep Reddy: Yes, we are, the first quarter as I told you we were lower than last year because of the one and half month of abnormal, but now we have reached to normal level, but this year monsoon has been quite heavy. Now except for monsoon delay there is nothing much actually.

Anil Sharma: Okay, okay and in terms of payments, are you seeing any delay in the payments coming from state and NHAI projects, state governments and NHAI projects.

Sandeep Reddy: NHAI we have no delay in payments at all. See we have three major clients. You will see most of our order book is either NHAI or we have the UP Purvanchal expressway which is UPEIDA and then also we have Mumbai-Nagpur expressway. These two even though they are state government, they are fully financially funded by bank, so have no problem of funding. Only state governments like Telangana and Andhra, we will be facing payment delays actually.

Anil Sharma: Okay and one last thing I wanted to check. Can you give me the breakup of the debt between long term and short-term sir?

Sandeep Reddy: We will just give you, yeah.

Anil Sharma: Okay, okay sir. Thanks for the opportunity then. Yeah, that's it from my end.

Madhuri: Thank you, sir. Dear participants, if you have a questions, please press star and one on your telephone keypad. The next question comes from Kranthi Bathini from Wealth Mills Securities. Please go-ahead sir.

Kranthi Bathini: Hi Mr Sanjay, Kranthi here from Wealth Mills, just would like to know because of the lockdown and you might be facing pressure from labor, how it is impacting your operation? Are you witnessing a normalcy?

Sandeep Reddy: No, no, the first quarter was affected partly lockdown and also the labor had left, but as you know in most of our labor oriented jobs are only for structure, so most of the infrastructure projects what we are doing is more mechanical oriented and labor is only used for the bridges and structured, so those were really affected in the first quarter and second quarter anyway is the monsoon so we are not affecting. So, we are hoping that while Q3 onwards the entire labor will come back and we will come back to normalcy actually.

Kranthi Bathini: And given the kind of government emphasis on the infrastructure spending now, okay, how Gayatri next in I can say two years, what is the advantage of Gayatri and how you are going to take the advantage of this infrastructure boom? What's your plan, could you give a road map on this?

Sandeep Reddy: Yeah, plan is that we want to continue to be only EPC business. As you know, the government is going to spend a lot of spending on roads and water projects, so we have actually entered into water segment. So, there are lot of that is the segment we are going to concentrate on. Irrigate, see irrigation basically is where more of state government subject, so we have, so it has been more of a much smaller segment compared to others and the road sector we will continue to be a major thrust, so we will concentrate on most of the EPC road projects and as I told you we have order book today of nearly 12 to 13 thousand crores, which we have enough for the next two to three years. So, we will grow, we will aim to grow in the next two-three years at 15-20% topline, so we will try to win orders to maintain the topline actually.

Kranthi Bathini: Can you give a road map with respect to your making the company a debt free company? As a very encouraging statement can you give us just a roadmap how you are going to make?

Sandeep Reddy: There are three things. Our long-term debt we hope to be debt free in the, as far as long-term debt is concerned in next two to three years, in next two years, we have three levels. One is normal cash flow what we are going to generate out of the operation plus we are expecting the arbitration award, we have a number of arbitration claims what we are expecting to win in the next couple of quarters. See some of them for example we are trying to use where the government has gone and contested in the court. The NITI Aayog circular provides the bank guarantee for 75% and take the

money today and ultimately the court settles may be after two-three years we will get a guarantee back that is one method. The other method is that now we are also following the reconciliation method of NHA1 where they have third party reconciliation where they are going into a long-term litigation, they are willing to settle quickly. So, this process also is now hastening the whole thing. So, all these three things we are expecting as include which will bring us into a debt free state.

Kranthi Bathini: Sandeep, this is my final question okay? Your stock witnessed a significant correction from HP, the promoters are willing to increase their stakes at these prices or what exactly you have planned?

Sandeep Reddy: I don't think this is right [inaudible 00:10:23] talk about price, the promoters are only concentrating on, you know, doing the business. So, we are on [inaudible 00:10:29].

Kranthi Bathini: Yeah, do you have any plans to increase your promoter holding since the stock available at a cheaper price or

Sandeep Reddy: See, said in this call actually, so we cannot answer that.

Kranthi Bathini: Do we have any plan?

Sandeep Reddy: We own only 45% of the company, so I think which is a significant holding, so I don't think we can, I can answer this question today. I am concentrating on more shareholder value for all other shareholders by growing the company business actually.

Kranthi Bathini: Yeah, that's correct. You always endeavor for the shareholder value, but here we have witnessed the shareholders witnessed a significant value correction in the stock price, that's why I am asking you.

Sandeep Reddy: That is market perception of the company, so what should I do about it? It is market driven, so whether [inaudible 00:11:25] stock price is or the value what market can perceive isn't it?

Kranthi Bathini: Okay then, thank you.

Sandeep Reddy: Thank you.

Madhuri: Thank you, sir. Next question comes from Deepika Bhandari from Phillip Capital. Please go-ahead ma'am.

Deepika Bhandari: Hi, sir. It's Deepika. Thank you for taking my question. My first question is like at present what is the, at what execution level are we compared to pre-Covid levels and what is the labor availability in percentage form compared to pre-Covid level?

Sandeep Reddy: No, labor is about 80% of pre-covid levels now, so as I told you, the labor have left because normally in the monsoon the labor, it's actually coincided with the monsoon now. So, mostly normally the labor leave in the monsoon and they come back actually in September, so now the second quarter also our

execution is going as the pre-Covid level except for some labor projects are lower than required.

Deepika Bhandari: Okay, so currently we are at 80% and we are executing at what level?

Sandeep Reddy: We are executing at 80% level.

Deepika Bhandari: And when do we see this going back to 100, I mean like, you know, that we are exactly [inaudible 00:12:42]

Sandeep Reddy: From October onwards.

Deepika Bhandari: October onwards, okay sir. There is another question like so currently we are, we as you said we have the debt equity of 1 to 1.6 times...

Sandeep Reddy: Yeah.

Deepika Bhandari: ...and which is comparatively higher than other infra companies. I understand that we have a very strong order book, but so do other companies and like currently we are witnessing a high boom in infra sectors pertaining to order inflows if you see, so how do you see your order, debt levels going by the end of FY21, I mean because if we are opting for, if we are going to, we are going for more bidding, we cannot see our debt going down, right?

Sandeep Reddy: No, no see debt doesn't affect your bidding actually. So, we have enough bank guarantee limits to continue with the bidding. Our debt is compared to other infra companies, what I have been telling you is we have a huge amount of investment in power and road assets, which were done in the past seven-eight years, which we are trying to unravel and get back that is one of the reasons our debt is higher than the other competitor infra companies, that is the reason actually. So, we are hoping to monetize some of these assets in various levels and for example, we sold our power asset, but we have earn out with Sembcorp, so once the earn out we are hoping that in the next couple of years we will get back the earn out from the power project, so all these things have been used to reduce the debt.

Deepika Bhandari: Okay, FY21 our debt level would be similar, that's what you guide?

Sandeep Reddy: It will come down at a normal level.

Deepika Bhandari: Okay. Okay, sir. Sir, like because we are a pure EPC company and currently looking at the coming bid, we see a huge competition in EPC. How do we see the competition? I mean the bidding.

Sandeep Reddy: There is enough competition. See, I will tell you in EPC we are qualified, for example in road projects we qualify up to 2000 crores of packages. About 1000 to 2000 crores, the competition is not so much, but as I mentioned during my earlier statement NHAI you can see that clearly, they are separating the whole road program into three things, 40% HAM, 40% EPC and 30% toll projects. So, we are

concentrating on the 40% segment. So, unfortunately, the last two-three months you will see more of HAM projects which are coming out, so we...

Deepika Bhandari: Correct

Sandeep Reddy: Once the HAMs are over then there will be more of EPC then we will participate, so we are now bidding, we are submitting a number of bids even now, but we are bidding at our level of profit and all that, so we have not been able to win any project so far, but we are confident of winning in the future.

Deepika Bhandari: Yeah, we won't be aggressive and compromise on our margins.

Sandeep Reddy: Because I have enough order book for the next two years, so why should I unnecessary be aggressive and increase the order book?

Deepika Bhandari: Correct, correct, correct sir. Just last question from my side, what irrigation projects are we seeing coming forward? Are there any tenders that are holding out? Or do we see any opportunity in irrigation?

Sandeep Reddy: There were few projects we were working in Karnataka, also in Andhra Pradesh has come out substitute project about to come out in the next, but because of the Covid I think last two quarters have slowed down, but the state governments also have funding problem because of this covid issues I think unless they are going to get their funding sorted out I don't see much irrigation projects coming up, but like for example we have won this water supply project in Uttar Pradesh, but these are funded by the central government funding. So those kind of projects even though it is a state project they are getting refunded by the central, so those kind of projects are coming, we are concentrating in those sort of projects.

Deepika Bhandari: Sure sir. Thank you, that's it from my side.

Madhuri: Thank you, ma'am. Dear participants, if you have any questions, please press star and one on your telephone keypad. The next question comes from Vikash Maskara, individual investor. Please go-ahead sir.

Vikas Maskara: Hi sir. Thanks for giving me this opportunity. I have three questions. First, in February-March with respect to the arbitration claims we had made an announcement.

Sandeep Reddy: February- March?

Vikas Maskara: Can you hear me sir?

Sandeep Reddy: Yeah, yeah, I can hear you.

Vikas Maskara: Okay, I am just, my first question is respect to the arbitration claim in around February-March before Covid when we were expecting the arbitration claims be received in next few months, probably one-two months, you know, because out of 3 packages one we have already settled in terms of the reconciliation. When do

you think they would settle that actual timeline like one-two months or next five-six months, is NHA giving any...

Sandeep Reddy: See as I told you, yeah, the arbitration award what we won, we had an issue, the whole process was that get a bank guarantee sanction separately. Then these arbitrations were in a JV with our other partner. So the JV partner could not give their own guarantee, so we are giving to our share, so now the legality of both JV partners can handle or even handling, so now we expect that in next couple of months we will be able to get at least the first trench of arbitration award of about nearly 220 crores.

Vikas Maskara: Sir second question with respect to the restructuring package which you announced in March with the banks. I believe for six months there was certain cooling of period with respect to the debt because in any restructuring package, so post these restructuring package for the next three to six months do you see the company being able to pay the debt on time or the interest on time because you are on morat right now?

Sandeep Reddy: We didn't have any restructuring package. Let me just again clarify to you. We actually signed an ICA from the bank because as I told you the last two quarters of last year we had a delay of, we were never a non-performing asset with the banks, we were only a, we are delay of payment that's for this June 7 circular of RBI when there is a stress in the asset the banks have to do an ICA. That is the procedure of RBI. So, we followed that procedure and accordingly we signed the ICA and part of the ICA we are negotiating with the banks to reduce some interest rates and think like that, but we are now up to date with all the banks. We have only availed the moratorium which was given by RBI and after that we will be able to service the loans comfortably.

Vikas Maskara: So, that's what I am trying to understand which is being made clear that. That today is the last day of the morat period, for the next three to four months at least we have visibility to pay the interest on time.

Sandeep Reddy: Yes.

Vikas Maskara: Am I right sir?

Sandeep Reddy: Yes. Correct.

Vikas Maskara: Okay, thank you, sir. Last question from my end, in terms of the work status on the presentation slide 8 and 9 with respect to various packages you have given the expected completion dates of the project. If I just sum up the projects which are expected to be completed by Q4 21 which I understand is basically March 21 it comes to nearly 4300 crore, so actually do we expect 4300 crores of completion to be completed within the next three quarters?

Sandeep Reddy: We would have given completion, but the substantial completion, really might not happen so much in three quarters, so we can clarify you separately actually that is the extension of expected completion by March. So, some of the projects, mostly its Varanasi project even now the certain amount of land is being given to us, so they may even spill over into quarter of June actually which is quite uncertain.

Vikas Maskara: Okay, but sir one more question from Purvanchal we are expecting that to be completed by December 2022 and Mumbai-Nagpur by June 2022. Actually, Purvanchal was probably moving ahead of schedule.

Sandeep Reddy: But Purvanchal, the official date of completion is 22, 36 months. So, we have given that, but today we are aiming to complete earlier, so...

Vikas Maskara: Okay, the only point is if actually look at the completion dates and only for those projects which are completing in March is 4300 and assuming some execution on projects which are spilling over in 22-23 the execution can be at least 5-5.5 thousand crores is what coming out from the presentation, so if you could just correct the where I am wrong I would appreciate it a lot.

Sandeep Reddy: See, that is the schedule of the project. See, normally that's the nature of a project. See this is as per the, we have given the expected completion date, but sometimes they could even spill over more because there are so many issues with the road projects where land is not given, certain various are not approved, so we cannot give out officially because the extension of given, the extension of time is given up to that time, but we may further get extension actually.

Vikas Maskara: Okay. Sir, it is request in the future presentations, just more clarity in terms of additional land acquisition status, so as investors we will be more aware in terms of, you know, which project can get executed when [inaudible 00:22:04] project how the company will perform in the future. I would really appreciate if you can give a little bit more color in the future in terms of the actual concerns with respect to the project or land acquisition or something like that so, we would really appreciate it.

Sandeep Reddy: Okay, definitely.

Vikas Maskara: Thank you, sir. Thanks a lot.

Madhuri: Thank you, sir. Next question comes from Preeti Singh from Value Investments. Please proceed ma'am.

Preeti Singh: Thank you for this opportunity.

Sandeep Reddy: Yeah.

Preeti Singh: Sir I wanted to know how is the current bidding pipeline in roads and in how much are you participating?

Sandeep Reddy: You know, there is enough EPC contracts close about nearly 22000 crores in roads itself, so we are participating in all EPC projects. EPC roads there is about nearly the roads and especially NHIDCL, all the clients, NHIDCL, MORTH and NHA all three put together I think there are more than 20-30 thousand crores of projects bid out in the next two-three months actually.

Preeti Singh: Okay. Also, of your whole order book which are the projects that are executing the fastest? And if you can name some projects that are slowest in the execution?

Sandeep Reddy: So, right now the fastest is Purvanchal expressway and no everything is on track now. In fact, that Telangana projects were very slow because even though the order book is from last two-three years they didn't start, but Telangana irrigation projects have started only from December actually and now they are in fast track actually.

Preeti Singh: Okay. Also, sir, what is the availability of additional working capital status from banks?

Sandeep Reddy: We are comfortable with working capital, no additional requirements. See we have bank guarantee limits of approximately 4400-4500 crores, so we keep revolving limit so whenever some of the projects keep completing, we get the return BG's which will be allowing us to rebid again.

Preeti Singh: Okay. Okay, that's it from my side sir. Thank you so much.

Madhuri: Thank you, ma'am. It was the last question. now I would like to handover the floor to Mr Sandeep for closing comments. Over to you, sir.

Sandeep Reddy: Thank you for joining us on the call today. We hope that we have been able to satisfy the addressed queries. In case there are any pending or follow on queries please contact the team at Go India Advisors and they will be able to address any questions you have. Thanks for your support and thank you.

Madhuri: Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using door Sabha's conference call service. You may disconnect your lines now. Thank you and have a please day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.