

Date- 6th June, 2018

To,

BSE Limited

25th Floor, New Trading Ring,
 Rotunda Building,
 P J Towers , Dalal Street, Fort,
 Mumbai-400 001

Scrip Code- 541019

To,

National Stock Exchange of India Ltd

Exchange Plaza, C-1,Block G,
 Bandra Kurla Complex,
 Mumbai- 400051

Scrip Code- HGINFRA

Dear Sir,

Subject- Transcript of Q4 FY18 Earnings Conference Call held on 25th May, 2018

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Kindly find enclosed a transcript of the **Q4FY18** Earning Conference call held on **25th May, 2018**. The same is also available on the Website of the Company i.e www.hginfra.com.

Please take the same on your Records.

Thanking You

Yours Faithfully

For **H.G. Infra Engineering Limited**
Ankita Mehra**Company Secretary & Compliance Officer**



“H G Infra Engineering Ltd Q4FY18 Earnings Conference Call”

May 25, 2018



MANAGEMENT: **MR. HARENDRA SINGH – CHAIRMAN & MANAGING DIRECTOR, H G INFRA ENGINEERING LTD**
MR. RAJEEV MISHRA – CHIEF FINANCIAL OFFICER, H G INFRA ENGINEERING LTD

Moderator: Ladies and gentlemen, good day and welcome to the H G Infra Engineering Limited Q4 FY'18 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harendra Singh – Chairman and Managing Director and Mr. Rajeev Mishra – CFO. Thank you and over to you Mr. Harendra Singh.

Harendra Singh: Good Morning, everyone. I extend you all a very warm welcome to our First Earnings Conference Call. I would like to take this opportunity to thank you all investors for giving such an overwhelming response to our IPO and make it a success. I express my gratitude for the faith rested in our company and we look forward to your continued support in the journey. We are all focused now long-term success of our company based on clear business strategy and good corporate governance. And I assure you that we will strive to do our best to fulfill the expectations of our shareholders.

As this is our first ever conference call with investors and analysts, let me start by giving a brief breakdown about the company and then we will talk about the financial performance and the strategy going forward: Our company was incorporated in 2003 as a private limited company with focusing primarily on EPC civil construction projects and infrastructure. Over the years till 2013-14, we did various subcontracting jobs in the Infrastructure segment for clients like IRB, ITNL, GVK, etc.; some of our notable subcontracting job projects which we completed include the four-laning of Jaipur-Tonk -Deoli, NH12 from IRB valued at Rs.362 crores. We did four-laning of Warora-Chandrapur-Ballarpur section in the State of Maharashtra for Rs.260 crores, it was in 2014 when we received our first EPC main contract on NHAI. Thereafter, our journey has been one of the high growth with several contracts with NHAI, MOTH and other government departments. In 2014, our (PQ) Pre-Qualification was Rs.250 crores which has now moved to Rs.1,120 crores plus. For EPC, Rs.1680 crores for HAM projects. Our prime focus is on the roads highway sector. As you are all aware that the current government's thrust is on infrastructure creation and improvement especially on roads and highways segment. In every union budget, the government is emphasizing it by giving a major budgetary allocation to roads and highways. In the last five years, the average length of the road project awarded by NHAI was 2,860 Kms with 4,335 Kms in FY'17 and 7,397 Kms in FY'18. MOTH is targeting to award 20,000 Kms in FY'19. The Ministry is targeting to construct 45 Kms a day in FY'19 against 27 Kms a day achieved in FY'18. With FY'19 being an election year, we believe that there would be an increase in infrastructure spending which the companies like us would be benefited. Other than roads and highways, we have foray into execution of water supplying projects and recently completed one of the two water supplying projects in Rajasthan. Additionally, we are also qualified for airport projects which have similar experience requirement as the highways. Going forward, we would continue to look at these opportunities sincerely.

Let me now come to the Financial Performance for FY'18 and Last Quarter:

During the quarter, we reported revenue of Rs.503.8 crores, growth of 33.5% YoY. This was on account of higher execution. For the year FY'18, revenue stood at Rs.1,392.7 crores, growth of 32%. Please note that the revenue for this year is net of GST whereas in the previous year which has been the gross numbers. Thus, on like basis, the growth would be on higher side. EBITDA increased by 57.2% in year FY'18 to Rs.208 crores and 79.1% for Q4 of FY'18 to Rs.79 crores. EBITDA improved to 14.9% in FY'18 from 11.8% in FY'17 which if you corrected after the GST numbers it would be 12.7%. Apart from improvement in EBITDA due to the change in the accounting of net basis post-GST. Moreover, for the years we have built up integration operations with the presence across the lifecycle of the project which gives us better efficiency and control over the margins. We invested Rs.260 crores in plant and machinery in the last year, taking us leap of the modern construction equipments total to 1250 plus which can cater to a large-scale project execution, also we strengthened our manpower by adding almost 1,000 employees taking our total number of employees to 2,894 out of which 2,767 are skilled and 317 are unskilled. In FY'18 PAT grew by 57.7% to Rs.84.2 crores compared to FY'17 which was at Rs.53.4 crores. We reported PAT margin of 6.1% in FY'18 vis-à-vis 5.1% in FY'17.

If we talk of order inflow and the order book, it was a great year for us in terms of order intake. The total order inflow for the year was Rs.1590 crores for FY'17-18, out of these orders one order was hybrid annuity mode which was the first of the HAM project with the company, it is in the State of Haryana worth Rs.606 crores and rest all are EPC orders. The major EPC project received during the year include three orders from the State of Rajasthan which was World Bank funded worth Rs.597 crores, two orders from PWD, Rajasthan was Rs.77 crores, two orders from MOTH in Rajasthan state worth Rs.300 crores. Order book as on 31st March 2018 stood at Rs.4607 crores. All of these projects have received LoA and the average execution cycle for these projects is two years. Of these execution, starting on project worth Rs.3,300 crores, for the rest Rs.1,300 crores worth of projects we have started mobilization and awaiting the appointed date. Out of the total order book, 75% are government contracts and 25% are from private clients. In terms of state wise breakup, 50% is from Rajasthan, 35% is from Maharashtra and 13% from Haryana and remaining are from Uttarakhand, Uttar Pradesh and Arunachal Pradesh. The total debt as on 31st March 2018 is Rs.408 crores, this includes working capital debt of Rs.93 crores and term loans of Rs.230 crores and the balance amount of Rs.86 crores is in the form of unsecured loans received from the promoters. By quarter end 30th June 2018, we will be retiring another Rs.83 crores approval of term loans from the IPO money which will reduce our average cost of debt is 8.5%.

Now, coming to our Growth Strategy: Going forward, we are targeting order inflow for this financial year to be about Rs.3,500-4,000 crores. We are aiming to end financial year '19 with an order book of Rs.6,000 crores. We will continue to bid for EPC as well as selective HAM projects. Other than the projects from government and the government authorities we will continue to do subcontracting work with clients where the relationship has been quite good, margin are as per our execution and the payments are secured. We are also open to where working conditions are conducive. Based on the order book and the order inflow of target, we

are confident that growing 25-30% over the next five years. We are ready to the next level of growth and have added the required machinery, manpower and technical capabilities and improved our execution itself over the years to help us achieve the same. We would continue to focus on quality projects while maintaining EBITDA margin of 15-16%, even more than that, we expect higher growth in profitability as decision would become stable, operating leverage would kick in and interest cost would be down due to debt repayment. That is all from my side. I would now request the moderator to open the concall for question-answers. Thank you, everyone for your participation.

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 Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Sir, my question is pertaining to the EBITDA margins of the company. If we see the last year, we had an EBITDA of around 11.5% which has jumped to around 15% this time. So what different have we done for this big jump in EBITDA and do we see the EBITDA margin sustaining at this level for the next three to five years?

Harendra Singh: I would like to clarify that the EBITDA margin which you could see in FY'17, if we corrected with the GST, that sales was gross and now it is net of GST. So it would be 12.7% to 12.8% and you could see within the year we have improved to almost 14.9%, this has been because of major shift in the execution capabilities there as far as CAPEX addition is there, as well as our own operational execution is there, and it would be likely to continue in the coming years as well.

Dhruv Agarwal: The top line you have mentioned is 25-30% growth you will be able to do, so that is good. So depreciation for this year has been Rs.54 crores. So you see the same run rate continuing in the years to come?

Harendra Singh: It will be same.

Dhruv Agarwal: Last question is on the interest part. Interest is Rs.40 crores this year which was around Rs.19 crores last year. So now that you will be paying the term loan of Rs.83 crores. What is the run rate for the yearly interest that you see?

Harendra Singh: We could see because the substantial debt retirement is there, we would be retiring Rs.150 crores of debt, we have retired some Rs.33 crores in the last quarter and we are target Rs.83 crores during the current quarter, it would be substantially reduced by Rs.10-12 crores.

Dhruv Agarwal: Interest cost would be around Rs.25-28 crores for the FY'19?

Harendra Singh: Yes.

Dhruv Agarwal: Last thing on the IPO. You have Rs.165 crores of unused funds from the IPO. So you will be using it for debt repayment, that is the first part. Will you be purchasing any more machinery for the projects now that you have to execute?

Harendra Singh: Yes, it was quite specific that Rs.90 crores was for the CAPEX addition and that we have already started adding the required addition during the year.

Moderator: Thank you. We will take the next question from the line of Subramanian Yadav from Subhkam Ventures. Please go ahead.

Subramanian Yadav: Sir, if you can share the revenue mix for FY'18 and FY'17, how much is private and how much is government contract in that?

Harendra Singh: We are having 25% with the subcontractors and remaining 75% is with the government. So you could see almost the revenue which we are targeting during the current year would be the same... the ratio would be also the same.

Subramanian Yadav: FY'17 also was similar, around 25% subcontractors?

Harendra Singh: It was a bit higher because the project from IRB we did in Haryana, it yielded Rs.150 crores during the current year.

Subramanian Yadav: So is it the reason that last year FY'17 the margin is lower and this year the proportion of your contracts are more, hence your margin is higher?

Harendra Singh: It is not that way but only over the years you could see that we have improved upon, integrated aberrations have been there, we have various verticals of the specific department wise allocation, so that has improved a lot on over the last three years, irrespective of the fact we are working as a subcontractor or as a prime contractor.

Subramanian Yadav: Can you share also the utilization of the IPO money of the Rs.300 crores which came in, you almost did last year Rs.200 crores of CAPEX, right?

Harendra Singh: It was Rs.250 crores last year to be very precise.

Subramanian Yadav: The debt also increased by around Rs.200-odd crores. So where has the debt gone into?

Harendra Singh: Whatever was the addition during the last year, we have retired debt in the tune of Rs.33 crores during FY'18 and another IPO money Rs.150 crores was the object from the IPO for the retirement of debt, Rs.33 crores already paid, during the current quarter we are going to pay entire as soon as we are getting the foreclosure amount from this banker and financial institution. So Rs.90 crores of the IPO money would be utilized for the CAPEX addition and remaining we will keep for the general corporate purpose for the company.

Subramanian Yadav: FY'19 CAPEX would be around Rs.90 crores?

Harendra Singh: Yes, we are looking at around Rs.90 crores and it would be required for the major inflow of orders, more than that we will go into raising the debt but as of now there would be no further requirement.

Subramanian Yadav: The equity for the HAM is roughly around Rs.65 crores, right?

Harendra Singh: Yes.

Subramanian Yadav: When is the appointed date for the Rs.1300 crores of project likely?

Harendra Singh: Quite a few projects of about Rs.300 crores would be by end of this June and for another Rs.300 crores it would be somewhere end of August and for this HAM project Rs.606 crores we are looking at and the government is having the similar line, that by November we would be having the appointed date.

Moderator: Thank you. We will take the next question from the line of (Nikhil Parikh from Thanke Securities). Please go ahead.

Kaushal Shah: This is Kaushal Shah. Sir, just wanted to find out what is the proportion of our total order book that we are doing as a subcontractor... do we still do any execution as a subcontractor or it is all as a contractor?

Harendra Singh: No, we are doing 25% of the work, we have two projects majorly – Tata Project and IRB Project – this is the third project from IRB as a subcontractor we are doing 25% and 75% as a prime contractor.

Kaushal Shah: In terms of margins, what would be the difference between getting a contract as a main contractor and subcontractor?

Harendra Singh: I would like to elaborate the things because the subcontractor as we are working, is more or less like EPC contractor because they are the concessionaire, usually give the EPC work to the subcontractor. So the margins more or less would be the same. There is not a big difference as a prime contractor versus as a subcontractor though say 0.5% or 1% either side can be there.

Kaushal Shah: What is the bid eligibility now in terms of orders?

Harendra Singh: Yes, as a single entity we are eligible to bid for an EPC project of Rs.1120 crores and for HAM project of Rs.1680 crores.

Moderator: Thank you. We will take the next question from the line of Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: My question is if we see FY'18 our order inflow is in the range of Rs.1600 crores. The last year is one of the years when the highest level of the ordering activity has been done by NHAI. So what was the reason that our market share was quite low in the last year and now we are saying that next year could be high in the range of Rs.4000 crores?

A: There have been two reasons. We always like to bid the highest, the reason is profit margins are intact and the working environment is quite conducive. So it is more important to obtain an order where you could be having at the end of the day yield required to have for the higher profit margins or the margins which we are looking at 15-16% should be intact. We bided for almost Rs.50,000-odd crores project and we could see 10% ratio and during February to March many of the projects which government could not continue just because of the land acquisitions, wherever the land was not in line with their requirements, they have now extended the order to this first quarter of this financial year. Now we are aiming to bid those projects which we did not find in the last year. We are quite hopeful that we would be achieving this particular order intake during the current and you could see within this quarter as well as the next quarter.

Ankush Mahajan: Now the elections are also coming at a central level in the month of December, January, HR Fanta will be implemented, so how do you see the ordering activity for next one year?

Harendra Singh: As far as government yearly target was turned into quarterly target, the government is having clear focus to award at least 2500 Kms during the first quarter, another 4500 Kms during the second quarter and 6000 Kms by December end.

Ankush Mahajan: We are looking at approximately 3500 crores next year?

Harendra Singh: Yes.

Ankush Mahajan: Any bid pipeline at this time?

Harendra Singh: We have bided for one or two projects, within 15, 20 days it would be open, and we would be bidding in June for the various projects as I already discussed.

Ankush Mahajan: We have a plan to retire debt of Rs.150 crores and already Rs.300 crores debt is retired. So rest is basically Rs.117 crores?

Harendra Singh: No, it is Rs.115 crores, out of that we have already repaid Rs.33 crores at the end of this financial year and we are waiting for the foreclosure amount where the waiver we are expecting should be there and we will be paying remaining amount within this quarter.

Ankush Mahajan: Our other expenses is 1% of overall cost. I just try to understand the nature of the business why these are so low as compared to the industry which is 5%, 6%, something like that?

- Harendra Singh:** Other expenses are all repairs and maintenance, taxes, travelling expense, lease rent, payment to the auditors, professional fees, printing & stationery. As far as classification or the sub-heads is concerned, that I have already given you the details and later on we can have detail discussion on it, I will explain later.
- Moderator:** Thank you. We will take the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir, you said you bided for one or two projects. Can you share the value?
- Harendra Singh:** Both the projects are of Rs.1500 crores.
- Shravan Shah:** How much are we targeting to bid or win in terms of the HAM projects?
- Harendra Singh:** As far as government is concerned, they are almost having 60-70% as HAM projects and remaining all are EPC or BOT toll. So we are targeting at least 25-30% of the total order intake in HAM model.
- Shravan Shah:** Maybe Rs.500 crores would be coming in as a subcontractor?
- Harendra Singh:** We cannot rule it out because any of the projects where the profit margins are good and we are having a very choosy, we are okay with the clients we already worked with and we are having a very good rapport with them.
- Shravan Shah:** Excluding GST 12.7% FY'18 EBITDA margin, so this number definitely would improve to 14-15%, am I right?
- Harendra Singh:** This year we had 14.9%, going ahead we are looking at 15-16%, there would be fair chances for improvement in the PAT as well because of the interest cost.
- Shravan Shah:** How do we see the working capital, if you could give some idea? I see trade receivables also increased, payables have also increased.
- Harendra Singh:** In the last quarter, you could see Rs.503 crores of the top line that we have done, this is the run rate which we have done within last quarter that you could see that it is almost Rs.200 crores done in month of March. So whatever the debtors we are looking at is 70 plus and the creditors they are all similar numbers, it is 40-45-days.
- Shravan Shah:** So overall net working capital for FY'19, how many days can we see?
- Harendra Singh:** It is almost the same; it is coming at 60-65 days, which we were having over the years in the past.

- Shravan Shah:** Just to clarify, you said debt as on FY'18 is Rs.408 crores, out of that you will be repaying Rs.115 crores in this quarter, am I right?
- Harendra Singh:** It is Rs.83 crores to be very specific in this quarter because Rs.33 crores has been paid in March and out of Rs.408 crores, Rs.83 crores is secured loans.
- Shravan Shah:** So out of Rs.408 crores, we will be reducing by Rs.83 crores?
- Harendra Singh:** Yes and during the current year the repayment of the installment it would be Rs.80 crores.
- Shravan Shah:** Even end of FY'19 the debt level would remain around Rs.300 crores?
- Harendra Singh:** No, it would be much lower than that because the working capital which is at Rs.92-93 crores as of now, would be Rs.100 crores and then apart from that after the repayment of the installment which would be due in this current year, it would be coming at about Rs.200-225 crores.
- Shravan Shah:** Despite there is 25%, 30% top line growth, it would be around Rs.200 crores levels?
- Harendra Singh:** Yes, because for the CAPEX addition, we would not be requiring any further debt to be raised.
- Moderator:** Thank you. We will take the next question from the line of Alok Deora from IIFL. Please go ahead.
- Alok Deora:** Just a couple of questions; one is what is our order inflow target for FY'19?
- Harendra Singh:** As I already explained that the target will be about Rs.3500-4000 crores of new orders during this year.
- Alok Deora:** Sir, just wanted to understand now we are done with the IPO and qualification criteria has also increased, so now we would be looking to bid for these IRB and private contracts or we would be directly only going for NHAI or MORTH orders?
- Harendra Singh:** Surely, for the big size orders which we are qualified with, we would be targeting to bid as a prime contractor go to NHAI or Ministry as well as we are very choosy doing work for the subcontractor for Tata projects or IRB, for IRB the third project which we are running, we would be quite keen to work with them, if environment is quite conducive and profit margins are good.
- Alok Deora:** I am asking because if they are giving the project, then they might also be keeping some margin and so the margin which we will be able to get from these private projects would be slightly lower than what we might get from NHAI or MORTH and now that we are qualified to bid for those projects of higher value, what we are seeing in other companies that they have graduated towards taking only direct projects, so just wanted your strategy on that?

Harendra Singh: It is not that we were not choosy about that, but the margins need to be intact. Say as EPC contractor giving the subcontract any of the contracts margin would be kind of sharing. But if you are talking like the concessionaire like IRB and Tata, they are giving the projects on the EPC mode only, so there margins are quite okay.

Alok Deora: So we will continue to have around in the sort of mix of 20, 25%?

Harendra Singh: We are quite okay if the margins are good and the rates what we are looking at.

Moderator: Thank you We will take the next question from the line of Kunal Bhandari from HDFC Securities. Please go ahead.

Kunal Bhandari: Can you just specify what the land acquisition status is in your Haryana, HAM project?

Harendra Singh: 57% of the land as of now substantially is available because it is already existing four lane project and that is to be widened to six lane pattern, remaining CD has been already done and anticipation is that by September end they would be handing over the entire land.

Kunal Bhandari: On your airport runway that you are targeting, have you started bidding for those or how are you looking at that segment?

Harendra Singh: As of now we have not bided for any of the airport project, but we are going ahead because some kind of credentials and experience is required, so we are looking ahead that we would be bidding for airport project as well, the runways development need to be done.

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

Viral Shah: Sir, basically a couple of questions and clarifications. The order book is net of GST, right?

Harendra Singh: This is net of GST now.

Viral Shah: Could you elaborate on the bid pipeline or order inflow because this is the first year when we are looking at around Rs.3500-4000 crores of order inflow per se and which is necessary to sustain growth forward as well, so could you elaborate more on what will be the strategy of getting projects – are we in talks with private players who have bided projects in the month of Feb and March or there is a visibility of orders coming from that end or you rightly said that there is a bid pipeline as well?

Harendra Singh: The orders which we are looking is that another addition of Rs.3500-4000 crores during the year would be because you could see, the various orders which could not be concluded by NHAI or ministry in the last financial year in February or March, they have all extended for this quarter just because we have the land acquisition as per the contract, 80% or 90% of the land was not available, so the government has a clear focus, they will not call for the tender as

well unless and until the land is not aligned with their contract requirements. So we are looking for many projects which we are already looking at, they are in the pipeline to be bided and apart from that we have already bided for 1500 crores projects which we expect in the period of 15-days the results will be open. Also, the government is again not having the yearly target, they are not focusing on the quarterly target because of the election year, they are coming with the first quarter target and second and third quarter, that way it is 2500 Kms per quarter, second quarter again 4000 Kms and then third about 6000 Kms. So it is clearly sense that we would be having a fair chance of bidding and having this kind of new orders in our kitty.

Viral Shah: Apart from that, are we in talks with any private players for getting some orders?

Harendra Singh: Yes, we have a few tie-ups with IRB and Tata for many of the projects which they have bided and if everything is good, then we will be taking those projects as well.

Viral Shah: Mumbai, Nagpur for bidding, so would you be interested?

Harendra Singh: No.

Moderator: Thank you. We will take the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: My question relates more to working capital. What we see that in your debtors' days if I compare even on the fourth quarter number, it has come to 76-days whereas in the last year it was 43-days. So was there any specific reason for increase in this number?

Harendra Singh: You please go through that, the last quarter number is Rs.503 crores that we have executed in the last quarter and if you see the debtors, it is coming at almost 45-days and if you see the inventory, it is Rs.106 crores and if you look at the inventory with the run rate what we have done in the last three months it would be more or like 15-days.

Sunil Jain: Debtors is around Rs.429 crores?

Harendra Singh: No, this is all inclusive, because of the IND AS, there is new accounting standard, here you will find that retention money which is receivable from the client is already included in this, it is almost Rs.157 crores, big difference is there.

Sunil Jain: In this other financial assets, that has also increased from Rs.29 crores to Rs.203 crores, so...?

Harendra Singh: The unbilled revenue which you could see. The GST majorly government has now given a clear guideline in the last quarter only that how the GST would be paid to the contract which are covered in the change in law, so this is one. Other few things are there where the variations and change of scope and where the project cost has been financed because of that. So in-principle approval is being received and the financial approval usually takes a longer course of action, it is because of that only.