

November 11, 2020

To The Secretary, Listing Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 Maharashtra, India Scrip Code: 532767	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 Scrip Code: GAYAPROJ
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Dear Sir(s), Madam(s),

Sub: Q2FY21 Earnings Conference Call

With reference to our letter dated November 07, 2020, please find enclosed **transcript for Q2FY21 Earnings Conference Call held on November 09, 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 for. Sharma

Chetan Kumar Sharma
Company Secretary &
Compliance Officer



Encl: As Above

Transcript

Q2FY21 Conference Call of Gayatri Projects Limited

Event Date / Time : **9th November 2020, 11 AM IST**

Event Duration : **25 min 25 sec**

Presentation Session

Moderator: Good morning ladies and gentlemen, I am Moumita, moderator for the conference call. Welcome to Gayatri Projects Limited 2QFY21 earnings conference call hosted by Go India Advisors. At this moment, all participant lines are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Ankit Toshniwal. Over to you sir.

Ankit Toshniwal: Thank you. Good afternoon everybody and welcome to Gayatri Projects Limited earnings call to discuss the Q2FY21 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 risks that the company faces. May I know 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: Thank you Ankit. Ladies and gentlemen, thank you for taking out time to join us for our Q2FY21 earnings call. We have uploaded our earnings presentation on the exchange and company website. I hope you have been able to view the same.

I will now quickly touch up on the operational and financial performance. The pace of execution has increased materially across most of the sites and we are registering a revenue growth of 14% on year-on-year basis. EBITDA margins are lower than guided as we are still operating in suboptimal level on account of shortage of labour and raw material. Going forward, EBITDA margin should improve and increase the level of execution. Currently, we are well mobilized on site to execute annual turnover in excess of 5000 crores.

Interest cost continues to stay high due to Covid related cash flow constraints and slight delays in realization against arbitral awards through the bank guarantee route.

The working capital increased due to aggressive pace of work on a few sites and payment delays from certain state governments. We continue to maintain our focus on our Asset Light Business Model and have a pure-play EPC order book of 120 billion plus. Our book-to-bill of 3.7 times gives us a high growth visibility for the next three to four years. We have noticed high level of competitive bidding on road projects and

hence going slow there as road increasing continues to be our biggest segment and constitute over 60% of the orderbook.

We, at this point, are focusing more on water works and expect significant new orders over the next few months. In Q2 also we won one water works, 196 crores in the water works segment.

Deleveraging and balance sheet strengthening continues to remain key strategy priority. Over the next six months, we expect the cash inflow of almost 4 to 6 billion, which will fully go towards debt reduction. We are in advanced stage of monetizing arbitration award via bank guarantee route and expect a sum of 2 billion shortly.

On the project execution front, execution has picked up on most of our sites and almost all are on schedule after adjusting for Covid-related delay. Purvanchal expressway is slightly ahead of schedule after adjusting for Covid-related delays. Irrigation project in Telangana has picked up pace and the company expects to finish execution over next 3-4 quarters. Going forward, we expect execution to significantly pickup 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 a minimum of 14%-15% and will aim for order inflow of 30 to 40 billion.

With this, I will open the floor for questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 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 * and 1 again. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

Sir, our first question comes from Mr. Anil Sharma from AB Capital. Please go ahead sir.

Anil Sharma: Yeah, hi, good morning sir. Thanks for the opportunity; just a couple of questions from my side sir. I wanted to understand that you have mentioned in the presentation as well as in your opening remarks that you are close to getting 220 crores from arbitration awards via bank guarantee route, right? So, how long would you expect this to receive and what are the targets for this current financial year.

Sandeep Reddy: It is actually in the advanced stage. In fact, the whole process, I think we are expecting may be in the next few weeks.

Anil Sharma: In the next few weeks itself.

Sandeep Reddy: All the process, as I told you, the process of bank guarantee has already been submitted, and we have an SOP by Niti Aayog, which we are entering into a SOP with the government and all that has been done, it is in the process now. I think funds have been released. It is a little slow because...Northeast... because of Covid, half the time people don't work, or they will not be able to come to office. So, it is taking lot of time. Also, this 210 crores is coming from Nagaland government, basically funded by Morth, so because of that extra move, it is taking a little longer than expected.

Anil Sharma: Okay and sir, you mentioned in your opening remarks, that you will be focusing a bit more on the water works. So here, what project size are you...you can bid over there and if you compare it to the road project, what sort of margins are we looking over there?

Sandeep Reddy: Similar margins only. We are looking at...we have already won two waterworks projects about 150 and 190 crores, and we are expecting a few more in the pipeline. There are a number of water projects coming up in UP and Madhya Pradesh, and various states. Some of these are water supply to villages and the entire thing. So, we find that area is now more lucrative sometimes than just pure EPC role where the competition has been severe in the last 12 months. And in fact, as a strategy, we also are waiting, resources are already tied up in road, all our equipment and manpower. So, we probably will also be more aggressive in bidding another couple of quarters as far as roads are concerned. We are looking at a mixed bag of orders, one is water projects, irrigation projects also we are bidding in, there are some irrigation projects coming up in Uttar Pradesh, in Karnataka, and all that. So, this is a general thing.

Anil Sharma: So, would this incur additional capex on equipment as well?

Sandeep Reddy: No, in fact, water is actually very much low capital intensive actually...most of the water projects involve more of supply of material than capex. In fact, roads are the most capital intensive sector, that's why we are actually looking at a capital allocation that we don't want to...already 60% of our order book is road, so we would like to maintain that only. We don't want to go more than that or even reduce it a little more in the future.

Anil Sharma: Okay sir. I will get back in the queue for further questions. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our next question comes from Mr. Rachit Kamat from Anand Rathi. Please go ahead sir.

Rachit Kamat: Yeah sir, thank you for taking my question. My first question pertains to....you know this quarter we have done some pretty nice revenues; we are almost back on track to normalcy. So, what kind of a labour...

Sandeep Reddy: Can you repeat, I can't understand what you are saying. Your voice is not very audible.

Rachit Kamat: Okay. Sir, I just wanted to understand what sort of labour efficiency did we have in Q2?

Sandeep Reddy: What sort of?

Rachit Kamat: Labour efficiency, labour availability at our work sites did we have in Q2?

Sandeep Reddy: Now they are slowly coming back up. Actually, the labour availability has now reached to nearly 80% of our requirement, 70%-80%. Also this

year, if you see the Q2, has also been effective even though after a lockdown, lot of monsoon has been very, very severe, as you know, all over the country. In fact, monsoon has continued...even in the month of October there were lot of rains in most of the parts of the country. For example, Orissa where a major part of our order book is. So, there was lot of monsoon. So, that also affected the thing. But, now I think, from H2 onwards, the labour would come back to normalcy.

Rachit Kamat: Okay, H2, hopefully by November or December we will have our labour back in place?

Sandeep Reddy: Yeah.

Rachit Kamat: Sure sir. And can you just give us what is the debt right now, gross debt and net debt?

Sandeep Reddy: Net debt is 2000 crores. That will go down by another 220 in next 10-15 days.

Rachit Kamat: Okay, so net debt is around 2000 crores and it will go down by 200 crores. I just wanted to understand that our net debt position last quarter was somewhere around 1900 crores, and now it is up to almost 2000 crores, and incremental revenues...

Sandeep Reddy: Sorry, come again?

Rachit Kamat: Yeah, so basically, our net debt in quarter one end was somewhere around 1740 crores and now you are saying it is somewhere around 2000 crores, and the incremental revenues that you have given quarter-on-quarter is also somewhere in that range. So, just wanted to understand, can you give some light as to what has happened?

Sandeep Reddy: No, this Covid six months moratorium we have availed, so that's why debt has gone up by about 100 crores.

Rachit Kamat: Okay, so you have received the interest being capitalized into debt, is that what you are saying?

Sandeep Reddy: Yes, and Covid-related working capital we have taken extra 50 crores.

Rachit Kamat: Okay, sure. Okay thanks sir. If I have any questions I will get back in queue.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our next question comes from Alaya Patel from Value Investments. Please go ahead.

Alaya Patel: Hello?

Sandeep Reddy: Yes.

Alaya Patel: Thank you for the opportunity. Sir, when do you expect the interest rate and the cost of debts to come down?

Sandeep Reddy: Interest rates, we are expecting probably from the Q4 of this year. In fact, we have been working with our banks to reduce the interest rates. A few banks have come forward; we have received sanctions from few other bankers to reduce the interest rates to around 10% and 10-1/2%.

Alaya Patel: Okay, thank you sir. And what are your current bidding pipelines in roads and waterworks, which you are focusing on? And have you participated in any bids?

Sandeep Reddy: Yeah, yeah, in water, we have participated in number of bids actually. In at least about 5000 or 10000 crores of bids are in the pipeline in water. And roads, there are number of EPC bids coming, in fact, we have been...last seven months we have been submitting a number of EPC bids, but we have been unsuccessful. But going forward, also we still have some 7000-8000 crores of EPC bids in the pipeline.

Alaya Patel: Okay, thank you sir. And sir, can you give me an update on the Purvanchal Expressway completion?

Sandeep Reddy: Purvanchal Expressway, in fact, our completion date, it is a 36-months contract. Actual...our scheduled date of completion is October-December 2021, but we are hoping to complete six months ahead of schedule actually, and as of now, the project is on track actually to complete six months ahead.

Alaya Patel: Okay sir, thank you. I will get back in queue for any further questions.

Moderator: Thank you. Sir, our next question comes from Mr. Ashish Kumar from Infinity Alternatives. Please go ahead sir.

Ashish Kumar: Hi Sandeep, good to hear that you are finally back...all the operations are finally back on track. Couple of things, one is the interest cost. What should be a number that we should pencil in, let's say from Q4 or Q1 by the time you get all of these things sorted out, the recurring interest cost?

Sandeep Reddy: About 10-1/2%.

Ashish Kumar: So, let's say on net debt of 1500 crores?

Sandeep Reddy: 1700 crores.

Ashish Kumar: 1700 crores. So, maybe a 200 crore annual interest cost is what we can budget in.

Sandeep Reddy: Yeah, correct.

Ashish Kumar: Okay. And in terms of the...

Sandeep Reddy: Interest cost whatever we mentioned in the balance sheet, includes also the cost of non-fund based commissions and all those also, so all those

are added into that. In fact, the banker wants to increase the commissions, earlier we used to pay only 0.6%, now it is 1.25%. So, that is also one of the reasons why our finance cost has gone up, like, during the last three, four quarters.

Ashish Kumar: Okay. How much would that number be around? Or that's not going to change.

Sandeep Reddy: Outstanding about maybe 4000 crores, on that 0.7%, 0.8% increase.

Ashish Kumar: Okay, so maybe 250 crores will the run rate cost of finance cost going forward.

Sandeep Reddy: Yeah, correct.

Ashish Kumar: 50 crores for bank guarantee and 200 crores for interest. Okay. And in terms of the bidding pipeline, do you expect decisions to be done over the next quarter or do you think it will take longer?

Sandeep Reddy: Decisions are quite fast, NHAI is I think very fast. The problem with NHAI is that most of the bids are coming for HAM, somehow people have been bidding for HAM; but as you know our idea is not to bid for any HAM projects. But, I think, NHAI, what we came to know is major bidding pipeline will be in the fourth quarter, because they want to bid out most of the projects before March. So that next year would be, I think, where they would actually concentrate on execution. So, right now, we still have a few...number of projects keep coming every week, so NHAI is...and the bidding pipeline continues. Every month we are submitting about four or five bids of about 3000-4000 crores of bids actually.

Ashish Kumar: Okay. So you are reasonably confident of hitting your order book by your order guidance for the year.

Sandeep Reddy: Yeah.

Ashish Kumar: Or you see a risk on that?

Sandeep Reddy: Not at all. We are quite confident of achieving that 3000 to 4000 crores this year.

Ashish Kumar: Yeah. And in terms of the execution for the next six-nine months till the next monsoon, do you see any concerns in terms of working capital?

Sandeep Reddy: No, we don't see any concerns. In fact, the other reason, the execution was down also was...that compared to optimally...because of the lack of funding from state governments. So, those have also started to come now. In fact, if you noticed, now nearly 1/3rd of our order is from state government, AP, Karnataka, and Telangana. So, there the funding has been very, very constrained, due to which our execution pace also...not as per optimal. If they pay more advance on time, we could even do faster work.

Ashish Kumar: Right. But you don't see that as a constraint, non-execution.

Sandeep Reddy: But they have started now giving. For example, Telangana they have tied up with NABARD and NABARD funding is coming now for the project. See, earlier, the states could rely on their budget, which was completely stretched, because their budgets have gone completely topsy-turvy because of the Covid situation. Now many states have started raising funds through NABARD and other banks and all that.

Ashish Kumar: Alright. So, will it be safe to assume that 400 crores revenue run rate till the monsoons you can assume on 300.

Sandeep Reddy: Yes.

Ashish Kumar: Okay, thanks sir. Thanks and wish you all the best.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, the next question comes from Mr. Alok Deora from Yes Securities. Please go ahead sir.

Alok Deora: Good morning sir; just a couple of questions. One, I wanted to know what's the order inflow we have reduced during the first half of this year?

Sandeep Reddy: We received only about...first half...I think about 150 crores and the second quarter we got about 200 crores of water, 350 and another small mining project about 33 crores. So, order inflow this year has been quite poor for us. But as I told you, our strategy has been to consolidate our existing orders, so we are not really running behind orders now, because we have...our orderbook of 12000 crores has to be completed in the next two, two-and-a-half years, which itself is quite big target for us.

Alok Deora: Yeah, but actually sir, so I was coming from the point that we have seen most of the companies or actually some of the companies actually are seeing orders, which are as high as their full-year target. Because there has been a...in fact NHAH has given more orders, more projects that they had given in the same period last year.

Sandeep Reddy: I know, most of them are HAM no? We are not bidding the HAM. Whatever NHAH has sold, 70% are HAM projects, which NHAH has bid out actually.

Alok Deora: Yeah, actually, so that's what, actually in the first half they have given more of EPC and in the second half, as per what discussion we had with them, in the second half it would be driven by HAM. So, in the second half, if it is driven by HAM, then how are we going to...just wanted to understand that how much we are going to hold on to the 4000 crores order in hand.

Sandeep Reddy: I told you that we are also concentrating on irrigation and water also. So, we are going to achieve the 4000 crores including irrigation and water.

Alok Deora: Okay and just one more thing. So, half year sort of degrown by around 13% or so, and we have given a guidance of...

Sandeep Reddy: What?

Alok Deora: Revenue degrowth of around 13 odd percent in the first half and we have given a guidance of around 4% to 5% for full-year revenue, so how confident are we on achieving that?

Sandeep Reddy: Sir, we are confident, because as I told you, the first half, we had degrowth only because of Covid. In the month of April and May because of lockdown, till mid-June actually nothing happened. So the Covid-related lockdown which affected the sales, and also this year half-yearly, the monsoon also has been much more severe than normal, so both these things have actually affected...I think but now the second half we are confident of achieving. That's why I told you, see normally, our guidance have always been overworked 13%, 15%, 20% growth over last year, this year we would have achieved, but because of Covid, we have come back to the normal level actually.

Alok Deora: Sure and just one last question. In terms of the revenue mix, what would be the revenue mix for going forward, I mean, how much irrigation and water projects you are looking to take. Because even if we look at the segmental diversification, it is around 65% is road and 29% is irrigation, so going forward where are we seeing these numbers moving...?

Sandeep Reddy: I think, probably we are looking at maybe, as I told you, out of 4000, maybe 3000 would be irrigation and water, and road would only be a 1000, is what we are internally targeting. So, then the segment may come down slowly to maybe less than 65% road will come down and water and irrigation will increase to 35%.

Alok Deora: Actually just one last thing. Actually, in water we are seeing whereas the project size is typically they are big projects, which come but there is a...but the receivables are typically very high in that. So, generally as a contractor, what we have seen is, they sort of factor in a higher margin to sort of compensate little bit of that. Have we factored that or...

Sandeep Reddy: Sorry, for water projects?

Alok Deora: For water projects, the receivables are typically higher, so have we factored the higher margins for compensating for that or how is it?

Sandeep Reddy: See, traditionally, water projects are...receivables are higher because of the...see there are two types of water projects. If they are irrigation projects, definitely receivables are higher because it is all state government oriented. So, there the margins are taking account of the receivables. Coming to the water supply projects, basically, like the two orders, which we won, are from the UP government, which is funded by the central government based on the water level evaluation, the central government is funding that. So, we don't foresee much of receivables as far as the UP water projects are concerned.

Alok Deora: Sure sir. Thank you so much sir and all the best.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, the next question comes from Mr. Anil Sharma from AB Capital. Please go ahead sir.

Anil Sharma: Yeah, hi sir. Thanks for the opportunity again. Just wanting...you have witnessed delays in receivables, due to which working capital increased. So, just wanted to know the projects of the states where you are facing these kinds of delays.

Sandeep Reddy: Mainly delays are Andhra Pradesh, Telangana, and Karnataka.

Anil Sharma: Pardon, pardon, I didn't get that sir.

Sandeep Reddy: Andhra Pradesh, Telangana, and Karnataka.

Anil Sharma: Okay. And just last one thing. So, there is no delay in our debt repayment as of now, so just wanted to check, are we expecting any credit rating over there as well?

Sandeep Reddy: We are working with credit rating agencies to get an improvement. We are hoping that in a couple of quarters credit rating improvement will happen.

Anil Sharma: Okay sir, many thanks and all the best.

Moderator: Thank you sir. Now I would like to hand over the floor to Mr. Sandeep Reddy for closing comments.

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

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

Note:

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