



# RPP Infra Projects Ltd

Saturday, 1<sup>st</sup> September, 2018

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## Sub: Transcript of Conference Call with the Investors/Analysts

Dear Sir/Madam,

The Company had organized a conference call with the Investors/Analysts on 21<sup>st</sup> August, 2018 post declaration of the Audited Financial Results for the quarter year ended 30<sup>th</sup> June, 2018. A copy of Transcript of conference call held with the Investor/Analysts is enclosed.

Kindly note the above Information in your records.

Thanking you,

Yours Truly,

**For R.P.P Infra Projects Limited**

**A. NITHYA**

**Whole Time Director & CFO**

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# “R.P.P Infra Project Limited Q1 FY19 Earnings Conference Call”

**August 21, 2018**



**MANAGEMENT: MR. A. NITHYA – CFO & WHOLE TIME DIRECTOR,  
R.P.P INFRA PROJECTS LIMITED**

**MODERATOR: MS. SHEETAL KHANDUJA – GO INDIA ADVISORS**

**Moderator:** Good day, Ladies and Gentlemen and welcome to the Q1 FY19 Earnings Conference Call of R.P.P. Infra hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sheetal Khanduja from Go India Advisors. Thank you and over to you ma’am.

**Sheetal Khanduja:** This is Sheetal Khanduja from Go India Advisors. I welcome you all to R.P.P. Infra Earnings Concall. We have with us today Ms. A Nithya who is RPP CFO and Whole Time Director before I hand over to her a quick note. Some of the information on today call will be forward looking in nature and will be covered by the A safe harbor language on page two of the presentation. I will now hand over to Ms. A Nithya for her presentation. Over to you ma’am.

**A Nithya:** Ladies and gentlemen welcome to our Q1 FY19 Conference Call. I am sure you would have seen the results presentation. I will briefly cover some of the key highlights for this quarter.

On the operation side, a large portion of our ongoing projects are near completion which is the main reason for the decline in our topline during Q1. We, however, have continued to maintain strong EBITDA margin of over 13.5%. Profit growth has remained somewhat neutral the tax rate company enjoy so far tapered down. Interest cash have reduced the 18% on year-on-year basis keeping in line with our low to nil debt on book policy. We have continued the strong growth momentum from the last year and our order book now stands at INR 15 billion a growth of over 27% from the last quarter.

In Q1 FY19 itself we have seen all the imports of INR 5 billion from sectors like affordable housing, roads and buildings. Post Q1 FY19 we have won new order worth of INR 2 billion and expect to continue with this pace of order award. We continue to focus on geographical and segmental diversification in order to strength our order book. Accordingly, we have increased our presence in Maharashtra as well as won a new order in the affordable housing segment in Q1 FY19. Slide #11 we will give you a brief outline of the main business segment and their Q1 performance. We expect revenue recognition to accelerate from Q2 FY19 onwards as milestone payment for completed project flow into our book as well new project kick start construction. Our balance sheet continues to remain healthy with negligible net debt on the books and strong free cash flow generation.

Before I open the floor for question I would like to give you a brief outlook of the future. Given our focus on low tenure project we have a strong revenue visibility and hence we are confident of delivering a revenue growth of 30% plus our next two year with a sustainable EBITDA margin of over 13% our large captive equipment base ensure that we have low CAPEX of payment this year for FY19 our CAPEX is expected to be between INR 200 million to 250 million. The order inflow is expected to remain strong as we try to maintain our high order with success ratio of over 20%. We are committed to creating long sustainable

shareholder value through strong operating and financial performance and superior balance sheet trend.

With this I would like to open the floor for questions.

**Moderator:** We will now begin the question and answer session. The first question is from the line of Ashwin H from A&S Investments. Please go ahead.

**Ashwin H:** I would like to start on a few questions based on annual report we have really been studying your company recently please bear if I am asking very basic questions, so if I look at the interest on long-term borrowings that works out around 45% on our average outstanding long term borrowing am I reading this wrong because the outflow of interest FY2018 seems to have been long term borrowing somewhere close to 6 crore when your outstanding balance for the two years was 11 crore and 18 crore could you please explain that?

**A Nithya:** No actually we grouped all the interest whether it is a long-term interest or short term interest and the bank charges commission LC and BG commission LC charges everything has grouped under one head.

**Ashwin H:** I actually split the bank charges and bank guarantee even after that interest paid on term loan according to your annual report what is 6.45 crore in March 18 and interest paid on working capital loan was 7.18 crores, so if I take that 6 odd crore on a base of outstanding long term loans according to your balance sheet was around 11 crore in FY18 and in FY17 it was about 16 odd crores so on either of the basis the charge seems to be quite high so that is why I was bit perplexed?

**A Nithya:** No one term loan is from IOB which 13% interest and the remaining from 9% to 11% and the maximum it is 11% apart from IOB the other term loan interest is 11%.

**Ashwin H:** What is the usual interest on your working capital of short term borrowing?

**A Nithya:** Working capital or any short term it is 12.65% to 13%.

**Ashwin H:** Because if I just look at the interest outgo if I just club all borrowing because may be there is classification issues and if I just look at the interest rate right on long term and short term without bank charges on your bank guarantees it still comes to 18% maybe I could drop you an email separately and we could take this offline to understand I could probably share the figures which were I am reading this from.

**A Nithya:** Yes definitely you share a mail to us apart from the LC interest is also there it is also in the interest only. You drop a mail I will give a detailed explanation for that.

**Ashwin H:** The next question I had was really on your service tax and IT liability we saw a 17 crore charge coming come in last year and you still seem to have contingent liabilities of 10 crores

on service tax and 7 crores on IT, what is the visibility or confidence you have on that case would you able to throw some light on that?

**A Nithya:** In income tax did you check with income tax appraised website now it has not reduced nothing is there in the site and with regard to service tax everything we put a legal case against that since the project itself is exempted from service tax, but they grouped under service tax and they give a notice to pay that that is why it is coming but we are fighting for that. For the same task for example we are doing an infrastructure work for the Tamil Naidu government it is for a SEZ project for which previous three years they are saying that it is exempted from service tax from the next three years they are saying it is taxed dues there so we are fighting for that and already the case is filed it is under the probable.

**Ashwin H:** I do not know about the IT website thing so what is the nature of the order could you just talk a bit about it?

**A Nithya:** Actually, we are doing government jobs, we are undertaking only government projects. In each payment the TDS will be deducted by the department and for the TDS deduction done by the department we are filing the return, but if the government department fail to file their return it will not be reflected in 26AS in the government's website. So, as per the government whatever we reflected in 26AS they will consider if that is a shortfall in 26 AS it will be reflected as a due for us. It will be rectified we are continuously following that it will be rectified, but since it is a government department the rectification may take time.

**Ashwin H:** When you say time one or two quarters, or could it run into years now?

**A Nithya:** No it goes to years also they had corrected and updated up to 2016-2017, 2017-2018 definitely whatever we claimed will be completely different from whatever is shown in the 26 AS so it will be rectified within the end of this year.

**Ashwin H:** My final question for now is around pledging of shares and the link to your net debt I see at least as of March you had cash worth 92 crore and you had short term borrowing of long term which is less much less than that and it seems that your pledging shares to borrow working capital norm, could you just talk us through the logic behind that and when do you expect the pledging of shares to be reversed?

**A Nithya:** No I want to clear one thing that share have been pledged only to raise the working capital loan and from the bank I got around 52 crore in current scenario the bank are asking more security coverage, whatever we have is pledged for security coverage, for more comfort they are asking our share. Since it is for only working capital limit we have pledged. Cash at the end of 31st March which is showing in our balance sheet is that whatever the payment got on last day shown in that date. Apart from that the cash margin what we deposited in the bank for the banks guarantees and LCs which is also categorized under cash deposits around 48 crore is the margin amount.

- Ashwin H:** I guess I issued drop a mail to your investor relation for the first query?
- A Nithya:** Okay you do it.
- Moderator:** The next question is from the line of Prateek Vohra an Individual Investor. Please go ahead.
- Prateek Vohra:** Yes I had couple of questions which got answered.
- Moderator:** The next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.
- Nishna Biyani:** If you could just make us explain that from 2017-2018 the cash conversion cycle improvement what you have shown if you could just explain that part of it in terms of receivables days coming down and what really the company did for the cash conversion cycle to reduce?
- A Nithya:** If you check with the 2015-2016 is around 250 days and till that time our goal is to complete our project in time and they does not bother about the receivable. After 2015-2016 we realize that we have to give an equal concentration we have to concentrate more on working capital cycle also then only we can improve our topline and at the same way we can improve our bottom line also. So, from that time onwards we continuously concentrate on the receivables which has happened in 2016-2017. In 2016-2017 the scenario was most of work about 70% of our revenues from Tamil Naidu government the immediate death of Chief Minister and the new Chief Minister delay the payments and everything cleared on April 2017 but as of 31st March the receivable is quite high. It is not due to the fact that in 2017-2018 it just dramatically reduced the effort is taken starting from 2015-2016 onwards. The equal concentration is given on the payment receivable cycle also and apart from that the introduction of GST will also give a good impact in a receivable cycle once the bill is approved, the government department also realize that it will be reflected so they are also realizing the payment in time that maybe the reason and other reason is that we selected the project in such a way that the project with financial fund tie ups should be happened before selecting the project itself and the fund should be either a ADB fund or World Bank or NABARD or it should be from Central government. No state government funded project is taken that may be one of the reasons for low level of working capital cycle.
- Nishna Biyani:** For FY19 when we look at 30% kind of growth for FY19, FY20 if could highlight what is the working capital requirement for the same that is one and how do you intend to raise the funds?
- A Nithya:** Yes working capital we are not in an intention of raising the working capital limit as a fund base limit that we are in the process of increasing our non-fund base limits since we had taken the projects which fund tie up is already happened with ADB or World Bank or NABARD, so these World Bank and ADB are coming with a mobilization advance which is interest free so you if we have a sufficient non-fund base limit it is easy to complete the project in time with less interest cost. So, we are in the process of increasing the non-fund based limit. Once this non fund base limit is increased we can easily achieve the goal as per our projections.

- Nishna Biyani:** What is the non-fund base limits you are looking for FY19?
- A Nithya:** Currently we are having around 204 crore. We are in the process of increasing it by another 150 crores.
- Nishna Biyani:** And any capital raising plan in terms of QIP or some equity raising which you are looking in the current year?
- A Nithya:** Currently we do not have any plan of raising through QIP.
- Moderator:** The next question is from the line of Shraddha Bohra, an Individual Investor. Please go ahead.
- Shraddha Bohra:** I wanted to know in terms of geographical diversification what kind of new avenues are you targeting and also is there a plan to diversify further into the international market as you have done in Sri Lanka already?
- A Nithya:** Already we are in Sri Lanka and we had started one more project in Bangladesh with Siemens as our consortium member we started the project which is on the execution we can get more project in Sri Lanka and in Bangladesh since these two countries are under developed country and more project are coming up a good fund tie up also. So, we do not want to diverge more on international market apart from these two countries and regarding our India we already have diversified to Madhya Pradesh and now we entered into Maharashtra. For another two years there is lot of scope in these states so be there and once we establish strongly then we can look for next state.
- Shraddha Bohra:** One more question is if I take into consideration your FY19 guidance of 650 crore and you have already achieved about 100 crore in Q1 that would leave you with 550 crore for the next three quarter that is like a 30% growth rate kind of thing how will you achieve that what is the game plan?
- A Nithya:** If you look at the order book which is standing around 1500 crore as of 31st July and most of the order is from Infra sector which is a concrete road which is an EPC work all the ground work will be done for the first five months the establishment and the first milestone everything has started now and the revenue will be recognized after the milestone is completed only. So, it is very easy to whatever we have committed the 550 crore we can easily achieve that and all the projects which we got in the March quarter and June quarter is in the initial stage in the establishment state which will be started in full swing only in Q2 and Q3. So, the topline of 650 crore we can easily achieve.
- Moderator:** The next question is from the line of Ankit Toshniwal an Individual Investor. Please go ahead.
- Ankit Toshniwal:** The first question of my is within our different segments water management fetches highest margin while buildings have been at lowest margin so how we are going to change our revenue

mix will be increased share from the irrigation means what is going to be our revenue mix in coming quarters or years?

**A Nithya:** So, it is not possible to give the revenue mix for quarter wise but core strength is in water line since we had a very good experience and we are having a very good prequalification, we are able to bid the project where the competition is very less that is why we are able to get more rate on that. Going forward since the government is floating more project in affordable housing segment even though the profit margin is less we are always in the process of taking the projects in a mixed manner so that the payment cycle will not be disturbed and the person and staff and the labor who are all experienced in the particular sector will be employed in that particular sector. So, we continuously take projects in building sector also but our core strength and profit margin will be good in water line.

**Ankit Toshniwal:** Second question is in financial year 2019 we are going to incur CAPEX from 250 million, can you tell me for what purpose this CAPEX could be used?

**A Nithya:** Yes we had taken concrete road if our order books grows in pipeline normally, there will be 1% to 2% as equipment procurement will be there. If an order book grows in concrete road kind of thing and if it is in a different place, we may need extra CAPEX procurement also but since we got the road work in the same place which is around 500 crore for the road timely completion will need the CAPEX.

**Ankit Toshniwal:** So, this CAPEX would be sufficient for FY19?

**A Nithya:** Yes it is sufficient for FY19.

**Ankit Toshniwal:** Moving forward can you guide us what EBITDA margin we target again as you are telling 13% to 14% we are on the same or is there any scope of expansion?

**A Nithya:** No, we are not aggressively bidding so we are sure that we are able to maintain that 13% to 14.5% for the coming year also. We are trying to improve little bit also but the actual reality will be 13% to 14.5%.

**Ankit Toshniwal:** In terms of working capital can we see good improvement for it will be like kind of stable for now?

**A Nithya:** It will be 30 days to 90 days' time it is normal in the infra industry.

**Moderator:** The next question is from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

**Kunal Sheth:** I just wanted to know what was our working capital at the end of Q1 and where do we expect it to be at the end of FY19?

**A Nithya:** You are asking about the working capital limit or working capital cycle?

- Kunal Sheth:** What was the working capital days at the end of Q1?
- A Nithya:** At the end of Q1 it is something around 90 to 100 days.
- Kunal Sheth:** We expected the same at the end of Q4 also.
- Moderator:** The next question is from the line of Shraddha Vohra an Individual Investor. Please go ahead.
- Shraddha Vohra:** I wanted to know in terms of rural infrastructure who do you think would be a closest competitor and how do you think you will be able to differentiate yourself from the other local competition that we find in these states considering you deal with smaller projects?
- A Nithya:** No, the smaller project is from 5 crore to 50 crore there are more competition and more companies are there beyond that, number of players are very less and apart from that if we go beyond 150 crore to 250 crore the companies which undergoes CDR or negative growth, company is not able to participate in this project as per tender clause. So, the competition is very less and if there is any competitor and it will not be a listed entity it will be a local player and that too because of the bid capacity criteria. We are having a good topline, we are able to bid for more project with less competition while if we compare the same with a small players once they win a project they are not able to bid for the next project because of the bid capacity.
- Shraddha Vohra:** And also I was noticing that in terms of your order book growth you have seen a strong growth in Q1 at least as compared to last quarter almost 20 plus percent and do you think such kind of growth is sustainable in terms of FY19 where will maximum which sector will you maximum focus on?
- A Nithya:** Our focus is on pipeline and on roads wherever the government focus is there we should focus on that then only we can able to build up our order book also and wherever core strength is there we have to focus on that. Our core strength is in pipeline so there are lot of projects which are coming with water pipeline because of the scarcity of water also. So, we are having a good prequalification so we continuously we will bid for that project and we are having good scope in securing the project also.
- Moderator:** The next question is from the line of Prateek Vohra an Individual Investor. Please go ahead.
- Prateek Vohra:** So, my question was on the outstanding order book of 1500 crore and the guidance of this year revenue from 650 to 700 million but a Q1 we saw only 100 crore top line top line and Q2 is generally have a muted quarter given we are into infra and because of rains, so do we see a step up happening in H2 of this year like in second half of this financial year?
- A Nithya:** Yes, definitely my commitment is around 600 crores to 650 crores which is achievable since all the new work we got in June and last quarter March FY18 March quarter and FY19 first quarter so everything is in the starting stage. I had given detail explanation in my introduction

itself for this. Since everything is in the initial stage and whatever the work which previously executed or in the final stage. So, because of this reason that is declined in the first quarter?

**Prateek Vohra:** Going forward I mean how much impact do we see because of Kerala flood and torrential rains this year?

**A Nithya:** Whatever the project we are executing in Karnataka and in Kerala that is more effect on that there may be decline in this Q2 also but in Q3 and Q4 the monsoon will be very positive in Karnataka and Kerala, definitely we will achieve whatever we lost in Q1 and Q2 we have to catch it up in Q3 and Q4?

**Shraddha Vohra:** Given this good sizable growth in revenue which we are expecting in this year what is the working capital of short term borrowing which we are looking at by the end of this year?

**A Nithya:** For working capital the enhancement is around 5 crore to 10 crore only from that we are looking for a non-fund base limit from the banks and it is around 150 crore we are expecting from the banks. Once the non fund base limit is there we are eligible to get a low interest or maybe the interest free mobilization advance from the department by that day the working capital can be managed.

**Shraddha Vohra:** So, FY18 the closing short term debt was around 65 odd crores so by FY19 end what possibly could be that number because going forward we are looking at good revenues.

**A Nithya:** I understood maybe increase by another 5 to 10 crore.

**Moderator:** The next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.

**Umesh Patel:** Couple of questions I wanted to know because as you mentioned earlier in your earlier remark regarding this the flood impact in Karnataka and Kerala what is this out of this 1500 total order book size, what propulsion of order book is contributed by this two states and how many projects as of now is contributing to our overall revenue and what is the ticket size?

**A Nithya:** In 1500 order book around 150 crore is from Kerala and in that 150 crore one is old project which is in Thrissur which is going on since the Thrissur is one of the district which is not affected by the rain and other three projects is modernization of school which we got in Q1 which is in the initial stage we are not able to take any initial establishment as of now, for the two days there is no rain and the red alert has also withdrawn so maybe we are expecting to establish by next week onwards.

**Umesh Patel:** Yes so what is the ticket size of this modernization of pool?

**A Nithya:** 115 crore it is.

- Umesh Patel:** 115 and the remaining 35 is ongoing as of now.
- A Nithya:** It a project from Sumitomo building of cable trench so it is going, not going in full swing but it is not disturbed as much.
- Umesh Patel:** What about Karnataka the total order book size?
- A Nithya:** In Karnataka the irrigation project is totally stopped and rest of the project is like affordable housing it is going and since it is not in the initial stage it is already completed the first four and going not in the full swing.
- Umesh Patel:** How much of the order book of Karnataka?
- A Nithya:** It is again around 180 crore in four projects.
- Umesh Patel:** Four projects so out of which affordable housing has not impacted it is going on and the irrigation project?
- A Nithya:** Only the irrigation projects are 40 crore is affected. We are not able to start it.
- Umesh Patel:** So, total 115 of Kerala and 40 so 165 crore is at now is risk which might take one or two quarters to start?
- A Nithya:** Not one or two quarters, it will be started by since everywhere the rain is stopped we can start it full swing by September.
- Umesh Patel:** In quarter two there would be muted quarter two because of this reason right?
- A Nithya:** Yes definitely.
- Umesh Patel:** And as you mentioned that 600 to 650 crore is the revenue that you are expecting then in that case what would be the margins that you are expecting for the full year FY19?
- A Nithya:** The EBITDA margin will be around 13% to 14%.
- Umesh Patel:** Recently the prices of raw material particularly the cement and all has gone up steel prices, cement prices everything so do not you think that even if we will be able to achieve 600 to 650 crore of revenue it will restrict the EBITDA margin expansion for at least this year still we will not be able to pass it on?
- A Nithya:** As all of us know that the major material related to all the civil project is steel and cement almost in all my contracts the escalation clause is there.
- Umesh Patel:** So what is the price escalation clause in the fixed contract?

- A. Nithya:** So, price escalation clause is there so we are able to operate that.
- Umesh Patel:** So, (+/-5%) is eligible.
- A Nithya:** Yes plus 5% we are eligible to do that.
- Moderator:** The next question is from the line of Ashwin H from A&S Investments. Please go ahead.
- Ashwin H:** Could you talk a bit I got disconnected in between so I do not know if you covered this already could you talk a bit about the order environment which is expected in a next three to four quarters especially in light of potential election what kind of order environment or order flow environment do you see?
- A Nithya :** Definitely because of this 2019 election this Central Government was in the move of releasing more orders in roads. We do not want to go back behind the orders in different states. We are able to get more orders in the states where we are currently operating itself. Since we are already established there the establishment cost will also be reduced, more and more projects are coming in road sector and then pipeline sector apart from that more projects are coming in affordable housing sector also and if we consider what the project we got in the last quarter from Maharashtra it is a concrete road the same kind of package starting from 150 to 300 more packages like 3000 to 4000 crore worth of order is going to be floated by next one month of time in the same place. So, we are intention of taking it also. Apart from that since the central government is giving more fund to the state government every state government wants to utilize that central government fund they are also floating more job. So, it is a good time to grab as much opportunities as we can.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Sheetal Khanduja for closing comments.
- Sheetal Khanduja:** Thank you so much ladies and gentlemen for joining us. In case you have any pending queries you may contact us at Go India you can find out on the last page of the presentation. I will now hand over to Ms. Nithya for her closing remarks. Thank you and over to you all.
- A Nithya:** Thank you all for any queries please contact Go India or my emailID is there you can contact us also. Thank you so much.
- Moderator:** On behalf of Go India Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.