

Transcript

**“Kridhan Infra Limited
Q3FY15 Results Conference Call”**



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Presentation Session

MANAGEMENT: **MR. ANIL AGARWAL – MANAGING DIRECTOR**
MR. ARNAB GHOSH – CFO

MODERATOR: **MR. VIRAL SHAH – ANALYST - SBICAP SECURITIES LTD**

Moderator Ladies and gentlemen, good day and welcome to Kridhan Infra Q3 FY15 9 months Results Conference Call. As a reminder all participant lines will be in 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Viral Shah of SBICAP Securities Limited. Thank you and over to you sir.

Viral Shah Thank you Vikram. Good evening everyone. I welcome all the participants to the 3Q and 9 months FY15 results post earnings call of Kridhan Infra. We have with us Mr. Anil Agarwal – Managing Director of the company and Arnab Ghosh – CFO of the company. We would commence the call with the opening remarks from Mr. Anil Agarwal to give an overview on the company’s performance. This would be followed by Q&A. I would now request Mr. Anil Agarwal to begin with the opening remarks.

Anil Agarwal Thank you Viral. Good evening everyone. I thank you all for joining us on the call. Before we start on the quarterly financial performance I would like to give you a brief overview of the company. Kridhan Infra as you all know started its operations in India in the field of readymade steel and related services. We pioneered this concept in India and expanded offering more value added specialized services in the segment. Over a period of time we entered the area of foundation engineering and geotechnical services as well. Because of our acquisition of KH Foges in Singapore which is one of the leading players in Singapore in 2011 today we have emerged as the second largest foundation engineering company in Singapore, growing double digits year on year over the last 3 years. We could expand our presence across geographies reaching Myanmar, Malaysia and other South Asian countries. Last year we forayed into India and we won our maiden order of Rs. 42 crores for a steel complex in Maharashtra. Today our major revenues and order books come from Singapore. Though India is very-very important to us and I am confident that with our technological expertise and capabilities that we

have achieved in Singapore along with the huge opportunity that we see in India over the coming years India should be able to contribute significantly to our growing revenues and order book. Now moving onto our results, let me do a brief summary of our financial performance for the quarter and then take your questions. Starting with the quarterly performance, the revenues were at Rs. 128 crores as against Rs. 175 crores for the corresponding previous year. This decline is largely due to loss on account of the currency depreciation. 90% of revenue comes from Singapore and we know how rupee has appreciated over Singapore Dollar so this is primarily due to that. Also as we keep saying that we do not chase top lines and we always carry a 70-30 model of rental versus own machines. So we have taken a conscious decision to reduce the dependence on outsourced equipments and focus more on our own equipment bank. 88% of the total income was from the foundation and engineering business and 12% from steel product businesses. The EBITDA was around Rs. 29 crores as against Rs. 17 crores, a year on year growth of 78%. The PAT was at Rs. 11 crores as against Rs. 8 crores, a year on year increase of 35%. In 9 months enter December 31st, 2014 the total income was at Rs. 476 crores as against Rs. 492 crores for the corresponding previous period. Approximately 90-93% of the total income was from foundation and engineering business and 7% from our steel vertical wherein we offer mechanical splicing and other readymade steel solutions. EBITDA for the 9 months stood at Rs. 49 crores and EBITDA margin is at 11%. PAT was at Rs. 24.7 crores for the 9 months ended December 2014 with a PAT margin of 50%. Our order book stands strong at Rs. 647 crores out of which 3/4th of the order book comes from Singapore and balance is from India split between two of the verticals that we function in. During the quarter we had an order intake of Rs. 352 crores. 90% of this comes from foundation engineering business and 8% came from steel related solutions. In terms of split between geographies 80% was from Singapore and India contributed to 20% of the order book. Going forward we expect this pie to change with increasing contribution from India as we expand and gain orders in the Indian piling business. We are in the process of expanding our team in India and hired one of the best talents in Indian piling industry. Mr. Havaladar has recently joined us as president of our foundation engineering business in India. He carries with him rich experience of over four decades wherein he was in-charge of the piling vertical at ITD Cementation in the last two decades or plus. And he is the guy who is instrumental in growing the foundation engineering business of ITD Cementation in the last 15-20 years. Mr. Bala Narsimhan also joined us as General Manager and he will be handling our southern region. Prior to that he has worked with ITD Cementation since 1994 heading their operations in southern region and as we all know in India you need to grow in geographies not only concentrating on Western India and Southern India. At Singapore front also we have hired Mr Siang Thong Yeo as our CEO for the subsidiary of KH Foges. He carries with him 20 other experience in the construction industry and has led a large construction group in Singapore as a Managing Director of its construction division. To summarize and reflect India is an important market for us for both our businesses. Our focus is to expand in India in the next couple of years and expect India to be a sizeable market the way Singapore is today. We continue to grow in other markets as well by about 15-20% as we have now reached a scale but in India we shall grow at least 30% to 40% looking at the opportunity that infrastructure sector is providing in the country. I think that should be all. Thank you so much and we can now take questions Viral.

- Moderator** Thank you sir. Ladies & gentlemen we will now begin with the question and answer session. We have our first question from the line of Prabhat Anant Raman from Nirmal Bang Securities, please go ahead.
- Prabhat Anant Raman** My first question is like on the business side in foundation engineering business do you do project management consultancy work or you also provide labor?
- Anil Agarwal** We are specialized contractors. We manage the project along with labor and raw material.
- Prabhat Anant Raman** Okay and when you mentioned the 70-30 rental and owned machines, so you do have machines on your books

- Anil Agarwal** What we do we own machines, we have a fleet of around 80 over rigs which is helping us to do foundation job but as we are concentrating in our growth and we all know that it is a heavy capital business so we have owned machines worth 70% of the total orders that we execute and 30% at any given point of time is rented. So whenever we see lesser margins we try to to use our own machines.
- Prabhat Anant Raman** Okay, so this quarter you must have seen some few lesser rented machines?
- Anil Agarwal** Yes, if you see average we pay around Rs. 40 crores of rental a year. This quarter we will see less of rental. Singapore market was on a little consolidation. We reduced the rental machines and used only our machines thereby increasing our margins.
- Prabhat Anant Raman** Okay, so that was what was reflected in the operating cost as a percentage of sales?
- Anil Agarwal** Yes.
- Prabhat Anant Raman** So this quarter can I know how much was the rental?
- Anil Agarwal** This quarter I do not have the detail right now but I can send it across to you.
- Prabhat Anant Raman** Okay. Another thing our operating costs and our margins have been very fluctuating despite a good top line growth. So what kind of stable margins can we expect?
- Anil Agarwal** We normally work on a gross margin of around 14, so EBITDA margins of around 11% to 12% will be a stable margin. The PAT margin in the range of 5% to 6% if you see every year because on a quarter to quarter basis sometimes since we are in the construction field there is a curve. So sometimes you are in the beginning of a project, sometime you are in the end of a project it would not be a true reflective of our overall margins but on a year on year basis it will reflect.
- Prabhat Anant Raman** Sir I just missed that number actually. What is the current order book size?
- Anil Agarwal** Rs. 647 crores.
- Prabhat Anant Raman** And what is the distribution between foundation engineering and product and services?
- Anil Agarwal** Around 90% should be foundation engineering.
- Prabhat Anant Raman** And sir geographically?
- Anil Agarwal** Geographically 74% to 80% will be Singapore and 20% will be India.
- Prabhat Anant Raman** And sir any L1 orders or any bid pipeline that we are currently booking at?
- Anil Agarwal** So we are continuously in effort of taking orders. So I can say that orders that we have quoted for more than Rs. 400 crores we should be finalizing anytime.
- Prabhat Anant Raman** What is the average execution period?
- Anil Agarwal** 6 months to 9 months.
- Prabhat Anant Raman** And sir my final question would be who were the listed peer competitors that you find in the industry?
- Anil Agarwal** ITD cementation, Simplex, these are two major ones in India that you find as a competitor because rest have grown from a piling company to a complete EPC company.

Prabhat Anant Raman And sir this piling industry and you are #2 in Singapore what kind of markets average would be? If you can help me understand if they are very fragmented industry or the investor industry where you have lot of pricing power.

Anil Agarwal So as a percentage to understand how a foundation engineering business works around 7% to 8% of the total construction business is this foundation engineering depending on the soil conditions. So in Singapore we have around 7% to 8% of the market share and top 5 normally across the world dominate 40% to 50% of the market.

Prabhat Anant Raman In Singapore who is your competitor then?

Anil Agarwal There is a listed company called CSC Holdings and Ryobi Kiso.

Moderator We have our next question from the line of Atul Mehra from Motilal Oswal Securities Limited, please go ahead.

Atul Mehra Sir I have two questions. Just want to understand this business better, so having a look at the company for the first time so can you just broadly take me through in terms of what is the core proposition we bring to the table and where we are in terms of revolution of the services that we provide in India specifically because I think we are very much focused towards Singapore now, so what are the inflection point or what exactly is happening in India for our services to be more in demand going forward.

Anil Agarwal We bring in specialized foundation job. For a layman the taller the buildings are the larger the requirement of foundation work in it. So far India has been focused on G+4, G+7 kind of buildings except if you leave apart from Bombay, most of the buildings were not vertically taller. So the requirement of foundation job which is purely piling to one sense was limited. Now in the last few years our country has evolved to make vertical buildings. Now you go to Delhi you see a 100-storey building coming up. The tallest was 21-storey. And also on infrastructure side metros are coming up in almost every city possible. All such high infrastructure jobs of a metro or a taller vertical like a high-rise building would require a deeper structure to go below the ground to hold it. Basically the fundamental of foundation engineering is you balance out the load. Whatever load is above the ground you have to support below the ground. So we are seeing this business growing since the last 1-2 years drastically high in terms of order books. If you see our competitor's order book in terms of Simplex companies like them, the foundation business of their total order book has grown drastically in the last 1-2 years as a portion of their total order book, which gives us to believe that in India the requirement of foundation job has gone up drastically. So that is what you were asking to understand the size, right?

Atul Mehra Yes. So right now in India if you were to look at it how was it in terms of comparison environment in a sense with lot of construction guys already have it somewhat in-house within them or do they require a third party like you have to come in and look after the foundation?

Anil Agarwal See in India most of these construction companies they are doing almost everything possible because there were no specialized people to do the job. One year back most of these companies also used to own ready-mix concrete plants because there was no qualified player in the country. As and when these specialized players are coming in all these companies want to basically do the role of a project management company wherein the large part is offloaded to the specialized contractors like us. And I believe that is a trend that is happening. We are getting inquiries and mostly we get an order from a company like Larsen & Toubro also. So we become subcontractors to large infrastructure companies like Larsen & Toubro wherein they want the job to be done, completed by specialized people like us. Coming to our specialty since we are the second largest in Singapore and Singapore foundation business is quite evolved. We are at least 10 to 15 years ahead of India in terms of the capabilities that we have. So here if we talk about pile foundation about 1200 mm diameter piling I think there is only

one or two companies who may have done sometime whereas in Singapore we do an average of 2000 mm diameter. We talk about depth here, we have done a maximum depth of 30 meter in India, wherein in our sites in Singapore it is an average of 50 meter and we have gone down as much as 90 meter below the ground. So we bring in such specialization so that people can design accordingly with the availability of resources.

- Atul Mehra** Right. So how does it work with the client? Do you generally have to go through a qualification stage first and then a price bidding stage or how does it happen?
- Anil Agarwal** There is always a technical bid and a commercial bid wherein you need to be technically qualified in terms of your track record to cater to a particular job. Then comes a price point wherein you need to be competitive in the prices, so we go through both the processes.
- Atul Mehra** And what would be our market share in the business typically in India specifically?
- Anil Agarwal** India we have just started. It is not even more than 3 months that we got an order. So in India we are yet to see how we grow. The way India is growing and the requirements that we are getting, the next 3 years if we are able to get 5% market share we should be doing good in India.
- Atul Mehra** But any reason why you did not look at India as a market so far?
- Anil Agarwal** Because post IPO 2011-12 infrastructure was not a field to look for in India with huge debts and possibility of bad debts and Singapore was growing on an average of 30% year on year. If you are growing by 30% you have to first complete that cycle and India was not the right time for us to enter back.
- Atul Mehra** Right, and in terms of India as a market if you look at it the customers will be generally all your construction guys
- Anil Agarwal** There is always going to be a mix of 50-50. 50% will be construction guys who got a project in as a package and 50% will be direct lines like the JSW and the Reliance and refineries and ports.
- Atul Mehra** And just one final question on the economics of this business, so what can be a steady state return on capital that you can do in this business and what is the Capex intensity because I believe you spoke about a mix between rented machinery as well as owned machinery?
- Anil Agarwal** We may look at a Capex of 50 to 100 crores in the next 2 years of growing this status to a size of 500 to 700 crores.
- Atul Mehra** How does it typically work out on a ROCE basis?
- Anil Agarwal** Around 20% to 25%.
- Atul Mehra** That is pre-tax?
- Anil Agarwal** That is pre-tax.
- Atul Mehra** So post tax it will be about 16-17%. Is there scope to get this to a much higher level given it is a specialized activity. So do you see that ongoing
- Anil Agarwal** What I am talking about on a conservative level if I am just not doing anything scientifically innovative in India, if we are able to bring in our expertise of other areas which is still not present in India like jet grouting and other geotechnical services it may go up by another 10%. Because for a pure foundation job India still has small and large people who can compete but there are certain value added

work which can only happen from companies present in Singapore or Malaysia and such countries for which we have already quoted for few jobs at port or like soil stabilization job only Keller can do it in the country right now. So in times to come yes, we will be hoping to convert it into a higher value.

- Atul Mehra** And just one final question over here, is there any other market you can look at from an expansion perspective or -
- Anil Agarwal** We are growing in two places.
- Atul Mehra** Apart from Singapore and India would you -
- Anil Agarwal** We are already present in Myanmar. We did one job currently. We did a 45-crore job for Shangri-La Hotel in Myanmar. We are looking at expanding that market more aggressively once elections are over in Myanmar. And growing into other South-East Asian countries where we already have presence. We have presence in Malaysia. We will be tapping Indonesia very soon.
- Atul Mehra** And how labor intensive the process is?
- Anil Agarwal** So this process is I will not say as labor intensive as a construction site but overall as a company we have around 800-odd people in our payroll including labor.
- Atul Mehra** And how much would be in terms of contractual employees?
- Anil Agarwal** Into the specialized job there may be 10% of it will be contractual ones, rest will be all on payroll.
- Moderator** We have our question from the line of Nirav Vasa from Motilal Oswal Securities Limited, please go ahead.
- Nirav Vasa** My first question pertains to the EBITDA margin guidance that you are giving us that is of 11%. So I just wanted to understand a company like L&T to whom you are a subcontractor that company is also struggling to maintain around 11% EBITDA margin and in the scenario when the work is limited and the competitive intensity has increased how confident are you that you can maintain such high gross margins?
- Anil Agarwal** For sure we would be making more margins than L&T as an overall picture, may be not in absolute numbers but in terms of percentages because we are specialized contractors. Now when you talk about L&T they will take a job worth Rs. 1000 crores. Our portion will be only Rs. 70 crores. So the moment you bring in specialization you definitely have better margins in a large scale construction company.
- Nirav Vasa** Sir but what I understand is that in terms of specialization also and whatever you are talking of foundation, even ITD Cementation seems to be saying the same story that this is specialized story but the numbers at this point of time are not that great. So how do the dynamics work around because my understanding is that 14% gross margin seems to be on an extremely higher side.
- Anil Agarwal** We have been achieving 14% to 15% gross margins in the last 3 to 4 years globally.
- Nirav Vasa** That was global but now in India because you must be trying for the first few projects, so few projects might be at lower cost or something like that or -
- Anil Agarwal** I can only say at this point that why we did not enter India 3 years back in my previous answer and now if you see that we have entered we are definitely hopeful to achieve more than 15% of gross margins in India, that brings us to the present in India. It is only a matter of time which will decide how much competitiveness we can bring in. We do not believe in lowering our cost to secure an order first shot. So our prices are still at the top three levels wherever we are going. So why ITD is not

making that kind of a margin I will not be able to comment. Since ITD is not only dependent on foundation business but they are into other verticals also and their margins are dependent on overall performance of the overall sector.

- Nirav Vasa** Got your point. I was referring to your balance sheet which has given to us the presentation. Your debt to equity ratio seems to be at 1.44 times. So under this constrained balance sheet how fast you can grow in a new market and can you comment on that?
- Anil Agarwal** I think my debt to equity ratio, I do not know how you calculated it. It is around 1.1:1 and my long term debt to my net worth is around 0.7-0.8: which is a very-very comfortable to grow. And large part of my debt is towards acquisition which you have done in the last 2 to 3 years only. It is only a matter of time that is paid off.
- Nirav Vasa** So you do not need any further capital infusion in the company to drive the new growth prospects?
- Anil Agarwal** Not at the moment because we can manage it with our internal accruals.
- Nirav Vasa** Then what would be the retention money with the company, with us customers?
- Anil Agarwal** 5% is the retention money. Currently our retention money is around Rs. 55 crores overall.
- Nirav Vasa** This is after a year.
- Anil Agarwal** Which is on an ongoing basis, which keeps coming and going.
- Moderator** We have a follow-up question from the line of Atul Mehra from Motilal Oswal Securities Limited, please go ahead.
- Atul Mehra** Just to take this further you spoke about lot of India business typically is handled by the construction companies themselves, so what would this percentage be as of now? So how much it would be in-housed by them and how much they would be tendering out to specialized people?
- Anil Agarwal** I can tell you a rough estimate that L&T must be doing it in-house around Rs. 250 to Rs. 300 crores of business and they may be outsourcing work 1000-1500 crores of business every year.
- Atul Mehra** So that means a majority of it is already outsourced, right?
- Anil Agarwal** They started now because the requirement has grown up now. They owned 2 machine, 3 machine kind for their own job. L&T is a different size altogether and they have started outsourcing. In terms of percentages I would not be able to say how much they own currently and how much they are outsourcing.
- Atul Mehra** And do you see any kind of major inflection point happening now in India market for our business? So are we already in that phase now?
- Anil Agarwal** Yes, I think we have started in that phase and in another three months we will see, when the projects really start taking off the kind of inquiries that we are getting in the last 2 months it definitely gives us a signal that the future is very promising.
- Moderator** As there are no further questions I would now like to hand over the floor back to Mr. Viral Shah. Over to you sir.

- Viral Shah** Sir, if may I ask some questions – firstly apart from India you mentioned that we are looking at new geographies, could you throw some light to us as to where we are, if we have any headwinds there like one we did in Myanmar?
- Anil Agarwal** We already have now a base in Myanmar which we started last year before entering India. We all are hopeful on Indian growth story for the next growth for the company. Apart from that we have quoted for jobs in Malaysia and may be after a year or so we would be able to look into the Middle Eastern region.
- Viral Shah** In this Malaysia the quantum of order which we have quoted would be close to?
- Anil Agarwal** The inquiries that we have quoted for?
- Viral Shah** Yes.
- Anil Agarwal** Is around 50 million, 250 crores.
- Viral Shah** And these are the 2 or 3 geographies we are looking at apart from India, right?
- Anil Agarwal** These are the two new geographies that we are looking at and Indonesia for sure because being a natural neighbor to Singapore Malaysia, Indonesia is always for a look outside. It is only a matter of time when we get a job. Send them the team because so far the focus was Singapore and since now my personal focus would be more India we have introduced COO on the Singapore subsidiary to ensure the growth of KH Foges within that region.
- Viral Shah** And lastly if you could give us a breakup in terms of revenue for the quarter and 9 months geographic wise that would be great.
- Anil Agarwal** Now?
- Viral Shah** Yes.
- Anil Agarwal** Myanmar was only Rs. 40 crores, we have not included that but as per geographies we had to 87% jobs were done in Singapore, 14% is in India. Singapore will include Myanmar a bit.
- Viral Shah** And sir just a clarification this Rs. 352 crores of order intake which we had announced that includes the announcement made on 15th one of around 124 crores Singapore order?
- Anil Agarwal** Yes, that includes that.
- Moderator** We have next question from the line of Nirav Shah from Gee Cee Investments, please go ahead.
- Nirav Shah** Two questions – one is, any particular reason which we attribute for the sharp improvement in our gross margins at least for this quarter? Is it job mix or something else?
- Anil Agarwal** Nirav if you remember our conversation during the conference we always said that there is a phase of construction that we follow, so specially in the second quarter we were in the ending phase of some businesses and starting phase of a project and when the project picks up the margins definitely reflect in the numbers and that is why the margins are on a higher side. But on a year to year basis once you see they are all stabilized to 11-12%.
- Nirav Shah** And sir secondly what is the absolute debt that we are carrying as on December 31st?

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- Anil Agarwal** Absolute debt we are carrying as of December is around – the long term debt is Rs. 115 crores and short term debt will be around 60-75 crores approximately.
- Nirav Shah** And do you see a risk that once you start executing more projects in India, this working capital debt going up compared to what is it in Singapore?
- Anil Agarwal** Indian industry is like that but we are very conservative in the orders that we take especially in terms of ensuring having a mobilization advance of around 10% in India and the following 60 to 90 days cycle. The working capital cap may go up to India as compared to Singapore.
- Moderator** As there are no further questions I would like to hand the floor back to the management for closing comments. Over to the management.
- Viral Shah** Thank you everyone for being part of our conference call and I hope we continue in the second quarter and we write the Indian story and keep sharing the results with you. Thank you.
- Moderator** Thank you sir. On behalf of SBICAP Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.