"Kridhan Infra Limited Q4-FY15 Earnings Conference Call"

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MANAGEMENT: **MR. ANIL AGARWAL – MANAGING DIRECTOR, KRIDHAN INFRA LIMITED**

MODERATORS: **MR. KSHITIZ PRASAD – RESEARCH ANALYST, EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen good day and welcome to the Kridhan Infra Q4 FY15 Conference call hosted by Emkay Global. 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. Kshitiz Prasad, thank you and over to you sir.

Kshitiz Prasad: Good evening. Thank you for joining us today, we would like to welcome the management of Kridhan India Limited and thank them for giving the opportunity to host this call. I would now like to hand the call to Mr. Agrawal, over to you sir.

Anil Agarwal: Thank you Kshitiz. Good afternoon everyone and warm welcome to all for the earnings conference call for the year ended 31st March, 2015. I hope you all have received our updated investor presentation by now. Let me begin by doing a brief summary of our operational and financial performance for the year end 31st March 2015 and then I shall take the questions. Kridhan Infra, as you all know now, has over the past 5 years has evolved from a steel solutions company having pioneered the concept of ready to use steel for the construction industry in India to a specialized foundation engineering group in India as well as South East Asia. Over the years, through a series of acquisitions, Kridhan has evolved into a high quality service provider in foundation engineering services across the construction and infrastructure sector. The company is also the second largest foundation engineering player in Singapore and has a track record of successfully execution of more than 250 projects. 2015 Financial year has been a landmark year for us in terms of our strategy to take our foundation engineering business success to India. And we were fortunate to receive our maiden order of pile foundation worth approximately Rs. 42 crore for a steel complex expansion in Maharashtra. In addition, we also received two more orders for approximately Rs. 28 crores in the state of Uttar Pradesh and West Bengal. One of these orders is for the construction of a diaphragm wall for the channelization of Gomati River in UP. With the coming up of several new projects, including Gange Namami project, we foresee a good opportunity in this segment and we would continue to tap these opportunities because of our expertise which we will gain by doing the Gomati River project. The other order is from Tata projects for an ITC food factory in West Bengal, by doing this project though the size is little small, it will help us to develop a good association with The Tata projects, which could further give us more projects with the group. We have already been bidding along with Tata projects for few more projects in the port expansion and power plants construction and related fields; the results of these are still awaited. Recently, we have received another order for the Greater Noida metro package, which will help us penetrate the growing requirement in the mass rapid transport system in the entire country. This clearly defines our strategy of growing into sectorial areas of infrastructure by way of ports, industrial and river channelization projects, which will eventually in the next 2-3 years, help us to gain experience and help us to gain more orders once this segment grows in the country. India is important focus market for us; we believe we have capabilities both in terms of technology and execution of track records to tap the growing opportunities in Indian construction and infrastructure sectors. We have already established a team of 50 people in India for the foundation engineering business and we have hired the industry experts to lead the business. Mr. Havaldar, who has joined us as head of Foundation business in India, has more than 40 years of experience in ITD Cementation with vast knowledge under construction sector. He will be overseeing the growth of the entire foundation engineering business of Kridhan in India. We are also targeting infrastructure opportunities in India across metros, ports and industrial projects. During the financial year FY 2012-2017, India plans to spend close to $500 billion on infrastructure. Railways, including mass rapid transport system would account for 14% of the planned infra expenditure and ports would account for 3%. The government is focused on developing metros across the cities which presents good opportunities for us in India.

Kridhan has also successfully ventured into other South East Asian countries including Malaysia and Myanmar. Our current order book stands at Rs. 570 crores, of this 67% is contributed by Singapore and overseas foundation engineering business, 15% by Indian business of foundation engineering and balance 18% by steel solutions related business.

I shall now provide you with an overview of our company's financial performance for the year ended March 2015. During the full year 2015, the consolidated revenues were at Rs. 652 crores, compared to Rs. 680 crores in FY 2014. Revenues dropped for the year on account of consolidation in the Singapore construction industry and also by way of depreciation of the Singapore dollar versus rupees. We expect our expansion strategy to other geographies will pay off in the coming year. We have commenced project execution in KH India from January 2015 onwards and in the first quarter of our operations, we have been able to achieve gross margins of almost 20% in our ongoing project. Foundation engineering business contributed around 84% of our revenues, steel products and services approximately 8% and balance 8% was from one off trading revenue. The consolidated EBITDA for the quarter was Rs. 67 crores, with EBITDA margin maintained at approximately 11%. The consolidated PAT for the year was at Rs. 29 crores. This year depreciation increased on account of full year impact of asset addition on account acquisition of PSL Engineering. On the balance sheet side, our gross debt stood at Rs. 153 crores and cash and cash equivalents stood at Rs. 20 crores. The gross debt includes, working capital of Rs. 76 crores, acquisition debt of Rs. 71 crores and term loan of Rs. 5 crores. The average cost of our acquisition debt is around 4%.

Going forward, we aim to replicate our success of Singapore which we achieved in the last 3 years in India as well as other South East Asian countries. The orders from Singapore are expected to grow at a stable rate and we hope to emerge as a leading foundation engineering player in India and South East Asia. At this point, I would like to thank everyone once again for your participation and I would request Kshitiz to open this call for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Jeevan Patwa from Candy Floss Advisors. Please go ahead.

Jeevan Patwa: I have only one question; right now your working capital is pretty low as compared to other players mainly because of the Singapore region dynamics but when you enter into Indian region, do you think you can maintain that kind of working capital?

Anil Agarwal: See, you are very correct here. Right now, we operate in mature market of Singapore where the receivables are very much received on time, and we are hoping to maintain that maybe, not to the same level, but if our average is around 2 months receivable, it may go to 3 months in India, we are very selective in taking orders from the kind of companies we are associated with and the kind of projects to ensure that the receivables cycles is in line.

Jeevan Patwa: But do you think, you can have a higher margin to compensate for higher receivables?

Anil Agarwal: Not really, because at the time of bidding, you do not anticipate such delays what happens in India, so if the client says 30 days, you will assume 60 days and you will put a margin like that.

Jeevan Patwa: So, I am saying your ROCE will not stay at the same level as you are right now.

Anil Agarwal: See, it may go up by another one month of receivable in India depending on who we are dealing with. We expect that if we deal with Tatas, our cycle remains the same because they are decently good pay masters. And actually, the margin gets little better.

Jeevan Patwa: So if you are not able to get better margins, then I am saying your return on capital will drop.

Anil Agarwal: For sure, but it also depends on what is your cost of funds.

Jeevan Patwa: And secondly, the question is; you say that you are, I think you are the second best player in Singapore in the Foundation Engineering Business.

Anil Agarwal: Correct.

Jeevan Patwa: So why does that not reflect in the margins or is it the margin that even a top player earns in Singapore?

Anil Agarwal: The margins in Singapore are more are less stable with this level, even the top player must be in the same range or little lower because the more size increased, you may not achieve the same percentage of margins.

Jeevan Patwa: Okay, so you are saying in India also, you expect the similar level of margins?

Anil Agarwal: We expect to be a little better because India is a growing market and emerging in Foundation Engineering, the more niche job we will do, the margins will be better.

Jeevan Patwa: That kind of understanding is; so if you are the best player in Foundation Engineering, then you should be commanding a higher margin than other players.

Anil Agarwal: For sure. In India; because maybe in a year's time, I would be able to answer it more properly but our experience in the first quarter, our margins are around 20% to 25%, as a gross margin on the project level.

Jeevan Patwa: Gross margins, you say.

Anil Agarwal: On the project level, see most of the work happens on a project level.

Jeevan Patwa: But on the EBITDA side, how much you think you will be able to make?

Anil Agarwal: I think it is little early because we have just done one quarter, all our projects are ongoing; maybe, in the next 6 months, we would be able to answer that. EBITDA should be little better, is what we expect.

Moderator: Thank you. The next question from the line of Shubhankar Ojha from SKS Capital and Research. Please go ahead.

Shubhankar Ojha: Should an explain, the revenue visibility because you mentioned your order book is less than Rs. 600 crores and FY16 you have the revenue of Rs. 600 crores, so are you going to see de-growth in FY16 or so, if you can give some outlook in terms of the order book visibility and the revenue visibility?

Anil Agarwal: We maintain a 6 to 9 months of an order book as foundation business is normally, never spread across more than 9 months, it is not a 3-year project, so going to see this current order book in hand, we see that current financial year will be; for the overseas business, we will be stable as what it is to this year but the Indian order book is growing and with the pace it is growing, we can expect it to be much better.

Shubhankar Ojha: Who are typically your clients like?

Anil Agarwal: In India?

Shubhankar Ojha: Yes.

Anil Agarwal: We are doing one project for, I cannot name the clients directly, but I can tell you that we are doing one large steel expansion project in Maharashtra**.** We are doing a project for Tata projects in Calcutta, we are doing a project for UP Irrigation authority for the Gomati River channelization and the recent one is for through a main contractor but for DMRC for Noida Metro. Right now, we are only testing various other segments to have our presence being there, having a cautious approach of not going to; on order booking frame but more into execution and sending our team to execute those orders.

Shubhankar Ojha: And it also; the order book where you qualify to beat or where you are L1.

Anil Agarwal: Most of the time, it is not all cases we are an L1, I can say because of our global experience in carrying out a particular job, I can give you an example of our and our local expertise, it is like, for a Gomati River project that we have got, it is quite similar to what Sabarmati is. And as of now, in India, the Sabarmati project was handled by ITD Cementation and the man behind the handling of Sabarmati River was **Mr. Havaldar**, who has joined us to lead this company into foundation business. And because of his experience and our global credentials, we got that order. So, it is not always on an L1 basis, it is also an execution skill.

Shubhankar Ojha: So the kind of work that you do and ITD Cementation does are almost similar.

Anil Agarwal: We can say that, The ITD Cementation a few years back when they specialized into below the ground business; is same.

Moderator: Thank you. Our next question is from the line of Sameep Kasbekar from Emkay Global. Please go ahead.

Sameep Kasbekar: Just have a couple of questions on your order book again; just wanted to know, what is the visibility in terms of growth of your order book, both in Asia as well as In India, not taking Singapore into account?

Anil Agarwal: I will first answer your Asian order book; we expect that we have started few countries like Myanmar, Malaysia, and India now, so I can say that in this financial year, we should be getting another Rs. 50 crores to Rs. 100 crores of orders from regions outside Singapore, on a very conservative basis. And for India, we are getting a very positive response and even we are surprised that we are getting such orders, when we say an Rs. 83 crores order book in India in Foundation Business, in India all these order book is without material whereas our global order books are always with materials because Indian clients normally prefer and we also do not prefer to have so much of exposure, so all these is without material, which is approximately 40% of our cost of construction. So, in comparative terms, it is almost Rs. 150 crores in the first 6 months of our entering India. So we want to be within, a more cautious for the first few months because our orders are such that it is executed immediately. It is not an order book for future projects. So, maybe in India, we will be able to add up another order of Rs. 150 crores to Rs. 200 crores by coming financial year, but execution will not be the same.

Sameep Kasbekar: How do you see the execution in India?

Anil Agarwal: So far, it is okay because two we are already doing, third one we have started last month and the fourth is yet to start; maybe, in another few weeks, so we hope this Rs. 83 odd crores, we should be able to finish in this financial year.

Sameep Kasbekar: Okay and what is the blended EBITDA margin on your order book?

Anil Agarwal: It should be in line with our, around 12% odd.

Moderator: Thank you. The next question from the line of Jeewan Patwa from Candy Floss Advisors. Please go ahead.

Jeewan Patwa: Just one clarification, you said this Rs. 83 crores order is without material, right?

Anil Agarwal: Yes.

Jeewan Patwa: So the margins would be higher, right?

Anil Agarwal: See, normally for us, it is always the cost of construction and the margin, so either you put it on the material cost and add in the margin or your overall margins because material cost is something which is back to client, so when we say Singapore, it is with material, when we say in India it is without material.

Jeewan Patwa: When you will calculate the margins, in percentage….

Anil Agarwal: That calculate question of margin will be on a revenue basis.

Jeewan Patwa: So I am saying, your revenue would be Rs. 83 crores from India, right?

Anil Agarwal: Yes.

Jeewan Patwa: Now, if you consider the material in that, then your order book you said, would be around Rs. 150 crores.

Anil Agarwal: Yes.

Jeewan Patwa: Now, if I calculate 11% on Rs. 150 crores, it is around Rs. 16 crores, so that Rs. 16 crores if I calculate on Rs. 83 crores, it comes out 20% margins.

Anil Agarwal: Gross margins are around 20%.

Jeewan Patwa: So, that is what the question is; I am saying, on that Rs. 83 crores order book, margins will not be 11%, that would be around 20%, am I correct or am I wrong?

Anil Agarwal: You are correct in what you are saying on a comparative basis, so we want to be little more conservative when we talk about Indian realization because if my realizable extend by 2 more months, this money goes off. But blended margin will be around 12% because it will be 70%, 80% of Singapore and India side.

Jeewan Patwa: Right, but I am just thinking in the same terms of the Singapore order book…

Anil Agarwal: In terms of percentage, right?

Jeewan Patwa: Yes, in terms of percentage.

Anil Agarwal: As a technically, if I am only doing a without material job, my margins are supposed to be much higher. On paper it is still higher; that is why I said the first quarter of our performance in India, our gross margins were 20% to 25% but only end of the year, we realized when is the number comes in, so it will be little early for me to say, we will be making 25%.

Jeewan Patwa: And how does your billing cycle goes in India?

Anil Agarwal: It is a monthly billing cycle, payments is made in 60 to 90 days.

Jeewan Patwa: So do you get anything upfront or you do not get?

Anil Agarwal: So, as a principal, we do not start work without advance mobilization.

Jeewan Patwa: How much is the advance?

Anil Agarwal: 5% to 10% depending on the client, against banker guarantee.

Jeewan Patwa: And then after, at every milestone, you get the payment after 60 days.

Anil Agarwal: So, it is not on milestone basis. You can go down to on every pile because we are billed as per; per pile and per meter run, so on a monthly cycle basis, we submit a progressive claim to the client, which is later on certified in 21 days to 30 days and then they pay off in another 30 days.

Jeewan Patwa: This is 60 days the billing cycle that you are right now assuming, right?

Anil Agarwal: Yes.

Jeewan Patwa: And that can extend, it depends upon the India experience, right?

Anil Agarwal: Yes. And that is also a reason we do not push steel and concrete to us, add push the steel and concrete to the client because that is more exposure that you will be taking on it.

Jeewan Patwa: Yes, it is a good strategy because then your working capital will be even higher.

Anil Agarwal: Yes. And that is why we are very conservative in this, it may give me a less top line, but my bottom lines are protected.

Moderator: Thank you. The next question is from the line of Mr. Prasad from Emkay Global, please go ahead Sir.

Kshitiz Prasad: I had a little question; is it just safe to assume, now that the last 3 years, whatever acquisition you have done, now you all will be in a consolidation phase and you look at standardized growth in India and other South East Asia and what kind of the CAPEX we are looking at now over the next 2 years or so?

Anil Agarwal: I think you are right in saying that in the last 3 years, the kind of growth we have experienced, we are in the consolidation phase in Singapore because every market has own size and capabilities, so we may be able to grow a 10% to 15% in the Singapore market and we are now looking at India to be the next growth vehicle to give us the same kind of growth as one market and other emerging markets of Myanmar and Laos to be the next one. And in terms of CAPEX, we believe that in the next 2 years, assuming a very cautious approach that we follow, we will be doing a CAPEX of around Rs. 50 odd crores.

Kshitiz Prasad: Next 2 years, Sir?

Anil Agarwal: Next 2 years.

Kshitiz Prasad: Okay and how is the Laos project standing out; that one which was to do fire testing investigation of Rs. 100 crores which we have heard?

Anil Agarwal: Laos project, we have given them the banker guarantee for advance, we are waiting for mobilization advance. Once we get the mobilization advance, we are very clear in our strategy in all these third world countries, without advances we do not function. So we are waiting for the advance, once we receive the advance, and then only we will commence the operations.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Kshitiz Prasad for closing comments. Thank you and over to you, Sir.

Kshitiz Prasad: Thank you Sir. On behalf of Emkay Edelweiss, we would like to thank you all for joining the call today. Have a good evening.

Anil Agarwal: Thank you Kshitiz, bye.

Moderator: Thank you. On behalf of Emkay Global that concludes this conference call. Thank you for joining us and you may now disconnect your lines.