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Result update – Q3FY17 (Ajcon Research initiated coverage on 23rd Oct. 2015)

Gayatri Projects Ltd. – Maintain our “BUY” rating

23rd Feb., 2017

CMP: Rs. 138 | Target: Rs. 191 | Upside: 38% | Market Cap: Rs. 2410 cr. | FV after split: Rs. 2 (Record date: 13th Feb. 2017)

Q3FY17 Financial Performance

(Rs. in mn.)	Q3FY17	Q3FY16	%yoy	Q2FY17	%qoq
Income from Operations	5,205	4,217	23.4	3,500	48.7
Cost of Materials Consumed & WE	(4,345)	(3,374)	28.8	(2,581)	68.4
Changes in Work in Progress	253	(72)	(451.5)	(130)	(294.4)
Employee benefit expenses	(154)	(94)	64.7	(140)	10.0
Other expenditure	(134)	(76)	75.2	(103)	30.2
Operating profit	825	602	37.1	546	50.9
OPM (%)	15.8	14.3	158.3	15.6	1.5
Depreciation	(127)	(94)	35.3	(110)	14.6
Interest	(489)	(369)	32.5	(446)	9.5
Other income	12	12	1.7	11	10.7
PBT	222	151	46.8	1	30,256.2
Tax	(80)	(29)	175.9	116	(169.1)
PAT	141.6	121.9	16.1	116.4	21.6
PAT margin (%)	2.7	2.9	(17.0)	3.3	(18.2)
Extra ordinary items	(8.3)	(5.0)	-	(16.2)	
Reported PAT	133.3	116.9	14.0	100.3	32.9
Equity capital	354.5	354.5	-	354.5	-
FV	10.0	10.0	-	10.0	-
No. of equity shares (mn)	35.5	35.5	-	35.5	-
EPS for the quarter	3.8	3.3	14.0	3.28	32.9

Source: Company, Ajcon Research

Akash Jain – MBA (Financial Markets)

Research Analyst (Mentored by CA Ashok Ajmera, CMD)



Q3FY17 Result update

The Company's topline in Q3FY17 witnessed an increase of 23.4 percent to Rs. 520.5 crore on yoy basis and on QoQ basis, topline witnessed a robust jump by 48.7 percent owing to faster execution. However, revenue growth missed our estimate for the quarter partially impacted by extended monsoon and demonetisation effect in the initial period – payment to workers. However situation has now normalized expect pick up in execution

In Q3FY17, EBITDA grew by 37.1 percent on yoy basis to touch Rs. 83crs. On Qoq basis, it increased by whopping 50.9 percent. EBITDA margin witnessed an improvement of 158.3 bps on yoy basis to touch 15.93% from 14.21%. Operating margins remained stable despite significant mobilization expenses at the new sites. Going forward, management will be able to maintain current level margins with an upward bias.

Q3FY17 PAT registered a marginal growth of 16.1 percent on yoy basis and 21.6 percent on QoQ basis. Capex related to new work orders – especially concrete related equipment significantly added to depreciation and interest cost

Stock split: Gayatri Projects had last split the face value of its shares from Rs 10 to Rs 2 in 2016.

Road Assets: The Company is working towards commissioning the last non-operating road in its portfolio during FY17. The Board has approved a comprehensive restructuring of the portfolio which should result in a separate listing and an optimal growth path for the business.

Commenting on the results, Mr. Sandeep Kumar Reddy, Managing Director, Gayatri Projects Limited said

"We are pleased with the way we have transformed our core EPC business over the past few years. Our order book has not only grown over three fold in the past eighteen months but is now also much more diversified than in the past. Further as a part of our strategic initiatives we have also started bidding and winning orders for construction projects in business areas which we didn't explore in the past, which has contributed towards success of our EPC business. In addition, we have achieved the transformation without sacrificing on the margins and are confident of maintaining our historical margins. In conjunction with building up the order book we are also equally committed towards ramping up our project execution capabilities and are confident of delivering healthy top line growth. Performance for 9M to some extent was impacted by external factors like monsoons, delayed land acquisition and Govt.'s demonetization scheme. However, we believe it is temporary in nature and will not impact our overall goal of maintaining revenue momentum. We are now fully mobilized at several of our new project sites and are seeing significant jump in revenue booking from the current quarter. Moving on to our power assets, we are approaching the completion of the second and final 660 MW unit of our second power project namely SembCorp Gayatri Power Limited. Completion of the same will result in creation of a 2640 MW power complex, which will help meet power demand of the country. Moving on to the road assets, we are confident that our efforts towards restructuring the business will help in creating right value for the assets. Post restructuring, the existing GPL shareholders would own 74% of the entity which would hold 7 of our road assets. We are hopeful that the restructuring process gets completed before 2017.



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Going ahead, we are confident that our recent strategic initiatives coupled with Government's efforts towards improving the country's infrastructure quality will help us deliver consistent growth going forward."

Strong traction in order inflow; order book grew by ~3x in past 15 months

The Company Bagged orders in excess of Rs. 4,200 crore during 9M FY17 and is focused on ramping up order execution

The Company witnessed strong traction in order in q3fy17; backlog of Rs.12,023 Cr currently. This is after the Company has removed 3 in-operative irrigation orders totaling up to Rs1,778cr awarded by AP / Telangana govt. from the order book during Q2 FY17.

Rs. 1,255 crore NHAI order for four laning of Angul – Sambalpur section of NH-42 in the state of Odisha under NHDP – IV on EPC mode in JV with Russian Construction Company PTPS

oRs. 926 crore order from Bihar State Road Development Corporation Limited (BSRDC) and Ministry of Road Transport & Highways (MORTH) for four laning of Gaya – Hisur – Rajgir – Nalanda – Biharsharif section of NH – 82 in the state of Bihar

Revenue visibility remains quite strong on the back of robust order book - expect 30%+ revenue growth over next 3-4 years – with much stronger growth in the near-term

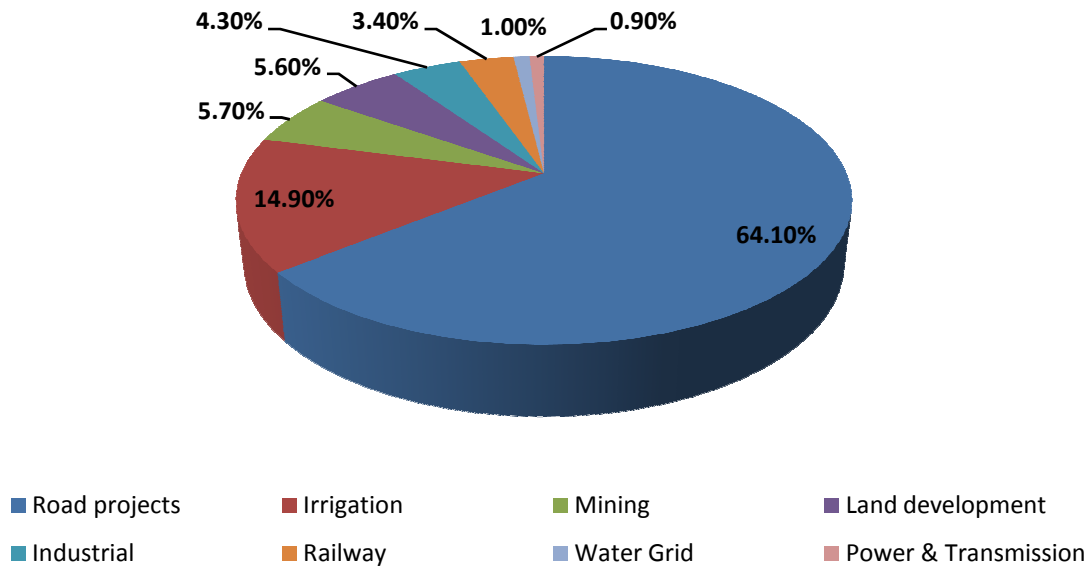
Continue to remain focused on bidding for margin accretive projects (cluster-based approach to bidding).

The Management expects ramp up up in revenues in Q3FY17 and Q4FY17. Going forward the company will maintain EBITDA margins at around 14-15 percent in FY17.

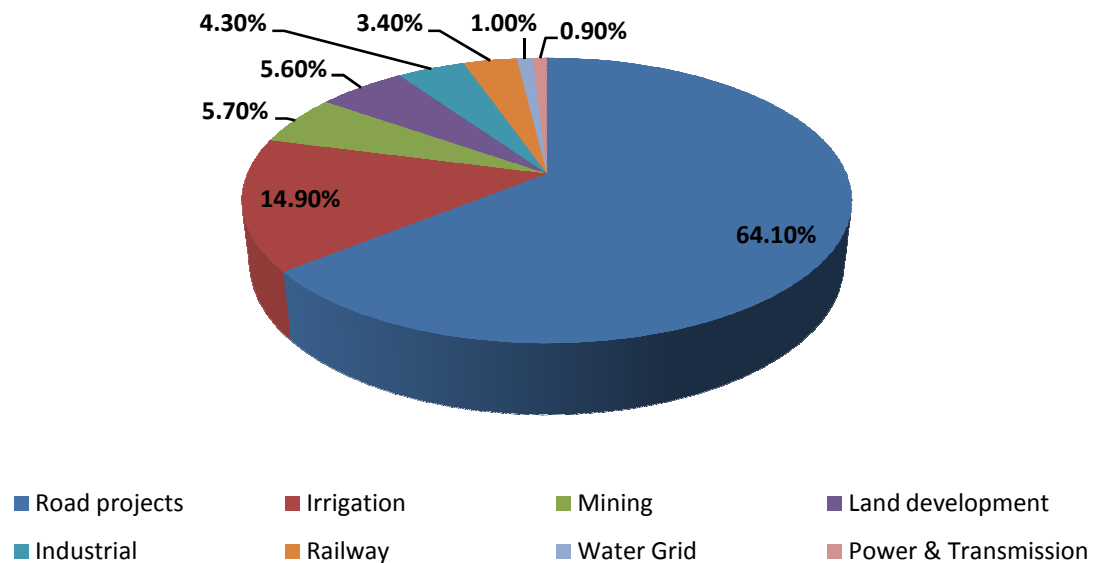
Considering the above results, we have retained our FY17 and FY18 estimates.

Order Book: Q3FY17 v/s Q2FY17

Q3FY17



Q2FY17



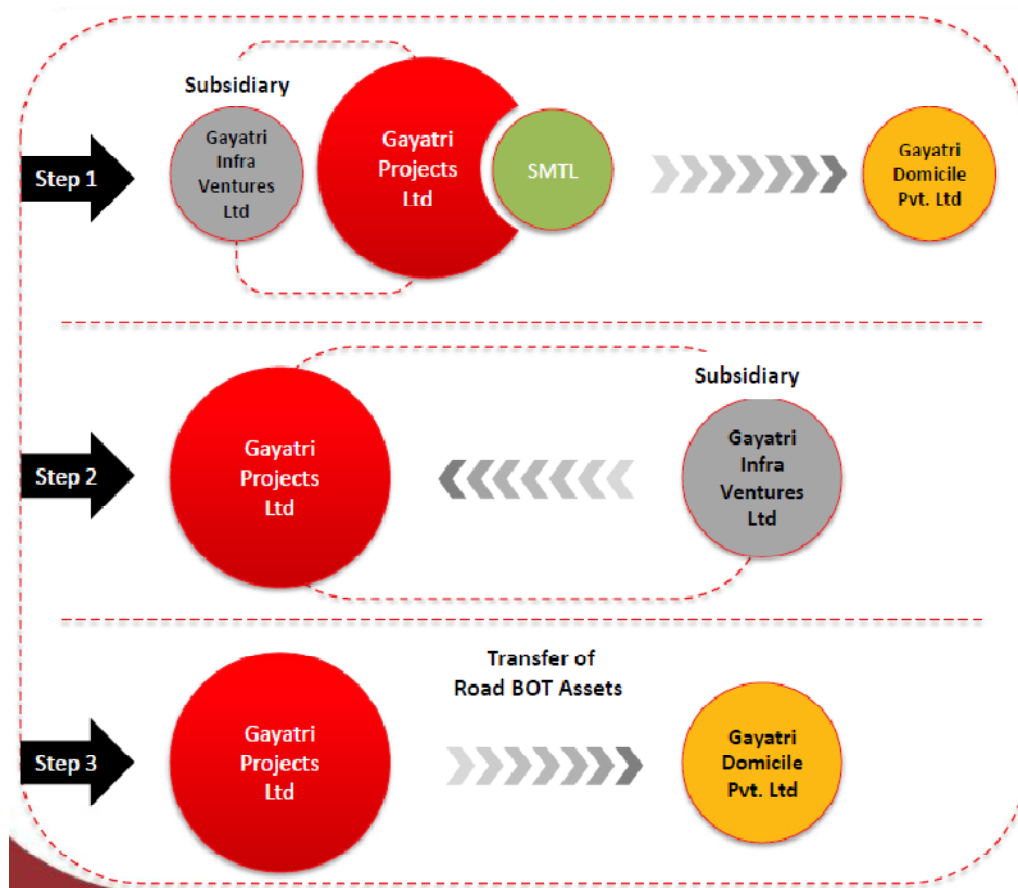
Key developments in Q3FY17 and 9MFY17

Board approves Comprehensive restructuring & separate listing of Company's Road BOT assets –

Board has approved a scheme of arrangement which involves following 3 steps, executed simultaneously:

- 1) Transfer of SMTL (Orissa road under construction) from GPL to NewCo (GDPL)
- 2) Amalgamation of GIVL (current asset holding company owning rest of BOT road assets) with GPL
- 3) All Road BoT Assets business to be transferred from GPL to NewCo
- 4) Proposed NewCo shareholding structure: GPL 26%, Current GPL shareholders 74%
- 5) NewCo to be listed after all the approvals are in place and the above scheme of arrangement is executed
- 6) Effective date of the scheme is proposed to be 1st April, 2016
- 7) The process is likely to be finalized before FY2017 accounts are closed

Restructuring and separate listing of road assets





- a) Transfer of investments in Sai Maatarini Tollways Limited from Gayatri Projects Limited to Gayatri Domicile Private Limited at book value
- b) Post transfer of investments, merger of Gayatri Infra Ventures Limited with Gayatri Projects Limited
- c) Post merger of GIVL with GPL, transfer of Infrastructure Road BOT Assets Business from GPL to GDPL.
- d) GDPL, to be owned 74% directly by current GPL shareholders and to be listed on the bourses.
- e) Transaction completion expected before FY2017 accounts are finalized, with an effective date of 1st April 2016.

Power Assets

- 1) SembCorp Gayatri Power Limited (SGPL) "(Formerly NCCPPL)" concludes construction of its first 660 MW unit; expects to complete entire project by first quarter of 2017
- 2) Optimization of power generation asset holding structure: JV partner Sembcorp Utility writes a 5 year call option giving Gayatri (GEVL) an option to go upto 30% stake in the business



Key developments in Q1FY17

Optimization of Power Genco Asset Holding Structure – Sembcorp Call Option

According to management, GEVL was initial planning to increase stake in power generation subsidiaries (TPCIL, SGPL, 2640 MW) to 30% each by raising capital through mezzanine funding. The initial plan of fund raising has been aborted. A call option structure has been negotiated with JV partner Sembcorp Utilities.

The above Optimization plan recognizes two market realities:

- a) Long - term exceptional asset value – among most advantageously located /managed power gencos. Hence, the need to maintain stake in a cost effective manner.
- b) Current tough power trading environment (could persist for 12-24 months). Hence the need to avoid un-necessary mezz debt interest cost.

A) Project capital structure (including 4th, the last, unit which is likely to come on stream in next 3-4 months)

- i. **Project cost: Rs. 19,300 crores (original estimate Rs. 13,900 crores)**
- ii. **Project equity: Rs. 5,600 crores (original estimate Rs. 3,500 crores)**
- iii. **Gayatri (GEVL) incremental investment for 30% stake – Rs. 900 crores (today's cost)**

B) SembCorp (SCI SP) unit has written a CALL OPTION, exercise allows Gayatri stake to go up 30%.

- i. **Current GEVL stake in 2 power generation Op. Cos. ~13%.**
- ii. **Option terms: Life – 5 years, Strike price: Rs. 900 cr, accretes @18% p.a. (with dividend's to Gayatri's credit).**
- iii. **Multiple partial exercises allowed.**

The Company hopes to exercise the option over next 2-3 years. The Company plans to raise money against Power business by listing Semcorp Venture.

Revision in credit rating inQ4FY16

CARE Ratings has upgraded the Company's bank loan facilities as under – CARE BB- (Double B Minus) for Long term Bank Facilities amounting to Rs. 2,085.45 cr (enhanced from Rs. 1738.99) from CARE B (Single B) → CARE BB□/CARE A4 (Double B Minus/ A Four) for Long term / Short term Bank Facilities amounting to Rs. 3500.00 (enhanced from Rs. 2563.81 cr) from CARE B/CARE A4 (Single B/A Four).

The upgrade reflects the steady improvement of Gayatri Projects Ltd's financial profile mainly driven by strengthening its core construction business. In the last 12 months, the Company's order book has nearly doubled to Rs. 10,000 crore. The rating also factors in Company's attempts towards deleveraging its balance sheet by monetizing or restructuring



its matured road assets. Gayatri Projects Ltd is well positioned to sustain its business risk profile, on the back of steady order inflows, sharper focus on execution and significant addition from its power generation business.

Key developments in Q3FY16

A) Thermal Powertech Corporation India secures 8 - year Power Purchase Agreement with Telangana Power Distribution Companies"

Thermal Powertech Corporation India (TPCIL), a JV between Gayatri Energy Ventures Pvt. Ltd., a wholly owned subsidiary of Gayatri Projects Ltd and SembCorp Utilities (a wholly owned subsidiary of SembCorp Industries) which owns and operates a 1,320 megawatt coal fired power plant in Krishnapatnam in Andhra Pradesh's SPSR Nellore district, has signed a longterm power purchase agreement (PPA) with the Telangana Power Distribution Companies. Under the power purchase agreement, 570 megawatts of power will be sold to the Southern and Northern Power Distribution Companies of Telangana for a period of 8 years.

Together with the 500 megawatts of power supplied to the Andhra Pradesh and Telangana Power Distribution Companies under a 25-year power purchase agreement, TPCIL has secured more than 85 percent of its net total generating capacity under long term power purchase agreements. The approximately US\$1.5 billion coal fired power plant, which has a total capacity of 1,320 megawatts, completed its first 660 megawatt unit in March 2015 and second 660 megawatt unit in September 2015. The plant is more efficient and environmentally friendly compared to conventional coal fired power plants as it uses supercritical technology.

Atul Nargund, CEO of TPCIL, said, "We are pleased to sign this long term PPA with a progressive state such as Telangana. With this PPA, we have achieved our goal of securing at least 85 percent of our generating capacity on a long term basis. With this, TPCIL is now eligible for mega power status. In addition, operationally the plant is performing well and achieving good plant load factors."

B) Other developments in Q3FY16 - Renewed Strategy for Road Assets

- 1) Management decides on monetizing/corporate restructuring of road assets
- 2) Board contemplating hiving off entire road development business as separate entity
- 3) Working towards adopting "Asset light approach"
- 4) The Company has divested stake in Western UP Tollway Ltd. The project details are as follows:
 - a) Location: Uttar Pradesh
 - b) JV Partner: NCC
 - c) Length: 78.5 km
 - d) Concession period: 20 years
 - e) Operational since 2011



- 5) Enters into a share purchase agreement with Cube Highways and Infrastructure Pte Ltd.
- 6) Enterprise value of Rs. 575 crore (subject to certain closing adjustments)
- 7) Proceeds to be deployed largely towards paring high cost debt

Construction Business – Strong Order Inflows; Bagged multiple orders worth more than Rs. 4,000 crore

Road division

Order amounting to Rs. 741 crore for 4 – laning of Ghaghra Bridge to Varanasi section of NH -233 from Km 180.420 to Km 240.340 in the State of Uttar Pradesh under NHDP Phase – IV on EPC mode

Order amounting to Rs. 785 crore for 4-laning of Ghaghra Bridge to Varanasi section of NH – 233 from Km 240.340 to Km 299.350 in the State of Uttar Pradesh under NHDP Phase – IV on EPC mode

Order amounting to Rs. 986 crore for 4 –laning of Sultanpur to Varanasi section of NH – 56 from Km 134.700 to Km 205.000 in the State of Uttar Pradesh under NHDP Phase – IV on EPC mode

Order amounting to Rs. 806 crore for 4 – laning of Sultanpur to Varanasi section of NH – 56 from Km 205.000 to Km 263.000 in the State of Uttar Pradesh under NHDP Phase – IV on EPC mode

Order amounting to Rs. 675 cr for developments 6-lane Eastern Peripheral Expressway (NH NE-II) in the states of Haryana & UP - Package VI from km 114.00 to km 136.00 on EPC mode

Water Distribution & Feeders

Order amounting to Rs. 143 cr from Government of Mizoram for construction and completion of water distribution & feeders mains in joint venture with M/s. Vishwa Infrastructures and Services Pvt. Ltd.

Foray in Under – ground Mining Services

1) Significant growth potential for under – ground mining in India

- a) Government's 2020 target for 1 bn mtpa coal extraction by Coal India Ltd. includes 100 mtpa for under – ground mining (vs. current levels of just 37 mtpa).

2) Growth likely to be driven by large scale private participation

- b) Relative low expertise in India for large – scale mechanized under – ground mining

3) Gayatri – aiming to build an early leadership position in the sector

- a) Acquired a team of professionals with long experience in under – ground mining at Singareni Coalfields. Adding further to the team.
- b) Invested in equipment, built partnerships over last on year



- c) Ready to bid for all emerging opportunities in the sector
- d) Targeting a portfolio of services business supporting 10 mtpa production over next 5 years

4) First project win during Q2FY16

- a) One of the just 4 privately awarded long – wall mining projects in India
- b) Partnering with CODCO (China Coal Overseas Development Company), a Beijing based subsidiary of China Coal
- c) Raising contract: 2 mtpa of coking coal for ECL from Jhanjhra underground mine (Durgapur, West Bengal) using modern long wall mining technology supplied by CODCO
- d) 6 year initial contract, ready for production in Jan, 2016. Initial contract value Rs. 400 cr.

Power generation business

- 1) TPCIL's 1320 MW thermal power plant comes online following successful commissioning of Phase II
- 2) Plant ramping up very well –
 - a) Despite a weak November (60% PLF), due to weather related challenges, the plant delivered a Q3FY16 PLF of 78%.
 - b) TPCIL sold more than 2,100mn units of power during Q3FY16
- 3) NCCPPL project delayed 1-2 months due to November 2015 heavy rains/floods
 - a) Expect to commission 660 MW Unit I in next 3-4 months
 - b) Unit II (660 MW) likely to be commissioned within 3-4 months of unit I



Sr. No	Particulars	As on Sep. 2017	As on Mar. 2016
A	EQUITY AND LIABILITIES		
1	SHAREHOLDERS FUNDS		
a)	Share Capital	354.50	354.5
b)	Reserves and Surplus	8,294	8,032
		8,648	8,387
2	NON – CURRENT LIABILITIES		
a)	Long – term borrowings	10,198	9,720
b)	Deferred tax liabilities (Net)	225	231
c)	Other long term liabilities	7,998	6,271
d)	Long-term provisions	107	89
3	CURRENT LIABILITIES		
a)	Short – term borrowings	9,340	8,902
b)	Trade payables	3,452	4,180
c)	Other current liabilities	1,504	1,001
d)	Short – term provisions	86	86
	Total – Equity & Liabilities	41,558	38,868
B	ASSETS		
1	NON – CURRENT ASSETS		
a)	Fixed Assets	3,175	2,269
b)	Non-current investments	12,172	11,818
c)	Long-term loans and advances	5,102	5,103
2	CURRENT ASSETS		
a)	Inventories	2,107	1,549
b)	Trade receivables	6,199	5,829
c)	Cash and cash equivalents	2,093	1,800
d)	Short – term loans and advances	8,273	8,430
e)	Other current assets	2,436	2,070
	Total - Assets	41,558	38,868

Source: Company, Ajcon Research

About the Company

Gayatri Projects Ltd.

Gayatri Projects is Hyderabad – based infrastructure and Construction Company with a presence across the segment primarily undertaking road and irrigation projects. The Company with an over 50 years presence in the segment executes projects across the country and owns almost all its equipment, enabling optimal cost control. It also has Joint Ventures (JVs) in Built-Operate-Transfer (BOT) projects and executes construction contracts in partnership with Indian and overseas companies.

Its two subsidiaries, Gayatri Infra Ventures Ltd. (GIVL) and Gayatri Energy Ventures Ltd. (GEVL) incorporated in 2008 in Hyderabad are the Asset Development arms of the Company. GIVL, the road development arm and associated Gayatri entities are currently working on 7 operating and 1 under construction road projects, adding up to gross capital employed in excess of Rs. 5,000 cr while GEVL which was setup to undertake power generation projects is in final stages of developing a 2,640 MW power project in partnership with Sembcorp industries.

The Company has marquee clients like NHAI, AAI, Nalco, Tata Steel, Reliance Petroleum etc.

GPL owns Extensive fleet of state of the art Construction equipment

- 1) Heavy Earth Moving Machine: Hydraulic excavators, loaders
- 2) Concreting Plants: batching plants, transit mixers
- 3) Road Equipment: vibratory tandem rollers, integrated stone crushing plants
- 4) Quarry Equipment: Wagon Drills, Jack Hammers
- 5) Transportation Equipment: Tractors, Water tankers

Two fold benefits of owning several assets:

- Lower dependence on external sub contractors
- Maximizing profits & returns

About Sembcorp Industries

Incorporated in 1998, Sembcorp Industries is a leading energy, water and marine group operating across six continents worldwide. With facilities of over 8,200 MW of gross power capacity and over nine million cubic metres of water per day in operation and under development, Sembcorp is a trusted provider of essential energy and water solutions to both industrial and municipal customers. It is also a world leader in marine and offshore engineering, as well as an established brand name in urban development. In India, Sembcorp has over 3,300 megawatts of power capacity: 2,640 MW in thermal energy and over 700 MW in renewable energy. It owns and operates two supercritical thermal power plants: Thermal Powertech Corporation India (TPCIL) and NCC Power Projects (NCCPP), each having a capacity of 1,320 MW, in Andhra Pradesh. Sembcorp's renewable energy portfolio in India, operated through Sembcorp Green Infra, consists of more than 700 megawatts of wind power and solar power assets in six states across the southern, western and central regions of India.



Stock Price movement chart



Source: Moneycontrol

Standalone Profit and Loss Account (Rs. mn)

Particulars	FY2014	FY2015	FY2016A	FY2017E	FY2018E
YoY Revenue Growth (%)	-10.4%	-11.7%	13.18%	15%	20%
Revenue from operations	18,125	16,011	18,122	20,840	25,008
EBITDA	2,722	2,120	2,595	3,126	3,751
EBITDA Margin - (%)	15.0%	13.2%	14.3%	15%	15%
PAT	476	221	586	729	1,125
PAT Margin (%)	2.6%	1.4%	3.2%	3.5%	4.5%
Shares in issue (mn)	30	30	35	35	35
EPS (Rs.)	15.9	7.4	16.6	20.6	31.8

Source: Company, Ajcon Research



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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

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