



C&C Constructions Limited

Investor/Analyst Conference Call Transcript
Time & Date: January 25, 2010 at 04:00 pm IST

Moderator: Ladies and gentlemen, good afternoon and welcome to the C&C Constructions Limited Q2 & H1FY2010 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should 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. At this time I would like to hand the conference over to Mr. Aditya Bedi from Citigate Dewe Rogerson. Thank you and over to you, Sir.

Aditya Bedi: Good afternoon, ladies and gentlemen and welcome to C&C Constructions Limited Q2FY2010 Conference Call. We have with us today, the Company's Chairman, Mr. G. S. Johar and Chief Financial Officer, Mr. Tapash Majumdar. We will begin this conference call with opening remarks from Mr. Johar followed by an interactive question and answer session. Before we begin I would like to mention that certain statements made during this call may be forward-looking and a disclaimer to this effect has been sent to you in the conference call invite. I would now like to invite Mr. Johar to address the conference.

G. S. Johar: Good afternoon and welcome to C&C Constructions Q2 FY2010 Analyst and Investor Conference Call. I trust you would have all received the presentation and financials.

Let me all the same quickly take you through the key highlights. We are extremely pleased with our results both based on the top-line and bottom-line. During the quarter under review, net sales expanded 71% to Rs. 280 Crores from Rs. 164 Crores. Operating profit grew 120% to Rs. 71 Crores from Rs. 32 Crores in the corresponding quarter last year, while margins were higher by 558 basis points at 25.2%. Net profit in Q2 FY2010 increased by 132.5% to Rs. 19.6 Crores from Rs. 8.5 Crores translating to earnings per share of 10.76.

The company's order book as on 31st December 2009 stood at Rs. 3,007 Crores, giving us a strong revenue visibility. All our business verticals remained robust and contributed towards the performance. Roads continue to be a strong component of our business and make up over 55% of our pending order book.

As you are aware, the Central Surface Transport Ministry has rolled out an exhaustive Road Development Program and plans to upgrade this and develop highways across the country. Given our track record and reputation of successful road execution in fierce terrains, C&C is ideally positioned to capture any opportunity that presents itself in this business segment.

Meanwhile, we have made encouraging progress in other verticals including commercial buildings, railways and water sanitation. We won orders in each of these verticals through the quarter. With the advent of the dedicated freight corridor, the railway sector will be an

important growth driver for the company. We intend to seize this opportunity in this space by providing end-to-end solutions including track laying, signaling, and other related work. Similarly, we believe that the government's rapid urbanization and investment into core infrastructure space is bound to raise demand for investments in Commercial, Civil Buildings like Residential Townships, Hospitals, Hotels, Corporate Offices and Entertainment Plazas.

Although the macro economic condition still remains challenging, there are initial signs of stability, especially in the domestic market. Our growth and operational performance over the last several quarters is a testimony of the versatility and sustainability of our business model. We see abundant opportunities in the infrastructure space and feel that the company is well poised to contribute to this growth.

Our strategy over the last year of increasing bid capacity and enhancing our skills has helped us expand and diversify our scale of operations. We are continuously looking to build on our strength and enhance our competitive position. In order to support its pace of growth as well as to reduce high interest costs, the company is planning to raise capital via the equity route. This fresh infusion of capital would be used to repay some of our high cost debt and strengthen our balance sheet as well as to extend our bandwidth to take on larger orders in multiple verticals. This brings me to the end of my discussion. I would now happily address questions and queries that you may have. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa: I have a query which is specifically related to your Kurali Kiratpur project. Can you help me understand once you received the funding for this project, what was the actually cash outgo in FY08, FY09 and FY10?

G. S. Johar: I could just tell you off the cuff that we have spent about Rs. 270 Crores till now on this project. This Rs. 270 Crores includes the debt that I have taken, the equity that I have put in and a part of the grant I had received.

Nirav Vasa: Okay. Can I just get some idea on the toll charges that you are planning for this project? I just want an average figure, for example, what is the toll figure per kilometer that you intend to charge?

G. S. Johar: For the entire route, a car would be charged Rs. 29 and a three axle truck would be charged Rs. 66. And it's a 44 kilometer stretch so just divide those figures by 44.

Nirav Vasa: And if can I get some idea on the financial position of Mohali Bus Terminal?

G. S. Johar: That is still under process and we hope to have the financial closure completed over the next four to six weeks.

Nirav Vasa: Okay. And my last query would be related to your staff cost for the December ended quarter. This cost increased by 109% on YoY basis. Any specific reasons for this jump in the staff costs?

G. S. Johar: See, we are in a growth phase. A lot of projects happen where you recruit your people, but the actual billing or peak billing happens six months later. So you have a situation where you have got your staff in place and the costs are incurring, but the benefits are received only later. So as long as we are in a growth phase and there is a fair amount of projects that are just about starting we will always have this. In fact, you will observe that my

salary cost has gone up by 2% primarily because I got projects that I am mobilized on, but the billing either has not started or it is not at its peak.

Nirav Vasa: Okay, it is just temporary phenomenon.

G. S. Johar: Yes, it's a very temporary phenomenon

Nirav Vasa: And by when can we expect the process of fund infusion be over?

G. S. Johar: In the next 6 to 8 weeks.

Moderator: Thank you, Mr. Vasa. The next question is from the line of Rakesh Menon from Neon Investment. Please go ahead.

Rakesh Menon: I just want to understand two things. One is what is the total debt on your books?

Tapash Majumdar: The debt right now is about Rs. 740 Crores

Rakesh Menon: Can we have a split between Term Loans and Working Capital?

Tapash Majumdar: The Working Capital is about 40% of this and 60% would be Term Loans.

Rakesh Menon: And what would be the average cost of that?

Tapash Majumdar: The cost per se would vary between 13% to 14%. The average would come out something like 13.5% for this year.

Rakesh Menon: Okay. 13.5%. So what was the fixed asset addition during this quarter?

Tapash Majumdar: During this quarter we had an addition of Rs. 17 Crores and for the six months we had Rs. 38 Crores

Rakesh Menon: Okay. That is it. Thank you very much.

Moderator: Thank you Mr. Menon. The next question is from the line from Ajit Surana from Dimensional Securities. Please go ahead.

Ajit Surana: What is the status on the fund raising? At what price you are looking at and when do you expect it to be completing and what dilution will happen?

G. S. Johar: Very roughly we are looking at raising Rs. 150 Crores and Rs. 50 Crores of warrants by the promoters.

Ajit Surana: Is this only by promoters and not by outsiders?

G. S. Johar: No, not by outsiders. The promoters are taking the warrants which will take the holding to about 60% post the warrant allocation.

Ajit Surana: And what is the reason for doing it with the promoters and not a QIP?

G. S. Johar: There is a QIP involved of Rs. 150 Crores. The price of the QIP will get settled closer to the issue date. We are going through the process of diligence and may be by the middle of next month we should have something in place.

Ajit Surana: So you will have a QIP plus warrants and they will be at the same price?

G. S. Johar: Yes.

Ajit Surana: Okay. Thanks.

Moderator: Thank you, Mr. Surana. The next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao: Can you take us through execution of key projects and the contribution to margins during this quarter?

G. S. Johar: Yes, by and large we have maintained our execution schedule of all the projects in line with what we had planned. The projects at Himachal are not fully as per plan; they are partially behind. But there is nothing very serious to worry about. Some of these are on account of pending sanctions. All that process is now over and I think in the next six months whatever we had lost during this period would be gained.

Srinivas Rao: Okay. In terms of top-line contributions during this quarter, which will be the top three projects?

G. S. Johar: The top three projects are the one in Parwanoo-Zirakpur, Bihar and Afghanistan.

Srinivas Rao: Okay. I thought Afghanistan also is not ramped up yet. Is it correct observation?

G. S. Johar: See where Kabul is concerned we could work, but the Gardez- Khost project is a little slow and it is because of the weather condition. It should ramp up now.

Srinivas Rao: Okay. And according to you what contributed to this margin improvement?

G. S. Johar: The improvement was because of variation claims that got cleared by NHAI.

Srinivas Rao: How much would that be?

G. S. Johar: I think around Rs. 11 Crores

Srinivas Rao: So, what are we looking for the full year top line now?

G. S. Johar: See as we indicated earlier that we have Rs. 3,000 Crores order book. We will do about 40% and we hope to maintain that and the PAT should improve to about 5%.

Srinivas Rao: Okay. The JP project and Bihar projects what will be the monthly run rate now?

G. S. Johar: See we should be doing over Rs. 20 Crores in the JP project in Parwanoo-Zirakpur and the DFCC would come to about Rs. 14-15 Crores.

Srinivas Rao: Okay. Sir, you talked about funding and also reducing the average cost. Any progress on that because you started seeing numbers not much has changed?

G. S. Johar: There are two things that we must keep in mind here. When we talk of funding costs, one fifth of this cost goes towards bank charges, guarantee charges, etc. These charges are a function of the new orders that are received, the bank guarantees, the performance bonds, the mobilization advance bonds that I need to give. Now this would probably be at the same level as last year but the turnover being much larger, we would expect some reduction there. There will be at least a one third reduction in bank charges, or from our major bank. When you look at the 12 month period ending June 2010 you will definitely see a reduction in the financing charges.

Srinivas Rao: Okay. So you are saying that this happened recently and not reflected in second quarter numbers?

G. S. Johar: Right.

Srinivas Rao: Okay sir. And interest rate?

G. S. Johar: See we have got the most recent loan at about 9.5%.

Srinivas Rao: So what will be average cost as of today as we speak?

G. S. Johar: I think the interest would be about 12.5%.

Srinivas Rao: Okay. What is happening on the roadside? What are you looking at? In the last quarter there was nothing, but in terms of pipeline, how is it and what is your game plan?

G. S. Johar: See we have roughly about Rs. 1,800 Crores of projects in the JV and about Rs. 600 Crores worth of projects in C&C alone which are under bid and the results are still awaited. And we also put in qualifications for about Rs. 20,000 Crores of BOT projects of which our share would be about Rs. 10,000 Crores

Srinivas Rao: Okay.

G. S. Johar: That is the sort of business we are looking at.

Srinivas Rao: And in the new roads that you are bidding, will you be working on a lower margin or will it be same as what you have today?

G. S. Johar: See whatever the margins in Bihar are, they remain the same. Most of these projects are in Bihar. As far as the BOT projects are concerned, we will have the same margins as in Parwanoo-Zirakpur.

Srinivas Rao: Okay. Sir, I have one last question. Compared to the previous quarter there is again an increase in debt. Can you elaborate on where this has gone?

Tapash Majumdar: Srinivasan, this increase has gone in funding the additional fixed assets amounting to about Rs. 17 Crores and the balance towards working capital.

Srinivas Rao: Okay. So how much was the debt in the last quarter end?

Tapash Majumdar: Last quarter the debt was Rs. 642 Crores and now there is another addition of Rs 98 Crores. We are sitting on Rs. 740 Crores of debt right now.

Srinivas Rao: Okay. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Sandeep Chopra from Global Investment House. Please go ahead.

Sandeep Chopra: I have one question on the margins. You are seeing roughly 550 basis expansion in margins on YoY basis. You said some variation claims from the NHA1 to the extent of the 200 basis. Any other thing I am missing out? Have we executed few high margin contracts during the quarter or some impact of declines in the commodity prices per se? What explains this huge jump in the margin?

Tapash Majumdar: If you see our H1 margin they are higher to the extent of about 2.5%, which is about 22.5% EBITDA. Our margins in general are at about 19.5% to 20%. This increase of 225 basis points is due to variation claims that we received in this quarter.

Sandeep Chopra: Okay. So basically you are saying that on a H1 basis there has only been this variation claim thing?

Tapash Majumdar: Yes, for H1, about 2.5% is the net, I would say is the extraordinary item that is included in our EBITDA margin.

Sandeep Chopra: That is the core operations margin?

Tapash Majumdar: Yes.

Sandeep Chopra: Okay. Thanks.

Moderator: Thank you, Mr. Chopra. The next question is from the line of Ajit Dange from SBI Mutual Fund. Please go ahead.

Ajit Dange: What is the reason that we earn better margins compared to our peers even though we earn substantial revenues from the road segment?

G. S. Johar: Yes. I think there are two factors primarily. One is the areas where we choose to work. When we look at Afghanistan or we look at Bihar, you will find that there is a lesser competition and consequently better margins and then there is a fair amount of out-of-box thinking in terms of price reduction on costing.

Ajit Dange: In terms of input cost?

G. S. Johar: Yes. Input cost. We set up our own quarries. In my Bihar project, I work from a quarry in Nepal, which reduces my carrying cost by 109 km. So these are the areas that contribute to my higher margins and of course Afghanistan has its own set of challenges and thus the higher margins.

Ajit Dange: Yes, of course. Afghanistan is understandable provided that is very significant contributor to the revenues, but I think the contribution to order book is just 12 to 13% right?

G. S. Johar: Yes, in terms of order execution also it was about 10%.

Ajit Dange: Your competition normally projects margins of 10-11%?

G. S. Johar: Yes, the geography other than Bihar and Afghanistan would be at the 12%- 14% margin.

Moderator: Thank you, Mr. Dange. The next question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa: I just want to know about your Kurali Kiratpur project. The project is expected to start very soon now, but what are the legal formalities after which you can hike your toll rates?

G. S. Johar: The toll rates are linked to the WPI. So for every WPI increase there would be an increase in the toll rates.

Nirav Vasa: Okay. Can you give me some approximate idea by what time your Afghanistan project would be completely executed?

G. S. Johar: In the next two years.

Nirav Vasa: Okay, thank you very much sir.

Moderator: Thank you Mr. Vasa. The next question is from the line of Mohammed Riyazuddin from Eureka Stock and Shares. Please go ahead.

Mohammed Riyazuddin: I just have a question. You have already spoken about your higher EBITDA margin. But your higher EBITDA margin is mainly because, as you have mentioned earlier, because you own your assets. So that cost has been factored in the depreciation, but even in spite of your depreciation you get a PAT margin of 7% in this quarter. So can you give us some input on why is 7% that is little higher than what is there in the construction business amongst your peers?

Tapash Majumdar: Yes. Good question, except that ownership of fixed asset is only one of the reasons for getting higher margins. As you rightly said that this has been factored into depreciation. Basically our projects which are located in some of the challenging areas are with margins which are higher to begin with. Apart from this, we also do a lot of out-of-the-box thinking as have illustrated in the past. We have a hands-on management team which sits on the site and thinks everyday how to reduce costs. We have taken certain innovative measures right from the time that we were incorporated till now and all these measures add up to get a good margin. Besides this, we have a corporate policy of only bidding and accepting those kinds of orders which give us margins that we are looking for. In the current Indian scenario there are enough orders that are going around and I do not think there is any tearing hurry to pick up any order that comes by. Our present order book of Rs. 3,000 Crores will take us through with the EBITDA margin that we had bid for. So we do not see any deviation in this policy.

Mohammed Riyazuddin: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Akshay Singhi from Collins Capital. Please go ahead.

Akshay Singhi: Congratulations on great set of numbers. I just wanted to know what orders did we receive in the last quarter and what is the pipeline looking like in the next quarter?

G. S. Johar: We have got order worth about Rs. 200 Crores in the last quarter and we are sitting on a pipeline of EPC contracts of about Rs. 2,000 Crores and we have qualifications of over about Rs. 10,000 Crores.

Akshay Singhi Okay sir thanks a lot.

Moderator: Thank you. The next question is from the line of M. Arun from Capital Market. Please go ahead.

M. Arun: This is regarding your reply to one of the earlier questions actually. You have mentioned that you bid or you have qualified for Rs. 10,000 Crores worth of BOT projects. Is it that you qualified for it or you have you actually bid?

G. S. Johar: I have bid for 2,000 Crores worth of jobs for which results are still awaited. In addition I have qualified in joint venture, where my share is Rs. 10,000 Crores of BOT projects.

M. Arun: BOT projects. Okay. Thanks a lot sir.

Moderator: Thank you Mr. Arun. The next question is from the line of Sneha Rungta from Sharekhan. Please go ahead.

Sneha Rungta: Just a question regarding your fund raising. You plan to raise about Rs. 200 Crores so how much debt would be repaid out of the total proceeds?

Tapash Majumdar: Basically, the fund raising is not to repay debt as such. It is a question of timing. We said that we will use some of the proceeds to repay the debt because the fund raising program has got delayed a bit. We had to get the projects moving and to that extent we raised some fresh debt. Some of that debt will have to be repaid. But the essence of this fund raising is basically to invest in capital equipment, investment in BOT projects, and then strengthening our working capital.

Sneha Rungta: Okay. So what is your CAPEX plan for the next two years?

Tapash Majumdar: There is roughly an addition of Rs. 80 Crores this year ending June 2010 and you can expect a similar range in the next year.

Sneha Rungta: Going ahead, how do you see your order book mix? It would be skewed towards road projects only or the mix will change more towards the water projects and all?

G. S. Johar: We are currently sitting on an order book of about 60% on the road sector and there would not be any major variation in this distribution.

Sneha Rungta: One reason you said for a higher margin is that because of your presence in difficult terrain results in you getting higher margin. Going ahead, will you be concentrating more on these difficult terrains only or will your margins would get a bit diluted?

G. S. Johar: See the USP of the company is that we take a project in geographies that are challenging. However, with the growth of business, the geographical distribution of business would change. Maybe three years earlier I was doing 70% in Afghanistan and today I am only at 10%. I have not reduced my volume of business in Afghanistan, but the other areas have grown. So, there would be similar re-distribution of geographical sort of locations of projects that I carry out and what is in the normal sector would carry a lower margin and what is in the difficult sector would carry a higher margin.

Sneha Rungta: Okay. Apart from Afghanistan, are you looking at other countries also Middle East side?

G. S. Johar: Yes, we are looking at the Middle East market. We are looking at the Russian market and the African market.

Sneha Rungta: Okay. That is it. Thank you, sir.

G. S. Johar: Thank you.

Moderator: Thank you Ms. Rungta. As there are no further questions I would like to hand the floor back to Mr. Johar for closing comments. Please go ahead.

G. S. Johar: I think the half year ending December has been very interesting for the company and we are quite hopeful that we will be able to maintain the growth that we have shown during this period and the results for the year ending June 2010 would be in line with the growth pattern. The market for construction industry is very large and with the government's current thinking we see a lot of opportunity for companies like us to grow in. I look forward to your continued support. Thank you.

Tapash Majumdar: Thank you.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen, on behalf of C&C Constructions Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.