C&C Constructions Limited

Q4 & FY2008 Investor/Analyst Conference Call Transcript
October 10, 2008

Moderator: Ladies and gentlemen good afternoon and welcome to the C&C Constructions Limited FY08 conference results. Please note that for the duration of this presentation all participants' lines will be in the listen-only mode and this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing * and then 0 on their telephone. At this time, I would like to turn the conference over to Mr. Aly Rashid of Citigate Dewe Rogerson; thank you and over to you Mr. Rashid.

Aly Rashid: Thank you Rochelle and good afternoon to everyone and welcome to C&C Constructions Ltd Q4 & FY2008 conference call. We have with us today Mr. Gurjeet Singh Johar, the Chairman of C&C Constructions and Mr. Tapash Majumdar, the Chief Financial Officer of the company. We will begin this conference call with opening remarks from Mr. Johar after which we will have an interactive question and answer session. I would now like to invite Mr. Johar to give us a brief overview on the financial performance and the corporate development during the period and the review, over to you Mr. Johar.

G. S. Johar: Thank you, good afternoon everyone and thank you for joining us on this conference call, where we will discuss our performance and key developments for the quarter and the year ended 30th June, 2008. Before I begin, I would like to point out that certain statements made during this call maybe forward-looking in nature and might differ from the actual results going forward.

Firstly, I would quickly like to touch upon the financial performance for the quarter and the year under review. In the FY 2008, the company's revenue stood at Rs.5,333 million compared to Rs. 3,304 million in 2007, indicating an increase of 61%. Operating Profit increased 30% to Rs. 929 million in the financial year 2008 compared to Rs. 716 million in the financial year 2007. Operating Margins remained at a healthy level of 17.4% as for the period under review improved 23% at Rs. 410 million from Rs. 332 million in 2007. The revenues for the Q4 2008, increased by 78% to Rs. 2,319 million from Rs. 1,300 million in the corresponding period last year. In Q4 FY 2008, EBITDA dropped by 11% to Rs. 291 million from Rs. 327 million in the corresponding period last year.

There are a number of reasons for the drop in operating profits, firstly the BRT Project in Delhi had a cost overrun of 23% resulting in a reduction of EBITDA of Rs. 28 million for this quarter. We have made suitable claims with the employer for this cost overrun and expect this issue to be resolved in due time. Secondly, the BOT Project we had the cost escalation of 22%, reducing EBITDA by Rs. 85 million in the quarter. Again, we had discussions with the concerned parties to resolve this issue and we are optimistic about solving it shortly. Furthermore, there was a provision for bad and doubtful debts of Rs. 19 million and an additional cost of 51 million incurred in rebuilding temporary sheds after the floods in Bihar. The combined effect of these transactions resulted in a reduction of EBITDA of 180 million, which if added back would results in an EBITDA of Rs. 471 million for the Q4 '08 versus Rs. 326.7 million for Q4 FY 2007, an increase of 44.25%. This translates into a margin of 20.32% on sales. Flexible pricing models and escalations clause have enabled us to combat the commodity price increases we have witnessed during this period.

Moving on to the operational performance, our order book remains strong at Rs. 16,136 million as on 30th June, 2008, and is expected to be executed over the next three years plus providing significant revenue visibility in the near future. Around 57% of the order book that's Rs. 9,136 million of the current order book backlog comprises of independent contracts and the balance 43% that's Rs. 7,000 million are in joint venture with our JV partner BSCPL Infrastructure. Our Indian operations are primarily in the states of Bihar, Punjab, Delhi, Haryana, and Himachal Pradesh and include the Himalayan Expressway Project from Zirakpur to Parwanoo, a BOT Project with Jai Prakash Associates and the HCBC Delhi or rather BRT now. In Q4, 2008 we bagged the prestigious Rs. 5,740 million Himalayan Expressway Project from Zirakpur to Parwanoo. This order was received from JP Associates for a four-lane highway from Zirakpur to Parwanoo passing through the states of Himachal Pradesh, Haryana, and Punjab. Previously, we also received and executed two orders worth Rs. 2,000 million from the Himachal Pradesh Road and Infrastructure Development Corporation, which was funded by the World Bank.

Our repeated competence and timely execution of projects in challenging environments both in India and abroad have enabled us to muster and retain relationships with well-regarded institutions. In Afghanistan, we successfully landed a $86 million project along with our JV partner BSCPL, from the American consortium of Louis Berger and Black & Veatch for the project in Afghanistan. This order is the biggest order received by our JV. The project entails rehabilitation and construction of the 103 km long Gardez-Khost Road in Afghanistan. Our JV with BSCPL has been mutually beneficial and we have swiftly gained a reputation of jointly bidding, completing arduous projects in a timely manner. Additionally, the JV with BSCPL has enabled us to enlarge our bid capacity. This has provided us substantial muscle to land large high value projects. Subsequently, we have jointly bid for the prestigious Rs. 5,270 million Afghan Parliament Building for which results are expected in the current quarter. The completed and potential projects of Afghanistan are part of the rebuilding of Afghanistan Program, which is expected to continue to 2011, demonstrating a significant opportunity to land additional projects going forward.

Our outlook for the infrastructure and construction space as a whole and C&C Constructions in particular continues to be positive. The need to diversify our business model, we have extended our presence to the building and water and sanitation verticals. The contribution of these businesses to the overall order book is presently small, but we believe that they and the other new offerings will continue to grow, lowering the perceived overdependence on the road and highway segment. Similarly, over the year, our client base has been considerably widened. Today, we are working with several large entities and our orders from NHAI are at 25% of the total order book.

Going forward, we would like to continue to bid for projects in challenging environments as we have developed a competence in executing such projects in a timely fashion and also because these projects offer higher margins. We are focused on our competence and confident of our abilities and upbeat on delivering sound performance in the future. I may also add here that keeping in mind the current financial crunch in the market; we are adequately funded to carry out the jobs in hand and do not foresee any major problem in delivering the results perceived for this financial year. This brings me to the end of my presentation. I would gladly address any questions that you may have, thank you.

Moderator: The first question is from the line of **Mr. Srinivas Rao** from **HDFC Mutual Funds**, please go ahead.

Srinivas Rao: First question is on the outlook for order, how is it looking from roads and also from railways?

G. S. Johar: Currently, my order book is at Rs. 1,600 crore of which about 96% is from the road sector and the balance 4% is from building and sanitation. Going forward, the various orders that we put in, there is a road project, there are railways, and there are building projects, which I have mentioned in my earlier talk. So, this would translate into a large portion of orders outside the road sector.

Srinivas Rao: If I am looking at the next six months, what kind of visibility we have on orders whether it is a roadside or railway?

G. S. Johar: You know we would look at anything between Rs. 1,000 to Rs. 1,500 crore.

Srinivas Rao: Including railways?

G. S. Johar: Yes including railways.

Srinivas Rao: The next question is on these margins there is fairly detailed explanation in the note also. I just wanted to understand, what are these, one is escalation related to BRT, how do we expect that money to comeback or what kind of contract is it?

G. S. Johar: No, this is a contract with the price escalation, what really happened is that there have been a whole lot of design changes for which we have had to stop work and which will lead to some sort of compensation. We have put in our compensation claim for which, we are awaiting the decision of the Dispute Review Board and then it may go into arbitration. We would be adequately covered, if this compensation is translated into actual receipt.

Srinivas Rao: But we are referring to only the escalation part right, Rs. 18.6 million.

G. S. Johar: There would also be some payment on account of idling.

Srinivas Rao: What you mentioned there is a cost overrun of Rs. 25.6 million, so in addition to that you expect some more money to come?

G. S. Johar: Right!

Srinivas Rao: And when you do see this in terms of timelines?

G. S. Johar: It is very difficult to translate that into timelines, but we would expect the Dispute Review Board to clear this in the next three months.

Srinivas Rao: What is this provision on these bad and doubtful debts related to?

G. S. Johar: Yes, I think this is one work that we have done for a South African Company and if you recall some couple of years ago, NHAI invited contracts for operation and maintenance of roads for an eight-year period. And we were doing this work for the South African Company. The contract was terminated by NHAI and we have our claim pending, but it's been over three years now, I don't expect anything to happen on this front.

Srinivas Rao: This is the total outstanding amount?

G. S. Johar: Yes, though we recovered most of it, this last bit was left, we used to work with them on a LC, when the final crunch came the LC did not happen, we stopped work and whatever little work was left, it did not sort of comeback.

Srinivas Rao: This charge related to temporary sheds of 51 million, so how does that take, this is part of World Bank orders?

G. S. Johar: No, this is the NHAI business and what really happened was that the sheds got washed away. We got an insurance claim and if you recall in my earlier accounting, part of the insurance claim or rather the entire insurance claim was shown as other income. The insurance claim was for work that we had to redo, which means the material was booked twice. Once NHAI paid us, we did the job, then it got washed away and then the insurance company paid us. So, we reduced the insurance amount from the material. Similarly, we had a shed, the temporary sheds, on which we normally provide depreciation since it was being redone, we took it to project execution expenses.

Srinivas Rao: So in expenses you have taken it out, but it has come in other income is that what you are telling me?

G. S. Johar: No, see we haven't taken other income, the other income has been reduced from the construction expenses. What really happens that you did the work once, NHAI paid you, and when you did it again, the insurance company paid you. So, we reduce the entire insurance claim from the project execution expenses.

Srinivas Rao: What is your outlook on margins for this year, EBITDA margins?

G. S. Johar: We should be able to maintain our annual margins, however, there is one caveat, that is there is more Afghanistan business coming. We have quoted for $200 million worth of contracts. If this happens then they could go up.

Srinivas Rao: On the existing order book, you were saying, you can maintain current margins for FY08 annual margins.

G. S. Johar: Yes.

Srinivas Rao: If you get more business from Afghanistan margins will go up.

G. S. Johar: Yes.

Srinivas Rao: And what can lead to margins going down?

G. S. Johar: I think all our contracts are covered on escalations, except the BOT job, so there is no reason why the margin should go down, unless we don't execute on time. And of course, you know there is also the additional interest that we have to pay. We are quite hopeful by operational efficiency we should be able to offset the additional interest cost.

Srinivas Rao: What are your total borrowings at the end of FY08 and what do you expect that number to be at the end of '09?

G. S. Johar: We are currently at Rs. 270 crore.

Srinivas Rao: Total borrowings at the end of June 2008?

G. S. Johar: We should have another Rs. 100 crore of borrowings during the year.

Srinivas Rao: So, by June 2009 you expect that to be around 370 crore?

G. S. Johar: Yes.

Moderator: The next question is from the line of **Mr. Shreyant Jain** from **Axis Private Equity Ltd**, please go ahead.

Shreyant Jain: Hello!

G. S. Johar: Yes.

Shreyant Jain: Yes I had a question about your temporary sheds, what exactly is your accounting policy in that regard, you depreciate them for what time?

Tapash Majumdar: Yes Shreyant, this is Tapash Majumdar, the CFO of the Company. You know temporary sheds as a matter of depreciation policy of the company gets written off as fully charged to depreciation in the normal course. But this is a temporary shed, which is rebuilt again as a result of the flood that took place in Bihar, which earlier had already been depreciated. So, the reworking on these temporary sheds was charged off as a construction expense now, earlier it was booked under depreciation. The policy remains the same, except that it was rebuilt and on an asset which we had already charged depreciation, we could not charge depreciation again, it wouldn't be correct, so we have debited it to our operating expenses.

Shreyant Jain: So, over how many years do you depreciate them generally?

Tapash Majumdar: it's a full write off, 100% depreciation every year.

Shreyant Jain: No, for this it is fine, I mean this is a charge off, generally asking you over how many years do you depreciate these temporary sheds?

Tapash Majumdar: Not only this one, this is a charge off to a head other than depreciation otherwise it is charged off to the head depreciation, there is no difference, it just gets charged off 100% in both the cases, it's just that the presentation would have been improper, had we debited it, for the same asset to be depreciated twice, that's all.

Shreyant Jain: Second thing about your BRT Project, so you have booked this cost overrun in the expenses, but what about the escalation that you expect, have you booked that in the revenue or will you wait for actual receipt of this escalation?

G. S. Johar: We will wait for actual receipt.

Moderator: Thank you Mr. Jain. The next question is from the line of **Mr. Pritesh Vora** from **Indusino Advisors**, please go ahead.

Pritesh Vora: Sorry, I joined a little bit late. Can you please tell us a little bit about the big picture, how do you see the company spanning out about order execution, new order booking, etc. in the next two years?

G. S. Johar: See, you know we currently sitting on an order book of about 1,600 crore and we have a very clear visibility that we will execute this business over the next two years. There are orders in the pipeline for the one that we bid and during the next six months, we expect anything between Rs. 1,000 to Rs. 1,500 crore from additional business.

Pritesh Vora: And that is to be executed over period of 24 months?

G. S. Johar: Yes

Pritesh Vora: Okay, so you don't see any slowdown in your work of operations?

G. S. Johar: No, we don't see a slowdown, a slowdown happens for example, the last six months; generally there has been a slowdown because NHAI hasn't released too much of the business. However, if you would have followed the news, they have just about cleared some Rs. 60,000 crore worth of projects though they haven't allocated any work during the last eight months now, but there is Rs. 60,000 crore in the pipeline. So any party that gets caught between these two cycles, would see a slowdown, otherwise there is a prime need for infrastructure and it has to happen.

Pritesh Vora: But those orders generally will bring your margin down right, I mean you will not be able to achieve the margin, which you traditionally used to achieve?

G. S. Johar: No, the USP of this company is to only bid for business that gives us an additional margin, well going forward the business that we are talking of is again in areas that give us higher margins than the rest of the industry.

Pritesh Vora: Okay and one more question, I see lot of orders booking on your Afghanistan portfolio, how is that panning out in next two to three years?

G. S. Johar: The Afghanistan business, as a conscious decision we have taken that we would maintain the Afghanistan business at the current level, though there is a little drop this year, but anything between Rs. 100 to Rs. 150 crore of Afghanistan business would be done. We already have an $86 million order in joint venture with our partner. I have another $125 million order in the pipeline business for Afghan parliament and there are another $200 millions worth of business that we bid for, we are expecting the results, may be over the next two to three months.

Pritesh Vora: so we may see constant Rs. 800 to Rs. 1000 crore top lines in the next two years going forward?

G. S. Johar: Yes, this year we should be able to look at Rs. 800 odd crore.

Pritesh Vora: and you will able to defend your PAT margin on that?

G. S. Johar: Absolutely!

Moderator: Thank you Mr. Vora. The next question is from the line of **Mr. Sandeep Chopra** from **Global Investments**, please go ahead.

Sandeep Chopra: Hi all, I have two questions basically, if you could just quantify the two reasons the EBITDA is down, one is towards the cost overrun and second is the provision, what is the total quantum with these two items that pull down by the EBITDA? And the second thing, we operate mainly in states like Bihar and we have seen so much of flooding and also, do you see that as a boon or bane, I mean do you see any opportunity for various new projects being awarded or something?

G. S. Johar: I think the investor's note that we circulated.

Sandeep Chopra: Yes, actually I have not received so….

G. S. Johar: I request Citigate to put you on to that mailing list, okay. Here we have Rs. 180 million; you see value that is on account of either accounting practice or escalation, which will bring my EBITDA down. And your next question on the floods in Bihar, that's not an opportunity, I think you know floods are the things happen and you have absolutely no control on it. So, whatever you bid for should take into account, the possibility of flood and your costing and everything should include that there are going to be floods and how do you prevent too much damage, you have an adequate insurance and whatever delays that take place are adequately provided for in the estimate.

Sandeep Chopra: my point is now we have seen so many smaller roads and things getting destroyed so, do you see the government or the local municipal corporate bodies inviting fresh bidding for rebuilding those things and do you see any type of new business, I mean the incremental business coming in from-?

G. S. Johar: Yes, we normally bid for jobs that are either funded by are or either floated by NHAI that is National Highways and in case of State Highways they are funded either by ADB or by World Bank. We don't go in for the rural or the smaller roads, but they are the ones the quantum is very small, so that's not a market that we address.

Moderator: Thank you Mr. Chopra. The next question is from the line of **Mr. Inderjeetsingh Bhatia** from **Macquarie Capital**, please go ahead.

Indrajeet Bhatia: Couple of questions from my side, one is in terms of your financing you said, you will go from Rs. 270 crore of borrowings to Rs. 370 crore by next year, but in the last four weeks, have you seen any material change in your borrowing cost or any difficulty in terms of raising money?

G. S. Johar: No, see there are no difficulties, but interest cost have gone up from about 12% to 14.5%.

Indrajeet Bhatia: But the money, the liquidity is available?

G. S. Johar: Liquidity is available.

Indrajeet Bhatia: Okay and in terms of purchases from supplier especially steel, cement, have you seen any kind of shortening of credit cycles to you or generally in the industry?

G. S. Johar: You know we normally work on a LC, 180 days LC and whatever discounting takes place, so it really doesn't disturb us too much in terms of cash flow with whatever shortening of credit that takes place.

Indrajeet Bhatia: Okay and similarly on the receivable side have you seen any kind of a shift in term of payment cycles by any of your clients?

G. S. Johar: No none at all.

Moderator: Thank you Mr. Bhatia. The next question is from the line of **Mr. Abhinav Bhandari** from **Pinc Research**, please go ahead.

Abhinav Bhandari: Just wanted to get some update about our two or three projects, sir first of all-

G. S. Johar: Which one please?

Abhinav Bhandari: Two or three projects I will name them sir, first Delhi BRT Project. When is this scheduled to be completed and how much is the balance of work now left on this project sir?

G. S. Johar: You know this work will be completed by the end of this year.

Abhinav Bhandari: Okay and what amount is left sir, that is still to be built?

G. S. Johar: I think about Rs. 25 to Rs. 30 crore.

Abhinav Bhandari: So can we see some more addition in that cost overrun?

G. S. Johar: Very marginal!

Abhinav Bhandari: Okay and we have some four or five projects going on in Bihar, for last two three months because of the flood do we expect some sort of delays or any cost overruns on them also?

G. S. Johar: No, see we have a set of projects in Bihar which have currently no floods, the floods are in the Kosi Belt and currently we have no work in the Kosi Belt, so these floods have no effect on me, however they have a lot of rain, which happens every year in Bihar and that's fully provided for in my estimates.

Abhinav Bhandari: I just wanted to get an update on our BOT project, I mean till September how much investment has gone in by us and what is the progress as of now?

G. S. Johar: We have invested Rs. 75 crore and this project is on schedule, we propose to complete this project at least six months in advance.

Abhinav Bhandari: And this cost overrun component that we have for the BOT of Rs. 84.5 million, the same would be in the books of BSCPL as well, so in all it would be Rs. 170 million odd crore cost overrun?

G. S. Johar: Yes roughly!

Abhinav Bhandari: And anymore, overrun that we expect on this?

G. S. Johar: No, right now steel prices are its peak and you know we have contracted for most of the steel that we want, so we don't expect major change now.

Abhinav Bhandari: so are we in talks to NHAI to compensate for this or how come?

G. S. Johar: No we are trying to workout internally, how much of it we have to pass on to the SPV and maybe either raise more debt or increase our equity.

Abhinav Bhandari: so eventually you would be compensating it from the SPV?

G. S. Johar: Correct!

Moderator: Thank you Mr. Bhandari. We have a question from the line of **Mr. Pritesh Vora** from **Indusino Advisors** again, please go ahead.

Pritesh Vora: this is Pritesh again. There is a follow up question. You declared some dividend I see from your note, what is our dividend payout ratio policy?

G. S. Johar: Less than 15%.... around 13%.

Pritesh Vora: it will be consistent dividend payout?

G. S. Johar: I think we have maintained that over the years.

Moderator: There are no further questions from the participants at this time; I would now like to hand the conference over to Mr. Rashid.

Aly Rashid: I would just like to hand this over to Mr. Johar to give the closing remarks.

G. S. Johar: I think, if we were to look forward, we feel that we are in an industry that offers phenomenal scope and opportunity provided you can deliver. We pick and choose our projects that offer a certain amount of difficulty and we have consistently established that we can deliver under these difficult conditions and the way forward is to get just enough business that you can deliver and to get the company to grow at a healthy rate. Thank you.

Moderator: Thank you Mr. Johar. Ladies and gentlemen thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.

G. S. Johar: Thank you**.**

Aly Rashid: Thank you.