Result update – Q2FY16

Gayatri Projects Ltd.. – Maintain our "BUY" rating **20th November, 2015**

CMP: Rs. 700.75 | Target: Rs. 1,300| Upside: 86 %| Market Cap: Rs. 2,484 cr.| FV: Rs. 10

Q2FY16 Financial Performance

(Rs. in mn.)	Q2FY16	Q2FY15	%yoy	Q1FY16	%qoq
Income from Operations	**3,172.0**	**3,063.3**	3.5	**4,050.9**	(21.7)
Cost of Materials Consumed & WE	(2,342.8)	(2,405.9)	(2.6)	(3,281.4)	(28.6)
Changes in Work in Progress	(187.0)	(14.3)	1,209.9	(20.9)	796.3
Employee benefit expenses	(78.5)	(91.5)	(14.2)	(104.5)	(24.9)
Other expenditure	(61.8)	(68.6)	(10.0)	(68.4)	(9.7)
Operating profit	**502.0**	**483.0**	3.9	**575.8**	(12.8)
OPM (%)	***15.8***	***15.8***	***6.0***	***14.2***	11.4
Depreciation	(95.1)	(72.4)	31.3	(93.3)	1.9
Interest	(351.8)	(404.8)	(13.1)	(358.4)	(1.8)
Other income	14.0	4.5	213.0	39.1	(64.2)
PBT	**69.2**	**10.2**	575.2	**163.2**	(57.6)
Tax	3.8	1.1	234.8	(56.2)	(106.7)
Effective tax rate (%)	***(5.4)***	***(10.9)***		***34.4***	(115.7)
Other provisions / minority etc	-	-		-	
Adjusted PAT	**72.9**	**11.4**	541.7	**107.0**	(31.8)
Adj. PAT margin (%)	***2.3***	***0.4***	***192.8***	***2.6***	(13.0)
Extra ordinary items	-	-	-	-	
Reported PAT	**72.9**	**11.4**	541.7	**107.0**	(31.8)
Equity capital	**354.5**	**302.3**	17.3	**175.0**	102.6
FV	**10.0**	**10.0**	-	**10.0**	-
No. of equity shares (mn)	**35.5**	**30.2**	17.3	**17.5**	102.6
EPS for the quarter	**2.1**	**0.4**	447.1	6.11	(66.4)

Akash Jain – MBA (Financial Markets)
Research Analyst (Mentored by CA Ashok Ajmera, CMD)

Gayatri Projects Ltd (GPL), a prominent and well established infrastructure company specializing in road, irrigation, power transmission and industrial projects, with a pan India presence and a strong asset development portfolio, has announced its results for the quarter ended 30th September, 2015.

During H1 FY16, the Company's revenue grew 11% to Rs. 722 crore; EBITDA increased 8% to Rs. 108 crore; PAT grew ~6x to Rs. 18 crore. Order book as of September 30, 2015 stands at ~ Rs. 10,380 crore.

Note: The Company has claimed deduction u/s 80IA of the Income Tax Act, 1961 in respect of income earned on infrastructure projects.

Commenting on the results, Mr. Sandeep Kumar Reddy, Managing Director, Gayatri Projects Limited said "Over the last 6 months we have seen significant improvement in operating environment for government led construction business. Macro tailwind, improved balance-sheet and new business development push have made the period our best ever in terms of new order wins - Rs. 4,393cr - more than doubling our effective order book. ***This quarter we also made a notable first foray in under-ground mining services business and we are working towards ramping up that business significantly.*** The construction business execution was seasonally impacted by monsoons and we focused on improving operating margins and balance-sheet flexibility for future growth. We continue to see robust execution in owned power project portfolio. Phase II of TPCIL was successfully commissioned taking our operating capacity to 1320MW. We are already seeing benefits of our coastal location, better demand-supply dynamics in southern India and global coal price deflation in reasonably strong performance. PLFs are high and profitability in line with our IRR targets. Under construction assets are rapidly moving towards completion. Road portfolio performance remains subdued. We are not looking to make any fresh equity investment in the portfolio and during the quarter we have moved further in our efforts to monetize it.

Looking ahead, rapid strides in power generation portfolio, strengthening of core construction business and improving macro-environment for investments is setting stage for significant growth in coming years."

Order book

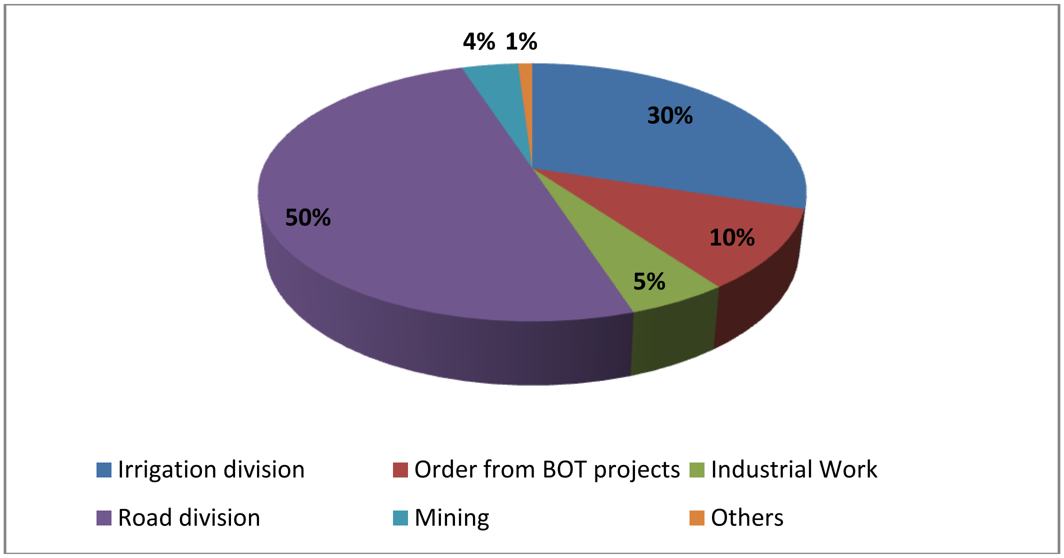
1) Q2FY16 saw biggest order book accretion in Company's history – Rs. 4,393 crores driving total unexecuted order book to Rs. 10,380 crs.

a) 5 Road EPC orders from NHAI adding to Rs. 3,995 crores
b) Significant new foray into Underground Mining Services – Rs. 400 crores order from CODCO to work at ECL's Jhanjhra coal mine's long wall panel.
c) Few other L1 positions in road EPC and power sector

2) The management expects 20-30% revenue growth over next 3-4 years on the back of strong order book.

3) GPL is witnessing gradual pick – up in slow moving orders, especially irrigation projects in AP and Telangana.
4) Going ahead, the Company is focusing on bidding for margin accretive projects.

Break up of Order Book as on Q2FY16



Increase in Share Capital

During Q2FY16, the Company has raised Equity Share Capital of Rs. 106.44 crores by issue of 52,23,386 equity shares of Rs. 10 each at premium of Rs. 193.78 per equity share by way of preferential allotment and details of which are as follows:

a) 36,04,000 equity shares to Foreign Institutional Investors (FIIs)
b) 16,19,386 equity shares to promoters by way of conversion of unsecured loans in to equity, in terms of the Master Restructuring Agreement entered with the Company's Lenders.

Pursuant to the above, the paid – up equity share capital of the Company has increased from Rs. 30.22 crores to Rs. 35.45 crores and share premium has increased from Rs. 254 crores to Rs. 355. 22 crores.

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.

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 the quarter

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 – 79% PLF in Q2FY16 and running in excess of 82% PLF during the quarter

3) On track for commissioning phase I of NCCPPL power project (1,320 MW Thermal based power project being developed using super critical technology) by March 2016 and full commissioning within 3-4 months of that. The Management sees no issue in sourcing fuel at competitive rates. GPL expects to sign longterm PPAs for a high proportion of its capacity by the end of the year.

Statement of Assets and Liabilities as on Q2FY16 (Rs. in mn)

Sr. No	Particulars	As on September 2015	As on March 2015
A	**EQUITY AND LIABILITIES**		
1	**SHAREHOLDERS FUNDS**		
a)	Share Capital	354.50	302.27
b)	Reserves and Surplus	7,710.8	6,523
		8,065.38	**6,825**
2	**NON – CURRENT LIABILITIES**		
a)	Long – term borrowings	9,058	9,272
b)	Deferred tax liabilities (Net)	258	288
c)	Other long term liabilities	5,377	4,972
d)	Long-term provisions	68	69
3	**CURRENT LIABILITIES**		
a)	Short – term borrowings	8,130	7,918
b)	Trade payables	4,259	4,456
c)	Other current liabilities	1,069	1,275
d)	Short – term provisions	40	46
	Total – Equity & Liabilities	**36,324**	**35,122**
B	**ASSETS**		
1	**NON – CURRENT ASSETS**		
a)	Fixed Assets	1,999	2,081
b)	Non-current investments	9,468	9,468
c)	Long-term loans and advances	3,309	3,310
d)	Other Non – current Assets	2,185	2,185
2	**CURRENT ASSETS**		
a)	Current investments	-	7.17
b)	Inventories	2,030	2,420
c)	Trade receivables	7,333	6,236
d)	Cash and cash equivalents	1,269	1,452
e)	Short – term loans and advances	8,685	7,951
f)	Other current assets	44	13
	Total - Assets	**36,324**	**35,122**

Source: Company, Ajcon Research

Important Event Alert

CARE downgraded Gayatri Projects Limited 's (GAYP) consolidated debt's (!!) credit rating from B+ to D. News regarding this appeared in ET's online addition on 5th Nov, 2015. The Economic Times has reported following news article: CARE DOWNGRADES RS. 4,300 CRORE LOAN OF GAYATRI PROJECT TO DEFAULT CATEGORY". The news article refers to a rating downgrade which is based on old financial data.

According to Gayatri Projects Ltd. - The rating down-grade is based on factually incorrect data. GAYP has already issued notice to stock exchanges on both the rating downgrade and the ET article, stating the factually correct position, on 6th Nov, 2015.

The rating downgrade was done based on repayment delays as on the balance-sheet date (31st March, 2015), which were subsequently rectified. This action was despite various consortium bankers, including lead bank (BoB) writing to CARE in early-Oct that GAYP accounts had "NO OVER DUES" and the account status was "STANDARD ASSET" as of the end of latest quarter. The letters from banks were provided to stock exchanges.

Gayatri Projects Ltd. response to ET article sent to stock exchanges:

The factual position has significantly changed in last 6 months – the changes include fresh equity infusion into the business, massive improvement in order – book, commissioning of a profitable large power project by a jointly controlled entity and a general improvement in liquidity situation.

The following material changes have significantly improved Gayatri Projects liquidity position since last balance-sheet date (which were completely ignored by the rating agency):

1) Equity raising of more than Rs.100 crore through preferential allotment to a large FIIs and to promoters.
2) The company's effective construction order book has increased by Rs.4,000cr, and the company has achieved L1 position in other construction projects. This has resulted in a 75%+ growth in GAYP effective order book.
3) The company's jointly controlled entity has commissioned a 1,320MW coal-fired coast-based power plant, which is among the most profitable power plants in the country at this point in time.
4) The company is in advanced discussions for monetizing some assets in its Roads asset holding portfolio.
5) **However, CARE has revisited the above factors and has revised the ratings of the Company based on the recent developments including operational and financial performance. The rating details are as follows:**

Facilities	**Amount (Rs. crore)**	**Rating**	**Remarks**
Long – term Bank facilities	1,738.99	CARE B (Single B)	Revised from CARE D (Single D)
Long-tem/Short term Bank Facilities	2,563.81	CARE B/CARE A4 (Single B/A Four)	Revised from CARE D/CARE D (Single D/Single D)
Total	**4,302.80**		

With due consideration to the above factors, we maintain "BUY" rating given in the fundamental research report – **Investor's Delight: Gayatri Projects Ltd. (GPL)"BUY", A Successful infra story, published on 23rd October, 2015.**

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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- **e) Relationship with management: No**
- **f) Any Compensation Received by our Company/Associate during the last 12 months: No**
- **g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No**

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