



Result update – Q4FY16

Gayatri Projects Ltd. – Maintain our “BUY” rating

16th June, 2016

CMP: Rs. 635 | Target: Rs. 1,136 | Upside: 79% | Market Cap: Rs. 2,223 cr. | FV: Rs. 10

Q4FY16 and FY16 Financial Performance

(Rs. in mn.)	Q4FY16	Q4FY15	%yoy	Q3FY16	%qoq	FY16	FY15	%yoy
Income from Operations	6,682.1	5,600.8	19.3	4,217.0	58.5	18,122.1	16,011.4	13.2
Cost of Materials Consumed & WE	(5,192.3)	(4,317.6)	20.3	(3,374.0)	53.9	(14,190)	(13,308)	6.6
Changes in Work in Progress	(284.6)	(351.0)	(18.9)	(71.9)	295.8	(564)	58.8	(1,059.7)
Employee benefit expenses	(144.0)	(103.6)	39.0	(93.5)	54.0	(421)	(363)	15.8
Other expenditure	(145.8)	(81.8)	78.3	(76.2)	91.4	(352)	(323)	9.0
Operating profit	915.4	746.8	22.6	601.4	52.2	2,594.8	2,075.7	25.0
OPM (%)	13.7	13.3	36.5 bps	14.3	(3.9)	14.3	13.0	135.4 bps
Depreciation	(92.9)	(64.8)	43.4	(93.5)	(0.6)	(374.7)	(282.0)	32.9
Interest	(499.8)	(452.0)	10.6	(369.1)	35.4	(1,579.2)	(1,486.7)	6.2
Other income	1.0	25.8	(96.2)	11.9	(91.8)	66.0	43.9	50.3
PBT	323.7	255.8	26.5	150.8	114.7	706.9	350.9	101.4
Tax	(38.5)	(96.0)	(59.9)	(29.0)	32.7	(120.0)	(130.3)	(7.9)
Effective tax rate (%)	11.9	37.5		19.2	(38.2)	17.0	37.1	
Adjusted PAT	285.2	159.8	78.4	121.8	134.2	586.9	220.6	166.0
Adj. PAT margin (%)	4.3	2.9	141.4 bps	2.9	47.8	3.2	1.4	186.1bps
Equity capital	354.5	302.3	17.3	354.5	-	354.5	302.3	17.3
FV (Rs.)	10.0	10.0	-	10.0	-	10.0	10.0	-
No. of equity shares (mn)	35.5	30.2	17.3	35.5	-	35.5	30.2	17.3
EPS (Rs.)	8.0	5.3	52.1	3.4	134.2	16.6	7.3	126.8

Source: Company, Ajcon Research

Q4FY16 & FY16 update

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 Mar. 31, 2016.

The Company's topline in Q4FY16 witnessed an increase of 19.3% to Rs. 668 crore on account of faster execution. On QoQ basis too, it witnessed an impressive topline growth of 58.5%. For the full year the Company registered a topline growth of 13.2% to touch Rs. 1,812 crores as against estimated Rs. 2,162 crores. The Company missed our FY16 estimates by some distance as Unit 2 (660MW, operational since Sept 2015) had to be shut



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for almost 45 days in April-May 2016 due to Tamil Nadu floods, but it is currently operating at full swing. We believe this was a one off event and expect good performance in coming years.

In Q4FY16, EBITDA grew by 22.6% on yoy basis to touch Rs. 91.5 crs. On Qoq basis too, it showed a 52% growth. For FY16, EBITDA witnessed a growth of 25% to Rs. 259 crores as against expected Rs. 315 crores. However, EBITDA margins were moderately below with our estimates. EBITDA margin improved by 135 bps to touch 14.3% as against expected 14.6%. Going forward, management will be able to maintain current level margins with an upward bias.

Q4FY16 PAT registered a strong growth of 78.4% on yoy basis despite rising Interest expense for the quarter by 10.6% YoY (up 35.4% QoQ) while depreciation cost jumped by 43.2% YoY (down 0.6% QoQ).

For the full year, PAT grew by whopping 166% on yoy basis to Rs. 59 crores.

Considering the full year performance, we have revised our estimates and reduced our target price from Rs. 1300 (earlier) to Rs. 1136 (30x at estimated FY18 EPS).

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

"FY 16 has been a exciting and eventful year for us, marked by improved operational and financial performance. During the year we made significant headway across all our businesses: core construction, power development and road assets.

We gained exceptional traction in our core construction business, with strong order inflow, in excess of Rs.5,300 crore during the year, ending the year with almost Rs.11,000 crore order backlog. We have built up further L1 positions across Roads, Industrial and Water sectors and we expect to maintain similar order-flow momentum in the coming year as well. On the execution front, we saw growth despite not being able to book any revenue from new orders. With mobilization already in place at most sites, we see very strong growth in revenue booking post monsoon.

On the Power Generation front, we have seen solid project execution. Both 660MW units of TPCIL were commissioned in last 12 months and first 660MW unit of SGPL was synchronized with grid recently. 2nd SGPL unit should come on stream in next 3-4 months. We have lined up long-term PPAs for almost 2/3rd of the 2640MW capacity. But, trading conditions have significantly deteriorated in recent months. We expect government's initiatives on SEB reforms, universal access to electricity and strengthening distribution infrastructure to help improve demand conditions over next 12-24 months.

We continue to focus on improving value in our BOT Road Asset portfolio – restructuring, monetization and improvement in traffic flow are all on agenda. We sold WUPTL. Board has approved restructuring in-principle and a scheme of arrangement should be in public domain in a matter of weeks. Our Hyderabad-Karimnagar & Indore-Dewas roads are seeing much better tolling activity. The last BOT road in our portfolio – SMTL – is likely to be commissioned within this calendar year.



To conclude, we believe that our recent initiatives and improved operational and financial performance position us for a dramatically improved future."

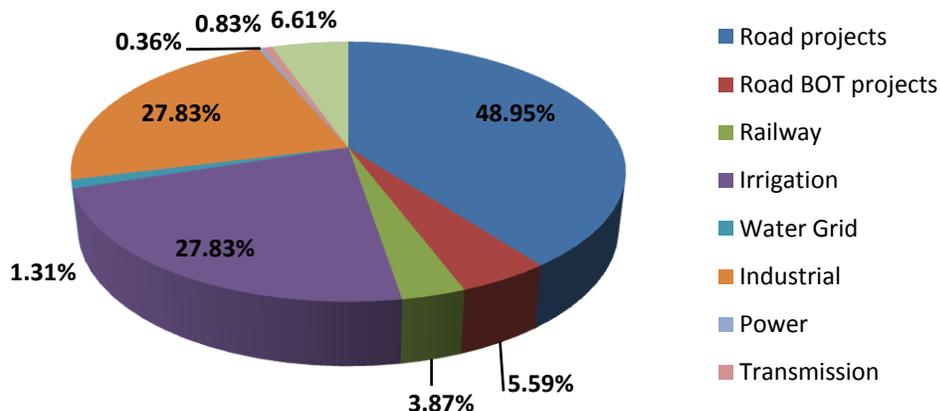
Performance of Power business:

As on date, the Company has invested total equity of Rs. 600 crores. According to the management, the economic value of these projects is Rs. 900 crores (Premium of Rs. 300 crores). In Sembcorp Gayatri Power Complex the Company has four units of 660 megawatts where two units are fully commissioned and COD is achieved about six months back. In this financial year the Company has achieved more than 70 percent PLF and today is running at above 90 percent PLF. And GPL has 85 percent long term PPA for the first two units. The other two units it has just synchronised one unit a few days back and it achieved a COD of the due date by end of June and the fourth unit by end of September will be the COD.

Order book update

As on date, the company's current orderbook stands at Rs 10,974 crore. It has Rs 6,000 crore worth of road projects and Rs 3,000 crore of irrigation projects in hand. Q4FY16 witnessed acceleration in order inflows with stood at Rs. 1,100 crores. The orders were as follows: Road (North East), Railway (Western India), Mining (Dhanbad). The Company also achieved further L1 positions across Road works, civil works and water works. GPL remains focused on bidding for margin accretive projects. In terms of order inflow guidance, the Company maintains its FY16run rate. Going forward the company will maintain EBITDA margins at around 14-15 percent in FY17.

Break up of Order Book as on Q4FY16



Road Division

- 1) Six new construction orders on EPC basis awarded during FY2016 added more than Rs. 4300 crores to order book. The orders came from NHAI & NHIDCL.
- 2) Careful bidding has resulted geographic concentration of new orders which should result in better margins.



Railways

- 1) JV with L&T bagged a large freight corridor order.
- 2) GPL portion of contract Rs. 425 crores
- 3) Foot – in the door into another sunrise sector with massive tailwinds

Watergrid

- 1) Company's first foray into the fast growing and specialized Water Supply EPC business.
- 2) Water distribution feeder main for supplying water to city of Aizwal.

Mining

- 1) New foray into under-ground mechanized mining (Longwall workings)

Key developments in Q4FY16

A) Revision in credit rating

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.

B) 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.

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



Stock Price movement chart





Statement of Assets and Liabilities (Rs. in mn)

Sr. No	Particulars	March 2016	As on March 2015
A	EQUITY AND LIABILITIES		
1	SHAREHOLDERS FUNDS		
a)	Share Capital	354.50	302.27
b)	Reserves and Surplus	8,032	6,523
		8,387	6,825
2	NON – CURRENT LIABILITIES		
a)	Long – term borrowings	9,720	9,272
b)	Deferred tax liabilities (Net)	231	288
c)	Other long term liabilities	6,271	4,972
d)	Long-term provisions	89	69
3	CURRENT LIABILITIES		
a)	Short – term borrowings	8,902	7,918
b)	Trade payables	4,180	4,456
c)	Other current liabilities	1,001	1,275
d)	Short – term provisions	86	46
	Total – Equity & Liabilities	38,868	35,122
B	ASSETS		
1	NON – CURRENT ASSETS		
a)	Fixed Assets	2,269	2,081
b)	Non-current investments	11,818	9,468
c)	Long-term loans and advances	5103	5,104
d)	Other Non – current Assets	-	2,185
2	CURRENT ASSETS		
a)	Current investments	-	7.17
b)	Inventories	1,549	2,420
c)	Trade receivables	7,877	5,718
d)	Cash and cash equivalents	1,800	1,452
e)	Short – term loans and advances	8,430	7,951
f)	Other current assets	23	13
	Total - Assets	38,868	35,122

Source: Company, Ajcon Research



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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.



Standalone Profit and Loss Account (Rs. mn)

Particulars	FY2014	FY2015	FY2016A	FY2017E	FY2018E
YoY Revenue Growth (%)	-10.4%	-11.7%	13.18%	25%	30%
Revenue from operations	18,125	16,011	18,122	22,652	29,448
EBITDA	2,722	2,120	2,595	3,398	4,417
EBITDA Margin - (%)	15.0%	13.2%	14.3%	15%	15%
PAT	476	221	586	793	1,325
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	22.6	37.85

Source: Company, Ajcon Research



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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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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

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Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

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