"Ahluwalia Contracts India Limited Q2 Financial Year 2015 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Ahluwalia Contracts Q2 FY 2015 Results Conference Call, hosted by Anand Rathi Shares and Stockbroking. As a reminder all participants will be in the listen only mode and there will be an opportunity for you to ask questions after today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Valecha. Thank you and over to you Sir!

Manish Valecha: Thank you. Good afternoon everybody. We would like to welcome you all for the 2Q FY 2015 results conference call of Ahluwalia Contracts Limited. We have with us from the management Mr. Shobhit Uppal, Deputy Managing Director and Mr. S. K. Sachdeva, Financial Advisor. Without wasting much time I would like to hand over the call to Mr. Shobhit for his opening remarks. Over to you Sir!

Shobhit Uppal: Thank you Manish. Good afternoon everybody. As all of you know by now, the Company has announced its results for the second quarter. We had revenue of Rs.239.76 Crores and net profit of 16.24 Crores as compared to the first quarter where the revenue was 239.83 Crores and the net profit was Rs.16.89 Crores.

During the first half year, the Company revenue was Rs.477.63 Crores as compared to Rs.467.71 Crores last year and a net profit in the first six months since this financial year which stood at 33.13 Crores as compared to 2 Crores in the corresponding period of the last financial year.

The Company EPS for this quarter is 2.459 as compared to 2.69 for the previous quarter. The Company EPS half-yearly stands at 5.28 as compared to 0.32 for the corresponding period last financial year.

The Company's current net order book as on September 30, 2014 stands at 3502 Crores. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Sir, just wanted to get a sense around the revenue for the whole year. We have done about close to 489 Crores in the first half, so how do you think the execution would ramp up in the second half so any guidance for the FY 2015 and 2016 revenue as per se?

Shobhit Uppal: As we had projected earlier we are on track. We had projected a growth of about 20% year-on-year for which the revenue target was about 1150 Crores and traditionally revenue is higher in Q3 and Q4. So we feel we are on track. We will in fact surpass the projected figure of 1150 Crores.

Nitin Arora: Sir on the sense on the tax outgo which was very low in this quarter, I do understand that we must be offsetting our previous year losses. Sir, just wanted to get a sense that how much of that losses are still pending, which will get accounted in the future and will it get fully accounted in FY 2015 itself?

S. K. Sachdeva: The cumulated losses would be covered during this financial year and in the next financial year also. So there it will not be considerable net outgo except for the MAT, for which we will take the credit in the future years.

Nitin Arora: Sir, just on the other income side, was there any one off or something like that in this quarter?

S. K. Sachdeva: There is no one off in other income.

Nitin Arora: Also just last want to get an update on your Kota project, just wanted to get a sense that where we have reached in terms of utilizing the space there and what kind of rates we are getting in Kota Project?

S. K. Sachdeva: Kota project is complete and ready for leasing and the rates we are getting along Rs.50 per square feet.

Shobhit Uppal: Approximately 45% of the area is leased out and we would be launching that project shortly within the next one to two months.

Nitin Arora: Thank you Sir, I will come back in the queue for more questions.

Moderator: Thank you. The next question is from the line of Naveen Jain from JM Financial. Please go ahead.

Naveen Jain: Good afternoon Sir. Sir, can you please share the details of order book and what is the kind of order inflow that we have received so far in this year?

Shobhit Uppal: In this year we have received an order inflow of about totally 1000 Crores and our target for this year was 1200 Crores for the complete FY 2015.

Naveen Jain: So obviously we must have upped our target for the year?

Shobhit Uppal: Yes. In fact in couple of projects public sector projects, we are L1 so that will be added to the kitty and we think we are in a position to surpass our target of 1200 Crores.

Naveen Jain: So what is the L1 status right now?

Shobhit Uppal: L1 status is about 300 Crores.

Naveen Jain: So what is our net order backlog currently?

Shobhit Uppal: It is 3500 Crores.

Naveen Jain: Sir, going forward do you see your order inflow trajectory ramping up significantly from these levels or would you sort of sustain the order inflow at around 1500 to 2000 Crores kind of order inflow every year or do you think that can significantly up as we go forward. Let us say one or two years down the line?

Shobhit Uppal: As I had said in my earlier interactions with all of you I do not foresee an order problem, an order book problem. There is today as thing stand there is limited competition. So, we really do not have very many building construction companies which are left standing. We are seeing that in large jobs that we are bidding for that there are only three or four players who qualify in large jobs. So it is only our strategy that we want to limit or restrict our year-on-year growth to about 22% to 25%. So while we feel that in the next financial year if this financial year we are targeting 1200 to 1300 Crores fresh orders next financial year it will be about 1500 to 1600 Crores we will not pick up orders more than that though the opportunity is there.

Naveen Jain: So, for the current year if you are sticking to let us say 1200 to 1300 Crores of order inflow for the year that effectively means that for the rest of this financial year you are not really looking to bid for too many projects. Is that right?

Shobhit Uppal: As I said, this would go to about say 1300 to 1400 Crores yes we are restricting our bidding and we are bidding at higher margins wherever we feel the job is attractive. So, if we get jobs at higher margins and in areas where we are already present geographically.

Naveen Jain: That means you still let us say you have reached 1300 Crores to 1400 Crores order inflow and you still have orders, which are coming at attractive margins you can look at it?

Shobhit Uppal: Yes.

Naveen Jain: Secondly again, in terms of the mix of the order if you can just throw some color on that?

Shobhit Uppal: At the moment it is split 50:50 between private sector and public sector, and totally in terms of various segments in the building industry the residential is at about 55%, institutional is at 16%, infrastructure is at about 16%, commercial and hotels are at about 7%, industrial is 1%, and hospital is 5%.

Naveen Jain: Thanks a lot for taking my question.

Moderator: Thank you. Our next question is from the line of Shravan Shah from Karvy Stock. Please go ahead.

Shravan Shah: In terms of the capex what was for this first half?

Shobhit Uppal: It is 8 Crores.

Shravan Shah: Sir, I think then the capex or the gross block is not the limiting factor to increase our revenue significantly?

Shobhit Uppal: Not really as I have explained in my earlier interactions with you, our strategy is to in three years to go back to the level peak that we had attained which are about 1700 odd Crores and for that we do not foresee any major capex because our infrastructure is there at the moment.

Shravan Shah: Sir, this breakup this is for the order inflow or the order book?

Shobhit Uppal: This is the order book breakup.

Shravan Shah: Thank you Sir and all the best.

Moderator: Thank you. The next question is a followup question from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Sir, just a confusion, I had. As per the press release given on the website, the total order inflow in the first half is close to 792 Crores. Is that correct?

S. K. Sachdeva: That is correct. Hereafter also we have received certain orders in Mumbai region.

Nitin Arora: So that total amounts to 2000 Crores then?

S. K. Sachdeva: It is slightly less than 1000 Crores it will be about 950 Crores.

Nitin Arora: Sir, this order book number, which you gave of 3500 Crores is as on till date?

S. K. Sachdeva: As on date.

Nitin Arora: Sir, just on the part of the preferential money, which will be put in by the promoters has that money come in and number two, how much will go for debt reduction and any sort of numbers, if you can give us for FY 2015?

S. K. Sachdeva: 18.5 this month the money would be received in and 50% of that would be utilized for reduction in debt and 50% for long-term working capital.

Nitin Arora: It means we will close this year at about 200 Crores kind of a debt in FY 2015?

S. K. Sachdeva: Yes.

Nitin Arora: Thank you.

Shobhit Uppal: 200 would mean short-term and long-term debt both out of 200 Crores 35 Crores would be against the Kota project.

Nitin Arora: But we have also paid, I think about 10 to 11 Crores already in the Kota project?

S. K. Sachdeva: Yes that we have already paid.

Nitin Arora: Thank you Sir.

Moderator: Thank you. Our next question is from the line of Parvesh Akhtar from Edelweiss Capital. Please go ahead.

Parvesh Akhtar: Good afternoon Sir. A couple of questions; one with respect to the order intake or the kind of orders that you are bagging now would you be able to give some color on what is the mix of these orders. Are these from public sector clients or have you started seeing revival in the private sector ordering also?

Shobhit Uppal: Most of these orders are from the public sector clients. That is a conscious decision, which we took about a year and a half ago to reduce our exposure to private sector though there are new orders, which has seen in the private sector but the liquidity position continues to remain so or grim. So, we are deliberately staying away from the private sector, not totally, but our focus today is public sector. So out of these orders that we won there is about I think 65% is on the public sector and about 35% would be the private sector. There is one large order that we won from the private sector in NCR, which is a 200 Crores order for a housing project.

Parvesh Akhtar: Sir, in your opinion how long do you think it will take for you to become comfortable with the private sector or in other words how long will it take for the private sector ordering to revive?

Shobhit Uppal: Today our order mix stands at 50:50 as I said earlier. At one point in time, this was 80% private sector and 20% public sector. So we have reduced it to 50:50 and in the short-term we will take it to about 60% public sector and 40% private sector, but after about a year or so we will try and maintain even at 50:50. So answer your question specifically it will take about a year.

Parvesh Akhtar: Sir, the last question what is the amount of debt in the balance sheet today as at end of Q2 FY 2015?

S. K. Sachdeva: 216 Crores.

Shobhit Uppal: At the end of FY 2015 it will reduce further. Today it stands at 216 Crores.

S. K. Sachdeva: 216 Crores as on September 30, 2014.

Shobhit Uppal: By the end of this financial year this would be reduced further by about 25 Crores. So it will be anywhere between 190 Crores and 200 Crores.

Parvesh Akhtar: Thank you. Thanks a lot. Best of luck.

Moderator: Thank you. As we get participants in the queue Manish you may go ahead with your question please.

Manish Valecha: Just a couple of questions from my side. Just wanted to get some color on the EBITDA margin in the order book currently? What kind of margins first current order book at and what kind of margins are the new orders coming in at?

Shobhit Uppal: First of all let us talk about the EBITDA that we have got in the Q2 that is at 12.95%. The new orders are coming at about 13% to 14% EBITDA. The current order book there are some legacy contracts, some old fixed priced contracts, which are approximately about 300 Crores. So we can say that the EBITDA in the present scenario would be at about 11% to 12%.

Manish Valecha: Sir, new orders are coming in at 13%. So, can we hope this performance in the EBITDA per number continue for the next year also and for the current year also because we have already done about 13% odd in the first half. So can we assume a full year margin of this kind of a number?

Shobhit Uppal: Yes, we are looking to maintain these numbers this financial year, which is actually higher than our earlier projections. Earlier we thought we will end the year at about 10% to 11%, but our revised target is that we will close at about 12%.

Manish Valecha: Sir, just one more question. How is the overall competitive intensity in the building space? Of course the other segments there are lot of competition. Is that the same for the building segment also?

Shobhit Uppal: In the building segment the intensity has reduced because as I said earlier there are only a few handfuls of players who are left standing. In the years gone by a lot of infra players, heavy infra players had also encroached into our territory that they have gone back now or a lot of them are facing bankruptcy and even in the building segment there are some players who are having issues or are in CDR. So what we are seeing is that on every large contracts there are only three or four players who qualify because clients have also raised a bar as far as prequalifying conditions are concerned.

Manish Valecha: Sir, on the Russian JV have we got any orders using that JV? I mean the precast segment?

Shobhit Uppal: Project is already underway in Haryana, Bahadurgarh, and that is we aim to complete the first phase of that project and offer it for possession of the developer will offer for possession in the next six months.

Manish Valecha: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Pawan Parekh from Dolat Capital. Please go ahead.

Pawan Parekh: Good afternoon. Sir, just a couple of questions; one is what was the closing order book for Q1?

S. K. Sachdeva: It was about 3200 Crores.

Pawan Parekh: That is the net order book?

S. K. Sachdeva: Yes.

Pawan Parekh: Sir, when we say this 3500 Crores we have included these 300 Crores of projects that we have just received after September?

S. K. Sachdeva: Yes.

Pawan Parekh: That is it from my side.

Moderator: Thank you. Our next question is a followup question from Naveen Jain from JM Financial. Please go ahead.

Naveen Jain: Just a couple of questions; one again apart from our usual strong area of building structures out of a lot of projects, are we looking at and had also forayed into infrastructure in the past. So are we looking at some opportunities in that space?

Shobhit Uppal: No we are not. We are not looking to go into heavy infrastructure. We will remain focused on building construction but all the segments which fall under building construction, which is residential, hotels, hospitals, commercial, industrial as well as metros.

Naveen Jain: Even metro projects.

Shobhit Uppal: We have done metro projects in the past, in Mumbai, Bengaluru and Delhi.

Naveen Jain: Sir, what is your view on this smart ready project that government has been talking about. Do you see any development happening there and what is the kind of opportunity that can pan out for player like us from such projects. If you can throw any views on that it would be great?

Shobhit Uppal: That there is definitely an opportunity which we foresee there more so for a company like Ahluwalia because Ahluwalia is there are not very many EPC companies in the building segment. We have in-house capabilities of delivering the turnkey project. We are doing a number of projects, which are not only core and shell now, which involves doing the specialized works like Aircon, electrical, plumbing, fire fighting, hazard systems and everything so smart cities is basically going to involve a lot of specialized works which Ahluwalia has the capability to do. So this is an opportunity, but I feel this opportunity is on the planning board at the moment. This opportunity would take about a couple of years to kind of fructify, but we definitely aim to take advantage of it.

Naveen Jain: But any specifics that you would like to share in terms of what projects are being worked on currently as per your assessment?

Shobhit Uppal: There are two things, which I would not be in a position to go into great detail, but there are two things, one is existing cities like our Prime Minister talks of say Varanasi, existing cities certain areas being refurbished or to get a smart city concept basically distribution of water, power, and making the city services more efficient so to say and then there are newer cities which are going to come up maybe as satellite towns to main cities or may be on industrial corridor where this opportunity will come.

Naveen Jain: As of now per se no tendering activities or no specific plans that we have?

Shobhit Uppal: As I said it is too early. The tendering activity will only to my mind will only begin after about a year and a half or so.

Naveen Jain: Sir, in terms of specific clients who are part of our order backlog of course you shared the public private mix being almost 50:50 currently, but who would be like bigger clients if you can name the top three, four or five if that is possible?

Shobhit Uppal: We have two large projects, which have been recently started, which are our larger projects in Patna where our client is Bihar Construction Department, one is the large convention center. The order is about 450 Crores and one is the Police Headquarters there, again the same client about 350 Crores. So these are two large contracts then we are doing the headquarters for Punjab National Bank in Dwarka that is about 200 Crores. We are doing a design build project for DDA which is about 350 Crores and we are doing a design build hospital building for Safdarjung Hospital, which is about 200 Crores. So these are some large projects in our current order book but these are more recent and some of the older projects that we are doing is we are doing large housing township for JP in Greater Noida then we are doing two projects for NTPC. We are doing a project for Emaar MGF, and we are doing a couple of projects for SDIL in Mumbai. So these are some of the older projects.

Naveen Jain: Thank you.

Moderator: Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Indrajeet: Good afternoon gentlemen. This is Indrajeet here. My question is on the order book mix. You gave the mix on the customer side, but could you also give us mix in terms of how much is our fixed priced contracts and how much is our passthrough contracts? Especially also in the new orders that you are winning is that proportion changing or is it kind of (**indiscernible-24.57**)?

Shobhit Uppal: It is totally transformed. We are not accepting fixed priced contracts any longer. All the new contracts that we won come with a built in escalation clause. So out of this total order book of 3500 Crores, now there is only of the legacy contracts, which are fixed price only up to the tune of about 260 Crores.

Indrajeet: On this fixed priced contracts whatever those are small amount is has there been any significant change in the commodity prices which are starting to give you some benefit or that benefit is still not come in has started to be realized at a P&L level?

Shobhit Uppal: There has not been much change, but what we have been able to do is as I said earlier, we have been able to finish off most of these contracts out of this little value on two or three jobs that are left we aim to complete that also in the next six months. There are minor benefits because of fuel prices going down. There are some benefits that accrue there because that is also we generate our own electricity, we use a lot of diesel or fuel for maintenance in running of our equipment, so all that some benefit has come there.

Indrajeet: Thanks a lot.

Moderator: Thank you. The next question is from the line of Paras Edenwala from Capital Portfolio. Please go ahead.

Paras Edenwala: Just want to check on your receivables position, how comfortable are you, are the payments coming in time? Could you just give us some sense on it?

Shobhit Uppal: Receivables the liquidity position as I said earlier continues to be tight in this industry especially on the private sector side. That is why our focus we changed back and we started focusing on the public sector side. So, our total I think working capital cycle today stands at about 119 days. This has come down a bit by about 30 days or so because of the change in focus from private to public sector but private sector continues to remain stressed.

Paras Edenwala: So, you feel it will take a little time for you to come down to your earlier levels of about 90 days or 75 days?

Shobhit Uppal: It will. I think those levels can only be attained once the private sector gets moving and that too my mind will take at least six months to a year.

Paras Edenwala: Secondly, since you mentioned that orders are there for the asking, there is a lot of business because the competition has dwindled down while the activity seems to be gradually picking up. So that is a good situation to be in so would you say that you are order choosers rather than order?

Shobhit Uppal: That is right. In fact we are letting go off a number of bidding opportunities. We are seeing as you rightly said the number of tenders that are flowing in or the number of clients asking us to bid has increased tremendously in the last three to four months even on the private side, you see a lot of activity even from organized players like Mahindra, Godrej, Tata so on and so forth. So we are definitely picking and choosing now.

Paras Edenwala: Which means probably the cycle seems to be turning for you now?

Shobhit Uppal: That is reflected in our results also over the last two quarters, but as I repeat this over and over again, we do not want to fall in the trap of the top orders, our order book or topline growth so on and so forth. All of us have suffered in the past. So we are keeping our growth targets conservative at about 22% to 25% over the next three years.

Paras Edenwala: 25% of order book growth or revenue growth?

Shobhit Uppal: Revenue growth.

Paras Edenwala: So would you say that your return ratios, the return on capital employed and return on equity which in 2011 used to be in excess of 25%. You should be in a position to get back to those levels in the next 12 months or so?

Shobhit Uppal: Yes, we are hoping to hit this by about FY 2016.

Paras Edenwala: I think you mentioned something on the debt levels. Sorry I missed that. Could you just repeat that? What is your plan for improving on the debt levels?

S. K. Sachdeva: Debt was 216 Crores including term debt of 38 Crores and by the end of this financial year we are targeting to reduce it further up to 190 Crores or 200 Crores.

Paras Edenwala: What is your debt equity right now?

S. K. Sachdeva: Debt equity is less than 1.

Paras Edenwala: The total debt equity?

Shobhit Uppal: Total yes.

Paras Edenwala: Thank you very much.

Moderator: Thank you. We have a question from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal: Good afternoon Sir. Just wanted to know if you have shared any guidance on revenue growth of in FY 2015?

Shobhit Uppal: I think I did say earlier that FY 2015 we are expecting to grow at about 20% and should end anywhere between 1100 and 1200 Crores.

Ankit Agarwal: So basically, we are expecting a large part of that growth to come in the second half?

Shobhit Uppal: That has always been the case. Even in the downturn and even when the going has been good, the final two quarters always the revenue is more of the first half of the year.

Ankit Agarwal: So we have enough visibility as of now to get to that 25% growth?

Shobhit Uppal: Yes we have.

Ankit Agarwal: Thank you. That is all from my side.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor back to Mr. Manish Valecha. Thank you and over to you Sir!

Manish Valecha: We would like to thank the management for taking out time for this conference call and also all the participants who have participated in the conference call. Maybe Sir, you would like to give some closing comments?

Shobhit Uppal: Thank you everybody. As I said, we remain on track to meet our projections. I think the orders, the results in the first two quarters have been more or less in fact they have bettered our projections, and the situation on the ground will continue as it continues to improve. I think things are looking up for Ahluwalia Contracts. Thank you so much.

Moderator: Thank you Sir. On behalf of Anand Rathi Shares and Stockbroking that concludes today's conference. Thank you for joining us and you may now disconnect your lines.