



“Ahluwalia Contracts (India) Limited Q4 Financial Year 2016 Results Conference Call”

May 25, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Ahluwalia Contracts India Q4 FY 2016 results Conference Call, hosted by Dolat Capital Market Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shравan Shah. Thank you and over to you Mr Shah!

Shравan Shah: Thank you Aman. Good Morning ladies and gentlemen. On behalf of Dolat Capital Market, I welcome you all to this Q4 FY 2016 earnings calls of Ahluwalia Contracts India Limited. We have from management Mr. Shobhit Uppal, who is Deputy Managing Director and Mr. Rohit Patni, who is Deputy Manager, Investor Relations of the company. I would request Mr. Uppal to give his opening remarks on the results which would be followed by Q&A. Please Sir go on Thank You!

Shobhit Uppal: Yes, Good Morning ladies and gentlemen. So Ahluwalia Contracts has declared its results yesterday. During the financial year 2015 and 2016 the company’s revenue was 1249.58 Crores as compared to 1059.92 Crores last year and the net profit stands at 84.41 Crores as compared to 64.14 Crores in the corresponding period last financial year. During the fourth quarter the company’s revenue was 383.69 Crores as compared to 314.13 Crores, a net profit 26.71 Crores as compared to 17.43 Crores in the last financial year corresponding period. During the financial year 2015 and 2016, the company’s EBITDA margin was 13.96% as compared to 11.94% last year and PAT margin was 6.76% as compared to 6.05% in the corresponding period in the last year. During the fourth quarter, company’s EBITDA was 15.07% as compared to 10.32% last year and PAT margin this year was 6.96% as compared to 5.58% last year. The company’s EPS for 2015, 2016 is 12.60 as compared to 10 in the previous year corresponding period. The company’s EPS to this quarter is 3.99 as compared to 2.72 in the previous year corresponding period. The company has secured new orders worth 1534 Crores in the financial year 2015-16 and the net order book as on date stands at 4100 Crores. In the two months of this financial year we have one new order worth 500 Crores approximately and we are L1 in orders worth 673 Crores that is all. I am ready to take questions now.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Hi sir, Good morning.

Shobhit Uppal: Good Morning Nitin.



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Nitin Arora: Sir, just wanted to get a little sense that we have seen sequentially increase in the interest cost, just wanted to understand what is this pertaining to and how do you see it for the next year the interest cost to pan out on a quarterly basis?

Shobhit Uppal: No there is an increase in the interest this quarter because we are doing two large projects; the ground is yet to be broken. These were residential project and the large data centre is an upgrade. The residential project are DDA, these are stuck on account of environmentally clearances which has since come, but we have made provisions for the interest, for the advances that we have taken from these two departments that is why there is slight increase in the interest cost in this quarter, but the next quarter onwards it will be as it was in the previous three quarters with the last year which was about 7 to 8 Crores per quarter.

Nitin Arora: Sir, can you also share us given the we have already started the year on a very good note with respect to our order intake plus L1 we are very strong at this point, can you share some of the highlight with respect to new orders and new bit pipeline from different authorities?

Shobhit Uppal: Okay, the L1 orders we are L1 into large hospital project one is a cancer research hospital for the government West Bengal in Kolkata and one is for the AIIMS Jhajjar complex in Haryana and as far as the orders that we have won these are in extension in two projects for the client have extended orders one is the University that we are doing for Bennett Coleman in greater Noida, the Times of India Group and one is large commercial project the group field in Gurgaon where they have extended our order by about 100 Crores and we are also bidding for a few other hospital projects and some large auditorium convention center project in and around Kolkata and in Delhi.

Nitin Arora: Sir, given that we have a very strong pipeline, are we going to revise our order intake guidance and what sort of sense are we getting on FY 2017 the revenue now?

Shobhit Uppal: No Nitin, we are not going to at the moment revise our order book guidelines that we are going to strict to a target above 1600 to 2000 Crores if we go back to our Con call last year, that time also we had one order in the first two months of the 2015-16 to the tune of about 600 Crores you had asked me this question then also, but we plan to continue with our conservative approach, our focus is more on the bottomline.

Moderator: Thank you. We have the next question from the line of Nilesh Bhaviya from Yes Securities. Please go ahead.

Nilesh Bhaiya: Sir, just wanted to understand see we targeted to around 700 odd Crores of revenue in FY 2017 which was our previous peak and this we have been guiding for last two to three years and we are almost there, sir I just wanted to understand if you can give us medium term target what to target



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see in FY 2018 and FY 2019 broadly in terms of maybe absolute number and maybe growth kind of number?

Shobhit Uppal: Over the next year the growth would be about 20%.

Nilesh Bhaiya: 20%?

Shobhit Uppal: Yes.

Nilesh Bhaiya: Sir, your EBITDA margin this is I think one of the best EBITDA margins for us in a decade that is because of the strong operational performance and operating leverage kicking in, so do we see this to continue or because a lot of our contracts are now pass through I mean the escalation cost so how do you see the EBITDA margin panning out going forward?

Shobhit Uppal: We are sticking with projections of about 13% for this year, we have been successful in getting rid of the overhang of legacy contracts and fixed price contract and I think we will be able to maintain this numbers that we are projecting this year also.

Nilesh Bhaiya: This year also?

Shobhit Uppal: Yes.

Nilesh Bhaiya: Sir, if you can give me the gross debt number on the balance sheet?

Shobhit Uppal: The gross debt stands at about 133 Crores and we aim to over the next two year, we aim to get it down to less than 100 Crores.

Nilesh Bhaiya: Okay, sir have we capitalized the mort asset.

Shobhit Uppal: Not yet.

Moderator: Thank you. Our next question is from the line of the Amber Singhania from AMSEC. Please go ahead.

Amber Singhania: Congratulations for a good set of numbers. Sir I have couple of things when you mentioned that 4100 odd Crores is the order book as on date so this includes this 500 Crores which we have won in April May.

Shobhit Uppal: Yes it does.



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- Amber Singhania:** Okay, so for year ending it would be 3600 Crores roughly?
- Shobhit Uppal:** I think it is between 3600 to 3700.
- Amber Singhania:** Okay fine, sir secondly just to get some colour about how things are panning out in terms of public sector orders as you mentioned that you are bidding for hospital in conventional centers, but as new government is coming into places in various other states and UP also we are seeing a lot of activity happening because of the election run up how things are panning out overall for our target markets viz. Delhi, Mumbai or any other states and are we seeing any impact happening because of the election happening maybe any slowdown in the execution or everything happening on that part or any robust pipeline is coming on our way for that.
- Shobhit Uppal:** I mentioned this in all my interactions, earlier interactions with all of you that wherever we are operating or concentrating be it Delhi, Mumbai, Patna, Kolkata all these areas there is stable government and I have always maintained that where there is stability the development continues. Luckily now even in West Bengal TMC has come back to power, so there is continuity there. There is stable government in the Nitish Kumar Government in Patna where we are doing lot of projects Delhi, Mumbai, continue to be politically stable so at the center also we are seeing there is lot of focus continual focus on education and healthcare so we feel that in meeting our topline growth targets there should not be a problem.
- Amber Singhania:** Secondly Sir on the bookkeeping side what is the amount of current maturities in the debt portion on the short-term loans and advances?
- Shobhit Uppal:** 5 Crores.
- Amber Singhania:** Only 5 Crores? And any capex plans because now we are reaching to our previous speed win we had all the equipment on our side so any capex we are envisaging?
- Shobhit Uppal:** No, not for at least of the year-and-half to two years, no major capex plans.
- Amber Singhania:** Sir, just wanted your thought you are guiding around 20% growth on the topline, but seeing the current order book and execution cycle we are very favorably placed to grow much faster than that then why we going so conservative in terms of guidance Sir?
- Shobhit Uppal:** As that mentioned earlier, we do not want to repeat the mistakes that all of us done earlier. We want to grow, but you want grow with checks and balances within the symptom. We do not want expose ourselves to any one client in terms of dues, which may pile up, so that is why we are keeping the growth at 20% at least for this year.



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- Amber Singhania:** Just two more questions Sir like we are bidding for the hospital side and I believe there we do not have the mobilization advances grow HSTC so do we see the working capital going up from here?
- Shobhit Uppal:** No not really we feel that we can mix and match. There is a healthy mix of projects on the public sector side, which offer advances and which do not offer advances, similarly on the private sector side there are some clients like I mentioned Bennet Coleman earlier who has given us 20% advance. There are other clients over giving 10% interest free advance like Brookfield so I think overall we can with the judicious mix of these projects we can manage.
- Amber Singhania:** Any progress we are seeing on private side is the sector panning out now positively or is it coming out of the problems earlier? How are we seeing private sector panning out as our client base on that part?
- Shobhit Uppal:** There are different types of project in the private sector side, as far as a residential bit is concerned that is there is no improvement. In fact that is further going into a further mess so to say. There are green shoots to improvement, which we are seeing, in commercial real estate in key areas certain key areas like Bengaluru or Bombay and Delhi as far as the educational healthcare of private sector side is concerned that that is robust.
- Amber Singhania:** Last question if I can squeeze in what is status in our Kota project? When do we see that lease rental coming and any plan for monetization of that asset?
- Rohit Patni:** Lease rental will be starting next one or two months because we have pending **(inaudible) 13.54** certificate. We will achieve in the next 15 to 20 days.
- Amber Singhania:** Okay any plan to monetize that? Sir, just last part of that question is any plan to sell that asset in the near future?
- Shobhit Uppal:** We are looking at various options.
- Moderator:** Thank you. We have the next question from the line of Charanjeet Singh from B&K Securities. Please go ahead.
- Charanjeet Singh:** Congratulations for a good set of numbers. Sir, just wanted to understand we are highlighting about strong growth going forward even in post FY2017 so how this is order pipeline looking like in FY2017 and with the road sector now going see significant uptick in the order inflow has highlighted by the Ministry so do we see that the competitive intensity in the building space we are strong to reduce further.



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- Shobhit Uppal:** It has already reduced. As I mentioned earlier there are only four or five players who qualify for bids for large projects, so I think it will remain at that. I do not see any further reduction.
- Charanjeet Singh:** Sir in terms of the order pipelines which are the larger projects which you will be seeing because our average order size has not increased, what we have been targeting over the last year also, which are the kind of key orders we should keep track of going forward in FY 2017?
- Shobhit Uppal:** As I mentioned earlier, there are couple of convention centers, there is a large convention center coming up for NBPC in Kolkata, then there are going to be other redevelopment orders from NBPC which I think are about five six months away but one or two may come out for tendering in this financial year the size of which will range between 500 to 800 Crores each package wise, so these are the orders that we will need to keep a track of and then there are other institutional buildings and hospitals which are going to be developed by various state governments.
- Charanjeet Singh:** Sir in the current order backlog what would be the proportion of slow moving orders and the proportion of private sector as such from the residential versus from the institutional side?
- Shobhit Uppal:** Private public ratio stands at about 60:40, out of the 40% which is private sector, half is commercial or fast moving which is commercial buildings or educational institutions like Amity is a client, Bennett Coleman as mentioned earlier, these are all fast track projects, even the commercial real estate that we are doing is also fast moving, I did mention Brookfield earlier, so about 20% is residential out of which slow moving you could term as about 400 Crores.
- Charanjeet Singh:** Slow moving where the activity is totally stalled?
- Shobhit Uppal:** Activity which is totally stalled would be about 150 Crores.
- Charanjeet Singh:** Sir if we have to drive growth continuing forward we would require certain investment in equipment and all, do you foresee capex increasing in FY 2018?
- Shobhit Uppal:** Our capex will remain in the same range that it was in this year which was about 17 Crores. We will hit the topline of about 1600 Crores and it is still lesser than the peak that we had achieved in 2009-2010, so we still have fair capacity and with further belt tightening and optimization I think we can easily hit higher turnover than we had previously achieved with this equipment bank.
- Charanjeet Singh:** Sir one last question from my side on affordable housing, now we had tied up with the Russian company, have we seen any progress on any orders or are we going to see any pickup going forward in FY 2017?



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- Shobhit Uppal:** I think the pickup will happen as we come closer to the next general elections which are about three years away, so I do not see any pickup this year but maybe two years down the line.
- Moderator:** We have the next question from the line of Sagar Parekh from Deep Financing, please go ahead.
- Sagar Parekh:** Hello Sir, congratulations on great set of numbers. My question is on your EBITDA. This full year FY 2016 we have done about 14% and from next year you are guiding at 13% in spite of a good 20% topline growth which will also give you some kind of operating leverage, I just wanted to understand whether there is any kind of one-off?
- Shobhit Uppal:** Sagar, there is no one-off. At this beginning of the last financial year that is FY 2016 our projections for this year went from 12 to 12.5%, so we have managed to achieve 14%, this we have been able to do through as I said optimizing the utilization of our resources, being conservative, so going forward we will what I am saying is we will be able to comfortably beat across 13% or we may touch 14% also.
- Sagar Parekh:** Because assuming that this year also we got good benefit of operating using this sweating the same asset, so probably next year it will be even better because there is no capex that is what I wanted to understand?
- Shobhit Uppal:** Yes. I am just being conservative. The company is just being conservative but yes we feel that the new orders that we also won are in the region of about 13 to 14% margin, we have our fingers crossed.
- Sagar Parekh:** Sir you mentioned that some residential projects of DDA was stuck due to environmental clearances, so has it been started now?
- Shobhit Uppal:** Yes, I also did mention that the clearances have come, we have broken ground now and projects that project as well as National Intelligence Grid from Ministry of Home both are now running fast.
- Sagar Parekh:** So that is not part of this 400 Crores slow moving order that you mentioned?
- Shobhit Uppal:** No they are actually fast moving orders.
- Moderator:** Thank you. We have the next question from the line of Utsav Mehta from Ambit Capital, please go ahead.



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Utsav Mehta: Sir, AP, Telangana market, there seems to be lots of buzz in terms of the investments being made in the new cities and new facilities so on and so forth, just wanted to ask you how you view this lack of better word, opportunity and whether any plans to sort of foray in to that in a large way?

Shobhit Uppal: As of now, we are waiting and watching. We have no plans in this financial year to foray in that sector.

Utsav Mehta: Any particular reason, any colour you can provide?

Shobhit Uppal: We have interacted in the past but in all my interactions I told all of you that none of the key reasons or factors that we have been able to turn around is to shrink ourself geographically, I think a lot of us made the mistake of growing indiscriminately and in our line of business we own our bandwidth once it gets too stretched, inefficiencies increase, so we took a decision that we would work in only a few geographical sectors where we have an extensive presence, so over the next couple of years, our focus will continue to remain in those sectors unless and until there is an extremely attractive project which we feel will give us very high margins.

Utsav Mehta: Very interestingly, in one of the earlier questions you answered that the real estate residential bid is in a further mess, anything different that has changed or what did you exactly mean by further mess?

Shobhit Uppal: All of you would be reading newspapers, you see that the judicial activists, first the customer activism is growing, obviously the discontent, the frustration with flat not being handed over is at an all time high, they are also approaching the courts and judicial activism has increased. The CCI is also coming in and levying penalties on the developers, so all this is leading to a very chaotic kind of scenario among the residential developers, then the inventory is piling up, even amongst the more organized players like Tata Housing or Godrejs of this world. The inventory and sales are just not happening because the government has taken no step to kind of assuage the feeling of the developers or health of the developers so to say, so that is why I said the situation has become a little more bleak.

Utsav Mehta: In the commercial space I just wanted to know how hotels are moving?

Shobhit Uppal: There is a slow down.

Utsav Mehta: There is absolutely no green shoots over there at all?

Shobhit Uppal: No.



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- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang, please go ahead.
- Manish Ostwal:** Sir my question is on order book. Of the total order book, what is the proportion of government orders and secondly in government orders what is our working capital cycle compared to private business?
- Rohit Patni:** Government order book percentage is 60% of all total orders and working capital from private is different from the government. In government we have every month end we generate a bill and submit to the clients. Some of the clients give ad hoc payment on seven to ten days and after have been certified, next 15 to 20 days and payment, some other payment so balancing 30% payment. In the private side we have mostly generated on every month but that plant is not certified because they have a liquidity problem. They have a delay from payment certified and after they are certified they also delay the payments. Generally it is about 40 to 45 days, the payment cycle in all parts moving projects.
- Manish Ostwal:** Secondly during this year the tax provision has increased, so what would be the guidance for FY2017, the tax rate?
- Shobhit Uppal:** Full tax rate.
- Moderator:** Thank you. We have the next question from the line of Rita Tahilramani from Edelweiss. Please go ahead.
- Rita Tahilramani:** Congratulations for good set of numbers. Sir, a couple of questions; one is what is the average cost of debt currently?
- Shobhit Uppal:** 11.5 to 12%.
- Rita Tahilramani:** Do we expect any further downward movement in that?
- Shobhit Uppal:** Yes. This year by about 1% point.
- Rita Tahilramani:** Sir, the second is if you could give the net order book figure at the end of March 2016?
- Shobhit Uppal:** 3607 Crores.
- Rita Tahilramani:** Would it be possible to give the segmental and the geographical breakup for that?



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- Shobhit Uppal:** Segment wise, commercial is 6%, hospital 14%, infrastructure 11%, institutional 35%, residential is 31% private, residential government 11%. Geographically wise, north is 65%, east is 15% and west is 19%.
- Rita Tahilramani:** When we talk about government residential apart from DDA is there any other project or that is the whole government residential project that we have?
- Shobhit Uppal:** One is DDA and the other is the Denmark Embassy Residential project.
- Rohit Patni:** That is a small project, but the major one is the DDA projects.
- Rita Tahilramani:** Sir, we have already won about 500 Crores orders this year, we are L1 in another about 670 odd Crores, so that itself takes us to almost about 1150-odd Crores and we are not even the first quarter is not over, so would we still restrict ourselves to 2000-odd Crores order intake or there is a chance that we may target higher.
- Shobhit Uppal:** No we will restrict ourselves to what our initial projection is. We have gone on the same kind of run rate in the last year and we could afford to pick and choose in the second part of the financial year led to higher numbers in the last quarter and we will continue to maintain the same policy.
- Rita Tahilramani:** Sir, the slow moving and the legacy orders are those now totally out of the system or there is still some left. I am talking about the 200-odd Crores orders which used to be there?
- Shobhit Uppal:** About 350 Crores now so as I mentioned earlier to you probably when I came to Mumbai is that these orders are virtually standstill and we have managed to insulate ourselves from further losses in these projects. As and when these restart we are confident that we will be able to renegotiate terms and conditions with the developers.
- Rita Tahilramani:** Sir, lastly what is the proportion of fixed price contracts in our order book now.
- Shobhit Uppal:** 4%.
- Rita Tahilramani:** Only 4%?
- Shobhit Uppal:** Yes.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go ahead.



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- Nitin Arora:** Sir, just one question with respect to intensity already guided last, but have you seen any new player coming in the building segment barring L&T is there, NCC, Simplex, JMC Shapoorji but any new player you have seen in the system and how is the behaviour of L&T now in the bidding process?
- Shobhit Uppal:** L&T definitely seems to have pulled up its socks and you know they do not seem to be bidding indiscriminately at least over the last two to three months, we have seen that and new players we are seeing Nagarjuna increased participation in the building segment and also participation by Prathiba Projects.
- Nitin Arora:** Sir Prathiba majorly bidding for NBCC because I think HACC is something they would not be that keen to get into it because of the advances issues?
- Shobhit Uppal:** I think they are doing project for NBCC in Mandi IT. So we see on and off that they bid for a few government building projects.
- Moderator:** Thank you. We have a followup question from the line of Amber Singhania from Asian Market Securities. Please go ahead.
- Amber Singhania:** Just one small question, you mentioned slow moving order is currently around 400 Crores order which 150 is totally stalled and last quarter this number was roughly around 200 Crores. So are we seeing any further slippages happening in any of the current order book or any other current orders?
- Shobhit Uppal:** I think there is some confusion. I mentioned about 200 Crores or 250 Crores, out of this about 100 to 120 Crores or 150 Crores; we will take a few Crores if it is stalled. So there is in fact from last quarter to this quarter we have been able to reduce this number.
- Moderator:** Thank you. As there are no further questions, I now hand over the conference call over to Mr. Shравan Shah for the closing comments. Thank you.
- Shравan Shah:** Sir, I have a few questions. This arbitration award of 10.4 Crores when we are going to book in P&L and how much will be part of the other income and how much will be adjusted in the inventory?
- Rohit Patni:** 8% we have booked in P&L because management and board have decided and the management and auditor decided whenever the payment will be achieved at that time there will be booked P&L. At presently we are not booked in P&L



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- Shravan Shah:** But how much will be booked as the other income and how much will be adjusted against inventory? Will it be known today or when the payment will come we will decide?
- Shobhit Uppal:** Whenever the payment will be received, date and time by the auditor and management will be decided to how much amount will be other income or how much in the revenue part.
- Shravan Shah:** Sir, on this Kota project, when we start having depreciation in the P&L?
- Shobhit Uppal:** Yes definitely.
- Shravan Shah:** From the first or second quarter or may be third quarter onwards we will start booking?
- Shobhit Uppal:** I think starting from second quarter.
- Shravan Shah:** Sir, roughly today we have how many 25 projects where we are working?
- Shobhit Uppal:** 30 to 35 projects.
- Shravan Shah:** We are except this 150 Crores we are booking or may be started the execution on all the projects?
- Shobhit Uppal:** Yes.
- Shravan Shah:** Sir, when we are saying a 20% growth so for FY2017 we are sticking to 1700 Crores guidance and in FY2018 we are seeing a 20%?
- Shobhit Uppal:** No, when we say 20% so 20% may become 25%, but it will be anywhere between 1500 to 1600 Crores, the topline this year.
- Shravan Shah:** This year you are saying a 1500 to 1600 Crores topline.
- Shobhit Uppal:** Yes.
- Shravan Shah:** Then there will be a 20% growth maybe in FY2018 or can be higher in FY2018?
- Shobhit Uppal:** Yes it can be higher.
- Shravan Shah:** That is it from my side. Thank you for giving us the opportunity. Sir do you have any closing comments?



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Shobhit Uppal: Thank you so much. As and when you gentlemen have any other questions, please free to reach out to Rohit. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Dolat Capital Market Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

