



“Ahluwalia Contracts (India) Limited Q2 FY2018 Earnings Conference Call”

November 17, 2017



ANALYST: MR. AMBER SINGHANIA – ASIAN MARKETS SECURITIES

**MANAGEMENT: MR. SHOBHIT UPPAL – DEPUTY MANAGING DIRECTOR -
AHLUWALIA CONTRACTS (INDIA) LIMITED
MR. ROHIT PATNI – MANAGER (INVESTOR RELATIONS) -
AHLUWALIA CONTRACTS (INDIA) LIMITED**



Ahluwalia Contracts (India) Limited
November 17, 2017

Moderator: Good day ladies and gentlemen and welcome to Ahluwalia Contracts (India) Limited Q2 FY 2018 Earning Conference Call, hosted by Asian Market Securities 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. Should you need assistance during this conference call, 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. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!

Amber Singhania: Thank you Janis. On behalf of Asian Market, I welcome you all to the Q2 FY2018 Earning Conference Call of Ahluwalia Contracts Limited. We have with us today Mr. Shobhit Uppal – Deputy MD, and Mr. Rohit Patni – Manager (Investor Relations) representing the Company. I now request Mr. Uppal to take us through the quarterly results and business outlook and then we can start with the question-and-answer session. Over to you Sir!

Shobhit Uppal: Good afternoon everybody. We have released our Q2 FY2018 results. I will just take you through the results. During Q2 FY2018, the Company has achieved a turnover of Rs.334.55 Crores and a PAT of Rs.25.7 Crores in comparison to a turnover of Rs.290.36 Crores and a PAT of Rs.19.98 Crores in Q2 FY2017. The company has achieved a year-on-year growth of 15% in revenue and 29% in PAT.

EPS of the Company for Q2 2018 is Rs.3.85 as compared to Rs.2.98 for the Q2 FY2017. During Q2 FY2018 the Company’s EBITDA margin is 14.89% as compared to 13.88% and PAT margin is 7.70% as compared to 6.85% in the corresponding period.

In HY1 FY2018 the company has achieved a turnover of Rs.838.74 Crores and a PAT of Rs.55.28 Crores in comparison to a turnover of Rs.596.62 Crores and a PAT of Rs.41.79 Crores in HY1 FY2017. The company has achieved a growth in year-on-year basis is 41% in revenue and 32% in PAT.

EPS of the Company for HY1 FY2018 is 8.25 as compared to 6.24 in HY1 FY2017. During HY1 FY2018 the Company’s EBITDA margin is 12.33% and PAT margin is 6.59% Net order book of the Company as on September 30, 2017 stands at 3266 Crores to be executed in the next 24 to 30 months. That is it. We can start with the question now.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Parikshit Kandpal:** Shobhit congrats on good set of numbers. To what extreme this sharp improvement in margins because we were still expecting to Q2 be a soft quarter remaining effect of demonetisation do not have played even in this quarter so what explains this sharp jump?
- Shobhit Uppal:** I had explained during my last concall that post demonetization Q2, Q3, Q3; there will be an upswing. We will show a study improvement and we are continuing based on our projections be it in terms of our revenue growth or in terms of margins or also in terms of our order book growth. I have mentioned to you last time that our total targets of new order inflow is about 1200 Crores we have won orders worth about 800 Crores in this year and we are L1 about 350 Crores. So the new order inflows are also adding to the margins and we have been belt tightening has been a continuous suffered from the management side, now that all the whatever we had set out to be we have done that and it is a continuous process so all that is yield being result.
- Parikshit Kandpal:** We have already achieved if YTD 2018 already achieved 1100 including the L1 so any upgrade in the order inflow guidance for the rest of the year?
- Shobhit Uppal:** I think we are not targeting about 1400, the 1500 Crores, which was our initial target, which we have revised downwards, post demonetization.
- Parikshit Kandpal:** In terms of revenue growth 15% to 20% is what we still maintain which we have upgraded last quarter?
- Shobhit Uppal:** Maintaining plus 15%.
- Parikshit Kandpal:** Sir this revenue is it net of GST or gross of GST?
- Shobhit Uppal:** Yes that is another thing it is a good question you asked it is net of GST so in effect our growth has actually been 23%, 24% because the impact of GST we are now not taking GST in our turnover so that in itself is about 8% to 9% that impact.
- Parikshit Kandpal:** So how much, can you quantify how much with the impact of GST the revenue is lower by how much?
- Shobhit Uppal:** About 8%.
- Parikshit Kandpal:** In terms of value how much will be?
- Shobhit Uppal:** In terms of value it is 26 to 27 Crores in this quarter – in this quarter about 27 Crores.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Parikshit Kandpal:** 27 Crores revenue is lower because of GST that is why partly it will also reflecting in higher margins?
- Shobhit Uppal:** Actually no because the margins are higher as it is. In fact in this quarter because there is some uncertainty regarding GST because all clients are switching over and changing the bill of quantity so certain turnover is yet not this turnover if say the GST would not have been there this turnover would have been more by about 11%, 12% 8% on account of GST and 3% to 4% on account of certain billing or which has not been taken by the client because they are still finalizing for revising the contract post GST.
- Parikshit Kandpal:** So despite the GST in net revenue is being net of GST will still maintaining 15% plus of growth.
- Shobhit Uppal:** Yes.
- Parikshit Kandpal:** Lastly Sir just on the EBITDA margin outlook so earlier we have guided close to 12% to 13% EBITDA margin so now for the full year is there any upgrade in EBITDA margins guidance?
- Shobhit Uppal:** It is about 13% to 14%.
- Parikshit Kandpal:** For the full year and eve for the next year I think we could be able to maintain that?
- Shobhit Uppal:** Yes.
- Parikshit Kandpal:** That is all from my side. I will join the queue for more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Shравan Shah from Dolat Capital. Please go ahead.
- Shравan Shah:** Sir first of all congratulations on great set of numbers. Sir just reiterating the earlier questions only. Sir in terms of the now when we are saying a 15% revenue growth so if I look at the second half then it would be around 2%, 2.5% kind of a growth so is it this a very conservative number?
- Shobhit Uppal:** It is slightly conservative but you know us we are conservative in nature that is why I said that it would be plus 15% that we are maintaining our guidance that edge?
- Shравan Shah:** Sir in terms of the if you can explain about the bid pipeline what kind of because last time we talk about few IIT projects and if you can give us where the bid pipeline are in terms of the size and projects and how much now we can still can we still think of another maybe 800 to 1000 Crores inflow in this year.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Shobhit Uppal:** First of all to answer your last question we can certainly think about 300 to 400 Crores more post the L1 order in addition to that. Bid pipeline as I mentioned last time we are bidding but there is the increased competitive intensity and we do not want to bid extremely aggressively so what we are doing now is we are moving trying to bid in higher contracts say plus 500 Crores contract there we feel the competitive intensity will be less NBCC has just come out with two new tenders the Sarojini Nagar and Netaji Nagar these are about 1000 Crores reach. So we are looking to bid these are parts of our order pipeline. We are also seeing improvement as far as our private sector clients especially commercial building is concerned so we are in talks with the couple of our clients to extend some of our contracts where we are already working so this is what constitutes the order pipeline and I do not think 300 Crores to 400 Crores should be a problem more.
- Shravan Shah:** Sir is there any scope of work which still you think and improve our order book is there anything else remaining?
- Shobhit Uppal:** No look as I said things are going out, but we are not being overtly aggressive we feel that we should the growth should be study it should not be spectacular and I feel as we move into FY2019 the opportunities are only going to increase and competitive intensity will become less. So we are actually gearing up for that.
- Shravan Shah:** Sir lastly I need an order book bring up segment wise and the government and also the fixed is how much?
- Shobhit Uppal:** Rohit will just give that.
- Rohit Patni:** Government it is 63% and private it is 37% and segment wise the commercial 6%, hospital 18%, infra it is 25%, institutional 27%, residential private 23%, residential government 14%.
- Shravan Shah:** That is it from my side and all the best.
- Moderator:** Thank you. Next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.
- Utsav Mehta:** Sir just a couple of questions on working capital first just a book keeping question what would be the customer advances on the book right now?
- Rohit Patni:** Customer advances in liability side by noncurrent liability or the financial liability.
- Utsav Mehta:** Both current, noncurrent, and also including the advances for budget.
- Rohit Patni:** In current liability.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Utsav Mehta:** Right.
- Rohit Patni:** Let us tell the current liability first.
- Utsav Mehta:** I did not understand. Sir just in the meantime if I can proceed with my next question. I wanted to understand a bit on the receivables and the retention money it seems like at least compared to March 2017 in terms of days it has come down a bit and my sense was that given where we were in terms of GST and reprising for GST that does seem to have been an impact which is take us through the dynamics of how we have manage to do that?
- Shobhit Uppal:** We have aggressively pursued with our clients in terms of revising the bills of quantities and the contracts taking into account the GST and with almost all our clients we are close to settling the impact of GST as far as the bill of quantity is concerned. In the meantime we are, we have convinced them to keep on releasing payments while holding a certain percentage of billing. So that is how the working capital cycle has not been impacted.
- Rohit Patni:** Also we have seen in last six months we have about 838 Crores but our debtors to be increased only 5 Crores so 99% of our remaining bills will be releasing.
- Utsav Mehta:** Correct so that is what I wanted to come down if billing has been as per or has been normalized or it is impact been faster is it that we are taking some expenses which are related to GST which has not been reprised it or we bearing the cost of that right now?
- Rohit Patni:** As I said when I was answering the first question also on certain the client is withholding a certain amount of our bills it is varying from client-to-client it is from 2% to 4% the impact and they are releasing the payment this is being done till such time that the impact on each contract is actually priced out. So that working is going on with individual clients. Does that answer your question?
- Utsav Mehta:** Just wanted to understand indirectly does that mean that our margins to that extent are lower this quarter?
- Shobhit Uppal:** Yes I mentioned that because that they would slightly increase.
- Utsav Mehta:** Just my last bit now that debt is almost negligible from what I can surmise from the balance sheet as well the interest bearing customer advances seems to have gone down does that mean that dividends and should start by the end of this year?
- Shobhit Uppal:** We are considering dividends maybe next year we are actively the management is considering paying on dividends.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Utsav Mehta:** So in the interim the cash flows that are generated what do you think would be the best use for this, because whichever we are look at it our working capital is improving interest cost are going down?
- Shobhit Uppal:** As I also mentioned earlier we are looking at larger contracts now. The scale of the contracts is changing and as we come closer to the next round the general elections we will see much bigger contracts and timelines have been squeezed so there will come a time and we will have to start investing in newer technologies or tie-ups so I think we are trying to build to war chest for that.
- Utsav Mehta:** Just one last question Sir NBCC contracts you mentioned there are two in the pipeline these are again fixed price contracts right?
- Shobhit Uppal:** These are actually design build contracts yes fixed price contracts the term of these contracts is about two years and these are design build contracts and lump sum contracts.
- Utsav Mehta:** Sir how comfortable are we talking fixed price contracts all over again?
- Shobhit Uppal:** What we do when we bid such contracts a) because they are design build or we can the estimation of the various items that go into this contract in our hands we are not at anybody else's mercy so be so we can accurately price them out and when we put in our bid we estimate a certain amount of escalation which is a part of our pricing.
- Utsav Mehta:** You perceive no risk on the end of NBCC being unable to fund the project on time given the fact that the funding of the project itself relies on real estate levels?
- Shobhit Uppal:** That is why we are actually hedging of that, that is why if you seen I mentioned this also in my last con call that some of the larger contracts so very large contract in straightaway from though we could qualified with the joint venture partner because we thought the risk to our company of our size was far too much like say the Pragati Maidan contract or the Nauroji Nagar contract and we are bidding for contract in the range of about 500 to 1000 Crores.
- Utsav Mehta:** Thank you so much for your time. I will just appreciate those customer advance numbers.
- Shobhit Uppal:** We will just get back on that. While we move on we will mention this subsequently. Is that okay?
- Utsav Mehta:** Yes that is okay.
- Rohit Patni:** Customer advance is 141 Crores.
- Utsav Mehta:** Thank you so much Sir.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Moderator:** Thank you. Next question is from the line of Viral Shah from Emkay Global. Please go ahead.
- Viral Shah:** Congratulations on good set of numbers. Just one clarification where we are looking at we had got an order inflow of around 800 Crores right till date.
- Shobhit Uppal:** Yes.
- Viral Shah:** That includes our newly announced projects as well?
- Shobhit Uppal:** Yes that is what we announced yesterday it includes that what it does not include is a projects in which we are L1 which is about 320 Crores.
- Viral Shah:** Secondly can you give us the order book break up again as well?
- Rohit Patni:** Yes segment wise, commercial is 6%, hospital 18% and infra is 12%, institutional 27%, residential private 23%, residential government 14% and government and private - government is 63%, private is 37%.
- Viral Shah:** Secondly in terms of capex what we are looking at for the year as a whole?
- Rohit Patni:** 15 Crores to 20 Crores.
- Viral Shah:** What we have spent till date?
- Shobhit Uppal:** Around 11 Crores.
- Viral Shah:** And what will be that be for?
- Shobhit Uppal:** That be for upgrading our machinery lot of our equipment is now getting old so upgrading, maintenance, repairs.
- Viral Shah:** Secondly what will be our debt level as on date gross debt level?
- Rohit Patni:** Gross debt level is 53 Crores.
- Viral Shah:** Just includes our current maturity as well?
- Rohit Patni:** Yes.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Viral Shah:** Sir you said that the margins are higher mainly just clarifying that because you said that GST was around 8% impact is knockout and you are reported around 14% margin so could you clarify more on that why the margins are higher for the quarter?
- Shobhit Uppal:** No, so there are two things a) what I said the impact of GST to the tune of about 8% is on our turnover this turnover that we are showing is net of GST so if we were to go back to the previous regime our turnover would have been about 25 Crores, 26 Crores higher that is one, the second part of your question is why our margins are higher? Margins are higher just because of belt tightening exercises and increased efficiency.
- Viral Shah:** If our understanding is correct if you adjust this 27 Crores on both in EBITDA and the topline so then the margins would come around 15.6% right is the understanding correct, because 27 Crores if you add to the revenue and EBITDA?
- Shobhit Uppal:** See not EBITDA only revenue.
- Viral Shah:** Because that is net of tax know sir so you would have adjusted that amount somewhere last quarter as well right?
- Rohit Patni:** Yes that in tax part – the GST part is not part of the EBITDA only revenue part they are expenses with the part there is only revenue will be increase makes it even EBITDA is down from I am talking about 40 to 50 basis points.
- Viral Shah:** Thank you Sir. That would be very helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.
- Ashi Anand:** Sir I just want to get some kind of sense with relation to what is the outlook over the next two to three years considering the fact that if you had RERA and GST impact of private residential demand. So if you could just kind of give us some kind of sense on how you see the order outlook both in the near-term and over the medium-term in the private residential segment with relation to government project and also in the institutional side?
- Shobhit Uppal:** You are asking specifically vis-à-vis our company or generally you are asking about the market outlook on these three sectors?
- Ashi Anand:** I am speaking for the market outlook and the market that you are operating and so the focus on NCR.



Ahluwalia Contracts (India) Limited
November 17, 2017

Shobhit Uppal: As far as private residential is concerned it continues to be extremely sluggish though we see consolidation happening but on the ground as far as new projects is concerned there is not really a very large uptick. In the private commercial space as I mentioned there is movement we see that in metros at least there is increased activity on the institutional side or on the public sector side the government continues to be bullish on education on healthcare we also see a lot of focus on convention centers on new airports and also large government entities keen to make their offices for training centers in major cities so this is where we feel that orders will come in also as we come closer to the next round of general elections affordable housing on the government side is we feel is going to pickup.

Ashi Anand: Sir Can I just ask some extra questions on this. If I am just looking say private residential demand and the general kind of consensus seems to be that as post the RERA so you are going to have the larger more organized players gain market share is that conceptually good for us to the company or negative for us to the company as and do would we have a higher market share coming in from the larger kind of players or is it really the smaller players who were getting contracts from under private residential side?

Shobhit Uppal: No it is good. Consolidation is good for serious players or more disciplined players like us. Consolidation is in towards the builder segment who will also see consolidation amongst the construction companies or established construction companies because once these companies the developers will also be serious about delivering on time and they will have to come to four, five or handful of construction companies who capable of delivering in time because with RERA coming into force each project will have to be deliver between two to three years so obviously non-serious construction companies or constructions who do not have the necessary capital or the infrastructure to complete these jobs will also fall by the way side so it is good. Having said that residential private residential is not really a focus area for us over the next couple of years. We feel there is a lot of potential work is waiting to come to us in other fields most private and public sector other areas.

Ashi Anand: You also made a comment about competition increasing in smaller projects just wanted to understand since we are looking at competition three or five years before and now how much has competitive intensity changed?

Shobhit Uppal: It has changed quite a bit in smaller projects we see especially in government contracts there are parties three and a half, two years ago there are only a three or four companies Ahluwalia, Shapoorji, L&T, Nagarjuna or may be JMC bidding even for a 200 Crores, 250 Crores contract now there are three or four. Localized players will come up people who is being working in Gujarat, people who is being working in Bombay, Maharashtra or in Delhi primarily doing government contracts through local public welfare department they have come up and the rates in



Ahluwalia Contracts (India) Limited
November 17, 2017

these contracts has come down by 10% to 12% so this particular segment we are slowly moving away from and as mentioned in our order book breakup now we are at 63% public and about 37% private, we have again started switching back to private sector. I have always maintained that we would like evenly distributed mix between public and private sector and private sector residential is something, which we are not focusing but commercial real estate we are focused and see increased activity education, Amity is our client, Times of India is our client we see private spending happening in education and healthcare so these are the sectors, which are driving us or making us increase our private sector exposure.

- Ashi Anand:** Thanks a lot Sir. That was very helpful.
- Moderator:** Thank you. Next question is from the line of Divyata Dalal from Systematix Shares. Please go ahead.
- Divyata Dalal:** Sir I wanted to get more understanding on the JV part which you mentioned that since now we are moving towards higher ticket size contracts one what is the average ticket size that we would be qualify to bid for on our own and if not and if we go through the JV route then what would be the mechanism of this joint venture?
- Shobhit Uppal:** We would be bidding on our own for contracts ranging from 500 to 800 Crores and above 800 Crores we would be bidding with potential JV partners.
- Divyata Dalal:** And this JV would be more of a technical JV where we will get the technical know-how should we will go for qualification and the work will be done by us.
- Shobhit Uppal:** It will be both depending on a project-to-project basis. We already have a technical joint venture, which has been existing for the last couple of years which is the Precast Technology, which will be used for affordable housing but on a project-to-project basis we will see the kind of joint venture, which is required whether it required for qualification or whether it is required for technical know-how depending on the complexity of the job.
- Divyata Dalal:** So have we identified such jobs already like the Netaji Nagar project, which you mentioned Sarojini and Netaji Nagar for NBCC we will be bidding JV?
- Shobhit Uppal:** One of these jobs we are bidding on our own and one of these jobs we are bidding with the joint venture partner.
- Divyata Dalal:** In terms of with the ticket size increasing from here on will the capex requirement also increased?



Ahluwalia Contracts (India) Limited
November 17, 2017

- Shobhit Uppal:** I did mentioned that yes I did mentioned in one of the earlier questions with some of the cash that we are sitting on or we will be sitting on will be used to fund the larger contracts that we work together in the next two to three years.
- Divyata Dalal:** Assuming most of these contracts would be a smaller duration contract as compared to a normal 2.5, 3 year contract?
- Shobhit Uppal:** The time will vary from two to three years because the ticket size is increasing, so obviously monthly billing on each project will increase, but there is a lifecycle to a project, so it cannot be squeezed beyond a certain thing, so all these contract we are seeing the timeline were ranging from two to three years. What we think will happen is that there will be much lesser time overrun, so if an NBCC or a CPWD comes out with a timeline for a project for two-and-a-half years it is expected to be completed with minimal overruns.
- Divyata Dalal:** In these NBCC kinds of orders al we have to do is start designing and execution or we have to look for clearances as well on the land from the government?
- Shobhit Uppal:** Not land. Generally in all these contracts land is clear, free of encumbrances, but other clearance because design in our scope, so other environmental clearances and clearances from local authorities they are in our scope, so typically on such contracts the construction begins after three to four months its award.
- Divyata Dalal:** The competitive intensity would be comparatively lesser than what you mentioned earlier in case of local government contracts?
- Shobhit Uppal:** Yes.
- Divyata Dalal:** All the best. That is it from my side. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Rita Tahilramani from SBICAP Securities. Please go ahead.
- Rita Tahilramani:** Congratulations on a very good set of numbers. I have just one question, how much is the rentals which we have generated from the Kota project in current quarter?
- Rohit Patni:** In Kota projects just to this quarter we have earned revenue of Rs.26 lakhs and accounting loss is Rs.2.39 Crores, but if you see it is half year just Rs.52 lakhs lease rental and Rs.4.84 Crores losses accounting, but there is a cash loss of probably Rs.38 lakhs this half year.
- Rita Tahilramani:** What is your expectation going forward in this particular project?



Ahluwalia Contracts (India) Limited
November 17, 2017

- Rohit Patni:** This year we have incurred around Rs.9 Crores losses, Rs.8 to Rs.9 Crores in whole year and cash loss would be around Rs.75 lakhs to Rs.1 Crores, but in the next year we are expecting that accounting loss would be minimal and we will be cash surplus.
- Rita Tahilramani:** That is it from my side and good luck for future.
- Moderator:** The next question is from the line of Mayank Goel from B&K Securities. Please go ahead.
- Mayank Goel:** Just one question. You have mentioned that you would rather look to invest your cash flows into building capabilities or capacities to cater for these large sized projects, so have you worked out on number like so this year your capex guidance is about Rs.20 Crores, but I am sure if you plan to utilize this cash flows for building capacity are we like looking at some higher capex spending for FY2019, 2020 in terms of increasing on equipment bank or probably the working capital cycle would be higher than what it is today to fund these projects yourself?
- Shobhit Uppal:** Projects will be funded, not working capital. We do not expect the working capital cycle to increase because companies like NBCC, CPWD they are undertaking the project works and they get funding from the various government departments where they are redeveloping for, but yes I had mentioned in my earlier concalls also it depends on a project-to-project basis say if we are doing a larger affordable house project, which requires a lot of precasting inputs, obviously the capex is going to go up, so that is what I mentioned when I said that we are building a war chest because the delivery has to be in the given timeframe, so the projects cannot suffer on account of infrastructure, which we will develop using the existing cash flows.
- Mayank Goel:** Historically the past couple of years you had a capex of about Rs.20 Crores, Rs.30 Crores, can we expect this to be bumped up? Can you give us a ballpark figure of what kind of capex can we assume for FY2019?
- Rohit Patni:** I think this would substantially go up. It can double.
- Mayank Goel:** Can double. Fair enough Sir and just one more question if I can at present can you give us a value of your legacy or the slow moving orders?
- Rohit Patni:** Rs.300 to Rs.400 Cores.
- Mayank Goel:** Rs.300 to Rs.400 Cores and Sir are we still continuing to hold those inventories that we used to hold for, why we could not collect those receivable? What is the figure?
- Shobhit Uppal:** We are holding those inventories because the market is down and as and when the market starts moving up then we will start kind of liquidating these inventories.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Mayank Goel:** Thanks a lot Sir. If there are any more questions, I will get back in queue Sir. All the best.
- Moderator:** Thank you. Next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Thank you Sir. Just wanted to understand in terms of this first half particularly the employee cost has reduced significantly and at the same time subcontracting cost has also gone up significantly, so subcontracting I understand that because of the demonetisation usage in terms of the labor issues, but how do we see it going forward?
- Shobhit Uppal:** Going forward subcontracting cost will be higher because now all these new jobs that are coming, these are EPC contract right wherein everything is under the general contractor's umbrella, so there will be a quite bit of specialized work like lifts, operation theaters or escalators, which we will have to subcontract, building management systems, which we are subcontracting, so this subcontracting value will go.
- Shravan Shah:** In terms of the employee cost why it has reduced significantly?
- Rohit Patni:** During this period, we have given increment to employees. So some of time the interchange of the labor cost is one subcontracting cost, so we have envisaged both employee cost plus subcontracting cost to compare this year to last year.
- Shravan Shah:** But this run rate will continue? There will not be any significant change on this run rate, quarterly run rate of employee cost?
- Rohit Patni:** In fact we were to split this into more employee cost and labor cost, our employee cost actually has slightly gone up because we have in this quarter given increments, if you have seen here on the balance sheet there is a combination of employee and labor. As per the new norms we have to mention this together.
- Shravan Shah:** Just wanted clarification in terms of the revenue guidance growth for FY2019 it is the same of 15% to 20%?
- Rohit Patni:** Yes.
- Shravan Shah:** This L1 contract is the one contract or there are two contracts?
- Rohit Patni:** One contract. Last time I mentioned in the concall after that one LO1 has been received, so this is now one contract probably in Kolkata, we are hoping to get the LOI in the next 7 to 10 days, it is about Rs.320 Crores.



Ahluwalia Contracts (India) Limited
November 17, 2017

- Shravan Shah:** Out of the current order book the fixed price contract is how much?
- Rohit Patni:** One project, which is Rs.65 Crores.
- Shravan Shah:** If I look at this quarter order book 3266 and the last quarter 3040, so the difference is 226 and I hope all these order inflow has occurred actually in October, November that is Q3 and our quarterly revenue for this quarter is Rs.334, so there is a roughly Rs.100 Crores gap is there, so is there any scope of work, which is coming?
- Rohit Patni:** 3570 is the last quarter in the March plus 570 we have a increase in the order, so approximate 4100 Crores, plus 833 Crores the approximate 3265 Crores may be it 5220 Crores that some project increase or may be extent overdue.
- Shravan Shah:** One second can you explain?
- Rohit Patni:** March 31 our order book is 3570.
- Shravan Shah:** On the first quarter at the end of first quarter it was Rs.3040 Crores?
- Rohit Patni:** Rs.3040 Crores plus 550 we had total project.
- Rohit Patni:** We had 800 Crores is the total project, so second quarter we have 555 Crores project.
- Shravan Shah:** What you have booked in second quarter?
- Rohit Patni:** Yes.
- Shravan Shah:** That is from my side and all the best.
- Moderator:** Thank you Mr. Shah. The next question is from the line of Amber Singhania from Asian Markets Securities. Please go ahead.
- Amber Singhania:** Thank Sir. Sir, just wanted a clarification on the previous question, so you mean to say at the end of Q2 our order book was 3266 Crores and as of now including this 311 Crores inflow it is 3575 Crores right?
- Shobhit Uppal:** Yes.
- Amber Singhania:** That is correct right, so the current order book is standard 3575 Crores whereas at the end of Q2 it was 3266 Crores. Secondly, just wanted to understand as we are now looking at NBCC projects



Ahluwalia Contracts (India) Limited
November 17, 2017

as well as affordable housing going forward in a larger way, what we believe is that the margins in these projects are slightly lower than the margins on the projects, which we generally do, which is the hospitals and institutions and all, so are we looking a slightly lower margin going forward on a blended basis on the order book or how do we see this mix asset on that part?

Shobhit Uppal: When I answered the first question guidance, for the next couple of years as far the EBITDA concern it is 13% or slightly more, 13% to 14% and the logic behind this is that the scale of the orders that we are bidding for like I mentioned the Netaji Nagar or Sarojini Nagar, we expect the competition to be lesser because the size is bigger and also we have now started focusing again on the private sector side so which existing clients like Amity, Bennett or Brookfield, Red Park where again the competition because it not L1 gets the contract, so we maintain our guidance for our profit.

Amber Singhania: Sir, on the ballpark number affordable housing in NBCC project do have significantly lower margin compared to the other projects?

Shobhit Uppal: It is the factor of the competition. As I said the scale of the projects on which we are going to bid the competition will be lesser and the margins would be the same that we are used to working on.

Amber Singhania: Secondly now as the Kota project has completed and we are on the process of leasing it out anyway that was not our main intention of the business idea as such are we looking to monetize this asset now because already we are entering some accounting losses as well as cash loss within this?

Shobhit Uppal: Yes, we are looking at that option also as the market improves on the commercial side that is definitely an option.

Amber Singhania: Secondly, apart from you have mentioned about NBCC orders, which are there in the pipeline if you can also highlight couple of more large projects, which are coming for bidding in the next three to four months in our sector of or areas of interest as such?

Shobhit Uppal: As far as NBCC is concerned there are other institutional projects, which consist of redevelopment as well as institutional headquarters for various government entities, the aviation ministry has announced that it will be coming up with large airport. One tender has already come out for Guwahati which is 800 odd Crores, hospitals continue to be our focus of both government of the centre as well as the state government so these are the areas and then as I said private sector also one is seeing uptick in commercial real estate.

Amber Singhania: We are looking for Guwahati airport kind of business, Sir?



Ahluwalia Contracts (India) Limited
November 17, 2017

- Shobhit Uppal:** We may bid for this, yes.
- Amber Singhania:** Fine, so in that case our guidance is pretty much conservative in terms of overall when you will have this order this inflow?
- Shobhit Uppal:** It is better to be conservative.
- Amber Singhania:** Thanks and that is all from my side.
- Moderator:** Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Good afternoon, Sir. Congratulations for a good set of number. Sir, just a couple of questions, you said that at least on the private side we are more focused on the commercial and the institutional side rather than the residential side is this a function of the fact that historically more than 60% of our order book has come from NCR and which is why we are cautious because one would have thought that at least in the post-RERA environment we could have probably looked at private residential side again?
- Shobhit Uppal:** We will eventually Parvez look at that, but not now. It is not a focus area for us. As I mentioned earlier there is plenty of work for us. Our potential clients for us away from the real estate sector or residential real estate sector and I feel that the effects of RERA while we are seeing consolidation happening, but the investor confidence as well as the customer confidence continues to be low. I think it will take still a year and year and half for this part of the real estate to stabilize, so we are not focusing on this segment at all. It is not that we are not bidding for the more established real estate players like the Godrej of this world or DLFs of this world as we speak we have received enquiry from DLF so we will build but we are not extremely keen, we will not bid very aggressively.
- Parvez Akhtar:** Sure Sir and the other side is at least on the affordable housing side you mentioned that there may be an yield of better technology or new technology is there, but apart from the technology side, I believe at least larger size orders in affordable will also need a whole new dynamics in terms of cost. I am not really sure whether we will able to get orders there with 13% to 14% margins, so how do we see our cost metrics and our overall costing philosophy when it comes to affordable housing?
- Shobhit Uppal:** It is parity. Everybody things if it is affordable because it will not have our margins. We are already doing four affordable housing, doing project to DDA in Narela, which is design build project, which is a 350 Crores project, which was started a year and half ago, so my margins are intact, maybe they are not using granite, they are not using imported fitting, because it is



Ahluwalia Contracts (India) Limited
November 17, 2017

affordable, but because it is a design build and when it was bid there were just three companies who were qualified to bid for it so there were three companies like Ahluwalia, Simplex and there was disciplined bidding. Let me put it that way. My margins are intact and as we speak that contribute to that particular project has contributed handsomely to our margin. Similarly we just won in the last quarter; we won an order from CPWD in heart of Delhi, which is also an affordable housing design build project where also we feel our margins will be better than these projections so it is a fallacy. If the word affordable is the attached that does not mean that my margins will be lower, my margins are a factor of the competitive intensity of a bid.

Parvez Akhtar: Sure Sir. Great to hear that. Thank you and all the best for future.

Moderator: Thank you. We will take the last question from the line of Kapil Joshi from Stewart & Mackertich. Please go ahead. There seems to be no response, I now hand the conference over to Mr. Amber Singhanian for his closing comments.

Amber Singhanian: Thank you Janis. On behalf of Asian Market Securities I would like to thank all the participants and a special thanks to the management for taking out time and sharing their views about the company and the sector with us.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.