



## “Ahluwalia Contracts (India) Limited Q1 FY 2019 Results Conference Call”

August 16, 2018



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**Moderator:** Ladies and gentlemen, good day and welcome to the Ahluwalia Contracts Limited Q1 FY2019 results Conference Call, hosted by Systematix Shares and Stocks 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 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. Jaspreet Singh from Systematix Shares and Stocks Limited. Thank you and over to you Sir!

**Jaspreet Singh:** Welcome everyone and good evening. I hand over to Mr. Shobhit Uppal, Deputy Managing Director for his opening remarks and then we can have the Q&A. We also have Mr. Rohit Patni, Manager, and Investor Relations. Over to you Sir!

**Shobhit Uppal:** This is Shobhit Uppal. Along with me I have Mr. Satbeer Singh, Mr Vijay Jain and Mr Rohit Patni. Ahluwalia Contracts India Limited has recently, that is day before yesterday, announced the financial results for Q1 FY2019. During this quarter, the company received a turnover of 403.89 Crores and a PAT of Rs. 28.18 Crores in comparison to a turnover of 504.2 Crores and a PAT of 29.52 Crores in Q1 FY2018.

EPS of the company for Q1 FY2019 is at 4.21 as compared to 4.41 in Q1 FY2018. During Q1 FY2019, the company’s EBITDA margin is 13.01% as compared to 10.63% and a PAT of 6.98% as compared to 5.85% in the corresponding period of the last year.

Net order book of the company as on June 30, 2018 stood at Rs.4300 Crores and as on today it stands at Rs.4700 Crores. Thank you. I am open to questions now.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Shravan Shah from Dolat Capital. Please go ahead.

**Shravan Shah:** Thank you for the opportunity. Sir, this is primarily on the revenue front, last time we had a 20% growth for full year and this I think the third year, we are two quarters consecutively we have see a dip on the topline and previous quarter just a muted or flat quarter so just trying to understand despite we have already won more than 2000 Crores orders in FY2019, just trying to understand where are we standing? Why we are not able to do slightly better more execution?

**Shobhit Uppal:** You have been tracking our company; I think you know the history of the company. I think over the last three years whatever we projected in terms of our year-on-year growth we have achieved that whatever guidance is being given by the management we achieved to that. As regards to this quarter, traditionally if you are to track the numbers of the last five years all quarters barring the first quarter of the last year where the turnover grew tremendously on account of more billing



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done by the clients because GST was to be implemented that is why growth in that quarter was there. Otherwise traditionally in every quarter across last four to five years the first quarter is always about 20% of the total turnover. So our targeted turnover this year is 2000 Crores, which is 20% growth and our turnover of this quarter, first quarter is 404 Crores which is 20%, so we are on track.

Secondly there are few factors why this turnover could have been higher that is because we are doing redevelopment projects in Delhi and that also while all designing has been done, costs have also been incurred, but it is not started as yet because of the controversy around felling of trees, so we had plugged in the first quarter a turnover of about Rs.20 Crores in that project that is not coming, there is a project in Kolkata for NBCC where the local PWD is the client where the project has already been started, but it has been slow in the last three months because due to certain requirements of the Chief Minister there the project is being redesigned and the project is on hold at site so that has affected our turnover by about Rs.15 Crores and then obviously the first quarter last year included various taxes like VAT and excise whereas now with GST coming in, this quarter does not have that so the impact on the total turnover is about 9 to 10%. If you were to add all these could have added to our topline by 15%. I trust I clarified your question.

**Shravan Shah:**

Yes, thank you for that. In terms, we have already won more than Rs.2000 Crores orders so now what is the target for remaining months of FY2019 and also at the same time last time we highlighted some of big pipeline projects particularly one of the airport also and other AIIMS and BR projects so if you can once again highlight that it would be great.

**Shobhit Uppal:**

During the last conference call, I said that we revised the target upward from Rs.1600 Crores to 2000 Crores as far as the new order inflow is concerned and we met that. Now obviously we will the guidance is being revised further by about Rs.400 Crores, we can take our time, there is no actual desperation to win new contracts, we feel that our order book is quite robust, so we also want to work on the margins. We did not talk about the margins when I was answering your first question because the topline has come down but our EBITDA margin and PAT has actually grown. So the company's focus remains on the profitability of the projects that we are taking in as far as the order pipeline is concerned, the order pipeline today is at about Rs.2000 Crores and these are projects probably again focusing on our core competency areas of hospitals, educations, and institutional projects.

**Shravan Shah:**

Lastly I was about to ask on the margin definitely we have done much better on the margin so the full year it would be 13% to 14%?

**Shobhit Uppal:**

It will be more than 13%. Not only that I am sure all of you would have reviewed and compared the margins that Ahluwalia and Ahluwalia's peers or some of our competitors have released. From the paper in front of me, I can see that we are amongst the higher bracket.



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**Shravan Shah:** Thank you and all the best Sir.

**Moderator:** Thank you. We have the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

**Nitin Arora:** Good evening. Sir first my question is when we look at this controversy of tree cutting, which is happening around few of the developers site, what is your assessment, just your personal assessment is it something a decision will be made that scope of this project will be put out and the remaining project comes in, so that the little bit scope gets away from the developer scope, is that is what the final resolution should come in or you think they will further elongate related to environment and stuffs like that?

**Shobhit Uppal:** No. This is a sensitive topic, but based on my knowledge of what redesigning is happening because we are involved in one project as I said, collectively our project is a CPWD project, the other projects are NBCC projects, so NBCC and CPWD have got together and they are trying to find way out so the number of trees to be cut can be drastically reduced and the environmental concerns met satisfied. So what they are doing is that they are redesigning, the architectural designs are being redone so that the basements are avoided. Basements are basically required for parking and services. So redesigning is being done to accommodate these things in podium above ground with the result that number of trees will then not be cut. As far as our project is concerned, Ahluwalia project is concerned, out of a total of 16.5 thousand trees that they are talking about for all redevelopment projects which has been awarded till date, the number of trees on our project size is just about 250 give or take a few. With the minimal redesign I think we can avoid cutting most of these trees. So we are hopeful that in the next two to three months, hopefully earlier our projects we will break it off.

**Nitin Arora:** Got your point. Sir second thing with respect to the order intake guidance is there something where see you see the some, because we are seeing in other sectors a lot, because of the physical situation of the government, lot of the tendering is going backend, every month lot of tenders are getting back-ended. Is there something happening in your segment as well, that is the reason you are not too comfortable at this point of increasing the guidance or it is something you have also guided, it is more of a lottery system where you come with a lot of work in the first six months and then you take time and then lot of work comes. Is the situation similar like that only?

**Shobhit Uppal:** It has been a little different for us this year in the sense that we are actually very comfortable. We have got our entire guidance for the year, we have got it in the first four months and our order pipeline is also healthy, the number of projects that we are bidding out for. It is actually the back ending that you talk about, the reverse gear that you talk about, up until now we are not feeling it. On the contrary, we are actually being more conservative. We are doing our due diligence because we can now afford to sit back and see which we can actually pick and choose.



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**Nitin Arora:** Sir, last question is one, if you can give update on the money to be received from Talkatora Stadium thing and the update on the DD Delhi Development tenders where we stand, have the bids been submitted and when we can expect that?

**Shobhit Uppal:** So Talkatora the arbitration is on its I think the last track, I think in the next three to four months, I think the arbitration should be concluded. Over the past, the legal matters had been discussed, the presentation, witnesses and everything, all that is behind us, now the technical matters, purely technical matters are being discussed for which the arbitrator has appointed a technical commissioner and in the last one month there has been a series of meetings and I think in the next three months, this arbitration should be concluded.

As far as the DDA tenders are concerned 10 bids I think have already been submitted, bids on 10 projects have already been submitted. Our information is that various Chief Engineers of various zones are evaluating prequalification and qualifications data submitted by various bidders and they should be opening the bid in the next one-month.

**Nitin Arora:** Got it sir. Thank you very much and all the best.

**Moderator:** Thank you. We have the next question from the line of Varun Agrawal from BOI AXA Mutual Fund. Please go ahead.

**Varun Agrawal:** Sorry I missed the initial part of the call. Sir my question is related to the NBCC order you had mentioned that you had budgeted some execution during the quarter and did not come in so just want to understand those projects from NBCC. How is it expected to move going forward? The issue is still there?

**Shobhit Uppal:** Varun, I think your question has two parts because you are asking about number of NBCC projects, which are held up in Delhi on account this tree cutting exercise so we are not involved with any NBCC projects in Delhi where tree cutting is an issue. The projects that we are involved in are the one of the redevelopment projects, which is with CPWD. It is worth of 50 Crores and there as I explained earlier the number of trees is very, very low out of a total of 16.5 thousand trees we have only 250 trees on our project yes we had budgeted a turnover of about 20 Crores in this quarter from the project, which has not happened, but because on our project the number of trees are considerably less, we think that by redesigning which is happening as we speak we should be able to get a clearance in the next couple of months. The NBCC project on which there is a slow down, which we are doing is in Kolkata which is a 2400-seater auditorium which the state government and the CM has stepped in with a desire to increase the seating capacity to 2600. That is why there is a redesigning happening there and for the last two months the project has been at standstill. Project has started it is in its advanced stage. We have already done a billing of about Rs.25 Crores, but it is being held for this reason for two month that is why we have lost out



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on revenue from that project to the tune of about 15 more Crores, but that also should begin in the next one to one-and-a-half months.

**Varun Agarwal:** Sorry Sir, I missed the initial part in case you gave the guidance so if you can repeat the guidance for 2019 what are the targets overall?

**Shobhit Uppal:** So it is a 20% topline growth plus 13% EBITDA.

**Varun Agarwal:** The Q1 will not impact too much for full year we will be able to maintain?

**Shobhit Uppal:** I explained in detail Q1...

**Varun Agarwal:** Got it.

**Shobhit Uppal:** We are not disappointed by Q1 numbers; traditionally Q1 is always 20% of the total year's top line.

**Varun Agarwal:** Thanks a lot. I get back in the queue for more questions.

**Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

**Vibhor Singhal:** Good evening Sir. Thanks. Thanks for taking my question. Sir my question was just one on the order inflow part, as you have mentioned that we have already achieved 2000 Crores target that we had and we now upgrading it to 2400 Crores. Sir at what level of order inflow would you feel okay we had enough for this year assuming that the order activity is very strong do you intend to let say stop bidding at 2400 Crores or maybe if we are getting order at this point of time we would want to build a strong order book let us say which is able to give us more question for the next not just one year maybe 18 or 24 months itself?

**Shobhit Uppal:** I do not think there will come a stage we will say full stop. I do not think so, but yet if we continue to win order we will become pickier. As regards to the type of client, as regard to our margins, maybe post Rs.2400 Crores we increase the pricing at which we bid. Please keep in mind the company is continuously building strength to grow.

**Vibhor Singhal:** Sure. Seeing this is an election year do you believe that the momentum of order awards might flatten a bit towards the second half considerably lessen related to the historical trends that we have seen?

**Shobhit Uppal:** You are right that may happen.



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- Vibhor Singhal:** During the second half of the year.
- Shobhit Uppal:** Yeah, but that does not impact us.
- Vibhor Singhal:** Sure of course I mean we have already met the target for the year?
- Shobhit Uppal:** Yes.
- Vibhor Singhal:** Great. Sir if I can just have the order book breakup by Rohit in terms of different segments.
- Shobhit Uppal:** Yes. Just a second. He will just give it to you.
- Rohit Patni:** Segment wise, it is commercial 7%, hospital 41%, industrial is 5%, institutional 28%, residential private is 25%, and residential government is about 8%.
- Vibhor Singhal:** Right Sir and zone wise, East, West, North, and South?
- Rohit Patni:** North is 36%, east is 40%, and west is 23%.
- Vibhor Singhal:** Lastly Sir, if I can have the debt number at the standalone level?
- Rohit Patni:** 34 Crores.
- Vibhor Singhal:** 34 Crores?
- Rohit Patni:** Yes.
- Vibhor Singhal:** Thanks a lot Sir and wish you all the best.
- Shobhit Uppal:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Rachit Kamat from Anand Rathi. Please go ahead.
- Rachit Kamat:** Good evening Sir. I just wanted to know about the status on the Kota asset. Basically if you remember we had given guidance that the monthly rentals are going to climb up. So just wanted to know what is the status of that?
- Shobhit Uppal:** Rohit please go ahead.



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- Rohit Patni:** This last quarter we incurred lots of accounting loss 2 to 3 or 4 Crores, but we will speak about cash losses would be around 5 lakhs and by the end of this year we are expecting they would be at par regarding the cash profit or losses, but the accounting loss would definitely be around 5 to 6 Crores.
- Rachit Kamat:** We are expecting a loss for the whole year for 5 to 6 Crores?
- Rohit Patni:** That is the accounting loss.
- Rachit Kamat:** Sir what is the cash in hand right now?
- Rohit Patni:** It is 102 Crores
- Rachit Kamat:** What is the capex guidance? It is remaining the same as you give it last year around 170 to 180 million?
- Rohit Patni:** Pardon.
- Rachit Kamat:** Capex guidance?
- Rohit Patni:** This would be around this year also approximately Rs. 20 to 25 Crores.
- Rachit Kamat:** 20 to 25 Crores, okay, sure Sir. That is it. If I have any further questions. I will get back in line Sir.
- Moderator:** Thank you. We have the next question from the line of Vishal Biraia from Aviva. Please go ahead
- Vishal Biraia:** Sir could you help us understand the working capital position?
- Rohit Patni:** Working capital is 75 to 80 days.
- Vishal Biraia:** How it has moved over the last two months? Has there been any change?
- Rohit Patni:** It has slightly changed in the last two months because currently it has slightly improved from 1.5 to 1.58, which is slightly a difference.
- Vishal Biraia:** Based on the interactions that you had with the clients do you expect any kind of delays because we are entering a whole mode, some of the large states as well as in the centre level, would that be a risk when you talk to the clients.
- Shobhit Uppal:** Come again please. Sorry could you repeat that question?





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- Vishal Biraia:** I wanted to ask you that when you discuss with the clients, when you meet your clients, do you see risk for working capital, I mean, with the country entering in the whole mode, would there be inordinate delays in the working capital?
- Shobhit Uppal:** We do not feel it. Based on our interaction with our present client, right, but, yes there would be a degree of sluggishness overall as we come closer to the elections which may be held in May 2019, but by and large the projects that we are doing they are hospital or institutional buildings where the funding is already in place. We have done a due diligence when we have selected the kind of clients that we deal with. So we are not feeling that there is a cause to worry.
- Vishal Biraia:** Sir any thoughts on the impact of working capital on the commodity price increases, is that a pass through in most of the projects?
- Shobhit Uppal:** Yes it is a pass through on most of the projects.
- Vishal Biraia:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Amber Singhania from Asian Markets. Please go ahead.
- Amber Singhania:** Thanks for taking my question. Sir just a couple of things, wanted to know how much will be the slow moving orders in our order book currently?
- Shobhit Uppal:** Slow moving orders 150 Crores.
- Amber Singhania:** There is no movement happening here or when do we see these things getting out of the order book Sir?
- Shobhit Uppal:** I did explain this to you last time also, but you know as and when a project primarily private real estate residential projects as and when they are being revived we are renegotiating with these clients and these are projects which actually are international which are as long as they do not even start they are not really drain on our balance sheet because we totally derisk ourselves.
- Amber Singhania:** Secondly just wanted to understand on the Kota side even quite some time that we have already given to the clinker tenants and fit-outs were going on since long time, what is taking so long for revenues to pickup in a significant manner where we can see the continuing losses going down significantly?
- Shobhit Uppal:** You know for Kota the dynamics are changing in that city we feel that the potentials for revenues or rentals is actually increasing so based on that we have redesigned some areas of the building and now we have redesigned areas like food courts and restaurants. We are changing. We are



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letting go of some tenants so to say yet not moved on board or moved on the ground so that we can better the potential of the rentals that can be earner, that is why it is a bit slow, but in the long run whatever actions we are taking we feel it will yield increased yield on the project.

**Amber Singhania:** On the macro side, just can you share some upcoming projections which are there in the pipeline and also last time you mentioned that the competitive intensity has gone up significantly in the space definitely we are good position with so much order inflow already increased but how do we see the competitive intensity panning out in the spaces, has it come down a bit or how things are panning out on the overall macro industry space as such?

**Shobhit Uppal:** The intensity remains the same. It has not come down. I think it will remain the same for at least one more year, but you know the diversity of the pipeline has actually increased you have now along with the hospitals, redevelopment projects of residential quarter you also have redevelopment projects of railway station, right you have the next phases of various IITs starting, right, you also see an increase in the number of hospitals and medical colleges in various other states like you know we saw a lot of activity in Bihar now we are seeing that in Madhya Pradesh and so on and so forth. So the diversity as I said has increased along with that one season uptake in the commercial projects, especially in the metros plus in some metros the exercise also being increased so the projects which are already executed, you know one of our projects in Noida it is for Brookfield since SSI they are getting more SSI and they have prospective tenants they are actually redesigning project so that the scale can be increased so these are three which we are seeing on the ground.

**Amber Singhania:** Sir lastly if I can ask you mentioned about the Talkatora Stadium another three to four months for the arbitration to get over, this includes both DDA amount as well the MRMGF?

**Shobhit Uppal:** No, Talkatora is a CPWD of DDA, I am only talking CPWD that arbitration now being in its last stretch, the MRMGF I think that will take at least one more year.

**Amber Singhania:** Fine sir. That is all from my side.

**Moderator:** Thank you. We have the next question from the line of Rita Tahilramani from Invesco. Please go ahead.

**Rita Tahilramani:** Last few quarters we were highlight that we will slightly move ahead and going on picking up the private orders, private residential orders, or commercial orders. What is the status on that?

**Shobhit Uppal:** You are saying we were highlighting that we are picking up the private orders?

**Rita Tahilramani:** We would go ahead and you know pick up private residential or private commercial orders.



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- Shobhit Uppal:** No Rita. What I said the last couple of calls that I have had with you guys is that in the long run we would like to maintain a healthy ratio between private and public and in the long run it should be 50:50 that is what I said. Residential and I had also said over the next year to year-and-a-half residential private real estate is not our focus at all. But here I see activity increasing on the commercial side with the likes of Blackstone, Brookfield these entities coming into play, Xander, so there yes we are looking at the commercial segment and we are bidding. We see more pipeline as well as more work for us in that particular segment.
- Rita Tahilramani:** Okay. That is it from my side and good luck for the future.
- Moderator:** Thank you. We have the next question from the line of Shravan Shah from Dolat Capital. Please go ahead.
- Shravan Shah:** Sir order book breakup between government and private is how much?
- Rohit Patni:** Government is 76 and private are 24.
- Shravan Shah:** This is as on June number you are saying or the latest on Rs. 4700 Crores.
- Rohit Patni:** 30<sup>th</sup> June.
- Shobhit Uppal:** This 76 will be full little more because of the airport work we have got. This is also government so I think it should go up to 80.
- Shravan Shah:** True. True.
- Shobhit Uppal:** Actually this number had come to 60:40, but our last three big orders had been all government, Rs.600 Crores AIIMS, Nagpur, Rs.650 Crores Kalyani AIIMS and now this Rs.355 Crores airport and Milan Mela also in Kolkata Rs. 260 Crores.
- Shravan Shah:** True. True. Out of this total how much would be now the fixed price order.
- Shobhit Uppal:** Fixed price orders, I think I do not have the number on hand. It should be about 15%.
- Shravan Shah:** 15% of 4300 or 4700.
- Shobhit Uppal:** 4300. The last order that we have won had the estimation clause.
- Shravan Shah:** Is there any update on in terms of the we have also got some flats in terms of the inventory where we were not getting the payment, so how much is the amount and is there any plans in terms of the to sell that and to recover the money?



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- Shobhit Uppal:** Our total inventory that we picked up is about Rs.54 Crores and as and when you know the market is sluggish so we are facing no cash flow issues so we will retain them, but ultimately we will be sourced.
- Shravan Shah:** Rohit one second if you can tell me the order book breakup then it will be great.
- Rohit Patni:** Segment wise, it is commercial 6%, hospital 41%, infrastructure is 5%, institutional 28%, residential private is 25%, residential government is about 8%.
- Shravan Shah:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Rishikesh Bhagat from LIC Mutual Fund. Please go ahead.
- Rishikesh Bhagat:** Good evening Sir. Just wanted to understand, are there any more airport bids in the pipeline?
- Shobhit Uppal:** Yes, we have already bid for one in Pune and there are others that we are looking to bid. So Pune one has yet not been opened
- Rishikesh Bhagat:** But size is similar to what we have in most.
- Shobhit Uppal:** Yes.
- Rishikesh Bhagat:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Parvez Akhtar from Edelweiss. Please go ahead.
- Parvez Akhtar:** Hi good evening Sir? Sir just a couple of questions, first is considering that maybe the second half of the year will be in the election season what kind of impact do we see on our working capital cycle in the second half this fiscal?
- Shobhit Uppal:** As things stand today, some of the major jobs that we have got the older ones are continuing. We do not see any impact on the major ones that we are seeing as I named three or four jobs, I named the airport that we won, the Airport Authority no cash flow issues and they are actually saying because the nature of the project being such it is redevelopment. It is actually an expansion of the existing airport where we got to make new wing where they will shift the operations and break down the old wing and we will have to make it again. So it is a fast track project. Similarly the Milan Mela project, which is a municipal state government in Bengal, it is a project and she is actually reviewing the progress every month and then the two AIIMS projects, they are very good milestones and the PMO is reviewing this AIIMS project. In fact because in election is



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round the corner these projects are actually being tracked very minutely so I do not see any sluggishness as far as the order book is concerned in terms of the present order book.

**Parvez Akhtar:** Secondly, I am not too sure if you have answered this earlier, but in case let us HSCC gets acquired by NBCC due we see any change in contract conditions for future projects there?

**Shobhit Uppal:** I think it is just about to happen and the information that I have is that I think it is just the final signing needs to be done, but yes there will be a merging of the general culture between the two entities, yes some tweaking will be there but you know by and large conditions remain the same, it is only one, HSCC has escalation clauses in their tenders, NBCC till date does not. So let us see how it pans out.

**Parvez Akhtar:** How comfortable are we today taking fixed price contracts?

**Shobhit Uppal:** No as a rule we do not take fixed price contract, but NBCC as I explained that time also while we are not bidding going all out but because their contracts are EPC contracts, so the risk gets minimized. Escalations generally impact the bottomline because of delays. In EPC contracts, completing the project on time most of the parameters are in our control the only thing the client has to do is to arrange the money.

**Parvez Akhtar:** That is it from my side and all the best for future.

**Moderator:** Thank you very much. As there are no further questions from the participants I now hand the floor over to Ms. Jaspreet Singh for closing comments. Please go ahead Sir.

**Jaspreet Singh:** Thank you everyone for sparing your time and thank you Mr. Shobhit and Mr Rohit for your time, Sir Do you have any query or comments?

**Shobhit Uppal:** Thank you everybody for joining in and hope to talk to you all soon. Thank you.

**Moderator:** Thank you gentleman. Ladies and gentlemen, on behalf Systematix Shares and Stocks Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines.