



# Ahluwalia Contracts (India) Limited

31st Annual Report 2009-10



Building on elements of **success**





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## Board of Directors

<p>Mr. Bikramjit Ahluwalia <i>Chairman &amp; Managing Director</i></p> <p>Mr. Shobhit Uppal <i>Deputy Managing Director</i></p> <p>Mrs. Sudershan Walia <i>Whole-time Director</i></p> <p>Mr. Vikaas Ahluwalia <i>Whole-time Director</i></p> <p>Mr. Vinay Pal <i>Whole-time Director</i></p>	<p>Mr. Arun K. Gupta <i>Director</i></p> <p>Mr. S.K. Chawla <i>Director</i></p> <p>Dr. Sushil Chandra <i>Director</i></p> <p>Mr. Balbir Singh <i>Director</i></p> <p>Mr. S.S. Kohli <i>Director</i></p>
<p><b>Compliance Officer</b></p> <p>Mr Vipin Kumar Tiwari <i>DGM (Corporate) &amp; Company Secretary</i></p>	<p><b>Bankers</b></p> <p>Allahabad Bank Axis Bank Ltd. Bank of Maharashtra Canara Bank Citi Bank N.A. ICICI Bank Ltd. IDBI Bank Ltd. IndusInd Bank Ltd. ING Vysya Bank Ltd. Kotak Mahindra Bank Ltd. Punjab &amp; Sind Bank Standard Chartered Bank State Bank of Patiala Syndicate Bank Yes Bank Ltd.</p>
<p><b>Auditors</b></p> <p>M/s Arun K. Gupta &amp; Associates <i>Chartered Accountants</i></p> <p>D-58, 1st Floor, East of Kailash, New Delhi-110065</p>	
<p><b>Registered Office</b></p> <p>4, Community Centre, Saket, New Delhi-110017 Tel.: +91 11 29561854 Fax: +91 11 26852036</p>	<p><b>Corporate Office</b></p> <p>1, Okhla Industrial Area, Phase-III, New Delhi-110020 Tel.: +91 11 49410500 Fax: +91 11 49410553</p>
<p><b>Head Office</b></p> <p>M-1, Saket, New Delhi-110017 Tel.: +91 11 40504500 Fax: +91 11 40504558</p>	



Well diversified  
business portfolio



Integrated engineering and  
design turnkey solutions

## Chairman's Letter



"Strengthening our presence in the infrastructure development space, we embarked on developing a robust diversified order book - sectoral as well geographic, ventured into new sectors such as Power and Urban Infrastructure and chalked out a robust strategy for growth."



### Dear Shareholders,

It is with immense pleasure that I share with you the highlights of another year of shining progress for your Company, which has not only grown from strength to strength but more importantly demonstrated intrinsic robustness and solidity to deliver positive performance at all times.

Let me first take you through the macro economic developments that governed our business environment in 2009-10. Having braved the fury of the global recessionary trends, the Indian economy not only made a credible bounce back but more importantly, driven by strong domestic consumption and robust performances by key sectors, is well on its way to report an attractive growth rate of 9%. The CSO estimate of 7.2% GDP growth for 2009-10 reflects the fast paced recovery of the economy, with the Index of Industrial Production (IIP) posting a record 16.8% year-on-year growth during the month of December 2009. The economy has responded well to the policy measures undertaken in the wake of the global financial crisis. The recovery is well founded, with pick-up in merchandise exports, capital flows and non-bank food credit.

Your Company has also responded well to this recovery manifest from the performance of your Company in every aspect of its working.

### FINANCIAL HIGHLIGHTS

The year gone by was a year of tremendous accomplishments for your Company. Benefitting from a surge in the Country's infrastructure growth, outlay and plans, your Company's revenues touched an impressive Rs. 1,567.68 crores, reflecting a 47% increase in the top line over the previous fiscal. Matching this pace was your Company's profitability which improved 42% over the previous financial year to stand at Rs. 81.78 crores.

The impressive growth clocked is a result of the continued benefit from the strong impetus being given by the Government to infrastructure development in the country, combined with our capabilities and impeccable track record in this space.

↑  
Robust order book  
of Rs. 5,300 crores

↑  
Over four decades of  
rich experience

↑  
Foray into attractive BOT  
segment and Power sectors



### OPERATIONAL PERFORMANCE

Looking beyond financials, it is with a sense of immense pride I state that 2009-10 marked the year when your Company achieved notable milestones. We succeeded in bagging several big ticket & prestigious projects, such as Calcutta Riverside Project at Batanagar from River Bank Developers Pvt. Ltd. worth Rs. 336 crores, Pullman & Novotel Hotel at DIAL for Caddie Hotels Pvt. Ltd. worth Rs. 177 crores, a project for Bangalore Metro Rail Corporation Ltd. for Rs. 109.47 crores, to name just a few.

At the close of the year, our order book stands at a healthy Rs. 5,300 crores and we are engaged in executing existing projects worth Rs. 3,000 crores.

The year also saw your Company reduce its dependence on private sector projects by 11% and increase quantum of business from existing customers to add new reputed ones such as Indian Oil Corporation, MCA Building, HDIL, Institute of Chartered Accountants of India, etc.

Strengthening our presence in the infrastructure development space, we embarked on developing a diversified order book - sectoral as well geographic, ventured into new sectors such as Power and Urban Infrastructure and chalked out a robust strategy for growth. We believe that these initiatives not only helped us post excellent results in the year under review but will also strengthen your Company's potential to deliver extraordinary turnover and profitability levels in the future.

### IMMENSE OPPORTUNITIES AHEAD

Today, the infrastructure sector in India is traversing one of its most interesting phases. If we look at our growth pattern over the past few years, we realise the critical importance of infrastructure in the nation's growth and progress. We also realise how imperative it is for the nation to prepare itself for the future and the next anticipated growth curve. I am happy that our Government is looking into these issues with utmost concern and expediting the necessary initiatives.

Over FY07-12 (the XI Five-Year Plan), India plans to spend USD 428 bn on infrastructure development, with expenditure as percent of GDP rising from 5% in FY07 to 9.3% by the Plan-end. Such exponential growth in infrastructure spend could result in orders of USD 80 bn a year for Indian construction companies. Power and Roads alone would account for nearly half the planned infra expenditure, with most of the remaining coming from Telecom, Railways and Irrigation.

### FUTURE OUTLOOK

Going ahead, on the back of its increased focus on Urban Infrastructure, foray into the Power sector, solid performance, excellent financials, unmatched business reach spanning prestigious clients, flawless execution, and robust strategy your Company aims to expand its business portfolio even further. Our target, let me share with you, is to make ACIL a Rs. 5,000 crores company in less than five years, translating into a compounded growth of 30% every year.

### ON A CONCLUDING NOTE

On behalf of the Board, I would like to convey the deepest appreciation to all employees for their sincerity, devotion and perseverance in their respective fields, which has helped the Company grow from strength to strength. The Company's quest for continuous value creation would not have been possible but for the support that my colleagues received from all our customers, suppliers, regulatory authorities and other business associates.

Finally, I convey my personal gratitude for the confidence that you, our shareholders have reposed in the Company. I sincerely hope that you will continue to extend your whole-hearted support to us so that we, along with the executive management team and all employees, will further accelerate the growth and progress of your Company.

Best Wishes  
Bikramjit Ahluwalia  
Chairman & Managing Director





## Management Discussion and Analysis



The financial statements contained herein have been prepared and presented under the historical cost convention on accrual basis of accounting and comply with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956, to the extent applicable. The preparation of financial statements requires the Management to make estimates and assumptions that affect the reported amounts of income and expenses of the period, assets and liabilities, as on the date of the financial statements. These estimates are made on a prudent and reasonable basis, to reflect a true and fair view of the financial statements.

### INDIAN ECONOMY

2009-10 has been a challenging year for the Indian economy, but the year ended on a positive note. The key contributor to growth was the aggressive fiscal and monetary measures put in place by the Government in the wake of the global financing crisis last year. The recent growth indicators suggest clear uptrend in consumption, employment, investment, and trade. The domestic consumption is on a rising spree mainly due to the contribution from the economically backward states which are growing rapidly. The Indian economy has been witnessing a phenomenal growth since the last decade. The country has shown resilience and staged a remarkable recovery registering a GDP growth of 7.4% for the financial year FY 10.

Recovering from the scars of global slowdown, the Indian economy is poised to grow at 8.5% in 2010-11 on account of sectoral growth rates of 2.8 - 3%, 5 - 5.5% and 7.5 - 8%, respectively, for agriculture, industry and services.

### INDUSTRY OVERVIEW

The construction industry is the second largest industry of the

country after agriculture. It makes a significant contribution to the national economy and provides employment to a large number of people.

Investment of about USD 428 billion is required in the infrastructure sector during the XI Five-Year Plan. These investments are to be achieved through a combination of public investment, public-private partnerships (PPP) and exclusive private investment, where feasible. Apart from infrastructure spending, investment in industrial capacity expansion and revival in real estate could give rise to vast opportunities. India's infra spend will rise from 6.5% of GDP in FY 09 to 9.3% by FY 12. Almost half the investments would be in power and roads – construction orders for over 100 GW (Rs. 1.1 trillion) and 36,000km (Rs. 2.6 trillion).

Such exponential growth in infrastructure spend could result in orders of USD 80 bn a year for Indian construction companies. Power and Roads alone would account for nearly half the planned infra expenditure, with most of the remaining coming from Telecom, Railways and Irrigation.

Sectors	X Five Year Plan (USD billion)	XI Five Year Plan (USD billion)	Sector share (%)
Electricity 60.8	138.9	32.4	
Roads and bridges	30.2	65.4	15.3
Telecommunications	21.5	53.8	12.6
Railways	24.9	54.5	12.7
Irrigation	23.2	52.8	12.3
Water supply and sanitation	13.5	29.9	7
Ports	2.9	18.3	4.3
Airports	1.4	6.5	1.5
Storage	1	4.7	1.1
Gas	2	3.5	0.8
<b>Total</b>	<b>181.6</b>	<b>428.6</b>	<b>100</b>





Of the Government's USD 428 billion infrastructure development plan, it is estimated that the private sector would contribute around 30%. Its role would be much higher in Central Government projects than in State Government projects, especially in roads, where the PPP model would be preferred.

#### **A look at the growth prospects in some key infra-structure segments:**

##### **ROADS AND HIGHWAYS**

Around 65% of freight and 80% of passenger traffic is carried by the roads while national highways constitute 2% of the road network but carry 40% of the total road traffic, there are huge opportunities lying ahead. Union Transport Minister Kamal Nath has announced aggressive targets of developing 20 km of roads per day v/s the current runrate of 5 km. Minister has addressed close to 50% of issues being faced by developers on the projects which include delay in land acquisition.

##### **WATER SUPPLY-ENVIRONMENT ENGINEERING**

The water sector in India grew 18-20% in the past three years. There is a dire need to create infrastructure to ensure sustainable water supply for the country's agricultural, industrial and domestic use. While 85% of urban India has access to water supply, the quality of service is poor and most users receive water of dubious quality and only intermittently. Besides the traditional work of laying pipelines, the scope has extended today to distribution systems, water treatment, recycling plants, sewerage plants and water management. The XI Five-Year Plan aims to provide drinking water, sanitation and waste management to 100% of the urban population. The Planning Commission estimates investment of Rs. 1.4 trillion for water supply and sanitation in the XI Plan (Rs. 0.6 trillion spent in the X). This task would require active participation by the private sector.

##### **INVESTMENT IN URBAN INFRA**

India has about 300 million urban residents (the second largest in the world), comprising about 30% of the population and contributing over 60% to GDP. The Government has already initiated a number of measures in this regard (urban infrastructure), looking at proposals regarding metro rail systems, greenfield airports and ports and modernisation / expansion of the present ones. Many of these projects are being

awarded on a PPP basis, which would shorten execution time and improve efficiency.

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) involves investment of Rs.1.2 trillion over FY 05-12. It covers 63 major towns in India with the scope of work encompassing water supply and sanitation, sewerage and solid waste management, drains, urban transportation (roads, highways, metro projects), parking lots, preservation of water bodies, etc.

##### **METRO**

In the tier I category, the Mumbai Metro (phases I, II and III) and Delhi Metro (phase III) are ongoing/short-term projects entailing massive investment. In the tier II category, Bangalore, Chennai, Hyderabad and Jaipur would throw up metro PPP opportunities in the short term and involve construction companies in a very large way. This model is also likely to be followed in other big towns in India.

##### **AIRPORTS**

The Airports Authority of India (AAI) has undertaken an ambitious project to modernise 35 non-metro airports and 4 metro airports. The process has already begun, with the Delhi and Mumbai modernisation programmes on track and significant milestones attained. The Government plans to spend Rs. 300 billion on the airports sector during the XI Five-Year Plan. Of this, Rs. 140 billion is slated for upgrading non-metro airports and modernising aeronautical facilities, opening up opportunities for mid-tier construction companies.

##### **BUILDING AND HOUSING**

Liquidity and interest rates have strong bearings on the performance of the real estate sector. The Government's stimulus package and the RBI allowing special treatment to the sector have provided the requisite fillip. 80% of demand in the real estate sector still arises from the housing segment. After price corrections in all major markets and changes in the kind of housing units offered by developers, projects launched since March 2009 have seen good sales. The volume of sales in the middle-income and affordable housing sub-segments by developers has been commendable, reflecting the positive outlook regarding such projects. According to estimates



## Management Discussion and Analysis



provided by ASSOCHAM, a leading industry body, the size of the Indian realty market is estimated at USD 16 billion, growing at the rate of 30% p.a and is expected to touch USD 50 billion by 2010.

### POWER

Power is one of the most vital infrastructure inputs for economic development of a country. The demand of electricity in India is enormous and is growing steadily. For the XI Five-Year Plan, 78,600 MW has been planned at a cost of USD 140 billion (including ancillary work such as T&D, etc). Of this, only 48,000 MW is expected to be commissioned – around 18,500 MW has already been commissioned and the balance is in various stages of construction, which should come up over the next three years.

### BUSINESS OVERVIEW

Ahluwalia Contracts (India) Limited (ACIL) reported a strong financial growth with significant improvement in the top line as well as the bottom line during the financial year 2009-10. The total income increased by 34%, from Rs. 1,171.95 crore in fiscal 2009 to Rs. 1,573.43 crore in fiscal 2010.

And net profit increased by 42% from Rs. 57.72 crore in fiscal 2009 to Rs. 81.78 crore in fiscal 2010. Consequently, the Company's EBITDA also grew by 17% to Rs. 174.53 crore in the fiscal ending 31st March 2010.

Your Company is confident that it will continue to sustain the pace of this growth in the future too, supported by its robust &

### SWOT analysis

#### STRENGTHS

- Healthy order book.
- Equipment ownership, skilled employee base.
- Low working capital cycle ratio.
- Low leverage advantage.

#### OPPORTUNITIES

- Govt.'s thrust on infrastructure development.
- BOT project of Rs.720 mn awarded by "Rajasthan State Road Transport Corporation".

growing order book, and increase in average order size. The order book during the fiscal under review grew from Rs. 4,160 crore to Rs. 5,300 crore, with new order inflows worth Rs. 1,600 crore during FY 10.

The EPS also registered an impressive growth of 41%, from Rs. 9.20 in the previous year to Rs. 13.03 in this fiscal. The Company has proposed a final dividend of 40% for the year ended 31st March, 2010.

### OPERATIONAL OVERVIEW

The Company's expanding presence across India, and the goodwill that it commands, places it in an ideal position to reap the benefits of the growth in Urban Infrastructure development across India, especially in real estate and retail. ACIL is operating in diversified segments within the Urban Infrastructure industry, such as Residential, Retail, Commercial Office Space, IT parks, Hospital, BOT, etc.

The Company has a large number of orders in the residential and the infrastructure segments that account for 35% and 17% of the total order book size respectively, garnering a lion's share at 52% of the total order book.

### STRENGTHS & STRATEGIES

We are confident and hopeful that the earnings will further accelerate in the coming years. Apart from the growing order book, our work culture and project management capabilities will drive the bottom line.

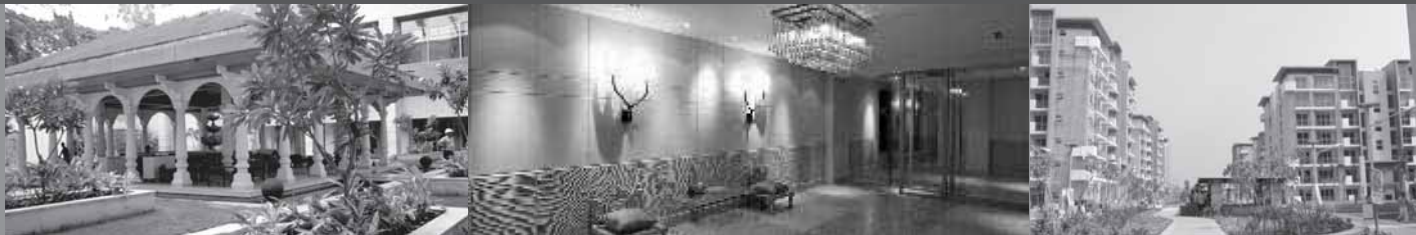
#### WEAKNESSES

- Significant part of business transactions are with private authorities. (69% for FY10).

#### THREATS

- Change in Govt. policies or decrease in budgetary allocation for infrastructure.
- Escalation in commodity prices and interest costs for future contracts.
- Competition from existing players at the bidding stage.





### QUALITY CONTROL

At ACIL, for each project we have a fully equipped laboratory at site under a senior Quality Control Engineer. Regular inspections and Quality Audits are carried out both at sites and the head office for Quality Assurance.

We have been able to achieve construction quality of the highest order in our projects and the Company's growth bears testimony to our quality standards and our clients' satisfaction.

### CLIENT RELATIONS

We are sincere in meeting our contractual requirements, particularly with respect to construction quality and time-bound completion. Our sincerity of purpose comes across through our flexible and accommodative attitude towards our clients' needs, since we hold client relations and satisfaction uppermost in our service-oriented philosophy. This is testified by our clients recommendations to others, and our growing invitations to pre-qualifications/ tenders, besides repeated contracts by our existing clients.

### RISK MANAGEMENT

The Company's business, results of operations and financial condition are affected by a number of factors such as:

#### a) Industry & services risks

##### *Risk impact*

Demand for construction work is dependent on the overall economic conditions. A downturn can adversely affect the Company's business and earnings.

##### *Risk evaluation/measures*

The macro economic conditions in India have been sustaining economic reform and investments in infrastructure and construction industries. In addition, a targeted double digit growth by the end of the 12th Plan period (2013-2017) only suggests an increased spending by the Government on construction, auguring well for the Company.

#### b) Strategic risks

##### *Risk impact*

A skewed business strategy may result in lost opportunities.

##### *Risk evaluation/measures*

The long-term business strategy and the annual business plans are approved by the Board of Directors after thorough discussion and analysis. In addition, mid-term reviews of the business strategy and the annual plans ensure that the Company initiates a mid course correction, should the situation warrant.

The long-term business strategy comprises:

- Changing the landscape of the nation forever
- Further consolidating our position across the sectors in which we have a proven track record
- Pioneering new technologies to create landmark structures, raising the bar in the construction industry
- Foraying into new & fast growing sectors (SEZ, Aviation etc)
- Focusing on quality control

#### c) Competition risk

##### *Risk impact*

Increasing competition from domestic and international construction companies affects the market share and profitability.

##### *Risk Evaluation/Measures*

Your Company is adequately prepared and poised to take on competition from domestic companies by scaling its capabilities in terms of equipments, technical skills, specialised manpower and brand building exercise.

#### d) Price inflation risks

##### *Risk impact*

Increase in prices of inputs and/or changes in assumptions may cause cost overruns, affecting the profitability delay in completion of project. In some cases, delay in completion of project could result in liquidated damages/and or additional costs, affecting profitability.

##### *Risk evaluation/measures*

Many of the contracts have in-built escalation clauses, which compensate increases in input costs. In case of non-escalation contracts, the bid estimate process is carried out in such way that it insulates the Company from any possible increase in the cost of inputs of the contracts. Further, the Company has implemented adequate procurement procedures that include long-term contracts to cover price volatilities, regular



## Management Discussion and Analysis



augmentation of storage facilities for stocking of materials and careful review & monitoring of the carrying cost of raw materials. In addition, ACIL has a system of proper price estimate of contracts, which minimise the impact of cost overrun.

### **e) Government and political risks**

#### *Risk impact*

Uncertainties regarding Government policies can significantly affect operations.

#### *Riskevaluation/measures*

The Government has been prioritising infrastructure investments, limiting the inherent policy risks. The residual risk is managed by seeking opportunities to control costs to hedge from adverse policy changes.

### **f) Operational risks**

#### *Risk impact*

Staff attrition and non-availability of key personnel affect the Company's operations. Volatility in the prices of critical raw materials also impacts project profitability.

#### *Riskevaluation/measures*

ACIL maintains a work force based upon its current and anticipated workloads. Temporary disturbances at project sites are addressed by relocating the available workforce. Attrition is managed by adopting healthy employee practices that promote and encourage a good work culture. This is coupled with performance-based promotions and rewards, conflict resolution mechanism, good pay and incentive structures benchmarked with industry standards.

Crisis management teams have been established at all project sites to manage any eventuality. The project operating procedures institute the most effective accident-prevention measures across all stages of construction activity.

### **g) Assets and inventory risk**

#### *Risk impact*

Risks of accidents, fire, theft etc, impacting the Company's operations affect profitability. Similarly, breakdowns at site will affect operations and profitability.

#### *Riskevaluation/measures*

The Company undertakes requisite steps to provide security to its assets and inventory by taking appropriate car / Workmen Compensation insurance policy / fidelity insurance policy etc. to avoid or mitigate the above risks.

## **SAFETY MEASURES**

### **QSHE - Policy**

1. ACIL is committed to achieve higher level of client satisfaction by providing excellent quality in construction and related services, including design on turnkey basis and assuring timely completion of projects within budget.

2. We will organise our works through Integrated Management System for Safety, Health, Environment, Personnel, Industrial Relations and Quality Assurance, to ensure satisfying relationship with all employees and those who work for us.

