



**Ahluwalia Contracts  
(India) Limited**

**37<sup>th</sup> Annual Report 2015-16**

# **ENHANCING CAPABILITIES. ESCALATING GROWTH.**



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Mr. Bikramjit Ahluwalia**

Chairman & Managing Director

**Mr. Shobhit Uppal**

Dy. Managing Director

**Mr. Vinay Pal**

Whole Time Director

**Mr. Arun K. Gupta**

Independent Director

**Mr. S.K. Chawla**

Independent Director

**Dr. Sushil Chandra**

Independent Director

**Mrs. Mohinder Kaur Sahlot**

Independent Director

## CHIEF FINANCIAL OFFICER (CFO)

**Mr. Satbeer Singh**

Satbeersingh@acilnet.com

## COMPANY SECRETARY / COMPLIANCE OFFICER

**Mr. Vipin Kumar Tiwari**

cs.corpoffice@acilnet.com

## AUDITORS

M/s Arun K. Gupta & Associates

Chartered Accountants

D-58, 1<sup>st</sup> Floor, East of Kailash,

New Delhi-110 065

## BANKERS

Allahabad Bank

Axis Bank Ltd

Bank of Maharashtra

Bank of India

Canara Bank

IDBI Bank Ltd

Kotak Mahindra Bank Ltd

Punjab & Sind Bank

RBL Bank Limited

State Bank of Patiala

SBER BANK

Yes Bank Ltd.

## REGISTERED / CORPORATE OFFICE

A-177, Okhla Industrial Area,

Phase-I, New Delhi - 110 020

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# BOARD OF DIRECTORS



**MR. BIKRAMJIT AHLUWALIA**  
Chairman & Managing Director



**MR. SHOBHIT UPPAL**  
Deputy Managing Director



**MR. VINAY PAL**  
Whole-Time Director



**MR. ARUN KUMAR GUPTA**  
Independent Director



**DR. SUSHIL CHANDRA**  
Independent Director



**MR. S.K. CHAWLA**  
Independent Director



**Mrs. MOHINDER KAUR SAHLOT**  
Independent Director



## Management Discussion and Analysis

### INDIAN ECONOMIC SCENARIO

India's economy picked up in the last quarter of financial year (FY) 2015-16 with Gross Domestic Product (GDP) growing 7.9%, increasing overall growth for the entire year to a five-year high of 7.6%, as per the estimates of the Central Statistical Organisation (CSO). While this high growth vis-à-vis tepid growth in advanced and developing economies enabled India to retain its position as the fastest-growing major economy, several headwinds continued to affect the economy. Two consecutive poor monsoons and falling exports due to weak global growth were among the major challenges faced by the economy. Also, weak private sector sentiments and stressed bank balance sheets persist to hamper growth.

Improvement in key macro-economic parameters and focussed government initiatives to drive growth were among the positives for the year. Inflation remained moderate for most part of the year, thus providing a window for the Reserve Bank of India to allow nominal interest rate cuts. The most important highlight was the adherence to the target of fiscal consolidation by the Central Government with fiscal deficit being contained at 3.9% of the GDP. This was achieved despite the Plan Expenditure, which in the previous years has been reduced from the budget estimates to meet fiscal targets, was actually ₹ 5,800 Crores more than the amount allocated under budget estimate level of ₹ 4.65 Lac Crores. Under the Plan spending, the capital spending, which is seen crucial to spur the economy on a higher growth path, got a huge boost. Plan capital spending increased by 50% to ₹ 1.43 Lac Crores in FY16 from ₹ 96,135 Crores in the previous fiscal. This has had a significant bearing on driving higher GDP growth of 7.6% in FY 2015-16 as against a GDP growth of 7.2% in FY 2014-15.

Source: <http://www.financialexpress.com/economy/centre-met-3-9-fiscal-deficit-target-in-fy16/270526/>

Strong domestic led demand is expected to drive another year of healthy growth in India's economy. On the back of a normal monsoon during FY 2016-17 and supported by a pro-rural sector Union Budget 2016, rural economy is expected to get the much-needed boost. Inflation, though currently on an upward trajectory, is expected to start cooling with the monsoon being good so far. Following the recommendations of the Seventh Pay Commission, the government has approved the increase to public sector wages and pensions. Approximately, 10 Million people will benefit from the raise, which increases wages by 16.0% and pensions by 23.6%.

Source: [https://www.linkedin.com/pulse/east-south-asia-economy-remains-robust-q2-uncertainty-torne-codina?trk=pulse-det-nav\\_art](https://www.linkedin.com/pulse/east-south-asia-economy-remains-robust-q2-uncertainty-torne-codina?trk=pulse-det-nav_art)

Additionally, the government thrust on infrastructure creation continues unabated with pickup in project awarding in urban infrastructure segments like Roads, Railway, Ports, Buildings and Metro Stations and Depot projects. Coupled with the commitment and intent to implement structural reforms and create a proper investment climate, the infrastructure sector is expected to witness acceleration in growth. This should stimulate the progress of other sectors of the economy. Enthused by the economy's last quarter performance in FY 2015-16, the government is optimistic of GDP growth reaching the 8% mark in the current fiscal. While the IMF growth projections for India are lower, revised slightly downwards to 7.4% from the earlier projections of 7.5%, it maintains that India will retain its tag as the fastest growing major economy.

### INDIAN CONSTRUCTION INDUSTRY

#### Overview

The construction industry is the second largest industry in India after agriculture. It accounts for about 8% of India's GDP, making it a significant contributor to the national economy. It is also the second largest employer, providing employment to more than 35 Million people. The construction sector is an important driver of FDIs, accounting for second highest inflow of FDI after the services sector.

Source: <http://www.makeinindia.com/sector/construction>

The importance of the construction industry is further emphasised through its strong backward and forward linkages with various other sectors like cement, steel, bricks, capital goods, urban infrastructure, agriculture and irrigation, telecommunications etc. Thus, the growth of the industry has an indirect but significant bearing on employment generation in several other industries and also on their performance.

There are mainly three segments in the construction industry: real estate construction which includes residential and commercial construction; infrastructure building which includes roads, railways, power etc; and industrial construction that consists of oil and gas refineries, pipelines, textiles etc.

While public sector capital expenditure did increase during the year, weak private sector sentiments affected the growth of the construction sector. Construction sector grew 3.9% in FY 2015-16 compared to 4.4% in the earlier year period. Further, the growth has also been uneven across the various segments. Though roads and urban infrastructure witnessed an improvement in the pace of execution and project awards, overall construction activities are yet to show strong signs of revival. The prolonged real estate market slowdown continues to impact the growth of the construction industry.

Source: <http://www.thehindu.com/news/national/indian-economy-grows-at-76-pc-in-fy16-79-pc-in-q4/article8673311.ece>

While construction activity has remained subdued in recent times, the medium and long-term prospects remain bright. Higher levels of industrialisation, increasing urbanisation, a rise in disposable income, and population growth are expected to fuel the demand for construction services. Government efforts to improve India's residential and transport infrastructure will also play a vital role in supporting the growth of the construction sector. According to a study by Timetric's Construction Intelligence Centre (CIC), the average annual growth in real terms is expected to improve from 2.95% in 2011-15 to 5.65% during the coming five years. The report also forecasts the industry to rise from a value of US\$ 428.1 Billion in FY15 to US\$ 563.4 Billion in FY20, measured at constant FY10 US dollar exchange rates.

Source: <http://www.construction-ic.com/pressrelease/bright-prospects-for-construction-industry-in-india-4829103/>

## GROWTH DRIVERS

### Government thrust:

The Government of India has been continually adding thrust towards the infrastructure sector. There has been an increase of investment of close to ₹ 2.5 Trillion in FY 2015-16, over FY 2011-12 to touch ₹ 10.2 Trillion. The 12<sup>th</sup> Five Year Plan envisaged an investment equivalent to 9% of the GDP, implying an investment of around USD 1 Trillion (or ₹ 68 Trillion) over the plan period. ₹ 38 Trillion has already been spent over the FY 13 – FY 16 period. The estimated investment in infrastructure during the year, FY 2016-17 is expected to touch ₹ 11.3 Trillion. Assuming that the macroeconomic indicators remain positive and the GDP grows at an average rate of 8% p.a., the spend is expected to increase to ₹ 76 Trillion over the next Five Year Plan Period, which signals significant growth opportunity for the industry players.

Source: 'Infrastructure – On the Cusp of Recovery': Research Report by Antique Stock Broking Limited

**Pickup in real estate sector:** Real estate industry experts see the current performance of the real estate sector as a blip, because the market is far from saturated. The real estate market is one of the fastest growing sub-sectors of construction industry in India and its market size is expected to touch US\$ 180 Billion by FY20.

Source: [http://indiaibusiness.nic.in/newdesign/index.php?param=economy\\_landing/403/2](http://indiaibusiness.nic.in/newdesign/index.php?param=economy_landing/403/2)

### The key drivers for the growth of the real estate sector are:

- **Urbanisation** - Rising income and increasing urbanisation are expected to boost the demand for real estate in the country. As per report published by CREDAI, urbanisation in India has been increasing at a rapid pace with over 71 Million people added to the urban population between

FY01 and FY11. At this rate, ~534 Million people are expected to live in cities by FY26. With higher urbanisation, opportunities for the real estate sector look encouraging.

Source: 'Infrastructure – On the Cusp of Recovery: Research Report by Antique Stock Broking Limited

- **Implementation of GST** - As per industry experts, implementation of the GST law is likely to have a positive impact on the real estate sector with expected reduction in its tax burden. The GST will replace multiple taxes with a single tax, thus reducing construction costs and this benefit if passed on to the customers, can spur home buying and revive the growth of the real estate sector.
- **Housing shortage** - As per Ministry of Statistics and Programme Implementation (MoSPI), the housing shortage problem is acute in urban India with 18.8 Million people confronting this difficulty.
- **Smart City Project** - The much awaited launch of the Smart Cities project in the shortlisted 20 cities took place recently. This will kick-start project execution in these cities and provide an impetus to the demand for construction services.
- **Housing for All** - The Government's 'Housing for All by 2022' scheme, paving way for affordable homes for the urban poor and slum dwellers at low interest rates, should also be a game changer for the industry.
- **AMRUT Mission** - The Atal Mission for Rejuvenation and Urban Transformation (AMRUT) is aimed at transforming 500 cities and towns into efficient urban living spaces. The project is expected to drive increased construction activity for improving basic infrastructure services like sewage network, public transport, etc. This in turn should lead to a higher demand for real estate in these regions.

**Infrastructure development:** Expanding population and urbanisation propel the urgency for infrastructure development. Infrastructure construction accounted for 23.0% of the total industry's value in FY15. According to Timetric's CIC, it will continue to expand over 2016-20, driven by public and private sector investments in public transport infrastructure. Consequently, infrastructure construction is anticipated to be the industry's fastest-growing market over 2016-20 with a CAGR of 9.94% in nominal terms, to value ₹ 9.5 Trillion (US\$ 140.1 Billion) in FY20.

**Mass rapid transport system** - More states are now eager to implement the mass rapid transport system to improve connectivity in urban areas. Currently, only seven cities in India have an operational metro network. In five more cities, metro projects are under construction with an investment of ₹ 1 Trillion, while nine more cities have their metros in the planning stage





with investment of ₹ 870 Billion. This growing thrust on building metro rail systems across the country provides significant growth opportunities for the construction players.

Source: 'Infrastructure – On the Cusp of Recovery': Research Report by Antique Stock Broking Limited

**Conducive environment for private sector participation:** The present government continues to show commitment and intent towards improving the regulatory and funding environment to encourage private sector participation. Simplifying the process of doing business, quicker approvals, removing bureaucracy for swifter project execution, phased structural reforms and easing financial norms are among the encouraging government measures which should benefit the construction industry. The norms for FDI in the construction development sector are being eased as well. Relaxation of norms has generated high interest levels from not just the foreign investors but also domestic players.

**Budgetary measures:** At a time when private sector interest in infrastructure development is low, the increase in budgetary support holds the potential to kick-start capital investments in the economy. Taking cognisance of this fact, the government has allocated a record ₹ 2.21 Lac Crores in Budget 2016 for infrastructure sector, in a crucial move to revive investments in the sector.

## BUSINESS REVIEW

Ahluwalia Contracts (India) Limited (ACIL) is one of India's leading, integrated construction companies. With the commitment and technical excellence to deliver large-size projects, ACIL's has built quality icons of excellence across the construction value chain. The Company's high-end project portfolio encompasses projects across residential and commercial complexes, hotels, institutional buildings, hospitals and corporate offices, IT parks and industrial complexes, Metro Station and Depot, power plants, automated car parking lots, etc.

Backed by domain experience and expertise, the Company places a strong emphasis on undertaking Engineering, Procurement and Construction (EPC) projects. The strong and uncompromising focus on quality is embodied in the international and industry leading quality certifications the Company enjoys. **ACIL is the first Building Construction Company in India certified by DNV for integrated Management System of QMS, EMS & OHSAS i.e. (9001,14001 & 18001).**

Over five decades of experience in offering turnkey solutions in engineering and designing has positioned ACIL as among the country's foremost construction companies as endorsed by its marquee client list spanning public and private sectors. With the objective to deliver higher returns for its stakeholders, as a strategic measure, the Company has been increasing the

proportion of public sector projects in recent times, which in turn has contributed to its steady growth despite the challenges in the external environment.

Building world-class infrastructure icons with a strong focus on timely execution and harnessing the strength of internal efficiencies has given it a strong competitive advantage, ACIL is well positioned to make the most of the burgeoning opportunities in India's construction landscape.

## COMPANY PERFORMANCE

Despite the business environment being still not very favourable, consolidating business strengths and improving internal efficiencies, ACIL delivered yet another year of consistent performance for the period under review.

The Company's Income from Operations for FY 2015-16 stood at ₹ 12,496 Million as against ₹ 10,599 Million recorded in the previous year, recording a growth of 18 %.

The Company's EBITDA stood at ₹ 1,744 Million in FY 2015-16 compared to ₹ 1,265 Million recorded in FY 2014-15. This constitutes a growth of 40.03 %. The increase in EBITDA was driven by optimising the utilisation of resources.

The PAT for FY 2015-16 grew to ₹ 844 Million compared to ₹ 641 Million recorded in the previous year, this constitutes a growth of 31.67 %.

The Company's Order Book stood at ₹ 36,073 Million as on 31<sup>st</sup> March, 2016, comprising about 56 % of public sector clients.

## SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE

### Quality, Environment, Health & Safety Policy

Being a responsible corporate citizen is an integral part of ACIL's culture. In practice, this means demands formulating and implementing policies which accord the highest priority to health and safety, and promoting ways to protect the environment.

The determination to pursue responsible growth is reflected in the Company's HSE Policy, which ensures that it constantly shares best practices and provides a safe and healthy workplace for its employees, contractors and visitors. The policy is shared on the Company's intranet to ensure that employees across the country are aware of their responsibilities and rights and the measures to be followed to minimise risks. Aligned to the goal of sensitising employees on health and safety, posters and instructions are also made available on digital and physical display areas across the Company's campuses.

ACIL is ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certified, which reinforces the Company's commitment to quality, health, safety and environment. Further, it has documented its objectives and targets at the corporate and development

centre levels and the same are monitored and tracked at regular intervals.

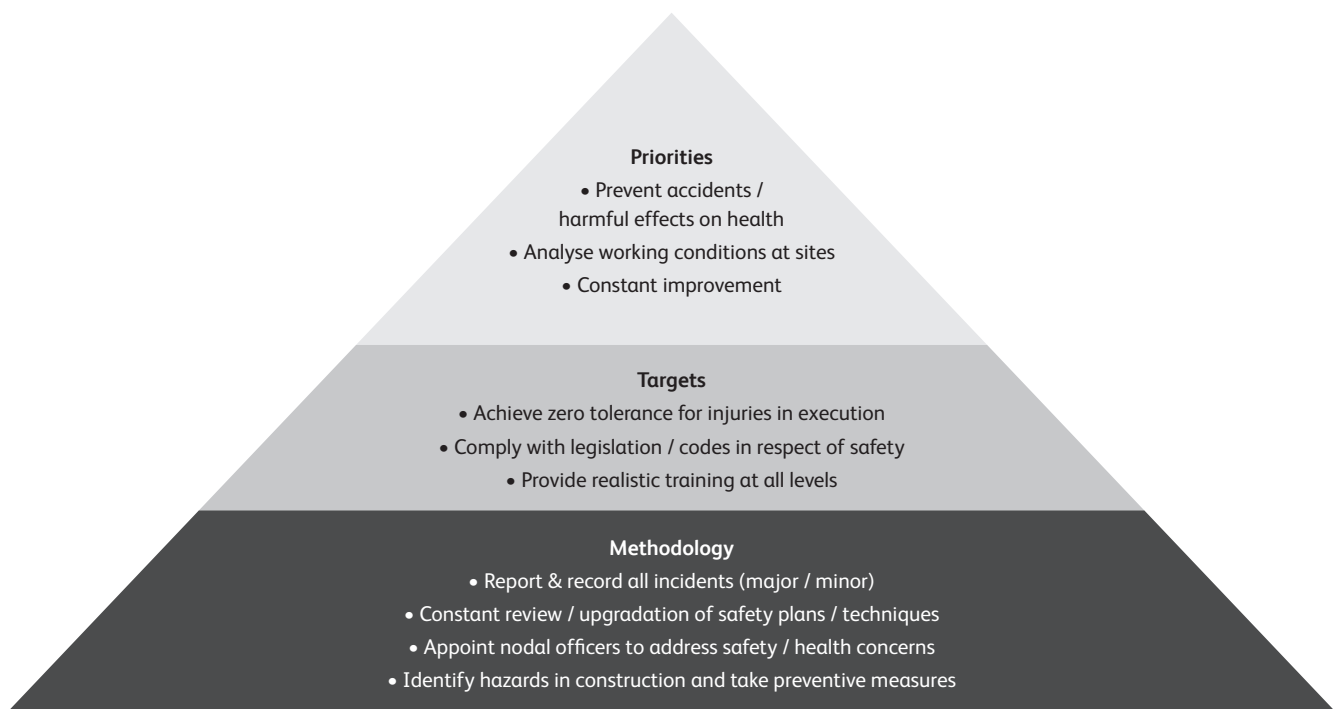
The Company has also implemented operational controls for impact management, based on severity.

## **SAFETY**

With employees and contractors working in high risk situations, their safety is the Company's top priority. The Company's safety policy is based on the positive belief that all personal injuries can be prevented and it is reasonably possible to safeguard all construction and operating exposures which may result in accidents. The safety philosophy also recognises that it is

imperative to train employees and ensure that their competency levels are aligned to the task that they have been entrusted to perform. Further, the policy accepts that a good safety performance is advantageous for the employees and workers, business efficiency and the economy.

The management and supervisors are responsible for maintaining a strong safety culture and embedding the right practices to prevent injury to employees and workers. The Company has a detailed Safety Manual & Standard Operating Procedures providing safe working procedure of construction activities.



## **HEALTH**

ACIL recognises the impact that occupational health has on the safety and well-being of its workforce. An integrated health and wellness approach is adopted to promote a healthy and productive workforce.

Health and medical services are provided to all employees, including on-ground workers. Regular feedback is provided to employees and workers to keep them informed on their health status and encourage them to take responsibility for their own health. The Company also comprehensively monitors the working environment through expert teams to identify any potential new risks and any gaps or breakdown in the health risk management system. Primary medical care is made available at work places. In case of an unforeseen event or a mishap, the Company liaises with the concerned hospital authorities at a nearby hospital to

take care of the injured. Hospitals have been identified in the vicinity and the injured personnel requiring medical treatment are referred to the nearest hospital.

The Company's health policy seeks to enhance individual productivity by proactively reducing health risks and providing access to quality health care. This includes providing drinking water, proper garbage disposal, hygienic toilets, regular pest control and all other such services which can have a positive impact on their health and well-being.

## **AWARDS AND RECOGNITION**

ACIL has bagged the following prestigious CIDC Vishwakarma Awards 2015 from Dr. Kirit Parikh, Hon'ble member of Planning Commission, Govt. of India, Sh. Satyendra Jain Hon'ble Minister PWD and Sh. Uddesh Kohli, Hon'ble adviser of Planning Commission, Govt. of India.





### 8<sup>th</sup> CIDC Vishwakarma Awards - 2016

Sl. No.	Code	Category	Project / Individual	Award
1	F	Best Construction Project	Caparo International Centre (Ayatti), Greater Noida	Commemorative Medal + Certificate
2	F	Best Construction Project	Bank of India, Bandra-Kurla Complex, Mumbai	Commemorative Medal + Certificate
3	F	Best Construction Project	Palm Drive, Gurgaon	Commemorative Medal + Certificate
4	G2	Achievement Award for Artisans & Supervisors	Mr. Shiv Charan Sahu - PNB, Dwarka	Certificate
5	I	Construction Health, Safety & Environment	Emergency Block, Safdarjung Hospital, New Delhi	Commemorative Medal + Certificate

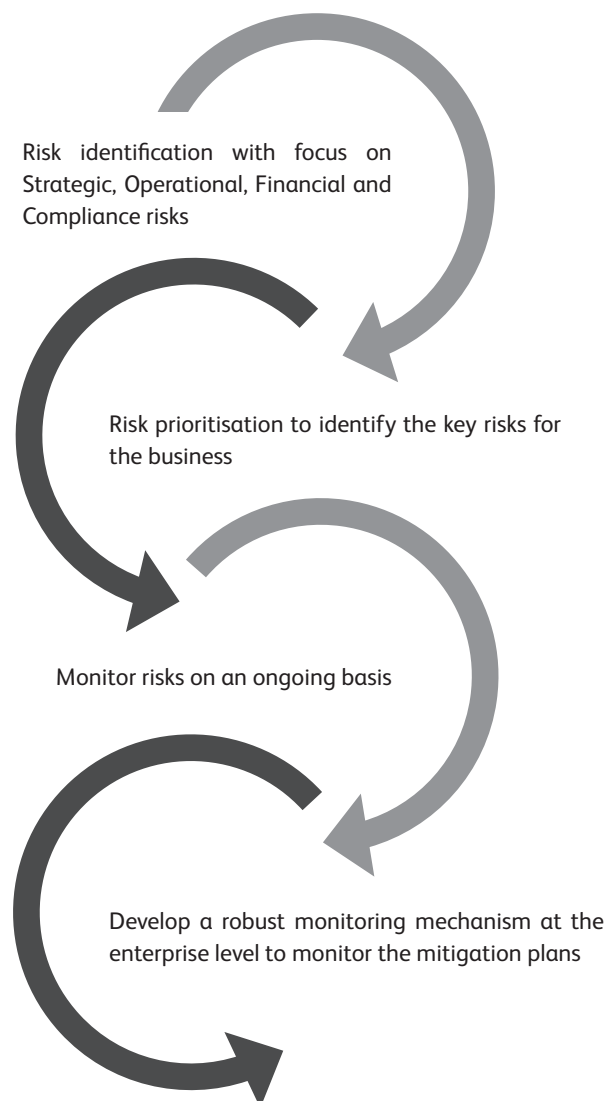
### RISKS AND CONCERNS

Like every business, ACIL faces risks, both internal and external, in the undertaking of its day-to-day operations and in pursuit of its longer-term objectives. The Company acknowledges the necessity of identifying, assessing, evaluating and managing these risks and putting in place response mechanisms that mitigate these risks. A well-defined Enterprise Risk Management (ERM) process implemented by the Company provides the framework for conducting the business in a well-controlled manner. The underlying objective is to protect and further grow shareholder value by augmenting risk response decisions and reducing the possibility of failure while benefiting from any possible business opportunity. The risk management policies are constantly reviewed, taking into account current market conditions and the Company's activities, thus instilling renewed confidence in reaching the desired goals, taking informed decisions about exploiting opportunities, etc.

### Principles of risk management framework

Shareholder-value based	Risk management is focussed on sustaining the creation of shareholder value and protecting it against erosion.
Supported and assured	Risk management framework will provide support in establishing appropriate processes to ensure that current risks are being managed appropriately and assurance is provided to relevant shareholders over the effectiveness of these processes.
Reviewed	Effectiveness of the risk management programme will be reviewed on a regular basis to ensure success in a dynamic and changing business environment.

### Risk Management process adopted by ACIL



## RISKS AND MITIGATION STRATEGIES

NATURE OF RISK	RISK DESCRIPTION	RISK MITIGATION STRATEGY
<b>Credit Risk</b>	Credit risk is the risk of non-payment by any counterparty - client or supplier - in relation to services provided by the Company. Payment collection may be extended over a period of time, as a matter of business practice, leading to delays. Also, during such time period, creditworthiness of clients may deteriorate and the Company can be adversely affected by bankruptcies or other business failures of its clients.	In order to manage its credit exposure, ACIL has determined a credit policy with credit limit requests and approval procedures. Timely and rigorous process is followed up with clients for payments as per schedule. ACIL has suitably streamlined the process to develop a focussed and aggressive receivables management system to ensure timely collections.
<b>Contractual Risk</b>	Pertains to probability of loss arising from failure to meet obligations or provide services as per terms of contract. This includes risk arising from non-adherence to contract terms of quality, time deadlines, output per hour, protection of confidential information, etc.	ACIL follows a meticulous process to evaluate the legal risks involved in a contract and ascertain its legal responsibilities under the applicable law of the contract. A strategic priority is to restrict liabilities to the maximum extent possible. Further, the Company has 'no consequential losses' clauses to protect itself. The Company is also protected against such risks through various insurances like Workers Compensation Policy, Contractors All Risk (CAR) Policy, ESIC etc.
<b>Execution Risk</b>	Failing to maintain discipline and meet client expectations on project cost, schedule and/or quality goals (i.e. design defects and construction delays) could result in damage to reputation, loss of repeat business, which could potentially have an impact on revenues and profitability.	To reduce this risk, continual investments are made by the Company in its people and processes to ensure smooth project execution. Adoption of quality models and practices, such as ISO, ensure early identification of potential execution risks and the corresponding mitigation measures. Active involvement of senior management, project managers and process leaders at all stages of project execution enhance execution competencies. As a safeguard, planned intervention and escalation systems are further deployed to minimise potential negative effects.
<b>Directors and Officers Liability Risks</b>	Directors and Officers of ACIL have very specific duties and obligations. Further, they are required to take material decisions in the best interest of the Company. Errors and omissions by them exposes the Company to be sued by other counterparts.	Directors and officers are given all of the appropriate information that is required to perform their duties effectively. Further, as a proactive measure they work in consultation with reputed legal professionals. The risk is further minimised with ACIL limiting its contractual liability for damages arising from negligent acts, errors, mistakes etc. by directors and officers in rendering services through insurance cover. However, any occurrence not fully covered by insurance or insurance not available on reasonable terms could have an adverse impact on business.
<b>Competition Risk</b>	Increasing competition from domestic and international construction companies may affect market share and profitability.	The Company has created strong differentiators in project execution, quality and delivery which make it resilient to competition. Furthermore, the Company continues to invest in technology and its people to remain ahead of the curve. A strong, stable client base consisting of large and mid-sized corporations further helps to insulate the Company from this risk.
<b>Political Risk</b>	Instability and adverse government actions can adversely affect the pace of infrastructure development in the country, settled commercial terms of a project, etc. thus impacting operations and revenue.	Successive governments have identified infrastructure investment as a key priority to accelerate economic development, thus reducing this risk to a great extent. Further, the Company ensures that the quality of its work commands respect and thus faces minimal interruption from the political set-up.