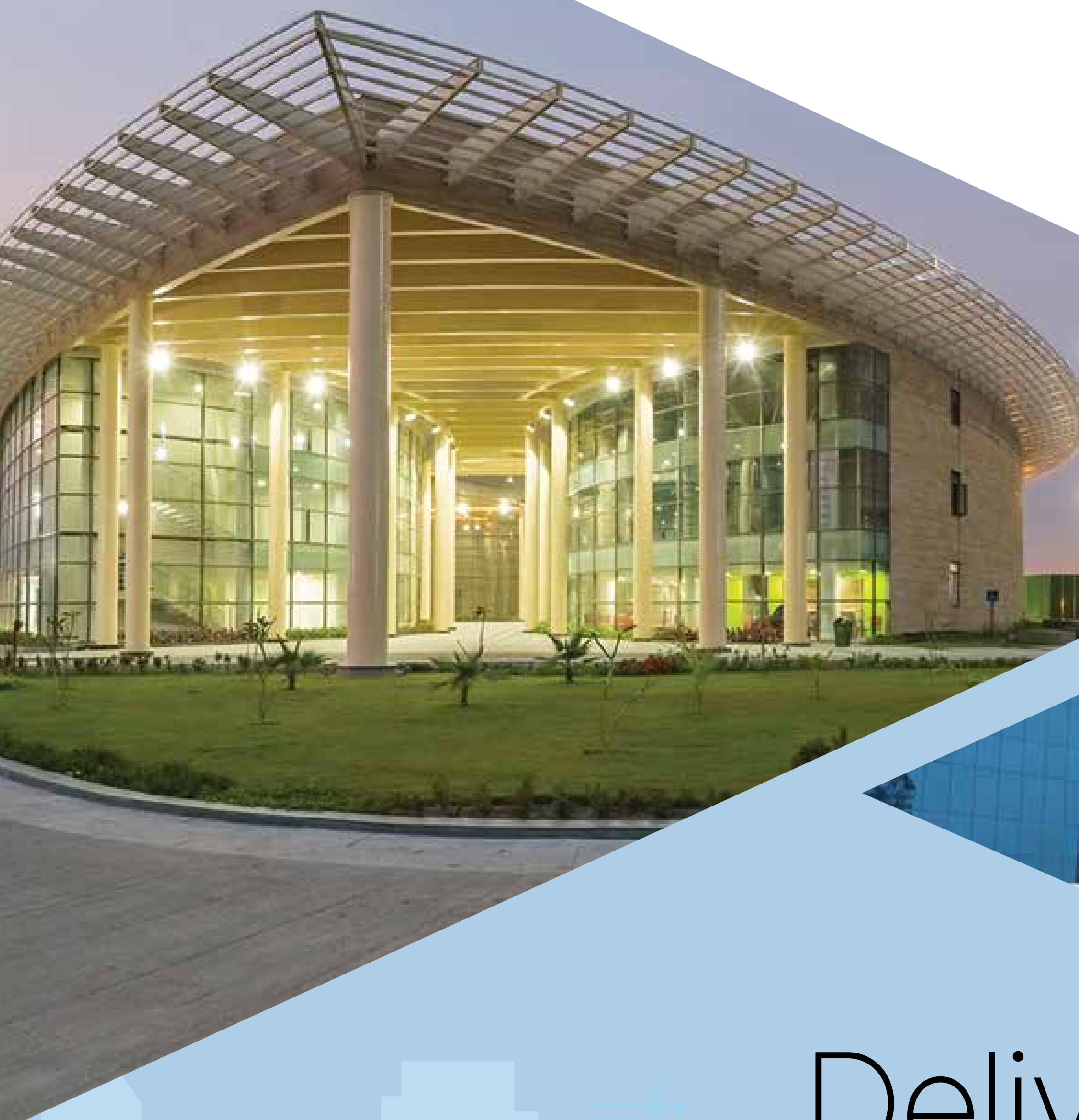
Ahluwalia Contracts (India) Limited



Delivering value. Fulfilling commitments.

Annual Report 2016-17

Corporate Information

Board of Directors

Mr. Bikramjit Ahluwalia, Chairman & Managing Director

Mr. Shobhit Uppal, Dy. Managing Director

Mr. Vinay Pal, Whole-Time Director

Mrs. Mohinder Kaur Sahlot, Independent Director

Mr. Arun K. Gupta, Independent Director

Mr. S.K. Chawla, Independent Director

Dr. Sushil Chandra, Independent Director

Company Secretary/Compliance Officer

Mr. Vipin Kumar Tiwari
www.acilnet.com
cs.corpoffice@acilnet.com

Chief Financial Officer (CFO)

Mr. Satbeer Singh
www.acilnet.com
Satbeersingh@acilnet.com

Auditors

M/s Arun K. Gupta & Associates
Chartered Accountants
D-58, 1st 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
IDFC Bank Ltd
Punjab & Sind Bank
RBL Bank Limited
State Bank of India (Formerly as State Bank of Patiala)
SBER BANK
Yes Bank Ltd

Registered/Corporate Office

A-177, Okhla Industrial Area,
Phase-I, New Delhi-110 020
Phone: 011-49410502, 517 & 599
Fax: 011-49410553 & 49410575

Website: **www.acilnet.com**
Email ID: mail@acilnet.com

What's Inside

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 OVERVIEW

The Indian economy is witnessing a positive transformation with bold and decisive measures undertaken by the Government that is facilitating it in unleashing the country's potential. Not only have these radical reforms helped in strengthening the country's fundamentals, it is also boosting the investor sentiment and India's outlook globally. As per a survey by United Nations Conference on Trade and Development, India is voted as the 6th most promising home economies and the 3rd prospective host economies for investments during the years 2017-19. For the year 2016, India's ranking in terms of foreign direct investments (FDIs) improved by one spot to 9th with a total of USD 44.5 Billion inflows.

(Source: Ernst & Young India: Transforming through radical reforms report, World Investment Report 2017)

The focus on transforming the country into a manufacturing hub, creating smart cities, making it a clean and open defecation free nation, encouraging entrepreneurship, digitalising the economy and transforming tax regime through Goods and Services Tax (GST) are all contributing towards upgrading the country to the next level of growth. The implementation of one of the boldest move in recent times in the form of demonetisation is likely to have multiple benefits in the longer run. It is expected to put a check on parallel economy, counterfeit currency and terror financing. In addition to this, it has facilitated in channelising massive amounts of idle funds back to the economy which shall be crucial for funding infrastructure projects. GST on the other hand shall bring the entire nation under one taxation structure, resulting in faster movement of goods across the country and improved productivity. It shall also contribute towards higher tax collections as evading taxes would get difficult.

Amidst all these structural changes and slowdown in global economy, Indian economy remained buoyant. In 2016-17, the country's GDP grew by 7.1% as compared to 7.9% in 2015-16. At the end of the 2016-17 fiscal, the country's core CPI inflation stood at 4.7%, fiscal deficit was estimated at 3.5% of GDP and forex reserves continued its rising trend to reach ₹ 24,102.8 Billion. The overall trade deficit (merchandise and services combined) for the year declined 14.49% in dollar terms to USD 46,420.55 Million. Another positive development has been the declining trend in the repo rates (6.25% at the end of 2016-17) which is crucial for funding projects.

(Source: Central Statistics Office, RBI Monetary Policy report)

Key macro-economic indicators

	2016-17	2015-16
GVA at basic prices (% change)	**6.6**	7.8
Agriculture (% change)	**4.9**	0.7
Industry (% change)	**7.0**	8.8
Services (% change)	**6.7**	9.7
Construction (% change)	**1.7**	5.0
Gross fixed capital formation (% change)	**2.4**	6.1
Index of Industrial Production (% change)	**5.0**	3.4
Inflation (all India CPI) (%)	**3.8**	4.9

(Source: RBI Bulletin, March 2017)

Outlook

While several radical reforms are underway, the focus is strongly set towards growth and development. The economy is expected to benefit from significant progress in trade, proactive policy actions and robust external buffers. IMF predicts the Indian economy to remain the fastest growing major economy in the world with GDP growth of 7.2% in 2017 and 7.7% in 2018. It expects improving investor confidence, financial stability and projected infrastructural development as catalysts to the country's growth.

INDIAN CONSTRUCTION INDUSTRY

Overview

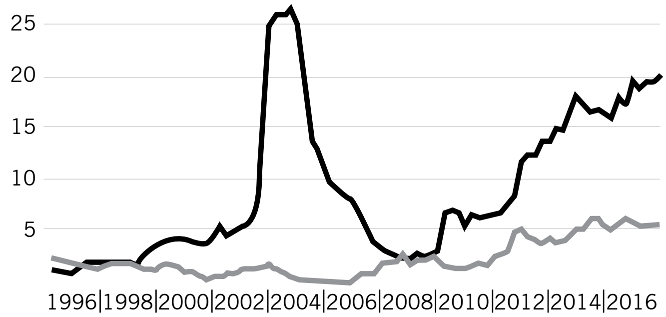
The real estate and construction is one of the key drivers of economic growth in India. Being the third largest employer (40 Million) and having forward and backward linkages with over 250 sectors, it is the third largest contributor to the Indian economy. It accounts for significant inflows of Foreign Direct Investment (FDI) to India. During April 2000-March 2017, the sector cumulatively attracted USD 24.29 Billion FDI inflows, accounting for the third largest share.

(Source: Department of Industrial Policy & Promotion)

Though the sector has significant scope for growth, several issues like slow moving projects due to policy paralysis, liquidity issues, mounting non-performing loans, and performance gaps continue to trouble the developers, the financial community and the government. This has resulted in proportion of stalled projects burgeoning to 12.3% amounting to ₹ 12 Lacs Crores at the end of January-March 2017 quarter. Though the stalling rate in public sector was constant at 6.2%, that in the private sector reached a 52-quarter high of 20.2%. Construction and real estate sector's share in stalled projects rose by three percentage points to 12.5%, which was in many ways attributable to demonetisation and change in real estate regulatory norm. Funding, clearances and raw material issues were the prime reason causing project stalling.

(Source: Centre for Monitoring Indian Economy)

Widening gap between private and government stalling rates



■ Proportion of stalled private projects (in %)
■ Proportion of stalled government projects (in %)

(Source: CMIE)

This has resulted in falling investor confidence in the sector, which is evident from the significant decline in FDI inflows to the sector from USD 4,652 Million in 2014-15 to USD 703 Million in 2016-17. During the year, the construction sector growth in Gross Value Added (GVA) terms declined to 1.7% as against 5% in 2015-16. However, more perturbing is the decline in the growth of Gross Fixed Capital Formation from 6.5% in 2015-16 to 2.4% in 2016-17.

(Source: Department of Industrial Policy & Promotion, Central Statistics Office)

Key reasons for project stalling	Cost (in Trillion ₹)	Proportion (%) of stalled projects
Fuel/feedstock/raw material supply problem	1.75	14.55
Lack of environment clearance	1.68	13.96
Lack of funds	1.14	9.49
Land acquisitions problem	1.13	9.42
Lack of clearance (non-environmental)	0.76	6.30
Lack of promoter interest	0.76	6.27
Unfavourable market conditions	0.63	5.26
Other*	4.19	34.75

* Other includes reasons such as natural calamities and projects where reasons for stalling are not available

(Source: CMIE)

One of the key reasons identified for rising stalled projects has been the pendency of claims from government bodies which in turn leads to burgeoning debt for construction companies. It is estimated that nearly ₹ 75,000 Crores of projects are tied-up in arbitration, of which 85% claims have been raised by the government. Besides, historically resolution of arbitration takes seven years on an average with majority of the arbitration awards going against the government. It is because of this that despite being ranked 39th in the Global Competitiveness Index by World Economic Forum, India ranks 68th in terms of lack of infrastructure.

Thus, in order to improve scenario, the Government has devised a mechanism for releasing funds stuck in arbitration awards for reviving stalled projects, and address stressed loans in the sector. Under the new arrangement, the Cabinet Committee on Economic Affairs, has mandated the government agencies to pay 75% of the arbitral award amount to an escrow account against margin free bank guarantee for cases where the award is challenged. This shall provide funding to the contractors and enable them to continue with the project in spite of the ongoing arbitration. Thus, cases may settle later but the project would not stall. Besides, the disputes will also be shifted to new arbitration process for faster resolution of cases. These initiatives are expected to improve liquidity in the short run and reform the contracting regime in the long run.

GROWTH DRIVERS

Pro-industry initiatives: In a bid to revive the construction sector in India, the Cabinet Committee on Economic Affairs has approved a series of short-term and long-term initiatives suggested by the NITI Aayog for improving liquidity. These include:

- Grant to transfer arbitration cases under pre-amended Arbitration Act to the Amended Arbitration Act for faster redressal
- In cases where PSUs has challenged the Arbitral Award, 75% of amount to be paid by PSU to contractor against margin-free Bank Guarantee to ensure continuity of projects
- PSUs/Departments who have issued public contracts to set-up Conciliation Committees/Councils comprising independent subject experts to expedite disposal of pending or new cases
- Allow PSUs/Departments to substitute item-rate contracts with EPC (turnkey) contracts and adopt the Model EPC contracts for construction works
- Department of Financial Services, in consultation with Reserve Bank of India (RBI), can devise a suitable one-time scheme for addressing stressed bank loans in the construction sector

(Source: NITI Aayog, Government of India)

Making REITs more facilitative: REITs or Real Estate Investment Trusts are a new form of asset class launched in India during 2014, allowing investors directly invest in income generating real estate properties. These trusts, being listed on stock exchanges provide ready liquidity to investors. It would facilitate developers to transfer assets and reduce leverage thereby enabling them to reduce leverage. However, owing to non-facilitative norms REITs never picked. In 2016, the government brought several reforms in REITs norms to make it more attractive to investors. These include:

- Allowing up to 20% investment in under construction assets
- Exempting Dividend Distribution Tax (DDT)
- Removing mandate for companies to change existing capital structure compared
- Allowing five small real estate companies to merge and pool assets for REITs listing
- Foreign fund managers allowed to be Portfolio Managers and foreign investors allowed to own up to 15% stake in domestic stock and commodity exchanges
- Companies allowed to allot shares up to ₹ 5 Lacs during public offering compared to ₹ 2 Lacs earlier

(Source: Indian Real Estate Sector report, Grant Thornton)

Introducing Real Estate (Regulation and Development) Act, 2016 (RERA): RERA is another initiative by the government that shall bring in more transparency and accountability in the industry. Unscrupulous real estate players who thrived on misguiding and swindling customers would now face difficulties in doing so with stringent penalties for non-compliance. The Act provides guidance to developers to register projects with respective states' Real Estate Regulatory Authority, park fund related to particular project in dedicated account and use the same for that project only, disclose all project-related information, and maintain compliance to project specifications among others.

This shall result in unscrupulous players becoming unable to compete with reputed and transparent developers, benefiting them with more demand.

(Source: Indian Real Estate Sector report, Grant Thornton)

Urbanisation to increase: India with one of the slowest pace of urbanisation in the world has one of the lowest urban population at 32.7% of its population. However, with the Indian economy growing at a rapid pace, the Chairman of NITI Aayog, predicts India's urbanisation rate to grow over 60% over the next 30 years. A report by United Nations states that India's urban areas contribute 60% to its GDP and is projected to add nearly 300 Million to its urban population by 2050.

(Source: United Nations, NITI Aayog)

Rising impetus on infrastructure: In order to sustain its economic growth momentum, India needs to heavily invest in the infrastructure sector which is evident in the rising allocation to the sector. In its Union Budget 2017-18, the government has allocated a sum of ₹ 3.96 Trillion for the infrastructure.

A report by Asian Development Bank, estimates India's infrastructure investments during 2016 to 2020 at USD 230 Billion annually against its investments of USD 118 Billion in 2015. Based on this, it is estimated that India will have huge infrastructure gap amounting to USD 112 Billion on an annual basis. The report further states that an investment of USD 4,363 Billion would be required by India during 2016 to 2030 to meet its infrastructure needs.

(Source: Meeting Asia's infrastructure needs, Asian Development Bank)

Pradhan Mantri Awas Yojana: This scheme has two components- the urban and rural (grameen)- under which the government has targeted to build 20 Million houses for urban poor and 30 Million houses for rural poor. To expedite the pace of projects in this scheme, the Government, in its Union Budget 2017-18, conferred infrastructure status for affordable housing. In addition to this, the National Housing Bank would refinance individual housing loans amounting to ₹ 200 Billion.

(Source: Ernst & Young India: Transforming through radical reforms report)

Smart cities mission: As of 2016, 60 cities have been chosen for development at a total investment of ₹ 1.4 Trillion. Asian Development Bank and World Bank have agreed to provide loans amounting to ₹ 67.2 Billion and ₹ 33.6 Billion respectively towards this along with a commitment from the BRICS Development Bank as well. Various MoUs have been inked to kick-start these projects.

(Source: Ernst & Young India: Transforming through radical reforms report)

Redevelopment of government colonies: The government's approval to redevelop seven General Pool Residential Accommodation (GPRA) in New Delhi shall generate significant opportunities. With an estimated project cost of ₹ 32,835 Crores, including maintenance and operation costs for 30 years, the project shall involve replacing existing stock of 12,970 houses with 25,667 dwelling units along with supporting social infrastructure facilities.

(Source: The Hindu)

BUSINESS REVIEW

Ahluwalia Contracts (India) Limited (ACIL) is amongst India's leading and most trusted construction companies. The Company, with its strong manpower competencies and technical excellence, has a reputation of developing several iconic projects across the construction value chain. It has a robust track record of being engaged in several high-end portfolios across residential and commercial complexes, hotels, institutional buildings, hospitals and corporate offices, IT parks and industrial complexes, Metro Station and Depot, power plants, and automated car parking lots among others.

The Company has a legacy of being the first Building Construction company in India to receive ISO 9001 (quality), ISO 14001 (environment) and ISO 18001 (health and safety) certifications. The Company, over its five decades of existence has delivered several challenging turnkey projects for marquee clients both in the public and private sector. Having developed expertise in the entire value chain of construction, the Company is strongly focussed on engaging in EPC (Engineering, Procurement and Construction) projects.

The Company's strong focus on quality and timely execution has enabled it to consistently grow over the years and deliver higher returns to shareholders. Over the past few years, the Company has made significant investments in improving manpower quality, construction infrastructure, health and safety, and information technology. This along with its linkage to strong channel partners positions it well in the industry to capitalise on the huge opportunities in the sector.

COMPANY PERFORMANCE

In 2016-17, unperturbed by various headwinds and temporary slowdown led by demonetisation, the Company continued to deliver strong performance. Various initiatives undertaken by the Company during the past two years to enhance capabilities has facilitated in consistent performance.

The Company's Income from Operations increased 14% from ₹ 12,496 Million in FY 2016-17 to ₹ 14,265 Million in 2015-16 driven by robust execution of orders during the year. EBITDA for the year increased 4% to ₹ 1,815 Million compared to ₹ 1,744 Million in FY 2015-16. The PAT for FY 2016-17 grew 2% to ₹ 860 Million against ₹ 844 Million in FY 2015-16.

In terms of margins, the EBITDA and PAT margin for 2016-17 declined to 12.72% and 6.03% respectively as compared to 13.95% and 6.75% respectively in 2015-16. This decline in profitability margin was primarily on account of the provision worth ₹ 43 Million created by the Company for the Kota project, and the increase in overheads due to demonetisation which led to labour shortage demanding the Company to resort to sub-contracting to meet project deadlines.

The net Order Book as on 31st March 2017 declined marginally by 1% to ₹ 35,532 Million against ₹ 36,073 Million as on 31st March, 2016. Nearly, 68% of these orders were from public sector clients, while 63% of them were concentrated in the Northern region.

Key highlights (in ₹ Million)

	FY 2016-17	FY 2015-16
Gross Order Book	**69,136**	63,311
Income from Operations	**14,265**	12,496
EBITDA	**1,815**	1,744
EBITDA margin (%)	**12.72**	13.95
PAT	**860**	844
PAT margin (%)	**6.03**	6.76
EPS (₹)	**12.84**	12.60
Return on Net Worth (%)	**18.49**	22.22

SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE

Quality, Environment, Health & Safety Policy

The Company since its inception has aimed at being a responsible citizen by laying great emphasis on formulating and implementing comprehensive health, safety and environment (HSE) related policies. The Company regularly follows and shares best practices while ensuring highest level of healthy and safe working conditions for employees, contractors and visitors. Its determination to these objectives is evident in its ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications for quality, environment, and health and safety respectively.

The Company shares it HSE policies via its intranet network to ensure that employees across the country have ready access to it. Besides, the committee ensures that these policies are adopted and meticulously followed to minimise work-related risks. The Company also practices the policy of sensitising employees by displaying key safety policies, instructions and precautionary measures through posters and digital boards resulting in significant decline in work-related incidents over the years.

The Company also maintains standard operation procedures along with documented objectives and targets, which are periodically tracked and monitored. This prevents deviation on end and ensures continuous improvement on the other. Additionally, the Company has also implemented operational controls for impact management based on severity.

Safety

As construction work involves working in high risks jobs, the Company lays top priority on safety. The Company strongly believes in the philosophy that all work-related accidents can be effectively prevented by devising and ardently following comprehensive safety guidelines. This on one hand safeguards employees and motivates them, and on the other is extremely critical for ensuring higher business efficiency and economy. Towards this, the Company periodically arranges for various safety-related training and conducts mock drills to enhance employee awareness. These training ensures that the competency levels of employees are aligned to their entrusted task.

The management and supervisors of the Company are entrusted with the responsibility of maintaining strong safety culture and preventing any kind of injuries. In addition to this, the Company maintains a detailed Safety Manual and Standard Operating Procedures that provide guidelines for safe working procedures related to construction activities.

Objectives

- Prevent accidents/harmful effects on health
- Analyse working conditions at sites
- Constant improvement

Targets

- Achieve zero tolerance for injuries in execution
- Comply with legislation/codes in respect of safety
- Provide realistic training at all levels

Methodology

- Report and record all incidents (major/minor)
- Constant review/upgradation of safety plans/techniques
- Appoint nodal officers to address safety/health concerns
- Identify hazards in construction and take preventive measures

Health

The Company recognises the stress level the construction worker undergoes owing to work-related injuries, improper working conditions and poor health. The Company ensures that all employees, including on-ground workers, are provided with adequate health and medical services. It also ensures that any kind of primary medical care services are made available at workplaces. However, for major incidents, the Company liaises with the concerned authorities at a nearby hospital. As a proactive approach, the Company identifies nearest hospital to its worksite which are immediately contacted to serve injured personnel to avoid loss of time.

Considering employee welfare as its responsibility, the Company also goes ahead to ensure that all major or minor occupational injuries are adequately reported. In order to prevent cases of non-reporting, the Company undertakes regular feedback to ensure that the employees are aware of their rights and encourages them to come forward and report cases. The employees are also strongly motivated to care for their own health. These initiatives has enabled the Company to significantly improve health conditions of workers resulting in higher work-related satisfaction and productivity.

The Company has also engaged an expert team that undertakes comprehensive monitoring of work environment along with identifying all potential risks and shortfall in the health management system.

The Company strongly believes in the principal of preventive healthcare to eliminate health-related risks in the first place itself. This is done by providing employees clean drinking water, maintaining hygiene through proper garbage disposal and cleaning toilets, regular pest control, and undertaking all other related services.

AWARDS AND RECOGNITION

Ahluwalia Contracts (India) Ltd, owing to its professional approach towards quality, engineering, health and safety, and concern for environment has won several awards during its existence. During the year 2016-17, the Company won the following awards at the 8th CIDC Vishwakarma Awards – 2017:

Ahluwalia Contracts (India) Ltd. has bagged the following prestigious 9th CIDC Vishwakarma Awards:

9th CIDC Vishwakarma Awards 2017

Sr. No.	Project Name	Type	Location	Award
Category: Achievement Award for Best Construction Projects				
1	Construction of Amity University, Kolkata	Buildings	Kolkata	Commemorative Trophy + Certificate
2	Bennett University, Greater Noida	Buildings	U.P.	Commemorative Trophy + Certificate
3	Central Bureau of Investigation (CBI), Mumbai	Buildings	Mumbai	Commemorative Medal + Certificate
Category: Achievement Award for Construction Health, Safety & Environment				
1	Kolkata Medical College, Kolkata	Buildings	Kolkata	Commemorative Medal + Certificate
2	South Asian University, New Delhi	Buildings	New Delhi	Commemorative Medal + Certificate
3	Construction of Police Bhawan, Patna	Buildings	Patna	Commemorative Medal + Certificate
Category: Achievement Award for Supervisors				
1	Mr. Sunil Kumar	Safety	Head Office	Commemorative Trophy + Certificate
2	Mr. Abhishek Mishra	Safety	AIIMS, Delhi	Commemorative Medal + Certificate
3	Mr. Ashif Khan	Safety	Candor, Gurgaon	Certificate
4	Mr. Sarfaraj Alam	Bar - Bender	DDA, Narela - Delhi	Certificate

RISKS AND CONCERNS

Risks are an integral part of every business and effective mitigation of the same are extremely vital to ensure business continuity. The Company recognises the criticality of this and has developed a robust Enterprise Risk Management (ERM) framework that assists in early identification, assessment, and evaluation of risks. Based on this, the management undertakes several decisions that facilitate in effectively responding to these risks and managing business in a well-controlled manner. The management periodically reviews the framework based on the on-going macro-economic and competitive scenario in the industry