

PNB Head Office, Dwarka A 5-star GRIHA Certified Building

# BUILDING A SUSTAINABLE FUTURE...

39<sup>th</sup> Annual Report 2017-18



# **CORPORATE INFORMATION**

#### **Board of Directors**

Mr. Bikramjit Ahluwalia, Chairman & Managing Director

Mr. Shobhit Uppal, Dy. Managing Director

Mr. Vinay Pal, Whole-Time Director

Dr. Mohinder Kaur Sahlot, Independent Director

Mr. Vikas Ahluwalia, Whole-Time 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 Amod Agrawal & Associates

Chartered Accountants G-3, Block-C, Kailash Apartment,

Lala Lajpat Rai Marg,

New Delhi-110048

# **Bankers**

Allahabad Bank

Bank of Maharashtra

Bank of India

IDBI Bank Ltd

IDFC Bank Ltd

Punjab & Sind Bank

**RBL Bank Limited** 

State Bank of India

Yes Bank Ltd

Union Bank of India

# Registered/Corporate Office

A-177, Okhla Industrial Area, Phase-I, New Delhi-110020

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# **BOARD OF DIRECTORS**



MR. BIKRAMJIT AHLUWALIA Chairman & Managing Director



**Mr. Shobhit Uppal**Dy. Managing Director



**Mr. Vikas Ahluwalia** Whole-Time Director



**Mr. Vinay Pal**Whole-Time Director



**Dr. Mohinder Kaur Sahlot** Independent Director



**Mr. Arun K. Gupta** Independent Director



Mr. S. K. Chawla Independent Director



**Dr. Sushil Chandra**Independent Director







# MANAGEMENT DISCUSSION AND ANALYSIS

#### INDIAN ECONOMIC OVERVIEW

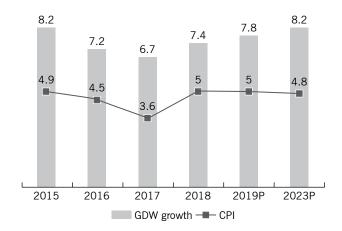
India has witnessed a plethora of strong positive changes in the last two and a half years coupled with robust macroeconomic indicators. The Government's bold measures on various fronts are helping India realise its true potential. Various facilitative reforms and Government's proactive approach to growth has boosted the foreign investors' trust in the Indian economy. Moreover, the economy is expected to continue benefitting from significant progress in trade, proactive policy actions and robust external buffers.

(Source: E&Y India: Transforming through radical reforms report)

A number of key structural initiatives were undertaken in the year 2017 in order to achieve sustainable growth in the future. The demonetisation drive and the implementation of the momentous Goods & Services Tax (GST) reduced the pace of economic growth. Evidently, the country recorded a GDP growth of 6.7% in FY 2017-18 compared to 7.1% registered in FY 2016-17. However, the fading impact of demonetisation and the diminishing teething problems of GST from early 2018 led to a significant growth of 7.7% in the fourth quarter of FY 2017-18. GST is likely to positively contribute to the economic activity and fiscal sustainability by reducing the cost of complying with multiple state tax systems by bringing in a unified tax reform. This new regime has been benefitting the businesses as well as the consumers to a large extent. Among other significant reforms are the Make in India initiative aimed to transform India into a manufacturing, designing and innovation hub; Smart Cities program with plans to create 100 sustainable and innovative smart cities; Digital India to improve the digital infrastructure; implementation of Real Estate (Regulation and Development Act), 2016; introduction of landmark Insolvency and Bankruptcy Code (IBC) to address the Non-Performing Assets (NPA) issues, etc. Besides, India has climbed 30 spots to achieve 100th rank in its World Bank's Ease of Doing Business Report, 2018. The United Nations Industrial Development Organisation (UNIDO) has placed India at the 6th position among the world's 10 largest manufacturing destinations. All these positive developments are transforming the country into an unparalleled economy.

Moving ahead, stable macro-economic indicators, improving business ecosystem, liberal Foreign Direct Investment (FDI) regime, thrust on infrastructure development have resulted in high foreign capital inflows, making India an attractive investment destination. During April-September FY18, the FDI inflows in the country soared by 17%. Moreover, the average retail inflation declined to a six-year low of 3.3% during FY 2017-18 as the economy moves towards a more stable price regime. Moody's upgraded India's sovereign rating to Baa2 after 14 years, underlining strong economic fundamentals of the country.

(Source: KPMG Report: India Soars Higher 2018)



(Source: IMF World Economic Outlook, April 2018)

India's increasing alignment to policy changes, improving investor confidence, financial stability and its ability to withstand the temporary disruptions caused by GST implementation are expected to accelerate the growth potential of the economy. The International Monetary Fund (IMF) is optimistic on India's growth potential, pegging growth at 7.4% in FY 2018-19 and 7.8% in FY 2019-20.

(Source:https://economictimes.indiatimes.com/news/economy/indicators/india-to-grow-at-7-4-per-cent-in-2018-imf/articleshow/63801741.cms)

## **INDIAN CONSTRUCTION INDUSTRY**

## **OVERVIEW**

Real estate and construction sector is pivotal for the economic growth as it contributes the third highest share to the Indian economy. Further, it accounts for the second highest inflows of FDI in India.

(Source: KPMG Report: Building, Construction and Real Estate)

The growth of this sector is driven by the growth in demand for office space as well as urban and semi-urban accommodations. According to Department of Industrial Policy and Promotion (DIPP), the construction development sector received FDI inflows of nearly US\$ 24.67 Billion between April 2000 and December 2017.

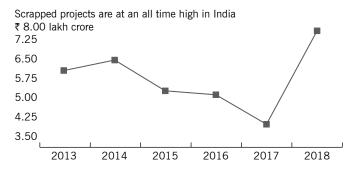
 $(Source: \ https://www.ibef.org/industry/real-estate-india.aspx)\\$ 

Going forward, India's real Gross Value Added (GVA) grew significantly by 6.5% in FY 2017-18. Among other sectors, the construction sector posted a 5.7% growth, which was significantly higher than the 1.3% growth witnessed in FY 2016-17.

(Source: https://cmie.com/kommon/bin/sr.php?kall=warticle& dt=2018-05-31%2017:54:20&msec=306)



Though the sector has the potential to grow rapidly, there are several challenges in the form of financial constraints, execution challenges, environmental and land clearances, slowing sales, etc. impeding its growth. According to Centre for Monitoring Indian Economy (CMIE), FY 2017-18 observed announcement of 2,496 new projects with investments worth ₹ 6.6 Trillion. However, these were considerably lower than 3,963 projects with investments worth ₹ 13.8 Trillion announced in FY 2016-17. Besides, commissioning of new capacities also declined by 42% in FY 2017-18. Furthermore, the shelving, stalling and abandoning of projects mounted during the year with investments worth ₹ 3.3 Trillion being dropped in March 2018 quarter. This was mainly on account of subdued economic growth resulting in inadequate demand.



(Source: CMIE)

Difficulties in land acquisition, poor performance of contractors, environment clearances, pending litigations and arbitration/ contractual disputes with contractors are some of the primary reasons for the delay in construction projects. In order to expedite completion of delayed projects, regular meetings are being conducted with contractors, project developers and state governments. Besides, various measures are being adopted for streamlining of land acquisition and environment clearances, revamping of dispute resolution mechanism, frequent reviews at various levels, etc. to revive the stalled projects.

(Source: https://economictimes.indiatimes.com/news/economy/policy/proactive-steps-led-to-reduction-in-stalled-road-projects-survey/articleshow/62699187.cms)

#### **GROWTH DRIVERS**

Pro-industry measures: The NITI Aayog, in its efforts to resuscitate the construction sector in India and to improve the liquidity situation, had suggested a spate of short-term and long-term measures. The Cabinet Committee on Economic Affairs has given its approval to the suggestions, which include:

- For quicker redressal of arbitration cases, allow their transfer from the pre-amended Arbitration Act to the amended Arbitration Act.
- In cases where PSUs have challenged the Arbitral Award, the PSU should pay 75% of the amount against margin-free Bank Guarantee to the contractor. This is to ensure that projects continue uninterrupted.

- To dispose pending or new cases, the PSUs or Departments which have issued public contracts, to set up Conciliation Committees/Councils comprising of independent experts of the subject.
- Make the PSUs/Departments to adopt the model EPC contracts for construction works and allow them to substitute item-rate contracts with EPC (turnkey) contracts.
- Department of Financial Services, in consultation with Reserve Bank of India (RBI), can develop an appropriate one-time scheme to resolve stressed bank loans prevalent in the construction industry.

(Source: NITI Aayog, Government of India)

Making REITs more facilitative: REITs or Real Estate Investment Trusts are a relatively new form of asset class, launched in India in 2014. Under this, investors can directly invest in income-generating real estate. These trusts are listed on stock exchanges and hence afford ready liquidity to its investors. It helps developers to transfer assets, thereby allowing them to reduce leverage. However, owing to non-facilitative norms, REITs were not successful. In 2016, the Government brought reforms in REITs to make it more attractive to investors. These measures include:

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

Allowing benefits of providing regular income to investors, as REITs need to distribute at least 90% of their net distributable income as well as generating additional income for them from appreciation in the rental and capital values of the underlying property, (Source: Indian Real Estate Sector report, Grant Thornton)

Introducing Real Estate (Regulation and Development) Act, 2016 (RERA): The Government has taken an important step to bring transparency and accountability in the Real Estate industry by enacting RERA. Unscrupulous real estate players will now face difficulties in misguiding and cheating their customers, with the new law prescribing stringent penalties for any non-compliance. The act mandates developers to register their projects with the respective states' Real Estate Regulatory Authority, to keep the funds related to a particular project in a dedicated account and use the same for the intended project only. It also requires the developer to disclose all project-related information, and maintain compliance to project specifications, among others.



The implementation of RERA will benefit the reputed and honest developers as the unscrupulous players will now find it difficult to compete with them under the new terms.

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

Increasing Urbanisation: India, with one of the slowest rate of urbanisation in the world has just 32.5% of its population living in the urban areas. The Chairman of NITI Aayog has estimated the urbanisation share to grow over 60% over the next 30 years as the country's economy is growing at a rapid pace now. India's urban areas contribute 60% to its GDP. The Ministry of Housing and Urban Affairs has anticipated that nearly 50% of the country's population would reside in urban areas by the year 2030.

(Source: United Nations, NITI Aayog)

Rising impetus on infrastructure: The government, being aware that to sustain growth, India needs to invest substantially in the infrastructure sector has allocated ₹ 5.97 Trillion in the Union Budget 2018-19 towards infrastructure. Further, India has a requirement of investment worth US\$ 777.73 Billion in infrastructure by 2022 to have sustainable development in the future.

(Source: https://www.ibef.org/industry/infrastructure-sector-india.aspx)

According to Global Infrastructure Outlook, the rising income levels and economic prosperity are likely to bolster demand for infrastructure investment in India over the next 25 years. The government has speculated requirement of investment worth US\$ 4.5 Trillion by 2040 for infrastructure development to fuel economic growth.

(Source: https://economictimes.indiatimes.com/news/economy/infrastructure/india-needs-4-5-trillion-by-2040-to-develop-infra-eco-survey/articleshow/62694945.cms)

Pradhan Mantri Awas Yojana: The government has conferred infrastructure status on affordable housing to support the Pradhan Mantri Awas Yojana (PMAY) which is for the urban and rural (grameen) areas. The government has targeted to build 20 Million houses for the urban poor and 30 Million houses for the rural poor. The National Housing Bank would also refinance individual housing loans amounting to ₹ 200 Billion. During FY 2017-18, construction of 1,427,486 houses was sanctioned under the scheme.

(Source: Ernst & Young India: Transforming through radical reforms report, IBEF)  $\,$ 

Smart cities mission: As of June 2017, the Government announced the list of 30 cities for development as smart cities, taking the total count to 90. Thereafter, 20 cities were identified to compete in order to fill the remaining 10 spots to complete the list of 100 smart cities under the Smart Cities Mission. Besides, an investment worth US\$ 1.2 Trillion has been proposed over the next 20 years across areas such as transportation, energy and public security to build smart cities in India.

(Source: KMPG Report: India Soars Higher)

Redevelopment of government colonies: The approval given by the government to redevelop seven General Pool Residential Accommodation (GPRA) in New Delhi will generate huge opportunities for the industry. The estimated cost of the project is  $\stackrel{?}{<}$  32,835 Crores, which includes maintenance and operation costs for 30 years. The project involves replacing existing stock of 12,970 houses with 25,667 dwelling units and supporting social infrastructure facilities. The redevelopment is being executed with complete adherence to environmental sustainability and green energy concept.

(Source: The Hindu)

#### **BUSINESS REVIEW**

Ahluwalia Contracts (India) Limited (ACIL) is among India's leading and most trusted companies in the construction space. It is the first Building Construction company in India to receive ISO 9001 (quality), ISO 14001 (environment) and ISO 18001 (health and safety) certifications. Over the years, it has been involved in several key residential, commercial, institutional, corporate offices, power plants, hospitals, hotels, IT parks, Metro stations and depots, automated car parking lots, etc. It has in its repository, highly skilled manpower and technical excellence, which has enabled it to give timely delivery of projects while maintaining the quality standards.

With an industry presence of over 38 years, the Company has developed many iconic and challenging turnkey projects for reputed government and private clients. Having the expertise in the field, the Company is also focusing on Engineering, Procurement and Construction (EPC) projects. This has been possible as the Company has invested substantially on improving its construction, information technology and manpower infrastructure, health and safety facilities and also strengthened its linkage to major channel partners.

## **COMPANY PERFORMANCE**

Brief of Company's overall performance in FY 2017-18

The Company's income from operations increased by 15.42% from ₹ 14,265 Million in FY 2016-17 to ₹ 16,465 Million in FY 2017-18. EBITDA for the year stood at ₹ 2,256 Million compared to ₹ 1,820 Million in FY 2016-17. The PAT for FY 2017-18 grew by 33.72% to ₹ 1,154 Million against ₹ 863 Million in FY 2016-17.

In terms of margins, the EBITDA and PAT margin for FY 2017-18 stood at 13.70% & 7.01% as compared to 12.76% and 6.05% respectively in FY 2016-17.

(₹ In Million)

	FY 2017-18	FY 2016-17
Gross Order Book	65,415	69,136
Income from Operations	16,465	14,265
EBITDA	2,256	1,820
EBITDA margin (%)	13.70	12.76
PAT	1,154	863
PAT margin (%)	7.01	6.05
EPS (₹)	17.23	12.88
Return on Net Worth (%)	20.46	18.64



# SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE Quality, Environment, Health and Safety Policy

The Company gives immense importance to health, safety and environment (HSE), well-being of its workers, employees, contractors and visitors in its workplace. Through its intranet network, it regularly updates its employees on the latest practices in these areas, guiding them by display of policies, instructions and precautionary measures through the means of posters and digital boards. The Company ensures that safety measures are meticulously followed. This has resulted in substantial reduction in work-related adverse incidents. The Company has implemented operational controls for impact management, based on severity.

These proactive steps have helped the Company in getting the ISO 9001:2017, ISO 14001:2017 and OHSAS 18001:2007 certifications for Quality, Environment, and Health and Safety respectively.

#### **SAFETY**

Construction work involves many risks. We as an ACIL are firm believer at fact that the more precaution more accident

save. We have established SHE Management system which comprises of our commitment to SHE policy & objects, legal compliances, responsibilities, evaluation of risk, planning, monitoring, audit and management review. A comprehensive safety manual, if adhered to, can prevent work-related accidents. The Company gives tremendous importance to the safety of its workers and has put in place a comprehensive Safety manual and Standard Operating Procedures to ensure accident-free working on its sites.

The Company regularly arranges for safety-related training and conducts mock drills, to enhance the awareness among all stakeholders. As we know the significance of construction safety, workmen at all level in an organisation use their abilities in the favour of the Company to prevent incident and maintain safe & healthy environment/culture at workplace.

A safe and accident-free workplace is important for the financial health of a company. It also keeps the morale of the employees high, thus helping in increasing their productivity.



#### **Objectives**

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



#### **Targets**

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



#### Methodology

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

## Health

A healthy worker is a motivating sight for his co-workers and he also contributes in the productivity of the Company. To ensure a healthy workforce, the Company believes in taking preventive measures like providing clean drinking water, regular disposal of garbage, regular pest control in the premises, etc.

The Company also ensures that all major or minor occupational injuries are reported. In order to prevent cases of non-reporting, the Company takes regular feedback to ensure that the employees are aware of their rights and encourages them to come forward and report cases. TBT's are being conducted on regular basis to motivate the near miss reporting.

The Company makes sure that all its employees are provided with proper health and medical services. It also ensures

that primary medical care services are made available at its workplaces. Company provides first Aid centre with competent first aider to provide medical facility at site. For major incidents, the Company uses the services of a good hospital in its vicinity. As a proactive approach and to avoid loss of time, the Company identifies nearest hospital to its worksite which are immediately contacted to attend to injured personnel.

# AWARDS AND RECOGNITION

Ahluwalia Contracts (India) Ltd has bagged several awards during its existence owing to its dedicated approach towards quality, engineering, health and safety and concern for environment. During the year 2017-18, the Company won the following awards as under:







#### List of ACIL Certificate

	List of ACIL Certificate			
Certificate Name	Project / Site Name	Category	Year	Remarks
Construction Industry Development Council (Vishwakarma Award 2018)	Candor Techspace Project, Noida	Construction Health, Safety & Environment	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	NCI Residential AIIMS Project, Jhajjar	Construction Health, Safety & Environment	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	Chittaranjan National Cancer Institute, Kolkata	Construction Health, Safety & Environment	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	Samrat Ashok Convention Kendra (ICCP), Patna	Best Construction Project	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	Punjab National Bank HO, Dwarka, New Delhi	Best Construction Project	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	J W Marriot Hotel, Kolkata	Best Construction Project	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	Emergency Block, Safdarjung Hospital, New Delhi	Best Construction Project	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	AIIMS, Delhi	Safety Supervisor	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	DDA Narela, Delhi	Safety Supervisor	2018	Medal
Construction Industry Development Council (Vishwakarma Award 2018)	Punjab National Bank HO, Dwarka, New Delhi	Safety Supervisor	2018	Trophy
Construction Industry Development Council (Vishwakarma Award 2018)	NSG, Kolkata	Safety Supervisor	2018	Trophy
Infra (Fm Excellence) Conference & Awards	Candor, Gurugram	Winner Safety & Security	2017	NA
Infra (Fm Excellence) Conference & Awards	Punjab National Bank HO, Dwarka, New Delhi	2nd Runner Up Best Project- Architecture & PMC	2017	NA
Skoch Order of Merit	Construction of Amity University, Kolkata	Top-20 Blue Economy Project in India	2017	NA
Indian Concrete Institute	Punjab National Bank HO, Dwarka, New Delhi	Best Building Structure	2017	NA
	Construction Industry Development Council (Vishwakarma Award 2018) Infra (Fm Excellence) Conference & Awards Infra (Fm Excellence) Conference & Awards Skoch Order of Merit	Construction Industry Development Council (Vishwakarma Award 2018) Construction Industry Development Co	Construction Industry Development Council (Vishwakarma Award 2018)  Constr	Construction Industry Development Council (Vishwakarma Award 2018)  Constr

#### **RISKS AND CONCERNS**

Managing risks successfully determines how well a business will perform. The Company has developed a strong Enterprise Risk Management (ERM) framework which helps in early identification and evaluation of risks. Based on the evaluation, the management responds with appropriate decisions to prevent any adverse impact on the business.

# PRINCIPLES OF RISK MANAGEMENT FRAMEWORK



#### Shareholder value based

Risk management is focused on maintaining 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 efficiently and the shareholders are reassured about the effectiveness of these processes.



#### Reviewed

The effectiveness of the risk management programme will be evaluated on a regular basis to ensure relevance in the changing business scenario.





## **ACIL's Risk Management Process**

- Identify risks with focus on Strategic, Operational, Financial and Compliance factors
- Risks prioritisation to identify the major risks for the business
- Monitor risks on an ongoing basis
- Develop a robust risk monitoring system at the enterprise level to keep the mitigation plans under systematic review

#### Credit Risk

Risk of suffering financial loss due to client not being in a position to honour his contractual payments due to business failure leading to bankruptcy.

#### Mitigation:

The Company has a well laid down credit policy which it follows meticulously. This policy entails:

- Undertaking stringent evaluation of client's balance sheet and doing a risk analysis before entering into a contract.
- Timely billing, as per agreed terms and project completion status, to minimise credit exposure.
- Focused and aggressive receivables management system to ensure timely collections through systematic follow-up with the clients.
- Increasing exposure towards government projects which have a relatively low-risk profile.

#### Contractual Risk

Inability to honour obligations and contractual terms of quality, timelines, output per hour and not being able to protect confidential information, may lead to losses and impact goodwill.

## Mitigation:

The Company's project management and legal team meticulously evaluate various legal and contractual risks involved in a project and work towards limiting liabilities.

The Company also ensures that the terms of contract include a 'No consequential losses' clause to protect downside risk. Moreover, the Company has subscribed to insurances like Workers Compensation Policy, Contractors All Risk (CAR) Policy, and ESIC, among others.

## **Execution Risk**

Inability to deliver projects on time and meet client's expectations on costs, schedule and quality may damage the Company's

reputation. This may lead to loss of repeat business which, in turn will impact the revenue and profitability of the Company.

#### Mitigation:

The Company with its experience and qualified team has developed an effective business model that ensures proper execution of projects. Over the years it has been investing in people, processes, technology, and automation to gain significant competencies. Its sustained investments in Information Technology and acquiring state-of-the-art software helps in further improving efficiencies. The Company's senior management, project managers and process leaders remain actively involved in the project at all stages to ensure highest level of execution and ensure that there are no slippages. It leverages its strong linkages with leading global network channel partners to effectively manage and execute projects. The Company also has in place intervention and escalation systems to minimise potential negative effects.

#### **Directors and Officers Liability Risks**

It is important for the Company's Directors and Officers to take decisions in the best interest of the Company as any errors or omissions on their part in their duties and obligations exposes the Company to legal action by the competition.

#### Mitigation:

The Company provides the necessary information to its Directors and Officers, which is required by them to diligently perform their duties. It also ensures that the Directors and Officers work in consultation with reputed legal professionals. To minimise risks, the Company ensures protection by getting a substantial insurance cover for limiting the contractual liability for damages caused by any negligence or error.

## **Competition Risk**

Company's market share and profitability can be impacted as it may be difficult to match the quality and pricing due to emerging competition from the domestic and international construction companies.

## Mitigation:

In its industry experience spanning almost five decades, the Company has worked on diverse projects. This has enabled it to create strong differentiation in the areas of project execution, quality and timely delivery. This expertise has resulted in the Company getting repeat orders as well as gaining good market reputation, making it resilient to rising competition.

The Company continues to make investments in acquiring latest technology and building people power to further enhance its competitiveness. In addition to this, the Company's strong balance sheet provides it a competitive edge in terms of having higher pre-qualification criteria.