



Ahluwalia Contracts
(India) Ltd



Strengthening health infrastructure.
Redefining the social landscape.
Navigating the new normal.

Ahluwalia Contracts (India) Limited

41st Annual Report 2019-20



CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Bikramjit Ahluwalia, Managing Director
Mr. Shobhit Uppal, Dy. Managing Director
Mr. Vikas Ahluwalia, Whole Time Director
Mr. Sanjiv Sharma, Whole Time Director
Mr. Arun Kumar Gupta, Independent Director
Dr. Sushil Chandra, Independent Director
Dr. Mohinder Sahlot, Independent Director
Mr. Rajendra Prashad Gupta, Independent Director

COMPANY SECRETARY / COMPLIANCE OFFICER

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

CHIEF FINANCIAL OFFICER (CFO)

Mr. Satbeer Singh
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Satbeersingh@acilnet.com

AUDITORS

M/s. Amod Agrawal & Associates
Chartered Accountants
G-3, Block-C, Kailash Apartment,
Lala Lajpat Rai Marg,
New Delhi-110 048

BANKERS

Indian Bank
Bank of Maharashtra
Axis Bank
IDBI Bank Ltd
HDFC Bank Ltd
IDFC Bank Ltd
Punjab & Sind Bank
RBL Bank Limited
State Bank of India
Yes Bank Ltd
Union Bank of India
Indusind Bank
ICICI Bank Ltd

REGISTERED /CORPORATE OFFICE

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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. Sanjiv Sharma
Whole-Time Director



Mr. Arun Kumar Gupta
Independent Director



Dr. Sushil Chandra
Independent Director



Dr. Mohinder Sahlot
Independent Director



Mr. Rajendra Prashad Gupta
Independent Director

Management Discussion and Analysis Report

ECONOMIC OVERVIEW

GLOBAL ECONOMY

Global economic growth continued to remain sluggish throughout FY 2019-20. Elevated US-China trade uncertainties, declining manufacturing activity and subdued demand in key markets adversely impacted the economic activities. Further, crude oil prices remained volatile, reflecting evolving demand-supply conditions and geopolitical concerns. Although there were intermittent favorable news on US-China trade negotiations, and diminished concerns of a no-deal Brexit, the economic growth weakened further owing to the massive COVID-19 outbreak towards the end of the year. The global output growth in 2019 was registered at 2.9%, slowest since the global financial crisis of 2009.

The various isolating measures to control the spread of the pandemic resulted in economic disruptions across the world. Governments and Central banks responded to the crisis promptly by implementing various monetary and fiscal support tools. The growth in advanced economies declined from 2.2% in 2018 to 1.9% in 2019. While the Emerging Market and Developing Economies (EMDE) also saw a drop in growth from 4.5% in 2018 to 3.7% in 2019.

According to the International Monetary Fund (IMF) estimates, the world GDP is estimated to grow negatively at (4.9)% in 2020 and rebound in 2021 with a modest uptick to 5.4%. Stringent containment measures and social distancing policies have led to a sharp contraction in economic activities and growth prospect of countries worldwide. However, it is expected that the strong policy support and fiscal reforms will enable strong and sustainable growth recovery once the pandemic fades.

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INDIAN ECONOMIC OVERVIEW

The Indian economy witnessed a cyclical slowdown in FY 2019-20 led by weak private consumption expenditure, contraction in manufacturing, sluggish investments and slow credit growth. The Government of India addressed these cyclical challenges by announcing a series of measures, while the RBI supported with monetary policy rate cuts and infusing liquidity into the economy. The Government focused on structural policies to encourage investments such as reduction of corporate tax rates, removal of the dividend distribution tax, reduced income tax rate, among others. It announced higher spending on long-term initiatives such as infrastructure, rural roads, irrigation, and transportation.

There was a strong hope of growth revival in the last quarter of the current fiscal. However, the inopportune outbreak of coronavirus (COVID-19) pandemic made this difficult in the near to medium-term. Overall economic slowdown combined with the COVID-19 crisis at the end of the year led the GDP growth for FY 2019-20 to plunge to 4.2% as compared to 6.1% in FY 2018-19.

A series of nationwide lockdowns were imposed by the Government to curb the transmission, which brought economic activities to a halt. Supportive monetary measures such as reduction of repo rates, lending to MSMEs and enabling flexibility for banks as well as delaying classification of commercial real estate loans, are expected to provide relief to these sectors. Additionally, the Government announced a ₹20 trillion stimulus package in May 2020, to help revive the economy from the turbulent conditions caused by the lockdown. Focusing on five pillars i.e. economy, infrastructure, system, demography and demand, this measure aims to make India more self-reliant and competitive.

Post the lockdown, the economy is exposed to various risks such as weakened export demand, reduced investor confidence and non-availability of raw materials. The IMF projects India's GDP growth to shrink by (4.5)% in 2020 and rebounding at 6.0% in 2021. While there is slowdown in the near-term with the challenging situation caused by the outbreak, domestic demand will rebound strongly once the pandemic passes and normalcy is restored. Moreover, significant measures taken by the RBI and the Government are expected to restore consumer and investor confidence.



CONSTRUCTION INDUSTRY OVERVIEW

GLOBAL CONSTRUCTION SECTOR

The industry experienced slowdown owing to liquidity crunch, weak economic activities and subdued consumer sentiments. The unexpected COVID-19 crisis and the associated lockdown towards the end of 2019-20, added to the industry woes. This led to a widespread disruption and temporary shut downs of construction sites across major countries. As a result, the forecast growth for the construction industry in 2020 has been revised downward from 3.1% to 0.5%, according to a Global Data report. Moreover, in the near-term, the industry will be heavily affected by the expected delay or cancellation of planned projects. With weak economic activity and unemployment, the residential sector also is likely to struggle despite low interest rates and direct Government support.

(Source: <https://www.worldcement.com/special-reports/03042020/globaldata-reports-on-the-global-construction-outlook-in-the-midst-of-covid-19-outbreak/>)

It is expected that the Governments across economies will aim to increase spending on infrastructure projects as soon as normalcy returns, in order to reinvigorate the industry. However, with cash incentives to the economically weaker segment, Governments' capability to invest in the infrastructure segment is likely to be constrained.

The future of the global construction industry looks positive in the long-term with opportunities in residential, non-residential, and infrastructure segment. The industry is expected to reach an estimated USD 10.5 Trillion by 2023. Emerging trends which impact the dynamics of the construction industry include increasing demand for sustainable green construction to reduce carbon footprint and usage of cost-efficient raw material. Emerging economies are expected to remain the largest market fueled by increasing urbanisation, growing population, higher expenditure on infrastructural development, and affordable housing projects.

Source: <https://www.researchandmarkets.com/reports/4439921/growth-opportunities-intheglobalconstruction#:~:text=The%20future%20of%20the%20global,4.2%25%20from%202018%20to%202023.>)

INDIAN CONSTRUCTION INDUSTRY

The construction industry in India is the second largest employer after agriculture, and it is therefore, critical to the country's economic stability. With an industry size of ₹10.5 Trillion, it accounts for around 8% of the nation's GDP and employs close to 57.5 million people. The Governmental

construction projects provide a huge impetus to the rising Indian construction industry. Initiatives by the Government, including creating 100 smart cities, world-class highways, shipping infrastructure, railway expansion, housing and urban development has attracted large investments through FDI, private players, and Government budgets.

(Source: KPMG Research Report)

As the Government plans to more than double the investment in infrastructure sector to about ₹100 Lakh Crore over the next five years, the construction companies are likely to witness significant opportunities with key segments being highways, railways, ports, urban infrastructure, metros and airports. In addition, the Government's focus on healthcare centers and educational institution are likely to push growth of the construction industry.

In the railways segment, besides the core railway capex on doubling, new lines, signaling, electrification etc., various station redevelopment is expected to provide significant opportunities to the construction companies. With ₹72,216 Crore being allocated to the Ministry of Railways, in the Union Budget 2020-21, the Government has set clear sights to provide a fillip to the energy infrastructure and thereby provide investment opportunities worth ₹21 Lakh Crore for the sector over the next decade.

Between FY 2013-14 and FY 2018-19, India witnessed a highway construction growth of 20.57% on a CAGR basis, witnessing 10,855 kms of highways being built. Between 2019 and 2023, NHAI is expected to generate an aggregate revenue of around ₹1 Lakh Crore. With the construction of more highways, it is only likely to boost the social infrastructure of the country, providing a massive boost to infrastructure coming up in the vicinity of these highways.

(Source: Indian Brand Equity Foundation (IBEF))

During the year, the infrastructure and construction sectors faced headwinds from the COVID-19 pandemic. The lockdown imposed across the country led to low consumer sentiments, loss of income as well as the diversion of Government funds towards COVID-19 management. Investment in capital projects drives the demand side of the construction sector, and hence the impact of the COVID-19 pandemic on Gross Value Added (GVA) and employment could be significant in the near to long term.

Management Discussion and Analysis report (Contd.)

Growth drivers for the Indian construction industry

Growing Infrastructure Push

The infrastructure sector has become the biggest focus area for the Government. India plans to spend USD 1.4 Trillion on infrastructure during 2019-23 for sustainable development of the country. Government initiatives such as construction of concrete roads and highways through the Bharatmala Project, development of rural roads under the Pradhan Mantri Gram Sadak Yojana and metro network in many cities are expected to be crucial in driving the industry growth. In the Union Budget 2020-21, the Government has given a massive push to the infrastructure sector by allocating ₹1,69,637 Crores (USD 24.27 Billion) to develop the transport infrastructure.

Moreover, the construction sector stands to benefit immensely from the National Infrastructure Pipeline (NIP) launched on 31st December, 2019 with ₹103 Lakh Crore pipeline. The projects under NIP include housing, safe drinking water, affordable energy, healthcare, educational institutes, railway stations, airports, metro, railway transportation, logistics and warehousing, irrigation projects, among others.

(Source: IBEF)

Leveraging on PPP Model

The Government is focused on enhancing the Public-Private Partnership (PPP) model for effective liquidity management. PPP model helps in attracting more private sector investment in sectors like roads and highways, electricity, and many more. It ensures easier funding for longer-term infrastructure projects. At the same time, it improves accountability and stimulates growth and development of the country.

'Housing for All' Initiative

With initiatives like 'Housing for All' and 'Smart Cities Mission', the Government of India is working on reducing bottlenecks and impeding growth in the infrastructure sector.

An outlay of ₹27,500 Crores (USD 3.93 Billion) has been envisaged under Pradhan Mantri

Awas Yojana in Union Budget 2020-21. A total of 15.4 Million rural homes were constructed in the last five years under PMAY-G, and 19.5 Million houses are planned for construction in the second phase of FY19-22E. Under PMAY-U, the Government has set a target of building about 10-11 Million houses by 2022 in developed areas.

BUSINESS OVERVIEW

Ahluwalia Contracts (India) Limited (ACIL) is one of India's leading construction companies with over 4 decades of experience. Having a track record of delivering iconic and challenging turnkey projects in a time bound manner while maintaining quality, the Company is a trusted player in the segment. The Company's competencies in the field is backed by its skilled manpower resources, technical knowledge and experience, investments in advanced construction and IT technologies, and strong linkages with major channel partners. This expertise has enabled the Company to move forward in the value chain to target more Engineering, Procurement and Construction (EPC) projects. ACIL is the first construction Company in India to get Integrated Management System (IMS) of ISO 9001, 14001 and 18001.

The Company has identified certain thrust areas and strategies for growth. These include leveraging ongoing digitalisation efforts, operational efficiencies, reducing working capital levels, unlocking business values, forays into new geographies, innovating business, inorganic growth and continuing ROE enhancement.

ACIL project competencies – The Company has experience of working on residential, commercial, institutional, corporate offices, power plants, hospitals, hotels, IT parks, Metro stations and depots, and automated car parking lots projects for Government and private clients.

COMPANY PERFORMANCE

The Company continued its upward march through an increase in its gross order book witnessing an increase of 15.88% over the previous financial year to ₹12,35,098.81 Lakhs. The Company's income from operations increased by 7.42% from ₹1,75,471.44 Lakhs in FY 2018-19 to ₹1,88,492.69 Lakhs in FY 2019-20. EBITDA witnessed a dip of 29.32% from ₹21,648.01 Lakhs in FY 2018-19 to ₹15,301.59 Lakhs in FY 2019-20. Subsequently, the PAT for the year decreased by 45.10% from ₹11,737.93 Lakhs in FY 2018-19 to ₹6,443.59 Lakhs in FY 2019-20.

Margins for the year were, under pressure as the Company incurred a hit on account of a one-off. As a result, EBITDA margin declined 422 basis points to 8.12% and PAT margin declined 327 basis points to 3.42%.



Standalone Financial Performance

(₹ in Lakhs)

Particulars	FY 2019-20	FY 2018-19
Gross Order Book	12,35,098.81	10,65,837.55
Income from Operations	1,88,492.69	1,75,471.44
EBITDA	15,3,01.59	21,648.01
PAT	6,443.59	11,737.93
Earnings Per Share (in ₹)	9.62	17.52

Key financial ratios and their development

Details	FY 2019-20	FY 2018-19	Change in %
Debtors Turnover	3.73	3.69	1.08%
Inventory Turnover	10.22	13.22	-22.69%
Interest rate Coverage ratio*	3.46	9.83	-64.80%
Current Ratio	1.54	1.66	-7.23%
Debt:Equity Ratio**	0.06	0.08	-25.00%
Operating Profit margin (%)***	8.12	12.34	-34.20%
Net Profit Margin (%)	3.42	6.69	-48.88%
Return on Net Worth (%)#	8.36	17.42	52.01%

Net Profit Margin = Net Profit / Income from operations

* Interest coverage ratio as on 31st March, 2020 has witnessed a dip as compared to 31st March, 2019 due to increase in Mobilisation advance and decrease in PAT levels due to debtor write-offs.

** Debt equity ratio in both years are very negligible, however, the repayment of some part of debt during FY 2019-20, led to an improvement in the overall Debt: Equity Ratio

***The operating Profit margin, Net Profit margin and return on net-worth dropped during the FY 2019-20 due to debtor write-offs and fixed cost incurred during the period owing to the halts on works because of the NGT ban and approvals, cutting ban on saplings and floods in the eastern region of the country etc.

SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE

Safety at work, employee health and environment protection are of utmost importance to the business. The Company continuously strives for a safety culture by organising various training and awareness programmes throughout the year. Focused on scaling its safety initiative, the Company has started using virtual reality devices and training modules for safety training. Various initiatives have been taken up to digitally monitor record and review all safety and quality related aspects at site.

Further, the Company actively uses its intranet network to regularly update employees on latest safety practices. Effective display of policies, instructions and precautionary measures through posters and digital boards is also practiced. These initiatives have substantially reduced work-related incidents and enabled the Company in getting ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certifications for Quality, Environment, and Health & Safety respectively.

Workmen Safety

With construction work involving working in challenging conditions, the Company stresses on workmen safety. The Company in the philosophy of more precaution, lower accidents. The Company also has a robust SHE management system comprising commitment to SHE policy and objects, legal compliances, responsibilities, evaluation of risk, planning, monitoring, audit and management review. It has in place a comprehensive Safety manual and Standard Operating Procedures to prevent accidents. Mock drills are conducted to enhance awareness. Promoting a safety-focused culture has also been of great assistance towards promoting a positive mindset at workplace.



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

Management Discussion and Analysis report (Contd.)

Health

The Company is dedicated to ensuring the welfare and health of its employees. This ensures higher employee motivation as well as contributes to enhanced productivity for the Company. ACIL has undertaken multiple preventive measures like ensuring clean drinking water, regular garbage disposal and pest control to ensure healthy working conditions.

The Company further arranges for availability of adequate health and medical services both at sites and workplace. First aid is made available and health check-up camps organised. The Company also practices identification of hospital nearby its sites as a preparedness measure to avoid loss of time in case of emergencies.

The Company ensures all incidents, major or minor, are reported and necessary corrective actions taken. Feedback of employees are taken on regular basis to sensitise them on their rights.

AWARDS AND RECOGNITION

ACIL's continuous focus on quality, engineering excellence, health and safety, and environmental concern has won it several awards during its existence. Key awards won by the Company in FY 2019-20 include the following:

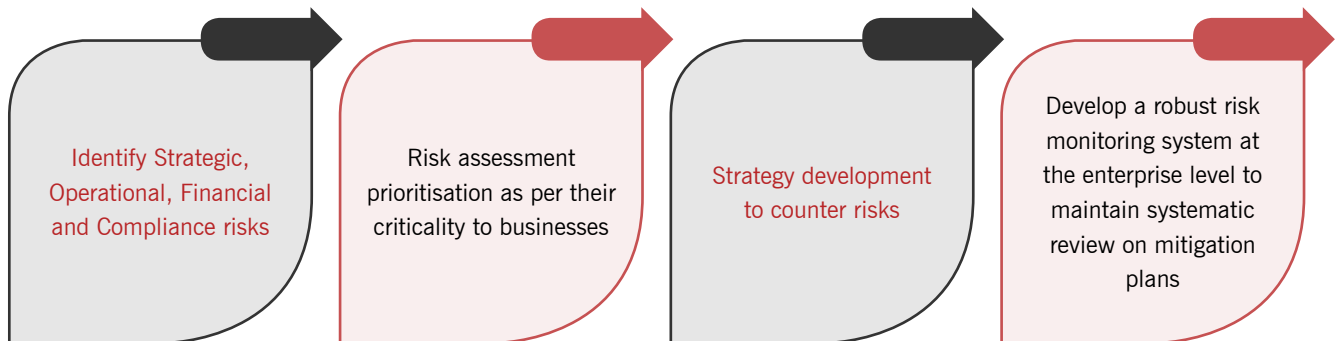
Name of the Certificate	Project / Site name	Category	Year
ET-Now - Star of the Industry Awards	Ahluwalia Contracts (India) Limited	Best Infrastructure company of the year - Buildings	2019
ET-Now - Star of the Industry Awards	Shri Bikramjit Ahluwalia	MD of the year	2019
ET-Now - Star of the Industry Awards	Shri Shobhit Uppal	Most Influential leader of the year	2019
GRIHA Exemplary Performance Award	Indian Institute of Management, Nagpur	Site Management (during construction)	2019
GRIHA Exemplary Performance Award (GRIHA Council)	Indian Institute of Management, Nagpur	Construction Workers Health & Safety (During Construction) under GRIHA Rating	2019
HSE Excellence Best CSR Initiative of the Year 2019	Ahluwalia Contracts (India) Ltd.	Best CSR Initiative of the year-2019	2019
Udyog Rattan Award 2019	Shri Bikramjit Ahluwalia	Institute of Economics	2019
ET NOW Presents Real Estate Awards 2019	Income Tax at Bandra Kurla Complex	Commercial Property of the Year	2019
BAM Honouring the Best in Real Estate / Architecture and Building Technology Awards 2019	PNB, Dwarka	Building with Optimal Energy Consumption	2019



RISKS AND CONCERNS

Identifying, managing and monitoring risks is a top priority at ACIL. It is critical to ensuring long-term business sustainability and maximise value creation for the shareholders. Focused on this, the Company practices the policy of striking the right risk-return balance. the Company has developed a robust Enterprise Risk Management (ERM) framework which facilitates in early detection risks. These risks and their impact are regularly reviewed and any rising trend is immediately flagged off for management's attention for undertaking appropriate actions.

ACIL's Risk Management Process



Liquidity Risk

The liquidity crunch has been prevailing in the real estate market for over a year, and many owners / developers are financially stressed. The Regulatory compliance by developers to arrange loans for projects is becoming stringent resulting in delays in financial closures / tie-ups by developers.

Mitigation:

The Company has a well laid down credit policy which it follows meticulously. It practices screening of customer profiles and their liquidity position before bidding for any construction contract as well as during execution. It has a robust billing and collection system that eliminate issues relating to liquidity. Stringent adherence to billing schedule minimises credit exposure and a focused and aggressive receivables management system ensures timely collections through systematic follow-ups with the clients. Besides, the Company focuses more on Government projects where risk profile is low.

Contractual Risk

Contractual obligations in terms of quality, timelines, protection of confidential information and other specific terms and conditions are key to EPC orders. Inability to adhere to them can attract legal actions, lead to losses and damage the Company's goodwill.

Mitigation:

The Company employs professional and highly experienced project management and legal team. They meticulously evaluate project's legal and contractual risks and work towards limiting liabilities. The Company further tries to ensure that contract include a 'No consequential losses' clause to protect from any downside risk. Additionally, the Company has subscribed to Workers Compensation Policy, Contractors All

Risk (CAR) Policy, and ESIC insurances to protect itself from any financial obligations.

Political Risk

A positive business scenario conducive to growth and sustainability is dependent on the political stability of the country. Instable political environment and implementation of negative policies can bring a slowdown and result in decline in new projects. This may negatively impact the Company's performance.

Mitigation:

India's democratic system of governance ensures a stable political scenario and ensures with implementation of policies where businesses can thrive. The system mandates all political parties to perform for being to be investor friendly. In the current context, the re-election of the existing Central Government with a strong mandate is a precursor to a stable political environment and would facilitate passage of critical bills. The track record of this Government for undertaking bold measures, reducing red-tapism and easing business scenario is noteworthy. Their strong focus on driving infrastructure development in the country, evident in their election manifesto, is a positive sign for the construction industry.

Execution Risk

The Company does business with several large industrial houses, corporates, institutions and Government Authorities. These clienteles demand strict adherence to timely delivery, quality and costs. Inability to meet their expectations may damage the Company's reputation and prevent repeat orders. This may impact the revenues and future sustainability.

Mitigation:

ACIL has multiple decades of experience in the construction field over which it has built a robust business model. It