# PROFITABILITY. SCALABILITY. SUSTAINABILITY.

RPP Infra Projects Limited | Annual Report 2015-16

#### Disclaimer

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# Inside the report...

About us	002
Chairman's message	004
Director's operational review	006
Financial highlights	008
Optimism & Competencies	010
Our distinctive business model	012
Delivering value to our shareholders	014
Risk Management	016
Corporate information	019
Notice	021
Directors' report	030
Management discussion & analysis	065
Report on corporate governance	074
Auditors' report for standalone financial statements	094
Standalone financial statements	100
Auditors' report for consolidated financial statements	126
Consolidated financial statements	130
Proxy form & Attendance slip	157



he big RPP Infra Projects Limited message that one needs to communicate is that the impact of our experience and expertise translated into reality in the last financial year.

This was reflected in two areas.

One, growth in the company's topline and bottomline by 18.2 percent and 15.74 per cent respectively in 2015-16.

Two, the substantial growth in order book by ₹182.69 cr (largest in any single year) to a yearend pipeline of ₹725.26 cr.

Three, during the most challenging days for the country's infrastructure sector, RPP Infra reported an EBIDTA margin of 15.79 per cent.

As we address a peak order book, we are optimistic of increasing this margin, which, combined with our large volumes, should translate into higher revenues and profits.

Our story is just beginning...

# RPP Infra is not the usual infrastructure construction company.

# The company is present in niche infrastructure spaces.

# The company works with a manageable scale of projects.

# The company generates margins higher than the sectoral average.

This makes the company an attractive proxy of the impending infrastructure opportunity.

# Our background

RPP Infra has been engaged in nation-building since 1995. The Company has executed many projects in Tamil Nadu, Karnataka and Andhra Pradesh (erstwhile) across 20 years.

# Our promoters

RPP Infra is promoted by Mr. P. Arul Sundaram (Chairman and Managing Director), a first-generation entrepreneur with a two-decade experience in the country's infrastructure sector. Mrs. A. Nithya (Whole Time Managing Director) possesses over a decade of experience in infrastructure financing. The promoters are assisted by techno-commercial professionals with an average sectoral experience of 20 years.

# Our verticals

RPP Infra is engaged in construction across multiple infrastructure verticals like roads, buildings, industrial structures, power, irrigation and waste management.

# Our presence

RPP Infra had 26 concurrent projects in Tamil Nadu, Karnataka, Andhra and Telangana (as on 31st March 2016).

# Our order book

The RPP Infra order book grew at a (0.05)% CAGR over the past five years and 0.11% CAGR over the past three years, indicating robust order accretion. In 2015-16, the Company's order book was ₹857.37 crore (₹725.26 crore at the close of the previous fiscal).

# 17.31%

EBIDTA margin (%) by RPP Infra in 2014-15 16.28%

EBIDTA margin (%) by RPP Infra in 2015-16 857.37

Order book (₹ cr) at the close of 2014-15

## Order book (%, 2014-15)

Buildings	231.49	
Off Shore	17.14	
SEZ	34.29	
Water Management	188.62	
Infra Structure	42.87	
Power	334.37	
Others	8.59	

Total order book: ₹857.37 crores as on 31st March 2015

## Order book (%, 2015-16)

Irrigation	117.00	
Roads	96.07	
Industrial structures	91.83	
Buildings	164.15	
Rail Infra	32.57	
Water Projects	223.64	

Total order book: ₹725.26 crore as on 31st March 2016

## Our prominent projects

- Construction of godowns at Thanjavur, Coimbatore and Nagapattinam for TNCSC
- Construction of toilet blocks under Swacch Bharat Scheme at Andhra Pradesh
- Road and drain improvement works in Gadag, Karnataka
- Providing CWSS (Combined Water Supply Schemes) to rural habitations in Salem, Tirupur and Trichy districts
- Formation of Flood Carrier Canals in

Ramanathapuram District of Tamil Nadu

- WSIS to Tindivanam Municipality in Villupuram District of Tamil Nadu
- Implementation of Phase II eco restoration in the 300 acres of Adyar estuary and creek

## Our valuation

The market capitalisation of the Company (listed on the Bombay Stock Exchange) increased from ₹244.09 crore as on 31st March 2015 to ₹275.50 crore as on 31st March 2016.

Order book (₹ cr) at the close of 2015-16

RoCE (%) reported by RPP Infra in 2014-15

# 725.26 26.76% 28.00%

RoCE (%) reported by RPP Infra in 2015-16

# Chairman's Message



## Our vision

To be a global leader in the construction and infrastructure industry, by continuously moving forward.

To have international standards by adopting latest technologies, ideas and systems by creating quality minded employees to deliver to client expectations.

## Our mission

To perform exceptionally well in all aspects in the industry by providing innovative, reliable and high quality services to our clients.

Developing highly trained loyal employees who work as a team to anticipate, identify and respond to client needs.

# IT GIVES ME PLEASURE TO SHARE WITH YOU THAT YOUR COMPANY HAS POSTED ROBUST FINANCIAL PERFORMANCE, ON THE BACK OF CHALLENGING ECONOMIC SCENARIO, WITH IMPROVEMENTS ACROSS KEY PARAMETERS, DUE IN NO SMALL PART TO OUR CONTINUED EFFORTS IN PRODUCTIVITY ENHANCEMENT AND RESOURCE MANAGEMENT.

Positive policy actions together with the decline in oil prices have helped make India one of the fastest-growing large economies in the world. India's growth outlook is favourable, with GDP growth projected to strengthen from 7.3 percent in 2015-16 to 7.5 percent in the upcoming fiscal year. According to the IMF, the potential is enormous but to remain in the economic 'sweet spot,' India must ensure forward momentum of economic reforms.

Union Budget 2016-17 highlighted the government's focus, once again, on the infrastructure sector. Like last year, there was a substantial increase in outlay for roads and railways. The government has also taken measures to address issues in irrigation and civil aviation space. The government has continued to build upon the promises made last year and has made significant progress during the year.

India's growth would spur only with the growth and development of infrastructure in size, scale and speed. For the development of infrastructure, role of private players shall be pivotal, many of which are implemented in the "Public Private Partnership" (PPP) model. The PPP model, which involves both private and public sectors, joining hands, symbiotically, is the route forward to achieving success. The government has taken a multipronged approach to improve the PPP model for all stakeholders. They have systematically identified the hurdles of these projects & tried to address them.

### Performance review

Notwithstanding the uncertainties of the economic environment, your company has turned in a laudable performance on most key performance parameters for 2015-16.

We have registered a 20% growth in revenue as well as 20% increase in profit after tax. The company's revenue for the FY1516 was ₹315 crores as against ₹263 crores in the previous financial year. Net profit for the year was ₹20.67 crores as against ₹17.27 crores in the previous year.

Some of the significant projects undertaken by the Company during the year included:

- Construction of godowns at Thanjavur, Coimbatore and Nagapattinam for TNCSC
- Construction of toilet blocks under Swacch Bharat Scheme at Andhra Pradesh
- Road and drain improvement works in Gadag, Karnataka
- Providing CWSS (Combined Water Supply Schemes) to rural habitations in Salem, Tirupur and Trichy districts
- Formation of Flood Carrier Canals in Ramanathapuram District of Tamil Nadu

- WSIS to Tindivanam Municipality in Villupuram District of Tamil Nadu
- Implementation of Phase II eco restoration in the 300 acres of Adyar estuary and creek

As a part of our overall strategy of enlarging our footprint across India, we have bagged projects in Madhya Pradesh. We have also entered in to a Consortium agreement with Siemens Ltd., India for submitting a joint bid to Power Grid Company of Bangladesh in respect of design, supply, erection, testing and commissioning of 400 KV, 230 KV and 132KV substations on turnkey basis.

The performance of the subsidiary companies remained muted with the Group's consolidated revenues for the year being ₹315 crores, while the consolidated profit after tax was ₹19.19 crores.

It gives me pleasure to announce that your Company has recommended a dividend of Re.0.50 per equity share for the financial year ending 31st March 2016.

## Outlook

Infrastructure is not a matter of choice, but of need. Good Infrastructure fuels economic growth of a country. Spending by the public sector in core infrastructure has been improving. Funding from increased budgetary allocation by the Central Government, increased level of ordering by healthy public sector undertakings and a steady inflow of soft loans from external multilateral lending agencies have contributed to a perceptible rise in the core infrastructure investment momentum. This has considerably enhanced potential business opportunities for your Company.

R.P.P Infra continues to build on core competencies thus reducing the risk of dependence, on any one sector or project and helps in participating in projects across the country. We will stay focused and selective in achieving increased returns. We are bullish on the long term growth opportunities and are well positioned to capitalise on the opportunities by leveraging on our execution capabilities, track record and robust balance sheet. With a positive view on the economic status of the sector, we can look forward to significant growth for the company.

I thank the Board members, Shareholders, Lenders, Employees and Vendors who have walked with us and strengthened us in our pursuit of excellence and have enabled sustainable and profitable growth in business year after year.

### Thank You,

P. Arul Sundaram Chairman & Managing Director 27th May, 2016

# 1,00,087 1,75,087

(km) Length of highway road projects in India, 2016

### (km) Length of highway road projects proposed by government, 2020-21

# 1,81,314 2,21,246

(₹ cr) infrastructure Budget allocation in 2014-15 (₹ cr) infrastructure Budget allocation in 2016-17

# Whole Time Director's operational review

A. Nithya, Whole Time Director, reviews the company's performance of 2015-16

#### Were you pleased with the company's performance during the year under review?

The answer is yes – for a number of reasons.

**One,** even though the country's GDP growth indicated an improvement by 30 bps to 7.6 per cent growth during the financial year under review, the ground realities indicated yet another year of sluggish economies realities.

**Two**, the much-awaited infrastructure investment push in the country did not transpire to the extent that one had anticipated. The revival was noticed in limited infrastructure segments and the result was that most infrastructure-based construction companies continued to work with high operating leverage, or, in other words, much below their potential.

Three, interest rates continued to be high through the year and, considering that this represents a critical 'raw material' for our business, our profitability was relatively affected.

Four, our project deliveries were delayed and costs increased during the third quarter following the unprecedented impact of the Chennai floods.

Despite these challenging realities, it is creditable that the company reported a 19.59 per cent growth in revenues, a (1.04) per cent growth in EBIDTA and a 15.74 per cent increase in profit after tax. The big message that one would like to send out to our shareholders is that if this is how the company could have responded during an economic slowdown, then better times lies ahead when the infrastructure investment-led economy revives.

### What were some of the other highlights of the company's working in 2015-16?

The company continued to make inroads into profitable construction segments that should strengthen our profitability. During the year under review, the company was awarded a ₹117 cr irrigation infrastructure construction project in Karnataka. This project is special for some good reasons: one, it represented our largest single order in the irrigation infrastructure construction space; the EBIDTA margins for such projects range in the 15-18 per cent band, which is around our corporate average; following successful completion, we will be eligible for ₹200 cr of such standalone projects.

The big point is that we are not merely bidding for just about any kind of infrastructure construction project that comes our way; we enter spaces where we possess experience, where we can leverage competence from other spaces, where a government priority will translate into larger national investments, and where successful delivery could easily translate into larger contracts in our individual capacity (without the need to seek partners).

#### What were some of the other highlights of the company's working in 2015-16?

Ever since we went into business in 1995, RPP Infra has been a South India-focused construction company. This focus allowed us to mine deeper for projects within this geography; it allowed us to allocate construction equipment quicker across locations; it allowed us to strengthen relationships with our customers through an ongoing understanding of their emerging investment patterns and agenda.

During the last financial year, we made a decisive extension in our operating presence: we were awarded a concrete road project in Madhya Pradesh. Even as we will continue to be focused on opportunities arising out of South India, we believe that Madhya Pradesh holds out attractive prospects: the state government is progressive, it is one of the early implementers of the Indian government's infrastructure agenda and it is investing in just the spaces where RPP Infra possesses expertise and track record.

### What was the principal highlight of the company's working during the year under review?

The principal highlight was our robust order book which was ₹725.26 cr at the year-end. The year-end order book was one of the largest in our existence. A sizable ₹350 cr of orders were booked in the last quarter, which provides the optimism that this aggressive accretion will extend into the current financial year.

What I would like to impress upon shareholders is that this order book will be value-accretive: the corresponding margins are in the EBIDTA band of 17.31 per cent to 16.28 per cent, at least 14.75 bps higher than what the company witnessed in the last few years. We believe that this combination of unprecedented volume on the one hand and superior operating margins on the other will translate into enhanced value for our shareholders.

#### Can you give us another instance of this kind that transpired during the year under review?

During the year under review, the company completed the handover of 1024 constructed toilets as part of the Swachh Bharat Abhiyan. This ₹23 cr project was addressed across Srikakulam, Anantapur, Kurnool and Vijayanagaram. There were some interesting features of this assignment: this enhances our profile as a part of the government's priority, which is only expected to grow over time. The company carved out a 14% EBIDTA margin for the project, which was again in our desired profitability band. Best of all, the project consumed only six months, generating an attractive return on our invested time.

### Are you optimistic of the company's prospects?

At RPP Infra, we have our work cut out for the next 24 months: we need to liquidate our ₹750 cr order book on schedule, we need to deliver projects in line with customer specifications, we need to strengthen our project bidding capability and graduate to larger projects, we need to raise our presence in areas marked by relatively low competition, we need to bid successfully for projects where we possess established competence and we need to focus on projects and spaces that offer us the prospect of enhanced margins. I am optimistic that the national momentum of infrastructure investment will only grow stronger from this point onwards, strengthening our order book, margins and profits, which in turn enhances value for all those who own shares in our company.



# This is the dashboard of the health of our business





#### Definition

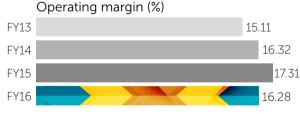
Sales growth without deducting excise duties.

#### Why we measure

This measure reflects the result of our capacity to understand market needs and service them with corresponding projects.

#### Performance

Our aggregate sales (including subsidiaries) increased 18.33 per cent to ₹314.69 cr in FY 16, which compared favourably with the 8.5 per cent growth of the country's infrastructure sector and 7.6 per cent growth of the national economy.



#### Definition

The movement in percentage points in operating profit before interest, depreciation, exceptional items and tax when divided by the company's revenues.

#### Why we measure

This movement essentially indicates whether the business is becoming more efficient or not. RPP Infra works at the upper end of operating margins, higher than the sectoral average.

#### Performance

The company's operating profit margin increased every single year through the last three years. This was the result of more remunerative projects and superior operating synergies across the business.

#### Operating profit (₹ cr)



#### Definition

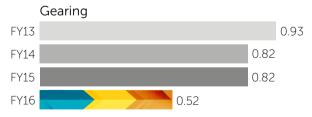
What the company earned before the deduction of interest, depreciation, extraordinary items and tax.

#### Why we measure

This measure is an index of the company's operating profitability (as distinct from financial), which can be easily compared with sector peers.

#### Performance

The company's operating profit grew every single year through the last three years. The company reported a 12.42 per cent increase in its operating profit in FY 16, which was the sharpest increase reported by the company in three years.



#### Definition

This is derived through the ratio of debt to net worth (less revaluation reserves).

#### Why we measure

This is one of the defining measures of a company's financial health, indicating the ability of the company to remunerate shareholders over debt providers (the lower the gearing the better). In turn, it indicates the ability of the company to sustain growth in profits, margins and shareholder value.

#### Performance

The company's gearing was 0.82 in FY15 and 0.52 in FY16. We recommend that this ratio be read in conjunction with net debt: operating profit (declining, indicating a growing ability to service debt).