

# THEORY OF EVOLUTION

**Sunilhitech** 



Sunil Hitech Engineers Limited  
17<sup>th</sup> Annual Report 2014-15

## Forward-looking statements

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 'anticipates', 'estimates', '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

# CONTENTS

02	Sunil Hitech's Evolution
06	Chairman's statement
09	About us
12	Our financial journey
14	Discussion with the MD
18	Business verticals
21	Risk Management
22	Our competitive advantages
24	Management discussion and analysis
30	Profile of our Board of Directors
34	Directors' Report
59	Report on Corporate Governance
71	Financial Section

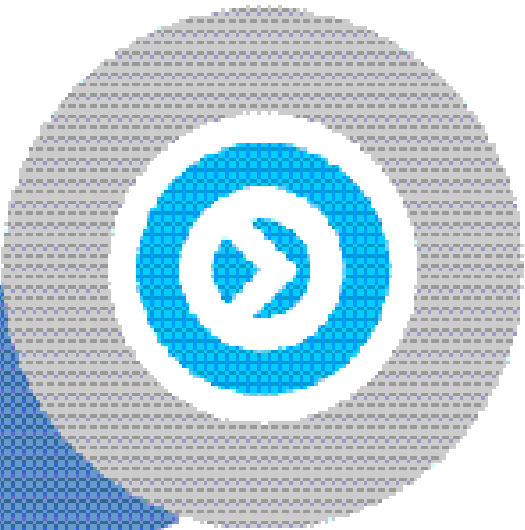


## THE THEORY OF **EVOLUTION**

This is a new Sunil Hitech.  
One that expects to double  
its revenues.

One that intends to double  
its net profit margin.

All in just three years.  
Starting now.



THERE IS JUST ONE BIG MESSAGE  
THAT WE WISH TO SEND OUT TO  
OUR SHAREHOLDERS.

THE YEAR 2014-15 WAS  
NOT THE BEST FOR INDIA'S  
INFRASTRUCTURE SECTOR.

AND YET, WE RETURNED TO  
PROFITABLE GROWTH.

THIS OUTPERFORMANCE WAS  
THE RESULT OF A CONSCIOUS  
**EVOLUTION.**

- We focused on growing one business from scratch across the first number of years of our existence
- We grew our revenues by 92.05% in the three years leading to 2014-15; we grew our revenues by 15.13% during FY2014-15.
- We reported a PAT growth of 53.95% in the three years leading to 2014-15; we grew our PAT by 47.70% during FY2014-15.



# 2,295

As on 31st March 2013 (in ₹ crore)

85	15
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Power (%)

Non-power (%)

Our evolving  
order book

# 3,243

As on 31st March 2014 (in ₹ crore)

64	36
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Power (%)

Non-power (%)

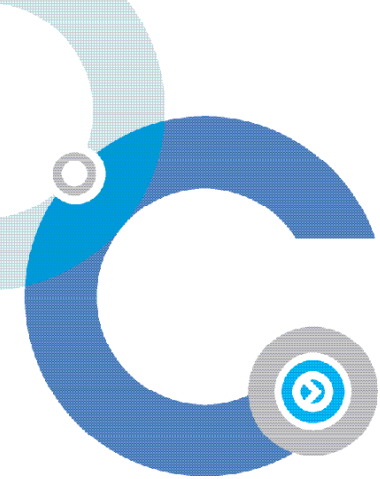
# 3,580

As on 31st March 2015 (in ₹ crore)

51	49
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Power (%)

Non-power (%)



## SUNIL HITECH ENGINEERS LIMITED.

LEVERAGING THE EXPERIENCE OF THE PAST.  
STRENGTHENING THE CREDENTIALS OF THE PRESENT.  
BUILDING A ROBUST FOUNDATION FOR THE FUTURE.

01

**The Sunil Hitech of the past** was one which focused on mechanical engineering projects solely from the BoP in the country's power generation sector.

**The Sunil Hitech of the future** is one which focuses on diverse opportunities from the country's rapidly growing civil (power and non-power), roads, bridges, and civil-mechanical-electrical engineering segments.

02

**The Sunil Hitech of the past** was one which drew all its revenues from projects related to the country's power sector.

**The Sunil Hitech of the future** is one which expects to derive at least 40% of its annual revenues from the country's non-power sector.

03

**The Sunil Hitech of the past** was one which was based out of one location (Nagpur).

**The Sunil Hitech of the future** is one which has a presence across Mumbai, Noida and Nagpur to ensure enhanced focus and accelerated growth.

04

**The Sunil Hitech of the past** was one which focused on growth at all costs, convinced that this would lead to greater visibility and more projects.

**The Sunil Hitech of the future** is one which expects to report sustainable revenue growth at a CAGR of 15% y-o-y with assured incremental profitability.

05

**The Sunil Hitech of the past** was topline-driven and bid aggressively for orders, hoping that economies-of-scale would translate into higher profits.

**The Sunil Hitech of the future** is a bottomline-driven organisation that bids only for lucrative orders which, when delivered on time, leads to higher margins.

06

**The Sunil Hitech of the past** was a topline-driven company that bid aggressively for orders in overcrowded spaces, hoping that the benefits of scale would translate into higher profits.

**The Sunil Hitech of the future** is a bottomline-driven organisation that bids only for large profitable orders in relatively under-crowded spaces, translating into a combination of high revenues and superior margins.

07

**The Sunil Hitech of the past** bid for large BoP projects in the power sector that strengthened the order book but lengthened the receivables cycle because projects took years to be closed.

**The Sunil Hitech of the future** bids largely for projects where its projects are delivered directly to clients, closed with speed and entail a shorter receivables cycle.

08

**The Sunil Hitech of the past** worked with governmental clients within a narrow sectoral niche in the hope of getting similar projects.

**The Sunil Hitech of the future** works with governmental clients to strengthen its credentials as a dependable contractor that can be trusted with projects across diverse sectors.

09

**The Sunil Hitech of the past** was an organisation where strategy formulation, implementation and day-to-day control were centrally managed.

**The Sunil Hitech of the future** is one where the articulation of the strategy is the responsibility of the senior management while the implementation is delegated to empowered business heads and day-to-day control exerted by dependable managers.

10

**The Sunil Hitech of the past** was one which engaged in civil engineering projects as a manager or as a sub-vendor to a larger corporate.

**The Sunil Hitech of the future** is an end-to-end solutions provider in the civil construction sector.

11

**The Sunil Hitech of the past** was one which largely focused on civil construction projects inside power plants.

**The Sunil Hitech of the future** leverages the rich experience accumulated over the years to enter new spaces, enhanced skills and bid for larger projects.

12

**The Sunil Hitech of the past** was one which generated the bulk of its revenues from capital-intensive civil construction opportunities inside power plants.

**The Sunil Hitech of the future** is increasingly engaged in the opportunities which have no retention money involved.



Dear shareholders,

I AM PLEASED TO REPORT THAT SUNIL HITECH LIMITED REPORTED THE BIGGEST QUANTUM GROWTH IN CONSOLIDATED BOTTOMLINE IN ITS EXISTENCE DURING WHAT WAS AN EXTREMELY CHALLENGING 2014-15.

THIS REBOUND REPRESENTS MORE THAN JUST A NUMERICAL IMPROVEMENT IN THE COMPANY'S PERFORMANCE; IT REPRESENTS AN INFLECTION POINT.

s overview

The use of the term 'inflection point' is deliberate. From this point onwards, we expect an unprecedented improvement in the Company's performance – marked by an order book that is larger, faster-growing and more diversified. This, combined with encouraging margins growth, augurs well for us.

Considering that this improvement transpired against the landscape of an economic slowdown, shareholders and well-wishers are likely to ask how this was achieved. To answer this faithfully, it would be important to rewind a few years ago to when our order book was no more than ₹1,702 crore.

In our opinion, Sunil Hitech was highly risk-prone at that point.

The competencies and knowledge notwithstanding, the Company was largely dependent on the prospects coming out of one sector. As it turned out, global and Indian economies weakened following the 2008-09 fiscal, foreign investments in India's power sector declined, issues related to land availability deepened and there was a growing concern regarding raw material (coal) security.

### **Prudent spin-off**

However, intimidating it might have appeared, Sunil Hitech embarked on the long and patient journey towards a progressively de-risked, multi-sectoral proxy of the infrastructure growth coming out of India. The Company was

attractively placed to grow from one business to multiple businesses. Here is how: the Company's entrenched experience of handling BoP projects in the power segment had in addition to improving existing competencies helped infuse skills warranted by civil construction (power and non-power), road building and urban infrastructure projects. All that Sunil Hitech now needed to do was spin these competencies into full-fledged independent businesses.

This is precisely what Sunil Hitech did by expressing its intent to enter the businesses of civil construction, road building and urban infrastructure in 2010-11.





THE COMPANY POSSESSES A NET WORTH OF ₹363.54 CRORE AND A GEARING OF 1.04, WHICH IS COMMENDABLE IN A SECTOR MARKED BY STRETCHED BALANCE SHEETS AND SPIRALING LOSSES.

The Company also invested ₹ 318.28 crore in the captive ownership of equipment that facilitated timely project completion, moderated equipment rentals and provided precious depreciation cover.

### Weathering the downturn

However well-intentioned this decision was, the economic downturn, resulting in a decline in the quantum of projects as well as in the margins for such projects. Temporarily, Sunil Hitech appeared to have been caught on the wrong foot. The Company barely had any pre-qualifications and was compelled to seek low margin orders, build credentials and slowly pay off the debt incurred to build its equipment bank.

The combination of these realities was reflected on the Company's financials. The Company's net margin declined and the bottomline veered between ₹ 2,396.70 lac and ₹3,689.67 lac in the three years leading to 2014-15.

However, even as the Company's financial prospects appeared muted; a gradual evolution had begun to unfold, undetected by the radar.

• **Power sector:** The Company, which was present in the BoP mechanical segment, entered the equipment erection and T&D projects segments. The Company began with a ₹235 crore order in 2009-10 for a margin of less than 5%. It graduated to ₹1,200 crore in orders by 2011 and an order book worth ₹1,500 crore by 2013-14 - at higher margins.

• **Civil projects:** The Company qualified for outside-of-plant projects for a number of its government customers. The Company bagged projects for building residences, schools and hospitals. As the Company's qualifications strengthened, based on the delivery of completed assignments, it was deemed worthy of larger projects. Gradually, the Company's order book increased significantly.

• **Road building:** The Company leveraged its road-building experience in BoP projects to grow its presence in this cashflow-rich and retention-friendly business. There was an emphasis on projects funded by international institutions. The Company worked as a sub-contractor for Grade-A contractors or bid directly for projects.

### Inflection point

This is why we can safely say that the Sunil Hitech of today finds itself at an inflection point.

The Company possesses all the relevant qualifications – size and completed assignments – to bid for margin-accretive projects.

The Company is attractively positioned in the infrastructural space where sizeable investments have started to come in.

The Company possesses a net worth of ₹363.54 crore and a gearing of 1.04, which is commendable in a sector marked by stretched Balance Sheets and spiraling losses.

The Company has liquidated its low-margin projects. The Company has

restructured operations under strategic business units, empowered its teams and made available all necessary resources to drive growth in line with the sectoral potential. Consequently, it expects to double its net margin over the next three years.

The Company's Board of Directors comprises individuals possessing in-depth knowledge and strategic clarity.

### Growth agenda

So how does Sunil Hitech expect to grow?

My answer is that the Company expects to grow in a responsible and sustainable manner. For one, the Company will only grow to the extent permitted by its desired risk appetite. The Company does not intend to assume sizeable debt in its pursuit of growth, which could threaten viability in the event of an unforeseen economic downtrend.

I am optimistic of our prospects because the sectors in which the Company is present are high on the government's priority agenda.

It is for these reasons that I am convinced that Sunil Hitech is at the right place at the right time and equipped with the right business model to embark on the second round of its growth journey.

Regards,

**Ratnakar M. Gutte**  
Chairman



## WHAT EXCITES US ABOUT THE SECTORS IN WHICH THE REINVENTED SUNIL HITECH OPERATES IS...

### THE CAUSE

A BILLION PEOPLE  
NEED MORE ENERGY

### THE EFFECT

- India's per capita energy consumption projected to rise from 940 kilowatt-hours towards the international average of 2,500 kilowatt-hours.
- Planned investments worth \$250 billion in India's power sector over the next few years.
- Capacity power generation additions of 174.9 gigawatts up to 2022, 70% of what took India more than 100 years to build.

### SUNIL HITECH'S PRESENCE

- Sunil Hitech is among leading EPC contractors in the Indian power industry; the Company specialises in BoP project execution.
- The Company's cumulative commissioned capacity stood at 22,365 megawatts.

A BILLION PEOPLE  
NEED TO COMMUTE  
QUICKER AND BETTER

- Expansion of India's road network from 92,850 kilometres to 100,000 kilometres by 2017.
- Proposed investment of \$31 billion in highways over five years.
- PPP highway investments projected at around \$31 billion.

- Qualified to bid for NHAI BOT projects worth up to ₹900 crore.
- Won the bid for EPC for road projects worth ₹496 crore in Karnataka, West Bengal and Andhra Pradesh.
- Plans to actively bid for road EPC tenders.

A BILLION PEOPLE  
NEED SMART CITIES  
AND INTEGRATED  
TOWNSHIPS

- Estimated \$650 billion required to upgrade India's urban infrastructure in 20 years.
- India's urban population to grow from 377 million to 590 million by 2030.
- The Urban Development Mission intends to develop 500 new cities.
- The Indian real estate market is expected to grow from \$78.5 billion in 2013 to \$140 billion by 2017.

- Executing a township development project for the Kanpur Development Authority.
- Bagged and EPC project of ₹350 crore for the construction of Central Sudhar Ghar at Bhatinda and Govindawal in Punjab.
- Bagged a ₹100 crore order for the redevelopment in Mumbai suburbs.
- Qualified to bid for projects with value in excess of ₹200 crore in 2015-16.

A BILLION PEOPLE  
NEED BETTER URBAN  
INFRASTRUCTURE

- Urban water infrastructure expected to emerge as an annual \$30 billion opportunity.
- Close to 1,15,000 metric tonnes of municipal solid waste generated daily in India expected to double by 2025.
- Per capita waste generation (0.2-0.6 kilograms per day) increasing by 13% per annum.

- Possesses EPC capabilities for urban water infrastructure and municipal solid waste management.
- Intends to bid aggressively in this space in the coming years.