

Nila Infrastructures Limited
Q3-FY18 Results Conference Call
February 14, 2018

Moderator: Ladies and gentlemen, good day and welcome to Nine-Months and Q3 FY18 Conference Call of Nila Infrastructure Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you.

Anuj Sonpal: Good afternoon everyone and a warm welcome to you all. My name is Anuj Sonpal CEO of Valorem Advisors. We represent the investor relations of Nila Infrastructures Limited. On behalf of the company and Valorem Advisors I would like to thank you all for participating in the company's Conference Call and Q3 and Nine-Months-FY18. Before we begin I would like to mention a short cautionary statement. Some of the statement made in today earnings concall may be forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results who defer from those anticipated. Such statements are based on management beliefs as well as assumptions made by information currently available to management. Audiences are caution not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's Earnings Concall is purely to educate and bring awareness about the company fundamental business and financial quarter under review. I would now like to introduce you to the management participating with us in today's Earnings Call. We have with us Mr. Deep Vadodaria – COO, Mr. Prashant Sarkhedi, CFO; Mr. Himanshu Bavishi – Group President (Finance). Without much delay, I request Mr. Deep Vadodaria to give his opening remarks. Thank you and over to you sir.

Deep Vadodaria: I welcome you all to Earnings Call for Q3 and Nine-Months FY18. We will start with a recap on the announced scheme of demerger. With the scheme of demerger, we look forward to unlock value for shareholders by deleveraging the balance sheet of Nila Infrastructures; having core focus on construction business of affordable housing and civic urban infrastructure projects. The real estate business will be demerged in to the wholly owned subsidiary named Nila Spaces. Each shareholder of Nila infrastructures will get one share of Nila Spaces Limited. Equity shares of Nila Spaces will be listed on the NSE and BSE upon implementation of the demerger scheme. The latest progress with respect to the demerger that has been made over last couple of months - the honorable NCLT Ahmadabad bench has issued direction including directions to hold meetings of equity shareholders, secured creditors and unsecured creditors of the company which is to be held on 20th of March 2018



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to approve the scheme of arrangements among Nila Infrastructures Limited and Nila Spaces Limited formerly known as Paramananday Superstructures Limited in their respective shareholders and creditors to approve the scheme of the demerger. To that extent we are on track with our schedule timeline for the completion date of demerger wherein we expect completion of all the formalities in both companies to start trading on both the exchanges hopefully no later than 30th of June 2018.

In terms of the operational performance of Q3 FY18, the most relevant trend that has been witnessed over the last quarter and a little more is the increasing inflows of orders, specifically the focus on PPP models. This trend is welcomed by the company and given that the model offers higher margins and greater potential for upside. With focus to our order book, the order book is in really strong position. The company has received order worth INR 345 crores during Nine-Months FY18 taking our total unexecuted order book to a strong INR 588 crores; of this 65% is from affordable housing projects and the balance comes in from civic urban infrastructure projects. If you look at the demographic split of this 61% of these unexecuted orders are to be executed in the state of Gujarat and 39% of them are from state of Rajasthan. Within this there are approximately 10,792 units of affordable housing that we are to construct. The company has also observed as well as experienced bounded uncertainties in a convalescing business environment largely due to Gujarat State elections. This provisional event has accentuated the business environment on a state wide scale which offers some annotation for hindered business and activity in the past quarter. There was a protracted experience of the GST as various stakeholders across the value chain acclimatized to the new business norms. However, we are of the firm belief that these effects are receding and will no longer be an obstacle to the business going forward. One of the most underlying issues faced by the company has been with regards to the delay in design and approval of a project with the GSRTC, however the issue has been dealt with and there is no longer a concern and we have moved ahead with our operations.

Now turning our attention to sector - overall the utmost talking point is the latest budget and impetus on affordable housing projects. The Government intends to setup a dedicated affordable fund in NHB funded some priority sector landing shortfall and bond authorized by the government of India. The objective is to boost the supply of affordable housing in rural and urban areas. The expenditure breakup also mentioned INR 315 Bn which is INR 250 Bn from extra budgetary sources for Pradhan Mantri Jan Awas Yojna urban up from INR 60 Bn last year to 330 Bn for the rural areas. The target is to double farm income by 2022 and provide house for every poor by 2022. The center has realized nearly INR 9,940 crores to the States so far for the smart cities mission which will further demand and focus on meaningful urban infrastructure projects similar to projects that we participated. The housing and urban



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affairs ministry has announced 99 cities from central assistance under the government Flagship Program. The total proposed investment in these cities was Rs 2.03 lakhs crore. Rajasthan with four cities Jaipur, Udaipur, Kota and Ajmer received INR 784 Crs. Gujarat and six cities were chosen to get Rs 509 Crs funding. This bodes for us as well as there is sustained momentum in various infra projects within the geographies that we operated. Under the mission, cities proposed to take up various projects including smart roads, rejuvenation of water bodies, cycling tracks, walking paths smart classroom, skilled development center, up gradation of health facilities and Pan city project like integrity command and control center. With this I now invite Mr. Prashant Sarkhedi our CFO to discuss the key financial highlights of the quarter and Nine-months under review.

Prashant Sarkhedi:

I will quickly take you through our results for the quarter. In terms of Q3 FY18 performance, our revenue for the quarter has increased to INR 53.9 crore which is year-on-year increase of 6.7%. The EBITDA of Q3-FY18 was INR 9.2 crore which is an increase of 10.8% on year-on-year basis. EBITDA margin stood at 17.07% for this quarter. In terms of the bottom line our profit after tax is INR 5.9 crore which is an increase of 3.5% year-on-year basis. Our PAT margin stood at 10.95%. In terms of 9M-FY18 Performance, our revenue for the nine months was INR 176 crores which is an increase of 18.1% year-on-year basis. EBITDA for the nine months has seen healthy increase of 34.3% on year-on-year basis to INR 30.9 crore. EBITDA margin for the nine-month quarter was 17.56% and profit after tax for nine-month ended for FY18 increased by 26.8% year-on-year basis to INR 19.4 crores and the PAT margin was 11.02%. We can now open the floor for the question and answer session.

Moderator:

Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Pratim Roy from Stewart & Mackertich.

Pratim Roy:

I have just two to three questions regarding your total business model - actually related to demerger for Nila Infrastructure. So my question is that what is the purpose of doing this demerger firstly and secondly, what is the total market that you are expecting from affordable housing under government initiative by housing by 2022 and what will be your market share on that particular segment and if specifically, if you can give some light on that for me?

Deep Vadodaria:

The rationale of the demerger has been spoken before so we have a demerger presentation which you can download to explain you the rationale, but I will quickly summarize it stating that due to internal and external factors both combined together it made real sense for us to demerge to the company first is of course over the period of time we transformed ourselves into a construction company, but we do have real estate legacy and the balance sheet was



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also of that nature which was an asset heavy balance sheet compared to an infra company. The external factors which made us believe that we should seriously again look at real estate as a space, especially in affordable housing, because of the government initiative which came forward starting from New Year Eve announcement of the previous year the FM gave off interest rebate to affordable housing in private sector; then to obviously key policy is like RERA coming in which we believe is going to be a game changer in certain ways for real estate in India because it takes away uncertainty and lot of undue competition out of the equation normally see as real estate developers are going to participate in the next lag of Indian real estate. These are some key factors which were responsible for us to initiate the demerger and which is obviously going to be very beneficial for both the entities going forward and can you repeat your second question again.

Pratim Roy:

My second question is what is the total market price for this housing for all needs I know that the target is 1 crore housing means what is the revenue you can say that market price which can benefit us?

Deep Vadodaria:

There has been lot of figures which have been moving around the market. If I can look at it is a general term obviously banks have been very aggressive on this sector if you talk about government housing as well or the private housing as well and their surveys obviously prepared by the top agencies are looking at this as a very big market going forward. Just on the number terms, we have to right now calculate obviously whatever that government is giving it as 1 crore houses which is obviously massive if you look at demographics of course we are obviously operating in demographics which are way ahead for the state as far as delivery of affordable housing is concerned and both the systems are on track and they have picked up speed much before any of these states could start practicing any of these Pradhan Mantri Jan Awas Yojana policies into their affordable housing missions. But if you talk about the percentile terms, I think it will be a very difficult quantitative question to ask. I think it is easy to conclude this scope is humongous in both the sectors if you look at government housing and now as well even in the private sector because one thing is very clear that with the availability of the land and government stands going forward, government will be able to build these houses, not without private players coming in and helping with the support because the number of housing which is required I doubt that government would have that sort of areas in different demographics of the country to give out and make these sort of houses. So going forward both the sector if you talk about, i.e. affordable housing on the private development side or on the government side where government will be a consumer for the developers it look fairly large.



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Pratim Roy: The point is that actually there are lots of private players in the market so what do means support we can assume that there is 100 crore market in normal in simple terms so out of which how much percent you can expect that you can add in your topline.

Deep Vadodaria: We are only operating in two demographics, so we will have to break it up into number of pieces in terms of what Gujarat is going to achieve and what Rajasthan is going to achieve. We are not looking at other demographics actively so it is a hypothetical question in certain ways because we had still not decided on to move into any other demographics. For us to really calculate the market shares when you talk about that, but even if you talk about the quantitative term, I think the data which I can highlight which I have in hand, is that we have already - when everyone is talking about Pradhan Mantri Awas Yojana. We already have a track record of delivering 1.3 million square feet to various civic bodies under the Pradhan Mantri Awas Yojana. So obviously the companies which have been in the play for longer period of time who are aware of the nitty-gritties are going to have a clear advantage.

Pratim Roy: What is the reason these all are in contractual basis - I believe so, is there any working capital requirement for that purpose in high working capital required to complete this kind of project?

Deep Vadodaria: It is not very high, but yeah considering government projects of course it is going to be high because we do not get mobilization advances and these are fixed price contracts where the prices are fixed pretty much at the start of the project that is how it tends to be with governments learning the lessons of the past, most of these bids are rear-ended as far as profitability is concerned. So yes, by the time you complete the project a lot of your money does stay invested in the project.

Pratim Roy: What is the expected top line you are expecting in by 2022 or 2020 you can say and EBITDA margin and PAT if you can give that?

Deep Vadodaria: As a policy decision we do not come out with guidances, but it will be safe to assume that we are on the growth trajectory and now the vision looks absolutely clear. In the last three to four years as far as focusing on civic urban infrastructure and affordable housing is concerned and going forward I think we will be able to achieve the sort of growth that we have shown in the past two to three years concentrating on the same space. Margin will be on the same space. Maybe margin going forward is going to improve on various counts because we are adding more orders which are public-private partnership models which will have higher margins compared to a lot of EPC that we have executed in the past.

Pratim Roy: Any debt repayment schedule?



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Deep Vadodaria: Debt repayment - the immediate plans are not there, but obviously demerger will have its effects on the debt, in that the long-term debt will be moving to the other entity. Anyway even before that move, the debt proportions are looking pretty good for an infra company and obviously it is going to look much, much stronger post the long-term debt moving to the other side.

Pratim Roy: Blended interest rate on debt?

Deep Vadodaria: Below 11%.

Moderator: The next question is from the line of Ankush as an individual investor. Please go ahead.

Ankush: My question is with regards to the unexecuted order book, so how much of the current order book do we see being executed by the end of FY19 if you'll have any guidance on that?

Deep Vadodaria: So most of these contracts are to be completed in 24 months' timeline there is only one contract of Jodhpur which is a larger contract which has a longer time line so considering that projects are going to we have almost five projects which are taking off in the next one month and a half we will start seeing a full annum execution on those. So going forward you can look at the unexecuted order book to be executed in the period of next 30 months.

Ankush: One more question with the order book - what were the effects of the election on terms of order books was there any hampering of the inflow of orders?

Deep Vadodaria: Yes there was. In the last quarter of course, Gujarat did not come up with tenders which they are not allowed to do so obviously in the election state. However, the order flow has now started back again. So in the next quarter you will be able to see action on the order book there.

Ankush: Earlier you mentioned that you all were looking at exploring other geographies so I was just wondering if there are any impediments in terms of entering different states or geographies?

Moderator: No, I do not think there are any difficulties in entering different states, but we have to understand that India is a very unique country with its challenges of demography and more so with the sort of population that we have. So not every market is very similar, though I believe that GST has made it a lot more simpler for any of the companies who wanted to go out to other demography and operate, for it is a big plus if you want to go out in other state. Obviously, with GST coming in there is a lot more clarity and lot more less hassle if you talk about the taxation part of it, but as far as execution is concerned obviously there are lot of



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things which have to be taken into consideration including the political aspects of this specific state which is involved and working culture and working atmosphere which is prevailing in that. No real blockage there, but at the same point of time we have been actively pursuing markets which are similar to operate like Gujarat and Maharashtra something like MP or the work culture there or the way they do work does not really change too much.

Ankush: Bringing attention to the civic urban infrastructure project that you all undertake, so going forward is there any specific focus on a certain type of projects or you are all open to various verticals within that?

Deep Vadodaria: We are open to various verticals within that, but going forward obviously transport is going to be one of the biggest division what two contract we are doing with Gujarat State Road Transport Corporation that is an exponentially growing model which is probably a good winning Public Private Partnership where project has been delivered and are performing well. You will see a lot of states following the same suite and we will obviously be interested in the transport transition which will take place across the country and various sectors are now very actively looking at public private partnerships which are a win-win for all three stakeholders and upgrading outdated infrastructure that the government is sitting on right now. I think PPP, as a model, is working really well for them in all the states that they are trying to employ. I have not heard too many of these PPP models really failing in these times, if the policies have been drafted properly for this specific move. Yes, we are open to looking at a lot of sectors when it comes to civic urban infrastructure with the Barmer Medical College completion, we will be opened to qualify for medical and educational field contracts which will come in from the government.

Moderator: The next question is from the line of Tejas Lakhani from Money Mind Financial Consultancy. Please go ahead.

Tejas Lakhani: I want to address the elephant in the room if you can throw some light on the bureaucracy and the entire process of tendering and how under this government have you seen a lot of change on the government side and few follow question regarding that is that are the receivables also the challenge in terms of given the bureaucratic nature sometimes is it challenges process to collect receivables on time are they females usually, what is the process in general and who is the closest competitor especially in Rajasthan and Gujarat for our business?

Deep Vadodaria: So Tejas, answering your question, if you talk about the bureaucracy in Gujarat and Rajasthan, then the bureaucracy has been largely stable over the last few years in spite of change in leadership, largely the bureaucracy has stayed very stable. The bureaucracy in this



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part of the country is a little more entrepreneurial per se and they have been able to execute a lot of policy level changes compared to rest of the other cities because of the political support that they have in single party leadership brings about that advantage for bureaucracy to establish policies which are not hindered by political motive and your question on delays on payment we are not facing any form of delays in any form of payment which are coming about because of the bureaucracy. I think the system is pretty much set in Gujarat and Rajasthan both the states and we have never encountered any sort of delays which were probably pertaining to bureaucracy in any form of operations if you talk about payment or even clearing a tender or the tender procedure. So I think it is pretty much set now. Maybe in the initial part they could have had teething issues because they were implementing a new policy, but I think everything is set now if you talk about these two states which we have first-hand experience because we operate there. We do not see any delay coming in from bureaucracy. If I can talk to you about support that is coming in from the bureaucracy, I believe that they are also actively keen on employing this policy and achieving the maximum in the time period that they have charge in. So we have seen bureaucracy being quite forthcoming as far as starting up new projects and hassle free transition is concerned and your question about competition that we face in Ahmadabad and Rajasthan, well the advantage of the company is that we have now three different segments which are divided in two different business model which is EPC and PPP. So EPC contracts in Gujarat we will have a different set of competition which will be largely construction EPC companies from the state of Gujarat. When you talk about the PPP projects in Gujarat this will be largely from the real estate developers in the state who are looking at this space and not the contractors who we compete in the EPC space. When you talk about Rajasthan, Rajasthan is a unique model of-course which is a hybrid PPP. So we do not have a lot of construction companies which are participating, but a lot of companies which are interested in this hybrid business models, where a part of the remuneration is land. So somebody with a real estate and construction background has an advantage like us.

Moderator: The next question is from the line of Somal Bhatia who is an individual investor. Please go ahead.

Somal Bhatia: I see that you all have some huge land parcels which are in the acquisition phase in the Becharaji and things like before, so what is the company strategy's going forward and has the company did the company acquisition and how are they going to monetize it going forward?

Deep Vadodaria: So Becharaji good you mentioned, because we have seen a lot of momentum in the last couple of quarter in terms of demand because Suzuki has actively started production of their plant and we believe that they are scaling up as per their plan, which is to scale this up to 7.5



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lakh vehicles and we hear on confirmed news that they are going to expand that as well. So we have two different land parcels in Becharaji and acquisition is not 100% complete but acquisition is going on, but the positive take away from that area is that we had one land parcel which was falling under the government SIR namely Becharaji Mandal SIR which was not really moving because of policy level issues, but just before the elections they have finalized it. They have already released the draft town planning scheme. So we will be able to develop that bit of land parcel pretty quickly which was not looking very likely considering the sort of time government had taken before but now they have already rolled out. The other industrial land parcel that we are operating there is Romanovia Industrial Park which is an operational gated industrial community in which the model or revenue realization is going to be a mixture of sale of the industrial units and build to suit long term leases.

Somal Bhatia:

As you mentioned the acquisition is still going on so what is the capital which has already been infused how much we already acquire what is the pending and what would the value of the entire land parcels?

Deep Vadodaria:

Well of the land parcel, we can share the book value and I believe in annual report copy you have all the details of how much did we have invested over the period of time we would have invested a little bit more, but going forward if you talk about the market value of that, that will be a speculative figure but the revenue models remains as I told you is on the lines of build to suit long-term leases and two companies operating out of our Romanovia Industrial Park, one is Nippon Express which is Japan's largest logistic company and we have TVS Logistics. Usually when these car companies come in or auto manufactures come in, you have first leg of demand coming in from logistics so we are seeing nice traction coming in from the logistic sector there.

Somal Bhatia:

You also mentioned that you have in terms of your business has focus on Gujarat and Rajasthan, so are there any plans to diversify to any other state do you see any opportunity coming in the near future?

Deep Vadodaria:

As I said in one of the questions before as well on this call that we are actively looking at a lot of states which are doing good work, but to be very honest it is not scalability in terms of demography - that is a key area for an infrastructure company like us and given the sort of opportunities that are coming about only in these two states where we already have so much of our bandwidth invested is immense. So while we are actively pursuing something, but we will, as stated in the conference call of the past, look at a specific state as a larger area rather than one specific ad-hoc contract that we bid for. So let's say if you are talking about expanding to another state when we see a good order pipeline and we feel that this state is



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going to be reasonably stable going forward on this outlook and we will obviously make the opportunity to expand but no immediate plans or bids that we have placed in states which are away from these two states at the moment.

Moderator: Ladies and Gentlemen as there are no further questions from the participants. I now hand the conference over to Mr. Deep Vadodaria from Nila Infrastructures Limited for closing comments. Thank you and over to you sir.

Deep Vadodaria: We would like to thank you for joining us today. We are hopeful of the prospects of the company over the next quarter in future to come and on ending the year on a positive note with an added emphasis on impactful infrastructure projects and clear policy guidelines. We aim to get ahead in the right direction while being mindful of our values of passion, reliability and dedication.

Moderator: Ladies and Gentlemen on behalf of Nila Infrastructures Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.