NILA INFRASTRUCTURES LIMITED

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Q2-FY2022 Earnings Conference Call

November 16, 2021

Management:

- Mr. Deep Vadodaria – COO
- Mr. Prashant Sarkhedi – CFO
- Mr. Himanshu Bavishi – President (Finance)

Moderator: Good morning, Ladies and gentlemen. Welcome to the Q2 FY22 Conference Call of Nila Infrastructures 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your telephone phone. I now hand the conference over to Mr. Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Thank you. Good morning, everyone and a very warm welcome to everyone. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Nila Infrastructures Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the second quarter of financial year 2022.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call maybe forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audience are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision.

The purpose of today's Earnings Conference Call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Let me introduce you to the management participating with us in today's earnings conference call and give it over to them for opening remarks. We have with us Mr. Deep Vadodaria – Chief Operating Officer, Mr. Prashant Sarkhedi – Chief Financial Officer and Mr. Himanshu Bavishi – Group President.

Now without any further delay I request Mr. Deep Vadodaria to give his opening remarks. Thank you and over to you, Sir.

Deep Vadodaria: Good morning, friends. I welcome you all to Earnings Call for the second quarter and half year of the financial year ending 2022. I wish you all enjoyed the very best of the festive season and best wishes for the Healthy and Happy, Prosperous New Year.

The analyst presentation was uploaded on the stock exchanges and our website yesterday. I hope you had a chance to take a quick look at the numbers. As usual, instead of going through the entire presentation, we will try to summarize the key highlights for the quarter followed by the Q&A Session.

The global economic outlook remains fairly positive with respective governments extending fiscal support and the central banks offering monetary support. Q2 FY 22 has been a comeback quarter for India. While the second wave of COVID was abated faster than expected, the macroeconomic indicators denote that the disruption it created was leaner than it was in first part.

India has already completed more than 1 billion vaccinations and fresh cases are also reducing. With a near normal monsoon the green shoots are already visible in the economy from the latter half of Q2 FY22, and the recent festive season gave a major fillip.

However, the supply side inflation challenges continue to remain a source of worry. During Q2-FY22 we've received a significant increment in a particular order from the AMC that provides a promising revenue visibility for the next couple of years.

With the remote risk of the third wave, we envisage a very busy second half of FY22 in terms of operations. Under the scenario, the company continues to focus on profitable execution of its large order book, leverage strong momentum in affordable housing, cost optimization measures, release of funds through improved working capital management and a phased divestment of non-core assets.

We've been striking a balance between profitable growth and capital employed with the return ratios being pursued rigorously, irrespective of the macroeconomic volatility. The company is confident of building on current business momentum and is committed to creation of sustainable returns for all its stakeholders.

Now coming to our book, at September 30th, 2021, the company has confirmed and practically executable order of Rs. 6,999 million. In line with the ethos of good corporate governance, ethical practices, fairness and transparency, the confirmed unexecuted order book is prudently realigned to depict the factual revenue potential.

The book-to-bill ratio is not comparable at this point in time. The average execution cycle of this order book is around 27 to 28 months.

Very briefly I will comment on the commitment of each of the business segments before we move on:

The company's order book is in line with its focus of core competence of affordable housing with 91% of the orders, Rs. 6,369.5 million while high-margin PPP is the major tributary, which 76% of the order Rs. 5,340.6 million.

Geographically the state of Gujarat accounts for 85% of the orders, which is Rs. 5,977.6 million and principalwise government entities accounts for 91% of the orders that is Rs. 6,369.5 million.

Ahmedabad Municipal Corporation and Government of Rajasthan are still the largest government clients.

The other orders mainly include us orders from the company's, associate, JV, subsidiaries, related parties. There have been an impressive new order announcement at a macro level during the quarter, even tendering activities happened at a brisk pace. However, we did witness delays in award finalization. Overall, the company is executing construction of 8,629 units of affordable housing, while it already has satisfactory delivered 7,517 units.

With this, I now invite Mr. Sarkhedi – our CFO, to discuss the key financial highlights for the period under review.

Prashant Sarkhedi: Thank you, Mr. Vadodaria and good morning, friends. I will quickly take you through the financial and operational highlights for the second quarter FY22.

In terms of the standalone performance first quarterly:

During the quarter 2 FY22 the total revenue of the company is Rs. 280.2 million that is higher by Rs. 21.5 million to quarter 2 FY21's Rs. 258.7 million. While it was Rs. 231 million during the quarter 1 FY22.

Profitability at EBITDA level is Rs. 16.3 million as compared to Rs. 21.4 million of quarter 1 FY22.

The company has booked a profit of Rs. 3.2 million that is higher by Rs. 0.8 million compared to quarter one FY22's Rs. 2.4 million.

Half yearly, during first half of FY22 the total revenue of the company is Rs. 511.3 million, that is higher by Rs. 162 million to quarter one FY21's, that is Rs. 349.2 million.

Profitability at the EBITDA level has also been restated to the large extent at Rs. 37.6 million that is higher by Rs. 75.6 million to half year FY21's negative by Rs. 38 million. The company has booked a profit of Rs. 5.5 million that is higher by Rs. 63.2 million compared to H1 FY21's negative Rs. 57.7 million.

Now, coming to the revenues, the turnover of the company has increased however we followed a calibrated execution approach in line with the cash flows during the quarter. To some extent, we suffered on the execution front due to the supply chain bottlenecks which impacted the project execution progress.

Moving to the EBITDA margin: The profitability at the EBITDA level is sustainably positive, mainly due to the lower base of the first half FY21, which was restrained due to the cessation of the income while overheads were being incurred.

The project or operation cost, and the other costs have increased with initiation of the new project-sites. The depreciation and amortization expense charged to the profit and loss account has increased corresponding to the increase in the fixed assets.

While the bank guarantee commission and processing charges contributed to increasing the finance cost in absolute numbers, the percentage of the finance cost to the turnover have reduced mainly due to the availment of the working capital term loan under ECLGS 2.0 with subsidized rate of interest. Going to the PAT. The overall increment in the income has increased the profit before tax, which has also spilled over to the PAT level. Moving to the balance sheet, the net worth of the company has increased corresponding to the PAT on the account of plough back of profit. The total debt of the company has reduced by Rs. 82.9 million. The company's account is standard with all the lenders, none of the bank guarantees submitted by the company has ever been invoked by the principal or client.

In terms of the consolidated performance, quarterly during the quarter2 fy 22, the total consolidate revenue is Rs. 276 million that is higher by Rs. 18.7 million to quarter 2 FY 21's Rs. 257.2 million. While it was Rs. 169.2 million during the quarter 1 FY 22. Profitability at the EBIDTA level is higher by Rs. 16.9 million as compared to Rs. 19 million of quarter 1 of FY 22. The profit is negative Rs. 5 million compared to the quarter 1, FY22's, Rs. 6 million negative.

Now coming to the half year results during first half FY22, the total consolidated revenue is Rs. 445.2 million. That is higher by Rs. 100.2 million to first half of Fy 21's Rs. 345 million. Profitability at EBIDTA level has been restated to a large extent at Rs. 36 million that is higher by Rs. 73.7 million to first half, FY 21's, that is Rs. 37.8 million negative. The profit is negative Rs. 11 million that is higher by Rs. 58 million compared to first half FY21's Rs. -69 million.

I now open the floor for the question and answers that may require further clarification. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Shruti Shah, an individual investor.

Shruti Shah: Good morning and congratulations for your results. My first question is that your EBITDA margins have come down this quarter. So is this because of the increase in the commodity prices like steel and cement, or is it due to some other reason and also with these prices going up, what is the outlook on the margins in the coming quarter? And what is the company doing to mitigate this risk is I assume most of your contracts would be fixed price contract.

Deep Vadodaria: So, the drop in the EBITDA is largely because of two major reasons. One is of course, because of the commodity prices, which is hitting everybody in the sector pretty much because it's not accounted for the increase in prices because of logistical issues and also commodity prices across the board. And the other part, as Mr. Prashant explained in his brief is a lot of our projects are in initiation stage and it's in the PPP projects so the initiation costs for the projects are a little higher, which takes away some of our working capital pretty much upfront. So those are the two major reasons why the EBITDA is looking a little lower in this specific quarter. Going forward, yes, it is a point of concern. However, we feel that the prices have started easing down a little, starting with coal and couple of others. So, we are seeing some movement on these. However, these are fixed price contracts, so they are going to affect us. Luckily, we made the transition many quarters ago before the pandemic. So most of our order book as stated in the opening statements are coming in from PPP contracts, which are much higher profitability contracts compared to the EPC one. Definitely I cannot neglect the impact of further rising cost and they do concern us, but we somehow are in a comfortable position because majority of the projects that we are starting out are all PPP projects, we'll have a pretty good profitability. However, the profitability if the prices don't ease off is going to affect us because these are fixed price contracts, but we are pretty hopeful that all of these commodities have been phased out over the span of the execution which is 27-28 months average for all the projects it will average out to not affect us as much as potentially would in the current state of prices.

Shruti Shah: I just have one follow-up question there. Could you discuss a bit about your order book and has there been any win or any kind of new project in your pipeline?

Deep Vadodaria: So there are new projects in pipeline, but as stated in the opening statement, one of our projects has been substantially revised to much higher project which obviously has been updated on the website, one of the amendments of the order we have uploaded on the website and it's also on the exchanges. And that is a substantial revision and has increased the order book amount substantially, and as stated we started bidding projects of this space now. So we're hoping that this quarter may be few of the orders could get materialized.

Shruti Shah: Okay, should I look into it? And one final question. Do you expected the execution to pick up in the second half? And if so, what kind of top line and bottom-line growth do you expect in FY 22 versus what will there in FY21?

Deep Vadodaria: Historically and even overall on the macro front and also COVID situation being much better, second half of the year shall be very good for all the possibility in terms of execution. So we are very hopeful that the second half of the year is going to be much, much better than the previous year. However, in terms of giving you the exact numbers, we don't give out guidances, but yes FY21 was obviously a very compromised year because of COVID and this year hopefully things are going to be on the track. They look to be on track. The manpower situation is pretty good. And we're anticipating a good execution to come in the second half of the quarter. And we will see substantial increase in terms of a second half of FY22 of course.

Moderator: Thank you. The next question is from the line of Vikram Raina, an individual investor.

Vikram Raina: A good set of numbers and the revival is coming from the COVID second wave. I have a couple of questions in mind. One is that when we look at the order book now on the civic urban infra side, it has actually come down to any particular reason that, the focus is going to be in affordable housing, or you could see more such orders of civic urban infra also coming in.

Deep Vadodaria: There was a conscious decision few quarters back that we took to change orders and focus on PPP contracts. If you see civic urban space also we are executing two large orders, which are on PPP which are Modasa and Amreli. However, not a lot of PPP orders coming out in terms of civic urban infrastructure space but we are closely eyeing the space which is still hot at this point of time luckily we were able to get into that space. And now we have the credentials to a bid for a lot of healthcare facilities, which the government is coming up with across the country based on whatever happened with COVID, obviously a lot of budgets are being allocated by the state governments to medical and education and that's where we did not have the criteria before we executed the Barmer Medical College. So it gives us the ability now to go out and bid for these orders. And going forward, obviously we are going to focus on civic urban infrastructure. However affordable housing has always remained our forte and that's going to be the major contributor to the revenue, but we will be a little bit picky in terms of what are the orders that we're taking, because profitability is one of our biggest criteria as we have seen. Because we were proactive in terms of PAT we have taken lesser hit than somebody who is sitting on a very large, fixed price contract PPP order because the commodity prices have been through the roof. So we're pretty happy that, even though the civic urban infrastructure order book is a little lower than what we would have expected but we focused on what we wanted, which is profitability and that's what we continue to focus on.

Vikram Raina: No, that makes sense. Right. At this time, it's better to be safer. And secondly, on the other side of it, on the affordable housing, right? So I see most of our projects have been in the region of Rajasthan and Gujarat where we have got the comfort now, are there any plans to expand to other geographies? In the near future, on near term?

Deep Vadodaria: Not very soon, we've looked at other states, but as I stated, we usually look at various counts in terms of political stability, a lot of other factors, there are states which are completely different from, or what we are used to be there are states which are similar so we are actively pursuing states like MP and a lot of other states but however, the sort of opportunities that is there in Gujarat and Rajasthan where we are very comfortable remains very high and even the opportunities that are going to come in the future the prospective order book is looking very high so. However, we are open to looking at other geographies, but it's not something that is going to be a key factor for us because, we don't have to prove capability in infrastructure when it comes to geography. We are going to continue to focus on where our comfort zone is, while looking at maybe new opportunities coming up in other states, we don't discount that.

Vikram Raina: That make sense. And what would be the bid order pipeline on both sides on this civic urban and the affordable housing side of it and what would be the hit ratio we see usually in because right now there's a good traction coming in, as you said, right? The government. Is also focusing on infrastructure going ahead. So just want to understand what the road map would be for the next two to three years.

Vikram Raina: So the road map will be stick to our basics, which we have. Historically, if you look at it our hit ratio it has been very good. We don't go out and bid for projects just for the sake of bidding, so we will be selective with our bidding process. However our bid pipeline was a little dry in the quarter because people are just returning back to work. Civic urban authorities are busy tackling the COVID and all the other covid related pandemic responses that they were doing. They have just returned back to work in terms of doing their normal work in the last couple of months. So this quarter that we are in and the next quarter is where we envisage a lot of new bids coming out and we are going to eye the bid that we are already focusing on and hopefully stick to the hit ratio that we have in the past.

Moderator: The next question is from the line of Tanush Makwana, an individual investor. Please go ahead.

Tanush Makwana: In the beginning you said like there would be a balance between the profitability and capital expenditure, if you can emphasize more than how we approach it in the coming quarters as well.

Deep Vadodaria: So, there are two elements to it. One is obviously the selection of orders where I have clearly stated earlier on the call that the consciously the focus has shifted on the higher profitability orders or PPP projects as the profitability and it is an area that we specialize in. So we've been focusing on that where the profitability is higher and the capital expenditure however skewed at the front, because in the front in these PPP orders the working capital is a little more than any other projects. But over a period of time the profitability actually makes a difference. So that one is a conscious focus to select where we are going to work. And the other element is obviously optimization of cost through resources because of the sort of experience that we have on the purchase, obviously that counts. That makes a big difference in times like these where there is possibility with these sort of order book we are sitting on a very large consumption in terms of basic materials, we've been working with various suppliers in terms of planning, the materials resources the cost negotiation just to optimize the larger fit and the larger quantity because most of the projects that we are talking will take off now so all of our consumption of raw materials and large part of it is going to be consumed in the next coming quarters so we are talking to the suppliers in terms of negotiating terms and conditions with them. And however, as I said, the thing that whatever's happening on the commodity front is going to start pulling off the quantity has in a few of the commodities.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Deep Vadodaria from Nila Infrastructures Limited for his closing comments.

Deep Vadodaria: Thank you friends for having taken your time to attend this call. Going forward as pure civic urban infrastructure company, we will continue on the growth path, we will look forward to having you with us on the next quarters call. In the meanwhile, our team and our IR team will be more than happy to assist you. Thank you again. Have a good day.

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