



Nila Infrastructures Limited
Q1 FY20 Earnings Conference Call
16th August, 2019

Moderator: Good day and welcome to the Q1-FY20 Earnings 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 you're your touchtone phone. Please note that this conference is being recorded. I now have the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you.

Anuj Sonpal: Thank you, Steven. Good morning, everyone. And a warm welcome to you all. 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 Q1 FY20. Before we begin, I would like to mention a short cautionary statement. As always, some of the statements made in today's earnings call may be forward looking in nature. Such forward looking statements are subjective risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs, as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under the 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 and Mr. Himanshu Bavishi, Group President. I request Mr. Deep Vadodaria now to give his opening remarks. Thank you and over to you sir.

Deep Vadodaria: Good morning friends. I welcome you all to the earnings call for Quarter 1 FY20. We are on the continual growth momentum by timely execution of projects, in spite of the modest growth registered in Q1 FY20. The restricted availability of labor during Quarter 1 FY20 on account of general elections that succeeded the break of **Holi** restricted the execution despite having a robust order book. Meanwhile, the workforce is since fully deployed and with clear possession on most of the project site, we are certain that the growth during FY20 will be there while the profitability shall remain at acceptable levels for FY20.



Now, coming to our order book, the company has unexecuted order book of Rs.6,722.6 million as on 30th of June 2019. The composition of order book is well balanced.

Overall the company's developing 8684 units of affordable housing and our major clients remain Ahmedabad Municipal Corporation, Engineering Projects India Limited and Ahmedabad Urban Development Authority. With respect to the sector and the economy, the right to adequate housing as a basic human right as a shelter. Provision of adequate housing is emerging as the major thrust area for government and government needs. With all-round increase in cost of land, building materials, labor and infrastructure, affordable housing has become a distant dream for the economically weaker, Low income group and middle-income group. Hence the role and intervention of the government has become all the more important. Sustainable human development cannot be achieved without the adequate and affordable housing. PMAY Housing for All mission has selected 171 cities of Gujarat and 183 cities of Rajasthan for HFA by 2022. The latest progress on PMAY-HFA on 5th August 2019 indicates that 913 projects proposals aggregating to 5.60 lakh unit are sanctioned for Gujarat wherein the work for 1 lakh units is yet to commence, while for Rajasthan 362 project proposals aggregating to 1,87,000 houses are sanctioned were in work for 84,000 units is yet to commence. The Mandal Bechraji special investment region and in the vicinity of MBSIR where we are putting up two industrial and logistic parks is in making as one of the biggest auto and auto ancillary hubs in the country. With existing plans, about 1 million cars are to be produced every year. To cater to their needs, a lot of auto ancillaries will be required to set up their facilities in the close proximity. This serves as a testament to the potential of this region where we have about 300 acres of land in two distant land parcel that are within the vicinity of the Suzuki car plant and the Honda two Wheeler plant. Both the industrial and the logistic park at Bechraji are progressing well. Although there are certain challenges and delays which were on account of the authority on the MBSIR. However, things have moved in the positive direction with the town planning scheme getting finalized and government has promised to start work on execution in terms of common amenities which government is promised to provide very shortly. With this, I now invite Mr. Sarkhedi our CFO to discuss the key financial highlights of Quarter 1 FY20.

Prashant Sarkhedi:

Thank you, Mr. Vadodaria. And good morning friends. I will quickly take you through the Standalone financial results for the quarter 1 FY20. In the terms of the quarterly performance standalone revenue of the company increased by 3.98% to Rs. 549.4 million from Rs. 528.3 million as compared to the corresponding quarter of the previous year. On profitability front, the EBITDA for the Quarter 1 FY20 has witnessed an increment of 11.61% that is from Rs. 71.9 million to Rs. 80.2 million within an EBITDA margin of 15.23% in Quarter 1 FY20. The profit after tax is Rs. 40.2 million that is 7.32%. At June 30th 2019 the standalone networth of the company is Rs. 1297.2 million and standalone Gross Debt is Rs. 1466.2 million. While cash and bank balances at the standalone basis is Rs. 62.2 million, the net debt or net worth computes



1.08. Meanwhile, Brickwork and CARE Ratings has reaffirmed the BLR at BBB plus with a stable outlook and A2 for the various bank credit facility availed by the company. The company has also been removed from the credit watch by CARE Ratings. I now open the floor for the question and answer that may be required for the clarification. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mitul Patel, an Individual Investor. Please go ahead.

Mitul Patel: Sir my first question was, what's the ground scenario on affordable housing overall today? And how do you see the year planning out overall? And is the government showing signs of revival? If you could help with some examples on that?

Deep Vadodaria: I think with the same government coming back with thumping majority will continue to grow on the housing for all scheme that is obviously a very challenging scene for them, because it is not that everyone in the country has been performing at the same level. But at the same point of time as I just highlighted in my opening remarks the update on Gujarat and Rajasthan the potential in both the stage that we are invested in is pretty large, and the opportunities are going to keep on coming. And with the same government repeating, obviously the aggression is going to be more in terms of execution. And since they have already got the hold of the situation in terms of execution and how quickly they will be able to execute the projects, there are more and more projects which are in pipeline which various civic bodies from the state governments are coming out to it and we are currently monitoring them. But in general, the execution has picked up pace in the last year or so. And we see that continual momentum to go forward in this round of the government for the next five years.

Mitul Patel: Also sir, what is the update on the industrial and logistics parks that the company's developing? And how's the demand picking up there considering the auto sector slowdown has it impacted us or do you expect it to impact us in the future?

Deep Vadodaria: Well, the demand as of now I won't use the word muted, but it has slowed down a little because of the immediate degrowth of the auto sector which was obviously not envisaged by the automakers, but if you look at the medium term and the long term, we are invested into this and the biggest client remain Suzuki. Suzuki however is concentrating more than 30-35% of their production coming in from this plant to be exported to various countries mainly in the African continent where they are picking up pretty good pace in terms of sales. So going forward in the medium term to long term, I think Suzuki is absolutely on track to produce all the vehicles that they had promised that they will when they promised to set up shops here. So, I don't think the demand is going to slow down in the medium term or the longer term. However, with the immediate correction or the sort of correction in terms of demand which auto locally has seen in the last few months is unprecedented. Of course, there has been a little softening of demand but in general the promise for the area remains pretty large



because it's not going to stay limited to only auto sector once the government starts developing SIR which is going to be anytime in the next quarter. Because whatever the roadblocks were there for the formation of SIR, have been overcome by the government and now execution will actually start of the site from the government's end. Once the basic infrastructure comes into play from the government, it's not going to remain limited to auto sector. But however, in terms of auto sector as well, not commenting on the local demand because everyone's still clueless about how this demand has gone down so drastically in the last few months. But Suzuki remains very strong in terms of production and their production plants are well on track in terms of producing 7.5 lakh vehicles going forward from this specific plant. Not talking about the future expansion that they had spoken about before in the scenario that is prevailing at the moment.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from MCA Research. Please go ahead.

Madhuchanda Dey: My first question is, there has been quite a bit of sequential increase in the interest expense in this quarter from 2.84 crore to 4 crore approximately right from 4Q to 1Q. So if you could just take us through why this has happened?

Deep Vadodaria: Yes, sure. That is because the debt has gone up in this quarter and that's largely pertaining to one of the main reasons which is government issues us TDRs in the PPP projects that we operated and there was a change in terms of issuance of TDR based on which then we monetize that TDR and generate the capital for funding these construction of the slums. Government, in this quarter was redefining the policy in which how they are going to issue the TDR, which is now on work completion basis initially it was 100% issued at the start of the project, that meant that few of the developers which have not been able to do some serious work on the ground and the work had not begun, they were also in the market selling TDR and the TDR was something which was not usable for the developers who bought it. So just a corrective measure by the government to safeguard the sale of TDR, which is a welcome move for us. But what that did was, that brought about a small bit of paralysis in terms of capital that we could raise from the TDR. However, the notification from the government has come out couple of weeks back and now it will be on work completion basis and all our projects are progressing in a good direction. So that's why to fund these projects, we've had to bring out more funding that's, one of the large reasons the debt has gone up in this quarter, which will obviously subside as the time progresses.

Madhuchanda Dey: Okay, so two questions. First of all, as you said that previously the TDR was issued at the start of the project, now on project completion the TDR will be issued right?

Deep Vadodaria: Not on project completion, they have now specified various milestones that 25% of the TDR we will give you ones the slums are vacated, 25% of the TDR I am just giving you examples



here and these are not the manuscripts of the provision that the government has made, but they will be on the stage of construction basis and not initially.

Madhuchanda Dey: So any which ways which means that it is not a part of your funding which used to come from en-cashing the TDR right at the beginning that will not be available. So any which way your working capital gets stressed because of this, is it the correct understanding?

Deep Vadodaria: Ma'am, how we operated was as soon as we get the TDR certificate let's say be it 100% or 25%, we promised it to another developer who promised us to pay the money, and the money comes in on milestone completion basis. More than the milestone completion basis it's on the basis of how we have dealt with the developer, which is usually in alignment with our construction cycle. However, in the last three or four months that has not happened because we were not getting the TDR certificates that we were awaiting from the government because it was going in for this policy change. However, post this coming up our execution is well on track. So the TDR certificates on percentage completion basis like government is going to issue we are going to get issued and vis-à-vis we will then issue it to the developer and start getting money from the developer. So that should ease off our capital investment from what it is at the moment.

Madhuchanda Dey: And my second question is, I actually missed the figure you mentioned it in opening remark. What is the cross and net debt at the end of this quarter?

Prashant Sarkhedi: Rs. 1466 million at the end of Q1 FY20 and it was Rs. 1216.5 at the beginning of that.

Madhuchanda Dey: No, no. What is the net debt at the end of this quarter?

Deep Vadodaria: INR 140 Cr.

Madhuchanda Dey: Okay. My second question, in this quarter if you could give us the order inflow and the order inflow break up in terms of

Deep Vadodaria: In quarter one?

Madhuchanda Dey: Yes, quarter one.

Deep Vadodaria: We started this quarter with Rs. 647 crores' orders and we added Rs. 77 crores' orders, out of which we have consumed Rs. 52 crores, so we are at Rs. 672.26 crores.

Madhuchanda Dey: I got it. If you could give me this breakup of this 77. I mean, is it from?

Deep Vadodaria: Main one is coming from AMC, the redevelopment scheme at Sonaria block. Rest of the ones are certain miscellaneous orders.



- Madhuchanda Dey:** So there was no big order inflow in this quarter is that a correct understanding?
- Deep Vadodaria:** It is a big order inflow, the Sonaria block itself is Rs. 58.59 Cr.
- Madhuchanda Dey:** Okay. And what is the pipeline that you are working with?
- Deep Vadodaria:** We are working with a pipeline of about Rs. 419 Cr of orders. And there are a few others which we are L1 in, which we are expected to get pretty soon. However, with the elections now over, I think things have started back to returning to normal and this is a quarter where we are expecting a lot of the orders to come in. And the order pipeline is going to remain pretty much intact, because as I said the opportunities are pretty much there and we are active in terms of participation in terms of tender. However, we have been very selective in the past as well in terms of the number of tenders that we participate in and the overall hit ratio when we bid for a project has been much higher compared to the industry standard.
- Madhuchanda Dey:** See, the order backlog has not been an issue in recent times. But your execution has not been very predictable. For instance, you cited a particular reason this quarter labor availability, etc, for low growth in top line. But given your commitment to the clients, what kind of execution are you looking at for the whole of FY20, because you must be having some firm commitment to your clients and you would be knowing pretty much well that this much of execution has to happen at the end of FY20. So if you could throw some on that?
- Deep Vadodaria:** Yes, that is correct Ma'am, but to throw a number will be a little speculative because all the projects are at multiple stages. Now, when we are talking about some future projects, which we are going to get in this financial year and which probably in this financial year we are going to start in the last quarter from execution as well.
- Madhuchanda Dey:** But that will not be a meaningful part of your revenue any which ways the new projects that we get.
- Deep Vadodaria:** Which will not be a meaningful part of revenue you are right. But in terms of execution that we promised to our client, we are not running delayed on any of our projects and largely the timelines that you can look at for all the orders is 24 months. And we have not been penalized for any of delays by any of the state governments or any of the other governments when it comes to execution. However, this execution slow down, I believe, has affected the entire sector - some more and some less maybe. But going forward, we don't see execution to suffer when it comes to the next few quarters.
- Madhuchanda Dey:** I got your point. So on the basis of the execution commitment, you kind of ended your FY19 with INR 226 Cr kind of a top line right?



Deep Vadodaria: Ma'am as a policy decision we don't give out guidance's so I will not be able to give you numbers but you can envisage that there is going to be growth from last year. How much of that growth is going to be is something that as policy, we don't come out with. But your question on execution is well taken. However, the real reason behind this quarter we have been very honest with, and I believe it has affected a lot of other players as well the availability of manpower. And historically as well once you look at numbers of all the Infra companies including ours', the H1 always has been a little muted compared to H2 in terms of execution, because the clear execution days are limited also pertaining to the weather, as well as the availability of manpower. But obviously the pace is going to pick up from this coming quarter and then leading up to quarter three and quarter four.

Madhuchanda Dey: My last question is, see there is an overall slowdown not only in automobile but it is across sectors. Is that likely to impact time's behavior in terms of the kind of project timeline that they were previously working with? Even if there are new orders?

Deep Vadodaria: Ma'am, I did understand the question because the orders that we have are all government orders as of now. And then no timelines are going to be affected by whatever is going to move in the economic because these are directly linked with the beneficiaries and all the projects that we are working on ground right now. All the beneficiaries have been finalized and all the beneficiaries are being regularly paying money and in fact they are more than keen to get their houses. So I don't believe there is going to be any slowdown in terms of clients when it comes to their and when you talk about Bechraji we are not getting into any of presumptive construction depending on future demand coming in, we are only working on Build-to-suit basis even though we are slower than the rest of the market. But we are not indulging into any form of speculative construction which we want to do on the site and then wait for the client, so we don't see ourselves affected from that.

Madhuchanda Dey: But there are certain private orders in your order book right. So it's not that.

Deep Vadodaria: There is only Adani order ma'am and we are at the advance stage of construction there on the phase 2 however they have had questions on phase 2 but we don't see that to slow down our execution because both the orders are very prime business park that they have developed and phase 1 we have already completed and we are handing over by the end of the calendar year and phase 2 execution is still on which they are thinking on. But the phase 2, is the only order which is pending now. The PMC building order that we have from the private client is also near in completion where we will be handing over the position to the client by the end of this current quarter that we are in, which is quarter two, so the private client order is negligible compared to whatever government that we have at this point of time.



- Madhuchanda Dey:** Okay. And just last one question, the pipeline that you alluded to Rs. 419 crore, is it, if you could give some color on private vis-à-vis government here?
- Deep Vadodaria:** This is all government nothing private in this.
- Moderator:** Thank you. The next question is from the line of Reshma Shah an Individual Investor. Please go ahead.
- Reshma Shah:** I would like to know the company is planning to enter new geographies as this Gujarat concentration is a big risk?
- Moderator:** The line for the current participant is disconnected. The next question is from the line of Karan Ramesh from Ashika Group. Please go ahead.
- Karan Ramesh:** I just wanted to ask you about the revenue mix so for FY19 it is at 63% on civic infrastructure and 32 affordable housing. And right now the order book is squeezed more towards affordable housing. So I mean, in the long term, what kind of mix are you looking at? And what segment do you think is more attractive? Which one has a better EBITDA margin?
- Deep Vadodaria:** Selectively both look good to us but in the longer term you can look at anywhere in terms of spreads you can look at or rather in terms of bifurcation you can look at 62 to 65% coming in from affordable housing and 30% to 35% coming in from civic urban infrastructure. When you talk about profitability, well it depends on what model of execution we are taking. Because when you talk about affordable housing, we have been mixing it up with lump sum turnkey projects, EPC projects and the PPP projects and they all have different kind of profitability and question. And the same thing happens in terms of civic urban infrastructure in civic urban infrastructure also, we are doing key projects which are PPP which are higher profitability businesses and there are EPC contracts where obviously the margins are slimmer than that. So in terms of a one line for your answer, well we can definitely look at because the order pipeline that we have bidden in is more in affordable housing so going forward the mix that we are looking at is anywhere between 62 to 65%, coming in from affordable housing.
- Karan Ramesh:** Okay and are you looking to expand beyond Gujarat and Rajasthan or would you be focusing only on these two states for now?
- Deep Vadodaria:** We are focusing on these two states for now, in the opening remarks I also pointed out the sort of scope that is here to grow. Obviously, these are markets that we are very deeply rooted into. However we are looking at other geographies very closely as we have stated in the past, political stability is one of the biggest things that we look for when we enter a state and we don't enter states for one off orders unless we have long term plans for the states. So we have been closely tracking two or three states where we think we want to get into given a



chance of a longer term outlook. But no real immediate plans of entering any state apart from these two that we are currently focusing on.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Management. Please go ahead.

Anurag Patil: So I just want to understand how much investment you have done in terms of this Bechraji project till date and how much is to be done over the time and the revenue or monetization how much you are expecting and if possible any broader timeline for the project?

Deep Vadodaria: Yes, sure. So this is a very larger question I believe in interest of time, I will quickly sum it up and then maybe Valorem can hit over and send you the details that we have prepared on the white paper separately, but see I will just quickly breakup the Bechraji project into two different segments we have two distinct land parcel one is Romanovia Industrial park which is purely a logistic park 150 acre park where phase 1 construction has already completed and we already have more than 3.5 lakh square feet of occupants there in the name of Nippon which is the largest Japanese company in terms of logistics, TVS logistics and a couple of other smaller players which are also pertaining to the logistical trade cycle for the automotive. Going forward as well because of the demography which is two kilometers from the Suzuki gate, we are envisaging only logistics players to come in there and as I said earlier to one of the questions that we are not into any presumptive construction of warehouses waiting for the client to come, we are only into build-to-suit basis even though it's a little slower model of execution compared to others but since we are a construction company, we are able to squeeze down the timeline in terms of construction and the BTS are working well so on Romanovia we are going to do that and the timeline that you can look at for Romanovia is anywhere close to 2.5 to 3 years in terms of completion and consumption of the entire 150 acres of land. And when you talk about the other land parcels, which is approximately 130 acres of final plot after the MBSIR has been formed. Well MBSIR has only started working on paper now and execution in terms of opening up of roads and stuff is only going to happen now post monsoons are over, the bid they have just invited for construction of roads and services. So that will start post construction which will make majority of our land approachable so some bit of our land was not approachable till now because the land is not approachable from main road but since this roads will open up now from the next quarter, we are very hopeful that in next three or four quarters most of our land will be approachable. And that will obviously speed up in terms of demand and execution both, but we will have to look at a longer term horizon for the MBSIR Park which is Kent Residential & Industrial Park. However, whatever land parcels that we had approachable on the road, we have already started development into that and we now has five dormitories of Maruti Suzuki which are long term leases with Suzuki Motor Gujarat where labor lived for each one house is almost 650 numbers of people. We have already constructed the first commercial building in MBSIR which is a small commercial building and now has proposed another commercial building



which will have multiple services including entertainment and stuff for the Suzuki laborers that live there. So in terms of timeline, this is how it is, in terms of whatever is gone into that I will have Valorem come back to you with a detailed presentation of what we have made in terms of whatever investment that we have made till now and what investment are we looking at going into the future and how the monetization plan for the same worked out.

Anurag Patil:

Okay, that was helpful. So I have some another minor questions. Correct me if I am wrong, so in Gujarat as per my knowledge there are some labor strikes or something issue in general, this labor from UP, Bihar goes to holiday around Diwali and that also creates a labor issue. Is my information correct? And if it is correct, then will it be affecting our execution in the coming quarters or if you can just throw some light on that?

Deep Vadodaria:

Sure. So just giving you a general guideline in terms of labor in general. The labor in general coming in from UP and Bihar has considerably fallen down in the last couple of years compared to the years that have gone by. So we don't see any issues, while your observation is right that these are essentially the labors which take longer holidays in Diwali compared to Holi holidays that labor from Gujarat and Rajasthan do, but however I think these are normal industry practices and we have to be well planned for this to not affect our operations, only in terms of there are unprecedented situations that have happened in this quarter one where the break was pretty much extended because the elections and there Holi break did not have too much of gap in middle so they decided not to come back. That's an unprecedented scenario but going forward obviously your question is relevant. But we have to be well planned for that, that this is the amount of labor that we are going to lose in terms of their annual breaks and how are we going to replace it with local labor which is going to be available in that span. But however, Diwali again is our major holiday for majority of labor and work is affected a little bit but that is affected across the sector. So we are not the only one in terms of affecting of that work. So, I don't think that's going to be a major issue going forward in the quarter over the next quarter.

Moderator:

Thank you. As there are no further questions, I would not like to hand the conference over to Mr. Deep Vadodaria from Nila Infrastructures for closing comments.

Deep Vadodaria:

Thank you friends for joining us today. Going forward as a pure play civic urban infrastructure company we will continue on the growth path and we will look forward to having you with us in the next quarter's earnings 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, that concludes this conference for today. Thank you for joining us and you may now disconnect your lines.