



“Nila Infrastructures Limited Q3 FY2017 Earnings Conference Call”

February 17, 2017



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Moderator: Good morning ladies and gentlemen, welcome to the Q3 FY17 Earnings Conference Call of Nila Infrastructures Limited. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guaranty of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Deep Vadodaria – Chief Operating Officer. Thank you and over to you, sir.

Deep Vadodaria: Good morning friends. I welcome you all and thank you all for sparing time for this conference call. Along with me I have Mr. Prashant Sarkhedi – our CFO; Mr. Himanshu Bavishi – our Group President (Finance); Mr. Dipen Parikh – the Company Secretary and Strategic Growth Advisors – our Investor Relations Advisors.

The key word for the Union Budget 2017-18 has been Affordable Housing. Most important impetus to affordable housing sector in the budget was it has been accorded the infrastructure status. The status will help the developers access funds at lower rate of interest whereby lowering the overall cost of the project which will make it more affordable for the end users. There is another important proposal regarding profit linked income tax deductions for promoters of affordable housing scheme. The eligibility criteria for the project to qualify for affordable housing status has also been changed from a built-up area to a carpet area of 30 square meters for projects within the municipal limits of the four metropolitan city and 60 square meters for projects in the peripheral area of metros and rest of the country. The key beneficiary of this will be the home buyers as the unit size is likely to go up. Also the allocation towards Prime Minister Awas Yojana has been increased from Rs. 15,000 crores in 2016-17 to Rs. 23,000 crores in 2017-18. With a target to complete 1 crore houses by 2019 the government's intentions are appreciable to achieve Housing for All mission by 2022.

Now let us see how all these announcements will help us grow from here on. We are now a well-established player in government affordable housing space. We have all pre-requisite registrations as well that satisfy all the pre-qualification criteria and we have already delivered about 2,300 units i.e. 13 lakhs square feet of construction. Our core expertise is civil construction and it's the foundation of our growth. We have been executing government projects on EPC, EPC + PPP and PPP basis which are part of housing for all mission of the government.

We also have expertise in execution of the civic urban infrastructure projects like medical college, office complexes, multi-level parking, BRT transport stations etc. We have efficiently



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transformed experienced gained from developing our own real estate projects to execution of affordable housing infrastructure and civic urban infrastructure projects. Now the government agencies will shift its thrust to top gear by commencing more and more affordable housing projects and this makes our outlook very positive.

The projects that we bid for and execute are generally in either of these three forms which are EPC, EPC + PPP and PPP basis. The EPC mode of projects are simple contracts awarded for engineering, procurement and construction. The projects are generally fixed priced contracts and have a low risk profile in terms of execution. However, the margins are also at moderate level. Having said that the other two forms of projects, which is EPC + PPP and PPP mode provides operational and financial flexibility. In EPC + PPP mode of projects the execution risk is moderate as well as the margin profile is also moderate. This is since part of remuneration for project execution also comes in the form of part of land on which the project is to be executed. This gives potential upside to profitability.

The third form of project execution is a high-risk-high-return mode as the project execution is fully funded by the company and towards the remuneration for the work done, the authority allots (a) Transferable Development Rights (TDR) and (b) the balance vacant land. The icing of the cake is the additional FSI officially sanctioned by the local civic body on such development that makes the whole proposition a win-win for all stakeholders, including the developers. Each of the authorities, with whom we work, bid out projects from specific mode. For example, the authorities in our home state Gujarat awards projects on EPC and PPP mode whereas the Rajasthan Government award projects on EPC + PPP mode.

As a well thought-out strategy, we expanded our operations into the neighboring state of Rajasthan. With the kind of order book today we have been successful in addressing the geographic concentration risk. To propel our strategy further we have signed an MOU of Rs. 400 crore with Government of Rajasthan during the latest Resurgent Rajasthan Partnership Summit 2015 to develop various civic urban infrastructure projects including affordable housing projects.

Our team has been assigned a mission to add variety to our order book. We had taken it up as a challenge internally and today I can say with utter conviction that the order book is well diversified as during the last three quarters we have received orders in slum redevelopment, medical college, office complex etc. apart from affordable housing which altogether is Rs. 2,227 million.

As a strategy to widen our offerings we are executing a project to create medical infrastructure in Barmer, Rajasthan. This project will serve as a stepping stone for our future endeavor into health and medical infrastructure segment.



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Having a home ground advantage in Gujarat last year we ventured into PPP projects with a slum rehabilitation and redevelopment project in Ahmedabad worth Rs. 669 million. The remuneration is in the form of TDR and balance vacant land. On the back of the success of our first order we had put in a bid for another project with a total development cost of Rs. 68 million. With this project our order book from PPP projects was Rs. 560 million of which unexecuted portion is Rs. 391 million.

On the EPC front, we have received an order for construction of PMC office building for it's active consumption for Adani Ports and Special Economic Zone worth Rs. 435 million, of which the unexecuted portion as on 31st December 2016 is Rs. 372 million.

Our total confirmed unexecuted order book as on December 31st, 2016 is Rs. 3,013.70 million of which 55% is from affordable housing projects and the rest 45% is from other civic urban infrastructure segment which also includes private white label construction job. On an overall basis we are executing construction of about 3.5 million square feet area including 6,000 units of affordable housing.

With this, I would now request Mr. Prashant Sarkhedi, our CFO to present financial results for the quarter and nine months ended December 31st, 2016.

Prashant Sarkhedi: Good morning. And we thank you all for joining us today on our quarter 3 and nine months' financial year 2017 earnings call. I believe you had an opportunity to see our results and presentation that we have circulated and uploaded on our website apart from the respective website of the BSE and NSE. I would now present the standalone result for the quarter and nine months ended December 31st 2016.

The revenue increased by 17% to Rs. 549.10 million from Rs. 471.10 million in quarter 3 FY16. Revenue from the nine months FY17 grew by 30% from Rs. 1,246.70 million in nine months FY 2016 to Rs. 1,623.7 million. In profitability term, EBITDA for the quarter 3 FY17 grew by 22% from Rs. 78.6 million in quarter 3 FY16 to Rs. 96.3 million with an EBITDA margin of 18%. EBITDA for the nine months FY17 stand at Rs. 254.2 million compared to Rs. 198.1 million for nine months FY16, grew by 28% year-on-year basis. Margins for the nine months FY17 have come in at 17%. The profit after tax is Rs. 56.10 million for quarter 3 FY17 a growth of 24% compared to the Rs. 45 million in quarter 3 FY16. Profit after tax for nine months FY17 has grew by 34% from Rs. 112.4 million in nine months FY16 to Rs. 151.3 million.

At December 31, 2016 the standalone net worth is Rs. 1,925.5 million whereas the standalone gross debt is Rs. 1,557.5 million. While the cash at bank at the standalone basis is Rs. 37.9 million. The net debt to equity is at a comfortable level of 0.79 times as on December 31st, 2016.

With this we now open the floor for question and answers. Thank you.



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Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Krishna Nalamothu, an individual investor. Please go ahead.

Krishna Nalamothu: Sir, I have three questions. First is margins used to be 24% in financial year 2014 now last year it came down to 15%, this year they are hovering around 15% to 18%. What is the outlook for next two years? Second question is, though sales and order book is increasing there are worries about debt, even India ratings recently downgraded the rating. How it is going forward about debt and finance cost? Third is we have land bank of roughly around Rs. 70 crores to Rs. 80 crores? What are the plans? These are the three questions.

Deep Vadodaria: First, I will answer your first question, Mr. Krishna. On the margin front you just specified that there have been a margin levels yes, there are because the revenue mix has been changing from the segment of projects that we spoke about on the opening of the call. And the margin looks much positive because now we have more orders and the unexecuted order books the percentage coming in from EPC + PPP and PPP projects has been substantially more compared to the last two years. So as the revenues of these projects will start kicking in and which have already started kicking in from last two quarters you will see the margin pictures improving as we move forward. Getting into your second question, well, the India rating did not downgraded it. The rating has remained the same. Outlook is just changed to negative. On the debt front we have an internal call that we will keep the equity to net- debt ratio below 1 and we have been able to constantly keep it below 1. It is at 0.79% at this stage and going forward well, we have been pushing on the revenue front.

So these are capital intensive projects and even the PPP projects that we are doing are more capital intensive. So debt will remain stable in certain ways. We do not see any fresh debts being added on the immediate basis. But as we move forward and expand more yes, the working capital will be needed because of the changing assignment from the projects. So that is going to be the case.

We have been actively looking at plans to develop this land bank or monetize it. But as of now we have not taken a call on immediately doing either of them, and we have been waiting for the market circumstances to be more stable. Because post-demonetization there has been changes in the market dynamics connected to real estate in certain ways. So we have been waiting and watching. And whatever is in the best interest for the company and the stakeholders we will decide the course in due course of time.

Moderator: Thank you. We will take the next question from the line of Debajeet Shah from Sharebuzz. Please go ahead.



Debajeet Shah: Hello sir, what kind of margins we are expecting from Barmer medical college campus in Rajasthan?

Deep Vadodaria: Well, Barmer medical college is an EPC contract. This is our first foray into medical space. So it is where we have been a little aggressive but we can expect the margins to be on the EBITDA level of around 11% to 12%.

Debajeet Shah: Okay and what sort of margin we expect from EPC + PPP projects, is it the same?

Deep Vadodaria: EPC + PPP model is a little higher than EPC so let us say that that will be in the range of around 14% to 16% on the EBITDA level.

Debajeet Shah: Okay, 14% to 16% and only PPP projects?

Deep Vadodaria: They would be much higher around 18% to 20%. All of these projects are unique and different in its own way because the remuneration is in the form of land and the location of land will vary from demography to demography. So there cannot be a standard model but the range that I am giving you would be largely around the same.

Debajeet Shah: And what sort of dividend payout we can expect from the investor point of view?

Deep Vadodaria: Well, we have been giving dividends for last 7 years. And we have upgraded it by another 10% this year and that we have come out at 11%. It will be speculative for me to right now talk about what sort of dividend that the company will payout in the year which is going by. But with substantial growth in the company you can expect that the stakeholders will be benefitted.

Debajeet Shah: And going ahead can you precise on the order book for the next one year?

Deep Vadodaria: That will be a speculative statement but we have always targeted that we would have order book which suffices 1.5 to 2 years of our revenue. So to put an exact number to it, it will be speculative but we will keep on growing and there is lot of orders in the pipeline which we are expecting in this quarter which is going on in the last quarter of the year. And I think you will have a much better figure in a precise one for the year that is coming forward.

Debajeet Shah: Are we restricted Rajasthan and Gujarat only or we are planning to grow into some other states or tie up with some other government?

Deep Vadodaria: Well, we have been looking at other states actively and there are no immediate plans. May be when we have been participating in bids in couple of other states but wherever we see opportunity yes, we were looking at it. But largely right now the sort of opportunity which is



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coming in Gujarat and Rajasthan are working out to be ample enough for our future growth. But yes, we are open to looking at other states for venturing into.

Debajeet Shah:

Okay sir, and the last question is that how is Nila Infrastructures different from other infrastructure companies in affordable housing of some other states I mean like do we have an edge over other infrastructure company?

Deep Vadodaria:

We definitely have an edge because we have studied a lot of publicly listed companies and I believe a very few or even very little companies have the sort of flexibility that we have in affordable housing. You touched to the point of affordable housing, in affordable housing segments we are doing projects in three different forms, EPC, EPC + PPP and PPP basis.

There are not a lot of companies out there in the market who have flexibility of doing projects in all three formats. They are either EPC contractors, or these are developers which are working on the projects on PPP front. But a combination of both gives us the edge and gives us a perfect flexibility to expand further as the opportunities are going higher and higher on the PPP basis as well as on EPC basis. So that gives us the flexibility and the edge over other infrastructure developers in the affordable housing space.

Debajeet Shah:

Thank you, sir. And we wish you a great luck going ahead and we being investors it has been already five years holding your company and I hope we are at the right inflection point and next five years would be different and even much better for us. Best of luck.

Moderator:

Thank you. The next question is from the line of Pankaj Arora, an individual investor. Please go ahead.

Pankaj Arora:

This is Pankaj Arora, I am an investor. I want to ask from last three to four months there is no news of new contracts at your BSE or NSE site. Is that company on the right track or there is some problem after the demonetization?

Deep Vadodaria:

Pankaj, I will answer that question very straight. Well, that has nothing to do with demonetization on there. There are lot of projects that we are involved with and there are lot of projects in pipeline. As I mentioned answering Debajeet's question previously that this quarter, i.e. quarter 4 we are expecting a lot of order inflow to come in and obviously the order once we receive we will be notified to the exchanges and you will be able to see that. And there is a good flow which is coming in and it is in pipeline. It is possible because these are connected to the government and some orders take more time than the others. So no real specific reason for not coming out with this orders in three to four months. But there is a lot in pipeline which we will come out and discuss it with the exchanges and communicated to the exchanges as and when we receive them. But there is a good order flow in pipeline.



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Moderator: Thank you. The next question is from the line of Nikita Shah from NS Limited. Please go ahead.

Nikita Shah: Sir, my question is like if I look at your cost of construction and development on a year-to-date basis you have seen almost a jump of 33%. So can you throw some light what are the specific reason of such a huge jump in cost?

Deep Vadodaria: So first of all, ma'am, I do not know where the data is coming in from of this 33%. But you must understand that our revenues which are coming in from last two to three years has seen a drastic shift in this sort of format of contracts that is just coming in. Like you just understand that each project is going to be substantially different than the other because what we do in Rajasthan and the specification of houses in Rajasthan is largely different than what we do in Gujarat.

And even when we talk about other projects there are LIG houses which is low income group housing which has different form of specifications involved in that process their costing is different compared to what we do for economically weaker section houses. So it largely varies on the demography of the projects and the specifications which are required. So to generalize the input cost from that will not be fair.

Nikita Shah: Okay sir, so looking at your current order book in line and as you mentioned there are new projects also in pipeline. Can you just give me some guidance on your topline for the next two years and what according to you what would be the sustainable margins?

Deep Vadodaria: Well, as a company policy we do not come out with future guidance's but it will be very safe to assume we keep this sort of order book that we have, we are on track to show consistent growth that we have been showing from the last three, four years. And on the margin front as I told you that the revenue mix is changing it is going more towards EPC + PPP and PPP basis. So the margins are also going to improve going forward. And that too at a level which are sustainable over a period of time and there will not be a spurt.

Moderator: Thank you. We will take the next question from the line of Nisha Jain an individual investor. Please go ahead.

Nisha Jain: If you could just throw some light with this recent upsurge in the demand of the affordable housing what percentage do we see this affordable housing to our total order book?

Deep Vadodaria: Well, affordable housing there is a surge, because government has given special impetus. So I think now even the real estate developers are going to be more aggressive on affordable housing. The government was aggressive for the last two, three years and they will move forward now with higher allocation on Pradhan Mantri Jan Awas Yojana. So affordable housing right now stands at around 55% of our order book. It will vary from time-to-time because we bid for a lot of projects. So I think it will stay in the range of 55% to 65%.



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Nisha Jain: And then just one more thing I wanted to check. What is this market size of TDR as of now?

Deep Vadodaria: See the market size of TDR in Ahmedabad is difficult to extrapolate at this stage. But just for the reference of all the callers who are dialed in and all the people who are going to have access to the transcript, TDR in Ahmedabad works completely differently than what we have seen in Mumbai sort of markets. There is a special market that the government has created for the slum TDR where slum TDR can only be purchased from a developer who has redeveloped a slum and the government by itself does not sell it.

In Mumbai, the flipside was that the government was also selling the TDR and the developers were also selling the TDR which made them compete against each other and ultimately the developers really lost ground as far as the premium that they were willing to charge. So that is why Ahmedabad is a special market which the government has made in and government does not sell that TDR. So the demand is going to stay high going forward. But to extrapolate a specific number it is very difficult.

Nisha Jain: And what is the status of the TDR which is around like Rs. 342 million if you could just update on that?

Deep Vadodaria: Well, the TDR of Rs. 342 million have already been given out. We have agreed to give out this TDR to various developers and it is a stage wise model where they can only use the TDR once we complete the project. The project is already on in full swing and we will be done with this projects in the timely bid that is given by the government. So you will see the revenues match that execution that we are doing on ground.

Moderator: Thank you. The next question is from the line of Ashish Parekh an individual investor. Please go ahead.

Ashish Parekh: Sir, going ahead do we see any benefits of orders coming from the Metro Link Express for Gandhinagar and Ahmedabad?

Deep Vadodaria: Ashish, we have been actively looking at the Metro space and as and when we see an opportunity which is prudent for the company to get in we will get involved. We have been involved in public transportation projects in the past by creating more than 70% of the BRT stations that are in the city of Ahmedabad. So we will be actively looking at Metro. But as and when we find prudent opportunities to step in we will.

Moderator: Thank you. We will take the next question from the line of Pankaj Arora an individual investor. Please go ahead.



Pankaj Arora: Again one more question. Are we planning to open our offices in different area of India like Rajasthan because we have already entered into the Rajasthan market? It will be helpful for the company to get the more orders if we open our offices in different parts of India? Are you planning?

Deep Vadodaria: Yes Pankaj, we already have a small office operational in Jaipur and we already have someone working on the business development front in Rajasthan. And as we move into other states we will look at the same. So yes, that is on the cards depending on the size of the market. Rajasthan is of course substantial size now that is why we have a small office in Jaipur now. And as we move forward into different states when the opportunity arises, we will do the same.

Moderator: Thank you. The next question is from the line of Shruti Sharma an individual investor. Please go ahead.

Shruti Sharma: Since the government has ramp up spending in such a big way are there any projects that are already in our pipelines from the government or are we expecting anything in the short-term horizon?

Deep Vadodaria: Yes Shruti, there are lot of projects in pipeline from the government and we are unable to talk in detail about those projects at this stage. But as I said in the quarter which is right now moving on the quarter 4 there is a good order flow which is expected from the company and yes, most of it is largely from the government. So yes, there is a lot in pipeline.

Shruti Sharma: When we undertake all these contracts do we prefer the EPC route or we try to like to look at the PPP more?

Deep Vadodaria: Well, we look at regulating the revenue mixes in a way which is more comfortable for us and which provides us the flexibility to grow on the bottom-line as well as in the topline. So there will be a mix of both.

Moderator: Thank you. The next question is from the line of Debajeet Shah from Sharebuzz. Please go ahead.

Debajeet Shah: I just have another question. The thing is that although we are a very much profit generating company for last many years but barring 2012 why we are not able to generate positive operating cash flow?

Deep Vadodaria: Debajeet, it is not about positive operating cash flow. You have to understand that 2012 was the year where we have active participation coming in from real estate segment as well. And since the churning happened and more of the revenue is coming in from construction business and lot of projects which have been completed and lot of projects that we start off are different so it is



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very difficult for you to say that we are not generating any operational profit. Of course we are generating operational profits.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Deep Vadodaria: We would like to thank you again for joining us today. With continued focus of government on affordable housing, more so, it getting coveted Infrastructure tag, this year our order book will remain strong, the diversity of our order book between affordable housing and other infrastructure projects de-risks our business. We expect the growth momentum to continue in Q4 and FY18 as well. We look forward to talking to you again next quarter. In the meantime, my colleagues and I as well as Strategic Growth Advisors, our Investor Relations Advisors will be happy to take any questions that you might have. Thank you.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.