

Nila Infrastructures Limited
Earnings Conference Call
November 18, 2019



Moderator: Ladies and gentlemen, Good day and welcome to the Q2 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 “*” and then “0” on your telephone phone. Please note that this conference is being recorded. I would now like to hand the floor to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you Neerav. Good afternoon 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 concall for the second quarter of financial year 2020. Before we begin, I would like to mention short cautionary statements as always. Some of the statements made in today’s concall maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward looking statements in making any investment decisions. 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. Now I would like to introduce you to the management participating with us in today’s earnings concall. We have with us Mr. Deep Vadodaria – Chief Operating Officer, Mr. Prashant Sarkhedi – Chief Financial Officer, Mr. Himanshu Bavishi – Group President Finance. I request now Mr. Deep Vadodaria to give his opening remarks.

Deep Vadodaria: Good afternoon friends. I welcome you all to the earnings call for the second quarter of financial year 2020. We ended the quarter with steady growth despite increased volatility in the general economy. We remain confident for the medium to long term perspectives as the demand continues to be very strong as evidenced by our robust orderbook and in getting repeat and multiple orders. Our meticulous execution seeing increased client appreciation which is clearly helping our principal clients in their growth and achievement of objectives. Our strategy on anchoring or participating in meaningful tenders for varied structures for selective clients is what is with a strong fundamental belief to maintain growth momentum while ensuring healthy margins and balance sheet strength. During the quarter we also secured well diversified orders that augur well with our sustainable growth. The restricted availability of labor during Quarter 1 FY20 on account of general elections that succeeded the vacation of Holi and the rainfall during Quarter 2 FY20 unduly restricted the possible



execution though we have a robust order book. The workforce has since been fully deployed while the rains have been subsided and with a clear possession on most of our projects sites, we are certain about the sustainable growth during the remaining part of financial year 20.

Now coming to our order book at September 30th 2019 the company has confirmed unexecuted order book of Rs. 6,786.3 million. The composition of such order book is well balanced and in line with company's core activity as 55% of that is affordable housing and 45% of the unexecuted order book is other Civic Urban Infrastructure Project. Overall the company is developing 8,764 units of affordable housing. The major government clientele comprises of Engineering Project India Limited and the municipal corporation and Ahmadabad urban development authority. With this, I now invite Mr. Prashant Sarkhedi our CFO to discuss the key financial and operational highlights of Quarter 2 FY20.

Prashant Sarkhedi:

Thank you Mr. Vadodaria and good afternoon friends. I will quickly take you through the financial and operational highlights for the quarter and half year ended 30th September 2019. Standalone revenue of the company increased by 9.91% to Rupees 556 million from Rupees 506 million as compared to the corresponding period of the previous year. On the profitability front EBITDA for the Quarter 2 FY20 witnessed a decline of 16.64% from Rupees 89.5 million to Rupees 74.6 million with an EBITDA margin of 14.16% in the Quarter 2 FY20. The profitability at EBITDA level has reduced mainly due to the reduction in the operational efficiency on the back of the change in the revenue mix that is higher contribution from the lower margin EPC project. The project operation cost has increased with a few projects being in preliminary stage the employee cost has reduced due to the reduction in the overall employee and replacement of the high cost manpower with fresh economic manpower. The marginal reduction in the depreciation corresponding to the commensurate movement in the fixed assets. The financial cost increased due to the higher utilization of credit facility. The higher finance cost has further affected PBT which has collectively been marginally offset at the PAT level mainly due to onetime exceptional income tax rate reduction benefit. The profit after tax is Rupees 56.8 million that is 10.21% margin.

Now with respect to the half yearly performance standalone revenue of the company increased 6.89% to Rupees 1,105.9 million from Rupees 1,034.6 million recorded during the corresponding period of the previous year. On the profitability front the EBITDA for the first half '20 has witnessed a decline of 4.03% that is Rupees 161 million to Rupees 154.8 million with an EBITDA margin of 14.70%. The profit after tax is Rupees 97.1 million that is 8.78% margin.

At the September 30th, 2019 the standalone network of the company has increased to Rupees 1,353.5 million due to the plough back of the entire profit of the standalone gross debt is Rupees 1,467.2 million while cash and bank balance is on the standalone basis is



Rupees 68.2 million. The net debt to net worth stood at 1.03. The company has on all its financial commitment and the accounting standard with all the lenders. None of the bank guarantee submitted by the company as ever been invoked by the principal or the client. I now open the floor for the question and answer that may require the further clarification. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Priyanka Gandhi an Individual Investor. Please go ahead.

Priyanka Gandhi: Sorry can you please explain again what was the reason for the overall swollen margins and will this be able to go back to the earlier levels in the coming quarter?

Deep Vadodaria: See this is on account of more revenues coming in from EPC projects, which we have mentioned in the past, is comparatively lesser margins than the PPP projects that we do and the execution under PPP was not slow, but there are few projects which were starting now which we thought would give us revenues by first half of FY20 but that has not happened it is going to happen in the H2 and the quarter goes through Q3 and Q4 we will see the profitability inching back towards the levels that we had promised at the start of the year which is anywhere in between 15%, 16% on the EBITDA margin. So this is a temporary thing which has happened to the profitability in this quarter.

Moderator: Thank you. The next question is from the line of Rajesh Gandhi an Individual Investor. Please go ahead.

Rajesh Gandhi: Sir, my question was regarding the order book so what has been the order inflow this quarter and what is the expectation for second half and also on the revenue front so with the new order inflow and last week orders what is the outlook on our company's top line and bottom line for FY21?

Deep Vadodaria: So the order inflow in the H1 has been Rupees 121.98 crores there are two orders that we received one for the construction of Sonaria Block which is a affordable housing project and then we receive one more order from Dholera SIR this is pertaining to civil common infrastructure. The government is creating a special industrial city and our work is to level up small 17 locations inside the SIR where the utility buildings are to be done by us and going forward the order book inflow look strong. We are bided for projects worth Rupees 131 crores. As you have seen in the past we have been very selective with our biddings and then our projects took about Rupees 175 crores where we were declared L1 and we are awaiting further confirmation from the government. Once the work order is released obviously we will come out in the market to announce those orders and going forward best part as the revenues are concerned we have stated all through the year that even though when the year



has Q1 has been somewhat lackluster because of extended holidays and lack of manpower. We will show reasonable growth in this year and continue the growth momentum as well as keep the profitability impact which is something that which is also very important going forward.

Rajesh Gandhi:

Sir, if you can come again on what kind of orders we are bidding for and what kind of margin profile are we expecting on those orders?

Deep Vadodaria:

As we bid for multiple areas of project in terms of order, so we classify them into two which is affordable housing and civic urban infrastructure. Obviously the civic urban infrastructures are pretty large fields where we are trying to participate in newer bid something that is not done before. Meanwhile, we have also been building capabilities on areas where we have not done something like a medical college which we are just about to finish and it is going to enable us to bid for medical and educational orders going forward. With such capabilities which we had very limited to the sense of bidding before the completion of this project and going forward there will be a decent mix. I think the mix of order book right now is 55% coming in from affordable housing 45% coming in from civic urban infrastructure projects. I think going forward you will see this range largely maintained. Maybe affordable housing pushing to about 60% of the unexecuted order book and civic urban infrastructure to the tune of about 40% and profitability as I said before various models will have different profitability, but cumulated together we are looking at profitability to the tune of 15%, 16% on the EBITDA that we are very confident of achieving.

Moderator:

Thank you very much. The next question is from the line of Atul Kothari from Cromwell Securities. Please go ahead.

Atul Kothari:

Sir wanted to know is what is the average execution period for current order book?

Deep Vadodaria:

Current orders that we have in our order book most of the orders are two years as per their timelines, but usually we see with these kinds it takes about 27 months for us to execute. This is just a general average obviously the project vary from demography to size of the project, but if you were to answer average of that it would be anywhere close to 24 to 27 months that includes this periods.

Atul Kothari:

Sir, can you give us a guidance in terms of outlook as to what top line we can achieve in FY20 and FY21?

Deep Vadodaria:

No, as a matter of policy we do not come out to guidance, but as I said even though first half of the year is a little lackluster than expected mainly because of seasons which were not primarily in the control of the company and were pertaining to the workforce, but we still are



very confident that the H2, like all the years, is going to be better half of the year for execution and the order book the visibility is good, execution is on and maturity of the sites and we have possession on largely most of the sites that are pertaining there. So we are expecting decent growth to comment on the revenues and maintain the bottom line.

Atul Kothari: Sir, can you give some color as to how many days of working were lost because of heavy rains in Q2 FY20?

Deep Vadodaria: It largely depends on the demography because you are operating in multiple demography which is just to give you a small feedback is something like a project in Udaipur. So Udaipur recorded highest rainfall in 50 years this time. So a lot of working days were lost depending on the primary location, but to the tune it also depends on the stage of the projects which is it in so there were lot of projects which is started off obviously they are more affected by the day in because they are underneath the surface at this point of time. So just to give out exact date might not be possible because it largely varies on the demography, but in general something if we compare it to last year maybe 15%, 20% of more number of days were wasted this year because of extended monsoon.

Atul Kothari: So there is no particular reference to last year so can you tell me is to what last year how many days of work was lost and how many days of work was lost I am saying in a first number I am not saying give me an absolute?

Deep Vadodaria: See the approximate number I will have to get back to you on which my team will get back to you on the calculation will be there it is not having with me at this moment, but as I said it largely varies from demography, but we will give you an average of two different demography which is bifurcating it in Gujarat and Rajasthan.

Atul Kothari: What are your CAPEX plans for FY20 and FY21?

Deep Vadodaria: Well we do not need to raise any more capital we believe to service unexecuted order book that we have in hand.

Atul Kothari: Sir, with the current resource or with the current bandwidth sir how much maximum execution can be achieved in a particular year?

Deep Vadodaria: Well that question has been asked to us in the past well there might not be the optimum numbers, but there is something that we are looking at in terms of execution I think we can largely go up another 30%, 35% on the top line easily with the same resources.

Atul Kothari: Sir, can you give us an outlook is what could be the PAT margins going forward?



- Deep Vadodaria:** The PAT look at comfortable level right now we would be happy with anything around 8% to 9% and we are very confident with the product mix that we have in store and the execution starting on multiple projects we will be able to comfortably achieve that.
- Atul Kothari:** Between 6% to 8% right?
- Deep Vadodaria:** No between 8% to 9%.
- Moderator:** Thank you very much. The next question is from the line of Nitin Shah an Individual Investor. Please go ahead.
- Nitin Shah:** Sir, actually I have two, three questions regarding the Becharaji project. So firstly like how has been the progress of the two logistic parks at Becharaji since like basically since there has been a slowdown in the auto sector so how is it progressing. Firstly this is the question another is like did we had any new clients for Becharaji project and another is like what is the opportunity size for the company Becharaji so these will be my three major questions?
- Deep Vadodaria:** Can you repeat the first question again sorry I missed the first one this is Becharaji two logistic parks that you spoke about let me just answer one by the others. So we have two parts out of which Romanovia INDUSTRIAL PARK is a purely logistical park where phase one is already completed and we already have tenants which are operating out of the park. The phase two development we will start shortly in the coming quarter maybe or the quarter after that, but we are purely restricted to bid to suit warehouses at this point of time and we are not building anything speculative that is our stand on Becharaji and the market well the market demand is pretty much there. Yes in the middle because of the sentiment in the auto numbers and some bit of slowdown in production that we had to do to adjust those numbers. The demand had sort of dive down in the last quarter, but we are seeing it pick up again the demand. See what Suzuki is trying to achieve in that area is very long term and they have really honestly stuck to their plan and we are very confident because we are in very close stuck with them and they are very confident about because it is not only the Indian market that their production facilities are focused on it is also a ballpark export to Africa that they are looking from the specific plant. So however obviously the sentiment does affect because of whatever happens in the auto industry in the last couple of quarters, but the demand season looks pretty strong and the demand has started coming back, but our focus has been build-to-suit and we are not indulging into any speculative warehouses and waiting for the clients to come in there, it is kind of a clear cut advantage because both our industrial parks are two kilometers from the Suzuki gate so at least for the logical part location advantage is the very big key because they want to be closer to their client and on the other land parcel we will have to wait it seems like another one quarter because the SIR is going to now handover the order to make basic roads and services on town planning scheme one which is a bulk of our



land case is situated and the industrial monetization of back part is going to take some bit of more time. However we are keenly pursuing and in the next quarter we will be opening up some bit of our residential inventory in Kent Residential and Industrial Park in the coming quarter and that demand has been very robust even in quarter like last quarter where the auto demand slowed the residential demand has been pretty strong on that guidance. On the question two the new client that we have added in the last quarter no we have not added any client in the last quarter, but as I said the flow has come back and we are in talks with multiple number of players who are looking at a setup there some small manufacturing units and even industrial sort of logistic players. So maybe we should add something in the coming quarter, but in the last specific quarter we have not added any new client there in Becharaji and in terms of opportunities well we have spoken a lot about this in the past the potential is absolutely meant because the land parcels that we have the location advantage which obviously is going to become bigger and bigger as the area start developing so Romanovia 150 acres of total land parcel and Kent is anywhere close to 130 to 140 acres divided of course into residential and industrial. So the potential is pretty huge, but as of now as I said one part of the land is Kent where monetization will start in steps where we are starting to monetize now in the coming quarter we will start monetizing in from the residential belt and then going forward once the basic government infrastructure comes into play more of our land become motorable we will be able to do industrial development we will be able to do industrial development there and meanwhile all the queries from the customers where right now focusing on Romanovia when it comes to logistic park and maybe in phase two once Romanovia is reasonably full and we will move towards developing more industrial pockets into Kent Residential and Industrial Park.

Moderator: Thank you very much. As there are no further questions I will now hand the conference over to the management for closing comments.

Deep Vadodaria: Thank you friends for joining us today. Going forward as a pure play urban infrastructure company we will continue on the growth park and we will look forward to having you with us on the next quarters call and 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 very much. On behalf of Nila Infrastructures Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.