"Ahluwalia Contracts (India) Limited 1QFY27 Earnings Conference Call"

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MODERATOR: **MR. SUDEEP BORA – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Ahluwalia Contracts (India) Limited 1QFY27 Earnings Conference Call, hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in 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 star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sudeep Bora. Thank you, and over to you, sir.

Sudeep Bora: Good evening, everyone. On behalf of Ambit Capital, I thank the management of Ahluwalia Contracts (India) Limited for the opportunity to host the 1QFY27 earnings conference call. To discuss the results, I'm pleased to welcome Mr. Shobhit Uppal, Deputy Managing Director; Mr. Vikas Ahluwalia, Director; and Mr. Satbeer Singh, Chief Financial Officer.

Now I invite the management to take us through the key highlights of the quarter, post which we'll open up for Q&A. Thank you, and over to you, sir.

Shobhit Uppal: Thank you. Good afternoon, everybody. Ahluwalia Contracts (India) Limited has announced its financial results for 1QFY27. During 1QFY27, the company achieved a turnover of INR1,125.81 crores and a PAT of INR11.42 crores in comparison to a turnover of INR1,004.88 crores and a PAT of INR51.11 crores during 1QFY26. The company has registered a growth of 12.03% in turnover and degrowth of 77.65% in PAT during 1QFY27 in comparison to 1QFY26.

EPS of the company for 1QFY27 is INR1.70 compared to EPS of INR7.63 in 1QFY26. During 1QFY27, the company's EBITDA margin is 4.29% as compared to 8.59% in 1QFY26, and PAT margin is 1% as compared to a PAT margin of 5.01% in 1QFY26. The primary reasons for the dip in EBITDA margin are as under. We have -- there has been a finalisation of the bill of the AIIMS Jammu project, which has resulted in a reduction of bill value by INR29 crores. This is a cause of dispute, and now that the bill has been finalised, the dispute will be raised through an arbitration process.

The adverse impact on this account is 2.6% on our EBITDA. Then there has been an adverse impact due to the West Bengal and Assam SIR drives and elections. This has led to a reduction of turnover in the projects that are being executed in these states, and it has impacted in higher IDC costs, thereby impacting our EBITDA margins. Then during this quarter, labor rates have increased significantly in NCR, which contributes nearly 50% to our total portfolio. The minimum wage increase has been to the tune of about 35% to 40%, spanning over unskilled and skilled categories.

This has led to an increase -- a substantial increase in our wage costs. Then there has been an increase in our staff costs, where we have significantly increased our employee base as we have strengthened the organization, mobilized staff resources for our enlarged project portfolio. The net order book of the company as on 30th June is INR20,663.52 crores to be executed over the next 3, 3.5 years. Total order inflow during FY27 till 30/06/2026 as well as up to date is INR512.81 crores. We are ready to receive questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: To further understand this EBITDA margin because this is 4.3% is kind of one of the historic lowest margin. I understand you've tried to explain but further want to understand in detail. So first, you are saying this INR29 crores for AIIMS Jammu that the bill which was under dispute now finalized. So this INR29 crores we have booked in raw material cost and which has led to a kind of a 2.6% impact.

Shobhit Uppal: You can say that. This is under dispute now after finalization of the bill. As you know, the project was completed last year and final billing and its checking was under process. Now during this quarter, 1Q, it has been frozen, and we have now this bill value -- final bill value has come down by INR29 crores. So you're right, the costs have been there, but the bill value has come down, the receivables have come down.

Shravan Shah: Yes. But the other part, what you highlighted in terms of West Bengal, Assam and the labour cost increase. So, in the last call, when we did, that must have been known to you at that time, or even post the last con call. This was the thing, and that's why there is a significant impact on the margin.

Shobhit Uppal: Yes. The labour -- the increase in labour-- was not known at the last call, and it is a hefty increase. While there is a labour escalation clause in a few of our contracts, quite a few contracts don't have this clause. For a lot of our large orders with some large developers, the labour escalation is not there.

Following this increase, we have reached out to these clients and submitted claims, if you will, requesting a revision to our item rates to compensate for the large increase in labour costs. And the most significant increase has been in NCR, especially Haryana and UP, where 50% in NCR -- 50% of our order book is in NCR. That is why it has hit us in this quarter.

Shravan Shah: Yes. Got it. So now given these things we know, so in Q2, do we see how much the clients have agreed to kind of compensate or still it will take time? So how one can look at our net-net in Q2, will the -- similar margin? Or can we -- because we were looking at double digit. So when can we start seeing a double digit from Q3 itself? So for full year, how one can look at the margins?

Shobhit Uppal: So look, there are several external factors. One being this radical increase in pricing by the government of Haryana and the government of UP, so there is -- it is not possible for us to put a date as to when we will be compensated, whether it will be in Q2. But we expect that over the next two quarters, some of this compensation will start flowing in.

Having answered the first part of your question, the second part, Q3, again, we are hearing rumors about NGT, the impact on account of NGT, government of Delhi and Haryana looking to take stringent measures, while nothing is still out is there in black and white, but we can't quantify the impact on our EBITDA of the NGT -- potential NGT impact. So I cannot tell you whether we will be hitting the double digit in Q3. Q3 is likely to be impacted by NGT. How much, we cannot sort of give you an indication today.

Shravan Shah: So at current juncture, what do you think that the -- what kind of a margin we can look at, let's say, from -- for the full year or maybe Q3 or when can we start seeing a double digit from Q1 FY28 or still it will be difficult to maybe...

Shobhit Uppal: Year has been -- this year, there have been a few black swan events. One, of course, has been the war. Second, of course, has been this labor pricing has impacted us in a major way because a couple of our projects, there are -- the labor factors as it is are higher because some materials are being supplied by the client or clients, so it would be fair to say that this financial year, we are ruling out having a double-digit EBITDA margin.

Shravan Shah: But at what max number one can look at, let's say, if I have to look at it the other way, how max -- because as you highlighted Q3 also...

Shobhit Uppal: Look, Q2 is an aberration. Primarily, as I said, 2.6 percentage points have been shaved off because of one thing. And that also -- it's something the client had agreed to at one time, and now, for various reasons, they've gone back on it. It will -- we are already looking at -- we are starting arbitration proceedings. So we should -- whatever we had -- what was there in Q1 of the last financial year -- we are hoping to get back to those margins over the next three quarters. The effect of NGT, that is a rider that I'm putting here, we are unaware of how much that is going to contribute or hit our margins.

Shravan Shah: This, in any way, is also impacting the execution. So whatever we are looking at is 15%, 20% growth for this year and even a similar number for FY28. So is there any change on the lower side?

Shobhit Uppal: No, we still feel -- there has been a top line growth this time around. We still expect top-line growth of about 12% to 15%. And it will -- as per the historical EBITDA margin over the past couple of years, we should be there and thereabouts.

Shravan Shah: Okay. Okay. Some balance sheet numbers, sir, if you can provide inventory data? Yes, inventory data, trade payable.

Management: This is INR776 crores.

Shravan Shah: INR776 crores?

Management: Yes.

Shravan Shah: So that is the data?

Management: That is the data.

Shravan Shah: Trade receivable is INR776 crores, you are saying?

Management: INR776 crores trade payable and debt risk INR632 crores and retention is INR401 crores.

Shravan Shah: Sorry, how much you said retention is?

Management: Retention is INR401 crores.

Shravan Shah: INR401 crores. And inventory is?

Management: Inventory, including real estate inventory, INR391 crores.

Shravan Shah: INR391 crores. And mobilisation and unbilled revenue?

Management: Mobilization is INR924 crores and unbilled revenue is INR946 crores.

Shravan Shah: And gross debt and the cash?

Management: That is INR2 crores hardly, INR2.28 crores. And cash and bank balances, including cash and bank balance is INR920 crores.

Shravan Shah: INR920 crores. Okay.

Moderator: The next question is from the line of Vaibhav Shah from JM Financial.

Vaibhav Shah: We saw a sharp increase in interest cost in the first quarter. So the reason for that, and could this be a recurring number in coming quarters?

Management: This increase in finance cost due to -- we have availed mobilization advance during this quarter for the new project, central vista project. So that's why there is increase in finance cost.

Vaibhav Shah: So in coming quarters, it will be a similar number every quarter, INR15 crores, INR16 crores?

Management: Yes, yes.

Management: It was only 8%.

Management: It was 8%, but that proportion was...

Management: And it will be a similar number.

Vaibhav Shah: And sir, out of mobilization advance of INR924 crores, what is the interest-bearing portion and the interest rate...

Management: That is 31%. 31%.

Vaibhav Shah: And the interest rate?

Management: Interest rate you might say around average 8%.

Vaibhav Shah: Okay. Sir, secondly, on Gems and Jewellery Park, so when do we -- what are the challenges which we are facing? And when can the work on the ground begin? And what is the revenue expectation on the project in this year and next year?

Shobhit Uppal: So there is a change in design or requirement happening from the client side. That is why our designing -- the architectural designing has been done, but that is undergoing a change. So I think work on the ground will only begin -- it will not happen in this quarter. It is likely to begin in quarter 3. And we are looking at a billing of about INR100 crores in this financial year.

Vaibhav Shah: Sir, next year?

Shobhit Uppal: Next year, the billing should be to the tune of about INR450 crores.

Vaibhav Shah: So what is the timeframe of completion for the project?

Shobhit Uppal: It's 3.5 years.

Vaibhav Shah: Okay. Okay. And sir, on the CST project, we have not seen that kind of pickup even in the first quarter. So how do you see the revenue moving in over there in this year and next year?

Shobhit Uppal: So we are looking at an average billing in the 9 months after the first quarter to the tune of about INR40 crores to INR45 crores. That is roughly a billing of about INR450 crores -- INR400 crores to INR450 crores in this financial year, which will be ramped up to about INR700 crores in the next year.

Vaibhav Shah: Sir, what is the main challenge over here? So we have -- earlier, we were targeting close to INR600 crores in this year. So what is stopping us from doing that?

Shobhit Uppal: So we are hopeful that we'll still touch about INR500 crores. As I said, we've done about INR70 crores in this quarter. And if we do about INR450 crores in the balance 9 months, we'll still -- we are hoping to cross INR500 crores.

Vaibhav Shah: Any project-specific issues over there?

Shobhit Uppal: No, it was -- the project is basically divided into two parts. One is the platforms and the station area, and the other is the new building which is coming up. Work on the new buildings, which is the LD node, DRM building, all this -- the DRM building has started, LD node will start now. The building -- the client is approving in stages. That's why the work cannot be taken up all at one go. As far as the platforms and station areas go, there we get blocks as per the traffic. That is why it is taking time.

Vaibhav Shah: Okay. And sir, lastly, on Central Vistas, how is the work on ground going? And what revenue are we targeting for '27 and '28?

Shobhit Uppal: So FY27 -- but let me first tell you, there are two buildings which were to be broken there, Nirman Bhawan and Udyog Bhawan. Nirman Bhawan has been completely broken. The foundation casting has begun, and in September, we'll start correcting the structural steel. Udyog Bhawan was handed over to us about 3 weeks ago, and 90% of that has been demolished. The demolition will be completed in the next 15 days, and we've started excavation work, so a month from now the foundation work will also start in that area. We are looking at a billing of about INR700 crores in this financial year.

Vaibhav Shah: And the next year?

Shobhit Uppal: Next year, it would be about INR1,000 crores.

Vaibhav Shah: Okay. And sir, you mentioned that...

Shobhit Uppal: We are looking to complete the building, which we started where Nirman Bhawan existed, which is about 50% of the job. We are looking to commission it by the end of next year.

Vaibhav Shah: And the base would be completed in FY29?

Shobhit Uppal: Entire project will be completed in FY29.

Vaibhav Shah: And sir, on revenue, you mentioned 12% to 15% growth, right? So we are lowering the guidance from the previous call.

Shobhit Uppal: It was 15%. We are sticking to that. As I said, the lower 12 -- the NGT is something which we are not sure about what impact that is going to cause. So that is why.

Vaibhav Shah: So if it is similar to what happened last year, then we could -- we may cross 15%?

Shobhit Uppal: Correct.

Moderator: The next question is from the line of Sandip Sabharwal from asksandipsabharwal.com.

Sandip Sabharwal: I think your last conference call happened 15 days after the end of the previous quarter. So it's very difficult to believe that you did not know the impact of the new labour code, labour charges, etc., and what impact it will have on your first-quarter results, because your results and con calls typically happen 45 days after the last day of the results season.

So like I've been observing that you've been giving guidance on growth, on margins, etcetera, last many quarters, but I think those have no relevance actually because the numbers which come out are totally different. So, do you have any comments on that?

Shobhit Uppal: It's a very generic observation that you've given. You have some data, or we can have a separate meeting. Our CFO can meet you. I would like to think that we have been more or less in line with the guidance I've been giving over the past 3-4 years post-COVID. If you could be a little more specific?

While I agree [inaudible 0:22:38]. No, no, let me complete. Let me address the first part of your query: whether I was aware or whether we were aware of the impact of the price escalation on account of labour when we did our last investor call. Are you insinuating that I was aware and I hid that? Do you have any specific data you want an answer to from me?

Sandip Sabharwal: Your last conference call happened 45 days after the end of the previous quarter. So, I think you had a call around the 15th or 16th of May. So you are saying that the new labour charges were imposed on you after the 15th of May or before the 15th of May? Was that for the full month or full quarter or half of the quarter?

Shobhit Uppal: If you know the nature of our business, if you track this industry, you would know that April, May, June are traditionally that part of the calendar year where labour is in extreme short supply on account of various factors. This quarter, this was further exacerbated by a slew of festivals, especially Muslim festivals. 50%, 60% of our labour -- skilled labour or 80% of our skilled labour is Muslim, right?

So the impact on the ground was felt much more, which was very difficult to predict, especially in NCR, Haryana, and UP, where the government further compounded this issue by increasing labour costs by 35% to 40% between skilled and unskilled. It was very difficult for us to predict the impact on our costs. Have I spelt out the position clearly?

Sandip Sabharwal: No, not really because when was the increase in labour costs done for you? Was it from the 1st of April?

Shobhit Uppal: It's an ongoing process. Then you are not understanding; then it seems you've not tracked this industry. Please understand that what we are paying on the ground today to a bar binder, a carpenter, or a mason is totally based on demand and supply.

And in most cases, over the past 2 months, it has been more than what the government has mandated. It's a demand and supply issue. If you track this industry, you would know that. If you don't, we would be more than willing to meet with you and provide a refresher course.

Sandip Sabharwal: No, no, I don't need a refresher course. There's no need for you to become aggressive on the call.

Shobhit Uppal: No, no. I'm just telling you, you are insinuating -- your first question that you asked me, you are insinuating that I've hidden some facts. You need to articulate your question better.

Sandip Sabharwal: No, no. I said you have a call in the middle of the quarter. By that time, you should have a fair idea of what's happening in that quarter. If you don't have a fair idea of what's happening in that quarter, then any kind of guidance is of no relevance?

Shobhit Uppal: Look, I know what guidance I'm giving. It is your prerogative to agree to it, believe it or not. I'm willing to invest more time with you and try to take you through what impacts my on-the-ground costs. You are the one who's saying you don't need it. What more do you expect from me?

Sandip Sabharwal: No, I don't think. Let it be.

Shobhit Uppal: Let's move on.

Moderator: The next question is from the line of Vishal Periwal from PL Capital.

Vishal Periwal: Sir, on this labour, whenever these changes happen, I mean, can this be considered more like GST-related changes, change of law? Will this become applicable and then the same can be passed on to our clients?

Shobhit Uppal: So this is not considered as a statutory increase. While if a certain component of the increase, say, if the PF was getting increased, that would -- tantamount that would be taken as a statutory increase, which the clients would have to necessarily bear. In terms of an an increase by the government, it's not a statutory increase, I said.

But having said that, we are still writing to all our clients and telling them that this increase is coupled with demand and supply issues. Today, labour has become a big issue, especially over the last 2 to 2.5 months; all our projects, especially in NCR, have been operating at 40% to 50% labour strength.

So we have reached out to our clients, and they have been sympathetic in at least listening to or reviewing the numbers we are presenting to them regarding the impact on our costs. So we are hopeful that, for projects that do not have a labour escalation clause with some of our larger clients in NCR, the client will consider compensating us to some extent.

Vishal Periwal: Okay. Okay. And from an accounting point of view, the employee cost that we book in our P&L-does this have an impact of labour, or is it only the HO-related and other things which are part of the employee cost?

Satbeer Singh: It affected employee duration this quarter.

Shobhit Uppal: Do you want to answer that?

Satbeer Singh: To the extent that the company employs such labor, it is included therein. And what is not employed and they are into like contractors or labour suppliers, that is in the subcontractor or labour costs.

Vishal Periwal: Okay. Because what -- from the P&L, it looks like I think probably a INR30 crores kind of impact, which is coming from the AIIMS. And if it is getting booked somewhere in the raw material and subcontracting where the labour cost is also there, then that explains probably like an INR30 crores impact. The other impact is the increase in employee costs, which is having a much greater impact on our P&L. I think that's what I could gather.

Management: That you already answered, the numbers...

Shobhit Uppal: So yes, you're right. One is that INR30 crores -- there is actually a threefold impact on our EBITDA, right? One is at INR30 crores. The other is broadly split between our increased staff costs and increased labour costs.

Vishal Periwal: Okay. Okay. And maybe one last thing. In terms of employee costs, is there any one-off, such as bonuses or anything else, that has happened? Is it more like a recurring employee cost?

Shobhit Uppal: It's just that -- no, no, it's just this that this should rationalise over the next three quarters because we have ramped up considerably on account of our large projects like Central Vista starting or Dahlias starting. These are large projects. One is a INR3,000-plus crores project. One is a INR2,000 crores plus project. Also another project for DLF, which is downtown, which is also a INR1,600 crores, INR1,700 crores project, that project has been delayed owing to design changes.

So there, the time line is -- the client is looking to compress time line. We further ramped up our mobilisation in terms of our staffing there. So, with these large projects, as their turnover increases or their contribution to top-line increases, the percentage-wise staff cost will rationalise.

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: Sir, currently, the L1 last time we said INR1,620-odd crores, the hospital in Delhi and Odisha Government University, Bhubaneswar. So out of that, which one got converted into...

Shobhit Uppal: No. University, they were asking us to increase our bid validity; we refused because that was a fixed-price contract and seeing the volatility and the increase in cost at the ground level, we refused. So that has fallen through. That is no longer live now. So RML continues to be live.

Shravan Shah: Okay. So INR512 crores inflow for this quarter is different from the RML, which is still L1, or that is the one which got converted into...

Shobhit Uppal: RML is still L1. RML has not translated into a work order yet. So this INR512 crores is different from that.

Shravan Shah: Okay. So RML value is INR700 crores, INR600 crores.

Shobhit Uppal: No, no, RML is INR500 crores.

Shravan Shah: INR500 crores. Okay. So -- and then full year, what we guided in terms of inflow, INR8,000 crores, so that remains intact?

Management: No. To be frank, we are no longer very aggressive. That should come down because this volatility, both in terms of material prices as well as labor prices, we are looking for this to stabilize. And as it is, our order book is INR20,000 crores plus. So we are being conservative as far as the rest of this year is concerned in our approach towards picking up new orders.

Shravan Shah: So maybe INR4,000 crores, INR5,000 crores for full year...

Shobhit Uppal: Yes. At least this much can be done.

Shravan Shah: Okay. Got it. And currently, in terms of the bid pipeline that will also will be now reduced, should be INR5,000 crores, INR6,000 crores?

Shobhit Uppal: Yes. What I'm saying is our bid pipeline, the visibility is there. We will bid only and we will factor in -- we'll not be very aggressive. We'll factor in the ground realities and these fluctuations and then bid. We will not bid very aggressively.

Shravan Shah: Okay. Okay. Got it. And currently, from the total order book, INR20,000 crores plus, 11%, 12% would be the fixed price contract?

Management: Yes. 10.34%.

Shravan Shah: 10.34%. Okay. Okay. And then capex in Q1, how much we have done and for full year, we are looking at INR300 crores. So is there any slowdown in terms of the capex?

Satbeer Singh: Yes. We are looking to reduce the capex for this quarter to INR60 crores. So full year, we will reduce it to anywhere between INR220 crores to INR250 crores.

Shravan Shah: Okay. But overall, in terms of working capital, so there -- from here on, do we see some further pressure, will it remain here, or can it improve by year-end?

Management: We expect this quarter to be lower than the existing level. Represented 119 days because we are getting money from the Assam region; we are expecting that to be at the previous quarter's level.

Moderator: The next question is from the line of Parvez Qazi from Nuvama Group.

Parvez Qazi: So I mean the external environment is challenging. There is no doubt about it, both on execution and on the cost front. So the first question is: I mean, you have a relatively low proportion of fixed-price contracts at about 10%-odd. But in general, how have -- or how has commodity price volatility been over the last, let's say, 5-odd months since the Iran war started? And what are -- I mean, on the ground, how difficult or easy has it been to navigate through these challenges?

Shobhit Uppal: So as I mentioned earlier, we are facing the brunt both on account of materials and labour, right? While labour, I've answered in detail as the questions have been asked since the call began. As far as the material is concerned, it's impacted on two counts. One is the price increase. And second is the supply chain being impacted, with delivery affected because of the war.

That has also led to, say, let me give you an example. Now we buy a lot of panels, which run into many, many crores, right? The switchgear is not available. So delivery, which used to take 4 to 6 weeks, is now taking 3 to 4 months. That is also impacting our performance on the ground.

So, whenever there was a call for a cease-fire or news of one, the prices used to stabilise. But the impact, it's been up and down. So yes, this quarter has also been impacted by that.

Coming back to some of our large contracts and labour specifically, say, for instance, DLF, there have been changes in design at Dahlias, which is one of our largest projects. That has also contributed to less work being done on that project this quarter.

Our IDC costs have also impacted our margins there, right? So these are some things that have sort of hit us this quarter. Having said that, it's -- geographically, these projects are in NCR. NCR seems to have borne the brunt as far as supply chain issues are concerned also and labor price increase is concerned also.

Hopefully, going forward, I think that now that these projects have started in real earnest, we are targeting billing of, as I said, nearly INR30 crores to INR35 crores every month from Dahlias. We are targeting a billing of close to INR60 crores from Central Vista.

We are targeting a billing of INR25 crores, INR30 crores from DLF Downtown, where design issues also seem to be a thing of the past. So I think the increased turnover from these projects should help us get back to the margins we were showing over the past couple of years.

Parvez Qazi: Sure. Secondly, in terms of payments, etcetera, how are things today vis-a-vis, let's say, what they were 6 months back, specifically with regards to central government, state government, etcetera?

Shobhit Uppal: Central government projects, payments are not an issue. Central Vista just started. We are doing Varanasi and Darbhanga; they are Airports Authority of India projects. There is a project we are working on at a Central University in Himachal, for which we haven't been paid for the last 5 months because the project has gone over budget. Our bills are lying certified, but the payments are not coming through.

Other than that, one project- central government projects- we're not having any issue. State government, as Satbeer mentioned, Assam due to elections, our bills were not getting signed off, and payments were not coming. But as of 15 days ago, that process also seems to be getting streamlined, and we started receiving major chunks of our outstanding dues.

Parvez Qazi: Sure. And lastly, I mean, we look at the business over the last 3, 4 years, in general, one would say volatility has increased in terms of -- I mean, labour is a perpetual problem, but whether it is NGT, whether it's supply chain issues or even approvals, etcetera, those have become difficult, and it is impacting everyone. So how are we kind of incorporating it in our risk management framework, especially when bidding for newer projects so that we can at least contain the impact of some of these issues in future projects?

Shobhit Uppal: So, one thing, the more obvious thing that our experience over the last 1.5 years, whatever the impact on our bottom line we've seen, the empirical data shows, we are actually now putting that as a part of our costing while bidding for future tenders. Let's say, for instance, we know there is a huge shortage of carpenters and bar binders. As I mentioned earlier, our bid prices are now incorporating this. We have virtually doubled our shuttering prices, steel prices, and other similar items where labour is in extreme short supply. Secondly, we are seeing that staff costs have now become the new normal.

Our project staff cost used to be about 3.5%, 4%, 4.5%. Now, with increased focus on -- extreme increased focus on safety measures, especially with large developers and even government clients, our safety budget has increased from about 1 percentage point to nearly 3 percentage points. Our staff costs, we've now started taking in excess of 5%. So all this is being incorporated in our bids going forward. And we feel that this is something that all large construction companies have begun doing.

And this is how we feel going forward in our newer jobs, getting these higher rates, quoting and getting these higher rates will help us get back to our historical high margins.

Moderator: The next question is from the line of Jainam Shah from Equirus Securities.

Jainam Shah: Sir, my question is on the AIIMS Jammu part. So of course, INR29 crores has not been recognized into the revenue. Do we have anything in terms of unbilled revenue or inventory or any other asset item related to this income that you were talking about?

Shobhit Uppal: AIIMS Jammu? For Jammu per se?

Jainam Shah: Yes.

Shobhit Uppal: No. The project is now closed.

Jainam Shah: Okay. So, you have booked everything in the expense, but this INR29 crores has not been recognized into the revenue because of...

Shobhit Uppal: Yes. So I think what you seem to be asking is, is there a potential for any further hit? No.

Moderator: The next question is from the line of Parth Thakkar from JM Financial.

Parth Thakkar: Depreciation was higher in the first quarter. So can we expect this to be recurring, or was it just a one-time thing?

Management: Yes, that would be recurring because the higher capital expenditure in the last 2, 3 years, now that could be recurring.

Parth Thakkar: Okay. And can we expect the margins to be double digit in FY28?

Management: In FY?

Parth Thakkar: '28, the next financial year?

Shobhit Uppal: Yes. As I said, we aspire to get there. And we are -- hopefully, whatever our empirical data has shown us over the last year, 1.5 years, we are trying to factor that in our costing and bidding. So your guess is as good as mine. But as Parvez said, and Shravan also said, this is becoming a number of issues that keep cropping up, like the NGT or labour shortage, for that matter.

So, elections around the year in one part of the country or another. So there are several headwinds, which sort of 2, 3 years ago, these used to be occurring only 1 or 2 months in a year. Now something or the other happens every other month. So it's very difficult to give a projection or prediction.

Moderator: The next question is from the line of Mahesh Patil from ICICI Securities.

Mahesh Patil: Most of my questions have been answered. Just one query. I think at last call we discussed that 89% of our order book has an escalation clause for materials, right? In terms of labor, can we quantify how much percentage of our order book value do we have this clause and for the remaining, we have to kind of get it done, especially for NCR?

Shobhit Uppal: We don't have that data as of now, but you can reach out to Satbeer, we will get back to you on that.

Satbeer Singh: You may send mail directly.

Moderator: The next question is from the line of Shubham Harne from Purnartha Investment Advisers.

Shubham Harne: My first question is how many months of increased labour cost impact is in numbers?

Shobhit Uppal: Sorry, I don't understand your question. Could you clarify?

Shubham Harne: So, labor cost increase is in mid of the quarter, let's say, for 1 month or 1.5 months, we got impacted by increased labor cost. So it is a 1-month or 2-month period, or for the whole quarter; labour cost has been...

Shobhit Uppal: No, no, whole quarter and going forward, the labour cost, once the labour price gets increased, it doesn't come back down.

Shubham Harne: No, no. That's clear to me. But in the current quarter, for the whole 3 months, increased labour costs are there. So this would be a new base?

Shobhit Uppal: Yes.

Shubham Harne: Got it. Second on NGT impact. So in the last con call, you said that since Central Vista will start, the NGT impact would be minimal for the current year...

Management: Yes. On that particular project, the impact -- that work will go on there. The impact will be limited, if at all, because we are trying to get special permissions; it will be limited to raw material coming in from other parts of the country.

Shubham Harne: Okay. So earlier also -- was there, correct?

Management: Yes, yes. Central Vista, the work per se on the ground has not stopped.

Shubham Harne: And can you move labour from other projects in NCR to Central Vista?

Management: Which we will definitely do that.

Shubham Harne: Got it. And my last question is on EBITDA margin. So, 2.6% impact is roughly due to J&K -- sorry, AIIMS Jammu-- at 2.6%, while the rest is due to raw materials and increased labour costs, correct? There is nothing else.

Management: And increased staffing cost also.

Shubham Harne: Okay. So increased staffing and labour cost will continue, and material price will vary basically?

Management: Yes. And material-wise, it will vary, and a lot of material costs, or volatile material costs, are pass-throughs like cement and steel; that's a pass-through. So the major impact, which is what I've been stressing from the beginning of the call, is on account of labour.

Shubham Harne: Got it. So when could we -- since labour and material costs have increased-- what is the time lag between the increased cost and when our customers usually pass that increased labour cost to us?

Shobhit Uppal: I think I did say earlier that it would take over the next two quarters for us to sort of -- for the client to agree or get the client to agree to compensate us.

Shubham Harne: No, material cost, already client has agreed, correct? What is the timeline? And so this timeline also gets passed through?

Management: So there are two formula for this. On the private sector side, there is a base price for cement and steel. Any increase on that -- from that base price is compensated to us with every bill. So the lag is about 30 days, right? And as regards the government contracts, the escalation is based on the wholesale price index, which is released every quarter. So every quarter, an escalation bill is preferred and based on the index published and that the government paid.

Moderator: The next question is from the line of Vaibhav Shah from JM Financial.

Vaibhav Shah: Sir, just one thing you mentioned initially in the call that you are in talks with the clients regarding this higher labour cost. So it is for the 90% of the book where -- which is not -- which is variable price in nature?

Shobhit Uppal: So primarily, we are in talks with our clients in NCR, a few of our large where the impact has been sizable. And we are sort of talking to them, showing them what the actual costs are and telling them that it will be very difficult for us to continue to work on old pricing.

Vaibhav Shah: If they don't agree, so it is not necessary they may comply with this, right? So in the clause.

Shobhit Uppal: I agree with you. It's not contractually -- strictly going by the contract, they may not.

Vaibhav Shah: Okay. So, sir, we know that the labour rates are here to stay; you mentioned that you don't expect them to come back down now that they've been increased. So, in that case, for the NCR book, could there be a sizable impact on the margins relative to where we had bid when you won the project?

Management: So we are -- wherever the impact is sizable, we've already told the client that -- so there are two parts to this compensation. One is the job already executed in this quarter, where we have already felt the impact. The other is going forward and the potential for the impact on the balance of the contract. So we are telling the client that we are giving them various options; one is the impact till now. They are within their rights to say no.

Going forward, we are telling them that either they agree to supply the labor, there are various options that we are discussing with them. And all I can say at this stage is that the clients are looking at what we are saying favourably because they have realised that today, their contracts today, one major thing which can make or mar a project is labour. And labour is in extreme -- especially skilled labour is in extreme short supply.

Moderator: The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, I'm trying to understand due to one reason or the other, if we look at our numbers till FY24, the growth was really strong. Sir, but after that, even though our order book has -- the unexecuted order book has doubled over the last 2 years, somehow the execution is just not moving due to either labour or this or that, sir. But basically, labour is a core part of our business. So I mean, if there is a shortage and everything NGT and so on, sir, I mean, these are all routine matters. Now, sir, my concern is that we will not have to pay any penalty to our customers for not executing the projects on time.

Shobhit Uppal: So, till date, Ahluwalia has not paid any penalty to any customer. If you were to go through, we would be more than happy to share historical data, especially over the last 2 years or 3 years, where projects have been delayed, but it's been amply proven and accepted by the client that they've been delayed for no fault of us. And it's not only Ahluwalia Contracts. If you were to do a deep dive into the historical project completion date of all our peers, you will see that the extreme -- there are a number of factors leading to headwinds as far as project execution is concerned. Labour is one thing.

And this labour shortage has been building over the last 4, 5, 6, or 7 years. Projects have become increasingly complex. Projects have increased in scale. Changes are happening as we move along executing a project on a month-to-month basis from the client side, which clients are recognising. That is why extensions of time are granted on projects, be it in the private or government sectors. So, if you've been covering this sector, you would know all this is a part and parcel of this industry.

When we bid for a project, we factor in some delays. But as I said, there have been a few black swan events over the last 2 to 3 years, which are part of the historical data. The impact on our bottom line has been greater than we could have predicted. And it's not only us. If you do a peer-to-peer comparison, I think we've been showing better numbers than some of our peers.

Madhur Rathi: Now sir, if we compare B. L. Kashyap, which is operating in our geography, is a fraction of our size, has balance sheet nowhere compared to us, drowning in debt. They have grown in the first quarter, their margins -- their EBITDA actually has also grown. So I'm not able to understand the...

Shobhit Uppal: Their base is very small. What I'm trying to tell you is that you do a comparison, which is spread over a larger tract of time; you do a comparison with, say, if you want to do B. L. Kashyap, compare the results for at least the last 2 years, right? Their base is very small. When we were at that base, our margins were -- some of our peers would tell you our margins were 12%, 13%.

Madhur Rathi: Sir, in fact, that was my -- another question that I remember that a few years back when I had asked that why our margins have declined from low teens to single digits. So you had said that once private-sector orders make up the majority of our order book, our margins will expand back to the previous low-teens levels. Sir, but now our private sector is 62% of our order book, but still our margins have actually declined to single digits.

Shobhit Uppal: As I said, there are a number of factors or newer factors, which have cropped up in the last 2, 3, 4 years, labor shortage being one. And as I said, increased -- the projects have become much more complex, increased staffing costs and other IDC costs. These are some things that have hit our margins, and going forward, when we are bidding for large projects, we are factoring them in.

Madhur Rathi: Sir, now lastly, sir, if we look at our stock price since 2008 till now, the stock -- then the stock price was INR350, today it is INR795. So the stock price has grown at a less than 5% CAGR, and there have been no dividends either. Sir, so after such a huge underperformance also, we have a cash-rich balance sheet. The stock price has...

Shobhit Uppal: We are a dividend-paying company. I think we've been paying dividends for the last 3 to 4 years.

Madhur Rathi: Sir, it is 0.07% dividend yield, it is practically irrelevant. My point is different, sir. My point is that when our stock price has grown at sub-5% CAGR for the past 18 years, and we have surplus cash on the balance sheet, then why aren't we doing share buybacks?

Shobhit Uppal: I think I had answered this question during the last comment. This sector is facing extreme volatility, right? Our focus is on growing our business. We don't want to use our war shares to buy back our shares. At the moment, we want to -- going forward, as we are at an inflection point.

We are growing rapidly. We have a healthy order book. We want to digitize. We want to become more efficient. We want to invest in machinery to offset labour shortages.

So all that share buyback is not really on the agenda for us. It's not a part of our plan. I did explain this in detail last time around also.

Moderator: The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: My question is more on industry and generic question. So just on the NCR market, it is 50% of our order book. So just wanted to understand how much of our labour costs, or how much labour, is deployed in that market? And are all these labourers currently at minimum wage because there is—you said there is a demand-supply issue as well? So I would understand that there would be a certain portion of the labor, which will be above the minimum wages.

So if you can help us understand, like, the quantification in terms of how many would be under -- just about the minimum wages, how many above that? And what was the total quantifiable impact, in terms of crores, on profitability or EBITDA this quarter due to the labour issue?

Shobhit Uppal: Okay. So, just to put a number on it, this may not be extremely accurate, but it will be thereabouts. We would have close to about 10,000 to 12,000 people working for us, which I would categorise as labour, both unskilled and skilled. Now 70% of this labour would be skilled, which would constitute bar binders, carpenters, masons, electricians, plumbers and so on. While the unskilled labor would be at the threshold of the minimum wage, the skilled labor would be in excess of that, excess of the skilled wage declared by the government.

It is the skilled labour, which is in extreme short supply, that is the demand-and-supply conundrum that I mentioned. The impact on our projects in NCR, per se, would vary with our total top line. I'm talking about the impact; again, detailed figures. Satbeer can get back to you on it if you write to him, but it could vary from 2% on some projects to about 5% of the turnover where the material is pre-issued by the client.

Parikshit Kandpal: So, you think in this quarter, particularly in this quarter, what is the quantifiable impact on EBITDA because of the labour increase, the minimum wages?

Shobhit Uppal: So, at a company level, it is about 1.5%. 1.5%.

Parikshit Kandpal: So, this is a permanent -- now this is permanent in nature, so we start off if there is no escalation given on this account on the customer. So we have a 150 basis point hit on the NCR order book because of the labor issues as of now. Is it the right assumption?

Shobhit Uppal: There will be a hit if there is no escalation given, but it would be to the tune of about 1% because in some of these contracts, escalation is a pass-through and some of the contracts, the escalation kicks in after a certain amount of time has elapsed on a particular project, which varies from 6 months to a year.

Parikshit Kandpal: The damage is about 100 basis points if the client doesn't give us any escalation. So we have a hit of about 100 basis points. So I think -- I mean, I think we took a lot of time debating this. I think if this were quantified, it would have been helpful earlier, so -- and how do you intend to cover up this, right, productivity cost savings, other measures? So how much do you think if the client doesn't give us any escalation? So, any outlays, any growth which will come in? Do you think you can cover a part of this damage?

Shobhit Uppal: Again, it's very -- what is happening, as I said earlier, client is recognizing this. So what the client is doing, even if they are -- while we feel on some of the projects, some of our larger clients will look at this favourably. But even if they don't, what they've already started doing, the Godrejs of this world, the DLFs of this world, the Signature Globals of this world, they've started announcing incentives, which are linked to progress or stage-wise timely completion. You cast a certain number of slabs in a month; they give an incentive, right? So, which, to some extent, may offset some of these higher costs.

Parikshit Kandpal: So, you gain part of it through the productivity gains or at the site level, which would be ahead of it. Yes. So part of that would be...

Shobhit Uppal: That's why a lot of you, as I mentioned earlier, should -- we'd be more than open to share -- you should do a deep dive. This labour problem is a huge problem, right? While some of us -- so I'm sure you would have -- you cover this sector, and you've been doing it for several years. We would be more than happy to take you to our project sites and show you how we are being impacted. Some of our peers may have recognised that impact this quarter; they will also feel it going forward. Different geographies are facing it at different times.

Parikshit Kandpal: The bigger question right now is what was the motivation of the Haryana government to do this? And if others start doing it, then it becomes a broader-level issue on the entire order book, which can exacerbate our overall margin impact. So, if you can help us understand why this happened first, and then, earlier in the call, you said 70% of the labour is skilled. I assume the hit would not have been there; it would be at the labour level, which is at the borderline, right? So if you can help us understand whether -- what was the motivation behind this? And why could this -- why was the hit so high if it was only to the part of the labour force because the...

Management: Sorry, go ahead. Sorry.

Parikshit Kandpal: Yes, I'm saying it was out of the 100 labor, you said 70 is skilled, so where anyways it's a market determined pricing. So I assume it will be push and pull that determine their wages, not government-mandated minimum wages. It will be more like where the part was exposed to the minimum level of wages, where you had to align with the government policy that had given escalation. So, what was the motivation of the Haryana government and secondly, whether other states can also now implement this at least on the borderline cases?

Shobhit Uppal: So, your first question, what was the motivation of the government? Over the past one month, the Haryana government has cracked down on RMC manufacturing plants. And today, 90% of the plants in Haryana are shut down, right? What is the motivation behind it? Who can say, right?

With governments, it's very difficult to say. Similarly, at such a time, they have increased labour pricing. It's very -- while the developer lobbies are talking to the government, they may agree to sort of reopen some of these plants, but I don't think there's going to be a rollback on the labour pricing, which never happens. It's a very sensitive political issue. So it's very difficult for us to comment.

The second thing is that the push and pull on skilled labour is right. But it's -- as I said, it's demand and supply. There is a huge shortage of skilled manpower, and whatever skilled manpower there is has lower skill levels. The buildings are becoming more and more complex, right? So it's the productivity that leads to low productivity on the project.

So that's why our costs are rising. That's why I'm saying that you guys should -- maybe it would be prudent for you guys to -- we would be more than happy to take you to our project sites and show you how it's very difficult to sort of explain all this on an investor call. But at ground zero, we can show you how the impact is happening.

Parikshit Kandpal: Just last question. Can you replace -- I mean, is it only for the labour domiciled in Haryana state? Or if you can say, pull out labour from AP or [inaudible 1:09:16] or some other states, you still have to pay them minimum wage? So how does it work?

Shobhit Uppal: This is all migrant labour. Labour that works in a particular state. This labour is coming from Bihar, Bengal, Odisha, or Madhya Pradesh. It's not Haryana labour.

Parikshit Kandpal: Okay. It's not a domicile issue. It's more like, I still don't understand the motivation, but anyway, I'll take it offline.

Moderator: Ladies and gentlemen, due to time constraints, we will take that as the last question for the day. And I would now like to hand the conference over to the management for closing comments.

Shobhit Uppal: Thank you so much, everybody. As I said, if you have any further queries, please reach out to us, and we'd be more than happy to explain the ground realities to you, even if you want to visit our project site for more clarity. Thank you so much. See you on the next call.

Moderator: Thank you. On behalf of Ambit Capital Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.