

Ahluwalia Contract(I

17 August 2026

Management: The company registered a growth of 12.03% in turnover and a degrowth of 77.65% in PAT during Q1 FY27 compared with Q1 FY26. The company's EPS for Q1 FY27 was Rs.1.70 compared with EPS of Rs.7.63 in Q1 FY26. During Q1 FY27, the company's EBITDA margin was 4.29% compared with 8.59% in Q1 FY26, and the PAT margin was 1% compared with a PAT margin of 5.01% in Q1 FY26.

The primary reasons for the decline in EBITDA margin are as follows. There was a finalization of the bill for the AIIMS Jammu project, which resulted in a reduction of the bill value by Rs.29 crores. This was a cause of dispute, and now that the bill has been finalized, the dispute will be raised through an arbitration process. The adverse impact on this account is 2.6% on our EBITDA.

There was also an adverse impact on account of the West Bengal and Assam SIT drive and elections. This led to a reduction in turnover in the projects being executed in these states and resulted in higher IDC costs, thereby impacting our EBITDA margins.

During this quarter, labor rates increased significantly in NCR, which contributes nearly 50% to our total portfolio. The minimum wage increase was approximately 35–40% across the unskilled and skilled categories. This led to a substantial increase in our wage costs.

There was also an increase in our staff costs, as we significantly increased our employee base while strengthening the organization and mobilizing staff resources for our enlarged project portfolio.

The company's net order book as of June 30 is 20,663.52 crores, to be executed over the next 3–3.5 years. Total order inflow during FY27 until June 30, 2026, as well as year-to-date, is 512.81 crores. We are ready to receive questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah – Dolat Capital: Hi, sir. To further understand the EBITDA margin, this 4.3% is one of the historically lowest margins. I understand that you tried to explain it, but I want to understand it in greater detail. First, you are saying that the Rs.29 crore amount for AIIMS Jammu relates to a bill that was under dispute and has now been finalized. So, have we booked this Rs.29 crore in raw material costs, leading to an impact of 2.6%?

Management: You can say that. This was under dispute, and following the finalization of the bill, the project, as you know, was completed last year, while the final billing and checking were under process. During this quarter, Q1, it was frozen, and the final bill value came down by 29 crores. So, you are right: the costs have been incurred, but the bill value has come down and the receivables have come down.

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Shravan Shah – Dolat Capital: But regarding the other aspects you highlighted, namely West Bengal, Assam, and the increase in labor costs, when we had the last call, this must have been known to you at that time. Or did this occur after the last conference call, resulting in a significant impact on the margin?

Management: The increase in labor costs was not known during the last call. It is a substantial increase. While there is a labor escalation clause in a few of our contracts, quite a few contracts do not have this clause. Many of our large orders with large developers do not have labor escalation. Following this increase, we reached out to these clients and submitted claims, asking for a revision in our item rates, which could lead to compensation on account of the large increase in labor costs.

The most significant increase has been in NCR, especially in Haryana and Uttar Pradesh. Around 50% of our order book is in NCR. That is why it affected us in this quarter.

Shravan Shah – Dolat Capital: Now, given the factors we know about, in Q2, how much have the clients agreed to compensate, or will it still take time? How should one look at Q2 on a net basis? Will the margin be similar, or can we start seeing a double-digit margin from Q3 itself, given that we were looking for a double-digit margin? How should one look at the margins for the full year?

Management: There are a number of external factors. One is the radical increase in pricing by the Government of Haryana and the Government of Uttar Pradesh. It is not possible for us to specify a date by which we will be compensated or whether it will happen in Q2. However, we expect that some of this compensation will start flowing in over the next 2 quarters.

Having answered the first part of your question, regarding the second part, Q3 is again subject to the impact of the NGT. We are hearing rumors about the impact of the NGT and the Governments of Delhi and Haryana looking to take stringent measures, although nothing has yet been issued in writing. We cannot quantify the impact of the potential NGT measures on our EBITDA. Therefore, I cannot tell you whether we will reach double-digit margins in Q3. Q3 is likely to be impacted by the NGT, but we cannot give you an indication today of the extent of the impact.

Shravan Shah – Dolat Capital: At the current juncture, what kind of margin do you think we can look at for the full year, or perhaps Q3? When can we start seeing a double-digit margin—perhaps from Q1 FY28—or would that still be difficult?

Management: This year, there have been a few black swan events. One, of course, has been the war. Second, labor pricing has impacted us significantly because in a couple of our projects, the labor factors are already higher since some materials are being supplied by the client or clients. Therefore, it would be fair to say that we are ruling out a double-digit EBITDA margin for this financial year.

Shravan Shah – Dolat Capital: What is the maximum number one can look at? For example, what is the maximum margin we can expect, given that you also highlighted that Q3 would be impacted?

Management: Q2 is an aberration. Primarily, as I said, 2.6 percentage points have been shaved off because of this issue. It is also something that the client had agreed to at one point but has now, for various reasons, gone back on. We are already starting arbitration proceedings. We hope to recover

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the margins that we had in Q1 of the last financial year over the next 3 quarters. The impact of the NGT is a rider that I am adding here. We are unaware of how much it will contribute to or affect our margins.

Shravan Shah – Dolat Capital: Is this issue also affecting execution? We were looking at 15–20% growth for this year and a similar number for FY28. Is there any change on the lower side?

Management: No. We still feel that there has been topline growth this time around. We still feel that we will achieve approximately 12–15% topline growth, and we should be in and around the historical EBITDA margin of the past couple of years.

Shravan Shah – Dolat Capital: Some balance sheet numbers, or Management {? Subbir ?}, if you could provide the inventory data. Also, inventory data and trade payables.

Management {? Subbir ?}: This is 776 crore.

Shravan Shah – Dolat Capital: 776.

Management {? Subbir ?}: Yes.

Shravan Shah – Dolat Capital: That is debtors.

Management {? Subbir ?}: Pardon? That is debtors.

Shravan Shah – Dolat Capital: Debtors. You are saying trade receivables are 776 crore?

Management {? Subbir ?}: Trade payables are 776, debtors are 632 crores, and retention is 401 crore.

Shravan Shah – Dolat Capital: Sorry, how much did you say retention was?

Management {? Subbir ?}: Retention is 401 crore.

Shravan Shah – Dolat Capital: 401 crore. And inventory?

Management {? Subbir ?}: Inventory, including real estate inventory, is 391 crore.

Shravan Shah – Dolat Capital: 391 crore. And mobilization and unbilled revenue?

Management {? Subbir ?}: Mobilization is 924 crore and unbilled revenue is 946 crore.

Shravan Shah – Dolat Capital: That is also a sharp increase. What are gross debt and cash?

Management {? Subbir ?}: Debt is around 2 crores, hardly 2 crore 28 lakhs. Cash and bank balances, including cash and bank balance, are 920 crore.

Shravan Shah – Dolat Capital: 920 crore. Thank you, sir.

Management: Thank you.

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Operator: Thank you. The next question is from the line of Vaibhav Shah from JM Financial. Please go ahead.

Vaibhav Shah – JM Financial: We saw a sharp increase in interest costs in the first quarter. What is the reason for that, and could this be a recurring number in the coming quarters?

Management {? Subbir ?}: The increase in finance costs is because we availed a mobilization advance during this quarter for the new Central Vista project. That is why there has been an increase in finance costs.

Vaibhav Shah – JM Financial: In the coming quarters, should it be a similar number every quarter, around 15–16 crores?

Management {? Subbir ?}: Yes. At 8%, it is 15–16 crores. The proportion will mostly remain the same, and amount-wise, it will be a similar number.

Vaibhav Shah – JM Financial: Out of the mobilization advance of 924 crores, what is the interest-bearing portion and the interest rate?

Management {? Subbir ?}: It is 31%. 31%.

Vaibhav Shah – JM Financial: And the interest rate?

Management {? Subbir ?}: The interest rate is approximately 8% on average.

Vaibhav Shah – JM Financial: Secondly, regarding the Gems and Jewellery Park, what are the challenges we are facing, when can the work on the ground begin, and what is the revenue expectation from the project this year and next year?

Management: There is a change in the design or requirements from the client side. While the architectural design has been completed, it is undergoing a change. I think the work on the ground will begin only later; it will not happen in this quarter. It is likely to begin in Q3. We are looking at billing of about 100 crores in this financial year.

Vaibhav Shah – JM Financial: And for next year?

Management: Next year's billing is likely to be to the tune of about 150 crores.

Vaibhav Shah – JM Financial: What is the time frame for completion of the project?

Management: It is 3.5 years.

Vaibhav Shah – JM Financial: Regarding the CST project, we have not seen that kind of pickup even in the first quarter. How do you see revenue progressing there this year and next year?

Management: We are looking at average billing in the 9 months after the first quarter of approximately 40–45 crore. That is roughly billing of about 150 crores, with 200 to 250 crores in this financial year, which will be ramped up to about 700 crores in the next year.

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Vaibhav Shah – JM Financial: What is the main challenge there? Earlier, we were targeting close to 600 crores this year. What is preventing us from achieving that?

Management: We are hopeful that we will still reach about 500 crores. As I said, we achieved about 70 crores in this quarter, and if we achieve about 450 crores in the balance 9 months, we hope to cross 500 crores here.

Vaibhav Shah – JM Financial: Are there any project-specific issues?

Management: Pardon?

Vaibhav Shah – JM Financial: Are there any project-specific issues there?

Management: No. The project is basically divided into 2 parts. One is the platforms and station area, and the other is the new buildings that are coming up. Work on the new buildings, including the LD Node and DRM building, is progressing. The DRM building has started, and the LD Node will start now. The client is approving the building designs in stages. That is why the work cannot be taken up all at once. As far as the platforms and station areas are concerned, we receive blocks according to the traffic. That is why it is taking time.

Vaibhav Shah – JM Financial: Lastly, regarding Central Vista, how is the work progressing on the ground, and what revenue are we targeting for FY27 and FY28?

Management: Regarding FY27, let me first explain that there were 2 buildings to be demolished there, Nirman Bhavan and Udyog Bhavan. Nirman Bhavan has been completely demolished, foundation casting has begun, and in September we will start erecting the structural steel. Udyog Bhavan was handed over to us about 3 weeks ago, and 90% of it has been demolished. The demolition will be completed in the next 15 days, and we have started the excavation work. Therefore, a month from now, foundation work will also start in that area. We are looking at billing of about 700 crores in this financial year.

Vaibhav Shah – JM Financial: And next year?

Management: Next year, it would be about 1,000 crores.

Vaibhav Shah – JM Financial: You mentioned that you are lowering the guidance for this year.

Management: We are looking to complete the building that we started where Nirman Bhavan existed. This represents about 50% of the job, and we are looking to commission it by the end of next year.

Vaibhav Shah – JM Financial: Will the entire project be completed in FY29?

Management: The entire project will be completed in FY29, yes.

Vaibhav Shah – JM Financial: Regarding revenue, you mentioned 12–15% growth. Are we lowering the guidance from the previous call?

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Management: It was 15%, so we are sticking to that. As I said, the lower end of 12% is because of the NGT, and we are not sure what impact it will have. That is why.

Vaibhav Shah – JM Financial: If it is similar to what happened last year, then we could cross 15%. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Sandeep Sabharwal from asandeepsabharwal.com. Please go ahead.

Sandeep Sabharwal – asandeepsabharwal.com: I think your last conference call happened 15 days after the end of the previous quarter. Therefore, it is very difficult to believe that you did not know the impact of the new labor costs and what impact they would have on your first-quarter results, because normally your results and conference calls typically happen 45 days after the last day of the results season. I have observed that you have been giving guidance on growth, margins, and so on for many quarters, but I think those have no relevance because the numbers that are reported are totally different. Do you have any comments on that?

Management: That is a very generic observation. If you have some data, we can have a separate meeting and our CFO can meet you. I would like to think that we have been more or less in line with the guidance I have given over the past 3–4 years post-COVID. Could you be a little more specific?

While I agree—let me complete—let me address the first part of your query, which is whether I or we were aware of the impact of the price escalation on account of labor when we conducted our last investor call. Are you insinuating that I was aware of it and hid it? Or do you have some specific data for which you want an answer from me?

Sandeep Sabharwal – asandeepsabharwal.com: Your last conference call happened 45 days after the end of the previous quarter. I think you had a call around May 15 or May 16. So, if you are saying that the new labor charges were imposed on you after May 15 or before May 15, when did that happen? Was the impact for a full month, a full quarter, or half of the quarter?

Management: If you understand the nature of our business and track this industry, you would know that April, May, and June are traditionally the part of the calendar year when labor is in extremely short supply because of various factors. This quarter, the situation was further exacerbated by a series of festivals, especially Muslim festivals. Between 50% and 60% of our labor, and 80% of our skilled labor, belongs to the Muslim community. Therefore, the impact on the ground was much greater, which was very difficult to predict, especially in NCR and particularly in Haryana and Uttar Pradesh, where the government further compounded the issue by increasing labor costs by 35–40% across the skilled and unskilled categories. It was very difficult for us to predict the impact on our costs. Have I explained the position clearly?

Sandeep Sabharwal – asandeepsabharwal.com: Not really. When was the increase in labor costs implemented for you? Was it from April 1?

Management: It is an ongoing process. When you do not understand this, it appears that you have not tracked the industry. Please understand that what we are paying today on the ground to a bar

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bender, carpenter, or mason is totally based on demand and supply. In most cases, over the past 2 months, it has been more than what the government has mandated. It is a demand-and-supply issue. If you track this industry, you would know that. If you do not, we would be more than willing to meet you and give you a refresher course.

Sandeep Sabharwal – asandeepsabharwal.com: I do not need a refresher course. There is no need for you to become aggressive on the call. It is just—

Management: I am only explaining. In your first question, you insinuated that I had hidden some facts. You need to articulate that in your question.

Sandeep Sabharwal – asandeepsabharwal.com: I said that you held a call in the middle of the quarter. By that time, you should have had a fair idea of what was happening in that quarter. If you did not have a fair idea of what was happening in that quarter, then any kind of guidance is irrelevant.

Management: I know what guidance I am giving. It is your prerogative to agree with it, believe it, or not believe it. I am willing to invest more time in taking you through what impacts my costs on the ground. You are the one saying that you do not need it. What more do you expect from me?

Sandeep Sabharwal – asandeepsabharwal.com: I do not think so. Anyway, let it be.

Management: Let us move on.

Operator: Thank you. The next question is from the line of Vishal Periwal from PL Capital. Please go ahead.

Vishal Periwal – PL Capital: Thanks for the opportunity and for the update. Regarding labor, whenever these changes happen, can this be considered similar to a GST-related change or a change in law? Would it become applicable, after which the same could be passed on to our clients?

Management: This is not considered a statutory increase. If a certain component of the increase, such as PF, were to increase, that would amount to or be treated as a statutory increase, which the clients would necessarily have to bear. An increase by the government is not a statutory increase, as I said.

Having said that, we are still writing to all our clients and telling them that this increase, coupled with the demand-and-supply issue, has made labor a significant problem. Over the last 2 to 2.5 months, all our projects, especially in NCR, have been operating at 40-50% labor strength. We have reached out to our clients, and they have at least been sympathetic in listening to or reviewing the numbers we are presenting regarding the impact on our costs. We are hopeful that, for projects that do not have a labor escalation clause with some of our larger clients in NCR, the clients will consider compensating us to some extent.

Vishal Periwal – PL Capital: From an accounting point of view, does the employee cost that we book in our P&L include the impact of labor, or does it include only head-office-related and other costs that form part of employee costs? For example, around 30 crores in this quarter?

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Management: It has employee—

Management: To the extent that such labor is employed by the company, yes, it is included there. Labor that is not employed by the company and is engaged through contractors or labor suppliers is included under subcontractor or labor costs.

Vishal Periwal – PL Capital: From the P&L, it appears that there is probably an impact of around 30 crores coming from AIIMS. If it is being booked under raw materials and subcontracting, where labor costs are also included, that would probably explain the 30 crore impact. The other impact is the increase in employee costs, which is affecting our P&L much more. That is what I could gather.

Management: You are right. There is actually a threefold impact on our EBITDA. One is the 30 crores, and the other is broadly split between increased staff costs and increased labor costs.

Vishal Periwal – PL Capital: In terms of employee costs, is there any one-off item such as bonuses, or is it more of a recurring employee cost?

Management: It is just that this should rationalize over the next 3 quarters because we have ramped up considerably on account of large projects such as Central Vista starting and {? Gwalior ?} starting. These are large projects: one is a 3,000-plus crore project and the other is a 2,000 crore-plus project.

There is also another project for DLF, Downtown, which is a 1,600–1,700 crore project. That project has been delayed owing to design changes. The client is looking to compress the timelines, so we have further increased our mobilization in terms of staffing there. As the turnover from these large projects, or their contribution to the topline, increases, the staff cost as a percentage will rationalize.

Vishal Periwal – PL Capital: I think that is all from my side, sir. Thank you very much.

Management: Thank you.

Operator: Thank you. The next question is from the line of Shravan Shah from Daulat Capital. Please go ahead.

Shravan Shah – Daulat Capital: Hello, sir. Currently, regarding the L1 projects, last time we discussed the 1,620 crore project, comprising the hospital in Delhi and the Odisha Government University in Bhubaneswar. Which one of these was converted into L1?

Management: Regarding the university, they were asking us to increase our bid validity. We refused because it was a fixed-price contract.

Management: Given the volatility and the increase in costs at the ground level, we refused. Therefore, that project has fallen through and is no longer live. RML continues to be live.

Shravan Shah – Daulat Capital: Is the 512 crore inflow for this quarter different from RML, which is still L1, or is it the project that was converted into a work order?

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Management: RML is still L1. RML has not yet translated into a work order. Therefore, this 512 crores is different from that.

Shravan Shah – Daulat Capital: So, the RML value is 700 or 600 crores?

Management: No. RML is 500 crores. 500 crores.

Shravan Shah – Daulat Capital: 500 crores. For the full year, we had guided for inflows of 8,000 crores. Does that remain intact?

Management: To be frank, we are no longer very aggressive. That should come down because of the volatility in both material prices and labor prices, and we are looking for this to stabilize. In any case, our order book is more than 20,000 crores. Therefore, we are being conservative regarding the rest of this year in our approach to taking up new orders.

Shravan Shah – Daulat Capital: Can we assume perhaps 4,000–5,000 crores for the full year?

Management: Yes, that much should be achievable.

Shravan Shah – Daulat Capital: Currently, in terms of the bid pipeline, will that also be reduced? Should it be 5,000–6,000 crores?

Management: Our bid pipeline has visibility. We will bid selectively, factor in the ground realities and these fluctuations, and then bid. We will not bid very aggressively.

Shravan Shah – Daulat Capital: Currently, out of the total order book of more than 20,000 crores, would 11–12% be fixed-price contracts?

Management: Yes, 10.34%.

Shravan Shah – Daulat Capital: Regarding capex in Q1, how much have we incurred? We were looking at 300 crores for the full year. Is there any slowdown in capex as well?

Management: We are looking to reduce capex. Capex was 60 crores this quarter. For the full year, we will reduce it to between 220 and 250 crores.

Shravan Shah – Daulat Capital: Regarding the overall working capital level, do we see further pressure from here, or will it remain at this level or improve by year-end?

Management: We are optimistic that it will reduce from the existing level this quarter. At present, it is 119 days, and because we are receiving money from the Assam regions, we expect it to return to the level of previous quarters.

Shravan Shah – Daulat Capital: Thank you, sir.

Management: Thank you.

Operator: Thank you. The next question is from the line of Parvez Qazi from Nuwama Group. Please go ahead.

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Parvez Qazi – Nuwama Group: Good afternoon, sir. Thank you for taking my question.

Management: Hello.

Parvez Qazi – Nuwama Group: The external environment is challenging, without a doubt, both on the execution and cost fronts. Our proportion of fixed-price contracts is relatively low, at approximately 10%. In general, how has commodity price volatility been over the last approximately 5 months since the Iran war started? On the ground, how difficult or easy has it been to navigate these challenges?

Management: As I mentioned earlier, we are facing the impact of both materials and labor. I have answered the labor-related issues in detail as questions have been asked since the call began. Regarding materials, the impact is on 2 counts. One is the increase in prices, and the second is the supply chain being affected, including delivery delays, because of the war.

Let me give you an example. We buy a lot of panels costing many crores. The switchgear is not available. Deliveries that used to take 4–6 weeks are now taking 3–4 months. That is also affecting our performance on the ground.

Whenever there was a call for a ceasefire or news that a ceasefire might happen, prices used to stabilize, but the impact has fluctuated. This quarter has also been affected by that.

Coming back to labor, some of our large contracts have been affected. For instance, in the case of DLF, there have been design changes at Aralias, which is one of our largest projects. That has also contributed to less work being carried out in this quarter on that project. Our IDC costs have also affected our margins there.

These are some of the factors that have affected us in this quarter. Having said that, these projects are geographically concentrated in NCR. NCR seems to have borne the brunt of both the supply chain issues and the labor price increases.

Going forward, hopefully, now that these projects have started in earnest, we are targeting billing of nearly 30–35 crores every month from Aralias. We are targeting billing of close to 60 crores from Central Vista. We are targeting billing of 25–30 crores from DLF Downtown, where the design issues also seem to be a thing of the past. The increased turnover from these projects should help us return to the margins that we had been reporting over the past couple of years.

Parvez Qazi – Nuwama Group: Secondly, regarding payments, how are things today compared with 6 months ago, specifically with regard to Central Government and State Government projects?

Management: Payments for Central Government projects are not an issue. Central Vista has just started. We are executing projects in Varanasi and Darbhanga, which are Airport Authority of India projects. There is also a project for a Central University in Himachal, where we have not been paid for the last 5 months because the project has gone over budget. Our bills amounting to {? 35 crores ?} are outstanding, but the payments are not coming through. Other than that one project, we are not facing any issues with Central Government projects.

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Regarding State Government projects, as Satbir mentioned, our bills in Assam were not being signed off and payments were not being released because of the elections. As of 15 days ago, that process also seemed to be getting streamlined, and we have started receiving significant portions of our outstanding dues.

Parvez Qazi – Nuwama Group: Lastly, when we look at the business over the last 3–4 years, one would generally say that volatility has increased. Labor is a perpetual problem, and NGT, supply chain issues, and approvals have also become more difficult, affecting everyone. How are we incorporating these factors into our risk management framework, especially when bidding for new projects, so that we can at least contain the impact of some of these issues in future projects?

Management: The most obvious thing is that our experience over the last 1–1.5 years, and the empirical data regarding the impact we have seen on our bottom line, is now being incorporated into our costing while bidding for future tenders. For instance, we know there is a significant shortage of carpenters and bar benders. As I mentioned earlier, our bid prices now incorporate this. We have virtually doubled our shuttering prices, steel prices, and other similar items where labor is in extremely short supply.

Secondly, we are seeing that staff costs have become the new normal. Our project staff costs used to be approximately 3.5%, 4%, or 4.5%. With the increased focus on safety measures, especially with large developers and government clients, we have increased our safety budget from approximately 1 percentage point to nearly 3 percentage points. We have now started taking staff costs in excess of 5%.

All of this is being incorporated into our bids going forward. We feel that all large construction companies have begun doing this. We believe that quoting and obtaining these higher rates in our newer projects will help us return to our historical high margins.

Parvez Qazi – Nuwama Group: Thank you, sir, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah – Dolat Capital: My question is regarding AIIMS Jammu. Rs.29 crore has not been recognized in revenue. Do we have anything else in terms of unbilled revenue, inventory, or any other asset item related to this income?

Management: In Jammu? Regarding Jammu specifically?

Shravan Shah – Dolat Capital: Yes.

Management: No. That project is now closed.

Shravan Shah – Dolat Capital: So, we have booked everything in the expenses, but this Rs.29 crore has not been recognized in revenue because of an issue.

Management: Yes. I think what you are asking is whether there is potential for any further hit. No.

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Shravan Shah – Dolat Capital: Understood. Thank you very much, sir.

Operator: Thank you. The next question is from the line of Parth Thakkar from JM Financial. Please go ahead.

Parth Thakkar – JM Financial: Depreciation was higher in the first quarter. Can we expect this to be recurring, or was it a one-time item?

Management: That would be recurring because of the higher capital expenditure incurred over the last 2–3 years. Therefore, it will be recurring.

Parth Thakkar – JM Financial: Can we expect the margins to be double-digit in FY28 and FY29?

Management: In FY28 and FY29, yes. As I said, we aspire to get there. We are trying to incorporate into our costing and bidding whatever our empirical data has shown us over the last 1–1.5 years.

Your guess is as good as mine, but as Parvez and Shravan also said, a number of issues keep arising, such as the NGT, labor shortages, and elections. There are elections throughout the year in one part of the country or another. Therefore, there are a number of headwinds. Two or 3 years ago, these issues used to occur only for 1 or 2 months in a year. Now, something or the other happens every other month. Therefore, it is very difficult to give a projection or prediction.

Parth Thakkar – JM Financial: Thank you, sir. Those were my questions.

Management: Thank you.

Operator: Thank you. The next question is from the line of Mahesh Patil from ICICI Securities. Please go ahead.

Mahesh Patil – ICICI Securities: Most of my questions have been answered. I have just one query. In the last call, we discussed that 89% of our order book has an escalation clause for materials. Regarding labor, can we quantify what percentage of our order book value has this clause, and for the remaining portion, do we have to get it implemented?

Management: Especially for NCR.

Shobhit: We do not have that data as of now, but you can reach out to Satbir. We will get back to you on that.

Management: You may send an email to me as well.

Mahesh Patil – ICICI Securities: Thank you, sir.

Operator: Thank you. The next question is from the line of Shubham Harne from Poonawartha Investment Advisors. Please go ahead.

Shubham Harne – Poonawartha Investment Advisors: Thanks for the opportunity. My first question is: how many months of the increased labor cost impact are reflected in the numbers?

Shobhit: I am sorry, I do not understand your question. Could you clarify?

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Shubham Harne – Poonawartha Investment Advisors: The labor cost increase occurred in the middle of the quarter. If we were impacted by the increased labor cost for 1 month or 1.5 months, was it a 1-month or 2-month impact, or was the labor cost impacted for the entire quarter?

Shobhit: It was for the entire quarter. Going forward, once the labor price increases, it does not come back down.

Shubham Harne – Poonawartha Investment Advisors: That is clear, but in the current quarter, was the increased labor cost applicable for the entire 3 months?

Shobhit: It was.

Shubham Harne – Poonawartha Investment Advisors: So, this would be a new base.

Shobhit: Yes.

Shubham Harne – Poonawartha Investment Advisors: Regarding the NGT impact, in the last conference call you said that since Central Vista would start, the NGT impact would be minimal for the current year. Now we are seeing that—

Shobhit: On that particular project, the work will continue. The impact will be limited, if at all, because we are trying to obtain special permissions. It would be limited to the raw material coming in from other parts of the country.

Shubham Harne – Poonawartha Investment Advisors: Earlier, we also used the same assumption regarding work there, correct?

Shobhit: Yes. The work on the ground at Central Vista does not stop.

Shubham Harne – Poonawartha Investment Advisors: Can you move labor from other projects in NCR to Central Vista?

Shobhit: We will definitely do that.

Shubham Harne – Poonawartha Investment Advisors: My last question is on the EBITDA margin. The 2.6% impact is roughly due to the J&K, or rather AIIMS Jammu, issue, while the rest is due to raw material and increased labor costs. Is there anything else?

Shobhit: Increased staffing costs as well.

Shubham Harne – Poonawartha Investment Advisors: Increased staffing and labor costs will continue, while material prices will vary.

Shobhit: Yes. Material prices will vary, and many material costs or volatile material costs are passed through, such as cement and steel. Those are passed through. Therefore, the major impact, which I have been stressing from the beginning of the call, is on account of labor.

Shubham Harne – Poonawartha Investment Advisors: Given the increased labor and material costs, what is the time lag between the increase in costs and the time when our customers usually pass on

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the increased labor cost to us?

Shobhit: I said earlier that it would take the next 2 quarters for us to resolve this and for the client to agree to compensate us.

Shubham Harne – Poonawartha Investment Advisors: The client has already agreed to pass through the material cost, correct? I am asking about the material cost. What is the time lag for that pass-through?

Shobhit: There are 2 formulas for this. On the private-sector side, there is a base price for cement and steel. Any increase over that base price is compensated to us with every bill. Therefore, the lag is approximately 30 days.

For government contracts, the escalation is based on the wholesale price index, which is released every quarter. An escalation bill is prepared every quarter based on the published index, and the government makes the payment.

Shubham Harne – Poonawartha Investment Advisors: Thank you, sir.

Shobhit: Thank you.

Operator: Thank you. The next question is from the line of Vaibhav Shah from JM Financial. Please go ahead.

Vaibhav Shah – JM Financial: You mentioned initially in the call that you are in discussions with clients regarding the higher labor costs. Is this for the 90% of the order book where the contracts are variable-price in nature?

Shobhit: We are primarily in discussions with our clients in NCR, particularly some of our large clients where the impact has been significant. We are showing them the actual costs and telling them that it will be very difficult for us to continue working at the old prices.

Vaibhav Shah – JM Financial: If they do not agree, is it possible that they may not comply with this, or is it covered by the clause?

Shobhit: I agree with you. Strictly according to the contract, they may not be required to do so.

Vaibhav Shah – JM Financial: We know that labor rates are here to stay. You mentioned that you do not expect them to come back down once they increase. In that case, for the NCR order book, there could be a sizeable impact on margins compared with the margins at which we bid when we won the projects.

Shobhit: Wherever the impact is sizeable, we have already told the client. There are 2 parts to this compensation. One is for the work already executed in this quarter, where we have already felt the impact. The other is the impact going forward and the potential impact on the balance of the contract.

We are telling the client that there are various options. One option concerns the impact incurred to date, for which they are within their rights to say no. Going forward, we are telling them that they

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could either agree to supply the labor or consider other options. We are discussing various options with them.

All I can say at this stage is that the clients are looking favorably at what we are saying because they have realized that, in today's contracts, one major factor that can make or break a project is labor. Labor, especially skilled labor, is in extremely short supply.

Vaibhav Shah – JM Financial: Understood, sir. Thank you.

Shobhit: Thank you.

Operator: Thank you. The next question is from the line of Madhur Rathi from Countercyclical Investments. Please go ahead.

Madhur Rathi – Countercyclical Investments: I am trying to understand our numbers. Until FY24, the growth was very strong. However, even though our unexecuted order book has doubled over the last 2 years, execution is not progressing because of labor or other factors. Labor is a core part of our business. If there is a shortage, along with the NGT and other issues, these are all routine matters. My concern is whether we will have to pay any penalties to our customers for not executing the projects on time.

Shobhit: To date, Ahluwalia has not paid any penalty to any customer. We would be more than happy to share historical data, especially from the last 2–3 years, regarding projects that have been delayed. It has been amply demonstrated and accepted by the clients that the projects were delayed through no fault of ours.

It is not only Ahluwalia Contracts. If you were to conduct a detailed review of the historical project completion dates of all our peers, you would see that there are several factors creating headwinds for project execution. Labor is one factor, and the labor shortage has been building over the last 4–7 years.

Projects have become increasingly complex, projects have increased in scale, and changes take place as we execute a project on a month-to-month basis from the client side, which clients recognize. That is why extensions of time are granted on projects, whether private-sector or government-sector projects.

If you have been covering this sector, you would know that all of this is part and parcel of the industry. When we bid for a project, we factor in some delays. However, as I said, there have been a few black swan events over the last 2–3 years that are not part of the historical data. The impact on our bottom line has therefore been greater than we could have predicted. It is not only us; in a peer-to-peer comparison, I think we have been reporting better numbers than some of our peers.

Madhur Rathi – Countercyclical Investments: If we compare BL Kashyap, which operates in our geography and is a fraction of our size, with a balance sheet nowhere comparable to ours and significant debt, they have grown in the first quarter, and their margins and EBITDA have also grown. I am unable to understand this.

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Shobhit: Their base is very small. What I am trying to tell you is that you should make a comparison over a longer period. If you want to compare us with BL Kashyap, compare the results for at least the last 2 years. Their base is very small. When we were at that base, our margins were 12–13%, as some of your peers would tell you.

Madhur Rathi – Countercyclical Investments: In fact, that was another question I had. I remember asking a few years ago why our margins had declined from the low teens to single digits. You had said that once private-sector orders became the majority of our order book, our margins would expand to the previous low-teen levels. Now private-sector orders account for 62% of our order book, but our margins have still declined to single digits.

Shobhit: As I said, a number of factors, including newer factors, have emerged over the last 2–4 years. Labor shortages are one factor. As I said, projects have become much more complex, and increased staffing costs and other IDC costs have also affected our margins. These are some of the factors that have affected our margins. Going forward, when we bid for large projects, we are incorporating them into our bids.

Madhur Rathi – Countercyclical Investments: Lastly, if we look at our stock price from 2008 until now, the stock price was Rs.350 then and is Rs.795 today. The stock price has grown at less than 5% CAGR, and there have been no dividends either. After such significant underperformance, we still have a cash-rich balance sheet, and the stock price has halved since FY—

Shobhit: We are a dividend-paying company. I think we have been paying dividends for the last 3–4 years.

Madhur Rathi – Countercyclical Investments: The dividend yield is 0.07%, which is practically irrelevant. My point is different. When our stock price has grown at a CAGR below 5% for the past 18 years and we have surplus cash on the balance sheet, why are we not undertaking a share buyback?

Shobhit: We are not considering a share buyback. I think I answered this question during the last conference call. This sector is facing extreme volatility. Our focus is on growing the business. We do not want to use our war chest to buy back our shares.

At the moment, we want to move forward because we are at an inflection point. We are growing rapidly and have a healthy order book. We want to digitize, become more efficient, and invest in machinery to counter or offset the shortage of labor. Therefore, a share buyback is not currently under consideration for us. It is not part of our plan. I explained this in detail last time as well.

Madhur Rathi – Countercyclical Investments: Understood, sir. Thank you very much.

Shobhit: Thank you.

Operator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal – HDFC Securities: My question is more of an industry and general question. Regarding the NCR market, which accounts for 50% of our order book, I want to understand how much of our labor cost, or how many workers, are deployed in that market. Are all these workers

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currently being paid minimum wages? Since you said there is also a demand-and-supply issue, I understand that a certain percentage of the labor would be paid above minimum wages. Could you help us understand the quantification in terms of how many workers are at approximately the minimum wage—

Parikshit Kandpal – HDFC Securities: —and above that, and what was the total quantifiable impact in crores on profitability or EBITDA in this quarter because of the labor issue in NCR?

Management: To put a number on it, although it may not be extremely accurate, we would have approximately 10,000–12,000 people working for us whom I would categorize as labor, both unskilled and skilled. Around 70% of this labor would be skilled, comprising bar benders, carpenters, masons, electricians, plumbers, and so on.

While unskilled labor would be at the threshold of the minimum wage, skilled labor would be paid in excess of the skilled wage declared by the government. It is the skilled labor that is in extremely short supply, creating the demand-and-supply conundrum I mentioned.

The impact on our projects in NCR would vary. I am speaking about the impact on our total topline. Detailed figures {? Satveer ?} can provide if you write to him, but the impact would vary from 2% on some projects to approximately 5% of turnover where the material is free-issued by the client.

Parikshit Kandpal – HDFC Securities: Specifically in this quarter, what was the quantifiable impact on EBITDA because of the labor increase and the minimum wage increase?

Management: At the company level, it is approximately 1.5%.

Parikshit Kandpal – HDFC Securities: This is permanent in nature. If there is no escalation from the customer on this account, then we start with a 150-basis-point hit on the NCR order book because of the labor issues as of now. Is that the correct assumption?

Management: There will be a hit if no escalation is provided, but it would be approximately 1%, because in some of these contracts escalation is a pass-through, while in some contracts escalation begins after a certain period has elapsed on a particular project, which varies from 6 months to 1 year.

Parikshit Kandpal – HDFC Securities: So, the maximum damage is approximately 100 basis points if the client does not provide any escalation. We have a hit of approximately 100 basis points. We spent a lot of time debating this, and I think it would have been helpful if this had been quantified earlier. How do you intend to make up for this through productivity, cost savings, or other measures? If the client does not provide any escalation, do you think you can cover part of this damage through the growth that will come in?

Management: Again, the client is recognizing this. As I said earlier, some of our larger clients will look at this favorably. Even if they do not, what they have already started doing is announcing incentives. Godrej, DLF, and Signature Global have started announcing incentives linked to progress or stage-wise timely completion. For example, if you cast a certain number of slabs in a month, they provide an incentive. To some extent, this may offset some of these higher costs.

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Parikshit Kandpal – HDFC Securities: So, we will recover part of it through productivity gains or at the site level if we complete work ahead of schedule?

Management: Exactly. Part of it could be covered. That is why many of you should be more than welcome to undertake a deep dive. This labor problem is a significant problem. Some of you cover this sector and have been doing so for a number of years. We would be more than happy to take you to project sites and show you how we are being affected.

Some of our peers may have recognized this; in fact, they will also feel it going forward. Different geographies are facing the issue at different times.

Parikshit Kandpal – HDFC Securities: The bigger question right now is what motivated the Haryana government to do this. If other states also start doing it, it becomes a broader issue across the entire order book, which could exacerbate the overall impact on our margins. Could you help us understand why it happened in the first place?

Earlier in the call, you said that 70% of the labor is skilled. I assume that the impact would not have been on that labor, because the pricing for skilled labor is market-determined. It would instead be on labor at the borderline level. Could you help us understand the motivation behind this and why the impact could be so high if it affected only part of the labor force because the skilled labor [crosstalk]—

Management: The Haryana government—

Parikshit Kandpal – HDFC Securities: I am saying that out of 100 workers, 70 are skilled, and their wages are market-determined. There would be a push and pull that determines their wages rather than government-mandated minimum wages. The impact would therefore be primarily on the labor exposed to the minimum wage level, which had to be aligned with the government policy at the applicable escalation. What was the motivation of the Haryana government? Secondly, could other states also implement this, at least for the borderline cases?

Management: Regarding your first question, what was the government's motivation? Over the past month, the Haryana government has cracked down on RMC manufacturing plants, and today 90% of the plants are shut down in Haryana. What is the motivation behind it? Who can say? It is very difficult to determine the motivations of governments.

Similarly, they increased labor pricing at such a time. The developer lobbies are speaking to the government, and the government may agree to reopen some of these plants, but I do not think there will be a rollback in labor pricing. That generally does not happen, because it is a very sensitive political issue. Therefore, it is very difficult for us to comment.

Regarding the push and pull for skilled labor, that is correct, but, as I said, it is a demand-and-supply issue. There is a huge shortage of skilled manpower, and the skill levels of whatever skilled manpower is available have declined. Buildings are becoming increasingly complex. This is resulting in low productivity on projects. That is why our costs are rising.

That is why I am saying that it may be prudent for you to visit our project sites. We would be more than happy to take you there and show you the situation. It is very difficult to explain all of this on an

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investor call, but at ground level we can show you how the impact is occurring.

Parikshit Kandpal – HDFC Securities: Just one last question. Can you replace the labor? Is this applicable only to labor domiciled in Haryana, or if you bring labor from Uttar Pradesh, Bihar, or another state, do you still have to pay them the minimum wages? How does it work?

Management: This is all migrant labor. The labor working in a particular state is subject to the applicable conditions there. This labor comes from Bihar, Bengal, Odisha, and Madhya Pradesh. It is not Haryana labor.

Parikshit Kandpal – HDFC Securities: So, it is not a domicile issue; it is more of a— I still do not understand the motivation, but I will take it offline. Thank you.

Management: Thank you.

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

Management: Thank you very much, everybody. As I said, for any further queries, please reach out to us. We would be more than happy to explain the ground realities to some of you, even if you would like to visit our project sites for greater clarity. Thank you very much. See you on the next call.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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