MANAGEMENT DISCUSSION AND ANALYSIS

Initiatives on the measures for Revival of the Construction Sector

Present Global Scenario

- The global economy currently is in severe slowdown mode amidst deepening credit crunch and upsetting developmental targets of economies across the world.
- In the prevailing situation, infrastructure remains a top priority for addressing developmental gaps as it is considered omnipotent with potentials of lifting economies out of the financial turmoil.
- The governments around the world are pumping money to generate demands for goods and services by creating jobs through higher spending into physical and social infrastructure.
- The Indian Government on its part is not lagging behind on this score and has taken concrete and urgent steps to revive the sector to regain its past glory and move towards the path of growth recovery in line with the projections.

Back drop

- India's Construction Sector is assessed at ₹ 5,000 Billion. The result of Government spending, Private Investments as well as FDI has made India the brightest spot and also one among top eight spending nations on construction sector.
- The Government initiative is to improve the standard of living of the population the most important challenge of Infrastructure bottlenecks. The Government has allocated around 10 % of the national GDP in the 12th Five Year Plan in to the Infrastructure which equated to an ₹ 45 Trillion.
- NITI AAYOG has completed the appraisal of the Twelfth Five Year Plan and the same placed before the Governing Council under the leadership of our Honorable Prime Minister. The practice of Five Year Plans will end after the current plan and instead would be replaced with THREE documents which would cover Short Term through a three year plan, Medium term by Seven years strategy and the long term by a fifteen year Vision Document.

The Future of Construction Sector in India

An analysis of various reports on the development and future of India's second largest employer – the construction industry. The construction sector in India, which employs more than 35 million people, is the second largest employer, next only to agriculture. Therefore, any improvements in the construction sector affect a number of associated industries such as cement, steel, technology, skill-enhancement, etc. As per the government reports, the sector is valued at over $126 billion. It also accounts for more than 60 per cent in total infrastructure investment. About half of the demand comes from the infrastructure sector, and the rest is driven by the real estate sector and other industrial activities.

India's construction industry will continue to expand over the forecast period (2016–2020), with investments in residential, infrastructure and energy projects continuing to drive growth. Various government flagship programs – including 100 Smart Cities Mission, Housing for All, Atal Mission for Urban Rejuvenation and Transformation (AMRUT), Make in India and Power for All – will be the growth drivers.

The industry's output value in real terms is expected to rise at a compound annual growth rate (CAGR) of 5.65% over the forecast period; up from 2.95% during the review period (2011–2015). There are certain challenges associated with India's construction industry outlook. Limited funding, slow policy reforms and a weak currency are factors that will continue to limit the growth potential during the early part of the forecast period.

Due to industrialization, urbanization, a rise in disposable income and population growth, the demand for construction services is set to rise. Government efforts to improve the country's residential and transport infrastructure will also support growth.

Key trends and opportunities highlighted in the report by Report buyer are:

- The construction industry will be supported by the government's plan to transform urban India. Under the 100 Smart Cities Mission, the government aims to provide a more sustainable and clean environment by 2020. In total, INR 480.0 billion (US$7.6 billion) has been allocated.
- In a bid to rehabilitate the slums, provide housing at affordable prices and ensure good quality homes, the government is focusing on social housing development. It launched the Housing for All by 2022 program in 2015, under which it set a target to construct 20.0 million social housing units across the country by 2022.
- To promote comprehensive urban development and support economic growth, the government introduced AMRUT in 2015 to transform the country's urban areas. The program will be implemented in 500 towns and cities.
- Demand for electricity is projected to increase over the forecast period, due to industrialization, urbanization, population growth and per capita energy consumption. To reduce the country's reliance on imported energy, the government is developing its renewable energy infrastructure. It aims to generate 175GW of electricity through renewable sources by 2022.
- To improve the country's infrastructure, the government will offer more road infrastructure projects under the PPP model. According to the Ministry of Road

Transport and Highways, the government plans to offer 100 highway construction projects to the private sector in 2016.

India offers massive opportunities in construction as per the report by dmg events India. It says, Indian construction sector will grow up to eight percent every year for the next decade. The report further says that total allocation for infrastructure projects is $45 billion. The Planning Commission of India has already pledged to invest around $1 trillion in the five-year plan (2012-2017).

Indian Ministry of Roads and Transport outlined plans for $120bn worth of road-widening projects. There are also plans for $60bn to be invested in India's ports by 2020. Unit sale of construction equipment in India is expected to grow to 82,000 by 2016. The construction equipment industry's revenues are estimated to reach $22.7bn by 2020 from $5.1bn in 2012. In addition to reduced building costs, Indian government now has more money to spend, that it had allocated to oil.

INITIATIVE DRIVES

The NITI Aayog has separately issued instructions on the subject with regard to the immediate measures to be taken by all concerned. In addition to the said instructions, the CCEA has also directed that the following measures may be expeditiously examined by all the concerned Departments/ Ministries /PSUs:

- Item-rate contracts, may be substituted by EPC (turnkey) contracts, wherever appropriate. Such contracts have been in vogue for over two decades in the developed world and FIDIC has also published such contractual frameworks;
- Model bidding documents and Model EPC contracts, suitably revisited or modified wherever required to suit the requirements of particular sectors, may be adopted by PSUs/ Government Departments for construction works;
- Ministry of Finance has issued model bidding documents for RFQ, RFP etc. which may be adopted (with appropriate changes wherever required) in all sectors.
- Model EPC contracts have been developed for Highways and Railways and published by the erstwhile Planning Commission also. NHAI has already adopted this document and all construction contracts are currently being structured on this model. NITI Aayog shall assist the concerned departments, wherever required, in this regard.
- The method of conciliation has proved more effective in settling disputes as per experience of some of the PSUs. All PSUs/ Departments issuing public contracts may consider setting up Conciliation Committees/ Councils comprising of independent subject experts in order to ensure speedy disposal of pending or new cases. Recourse to such conciliation may be open before, during or after the Arbitration proceedings. A provision to this effect would also need to be made in the Contract Agreements in future as a mechanism for resolution of disputes.
- Arbitration awards in favour of the Company. As per the new directive, upon submission of Bank Guarantee as a security the Client would be requested to release 75% of the arbitrary award payment. This directive will allow the company to pursue the claim settlement faster.

RISKS AND CONCERNS CONTINUE AS A HINDRANCE STOPPING THE GROWTH

Following are the major risks and concerns associated with infrastructure sector:

- High debt and high cost of finance
- High Capex with no sustained business cycle
- Delay in realization of receivables
- Equal Level Playing Field
- Increasing cost of raw materials
- Delay and Cost Overruns
- Complexities of structures
- Regulatory compliance
- Delay in hand over possession of the site
- Shortage of skilled labor

PERFORMANCE REVIEW

During the Financial Year 2016-17 ('FY 2017' or 'year under review'), the Company has achieved a consolidated turnover of ₹.1687.15 crores as compared to ₹. 4,126.35 crores in the Financial Year 2015-16 ('FY 2016' or 'corresponding previous year'), thereby significant reduction in revenue of approx.. 62% at consolidated level. The Company has made loss of ₹. 837. 13 crores during FY2017 as against profit of ₹.36.04 crores in FY2016, mainly due to increased finance cost.

The company bagged fresh orders to the tune of ₹.984,53,53,814 during the year under review.

<u>The prominent projects bagged were from water segment, institutional buildings and metro station</u>

During the year under review the company bagged 6 projects in total worth ₹. 984 crores approx.. One water treatment plant at Sundarijal, Nepal. Another Water supply scheme to 293 rural habitations in Musri, Thathayanagarpettai, Thuraiyur and Uppiliyapuram unions in Trichy including paid maintenance for five years.

Two metro station projects , one construction of metro train depot at Mihan and Hingna for Nagpur Metro Rail Corporation Ltd. And another project of construction of 5 elevated metro rail stations at Ahmedabad for Metro Link Express for Gandhi Nagar and Ahmedabad Company Ltd.

Two building projects include residential building at Bangalore and construction of Institutional building at Phase –I North IIT Mandi.

As in the case with most of the EPC (Engineering, Procurement and Construction) companies, the high cost of borrowed funds continued to affect the profitability of the Company adversely. During FY2017, the Company incurred ₹.617.12 crores and ₹.466.08 crores as interest and finance charges at consolidated and standalone level respectively. This proved as the major drag-down on the low profit margin business of the Company. Total borrowings of the Company (including short term borrowing) at consolidated level as on 31st March, 2017 were ₹.3464.25 crores vis-à-vis ₹.3020.32 crores as at 31st March, 2016.

During the year under review, the Company witnessed considerable mismatch in cash flows due to delays in realizations of receivables and project executions which in turn created difficulties in meeting the obligations for repayment of loans. The Joint Lenders Forum constituted by the consortium of Banks has invoked the Strategic Restructuring of Debts (SDR) as per the prevailing circulars issued the Reserve Bank of India. The Directors are hopeful of suitable debt restructuring in the best interest of the Company and in consonance with the risk and return of long term projects being executed by the Company.

The Company is operating in only one segment of operation i.e. construction. The business developments in the subsidiaries are as below:

Prime Infrapark Pvt. Ltd

Prime Infrapark, a wholly owned subsidiary has entered into a concession Agreement with DMRC for construction of a Multilevel Car Park cum Commercial Complex named Konnectus. The asset is fully developed. This property is strategically located above the first station of the Airport Express Line of DMRC and is opposite Ajmeri Gate Railway Station and in close proximity of Connaught Place. The duration of the Concession Agreement is till March 2040. Due to sluggish market and even after resorting to aggressive selling directly and via brokers, the company could lease out only around 65% of the leasable area. Due to the short fall, the company has negative cash flow leading to erosion of net worth of the company.

Muktangan Developers Pvt. Ltd

This is a wholly owned subsidiary of the Company which is in the process of developing a commercial property in the vicinity of Chembur Station in Mumbai. The approximate area of development will be nearly 468 sq. mtrs and is expected to be completed at the earliest.

Bhopal Sanchi Highways Pvt. Ltd

This subsidiary is set up to execute the project relating to construction, operation and maintenance of 2 lane highways with paved shoulders of Bhopal-Sanchi Section of about 54 kms on DBFOT model at an estimated cost of ₹ 210.00 crores which was expected to generated total cash flow of ₹. 335.00 Crores.

However, due to non-availability of work front coupled with other procedural issues for considerable period and resultant cost overruns & disputes during the course of the execution of project, the company has opted for termination of the contract with NHAI. However, NHAI has disputed the termination and referred the matter to Arbitration. Arbitration procedure has started in January, 2017.

Foreign Subsidiaries

Pratibha Holding (Singapore) Pte Ltd is set-up as a holding company for holding the stake in the overseas operating companies as per optimum corporate structure. It holds 100% stake in the Pratibha Infra Lanka (Private) Limited. Pratibha Infra Lanka (Private) Ltd is yet to commence its operation.

RISK MANAGEMENT

The company operates a fully integrated Enterprise Risk Management (ERM) framework in place for identification, assessment, treatment & reporting of risks. The Company's risk management processes ensure that the Company accepts risks as per the boundary conditions based on the risk appetite of the organization.

The Audit Committee of the Board oversees the efficacy of the risk management processes. Business level risks for each vertical are discussed in detail in the respective Top Management/ Board meetings. The Risk Management Committee is informed on the critical risks impacting the Company for their review and suggestions. Mitigation plans are drawn up and implemented as appropriate within the overall ERM framework of the Company. The Company is predominantly in project business and has developed robust project risk management processes. The key processes of risk reviews include country clearance in case of venturing into a new country, pre-bid risk reviews, execution risk reviews and project close out risk reviews. Pre-bid reviews are carried out based on a bid authorization matrix as determined by the Risk

Management Committees reviews of the projects are held at regular intervals for tracking execution risk the project performance, movement of risks in the project and effectiveness of mitigation measures.

Close out risk reviews are held to capture key learnings from the projects and what went right/wrong analysis which helps in factoring the learnings in future bids.

HUMAN RESOURCES DEVELOPMENT

The Company's talent base as on March 31, 2017, stands at 571. As we continue to grow rapidly, there is an increasingly sharper focus on the HR functional alignment with the business and building people capability. The Company continues to provide growth opportunities to its employees by way of training workshop and by that way to retain efficient and talented employees in the Company. Your Company is following highest level of safety measures for the most precious assets i.e. Human Capital. The Company is also having a well-defined policy for environmental safety. Occupational Health, Safety and Environment Management are given the utmost importance in your Company. There is a well-defined in house training program for its employees to upgrade their operating skills. The relations between the Company and the employees were cordial and the Company throughout the year.

INTERNAL CONTROL AND AUDIT

The Company believes that a strong internal control framework is an important pillar of Corporate Governance. It has established internal control mechanisms commensurate with the size and complexity of its business. A strong Internal Control framework is established through right tone at the top for good corporate governance which serves as a foundation for excellence and same is embedded in operations through its policies and procedures. Employees of the Company are guided by the Company's 'Code of Conduct'. As a part of good governance, the Company's 'Whistle Blower' policy enables the employees to have direct access to the Chairman of the Audit Committee without interference from other levels of management. Whistle Blower policy has also been implemented for Vendors & Channel partners as well to facilitate expression of genuine concerns about unethical behaviour, improper practice, any misconduct, any violation of legal or such requirements, actual or suspected fraud by any official of the Company without fear of punishment or unfair treatment. Senior Management and the Audit Committee of the Board is periodically apprised on the internal processes of the Company with respect to Internal Controls, Statutory Compliances and Assurance.

FORWARD LOOKING STATEMENTS

Statements in this report, particularly those which relate to Management Discussion and Analysis, describing the Company's future plans, projections, estimates and expectations may constitute "Forward Looking" statements, within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.