

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY STRUCTURE, DEVELOPMENT AND OUTLOOK

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development.

India has the one of largest road network across the world, spanning over a total of 5.5 million kms. This road network transports 64.5 per cent of all goods in the country and 90 per cent of India's total passenger traffic uses road network to commute. Road transportation has gradually increased over the years with the improvement in connectivity between cities, towns and villages in the country.

In 2018, India ranked 44<sup>th</sup> out of 167 countries in World Bank's Logistics Performance Index (LPI) 2018.

#### Market Size

Foreign Direct Investment (FDI) received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April, 2000 to December, 2018 stood at US\$ 24.91 billion, according to the Department of Industrial Policy and Promotion (DIPP). The logistics sector in India is growing at a CAGR of 10.5 per cent annually and is expected to reach US\$ 215 billion in 2020.

The construction of highways reached 9,829 kms during FY18 which was constructed at an average of 26.93 kms per day. The Government of India has set a target for construction of 10,000 kms National Highway in FY19.

#### Investments

India has a requirement of investment worth ₹50 trillion (US\$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country. India is witnessing significant interest from international investors in the infrastructure space. Some key investments in the sector are listed below.

- In 2018, infrastructure sector in India witnessed private equity and venture capital investments worth US\$ 1.97 billion
- In June, 2018, the Asian Infrastructure Investment Bank (AIIB) has announced US\$ 200 million investment into the National Investment & Infrastructure Fund (NIIF)
- Indian infrastructure sector witnessed 91 M&A deals worth US\$ 5.4 billion in 2017.

#### Government Initiatives

The Government of India is expected to invest highly in the infrastructure sector, mainly highways, renewable energy and urban transport. The total National Highways length increased to 122,434 kms in FY18 from 92,851 kms in FY14.

The Government of India is taking every possible initiative to boost the infrastructure sector.

Announcements in Union Budget 2019-20:

- The Government of India has given a massive push to the infrastructure sector by allocating ₹4.56 lakh crore (US\$ 63.20 billion) for the sector
- ₹83,015.97 crore (US\$11.51 billion) allocated towards road transport and highway. A total of 892 kms and 2,345 kms national highway projects were awarded and constructed, respectively between April – August, 2018
- As of October, 2018, total length of projects awarded was 6,400 kms under Bharatmala Pariyojana (including residual NHDP works)

- As of August, 2018, a total length of 34,800 kms road projects have been proposed to be constructed, under Bharatmala Pariyojana Phase-I
- As of August, 2018, Government of India has approved highway projects worth ₹ 2 billion (US\$ 29.83 million) to improve connectivity among Gujarat, Maharashtra, Rajasthan, Madhya Pradesh and Diu.

With the Government permitting 100 per cent Foreign Direct Investment (FDI) in the road sector, several foreign companies have formed partnerships with Indian players to capitalise on the sector's growth. Cumulative FDI in construction development since April, 2000 stood at US\$ 24.91 billion as of December, 2018. Macquarie Asia Infrastructure Fund (MAIF) 2 became the first largest foreign investment in Indian roads sector under Toll Operate Transfer (TOT) mode worth ₹9,681.5 crore (US\$ 1.50 billion). As of November, 2018, total length of projects awarded under Bharatmala Pariyojana (including residual NHDP works) was 6,460 kms for a total cost of ₹1.52 trillion (US\$ 21.07 billion). The total amount of investments are estimated to reach ₹1.58 trillion (US\$ 2.25 billion) in FY19.

#### Road Ahead

India's National Highway network is expected to cover 50,000 kilometres by 2019. National Highway construction in India has increased by 20 per cent year-on-year in 2017-18.

India and Japan have joined hands for infrastructure development in India's north-eastern states and are also setting up an India-Japan Coordination Forum for Development of North East to undertake strategic infrastructure projects in the northeast.

#### Real Estate

##### Introduction

The Real Estate sector is one of the most globally recognized sectors. Real Estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations.

It is also expected that this sector will incur more Non-Resident Indian (NRI) investments in both the short term and the long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

##### Market Size

Real Estate sector in India is expected to reach a market size of US\$ 1 trillion by 2030 from US\$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial Real Estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

Sectors such as IT and ITeS, retail, consulting and e-commerce have registered high demand for office space in recent times. Commercial office stock in India is expected to cross 600 million square feet by 2018 end while office space leasing in the top eight cities is expected to cross 100 million square feet during 2018-20. Co-working space across top seven cities has increased sharply in 2018 (up to September), reaching 3.44 million square feet, compared to 1.11 million square feet for the same period in 2017.

##### Investments/Developments

The Indian Real Estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. Between 2009-18, Indian Real Estate sector attracted institutional

investments worth US\$ 30 billion. Private Equity and Venture Capital investments in the sector reached US\$ 4.47 billion in 2018 and US\$ 546 million in Jan-Feb, 2019.

Some of the major investments and developments in this sector are as follows:

- Housing launches across top eight Indian cities increased 75 per cent in 2018 to 182,207 units
- In March, 2019, Embassy Office Parks, India's first Real Estate Investment Trust (REIT) went public
- Warehousing space in top eight Indian cities increased 22 per cent y-o-y in 2018 to 169 mn sq. ft
- Around 5.1 million sq. ft. of retail space became operational in top seven Indian cities in 2018
- In May, 2018, Blackstone Group acquired One India bulls in Chennai from India bulls Real Estate for around ₹ 900 crore (US\$ 136.9 million)
- In February, 2018, DLF bought 11.76 acres of land for ₹ 15 billion (US\$ 231.7 million) for its expansion in Gurugram, Haryana.

### **Government Initiatives**

The Government of India along with the governments of the respective states has taken several initiatives to encourage the development in the sector. The Smart City Project, where there is a plan to build 100 smart cities, is a prime opportunity for the Real Estate companies. Below are some of the other major Government Initiatives:

- Under the Pradhan Mantri Awas Yojana (PMAY) Urban, more than 6.85 million houses have been sanctioned up to December, 2018
- In February, 2018, creation of National Urban Housing Fund was approved with an outlay of ₹ 60,000 crore (US\$ 9.27 billion)
- Under the Pradhan Mantri Awas Yojana (PMAY) Urban 1,427,486 houses have been sanctioned in 2017-18. In March, 2018, construction of additional 3,21,567 affordable houses was sanctioned under the scheme.

### **Road Ahead**

The Securities and Exchange Board of India (SEBI) has given its approval for the Real Estate Investment Trust (REIT) platform which will help in allowing all kinds of investors to invest in the Indian Real Estate market. It would create an opportunity worth ₹ 1.25 trillion (US\$ 19.65 billion) in the Indian market over the years. Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalisation, Indian Real Estate developers have shifted gears and accepted fresh challenges. The most marked change has been the shift from family owned businesses to that of professionally managed ones. Real Estate developers, in meeting the growing need for managing multiple projects across cities, are also investing in centralised processes to source material and organise manpower and hiring qualified professionals in areas like project management, architecture and engineering.

The growing flow of FDI into Indian Real Estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

### **Discussion on Financial Performance**

- Total revenue from operations decreased from ₹ 123.98 Crores in FY 2017-18 to ₹ 17.53 Crores in FY 2018-19
- Other income increased from ₹ 6.28 Crores in FY 2017-18 to ₹ 43.91 Crores in FY 2018-19
- Earnings before interest, tax, depreciation & amortization (EBITDA) decreased from ₹ (14.76) Crores in FY 2017-18 to ₹ (31.62) Crores in FY 2018-19

- Depreciation declined by 6.59 % from ₹ 3.49 Crores in FY 2017-18 to ₹ 3.26 Crores in FY 2018-19
- Finance cost declined by 52.70% from ₹ 26.51 Crores in FY 2017-18 to ₹ 12.54 Crores in FY 2018-19
- Loss before exceptional items and tax reduced from ₹ 8.96 Crores in FY 2017-18 to ₹ 3.51 Crores in FY 2018-19
- Loss after tax decreased from ₹ 26.35 Crores in FY 2017-18 to ₹ 2.99 Crores in FY 2018-19
- Earnings per share (EPS) on basic and diluted basis stood at ₹ (0.37) in FY 2018-19 versus ₹(3.23) in FY 2017-18
- Net worth decreased to ₹ 476.15 Crores in FY 2018-19 from ₹ 479.08 Crores in FY 2017-18
- Fixed assets decreased to ₹ 15.70 Crores in FY 2018-19 from ₹ 42.05 Crores in FY 2017-18
- Long term debt stood at ₹ 124.08 Crores in FY 2018-19 against ₹ 131.60 Crores in FY 2017-18.

### **Consolidated Performance:**

- Total revenue from operations decreased from ₹ 189.65 Crores in FY 2017-18 to ₹ 48.21 Crores in FY 2018-19
- Earnings before interest, tax, depreciation & amortization (EBITDA) decreased from ₹ 22.13 Crores in FY 2017-18 to ₹ (22.15) Crores in FY 2018-19
- Loss after tax was ₹ 91.96 Crores in FY 2018-19 against ₹ 62.40 Crores in FY 2017-18
- Earnings per share (EPS) on basic and diluted basis stood at ₹ (11.29) in FY 2018-19 versus ₹ (7.70) in FY 2017-18.

### **Key Risks**

While the management is very optimistic about the Company's growth look, it is subject to certain risks and uncertainties. A spate of policy reforms by the statutory bodies has made the Indian infrastructure space more attractive for the new players to enter and therefore possible rise in competition in the sector. Atlanta Limited has around four decades of experience in the industry and has positioned itself in niche space following a conservative approach. Infrastructure being a capital intensive sector requires high level of long term debt financing. Moreover increasing interest rates during the span of project can challenge the profit margins. The Company has always ensured adequate capital for its operations and in fact it is working to become debt free in the next few quarters. Infrastructure projects involve complex design and engineering, substantial procurement of machinery and equipment, extensive construction management and sophisticated activities executed over an extended period of time. Moreover availability of input material and volatility in its cost, arrangement of manpower could be other risks the Company is exposed to. The Company maintains a healthy and long term relationship with its suppliers and workforce to ensure seamless execution of its projects. It also maintains strong execution efficiencies by effectively mobilizing its machineries and other resources. India is positioned for a sustainable and long term growth.

### **Cautionary Statement**

Statements in the Management Discussion and Analysis describing Atlanta Limited's objectives, projections, estimates, expectations may be "forward-looking statements". Actual results may differ materially from those expressed or implied. Important factors that could make difference to the Atlanta Limited's operations include economic conditions in which Atlanta Limited operates, change in government regulations, tax laws, statutes and other factors such as litigations and industrial relations.