



Management Discussion and Analysis Report

ECONOMIC OVERVIEW, INDUSTRY STRUCTURE AND DEVELOPMENT

The infrastructure and construction sector remained stressed in FY17-18 and struggled to deal with structural issues and macro economic factors. The sector has been impacted due to challenging bidding process, higher raw material expenses and leveraged Balance sheet. Further, land acquisition issues, delay in obtaining Environmental and forest clearance, fuel supply to power plants, lack of financing alternatives and lack of efficient dispute resolution system etc. the growth prospects of the sector are hindered.

C & C is not just an organization but a process by which dreams became realities and experienced visions became dynamic achievements. True to Gordon Hinckley's wise words C & C believes in hard labour to prosper as one of the most trusted names in infrastructure. With presence overseas and in many states and multitude of aspects in Engineering Procurement and Construction (EPC) business for infra in India; over past 22 years, C & C has widespread its reach and also expertise itself with the complexity of engineering work. These achievements have formed a part of a holistic combination of dynamic growth structure and active responsibility towards our commitment to the society and environment. Your company since its inception has maintained an honest principle of sharing its success with all its contributors.

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, railways, buildings, housing and urban infrastructure development. Construction sector plays a pivotal role in the economic growth of a nation, especially in an emerging one like India. The market size of Indian construction industry is around Rs.248,000 crore (\$37.6 billion) and it currently employs a workforce of nearly 35 million, the second largest sector after agriculture. The construction sector generates substantial employment and provides growth impetus to several sub-sectors of manufacturing like cement, bitumen, iron and steel, chemicals, bricks, paints tiles etc.

Roads and highways are one of the most significant parts of any country's infrastructure sector, and are also used as an indicator to validate any country's economic prosperity. Roads and highways are used by passenger traffic and freight traffic for transportation purpose. Indian roads and highways market grew at a significant pace over the past few years, owing to increasing focus of Government of India towards better infrastructure of roads and highways network for public and freight transportation. Moreover, implementation of government programmes such as, Pradhan Mantri Gram Sadak Yojana (PMGSY) is aimed at enhancing connectivity of rural regions in India. Furthermore, implementation of hybrid annuity model in Public Private

Partnership projects in roads and highways sector in the country is further anticipated to increase participation of project developers in the bidding process, which is forecast to drive India roads and highways market in coming years.

India has one of the largest road networks in the world, spanning a total of 5.6 million kilometers (kms). Production of commercial vehicles increased to 894,551 in 2017-18 from 567,000 in 2009-10 at a CAGR of 5.87 per cent.

The private sector has emerged as a key player in the development of road infrastructure in India. Increased industrial activities, along with increasing number of two and four wheelers have supported the growth in the road transport infrastructure projects. The government's policy to increase private sector participation has proved to be a boon for the infrastructure industry with a large number of private players entering the business through the public-private partnership (PPP) model.

The planned outlay under the Union Budget 2018-19 for the road sector is Rs 1.21 lakh crore (US\$ 18.69 billion). Moreover, Rs 71,000 crore (US\$ 10.97 billion) have been allocated specifically for the development for the national highways in the country.

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 capitalize on the sector's growth. In May 2018, the Government of India signed US\$ 500 million loan agreement with World Bank to provide additional funding for construction of 7,000 km climate resilient roads out of which 3,500 km. will be built using green technologies under Pradhan Mantri Gram Sadak Yojana (PMGDY).

The Ministry of Road Transport and Highways, has fixed a target of 20,000 kms. for 2018-19 which is 25 per cent more than 17,055 kms. awarded in 2017-18.

The financing scenario in the road sector continued to look grim in the past year. The road sector is witnessing increasing number of non-performing assets (NPAs) and an asset liability mismatch has emerged over the years. Lenders have lost their appetite as a result of host of NPAs with banks.

Although the government has undertaken a series of policy and regulatory initiatives to bail out the sector, the same are yet to have their full impact on the ground.

Opportunities

Construction of national highways has increased to record levels and the momentum is expected to continue in this financial year too, as funding is not an issue and the pace of land acquisition has improved, says a report.

According to a report of Merrill Lynch, 2018-19 is likely to be another robust year for the highway sector, even as some

disruption is likely in the fourth quarter of this fiscal owing to 2019 general elections.

Funding is not an issue in the near-term; and the pace/ process of land acquisition has improved. Large number of open tenders gives us comfort on the ordering

The pace of land acquisition—one of the key bottlenecks for the sector historically—has improved to around 9,500 hectares in 2017-18 as against an average of about 7,700 hectares over the preceding five years.

Besides, several NHAI officials highlighted higher compensation to land-owners, better coordination with state governments and higher autonomy to NHAI in the process as the key reasons for the uptick.

Capacity constraints on contractors' side are likely to delay execution. Many new players have won road awards—may find it difficult to ramp-up their equipment/manpower to execute elevated order books in time.

Construction is the sixth-largest economic segment in India, accounting for 7.8% of the Country's GDP, second largest recipient of FDI after the service sector. During the past 50 years, constructions has accounted for around 40 per cent of the development investment in India. Around 16 per cent of the nation's working population depends on constructions for its livelihood. India's Union Budget provides a significant outlay for infrastructure expenditure. This spending is seen as a key component of the government's plans to boost India's growth levels to projections ranging between 7 and 9 percent. India needs infrastructure upgrades and technologies that will help it to meet a growing demand for energy, transport, health, education, communication, consumption and better quality of life among its 1.30 billion citizens. India's growing economy holds a huge potential for critical infrastructure developments. These targets for infrastructure development, means great opportunities to construction companies. An increasing number of projects are being commissioned that target the expansion and improvement of consumer utilities, transportation and communication needs, showcasing the priority given to the infrastructure sector. All of this projects a healthy outlook for this sector, where construction co. such as C & C has an important role to play.

The Government of India is taking various initiatives to improve the urban infrastructure. There is an urgent need for re-generating urban areas in existing cities and the creation of smart cities to meet the demands of the increasing population and migration of rural population to the urban areas. According to the Ministry of Urban Development, "Urban Infrastructure" should be equipped with all the necessary facilities. It should give a decent quality of life to its residents, promising clean and sustainable environment by applying smart solutions in the domain of sanitation, waste management, public transport and governance. Nearly 31% of India's current population lives in urban areas contributing to 63% of India's GDP (Census 2011) and with increasing urbanization, urban areas are expected to house 40% of India' population and contribute to 75% of India's GDP by 2030. The core infrastructural requirement to develop Smart cities can be achieved with Smart solution like E-Governance and Citizen Services, Energy

Management etc.

The Company has the expertise, resources & experience to design, construct and execute complex or critical civil backbone infrastructure. The Company has designed, built and delivered multiple mega-projects in India and overseas.

Threats risks and concern

The Company recognizes the need to control and limit risk, which it faces in day to day course of the business. The Company is exposed to certain financial risks, principally foreign exchange risk, interest rate risk, liquidity risk and credit risk, risks associated with the economy, regulations, and competition among others.

The concerns for the company are associated with settlement of pending claims cases, slow decision making process at client level, delays with some of the jobs due to severe liquidity crunch, and very slow progress on arbitration.

To overcome the challenging business environment, the Company is rigorously undertaking the steps to realization of claims, cost optimization, monetization of BOT assets and carefully bidding for new jobs apart from focusing on streamlining the internal organization and processes with emphasis on leveraging the Company's existing core competencies. The Company has a risk management committee to monitor, evaluate and to devise strategy to eliminate and minimize the risk.

C & C has a comprehensive Enterprise Risk Management 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. 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 risk framework of the Company. The Company emphasized on continuous learning and has initiated several knowledge based initiatives to improve risk awareness across the organization.

It has been observed that competition from foreign and domestic players has considerably increased in the past few years. Learning from past execution of complex jobs, Joint Ventures and alliances with other global players to leverage each other's strengths, and other operational excellence measures like value engineering, cost control, manpower rationalization and cost reduction through automation process are some of the key mitigation measures that the Company takes to remain competitive in different businesses.

Corporate Governance and Compliance Policy is in place mandating adherence to Code of conduct and internal controls. Regular knowledge sharing across the organization and appropriate controls are implemented to mitigate reputational risk.

Project delays and adverse contractual payment terms lead to increased working capital requirements. Company has strengthened the process for close monitoring of cash flows at



the project level. Company ensures regular follow up for delay in payments by client & has ensured improvement in the working capital levels.

Company maintains a strong documentation and follows up with clients/sub-contractors/vendors for any claim that is submitted. Legal teams are consulted periodically to ensure a robust process of claim management.

The Company actively scans the environment for talent with skill sets suited to the expanding and changing needs of the business though availability of such resources are limited. The leadership pipeline has been strengthened and proper processes are being put in place for hiring the best talent. Suitable retention policies are being constantly worked upon to minimize attrition of key resources.

The Company has institutionalized the risk management processes to map & monitor the risks across the businesses and respond effectively to achieve the strategic objectives. The Company has been successful in tapping opportunities both in domestic and international markets. The Company sees risk management as a business enabler and believes that risk is an integral part of every business and promotes a culture of building the ability to anticipate and manage risks effectively and converting them into opportunities.

Simultaneously, the construction sector is reeling under a severe shortage of skilled workforce, and in many areas of the country, shortage of construction sand, raw materials, and political disturbances are also acting as growth deterrents. The pace in the Indian construction sector on the ground, however, does not reflect what lies in store for the future. For example, technological advancements will soon begin increasing the pace and potential of this sector, and act as a growth catalyst. Among its many positive influences, the arrival of new construction technology and the entry of international infrastructure players into India are generating employment across a vast array of different skill sets.

Outlook

The outlook for the sector undoubtedly looks positive. However, sound implementation of projects awarded in the last two fiscal years will be the key. While the government has been successful in infusing the required momentum in award activity, there is an urgent need to ensure that the errors committed in the past are not repeated.

Several recent policy measures initiated by the government have led to modest pickup in project award and completion under National Highways Development Programme (NHDP).

The bidding scenario has witnessed a slight improvement in the past one year. Dominance of the EPC mode is reflective of the government's strategy to tap the potential of asset-light contractors.

The current dispensation has earmarked sufficient funds for construction of roads and highways by the concerned Ministry to put the focus back on development, expansion and reconstruction of roads, so much so, that in the last two years alone, the average road construction crossed 25 kms/day. This was made possible by addressing certain pertinent issues and

incorporating clauses, such as the exit clause, for the construction companies that were awarded projects.

In the past, many EPC contractors and joint venture companies working on the PPP model suffered losses both on their financial and reputation front due to non-receipt or late receipt of governmental approvals and clearances. Understandably, they became reluctant to partner with the Ministry of Roads & Highways for new projects. However, when the government came up with the Hybrid Annuity Model (HAM), it helped rope in several reputed CE and contracting firms to take the plans forward.

Having put the mechanisms, systems and clauses in place, the ministry is confident of achieving its target of constructing 40kms/day. To ensure this, project works must be awarded regularly to the contracting companies.

We now move on to the next level of advancement and growth with the concept of Smart Cities connected by Smart Roads. India is on road to 'Road Development 2.0', from highways & expressways to Smart Roads. The design and methodologies of these roads must provide for advanced mechanisms and installations such as reflective and solar studs, animated sensors, retro reflective signage for safe and free flow of traffic at high speed, and other safety measures.

All of this will entail an advanced technology-driven traffic management system that includes an SOS calling facility for emergencies on these roads; latest systems for signaling, hassle-free toll collection, accident management, and energy-efficient, high-powered lighting such as solar lighting.

Given the high traffic density and mix of vehicle types on our roads, it is important to ensure timely and safe mobility of humans as well as goods. After all, Smart Cities must be connected by Smart Roads if we are to progress.

The announcements and initiatives proposed must be implemented in a timely manner. This, in turn, may see the return of private investment and interest to the sector, without which the accelerated development of India's roads & highways may remain a pipe dream.

The pace of recovery in the construction sector is likely to be modest and will be linked to the on-ground impact of the policy measures including the release of 75% arbitral award as well as the availability of funds for project development. With the government's emphasis on infrastructure projects, public sector investments are expected to increase in the medium to long term- though this will be constrained by fiscal deficit targets and other increased expenditures on account of pay revisions etc. Hence, the revival of public private partnership is crucial for improving the pace of infrastructure development. Any significant improvement in the liquidity profile and credit metrics of construction companies will take time and will be contingent on an improvement in the working capital cycle.

Construction is an important part of the development and modernization process. While it is closely correlated with economic growth, it does not follow the providing incentives and increased spending on projects necessarily leads to economic growth. The government's impetus on clearing the

policy log-jam and improving the financial health of infrastructure Companies will help ensure continued revenue growth. Moreover, infrastructure Companies are focusing on debt reduction through asset sale and equity infusion, which is expected to gradually improve their financial position and increase their participation in projects. Renewed government focus on infrastructure, coupled with a rising demand for commercial and retail properties will prove to be solid foundation for fostering growth.

India's construction and infrastructure sector, averaging at 6-7% over five-year forecast period. The growth is expected to be driven by the Government's plan to develop Smart Cities, boost in industrial and commercial construction and growth in the transport sector supported by road and rail projects. The crucial factors to sustain this momentum would expedition in approval and settlement of environment and land clearance issues which is slowing down investments and, in some cases, preventing projects from progressing. The Company is all geared up to consistently deliver enhanced value to customers, through continual improvement by way of innovative assimilation of new technologies and development of human resources.

Performance highlights

Financial review

Particulars	FY 2017-2018		FY 2016-2017	
	₹ in Cr.	Percentage (%)	₹ in Cr.	Percentage (%)
Net Sales				
Net Sales / Revenue from Operations	943.29	100.00	948.62	100.00
Other Income	6.92	0.73	45.39	4.78
Construction Expenses	688.16	72.96	612.69	64.59
Employees Benefit Expenses	62.07	6.58	85.99	9.06
Finance Cost	149.97	15.90	145.41	15.33
Depreciation and amortization expenses	32.19	3.41	42.05	4.43
Other Expenses	52.13	5.53	59.32	6.25
Profit/(Loss) Before Exceptional items	(34.32)	-3.64	48.56	5.12
Exceptional Items	76.01	8.06	(0.72)	-0.08
Profit after Exceptional items but before tax	41.69	4.42	47.84	5.04
Tax	0.19	0.02	11.62	1.22
Profit After Tax	41.50	4.40	36.22	3.82
Total Other Comprehensive Income/(Loss) for the year	(0.01)	0	0.23	0.02
Total Comprehensive Income for the year	41.49	4.40	36.45	3.84
Basic and Diluted EPS (Rs.)	16.31	N.A.	14.23	N.A.

SEGMENT WISE PERFORMANCE

Vertical Break-up	FY 2017-2018		FY 2016-2017	
	₹ in Cr.	% of total turnover	₹ in Cr.	% of total turnover
Roads & Railways	854	91%	846	89%
Transmission & Pilling	23	2%	9	1%
Urban Infra	51	5%	49	5%
Other	15	2%	45	5%
TOTAL	943	100%	949	100%



Your Company is all set to reap the benefits through its proven project execution capabilities, integrated in-house design, engineering & project management expertise and strong techno-financial credentials for qualification. A large fleet of sophisticated equipments, vast experienced employee base and a highly qualified management team will also lead and guide your Company towards scaling new heights.

Effective policy measures by Indian government over the last 36 months have revived the Indian road sector and supporting the execution pace, according to a report released by Indian credit ratings agency ICRA.

It further added that, earlier the sector was marred by execution delays, project cancellations, stalled projects, and loss of lender confidence, leveraged balance sheets of developers and sluggish traffic growth.

“Policy measures such as back-ending premium payment, compensating concessionaires for delays not attributable to them, relaxing exit norms and one-time fund infusion by the NHAI are expected to address liquidity-related concerns faced by the developers. Further, to make encumbrance-free land available more speedily, the NHAI has delegated power to regional officers to demolish structures on the right of way and to shift utilities as and when needed.”

Asset sales in the road sector have picked up over the last 30 months with the relaxation in exit policy. Sponsors in around 20 road assets involving a total cost of Rs 123.27 billion have monetized their assets as opposed to around Rs 70 billion in the preceding 50 months.

The government’s focus on addressing execution bottlenecks and improving developer’s liquidity position have yielded positive results. However, ICRA, outlook on the sector continues to be stable, firstly because developers find it difficult to achieve financial closure with lenders exercising more caution while taking on additional exposure and secondly because of the leveraged balance sheets of developers.

Key Developments

In order to overcome the challenging business environment and financial crunch, the Company has pro-actively undertaken the steps to improve the liquidity in the company by way of recovery of the claims from employers for ongoing and as well as the completed projects. Some of these claims are at advance stage of recovery

Further, on the request of the Company, the State Bank of India (SBI) has agreed towards full and final settlement of all the dues of the Company to the Bank for a total sum of Rs.280.00 Crores, payable in stages over next one year.

Further the Company is aggressively exploring the new jobs with emphasis on leveraging the Company’s existing core competencies.

In addition, the Company is also in the advance stage of monetizing some of its BOT assets which is likely to be completed in some time.

The order book of the Company as on March 31, 2018 was Rs.3,235 Crores.

VERTICAL WISE ORDER BOOK

(` in Cr.)

Vertical wise	Contract value	Executed during the year	New Orders during the year	Balance to be executed
Roads & Railways	6,418	854	105	2,923
Transmission & Pilling	197	23	-	128
Urban Infra	1,006	51	-	184
Other	-	15	-	-
TOTAL	7,621	943	105	3,235

Internal control system and their adequacy

The Company has an adequate system of internal control to ensure that the resources of the Company are used efficiently and effectively. All assets are safeguarded and protected against loss from unauthorized use or disposition and the transactions are authorised, recorded and reported correctly. Financial and other data are reliable for preparing financial information and other data.

The internal financial controls with reference to the Financial Statements are commensurate with the size and nature of business of the Company. The Company is working to further strengthen the systems for internal audit and risk assessment and mitigation. The Internal Audit Department of the Company

monitors and evaluates the efficacy and adequacy of internal control systems in the Company. All significant audit observations and follow up actions are reported to the Audit Committee along with Internal Audit Reports and management responses/replies thereon.

The Company believes that a strong internal control framework is an important pillar of Corporate Governance. 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 level of management.

The Company has laid down Internal Financial Controls as detailed in the Companies Act, 2013 and has covered all major processes commensurate with the size of business operations. These have been established at the entity and process levels and are designed to ensure compliance to internal control requirement, regulatory compliance and appropriate recording and reporting of financial and operations information. The Company has reviewed and sustained internal controls by adopting a systematic approach to evaluate, control design and operating effectiveness. The policies and procedures are reviewed periodically for any changes required, to changing business needs as well as improvements in processes to strengthen the internal control systems. Authorisation Matrices for financial transactions are derived based on Board decisions which are delegated to individual based on business needs within the overall limits of Corporate Authorisation Guidelines. Financial powers are vested based on business requirement and there is no automatic vesting of powers based on designation/grade of an individual.

The Company views Information Technology (IT) as a key enabler for efficiency and providing competitive advantage. IT is accordingly managed through a robust governance process that covers value delivery, cost optimization, technology management, support and education. The Information Technology systems in the Company form the backbone for carrying out all the business processes, for communication, collaboration and for providing information for effective decision making, monitoring and management control. The Information system at Company, implemented and refined over many years is maintained systematically to enhance capability with new features and also to remain current on technology with upgrades. These systems are geared towards improving productivity and efficiency of all our operations. Over the years, the newer systems help the Company to connect seamlessly with customers, provide better products and services and enable better execution of large projects. Upgrade/update to IT infrastructures is being done at regular intervals to meet the growing demand of automation. A complete scan of IT security policies, practices and technology is reviewed regularly.

The Company also has Enterprise Resource Planning (ERP) package in place at various levels, which aids in business operation running more efficiently and effectively. **Material Developments in human resources/ industrial relations front, including number of people employed**

We deliver on the strength of our people and in a dynamic business environment; our people create and sustain our brand recall. Our HR team focuses on employee training, inculcation of values and enhancing functional expertise. The key HR objective is to ensure that our employees are aware of the role they are expected to play in the organization to be able to drive organizational momentum. We have manpower strength of 923 members as on 31st March, 2018 which comprises professionals from diverse backgrounds like engineering, finance, taxation, secretarial, legal, management, business, supervisors, operators and sub-staff, skilled and semi-skilled workers. The top management conducts several discussions with their employees to discuss multiple issues towards discussing leadership qualities, values, responsibilities, freedom to work and take decisions.

As in the past, industrial relations continued to remain cordial. There was no strike or labour unrest during the period under review.

Cautionary statement

The statements in the management discussion and analysis report describing the Company's objectives, plans, projections, estimates and expectations may constitute 'forward looking statements' within the meaning of applicable law and regulations. Actual results may differ materially from those expressed or implied in the statement depending on the circumstances. Neither our Company, nor our Directors, nor any of their respective affiliates or any employee of the Company has any obligation to update or otherwise revise any statements reflecting circumstances arising after this date or to reflect the occurrence of underlying events even if the underlying assumptions do not come to fruition.