ATLANTA LTD.

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Buy or Sell?

We are in the business of helping investors make better decisions, which is why we have consciously decided to stay away from making buy/sell calls on stocks. We also understand that this information is in no way complete or comprehensive. But, we hope that this will be a good place for you to start your research on Atlanta, if you wish to make an investment in it.

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ATLANTA LTD.

AN UNCERTAIN AFFAIR

Atlanta Limited is not an ordinary company by any stretch of the imagination. It operates in the Infrastructure Sector and is currently working on projects worth Rs. 940 Crores. In the last financial year, it posted revenues of Rs. 254 Crores with a PAT margin of ~23% . The company is poised to receive awards worth Rs. 1,100 Cr. through arbitration and is currently trading at a P/E of 7.7 (Industry P/E is at 24). Surely, this company is a hidden gem, a bargain at Rs. 60 and the value investors ultimate dream package.

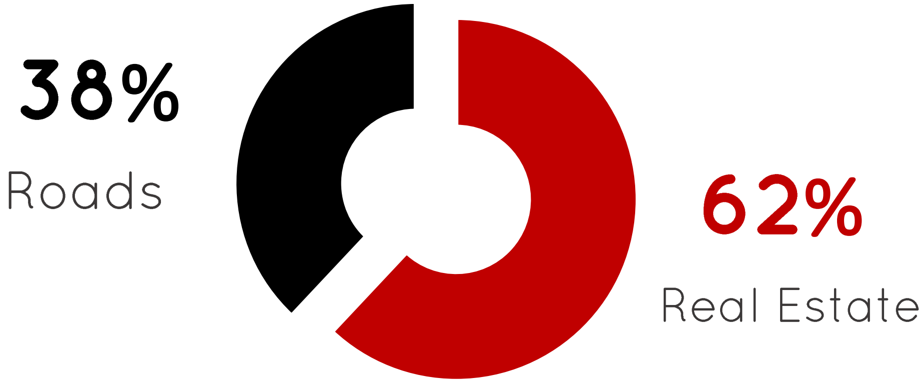
Not Quite. This story deserves a lot more attention and here is an attempt to provide a comprehensive review for investors who are looking at Atlanta Ltd.

What is Atlanta Limited?

Atlanta Ltd is engaged in the business of infrastructure development, including construction of Roads, Highways, Bridges, Runways, Real Estate development and some Mining work. But today they are mostly restricted to Roads and Real Estate Development Work.

Is Atlanta Limited working on projects worth ~ Rs. 940 Cr.?

Yes. Atlanta limited is currently working on projects worth ~ Rs. 940 Cr. This is how the division looks like.



Point of Interest

Atlanta Limited is currently working on building roads worth Rs. 354 Cr. All these projects are classified under what is called the EPC (Engineering, Procurement & Construction) Order Book. Within the EPC Model, Atlanta will bid for the tender and execute the infra project on behalf of the government. The financing cost is borne by the government. For this reason, EPC projects are extremely desirable for a company like Atlanta.

Atlanta Limited, in its recent interview transcripts has stated that it will mostly bid for EPC like projects going ahead as these are generally less risky

When are they going to realize revenues of Rs. 940 Cr.?

EPC Projects	Contract Value	2017-18	2018-19	2019-20	2020-21
EPC(Assam)	243 Cr.	50 Cr.	96 Cr.	97 Cr.	
EPC(Mizoram)	64Cr.	64 Cr.			
EPC(Punjab)	34 Cr.	34 Cr.			
EPC(Nagpur)	28 Cr.	28 Cr.			

For what its worth, there is some clarity on where future revenues are going to come from, based on the aforementioned projections. Atlanta is also prequalified to bid for projects worth Rs. 1400 Crores and according to the management its current focus is on adding Rs. 500 to Rs. 1000 Cr EPC work every fiscal.

Real Estate Projects	Contract Value	2017-18	2018-19	2019-20	2020-21
Atlanta Enclave (Maharashtra)	352 Cr.				
Olympic Lifestyles (Rajasthan)	160 Cr.				
Atlanta Heights (Maharashtra)	75 Cr.				

The Company has over 1.8 mn sq. ft. of real estate projects under various stages of development in Maharashtra & Rajasthan. Atlanta has already developed around 0.16 mn sq. ft. of saleable area in Phase I of Atlanta Enclave and its primary focus is on the development of small ticket residential and budget housing projects on the current land bank

So, what's wrong with Atlanta then?

Nothing as of yet. Their future projections look good, Government initiatives for both real estate and Road construction is projected to receive significant boost in the upcoming years and Atlanta is already prequalified to bid for about Rs. 1400 Cr. worth of projects within the domain of Road Construction.

The problem is not so much with the future prospects of Atlanta but with its past. Atlanta's Balance Sheet looks nothing like the future it has projected for itself

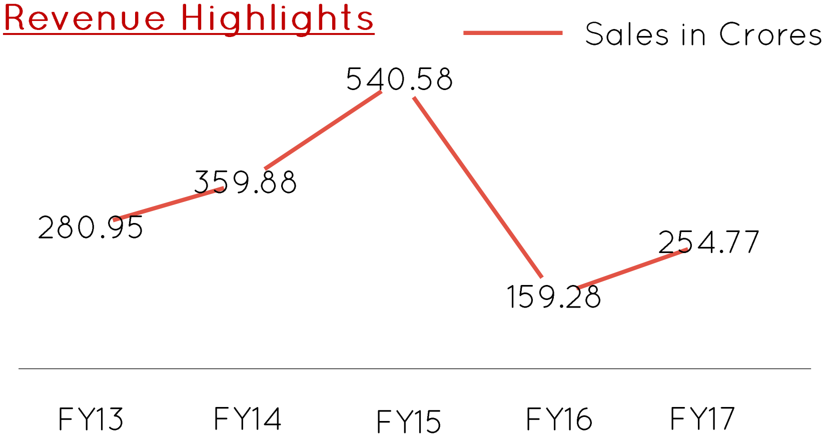
Point of Interest

Although Atlanta has projected revenues from various EPC and Real Estate Projects. The chances of these revenues materializing as stated in the projections are quite slim. This is due to the uncertainty inherent to the Infra/Real Estate business. We will talk about some of these risks going ahead

ATLANTA'S BALANCE SHEET

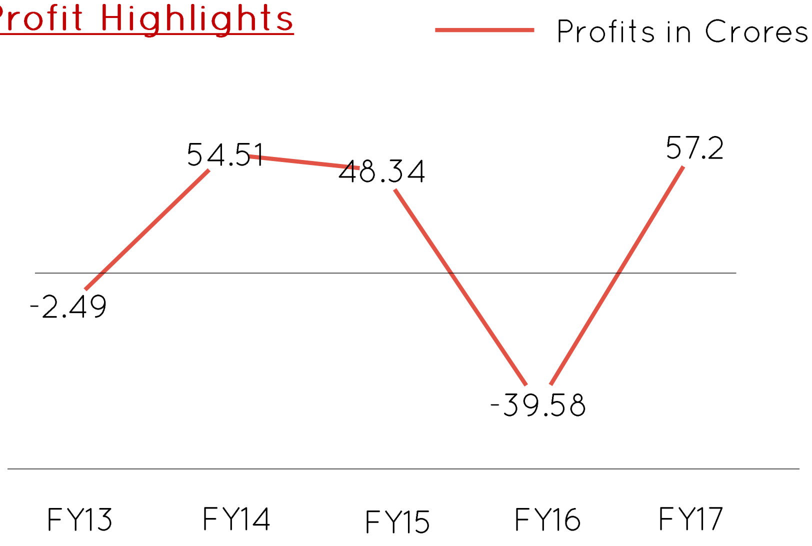
Uncertain and without clear Patterns

Revenue Highlights



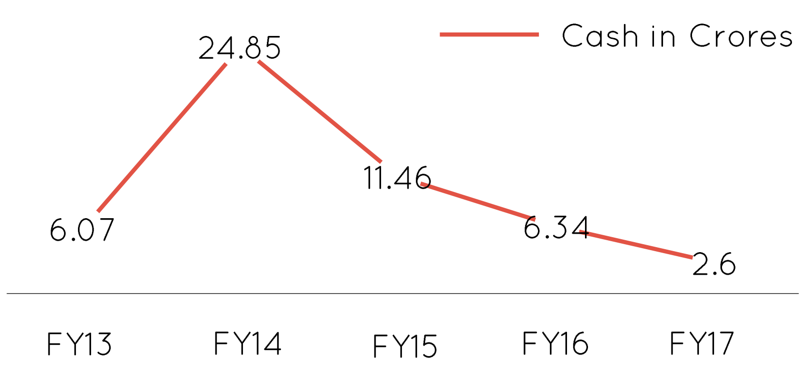
The chairman has suggested that the company is poised to grow at 50% YoY. Atlanta's Revenue highlights however don't give a lot of hope in this regard

Profit Highlights



The profits too exhibit uncertain patterns throughout its history

Cash Flows at the end of the year



Cash Flows are generally weak and haven't shown signs of improvement

Point of Interest

It must also be noted that uncertain patterns are endemic to the Infra/ Real Estate Sector. But Atlanta's case is unique in that it has failed to book consistent top line/ bottom line growth since going public

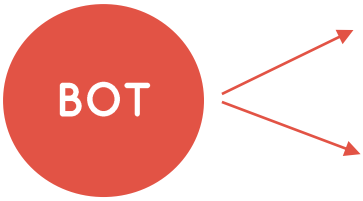
Although the balance sheet doesn't look very promising Atlanta is poised to receive Rs. 1100 Cr. in Arbitration awards. Maybe that will help the company's top/bottom line

ARBITRATION AWARDS OF 1100 CRORES

Surely, this is a good thing?

Where do these arbitration awards come from ?

Atlanta Ltd. in the past has dealt with several BOT (Build. Operate and Transfer) Projects. Within the BOT model Atlanta Ltd. will build the road, operate it, work on maintenance and transfer all the assets after a designated period. The government will either make periodic payments towards the same or Atlanta will be allowed to collect toll for the designated period before transferring control back to the government.



BOT(Toll) : Atlanta makes money on the project by collecting toll for a pre defined period

BOT(Annuity) : Atlanta makes money on the project by collecting annuities from the Government over a fixed period

The money you receive through BOT projects accrue over a period of many years and usually involve a high degree of uncertainty. The uncertainty involved in carrying out these projects carry a high level of risk for the promoter as well, which is one of the reasons why Atlanta now wants to bid for EPC projects instead of BOT. If these risks aren't managed effectively, you could have projects that are stuck in arbitration courts over disputes arising out of unmet contractual obligations or poorly defined exit clauses. Atlanta for its part is involved in several such disputes. And this is where most of the 1100 Cr comes from. The chairman has already outlined plans on how he hopes to deploy these funds. According to him, the funds from arbitration will be used to reduce debt levels and make the company debt free within a few years.

So its not a good thing?

Not necessarily. Arbitration funds are not a reliable source of income. Although they have high EBIT margins, the uncertainty involved in receiving these funds can usually negatively impact the company's future prospects. These funds come in bits and parts and sometimes they don't come at all. So while it is true that Atlanta is poised to receive arbitration awards to the tune of Rs. 1100 Cr, relying on these awards to pay back their debt is largely an uncertain endeavor.

Point of Interest

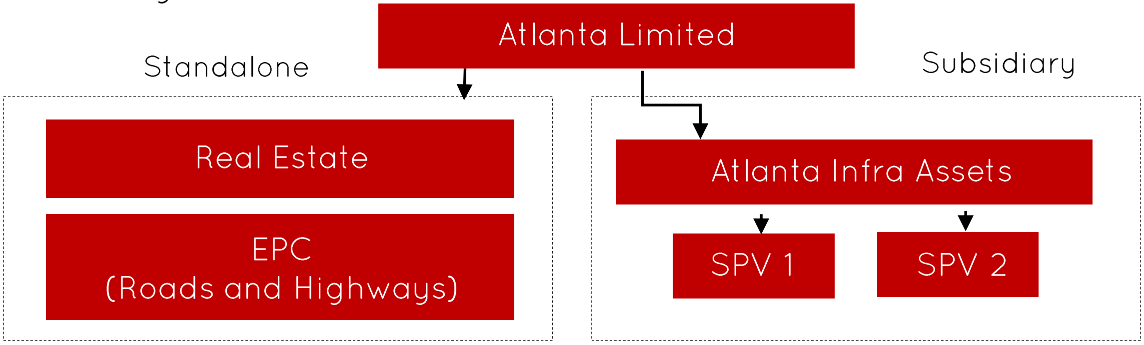
It must also be noted that arbitration is an industry wide phenomenon and not specific to Atlanta Limited. Investors must also note that the likelihood of companies triggering the arbitration clause is much higher when they take on BOT projects as opposed to EPC's. where the financing risk is borne by the government So EPC's are good for promoters, BOT's not always.

But that still doesn't raise any obvious red flags. Using arbitration funds to reduce debt levels and making the company debt free has to be good for the company's future prospects. Right? Well, to answer this, we must first talk about debt.

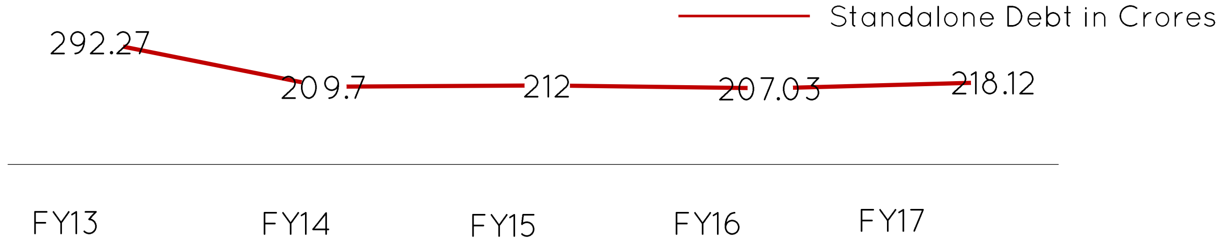
ATLANTA'S DEBT

Standalone vs Consolidated

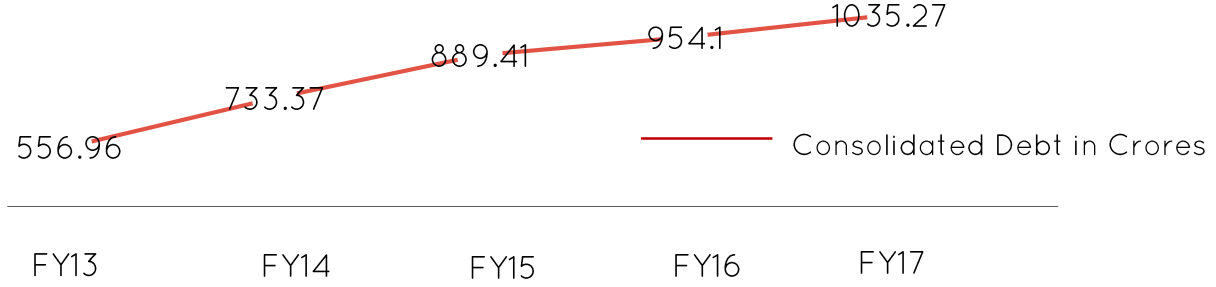
When studying Atlanta's Balance Sheet, one has to make a clear distinction between standalone and consolidated debt levels. The parent company only executes EPC and Real Estate Projects. For BOT or other such projects, it creates a Special Purpose vehicle (SPV) under a subsidiary called Atlanta Infra Assets Limited. The SPV is a legal entity that maintains its own assets and liabilities and deals with undertaking the project. Once the contract agreements are finalized, the SPV contracts the engineering and construction work to Atlanta Limited (Standalone Entity) and the revenue accruing out of the construction work is promptly booked in the balance sheet of the parent company (Standalone Balance Sheet). All the debts however will still be listed in the books of the special purpose vehicle that was created specifically for this unique project. This allows the standalone entity to have low debt levels, whereas the consolidated balance sheet will have higher debt levels.



On a standalone basis Atlanta Limited have maintained constant debt levels for the past 5 years at about ~ 200 Cr. It also recently paid off a significant portion of its debt reducing its burden from 218 Crores (FY17) to 165 Cr. (H1FY18) and has promptly been working towards its vision, i.e. making the company debt free by the next year, at least on a standalone basis using money received through arbitration.



But this is only half the story. The consolidated debt of the company stood at 1035 Cr. as of FY2017, 5 times the debt levels of the standalone entity. Unlike the constant debt levels of the standalone company, the consolidated debt has been on an upward trend for the past 5 years. Interestingly the chairman has vouched to pay off these debts too, within a couple of years.



But then during the earnings call of Q2FY 2018, something very interesting happened. On being queried about the consolidated debt levels, the chairman claimed that the consolidated debt level now stood at 750 Cr. So, based on the information available, we are to assume that the company has somehow reduced its consolidated debt levels from 1035 Cr to 750 Crore within just 2 quarters. If this is really the case, its big news for a company whose consolidated debt levels have consistently been on an uptrend for the past 8 years.

FY2017 1035 Cr. → 750 Cr. **H1 FY2018**

We are not quite sure where this money came from and we shall not speculate on this matter further. But what we do know is that this money did not come from arbitration alone. Within the 2 quarters, the company received only about 74 Cr. worth of awards and so they must have paid their lenders using some other means.

PLEDGING SHARES

A DEATH TRAP

While Atlanta's story hasn't quite been as optimistic as it was presented initially, it wasn't terrible either, but its story truly starts falling apart in this section

Atlanta's consolidated Debts have another problem that we haven't discussed, in that they are almost all secured loans, secured using promoter stake. The promoters have pledged 70% of their shares as collateral and since the promoters hold about 70% of the company, we have 50% of all outstanding shares pledged as collateral. Companies with over 50% pledged shares are rated as high risk stocks based on an RBI Report on Financial Stability. Out of the over 5000 listed companies in India, only about 48 companies fell under this dangerous category in 2013. No such information is available for 2018 but it is safe to say that stocks where >50% stocks are pledged are still very risky picks.

50% of all Shares Pledged = High Risk Stock

Let us explain why this is a dangerous thing. Typically whenever promoters try to raise debt by pledging shares, the amount that is lent by banks to the promoters is less than the market value of the shares. Imagine the company pledges Rs. 100 worth of shares. The banks lend the company Rs. 80 and treats the difference, Rs. 20 as the margin. In case the stock price falls, lenders ask the promoter to provide more cash or shares to top up this margin. If the promoters are not able to top up the collateral, the lenders can sell the shares to maintain this margin. If prices continue to fall and lenders sell these shares in the market the extra supply of shares can lead to further fall in prices creating a vicious cycle that might be detrimental to the stock and the retail investor.

FINAL REVIEW OF THE STOCK

There are a few thing to look forward to, with Atlanta Limited.

01 The company has projects worth Rs. 940 Crores in the pipeline

02 The company is also poised to receive Rs. 1100 Cr. worth of Arbitration awards

03 The management has suggested that they would make the company debt fee within a couple of years

But all of these are mere promises and Atlanta for its part has very little to show in terms of tangible results today. What is evident today however is that the stock is an extremely risky pick; for about 50% of all outstanding shares are pledged as collateral and the Management has done very little to change this scenario

Maybe the Management will turn it all around. Maybe they will soon make the company debt free. Maybe those arbitration awards will come thick and fast and add to the reserves. Maybe the company will start growing 50% YoY as stated during the Earnings Call. Maybe all the pledged shares will finally be released and maybe the stock price will finally start moving up. But as it stands Atlanta's story is built on promises. Big, Tall, Very Very Uncertain Promises.

Atlanta's Stock Price

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THANK YOU FOR READING

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