CHAIRMAN'S LETTER 2024-25

During the year, our consolidated net worth decreased by Rupees Five crores, which decreased the per share book value by seven per cent. Over the last eighteen years (that is, since the present owners took over) per share book value, has grown from Rs.226 to Rs.238, which, after factoring in dividend paid during this period, works out to a rate of 0.3% compounded annually.

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After a surprising FY24, we had a significantly improved FY25, though not yet profitable. Our opening order book, which is the single most significant driver of the Revenues during the year, rose from Rs.119 crores in FY24 to Rs.208 crores for FY25. Year on year order booking grew from Rs. 192 crores to Rs.225 crores.

These two levers helped us to grow the contracting business Revenues from Rs.106 crores to Rs.155 crores, leaving us with a closing order book, at the end of FY25 at Rs.281 crores. We are just about finding our feet on winning new orders, but we are some distance away from building a predictable pipeline. We believe, the quality of our project execution will determine how much work we win. There will always be companies who will be looking to expand capacities, and they will look for trusted partners who they can lean on, to help them get the job done efficiently, in terms of time and cost. As our execution capability grows, we may even get an opportunity to win, without being the lowest cost contractor. In a fairly low margin business, every per cent of premium over the lowest bid, could mean up to twenty per cent improvement to your net margin.

The industry has almost no entry barriers, which usually gives birth to a highly fragmented industry. This industry structure typically means the offering is commoditized driving down profit margins. This is what characterizes the construction industry in India as well. What makes matters worse is that much of the supply chain is broken, with few suppliers of goods and services that deliver what they promise.

All this is a recipe for inefficiencies across the entire spectrum from procuring the right material, to arranging the labour with the right skill, to getting the right equipment, to putting it all together to produce quality output on time and on budget. Every business has plenty of variables that you must master to be able to create a right to win. The only additional variable in this business is that most of the suppliers are not as reliable as one would like. Gradually, we are confident of finding trusted partners in our supply chain.

We see ourselves as a startup in the Indian construction industry, given we started working like a true contractor only this year. There are several aspects of what a contractor does, that we, as yet, don't do. It will take a few years for us to become a fully integrated player. These are very early days in our journey, in this new avatar.

So how should we measure our progress in this journey? The one metric that captures all the variables in this business is net margin. A good contractor shreds waste in the system and is able to maximize productivity of all his resources, to earn net margins (after tax) of low double digits. An average player ends up with about half that. Most players do not even manage to earn that much.

What about return on equity? Good players are able to earn returns in the mid- to high-teens and sometimes even higher. This is possible once you have a well-oiled machine, which most industry participants don't have. The classic 80:20 rule applies everywhere, including in the return profile of participants of our industry. Most of the industry participants would probably be better off leaving their money in bank fixed deposits.

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We started offering construction services back in 2015, on a sub-contract model. Semac owned the client relationship and was responsible for delivering the built project on time, cost and quality parameters. While Semac was fully accountable to our clients, we were doing the design and project management, letting the subcontractor do the heavy lifting of executing projects on ground.

As part of natural evolution, we gradually transitioned from a pure outsourced model to a hands-on model. While this seems obvious, an organization with a four plus decade legacy of designing projects and project managing them, thinks of itself as “respected, suited, white collar consultant”. A consultant looks at the contractor as “blue collar”, who needs to be guided by the consultant on what is to be done.

So, when an organisation with a consultant DNA decides to get into contracting, it needs to unlearn much its way of doing things, before it can learn the new way. These transitions are rarely a pretty sight. Semac was no exception. Was the pain worth it? Too early to tell. But the core hypothesis remains solid. A consultant earns about a per cent or two of the project cost. A contractor earns the rest. To capture a bigger percentage of value being created in a project, one needs to solve a bigger and more complex part of the problem. Obviously, a contractor solves a far more complex problem. So, once he figures out how to create some semblance of order out of chaos, he should be able to capture a significant portion of the value being created.

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On the one hand, we grew our topline. On the other hand, we cut our overhead from about thirty-seven crores in FY23 to twenty-nine crores in FY24 to twenty-six crores in FY25, on a like to like basis. Much of this reduction has come from re-orienting our people cost from being design heavy to execution heavy.

Despite cutting costs, we managed to grow Revenues by almost fifty per cent over the last year. We closed the year some distance away from the Rs. two hundred crores number we set for ourselves as the immediate target. But, with a healthy opening book, we feel confident to get there next year.

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I would like to specifically mention a few people whose contribution has been immense in this rapid transformation of the internal structure of the company (as well as its financials). First and foremost is Mr. Rawal who has been guiding us in every aspect of this transformation. As the CEO of reputed contractor before he retired, he handled many complex projects. We have greatly benefited from those insights as well as foresight to anticipate situations before they arise. Mr. Panchapkesan, another industry veteran, has been helping us bring down our procurement costs. Over the year, Team Semac has really risen to the occasion, when it would have been easier to quit. I cannot thank them enough for believing in me, when I had my back to the wall, and supporting me in building a better company. I am not naming you, but you know who you are. Just want to say thank you to all of you.

A line to also thank our business partners, including our consultants, vendors, bankers, etc., who supported us at a very difficult time. I hope to repay your trust by building a strong business which creates more opportunities for all of us.

ABHISHEK DALMIA
Chairman and Managing Director
DIN: 00011958

PLACE : Gurugram
DATE : 30.07.2025