

BUY

 Target Price: **Rs 309**

CMP : **Rs 223**
 Potential Upside : **39%**
 Relative to Sector : **Outperformer**

MARKET DATA

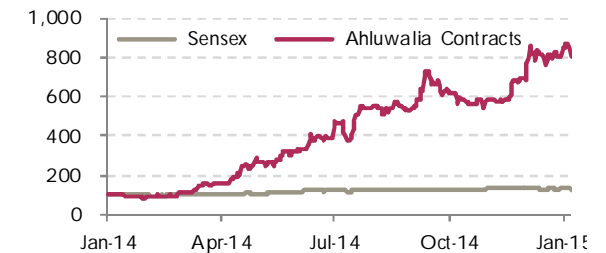
No. of Shares : 63 mn
 Market Cap : Rs 14 bn
 Free Float : 31%
 Avg. daily vol (6mth) : 252,643 shares
 52-w High / Low : Rs 237 / Rs 21
 Bloomberg : AHLU IB Equity
 Promoter holding : 69%
 FII / DII : 14% / 3%

Ahluwalia Contracts India

ENGINEERING

Worst behind

Price performance



Key drivers

(Rs bn)	FY14	FY15E	FY16E	FY17E
Order inflow	8.2	15.0	19.5	24.4
Backlog	24.4	27.7	32.4	38.2
Revenue growth	-30.8%	22.3%	25.5%	26.1%
Margin	4.6%	12.2%	12.2%	12.4%

Company financials (Standalone)

Y/E	Sales (Rs mn)	EBITDA (Rs mn)	Adj PAT (Rs mn)	Con. EPS* (Rs)	Change YOY (%)	RoE (%)	EV/E (x)	DPS (Rs)
Mar								
FY14	9,603	446	47	-	(105.7)	2.2	34.8	-
FY15E	11,742	1,438	969	10.1	1,819.9	32.3	10.7	-
FY16E	14,736	1,798	1,033	13.4	6.6	24.3	8.2	-
FY17E	18,583	2,310	1,378	17.9	33.4	25.4	6.3	0.5

Source: Company, Axis Capital; *Consensus broker estimates

Ahluwalia Contracts: Investment thesis...

Ahluwalia contracts (ACIL) is focused on building structures for commercial and residential complexes such as malls, hospitals hotels, corporate buildings, and multi storied complexes, etc. The company competes with Larsen & Toubro and Shapoorji Pallonji. It has recently tied up with a Russian company for precast technology required for mass housing projects

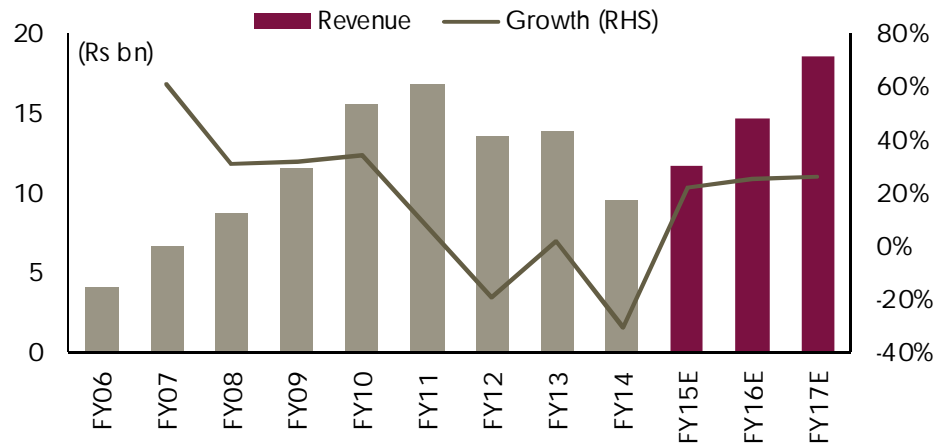
- ◆ **Successful turnaround:** ACIL had suffered losses in both FY12 and FY13 due to delayed execution of projects in the private sector which were fixed price in nature. The company has completed 90% of these projects and balance to be completed in next 6 months. Margin in H1FY15 has turned around to 12.8% from 2% in H1FY14 (EBITDA loss in FY13). The company has shifted its focus from private sector to government orders viz. 50:50 currently (vs. 80:20 two years back)
- ◆ **Order inflow set to pick up with new government in place:** ACIL's order inflow had dropped to Rs 8 bn in FY14 from peak of Rs 21 bn in FY11 as the company refrained from picking private sector orders and focused on executing the current backlog. Buildings segment is expected to pick up with new government's focus on building new educational institutes, hospitals and metro projects. Also, NDA government's mission for low cost housing to provide additional opportunity of Rs 45 bn p.a. However, order inflow from residential, industrial and commercial segments is expected to pick up from FY17. Hence we expect order inflow to rise to Rs 20 bn in FY16 and Rs 24 bn in FY17
- ◆ **ACIL to benefit from reduced competition:** Our confidence for ACIL's increased order inflow stems from increased opportunity and reduced competition
 - PSU's have made their norms more stringent to weed out faltering contractors
 - Many contractors have entered into CDR
 - Revival of ordering in other infra sectors like roads has reduced focus from buildings segments
 - Many contractors lack the ability to execute composite jobs (turnkey)

...Ahluwalia Contracts: Investment thesis

- ◆ **Tie up with Russian company for pre-cast technology to be utilized in mass housing projects:** ACIL has tied up with a Russian company for pre-cast technology KUB 2.5. This will help it bid for projects in the mass housing space
- ◆ **Management infused Rs 500 mn through preferential allotment:** ACIL would utilize the proceeds to retire short-term debt. The company will reduce its debt to Rs 1.4 bn by Mar'15 from Rs 1.8 bn currently. It plans to halve the debt in three years
- ◆ **Working capital unlikely to improve in near term:** Net working capital had increased to 17% of sales from average 8% over FY09-13 due to rise in receivables from (1) CPWD contract for common wealth games receivable of Rs 270 mn and (2) Rs 450 mn due from Emaar MGF. Management expects to receive money from CPWD in Q4FY15, while Emaar MGF arbitration could take couple of years. Hence, working capital cycle is expected to recover only from FY17
- ◆ **Management guidance:** Management has guided for 20-25% revenue growth in FY16/17 based on current order backlog of Rs 35 bn. New orders from the public sector are being booked at 12-13% margin and covered with escalation clause. We are factoring in revenue growth of 25% in FY16/FY17 with EBITDA margin of 12.2%/12.4%
- ◆ **Valuation and view:** ACIL has been successful in turning around the operations with margin to improve to 10.4% in FY15 from 4.6% in FY14. Strong growth in revenue along with margin improvement to 12.4% by FY17 would result in earnings CAGR of 19% over FY15-17. ROCE expected to improve to 34% in FY17 from 29% in FY15. **We initiate coverage with BUY rating and target price of Rs 309 (PE of 15x FY17E EPS)**

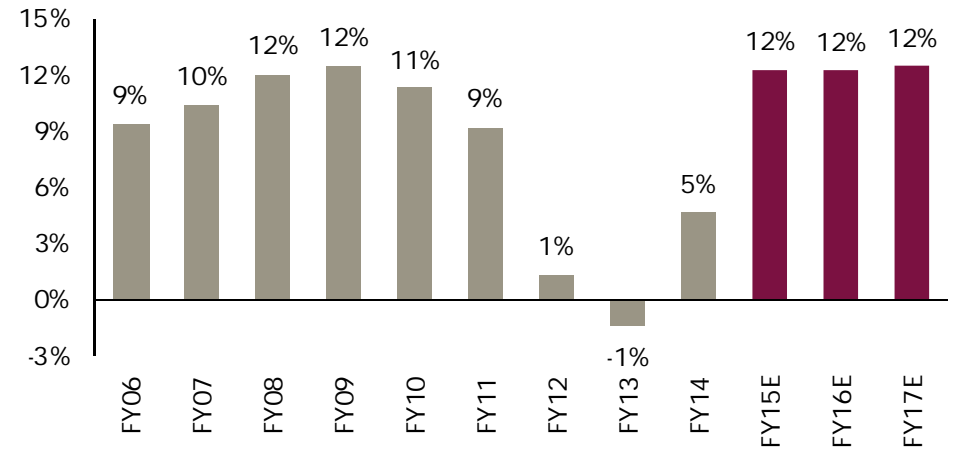
Ahluwalia Contracts: Key charts...

Revenue and growth



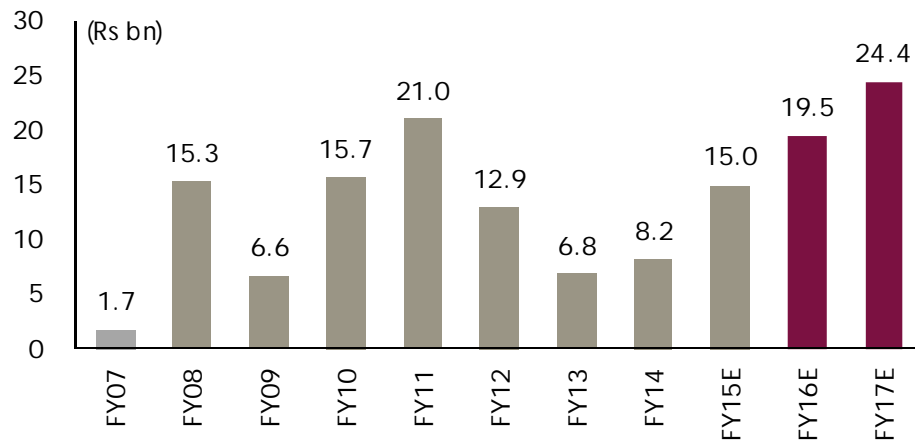
Source: Company, Axis Capital

EBITDA margin



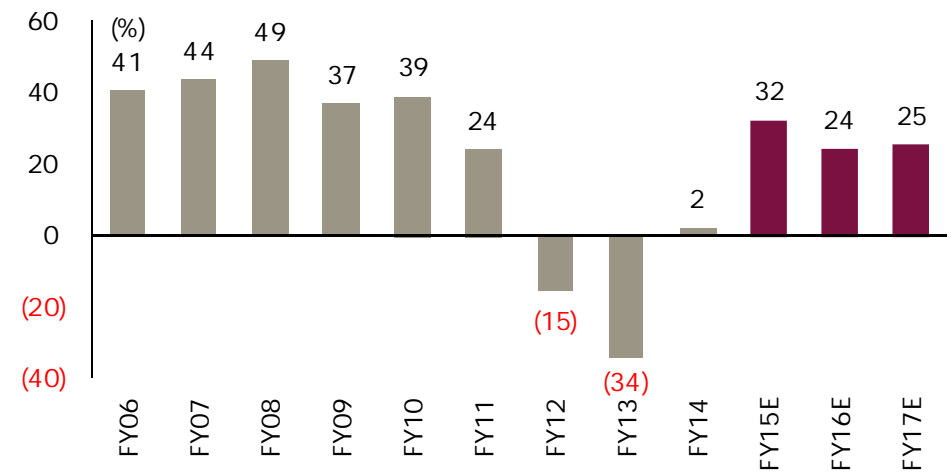
Source: Company, Axis Capital

Order inflow



Source: Company, Axis Capital

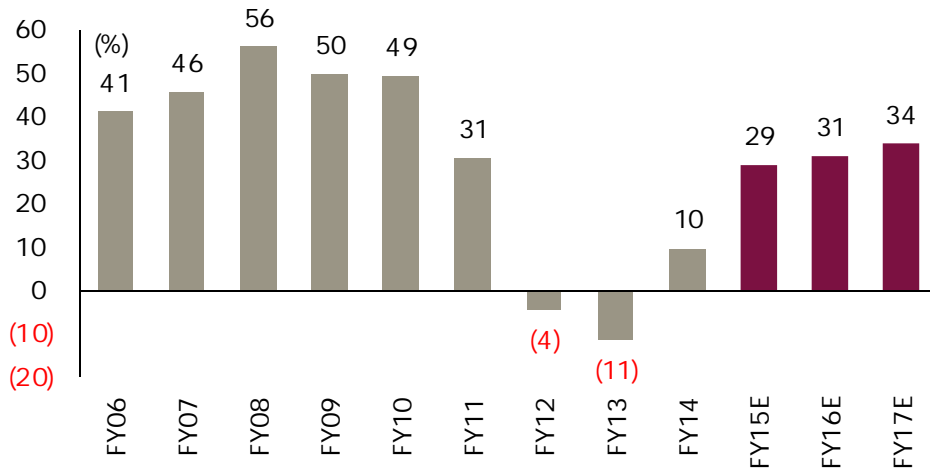
RoE



Source: Company, Axis Capital

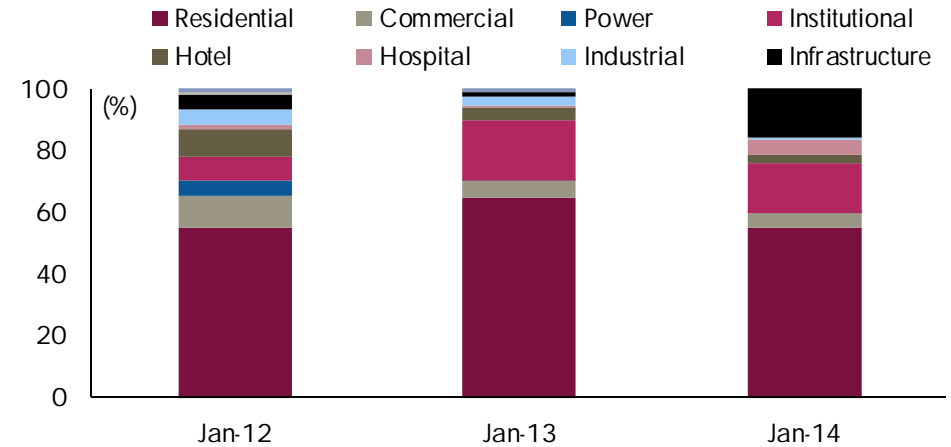
...Ahluwalia Contracts: Key charts...

RoCE



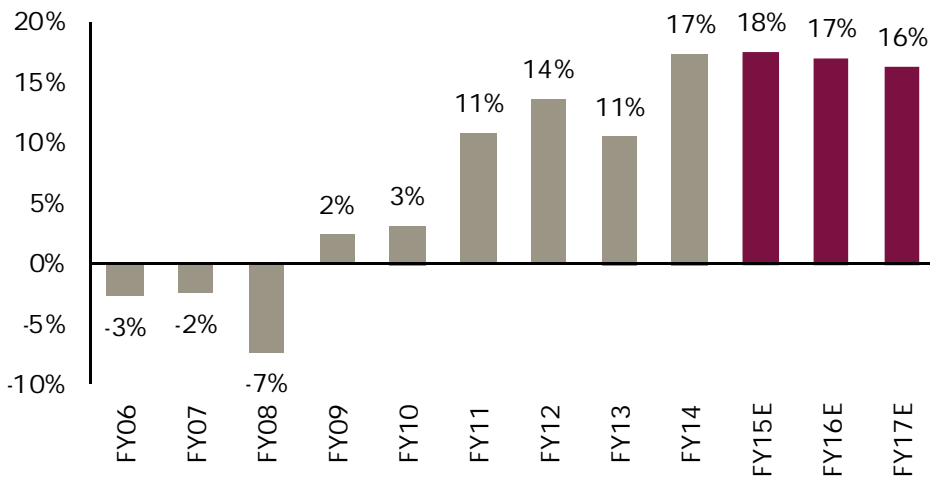
Source: Company, Axis Capital

Order book breakup



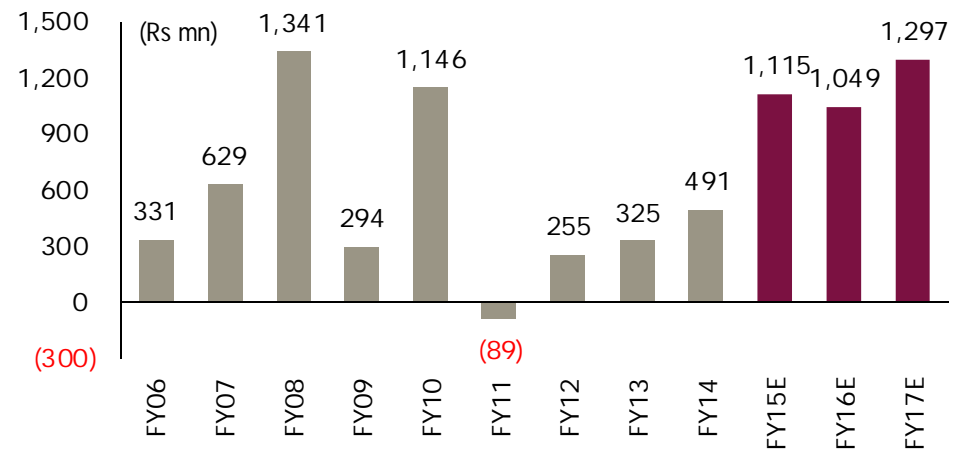
Source: Company, Axis Capital

Working capital to sales



Source: Company, Axis Capital

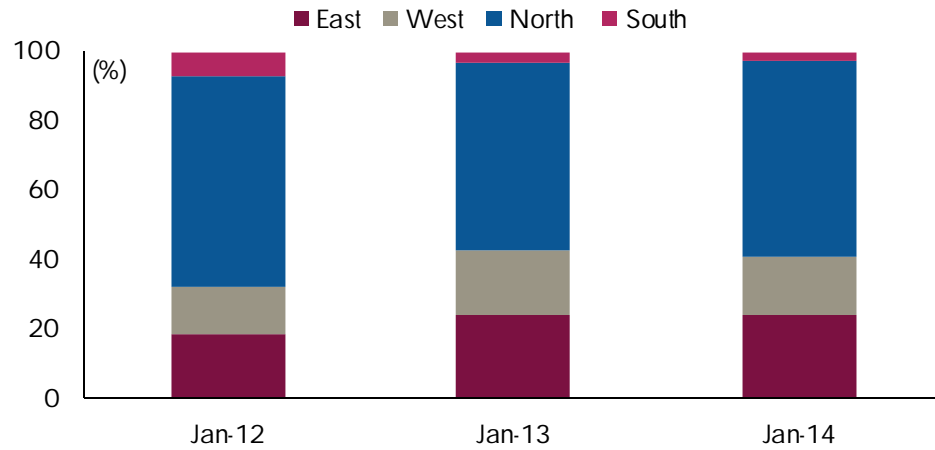
Cash flow from operations



Source: Company, Axis Capital

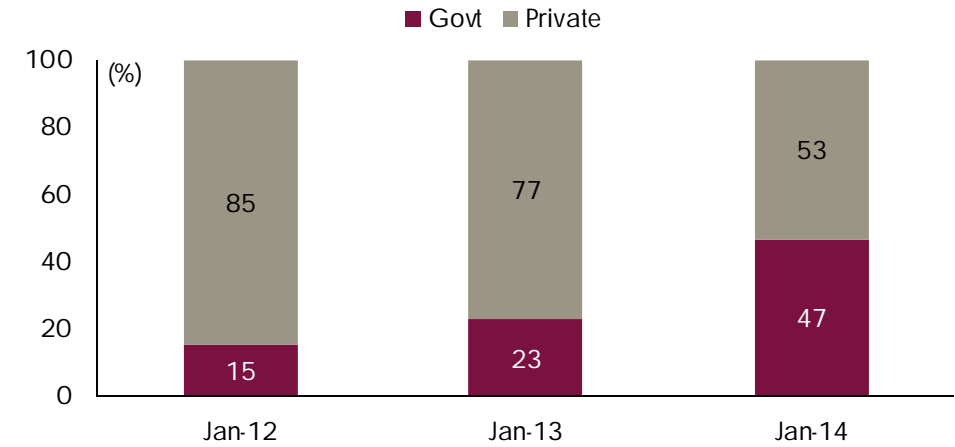
...Ahluwalia Contracts: Key charts

Order book breakup - high contribution from north



Source: Company, Axis Capital

Order book breakup – shift to government segment



Source: Company, Axis Capital

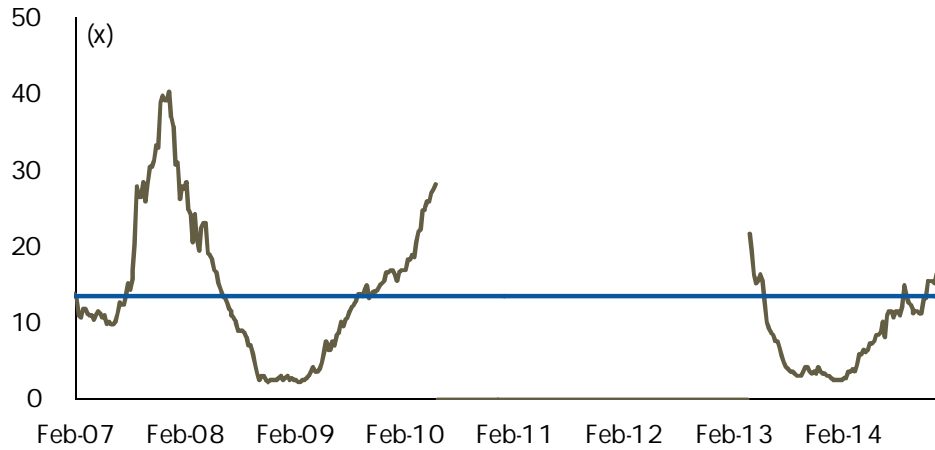
Ahluwalia Contracts: Short model

(Rs mn)	FY08	FY11	FY14	FY15E	FY16E	FY17E
Order inflow	15,280	20,960	8,170	15,000	19,500	24,375
Order book	31,500	34,850	24,427	27,685	32,449	38,241
Revenue	8,801	16,896	9,603	11,742	14,736	18,583
EBITDA	1,063	1,555	446	1,438	1,798	2,310
EBITDA margin	12.1%	9.2%	4.6%	12.2%	12.2%	12.4%
Other income	48	45	86	91	95	109
Interest	118	200	363	350	250	200
Depreciation	228	338	122	190	209	251
PBT	765	1,062	48	989	1,435	1,968
Tax	265	305	(24)	8	402	591
PAT	500	757	72	980	1,032	1,378
Shares outstanding	63	63	63	67	67	67
EPS	8.0	12.1	1.1	14.6	15.4	20.6
Target multiple (x)						15
Fair value						309
CMP						223
Upside						39%

Source: Company, Axis Capital

Ahluwalia Contracts: Valuation

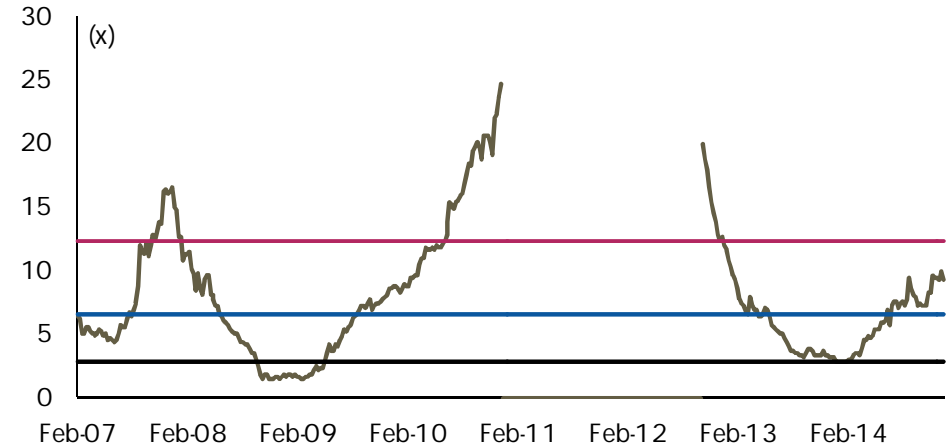
Forward PE



Source: Bloomberg, Axis Capital

Note: AHLU reported net loss during FY12 and FY13

Forward EV/EBITDA



Source: Bloomberg, Axis Capital

Note: AHLU reported net loss during FY12 and FY13

Company financials (Standalone)

Profit & loss (Rs mn)

Y/E March	FY14	FY15E	FY16E	FY17E
Net sales	9,603	11,742	14,736	18,583
Other operating income	-	-	-	-
Total operating income	9,603	11,742	14,736	18,583
Cost of goods sold	(6,462)	(7,279)	(9,473)	(12,210)
Gross profit	3,141	4,464	5,262	6,373
<i>Gross margin (%)</i>	32.7	38.0	35.7	34.3
Total operating expenses	(2,695)	(3,025)	(3,464)	(4,063)
EBITDA	446	1,438	1,798	2,310
<i>EBITDA margin (%)</i>	4.6	12.2	12.2	12.4
Depreciation	(122)	(190)	(209)	(251)
EBIT	324	1,248	1,589	2,059
Net interest	(363)	(350)	(250)	(200)
Other income	86	91	95	109
Profit before tax	48	989	1,435	1,968
Total taxation	(1)	(20)	(402)	(591)
<i>Tax rate (%)</i>	1.0	2.0	28.0	30.0
Profit after tax	47	969	1,033	1,378
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	47	969	1,033	1,378
<i>Adj. PAT margin (%)</i>	0.5	8.2	7.0	7.4
Net non-recurring items	170	-	-	-
Reported net profit	217	969	1,033	1,378

Balance sheet (Rs mn)

Y/E March	FY14	FY15E	FY16E	FY17E
Paid-up capital	126	134	134	134
Reserves & surplus	2,136	3,595	4,628	5,972
Net worth	2,262	3,729	4,762	6,106
Borrowing	2,124	1,424	1,224	1,024
Other non-current liabilities	(162)	(162)	(162)	(162)
Total liabilities	10,324	11,766	14,331	17,668
Gross fixed assets	3,339	4,166	4,316	5,316
Less: Depreciation	(2,032)	(2,222)	(2,431)	(2,682)
Net fixed assets	1,307	1,944	1,885	2,635
Add: Capital WIP	677	-	-	-
Total fixed assets	1,984	1,944	1,885	2,635
Total Investment	15	15	15	15
Inventory	1,720	1,930	2,422	3,055
Debtors	4,045	4,504	5,571	6,873
Cash & bank	545	960	1,408	1,271
Loans & advances	1,236	1,448	1,817	2,291
Current liabilities	6,100	6,775	8,507	10,700
Net current assets	2,224	3,032	3,924	4,318
Other non-current assets	-	-	-	-
Total assets	10,323	11,766	14,331	17,668

Source: Company, Axis Capital

Company financials (Standalone)

Cash flow (Rs mn)

Y/E March	FY14	FY15E	FY16E	FY17E
Profit before tax	48	989	1,435	1,968
Depreciation & Amortisation	(122)	(190)	(209)	(251)
Chg in working capital	(211)	(394)	(443)	(531)
Cash flow from operations	491	1,115	1,049	1,297
Capital expenditure	(303)	(150)	(150)	(1,000)
Cash flow from investing	(666)	(500)	(400)	(1,200)
Equity raised/ (repaid)	-	499	0	0
Debt raised/ (repaid)	(124)	(700)	(200)	(200)
Dividend paid	-	-	-	(34)
Cash flow from financing	(135)	(201)	(200)	(234)
Net chg in cash	(309)	414	449	(137)

Valuation ratios

Y/E March	FY14	FY15E	FY16E	FY17E
PE (x)	295.4	15.4	14.4	10.8
EV/ EBITDA (x)	34.8	10.7	8.2	6.3
EV/ Net sales (x)	1.6	1.3	1.0	0.8
PB (x)	6.2	4.0	3.1	2.4
Dividend yield (%)	-	-	-	0.2
Free cash flow yield (%)	1.3	6.5	6.0	2.0

Source: Company, Axis Capital

Key ratios

Y/E March	FY14	FY15E	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	0.8	14.5	15.4	20.6
CEPS (Rs)	5.4	17.3	18.5	24.3
DPS (Rs)	-	-	-	0.5
Dividend payout ratio (%)	-	-	-	2.5
GROWTH				
Net sales (%)	(30.8)	22.3	25.5	26.1
EBITDA (%)	(331.8)	222.4	25.1	28.4
Adj net profit (%)	(105.7)	1,949.2	6.6	33.4
FDEPS (%)	(105.7)	1,819.9	6.6	33.4
PERFORMANCE				
RoE (%)	2.2	32.3	24.3	25.4
RoCE (%)	9.8	29.1	31.2	33.9
EFFICIENCY				
Asset turnover (x)	2.6	2.9	3.4	3.6
Sales/ total assets (x)	0.9	1.1	1.1	1.2
Working capital/ sales (x)	0.2	0.2	0.2	0.1
Receivable days	153.7	140.0	138.0	135.0
Inventory days	68.5	68.4	68.3	68.5
Payable days	241.5	238.5	238.7	238.9
FINANCIAL STABILITY				
Total debt/ equity (x)	1.0	0.5	0.3	0.2
Net debt/ equity (x)	0.7	0.2	(0.0)	(0.0)
Current ratio (x)	1.4	1.4	1.5	1.4
Interest cover (x)	0.9	3.6	6.4	10.3