

18 February 2015

## Ahluwalia Contracts (India)

*Higher margins stabilising; Buy*

### Key takeaways

**Revenue growth picking up pace.** Ahluwalia Contracts 3QFY15 revenue jumped 11% yoy; 9MFY15 revenue grew 5% yoy. Supported by a strong order inflow, management aims at execution picking up significantly in 4QFY15 and FY16 and expects 20-25% yoy revenue growth in the next two years backed by orders from the public sector covered with an escalation clause. The company has already completed 90% of the old low-margin fixed-price orders.

**EBITDA margin zooms.** The EBITDA margin rose 390bps yoy to 9.4% (5.6% a year ago). The expansion stemmed from reducing legacy orders being executed. However, the margin was lower than we estimated on account of less-than-estimated revenue growth. Management expects to maintain the EBITDA margin in the range of 12–13% on the orders received in FY15.

**Strong L1 pipeline.** Orders of ₹9.5bn were bagged in 9MFY15 to construct institutional/commercial buildings, taking the order book to ₹33.2bn (3.3x TTM revenue). At present, the company has L1 positions in orders of ~₹10bn, 70% of which are likely to be converted to new orders by Mar'15. Ahluwalia is experiencing less competitive intensity and huge order inflows from the new redevelopment orders in the NCR.

**Balance sheet leaner.** It has repaid debt of ~₹1bn, taking the gross debt outstanding to ~₹1.4bn (with net gearing at 0.3x).

**Our take.** We believe that the company has turned around its operations and expect the return ratios to get back to the higher twenties by FY16. We maintain a Buy rating, with a price target of ₹305, based on 15x FY17e PE.

**Risks:** Lack of building orders from the government; any major liability arising out of litigation.

Year-end: Mar	3QFY14	3QFY15	% yoy	9MFY14	9MFY15	% yoy
Sales (₹ m)	2,408	2,672	11.0	7,105	7,458	5.0
EBITDA (₹ m)	134	252	(88.6)	229	865	278.7
EBITDA margin (%)	5.6	9.4	388bps	3.2	11.6	839bps
Interest (₹ m)	84	93	11.0	271	288	6.3
Depreciation (₹ m)	30	52	70.6	91	161	77.5
Other income (₹ m)	11	41	261.4	48	76	57.6
PBT (₹ m)	31	148	381.2	(85)	492	679.9
Tax (₹ m)	6	12	98.7	12	25	116.5
Reported PAT (₹ m)	25	136	453.6	45	467	947.3
Adj. PAT (₹ m)	25	136	453.6	186	467	151.5

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price: ₹305

Share Price: ₹235

Key data	AHLU IN / AHLU.BO
52-week high / low	₹249 / ₹23
Sensex / Nifty	29095 / 8805
3-m average volume	US\$1.3m
Market cap	₹15.7bn / US\$253m
Shares outstanding	66.9m

Shareholding pattern (%)	Dec '14	Sep '14	Jun '14
Promoters	68.9	72.6	72.6
- of which, Pledged	20.3	19.6	19.6
Free Float	31.1	27.4	27.4
- Foreign Institutions	13.6	12.6	12.7
- Domestic Institutions	3.3	2.4	0
- Public	14.2	12.4	14.7

Estimates revision (%)	FY15e	FY16e	FY17e
Sales	0.8	1.7	2.5
EBITDA	8.3	1.7	2.5
PAT	3.8	0.6	3.8

Year-end: Mar	FY16e	FY17e
Sales (₹ m)	14,110	17,073
Net profit (₹ m)	906	1,358
EPS (₹)	13.5	20.3
Growth (%)	30.4	50.0
PE (x)	17.4	11.6
P/B (x)	3.6	2.8
RoE (%)	23.2	27.0
RoCE (%)	27.7	34.1
Dividend yield (%)	0.0	0.0
Net gearing (%)	10	(2)

Source: Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Net revenues	13,882	9,603	11,660	14,110	17,073
Revenue growth (%)	1.8	(30.8)	21.4	21.0	21.0
- Oper. expenses	14,170	9,186	10,378	12,488	14,793
EBIDTA	(288)	417	1,283	1,623	2,280
EBITDA margins (%)	(2.1)	4.3	11.0	11.5	13.4
- Interest expenses	334	363	365	290	260
- Depreciation	352	122	190	210	220
+ Other income	154	144	130	135	140
- Tax	1	1	163	352	582
Effective tax rate (%)	(0.1)	0.2	19.0	28.0	30.0
Reported cons.PAT	(762)	217	695	906	1,358
+/- Extraordinary items	58	141	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted cons. PAT	(820)	76	695	906	1,358
Adj. FDEPS (₹/sh)	(13.1)	1.2	10.4	13.5	20.3
Adj. FDEPS growth (%)	101.9	(109.3)	752.2	30.4	50.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
Share capital	126	126	134	134	134
Reserves & Surplus	1,919	2,136	3,321	4,226	5,584
Networth	2,044	2,262	3,455	4,360	5,718
Minority interest	-	-	-	-	-
Total Debt	2,322	2,265	1,465	1,265	1,065
Def. tax liab. (net)	(162)	(162)	(162)	(162)	(162)
<b>Capital employed</b>	<b>4,205</b>	<b>4,364</b>	<b>4,757</b>	<b>5,463</b>	<b>6,621</b>
Net Fixed assets	1,793	1,984	1,994	1,984	1,964
Investments	15	15	15	15	15
- of which liquid	-	-	-	-	-
Net Working capital	1,542	1,820	2,245	2,628	3,466
Cash and bank balance	855	545	503	836	1,175
<b>Capital deployed</b>	<b>4,205</b>	<b>4,364</b>	<b>4,757</b>	<b>5,463</b>	<b>6,621</b>
Net debt	1,468	1,720	961	429	(111)
WC (days)	45	64	64	63	65
Book value (Rs/sh)	32.5	35.9	51.5	65.0	85.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹ m)**

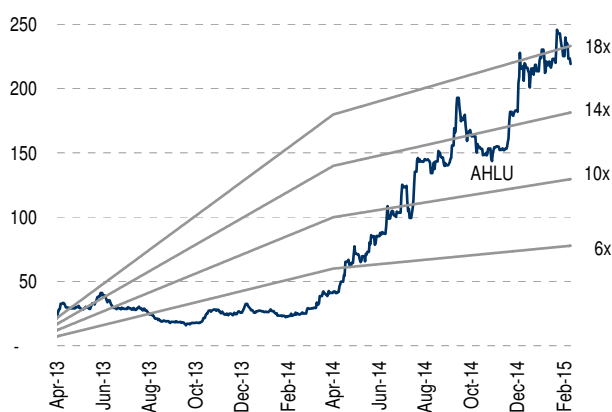
Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
PAT	(820)	76	695	906	1,358
+Non-cash items	352	122	190	210	220
Cash profit	(468)	198	885	1,116	1,578
- Incr./ (Decr.) in WC	(327)	277	425	383	838
Operating cash-flow	(142)	(79)	460	732	740
-Capex	325	313	200	200	200
Free cash-flow	(467)	(393)	260	532	540
-Dividend	0	0	0	0	0
+ Equity raised	-	(0)	499	-	-
+ Debt raised	306	(58)	(800)	(200)	(200)
-Investments	(120)	(0)	-	-	-
-Misc. items	(58)	(141)	-	-	-
Net cash-flow	17	(309)	(42)	332	340
+Opening cash	838	855	545	504	836
Closing cash	855	545	504	836	1,176

Source: Company, Anand Rathi Research

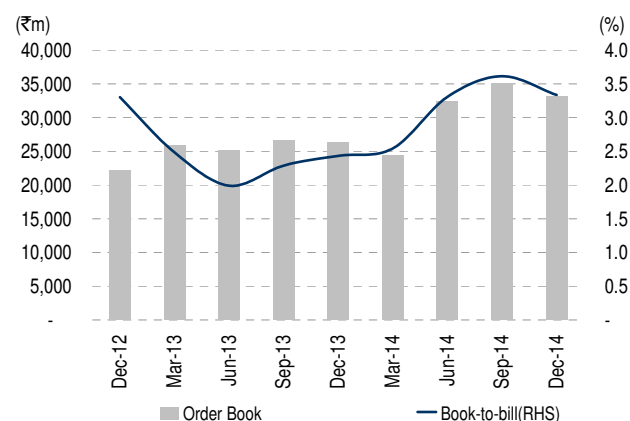
**Fig 4 – Ratio analysis @ ₹235**

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
P/E (x)	(18.0)	193.1	22.7	17.4	11.6
P/B (x)	(18.0)	193.1	22.7	17.4	11.6
EV/EBITDA (x)	7.2	6.5	4.6	3.6	2.8
EV/Sales (x)	(56.4)	39.5	13.0	10.0	6.9
RoE (%)	(33.9)	3.6	24.4	23.2	27.0
RoCE (%)	(14.5)	6.9	24.0	27.7	34.1
Fixed Asset turnover (x)	4.2	2.9	3.2	3.5	4.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	(0.0)	0.0	0.0	0.0	0.0
Interest exp./Sales (%)	2.4	3.8	3.1	2.1	1.5
Debtors (days)	122	179	179	175	175
Revenue growth (%)	1.8	(30.8)	21.4	21.0	21.0
PAT growth (%)	NA	NA	809.6	30.4	50.0
EBITDA growth (%)	(260.9)	(245.0)	207.5	26.5	40.5
EPS growth (%)	101.9	(109.3)	752.2	30.4	50.0

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Order-book vs book-to-bill**


Source: Company, Anand Rathi Research

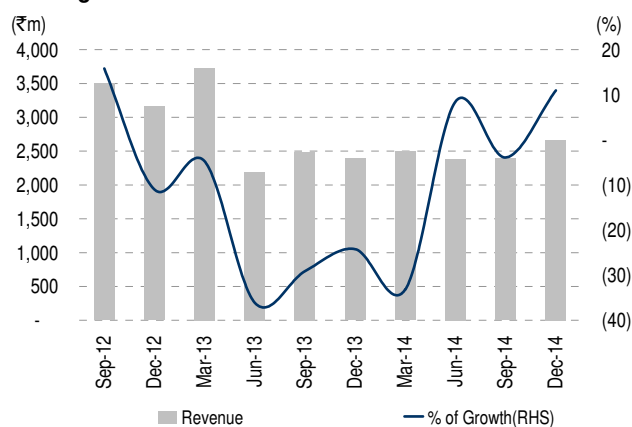
## Result Highlights

Fig 7 – 3QFY15 Results vs Expectations

Year-end: Mar	3QFY15e	3QFY15	% var	3QFY14	% yoy	2QFY15	% qoq
Sales (₹ m)	2,672	2,893	(7.7)	2,408	11.0	2,398	11.4
EBITDA (₹ m)	252	333	(24.3)	134	88.6	285	(11.7)
EBITDA margin (%)	9	11.5	(207)bps	6	388bps	11.9	-247bps
Interest (₹ m)	93	90	3.5	84	11.0	93	0.2
Depreciation (₹ m)	52	55	(6.1)	30	70.6	53	(2.1)
Other income (₹ m)	41	20	104.9	11	261.4	25	62.6
PBT (₹ m)	148	208	(28.6)	31	381.2	165	(10.2)
Tax (₹ m)	12	31	(59.9)	6	98.7	3	378.4
Tax rate (%)	8.4	15.0	(657)bps	20.4	-1199bps	1.6	685bps
Adj. PAT (₹ m)	136	177	(23.1)	25	127.5	162	(16.4)

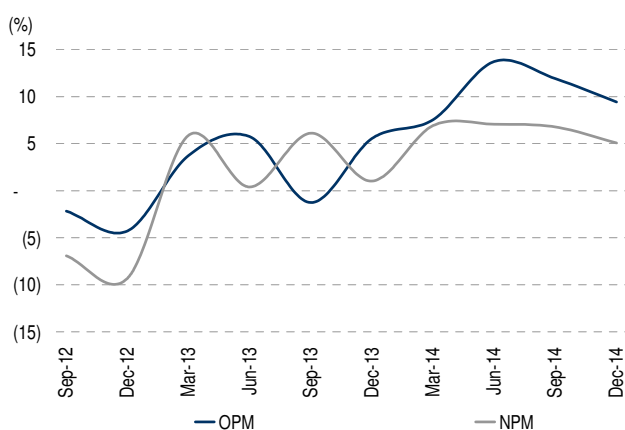
Source: Company, Anand Rathi Research

Fig 8 – Revenue-growth trend



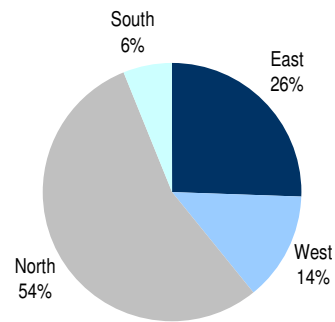
Source: Company, Anand Rathi Research

Fig 9 – OPM and NPM trend



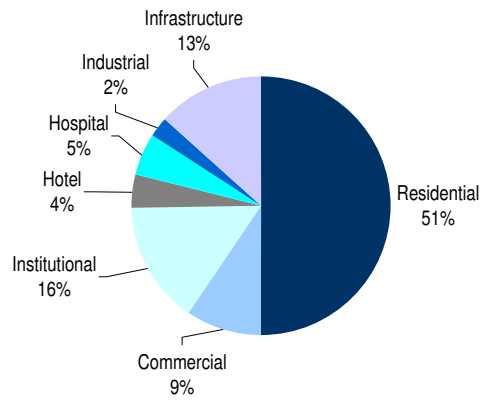
Source: Company, Anand Rathi Research

**Fig 10 – Order-book break-up, area-wise (3QFY15)**



Source: Company, Anand Rathi Research

**Fig 11 – Order-book break-up: segment-wise (3QFY15)**

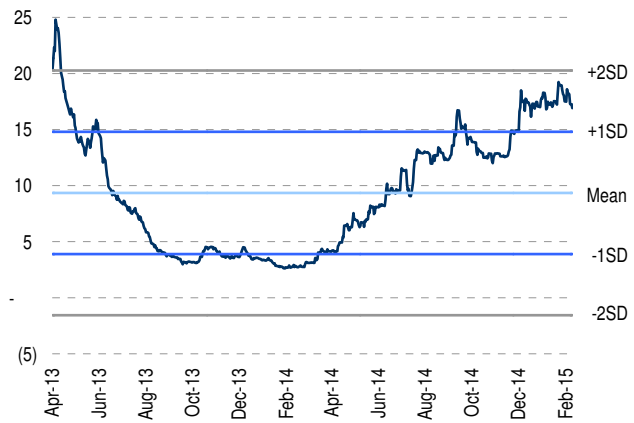


Source: Company, Anand Rathi Research

## Valuations

We believe the company has turned around its operations and expect its return ratios to return to the higher twenties by FY16. We retain a Buy rating, with a price target of ₹305, based on 15x FY17e PE.

**Fig 12 – One-year-forward PE: Mean and Standard deviation**



Source: Bloomberg, Anand Rathi Research

### Risks

- Lack of building orders from the government.
- Any major liability arising out of litigation.

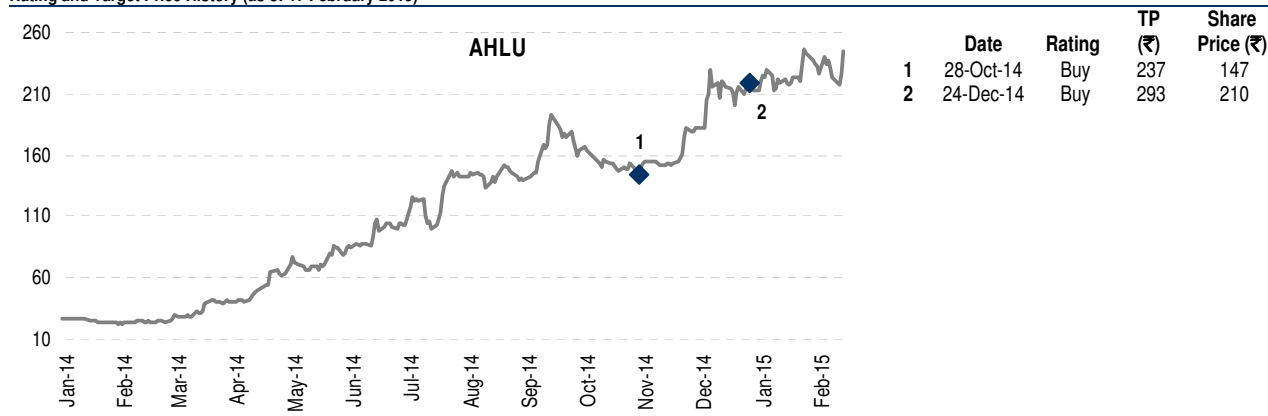
## Appendix

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