

24 December 2014

## Ahluwalia Contracts (India)

*Turning the corner; Buy*

### Key takeaways

**Promoters infuse capital.** Ahluwalia Contracts (India) infused ₹500m through a preferential allotment of 4.22m shares to the promoters (Mr Bikramjit Ahluwalia and Mrs Sudarshan Walia). This money will be used to repay short-term loans and for the working capital required.

**Cash-flow situation improves.** Ahluwalia has been cleared in the case of the Talkatora stadium project, and recently received half the outstanding dues of ₹250m. The other half will come in the following months (Jan and Feb). It also received a tax refund relating to an earlier case. This would further help improve its cash situation.

**1HFY15 results encouraging.** 1HFY15 revenue grew 2% yoy whereas EBITDA improved 5x to ₹613m following the completion of the loss-suffering projects. The company reported a 12.8% EBITDA margin vs. 4.3% in FY14. Based on the present order backlog, we estimate the EBITDA margin over the next three years to come in the range of 11% and 13%.

**Strong order inflow continues.** In 2QFY15 orders of ₹10bn for the construction of institutional/commercial buildings were bagged, taking the order book to ₹35bn (3.6x TTM revenue). Some of the prestigious projects are the construction of the Delhi headquarters of PNB, worth ₹2bn, and the police headquarters in Patna, worth ₹3.3bn. The company expects a huge order inflow from the new redevelopment orders in the NCR.

**Our take.** The company is swiftly moving toward a significant turnaround in operations and hopes to regain, by FY16, its return ratios to the higher twenties. We retain a Buy rating, with a revised target of ₹293, based on 15x FY17e PE. **Risks:** Lack of building orders from the government segment; any major liability arising out of litigation.

Key financials (YE Mar)	FY13	FY14	FY15e	FY16e	FY17e
Sales (₹ m)	13,882	9,603	11,564	13,879	16,655
Net profit (₹ m)	(820)	76	669	900	1,308
EPS (₹)	(13.1)	1.2	10.0	13.4	19.5
Growth (%)	NA	NA	721.1	34.5	45.3
PE Core (x)	(16.1)	172.6	21.0	15.6	10.8
EV/EBITDA (x)	(50.9)	35.7	12.7	9.1	6.2
PBV (x)	6.5	5.8	4.1	3.3	2.5
RoE (%)	(33.9)	3.6	23.6	23.2	26.3
RoCE (%)	(14.5)	6.9	21.7	25.5	31.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net gearing (x)	0.72	0.76	0.29	0.09	(0.06)

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹293

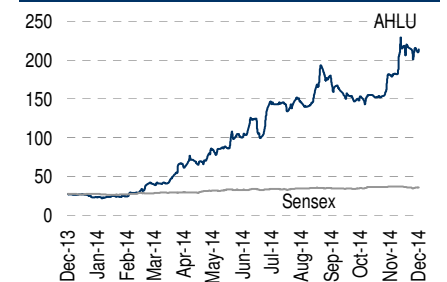
Share Price: ₹210

Key data	AHLU IN / AHLU.BO
52-week high / low	₹237 / ₹21
Sensex / Nifty	27506 / 8267
3-m average volume	US\$0.22m
Market cap	₹14.0bn/US\$231m
Shares outstanding	62.8m

Shareholding pattern (%)	Sep '14	Jun '14	Mar '14
Promoters	72.6	72.6	72.6
- of which, Pledged	19.6	19.6	18.8
Free Float	27.4	27.4	27.4
- Foreign Institutions	12.6	12.7	13.5
- Domestic Institutions	2.4	0	0
- Public	12.4	14.7	13.9

Estimates revision (%)	FY15e	FY16e	FY17e
Sales	(3.2)	(3.2)	(3.2)
EBITDA	13.8	12.4	15.1
PAT	41.3	18.0	15.2

### Relative price performance



Source: Bloomberg

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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	11,564	13,879	16,655
Revenue growth (%)	1.8	(30.8)	20.4	20.0	20.0
- Oper. expenses	14,170	9,186	10,380	12,283	14,431
<b>EBIDTA</b>	<b>(288)</b>	<b>417</b>	<b>1,184</b>	<b>1,596</b>	<b>2,223</b>
EBITDA margins (%)	(2.1)	4.3	10.2	11.5	13.3
- Interest expenses	334	363	355	330	330
- Depreciation	352	122	133	151	165
+ Other income	154	144	130	135	140
- Tax	1	1	157	350	561
Effective tax rate (%)	(0.1)	0.2	19.0	28.0	30.0
Reported cons.PAT	(762)	217	669	900	1,308
+/- Extraordinary items	58	141	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted cons. PAT	(820)	76	669	900	1,308
Adj. FDEPS (₹/sh)	(13.1)	1.2	10.0	13.4	19.5
Adj. FDEPS growth (%)	101.9	(109.3)	721.1	34.5	45.3

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	3,295	4,196	5,503
Net worth	2,044	2,262	3,429	4,330	5,637
Minority interest	-	-	-	-	-
Total Debt	2,322	2,265	2,065	1,865	1,665
Def. tax liab. (net)	(162)	(162)	(162)	(162)	(162)
<b>Capital employed</b>	<b>4,205</b>	<b>4,364</b>	<b>5,332</b>	<b>6,032</b>	<b>7,140</b>
Net Fixed assets	1,793	1,984	2,051	2,100	2,135
Investments	15	15	15	15	15
- of which, Liquid	-	-	-	-	-
Net Working capital	1,542	1,820	2,181	2,438	2,963
Cash and bank balance	855	545	1,085	1,479	2,027
<b>Capital deployed</b>	<b>4,205</b>	<b>4,364</b>	<b>5,332</b>	<b>6,032</b>	<b>7,140</b>
Net debt	1,468	1,720	980	386	(362)
WC (days)	45	64	63	61	59
Book value (₹/sh)	32.5	35.9	51.1	64.5	84.0

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹ m)**

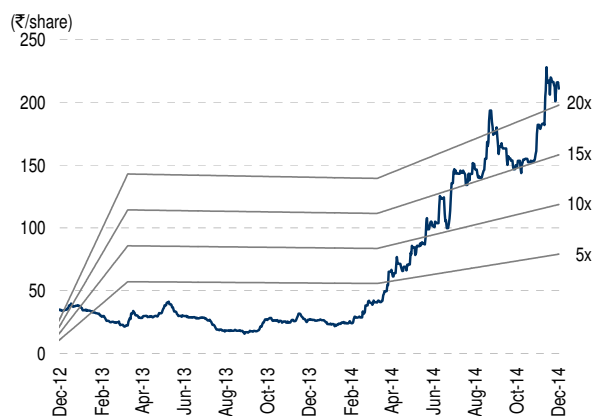
Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
PAT	(820)	76	669	900	1,308
+Non-cash items	352	122	133	151	165
Cash profit	(468)	198	802	1,051	1,473
- Incr./ (Decr.) in WC	(327)	277	361	257	525
Operating cash-flow	(142)	(79)	441	794	948
-Capex	325	313	200	200	200
Free cash-flow	(467)	(393)	241	594	748
-Dividend	0	0	0	0	0
+ Equity raised	-	(0)	499	-	-
+ Debt raised	306	(58)	(200)	(200)	(200)
-Investments	(120)	(0)	-	-	-
-Misc. items	(58)	(141)	-	-	-
Net cash-flow	17	(309)	540	394	548
+Opening cash	838	855	545	1,085	1,479
Closing cash	855	545	1,085	1,479	2,027

Source: Company, Anand Rathi Research

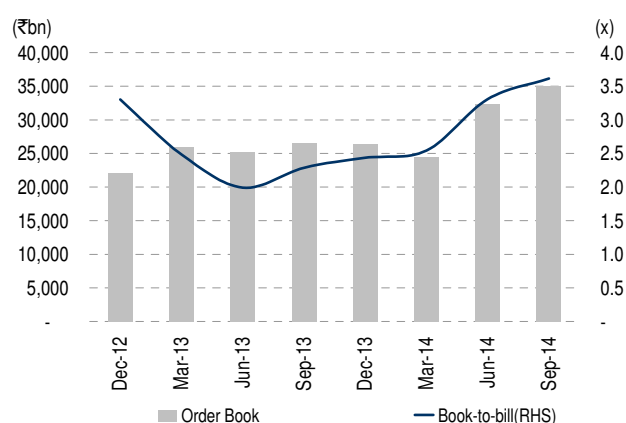
**Fig 4 – Ratio analysis @ ₹210**

Year-end: Mar	FY13	FY14	FY15e	FY16e	FY17e
P/E (x)	(16.1)	172.6	21.0	15.6	10.8
P/E Core (x)	(16.1)	172.6	21.0	15.6	10.8
P/B (x)	6.5	5.8	4.1	3.3	2.5
EV/EBITDA (x)	(50.9)	35.7	12.7	9.1	6.2
RoE (%)	(33.9)	3.6	23.6	23.2	26.3
RoCE (%)	(14.5)	6.9	21.7	25.5	31.3
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	2.4	2.0
Debtors (days)	122	179	179	175	175
Revenue growth (%)	1.8	(30.8)	20.4	20.0	20.0
PAT growth (%)	NA	NA	776.3	34.5	45.3
EBITDA growth (%)	(260.9)	(245.0)	183.9	34.8	39.3
EPS growth (%)	101.9	(109.3)	721.1	34.5	45.3

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

## Change in estimates

During 2QFY15, the company's EBITDA margin strongly improved on the completion of the old loss-suffering contracts. Its new order visibility appears to be high and, given its comfortable orderbook, it is likely to bid for future projects that command high EBITDA margins.

Given the lukewarm 1HFY15 performance, we are tweaking our FY15/16/17 revenue estimates. However, to factor in the better EBITDA margin, we are increasing our margin by ~150bps thereby increasing the EBITDA change to 14%/12%/15% for FY15/16/17. Also, with the cash inflow during the quarter, we are lowering our interest assumptions and, thereby, our PAT increases 41%/18%/15% in FY15/16/17.

**Fig 7 – Change in estimates**

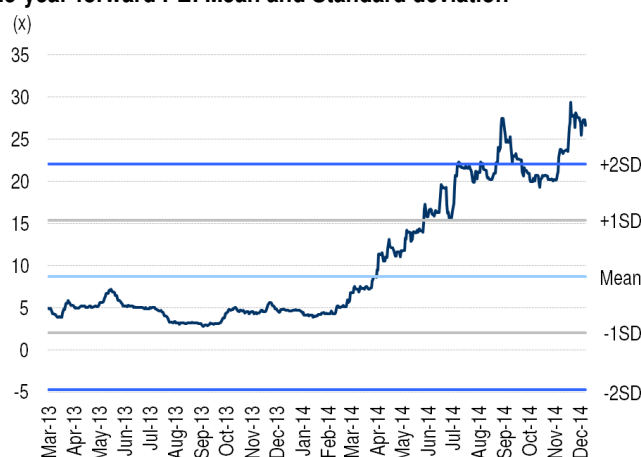
(₹ m)	Old Estimates			New Estimates			% Change		
	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
Revenue	11,948	14,340	17,208	11,564	13,879	16,655	(3.2)	(3.2)	(3.2)
EBITDA	1,041	1,421	1,932	1,184	1,596	2,223	13.8	12.4	15.1
EBITDA margin %	8.7	9.9	11.2	10.2	11.5	13.4	153	159	212
Interest	380	345	330	355	330	330	(6.6)	(4.3)	-
Depreciation	133	151	165	133	151	165	-	-	-
Other Income	130	135	140	130	135	140	-	-	-
PAT	474	763	1,135	669	900	1,308	41.3	18.0	15.2
Adj. PAT	474	763	1,135	669	900	1,308	41.3	18.0	15.2
Adj. PAT margin %	4.0	5.3	6.6	5.8	6.5	7.9	182	116	126

Source: Anand Rathi Research

## Valuations

The company is swiftly moving toward a significant turnaround in operations and hopes to regain, by FY16, its return ratios to the higher twenties. We retain a Buy rating, with a revised target of ₹293, based on 15x FY17e PE.

**Fig 8 – One-year-forward PE: Mean and Standard deviation**



Source: Bloomberg, Anand Rathi Research

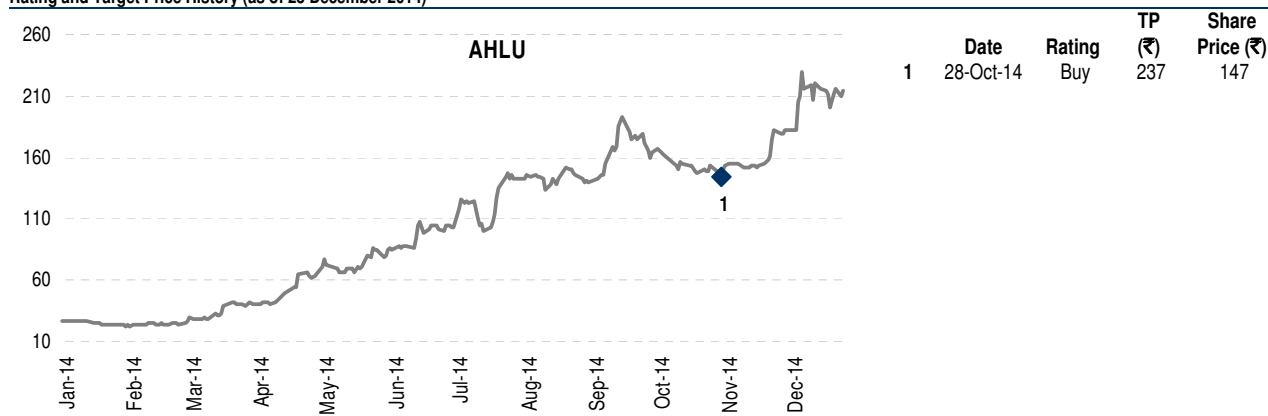
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