

Research Flash - Company Note

AHLUWALIA CONTRACTS INDIA LIMITED

Solid turnaround on the horizon; initiating coverage with BUY recommendation

Private Banking

Building construction contractor with proven track record

Ahluwalia Contracts (ACIL) is a leading construction contractor with a focus on building EPC contracts across residential, commercial and govt. buildings. We are positive on its operating performance due to a shift in its focus toward government contracts where the investment cycle is likely to precede the private sector and the risk of bad debt is low. The current order book largely consists of variable price contracts (with better margins) which gives us better visibility on earnings growth.

Valuation supported by improving profitability with robust growth

ACIL is trading at a P/E 2015E (FY ending March 2016) of 11.5, which is attractive considering our expectation of an EPS CAGR 2014E-17E of 29%. ACIL has a proven track record in executing some critical projects, and we believe valuation should expand further once the execution accelerates, margins expand and debt reduces with an improvement in cash flows. Hence, we are initiating coverage on ACIL with a BUY recommendation and a target price of INR 240, implying a P/E 2016E of 12.0.

Operating performance has good room for improvement

ACIL's revenues and margins have been under significant pressure, largely due to some legacy contracts, especially the real estate construction contracts with private parties where the company has suffered significant delays in payments. However, given the bitter experiences in the past, management has now clearly shifted its focus on government contracts with variable pricing and higher margins. We also note that competition has reduced substantially and hence margins have good potential for an improvement. We expect ACIL's cash flow position to improve over the next couple of years which could lead to debt reduction. The promoters have recently increased their stake (utilized to pay debt and finance working capital requirement) by about 2% which gives us even greater confidence in the company's operations. We believe ACIL has significant potential to tap growing demand for mass housing, hospitals, schools

Current price: INR 182.40 / target price: INR 240.00



BUY Upside potential 31.6%

Highlights

- Building construction contractor with proven track record.
- Valuation supported by improving profitability with robust growth.
- Operating performance has good room for improvement.
- Solid order book position gives more visibility on revenue growth.
- Margins to expand from here onward.
- Please note that trading facilities for this security may be limited.

AHLUWALIA CONTRACTS INDIA LIMITED, 13 week moving average



Source: Thomson Financial. Any reference to past performance is not necessarily indicative of future results.

Company profile

Ahluwalia Contracts (ACIL) is one of the largest civil engineering and procurement contractors (EPC) in India, with a clear focus on residential, commercial and government buildings, including hotels, hospitals, residential towers, corporate and government headquarters etc. The company has five decades of experience in the field and has constructed some complex buildings in India.

Key figures

ISIN / Sec. no.:	INE758C01029 / 3311469
Bloomberg / Reuters	AHLU IN / AHLU.NS
Outstanding shares	64.80 m
Market capitalization (INR)	11.82 bn

Source: Company data, Credit Suisse | Closing price of 1 Dec 2014

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and colleges, and could benefit from the government's focus on new cities.

Valuation			
Fiscal year-end: 3/2014	2013A	2014E	2015E
EPS (INR)	-12.00	10.63	15.93
P/E	n.a.	17.2	11.5
Dividend per share (INR)	0.00	0.00	0.50
Dividend yield	n.a.	n.a.	0.3%
Book value / share	n.a.	4,189.0	n.a.

Source: Credit Suisse

Solid order book position gives more visibility on revenue growth

ACIL's current order book stands at ~INR 35 bn (3.6 times its 2013A revenues), which is expected to be executed over the next 24-30 months, as per management. Also, we believe the order intake should accelerate further, given higher spending by the government on smart cities, new airports and public infrastructure. As per management, revenue growth will accelerate in H2 2014 due to a significant ramp-up in execution. Overall, management expects 20% revenue growth in 2014.

Margins to expand from here onward

ACIL surprised positively by reporting a 12.8% EBITDA margin in H1 2014. ACIL has booked several better-margin contracts over the past 3-4 quarters; execution of these contracts will help to support its margins (our expectation: ~12%). Its order book currently has 51% government contracts and 75% of the contracts are variable price contracts. Working capital cycle and debt levels should reduce with cash infusion from promoters, better execution and settlement from the Commonwealth Games case.

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Relative to MSCI sector



Source: Thomson Financial. Any reference to past performance is not necessarily indicative of future results.

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Equity rating history as of (03/12/2014)

Company	Rating	Date
AHLUWALIA CONTRACTS BUY		03/12/2014
INDIA LIMITED (AHLU IN)	BUY	28/11/2014

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Guide to analysis

Equity recommendation allocation as of (03/12/2014)

	Overall	Investment banking interests only
BUY	42.42 %	40.99 %
HOLD	51.04 %	51.88 %
SELL	5.42 %	5.94 %
RESTRICTED	1.12 %	1.19 %

Absolute stock performance

The stock recommendations are BUY, HOLD and SELL and are dependent on the expected absolute performance of the individual stocks, generally on a 6-12 months horizon based on the following criteria:

BUY	10% or greater increase in absolute share price
HOLD	variation between -10% and +10% in absolute share price
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TERMINATED	Research coverage has been concluded.

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HOLD	Expectation that the bond issue will perform in line with the specified benchmark
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