

# Ahluwalia Contracts

## Earnings visibility intact

<b>CMP</b> Rs244	<b>Target Price</b> Rs284 (▲)
<b>Rating</b> BUY (■)	<b>Upside</b> 16.2 %

### Result highlights

- Revenue came in at Rs2.66 bn +11% YoY against our expectation of Rs2.79 bn. The company maintains guidance of 20% revenue growth for FY15E/16E
- EBITDA came in at Rs246 mn +103% YoY versus our expectation of Rs312 mn as EBITDA Margin came in lower than our expectation at 9.2% +417 bps versus expectation of 11.2%
- Margins edged lower than expectation as company finished low margin orders (2 projects). Around 7% of the order book is low margin orders which the management expects to finish by end of FY15E
- Net profit came in at Rs136 mn +458% YoY lower than expectation of Rs162 mn due to lower operational profitability, partly supported by higher than expected other income
- Increase FY15E/16E EPS by 13.5%/14.75% on higher margins & lower interest burden, given the revenue & margin visibility, reduction in leverage and improvement in working capital which will drive the earnings CAGR of 71% over FY14-17E. Maintain Buy, increase target price to Rs284/share as roll forward valuation on FY17E earnings

### Earnings subdued on execution of legacy orders

Q3FY15 revenue came in at Rs2.66 bn +11% YoY –stable execution run rate maintained. EBITDA came in at Rs246 mn +10.3% YoY lower than expectation of Rs312 mn, EBITDA Margin came in at 9.2% +417 bps lower than expectation of 11.2% as the company finished low margin orders (2 projects). Around 7% of the order book is low margin orders which the management expects to finish by end of FY15E. We believe that given that 90% of the order wins have come from government entities which are value accretive and loss making projects will get completed by end of FY15E, EBITDA Margins to remain steadfast at 11.5%/11.9% in FY15E/16E. Management expects EBITDA Margins 12%/12.5-13% in FY16E/FY17E as new orders are won at higher margins. Net profit came in at Rs136 mn +458% YoY lower than expectation of Rs162 mn due to lower operational profitability, partly supported by higher than expected other income (Rs47 mn, +99% YoY).

### Debt reduction to provide boost to earnings

The company has reduced debt to Rs1.42 bn as on Dec 31<sup>st</sup> 2014 from Rs2.17 bn in 1HFY15. The company used proceeds of preferential issue (garnered Rs500 mn via preferential issue) as well internal accruals for debt reduction. The company aims to reduce debt to Rs700-800 mn by FY17E. The company has repaid debt for its Kota BOT project of Rs300 mn. The major impact of debt reduction will be seen in Q4FY15 as majority of debt reduction done in last week of December 2014.

### Financial Snapshot (Standalone)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	13,882	9,603	11,020	13,269	15,927
EBITDA	(237)	417	1,242	1,526	1,895
EBITDA Margin (%)	(1.7)	4.3	11.3	11.5	11.9
APAT	(769)	76	739	878	1,094
EPS (Rs)	(12.3)	3.5	11.8	14.0	17.4
EPS (% chg)	0.0	0.0	239.7	18.9	24.6
ROE (%)	(31.7)	3.5	28.1	25.5	24.7
P/E (x)	(19.9)	70.5	20.7	17.5	14.0
EV/EBITDA (x)	(71.0)	40.9	12.6	10.1	7.8
P/BV (x)	7.5	6.8	5.1	4.0	3.1

Source: Company, Emkay Research

### Change in Estimates

EPS Chg FY15E/FY16E (%)	13.5/14.75
Target Price change (%)	NA
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY15E	FY16E
Emkay	11.8	14.0
Consensus	10.7	13.7
Mean Consensus TP	Rs 249	

### Stock Details

Bloomberg Code	AHLU IN
Face Value (Rs)	2
Shares outstanding (mn)	67
52 Week H/L	250 / 23
M Cap (Rs bn/USD bn)	16 / 0.26
Daily Avg Volume (nos.)	101,574
Daily Avg Turnover (US\$ mn)	0.4

### Shareholding Pattern Dec '14

Promoters	68.9%
FII's	13.6%
DII's	3.3%
Public	14.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	10	60	71	915
<b>Rel. to Nifty</b>	7	56	53	621

### Relative price chart



Source: Bloomberg

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### Order inflow for 9MFY15 stands at Rs7.92 bn -15.7% YoY

The company has announced orders worth Rs7.92 bn -15.7% YoY in 9MFY15E and order backlog stands at Rs33.2 bn (as on date) provides 3.4 years visibility for revenues.

The company is current L1 in projects worth Rs7.6 bn which includes projects like:

- Hospital work in Delhi (AIIMs) of Rs5 bn
- Income tax building in BKC (CPWD) of Rs1.65 bn
- Hospital building (NBCC) at Kolkata of Rs800 mn
- Embassy work in Delhi of Rs300 mn

Recently DDA (Delhi Development Authority) announced tenders worth Rs50 bn.

### Working Capital improves to 62 days in Q3FY15

Working capital has improved to 62 days as of Q3FY15 from 70 days as of Q2FY15 largely due to a reduction in Loans & Advances which dropped 23.7% QoQ to Rs806.3 mn (30 days) as of Q3FY15 from Rs1.06 bn (40 days). This drop in L&A was attributable to refund of TDS amounting to Rs300 mn on account of losses made in FY12. TDS refund amounting to Rs200-250 mn for FY13 remains pending and is reflected in the Q3 L&A.

#### Exhibit 1: Balance Sheet details

Balance sheet	Mar-14	Sep-14	Dec-14
Share capital	125.53	125.5	134.0
Reserve & surplus	2136.14	2442.9	3068.7
<b>Net Worth</b>	<b>2261.67</b>	<b>2568.4</b>	<b>3202.7</b>
Minority Interest	0	0.0	0.0
Long Term Borrowings/Secured Loans	329.28	301.5	126.6
Short Term Borrowings/ Unsecured Loans	1935.32	1869.2	1299.6
Deffered tax liability	0	0.0	0.0
<b>Total</b>	<b>4526.27</b>	<b>4739.1</b>	<b>4628.8</b>
<b>Fixed assets</b>			
Net fixed assets (incl. C-WIP)	1984.5	1981.4	1973.2
Investments	14.9	14.9	14.9
Defered Tax Assets (net)	162.05	162.0	149.5
Cash and cash equivalents	545.07	737.5	805.6
Inventory	1719.53	2035.9	2063.1
Sundry debtors	4707.31	4196.1	4342.2
Other current assets	136.4	138.7	146.2
Loans and advances	1235.47	1057.1	806.3
<b>Current assets (excl. cash)</b>	<b>7798.71</b>	<b>7427.7</b>	<b>7357.9</b>
Current liability and provisions	5978.96	5584.4	5672.3
<b>Net current assets</b>	<b>1819.75</b>	<b>1843.3</b>	<b>1685.6</b>
Miscellaneous expenditure	0	0.0	0.0
<b>Total uses of funds</b>	<b>4526.27</b>	<b>4739.0</b>	<b>4628.8</b>

Source: Emkay Research, Company

**Exhibit 2: Quarterly income statement**

Rs mn	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	YoY (%)	QoQ (%)	YTDFY15	YTDFY14	YoY (%)
Revenue	2,395	2,496	2,387	2,389	2,665	11.3	11.6	7,442	7,072	5.2
Expenditure	2,274	2,310	2,061	2,112	2,419	6.4	14.6	6,592	6,877	(4.1)
as % of sales	94.9	92.5	86.3	88.4	90.8			86	95	
Construction expenses	1,342	1,399	1,359	1,244	1,503	12.0	20.8	4,107	3,775	8.8
as % of sales	56.01	56.05	56.95	52.08	56.39			57	46	
Employee cost	884	836	660	821	878	(0.6)	7.0	2,359	2,943	(19.8)
as % of sales	36.89	33.49	27.64	34.36	32.95			28	46	
other expenses	49	74	42	47	38	(22.2)	(18.1)	126	158	(20.1)
as % of sales	2.04	3.0	1.8	1.9	1.4			2	3	
EBITDA	121	187	326	278	246	103.0	(11.4)	850	196	334.5
Depreciation	30	31	57	53	52	70.6	(2.2)	161	91	77.5
EBIT	91	156	269	225	194	113.8	(13.5)	688	105	557.3
Other Income	24	98	11	33	47	99.2	40.8	92	81	13.6
Interest	84	92	102	93	93	11.0	0.2	288	271	6.3
PBT	31	162	179	165	148	384.3	(10.3)	493	(85)	(678.9)
Total Tax	6	-11	10	3	12	98.6	378.5	25	12	
PAT	24	173	169	163	136	458.1	(16.5)	467	(97)	(583.2)
(Profit)/loss from JV's/Ass/MI								-	-	
APAT after MI	24	173	169	163	136	458.1	(16.5)	467	(97)	(583.2)
Extra ordinary items	0	0	0	0	0			-	141	
Reported PAT	24	173	169	163	136	458.1	(16.5)	467	44	952.6
Reported EPS	0.39	2.75	2.69	2.59	2.12	446.9	(18.2)	7	1	946.4

Margins (%)						(bps)	(bps)				(bps)
EBITDA	5.1	7.5	13.7	11.6	9.2	417	(239)	11.4	2.8	865	
EBIT	4	6	11	9	7	350	(212)	9	1	777	
EBT	1	6	7	7	6	428	(135)	7	(1)	782	
PAT	1	7	7	7	5	408	(171)	6	1	565	
Effective Tax rate	21	(7)	6	2	8	(1,212)	684	5	(14)	1,878	

Source: Company, Emkay Research

**Exhibit 3: Order Book Matrix**

Order inflow & Order backlog Rsmn	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	YoY (%)	QoQ (%)
Net order inflow	3,400	1,600	4,387	3,533	-	(100)	(100)
Order Backlog	31,000	30,000	32,000	33,144	33,200	7	0

Source: Company, Emkay Research

**Outlook**

We continue to remain positive on the company given a) increase in the order inflow which will help increase the execution run rate b) EBITDA margins to remain steadfast at 11.5%-12% as company booked loss making orders and bagged in value accretive orders c) reduction in the leverage from preference share issue & easing of working capital will lead significant improvement in earnings over the next two - three years thereby improving the return ratios.

**Exhibit 4: Increase EPS by 4.6%/3.6% for FY15E/16E**

	FY15E			FY16E		
	Earlier	Revised	Change %	Earlier	Revised	Change %
Sales	11520	11,020	-4.34%	13,855	13,269	-4.23%
EBIDTA	1,279	1,242	-2.89%	1,510	1,526	1.05%
EBIDTA (%)	11.10%	11.27%	17 bps	10.90%	11.50%	60 bps
Net Profit	654	739	13.00%	763	878.3	15.11%
EPS	10.4	11.8	13.46%	12.2	14	14.75%

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Net Sales</b>	<b>13,882</b>	<b>9,603</b>	<b>11,020</b>	<b>13,269</b>	<b>15,927</b>
<b>Expenditure</b>	<b>14,119</b>	<b>9,186</b>	<b>9,778</b>	<b>11,743</b>	<b>14,032</b>
<b>EBITDA</b>	<b>(237)</b>	<b>417</b>	<b>1,242</b>	<b>1,526</b>	<b>1,895</b>
Depreciation	352	122	218	238	256
<b>EBIT</b>	<b>(589)</b>	<b>296</b>	<b>1,024</b>	<b>1,288</b>	<b>1,639</b>
Other Income	154	144	130	130	130
Interest expenses	334	363	363	247	207
<b>PBT</b>	<b>(769)</b>	<b>77</b>	<b>790</b>	<b>1,171</b>	<b>1,563</b>
Tax	1	1	51	293	469
Extraordinary Items	8	141	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(761)</b>	<b>218</b>	<b>739</b>	<b>878</b>	<b>1,094</b>
<b>Adjusted PAT</b>	<b>(769)</b>	<b>76</b>	<b>739</b>	<b>878</b>	<b>1,094</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Equity share capital	126	126	126	126	126
Reserves & surplus	1,919	2,136	2,875	3,753	4,847
<b>Net worth</b>	<b>2,044</b>	<b>2,262</b>	<b>3,001</b>	<b>3,879</b>	<b>4,973</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>2,322</b>	<b>2,265</b>	<b>1,462</b>	<b>1,219</b>	<b>1,005</b>
Net deferred tax liability	(162)	(162)	(162)	(162)	(162)
<b>Total Liabilities</b>	<b>4,205</b>	<b>4,364</b>	<b>4,301</b>	<b>4,935</b>	<b>5,816</b>
<b>Net block</b>	<b>1,385</b>	<b>1,307</b>	<b>1,339</b>	<b>1,401</b>	<b>1,495</b>
<b>Investment</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Current Assets</b>	<b>8,420</b>	<b>8,344</b>	<b>9,486</b>	<b>10,485</b>	<b>12,230</b>
Cash & bank balance	855	545	1,168	1,196	1,518
Other Current Assets	125	136	136	164	196
<b>Current liabilities &amp; Provision</b>	<b>6,023</b>	<b>5,979</b>	<b>6,540</b>	<b>6,965</b>	<b>7,924</b>
<b>Net current assets</b>	<b>2,397</b>	<b>2,365</b>	<b>2,947</b>	<b>3,519</b>	<b>4,306</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>4,205</b>	<b>4,364</b>	<b>4,301</b>	<b>4,935</b>	<b>5,816</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(923)</b>	<b>(67)</b>	<b>660</b>	<b>1,041</b>	<b>1,433</b>
Other Non-Cash items	(60)	(238)	0	0	0
Chg in working cap	281	69	41	(545)	(465)
<b>Operating Cashflow</b>	<b>(16)</b>	<b>248</b>	<b>1,232</b>	<b>688</b>	<b>961</b>
Capital expenditure	(70)	(172)	427	(300)	(350)
<b>Free Cash Flow</b>	<b>(85)</b>	<b>75</b>	<b>1,659</b>	<b>388</b>	<b>611</b>
Investments	66	191	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>220</b>	<b>336</b>	<b>130</b>	<b>130</b>	<b>130</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	393	(142)	(802)	(244)	(213)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(178)	(216)	0	0	0
<b>Financing Cashflow</b>	<b>(118)</b>	<b>(721)</b>	<b>(1,166)</b>	<b>(491)</b>	<b>(420)</b>
<b>Net chg in cash</b>	<b>17</b>	<b>(310)</b>	<b>623</b>	<b>28</b>	<b>321</b>
Opening cash position	838	855	545	1,168	1,196
<b>Closing cash position</b>	<b>855</b>	<b>545</b>	<b>1,168</b>	<b>1,196</b>	<b>1,518</b>

**Key Ratios**

<b>Profitability (%)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
EBITDA Margin	(1.7)	4.3	11.3	11.5	11.9
EBIT Margin	(4.2)	3.1	9.3	9.7	10.3
Effective Tax Rate	(0.1)	0.7	6.5	25.0	30.0
Net Margin	(5.5)	0.8	6.7	6.6	6.9
ROCE	(9.8)	10.3	26.6	30.7	32.9
ROE	(31.7)	3.5	28.1	25.5	24.7
RoIC	(18.7)	9.8	32.8	37.7	40.9

<b>Per Share Data (Rs)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
EPS	(12.3)	3.5	11.8	14.0	17.4
CEPS	(6.7)	3.2	15.3	17.8	21.5
BVPS	32.6	36.0	47.8	61.8	79.2
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
PER	(19.9)	70.5	20.7	17.5	14.0
P/CEPS	(24.5)	51.7	10.7	9.2	7.6
P/BV	7.5	6.8	5.1	4.0	3.1
EV / Sales	1.2	1.8	1.4	1.2	0.9
EV / EBITDA	(71.0)	40.9	12.6	10.1	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
Net Debt/ Equity	0.7	0.8	0.1	0.0	(0.1)
Net Debt/EBIDTA	(6.2)	4.1	0.2	0.0	(0.3)
Working Cap Cycle (days)	40.6	69.2	58.9	63.9	63.9

<b>Growth (%)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
Revenue	1.8	(30.8)	14.8	20.4	20.0
EBITDA	(232.9)	0.0	197.7	22.9	24.2
EBIT	0.0	0.0	246.3	25.8	27.3
PAT	0.0	0.0	239.7	18.9	24.6

<b>Quarterly (Rs mn)</b>	<b>Q3FY14</b>	<b>Q4FY14</b>	<b>Q1FY15</b>	<b>Q2FY15</b>	<b>Q3FY15</b>
Revenue	2,395	2,496	2,387	2,389	2,665
EBITDA	121	187	326	278	246
<b>EBITDA Margin (%)</b>	<b>5.1</b>	<b>7.5</b>	<b>13.7</b>	<b>11.6</b>	<b>9.2</b>
PAT	24	173	169	163	158
<b>EPS (Rs)</b>	<b>0.4</b>	<b>2.8</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>

<b>Shareholding Pattern (%)</b>	<b>Dec-13</b>	<b>Mar-14</b>	<b>Jun-14</b>	<b>Sep-14</b>	<b>Dec-14</b>
Promoters	72.6	72.6	72.6	72.6	68.9
FII's	13.7	13.5	12.7	12.6	13.6
DII's	4.0	-	-	2.4	3.3
Private Corp	4.3	7.6	7.4	6.7	7.2
Public	9.7	13.9	14.7	12.5	14.2

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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