

AHLUWALIA CONTRACTS INDIA

ENGINEERING

22 MAY 2015

Quarterly Update

BUY

Target Price: Rs 293

High-margin govt orders to drive growth

Ahluwalia Contracts' (ACIL) Q4FY15 execution was impacted by slower execution of private sector projects; revenue at Rs 3.1 bn (up 26% YoY) was lower than estimate of Rs 3.5 bn. EBITDA was at Rs 283 mn (up 50% YoY) with OPM of 9% (up 150 bps YoY). PAT at Rs 174 mn was flat YoY as benefit of MAT credit was offset by higher depreciation and interest expense.

Net working capital reduced marginally to 19% of revenue as of Mar'15 (20% as of Mar'14). During FY15, order inflow was at Rs 13.5 bn (up 65% YoY). Proportion of government projects increased to 65% of order book. Fixed price legacy orders are at 10% of order book (Rs 4 bn) and expected to be executed through FY16 vs. earlier estimate of H1FY16.

CMP : Rs 250
Potential Upside : 17%

MARKET DATA

No. of Shares : 67 mn
Free Float : 31%
Market Cap : Rs 17 bn
52-week High / Low : Rs 294 / Rs 73
Avg. Daily vol. (6mth) : 227,823 shares
Bloomberg Code : AHLU IB Equity
Promoters Holding : 69%
FII / DII : 14% / 3%

Robust Guidance for FY16 & FY17: Management guided for FY16 revenue of Rs 13 bn (up 23% YoY), EBITDA margin of 12-12.5% (factoring in execution of fixed price contracts worth Rs 4 bn) and order inflow of Rs 16 bn (up 16% YoY). Note: ACIL would surpass its order inflow guidance as it has booked orders worth Rs 10 bn in FYTD. In FY17, it expects to achieve previous peak revenue of Rs 17 bn with EBITDA margin of >13%. We believe ACIL is well-positioned to achieve its guidance driven by strong order book and pipeline of orders (bid for projects worth Rs 20 bn) from government sector. Additionally, we remain confident of margin improvement driven by reduced competition in new orders. Working capital cycle is unlikely to improve in FY16 due to liquidity constraints with the private sector. Management expects to reduce gross debt to Rs 0.8-0.9 bn by Mar'17 from Rs 1.6 bn as of Mar'15.

Lower FY16 estimates, maintain FY17: We lower our FY16 EPS to Rs 14 (Rs 15 earlier) to factor in delays in execution of private sector projects (35% of order book). Our TP of Rs 293 is based on 15x FY17E. Maintain BUY on strong earnings CAGR of 43% over FY15-17 and ROCE improving to 34% in FY17 from 23% in FY15.

Financial summary (Standalone)

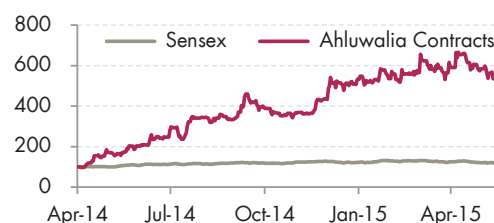
Y/E March	FY14	FY15	FY16E	FY17E
Sales (Rs mn)	9,603	10,599	13,785	17,920
EBITDA (Rs mn)	446	1,149	1,666	2,207
Adj PAT (Rs mn)	47	641	940	1,308
Con. EPS* (Rs)	-	-	14.7	19.1
EPS (Rs)	0.8	9.6	14.0	19.5
Change YOY (%)	(105.7)	1,171.0	46.6	39.2
P/E (x)	331.5	26.1	17.8	12.8
RoE (%)	2.2	22.7	24.4	26.4
EV/E (x)	38.7	15.2	10.3	7.8
DPS (Rs)	-	-	-	0.5

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs bn)	FY15	FY16E	FY17E
Order inflow	13.8	17.9	22.4
Backlog	27.6	31.8	36.3
Margin	10.8%	12.1%	12.3%

Price performance



Charanjit Singh Sr. Vice President - Cap Goods & Construction
charanjit.singh@axiscap.in 91 22 4325 1123

Exhibit 1: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-15	Mar-14	% Chg	Dec-14	% Chg	FY16E	FY15	% Chg
Net Sales/Income form op	3,141	2,498	25.7	2,672	17.6	13,785	10,599	30.1
EBIDTA	283	189	50.2	252	12.3	1,666	1,149	45.1
Other income	41	96	(57.2)	41	0.5	123	117	5.0
PBIDT	324	285	13.9	293	10.7	1,789	1,265	41.4
Depreciation	51	31	64.6	52	(2.1)	233	212	10.0
Interest	98	92	6.4	93	5.6	250	386	(35.2)
PBT	175	162	8.5	148	18.3	1,306	668	95.6
Tax	1	(11)	-	12	(91.2)	366	142	157.0
Adjusted PAT	174	173	0.9	136	28.4	940	641	46.6
No. of shares (mn)	67	63	-	67	-	67	63	-
EBIDTA margin (%)	9.0	7.5	-	9.4	-	12.1	10.8	-
PBIDT margin (%)	10.3	11.4	-	11.0	-	13.0	11.9	-
EPS (Rs.)	2.6	2.7	(5.3)	2.0	28.4	14.0	10.2	37.6

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Net sales	9,603	10,599	13,785	17,920
Other operating income	-	-	-	-
Total operating income	9,603	10,599	13,785	17,920
Cost of goods sold	(6,462)	(7,335)	(9,651)	(12,744)
Gross profit	3,141	3,265	4,134	5,176
Gross margin (%)	32.7	30.8	30.0	28.9
Total operating expenses	(2,695)	(2,116)	(2,468)	(2,968)
EBITDA	446	1,149	1,666	2,207
EBITDA margin (%)	4.6	10.8	12.1	12.3
Depreciation	(122)	(212)	(233)	(280)
EBIT	324	937	1,433	1,928
Net interest	(363)	(386)	(250)	(200)
Other income	86	117	123	141
Profit before tax	48	668	1,306	1,869
Total taxation	(1)	(26)	(366)	(561)
Tax rate (%)	1.0	3.9	28.0	30.0
Profit after tax	47	641	940	1,308
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	47	641	940	1,308
Adj. PAT margin (%)	0.5	6.1	6.8	7.3
Net non-recurring items	170	-	-	-
Reported net profit	217	641	940	1,308

Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Paid-up capital	126	134	134	134
Reserves & surplus	2,136	3,243	4,183	5,459
Net worth	2,262	3,377	4,317	5,593
Borrowing	2,124	1,551	1,351	1,151
Other non-current liabilities	(162)	(154)	(154)	(154)
Total liabilities	10,324	10,270	12,985	16,276
Gross fixed assets	3,339	4,192	4,342	5,342
Less: Depreciation	(2,032)	(2,244)	(2,477)	(2,756)
Net fixed assets	1,307	1,948	1,865	2,586
Add: Capital WIP	677	-	-	-
Total fixed assets	1,984	1,948	1,865	2,586
Total Investment	15	63	63	63
Inventory	1,720	1,665	2,266	2,946
Debtors	4,045	4,168	5,099	6,383
Cash & bank	545	765	859	616
Loans & advances	1,236	1,452	1,700	2,209
Current liabilities	6,100	5,496	7,471	9,686
Net current assets	2,224	2,763	3,586	3,941
Other non-current assets	-	-	-	-
Total assets	10,323	10,271	12,986	16,276

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Profit before tax	48	668	1,306	1,869
Depreciation & Amortization	(122)	(212)	(233)	(280)
Chg in working capital	(211)	(320)	(729)	(598)
Cash flow from operations	491	919	695	1,190
Capital expenditure	(303)	(175)	(150)	(1,000)
Cash flow from investing	(666)	(610)	(400)	(1,200)
Equity raised/ (repaid)	-	499	-	-
Debt raised/ (repaid)	(124)	(573)	(200)	(200)
Dividend paid	-	-	-	(33)
Cash flow from financing	(135)	(90)	(200)	(233)
Net chg in cash	(309)	219	95	(243)

Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
OPERATIONAL				
FDEPS (Rs)	0.8	9.6	14.0	19.5
CEPS (Rs)	5.4	12.7	17.5	23.7
DPS (Rs)	-	-	-	0.5
Dividend payout ratio (%)	-	-	-	2.5
GROWTH				
Net sales (%)	(30.8)	10.4	30.1	30.0
EBITDA (%)	(331.8)	157.5	45.1	32.5
Adj net profit (%)	(105.7)	1,256.8	46.6	39.2
FDEPS (%)	(105.7)	1,171.0	46.6	39.2
PERFORMANCE				
RoE (%)	2.2	22.7	24.4	26.4
RoCE (%)	9.8	23.4	30.2	34.2
EFFICIENCY				
Asset turnover (x)	2.6	2.6	3.1	3.3
Sales/ total assets (x)	0.9	1.0	1.2	1.2
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	153.7	143.5	135.0	130.0
Inventory days	68.5	64.3	68.2	68.4
Payable days	241.5	210.5	223.6	223.8
FINANCIAL STABILITY				
Total debt/ equity (x)	1.0	0.6	0.4	0.2
Net debt/ equity (x)	0.7	0.3	0.1	0.1
Current ratio (x)	1.4	1.5	1.5	1.4
Interest cover (x)	0.9	2.4	5.7	9.6
VALUATION				
PE (x)	331.5	26.1	17.8	12.8
EV/ EBITDA (x)	38.7	15.2	10.3	7.8
EV/ Net sales (x)	1.8	1.7	1.2	1.0
PB (x)	6.9	5.0	3.9	3.0
Dividend yield (%)	-	-	-	0.2
Free cash flow yield (%)	1.2	4.4	3.3	1.1

Source: Company, Axis Capital

Axis Capital Limited

Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.

Tel:- Board +91-22 4325 2525; **Dealing** +91-22 2438 8861-69; **Fax:- Research** +91-22 4325 1100; **Dealing** +91-22 4325 3500

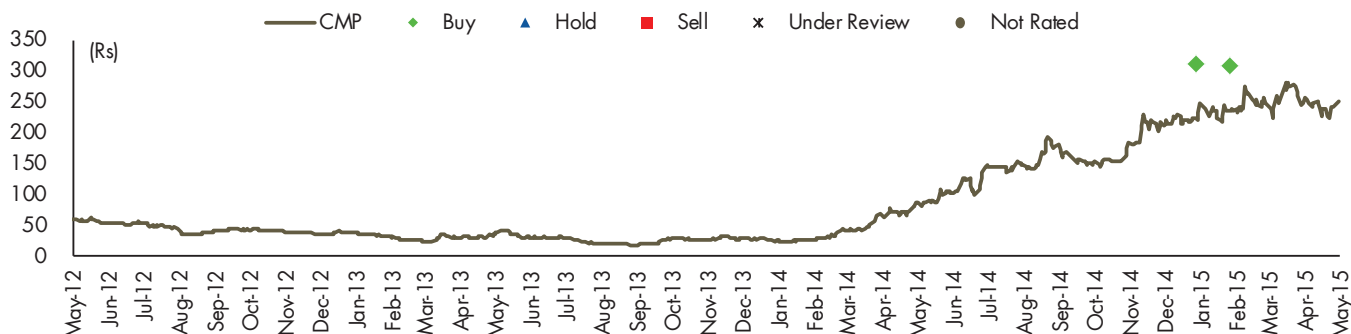
DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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1. The analyst(s) declares that neither he/ his relatives have a Beneficial or Actual ownership of > 1% of equity of subject company/ companies
2. The analyst(s) declares that he has no material conflict of interest with the subject company/ companies of this report

Ahlwalia Contracts India (AHLU.BO, AHLU IN) Price and Recommendation History



Date	Target Price	Reco
20-Jan-15	309	Buy
18-Feb-15	305	Buy

Source: Axis Capital

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