

Ahluwalia Contracts (India)

India Research

QUARTERLY REVIEW

 Bloomberg: AHLU IN
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BUY

Better performance ahead

ACIL posted 25.7% YoY growth (highest in last 5 years) in Q4FY15 standalone sales to Rs3.1 bn (highest in last 8 quarters), lower than our expectations. The growth in sales was driven by better execution in its key business segments and projects. Moreover, EBITDA margin improved by 146bps to 9% (137bps below our expectation), due to lower labour, operating and other costs (which as a percentage of net sales declined to 6.1%/3.8%/1.4% vs 9.0%/5.1%/3.0% in Q4FY14). Net profit marginally rose by 0.8% YoY to Rs174 mn (much lower than our expectations), primarily due to higher depreciation and lower other income. For FY15, top-line grew by 10.4% to Rs10.6 bn; EBITDA margin improved by 649bps to 10.8% leading to more than seven fold jump in adjusted net profit to Rs641mn.

Robust order inflow and diversified order book to boost revenue visibility

ACIL's standalone order inflow increased 179% QoQ to Rs4.3 bn in Q4FY15 (up 68.2% YoY to Rs13.8 bn in FY15), leading to 9.3% YoY rise in order book to Rs36.3 bn as on 4QFY15. Moreover, the company has received Rs6.8 bn of fresh orders post 4QFY15 and is L1 in projects worth Rs3.5 bn. The current order book (Rs41.5 bn post Rs6.8 bn of inflow) provides revenue visibility for 3.9x FY15 revenue. ACIL is on the right track by increasing its exposure towards Govt. orders which went up to 65% vs 32% (FY14). Considering recent inflow of Rs6.8 bn, L1 of Rs3.5 bn and strong bidding pipeline (bided for Rs20 bn), we expect 20%/25% YoY growth in fresh orders to Rs16.6 bn/Rs20.7 bn in FY16E/FY17E for the company.

Outlook and Valuation

We marginally upgrade our revenues for FY16E/FY17E by 0.3%/1.7%, respectively due to better inflows. However, we maintain our EBITDA margin at 11.5%/12.2% for FY16E/FY17E. We marginally upgrade our EPS estimates by 0.9%/2.5% to Rs12.4/18.1 for FY16E/FY17E, respectively due to higher revenues. Considering strong fundamentals of ACIL (accelerated revenue growth, improved EBITDA margin, 37.6% PAT CAGR during FY15-17E, net debt free company by FY17E and one of the highest RoCE/RoE of 33%/25.2% in FY17E), we upgrade the stock to 'BUY' from 'HOLD' with a revised TP of Rs290 (16x FY17E EPS).

Key Financials

Y/E March (Rsmn)	FY13	FY14	FY15	FY16E	FY17E
Revenue	13,882	9,603	10,599	13,372	17,150
EBITDA	(238)	417	1,149	1,540	2,088
EBITDA margin (%)	(1.7)	4.3	10.8	11.5	12.2
Adj. Net profit	(770)	76	504	833	1,215
EPS (Rs)	(11.5)	1.1	9.6	12.4	18.1
RoE (%)	(31.4)	10.1	20.7	21.9	25.2
RoCE (%)	(9.2)	9.5	21.3	27.3	33.0
P/E (x)	-	219.7	26.2	20.2	13.8
P/BV (x)	8.2	7.4	5.0	4.0	3.1
EV/EBITDA (x)	-	44.5	15.8	11.3	8.1

Source: Company, Karvy Stock Broking

Recommendation

CMP:	Rs251
Target Price:	Rs290
Previous Target Price:	Rs283
Upside (%)	16%

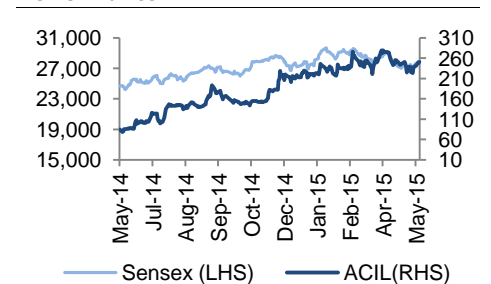
Stock Information

Market Cap. (Rs bn / US\$ mn)	17/261
52-week High/Low (Rs)	294/73
3m ADV (Rs mn /US\$ mn)	31/0.5
Beta	1.5
Sensex/ Nifty	27,809/8,421
Share outstanding (mn)	67

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(0.3)	6.6	188.9	10.3
Rel. to Sensex	(0.7)	12.0	152.4	9.1

Performance



Source: Bloomberg

Earning Revision

(%)	FY16E	FY17E
Sales	↑0.3%	↑1.7%
EBITDA	↑0.3%	↑1.7%
EPS	↑0.9%	↑2.5%

Source: Karvy Stock Broking

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Exhibit 1: Ahluwalia Contract's Q4FY15 performance

Y/E March (Rsmn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	YoY (%)	QoQ (%)	FY14	FY15	YoY (%)
Total revenue	2,498	2,389	2,398	2,672	3,141	25.7	17.6	9,603	10,599	10.4
Material consumed	959	1,093	1,118	1,410	1,453	44.3	3.0	4,599	5,074	10.3
Staff cost	168	158	174	169	194	15.7	14.5	768	695	(9.4)
Construction expenses	440	267	126	93	382	(13.2)	309.9	575	868	50.8
Other expenses	743	544	694	747	829	11.7	11.0	3,244	2,814	(13.3)
Operating expenditure	2,310	2,061	2,112	2,420	2,858	23.7	18.1	9,186	9,451	2.9
EBITDA	189	328	285	252	283	50.1	12.3	417	1,149	175.4
Depreciation	31	57	53	52	51	64.4	(2.1)	122	212	74.2
Operating profit	158	271	233	200	233	47.3	16.0	296	937	216.9
Other income	96	9	25	41	41	(57.2)	0.5	144	117	(19.0)
EBIT	254	281	258	241	274	7.7	13.4	440	1,054	139.5
Interest	92	102	93	93	98	6.5	5.6	363	386	6.3
Exceptional items	-	-	-	-	-	-	-	141	-	(100.0)
EBT	162	179	165	148	175	8.4	18.3	218	668	206.3
Income tax	(11)	10	3	47	1	-	(97.7)	1	26	-
Reported net income	173	169	162	101	174	0.8	71.9	217	641	194.9
Adjustments	-	-	-	-	-	-	-	(141)	-	-
Adjusted net income	173	169	162	101	174	0.8	71.9	76	641	739.8
Equity capital (FV Rs2)	134	134	134	134	134			134	134	
EPS (Rs)	2.6	2.5	2.4	1.5	2.6	0.8	71.9	1.1	9.6	739.8
						<i>bps</i>	<i>bps</i>			<i>bps</i>
EBITDA margin (%)	7.5	13.7	11.9	9.4	9.0	146	(42)	4.3	10.8	649
OPM (%)	6.3	11.4	9.7	7.5	7.4	109	(10)	3.1	8.8	576
NPM (%)	6.7	7.0	6.7	3.7	5.5	(119)	174	0.8	6.0	520

Source: Company, Karvy Stock Broking

Valuation: Upgrade to BUY

We expect ACIL to witness accelerated growth in revenue, expansion in EBITDA margin and superior return ratios (RoE and RoCE) during FY15-17E. At CMP, ACIL is trading at 20.2x/13.8x FY16E/FY17E EPS which is lower than FY08-10 1-year forward average of 15x. We believe FY08-FY10 is a better historical period to compare P/E multiple, because post that ACIL suffered losses due to external factors. We have valued ACIL at 16x FY17E EPS which is lower than 16.6x 1-year forward average of last 11 months (July 2014 - May 2015) and slightly above than historical average of FY08-10. We believe ACIL is witnessing revival in business cycle, which it did during FY08-10 and hence should command the same P/E multiple which it used to get. **Considering the strong fundamentals of ACIL, we upgrade the stock to 'BUY' from 'HOLD' with a revised TP of Rs290 (16x FY17E EPS).**

Upside risk to our valuation

Kota BoT project: ACIL has ventured into asset ownership by bagging its first BOT project (KOTA Bus Terminal and commercial complex) from Rajasthan State Road Transport Corp (RSRTC) on 19th September, 2007. Now, as the company has repaid the entire debt of the project, the total project cost of Rs720 mn is funded through equity. The project was delayed by more than five years due to delay in various approvals and has now reached completion. ACIL would collect rentals

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for 40 years by leasing ~300,000 sqft of commercial space. ACIL has leased ~55% as on FY15 and is expected to lease ~70-80% in next few months. ACIL is likely to receive ~Rs10 mn revenue per month from this project. However, we have neither considered the revenue nor assigned any value in our target price

Downside risk to our valuation

Payment delay from clients: We expect debtors days to decline to 144 days in FY17E from 164 days in FY14. However, any delay in payments from clients other than our estimates, would increase working capital, delay execution and impact profitability.

Execution delay: Project delay due to a delay at the client's end or other regulatory bottlenecks could adversely affect ACIL's revenue and profitability.

Delay in order intake: Any capex delay by the private and government sectors will lead to a delay in awarding of orders to ACIL, thereby negatively impacting its revenue and profitability.

Change in Estimate and Valuation

We marginally upgrade our revenues for FY16E/FY17E by 0.3%/1.7%, respectively due to better order inflows. However, we maintain our EBITDA margin at 11.5%/12.2% for FY16E/FY17E. We marginally upgrade our EPS estimates by 0.9%/2.5% to Rs12.4/18.1 for FY16E/FY17E, respectively due to higher revenues.

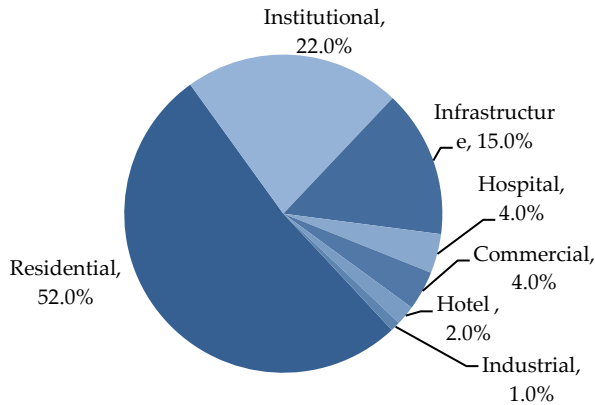
Exhibit 2: Change in Estimates

Y/E March (Rs. mn)	FY16E			FY17E		
	New	Old	% change	New	Old	% change
Net revenues	13,372	13,333	0.3	17,150	16,864	1.7
EBIDTA	1,540	1,536	0.3	2,088	2,054	1.7
EBIDTA margin (%)	11.5	11.5		12.2	12.2	
Adj. Net Profit	833	825	0.9	1,215	1,186	2.5
EPS (Rs.)	12.4	12.3	0.9	18.1	17.7	2.5

Source: Company, Karvy Stock Broking

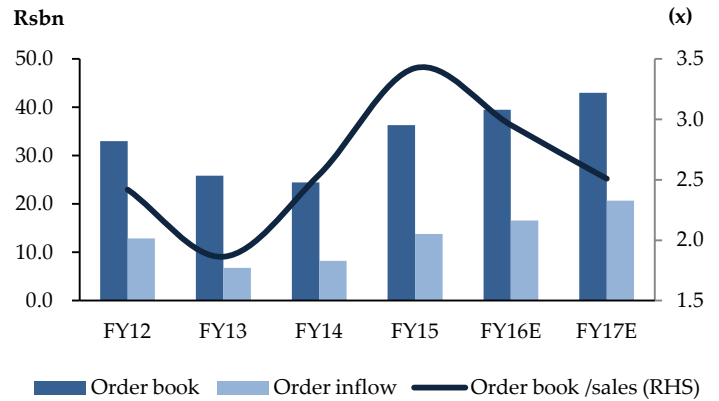
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Exhibit 3: Rs36.3 bn orderbook break-up



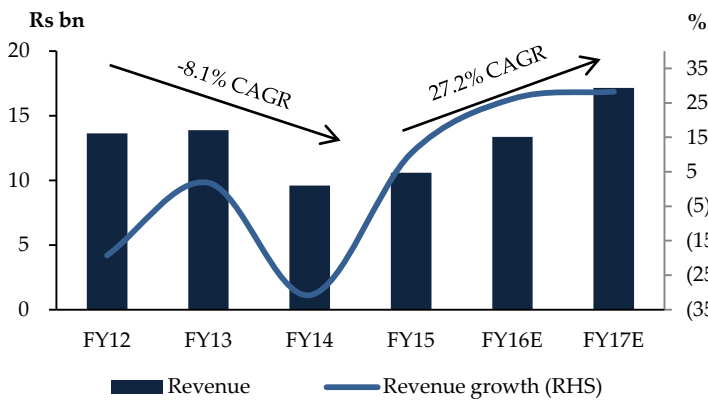
Source: Company, Karvy Stock Broking

Exhibit 4: Orderbook trend



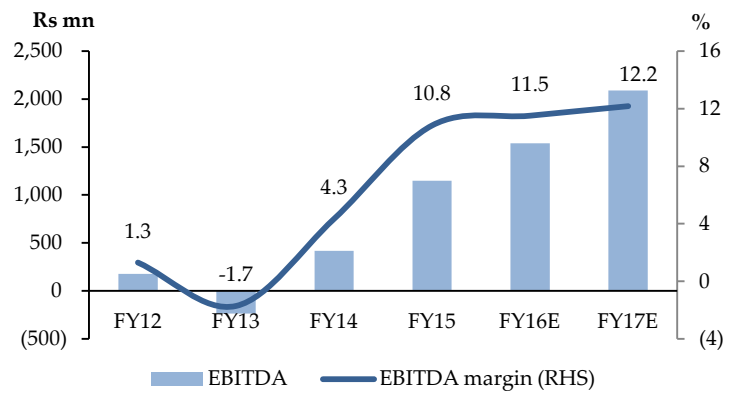
Source: Company, Karvy Stock Broking

Exhibit 5: Revenue to accelerate in FY16E and FY17E



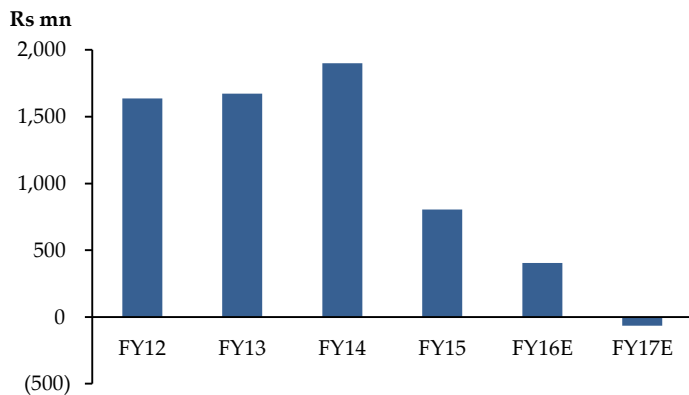
Source: Company, Karvy Stock Broking

Exhibit 6: EBITDA margin to improve to 12.2% in FY17E



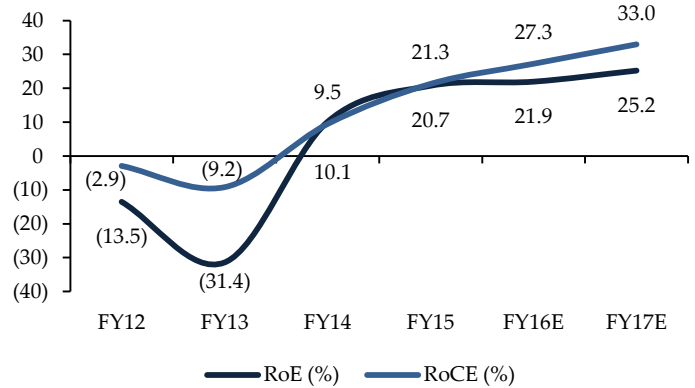
Source: Company, Karvy Stock Broking

Exhibit 7: Net debt free company by FY17E



Source: Company, Karvy Stock Broking

Exhibit 8: Significant improvement in return ratios



Source: Company, Karvy Stock Broking

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Exhibit 9: Profit and Loss Statement

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	13,882	9,603	10,599	13,372	17,150
<i>% growth</i>	1.8	(30.8)	10.4	26.2	28.3
Operating expenditure	14,120	9,186	9,451	11,832	15,062
EBITDA	(238)	417	1,149	1,540	2,088
<i>% growth</i>	(233.4)	(275.6)	544.8	34.1	35.6
Depreciation	352	122	212	244	256
Other income	154	144	117	135	149
EBIT	(436)	440	1,054	1,431	1,981
Interest	334	363	386	245	170
Exceptional items	8	141	-	-	-
PBT	(762)	218	668	1,186	1,811
Tax	1	1	163	353	596
Reported PAT	(762)	217	504	833	1,215
Adjustments	(8)	(141)	-	-	-
Adjusted PAT	(770)	76	504	833	1,215
<i>% growth</i>	-	-	739.8	29.8	45.9

Source: Company, Karvy Stock Broking

Exhibit 10: Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & cash equivalents	855	545	765	943	1,096
Trade receivables	4,651	4,707	4,820	5,683	6,860
Inventories	1,672	1,720	1,665	2,130	2,711
Loans & advances	1,117	1,235	800	1,183	1,582
Other assets	125	136	209	220	230
Investments	15	15	63	63	63
Fixed Assets	1,793	1,984	1,948	1,881	1,825
Deferred tax liabilities (net)	162	162	154	134	114
Total assets	10,390	10,505	10,424	12,238	14,481
Current liabilities & provisions	355	701	505	647	646
Other liabilities	5,463	5,096	4,973	6,035	7,380
Debt	2,527	2,446	1,569	1,347	1,030
Total liabilities	8,345	8,244	7,047	8,028	9,056
Shareholders' equity	126	126	134	134	134
Reserves & surpluses	1,919	2,136	3,243	4,076	5,291
Shareholders' funds	2,044	2,262	3,377	4,210	5,425
Total Equity and Liabilities	10,390	10,505	10,424	12,238	14,481

Source: Company, Karvy Stock Broking

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Exhibit 11: Cash Flow Statement

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	(762)	218	668	1,186	1,811
Depreciation	352	122	212	244	256
Interest/Financial Charges	293	315	386	245	170
Other income	(54)	(86)	(117)	(135)	(149)
Other non-cash adjustments	(38)	(152)	13	-	-
Tax paid	(285)	(202)	(137)	(333)	(576)
Change in working capital	340	69	(15)	(519)	(822)
Cash flow from operating activities	(154)	284	1,010	687	691
(Incr) / decr in capital expenditure	360	(194)	(94)	(177)	(200)
(Incr) / decr in investments	20	20	(49)	-	-
Others	24	33	117	135	149
Cash flow from investing activities	404	(141)	(25)	(42)	(52)
Incr / (decr) in borrowings	393	(142)	(877)	(222)	(317)
Issuance of equity	-	-	499	-	-
Dividend paid	-	-	-	-	-
Interest paid	(287)	(312)	(386)	(245)	(170)
Others	-	-	-	-	-
Cash flow from financing activities	107	(453)	(765)	(467)	(487)
Net change in cash	356	(310)	220	178	153
Opening Cash	499	855	545	765	943
Closing Cash	855	545	765	943	1,096

Source: Company, Karvy Stock Broking

Exhibit 12: Key Ratios

Y/E Mar (%)	FY13	FY14	FY15	FY16E	FY17E
EBITDA margin	(1.7)	4.3	10.8	11.5	12.2
EBIT margin	(3.1)	4.6	9.9	10.7	11.5
Net profit margin	(5.5)	0.8	6.0	6.2	7.0
Dividend payout ratio	-	-	-	-	-
Net debt: equity	0.8	0.8	0.2	0.1	(0.0)
Interest/EBIT	(76.6)	82.5	36.6	17.1	8.6
RoCE	(9.2)	9.5	21.3	27.3	33.0
RoE	(31.4)	10.1	20.7	21.9	25.2

Source: Company, Karvy Stock Broking

Exhibit 13: Valuation Parameters

Y/E Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs)	(11.5)	1.1	9.6	12.4	18.1
DPS (Rs)	-	-	-	-	-
Book value per share (Rs)	30.5	33.8	50.4	62.8	81.0
P/E (x)	-	219.7	26.2	20.2	13.8
P/BV (x)	8.2	7.4	5.0	4.0	3.1
EV/EBITDA (x)	-	44.5	15.8	11.3	8.1
EV/Sales (x)	1.3	1.9	1.7	1.3	1.0

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns	
Buy	:	>	15%
Hold	:	5-	15%
Sell	:	<	5%

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Disclosures Appendix

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