RELIGARE INSTITUTIONAL RESEARCH
Values that bind

Company Initiation
INDIA
CONSTRUCTION INFRASTRUCTURE

24 July 2015

BUY
TP: INR 300.00
▲ 25.2%

Ahluwalia Contracts (India)

AHLU IN

Faster execution to buoy profits, cash flows

We initiate coverage on AHLU with BUY and a Sep'16 TP of Rs 300. We expect a meaningful improvement in the company's order inflows (13% CAGR) and execution profile through FY15-FY18, which would shore up its ROIC and already strong cash flows. While faster execution and order book expansion would aid revenues (19% CAGR to Rs 18bn), lower overheads would boost PAT (29% CAGR to Rs 1.4bn). Further, lower debt and limited capex would give the company financial muscle to bid for projects ahead.

- **Established EPC player with focus on cash flows, execution:** AHLU's focus on cash flows and timely execution has helped it emerge as a strong brand in the commoditised space of EPC contracting, with the following marquee projects to its credit: SEBI Headquarters, Mumbai, India Bulls Tower A, Mumbai, Signature Tower Complex at Gurgaon, Commonwealth Games Village, Delhi, Mass Housing Complex for DDA at Delhi, among others. As a result, CFO has been positive even in the most challenging periods of FY12 and FY13, and is likely to stand at Rs 1.3bn in FY17.
- **Order inflows to pick up:** We expect order inflows for ALHU to improve meaningfully over FY15-FY18, given the expected ramp-up in residential and commercial real estate in key markets. We estimate a 13% CAGR in order flows over FY15-FY18, implying strong revenue growth for the company.
- **Execution to strengthen:** AHLU is currently executing projects worth Rs 31.84bn, with Rs 10bn of orders already secured in FY16 YTD. The company's execution profile is likely to strengthen in FY16 and FY17, with the following key projects to be executed: HDIL residential project at Mulund in Mumbai, DDA project at Narela in Delhi, IIM Rohtak campus, BCD projects in Patna, among others. Also, we don't expect working capital turnover to increase due to increase in sales.
- **View:** Our PE based Sep'16 TP on the stock is Rs 300. Initiate with BUY.

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	9,603	10,599	13,482	15,289	18,032
EBITDA (INR mln)	417	1,149	1,550	1,819	2,200
Adjusted net profit (INR mln)	76	641	977	1,091	1,367
Adjusted EPS (INR)	3.5	10.0	14.6	16.3	20.4
Adjusted EPS growth (%)	(128.6)	188.2	45.8	11.6	25.4
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	6.9	19.5	21.8	22.8	27.4
Adjusted ROAE (%)	3.5	22.7	25.3	22.3	22.3
Adjusted P/E (x)	69.0	24.0	16.4	14.7	11.7
EV/EBITDA (x)	42.0	15.5	10.9	8.9	6.8
P/BV (x)	6.6	4.8	3.7	2.9	2.4

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (23 Jul 15)
INR 239.55

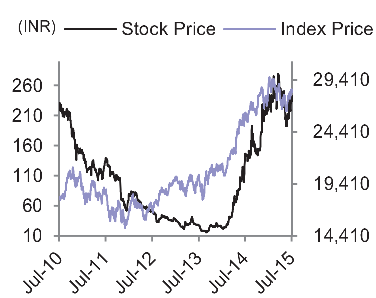
MARKET CAP
INR 16.0 bln
USD 252.4 mln

SHARES O/S
67.0 mln

FREE FLOAT
33.0%

3M AVG DAILY VOLUME/VALUE
0.1 mln / USD 0.4 mln

52 WK HIGH	52 WK LOW
INR 294.00	INR 131.70



Investment rationale

Differentiated and established civil infrastructure player

AHLU is one of the differentiated players in India's civil infrastructure space owing to its relentless focus on cash flow generation and efficient execution. The company offers a complete array of turnkey construction services right from the designing, piling, and construction to the facade and glass work and electro-mechanical work. AHLU's strength lies in building construction, and is executing projects such as high rise residential complexes, commercial complexes, luxury hotels, institutional buildings, hospitals & medical colleges, corporate office complexes, IT parks & industrial complexes, metro stations and others.

Offers a complete array of turnkey construction services in the building construction space

Fig 1 - Key projects under execution

(Rs mn)	Total Value	Outstanding Value
Housing Development and Infrastructure Ltd: Construction of Residential Building at Mulund, Mumbai	4,237	3,467
BCD Patna: Construction of International Convention Centre at Patna	4,171	2,014
BCD Patna: Construction of Police Head Quarters at Patna	3,350	3,108
DDA: Construction of Residential Building on design & built basis at Narela, Delhi	3,389	3,389
IIM Rohtak : Construction of Phase 1A of Permanent Campus for Indian Institute of Management Rohtak at Sunaria Village Rohtak	3,097	3,097
CPWD: Construction of PNB Head Office Building at Dwarka, Delhi	2,029	1,738
HSCC Ltd: Construction of Emergency Block of Safdarjung Hospital	1,967	1,147
Parteek Group: Civil & Structural work of the proposed multistory group housing Project Parteek Grand City Ghaziabad	1,780	1,699
JP Associates Ltd: Construction of Residential Building Project "Jaypee Kensigton" at Noida	1,773	876
Umang Realtech P Ltd: Group Housing Project " Winter Hills" at Sector -77 Gurgaon	1,695	473
NBCC Ltd : Construction of Infrastructure Building for National Intelligence Grid	1,542	1,542
Jasmine Buildmart: Construction of Monde De Housing at Gurgaon	1,510	1,284
E-Homes Infrastructure Private Limited: Construction of Multi-Storeyed Complex (Jewel of Noida) at Sector 75, Noida	1,300	985
Total	**31,840**	**24,819**

Source: Company, RCML Research

Back on the growth trajectory

A slowdown in the construction industry had hit order inflows for AHLU in FY12-FY14 (Fig 2), particularly as private sector clients contributing more than half of its order book at that time, saw severe balance sheet stress. As a matter of strategy, the company decided to focus on increasing the share of public sector orders, as these clients settle their bills monthly and have access to government funds. Order inflows in FY15 have been strong at Rs 13.6bn and the company targets to secure ~Rs 16bn of orders in FY16.

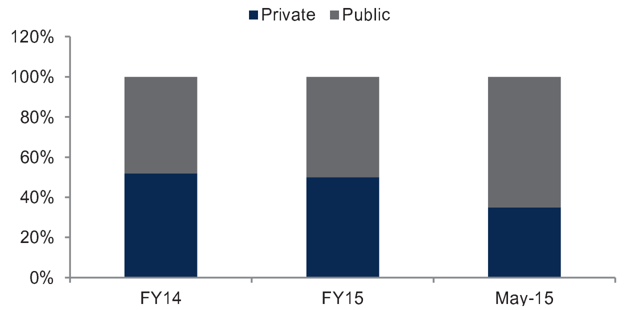
Order inflows increase to Rs 13.6bn in FY15 after touching a low of Rs 6.7bn in FY13

Fig 2 - The story so far

(Rs mn)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Gross Order Book	16,220	31,500	41,433	53,000	58,471	57,358	55,382	52,213	58,952
Net Order Book	12,220	19,575	26,454	30,047	34,850	32,977	25,860	24,427	33,705
Order Inflow		16,155	18,519	19,270	21,489	11,763	6,765	8,170	13,680
Execution: Contract Work	6,692	8,800	11,640	15,677	16,686	13,636	13,882	9,603	10,599
Book-to-Bill ratio	1.8x	2.2x	2.3x	1.9x	2.1x	2.4x	1.9x	2.5x	3.2x

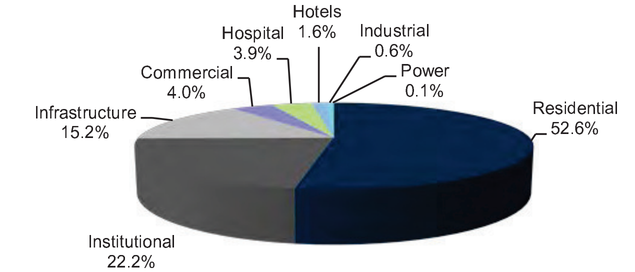
Source: Company, RCML Research

Fig 3 - Increasing share of public sector orders



Source: Company, RCML Research

Fig 4 - Segment breakup of order book (FY15)



Source: Company, RCML Research

Focus on key markets

AHLU is focusing on bidding and executing projects in geographies where it has prior experience and where projects of desirable value (>Rs 2bn) can be executed. Thus, NCR, Mumbai, and Kolkata are the key markets for the company. Region-wise, North had the highest order book share as on 31 Mar'15 at 61%, followed by East at 20%, West at 17% and South at 2%.

Order inflows to be robust

AHLU is targeting order inflows of Rs 16bn in FY16, a growth of 17% YoY. Over the long term, order inflows are likely to be driven by macroeconomic factors such as (1) public sector spending on civil infrastructure, (2) lower interest rate environment easing private sector balance sheets, and (3) increasing urbanisation and need for civil infrastructure.

The company saw traction in order inflows from Q4FY15 onwards, winning the following orders aggregating to Rs 4.2bn: (1) A Rs 3.1bn contract from Indian Institute of Management (IIM), Rohtak; (2) A Rs 600mn order from Indiabulls, Mumbai; (3) A Rs 600mn order from Amity University, Kolkata; and (4) A Rs 2.2bn order for IIITD Campus, among others.

Already won Rs 9.9bn of orders in FY16 YTD, and bid for a pipeline of projects worth Rs 22bn

The company has already bagged Rs 9.9bn of orders in FY16 YTD, and bid for a pipeline of projects worth Rs 22bn, which include (1) a Rs 6bn order for two DDA projects (three players bidding for each), (2) an IIM Raipur project, (3) two large NBCC projects, and (4) two large HSCC projects that are hospitals. To achieve the order inflow target of Rs 16bn, the company would be bidding for Rs 80bn-100bn worth of projects in FY16.

Fig 5 - Projects wins: Q4FY15 and FY16 YTD

(Rs mn)	Value
Q4FY15	
Indian Institute of Management, Rohtak	3,097
Indiabulls, Mumbai	599
Amity University, Kolkata	600
Total	**4,296**
FY16 till date	
OPD block at AIIMS	2,938
Mother and Child block at AIIMS	2,044
Income Tax building, Bandra-Kurla Complex, Mumbai	1,630
Commercial building for Kumar Builders	150
IIITD Campus	2,195
Hiland Green residential building for Riverbank Developers	498
Diplomatic Staff Housing for Royal Danish Embassy	483
Total	**9,938**

Source: Company, RCML Research

Low-margin orders to be completed first

Of the Rs 41bn of net order book reported in May'15, the company has Rs 4bn worth of orders that are fixed-price, largely from private sector clients. The company intends to complete these low-margin orders by H1FY16, which could hurt reported profitability in the first two quarters of FY16. On the positive side, once these orders are completed, EBITDA margins for the remaining order book won't be dragged down and the company's payment cycle would also improve. We expect AHLU's EBITDA margin to improve to 11.5% (+70bps YoY) in FY16 and 11.9% in FY17 from 10.8% in FY15.

Completion of slow-moving, low-margin orders to improve EBITDA margins and working capital cycle

Working capital cycle to shorten

In FY15, AHLU was able to reduce its inventory levels from Rs 2bn at Q3FY15-end to Rs 1.66bn at FY15-end, bringing down inventory days from 135 to 112. While we don't see further reduction in inventory days from these levels, we do expect the receivables cycle to shorten by 10-15 days over next two years as the company rushes to complete the slow-moving, low-margin orders worth Rs 4bn. Overall, we expect the working capital cycle to compress from 70 days in FY15 to sub-60 days levels over the next two years.

Fig 6 - Working capital at a glance

(Rs mn)	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Inventories	1,486	1,679	2,194	1,672	1,720	1,665	2,095	2,352	2,774
Trade receivables	3,338	4,941	4,261	4,101	4,045	4,168	4,986	5,445	6,422
Short-term loans and advances	55	223	231	188	463	202	257	291	343
Other current assets	68	35	38	35	40	47	60	69	81
	4,946	**6,878**	**6,724**	**5,996**	**6,268**	**6,082**	**7,398**	**8,157**	**9,621**
Trade payables	2,102	2,891	3,072	2,970	2,906	2,693	3,049	3,429	4,044
Other current liabilities	2,657	2,293	2,920	2,697	2,372	2,298	2,923	3,315	3,909
Short term provisions	96	37	6	4	27	25	32	37	43
	4,855	**5,222**	**5,998**	**5,672**	**5,305**	**5,016**	**6,004**	**6,780**	**7,997**
Net Working Capital	91	1,657	727	325	963	1,066	1,394	1,377	1,624
Working Capital days									
Inventories		76	111	76	138	112	112	112	112
Trade receivables		107	114	108	154	144	135	130	130
Short-term loans and advances		5	6	5	18	7	7	7	7
Other current assets		1	1	1	2	2	2	2	2
		189	**232**	**190**	**311**	**264**	**256**	**251**	**251**
Trade payables		86	107	96	130	114	114	114	114
Other current liabilities		50	78	71	90	79	79	79	79
Short term provisions		1	0	0	1	1	1	1	1
		136	**186**	**167**	**221**	**194**	**194**	**194**	**194**
Net Working Capital days		53	47	23	90	70	61	56	56

Source: Company, RCML Research

Kota project to be operational by Oct-Nov'15

In Sep'07, AHLU entered into an agreement with the Rajasthan State Road Transport Corporation (RSRTC) to develop a bus terminal & depot and a commercial complex at Kota, Rajasthan. The project was to be completed within 18 months but was stalled due to delayed approvals. The company received a revised sanction plan in FY14 and the project is now expected to be operational by Oct-Nov'15 – in time to benefit from the demand during the Diwali festival.

AHLU has invested Rs 750mn in this project after paying outstanding loans. The concession period for this project is 40 years and the company would have 350,000 sq. ft. of leasable area available. Currently, 55% of the area is leased out and we believe it could go up to 70% once the project is operational. Management expects Rs 7-8mn per month as revenue from this project initially, which could scale up to Rs 10mn a month. The property also houses a 90-room hotel on the third and fourth floors. The company is seeking an operator to manage the hotel.

Management expects Kota project to generate monthly revenues of Rs 7-8mn initially, and Rs 10mn going ahead

We have valued the Kota project at the book value of invested amount i.e. Rs 750mn.

Limited capex

On an average, we factor in FY16 capex to be around 1.5% of revenues. Based on the current net block, we expect the fixed asset turnover to increase from 5.4x in FY15 to 8.2x/9.8x in FY17/FY18 (when revenues touch ~Rs 15bn/18bn). We believe post-FY18, the company might need to incur capex to support future growth.

Key risks

Slump in real estate

An extended slump in real estate and related construction activities could lead to lower order inflows, especially from private sector clients, while tightening in government spends could impact order inflows from public sector players.

Wage hikes for labour and construction material costs

Government initiatives to increase minimum wages for contract labour could hurt the company's margins. Moreover, while global steel prices have been on a downtrend, any uptick in steel prices and other construction material costs is a potential risk. We do acknowledge that the company is now entering into contracts with an escalation clause, which would protect operating margins. Nevertheless, an increase in costs could lead to higher working capital requirements, in turn pushing up the company's interest costs.

Financials

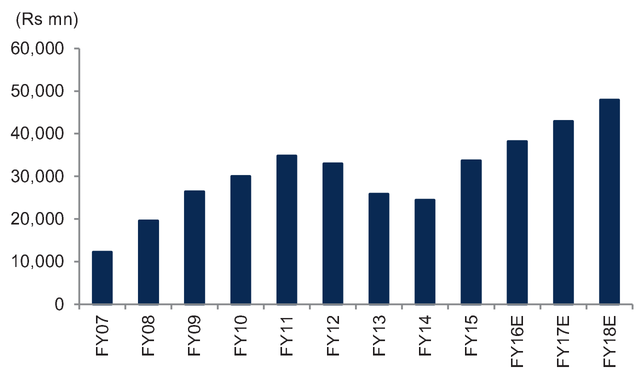
Faster execution, cost control to aid margins

Revenue to grow from Rs 10.6bn in FY15 to Rs 18bn in FY18 – a 19% CAGR

Higher inflows and an increasing order book along with faster execution would shore up revenues to Rs 18bn in FY18 from Rs 10.6bn in FY15, at a 19% CAGR.

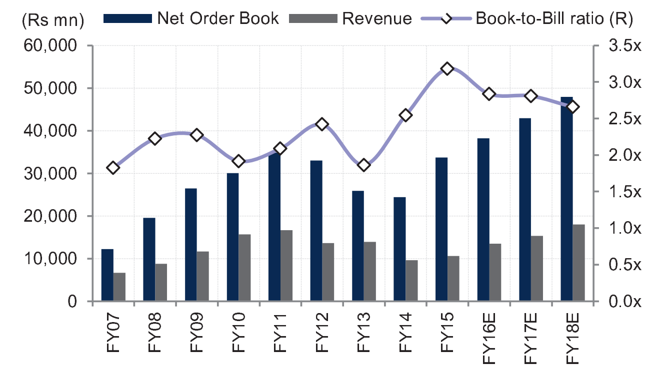
The competitive intensity for AHLU has come down as some its competitors went into CDR during 2012-14, and were thus unable bid for public sector projects. Thus, in many of its bids, the company has been competing with two or three players only, which bodes well for future profitability of the firm.

Fig 7 - Net order book to grow over the next 2-3 years…



Source: Company, RCML Research

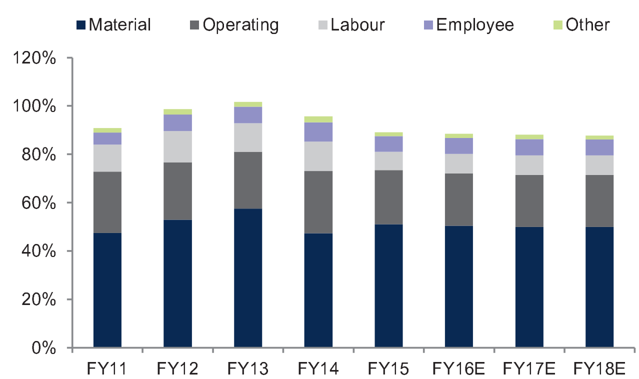
Fig 8 - …leading to higher execution



Source: Company, RCML Research

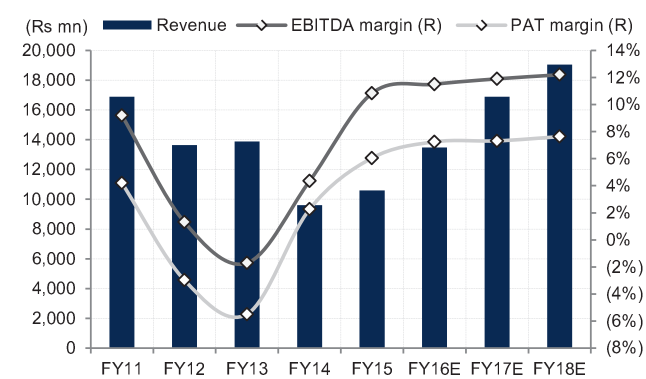
As shown in Fig 9, we expect the company's material costs and operating expenses to remain benign over our forecast period. Thus, higher revenues and lower costs would shore up standalone EBITDA margins to 11.5%/11.9%/12.2% in FY16/FY17/FY18 from 10.8%.

Fig 9 - Standalone costs as a percentage of sales



Source: Company, RCML Research

Fig 10 - Standalone revenues and margins



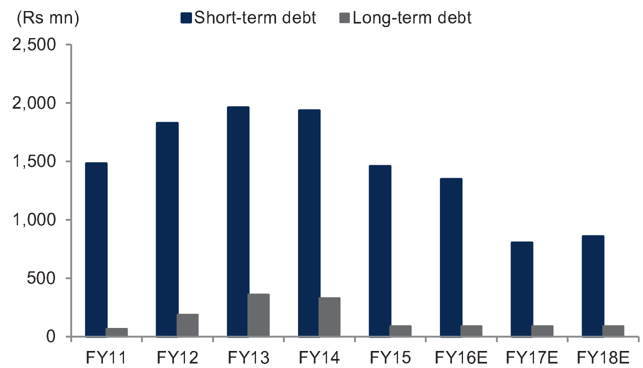
Source: Company, RCML Research

Lower interest costs to drive PAT

PAT to more-than-double in FY18E to Rs 1,367mn from Rs 641mn in FY15

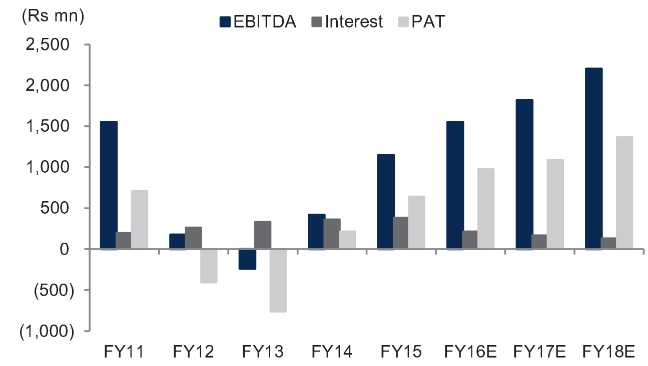
Lower debt is likely to bring down interest costs from Rs 386mn in FY15 to Rs 217mn/ 169mn in FY16/FY17, shoring up net profits. Over our forecast period, we expect the PAT to more than double from Rs 641mn in FY15 to Rs 1,367mn in FY18 – a 29% CAGR.

Fig 11 - Standalone balance sheet getting lighter…



Source: Company, RCML Research

Fig 12 - …which will reduce interest outgo and boost PAT



Source: Company, RCML Research

Cash flows to improve on higher profitability, limited capex

We expect incremental working capital requirement for incremental sales to remain subdued (10-11%; Fig. 13) between FY15-FY18E. Higher EBITDA and limited capex would result in higher free cash flows, though the working capital requirements fluctuate. Further, lower debt payments in FY16 and FY17 as compared to FY15 ensure that free cash flows to equity are positive and rising through FY15-FY18E.

Fig 13 - Working capital requirement

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Incremental Sales	1,219	(3,259)	246	(4,279)	996	2,883	3,407	2,151
Incremental Working Capital	1,565	(930)	(402)	639	103	328	(17)	247
Inc. WC as % of Inc. Sales (%)	128	29	(163)	(15)	10	11	(1)	11

Source: Company, RCML Research

Fig 14 - Cash flows on the rise

(Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
EBITDA	1,551	178	(238)	417	1,149	1,550	1,819	2,200
Taxes	(367)	(1)	(1)	(1)	(26)	(247)	(435)	(586)
WC changes	(1,665)	457	425	(751)	(93)	(357)	(63)	(331)
CFO	(481)	634	186	(334)	1,030	946	1,322	1,283
Capex	(635)	(335)	18	(48)	(175)	(202)	(229)	(270)
FCFF	(1,116)	299	204	(382)	854	744	1,092	1,013
Change in LT debt	(10)	122	172	(31)	(239)	-	-	-
Change in ST debt	322	345	133	(27)	(475)	(112)	(544)	54
Interest	(200)	(264)	(334)	(363)	(386)	(217)	(169)	(134)
FCFE	(1,005)	502	176	(803)	(246)	415	380	933

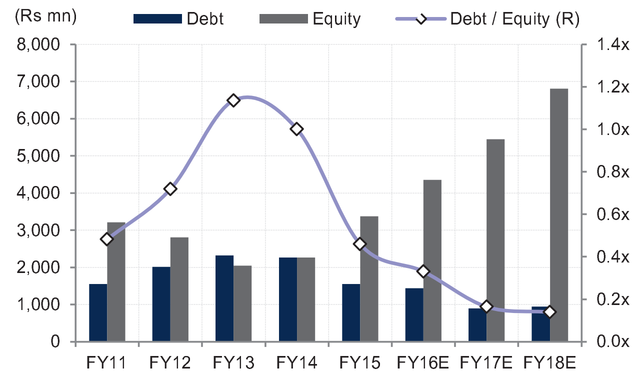
Source: Company, RCML Research

As shown in Fig. 15, AHLU's balance sheet is set to get lighter with the company repaying Rs 860mn of debt in FY15. Also, the D/E ratio is set to shrink further, from 0.5x in FY15 to 0.2x/0.1x by FY17/ FY18.

ROIC to expand to 23%/27% in FY17/FY18 from 20% in FY15

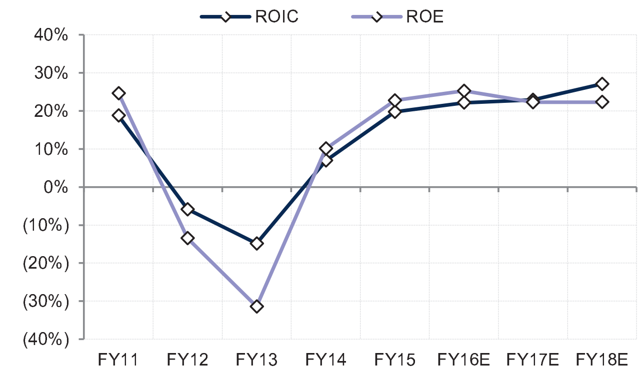
Due to higher profitability and turnover ratios, we expect ROIC to expand to 23%/27% even as the ROE likely moderates to 22%/22% by FY17/FY18 due to lower leverage.

Fig 15 - Lighter balance sheet to improve leverage ratio…



Source: Company, RCML Research

Fig 16 - …and enhance return ratios



Source: Company, RCML Research

Valuations

Initiate with BUY, Sep 16 TP Rs 300

We initiate coverage on AHLU with BUY and a SoTP-based Sep'16 TP of Rs 300. We value the standalone b

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