August 18, 2015 INITIATING COVERAGE

Ahluwalia Contracts (India) Ltd.

SENSEX: 27878 **CMP: INR 238** **Target: INR 312**

SPA THE FINANCIAL ADVISORS

Infrastructure

ACIL is an integrated EPC company engaged in construction of building structures across residential and commercial segment like hospitals, malls, luxury hotels, corporate buildings, among others. The company has done well to stage a remarkable turnaround with significant improvement in profitability and new order bookings. Given its focused approach, proven track record & efficient project delivery mechanisms, ACIL is expected to be one of the prime beneficiaries of emerging opportunities in the sector. We henceforth recommend a "BUY" on the stock with a price target of INR 312.

Staging a turnaround

ACIL has staged a remarkable recovery in FY15 (*OPM + 650 bps, Earnings +8.4x*) through sound business strategy, prudent selection of orders and better working capital management. Share of fixed price contracts stands reduced to 7% of OB (+50% earlier) and all new orders are backed by price escalation clause. Focus is being given on government projects (*65% share currently vs 15% in FY13*) owing to payment issues from private players. Balance sheet has been strengthened (*FY15 Net D/E ratio 0.23x vs 0.81x in FY14*) through sale of non-core assets (primarily land +INR 400 mn) & capital infusion by promoters (~INR 499 mn). **Minimal capex and settlement of pending litigations will further aid ACIL in becoming net debt free balance sheet company (similar to pre FY11 time period).**

3.9x book to bill provides healthy revenue visibility

ACIL's order backlog of INR 40.7 bn translates into book to bill ratio of 3.9x and provides healthy revenue visibility for over 2 years. Order inflows has revived as ACIL booked orders of INR 13.8 bn in FY15 (FY14 - INR 8.2 bn) & INR 14.7 bn (*AIIMS block - INR 5.0 bn, IIIT campus - INR 2.2 bn*) in YTDFY16 (L1 INR 4.8 bn), driven by pick up in govt. tendering particularly from PSU majors like NBCC, DDA. Bid pipeline too stands strong at INR 22 bn *(IIM Raipur INR 3 bn, Hospital projects INR 4 bn)*. We expect ACIL to bag inflows of INR 17.5 bn & INR 21.5 bn in FY16 & FY17 respectively.

Immense growth opportunities

ACIL is in for good times given likely higher spending by govt. on smart cities *(annual inv. INR 200 bn)*, "housing for all by 2022" *(annual inv. +INR 16 trn)*, new airports and public infrastructure. Govt. is increasingly focusing on constructing new educational institutes*(INR 60 bn opportunity)*, hospitals *(INR 90 bn)* and metro projects (+INR 1.2 trn). Redevelopment opportunity in Delhi itself is more than INR 700 bn presenting massive business prospects for ACIL.

Superior execution and declining competition - Advantage

ACIL with over 80 ongoing projects across 50 cities has superior execution capabilities, having executed slew of projects across residential and commercial complexes over the past 5 decades. This in addition to declining competition owing to stressed balance sheet of most of other real estate contractors bodes well for ACIL. Competition is now limited to ~4 players namely Shapoorji Pallonji, L&T, Simplex and NCC as other companies do not have balance sheet strength to bid for composite EPC contracts.

Financial Outlook

Given sturdy order backlog coupled with superior execution track record and buoyant opportunities, we expect ACIL to register revenue CAGR of 27.5% over FY15-FY17E. Margins are expected to improve by 166 bps to 12.5% in FY17 owing to better margin orders booked over past 12 months. Ongoing balance sheet strengthening exercise would further result in 42.7% CAGR in net profit to INR 13.1 bn in FY17E.

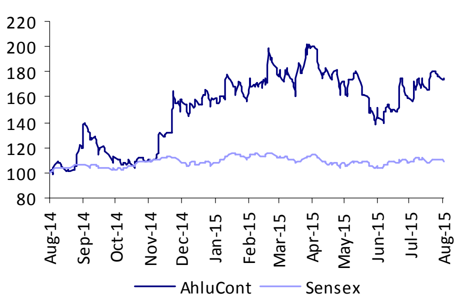
Outlook & Valuation

ACIL is well placed to benefit from increasing opportunities in construction space owing to its superior execution capabilities. Robust order backlog of INR 41.5 bn coupled with upcoming opportunities of +INR 15 trn provides the company with a great platform to achieve healthy growth. Declining share of fixed price contracts along with increasing share of government orders and limited competition for composite EPC contracts will ensure improved margins. Moreover easing working capital cycle and minimal capex would result in net debt free balance sheet in FY17.

The stock is currently trading at a P/E & EV/EBIDTA of 12.2x & 6.9x FY17E earnings respectively, which we believe is attractive, considering 42.7% CAGR in earnings over FY15-17E & sharp improvement in return ratios over next two years *(RoCE + 1159 bps to 33.6%, RoE +355 bps to 26.3%)*. We henceforth recommend a "BUY" on the stock with a price target of INR 312, assuming a P/E multiple of 16x FY17E earnings, an upside of 31% from the current levels.

Shareholding (%)	Jun-15
Promoters	66.87
FIIs	15.49
DIIs	5.92
Others	11.72

Relative Price Performance



Key Data	
BSE Code	532811
NSE Code	AHLUCONT
Bloomberg Code	AHLU IN
Reuters Code	AHLU.BO
Shares O/S (mn)	67.00
Face Value	2
Mcap (INR bn)	15.97
52 Week H/L	293.80/134.45
2W Avg. Qty, NSE	60485
Free Float (INR bn)	5.29
Beta	1.73

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	9603	10599	13408	17229
Growth (%)	-30.82%	10.37%	26.50%	28.50%
EBIDTA Margin (%)	4.34%	10.84%	11.50%	12.50%
APAT	76	641	921	1306
Growth (%)	LP	744.97%	43.63%	41.81%
EPS	0.60	9.57	13.75	19.50
P / E	33.86	26.01	17.33	12.22
P / BV	1.14	4.94	3.70	2.84
EV/EBIDTA	6.28	13.81	9.74	6.93
Net Debt-Equity Ratio	0.81	0.23	0.08	(0.01)
RoACE (%)	12.59	22.01	27.45	33.60
RoAE (%)	3.53	22.75	23.95	26.30

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Investment Argument

Staging a turnaround

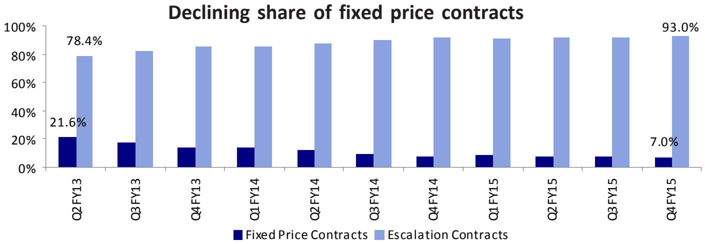
After delivering consistent performance for past several years, ACIL suffered during FY11-14 (*Revenue declined from peak of INR 16.9 bn in FY11 to INR 9.6 bn in FY14 & PAT reduced from INR 710 mn in FY11 to INR 76 mn in FY14*) in line with other construction majors owing to:-

a) aggressive bidding resulting in increased proportion of fixed price contracts (+50% of OB),
b) increased exposure to private sector contracts resulting in significant delays in payments and
c) increased debtor days on account of litigation in certain cases.

However the company has done well to stage a remarkable recovery over the past financial year (*OPM + 650 bps, Earnings +8.4x in FY15*) through sound business strategy, prudent selection of orders and better working capital management.

Firstly, all new orders are backed by price escalation clause and share of fixed price contracts stands reduced to mere 7% of OB vs +50% earlier.

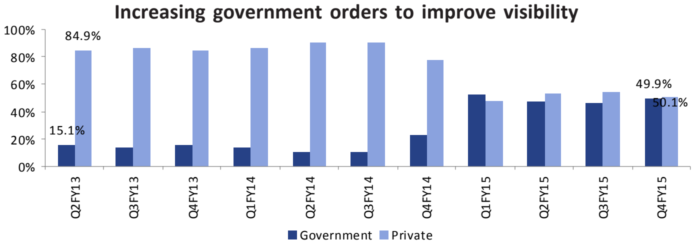
Declining share of fixed price contracts



Source: Company, SPA Research

Secondly, ACIL is largely focusing on government projects (*65% share currently vs 15% in FY13*) owing to payment issues from private players.

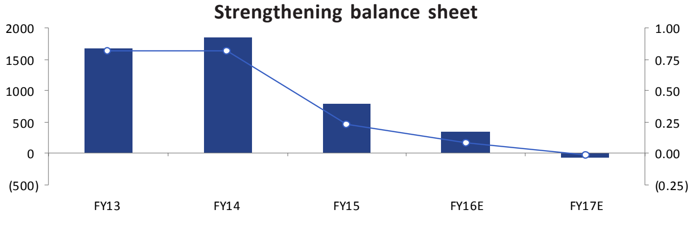
Increasing government orders to improve visibility



Source: Company, SPA Research

Thirdly, balance sheet is being strengthened through sale of non-core assets and capital infusion by promoters (*INR 499 mn*) resulting in debt repayment worth INR 835 mn in FY15 (*Net D/E 0.23x*).

Strengthening balance sheet



Source: SPA Research

Superior execution and declining competition bodes well

ACIL is one of the leading real estate construction companies in India having +50 years of experience in executing projects across residential and commercial complexes, educational institutes, luxury hotels and buildings, among others. The Company's strong infrastructural grounding is reflected in its track record of having been associated with several marquee projects. Having the mandate to execute +80 projects across +16 states requires significant project management & execution expertise and capabilities, which the company has been able to build gradually over the years.

Some of the marque projects executed in past	
Commercial	Head Quarters for SEBI, IDBI, SBI, PNB, CBI at Mumbai, First Financial Center for TCG at Mumbai, Indian Institute of Corporate Affairs at Manesar, Apollo Tyre Corporate office at Gurgaon, R&D Center for Ranbaxy Group at Gurgaon, IFCI Corporate office at New Delhi
Residential	CWG Village at Delhi, South City Kolkata, Indiabulls Sky Mumbai, Silver Spring Kolkata, Celestle Tower for Assotech at Noida, Brigade Metropolis & Gateway Towers at Bangalore, Mass Housing Complex for DDA at Delhi, Tata Housing Gurgaon
Educational	Several IITs,NIFT,NIFT at Delhi, IIFT, DPS Delhi, Central Institute of Education Technology for NCERT at Delhi, National Institute of Immunology at Delhi, Block for DU
Hospitality	Several ITCs, Hotel Leela in Bangalore & Delhi, Hotel Shangri La in Mumbai & Delhi, Raddison Hotels Bhuvaneshwar, JW Marriot Hotel Kolkata, Shrishti Hotel Kolkata, IBIS Hotel at New Delhi, Bangalore & Nasik
Healthcare	Fortis Hospital at Noida & New Delhi, Apollo Hospital Kolkata, AIIMS Trauma Center at New Delhi, Escorts Heart hospital at Jaipur, TMC at Kolkata
Airport & Metro	5 Metros for DMRC, Dwarka Depot at New Delhi, VAG Corridor MRTS Project at Mumbai, 3 Elevated Metro stations at Bangalore, Metro Train Depot at Bangalore, Integrated Passenger Terminal building at Ranchi Airport, Dr. SPM Swimming Pool Stadium Complex at New Delhi
Government	Chief Minister's Secretariat at New Delhi, Goa Legislative Assembly at Goa, ADB Building at New Delhi, Singapore Chancery Complex, Bangladesh High Commission
Industrial	Aluminum Smelter Plant for Vedanta, Fiat Automobile plant at Pune, Cold Rolling Mill for Jindal steels at Orrisa, Hyundai Car Plant at Chennai and R & D Centre at Hyderabad, ITC Cigarette Factory Kolkata.

Source: Company, SPA Research

ACIL also stands to gain from receding competition for big ticket orders owing to stressed balance sheet of most of other real estate contractors. Competition is now limited to mere 4-5 players (*namely Shapoorji Pallonji, L&T, Simplex and NCC*) on a pan-India basis as

a) many EPC players have entered into CDR (*hence it is difficult to obtain solvency certificate and bank guarantee which is necessary while bidding for orders*),

b) government is preferring players with clean balance sheet and ignoring defaulted ones (*State govt of Tamil Nadu, Karnataka, Andhra Pradesh, Rajasthan, Gujarat, Uttar Pradesh and Delhi have put out tenders clearly mentioning that applicant should be financially sound and should not have applied for CDR during the 2010-14*),

c) lack of ability to execute composite projects in building segment (earlier orders were given on separate packages) and,

d) focus on buildings have reduced after revival in order flows in other infrastructure domains like roads and metros.

Given its superior execution skills and declining competition, we believe ACIL is well placed to benefit from increasing opportunities in construction space.

3.9x order book/bill provides healthy revenue visibility

ACIL has an order backlog of INR 40.7 bn (*execution period 30-36 months*), which translates into book to bill ratio of 3.9x, thereby providing healthy revenue visibility over next 2 years.

Order inflows have revived in the last financial year as ACIL booked order inflows of INR 13.8 bn in FY15 as against INR 8.2 bn in FY14, on the back of sharp pick up in government tendering particularly from public sector majors like NBCC, DDA. The company has further received orders worth INR 9.9 bn in YTDFY16 (*2 new blocks in AIIMS - INR 5.0 bn, IIIT campus - INR 2.2 bn*) and is L1 in projects worth INR 4.8 bn *(AIIMS Residential Complex INR 2.6 bn, Medical college at Kolkata of INR 0.8 bn, TOI University INR 0.7 bn).* Importantly, all new orders are backed by price escalation clause, which will aid ACIL in maintaining its profitability. Bid pipeline too stands strong at INR 22 bn (*including IIM Raipur project worth INR 3 bn & Hospital projects worth INR 4 bn*).

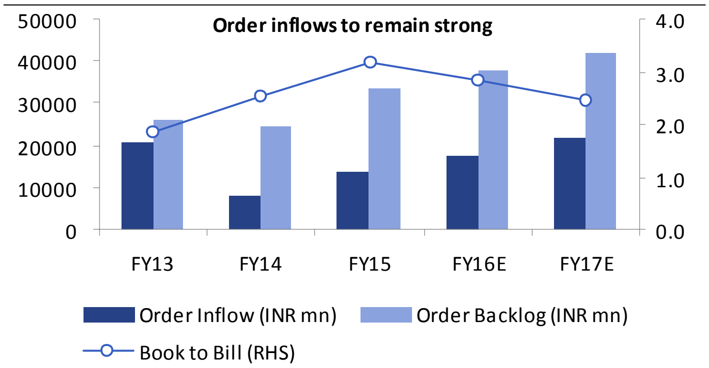
Major projects in backlog (85% of Backlog)

Project Details	Remaining Order Book (INR mn)
HDIL: Construction of Residential Building at Mulund, Mumbai	3467
DDA: Construction of Residential Building on design & built basis at Narela, Delhi	3389
BCD Patna: Construction of Police Head Quarters at Patna	3108
IIM Rohtak: Construction of Phase 1A of Permanent Campus for IIM	3097
AIIMS: Construction work for OPD block & other assoc. services, Delhi	2904
IIIT: Construction of Indraprastha Institute of Information Technology (IIIT) campus, Delhi	2195
AIIMS: Construction work for Mother & Child Block, Delhi	2040
BCD Patna: Construction of International Convention Centre at Patna	2014
CPWD: Construction of PNB Head Office Building at Dwarka, Delhi	1738
Parteek Group: Civil & Structural work of the proposed multistory group housing, Ghaziabad	1699
ITR: Construction of Office Bldg, Income Tax Dept. Bandra Kurla, Mumbai	1630
NBCC Ltd: Construction of Infrastructure Building for National Intelligence Grid	1542
Jasmine Buildmart: Construction of Monde De Housing at Gurgaon	1284
HSCC Ltd: Construction of Emergency Block of Safdarjung Hospital	1147
E-Homes Infrastructure Pvt Ltd: Construction of Multi-Storeyed Complex at Sector 75, Noida	985
JP Associates Ltd: Construction of Residential Building Project "Jaypee Kensigton" at Noida	876
Amity: Construction work for Amity University Kolkata	600
Riverbank Developers: Construction of Hiland Green residential building	498
Royal Danish Embassy: Construction of Diplomatic Staff housing	483
Umang Realtech P Ltd: Group Housing Project " Winter Hills" at Sector -77 Gurgaon	473

Source: Company, SPA Research

The company is in for good times given likely higher spending by government on smart cities (*outlay of INR 1 trn over 5 years*), "housing for all by 2022" (*~11 cr houses required with annual investments of +INR 16 trn*), new airports and public infrastructure. Government is increasingly focusing on constructing new educational institutes (*5 new IITs worth INR 30 bn proposed, multiple new IIMs worth another INR 30 bn proposed, plans of having central universities in all states*), hospitals (*5 new AIIMS worth INR 35 bn, 11 new medical institutes similar to AIIMS worth INR 55 bn, increasing state government hospitals in Tier 1 & 2 cities*) and metro projects (*projects totaling ~330 km with investment of +INR 1.2 trn under planning stage*), which will result in increased business opportunities for players like ACIL. Redevelopment opportunity in Delhi (*+30 old government colonies*) itself is more than INR 700 bn presenting massive business prospects for ACIL.

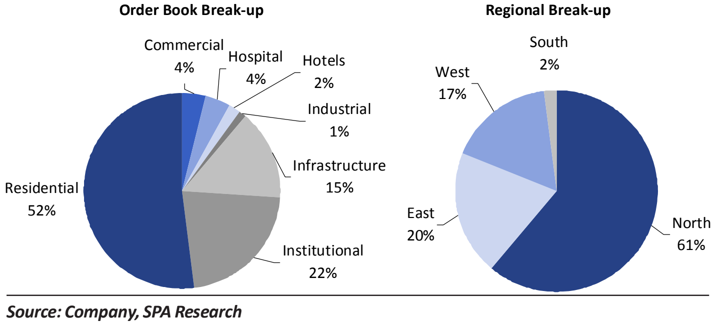
We expect the company to bag inflows of INR 17.5 bn & INR 21.5 bn in FY16 & FY17 respectively. However given the massive growth opportunities mentioned above, there remains an upside risk to our order intake estimates.



Source: SPA Research

Order backlog - Well built & diversified

Order book is well diversified with more than 80 contracts across 16 states, which protects the company from downturn in any particular segment/state. While Residential segment accounts for 52% of order backlog, Institutional & Infrastructure segment accounts for 22% & 15%, respectively. Geographically, Northern region accounts for 61% of backlog followed by East (20%), West (17%) and South (2%).



Source: Company, SPA Research

Quality of order book too remains strong given 65% (32% in FY14) of order is from government, which results in better debtor days and reduced execution risks (*owing to litigations*). The share of government orders will escalate further to +70% owing to massive opportunities in this space and sluggish private sector capex in near term.

Tie-up with Russian company to aid in mass housing projects

ACIL has entered into technology tied up with KUB STROY Russia to build structures using a patented high-speed pre-cast construction technology. This technology helps in high speed construction of structures using patented precast systems and can be used for construction up to 22 floors in high seismic zones.

The main advantages of precast technology are quality, speed of construction, and a value for money product. While it ensures that construction time reduces by 50% (*if normal brick and mortar method takes one year to complete a project, the precast method takes about 6 months*), manpower requirement too stands substantially reduced to mere 10% (*a project of 1 mn sq. feet, which ideally requires ~600 manpower during structure completion can be managed by a team of ~60 persons at maximum*). This technology has proved its worth by saving a lot of construction time in the Europe and the Middle East. Also, more than 70% of the Housing Projects in Singapore are constructed using Precast Technology. The best part of the technology is that it not only speeds up the construction work but also enhances the quality of the final output.

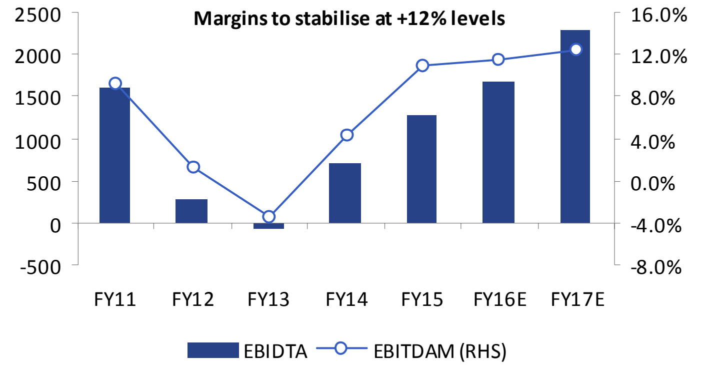
ACIL is one of the very few companies in India to possess this technology. It is currently executing a high rise building project for Umang Realtech at Gurgaon using precasting technology. We believe that precast is the need of the hour as more than 80% of projects are not delivered within committed time and quality of construction is also deteriorating day by day. **We expect huge opportunity in the institutional and affordable housing segment and expect this technology to play a key role in government's mass housing projects.**

Better quality orders to improve margins

ACIL has registered margin improvement of 650 bps to 10.8% in FY15 as it successfully executed better margin flexible pricing orders during the last financial year. Margins earlier suffered owing to execution of legacy fixed price low margin orders from the private sector.

We expect margins to improve further by 166 bps to 12.5% in FY17 as:-

a) mere INR 2.4 bn (5.7% of OB) worth of low margin fixed price orders remains to be executed (will be executed in FY16),
b) all new orders are backed by price excalation clause,
c) several better margins (~13% margins) contract has been booked over past 12 months,
d) competition in new orders have reduced significantly resulting in sensible bidding, and
e) ACIL's strategy of focusing on government orders have paid off since more than 90% of new orders booked over the past 15 months has been given on composite basis vs earlier practice of awarding separate packages for civil works, electrical works, fire-fighting, etc. Composite orders enjoy higher margins owing to higher value projects.



Source: SPA Research

Kota Bus project to start contributing from Oct 2015

ACIL bagged its first and only build-operate-transfer (BOT) project from Rajasthan State Road Transport Corporation (RSRTC) for construction of Bus Terminal/Depot and Commercial Complex at Kota in FY08. After several years of delay owing to lack of clearances/approvals, the project is in final stages of completion and is expected to commence operations from October 2015 onwards. Cost of this project is INR 800 mn out which ACIL has already invested INR 700 mn till date. Entire amount has been invested through equity and there is no debt in this project.

ACIL has right to collect lease rentals from commercial complex (~300,000 sqft area) for 40 years from completion date after which the property would be transferred to RSRTC. Complex would have malls and multiplex in 2 floors and one 91 room hotel in 3rd & 4th floor. Construction of multiplex and hotel would take some time. ACIL has so far leased out ~60% of total area and this to escalate to 80% by project launch. The company is expected to start earning revenues from Oct 2015 onwards and collect ~INR 8 mn/per month in FY16. While ACIL will have to shell out 50% of revenues earned from advertisements outside the complex to RSRTC , it will keep entire revenues earned from advertisements inside the complex.

Due to ambiguity related to this project at the current juncture, we have not considered the financial gains from this project in our estimates. However on a rough basis if we discount its earnings at CoE of 16.8%, ACIL would earn around INR 572 mn from lease rentals over the next 40 years.

Earnings from lease rentals to cover 60% of investment	
Risk Free Rate	8.0%
Beta	1.76
Equity Risk Premium	5.0%
Cost of Equity	16.82%
Sum of Future Earnings	572

Source: SPA Research

Balance sheet strengthening

ACIL's balance sheet has strengthened significantly with Net D/E ratio declining from 0.81x in FY14 to 0.23x in FY15 owing to

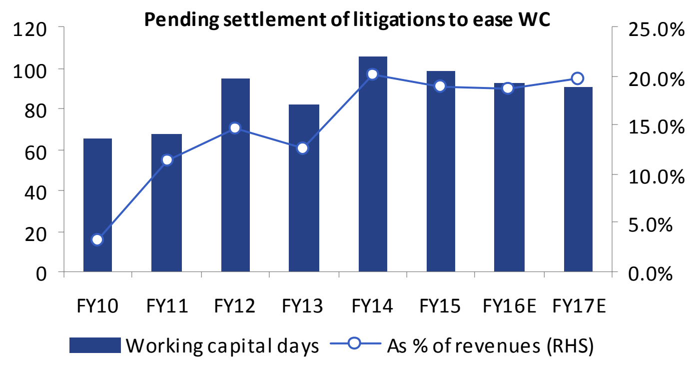
a) capital infusion of INR 499 mn by promoters in Dec 14 @ INR 118/share to repay debts,

b) sharp improvement in profitability with completion of low margin contracts,

c) reduction in WC cycle from 105 days in FY14 to 99 days in FY15.

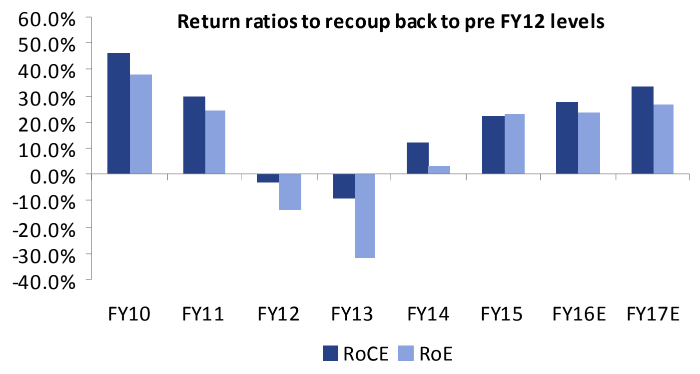
Working capital cycle has earlier deteriorated from 65 days in FY10 to 105 days in FY14 owing to payment delays from private sector clients. Receivable amounting to INR 470 mn remains due from Emaar MGF relating to Commonwealth Games Village. ACIL has been fighting a legal battle with Emaar MGF and remains confident of a favorable outcome. Similarly INR 270 mn remained due from Talkatora Stadium projects in New Delhi. ACIL has already received INR 140 mn after closure of CBI enquiry against CPWD last year and expects to receive balance INR 130 mn shortly.

Hence minimal capex (*gross block sufficient to clock revenues of INR 17 bn*) in addition to settlement of pending litigations, better order execution and reduction in inventory days will further strengthen its balance sheet. Moreover increasing government orders would also aid WC cycle improvement since WC cycle in government orders is usually 50 days as against +90 days incase of private orders.



Source: SPA Research

We expect gross debt to reduce by INR 500 mn over next two years to INR 1051 mn in FY17E, resulting in net debt free balance sheet (similar to pre FY11 time period). Return ratios too are expected to improve with RoCE & RoNW increasing by 1159 bps & 355 bps over next two years to 33.6% & 26.3% respectively in FY17. There remains an upside risks to improvement in WC cycle improvement as we have not factored in much collection from pending dues owing to tepid liquidity position of private contractors.



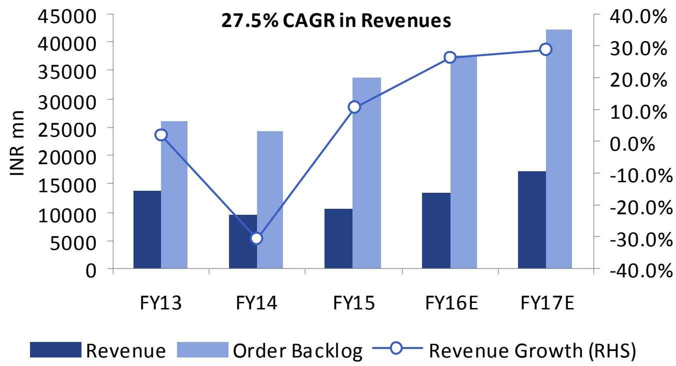
Source: SPA Research

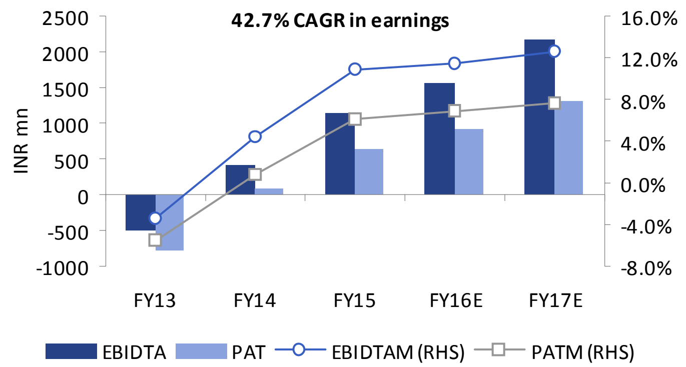
Financial Overview

ACIL after consistently reporting strong set of numbers over the past decade, delivered lackluster growth over FY11-14 *(17.2% CAGR decline in Revenue & 52.5% decline in net profit),* in line with other construction majors owing to a) increased proportion of fixed price contracts (+50% of OB) owing to aggressive bidding, b) increased exposure to private sector contracts resulting in significant payment delays and c) increased debtor days on account of litigation in certain cases. Order inflows during the same period almost halfed to INR 8.2 bn in FY14.

However the company has done well to stage a remarkable recovery in FY15 (Revenue +10.4%, OPM + 650 bps, Earnings +8.4x to INR 641 mn) through sound business strategy (*all new orders backed by price escalation clause*), prudent selection of orders (*largely focusing on government orders*) and better working capital management. Inflows during the year surged by 68.9% to INR 13.8 bn leading to order backlog of INR 33.7 bn in FY15.

Given sturdy order backlog coupled with superior execution track record and buoyant opportunities, we expect ACIL to register revenue CAGR of 27.5% over FY15-FY17E. Increased government tendering and receding competition would enable ACIL to book inflows of ~INR 19 bn each over next two years, which will result in 11.7% CAGR in order backlog to INR 42.1 bn in FY17. Operating margins are further expected to improve by 166 bps to 12.5% in FY17 owing to better margins contract booked over past 12 months. This in addition to ongoing balance strengthening exercise (*INR 500 mn of debt repayment over next 2 years to result in 15.5% CAGR decline in interest expenses*) would result in 42.7% CAGR in net profit to INR 13.1 bn in FY17E.





Source: SPA Research

Resultantly we expect return ratios to improve, with RoCE & RoNW increasing by 1159 bps & 355 bps over next two years to 33.6% & 26.3% respectively in FY17.

Peer Comparison

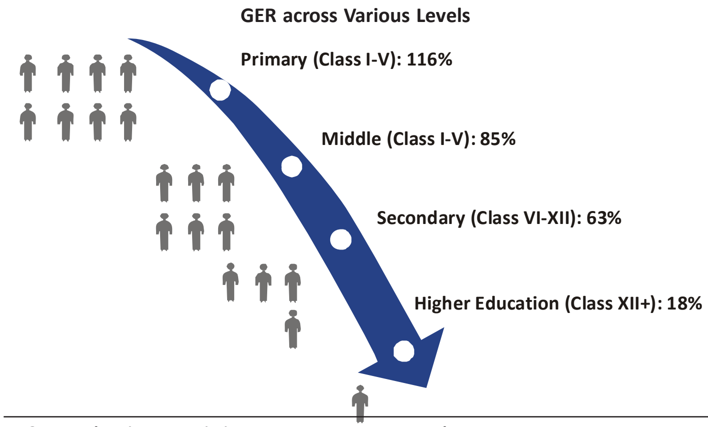
Company	CMP (INR)	MCAP (INR bn)	Revenue CAGR (15-17)	Earnings CAGR (15-17)	P/E (x) FY15	P/E (x) FY16E	P/E (x) FY17E	EV/EBITDA (x) FY15	EV/EBITDA (x) FY16E	EV/EBITDA (x) FY17E	EBIDTAM FY16E	EBIDTAM FY17E	RoE (%) FY16E	RoE (%) FY17E
Ahluwalia Contracts	**238**	**16**	**27.50%**	**42.71%**	**26.01**	**17.33**	**12.22**	**13.81**	**9.74**	**6.93**	**11.50**	**12.50**	**23.95**	**26.30**
NCC	78	43	0.76%	43.03%	55.69	26.86	19.00	9.80	8.40	7.40	8.62	9.18	4.80	6.50
Simplex Infra	325	16	13.24%	78.07%	36.36	15.16	8.14	7.99	6.30	5.20	11.60	12.05	7.08	12.11

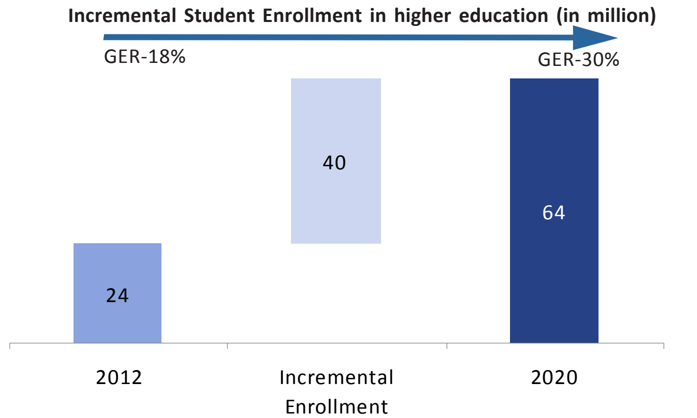
Source: SPA Research

Industry Outlook - Key growth drivers

Building construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy. The industry's growth is linked to developments in the housing, retail, hospitality and entertainment (hotels, resorts, cinema theatres) sectors, economic services (hospitals, schools) and IT enabled services etc. As the Indian economy grows, demand for commercial and residential demand will keep increasing, thereby benefitting construction companies like ACIL. We have given detailed break up of some of the key opportunities that can benefit construction companies in future.

Educational Institutes: Indian education sector is one of the largest capitalized spaces in India with an annual Government spend of +INR 4 trn (~3.4% of GDP) and an annual private spend of +INR 3.5 trn. Although India has managed 100%+ gross enrollment ratio (GER) in primary education, enrollments plummet for higher levels of education. Only 60% of the students enrolled in primary school complete secondary education and 18% gain access to higher education. The government has set a target to increase GER for the higher education segment to 30% by 2020, which will require addition of ~800 universities and ~35000 colleges, entailing an investment of +INR 13 trn. In Union Budget 2015-16, government has henceforth proposed to set up a) 5 new IITs entailing investment of INR 30 bn, b) multiple new IIMs requiring investment of INR 30 bn, c) central universities in all states.

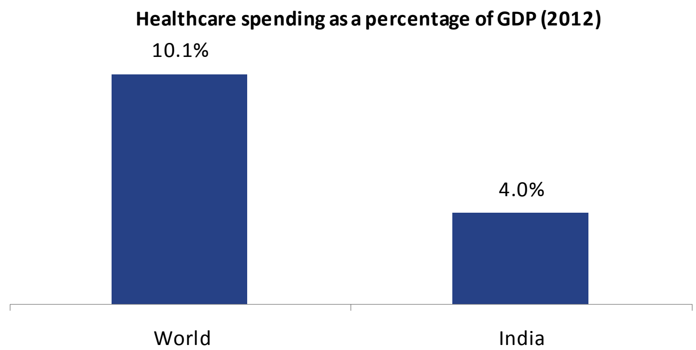




EY & FICCI Planning Commission Report 2012, SPA Research

In addition, entry of major private players in the education sector has created vast opportunities for the real estate sector and in turn construction sector. NCR is expected to have the highest incremental demand from the education sector.

Healthcare: Despite being the 2nd most populated country and sharing ~20% of the global disease burden, India lacks proper healthcare infrastructure. It holds mere 6% of the global beds, 8% share of doctors & nursing staff and has just 9 beds per 10,000 people, which is significantly lower than the global median average of 27 beds per 10,000 people. Given surging population and increasing lifestyle related diseases, improving healthcare infrastructure is now one of the most important agendas of government. Government has increased spending on healthcare from 0.9% of GDP to 2.5% of GDP (allocated ~INR 1.9 trn) in 12th Five Year Plan. Considering the additional requirement of, 1.5 mn doctors and 2.4 mn nurses by 2025, government in last year's budget, has proposed to set up a) 5 new AIIMS requiring investment of ~INR 35 bn, b) 11 new medical institutes similar to AIIMS entailing investments of ~INR 55 bn. **Demand for increased healthcare facilities is expected to provide a boost to the construction sector in the country.**

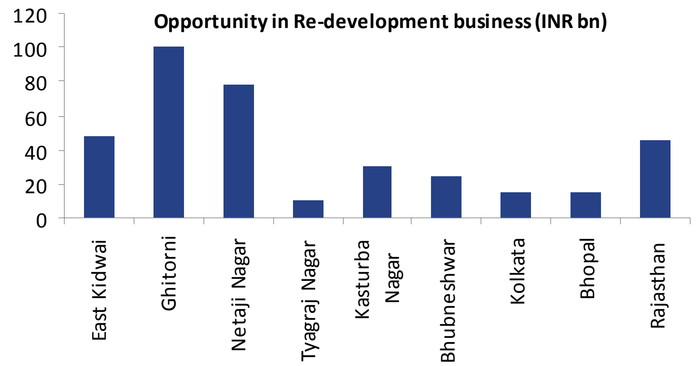


Health infrastructure per 10,000 individual (2005 - 2012)

	Physicians	Nurses & midwifery personnel	Hospital beds
India	6.5	10.0	9.0
World Median	14.2	33.2	27.0

Source: WHO World Health Statistics 2013, E&Y, SPA Research

Redevelopment of old government properties: We believe next leg of opportunity remains in redevelopment of old government properties. Several state governments (like Rajasthan, Orissa, UP and West Bengal) are exploring options to undertake redevelopment works, resulting in opportunities worth INR 100 bn. Delhi itself has over 30 old government colonies, redevelopment of which will lead to opportunity of +INR 700 bn over next 10 years.



Source: NBCC, SPA Research

Metro Projects: BJP government is laying special emphasis on urban rail transport system. Projects totaling 330 kms are under planning stage and are expected to be ordered over next five years. This will entail investment of +INR 1.2 trn out of which ~50% will be incurred on civil works. **Players like ACIL will stand to benefit as metro projects offer opportunities for construction of station buildings and platforms.**

Robust pipeline for Metro projects

Project	Length (km)	Cost (INR bn)
Chennai - Ph-II	63	360
Bengaluru - Ph-II	72	264
Gurgaon - Ph-II	7	21
Jaipur - Ph-II	23	66
Kochi -Ph-II	6	15
Pune	32	102
Ludhiana	29	103
Chandigarh	38	109
Bhopal	28	60
Indore	32	75

Source: Ministry of urban development, SPA Research

Housing for All, Smart Cities, Make in India: Government's mission of "Housing for All" by 2022 will require development of about 11 crore houses with investments of over INR 120 trn, translating into annual investments of +INR 16 trn.

Housing shortage

Particulars	Urban (crore units)	Rural (crore units)	Total (crore units)
Current Housing Shortage	1.9	4.0	5.9
Required housing units by 2022	2.6-2.9	2.3-2.5	4.9-5.4
Total need by 2022	4.4-4.8	6.3-6.5	10.7-11.3

Source: Funding the vision - Housing for all by 2022, KPMG in India 2014, SPA Research

Plans of creating 100 smart cities will require an outlay of INR 1 trn over 5 years.

Efforts to strengthen India's manufacturing sector through "Make in India" initiative, will result in doubling of manufacturing sector's share in office space occupancy from 20% to 40%, thereby occupying the largest share of office space in India similar to IT-ITeS sector.

Outlook & Valuation

Infrastructure sector remains an integral part of the Indian economy and has contributed to 7.5-8.5% of the country's GDP since FY 05. After dismal 4-5 years, government is keen to not only resolve policy issues but itself kick start investments in infra projects. Government's focus on smart cities, affordable housing, public infrastructure and constructing multiple new educational institutes & hospitals entails an annual opportunity in excess of INR 15 trn. ACIL with proven track record & efficient project delivery mechanisms is expected to be one of the prime beneficiaries of emerging opportunities in the sector.

Robust order backlog of INR 41.5 bn coupled with strong execution capabilities provides the company with a great platform to achieve healthy growth. Declining share of fixed price contracts along with increasing share of government orders and limited competition for composite EPC contracts will ensure improved margins. Moreover easing working capital cycle and minimal capex would result in further reduction of debt.

We expect ACIL to register revenue CAGR of 27.5% over FY15-FY17E driven by healthy book to bill of 3.9x. Margins are expected to improve by 166 bps to 12.5% in FY17 owing to better margin contracts booked over past 12 months. Net profit is expected to grow at a faster pace at 42.7% CAGR over the same period owing to 15.5% CAGR decline in interest expenses.

The stock is currently trading at a P/E & EV/EBIDTA of 12.2x & 6.9x FY17E earnings respectively, which we believe is attractive, considering 42.7% CAGR in earnings over FY15-17E & sharp improvement in return ratios over next two years (RoCE + 1159 bps to 33.6%, RoE +355 bps to 26.3%). With favorable macroeconomic scenario, we expect the stock to rerate, with market pricing in its focused approach, strong order backlog and superior execution track record. We henceforth recommend a "BUY" on the stock with a price target of INR 312, assuming a P/E multiple of 16x FY17E earnings, an upside of 31% from the current levels.

Risks & Concerns

Prolonged delay in economic recovery

Prolonged slowdown in economy due to lack of commitment from government to push for reforms, will delay the capex cycle recovery, which might adversely impact future order inflows.

Execution risk

Any kind of delay or cancellation in the order book of the company, will adversely affect the revenues and earnings. As for now, most of its projects are running on schedule. However, one cannot ignore the inherent risks associated with the business.

Rise in Competition

The massive growth in infrastructure has encouraged many new private players to foray into this segment, which has resulted in increasing competition.

Worsening working capital cycle

Delay in recovery from clients would increase working capital, which might delay execution and impact profitability.

Company Background

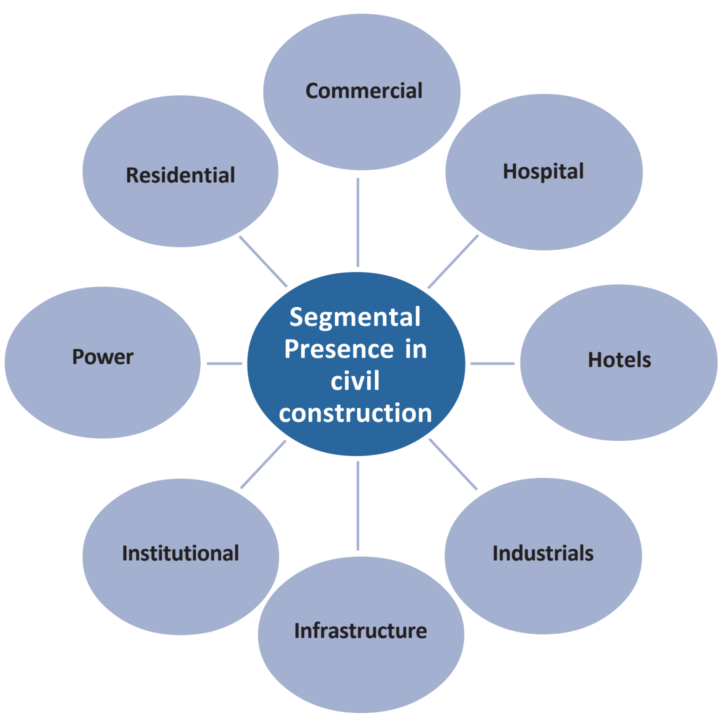
ACIL, founded by Bikramjit Ahluwalia, is an integrated infrastructure company engaged in construction of building structures across residential and commercial segment like hospitals, colleges, malls, luxury hotels, corporate buildings, among others. ACIL with over 80 ongoing projects across 50 cities has superior execution capabilities, having executed slew of projects across residential and commercial complexes over the past five decades.

The company benefits from having own equipment base comprising of more than 99 cranes, +175 batching plants and +45 transit mixers, among various other world class equipments. It has various in-house capacities like design, ready mixed concrete plants, plumbing, electro mechanical and aluminium facades & building glasses which help in timely execution.

The company's marquee client lists include both government and private players like Apollo Hospital, ITC, Fortis, State PWDs, CPWDs, Government of Singapore, NBCC, DLF, IFCI, Unitech, Tata, Reliance Retail, Hyatt etc.

Currently it has an order backlog of INR 41.5 bn, which is to be executed over a period of 30-36 months.

Segmental Presence



Source: Company

Financials

Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	9603	10599	13408	17229
Growth (%)	*-30.82%*	*10.37%*	*26.50%*	*28.50%*
Cost of goods sold	4545	5412	6704	8563
Other Manufacturing Expenses	2207	2367	2950	3756
Employees Cost	1926	1501	1810	2240
Total Expenditure	9187	9451	11866	15076
EBIDTA (without OI)	417	1149	1542	2154
Growth (%)	*LP*	*175.75%*	*34.25%*	*39.67%*
EBITDA Margin %	*4.34%*	*10.84%*	*11.50%*	*12.50%*
Depreciation	122	212	234	240
EBIT	295	937	1308	1913
EBIT Margin %	*3.07%*	*8.84%*	*9.76%*	*11.10%*
Interest Expenses	363	386	342	276
Other Income	285	117	132	142
EBT	217	668	1098	1780
Tax Expenses	0	26	177	474
PAT	217	641	921	1306
Excep./Extraordinary Items	141	0	0	0
APAT	76	641	921	1306
Growth (%)	*LP*	*744.97%*	*43.63%*	*41.81%*
APAT Margin (%)	*0.79%*	*6.05%*	*6.87%*	*7.58%*

Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS				
Share Capital	126	134	134	134
Reserves	2136	3243	4180	5486
Total Networth	2262	3377	4314	5620
Secured Loans	2245	1460	1170	980
Unsecured Loans	141	90	80	70
Total Debt	2386	1551	1251	1051
Total Liabilities	**4648**	**4928**	**5565**	**6671**
APPLICATION OF FUNDS				
Net Block	1307	1773	1714	1675
Capital Work in Progress	677	175	201	258
Investments	15	63	63	63
Total Current Assets	8344	8259	10052	12594
Total Current Liabilities	5858	5496	6624	8081
Net Current Assets	2486	2763	3429	4513
Net Deferred Tax	162	154	157	161
Total Assets	**4647**	**4928**	**5565**	**6671**

Key Ratios

Y/E March	FY14	FY15	FY16E	FY17E
Per Share Data (INR)				
Adjusted EPS	0.60	9.57	13.75	19.50
CEPS	1.57	13.05	17.29	23.14
BVPS	36.04	50.40	64.39	83.89
Return Ratios				
RoACE (%)	12.59	22.01	27.45	33.60
RoAE (%)	3.53	22.75	23.95	26.30
Balance Sheet Ratios				
Net Debt-Equity Ratio	0.81	0.23	0.08	(0.01)
Current Ratio	1.42	1.50	1.52	1.56
Interest Cover Ratio	1.60	2.73	4.21	7.46
Efficiency Ratios				
Total Asset Turnover	2.08	2.21	2.56	2.82
Inventory Days	67	65	57	56
Debtors Days	155	141	125	119
Creditors Days	117	108	90	84
Valuations				
P / E	33.86	26.01	17.33	12.22
P / BV	1.14	4.94	3.70	2.84
Market Cap / Sales	0.27	1.57	1.19	0.93
EV/EBIDTA	6.28	13.81	9.74	6.93

Cash Flow

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	217	668	1098	1780
Depreciation	122	212	234	240
Interest	363	386	342	276
Inc./Dec. in working capital	(193)	(57)	(523)	(873)
Tax paid	0	(137)	(373)	(570)
Other Income	(285)	(117)	(132)	(142)
Cash flow from operations (a)	**223**	**954**	**646**	**711**
Inc./Dec. in investments	0	(49)	0	0
Change in Fixed Assets	(33)	(677)	(175)	(201)
Change in CWIP	(270)	502	(26)	(57)
Others	(363)	(386)	(342)	(276)
Cash flow from investing (b)	**(666)**	**(610)**	**(543)**	**(534)**
Inc./Dec. in capital	0	499	0	0
Inc./Dec. in debts	(142)	(835)	(300)	(200)
Dividend paid	0	0	0	0
Interest paid	(363)	(386)	(342)	(276)
Others	638	598	683	510
Cash flow from financing (c)	**133**	**(125)**	**41**	**34**
Opening cash balance	855	545	765	908
Cash Flow during the year (a+b+c)	**(310)**	**220**	**144**	**211**
Closing cash balance	545	765	908	1119

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