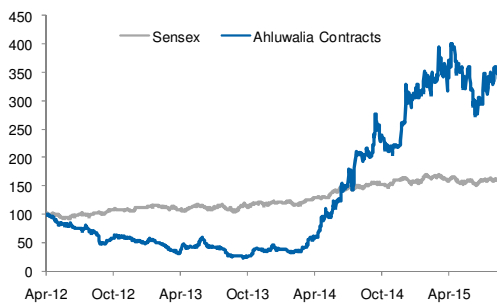


**Key Statistics**

Price target (INR)	341
CMP (INR)	231
Upside/downside (%)	47.4
Market Cap (INR/USD mn)	15,474/242
Shares outstanding (mn)	67
3 months average volume	77,056
Dividend Yield (FY15, %)	0.0
Bloomberg Code	AHLU IN Equity

**Stock Price Performance\***


\* Rebased to 100 | Based on daily closing prices

Performance (%)	1M	3M	12M
Absolute (%)	-3.3	-2.9	61.6
Relative to Sensex (%)	-2.8	-5.6	54.1

**Shareholding Pattern, % (as on June-2015)**

Promoter	66.9
FII	15.1
DII	5.9
Other	12.1
Total	100.0

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Ahluwalia Contracts' IQFY16 net profit grew 11.3% YoY to INR 188 mn and was 10.9% ahead of our expectation. Order inflow continues to be strong as the company has secured INR 11.0 bn of orders till date and is currently LI in projects worth INR 4.5 bn. Given its strong order book, superior balance sheet and strong working capital management, the company is well placed to benefit from pick up in urban infrastructure spending, in our view. We raise our TP to INR 341 from INR 297 earlier as we roll forward our TP to Sep-16. Maintain BUY.

- ✓ **Results above expectation:** Revenues were up 11.0% YoY to INR 2.7 bn, whereas EBITDA was almost flat YoY at INR 329 mn. EBITDA margin stood at 12.4%, down 130 bps YoY, but 40 bps above our expectation. Decline in EBITDA margin on YoY basis is on account of higher margins booked last year in a particular project. As such, EBITDA was 4.5% above our expectation. Higher other income and lower interest expense also surprised positively. Net profit grew 11.3% YoY to INR 188 mn and was 10.9% higher than our expectation.
- ✓ **Order intake continues to be strong:** In IQFY16, the company secured orders worth INR 6.8 bn. Post the IQFY16, the company has already secured incremental orders worth INR 4.2 bn, taking the order intake to INR 11.0 bn, till date. Additionally, it is LI in projects worth INR 4.5 bn. Thus, it is well placed to surpass its order inflow target of INR 16.0 bn for FY16. At the end of IQFY16, the order book stood at INR 37.5 bn with OB/rev ratio of 3.5x, implying strong revenue visibility over the next 2-3 years.
- ✓ **Raise TP to INR 341, maintain BUY:** We raise our TP to INR 341 from INR 297 earlier as we roll forward our TP to Sep-16. The company has one of the strongest balance sheets in the infrastructure space with net D/E at 0.2x at FY15 end. We estimate the company to turn net cash by FY17 end and report RoEs of 20%+ over next three years. At CMP, the stock is trading at FY17E/18E PE multiple of 12.7x/10.0x against its historical average trading PE multiple of 14.2x. Maintain BUY.

Year End (31 Mar)	FY14	FY15	FY16E	FY17E	FY18E
Revenues (INR mn)	9,603	10,599	12,786	16,731	20,175
Growth (%)	-30.8	10.4	20.6	30.9	20.6
EBITDA (INR mn)	417	1,149	1,470	2,008	2,421
EBITDA Margin (%)	4.3	10.8	11.5	12.0	12.0
Adjusted PAT (INR mn)	76	642	888	1,216	1,546
Adjusted PAT Margin (%)	0.8	6.1	6.9	7.3	7.7
Diluted adj. EPS (INR)	1.2	9.6	13.3	18.2	23.1
Growth (%)	-109.9	687.1	38.4	37.0	27.1
ROE (%)	3.4	19.0	20.8	22.2	22.0
ROIC (%)	5.0	15.3	19.0	24.1	27.9
Adjusted P/E (x)	202.6	24.1	17.4	12.7	10.0
P/BV (x)	6.8	4.6	3.6	2.8	2.2
EV/EBITDA (x)	41.2	14.2	10.7	7.5	5.7

Source: Company, YSL estimates; Note: Valuations as on 14 August 2015

## IQFY16 earnings summary

- ✓ **Earnings were 10.9% ahead of our expectation:** Ahluwalia Contracts' IQFY16 net profit grew 11.3% YoY to INR 188 mn and was 10.9% ahead of our estimate. Revenues grew 11.0% YoY to INR 2.7 bn, whereas EBITDA was flat YoY at INR 329 mn. EBITDA margin stood at 12.4%, down 130 bps YoY, but 40 bps above our expectation. Decline in EBITDA margin on YoY basis is on account of higher margins booked last year in a particular project. Higher other income and lower interest rate led to 11.3% growth in net profit. Net margin stood at 7.1%.

**Table 1: Ahluwalia Contracts: IQFY16 earnings summary**

In Rs mn	IQFY15	4QFY15	IQFY16	YoY Chg	QoQ Chg	FY15	FY16E	YoY Chg
Order book	33,140	33,705	37,530	13.2%	11.3%	33,705	40,920	21.4%
New order inflow	12,429	4,300	6,760	-45.6%	57.2%	20,080	20,000	-0.4%
<b>Revenue</b>	<b>2,389</b>	<b>3,141</b>	<b>2,650</b>	<b>11.0%</b>	<b>-15.6%</b>	<b>10,599</b>	<b>12,786</b>	<b>20.6%</b>
<b>EBITDA</b>	<b>328</b>	<b>283</b>	<b>329</b>	<b>0.2%</b>	<b>16.1%</b>	<b>1,149</b>	<b>1,470</b>	<b>28.0%</b>
EBITDA margin (%)	13.7	9.0	12.4	-130 bps	340 bps	10.8	11.5	70 bps
Depreciation	57	51	49	-13.6%	-2.9%	212	199	-6.1%
Interest	102	98	91	-10.9%	-7.9%	386	284	-26.5%
OI	9	41	43	355.3%	5.0%	117	141	20.3%
Tax	10	1	44	339.5%	3933.2%	26	240	814.8%
Tax rate (%)	5.6	0.6	19.0	1340 bps	1840 bps	3.9	21.3	1740 bps
<b>Adj. PAT</b>	<b>169</b>	<b>174</b>	<b>188</b>	<b>11.3%</b>	<b>7.9%</b>	<b>642</b>	<b>888</b>	<b>38.4%</b>
PAT margin	7.1	5.5	7.1	0 bps	150 bps	6.1	6.9	90 bps

Source: Company, YSL

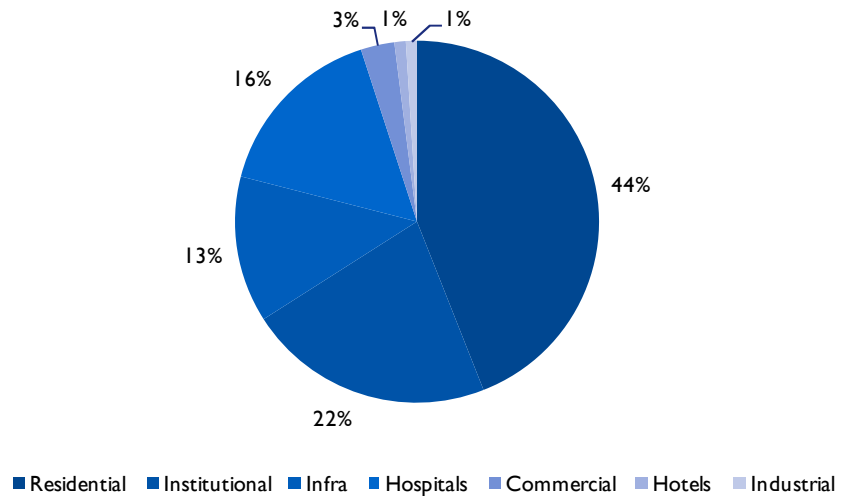
**Table 2: Results vs. expectations**

In Rs mn	IQ FY16	IQ FY16E	Vs YSLe (%)	Cons	Vs cons (%)
Revenue	2,650	2,621	1.1	2,564	3.4
EBITDA	329	315	4.5	266	23.6
EBITDA Margin (%)	12.4	12.0	40 bps	10.4	203 bps
APAT	188	170	10.9	152	23.7

Source: Company, YSL, Bloomberg

- ✓ **Strong order inflow:** Till date, the company has secured orders worth INR 11.0 bn. Additionally, the company is LI for projects worth INR 4.5 bn. Given the strong order inflow witnessed till date, we believe that it is well placed to surpass its order inflow target of INR 16.0 bn for FY16. At the end of IQFY16, the order book stood at INR 37.5 bn with OB/rev ratio of 3.5x, implying strong revenue visibility over the next 2 to 3 years.

**Figure 1: IQFY16 order book breakdown (INR 37.5 bn)**



Source: Company, YSL

**Key takeaways from con-call**

- ✓ **Order inflow of INR 11.0 bn, LI position of 4.5 bn:** Company has secured INR 11.0 bn of orders till date and is LI in projects worth INR 4.5 bn. The company will bid selectively for the projects. The bid pipeline stands at INR 20.0 bn. The focus is on institutional, education and healthcare segments. The company will participate in metro projects that are expected to commence in many cities over next 2-3 years as the company has prior experience of working for Delhi Metro.
- ✓ **Government orders comprise 65% of the order book:** The company continues to focus on the orders from public sector. Currently, the public sector comprises 65.0% of the order book vs. 50.0% at the end of FY15. The management expects the share of public sector to rise to 70.0% of the order book by end of FY16.
- ✓ **Maintains FY17 revenue guidance of INR16.5-17.0 bn:** The management continues to be conservative in its revenue guidance as it intends to reach its past peak revenues by FY17. On the margin front, it expects 80-100bps improvement as the new orders have been secured at low competition. However, given that the most of the orders now have an escalation clause, the company won't benefit as a result of falling commodity prices as the same needs to be transmitted to the client.
- ✓ **Other key takeaways:**
  - Gross debt stood at INR 1.25 bn (vs INR 1.55 bn at FY15 end)
  - No major capex requirement over FY16/17 as the company is currently targeting the previous peak revenues and can achieve the same through current gross block
  - Slow moving orders are worth INR 2.5 bn.
  - Total receivables outstanding for more than 6 months stood at INR 2.4 bn
  - Aims to be negative working capital company over next 3 years.

**Maintain BUY rating with revised TP of INR 341 (from INR 297)**

- ✓ **Valuation:** We continue to value the EPC business by applying a one year fwd PE multiple of 16.0x. For the Kota BOT project, we apply a P/Inv ratio of 1.0x. However, we roll forward our TP to Sep-16. As a result, our TP increases to INR341 from INR297 earlier. At CMP, the stock is trading at FY17E/18E PE multiple of 12.7x/10.0x.

**Table3: Ahluwalia Contracts: Target price setting methodology**

Valuation	Basis	Multiple	Value (INR mn)	Value/sh (INR)
EPC business	PE	16.0	22,102	330
Kota BOT	P/Inv	1.0	750	11
<b>Total</b>			<b>22,852</b>	<b>341</b>

Source: Company, YSL

- ✓ **Key risks:** The key risks to our investment thesis are as follows:
  - **Delay in pick-up in infrastructure investment:** Our positive stance on the company is led by the assumption that the infrastructure spending will rise sharply in the country over next 2-3 years, thus benefitting the companies with strong balance sheets. However, delay in pick up in the capex cycle may impact the company due to under utilization of the resources and may possess downside risks to our target price.
  - **Worsening of working capital on account of delayed payment from clients:** The company has demonstrated one of the best working capital management in the infrastructure sector. However, delay in realization of the receivables may impact its business adversely.

### Company background

Ahluwalia Contracts is a reputed name in the building construction industry and has executed some of the marquee projects for private sector as well as for government entities. The company was founded by Mr. Bikramjit Ahluwalia in 1979. The company is primarily in the business of construction of a wide range of structural buildings such as healthcare facilities, hotels, educational institutions, information technology parks, commercial complexes and malls, group housing projects and corporate office premises. We have plans to further enhance our real estate reach by owning and developing lands and building upon our marketing capabilities.

At FY15 end, the company reported the turnover of INR 10.6 bn and a net profit of INR 641 mn. The order book stood at INR 33.7 bn at FY15 end, equally split between government and private clients. Geographically, the company is primarily in the Northern India (61% of the order book). However, the company has also diversified its operations to Eastern (20%) and West (17%) regions.

## INCOME STATEMENT

(INR Millions)

Year ending March	FY14	FY15	FY16E	FY17E	FY18E
Total operating revenues	9,603	10,599	12,786	16,731	20,175
Growth (%)	-30.8	10.4	20.6	30.9	20.6
EBITDA	417	1,149	1,470	2,008	2,421
EBITDA margin (%)	4.3	10.8	11.5	12.0	12.0
Growth (%)	-275.6	175.4	28.0	36.5	20.6
Depreciation & amortization	122	212	199	210	221
EBIT	296	937	1,272	1,798	2,200
EBIT margin (%)	3.1	8.8	9.9	10.7	10.9
Interest	363	386	284	244	213
Other income	144	117	141	184	222
Profit before tax	77	668	1,128	1,738	2,209
Tax	1	26	240	521	663
Reported net profit	217	642	888	1,216	1,546
Extraordinary items	-141	0	0	0	0
Adjusted net profit	76	642	888	1,216	1,546
Adjusted net margin (%)	0.8	6.1	6.9	7.3	7.7
Diluted EPS (INR)	1.2	9.6	13.3	18.2	23.1
Growth (%)	-109.9	687.1	38.4	37.0	27.1

## BALANCE SHEET

(INR Millions)

Year ending March	FY14	FY15	FY16E	FY17E	FY18E
<b>SOURCE OF FUNDS</b>					
Share capital	126	134	134	134	134
Reserve & Surplus	2,136	3,243	4,131	5,347	6,894
<b>Total shareholder's funds</b>	<b>2,262</b>	<b>3,377</b>	<b>4,265</b>	<b>5,481</b>	<b>7,028</b>
Minority Interest	0	0	0	0	0
Debt	2,265	1,551	1,151	351	151
Deferred tax liabilities/(assets)	-162	-154	-154	-154	-154
<b>TOTAL</b>	<b>4,364</b>	<b>4,774</b>	<b>5,262</b>	<b>5,678</b>	<b>7,025</b>
<b>APPLICATION OF FUNDS</b>					
Fixed assets	3,339	3,515	3,715	3,915	4,115
Less: Depn. and amort.	2,032	2,244	2,442	2,652	2,873
Net block	1,307	1,271	1,272	1,262	1,242
Capital WIP	677	677	677	677	677
Goodwill	0	0	0	0	0
Intangible assets	0	0	0	0	0
Long term investments	15	63	63	63	63
Other long term assets	0	0	0	0	0
Inventories	1,720	1,665	1,927	2,521	3,040
Debtors	4,707	4,820	5,780	7,334	8,568
Cash & cash equivalents	545	765	860	778	1,825
Loans & advances	1,235	800	981	1,283	1,548
Other current assets	136	209	253	330	398
Total current liabilities	5,979	5,496	6,550	8,572	10,336
Net current assets	2,365	2,763	3,249	3,676	5,043
<b>TOTAL</b>	<b>4,364</b>	<b>4,774</b>	<b>5,262</b>	<b>5,678</b>	<b>7,025</b>

## CASH FLOW STATEMENT

(INR Millions)

Year ending March	FY14	FY15	FY16E	FY17E	FY18E
Reported net profit	217	642	888	1,216	1,546
Depreciation & amortization	122	212	199	210	221
Inc/dec in working cap	69	-178	-391	-508	-320
Others	-124	386	284	244	213
<b>Operating cash flow</b>	<b>284</b>	<b>1,061</b>	<b>979</b>	<b>1,162</b>	<b>1,660</b>
Capex	-339	-175	-200	-200	-200
<b>Free cash flow (FCF)</b>	<b>-54</b>	<b>886</b>	<b>779</b>	<b>962</b>	<b>1,460</b>
Investments & Others	0	0	0	0	0
Others	198	0	0	0	0
<b>Cash flow from investing</b>	<b>-141</b>	<b>-175</b>	<b>-200</b>	<b>-200</b>	<b>-200</b>
Equity issue	0	499	0	0	0
Debt issue (net)	-142	-714	-400	-800	-200
Dividend & tax thereon	0	0	0	0	0
Other financing cash flows	-312	-451	-284	-244	-213
<b>Cash flow from financing</b>	<b>-453</b>	<b>-666</b>	<b>-684</b>	<b>-1,044</b>	<b>-413</b>
<b>NET CASH FLOWS</b>	<b>-310</b>	<b>220</b>	<b>95</b>	<b>-82</b>	<b>1,047</b>
Opening cash	855	545	765	860	778
Closing cash	545	765	860	778	1,825

## KEY RATIOS

Year ending March	FY14	FY15	FY16E	FY17E	FY18E
<b>PROFITABILITY RATIOS</b>					
EBITDA Margin (%)	4.3	10.8	11.5	12.0	12.0
Adjusted net margin (%)	0.8	6.1	6.9	7.3	7.7
Return on invested capital (%)	5.0	15.3	19.0	24.1	27.9
Return on equity (%)	3.4	19.0	20.8	22.2	22.0
<b>EFFICIENCY RATIOS</b>					
Asset Turnover	2.1	2.2	2.4	2.9	2.8
Debt to equity	1.0	0.5	0.3	0.1	0.0
Net debt to equity	0.8	0.2	0.1	-0.1	-0.2
Interest coverage	0.8	2.4	4.5	7.4	10.3
Debtor days	179	166	165	160	155
Inventory days	65	57	55	55	55
Payable days	226	188	185	185	185
<b>PER SHARE DATA</b>					
Diluted EPS (INR)	1.2	9.6	13.3	18.2	23.1
Book value per share (INR)	36.0	50.4	63.7	81.8	104.9
DPS (INR)	0.0	0.0	0.0	0.0	0.0
<b>VALUATION RATIOS</b>					
P/E (Adjusted)	202.6	24.1	17.4	12.7	10.0
P/BV	6.8	4.6	3.6	2.8	2.2
EV/EBITDA	41.2	14.2	10.7	7.5	5.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

**Recommendation History**



Date	Rating	Target Price	Closing Price
14-Jul-15	BUY	297	239
17-Aug-15	BUY	341	231

**RATING RATIONALE**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts’ valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

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**NEUTRAL:** expected point to point returns in the range of -10% and +15%

**REDUCE:** expected point to point decline of 10% or more

**NO VIEW:** Not in regular research coverage

**SUSPENDED:** The rating as well as the target price has been suspended temporarily. This could be due to events that made coverage impracticable or to comply with applicable regulations and/or company policies.

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Name of the Research Analyst : Nilesh Bhaiya

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