

# Ahluwalia Contracts (India) Ltd.

Sensex: 25868

CMP: INR 266

Target : INR 312



Infrastructure

ACIL's quarterly numbers were largely in-line with our estimates driven by improved execution in some of its key projects. While revenues improved by 17.3% in Q2FY16, operating margins improved by 56 bps to 12.5%, owing to better margins orders booked over the past 18 months. Order inflows have revived as ACIL booked orders of INR 12.2 bn (FY15 INR 13.8 bn) in H1FY16. This coupled with book to bill of 3.6x (Order Backlog - INR 40.0 bn) provides strong growth visibility. We continue to retain our "BUY" rating on the stock with a target of INR 312.

## Superior execution driving revenues

ACIL reported 17.3% growth in revenues to INR 2802 mn aided by better execution in some of its key projects. Prominent orders contributing to revenues are largely from government & public sector desk, which includes International Convention Center in Patna, IIM Rohtak, Police Head Quarters at Patna, Safdarjung Hospital and PNB Head Office Building at Delhi. Low margin legacy orders worth INR 2 bn are expected to be executed by H1FY17.

## 56 bps improvement in margins

ACIL's margin improved by ~56 bps to 12.5% on the back of 147 bps decline in raw materials consumed which as a percentage of sales declined to 44.4%. We expect ACIL's blended margins to remain at elevated levels owing to a) reduced share of fixed price/low margin orders (mere INR 2 bn), b) several better margin (~13% margins) contracts booked over past 18 months, and c) significantly reduced competition in new project bids.

## 3.6x book to bill provides healthy revenue visibility

ACIL has an order book of INR 41.2 bn (58% from government) as on date with an average execution period of 24-30 months, translating into order book to bill ratio of 3.6x. Order inflows have revived as ACIL has booked orders of INR 13.5 bn in YTD FY16 vis-à-vis INR 13.8 bn of orders booked in FY15, driven by pick up in govt. tendering particularly from healthcare and educational domain (residential order mere INR 1 bn). The company is L1 in

orders worth INR 2 bn and bid pipeline too stands strong at INR 10 bn (Hospital projects INR 6 bn, Educational sector INR 2.5 bn). We expect ACIL to bag inflows of INR 17.5 bn & INR 21.5 bn in FY16 & FY17 respectively.

## Balance sheet strengthening

ACIL's balance sheet continued to strengthen as debt declined from INR 1.73 bn in FY15 to INR 1.38 bn in H1FY16. Resultantly interest expenses have declined by 14.9% YoY to INR 166 mn during the same period. Minimal capex in addition to likely settlement of pending litigations and better order execution will result in further reduction of debt to INR 1.23 bn by FY17E, which will result in net debt free balance sheet (similar to pre FY11 time period).

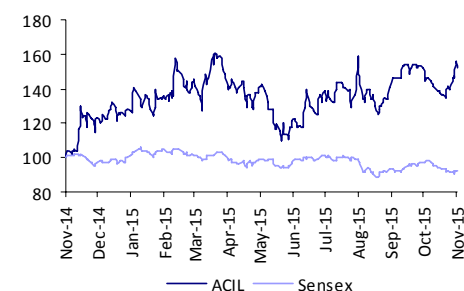
## Outlook & Valuations

ACIL is well placed to benefit from increasing opportunities in construction space owing to its superior execution capabilities. Robust order backlog of INR 41.2 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.

**We continue to retain our "BUY" rating on the stock with a target of INR 312.**

Shareholding (%)	Sep-15
Promoters	66.87
FII's	15.67
DII's	8.19
Others	9.27

## Relative Price Performance



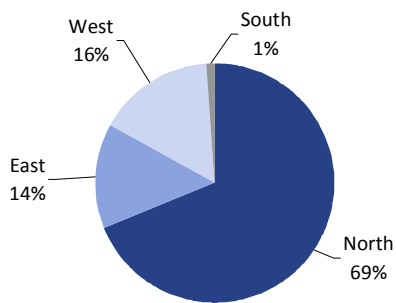
Key Data	
BSE Code	532811
NSE Code	AHLUCONT
Bloomberg Code	AHLU IN
Reuters Code	AHLU.BO
Shares O/S (mn)	67.00
Face Value	2
Mcap (INR bn)	17.82
52 Week H/L	300.00/163.70
2W Avg. Qty, NSE	110101
Free Float (INR bn)	5.90
Beta	1.57

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%	10.83%	11.50%	12.50%
APAT	76	641	905	1365
Growth	LP	744.80%	41.11%	50.82%
EPS	0.60	9.57	13.50	20.37
P/E	33.86	26.02	19.69	13.06
P/BV	1.14	4.94	4.16	3.16
EV/EBIDTA	6.28	13.95	10.92	7.72
Net Debt-Equity Ratio	0.81	0.29	0.11	(0.02)
RoACE	12.59%	21.59%	26.93%	32.73%
RoAE	3.53%	22.74%	23.63%	27.49%

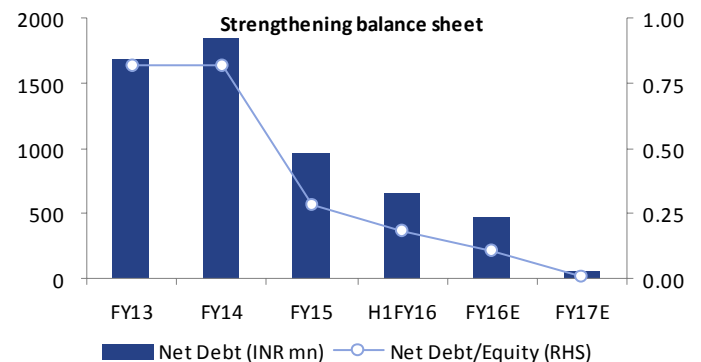
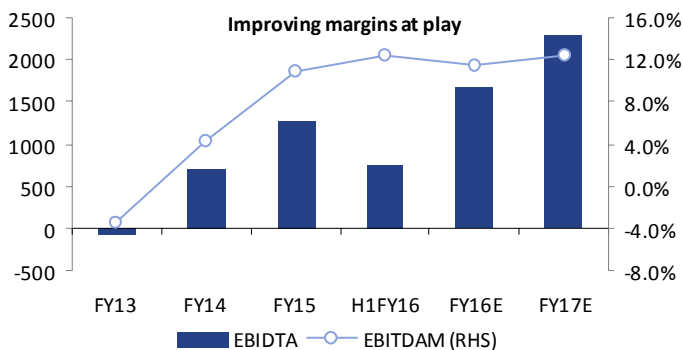
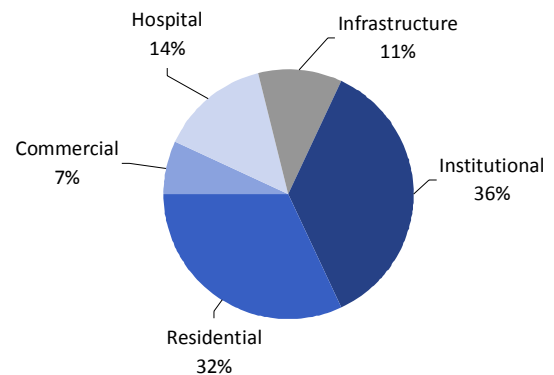
Quarterly Financials

Particulars (INR mn)	Q2FY16	Q1FY16	Q4FY15	Q3FY15	Q2FY15	YoY Chg	QoQ Chg	H1FY16	H1FY15	YoY Chg
<b>Net Sales</b>	<b>2802</b>	<b>2640</b>	<b>3137</b>	<b>2666</b>	<b>2389</b>	<b>17.28%</b>	<b>6.15%</b>	<b>5442</b>	<b>4776</b>	<b>13.94%</b>
Other Operating Income	7	11	4	6	8	-18.29%	-36.19%	17	10	70.30%
Other Income	32	43	41	41	25	27.78%	-25.46%	76	35	117.58%
<b>Total Income</b>	<b>2841</b>	<b>2694</b>	<b>3183</b>	<b>2713</b>	<b>2423</b>	<b>17.27%</b>	<b>5.48%</b>	<b>5535</b>	<b>4821</b>	<b>14.81%</b>
Total Expenditure	2459	2322	2858	2420	2112	16.41%	5.90%	4781	4173	14.56%
Raw Materials Consumed	1249	1201	1716	1361	1101	13.40%	3.95%	2450	2335	4.91%
Employee Cost	392	374	385	367	401	-2.47%	4.57%	766	750	2.20%
Other Manufacturing Expenses	774	704	713	654	563	37.41%	9.95%	1477	1000	47.72%
Other Expenses	45	43	44	38	47	-3.24%	5.90%	88	88	-0.82%
<b>EBIDTM</b>	<b>382</b>	<b>372</b>	<b>324</b>	<b>293</b>	<b>311</b>	<b>23.08%</b>	<b>2.81%</b>	<b>754</b>	<b>648</b>	<b>16.37%</b>
EBIDTM	12.47%	12.40%	9.01%	9.44%	11.91%	56 bps	6 bps	12.44%	12.82%	(38 bps)
Interest	75	91	98	93	93	-19.27%	-17.22%	166	195	-14.90%
<b>EBDTM</b>	<b>307</b>	<b>281</b>	<b>226</b>	<b>200</b>	<b>218</b>	<b>41.14%</b>	<b>9.26%</b>	<b>589</b>	<b>454</b>	<b>29.79%</b>
Depreciation	50	49	51	52	53	-5.87%	1.22%	99	110	-9.85%
<b>PBT</b>	<b>258</b>	<b>232</b>	<b>175</b>	<b>148</b>	<b>165</b>	<b>56.19%</b>	<b>10.96%</b>	<b>490</b>	<b>344</b>	<b>42.41%</b>
Tax	67	44	1	13	3	2480.77%	51.47%	111	13	777.17%
<b>APAT</b>	<b>191</b>	<b>188</b>	<b>174</b>	<b>136</b>	<b>162</b>	<b>17.37%</b>	<b>1.42%</b>	<b>379</b>	<b>331</b>	<b>14.25%</b>
APATM	6.79%	7.09%	5.55%	5.09%	6.77%	1 bps	(31 bps)	6.93%	6.92%	1 bps
<b>EPS</b>	<b>2.85</b>	<b>2.81</b>	<b>2.60</b>	<b>2.03</b>	<b>2.59</b>	<b>9.93%</b>	<b>1.42%</b>	<b>5.65</b>	<b>5.28</b>	<b>7.01%</b>
Equity	134.00	134.00	134.00	134.00	125.50	6.77%	-	134.00	125.50	6.77%

Regional Break-up



Order Book Break-up



## Financials

### Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	9603	10599	13408	17229
<i>Growth</i>	-30.82%	10.37%	26.50%	28.50%
Raw Materials Consumed	4545	5412	6744	8666
Sub-contract charges	1874	1909	2387	3032
Total Expenditure	9187	9451	11866	15076
EBIDTA (without OI)	417	1148	1542	2154
<i>Growth</i>	LP	175.65%	34.30%	39.67%
<i>EBITDA Margin</i>	4.34%	10.83%	11.50%	12.50%
Depreciation	122	212	217	235
EBIT	295	936	1325	1919
<i>EBIT Margin</i>	3.07%	8.83%	9.88%	11.14%
Interest Expenses	363	386	365	347
Other Income	285	117	132	142
EBT	217	667	1092	1714
Tax Expenses	0	26	187	350
PAT	217	641	905	1365
Excep./Extra. Items	141	0	0	0
APAT	76	641	905	1365
<i>Growth</i>	LP	744.80%	41.11%	50.82%
<i>APAT Margin</i>	0.79%	6.05%	6.75%	7.92%

### Key Ratios

Y/E March	FY14	FY15	FY16E	FY17E
<b>Per Share Data (INR)</b>				
Adjusted EPS	0.60	9.57	13.50	20.37
CEPS	1.57	13.04	16.97	23.89
BVPS	36.04	50.40	63.91	84.28
<b>Return Ratios</b>				
RoACE	12.59%	21.59%	26.93%	32.73%
RoAE	3.53%	22.74%	23.63%	27.49%
<b>Balance Sheet Ratios</b>				
Net Debt-Equity Ratio	0.81	0.29	0.11	(0.02)
Current Ratio	1.42	1.55	1.54	1.60
Interest Cover Ratio	1.60	2.73	3.99	5.95
<b>Efficiency Ratios</b>				
Total Asset Turnover	2.08	2.17	2.48	2.74
Inventory Days	93	80	78	78
Debtors Days	179	166	160	156
Creditors Days	157	130	128	128
<b>Valuations</b>				
P/E	33.86	26.02	19.69	13.06
P/BV	1.14	4.94	4.16	3.16
Market Cap / Sales	0.27	1.57	1.33	1.03
EV/EBIDTA	6.28	13.95	10.92	7.72

### Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>				
Share Capital	126	134	134	134
Reserves	2136	3243	4148	5512
Total Networth	2262	3377	4282	5646
Secured Loans	2245	1479	1189	999
Unsecured Loans	141	252	242	232
Total Debt	2386	1731	1431	1231
<b>Total Liabilities</b>	<b>4648</b>	<b>5109</b>	<b>5713</b>	<b>6878</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	1307	1164	1731	1546
Capital Work in Progress	677	784	201	258
Investments	15	63	63	63
Total Current Assets	8344	8259	10172	12920
Total Current Liabilities	5858	5316	6624	8081
Net Current Assets	2486	2943	3548	4839
Net Deferred Tax	162	154	169	170
<b>Total Assets</b>	<b>4648</b>	<b>5109</b>	<b>5713</b>	<b>6878</b>

### Cash Flow

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	217	667	1092	1714
Add: Depreciation	122	212	217	235
Add: Interest paid	363	386	365	347
Change in Working Capital	(194)	(238)	(405)	(925)
Direct taxes paid	0	(137)	(371)	(549)
Less: Other Income/Exceptionals	(285)	(117)	(132)	(142)
<b>Cash flow from operations (a)</b>	<b>223</b>	<b>773</b>	<b>765</b>	<b>680</b>
Change in Investments	0	(49)	0	0
Change in Fixed Assets	(33)	(6)	(784)	(50)
Change in CWIP	(270)	(107)	583	(57)
Others	86	86	92	95
<b>Cash flow from investing (b)</b>	<b>(217)</b>	<b>(75)</b>	<b>(109)</b>	<b>(12)</b>
Change in Equity	0	499	0	0
Debt Raised/(Repaid)	(142)	(655)	(300)	(200)
Dividend paid	0	0	0	0
Interest paid	(363)	(386)	(365)	(347)
Others	189	63	209	245
<b>Cash flow from financing (c)</b>	<b>(316)</b>	<b>(478)</b>	<b>(457)</b>	<b>(302)</b>
<b>Net Change in Cash (a+b+c)</b>	<b>(310)</b>	<b>220</b>	<b>199</b>	<b>366</b>
Opening Cash	855	545	765	964
Closing Cash	545	765	964	1330

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Mutual Fund	ARN 77388
CDSL DP	IN-DP-CDSL-485-2008
NSDL DP	IN-DP-NSDL-316-2009