India Midcaps

INITIATING COVERAGE

AHLUWALIA CONTRACTS

Strategic shift adds gravitas

India Equity Research| Infrastructure - Construction

Fortunes of Ahluwalia Contracts (ACIL), a specialised buildings contractor, have turned for the better post sharpened focus on escalation clause-based public sector contracts and fund infusion by promoters. After a tough FY12-14, wherein profitability had taken severe beating from realty slowdown and slow-moving private sector jobs, the company prudently shifted to government sector jobs, de-risking its business model. Moreover, deleveraging exercise has enhanced balance sheet comfort. While limited competition is enhancing revenue visibility (current order book is 3.6x TTM revenue), operating leverage and ebbing debt levels (0.1x debt:equity in FY17E) are bound to propel 29% EPS CAGR over FY15-17E and robust return ratios going ahead. Initiate coverage with 'BUY' and target price of INR356.

Prudent shift to public sector contracts imparting business stability

ACIL's specialised in-house capabilities enable it to provide end-to-end solutions in the building space. High share of private sector orders (90% at FY13 end) had adversely impacted the company's profitability over FY12-14 wherein slow-moving fixed price orders had exacted a heavy toll. However, prudent strategy of shifting focus to winning escalation clause-based public sector jobs (77% of order book now) engineered a sharp turnaround. Fund infusion by promoters has further fortified the balance sheet.

All ingredients in place to script success story

Current ~INR40bn order book (~3.6x TTM revenue; up 64% since FY14), spurred by ebbing competition leading to buoyant order inflows, provides robust revenue visibility. Sharp rebound in EBITDA margin (650bps expansion in FY15), healthy balance sheet (0.2x net D/E at Q2FY16 end), lean working capital cycle (74 days) and positive free cash flows ensure that the company is all set to script a success story going ahead.

Outlook and valuations: Ripe for re-rating; initiate with 'BUY'

We have valued ACIL at INR356/share, assigning P/E of 22x to FY17E earnings. Traction in order intake along with improving margin trajectory and falling leverage will result in steady 23% revenue CAGR and 29% EPS CAGR over FY15-17E. In addition, better cash flows will ensure healthy return ratios (RoE of 23%) going ahead. Steady earnings growth coupled with rising scale of operations should lead to re-rating. We initiate coverage with **'BUY'** recommendation.

Financials

Year to March	FY14	FY15	FY16E	FY17E
Revenue (INR mn)	9,603	10,599	13,037	16,166
EBITDA (INR mn)	417	1,149	1,540	2,003
Adjusted profit (INR mn)	76	647	856	1,084
Shares outstanding (mn)	62.8	67.0	67.0	67.0
Basic EPS (INR)	1.2	9.7	12.8	16.2
P/E (x)	225.0	28.4	21.4	16.9
ROAE (%)	3.5	22.9	22.5	22.7

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: AHLU.BO, B: AHLU IN)*

CMP	: INR 274
Target Price	: INR 356
52-week range (INR)	: 300 / 153
Share in issue (mn)	: 67.0
M cap (INR bn/USD mn)	: 18 / 278
Avg. Daily Vol.BSE/NSE('000)	: 185.3

SHARE HOLDING PATTERN (%)

	Current	Q1FY16	Q4FY15
Promoters *	66.9	66.9	66.9
MF's, FI's & BK's	8.2	5.9	5.1
FII's	12.5	15.1	15.1
Others	12.4	12.1	12.9

** Promoters pledged shares (% of share in issue) : 21.6*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(6.9)	5.8	12.7
3 months	(8.8)	3.3	12.0
12 months	(9.1)	56.3	65.4

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Investment Rationale

Strategic shift underway, focus on de-risking business model

ACIL is a Delhi-based integrated construction company with 4 plus decades of experience in offering turnkey solutions in the building space. With a diversified service portfolio, it is one the most reputed building contractors in India.

Singed by exposure to slow-moving/fixed price contracts from private sector clients during FY12-14, ACIL prudently sharpened focus on escalation clause-based orders from the public sector (now 77% of order book). Government projects ensure margin stability, payment security and greater confidence in execution timelines, de-risking the company's business model. Moreover, fund infusion by promoters has pared leverage substantially (0.2x Net D/E in Q2FY16), setting the stage for profitable growth.

ACIL offers single-window design and engineering turnkey solutions in the buildings space. Commencing operations as an EPC player in 1969, the company boasts of a rich 45 years' track record of completing projects for both public and private sector clients. It went public in 1996 and currently has ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 certifications under its belt.

The company's offerings span a wide spectrum—high rise residential projects, commercial complexes, luxury hotels, institutional buildings, health facilities, sports infrastructure, educational institutes, corporate office complexes as well as infrastructure projects like metro rail stations and power plants etc.

The economic slowdown during FY12-14 along with high share of private sector orders in order book (90% at FY13 end) had adversely impacted ACIL's operations. The company's revenues plummeted more than 40% during the FY11-14 period and it slid into the red in FY12 and FY13.

Slowdown in the private space has led the company to focus on public sector contracts, transforming its fortunes

However, a quantum shift is currently underway. A prudent tilt towards public sector projects, improvement in financial health due to fund infusion by promoters and surging order book spurred by increasing government spending & waning competition in the buildings space have spelled good tidings for the company. With order book jumping 64% since FY14 end, margins on an uptrend and a revamped balance sheet, we expect ACIL to perform strongly going ahead.

In-house capabilities + revamped strategy = business metamorphosis

The FY12-14 slowdown (realty sector in particular) exacted a heavy toll on ACIL. Not only did fresh order inflow dry up, but execution on existing projects too slowed down. The resulting cost/time overruns led to margins plummeting on account of fixed price contracts/operating deleverage. In addition, delayed payments from customers led to deterioration in working capital cycle, leading to the company slipping into the red.

To overcome these issues and secure future growth, management has undertaken a quantum transformation in the company's strategy. The revamped business model is focused on winning composite projects with a marked preference for public sector jobs. In addition, adequate attention has been paid to ensure that commodity price risks/payment

ACIL's integrated capabilities enable it to offer a wide bouquet of service offerings

risks are minimised, legacy/stuck projects are executed as soon as possible and that balance sheet is geared towards meeting future growth requirements. We take a look at these changes in greater detail in the sections below.

Integrated capabilities widen playing field

ACIL provides end-to-end solutions to clients in the building space. Apart from the core civil construction capabilities, its specialised in-house divisions provide other allied services related to building works. Its service portfolio includes:

- **Civil construction**: All kind of construction work from piling to pre-cast-pre stressing.
- **Design and engineering:** In-house design cell comprising design experts from architectural discipline.
- **Electro-mechanical works:** Supply, installation, testing and commissioning services for electrical works.
- **Plumbing and fire fighting:** Procurement, execution, testing and commissioning services for water supply, sanitary and fire fighting works.
- **Aluminium facades and building glasses:** Design, supply and installation of aluminum doors, windows, structural gazing, glass facade and aluminum cladding.
- HVAC works (heating, ventilating and air conditioning).

Capability to provide all services under one roof minimises dependence on external parties ensuring greater operational control and hence timely/quality project completion. In addition, margins on such composite jobs are higher than plain vanilla contracting jobs, yielding superior profitability.

With awarding composite works trend gaining currency amongst most clients, ACIL's integrated capabilities are likely to ensure that it is well placed to capture the growing opportunities in the buildings space.

However, the company is not content to rest on its laurels. To adequately equip itself for the anticipated upsurge in affordable housing projects (courtesy Housing for All scheme), ACIL has entered into technical collaboration with a Russian company Kub-Stroy to build expertise in mass housing projects. This will nurture the company's capabilities in high speed construction of structures using patented precast system.

We believe ACIL's diversified capabilities will ensure that it is well placed to benefit from the upcoming large opportunities in the building space.

Safety first attitude underpins pivot towards public sector jobs

With private sector projects getting bogged down and impacting execution, profitability and working capital cycle, ACIL thought it prudent to focus incrementally on public sector jobs. These projects are generally insulated from clearance issues (land acquisition/environment) as well as payment troubles normally witnessed in private sector works. This ensures steady execution without running the risk of piling-up of bad debts.

As a result, ~80% of the orders taken by the company in FY16 so far are in the public sector. Even while accepting private sector orders, adequate attention is paid to ensure that financial closure has been achieved and the developer is a reputed entity with robust financial health. For existing contracts from private sector clients, the company's game plan is to ensure continuous reduction of its exposure via enhanced execution speed.

Table 1: Orders won in FY16 **(INR mn)**

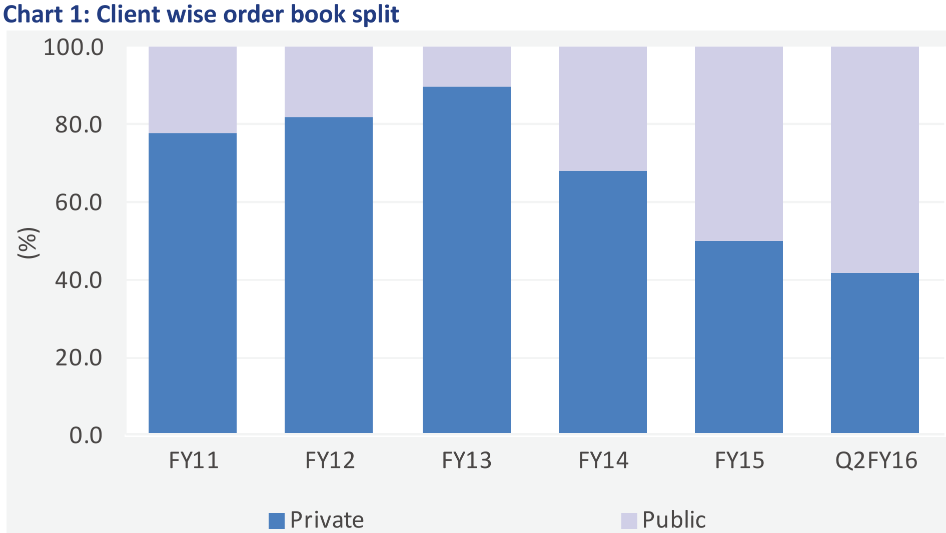
Client	Segment	Projects	Value
Private	Commercial	Civil package work for Brookfield Asset Management	1,540
Private	Education	Times of India	665
Government	Institutional	Construction of IIITD campus	2,195
Private	Residential	Construction of Hiland Green residential building for Riverbank Developers	498
Government	Residential	Construction of Diplomatic staff housing for Royal Danish Embassy	483
Government	Hospital	Construction work for OPD block, AIIMS, Delhi	2,938
Government	Hospital	Construction of Mother and child block, AIIMS, Delhi	2,044
Private	Commercial	Construction of commercial building for Kumar Builders	150
Government	Commercial	Construction of office building, Income Tax Department, Mumbai	1,632

Source: Company, Edelweiss research

Increasing share of public sector contracts has helped ACIL to manage growth risks

With the company focussing on public sector orders, order book composition has undergone a sea change over the past couple of years. While 90% order book had emanated from the private sector at FY13 end, the share of public sector orders has jumped to 58% at Q2FY16 end.

Chart 1: Client wise order book split



Source: Company, Edelweiss research

ACIL is now planning to concentrate on government contracts till the fortunes of private real estate developers revive. It aims to enhance the share of public sector contracts in the order book to 65-70%. This will ensure that it does not face execution/payment risks in future projects.

Higher share of escalation clause based contracts will protect ACIL's margins going ahead

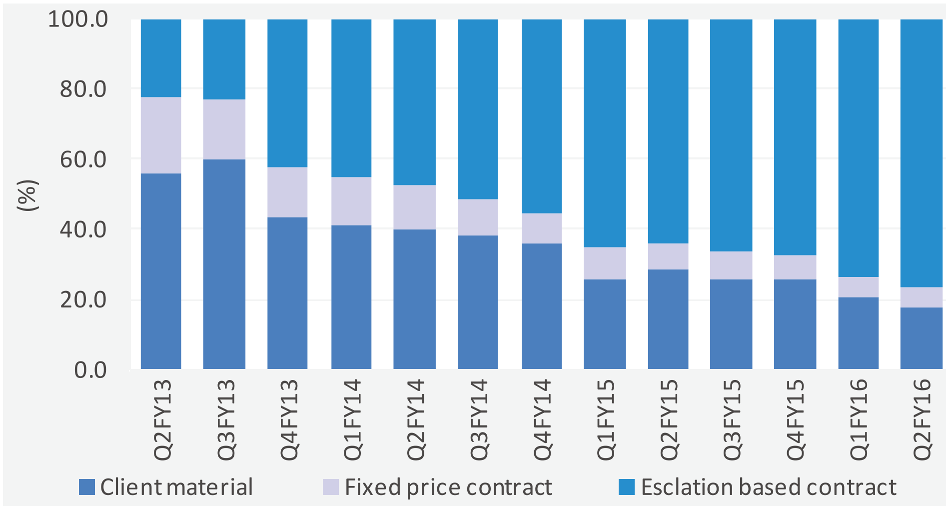
Ensuring margin protection via change in contract mix

A large proportion of fixed price orders (without commodity price escalation clause) in the order book was one of the reasons behind ACIL's margin slide during the downturn. Prices of a few raw materials (especially sand) had appreciated considerably during this period (due to ban on sand mining in various regions etc.) leading to the company taking a margin hit. Labour cost too had catapulted due to supply crunch (on account of NREGA). In addition, as execution pace slowed down, the company's margins were singed further due to lower fixed cost absorption. As a result, ACIL's EBITDA margin hit a nadir—from 11.1% in FY10 to -1.7% in FY13.

To hedge itself against rising raw material and labour costs, management streamlined escalation clauses policy in its contracts. This was done through:

- Renegotiation of existing contracts with clients (wherever possible) to include price escalation clauses.
- Ensuring that future contracts include escalation clauses.

Chart 2: Increasing proportion of escalation based contracts



Source: Company, Edelweiss research

As a result, while the proportion of fixed price contracts in ACIL's order book has steadily dipped, that of contracts with escalation clauses has increased. The company is working diligently to quickly execute fixed price contracts (6% of order book), ensuring that it is insulated from adverse movements in commodity/labour prices in the future. ACIL is also focusing on cost control and resource optimisation to ensure better margin trajectory going ahead.

Priority completion of legacy orders/termination of stuck projects

Company is either negotiating or terminating slow moving orders

Projects in which the company has failed to renegotiate contract terms to include escalation clauses entail lower margins due to increased commodity costs. ACIL's strategy with respect to such legacy projects is to complete them as fast as possible so as to ensure that it does not take further hit due to cost/time overruns.

Similarly, the company has terminated/withdrawn from projects which have been stalled due to developer's financial troubles. This ensures that it does not lose out on margins due to higher overheads on stalled projects.

ACIL had INR2bn of such low margin legacy orders at Q2FY16 end. Going ahead, its strategy is to accelerate execution on such projects (depending on payment realisation).

Deleveraging to prepare for future growth

ACIL's balance sheet has become healthy as a result of fund infusion and asset monetisation

Rising working capital cycle (due to delay in payments from clients/inventory build up on stalled projects) along with losses in FY12 and FY13 had led to the company's leverage levels catapulting. Its gross debt/equity jumped from 0.5x in FY11 to 1.2x in Q2FY14, not only hurting profitability, but also restricting operational performance (limited ability to bid for new projects) due to reduction in fund/ non-fund limits from banks.

Ergo, ACIL took the following measures to deleverage its balance sheet:

- **Fund infusion by promoters:** Promoters infused ~INR0.5bn via preferential issue. This not only brought down leverage, but also acted as a confidence building measure for the lender fraternity.
- **Sale of non-core assets:** ACIL sold ~INR430mn of non-core assets (mainly land bank) to pare debt. Also, promoters pledged their personal assets (over INR1bn) to banks, which enhanced funding limits.

These measures have worked spectacularly. The company's debt has declined from ~INR2.5bn in Q2FY14 to INR1.4bn at Q2FY16 end. Correspondingly, D/E has improved from 1.2x in Q2FY14 to 0.4x at Q2FY16 end. This has significantly enhanced the company's ability to take on new work and has adequately equipped it for the new growth phase.

All ingredients in place for scripting success story

A spurt in government spending in education, health and housing segments has yielded fruits with ACIL's order book catapulting 64% since FY14; current order book at ~INR40bn is ~3.6x TTM revenue, providing robust revenue visibility.

Completion of low-margin legacy projects and waning competition have led to strong rebound in operating margin (650bps expansion in EBITDA margin in FY15), which we anticipate to sustain going ahead.

A healthy balance sheet, lean working capital cycle (74 days) and positive free cash flows (a rarity in EPC space), have resulted in impressive return ratios of ~23%.

With ACIL focusing predominantly on the buildings space, its order book growth has historically been closely aligned with the real estate cycle. Robust order inflows over FY07-11 led to order book jumping ~2.8x over the 4 year to ~INR35bn.

Strong order accretion has buoyed ACIL's revenue visibility

However, during the economic downturn, the company's order book declined steadily. Tardy pace of fresh order inflows, the company's decision to terminate stalled projects and a deliberate conservative bidding strategy resulted in the order book falling from ~INR35bn in FY11 to INR24.5bn in FY14.

However, prolific government ordering as well as turnaround in the company's fortunes has reversed the tide. ACIL's order inflows in FY15 alone stood at ~INR20bn, ~75% of total order intake during FY12-14. The surging order book trend has gathered further pace in FY16—YTD order inflows upwards of INR12bn.

Current order book at ~INR40bn (~3.6x TTM revenues) imparts healthy medium term revenue visibility. With increasing government investment in housing, education and medical services, we believe ACIL's order inflow prospects remain bright.

Chart 3: Healthy revenue visibility

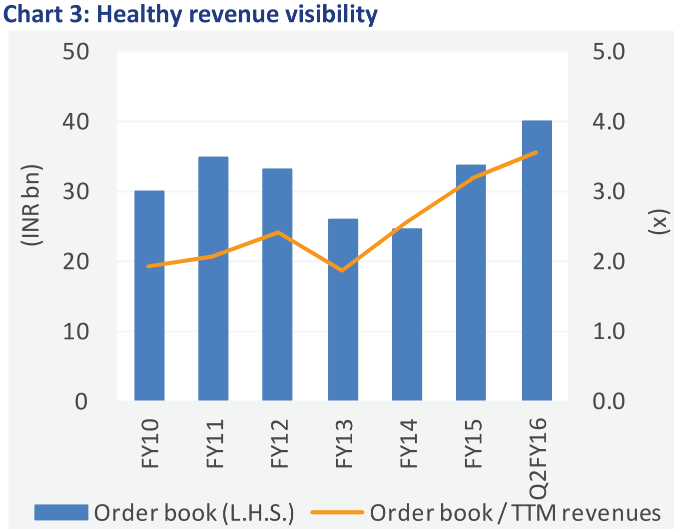
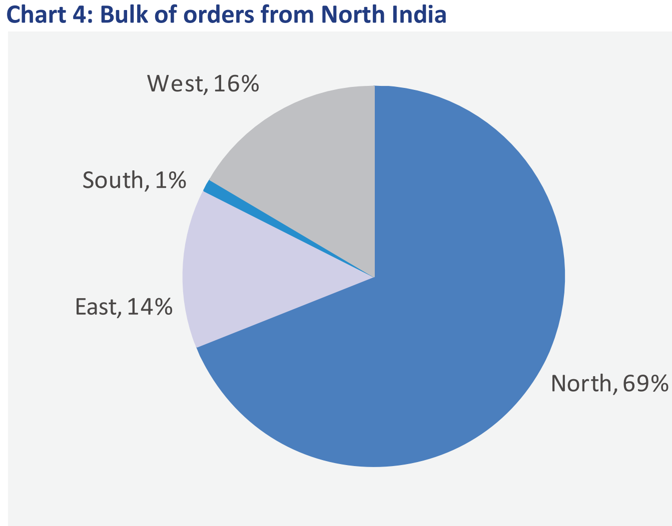


Chart 4: Bulk of orders from North India

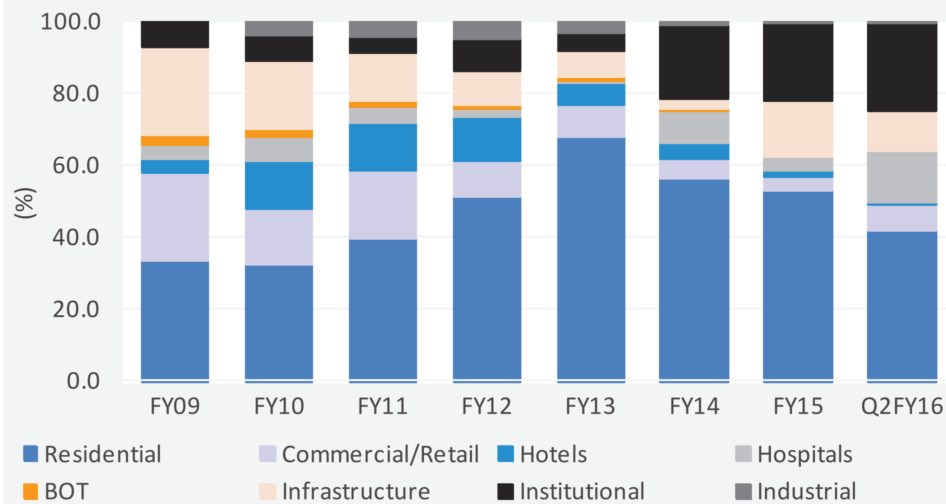


Source: Company, Edelweiss research

Historically, majority of the company's orders have emanated from North India, particularly Delhi-NCR. Going ahead, ACIL is planning to continue to focus on Delhi-NCR, along with other major metros.

As far as segmental presence is concerned, the residential segment has always been the largest order book contributor, though its share has dipped recently. Along with private sector works, the company also handles public sector projects in the residential segment (for e.g., DDA etc.).

Chart 5: Residential segment has the largest share in order book



Source: Company, Edelweiss research

Going ahead, ACIL is planning to further increase presence in high margin institutional projects.

Operating leverage, limited competition fueling margin improvement

Private sector orders are usually awarded on the basis of negotiations, unlike the public sector where the lowest bidder (L1) bags the order. Hence, private sector contracts usually entail better margins than public sector jobs. During FY07-10, ACIL's EBITDA margins averaged 11.5%, higher than the average industry margin of 9.5-10.0%.

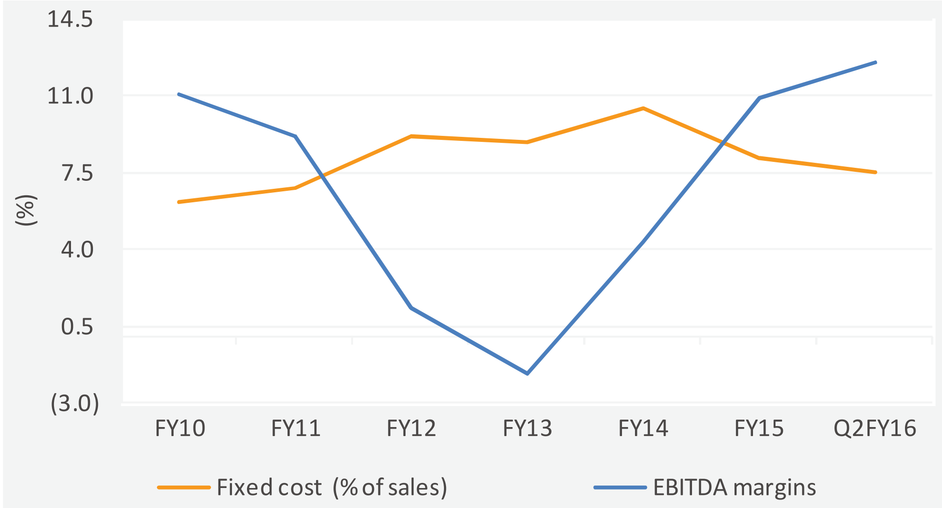
ACIL's margins have staged a sharp recovery, aided by operating leverage and ebbing competition

However, the slowdown spelled a downhill spiral for ACIL's margin. Falling revenues led to operating de-leverage, impacting margins. Fixed price contracts took further toll on profitability. As a result, the company slid into operating loss in FY13.

However, since then, ACIL's margins have recovered sharply. Primary reasons behind operating margin surge are:

- Completion of low margin legacy projects, which has enabled the company to concentrate on higher profit new projects.
- **Operating leverage:** With return of top line growth, better fixed cost absorption has led to margin improvement.
- **Lower competition:** With many of the company's peers (especially other specialised building contractors like B L Kashyap and Consolidated Construction) facing liquidity crunch, competition for projects has reduced dramatically. In addition, some government agencies have introduced stringent conditions for prospective bidders e.g., solvency certificates or higher bank guarantees. This has curtailed competition for new projects, leading to margin improvement.

Chart 6: Improvement in operating margins



Source: Company, Edelweiss research

Management has indicated that there are only a handful bidders for large sized contracts with competition being limited to ACIL, L&T, Shapoorji Pallonji, Simplex Infra and NCC.

- **Increasing project size and complexity:** The trend of giving composite contracts (i.e., which involve lump sum turnkey skills) rather than plain vanilla core and shell contracts has been gaining currency, even in public sector works. Higher complexity of these projects results in better margins for contractors.

  The average ticket size of these contracts is also much larger at INR1.5-4.0bn which ensures economies of scale. Further, these projects also come with in-built escalation clauses which take care of volatility in prices of construction materials as well as that of labour.

We believe there is still scope for margin improvement. Management has guided for 200bps increase in EBITDA margin over FY15-17E.

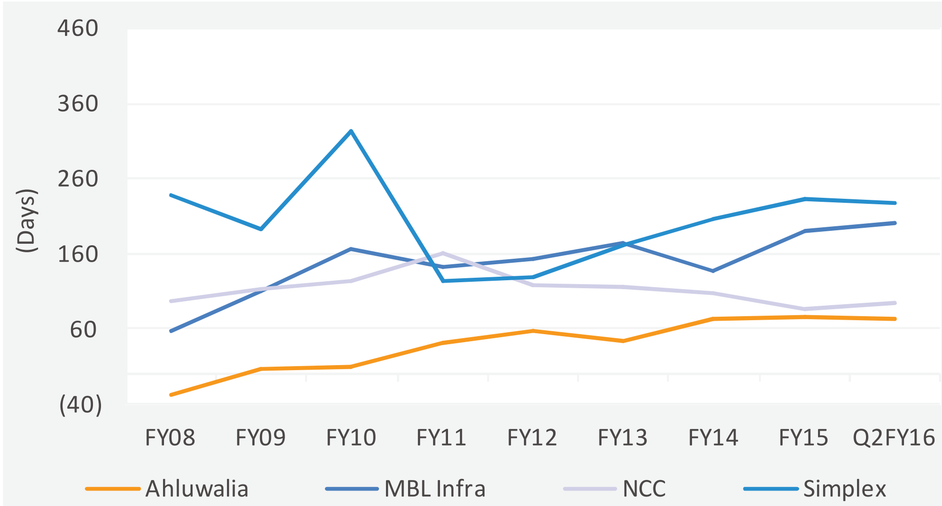
Lean working capital cycle, falling leverage boost return ratios

With net debt:equity at 0.2x at Q2FY16 end, ACIL has the requisite balance sheet might to cater to upcoming growth opportunities. This has been made possible by sharp revival in operating margins and tight leash on working capital, which enables the company generate free cash flows, a rarity in the EPC space. We analyse ACIL's financial health in detail:

- **Efficient working capital management:** Tight operational control, evident in lean inventory management and the company's decision to match execution at the site level to payment cycle, ensures that cash conversion happens significantly faster compared to peers. As a result, the company's working capital cycle at ~74 days is quite low compared to other construction companies.

Efficient working capital management and fund infusion has led to falling leverage and impressive return ratios for the company

Chart 7: Lean working capital cycle *



Source: Company, Edelweiss research

*Note: * Net working capital cycle, excluding cash and adjusted for loans and advances given to subsidiaries*

- **Falling leverage:** With improvement in profitability and stable working capital cycle, ACIL has again started making free cash flows (a rarity in EPC space). This, coupled with infusion of funds by promoters, has enabled the company repay debt, bringing overall leverage down from INR2.5bn at FY13 end to INR1.4bn currently. Its target is to bring debt below the INR1bn mark by FY17.

Chart 8: Improving cash flows, falling debt levels

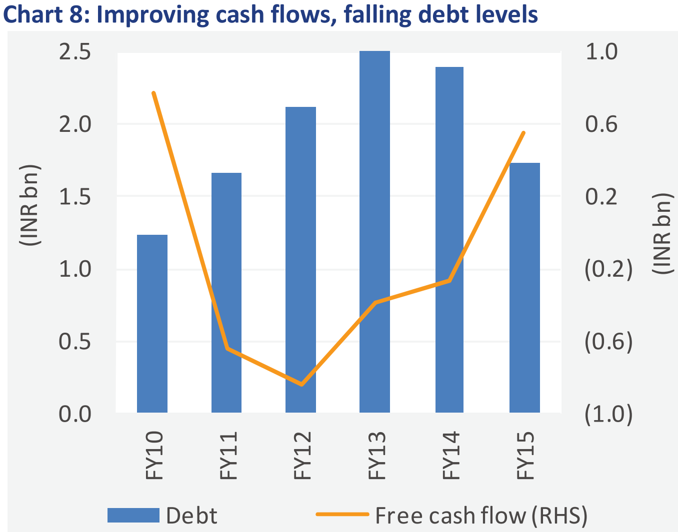
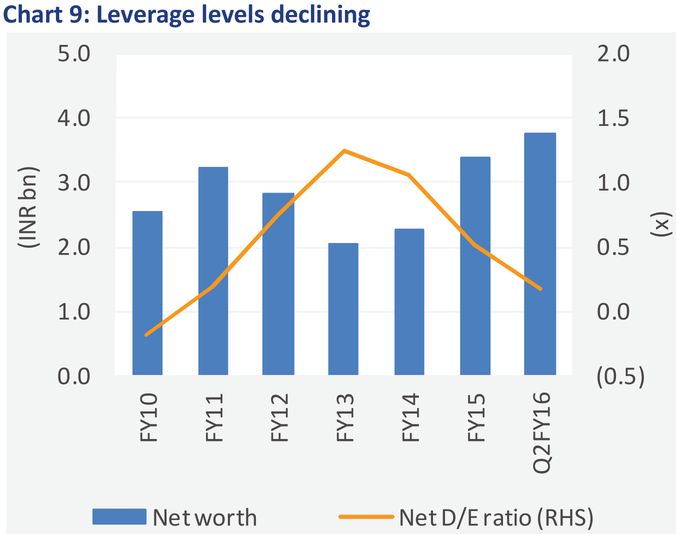


Chart 9: Leverage levels declining



Source: Company, Edelweiss research

- **Healthy return ratios:** Robust operating profitability along with tight leash on working capital has ensured healthy return ratios for ACIL.

Chart 10: Improving RoE

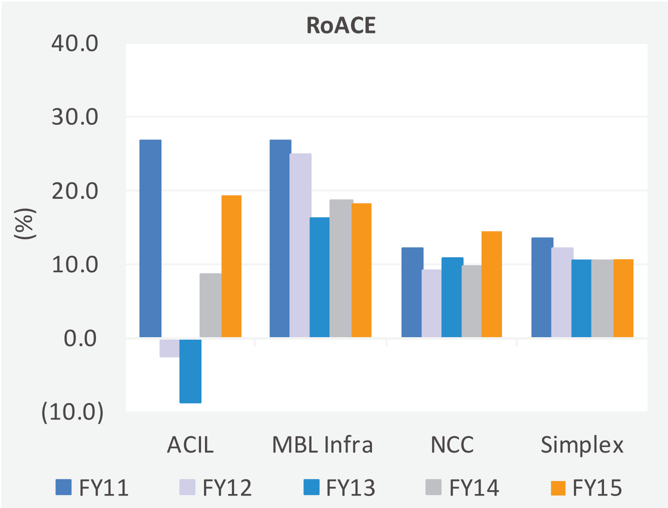
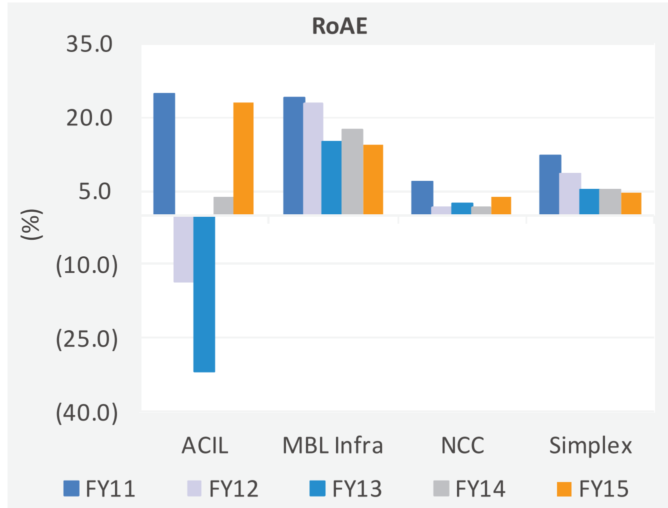


Chart 11: Healthy RoCE



Source: Company, Edelweiss research

Valuation

Improving revenue visibility to boost earnings

With order intake gaining traction, we estimate ACIL's order book to touch ~INR60bn by FY17, a growth of 75% over FY15. Rising revenue visibility further instills confidence in the company's top line growth.

We expect ACIL to deliver steady execution in future with 23% revenue CAGR between FY15 and FY17. Improving margin trajectory and falling leverage will result in better margins going ahead. As a result, we expect the company to post 29% earnings CAGR between FY15 and FY17. Better cash flows imply that its return ratios will remain at healthy levels in future as well.

Scale expansion, better risk profile to lead to re-rating

Steady earnings growth coupled with increasing scale of operations will lead to re-rating

With ACIL focusing on government contracts with escalation clauses, we expect its margins to be quite secure going forward compared to the past. Falling share of private sector orders and realisation of receivables from private sector jobs will assuage investors' cash flows and profitability concerns.

Improving order book and steady execution will expand the company's scale of operations going ahead. This will equip ACIL to be better prepared to handle any adverse impact of realty slowdown, leading to a better risk-reward profile. This, along with increasing confidence on earnings growth trajectory, should act as a trigger for multiple expansion, in our view.

We have valued ACIL at INR356/share, assigning P/E of 22x to FY17E earnings. We initiate coverage on the stock with '**BUY**' recommendation.

Table 2: Peer comparison

Company	Market cap	PAT CAGR (%)	Diluted P/E (X)		EV/EBITDA (X)		ROAE (%)	
	(INR bn)	(FY15-FY17E)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Ahluwalia	18.3	29	21.4	16.9	12.3	9.2	22.5	22.7
MBL Infra **	8.9	15	9.5	8.4	6.2	5.5	13.0	13.4
NCC *	44.1	56	22.1	15.0	8.6	7.5	5.7	7.8
Simplex *	15.9	56	20.7	9.7	7.0	5.4	4.8	9.6

Source: Bloomberg, Edelweiss research

*Note: * for implied EPC business*

*** Consensus Bloomberg estimates*

Key Risks

Execution delays/payment risk in private sector projects

Liquidity issues have put the spanner in the works of many developers' projects, slowing execution. In addition, the receivables cycle from such clients is high. Exposure to such developers can lead to delays in project execution/elongated payment cycle for ACIL.

Negative sentiment in realty sector

Many real estate developers are facing issues like funding crunch, sluggish sales and lower demand, leading to increasing inventory levels. Sustenance of same can adversely impact future order inflows from private developers.

Company Description

ACIL has forged an impressive reputation over its ~45 years history as a specialised building contractor

ACIL commenced operations in 1969 as an EPC company; it was incorporated as a private limited company in 1979 and got converted into a public limited company in 1990. It has carved a niche for itself as a specialised buildings contractor with an experience of ~45 years.

It has worked in more than 50 cities across 16 plus states in India. Currently, it has ~45 ongoing projects across the building space. Major segments where the company works in are:

- **Residential:** It includes construction of buildings for group housing projects where ACIL executes turnkey projects including civil, electrical, plumbing, fire-fighting, lifts, external & internal finishes, external landscaping etc. A few of the prominent housing projects undertaken by ACIL include *Richmond Park* for DLF, *Belvedere Towers* for DLF, *India Bulls Sky* at Mumbai, *Brigade Metropolis* and *Gateway Towers* at Bengaluru, among others.
- **Commercial:** It includes construction of malls, shopping complexes & exhibition facilities; healthcare services, educational facilities and hospitality sector, corporate offices and buildings. Some of the prominent projects undertaken by ACIL include head quarters for SEBI, IDBI and PNB in Mumbai, India Bulls Tower A at Mumbai, IFCI corporate office at New Delhi, Indian Institute of Technology (IIT) at Mandi, National Institute of Fashion Technology at Delhi, International Institute of Foreign Trade at Delhi, ITC Gardenia Hotel, Bengaluru, ITC Grand Central Seven Star Hotel at Mumbai, Hotel Sonar Bangla for ITC at Kolkata, Four Season Hotel at Mumbai, Hotel Shangri La in Mumbai & New Delhi, Hotel Grand Hyatt at New Delhi, Hotel Leela at Bengaluru & New Delhi, JW Marriot Hotel at Kolkata, among others.
- **Industrial facilities:** It includes construction of buildings for manufacturing facilities with structural steel work, sheeting and specialized flooring, external & internal finishes. Some prominent constructions include aluminum smelter plant for Vedanta Aluminum, Holland Tractor Plant at Greater Noida, Fiat Automobile plant at Pune, Moser Baer plant at Greater Noida, expansion of Apollo Tyre plant at Vadodara, cold rolling mill for Jindal Steel at Kalinga Nagar (Odisha), electrical works for Michelin Tyre factory in Chennai, Hyundai car plant at Chennai and R&D centre at Hyderabad, construction of ITC cigarette factory, Kolkata.
- **Infrastructure:** This segment includes construction of airport terminals, metro stations, swimming pools etc. A few prominent projects include metro stations at Rohini East, Rohini West, Pitampura and Seelampur for Delhi Metro Rail Corporation, metro depots at Dwarka (New Delhi) and Mumbai, 3 elevated metro stations at Bengaluru, integrated passenger terminal building at Ranchi Airport, among others.

ACIL went public in 1996 with public issue of 0.8mn shares at a price of INR40/ share aggregating ~INR32mn.

Fig 1: ACIL's growth journey

1979	1990	1996	2002	2003	2007	2008	2014	2015
Incorporated as a private limited company	Converted into a public limited company under the name of 'Ahluwalia Contracts (India) Limited'	Launched its first public issue of 0.8mn shares and listed on Stock Exchanges in Delhi, Kolkata and Jaipur	Completed the office building for ADB at New Delhi and factory building of Moser Baer at Noida; also completed Sonar Bangala for ITC Hotels	Developed in-house plumbing division	Ventured into the RMC business by establishing a plant in Loni	Company acquired 100% equity capital of Ahlcon Ready Mix Concrete and made it a wholly owned subsidiary company	Promoters infuse INR500mn funds in December 2014 by way of subscription to 4.225mn preference shares at INR118/share.	Construction of IIM Rohtak, Amity University; New orders from AIIMS,
				Executed some prestigious projects, which include ITC Grand Central Hotel, Mumbai, DPS International School, New Delhi and Corporate office for Xansa India, Noida.	Listing of equity shares on BSE			
					Entered the BOT space by bagging project for development of model Bus Terminal with Commercial Complex at Kota in Rajasthan.			
					Bagged Commonwealth games village project worth INR6.9bn			

Source: Company, Edelweiss research

Management overview

Table 3: Board of directors

Name	Position	Remarks
Mr. Bikramjit Ahluwalia	Chairman & Managing Director	He is the Founder Chairman, Promoter and Presently Chairman & Managing Director of the company. A Civil Engineer, he has been involved in the construction business for last 45 years. He was awarded by the Government of India for his valuable services in the Asian Games, 1982 & was also awarded by the Finance Minister of India for the successful completion of the Finance Ministry's Building Complex in New Delhi. The deep domain knowledge & industry experience has enabled him to hold leadership positions such as the office of President of Builders Association of India.
Mr. Shobhit Uppal	Dy. Managing Director	He has led the company through the successful award and execution of many mega projects. A graduate in Electrical Engineering, he has more than 23 years of experience in diverse infrastructure activities, across the construction value chain.
Mr. Vinay Pal	Whole Time Director	He nearly 30 years of experience in the construction industry and is credited with the successful execution of many `prestigious construction projects.
Mr. Arun Kumar Gupta	Independent Director	He is a finance expert and a Chartered Accountant by profession. His experience of more than three decades encompasses various facets of financial growth, including tax planning, corporate re-structuring, management information system, banking and loan syndications, international collaborations, mergers & acquisitions and company law matters. Currently a fellow member of ICAI and ICWA, he was nominated as member of central council of the ICAI from 1992-1995. He has been involved in providing management consultancy services to many companies.
Mr. S.K. Chawla	Independent Director	A Civil Engineer by profession, he brings with him more than 33 years of experience in handling diverse construction projects. Having been associated with various Government departments during his career, he retired as a director of CPWD. He specialises in the construction of highways and bridges, in which he did his M.Sc. He is an experienced arbitrator and has advised the Bombay High Court on various matters in the past six years.
Dr. Sushil Chandra	Independent Director	He has held key positions in several major corporates in India, besides undertaking international consultancy for various organisations. He is an M.A. – Ph.D and has held Directorship at Andhra Cement Ltd, Radials International Ltd, Tip Top General Agencies Pvt. Ltd., Oswal Electricals & Group Industries, and Bird Group, in the past. He has been Corporate Advisor of SBI, ERA Group, DS Group, ITC- Bhadra Chalam Petro Products Ltd and Council member of NABARD. His international consulting assignments have been with several important global organisations such as International Labour Organization, Bangkok; the United Nations Asian and Pacific Development Administration Centre, Kuala Lampur; Asian Regional Project for Labour and Manpower Administration
Ms. Mohinder Kaur Sahlot	Independent Director	She is a Ph. D. in Aviation Law, with extensive experience as a commercial pilot and an aviation legal expert. She has logged in 7000 hours of flying in India, America and the Philippines on a variety of aircraft. She is Chairperson of Aerofield Flying Academy Pvt Ltd, and is also a Life Member of Foundation for Aviation and Sustainable Tourism. She is Member of various bar associations, with experience in mediation. She is also a member of International Counsel of Arbitration (ICA), handling cases in various courts for the last 14 years.

Source: Company, Edelweiss research

Table 4: Major clients in each segment

Segment	Client
Private	Tata Housing, India Bulls, HDIL, EROS Group, HCL, Vedanta Aluminum Limited, Daewoo Motors, Jindal steels, ITC, K Raheja Group, Fortis, Mumbai Metro One Pvt. Ltd, Brigade Enterprises
Public	Delhi Metro Rail Corporation, Bangalore Metro Rail Corporation Ltd, Indian Institute of Corporate Affairs, IIT-Delhi, IIT - Mandi, IIM-Rohtak, AIIMS, National Institute of Fashion Technology, DDA, NBCC, CPWD, PWD, RITES, New Delhi Municipal Council, BCD Patna, HSCC, SEBI, IDBI, PNB, SBI,

Source: Company, Edelweiss research

Table 5: Major projects currently under execution

Projects	Clients	Sector	Value	Project Outstanding
Construction works at AIIMS Campus, New Delhi	HSCC	Government	4,981	4.9
Construction of residential building on Design & Build basis at Narela, Delhi	DDA	Government	3,389	3.4
Construction of residential building at Mulund, Mumbai	Housing Development and Infrastructure	Private	4,237	3.0
Construction of Phase 1A of permanent campus for Indian Institute of Management, Rohtak	IIM Rohtak	Government	3,097	2.8
Construction of Police Head Quarters at Patna	BCD Patna	Government	3,350	2.7
Multistory group housing project - Parteek Grand City, Ghaziabad	Parteek Group	Private	1,780	1.6
Construction of International Convention Centre at Patna	BCD Patna	Government	4,171	1.3
Construction of PNB Head Office Building at Dwarka, Delhi	CPWD	Government	2,029	1.3
Construction of emergency block of Safdarjung Hospital	HSCC	Government	1,967	0.7
Construction of Monde De Housing at Gurgaon	Jasmine Buildmart	Private	1,510	1.3

Source: Company, Edelweiss research

Financial Outlook

ACIL's top line is estimated to jump 23% over FY15-17 riding robust order inflow and improving execution. EBITDA margin, over same period, is expected to expand 160bps spurred by operating leverage and completion of legacy orders. Efficient working capital management and healthy cash flows will pare leverage (0.1x debt:equity in FY17), ensuring 29% PAT/EPS CAGR over FY15-17E and strong return ratios.

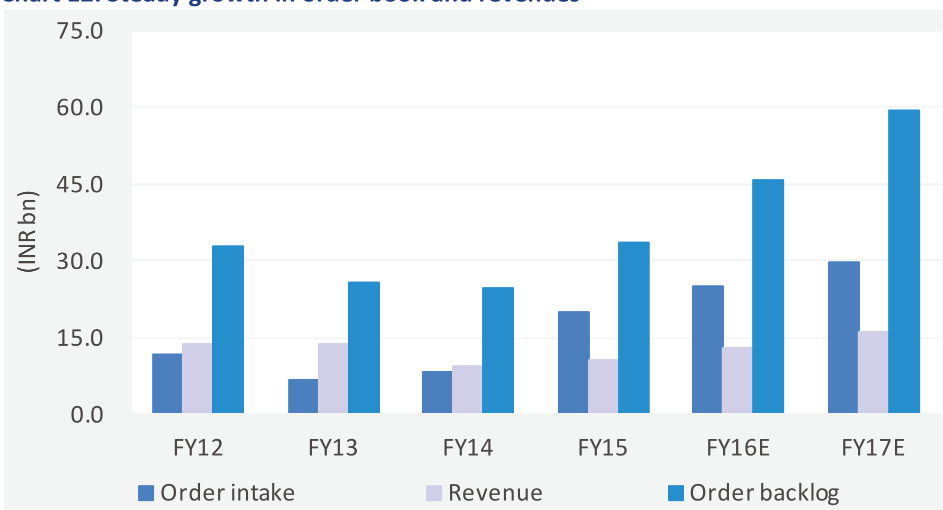
Order inflows to remain healthy leading to steady execution

Order intake revival will lead to stable revenue growth going ahead

Increasing government spending in the buildings segment along with limited competition will ensure that ACIL has no issues as far as revenue visibility is concerned. We expect the company's order book to touch ~INR60bn by FY17E.

We estimate the company to post 23% revenue CAGR between FY15 and FY17 spurred by robust order inflow and improving execution. Sharpened focus on public sector contracts along with bulging order book will ensure steady top line growth.

Chart 12: Steady growth in order book and revenues



Source: Company, Edelweiss research

Change in contract/project mix, operating leverage to aid profitability

Completion of legacy orders increase in proportion of orders with in- built escalation clause to aid margins

We expect the company's EBITDA margin to improve driven by focus on completing low margin legacy contracts and increase in proportion of variable price contracts in the order book. In addition, top line growth will further boost margin trajectory. Overall, we expect ACIL's EBITDA margin to improve from 10.8% in FY15 to 12.4% in FY17E.

Chart 13: Lower legacy contract to aid margins

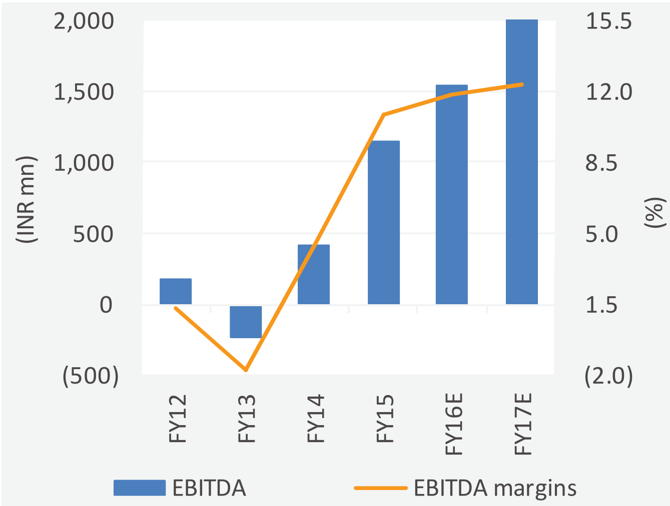
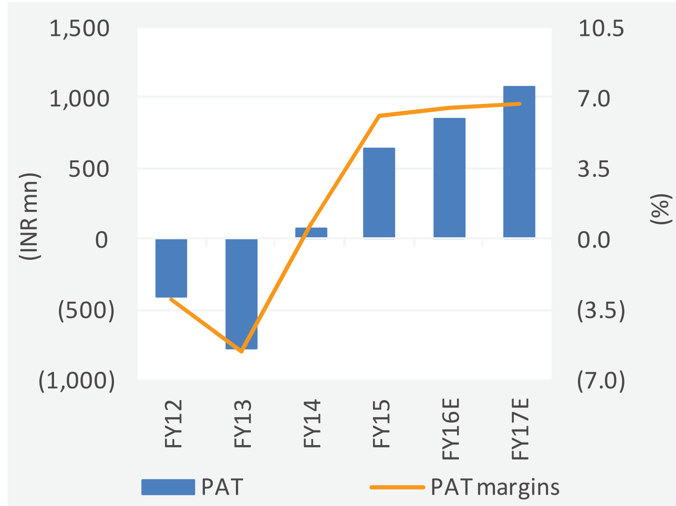


Chart 14: PAT margin improvement to continue



Source: Company, Edelweiss research

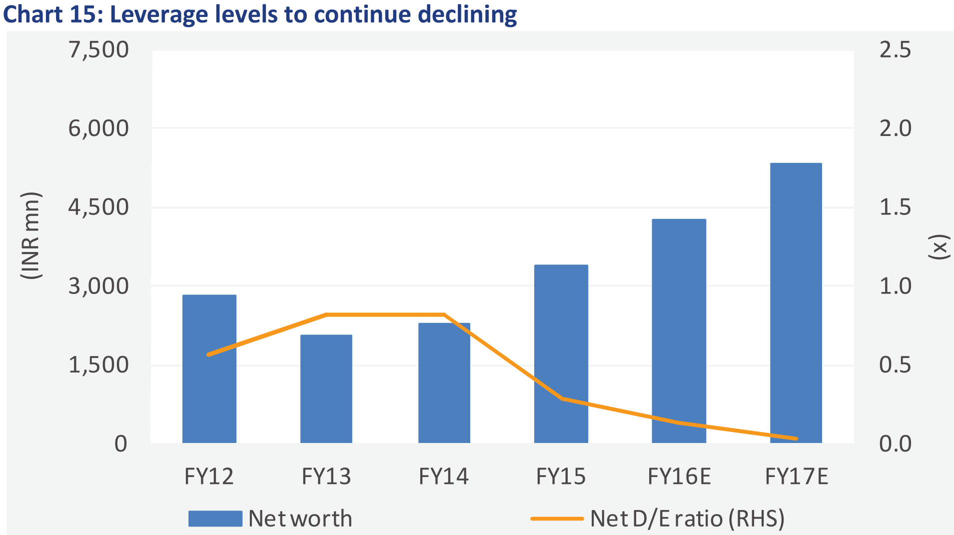
Apart from improving operating margin, ACIL will also benefit from lower interest costs as a result of falling debt level. In addition, improvement in the company's credit rating will drive down interest rates, further boosting PAT margin. We expect ACIL's PAT margin to continue its upward trend.

Debt to remain low

Lean working capital and high margin will ensure that ACIL's free cash flows remain positive. As a result, its leverage should continue to trend down going ahead. We expect its debt:equity to fall to 0.1x by FY17E.

Improvement in cash flow trajectory will ensure that ACIL's debt levels remain low

Chart 15: Leverage levels to continue declining



Source: Company, Edelweiss research

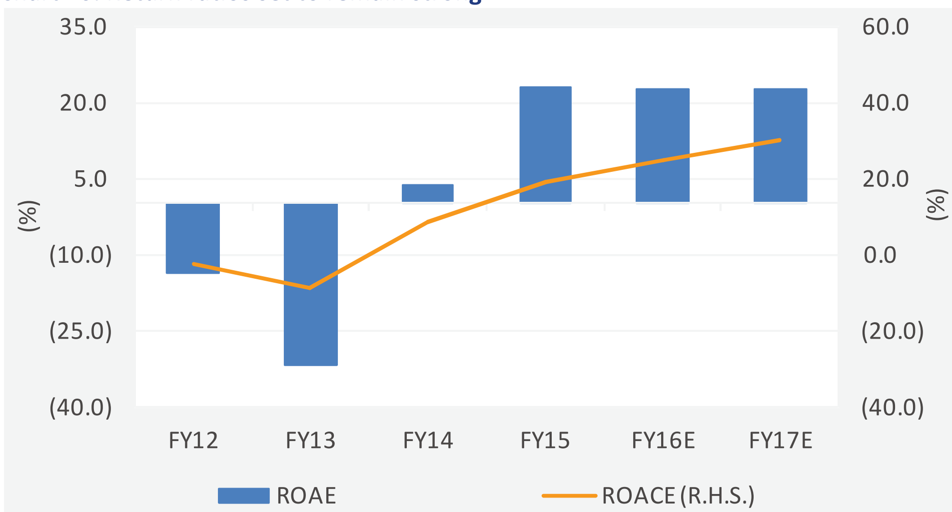
ACIL's return ratios are expected to remain healthy aided by better profitability going ahead

Return ratios to remain healthy

Efficient capital management and healthy profitability will translate into ACIL delivering robust return ratios—RoE of 23% and RoCE of 19% in FY15.

Going ahead, improvement in revenue visibility along with higher margin will ensure that the company is able to maintain high return ratios over the long term.

Chart 16: Return ratios set to remain strong



Source: Company, Edelweiss research

Financial Statements (Standalone)

Key assumptions				(INR mn)
Year to March	FY14	FY15	FY16E	FY17E
Macro				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	5.9	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
INR/USD	60.5	61.2	64.5	65.0
Company				
Order intake (INR bn)	8	20	25	30
Y-o-Y growth (%)	20.8	143.3	25.2	20.1
Book-to-bill ratio (x)	2.5	3.2	3.5	3.7
Order backlog (INR bn)	24	34	46	59
Order backlog growth (%)	(6)	38	35	30
Revenue growth (%)	(30.8)	10.4	23.0	24.0
Raw mat. costs (as % of sales)	47.3	51.1	51.0	50.6
Job work costs (as % of sales)	19.2	17.3	17.0	17.0
Other mfg. costs (as % of sales	18.8	12.6	12.1	12.1
Employee costs (as % of sales)	8.0	6.6	6.4	6.6
Other expenses (as % of sales)	2.4	1.6	1.7	1.3
Dep. rate (as % of fixed asst)	3.7	6.3	5.9	6.2
Tax rate (%)	0.2	3.1	21.5	34.0
Dividend per share	0.0	0.0	0.0	0.0
Capex (INR mn)	287	113	216	500
Incre. in investments (INR mn)	0	49	0	0
Debtor days	179	166	150	148
Inventory days	76	72	65	65
Other current assets days	47	28	24	23
Loans & adv. (as % of reven.)	13	8	7	7
Sundry creditors days	112	96	82	79
Other creditors days	90	75	68	72
Provisions days	1	1	1	1
Incremental debt (INR mn)	(142)	(655)	(500)	(600)
Interest rate (%)	14.8	18.8	13.5	12.5

Income statement				(INR mn)
Year to March	FY14	FY15	FY16E	FY17E
Income from operations	9,603	10,599	13,037	16,166
Direct costs	8,186	8,585	10,443	12,884
Employee costs	768	695	829	1,060
Other expenses	233	171	225	218
Total operating expenses	9,186	9,451	11,497	14,163
EBITDA	417	1,149	1,540	2,003
Dep. and amortisation	122	212	228	286
EBIT	296	937	1,312	1,717
Less: Interest Expense	363	386	350	226
Add: Other income	144	117	129	152
Add: Prior period items	0	(5)	0	0
Add: Exceptional items	141	0	0	0
Profit before tax	218	663	1,090	1,642
Less: Provision for Tax	1	21	235	558
Reported Profit	217	642	856	1,084
Less: Prior Period (Net of Tax)	0	(5)	0	0
Less: Excep. Items (Net of Tax)	141	0	0	0
Adjusted Profit	76	647	856	1,084
No. of Share outs. (mn)	63	67	67	67
Adjusted Basic EPS	1.2	9.7	12.8	16.2
Dilu. sha. outstanding (mn)	63	67	67	67
Adjusted Diluted EPS	1.2	9.7	12.8	16.2
Adjusted Cash EPS	3.2	13.1	16.2	20.5

Common size metrics- as % of net revenues

Year to March	FY14	FY15	FY16E	FY17E
Operating expenses	95.7	89.2	88.2	87.6
EBITDA margins	4.3	10.8	11.8	12.4
Depreciation	1.3	2.0	1.8	1.8
Interest expenditure	3.8	3.6	2.7	1.4
Other income	1.5	1.1	1.0	0.9
Tax	0.0	0.2	1.8	3.5
EBIT margins	3.1	8.8	10.1	10.6
Adjusted profit margins	0.8	6.1	6.6	6.7

Annualised growth metrics (%)

Year to March	FY14	FY15	FY16E	FY17E
Revenues	(30.8)	10.4	23.0	24.0
EBITDA	NA	175.4	34.1	30.1
PBT	NA	204.1	64.5	50.6
Adjusted Profit	NA	746.7	32.3	26.7
EPS	NA	693.3	32.3	26.7

Balance Sheet				(INR mn)
As on 31st March	**FY14**	**FY15**	**FY16E**	**FY17E**
Share capital	126	134	134	134
Reserves & Surplus	2,136	3,243	4,099	5,183
Shareholders' funds	2,262	3,377	4,233	5,317
Long term borrowings	329	90	90	90
Short term borrowings	2,057	1,641	1,141	541
Total Borrowings	2,386	1,731	1,231	631
Long Term Lia. & Provisions	674	480	481	482
Deferred Tax Liability (net)	(162)	(154)	(154)	(154)
Sources of funds	**5,160**	**5,435**	**5,791**	**6,276**
Gross Block	3,321	3,326	4,323	4,820
Net Block	1,300	1,158	1,930	2,144
Capital work in progress	677	784	0	0
Intangible Assets	7	6	6	5
Total Fixed Assets	1,984	1,948	1,936	2,150
Non current investments	15	63	63	63
Cash and cash equivalents	545	765	677	463
Inventories	1,720	1,665	2,054	2,535
Sundry Debtors	4,707	4,820	5,896	7,214
Loans & Advances	1,235	800	915	1,123
Other Current Assets	136	209	183	226
Total Curr. Assets (ex cash)	7,799	7,494	9,047	11,098
Trade payable	2,906	2,693	3,165	3,833
Oth. Cur.Liab.&Short Term Pro	2,278	2,143	2,767	3,666
Total Curr. Liab. & Provisions	5,183	4,836	5,932	7,499
Net Current Assets (ex cash)	2,615	2,658	3,115	3,600
Uses of funds	**5,160**	**5,435**	**5,791**	**6,276**
Book Value per share (INR)	36	50	63	79

Free cash flow				(INR mn)
Year to March	**FY14**	**FY15**	**FY16E**	**FY17E**
Reported profit	217	642	856	1,084
Add: Depreciation	122	212	228	286
Interest (Net of Tax)	362	374	275	149
Others	(503)	(353)	(275)	(149)
Less: Changes in W. C.	182	164	483	440
Operating cash flow	16	710	601	931
Less: Capex	287	113	216	500
Free cash flow	(271)	597	385	431

Cash flow metrices

Year to March	FY14	FY15	FY16E	FY17E
Operating cash flow	16	710	601	931
Financing cash flow	(142)	(180)	(500)	(600)
Investing cash flow	(287)	(161)	(216)	(500)
Net cash Flow	(413)	368	(115)	(169)
Capex	(287)	(113)	(216)	(500)

Profitability and liquidity ratios

Year to March	FY14	FY15	FY16E	FY17E
ROAE (%)	3.5	22.9	22.5	22.7
ROCE (%)	8.6	19.3	25.0	30.2
Current Ratio	1.5	1.5	1.5	1.5
Debtors (days)	178	164	150	148
Inventory Days	76	72	65	65
Interest Coverage Ratio	0.8	2.4	3.7	7.6
Avg. working capital t/o (x)	3.1	3.2	3.6	4.1
Avg. capital turnover ratio (x)	1.9	2.0	2.3	2.7
Net Debt/Equity	1.1	0.5	0.3	0.1
Debt/Equity	1.1	0.5	0.3	0.1
Payable days	237	212	187	189
Cash conversion cycle	72	71	65	58
Debt/EBITDA	5.7	1.5	0.8	0.3
Adjusted Debt/Equity	1.1	0.5	0.3	0.1

Operating ratios

Year to March	FY14	FY15	FY16E	FY17E
Total asset turnover	1.9	2.0	2.3	2.7
Fixed assets t/o (x)	7.1	8.6	8.4	7.9
Equity turnover	4.5	3.8	3.4	3.4

Valuations parameters

Year to March	FY14	FY15	FY16E	FY17E
Adjusted Diluted EPS (INR)	1.2	9.7	12.8	16.2
Y-o-Y growth (%)	(109.9)	693.3	32.3	26.7
Adjusted Cash EPS (INR)	3.2	13.1	16.2	20.5
Diluted Price to Earnings Ratio	225.0	28.4	21.4	16.9
Price to Book Ratio (P/B) (x)	7.6	5.4	4.3	3.4
Enterprise Value / Sales (x)	2.0	1.8	1.4	1.1
Enterprise Value / EBITDA (x)	45.6	16.8	12.3	9.2
Dividend yield (%)	0.0	0.0	0.0	0.0

Additional Data

Directors Data

Mr. Bikramjit Ahluwalia	Chairman & Managing Director	Mr. Shobhit Uppal	Dy. Managing Director
Mr. Vinay Pal	Whole Time Director	Mr. Arun Kumar Gupta	Independent Director
Mr. S.K. Chawla	Independent Director	Dr. Sushil Chandra	Independent Director
Smt. Mohinder Kaur Sahlot	Independent Director		

Auditors – M/s Arun K. Gupta & Associates.

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Nalanda Funds	11.07	BNP Paribas	2.43
SBI Asset Management	1.81	Canara Robeco Asset Management	1.43
L&T Asset Management	1.40	Franklin Templeton Asset Management	1.14
Taurus Asset Management	1.10	DSP Blackrock Asset Management	1.06
HSBC Asset Management	0.89	J P Morgan Asset Management	0.84

**as per last available data*

Bulk Deals

Date	Acquirer/Seller	B /S	Qty Traded	Price
24-Feb-14	Icici Prudential Mutual Fund A/C Child Care Gift Plan	Sell	329140	25.0
24-Feb-14	Icici Prudential Mutual Fund A/C Icici Prudencial Emerging Star	Sell	417594	25.0
24-Feb-14	Icici Prudential Mutual Fund A/C. Child Care Gift Plan	Sell	326937	25.0
24-Feb-14	Icici Prudential Mutual Fund A/C. Icici Prudential Emg Star	Sell	414799	25.0
20-Nov-14	Bnp Paribas Arbitrage	Buy	414357	167.1
4-Dec-14	Bengal Finance & Investment Pvt Ltd	Buy	919949	208.0
4-Dec-14	Rampyari Rampyari	Sell	2000000	208.3
21-Jan-15	General Electric Investment Corporation A/C. General Electric Pen	Buy	799791	220.0
21-Jan-15	Pushpa Rani	Sell	740100	220.0
14-Jul-15	Franklin Templeton Mutual Fund - Franklin India Smaller Com	Buy	417868	220.6
17-Nov-15	Norges Bank A/C Government Pension Fund Global	Buy	1652051	250.0
17-Nov-15	Pushpa Rani	Sell	2100000	250.1

**as per last available data*

Insider Trades

Reporting Date	Acquirer / Seller	B/S	Quantity Traded
11/21/2014	Ram Pyari	Sell	1000000
11/25/2014	Ram Pyari	Sell	1620000
12/10/2014	Ram Pyari	Sell	2000000
1/20/2015	Ram Pyari	Sell	455000
1/27/2015	Ram Pyari	Sell	184900
1/27/2015	Pushpa Rani	Sell	740100

**as per last available data*