

Ahluwalia Contracts

Strong operational profitability

CMP	Target Price
Rs269	Rs351 (▼)
Rating	Upside
BUY (▲)	30.5 %

Result highlights

- Revenue came in at Rs3.82 bn +22.1% YoY largely in line with our expectation of Rs3.86 bn driven by strong execution run rate
- EBITDA came at Rs526 mn +88.6% YoY higher than expectation of Rs424.6 mn as EBITDA Margin came at 13.7% +485 bps YoY higher than expectation of 11%, Management guides for EBITDA Margin of 13-14% in FY17E
- Interest cost increased on sequential basis by 83% at Rs120 mn. Interest cost increased as company recognised interest on mobilization advances taken on two projects (DDA, NBCC) amounting to Rs450 mn which were earlier not recognised due to delay in execution
- Given the revenue & margin visibility, reduction in leverage and improvement in working capital which will drive the earnings CAGR of 23% over FY16-18E. Maintain Buy, with a target price to Rs351/share

Execution strong, Margins better than expected

Q4FY16 revenue came at Rs3.82 bn +22.1% YoY largely in line with our expectation of Rs3.86 bn driven by strong execution run rate. The company is targeting revenue of Rs15-16 bn/Rs18-19 bn (20% growth) in FY17E/18E and order inflow of Rs16-Rs20 bn in FY17E and EBITDA margins at 13-14% in FY17E. EBITDA came at Rs526 mn +88.6% YoY higher than expectation of Rs424.6 mn as EBITDA Margin came at 13.7% +485 bps YoY higher than expectation of 11%.

Interest cost up 83% sequentially in Q4FY16

Interest cost increased on sequential basis by 83% at Rs120 mn. Interest cost increased as company recognised the interest on mobilization advances taken on two projects (DDA, NBCC) amounting to Rs450 mn which were earlier not recognised due to delay in execution. The management expects an interest cost run rate of Rs70-80 mn to resume from next quarter onwards. Net profit came at Rs267 mn +53% YoY versus expectation of Rs224 mn, on the back of strong operational profitability offset by higher interest outgo.

The company expects its Kota bus terminal project to start accruing lease rentals in 1-2 months' time. The project expects to obtain license certification in 15-20 days. Depreciation on this project is expected to start reflecting in P&L from Q2FY17 onwards. The company is looking at various options of monetizing the project.

Change in Estimates

EPS Chg FY17E/FY18E (%)	NA
Target Price change (%)	(1.1)
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	14.9	19.1
Consensus	17.0	21.3
Mean Consensus TP	Rs 342	

Stock Details

Bloomberg Code	AHLU IN
Face Value (Rs)	2
Shares outstanding (mn)	67
52 Week H/L	320 / 188
M Cap (Rs bn/USD bn)	18 / 0.27
Daily Avg Volume (nos.)	9,913
Daily Avg Turnover (US\$ mn)	-

Shareholding Pattern Mar '16

Promoters	62.4%
FIIs	19.1%
DIIIs	9.6%
Public and Others	8.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	22	1	7
Rel. to Nifty	(1)	11	3	19

Relative price chart



Source: Bloomberg

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Financial Snapshot (Standalone)

(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	9,603	10,599	12,497	15,738	18,851
EBITDA	417	1,149	1,609	1,857	2,262
EBITDA Margin (%)	4.3	10.8	12.9	11.8	12.0
APAT	76	641	844	998	1,283
EPS (Rs)	3.5	9.6	12.6	14.9	19.1
EPS (% chg)	0.0	176.3	31.7	18.2	28.5
ROE (%)	3.5	22.7	22.2	21.2	21.9
P/E (x)	77.6	28.1	21.3	18.0	14.0
EV/EBITDA (x)	44.6	16.5	11.5	9.8	7.9
P/BV (x)	7.5	5.3	4.3	3.5	2.8

Source: Company, Emkay Research

Debt Reduction and ratings upgrade to bring down borrowing costs

Debt stands at Rs1.38 bn as of March 2016 versus Rs1.35 bn as of Dec 2015 versus Rs1.46 bn as of Sep 2015 versus Rs1.3 bn as of 30th June, 2015 versus Rs1.55 bn as on 31st March, 2015. The average borrowing cost of the company is down to about 11.5-12% and the company expects to go down further by 100 bps in FY17E. The company expects to bring down debt below Rs1 bn over the next 2 years.

The company has debtors worth Rs5.6 bn as of 31st March, 2016 and cash and bank balances of Rs882 mn. The company expects to incur capex of Rs170 mn (maintenance capex) for FY17E. The company needs no major capex for the next 1-1.5 years.

Order book as of Q4FY16 stands at Rs36.07 bn +6% YoY

Q4FY16 order book stands at Rs36.07 bn +6% YoY, provides 2.89 years visibility for revenues, and order intake stands Rs1.99 bn. The order intake for FY16 stands at Rs15.4 bn +11.4% YoY. Taking into account recently announced orders, order book as of date stands at Rs41 bn. The company is also L1 in two projects (Cancer Hospital, Kolkata and AIIMS, Jhajjar, Haryana) worth Rs6.73 bn as of date.

The company has announced orders worth Rs15.4 bn as of FY16 –

- Construction work for OPD block & other assoc. services, AIIMS Delhi of Rs2.94 bn
- Construction work for Mother & Child Block, AIIMS Delhi of Rs2.04 bn
- Construction of Office Bldg, Income Tax Dept. Mumbai of Rs1.63 bn
- Construction of Commercial Bldg, Kumar Builder of Rs150 mn
- Construction of IITD campus of Rs2.2 bn
- Construction of Hiland Residential complex of Rs498.3 mn
- Construction of Diplomatic Staff housing for Royal Danish Embassy of Rs483 mn
- Construction of civil package work for Brookfield Assets Management Ltd of Rs1.54 bn
- Construction of Bennett University for Times of India of 664.7 mn
- Construction of Medical College (HSCC), in Kolkata of Rs800 mn
- Construction of Residential complex of Duratech Builders in Mumbai for Rs430 mn
- Construction of school building for Anandilal & Ganesh Podar Society, Mumbai for Rs499 mn
- Extension of construction work for Bennett University for Times of India for Rs350 mn
- Extension of Construction work for Amity University, Kolkata for Rs1.15 bn

Recently announced orders (April-May 2016) consist of Rs4.02 bn order for construction of South Asian University Campus, New Delhi and Rs910.6 mn for structure and finishing work of Brookfield Assets Management Ltd.

The order book comprises of 60% orders from Government sector. The company has legacy orders worth Rs4 bn (all in private residential sector) which are slow moving in nature of which Rs1.5 bn is totally stalled. Fixed price contracts comprise 4% of order book. The company has an order pipeline of Rs18 bn.

The order book consists of Commercial (6%), Hospitals (14%), Infrastructure (11%), Institutional (25%), Private Residential (31%) and Government Residential (11%) orders. The order book has orders from North region (65%), East region (15%) and West region (19%).

Exhibit 1: Quarterly income statement

Rs mn	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	YoY (%)	QoQ (%)	FY16	FY15	YoY (%)
Revenue	3,137	2,640	2,802	3,197	3,829	22.1	19.8	12,469	10,579	17.9
Expenditure	2,858	2,322	2,458	2,804	3,303	15.6	17.8	10,887	9,450	15.2
<i>as % of sales</i>	<i>91.1</i>	<i>87.9</i>	<i>87.7</i>	<i>87.7</i>	<i>86.3</i>			<i>87.3</i>	<i>89.3</i>	
Construction expenses	1,835	1,326	1,372	1,703	2,198	19.8	29.1	6,599	5,942	11.1
<i>as % of sales</i>	<i>58.49</i>	<i>50.24</i>	<i>49.0</i>	<i>53.3</i>	<i>57.4</i>			<i>52.9</i>	<i>56.2</i>	
Employee cost	979	953	1,042	1,056	1,038	6.0	(1.7)	4,088	3,338	22.5
<i>as % of sales</i>	<i>31.21</i>	<i>36.09</i>	<i>37.2</i>	<i>33.0</i>	<i>27.1</i>			<i>32.8</i>	<i>31.6</i>	
other expenses	44	43	45	45	67	51.4	49.2	200	171	17.1
<i>as % of sales</i>	<i>1.4</i>	<i>1.6</i>	<i>1.6</i>	<i>1.4</i>	<i>1.8</i>			<i>1.6</i>	<i>1.6</i>	
EBITDA	279	318	344	394	526	88.6	33.6	1,582	1,128	40.2
Depreciation	51	49	50	49	52	3.5	5.7	200	212	(5.3)
EBIT	228	269	294	344	474	107.4	37.6	1,381	917	50.7
Other Income	45	54	39	18	52	15.3	193.7	163	137	18.6
Interest	98	91	75	66	120	22.4	82.5	352	386	(8.8)
PBT	175	232	258	296	406	131.3	37.0	1,192	668	78.5
Total Tax	1	44	67	98	138	12,522.6	41.9	347	26	
PAT	174	188	191	198	267	53.3	34.6	845	642	31.6
(Profit)/loss from JV's/Ass/MI								-	-	
APAT after MI	174	188	191	198	267	53.3	34.6	845	642	31.6
Extra ordinary items	0	0	0	0	0			-	-	
Reported PAT	174	188	191	198	267	53.3	34.6	845	642	31.6
Reported EPS	2.72	2.81	2.8	3.0	4.0	46.6	34.6	12.6	10.1	24.5

Margins (%)						(bps)	(bps)			(bps)
EBITDA	8.9	12.1	12.3	12.3	13.7	485	142	12.7	10.7	202
EBIT	7.3	10.2	10.5	10.8	12.4	509	161	11.1	8.7	241
EBT	5.6	8.8	9.2	9.3	10.6	500	133	9.6	6.3	325
PAT	5.6	7.1	6.8	6.2	7.0	142	77	6.8	6.1	71
Effective Tax rate	0.6	19.0	26.0	33.0	34.1	3,351	117	29.1	3.9	2,522

Source: Company, Emkay Research

Exhibit 2: Order Book Matrix

Rs mn	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	YoY (%)	QoQ (%)	FY16	FY15	YoY (%)
Net order inflow	4,300	6,760	5,420	1,210	1,990	(53.7)	64.5	15,380	13,800	11.4
Order backlog	33,700	37,530	40,050	38,250	36,070	7.0	(5.7)	36,070	33,700	7.0

Source: Company, Emkay Research

Exhibit 3: Balance Sheet details

Balance sheet	Dec-14	Mar-15	Sep-15	Mar-16
Share capital	134.0	134.0	134.0	134.0
Reserve & surplus	3068.7	3243.1	3621.8	4087.2
Net Worth	3202.7	3377.1	3755.8	4221.2
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings/Secured Loans	126.6	90.2	29.5	51.4
Short Term Borrowings/ Unsecured Loans	1299.6	1460.4	1431.7	1328.7
Deferred tax liability	0.0	0.0	0.0	0.0
Total sources of Funds	4628.8	4927.8	5216.9	5601.4
Net fixed assets (incl. C-WIP)	1973.2	1948.0	1910.1	1965.5
Investments	14.9	63.4	63.3	63.4
Deferred Tax Assets (net)	149.5	153.7	156.7	149.5
Cash and cash equivalents	805.6	764.7	719.8	882.1
Inventory	2063.1	1665.3	1825.7	2047.4
Sundry debtors	4342.2	4819.7	5186.8	5574.9
Other current assets	146.2	209.4	232.4	168.7
Loans and advances	806.3	799.9	841.7	717.4
Current assets (excl. cash)	7357.9	7494.3	8086.6	8508.4
Current liability and provisions	5672.3	5496.3	5719.8	5967.6
Net current assets	1685.6	1998.0	2366.8	2540.8
Miscellaneous expenditure	0.0	0.0	0.0	0.0
Total uses of funds	4628.8	4927.8	5216.7	5601.4

Source: Emkay Research, Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	9,603	10,599	12,497	15,738	18,851
Expenditure	9,186	9,451	10,887	13,881	16,589
EBITDA	417	1,149	1,609	1,857	2,262
Depreciation	122	212	201	223	247
EBIT	296	937	1,409	1,634	2,015
Other Income	144	117	135	120	120
Interest expenses	363	386	352	264	221
PBT	77	668	1,192	1,490	1,915
Tax	1	26	347	492	632
Extraordinary Items	141	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	218	641	844	998	1,283
Adjusted PAT	76	641	844	998	1,283

Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	126	134	134	134	134
Reserves & surplus	2,136	3,243	4,087	5,086	6,368
Net worth	2,262	3,377	4,221	5,220	6,502
Minority Interest	0	0	0	0	0
Loan Funds	2,265	1,731	1,380	1,275	812
Net deferred tax liability	(162)	(154)	(149)	(149)	(149)
Total Liabilities	4,364	4,955	5,452	6,345	7,165
Net block	1,307	1,164	1,182	1,259	1,512
Investment	15	63	63	63	63
Current Assets	8,344	8,259	9,389	12,194	14,473
Cash & bank balance	545	765	881	1,091	864
Other Current Assets	136	209	169	194	232
Current liabilities & Provision	5,979	5,316	5,967	7,172	8,883
Net current assets	2,365	2,943	3,422	5,023	5,590
Misc. exp	0	0	0	0	0
Total Assets	4,364	4,955	5,450	6,345	7,165

Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
PBT (Ex-Other income) (NI+Dep)	(67)	551	1,057	1,370	1,795
Other Non-Cash items	(238)	(100)	0	0	0
Chg in working cap	69	(504)	(362)	(1,391)	(794)
Operating Cashflow	248	518	900	(25)	836
Capital expenditure	(172)	(261)	(218)	484	(500)
Free Cash Flow	75	258	682	458	336
Investments	191	(124)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	336	(7)	135	120	120
Equity Capital Raised	0	499	0	0	0
Loans Taken / (Repaid)	(142)	(655)	(351)	(105)	(462)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(216)	511	0	0	0
Financing Cashflow	(721)	(31)	(703)	(369)	(683)
Net chg in cash	(310)	220	114	209	(227)
Opening cash position	855	545	765	878	1,087
Closing cash position	545	765	878	1,087	860

Key Ratios

Profitability (%)	FY14	FY15	FY16	FY17E	FY18E
EBITDA Margin	4.3	10.8	12.9	11.8	12.0
EBIT Margin	3.1	8.8	11.3	10.4	10.7
Effective Tax Rate	0.7	3.9	29.1	33.0	33.0
Net Margin	0.8	6.1	6.8	6.3	6.8
ROCE	10.3	22.6	29.7	29.7	31.6
ROE	3.5	22.7	22.2	21.2	21.9
RoIC	9.8	29.0	39.9	36.7	35.3

Per Share Data (Rs)	FY14	FY15	FY16	FY17E	FY18E
EPS	3.5	9.6	12.6	14.9	19.1
CEPS	3.2	12.7	15.6	18.2	22.8
BVPS	36.0	50.4	63.0	77.9	97.1
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY14	FY15	FY16	FY17E	FY18E
PER	77.6	28.1	21.3	18.0	14.0
P/CEPS	85.3	21.1	17.2	14.8	11.8
P/BV	7.5	5.3	4.3	3.5	2.8
EV / Sales	1.9	1.8	1.5	1.2	1.0
EV / EBITDA	44.6	16.5	11.5	9.8	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY14	FY15	FY16	FY17E	FY18E
Net Debt/ Equity	0.8	0.3	0.1	0.0	0.0
Net Debt/EBIDTA	4.1	0.8	0.3	0.1	0.0
Working Cap Cycle (days)	69.2	75.0	74.2	91.2	91.5

Growth (%)	FY14	FY15	FY16	FY17E	FY18E
Revenue	(30.8)	10.4	17.9	25.9	19.8
EBITDA	0.0	175.3	40.1	15.4	21.8
EBIT	0.0	216.9	50.4	16.0	23.3
PAT	0.0	194.9	31.7	18.2	28.5

Quarterly (Rs mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Revenue	3,137	2,640	2,802	3,197	3,829
EBITDA	279	318	344	394	526
EBITDA Margin (%)	8.9	12.1	12.3	12.3	13.7
PAT	174	188	191	198	267
EPS (Rs)	2.6	2.8	2.8	3.0	4.0

Shareholding Pattern (%)	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Promoters	66.9	66.9	66.9	62.4	62.4
FII's	15.1	15.1	12.5	19.3	19.1
DII's	5.1	5.9	8.2	9.5	9.6
Public and Others	13.0	12.1	12.4	8.8	8.8

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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