

## Ahluwalia Contracts (India) Ltd

**BUY**



Asian Markets Securities Pvt. Ltd.

**Strong revenue visibility with book-to-bill of 3.3x**

### Institutional Research

CMP (Rs)	272
Target (Rs)	334

Nifty: 7,749; Sensex: 25,305

#### Key Stock Data

BSE Code	532811
NSE Code	AHLUCONT
Bloomberg	AHLU IN
Shares O/s mn (FV Rs2)	67.0
Market cap (Rsbn)	18.0
52-week High/Low	319/189
3-m daily avg vol.	32,433

#### Price Performance

(%)	1m	3m	12m
AHLUCONT	(8.9)	23.2	10.4
NIFTY Index	(1.7)	10.5	(8.2)
Sensex Index	(1.9)	9.6	(19.4)

#### Shareholding Pattern

(%)	Sep15	Dec15	Mar15
Promoter	66.9	62.4	62.4
FII	12.5	19.3	19.1
DII	8.2	9.5	9.6
Others	12.4	8.8	8.9

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**Ahluwalia Contracts (India) Limited (ACIL) reported strong 4QFY16 results with an Adjusted PAT growth of 53.2% yoy at Rs 267 mn. Revenue grew healthy at 22.1% yoy to Rs 3.8 bn. The order book remained healthy at Rs 36.1bn in FY16 (Rs41 bn as on date) and has a strong L1 of Rs 6.7 bn. The current debt of ACIL stands at 1.35bn and intends to reduce it to below 1bn by FY17. For FY16, ACIL reported robust 32% yoy PAT growth on the back of 18% revenue growth and 12.6% EBITDAM. Management indicated that the company is confident of growth path and guided to a strong order inflow of Rs~16-20 bn and an EBITDA margin of 13% plus along with over 20% revenue growth for FY17E. We expect ACIL with the current order book of Rs 41.0 bn (3.28x FY16 revenue) and L1 order pipeline providing robust growth visibility. We have incorporated FY16 reported numbers and factored in 24.6% revenue CAGR during FY17-18E, along with 12.5% EBITDAM; resulting in a PAT CAGR of 32.9% during FY17-18E. We believe the company is in the healthy state of high margin and better return ratios trajectory on a sustainable basis. Given the strong order book, improving margins, reducing debt and interest cost, improving working capital and favorable industry outlook; we continue to be positive on the business and stock. We maintain our BUY rating with a TP of Rs334 based on 15x FY18E EPS of Rs 22.3.**

**Healthy 4QFY16/FY16 results and impressive growth outlook:** In 4Q FY16, ACIL's PAT reported strong growth of 53.2% yoy to Rs 267mn owing to a strong revenue growth of 22.1% yoy to Rs3.8 bn. EBITDAM came in higher at 13.9% up 490bp yoy. For FY16, ACIL reported 31.6% PAT growth on the back of 17.9% revenue growth at Rs12.5 bn. EBITDAM for FY16 improved by 203bp to 12.6%. We believe increasing proportion of Government orders (60%) and operating efficiencies with better utilizations of capital equipment has further scope of margin improvement. The management is confident of maintaining the margins at 13% levels in FY17E. However we continue to factor in a conservative 12.5% EBITDAM in our estimates.

**Robust book-to-bill of 3.28x of FY16 revenue:** ACIL has total order book of Rs41 bn (Rs36.1 bn in FY16 end). Further it has Rs6.7 bn of L1 orders. With 3.28x book-to-bill, ACIL has a strong order visibility for revenue growth in coming years. The order book constitutes 60% of orders from the public sector, providing better visibility and lower risk profile. Management is guiding order inflow of Rs16-20 bn in FY17.

**Outlook and Valuation:** We expect ACIL to continue strong results trend. Based on strong order book and improving margins, we expect revenue CAGR of 24.6% and PAT CAGR of 32.9% during FY16-18E. We expect RONW and ROCE to improve to 25.5% and 37.6%, respectively, in FY18E. We incorporate FY16 reported financial and maintain our FY17-18E estimates. The stock is trading at 16.6x FY17E EPS, 12.2x FY18E EPS. Given the strong brand name in the industry, robust order book, significant improvement in EBITDA margins, reducing debt level and high growth in profitability; We maintain our BUY rating with PT of Rs334 based at 15x FY18 EPS of Rs.22.3.

#### Exhibit 1: Key Financials

Y/E Mar/Rs mn	FY14	FY15	FY16	FY17E	FY18E
Sales	9,606	10,599	12,496	15,506	19,409
yoy (%)	(32.9)	10.3	17.9	24.1	25.2
EBITDA	355	1,147	1,608	1,938	2,426
yoy (%)	(211.7)	223.6	40.2	20.5	25.2
Adjusted PAT	(29)	640	844	1,093	1,492
yoy (%)	(96.9)	NA	31.8	29.5	36.5
Equity	126	134	134	134	134
EPS	(0.5)	9.6	12.6	16.3	22.3

Source: Company, AMSEC Research

#### Exhibit 2: Key Ratios

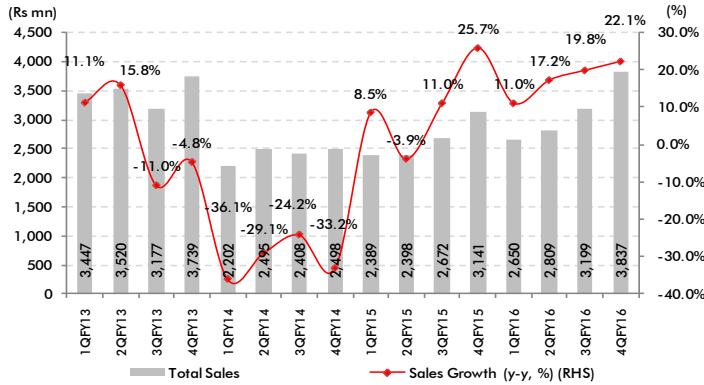
Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	3.7	10.8	12.9	12.5	12.5
NPM (%)	(0.3)	6.0	6.7	7.0	7.6
PER (x)	NA	28.4	21.6	16.6	12.2
P/BV (x)	7.5	5.4	4.3	3.5	2.8
EV/Sales (x)	2.0	1.8	1.5	1.2	0.9
EV/EBITDA (x)	53.3	16.7	11.6	9.3	7.2
RoACE (%)	7.6	21.6	29.0	33.1	37.6
RoANW (%)	(1.3)	22.7	22.2	23.2	25.5

**Exhibit 3: Ahluwalia Contracts: 4Q FY16 quarterly results**

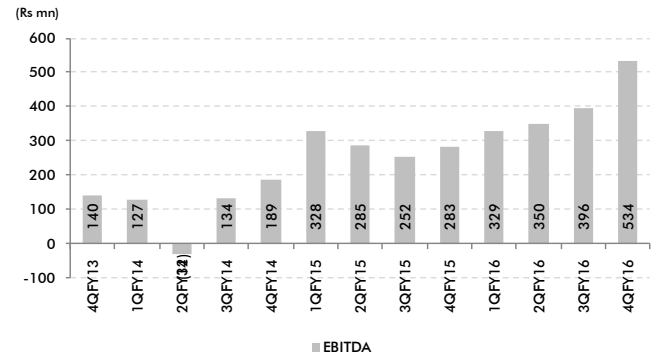
Y/E March(Rs mn)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	yoy(%)	qoq (%)	FY15	FY16	yoy (%)
<b>Net Sales</b>	<b>3,137</b>	<b>2,640</b>	<b>2,802</b>	<b>3,197</b>	<b>3,829</b>	<b>22.1</b>	<b>19.8</b>	<b>10,579</b>	<b>12,469</b>	<b>17.9</b>
Other Operational Income	4	10	7	2	8	83.1	249.4	20	27	32.0
<b>Total Sales</b>	<b>3,141</b>	<b>2,650</b>	<b>2,809</b>	<b>3,199</b>	<b>3,837</b>	<b>22.1</b>	<b>19.9</b>	<b>10,599</b>	<b>12,496</b>	<b>17.9</b>
Stock Adjustment	240	(204)	44	(221)	(67)	(128.1)	(69.5)	166	(448)	(370.0)
Consumption of Raw Materials	1,453	1,392	1,202	1,777	2,124	46.2	19.5	5,074	6,495	28.0
Purchase of Traded Goods	618	591	653	657	622	0.6	(5.4)	2,010	2,522	25.5
Employee Cost	385	374	392	401	421	9.4	4.9	1,501	1,588	5.8
Other Expenditure	163	168	168	189	204	25.3	8.0	700	730	4.3
Total Expenditure	2,858	2,322	2,459	2,804	3,303	15.6	17.8	9,451	10,887	15.2
<b>EBITDA</b>	<b>283</b>	<b>329</b>	<b>350</b>	<b>396</b>	<b>534</b>	<b>88.5</b>	<b>34.8</b>	<b>1,149</b>	<b>1,608</b>	<b>40.0</b>
Add: Other Income	41	43	32	16	45	8.5	186.0	117	136	16.2
Interest	98	91	75	66	120	22.5	82.5	386	352	(8.8)
Depreciation	51	49	50	49	52	3.6	5.9	212	201	(5.3)
Exceptional item Loss / (Gain)	-	-	-	-	-	-	-	-	-	-
<b>Profit Before Tax</b>	<b>175</b>	<b>232</b>	<b>258</b>	<b>296</b>	<b>406</b>	<b>131.2</b>	<b>37.0</b>	<b>668</b>	<b>1,192</b>	<b>78.5</b>
Provision for Taxation	1	44	67	98	138	12,521.1	41.9	26	347	1,222.4
<b>PAT</b>	<b>174</b>	<b>188</b>	<b>191</b>	<b>198</b>	<b>267</b>	<b>53.2</b>	<b>34.6</b>	<b>641</b>	<b>844</b>	<b>31.6</b>
Extra Ordinary Income	-	-	-	-	-	-	-	-	-	-
Share of Profit in Associate	-	-	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>174</b>	<b>188</b>	<b>191</b>	<b>198</b>	<b>267</b>	<b>53.2</b>	<b>34.6</b>	<b>641</b>	<b>844</b>	<b>31.6</b>
Equity Capital (FV ₹2)	134	134	134	134	134			134	134	
<b>Basic EPS (₹)</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>3.0</b>	<b>4.0</b>			<b>9.6</b>	<b>12.6</b>	
<b>Adjusted EPS (In ₹)</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>3.0</b>	<b>4.0</b>			<b>9.6</b>	<b>12.6</b>	
EBITDA (%)	9.0	12.4	12.5	12.4	13.9	490bp	154bp	10.8	12.9	203bp
PAT (%)	5.5	7.0	6.7	6.2	6.9	140bp	71bp	6.0	6.7	70bp
Tax / PBT (%)	0.6	19.0	26.0	33.0	34.1			3.9	29.2	
Raw Material / Net Sales (%)	73.5	67.1	67.6	69.2	69.8	(375bp)	62bp	68.4	68.6	

Source: AMSEC Research

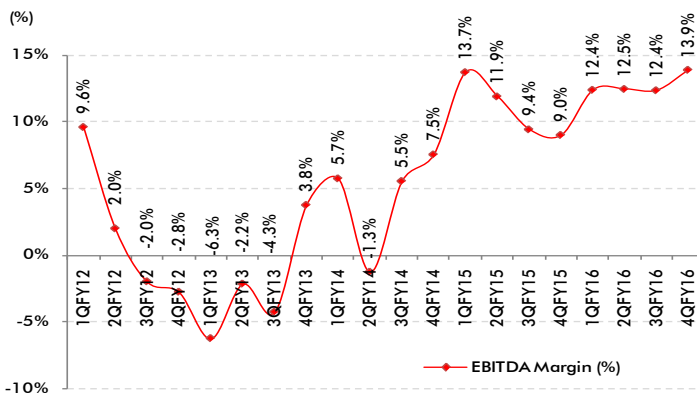
**Exhibit 4: Quarterly Revenue Trend**



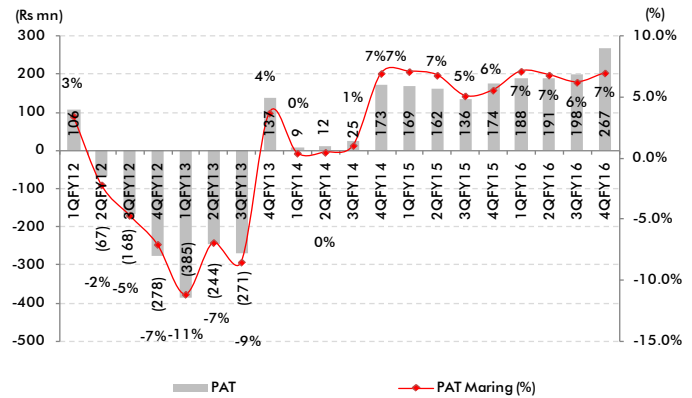
**Exhibit 5: Quarterly EBITDA trend**



**Exhibit 6: Quarterly EBITDAM Trend**



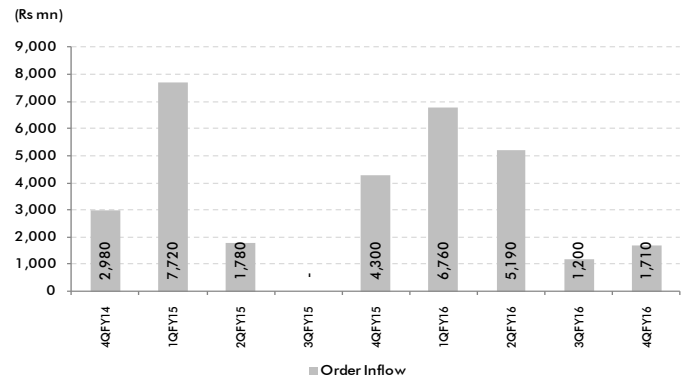
**Exhibit 7: Quarterly PAT & PAT Margin Trend**



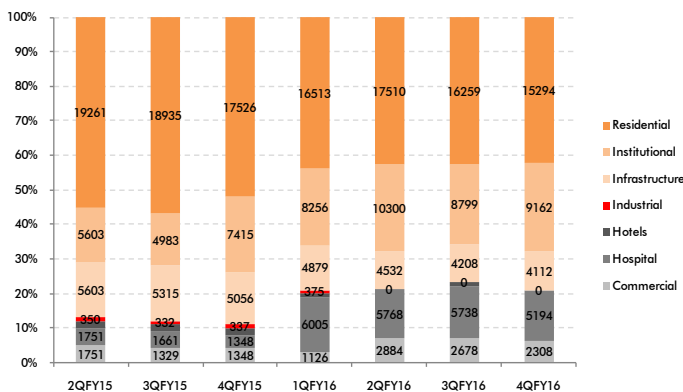
**Exhibit 8: Quarterly Order book trend**



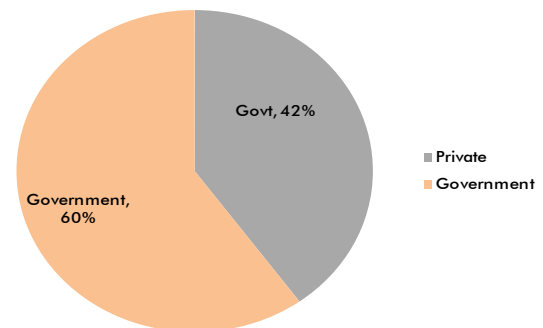
**Exhibit 9: Quarterly Order inflow trend**



**Exhibit 10: Quarterly Order book breakup**



**Exhibit 11: ACIL's increasing footprints in Govt. Sector**



Source: AMSEC Research

**Financials (Consolidated)**

<b>Profit &amp; Loss Account</b>						<b>Cash Flow Statement</b>					
Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	9,606	10,599	12,496	15,506	19,409	PBT	218	666	1,191	1,631	2,226
Other operating income	-	-	-	-	-	Non-cash adjustments	(4)	95	65	25	(15)
Consumption of materials	6,385	7,250	8,569	10,668	13,315	Changes in working capital	(152)	(285)	(312)	(405)	(743)
Staff Expenses	1,946	1,501	1,588	1,969	2,465	Interest Paid	386	386	352	282	215
Other operating expenses	920	701	730	930	1,203	Tax Paid & Other Adj	(88)	(106)	(343)	(538)	(735)
Total Expenditure	9,251	9,452	10,888	13,568	16,983	<b>Cashflow from operations</b>	<b>361</b>	<b>756</b>	<b>953</b>	<b>995</b>	<b>948</b>
<b>EBITDA</b>	<b>355</b>	<b>1,147</b>	<b>1,608</b>	<b>1,938</b>	<b>2,426</b>	Capital exp. & Advances	(64)	(113)	(218)	(200)	(200)
Depreciation	124	212	201	225	235	Change in investments	-	(0)	-	-	-
<b>Operating profit</b>	<b>231</b>	<b>936</b>	<b>1,408</b>	<b>1,713</b>	<b>2,192</b>	Other investing cashflow	128	117	136	200	250
Other income	128	117	136	200	250	<b>Cashflow from investing</b>	<b>64</b>	<b>4</b>	<b>(82)</b>	<b>-</b>	<b>50</b>
<b>EBIT</b>	<b>358</b>	<b>1,053</b>	<b>1,543</b>	<b>1,913</b>	<b>2,442</b>	Issue of equity	-	500	-	-	-
Interest	386	386	352	282	215	Issue/repay debt	(354)	(655)	(401)	(500)	(400)
Exceptional items	(246)	-	-	-	-	Interest Paid	(386)	(386)	(352)	(282)	(215)
<b>Profit before tax</b>	<b>218</b>	<b>666</b>	<b>1,191</b>	<b>1,631</b>	<b>2,226</b>	Dividends paid	-	-	-	(121)	(161)
Tax	1	26	347	538	735	Other financing cashflow	-	-	-	-	-
Minority interest	-	-	-	-	-	<b>Cashflow from financing</b>	<b>(741)</b>	<b>(541)</b>	<b>(753)</b>	<b>(903)</b>	<b>(776)</b>
<b>Reported net profit</b>	<b>217</b>	<b>640</b>	<b>844</b>	<b>1,093</b>	<b>1,492</b>	<b>Change in cash &amp; cash eq</b>	<b>(316)</b>	<b>220</b>	<b>118</b>	<b>92</b>	<b>223</b>
EO Items (loss/ (gain))	(246)	-	-	-	-	<b>Opening cash &amp; cash eq</b>	<b>862</b>	<b>546</b>	<b>765</b>	<b>883</b>	<b>975</b>
<b>Adjusted net profit</b>	<b>(29)</b>	<b>640</b>	<b>844</b>	<b>1,093</b>	<b>1,492</b>	<b>Closing cash &amp; cash eq</b>	<b>546</b>	<b>765</b>	<b>883</b>	<b>975</b>	<b>1,198</b>
Share O/s mn	63	67	67	67	67	<b>Free cash flow to firm</b>	<b>296</b>	<b>643</b>	<b>735</b>	<b>795</b>	<b>748</b>
EPS Rs (adjusted)	(0.5)	9.6	12.6	16.3	22.3						

<b>Balance Sheet</b>						<b>Ratios</b>					
Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS :</b>						<b>PER SHARE</b>					
Share Capital	126	134	134	134	134	EPS Rs (adjusted)	(0.5)	9.6	12.6	16.3	22.3
Reserves	2,135	3,241	4,085	5,058	6,388	CEPS Rs	1.5	12.7	15.6	19.7	25.8
Minority Interest	-	-	-	-	-	Book Value Rs	36.0	50.4	63.0	77.5	97.4
<b>Total Shareholders Funds</b>	<b>2,261</b>	<b>3,375</b>	<b>4,219</b>	<b>5,191</b>	<b>6,522</b>	<b>VALUATION</b>					
<b>Non-Current Liabilities</b>	<b>1,003</b>	<b>570</b>	<b>856</b>	<b>856</b>	<b>856</b>	EV / Net Sales	2.0	1.8	1.5	1.2	0.9
Long term borrowings	329	90	1	1	1	EV / EBITDA	53.3	16.7	11.6	9.3	7.2
Deferred tax liability	-	-	-	-	-	P / E Ratio	NA	28.4	21.6	16.6	12.2
Other long term liabilities	660	461	821	821	821	P / BV Ratio	7.5	5.4	4.3	3.5	2.8
Long-term provisions	14	20	34	34	34	<b>GROWTH YOY%</b>					
<b>Current Liabilities</b>	<b>7,240</b>	<b>6,477</b>	<b>6,492</b>	<b>7,426</b>	<b>8,740</b>	Sales Growth	(32.9)	10.3	17.9	24.1	25.2
Short term borrowings	1,935	1,460	1,329	829	429	EBITDA Growth	(211.7)	223.6	40.2	20.5	25.2
Trade payables	2,906	2,693	2,946	3,696	4,680	Net Profit Growth	(96.9)	NA	31.8	29.5	36.5
Other current liabilities	2,372	2,298	2,206	2,846	3,563	Gross Fixed Asset Growth	1.2	3.3	5.5	4.1	4.4
Short term provisions	27	25	12	55	69	<b>PROFITABILITY (%)</b>					
<b>Total Equity &amp; Liabilities</b>	<b>10,505</b>	<b>10,423</b>	<b>11,568</b>	<b>13,474</b>	<b>16,119</b>	Gross Profit/ Net sales	13.3	17.4	18.7	18.5	18.7
<b>APPLICATION OF FUNDS :</b>						EBITDA / Net Sales	3.7	10.8	12.9	12.5	12.5
<b>Non Current Assets</b>	<b>3,691</b>	<b>3,575</b>	<b>3,190</b>	<b>3,265</b>	<b>3,330</b>	EBIT / Net sales	3.7	9.9	12.4	12.3	12.6
Gross block (Total)	4,047	4,179	4,408	4,588	4,788	NPM / Total income	(0.3)	6.0	6.7	7.0	7.6
Less : accumulated depreciatio	2,032	2,181	2,382	2,607	2,841	Raw Material/Net Sales	66.5	68.4	68.6	68.8	68.6
Net block (Total)	2,015	1,998	2,026	1,982	1,947	ROIC	6.1	24.6	34.1	37.8	42.6
Capital work in progress	30	11	-	20	20	RONW	(1.3)	22.7	22.2	23.2	25.5
Noncurrent investment	1	1	1	1	1	ROCE	7.6	21.6	29.0	33.1	37.6
Deferred tax assets	162	154	149	149	149	Tax / PBT	(1.8)	3.9	29.2	33.0	33.0
Long term loans and advances	725	598	330	530	730	<b>TURNOVER</b>					
Other non-current assets	759	814	683	583	483	Net Working Cycle	72	75	73	68	68
<b>Current Assets</b>	<b>6,814</b>	<b>6,847</b>	<b>8,378</b>	<b>10,209</b>	<b>12,788</b>	Debtors Velocity (Days)	154	144	146	144	143
Current investment	-	-	-	-	-	Inventory (Days)	68	64	69	69	70
Inventories	1,720	1,665	2,047	2,549	3,244	Creditors Velocity (Days)	110	93	86	87	88
Sundry debtors	4,045	4,168	4,997	6,133	7,629	Current Ratio	1.4	1.6	1.6	1.5	1.5
Cash and bank	546	765	883	975	1,198	Quick Ratio	1.1	1.2	1.2	1.2	1.2
Short loans and advances	463	202	387	467	585	<b>LIQUIDITY</b>					
Others current assets	40	47	64	85	133	Gross Asset Ratio	2.4	2.6	2.9	3.4	4.1
<b>Total Assets</b>	<b>10,505</b>	<b>10,423</b>	<b>11,568</b>	<b>13,474</b>	<b>16,119</b>	Total Asset Ratio	0.9	1.0	1.1	1.2	1.3
						Net Debt-Equity Ratio	0.8	0.3	0.1	(0.03)	(0.12)
						Interest Coverage (x)	0.9	2.7	4.4	6.8	11.4
						<b>PAYOUT</b>					
Net Working Capital*	1,893	2,178	2,490	2,895	3,638	Payout %	-	-	-	11	11
Total Gross Debt*	2,386	1,731	1,330	830	430	Dividend %	-	-	-	75	100
Total Net Debt	1,840	966	447	(145)	(767)	Yield %	-	-	-	0.6	0.7
Capital Employed*	4,647	5,107	5,549	6,022	6,953						

Source: Company, AMSEC Research

## Recommendation rationale

<b>Buy:</b> Potential upside of	> +15% (absolute returns)
<b>Accumulate:</b>	> +5 to +15%
<b>Reduce:</b>	+5 to -5%
<b>Sell:</b>	< -5%
<b>Not Rated (NR):</b>	No investment opinion on the stock

## Sector rating

<b>Overweight:</b>	The sector is expected to outperform relative to the Sensex.
<b>Underweight:</b>	The sector is expected to underperform relative to the Sensex.
<b>Neutral:</b>	The sector is expected to perform in line with the Sensex.

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5. Investment Banking relationship with company covered:	None

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