

15 February 2016

Ahluwalia Contracts (India)

Moving toward a high-growth trajectory; Buy

Rating: **Buy**

Target Price: ₹344

Share Price: ₹242

Ahluwalia Contracts posted a strong set of figures for Q3 FY16 bolstered by its robust order backlog coupled with better execution. The EBITDA margins have risen for three consecutive quarters, to 12.4%. We expect the strong revenue growth and better margins to drive its growth. We maintain our Buy rating, with a price target of ₹344.

Strong revenue growth. Ahluwalia's Q3 FY16 revenue jumped 19.8% yoy; its 9M FY16 revenue rose 16.1% yoy, driven by strong execution. We expect ~25% yoy revenue growth in the next two years, supported by orders from the public sector and its focused execution.

Margins gaining traction with shift in order mix. The EBITDA margin rose 295bps yoy, to 12.4%. The continuous expansion stemmed from reducing low-margin orders and the change in order mix toward government contracts (58%). We expect the EBITDA margin over the next two years to hold at ~13% following the robust orders in FY15 and in 9M FY16.

Healthy order-backlog. For this fiscal, the company is aiming at fresh orders of ~₹16bn. Of this, it has already bagged orders of ~₹13.6bn, taking its order book to ~₹38.3bn (3.2x TTM revenues). Ahluwalia is experiencing less competitive intensity and huge order inflows from the new redevelopment orders in the NCR. The projects-bid pipeline amounts to ₹20bn. It is aiming at fresh orders of ~₹2.5bn in Q4 FY16 and ~₹20bn in FY17, backed by a constructive bid pipeline and vast coming tendering opportunities.

Valuation. The better operating performance and low gearing have led to better return ratios, up into the higher twenties. We expect the strong revenue growth and improvement in margins to drive growth for Ahluwalia Contracts. We maintain a Buy rating on the stock, with a price target of ₹344, based on 15x FY18e PE. Risk: Any major liability arising out of litigation.

Key data	AHLU IN / AHLU.BO
52-week high / low	₹303 / ₹189
Sensex / Nifty	23554 / 7162
3-m average volume	\$0.5m
Market cap	₹16.2bn / \$246m
Shares outstanding	66.9m

Shareholding pattern (%)	Dec '15	Sep '15	Jun '15
Promoters	62.4	66.9	66.9
- of which, Pledged	21.6	21.6	20.7
Free Float	37.6	31.1	27.4
- Foreign Institutions	19.3	12.5	15.1
- Domestic Institutions	9.5	8.2	5.9
- Public	8.8	12.4	12.1

Estimates revision (%)	FY16e	FY17e	FY18e
Sales	(1.6)	(1.6)	(1.6)
EBITDA	(3.1)	(2.4)	(4.6)
PAT	(4.1)	(7.0)	(5.2)

Financials (YE Mar)	FY17e	FY18e
Sales (₹m)	16,356	20,267
Net profit (₹m)	1,202	1,537
EPS (₹)	17.9	22.9
Growth (%)	33.5	27.9
PE (x)	13.5	10.5
P/B (x)	3.0	2.3
RoE (%)	24.7	24.6
RoCE (%)	32.2	33.9
Dividend yield (%)	0.0	0.0
Net debt/equity (x)	-0.1	-0.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q3 FY16	Q3 FY15	% yoy	9MFY16	9MFY15	% yoy
Sales (₹ m)	3,199	2,672	19.8	8,659	7,458	16.1
EBITDA (₹ m)	396	252	57.0	1,075	865	24.2
EBITDA margin (%)	12.4	9.4	294bps	12.4	11.6	81bps
Interest (₹ m)	66	93	(29.2)	232	288	(19.5)
Depreciation (₹ m)	49	52	(4.2)	148	161	(8.1)
Other income (₹ m)	16	41	(61.9)	91	76	20.4
PBT (₹ m)	296	148	99.6	786	492	59.7
Tax (₹ m)	98	12	681.0	209	25	730.1
Reported PAT (₹ m)	198	136	46.1	577	467	23.5
Adj. PAT (₹ m)	198	136	46.1	577	467	23.5

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Net revenues	9,603	10,599	13,087	16,356	20,267
Revenue growth (%)	-30.8	10.4	23.5	25.0	23.9
- Op. expenses	9,186	9,451	11,451	14,222	17,637
EBIDTA	417	1,149	1,636	2,134	2,630
EBITDA margins (%)	4.3	10.8	12.5	13.0	13.0
- Interest	363	386	310	260	260
- Depreciation	122	212	210	220	220
+ Other income	144	117	134	139	144
- Tax	1	26	350	592	757
Effective tax rate (%)	0.7	3.9	28.0	33.0	33.0
+ Asso/(Minorities)					
Adjusted PAT	76	641	900	1,202	1,537
+ Extraordinary items	141	-	-	-	-
Reported PAT	217	641	900	1,202	1,537
Adj. FDEPS (₹/share)	1.2	9.6	13.4	17.9	22.9
Adj. FDEPS growth (%)	NA	686.9	40.4	33.5	27.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Share capital	126	134	134	134	134
Reserves & surplus	2,136	3,243	4,143	5,345	6,882
Net worth	2,262	3,377	4,277	5,479	7,016
Total debt	2,386	1,731	1,331	1,131	931
Minority interest					
Def. tax liab. (net)	-162	-154	-154	-154	-154
Capital employed	4,485	4,955	5,455	6,457	7,794
Net fixed assets	1,977	1,942	1,938	1,918	1,898
Intangible assets	7	6	-	-	-
Investments	15	63	63	63	63
- of which, Liquid	-	-	-	-	-
Working capital	1,941	2,179	2,242	2,995	3,967
Cash	545	765	1,211	1,480	1,866
Capital deployed	4,485	4,955	5,455	6,457	7,794
Working capital (days)	74	75	63	67	71
Book value (₹/sh)	35.9	50.3	63.7	81.7	104.6

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

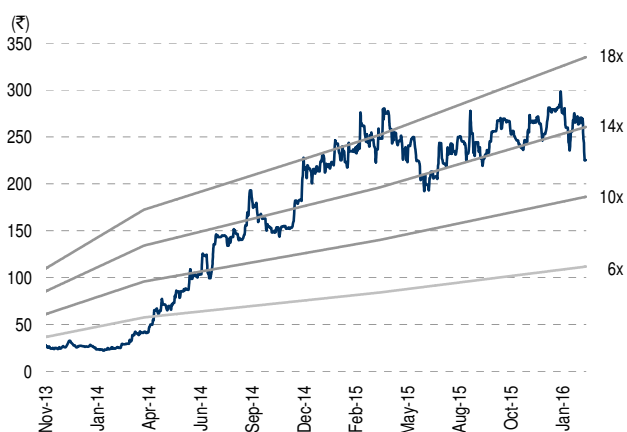
Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
Adjusted PAT	76	641	900	1,202	1,537
+ Non-cash items	122	220	210	220	220
Cash profit	198	861	1,110	1,422	1,757
- Incr./decr. in WC	194	238	63	753	972
Operating cash-flow	4	624	1,047	669	786
- Capex	313	175	200	200	200
Free cash-flow	-309	449	847	469	586
- Dividend	0	0	0	0	0
+ Equity raised	-0	474	0	0	0
+ Debt raised	-142	-655	-400	-200	-200
- Investments	-	49	-	-	-
- Misc. items	-141	-	-	-	-
Net cash-flow	-310	220	447	269	386
+ Op. cash & bank bal.	855	545	765	1,211	1,480
Cl. Cash & bank bal.	545	765	1,211	1,480	1,866

Source: Company, Anand Rathi Research

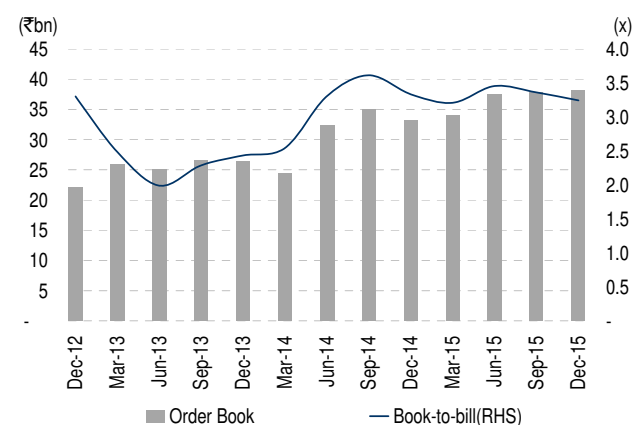
Fig 4 – Ratio analysis @ ₹242

Year-end: Mar	FY14	FY15	FY16e	FY17e	FY18e
P/E (x)	199.0	25.3	18.0	13.5	10.5
Cash P/E (x)	76.8	19.0	14.6	11.4	9.2
EV/EBITDA (x)	43.3	15.0	10.0	7.4	5.8
EV/sales (x)	1.9	1.6	1.2	1.0	0.8
P/B (x)	6.7	4.8	3.8	3.0	2.3
RoE (%)	3.6	22.8	23.6	24.7	24.6
RoCE (%)	6.7	19.9	27.4	32.2	33.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (x)	0.8	0.3	0.0	-0.1	-0.1
Debtor (days)	179	179	180	175	175
Inventory (days)	65	65	68	65	65
Interest exp./Sales	3.8	3.6	2.4	1.6	1.3
Revenue growth (%)	-30.8	10.4	23.5	25.0	23.9
Fixed asset T/O (x)	2.9	3.2	3.5	4.0	4.7

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Anand Rathi Research

Fig 6 – Order-book vs book-to-bill


Source: Anand Rathi Research

Result Highlights

Fig 7 – Q3 FY16 Results vs Expectations

Year-end: Mar	Q3 FY16	Q3 FY15	% yoy	Q2 FY16	% qoq	Q3 FY16e	% var
Sales (₹m)	3,199	2,672	19.8	2,809	13.9	3,322	(3.7)
EBITDA (₹m)	396	252	57.0	350	13.0	399	(0.7)
EBITDA margin (%)	12.4	9.4	294bps	12.5	-10bps	12.0	37bps
Interest (₹m)	66	93	(29.2)	75	(12.1)	90	(26.7)
Depreciation (₹m)	49	52	(4.2)	50	(0.4)	53	(6.7)
Other income(₹m)	16	41	(61.9)	32	(51.5)	40	(60.9)
PBT (₹m)	296	148	99.6	258	14.8	296	0.1
Tax (₹m)	98	12	681.0	67	45.4	89	10.0
Tax rate (%)	33.0	8.4	2455bps	26.0	693bps	30.0	298bps
Adj. PAT (₹m)	198	136	46.1	191	4.1	207	(4.2)

Source: Company, Anand Rathi Research

Fig 8 – Change in estimates

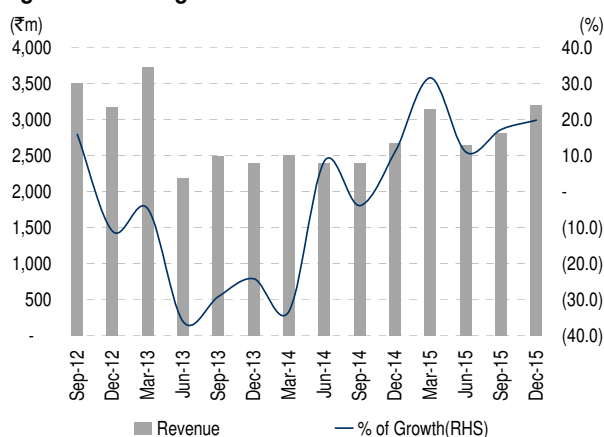
	Old			New			Variance		
	FY16e	FY17e	FY18e	FY16e	FY17e	FY18e	%chg	%chg	%chg
Sales (₹ m)	13,299	16,621	20,596	13,087	16,356	20,267	(1.6)	(1.6)	(1.6)
EBITDA (₹ m)	1,689	2,186	2,755	1,636	2,134	2,630	(3.1)	(2.4)	(4.6)
PAT (₹ m)	938	1,292	1,621	900	1,202	1,537	(4.1)	(7.0)	(5.2)

Source: Anand Rathi Research

Change in estimates

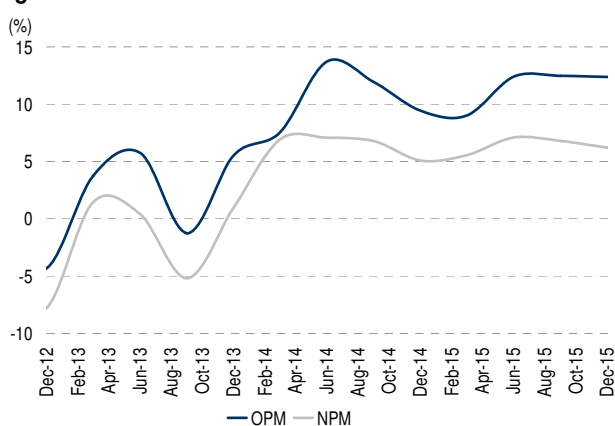
We have cut our FY16/17/18 revenue estimates, respectively, by 1.6% each. We expect a better EBITDA margin in the range of 12.5–13% for FY16-FY18. The FY16, FY17 and FY18 PAT estimates have been cut by, respectively 4.1%, 7% and 5.2%. We expect Ahluwalia to continue the good growth, driven by strong order inflows since the focus has shifted from private to government orders.

Fig 9 – Revenue-growth trend



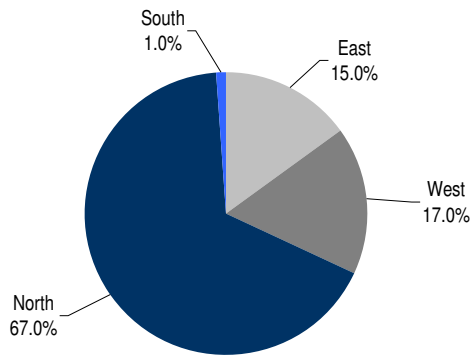
Source: Company, Anand Rathi Research

Fig 10 – OPM and NPM trend



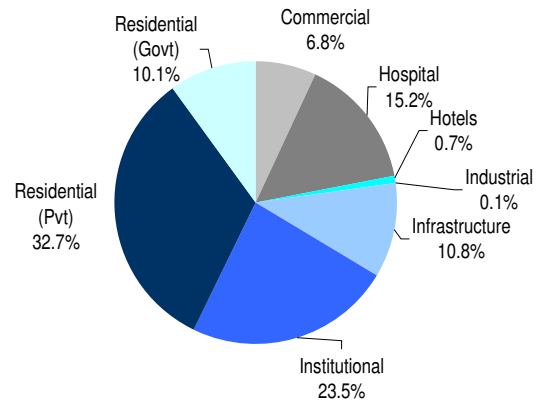
Source: Company, Anand Rathi Research

Fig 11 – Order-book break-up, area-wise (Q3 FY16)



Source: Company, Anand Rathi Research

Fig 12 – Order-book break-up: segment-wise (Q3 FY16)

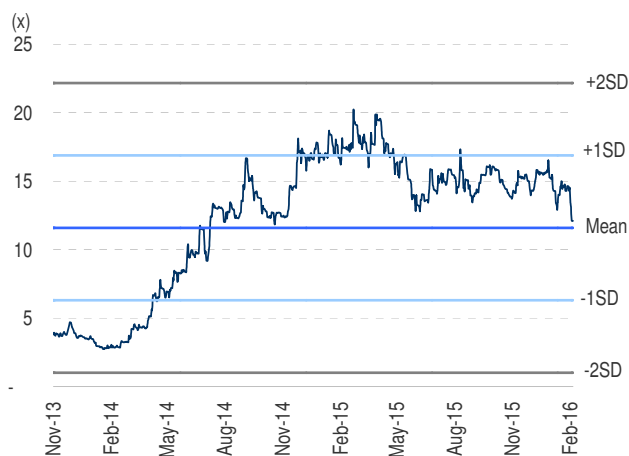


Source: Company, Anand Rathi Research

Valuation

The better operating performance and low gearing have led to better return ratios, up in the higher twenties. We expect the strong revenue growth and improvement in margins to drive growth for Ahluwalia Contracts. We maintain a Buy rating, with a price target of ₹344, based on 15x FY18e PE.

Fig 13 – One-year-forward PE: Mean and Standard deviation



Source: Bloomberg, Anand Rathi Research

Risk

- Lack of building orders from the government.
- Any major liability arising out of litigation

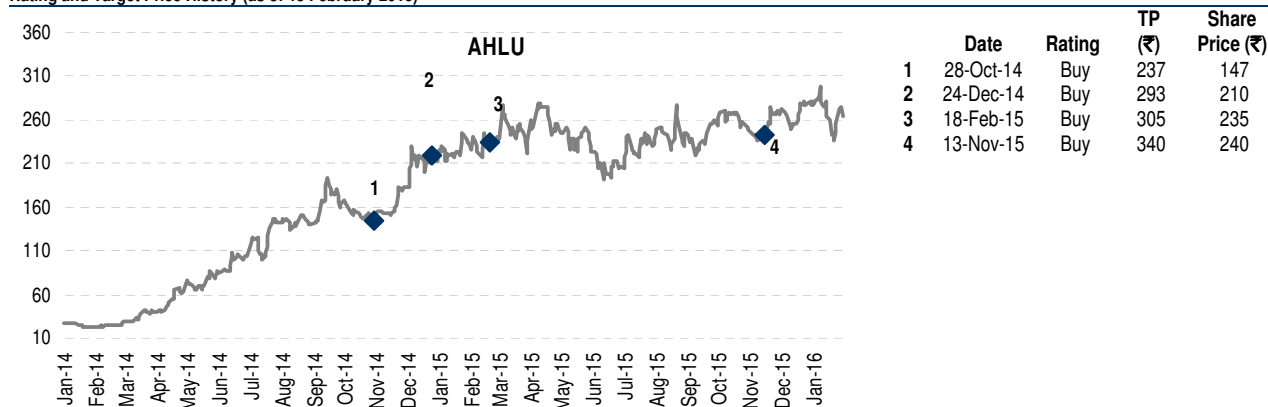
Appendix

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