

AHLUWALIA CONTRACTS

Extends robust performance

India Equity Research | Infrastructure - Construction



Ahluwalia Contracts (ACIL) extended its robust performance in Q4FY16 with topline at INR3.8bn, growing 22% YoY (our estimate INR3.9bn). EBITDA margin improved ~490bps YoY aided by operating leverage and increased contribution from high margin new orders. With capital charge in control, PAT surged 53% YoY to INR267mn. Management has guided for steady 20-25% revenue growth; we believe there is still some scope for margin improvement. Conservative bidding strategy oriented towards public sector projects, improving margin trajectory, falling leverage and healthy revenue visibility (book-to-bill at 2.9x) underpin our bullish stance on ACIL. Maintain 'BUY' with target price of INR371.

Excellent performance once again

The fourth consecutive quarter of improving YoY top line growth enabled ACIL to post INR3.8bn revenues. The company delivered 18% revenue growth for FY16 and has guided for steady 20-25% revenue growth going ahead. Dwindling low-margin legacy projects and better margins on new projects led to EBITDA margin jumping ~490bps to 13.9% (12.9% for FY16). Management guided for a minimum of 13% margins going ahead. PAT came in strong at INR267mn, up 53% YoY.

Order intake remains robust

ACIL bagged INR14.9bn orders in FY16, ending the year with an order book of INR36bn (~2.9x TTM revenue). The company has won ~INR5bn worth of orders YTD and is L1 in further INR6.7bn orders. Buoyed by healthy bid pipeline and limited competition, management is targeting INR20bn fresh orders in FY17.

Outlook and valuations: Attractive; maintain 'BUY'

Surging order book, improving margin trajectory and falling leverage will enable ACIL to deliver 23% revenue CAGR and 27% EPS CAGR over FY16-18E along with 23% RoEs. It is an attractive bet for investors looking for steady business performance. We maintain 'BUY' with a target price of INR371 based on 18x FY18E EPS.

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 269
Target Price	: INR 371
52-week range (INR)	: 320 / 188
Share in issue (mn)	: 67.0
M cap (INR bn/USD mn)	: 18 / 266
Avg. Daily Vol. BSE/NSE ('000)	: 83.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY16	Q2FY16
Promoters *	62.4	62.4	66.9
MF's, FI's & BKs	9.6	9.5	8.2
FII's	19.1	19.3	12.5
Others	8.8	8.8	12.4
* Promoters pledged shares (% of share in issue)	:	21.2	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(0.4)	(10.7)	(10.3)
3 months	13.7	21.5	7.9
12 months	3.3	7.3	4.0

Financials

(INR mn)

Year to March	Q4FY16	Q4FY15	% change	Q3FY16	% change	FY16	FY17E	FY18E
Revenues	3,837	3,141	22.1	3,199	19.9	12,496	15,620	19,056
EBITDA	534	283	88.5	396	34.8	1,608	2,029	2,488
Adj. profit	267	174	53.2	208	28.7	854	1,055	1,380
Dilu.EPS (INR)	4.0	2.6	53.2	3.1	28.7	12.7	15.8	20.6
Dilu.P/E (x)						21.1	17.1	13.1
EV/EBITDA (x)						11.5	8.7	7.0
ROAE (%)						22.5	22.2	23.1

Parvez Akhtar Qazi

+91 22 4063 5405
parvez.qazi@edelweissfin.com

Rita Tahilramani

+91 22 6623 7440
rita.tahilramani@edelweissfin.com

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Concall highlights

- **Order book break up:** Commercial (6%), Hotel (1%), Hospital (14%), Infrastructure (11%), Institutional (26%), Residential (42%)
- Debt as at FY16 end, stood at INR1.38bn (INR1.73bn as at FY15 end). Management is targeting to bring it down to below INR1bn levels in 2 years.
- ACIL expects lease rentals from the Kota project to start in 1-2 months.
- Slow moving/legacy/fixed price contracts in the order book have reduced to INR1.5bn (INR2bn last quarter)
- Average cost of debt is 11.5-12% currently; management is targeting 100bps reduction in debt going ahead.

Chart 1: Strong revenue visibility

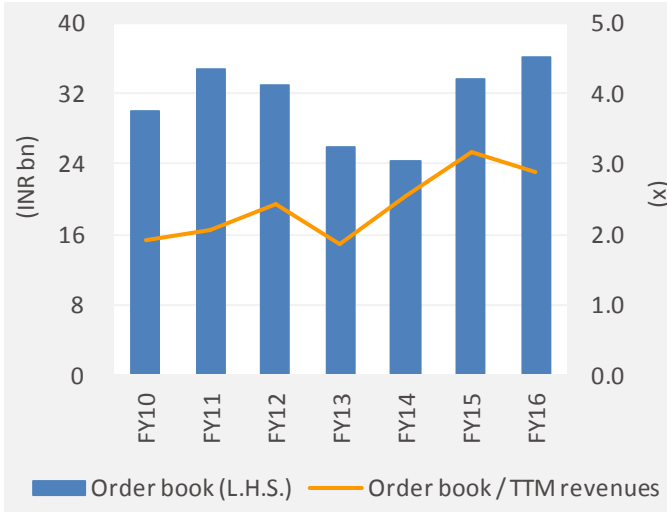
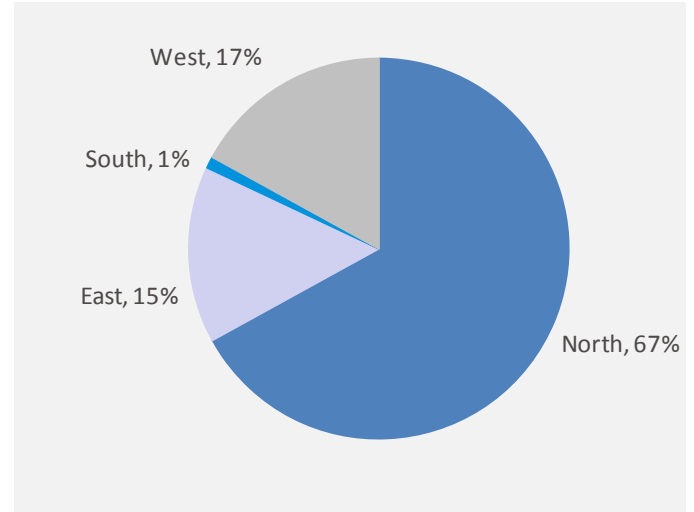
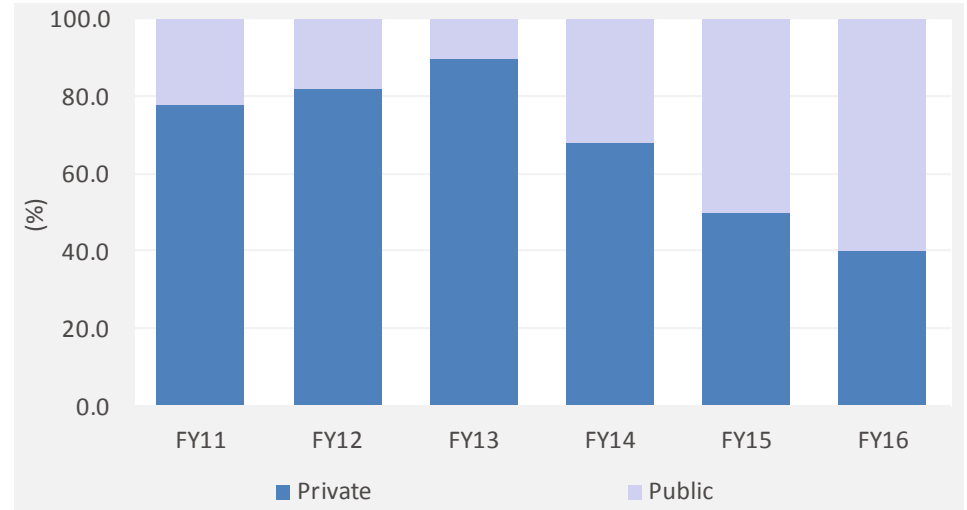


Chart 2: North dominates order book



Source: Company, Edelweiss research

Chart 3: Strategic shift to public sector contracts



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY16	Q4FY15	% change	Q3FY16	% change	FY16	FY17E	FY18E
Net revenues	3,837	3,141	22.1	3,199	19.9	12,496	15,620	19,056
Direct costs	3,040	2,620	16.0	2,581	17.8	9,977	12,393	15,119
Staff costs	196	194	1.3	178	10.4	711	920	1,122
Other expenses	67	44	51.4	45	49.2	200	279	327
Total expenditure	3,303	2,858	15.6	2,804	17.8	10,887	13,591	16,568
EBITDA	534	283	88.5	396	34.8	1,608	2,029	2,488
Depreciation	52	51	3.6	50	5.4	201	236	289
EBIT	481	233	107.0	346	39.1	1,408	1,793	2,199
Other income	45	41	8.5	16	185.9	136	111	142
Interest	120	98	22.5	66	82.5	352	306	250
Add: Prior period items						(10)		
Add: Exceptional items								
Profit before tax	406	175	131.2	296	37.1	1,182	1,599	2,090
Provision for taxes	138	1	12,512.0	88	57.0	338	543	711
Reported profit	267	174	53.2	208	28.7	844	1,055	1,380
Adjusted Profit	267	174	53.2	208	28.7	854	1,055	1,380
Equity capital	134	134		134		134	134	134
Diluted shares (mn)	67	67		67		67	67	67
Adjusted Diluted EPS	4.0	2.6		3.1		12.7	15.8	20.6
As % of revenues								
Direct costs	79.2	83.4		80.7		79.8	79.3	79.3
Other expenses	1.8	1.4		1.4		1.6	1.8	1.7
EBITDA	13.9	9.0		12.4		12.9	13.0	13.1
Reported net profit	7.0	5.5		6.5		6.8	6.8	7.2
Tax rate	34.1	0.6		29.8		28.6	34.0	34.0

Company Description

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.

Major segments where the company works in are:

Commercial: Construction of malls, shopping complexes & exhibition facilities; healthcare services, educational facilities and hospitality sector, corporate offices and buildings.

Industrial facilities: Construction of buildings for manufacturing facilities with structural steel work, sheeting, specialised flooring, external and internal finishes.

Infrastructure: Construction of airports, urban infrastructure, parking lots, metro stations, etc.

Housing (Residential): Construction of buildings for group housing projects. ACIL executes turnkey projects including civil, electrical, plumbing, fire-fighting, lifts, external and internal finishes, external landscaping etc.

Investment Theme

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 of 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. Government projects ensure margin stability, payment security and greater confidence in execution timelines, de-risking the company's business model. In addition, company is either negotiating or terminating slow moving orders to ensure that it does not lose out on margins due to higher overheads on stalled projects.

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.

Financial Statements

Key Assumptions

Year to March	FY15	FY16	FY17E	FY18E
Macro				
GDP(Y-o-Y %)	7.2	7.4	7.9	8.3
Inflation (Avg)	5.9	4.8	5.0	5.2
Repo rate (exit rate)	7.5	6.8	6.0	6.0
USD/INR (Avg)	61.1	65.0	67.5	67.0
Company				
Order intake (INR bn)	20	15	25	29
Y-o-Y growth (%)	143.3	(25.2)	67.3	16.1
Book-to-bill ratio (x)	3.2	2.9	2.9	2.9
Order backlog (INR bn)	34	36	45	55
Order backlog growth (%)	38.0	7.0	25.6	21.6
Revenue growth (% yoy)	10	18	25	22
Raw Material (% net rev)	51.1	48.6	48.1	48.0
Employee (% of net rev)	6.6	5.7	5.9	5.9
Job work (as % of sales)	17.3	20.0	20.0	20.0
Other mfg(as % of sales)	12.6	11.3	11.3	11.4
Other admin (% net rev)	1.6	1.6	1.8	1.7
Avg. Interest rate (%)	18.8	22.6	15.0	13.0
Depreciation rate (%)	6.3	5.8	6.1	6.4
Tax rate (%)	3.1	28.3	34.0	34.0
Inc. in invts (INR mn)	49	-	-	-
Capex (INR mn)	113	218	(234)	750
Debtor days	166	163	145	145
Inventory days	72	68	68	69
Other cur. assets days	28	23	19	19
Payable days	96	82	77	78
Other creditors days	75	62	60	64
Provisions days	1	1	1	1
Incremental debt	(655)	(351)	(150)	(300)

Income statement

(INR mn)

Year to March	FY15	FY16	FY17E	FY18E
Income from operations	10,599	12,496	15,620	19,056
Direct costs	8,585	9,977	12,393	15,119
Employee costs	695	711	920	1,122
Other Expenses	171	200	279	327
Total operating expenses	9,451	10,887	13,591	16,568
EBITDA	1,149	1,608	2,029	2,488
Depreciation	212	201	236	289
EBIT	937	1,408	1,793	2,199
Add: Other income	117	136	111	142
Less: Interest Expense	386	352	306	250
Add: Prior period items	(5)	(10)	-	-
Profit Before Tax	663	1,182	1,599	2,090
Less: Provision for Tax	21	338	543	711
Prior Period(Net of Tax)	(5)	(10)	-	-
Reported Profit	642	844	1,055	1,380
Adjusted Profit	647	854	1,055	1,380
Shares o /s (mn)	67	67	67	67
Adjusted Basic EPS	9.7	12.7	15.8	20.6
Diluted shares o/s (mn)	67	67	67	67
Adjusted Diluted EPS	9.7	12.7	15.8	20.6
Adjusted Cash EPS	13.1	15.8	19.3	24.9

Common size metrics

Year to March	FY15	FY16	FY17E	FY18E
Operating expenses	89.2	87.1	87.0	86.9
Depreciation	2.0	1.6	1.5	1.5
Interest Expense	3.6	2.8	2.0	1.3
EBITDA margins	10.8	12.9	13.0	13.1
Other income	1.1	1.1	0.7	0.7
Tax	0.2	2.7	3.5	3.7
EBIT margins	8.8	11.3	11.5	11.5
Adj. Profit margins	6.1	6.8	6.8	7.2

Growth ratios (%)

Year to March	FY15	FY16	FY17E	FY18E
Revenues	10.4	17.9	25.0	22.0
EBITDA	175.4	40.0	26.1	22.6
PBT	204.1	78.3	35.3	30.8
Adjusted Profit	746.7	32.1	23.5	30.8
EPS	693.3	32.1	23.5	30.8

Infrastructure - Construction

Balance sheet		(INR mn)			
As on 31st March	FY15	FY16	FY17E	FY18E	
Share capital	134	134	134	134	
Reserves & Surplus	3,243	4,087	5,142	6,522	
Shareholders' funds	3,377	4,221	5,276	6,656	
Short term borrowings	1,641	1,379	1,229	929	
Long term borrowings	90	1	1	1	
Total Borrowings	1,731	1,380	1,230	930	
Long Term Liabilities	480	854	856	858	
Def. Tax Liability (net)	(154)	(149)	(149)	(149)	
Sources of funds	5,435	6,306	7,213	8,294	
Gross Block	3,326	3,541	4,088	4,835	
Net Block	1,158	1,176	1,491	1,953	
Capital work in progress	784	784	-	-	
Intangible Assets	6	6	5	4	
Total Fixed Assets	1,948	1,966	1,496	1,957	
Non current investments	63	63	63	63	
Cash and Equivalents	765	882	1,663	1,583	
Inventories	1,665	2,047	2,570	3,146	
Sundry Debtors	4,820	5,575	6,835	8,305	
Loans & Advances	800	717	909	1,075	
Other Current Assets	209	169	312	381	
Current Assets (ex cash)	7,494	8,508	10,627	12,907	
Trade payable	2,693	2,946	3,645	4,500	
Other Current Liab	2,143	2,168	2,991	3,716	
Total Current Liab	4,836	5,113	6,636	8,216	
Net Curr Assets-ex cash	2,658	3,395	3,991	4,691	
Uses of funds	5,435	6,306	7,213	8,294	
BVPS (INR)	50.4	63.0	78.8	99.4	

Free cash flow		(INR mn)			
Year to March	FY15	FY16	FY17E	FY18E	
Reported Profit	642	844	1,055	1,380	
Add: Depreciation	212	201	236	289	
Interest (Net of Tax)	374	251	202	165	
Others	(353)	(247)	(202)	(165)	
Less: Changes in WC	164	403	450	630	
Operating cash flow	710	646	841	1,039	
Less: Capex	113	218	(234)	750	
Free Cash Flow	597	428	1,074	289	

Cash flow metrics		FY15	FY16	FY17E	FY18E
Year to March					
Operating cash flow		710	646	841	1,039
Investing cash flow		(161)	(218)	234	(750)
Financing cash flow		(180)	(351)	(150)	(300)
Net cash Flow		368	77	924	(11)
Capex		(113)	(218)	234	(750)

Profitability and efficiency ratios		FY15	FY16	FY17E	FY18E
Year to March					
ROAE (%)		22.9	22.5	22.2	23.1
ROACE (%)		19.3	25.6	27.6	29.6
Inventory Days		72	68	68	69
Debtors Days		164	152	145	145
Payable Days		212	181	173	179
Cash Conversion Cycle		71	74	69	64
Current Ratio		1.5	1.7	1.6	1.6
Debt/EBITDA (x)		1.5	0.9	0.6	0.4
Avg working cap t/o		3.2	3.2	3.1	3.2
Avg cap employed t/o(x)		2.0	2.1	2.3	2.5
Debt/Equity (x)		0.5	0.3	0.2	0.1
Adjusted Debt/Equity		0.5	0.3	0.2	0.1
Net Debt/Equity		0.5	0.3	0.2	0.1
Interest Coverage Ratio		2.4	4.0	5.9	8.8

Operating ratios		FY15	FY16	FY17E	FY18E
Year to March					
Total Asset Turnover		2.0	2.1	2.3	2.5
Fixed Asset Turnover		8.6	10.7	11.7	11.0
Equity Turnover		3.8	3.3	3.3	3.2

Valuation parameters		FY15	FY16	FY17E	FY18E
Year to March					
Adj. Diluted EPS (INR)		9.7	12.7	15.8	20.6
Y-o-Y growth (%)		693.3	32.1	23.5	30.8
Adjusted Cash EPS (INR)		13.1	15.8	19.3	24.9
Diluted P/E (x)		27.8	21.1	17.1	13.1
P/B (x)		5.3	4.3	3.4	2.7
EV / Sales (x)		1.8	1.5	1.1	0.9
EV / EBITDA (x)		16.5	11.5	8.7	7.0

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Ahluwalia Contracts	266	17.1	13.1	8.7	7.0	22.2	23.1
Nagarjuna Construction Co	586	19.5	13.3	7.4	6.4	5.8	8.0
Simplex Infrastructures Ltd	193	15.4	8.4	6.3	5.0	5.5	9.4
Median	-	16.2	13.0	7.4	6.4	5.8	9.4
AVERAGE	-	17.0	11.6	7.5	6.2	11.5	13.5

Source: Edelweiss research

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 – Top10

	Perc. Holding		Perc. Holding
Nalanda Funds	11.07	BNP Paribas	2.81
Government Pension Fund Global	2.50	SBI Asset Management	1.93
Blackrock India Equities Fund	1.49	Canara Robeco Asset Management	1.47
Franklin Templeton Asset Management	1.15	L&T Asset Management	1.10
DSP Blackrock Asset Management	1.11	L&T Investment Management	0.96

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
17 Nov 2015	Norges Bank A/C Government Pension Fund Global	Buy	1652051	250.00
17 Nov 2015	Pushpa Rani	Sell	2100000	250.08
14 Jul 2015	Franklin Templeton Mutual Fund - Franklin India Smaller Com	Buy	417868	220.57

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
15 Dec 2015	PUSHPA RANI	Sell	319500.00

**as per last available data*

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Nirav Sheth

Head Research

nirav.sheth@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
24-May-16	Nagarjuna Construction	Strong results, order intake a worry; <i>Result Update</i>	71	Buy
20-May-16	Construction	Railways: Well begun is half done; <i>Sector Update</i>		
16-May-16	NBCC	On sound turf; <i>Result Update</i>	978	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	156	60	12	228

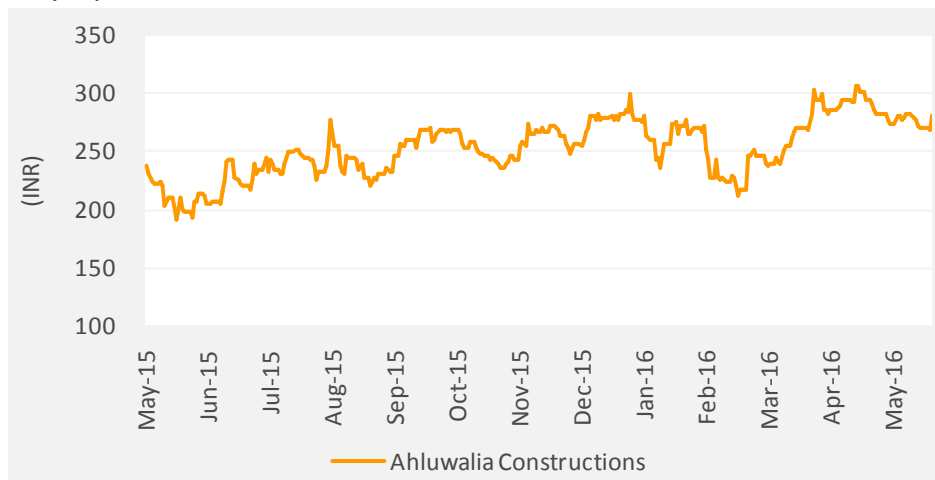
* - stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	158	62	8

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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