

# Ahluwalia Contracts (India)

India Research

**QUARTERLY REVIEW**

 Bloomberg: AHLU IN  
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**BUY**

## Strong execution, better margins drive earnings...

Q4FY16 revenue of Rs 3.84bn (+22% YoY) was in-line with our estimate. However, EBITDA of Rs 534mn (+88% YoY) was higher than our estimate of Rs 472mn, led by better than expected EBITDA margin at 13.9% (+490 bps YoY). The strong operational performance on YoY basis is primarily led by stable execution by the company in its key projects. Interest cost was higher at Rs 120 mn (+82% QoQ) as the finance cost of two stalled projects was recognised in Q4. Thus, despite better than expected EBITDA, net profit at Rs 267mn (+53% YoY) was largely in-line. The strong order book (Rs 41bn, 3.2x FY16 sales) at present with more inflows expected going ahead, sustainability of margins and improvement in return ratios to augur well for the company. We broadly maintain our estimates for FY17E/18E. Upgrade to Buy.

### Robust order inflow and diversified order book to boost revenue visibility:

The standalone order book stands at Rs 41bn (after the order inflow of Rs 15.3bn in FY16 and Rs 5 bn of orders in Apr-May 2016). Moreover, it has an L1 position of Rs 6.73 bn (two projects in hospital segment). With strong bid pipeline, the company targets Rs16-20bn order inflows in FY17E. We believe that the strong order book (3.2x TTM sales) coupled with more projects in pipeline, would provide a strong revenue visibility over FY16-18E. We expect revenue CAGR of ~24% over FY16-18E. We expect the operating margin to remain firm led by increase in share of better margin orders. We estimate EBITDA margin of 12.5% for FY17E/18E vs. 12.9% in FY15.

**Outlook and Valuation:** Revenue increased 18% YoY in FY16 led by better execution of key projects. With margin improvement of 200 bps YoY at 12.9%, EBITDA/PAT increased 40%/32% YoY in FY16. Going ahead, we broadly maintain our estimates for FY17E/18E. On the revenue front, we expect 24% CAGR during FY16-18E driven by strong order book with strong execution to continue. EBITDA & PAT are expected to grow at 23%/30% CAGR during the same period led by strong revenue growth and gradual improvement in margins. Valuation at 11.6x looks attractive considering the strong earnings growth potential, net cash position in FY17-18E & significant improvement in return ratios. We upgrade Ahluwalia to Buy with target price of Rs 315 (based on 15x FY18E EPS).

### Key Financials

Y/E March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Revenue	9,603	10,599	12,496	15,786	19,327
EBITDA	417	1,149	1,608	1,966	2,417
EBITDA margin (%)	4.3	10.8	12.9	12.5	12.5
Adj. Net profit	76	641	844	1,071	1,399
EPS (Rs)	1.1	9.6	12.6	16.0	20.9
RoE (%)	10.1	20.7	22.2	22.5	23.3
RoCE (%)	9.5	21.3	29.4	31.6	33.3
P/E (x)	236.0	28.1	21.3	16.8	12.9
P/BV (x)	8.0	5.3	4.3	3.4	2.7
EV/EBITDA (x)	47.5	16.9	11.6	9.3	7.5

Source: Company, Karvy Stock Broking

### Recommendation

CMP:	Rs269
Target Price:	Rs315
Previous Target Price:	Rs315
Upside (%)	17%

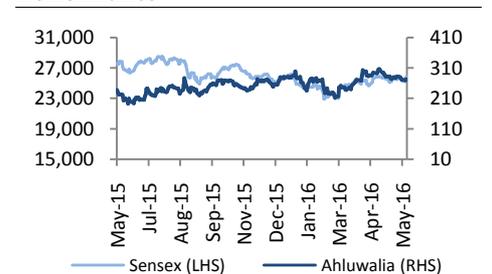
### Stock Information

Market Cap. (Rs bn / US\$ mn)	18/266
52-week High/Low (Rs)	303/188
3m ADV (Rs mn /US\$ mn)	9/0.1
Beta	1.5
Sensex/ Nifty	25,305/7,749
Share outstanding (mn)	67

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(10.7)	21.6	7.4	(3.1)
Rel. to Sensex	(13.2)	10.9	18.6	(0.0)

### Performance



Source: Bloomberg

### Earning Revision

(%)	FY17E	FY18E
Revenue	↓0.5	↓1.8
EBITDA	↓0.3	↓1.8
EPS	↑0.8	↓0.7

Source: Company, Karvy Stock Broking

### Analysts Contact

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**Ahluwalia Contracts (India)**
**Exhibit 1: Q4FY16 Result**

Y/E Mar (mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	yoy (%)	qoq (%)	FY15	FY16	yoy (%)
<b>Total Sales</b>	<b>3,141</b>	<b>2,650</b>	<b>2,809</b>	<b>3,199</b>	<b>3,837</b>	22.1	19.9	<b>10,599</b>	<b>12,496</b>	<b>17.9</b>
Material consumed	1,716	1,201	1,248	1,559	2,061	20.1	32.2	5,412	6,069	12.1
Construction expenses	785	782	876	878	842	7.2	(4.1)	2,643	3,377	27.8
Staff cost	194	170	166	178	196	1.3	10.4	695	711	2.3
Other expenses	163	168	168	189	204	25.3	8.0	700	730	4.3
Total Expenses	2,858	2,322	2,459	2,804	3,303	15.6	17.8	9,450.7	10,887	15.2
<b>EBITDA</b>	<b>283</b>	<b>329</b>	<b>350</b>	<b>396</b>	<b>534</b>	88.5	34.8	<b>1,149</b>	<b>1,608</b>	<b>40.0</b>
Depreciation	51	49	50	49	52	3.6	5.9	212	201	(5.3)
<b>Operating profit</b>	<b>233</b>	<b>280</b>	<b>301</b>	<b>346</b>	<b>481</b>	106.9	39.0	<b>937</b>	<b>1,408</b>	<b>50.3</b>
Other income	41	43	32	16	45	8.5	186.0	117	136	16.2
<b>EBIT</b>	<b>274</b>	<b>323</b>	<b>333</b>	<b>362</b>	<b>526</b>	92.1	45.3	<b>1,054</b>	<b>1,544</b>	<b>46.5</b>
Interest	98	91	75	66	120	22.5	82.5	386	352	(8.8)
Exceptional items	-	-	-	-	-			0	0	-
<b>EBT</b>	<b>175</b>	<b>232</b>	<b>258</b>	<b>296</b>	<b>406</b>	131.2	37.0	<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	1,222.5
<b>Net income</b>	<b>174</b>	<b>188</b>	<b>191</b>	<b>198</b>	<b>267</b>	53.2	34.6	<b>641</b>	<b>844</b>	<b>31.6</b>
<b>Reported net income</b>	<b>174</b>	<b>188</b>	<b>191</b>	<b>198</b>	<b>267</b>	53.2	34.6	<b>641</b>	<b>844</b>	<b>31.6</b>
Adjustments	-	-	-	-	-			0	0	-
<b>Adjusted net income</b>	<b>174</b>	<b>188</b>	<b>191</b>	<b>198</b>	<b>267</b>	53.2	34.6	<b>641</b>	<b>844</b>	<b>31.6</b>
<b>EPS (₹)</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>3.0</b>	<b>4.0</b>	53.2	34.6	<b>9.6</b>	<b>12.6</b>	<b>31.6</b>
						bps	bps			bps
EBITDA margin (%)	9.0	12.4	12.5	12.4	13.9	490	154	10.8	12.9	203
NPM (%)	5.5	7.0	6.7	6.2	6.9	140	71	6.0	6.7	70
Tax/PBT (%)	0.6	19.0	26.0	33.0	34.1	3,352	117	3.9	29.2	2,522

Source: Karvy Stock Broking, Company

**Change in estimates**

We broadly maintain our estimates for FY17E/18E. EPS is estimated at Rs 16/share in FY17E (+27% YoY) and Rs 20.9/share in FY18E (+31% YoY).

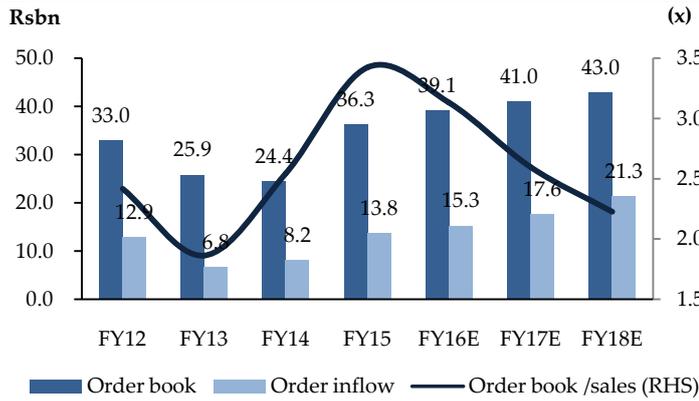
**Exhibit 2: Change in Estimates**

Y/E March (Rs. mn)	FY17E			FY18E		
	New	Old	% change	New	Old	% change
Net revenues	15,786	15,866	(0.5)	19,327	19,688	(1.8)
EBIDTA	1,966	1,973	(0.3)	2,417	2,460	(1.8)
EBIDTA margin (%)	12.5	12.4		12.5	12.5	
Adj. Net Profit	1,071	1,063	0.8	1,399	1,408	(0.7)
EPS (Rs.)	16.0	15.9	0.8	20.9	21.0	(0.7)

Source: Company, Karvy Stock Broking

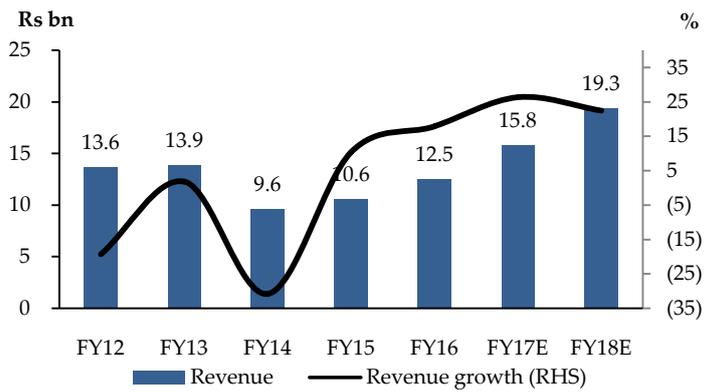
**Ahluwalia Contracts (India)**

**Exhibit 3: Order-book trend**



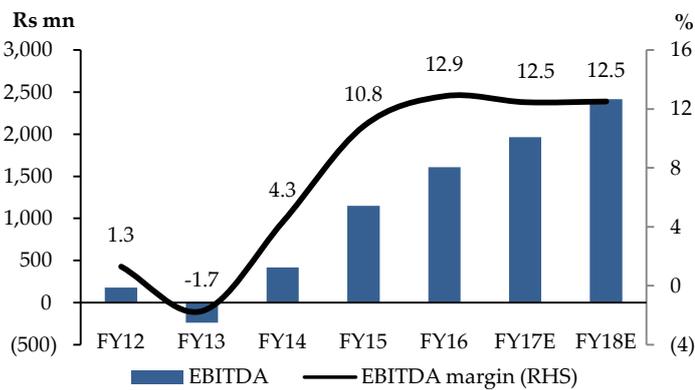
Source: Company, Karvy Stock Broking

**Exhibit 4: Revenue expected at 24% CAGR (FY16-18E)**



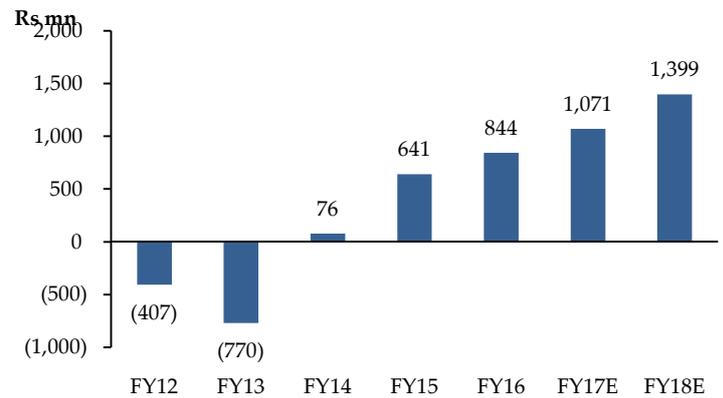
Source: Company, Karvy Stock Broking

**Exhibit 5: EBITDA expected at 23% CAGR (FY16-18E)**



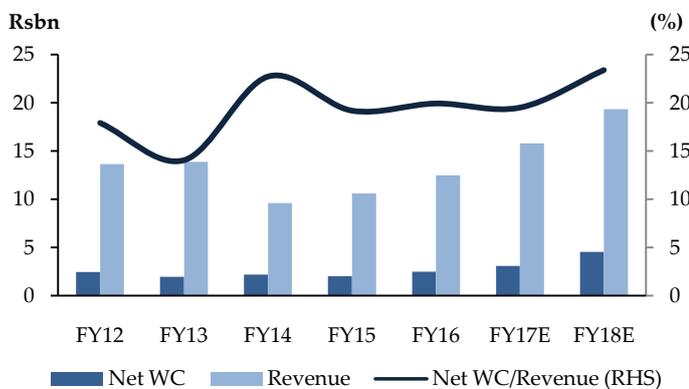
Source: Company, Karvy Stock Broking

**Exhibit 6: Net profit CAGR at 30% (FY16-18E)**



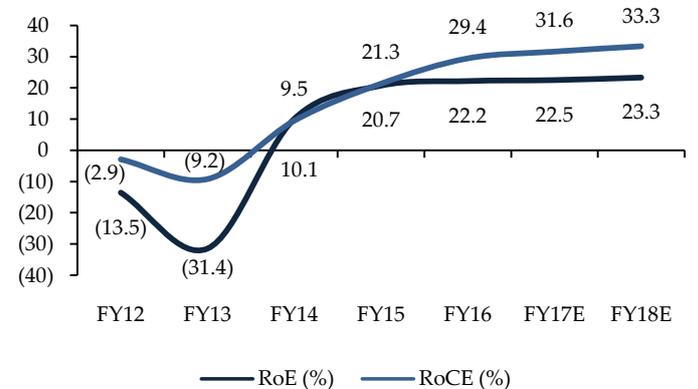
Source: Company, Karvy Stock Broking

**Exhibit 7: Improvement in working capital cycle**



Source: Company, Karvy Stock Broking

**Exhibit 8: Significant improvement in return ratios**



Source: Company, Karvy Stock Broking

**Ahluwalia Contracts (India)**
**Exhibit 9: Profit and Loss Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
<b>Net Sales</b>	<b>9,603</b>	<b>10,599</b>	<b>12,496</b>	<b>15,786</b>	<b>19,327</b>
<i>% growth</i>	(30.8)	10.4	17.9	26.3	22.4
Operating expenditure	9,186	9,451	10,888	13,820	16,910
<b>EBITDA</b>	<b>417</b>	<b>1,149</b>	<b>1,608</b>	<b>1,966</b>	<b>2,417</b>
<i>% growth</i>	(275.6)	544.8	40.0	22.3	22.9
Depreciation	122	212	201	217	228
Other income	144	117	136	143	151
EBIT	440	1,054	1,544	1,892	2,340
Interest	363	386	352	295	255
Exceptional items	141	-	-	-	-
PBT	218	668	1,192	1,597	2,085
Tax	1	26	347	525	686
<b>Reported PAT</b>	<b>217</b>	<b>641</b>	<b>844</b>	<b>1,071</b>	<b>1,399</b>
Adjustments	(141)	-	-	-	-
<b>Adjusted PAT</b>	<b>76</b>	<b>641</b>	<b>844</b>	<b>1,071</b>	<b>1,399</b>
<i>% growth</i>	-	739.8	31.6	26.9	30.6

Source: Company, Karvy Stock Broking

**Exhibit 10: Balance Sheet**

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Cash & cash equivalents	855	545	765	882	1,188	872
Trade receivables	4,651	4,707	4,820	5,575	6,236	7,731
Inventories	1,672	1,720	1,665	2,047	2,488	3,044
Loans & advances	1,117	1,235	800	717	829	1,015
Other assets	125	136	209	169	155	156
Investments	15	15	63	63	63	64
Fixed Assets	1,793	1,984	1,948	1,966	1,948	2,020
Deferred tax liabilities (net)	162	162	154	149	150	150
<b>Total assets</b>	<b>10,390</b>	<b>10,505</b>	<b>10,424</b>	<b>11,569</b>	<b>13,057</b>	<b>15,052</b>
Current liabilities & provisions	355	701	505	866	962	1,167
Other liabilities	5,463	5,096	4,973	5,152	5,666	6,257
Debt	2,527	2,446	1,569	1,330	1,137	937
<b>Total liabilities</b>	<b>8,345</b>	<b>8,244</b>	<b>7,047</b>	<b>7,348</b>	<b>7,765</b>	<b>8,360</b>
Shareholders' equity	126	126	134	134	134	134
Reserves & surpluses	1,919	2,136	3,243	4,087	5,159	6,557
<b>Shareholders' funds</b>	<b>2,044</b>	<b>2,262</b>	<b>3,377</b>	<b>4,221</b>	<b>5,293</b>	<b>6,691</b>
<b>Total Equity and Liabilities</b>	<b>10,390</b>	<b>10,505</b>	<b>10,424</b>	<b>11,569</b>	<b>13,057</b>	<b>15,052</b>

Source: Company, Karvy Stock Broking

**Ahluwalia Contracts (India)**
**Exhibit 11: Cash Flow Statement**

Y/E Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
PBT	218	668	1,192	1,597	2,085
Depreciation	122	212	201	217	228
Interest/Financial Charges	315	386	352	295	255
Other income	(86)	(117)	(136)	(143)	(151)
Other non-cash adjustments	(152)	13	-	-	-
Tax paid	(202)	(137)	(347)	(505)	(666)
Change in working capital	69	(15)	(475)	(589)	(1,442)
<b>Cash flow from operating activities</b>	<b>284</b>	<b>1,010</b>	<b>786</b>	<b>872</b>	<b>309</b>
(Incr) / decr in capital expenditure	(194)	(94)	(218)	(200)	(300)
(Incr) / decr in investments	20	(49)	-	-	(1)
Others	33	117	136	143	151
<b>Cash flow from investing activities</b>	<b>(141)</b>	<b>(25)</b>	<b>(82)</b>	<b>(57)</b>	<b>(150)</b>
Incr / (decr) in borrowings	(142)	(877)	(239)	(193)	(200)
Issuance of equity	-	499	-	-	-
Dividend paid	-	-	-	-	-
Interest paid	(312)	(386)	(352)	(295)	(255)
Others	-	-	-	-	1
<b>Cash flow from financing activities</b>	<b>(453)</b>	<b>(765)</b>	<b>(591)</b>	<b>(488)</b>	<b>(454)</b>
Net change in cash	(310)	220	113	326	(295)
Opening Cash	855	545	765	878	1,204
Closing Cash	545	765	878	1,204	910

Source: Company, Karvy Stock Broking

**Exhibit 12: Key Ratios**

Y/E Mar (%)	FY14	FY15	FY16E	FY17E	FY18E
EBITDA margin	4.3	10.8	12.9	12.5	12.5
EBIT margin	4.6	9.9	12.4	12.0	12.1
Net profit margin	0.8	6.0	6.7	6.7	7.2
Dividend payout ratio	-	-	-	-	-
Net debt: equity	0.8	0.2	0.1	(0.0)	0.0
Interest/EBIT	82.5	36.6	22.8	15.6	10.9
RoCE	9.5	21.3	29.4	31.6	33.3
RoE	10.1	20.7	22.2	22.5	23.3

Source: Company, Karvy Stock Broking

**Exhibit 13: Valuation Parameters**

Y/E Mar	FY14	FY15	FY16E	FY17E	FY18E
EPS (Rs)	1.1	9.6	12.6	16.0	20.9
DPS (Rs)	-	-	-	-	-
Book value per share (Rs)	33.8	50.4	63.0	79.0	99.9
P/E (x)	236.0	28.1	21.3	16.8	12.9
P/BV (x)	8.0	5.3	4.3	3.4	2.7
EV/EBITDA (x)	47.5	16.9	11.6	9.3	7.5
EV/Sales (x)	2.1	1.8	1.5	1.2	0.9

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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## **Disclosures Appendix**

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