

BUY

TP: INR 320.00

▲ 19.0%

Ahluwalia Contracts (India)

AHLU IN

Q4 in line, order book strong – BUY

AHLU's Q4FY16 results were in line with estimates as revenue/PAT grew 22%/53% YoY to Rs 3.8bn/Rs 267mn, even as EBITDA margins surprised positively (+490bps YoY to 13.9%) on a better project mix and tighter cost controls. We believe AHLU's robust order book of Rs 41bn and reducing debt will provide a fillip to profitability. We raise our margin assumptions, leading to a 9% increase in our FY17/FY18 EPS estimates. Maintain BUY with a Mar'17 TP of Rs 320 (Rs 300 earlier).

- ➔ **Execution delivered:** AHLU's Q4FY16 revenues grew 22% YoY to Rs 3.8bn led by execution of public sector orders, including IIM Rohtak, Safdarjung Hospital, and Punjab National Bank, among others. Private sector clients continue to face a liquidity crunch and execution in such orders (less than Rs 1bn remaining) was minimal. Revenues for FY16 grew 18% YoY to Rs 12.5bn led by a higher opening order book (Rs 33.7bn at FY15-end) and robust order inflows (Rs 15bn) during the year. Management has guided for Rs 16bn-17bn of revenues in FY17.
- ➔ **Cost rationalisation drives margins:** EBITDA margins expanded 490bps YoY to 13.9% driven by cost rationalisation measures (a 284bps YoY drop in subcontracting costs), which was only partly offset by a 34bps YoY increase in other expenses. EBITDA jumped 88.5% to Rs 534mn, but was dragged down by higher finance costs as two stalled projects resumed in Q4 and historical finance costs associated were recognised in the quarter. The company has guided for 13% margins in FY17.
- ➔ **Order book provides visibility:** AHLU booked Rs 2bn/Rs 15bn of orders in Q4/FY16 and stands L1 in orders worth Rs 6.7bn. The order book totaled Rs 41bn as of date, to be executed over a period of 2.5 years. Management expects to secure Rs 16bn-20bn of order inflows in FY17 as the current pipeline stands at Rs 15bn.
- ➔ **View:** We value AHLU at 15x-FY18E EPS. Maintain BUY with a Mar'17 TP of Rs 320.

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	9,603	10,599	12,496	16,452	18,449
EBITDA (INR mln)	417	1,149	1,608	2,089	2,398
Adjusted net profit (INR mln)	76	641	844	1,186	1,434
Adjusted EPS (INR)	3.5	10.0	12.6	17.7	21.4
Adjusted EPS growth (%)	(128.6)	188.2	26.0	40.5	20.9
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	6.9	19.5	19.9	21.7	22.9
Adjusted ROAE (%)	3.5	22.7	22.2	24.6	23.4
Adjusted P/E (x)	77.5	26.9	21.3	15.2	12.6
EV/EBITDA (x)	46.7	17.2	11.7	8.8	7.4
P/BV (x)	7.5	5.3	4.3	3.3	2.6

Source: Company, Bloomberg, RCML Research

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REPORT AUTHORS

Misal Singh

+91 22 6766 3466

misal.singh@religare.com

Prashant Tiwari

+91 22 6766 3485

prashant.tiwari@religare.com

PRICE CLOSE (24 May 16)

INR 268.80

MARKET CAP

INR 18.0 bln

USD 266.8 mln

SHARES O/S

67.0 mln

FREE FLOAT

33.0%

3M AVG DAILY VOLUME/VALUE

0.0 mln / USD 0.1 mln

52 WK HIGH

INR 320.00

52 WK LOW

INR 188.20

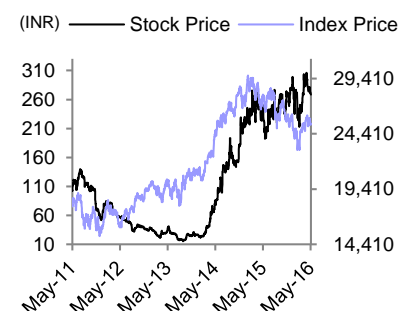




Fig 1 - Actual vs. estimates

Rs mn	Q4FY16	Q4FY16E	% Variance	FY16	FY16E	% Variance
Revenue	3,837	3,745	2.5	12,496	12,403	0.7
EBITDA	534	463	15.2	1,608	1,538	4.6
EBITDA margin %	13.9	12.4	153 bps	12.9	12.4	47 bps
Adj. PAT	267	252	5.8	844	829	1.8
Adj. EPS (Rs)	3.99	3.77	5.8	12.60	12.38	1.8

Source: Company, RCML Research

Fig 2 - Quarterly and annual performance

Rs mn	Q4FY16	Q4FY15	YoY %	Q3FY16	QoQ %	FY16	FY15	YoY %
Total Revenue	3,837	3,141	22.1	3,199	19.9	12,496	10,599	17.9
Material Cost	2,061	1,716	20.1	1,559	32.2	6,069	5,412	12.1
Labour Cost	224	191	17.7	223	0.5	877	806	8.9
Sub-contract expense	617	594	3.8	654	(5.7)	2,500	1,837	36.1
Other operating expenses	137	119	15.6	144	(4.8)	530	529	0.2
Employees Cost	196	194	1.3	178	10.4	711	695	2.3
Other expenses	67	44	51.4	45	49.2	200	171	17.0
EBITDA	534	283	88.5	396	34.8	1,608	1,149	40.0
Depreciation	52	51	3.6	49	5.9	201	212	(5.3)
EBIT	481	233	106.9	346	39.0	1,408	937	50.3
Interest	120	98	22.5	66	82.5	352	386	(8.8)
Other income	45	41	8.5	16	186.0	136	117	16.2
Exceptional Items gains/(loss)	0	0		0		0	0	
PBT	406	175	131.2	296	37.0	1,192	668	78.5
Tax expense	138	1	12,637.2	98	41.9	347	26	1,223.0
Reported PAT	267	174	53.2	198	34.6	844	641	31.6
Adj. PAT	267	174	53.2	198	34.6	844	641	31.6
As a % of sales								
Material Cost	53.7	54.6	(92 bps)	48.7	499 bps	48.6	51.1	(249 bps)
Labour Cost	5.8	6.1	(22 bps)	7.0	(113 bps)	7.0	7.6	(58 bps)
Sub-contract expense	16.1	18.9	(284 bps)	20.5	(437 bps)	20.0	17.3	267 bps
Other operating expenses	3.6	3.8	(20 bps)	4.5	(93 bps)	4.2	5.0	(75 bps)
Employee Cost	5.1	6.2	(105 bps)	5.6	(44 bps)	5.7	6.6	(87 bps)
Other expenses	1.8	1.4	34 bps	1.4	34 bps	1.6	1.6	(01 bps)
EBITDA margin	13.9	9.0	490 bps	12.4	154 bps	12.9	10.8	203 bps
EBIT margin	12.5	7.4	514 bps	10.8	172 bps	11.3	8.8	243 bps
Other income	1.2	1.3	(15 bps)	0.5	68 bps	1.1	1.1	(02 bps)
Tax rate, %	34.1	0.6	3,352 bps	33.0	117 bps	29.2	3.9	2,523 bps
Adj. PAT margin	7.0	5.5	141 bps	6.2	76 bps	6.8	6.1	70 bps

Source: Company, RCML Research

Fig 3 - Estimate revision

Rs mn	FY17E			FY18E		
	Old	New	Chg, %	Old	New	Chg, %
Revenue	16,413	16,452	0.2	18,400	18,449	0.3
EBITDA	1,953	2,089	7.0	2,245	2,398	6.8
EBITDA margin, %	11.90	12.70	80 bps	12.20	13.00	80 bps
EPS	16.25	17.70	8.9	19.59	21.41	9.3

Source: Company, RCML Research

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AHLU IN

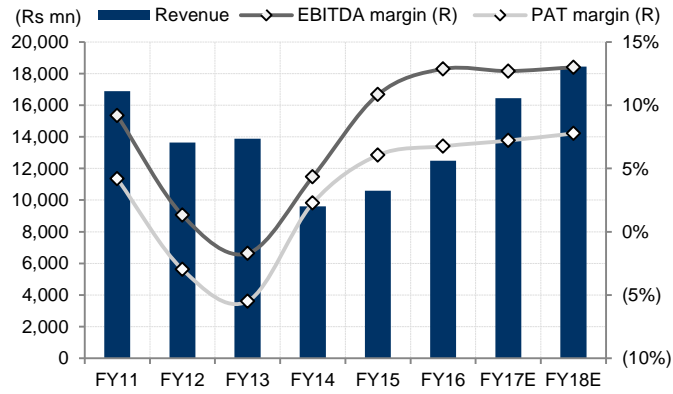


Results Review

INDIA

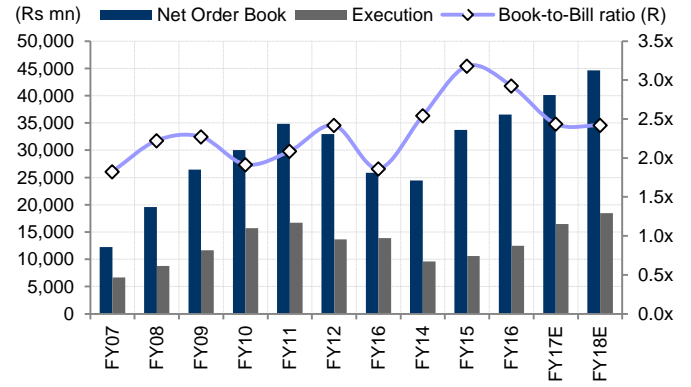
CONSTRUCTION INFRASTRUCTURE

Fig 4 - Revenue and profitability



Source: Company, RCML Research

Fig 5 - Order book provides visibility



Source: Company, RCML Research

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AHLU IN

**Results Review****INDIA**

CONSTRUCTION INFRASTRUCTURE

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	3.5	10.0	12.6	17.7	21.4
Adjusted EPS	3.5	10.0	12.6	17.7	21.4
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	36.0	50.4	63.0	80.7	102.1

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	2.0	1.9	1.5	1.1	1.0
EV/EBITDA	46.7	17.2	11.7	8.8	7.4
Adjusted P/E	77.5	26.9	21.3	15.2	12.6
P/BV	7.5	5.3	4.3	3.3	2.6

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	4.3	10.8	12.9	12.7	13.0
EBIT margin	3.1	8.8	11.3	11.3	11.7
Adjusted profit margin	0.8	6.1	6.8	7.2	7.8
Adjusted ROAE	3.5	22.7	22.2	24.6	23.4
ROCE	6.6	19.0	19.0	21.1	20.6
YoY Growth (%)					
Revenue	(30.8)	10.4	17.9	31.7	12.1
EBITDA	(275.6)	175.4	40.0	29.9	14.8
Adjusted EPS	(128.6)	188.2	26.0	40.5	20.9
Invested capital	20.6	(1.3)	19.2	10.5	8.6
Working Capital & Liquidity Ratios					
Receivables (days)	155	141	134	118	118
Inventory (days)	76	72	68	68	74
Payables (days)	117	108	95	82	84
Current ratio (x)	0.9	1.1	1.3	1.4	1.5
Quick ratio (x)	0.1	0.1	0.1	0.1	0.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	2.9	3.1	3.1	3.6	3.8
Total asset turnover	0.9	1.0	1.1	1.3	1.3
Net interest coverage ratio	0.8	2.4	4.0	6.9	10.1
Adjusted debt/equity	0.8	0.2	0.1	0.0	(0.2)

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	35.0	96.1	70.8	67.0	67.0
Interest burden (PBT/EBIT)	73.8	71.3	84.6	95.2	99.4
EBIT margin (EBIT/Revenue)	3.1	8.8	11.3	11.3	11.7
Asset turnover (Revenue/Avg TA)	91.9	101.3	113.6	131.1	126.1
Leverage (Avg TA/Avg equities)	485.3	371.2	289.4	260.6	238.9
Adjusted ROAE	3.5	22.7	22.2	24.6	23.4

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CONSTRUCTION INFRASTRUCTURE

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	9,603	10,599	12,496	16,452	18,449
EBITDA	417	1,149	1,608	2,089	2,398
EBIT	296	937	1,408	1,859	2,153
Net interest income/(expenses)	(363)	(386)	(352)	(269)	(214)
Other income/(expenses)	144	117	136	179	201
Exceptional items	141	0	0	0	0
EBT	77	668	1,192	1,770	2,140
Income taxes	(1)	(26)	(347)	(584)	(706)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	217	641	844	1,186	1,434
Adjustments	(141)	0	0	0	0
Adjusted net profit	76	641	844	1,186	1,434

Balance Sheet

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	2,906	2,693	2,946	3,473	3,895
Other current liabilities	2,372	2,298	2,206	2,904	3,257
Provisions	27	25	12	15	17
Debt funds	2,265	1,551	1,330	867	880
Other liabilities	674	480	854	854	854
Equity capital	126	134	134	134	134
Reserves & surplus	2,136	3,243	4,087	5,273	6,707
Shareholders' fund	2,262	3,377	4,221	5,407	6,841
Total liabilities and equities	10,505	10,424	11,569	13,521	15,744
Cash and cash eq.	545	765	882	1,031	1,960
Accounts receivables	4,045	4,168	4,997	5,634	6,318
Inventories	1,720	1,665	2,047	2,775	3,112
Other current assets	503	249	451	594	666
Investments	15	63	63	63	63
Net fixed assets	1,307	1,290	1,966	2,023	2,099
CWIP	20	0	0	0	0
Intangible assets	658	658	0	0	0
Deferred tax assets, net	162	154	149	149	149
Other assets	1,531	1,412	1,013	1,252	1,376
Total assets	10,505	10,424	11,569	13,521	15,744

Cash Flow Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	339	853	1,045	1,416	1,679
Interest expenses	363	386	352	269	214
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(751)	(93)	(1,192)	(476)	(405)
Other operating cash flows	(487)	(117)	(136)	(179)	(201)
Cash flow from operations	(535)	1,030	69	1,029	1,287
Capital expenditures	(303)	(175)	(218)	(287)	(322)
Change in investments	(6)	(114)	57	0	0
Other investing cash flows	144	117	136	179	201
Cash flow from investing	(165)	(173)	(25)	(108)	(121)
Equities issued	0	499	0	0	0
Debt raised/repaid	(89)	(953)	(309)	(463)	13
Interest expenses	(363)	(386)	(352)	(269)	(214)
Dividends paid	0	0	0	0	0
Other financing cash flows	842	203	735	(41)	(36)
Cash flow from financing	390	(637)	74	(772)	(237)
Changes in cash and cash eq	(310)	220	117	149	929
Closing cash and cash eq	545	765	882	1,031	1,960

RESEARCH TEAM

ANALYST	SECTOR	EMAIL	TELEPHONE
Varun Lohchab (Head – India Research)	Consumer, Strategy	varun.lohchab@religare.com	+91 22 6766 3470
Mihir Jhaveri	Auto, Auto Ancillaries, Cement	mihir.jhaveri@religare.com	+91 22 6766 3459
Siddharth Vora	Auto, Auto Ancillaries, Cement	siddharth.vora@religare.com	+91 22 6766 3435
Misal Singh	Capital Goods, Infrastructure, Utilities	misal.singh@religare.com	+91 22 6766 3466
Prashant Tiwari	Capital Goods, Infrastructure, Utilities	prashant.tiwari@religare.com	+91 22 6766 3485
Manish Poddar	Consumer	manish.poddar@religare.com	+91 22 6766 3468
Premal Kamdar	Consumer	premal.kamdar@religare.com	+91 22 6766 3469
Rohit Ahuja	Energy	ahuja.rohit@religare.com	+91 22 6766 3437
Akshay Mane	Energy	akshay.mane@religare.com	+91 22 6766 3438
Parag Jariwala, CFA	Financials	parag.jariwala@religare.com	+91 22 6766 3442
Vikesh Mehta	Financials	vikesh.mehta@religare.com	+91 22 6766 3474
Rumit Dugar	IT, Telecom, Media	rumit.dugar@religare.com	+91 22 6766 3444
Saumya Shrivastava	IT, Telecom, Media	saumya.shrivastava@religare.com	+91 22 6766 3445
Pritesh Jani	Metals	pritesh.jani@religare.com	+91 22 6766 3467
Arun Baid	Mid-caps	arun.baid@religare.com	+91 22 6766 3446
Praful Bohra	Pharmaceuticals	praful.bohra@religare.com	+91 22 6766 3463
Aarti Rao	Pharmaceuticals	aarti.rao@religare.com	+91 22 6766 3436
Arun Aggarwal	Real Estate	arun.aggarwal@religare.com	+91 22 6766 3440
Jay Shankar	Economics & Strategy	shankar.jay@religare.com	+91 11 3912 5109
Rahul Agrawal	Economics & Strategy	ag.rahul@religare.com	+91 22 6766 3433

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