

Ahluwalia Contracts (India) Ltd.

Sensex: 23554

CMP: INR 244

Target : INR 312



Infrastructure

ACIL's quarterly numbers were largely in-line with our estimates driven by improved execution in some of its key projects. While revenues improved by 20.0% in Q3FY16, operating margins improved by 294 bps to 12.4%, owing to better margins orders booked over the past 18 months & reducing share of low margin legacy orders. Order inflows have revived as ACIL booked orders of INR 13.3 bn (FY15 INR 13.8 bn) in 9MFY16. This coupled with book to bill of 3.4x (Order Backlog - INR 38.3 bn) provides strong growth visibility. We continue to retain our "BUY" rating on the stock with a target of INR 312.

Superior execution driving revenues

ACIL reported 20.0% growth in revenues to INR 3197 mn aided by better execution in some of its key projects. Prominent orders contributing to revenues are largely from government & public sector desk, which includes International Convention Center in Patna, IIM Rohtak, Police Head Quarters at Patna, Safdarjung Hospital and PNB Head Office Building at Delhi. Low margin legacy orders worth INR 1.9 bn are expected to be executed by H1FY17.

294 bps improvement in margins

ACIL's margin continued to hover around 12.4% for the third consecutive quarter; improving by ~294 bps, on the back of 224 bps decline in raw materials consumed which as a percentage of sales declined to 48.7%. We expect ACIL's blended margins to remain at elevated levels owing to a) reduced share of fixed price/low margin orders (mere INR 1.9 bn), b) several better margin (~13% margins) contracts booked over past 18 months, and c) significantly reduced competition in new project bids.

3.4x book to bill provides healthy revenue visibility

ACIL has an order book of INR 38.3 bn (58% from government) as on date with an average execution period of 24-30 months, translating into order book to bill ratio of 3.4x. Order inflows has revived as ACIL has booked orders of INR 13.3 bn in YTD FY16 vis-à-vis INR 13.8 bn of orders booked in FY15, driven by pick up in govt. tendering particularly from healthcare and educational domain (*residential order mere INR 1 bn*). ACIL's bid pipeline too stands strong at INR 30 bn (*Hospital projects INR 10 bn, Educational sector INR 6 bn*). We expect ACIL to bag inflows of INR 17.5 bn & INR 21.5 bn in FY16 & FY17 respectively.

Balance sheet strengthening

ACIL's balance sheet continued to strengthen as debt declined from INR 1.73 bn in FY15 to INR 1.35 bn in 9MFY16. Resultantly interest expenses have declined by 19.5% YoY to INR 232 mn during the same period. Minimal capex in addition to likely settlement of pending litigations and better order execution will result in further reduction of debt to INR 1.23 bn by FY17E, which will result in net debt free balance sheet (similar to pre FY11 time period).

Other Highlights

- ACIL's borrowing cost has declined by 150 bps to ~12% driven by improvement in credit rating.
- Order book break up: Commercial (7%), Hospital (15%), Infrastructure (11%), Government & Institutional (34%), and Residential (33%)
- ACIL has incurred a capex of ~180 mn in YTD FY16. It does not require any major capex till it reaches a top line of INR 18 bn.
- Kota bus terminal project is expected to be launched by March 16.

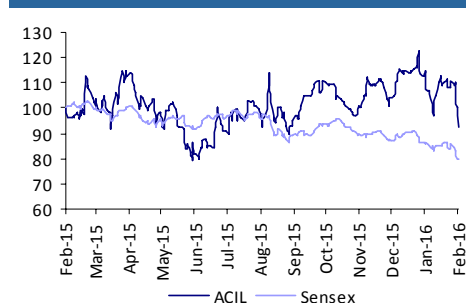
Outlook & Valuations

ACIL is well placed to benefit from increasing opportunities in construction space owing to its superior execution capabilities. Robust order backlog of INR 38.3 bn coupled with upcoming opportunities of +INR 15 trn provides the company with a great platform to achieve healthy growth. Declining share of fixed price contracts along with increasing share of government orders and limited competition for composite EPC contracts will ensure improved margins. Moreover easing working capital cycle and minimal capex would result in net debt free balance sheet in FY17. **We continue to retain our "BUY" rating on the stock with a target of INR 312.**

Shareholding (%) Dec-15

Shareholding (%)	Dec-15
Promoters	62.43
FII's	5.35
DII's	23.42
Others	8.80

Relative Price Performance



Key Data

BSE Code	532811
NSE Code	AHLUCONT
Bloomberg Code	AHLU IN
Reuters Code	AHLU.BO
Shares O/S (mn)	67.00
Face Value	2
Mcap (INR bn)	16.33
52 Week H/L	303.00/189.20
2W Avg. Qty, NSE	35729
Free Float (INR bn)	6.13
Beta	1.54

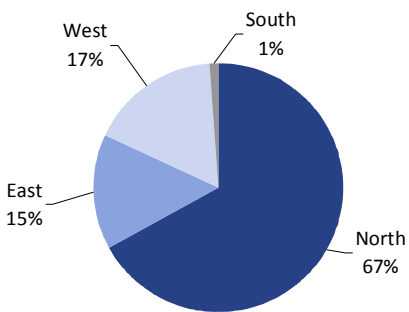
Y/E March (INR mn) FY14 FY15 FY16E FY17E

Net Sales	9603	10599	12523	17229
Growth	-30.82%	10.37%	18.15%	37.58%
EBIDTA Margin	4.34%	10.83%	12.40%	12.50%
APAT	76	641	917	1362
Growth	LP	744.80%	43.03%	48.48%
EPS	0.60	9.57	13.69	20.32
P/E	33.86	26.02	17.80	11.99
P/BV	1.14	4.94	3.80	2.89
EV/EBIDTA	6.28	13.95	9.85	7.07
Net Debt-Equity Ratio	0.81	0.29	0.06	(0.02)
RoACE	12.59%	21.59%	27.10%	32.68%
RoAE	3.53%	22.74%	23.91%	27.37%

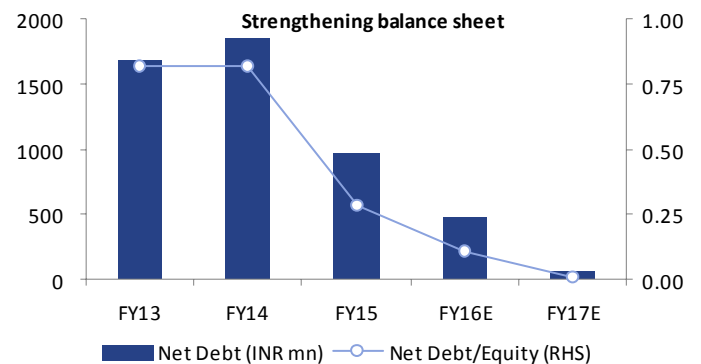
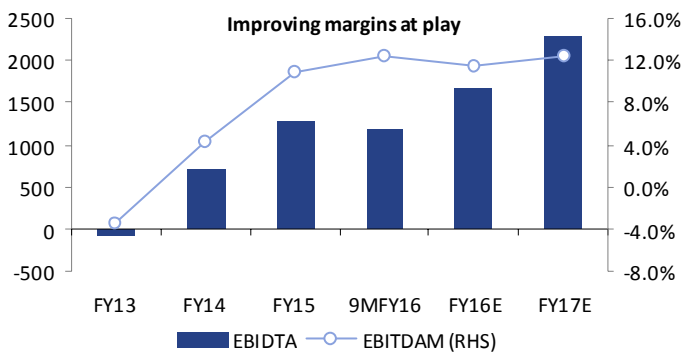
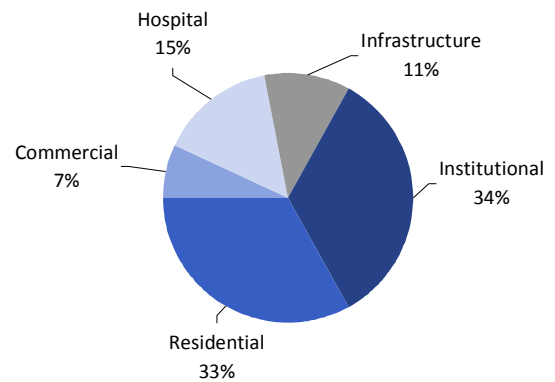
Quarterly Financials

Particulars (INR mn)	Q3FY16	Q2FY16	Q1FY16	Q4FY15	Q3FY15	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
Net Sales	3197	2802	2640	3137	2666	19.95%	14.10%	8640	7442	16.10%
Other Operating Income	2	7	11	4	6	-63.93%	-67.16%	19	16	18.40%
Other Income	16	32	43	41	41	-61.95%	-51.55%	91	76	20.34%
Total Income	3215	2841	2694	3182	2713	18.52%	13.16%	8750	7534	16.14%
Total Expenditure	2804	2459	2322	2858	2420	15.88%	14.03%	7584	6592	15.04%
Raw Materials Consumed	1559	1249	1201	1716	1361	14.49%	24.85%	4008	3696	8.44%
Employee Cost	401	392	374	385	367	9.49%	2.49%	1167	1116	4.59%
Other Manufacturing Expenses	799	774	704	713	654	22.20%	3.23%	2276	1654	37.63%
Other Expenses	45	45	43	44	38	18.27%	-0.12%	133	126	4.93%
EBIDTM	411	382	372	324	293	40.38%	7.58%	1166	941	23.86%
EBIDTM	12.37%	12.47%	12.40%	9.01%	9.44%	294 bps	(10 bps)	12.41%	11.61%	81 bps
Interest	66	75	91	98	93	-29.11%	-12.00%	232	288	-19.50%
EBDTM	345	307	281	226	200	72.74%	12.36%	934	654	42.95%
Depreciation	50	50	49	51	52	-4.07%	-0.40%	148	161	-8.06%
PBT	296	258	232	175	148	99.45%	14.82%	786	492	59.65%
Tax	98	67	44	1	13	680.80%	45.45%	209	25	729.37%
APAT	198	191	188	174	136	45.96%	4.04%	577	467	23.52%
APATM	6.20%	6.79%	7.09%	5.55%	5.09%	111 bps	(59 bps)	6.66%	6.26%	40 bps
EPS	2.96	2.85	2.80	2.60	2.03	45.96%	4.04%	8.61	6.97	23.52%
Equity	134	134	134	134	134	0.00%	-	134	134	0.00%

Regional Break-up



Order Book Break-up



Financials

Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	9603	10599	12523	17229
<i>Growth</i>	-30.82%	10.37%	18.15%	37.58%
Raw Materials Consumed	4545	5412	6299	8666
Sub-contract charges	1874	1909	2229	3032
Total Expenditure	9187	9451	10970	15075
EBIDTA (without OI)	417	1148	1553	2154
<i>Growth</i>	LP	175.65%	35.25%	38.69%
<i>EBITDA Margin</i>	4.34%	10.83%	12.40%	12.50%
Depreciation	122	212	217	235
EBIT	295	936	1336	1919
<i>EBIT Margin</i>	3.07%	8.83%	10.67%	11.14%
Interest Expenses	363	386	358	351
Other Income	285	117	132	142
EBT	217	667	1110	1710
Tax Expenses	0	26	193	348
PAT	217	641	917	1362
Excep./Extra. Items	141	0	0	0
APAT	76	641	917	1362
<i>Growth</i>	LP	744.80%	43.03%	48.48%
<i>APAT Margin</i>	0.79%	6.05%	7.32%	7.90%

Key Ratios

Y/E March	FY14	FY15	FY16E	FY17E
Per Share Data (INR)				
Adjusted EPS	0.60	9.57	13.69	20.32
CEPS	1.57	13.04	17.16	23.85
BVPS	36.04	50.40	64.09	84.42
Return Ratios				
RoACE	12.59%	21.59%	27.10%	32.68%
RoAE	3.53%	22.74%	23.91%	27.37%
Balance Sheet Ratios				
Net Debt-Equity Ratio	0.81	0.29	0.06	(0.02)
Current Ratio	1.42	1.55	1.58	1.60
Interest Cover Ratio	1.60	2.73	4.10	5.87
Efficiency Ratios				
Total Asset Turnover	2.08	2.17	2.31	2.73
Inventory Days	93	80	78	78
Debtors Days	179	166	160	156
Creditors Days	157	130	128	128
Valuations				
P/E	33.86	26.02	17.80	11.99
P/BV	1.14	4.94	3.80	2.89
Market Cap / Sales	0.27	1.57	1.30	0.95
EV/EBIDTA	6.28	13.95	9.85	7.07

Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS				
Share Capital	126	134	134	134
Reserves	2136	3243	4160	5522
Total Networth	2262	3377	4294	5656
Secured Loans	2245	1479	1189	999
Unsecured Loans	141	252	242	232
Total Debt	2386	1731	1431	1231
Total Liabilities	4648	5109	5726	6887
APPLICATION OF FUNDS				
Net Block	1307	1164	1731	1546
Capital Work in Progress	677	784	188	258
Investments	15	63	63	63
Total Current Assets	8344	8259	9760	12929
Total Current Liabilities	5858	5316	6186	8080
Net Current Assets	2486	2943	3574	4849
Net Deferred Tax	162	154	169	170
Total Assets	4648	5109	5726	6887

Cash Flow

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	217	667	1110	1710
Add: Depreciation	122	212	217	235
Add: Interest paid	363	386	358	351
Change in Working Capital	(194)	(238)	(235)	(1096)
Direct taxes paid	0	(137)	(377)	(547)
Less: Other Income/Exceptionals	(285)	(117)	(132)	(142)
Cash flow from operations (a)	223	773	941	510
Change in Investments	0	(49)	0	0
Change in Fixed Assets	(33)	(6)	(784)	(50)
Change in CWIP	(270)	(107)	596	(71)
Others	86	86	92	95
Cash flow from investing (b)	(217)	(75)	(96)	(26)
Change in Equity	0	499	0	0
Debt Raised/(Repaid)	(142)	(655)	(300)	(200)
Dividend paid	0	0	0	0
Interest paid	(363)	(386)	(358)	(351)
Others	189	63	209	245
Cash flow from financing (c)	(316)	(478)	(449)	(306)
Net Change in Cash (a+b+c)	(310)	220	396	179
Opening Cash	855	545	765	1160
Closing Cash	545	765	1160	1339

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