

RETAIL EQUITY RESEARCH

Ahluwalia Contracts (India) Ltd

Construction & Engineering

BSE CODE:532811

NSE CODE: AHLUCONT

Bloomberg CODE: AHLU:IN SENSEX: 31,309

BUY

Rating as per Mid Cap

12months investment period

CMP Rs330 TARGET Rs385 RETURN 17%6th June, 2017**Bidding prudently...**

Ahluwalia Contracts India Ltd (AHLU) is an integrated construction company; undertakes designing, engineering, mechanical and civil construction works for residential, institutional, commercial and industrial projects.

- Reported healthy revenue growth of 23% YoY (above expectation) in Q4FY17 on account of strong execution.
- However, higher subcontracting expenses in order to keep the run rate post the demonetisation dragged EBITDA margin by -478bps to 9.1% in Q4FY17.
- A healthy order book of Rs3,553cr which is 2.5x FY17 revenue provides visibility over the next 2-3 yrs.
- Management is conservative in bidding new projects due to increasing competition and is targeting Rs15bn new orders in FY18E with a revenue growth of ~13%.
- Given weaknesses in operational activity we reduce FY18E PAT estimate by 7% while strong execution capability & focus to become debt free by FY19E will attract premium valuation.
- We value AHLU at a P/E of 17x on FY19E EPS & Kota BoT 0.9x P/B and reiterate our Buy rating.

Increasing competition deters guidance...

The current order book stands at Rs3,553cr which is 2.5x FY17 revenue which provides visibility over the next 2-3 years. However, the management were little conservative on bidding new projects due to increasing aggressive bids by peers. The company is targeting an order inflow of Rs15bn in FY18E (Rs20bn early) with a revenue growth of 12-13% (15% early). Stringent contract norm & ambitious timeline by NBCC have put tenders less attractive to participate. We expect revenue to grow at a CAGR of 14% over FY17-19E supported by strong capability on execution and a healthy order book.

Margin pressure likely to persist in Q1FY18E...

In Q4FY17 EBITDA margin contracted by 478bps YoY to 9.1% because of 87% YoY rise in subcontracting expenses as the company had to pay higher labour post the demonetisation in order to meet the deadline and keep the run rate. The impact on margin is likely to continue in Q1FY18E as the bang of demonetisation is not completely peeled off. We reduce FY18E EBITDA margin by 92bps to 12.8%.

Lean balance sheet: a true stability...

The healthy & lean balance sheet is the thrust for AHLU to attain a competitive edge in winning big ticket projects. The debt to equity stands at 0.2x in FY17, this is because of better working capital management, completion of loss-making contracts. The reducing debt level will curb the interest expenses & ultimately improves the profitability. During FY17, the interest cost has fallen by -24% YoY. The management targets to be a debt free company by FY19E will give competitive edge in winning orders.

Valuations

The current disruptions in operational activity may put pressure on margins in the near term while a healthy order book of 2.5x FY17 revenue provides visibility. We expect revenue & PAT to grow at a CAGR of 14% & 31% over FY17-FY19E. We value AHLU at a P/E of 16x on FY19E EPS & Kota BoT 0.9x P/BV to arrive at SOTP price target of Rs385 & reiterate our BUY rating.

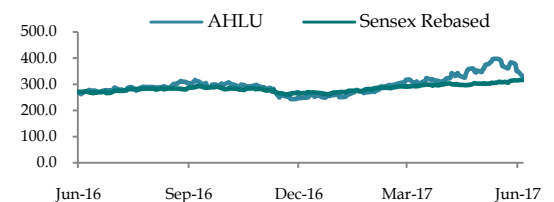
Company Data

Market Cap (cr)	Rs2,211
Enterprise Value (cr)	Rs2,301
Outstanding Shares (cr)	6.7
Free Float	40.44%
Dividend Yield	0%
52 week high	Rs409
52 week low	Rs240
6m average volume (cr)	0.71
Beta	1.1
Face value	Rs.2

Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	62.43	62.43	59.56
FII's	18.19	15.80	19.45
MFs/Insti	12.34	14.84	14.56
Public	7.04	6.93	6.43
Others			
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	7.7%	32.1%	21.1%
Absolute Sensex	8.0%	18.6%	16.9%
Relative Return*	-0.2%	13.4%	4.2%

*over or under performance to benchmark index



Standalone (Rs.bn)	FY17	FY18E	FY19E
Sales	1,427	1,599	1,856
Growth (%)	14.2	12.1	16.1
EBITDA	173	205	245
Margin(%)	12.1	12.8	13.2
PAT Adj	86	115	147
Growth (%)	1.9	33.9	27.8
Adj.EPS	12.8	17.2	22.0
Growth (%)	1.9	33.9	27.8
P/E	25.7	19.2	15.0
P/B	4.4	4.1	3.2
EV/EBITDA	13.3	11.1	9.1
RoE (%)	18.5	20.4	21.1
D/E	0.18	0.10	0.04

Antu Eapen Thomas
Analyst

Financials

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth(%)	Q3FY17	QoQ Growth (%)
Sales	472	384	23.0	357	31.8
EBITDA	43	53	-19.3	47	-8.8
Margin%	9.1	13.9	-478bps	13.2	-406bps
Depreciation	7	5	27.4	6	9.0
EBIT	39	53	-26.7	42	-8.9
Interest	7	12	-39.5	6	22.7
Other Income	2	4	-52.2	1	78.6
Exceptional Items	-	-		-	
PBT	31	41	-23.0	36	-14.1
Tax	11	14	-21.4	12	-8.6
Reported PAT	20	27	-23.8	24	-16.8
Adjustment	-	-		-	
Adj PAT	20	27	-23.8	24	-16.8
No. of shares (cr)					
EPS (Rs)	3.0	3.9	-23.8	6.7	-16.8

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	1,582	1,843	1,599	1,856	1.1	0.7
EBITDA	217	254	205	245	(5.7)	(3.6)
Margins (%)	13.7	13.8	12.8	13.2	-92bps	-58bps
PAT	124	152	115	147	(7.1)	(3.2)
EPS	18.5	22.7	17.2	22.0	(7.1)	(3.2)

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	1,060	1,250	1,427	1,599	1,856
% change	10	18	14.2	12.1	16.1
EBITDA	115	161	173	205	245
% change	175	40	8	18	20
Depreciation	21	20	24	26	27
EBIT	94	141	149	179	218
Interest	39	35	27	17	9
Other Income	12	14	8	10	10
PBT	67	119	131	172	220
% change	206	78	10	32	28
Tax	3	35	45	57	72
Tax Rate (%)	4	29	34	33	33
Reported PAT	64	84	86	115	147
Adj*	-	-	-	-	-
Adj PAT	64	84	86	115	147
% change	740	32	2	34	28
No. of shares (mn)	6.7	6.7	6.7	6.7	6.7
Adj EPS (Rs)	9.6	12.6	12.8	17.2	22.0
% change	687	32	2	34	28
DPS (Rs)	0.7	0.7	0.8	0.9	0.9

Cash flow

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Net inc. + Depn.	88	139	155	197	246
Non-cash adj.	59	9	(13)	(41)	(64)
Changes in W.C	(49)	(64)	66	(132)	(107)
C.F.O	98	84	209	22	75
Capital exp.	(22)	(22)	(10)	(15)	(15)
Change in inv.	-	-	-	-	-
Other invest.CF	43	(10)	(5)	2	-
C.F - investing	16	(33)	(15)	(14)	(16)
Issue of equity	-	-	-	-	-
Issue/repay debt	(65)	(31)	(51)	(23)	(33)
Dividends paid	-	-	-	-	-
Other finance.CF	(33)	(26)	(56)	9	(14)
C.F - Financing	(98)	(58)	(108)	(14)	(47)
Chg. in cash	16	(6)	86	(6)	12
Closing cash	42	36	123	117	129

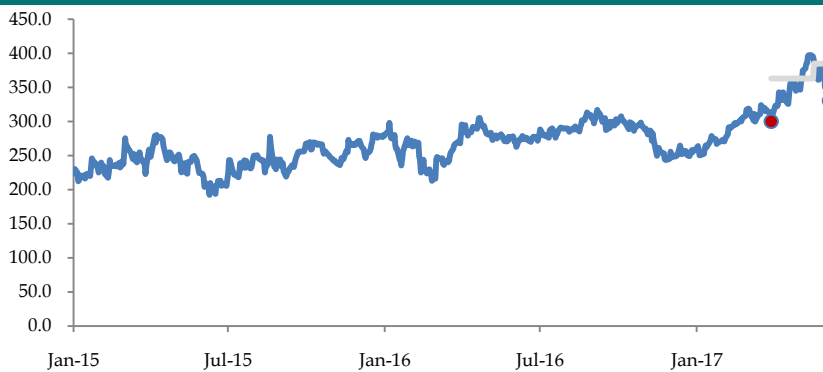
Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	42	36	123	117	129
Accounts Receivable	482	557	602	692	813
Inventories	167	205	201	246	302
Other Cur. Assets	119	130	79	140	163
Investments	6	6	6	7	8
Gross Fixed Assets	333	347	357	372	387
Net Fixed Assets	116	112	192	88	76
CWIP	0	0	0	0	0
Intangible Assets	80	85	0	81	81
Def. Tax (Net)	15	15	13	16	16
Other Assets	16	11	19	12	15
Total Assets	1,042	1,157	1,236	1,397	1,603
Current Liabilities	499	515	568	632	725
Provisions	4	5	7	7	7
Debt Funds	155	133	90	60	30
Other Liabilities	46	82	62	75	70
Equity Capital	13	13	13	13	13
Reserves & Surplus	324	409	495	610	757
Shareholder's Fund	338	422	508	623	770
Total Liabilities	1,042	1,157	1,236	1,397	1,603
BVPS (Rs)	50	63	76	93	115

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	10.8	12.9	12.1	12.8	13.2
EBIT margin (%)	8.8	11.3	10.4	11.2	11.8
Net profit mgn.(%)	6.1	6.8	6.0	7.2	7.9
ROE (%)	22.7	22.2	18.5	20.4	21.1
ROCE (%)	17.3	16.4	13.0	13.8	14.1
W.C & Liquidity					
Receivables (days)	164.0	151.8	148.3	147.7	148.1
Inventory (days)	79.4	74.5	69.1	68.1	72.5
Payables (days)	131.3	113.1	110.1	105.6	92.6
Current ratio (x)	1.6	1.8	1.7	1.9	1.9
Quick ratio (x)	1.1	1.2	1.3	1.3	1.3
Turnover & Levq.					
Gross asset T.O (x)	3.2	3.7	4.1	4.4	4.9
Total asset T.O (x)	1.0	1.1	1.2	1.2	1.2
Int. covge. ratio (x)	2.4	4.0	5.6	10.4	24.9
Adj. debt/equity (x)	0.46	0.32	0.18	0.10	0.04
Valuation ratios					
EV/Sales (x)	2.2	1.9	1.6	1.4	1.2
EV/EBITDA (x)	20.6	14.6	13.3	11.1	9.1
P/E (x)	34.5	26.2	25.7	19.2	15.0
P/BV (x)	8.6	6.6	4.4	4.1	3.2

Recommendation Summary (last 3 years)



Dates	Rating	Target
30 th March-2017	BUY	363
6 th May- 2017	BUY	385

Source: Bloomberg, Geojit Research

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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