

Institutional Equity Research

# Ahluwalia Contracts

Consturction | India

1QFY18 Result Update | August 23, 2017

CMP* (Rs)	283
Upside/ (Downside) (%)	13
Bloomberg Ticker	AHLU IN
Market Cap. (Rs bn)	18.9
Free Float (%)	42.0
Shares O/S (mn)	67

**BUY** 

Target Price: Rs320

## Robust Performance on Healthy Execution; Upgrade to BUY

Led by improved execution, Ahluwalia Contracts (ACIL) has reported a strong and a better-than-expected performance in 1QFY18. While its revenue surged by 65% YoY and 7% QoQ to Rs5.0bn, EBITDA grew by 26% YoY and 24% QoQ to Rs536mn vs. our estimate of Rs404mn. EBITDA margin stood 10.6% (-325bps YoY and +150 bps QoQ). Notably, higher sub-contractors expenses led to YoY decline in margins. Net profit surged by 37% YoY and 45% QoQ to Rs295mn vs. our estimate of Rs200mn. Its order backlog position reduced to Rs30.4bn in 1QFY18 from Rs42.3bn in 1QFY17 owing to increased competitive intensity and cautionary approach of the Company. While ACIL expects to secure orders worth Rs10-11bn in FY18 (L1 position stands at Rs2.5bn), it has increased revenue growth guidance to 15-20% from earlier guidance of 12-15% due to robust execution. We continue to maintain our positive stance on ACIL owing to healthy balance sheet, asset light business model and superior return ratios. **Keeping our earnings estimate unchanged, we upgrade our recommendation to BUY from HOLD with an unrevised Target Price of Rs320.**

### Strong Revenue Growth; Margins to Improve in Ensuing Quarters

A strong execution resulted in revenue growth of 65% YoY to Rs5bn. The healthier execution can be attributed to clients' eagerness to get more works done before the GST roll-out. Though EBITDA margin came in at 10.6%, it was impacted due to higher sub-contractors expenses. However, the Management maintains its EBITDA margin guidance of 12-12.5% for FY18 and looks forward to improved margin in ensuing quarters.

### Order Book Dips on Cautionary Approach; Recovery on the Cards

ACIL did not secure any order in 1QFY18 and its current order book came down to Rs30.4bn (1.9x TTM revenue). ACIL's cautionary approach amid growing competitive intensity has been prime reason for dismal order book, in our view. Notably, ACIL has lowered its order inflow guidance to Rs10-11bn (from Rs15bn) in FY18 (L1 position stands at Rs2.5bn). ACIL is currently bidding projects worth Rs20bn in segments like affordable housing, educational institutions and hospitals, etc.

### Outlook & Valuation

Looking ahead, we expect ACIL to secure decent orders on the back of likely up-tick affordable housing and institutional segments. We continue to maintain our positive view on ACIL mainly on the back of: (1) asset light business model; (2) strong balance-sheet (D/E at 0.2x); (3) best-in-class return ratios; and (4) no equity commitment unlike several other construction companies. Given the correction in the stock over last two months, current valuation 14.3x FY19 EPS looks reasonable. **We upgrade our recommendation on the stock to BUY from HOLD with an unrevised Target Price of Rs320.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	12,496	14,265	15,836	17,431
EBITDA	1,608	1,730	1,983	2,242
Net Profit	844	860	1,114	1,326
EPS (Rs)	12.6	12.8	16.6	19.8
DPS (Rs)	0.0	0.0	0.4	0.4
P/E (x)	22.5	22.0	17.0	14.3
P/B (x)	4.5	3.7	3.1	2.5
EV/EBITDA (x)	12.6	10.7	8.9	7.4
RoE (%)	22.2	18.5	19.8	19.5
Divi. Yield (%)	0.0	0.0	0.1	0.1

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(3.1)	(22.3)	(6.3)
Relative to Nifty	(2.4)	(27.2)	(19.9)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	59.6	58.0
Public	40.4	42.0

### 1 Year Stock Price Performance



Note: \* CMP as on Aug. 23, 2017

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## Risks to the View

- ▶ Lower-than-expected order inflow due to delay in capex recovery.
- ▶ Any delay in project execution.

## Conference Call – Key Takeaways

- ▶ **Order Book & Inflow:** Current order book stands at Rs30.4bn as against Rs42.3bn in 1QFY17. Though ACIL did not secure any project in 1QFY18, it expects to secure projects worth Rs10-11bn (vs. earlier guidance was Rs15bn) in FY18. Currently, it is bidding projects worth Rs20bn and the L1 position stands at Rs2.5bn currently (redevelopment project from the government). Current bidding consists of IIT building projects, housing, hospital and institutional projects. Further, ACIL is in the process of extending projects from existing clients also. Notably, slow-moving and fixed-price contracts stand at Rs3bn and Rs800mn, respectively.
- ▶ **Revenue & Margin Guidance:** On the back of improved execution, the Management has upped revenue growth guidance for FY18 to 15-20% (vs. earlier guidance of from 12-15%). Whilst higher sub-contractors expenses continued to drag margin in 1QFY18, the Management has maintained EBITDA margin guidance of 12-12.5%.
- ▶ **GST Roll-out:** ACIL's clients have done over certification of Rs300-400mn during the quarter before GST roll-out. Further, GST rate of 18% on construction works is higher by 5-6% from earlier tax rate of ~12-13% (6% Service Tax and 6-7% VAT). Hence, the order book can be higher by 5-6% as these were bagged prior to GST roll-out.
- ▶ **Kota Project:** Current occupancy rate is 62%. ACIL collected rental lease income worth Rs2.6mn in 1QFY18 and provided a depreciation of Rs7.5mn for the same. There has been a cash loss of Rs7.5mn from the project during the quarter. However, ACIL is hopeful to collect lease rental of Rs25mn and Rs100mn for FY18 and FY19, respectively and expects turnaround in FY19.
- ▶ **Pragati Maidan Project:** ACIL states that it has walked away from Pragati Maidan Project (NBCC main developer) as the project was not viable given aggressive cost structures. NBCC had not factored in certain expenditures in tender pertaining to handling and working capital expenditures for such a large project.
- ▶ **Interest Cost:** Interest cost reduced to 9.5% in 1QFY18 vs. 11% in 1QFY17 due to reduction in rate of interest by the banks and decrease in rate of mobilisation advances.
- ▶ **Gross Debt & Capex:** ACIL's current gross debt stands at Rs800mn. The Management expects the Company to be debt-free in next two years. Capex is pegged at ~Rs180-200mn for FY18.

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## Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	% YoY	4QFY17	% QoQ	FY17	FY16	% YoY
<b>Net Sales</b>	<b>5,042</b>	<b>3,058</b>	<b>64.9</b>	<b>4,718</b>	<b>6.9</b>	<b>14,265</b>	<b>12,496</b>	<b>14.2</b>
(Inc)/Dec in stock in Trade	462	92		(43)		181	(448)	
Consumption of RM	2,287	1,397	63.6	2,545	(10.2)	7,082	6,495	9.0
Purchase of Traded Goods		-		-			22	
% sales	54.5	48.7		53.0		50.9	48.6	
Operating Expenses	172	131	32.1	202	(14.5)	651	530	22.8
% sales	3.4	4.3		4.3		4.6		
Employees Cost	319	187	70.4	332	(4.0)	1,536	1,588	(3.3)
% sales	6.3	6.1		7.0		10.8	12.7	
Subcontracts Exps.	1,165	528	120.7	1,152	1.1	2,799	2,500	11.9
% sales	23.1	17.3		24.4		19.6	20.0	
Labour Cost		208	(100.0)		#DIV/0!			#DIV/0!
% sales		6.8						
Other Expenditures	102	91	12.1	100	2.0	287	200	43.5
% sales	2.0	3.0		2.1		2.0	1.6	
Total Expenditures	4,506	2,633	71.1	4,288	5.1	12,535	10,887	15.1
<b>EBIDTA</b>	<b>536</b>	<b>424</b>	<b>26.3</b>	<b>431</b>	<b>24.4</b>	<b>1,730</b>	<b>1,608</b>	<b>7.6</b>
Margins	10.6	13.9	(325.1)	9.1	150.2	12.1	12.9	
Depreciation	63	54	17.1	67	(5.0)	241	201	20.3
Interest	38	64	(40.3)	73	(47.7)	267	352	(24.0)
Other Income	15	21	(26.5)	21	(29.1)	84	136	(37.9)
<b>PBT</b>	<b>450</b>	<b>327</b>	<b>37.5</b>	<b>312</b>	<b>43.9</b>	<b>1,306</b>	<b>1,191</b>	<b>9.6</b>
Tax Expens	154	112	37.7	109	41.9	446	347	28.3
% PBT	34.3	34.3		34.8		34.1	29.2	
Tax paid for earlier years / (written back)		-						
<b>PAT</b>	<b>295</b>	<b>215</b>	<b>37.4</b>	<b>204</b>	<b>45.0</b>	<b>860</b>	<b>844</b>	<b>1.9</b>
Net Margins	5.9	7.0		4.3		6.0	6.8	

Source: Company, RSec Research

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**Profit & Loss**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>12,496</b>	<b>14,265</b>	<b>15,836</b>	<b>17,431</b>
Total Expenditure	10,887	12,535	13,853	15,189
<b>EBITDA</b>	<b>1,608</b>	<b>1,730</b>	<b>1,983</b>	<b>2,242</b>
EBITDA Margin (%)	12.9	12.1	12.5	12.9
Financial Charges	352	267	171	109
Depreciation	201	241	230	238
Other Income	136	84	89	93
Extraordinary expenses	0	0	0	0
Profit before tax	1192	1306	1670	1988
Total Tax	347	446	556	662
% of PBT	29.2	34.1	33.3	33.3
<b>Profit after tax</b>	<b>844</b>	<b>860</b>	<b>1,114</b>	<b>1,326</b>
PAT Margin (%)	6.8	6.0	7.0	7.6
Add: Share of Profit & Loss in JV/ associate	0	0	0	0
Less: Minority Interest	0	0	0	0
<b>Net Profit</b>	<b>844</b>	<b>860</b>	<b>1,114</b>	<b>1,326</b>
<b>Adjusted EPS</b>	<b>12.60</b>	<b>12.84</b>	<b>16.63</b>	<b>19.80</b>

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**Balance Sheet**

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Shareholders Funds				
Share Capital	134	134	134	134
Reserves and Surplus	4,086	4,946	6,027	7,321
<b>Total</b>	<b>4,220</b>	<b>5,080</b>	<b>6,161</b>	<b>7,455</b>
Loan Funds				
Secured Loans	1,134	834	534	334
Unsecured Loans	285	70	50	30
Total	1,419	904	584	364
<b>TOTAL</b>	<b>5,639</b>	<b>5,984</b>	<b>6,745</b>	<b>7,819</b>
<b>Application of Funds</b>				
<b>Fixed Assets</b>				
Gross Block	4,329	4,530	4,680	4,830
Less: Depreciation	2,363	2,605	2,835	3,073
<b>Net Block</b>	<b>1,965</b>	<b>1,925</b>	<b>1,845</b>	<b>1,757</b>
Capital Work-in Progress	0	3	3	3
Investments	63	63	63	63
<b>Current Assets, Loans and Advances</b>				
Inventories	2,047	2,008	2,256	2,483
Sundry debtors	5,575	6,018	6,508	7,020
Cash and bank balances	150	1,416	1,981	2,783
Loans and advances	886	792	879	967
<b>Total</b>	<b>8,658</b>	<b>10,233</b>	<b>11,624</b>	<b>13,254</b>
<b>Less: Current Liabilities and Provisions</b>				
Current Liabilities	5,152	6,302	6,832	7,282
Provisions	45	72	92	110
<b>Total</b>	<b>5,197</b>	<b>6,375</b>	<b>6,924</b>	<b>7,392</b>
Net Current Assets	3,461	3,858	4,700	5,862
Misc. Expenditure not written off	0	0	0	0
Deferred Tax Asset (Net)	149	134	134	134
<b>TOTAL</b>	<b>5,639</b>	<b>5,984</b>	<b>6,745</b>	<b>7,819</b>

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**Cash Flow Statement**

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
<b>A. Cash Flow from Operating Activities</b>				
Profit after tax	1,192	1,306	1,670	1,988
Depreciation	201	241	230	238
Other adjustments	0	0	0	0
Working Capital changes	(1151)	869	(276)	(360)
<b>Net Cash from Operating Activities</b>	<b>241</b>	<b>2,416</b>	<b>1,624</b>	<b>1,866</b>
<b>B. Cash flow from Investing Activities:</b>				
Capital Expenditure	(200)	(204)	(150)	(150)
Investments	0	0	0	0
<b>Net Cash from Investing Activities</b>	<b>(200)</b>	<b>(204)</b>	<b>(150)</b>	<b>(150)</b>
<b>C. Cash flow from Financing Activities</b>				
Net borrowing	(312)	(515)	(320)	(220)
Net dividend and others	0	0	(32)	(32)
<b>Net Cash from Financing Activities</b>	<b>(312)</b>	<b>(515)</b>	<b>(352)</b>	<b>(252)</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(614)</b>	<b>1,266</b>	<b>565</b>	<b>802</b>
<b>Opening Balance</b>	<b>764</b>	<b>150</b>	<b>1,416</b>	<b>1,981</b>
<b>Closing Balance</b>	<b>150</b>	<b>1,416</b>	<b>1,981</b>	<b>2,783</b>

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**Key Ratio**

Y/E Mar	FY16	FY17E	FY18E	FY19E
<b>Valuation Matrix</b>				
Price / Adj Earnings (x)	22.5	22.0	17.0	14.3
Price / CEPS (x)	18.1	17.2	14.1	12.1
Price / BV (x)	4.5	3.7	3.1	2.5
EV / EBIDTA (x)	12.6	10.7	8.9	7.4
EV / Sales (x)	1.6	1.3	1.1	0.9
EPS (Rs)-Adjusted	12.6	12.8	16.6	19.8
CEPS (Rs)	15.6	16.4	20.1	23.3
Book Value	63.0	75.8	92.0	111.3
Adj ROE (%)	22.2	18.5	19.8	19.5
ROCE (%)	26.2	25.6	27.5	27.5
<b>Solvency Ratio (x)</b>				
Total Debt / Equity (x)	0.3	0.2	0.09	0.05
Debt / EBIDTA	0.9	0.5	0.3	0.2
Debt / Capital Emp.	0.3	0.2	0.1	0.0
Capital Emp / Net Worth	1.3	1.2	1.1	1.0
<b>Turnover Ratio (x)</b>				
Asset Turnover Ratio	2.2	2.4	2.3	2.2
Fixed Asset Turnover Ratio	2.9	3.1	3.4	3.6
<b>Working Capital Ratio (x)</b>				
Current Ratio	1.7	1.6	1.7	1.8
Working Capital to Sales	0.3	0.3	0.3	0.3
Inventory (days)	60	51	52	52
Debtors (days)	163	154	150	147
Creditors (days)	150	161	157	152
Working Capital Cycle (Days)	72	44	45	47

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**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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