

March 8, 2018

Q3FY18 Result Update

Ahluwalia Contracts (India) Ltd

Good quarter, order book execution – key to growth

Accumulate

Ahluwalia Contracts (India) Ltd (ACIL), for Q3FY18, reported decent numbers. Revenue grew by ~1% YoY to ₹361 crore, growth was muted on the back of GST impact (adjusting for the same, revenue would have been up by 9-10%). Execution of better margin orders led to EBITDA margin expansion of 413bps to 17.3%. Good operational performance aided net profit growth of 20% to ₹29 crore. As of 31 Dec'17 debt was at ₹61 crore (vs ₹63 crore as of 30 Sept'17).

Management Guidance: For FY18, the management has maintained revenue growth guidance of 15-20%, EBITDA margin guidance to 13-14%. It expects order inflows worth ₹1,300 crore in FY18 and ₹1,600 crore in FY19.

Recommendation: Post our Q2FY18 result update [click here](#) (21 Nov'17 @ ₹358, Rating: Accumulate), ACIL touched its 52 week high of ₹426 (on 27 Dec'17). The stock has corrected to ₹371 levels (return ~4% since the update) and trades at a P/E of 16.6/14.1x on FY19E/20E basis. ACIL's cautious bidding approach and execution of better margin orders has enabled EBITDA margin expansion for the quarter. Owing to the competitive intensity being high we have maintained our EBITDA margin estimates of ~13% over FY18-20. The company has a healthy bid pipeline and its focus on higher ticket size projects (+₹500 crore) could aid future growth. We maintain our Accumulate rating and value the company at 16x FY20E EPS giving a target price of ₹421.

Q3FY18 Result Summary

Y/E Mar (₹ Cr.)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Revenue	361	358	0.8	335	7.9
EBITDA	62	47	32.4	50	25.4
Margin (%)	17.3	13.2	413bps	14.9	240bps
PAT	29	24	19.5	26	13.2
EPS (₹)	4.35	3.64		3.85	

Source: Company, Centrum Wealth Research

Focus on high margin orders – to augur well: So far during FY18, ACIL has received orders worth ₹1,260 crore, taking the order book to ₹3,575 crore (as of 31 Dec'17). Over the last few months competitive intensity has been high owing to regional players coming in. ACIL has thus adopted a cautious bidding approach in order to safe guard margins and is now looking at higher ticket size orders (where competition is low at present). Given the opportunities and competitive intensity, we expect the company to maintain margin of ~13% over FY18E-20E.

Good balance sheet position: As of 31 Dec'17 debt stands at ₹61 crore. We anticipate ACIL to be a debt free company by FY20E. We believe for now the company would not be requiring any major capex (~₹20 crore – regular capex estimated), however the same could differ owing to the requirements of any big ticket orders. We expect lower capex requirement and better order execution to generate healthy cash flows which could aid debt reduction and improve the working capital cycle. In addition, the company has some assets in the real estate segment which it would look to monetise once the market stabilizes.

Risk factors: 1) Any adverse news on the CBI investigation case could result in stock price correction, 2) Prolonged increase in sub-contracting expenses to hurt margins, 3) Delay in payments, leading to higher working capital requirement.

Financial Summary

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	NPAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY16A	1,250	17.9	161	12.9	84	31.8	12.60	29.4	15.7	22.2
FY17A	1,427	14.2	173	12.1	86	1.9	12.84	28.9	14.2	18.5
FY18E	1,684	18.0	219	13.0	119	37.9	17.70	20.9	11.0	21.2
FY19E	1,909	13.4	256	13.4	149	25.9	22.29	16.6	9.0	22.0
FY20E	2,153	12.8	291	13.5	176	18.1	26.32	14.1	7.5	21.4

Source: Company, Centrum Wealth Research

Key Data

Current Market Price (₹)	371
Target Price (₹)	421
Potential upside	13.7%
Sector Relative to Market	In-line
Stock Relative to Sector	In-line

Stock Information

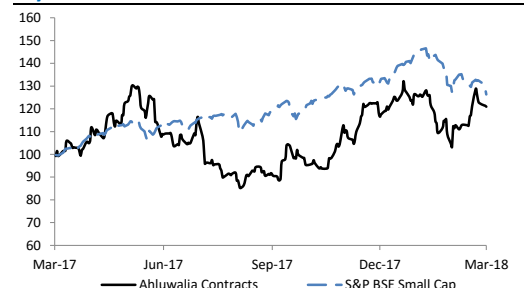
BSE Code	532811
NSE Code	AHLUCONT
Face Value (₹/Share)	2.0
No. of shares (Cr.)	6.7
Market Cap (₹ Cr.)	2,482
Free float (₹ Cr.)	1,043
52 Week H / L (₹)	426/236
Avg. Daily turnover (12M, ₹ Cr.)	1.8

Shareholding Pattern (%)

	Dec-17	Dec-16
Promoters#	58.0	62.4
Mutual Funds	14.3	14.8
FPIs	20.1	15.8
Others including Public	7.6	7.0

#Promoter holding diluted post sale of shares by promoter member in Apr'17.

1 year Indexed Price Performance

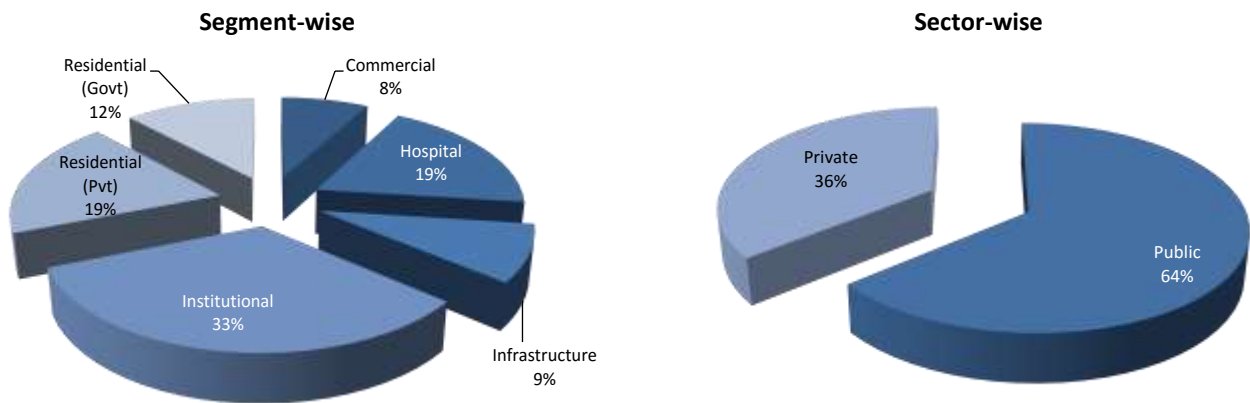


Price Performance (%)

	1M	3M	6M	1YR
ACIL	8.5	2.9	33.6	21.9
S&P BSE Small Cap	(4.7)	(5.2)	5.8	26.7

Source: Bloomberg, Centrum Wealth Research

Mrinalini Chetty, Research Analyst

Exhibit 1: Order Book as of 31 Dec'17 (₹3,575 crore)

Source: Company, Centrum Wealth Research

Q3FY18 Concall Highlights

- Current order book of ₹3,575 crore is to be executed over 2.5 years. Over the long term, the company targets to keep the public and private order book mix to 50:50. Slow moving orders at ₹200 crore.
- Currently working at 40 project sites (has capacity to handle 50 projects at once).
- Project Bid Pipeline – At present stands at ₹2,500 crore, 80% of which is from Government – NBCC, CPWD, HSCC, it also includes Private orders from existing clients – Brookfield, Emaar MGF. The company is looking at bidding for airport projects along with JV partners (as it does not qualify on a standalone basis as they are higher ticket size projects of ₹1,000 crore). The management stated that it is witnessing some traction in the commercial arena and also in the realty space.
- The competition intensity for project bidding has increased on the back of regional players coming in. In some projects the company has witnessed qualification criteria (technical and net worth) being diluted and hence has adopted a cautious bidding approach. The management expects the same to stabilize in the months to come.
- Interest cost during the quarter were high owing to a one-time provision of ₹8 crore (on account of DVAT liability). Average cost of debt at present stands at 9-9.5%.
- Kota Project - 9MFY18 revenue ₹85 lakh, Accounting loss ₹8 crore, Cash loss ₹1.44 crore.

Exhibit 2: Quarterly Performance

Y/E Mar (₹ Cr.)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	358	472	504	335	361
YoY Growth %	11.9	23.0	64.6	15.2	0.8
Raw Materials	189	250	275	118	146
% of sales	52.7	53.0	54.5	35.1	40.5
Personnel Expenses	37	33	32	34	34
% of sales	10.4	7.0	6.3	10.2	9.5
Other Expenses	85	145	144	133	118
% of sales	23.7	30.8	28.5	39.8	32.7
EBIDTA	47	43	54	50	62
EBIDTA margin %	13.2	9.1	10.6	14.9	17.3
Depreciation	6.1	6.7	6.3	6.4	6.4
Interest	6.0	7.3	3.8	4.6	12.4
Other Income	1.2	2.1	1.5	1.0	1.1
PBT	36.3	31.2	45.0	39.8	44.8
Provision for tax	11.9	10.9	15.4	14.1	15.6
Effective tax rate %	32.7	34.8	34.3	35.3	34.9
Net Profit	24.4	20.4	29.5	25.8	29.2
YoY Growth %	23.0	(23.8)	35.3	29.0	19.6
PAT margin %	6.8	4.3	5.9	7.7	8.1

Source: Company, Centrum Wealth Research

From the Technical & Derivative Desk

- After a strident rally in 2014, the stock has started moving in the sideways direction.
- The consolidation phase of last three years has resulted into formation of a 'Rising Channel' on weekly chart.
- The stock is currently hovering around the upper end of the mentioned channel and forming a 'Triple Top' pattern on weekly chart.
- The 'RSI' oscillator too has given a negative divergence on weekly chart; indicating limited upside in the counter.
- Considering above technical evidence, we may see a corrective move in the stock towards 310 – 320 levels in coming weeks. ON the flipside strong resistance is placed around 425 level.

Exhibit 3: Technical Chart

Source: Company, Centrum Wealth Research

Financials

Income Statement

Y/E Mar (₹ Cr)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	1,250	1,427	1,684	1,909	2,153
Growth %	17.9	14.2	18.0	13.4	12.8
Raw Materials	607	726	839	951	1,072
% of sales	48.6	50.9	49.8	49.8	49.8
Personnel Expenses	159	154	150	170	192
% of sales	12.7	10.8	8.9	8.9	8.9
Other Expenses	323	374	477	533	599
% of sales	25.8	26.2	28.3	27.9	27.8
EBIDTA	161	173	219	256	291
EBIDTA margin %	12.9	12.1	13.0	13.4	13.5
Depreciation	20	24	26	27	28
Interest	35	27	21	10	3
Other Income	14	8	8	8	8
PBT	119	131	180	226	267
Provision for tax	35	45	61	77	91
Effective tax rate %	29.2	34.1	34.0	34.0	34.0
Net Profit	84	86	119	149	176
Growth %	31.8	1.9	37.9	25.9	18.1
PAT margin %	6.8	6.0	7.0	7.8	8.2

Source: Company, Centrum Wealth Research

Balance Sheet

Y/E Mar (₹ Cr)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	13	13	13	13	13
Reserves & surplus	409	495	598	731	892
Shareholder's fund	422	508	611	745	906
Loan fund	133	90	60	25	0
Total cap. employed	555	598	671	770	906
Net fixed assets	197	193	187	180	172
Deferred Tax Assets	15	13	13	13	13
Investments	6	6	6	6	6
Cash and bank	88	123	144	201	298
Inventories	205	201	281	314	354
Debtors	557	602	761	863	973
Loans & adv and OCA	89	98	135	153	172
Total current assets	939	1,023	1,322	1,531	1,797
Current lia. and prov.	602	637	857	961	1,083
Net current assets	337	386	464	570	714
Total assets	555	598	671	770	906

Source: Company, Centrum Wealth Research. OCA – Other Current Assets

Cash Flow

Y/E Mar (₹ Cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Profit Before Tax	119	131	180	226	267
Depreciation	20	24	26	27	28
Others	17	16	13	2.6	(4.6)
Change in working capital	(72)	(31)	(57)	(49)	(48)
Tax expenses	(7)	(12)	(61)	(77)	(91)
Cash flow from Ops	77	127	101	130	152
Capex	(22)	(20)	(20)	(20)	(20)
Other investing activities	(3)	11	8	8	8
Cash flow from Invest	(25)	(9)	(12)	(12)	(12)
Proceeds from equity	-	-	-	-	-
Borrowings/(Repayments)	(31)	(52)	(30)	(35)	(25)
Dividend paid	-	-	(16)	(16)	(16)
Interest paid	(26)	(19)	(21)	(10)	(3)
Cash flow from financing	(58)	(71)	(67)	(61)	(44)
Net Cash Flow	(6)	48	22	57	96

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
Return ratios (%)					
RoE	22.2	18.5	21.2	22.0	21.4
RoCE	29.5	27.3	31.6	32.8	32.2
Turnover Ratios (days)					
Inventory	54	52	52	57	57
Debtors	152	148	148	155	156
Creditors	82	83	86	89	89
Fixed asset turnover (x)	3.6	3.6	3.6	4.0	4.3
Solvency Ratio (x)					
Debt-Equity	0.3	0.2	0.1	0.0	0.0
Interest coverage	4.4	5.9	9.6	23.2	90.1
Per share (₹)					
EPS	12.6	12.8	17.7	22.3	26.3
BVPS	63.0	75.9	91.2	111.2	135.2
CEPS	15.6	16.4	21.6	26.3	30.5
Dividend Ratios					
DPS (₹)	-	-	2.0	2.0	2.0
Dividend Yield (%)	-	-	0.5	0.5	0.5
Dividend Payout (%)	-	-	13.1	10.4	8.8
Valuation (x)					
P/E	29.4	28.9	20.9	16.6	14.1
P/BV	5.9	4.9	4.1	3.3	2.7
EV/EBIDTA	15.7	14.2	11.0	9.0	7.5
EV/Sales	2.0	1.7	1.4	1.2	1.0

Source: Company, Centrum Wealth Research

Appendix

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