

Ahluwalia Contracts

BUY
INDUSTRY INFRASTRUCTURE
CMP (as on 31 May 2018) Rs 372
Target Price Rs 486

Nifty 10,736

Sensex 35,322

KEY STOCK DATA

Bloomberg AHLU IN

No. of Shares (mn) 67

MCap (Rs bn) / (\$ mn) 25/370

6m avg traded value (Rs mn) 17

STOCK PERFORMANCE (%)
52 Week high / low Rs 445/236

3M 6M 12M

Absolute (%) (1.8) (0.5) 6.4

Relative (%) (5.1) (7.1) (7.0)

SHAREHOLDING PATTERN (%)

Promoters 57.96

FIs & Local MFs 15.78

FPIs 20.28

Public & Others 5.98

Source : BSE

Parikshit D Kandpal

parikshitd.kandpal@hdfcsec.com

+91-22-6171-7317

Kunal Bhandari

kunal.bhandari@hdfcsec.com

+91-22-6639-3035

Growth visible

AHLU 4QFY18 net revenue came in at Rs 4.5bn (-5.3%YoY, +23.7%QoQ) which was only marginally below our estimates. Company delivered strong 13.3% EBITDA margins in FY18 (vs. 12.2% YoY). This has been achieved by mix of better cost control and improvement in labour market supply.

AHLU is continuously striving to become leaner and is working on increasing productivity and efficiency. We remain hopeful of a further 50-100bps margin expansion over the next 2 years. Balance sheet is robust with a negligible gross debt of Rs 290mn which translates into a net D/E of -0.2x.

With stable execution growth, healthy margins, negligible finance costs and low capex intensity we expect healthy FCFE generation over FY19-20E. AHLU has declared a dividend for the 1st time in 6 years and this could be a visible trend in the future. We maintain **BUY** with a SOTP of Rs 486/sh (EPC segment at 486/sh (EPC segment at 10x Mar-20E EV/EBITDA, Kota BOT – 1x P/BV).

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	4,468	4,718	(5.3)	3,611	23.7	14,265	16,466	19,029	21,788
EBITDA	534	431	23.9	624	(14.5)	1,730	2,194	2,617	2,975
APAT	311	204	52.6	291	6.8	860	1,156	1,490	1,693
Diluted EPS (Rs)	4.6	3.0	52.6	4.3	6.8	12.8	17.3	22.2	25.3
P/E (x)						28.9	21.5	16.7	14.7
EV / EBITDA (x)						14.1	10.9	8.9	7.6
RoE (%)						18.5	20.5	21.4	19.9

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Bid pipeline comforting:** With an order book of Rs 30.7bn in addition to new bids of ~Rs 16bn (including 2 AIIMS in Nagpur and West Bengal) won post FY18, revenue visibility is comfortable. Bid pipeline of ~Rs 30bn is equally divided over private and government segments. Though it will bid for ~Rs 15bn of NBCC projects, it is not overly bullish on this front and would refrain from indiscriminate bidding.
- Balance sheet now net cash:** AHLU has already reduced debt to Rs 296mn in FY18. AHLU is currently net cash. The surplus annual OCF will be Rs 1.3bn+ and OCF/EV yield will be very strong at 5-6%. Out of the net block of Rs 1.8bn on the books ~Rs 0.9bn pertains to the KOTA project.
- Near-term outlook:** While AHLU is not too keen for pvt. Residential projects, strong orders in buildings will be driven by, (1) Private commercial, (2) Government-led capex (AIIMS, State hospitals, DDA projects), (3) Airports, and (4) Redevelopment projects. We continue to remain positive on AHLU.

AHLU 4QFY18 net revenue came in at Rs 4.5bn (-5.3%YoY, +23.7% QoQ)

EBITDA at Rs 0.5bn (+23.9% YoY, -14.5% QoQ) was 14.9% above estimates, with EBITDA margins expansion of 282bps YoY to 11.9%

For FY18, EBITDA margins were 13.3% vs 12.2% YoY

With minimal debt on the books, interest cost remained low at Rs 42mn in 4QFY18 (-42.5% YoY, -66.1% QoQ)

PAT at Rs 0.3bn (+52.6% YoY, +6.8% QoQ) was 4.6% below our estimates

Standalone Quarterly Financials

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Net Sales	4,468	4,718	(5.3)	3,611	23.7	16,466	14,266	15.4
Material Expenses	(3,493)	(2,502)	39.6	(2,577)	35.5	(12,608)	(10,716)	17.7
Employee Expenses	(336)	(332)	1.1	(344)	(2.3)	(1,338)	(1,518)	(11.9)
Other Operating Expenses	(105)	(1,453)	(92.8)	(66)	59.1	(326)	(295)	10.5
EBITDA	534	431	23.9	624	(14.5)	2,194	1,737	26.3
Interest Cost	(42)	(73)	(42.5)	(124)	(66.1)	(251)	(271)	(7.4)
Depreciation	(65)	(67)	(2.6)	(64)	1.6	(256)	(239)	7.1
Other Income (Incl. EO Items)	27	21	26.2	11	145.5	63	84	(25.0)
PBT	454	312	45.2	447	1.5	1,750	1,311	33.5
Tax	(143)	(109)	31.4	(156)	(8.3)	(594)	(448)	32.6
RPAT	311	204	52.6	291	6.8	1,156	863	34.0

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)	FY18	FY17	YoY (bps)
Material Expenses % Net Sales	78.2	53.0	2,515	71.4	682	76.6	75.1	145
Employee Expenses % Net Sales	7.5	7.0	48	9.5	(201)	8.1	10.6	(251)
Other Operating Expenses % Net Sales	2.4	30.8	(2,845)	1.8	52	2.0	2.1	(9)
EBITDA Margin (%)	11.9	9.1	282	17.3	(533)	13.3	12.2	115
Tax Rate (%)	31.5	34.8	(332)	34.9	(338)	33.9	34.2	(23)
APAT Margin (%)	7.0	4.3	264	8.1	(110)	7.0	6.0	97

Source: Company, HDFC sec Inst Research

We expect EBIDTA margins around 14% range over FY19-20E

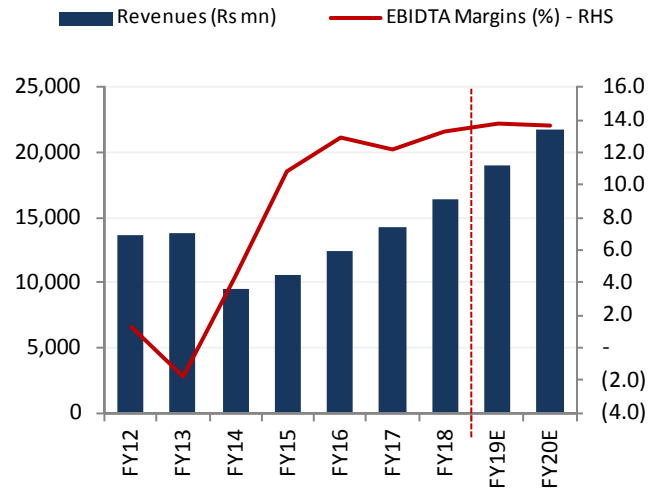
Well-diversified order book segmentation

Order book is currently dominated by government orders

Company is looking to balance future bids between private and government segments

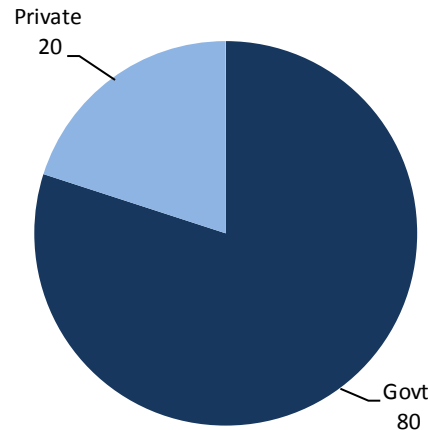
Northern region continues to dominate the order book with a 55% share of the backlog. There are no plans to expand to South in the near future

EBIDTA Margins To Remain ~14% Over FY19-20E



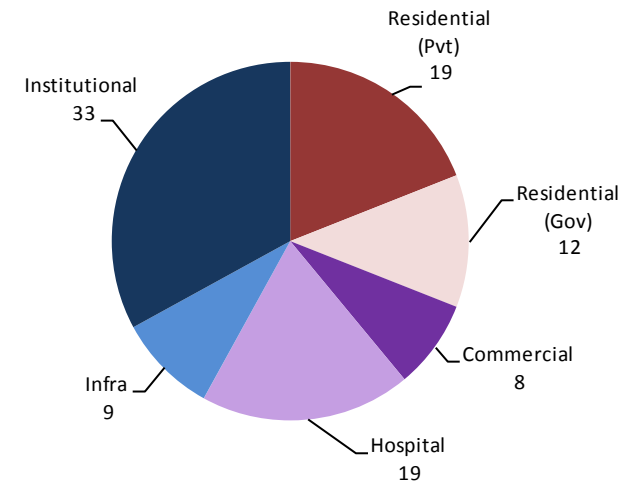
Source: Company, HDFC sec Inst Research

Client Mix (%):Government Dominated



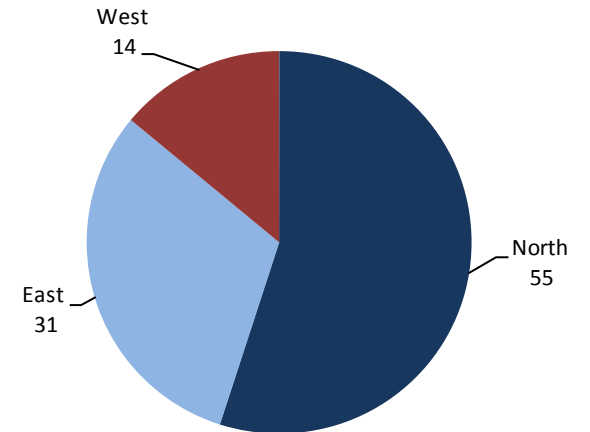
Source: Company, HDFC sec Inst Research

Well Diversified Order Mix (%) – 4QFY18



Source: Company, HDFC sec Inst Research

Significant Concentration - North (%) -4QFY18



Source: Company, HDFC sec Inst Research

New bids of ~Rs 16bn (including 2 AIIMS in Nagpur and West Bengal) are already won post FY18

FY18-20E revenue CAGR 15%, EBIDTA CAGR 16.5%

We remain hopeful of a further 50-100bps margin expansion over the next 2 years from current levels

Interest expense to be minimal

FY18-20E RPAT CAGR of 21%

AHLU to generate strong FCF with W/C remaining under control

Key Assumptions And Estimates

Key Assumptions	FY19E	FY20E	Comments
Closing order book	31,711	33,094	We expect muted order book CAGR, as AHLU is cautiously approaching new bids owing to high competitive intensity
Order book growth (%)	3.2	4.4	
New order booking	20,000	20,000	In line with Rs 15-20bn/yr order intake guidance
Book to bill ratio	1.7	1.5	
Total Revenue	19,029	21,788	FY18-20E Revenue CAGR of 15%
Growth (%)	15.6	14.5	
EBIDTA	2,617	2,975	FY18-20E EBIDTA CAGR of 16.5%
EBIDTA margin (%)	13.8	13.7	Margins to remain in 13-14% range
Depreciation	270	306	
Financial Charges	119	134	To remain minimal
PBT	2,292	2,605	FY18-20E PBT CAGR of 22% on the back of low interest costs
PBT margin (%)	12.0	12.0	
Tax	802.1	911.8	
Tax rate (%)	35.0	35.0	
RPAT	1,490	1,693	FY18-20E APAT CAGR of 21%
Net margin (%)	7.8	7.8	
Adjusted PAT	1,490	1,693	
Gross Block Turnover	4.1	4.4	
Debtor days	135	135	
CFO - a	1,434	1,258	AHLU to generate strong FCF with W/C remaining under control
CFI - b	(555)	(630)	
FCF - a+b	878	628	
CFF - c	(108)	(112)	
Total change in cash - a+b+c	770	516	

Source: HDFC sec Inst Research

Outlook and valuation

TP of Rs 486/sh

Valuation methodology

- We have valued AHLU's EPC business at 10x one-year forward Mar-20E EV/EBITDA. Our rationale behind this is (1) Superior earnings quality vs. peers, (2) Robust order backlog of Rs 30.7bn (excl. post FY18 wins of Rs ~16.0bn), (2) Expected to remain a net cash company over FY18-20E, and (4) Limited BOT capex (Kota BOT equity of Rs 900mn already invested).
- Investment in the building segment would remain robust on the back of NBCC, CPWD and private capex in the segment. AHLU, with its strong execution skills, is likely to benefit from the pick-up in order activity. **We maintain BUY with a SOTP-based target price of Rs 486/sh.**
- We value the (1) Standalone EPC business at Rs 473/share (10x one-year forward Mar-20E EV/EBITDA), (2) Kota BOT at Rs 13/share (DCF valuation, implied 0.96x P/BV of equity invested).

SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
AHLU Standalone	Building business	31,672	473	At 10x Mar-20E EV/EBITDA
Kota BOT Project	Lease rental	866	13	DCF Valuation, implied P/BV (x) – 0.96x
Total		32,538	486	

Source: HDFC sec Inst Research

We value the standalone Building business at Rs 473/share (10x one-year forward Mar-20E EV/EBITDA)

Kota BOT at Rs 13/share (DCF valuation, implied 0.96x P/BV of equity invested)

Our SOTP target price is Rs 486/share

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	12,496	14,265	16,466	19,029	21,788
Growth (%)	17.9	14.2	15.4	15.6	14.5
Material Expenses	6,069	7,262	12,608	9,580	10,991
Employee Expenses	1,588	1,536	1,338	1,522	1,743
Other Operating Expenses	3,230	3,737	326	5,309	6,079
EBIDTA	1,608	1,730	2,194	2,617	2,975
EBIDTA (%)	12.9	12.1	13.3	13.8	13.7
EBIDTA Growth (%)	40.0	7.6	26.8	19.3	13.7
Depreciation	201	241	256	270	306
EBIT	1,408	1,489	1,938	2,347	2,669
Other Income (Incl. EO Items)	136	84	63	63	70
Interest	352	267	251	119	134
PBT	1,192	1,306	1,750	2,292	2,605
Tax	347	446	594	802	912
RPAT	844	860	1,156	1,490	1,693
APAT	844	860	1,156	1,490	1,693
APAT Growth (%)	31.6	1.9	34.4	28.9	13.7
EPS	12.6	12.8	17.3	22.2	25.3
EPS Growth (%)	31.6	1.9	34.4	28.9	13.7

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	134	134	134	134	134
Reserves	4,087	4,947	6,090	7,556	9,223
Total Shareholders Funds	4,221	5,081	6,224	7,689	9,357
Minority Interest	-	-	-	-	-
Long Term Debt	1	-	7	-	-
Short Term Debt	1,418	900	289	331	379
Total Debt	1,419	900	296	331	379
Deferred Taxes	(148)	(134)	(217)	(134)	(134)
Long Term Provisions & Others	854	677	303	949	957
TOTAL SOURCES OF FUNDS	6,347	6,524	6,606	8,836	10,559
APPLICATION OF FUNDS					
Net Block	1,965	1,925	1,844	2,192	2,586
CWIP	2	3	3	3	3
Other Non Current Assets	1,013	1,184	1,303	1,282	1,335
Investments	63	63	63	63	63
Total Non-current Assets	3,044	3,176	3,213	3,540	3,987
Inventories	2,047	2,478	1,891	2,867	3,283
Debtors	4,997	4,549	5,659	7,038	8,059
Cash & Equivalents	882	1,347	1,247	2,017	2,533
ST Loans & Advances, Others	451	673	227	735	769
Total Current Assets	8,377	9,047	9,024	12,658	14,643
Creditors	2,946	3,522	3,778	4,595	5,268
Other Current Liabilities & Provns	2,128	2,176	1,853	2,767	2,804
Total Current Liabilities	5,074	5,699	5,631	7,362	8,072
Net Current Assets	3,303	3,348	3,393	5,296	6,571
TOTAL APPLICATION OF FUNDS	6,347	6,524	6,606	8,836	10,559

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
PBT	1,192	1,306	1,750	2,292	2,605
Non-operating & EO items	(136)	(84)	(63)	(63)	(70)
Interest expenses	352	267	251	119	134
Depreciation	201	241	256	270	306
Working Capital Change	(892)	650	(721)	(382)	(806)
Tax paid	(343)	(432)	(594)	(802)	(912)
OPERATING CASH FLOW (a)	373	1,948	879	1,434	1,258
Capex	(219)	(203)	(175)	(619)	(700)
Free cash flow (FCF)	154	1,745	704	815	558
Investments + Interest income	267	(297)	63	63	70
INVESTING CASH FLOW (b)	48	(500)	(112)	(555)	(630)
Share capital Issuance	0	-	0	-	0
Debt Issuance	(311)	(520)	(604)	35	48
Interest expenses	(352)	(267)	(251)	(119)	(134)
Dividend	-	-	-	(24)	(27)
Others	360	(196)	(13)	-	-
FINANCING CASH FLOW (c)	(303)	(983)	(868)	(108)	(112)
NET CASH FLOW (a+b+c)	117	465	(100)	770	516
Opening cash balance	765	882	1,347	1,247	2,017
Closing Cash & Equivalents	882	1,347	1,247	2,017	2,533

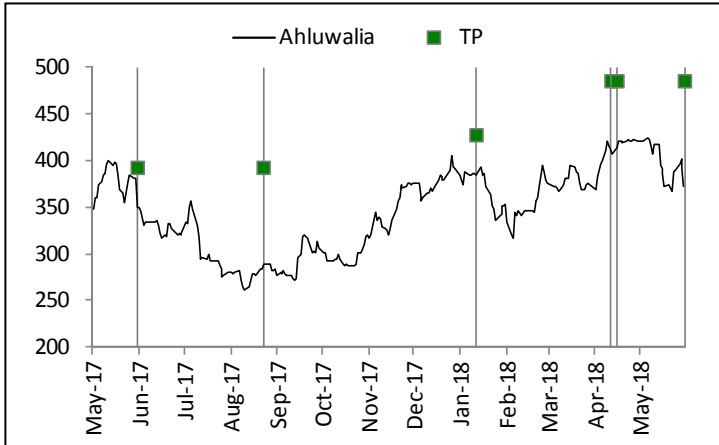
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	51.4	49.1	23.4	49.7	49.6
EBITDA Margin	12.9	12.1	13.3	13.8	13.7
EBIT Margin	11.3	10.4	11.8	12.3	12.3
APAT Margin	6.8	6.0	7.0	7.8	7.8
RoE	22.2	18.5	20.5	21.4	19.9
Core RoCE	18.5	19.2	24.2	22.6	21.8
RoCE	17.2	15.9	20.0	17.7	16.9
EFFICIENCY					
Tax Rate (%)	29.2	34.1	33.9	35.0	35.0
Asset Turnover (x)	2.0	2.2	2.5	2.2	2.1
Inventory (days)	60	63	42	55	55
Debtors (days)	146	116	125	135	135
Payables (days)	86	90	84	88	88
Cash Conversion Cycle (days)	120	90	84	102	102
Other Current Assets (days)	13	17	5	14	13
Other Current Liab (days)	62	56	41	53	47
Net Working Capital Cycle (Days)	71	51	48	63	68
Debt/EBITDA (x)	0.9	0.5	0.1	0.1	0.1
Net D/E	0.13	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage	4.0	5.6	7.7	19.8	19.9
PER SHARE DATA					
EPS (Rs/sh)	12.6	12.8	17.3	22.2	25.3
CEPS (Rs/sh)	15.6	16.4	21.1	26.3	29.8
DPS (Rs/sh)	-	-	-	0	0
BV (Rs/sh)	63	76	93	115	140
VALUATION					
P/E	33.0	32.4	24.1	18.7	16.5
P/BV	6.6	5.5	4.5	3.6	3.0
EV/EBITDA	17.7	15.8	12.3	10.0	8.6
OCF/EV (%)	1.3	7.1	3.3	5.5	4.9
FCF/EV (%)	0.5	6.4	2.6	3.1	2.2
FCFE/Market Cap (%)	(1.8)	3.4	(0.5)	2.6	1.7
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-May-17	350	BUY	393
23-Aug-17	282	BUY	393
12-Jan-18	382	BUY	428
12-Apr-18	411	BUY	486
14-Apr-18	407	BUY	486
1-Jun-18	372	BUY	486

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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Any holding in stock –No

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Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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