

# Ahluwalia Contracts

**BUY**

## INDUSTRY INFRASTRUCTURE

**CMP (as on 16 Aug 2018)** Rs 313

**Target Price** Rs 489

Nifty 11,385

Sensex 37,664

### KEY STOCK DATA

Bloomberg AHLU IN

No. of Shares (mn) 67

MCap (Rs bn) / (\$ mn) 21/298

6m avg traded value (Rs mn) 15

### STOCK PERFORMANCE (%)

**52 Week high / low** Rs 445/261

3M 6M 12M

Absolute (%) (19.8) (9.6) 12.6

Relative (%) (25.8) (19.4) (7.1)

### SHAREHOLDING PATTERN (%)

Promoters 57.96

FIs & Local MFs 18.77

FPIs 18.30

Public & Others 4.97

Source : BSE

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## Geared up

AHLU 1QFY19 net revenue at Rs 4.0bn was 3.5% below our estimates (Rs 200mn miss in CPWD redevelopment project in Delhi – tree felling issue and Rs 150mn in West Bengal NBCC project – redesigning). EBITDA at Rs 0.5bn was 1.6% below estimates. EBITDA margins expanded 238bps YoY to 13.0%. APAT at Rs 282mn was 14.0% below our estimate due to lower execution.

AHLU has already met the earlier order inflow guidance of Rs 20bn in YTD FY19 (YTD book at ~Rs 47.0bn) and is not desperate to add more projects (~Rs 4.0bn incrementally in rest of 9MFY19E). Focus will be on improving margin profile. AHLU envisages further opportunities in the commercial realty segment.

Balance sheet remains robust with gross debt of Rs 340mn and a net cash of ~Rs 0.6bn. AHLU may outperform its annual order inflow guidance. We maintain **BUY** with a SOTP of Rs 489/sh (EPC segment at 476sh (EPC segment at 10x Mar-20E EV/EBITDA, Kota BOT – 1x P/BV).

### Financial Summary (Standalone)

Year Ending March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	4,039	5,042	(19.9)	4,468	(9.6)	14,265	16,466	19,029	21,788
EBITDA	525	536	(2.1)	534	(1.7)	1,730	2,194	2,617	2,975
APAT	281	295	(4.9)	311	(9.6)	860	1,156	1,490	1,693
Diluted EPS (Rs)	4.2	4.4	(4.9)	4.6	(9.6)	12.8	17.3	22.2	25.3
P/E (x)						24.7	18.4	14.3	12.5
EV / EBITDA (x)						12.0	9.2	7.5	6.4
RoE (%)						18.5	20.5	21.4	19.9

Source: Company, HDFC sec Inst Research

## Highlights of the quarter

- **Strong revenue visibility:** Revenue visibility is comfortable with an order book of Rs 47bn led by addition of ~Rs 20.4bn (including 2 AIIMS in Nagpur and West Bengal) orders YTD FY19. Bid pipeline of ~Rs 20bn is divided over medical, educational and other institutional projects. Though AHLU will bid for NBCC EPC projects (no escalation), it is not overly bullish on this front and would refrain from indiscriminate bidding.
- **Balance sheet robust, net cash:** AHLU's debt of Rs 340mn is comfortable against a cash balance of Rs 1.0bn. The surplus annual OCF will be Rs 1.3bn+ and OCF/EV yield will be very strong at 5-6%. Incremental capex in FY19-20E will continue to be low. WC days at 75-80days are at comfortable levels.
- **Near-term outlook:** 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. Arbitration in CPWD Talkatora project could see an outcome in 3-4 months. We continue to remain positive on AHLU.

**AHLU 1QFY19 net revenue at Rs 4.0bn was 3.5% below our estimates**

**EBITDA at Rs 0.5bn was 1.6% below estimates, with EBITDA margins expansion of 238bps YoY to 13.0%**

**PAT at Rs 282mn was 14.0% below our estimates**

**With minimal debt on the books, interest cost remained low at Rs 39mn in 1QFY19**

### Standalone Quarterly Financials

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Sales</b>	<b>4,039</b>	<b>5,042</b>	<b>(19.9)</b>	<b>4,468</b>	<b>(9.6)</b>
Material Expenses	(3,022)	(2,748)	10.0	(3,493)	(13.5)
Employee Expenses	(360)	(319)	12.9	(336)	7.1
Other Operating Expenses	(132)	(1,439)	(90.8)	(105)	25.7
<b>EBITDA</b>	<b>525</b>	<b>536</b>	<b>(2.1)</b>	<b>534</b>	<b>(1.7)</b>
Interest Cost	(39)	(38)	2.1	(42)	(7.1)
Depreciation	(66)	(63)	3.9	(65)	1.2
Other Income (Incl. EO Items)	13	15	(14.6)	27	(52.2)
<b>PBT</b>	<b>433</b>	<b>450</b>	<b>(3.8)</b>	<b>454</b>	<b>(4.6)</b>
Tax	(152)	(154)	(1.6)	(143)	6.3
<b>RPAT</b>	<b>281</b>	<b>295</b>	<b>(4.9)</b>	<b>311</b>	<b>(9.6)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

MARGIN ANALYSIS	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	74.8	54.5	2,032	78.2	-336
Employee Expenses % Net Sales	8.9	6.3	259	7.5	139
Other Operating Expenses % Net Sales	3.3	28.5	-2,527	2.4	92
<b>EBITDA Margin (%)</b>	<b>13.0</b>	<b>10.6</b>	<b>236</b>	<b>11.9</b>	<b>105</b>
Tax Rate (%)	35.1	34.3	78	31.5	359
<b>APAT Margin (%)</b>	<b>7.0</b>	<b>5.9</b>	<b>110</b>	<b>7.0</b>	<b>0</b>

Source: Company, HDFC sec Inst Research

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

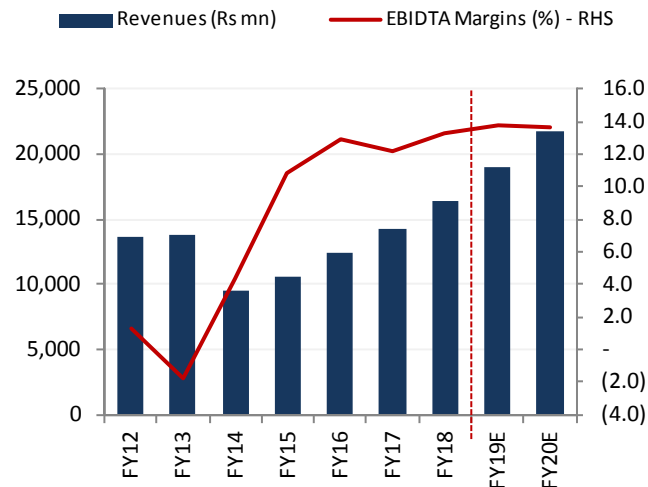
**Well-diversified order book segmentation**  
Recent AIIMS win has propelled the hospital segment share to 41%

**Order book is currently dominated by government orders**

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

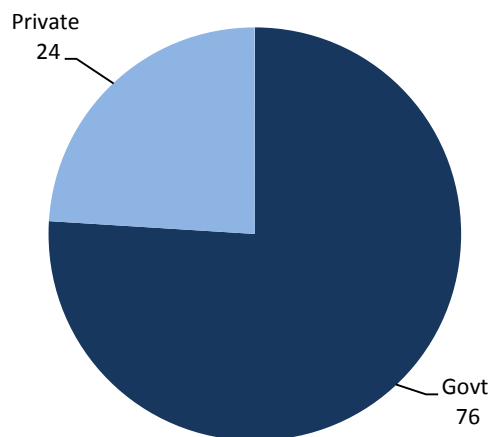
**There are no plans to expand to South in the near future**

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



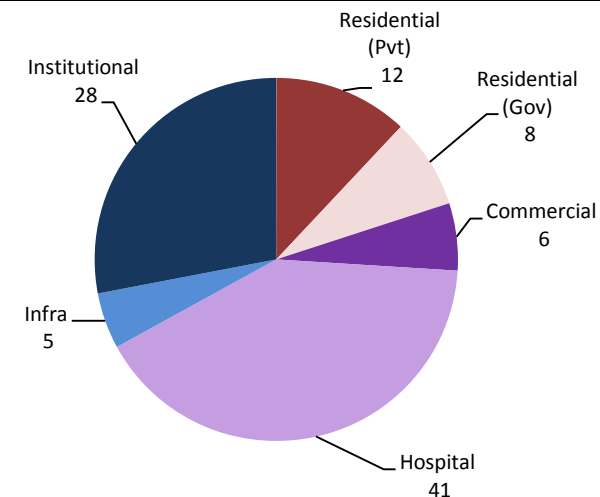
Source: Company, HDFC sec Inst Research

## Client Mix (%):Government Dominated



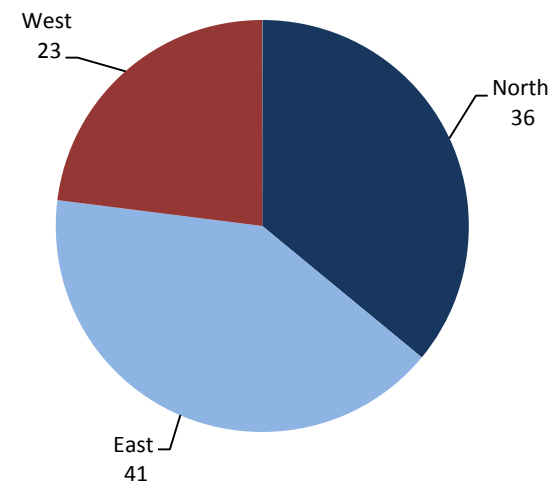
Source: Company, HDFC sec Inst Research

## Well Diversified Order Mix (%) – 1QFY19



Source: Company, HDFC sec Inst Research

## Significant Concentration - East (%) -1QFY19



Source: Company, HDFC sec Inst Research

**New bids of ~Rs 20.4bn (including 2 AIIMS in Nagpur and West Bengal and an airport) are already won in YTD FY19**

**FY18-20E revenue CAGR 15%, EBITDA 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**

**There are no major changes in estimates**

### Key Assumptions And Estimates

Key Assumptions	FY19E	FY20E	Comments
<b>Closing order book</b>	<b>31,711</b>	<b>33,094</b>	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	24,000	20,000	In line with Rs 15-20bn/yr order intake guidance
Book to bill ratio	1.7	1.5	
<b>Total Revenue</b>	<b>19,029</b>	<b>21,788</b>	<b>FY18-20E Revenue CAGR of 15%</b>
Growth (%)	15.6	14.5	
<b>EBIDTA</b>	<b>2,617</b>	<b>2,975</b>	<b>FY18-20E EBITDA CAGR of 16.5%</b>
EBIDTA margin (%)	13.8	13.7	Margins to remain in 13-14% range
Depreciation	270	306	
Financial Charges	119	134	To remain minimal
<b>PBT</b>	<b>2,292</b>	<b>2,605</b>	<b>FY18-20E PBT CAGR of 22% on the back of low interest costs</b>
PBT margin (%)	12.0	12.0	
Tax	802.1	911.8	
Tax rate (%)	35.0	35.0	
<b>RPAT</b>	<b>1,490</b>	<b>1,693</b>	<b>FY18-20E APAT CAGR of 21%</b>
Net margin (%)	7.8	7.8	
<b>Adjusted PAT</b>	<b>1,490</b>	<b>1,693</b>	
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)	
<b>Total change in cash - a+b+c</b>	<b>770</b>	<b>516</b>	

Source: HDFC sec Inst Research

*We value the standalone Building business at Rs 476/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 489/share*

## Outlook and valuation

### TP of Rs 489/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 47bn, (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 489/sh.**
- We value the (1) Standalone EPC business at Rs 476/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	30,618	476	At 10x Mar-20E EV/EBITDA
Kota BOT Project	Lease rental	866	13	DCF Valuation, implied P/BV (x) – 0.96x
<b>Total</b>		<b>32,771</b>	<b>489</b>	

Source: HDFC sec Inst Research

**Peer Set Comparison: Core EPC**

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	116.5	852	BUY	1,434	46.5	63.1	68.5	17.5	12.9	11.9	9.9	8.0	6.4	14.6	14.4	14.6
IRB Infra Developers	67.0	191	BUY	328	22.6	29.1	26.7	3.2	3.8	3.0	3.5	3.5	2.8	30.3	25.3	30.9
NCC	61.0	102	BUY	174	5.2	7.2	8.6	17.7	12.8	10.7	8.7	6.6	5.7	4.2	4.3	4.2
Sadbhav Engineering	46.3	270	BUY	436	12.9	15.4	16.6	9.7	8.1	7.5	8.7	6.7	5.3	11.8	12.5	12.0
PNC Infratech	42.8	167	BUY	322	4.1	8.7	10.5	27.0	12.4	7.7	11.1	7.4	5.0	6.2	11.9	16.5
Ashoka Buildcon	37.9	135	BUY	225	8.4	9.3	9.6	7.4	6.7	6.5	6.0	5.5	4.8	12.5	12.8	11.8
KNR Constructions	32.2	229	BUY	392	13.6	10.1	14.9	12.2	16.6	11.2	6.5	7.0	5.1	18.7	11.3	14.3
ITD Cementation*	22.8	133	BUY	211	6.1	10.8	12.3	21.8	14.8	11.3	9.8	6.8	5.8	16.2	17.9	16.8
<b>Ahluwalia Contracts</b>	<b>21.2</b>	<b>313</b>	<b>BUY</b>	<b>489</b>	<b>17.3</b>	<b>22.2</b>	<b>25.3</b>	<b>17.6</b>	<b>13.7</b>	<b>12.0</b>	<b>8.9</b>	<b>7.1</b>	<b>6.1</b>	<b>20.5</b>	<b>21.4</b>	<b>19.9</b>
J. Kumar Infraprojects	16.8	222	BUY	415	18.1	22.2	27.7	12.3	10.0	8.0	6.7	5.2	4.6	9.4	10.7	12.2
JMC Projects	17.1	508	BUY	844	31.6	33.4	39.9	12.1	11.4	9.6	6.6	6.2	5.3	14.4	13.3	14.0
PSP Projects	16.8	466	BUY	639	18.0	27.7	35.5	25.8	16.8	13.1	14.4	9.5	7.0	31.7	28.4	28.2
HG Infra	15.4	237	NR	NR	12.9	19.6	24.7	18.3	12.1	9.6	8.6	5.5	4.5	23.5	21.1	21.5
<b>Average (Core EPC)</b>					<b>16.7</b>	<b>21.4</b>	<b>24.7</b>	<b>15.6</b>	<b>11.7</b>	<b>9.4</b>	<b>8.4</b>	<b>6.5</b>	<b>5.3</b>	<b>16.4</b>	<b>15.8</b>	<b>16.7</b>

Source: Company, HDFC sec Inst Research \*ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E, 16<sup>th</sup> August 2018 Prices

**Income Statement (Standalone)**

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>12,496</b>	<b>14,265</b>	<b>16,466</b>	<b>19,029</b>	<b>21,788</b>
<b>Growth (%)</b>	<b>17.9</b>	<b>14.2</b>	<b>15.4</b>	<b>15.6</b>	<b>14.5</b>
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
<b>EBIDTA</b>	<b>1,608</b>	<b>1,730</b>	<b>2,194</b>	<b>2,617</b>	<b>2,975</b>
<b>EBIDTA (%)</b>	<b>12.9</b>	<b>12.1</b>	<b>13.3</b>	<b>13.8</b>	<b>13.7</b>
<b>EBIDTA Growth (%)</b>	<b>40.0</b>	<b>7.6</b>	<b>26.8</b>	<b>19.3</b>	<b>13.7</b>
Depreciation	201	241	256	270	306
<b>EBIT</b>	<b>1,408</b>	<b>1,489</b>	<b>1,938</b>	<b>2,347</b>	<b>2,669</b>
Other Income (Incl. EO Items)	136	84	63	63	70
Interest	352	267	251	119	134
<b>PBT</b>	<b>1,192</b>	<b>1,306</b>	<b>1,750</b>	<b>2,292</b>	<b>2,605</b>
Tax	347	446	594	802	912
<b>RPAT</b>	<b>844</b>	<b>860</b>	<b>1,156</b>	<b>1,490</b>	<b>1,693</b>
<b>APAT</b>	<b>844</b>	<b>860</b>	<b>1,156</b>	<b>1,490</b>	<b>1,693</b>
<b>APAT Growth (%)</b>	<b>31.6</b>	<b>1.9</b>	<b>34.4</b>	<b>28.9</b>	<b>13.7</b>
<b>EPS</b>	<b>12.6</b>	<b>12.8</b>	<b>17.3</b>	<b>22.2</b>	<b>25.3</b>
<b>EPS Growth (%)</b>	<b>31.6</b>	<b>1.9</b>	<b>34.4</b>	<b>28.9</b>	<b>13.7</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Standalone)**

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	134	134	134	134	134
Reserves	4,087	4,947	6,090	7,556	9,223
<b>Total Shareholders Funds</b>	<b>4,221</b>	<b>5,081</b>	<b>6,224</b>	<b>7,689</b>	<b>9,357</b>
Minority Interest	-	-	-	-	-
Long Term Debt	1	-	7	-	-
Short Term Debt	1,418	900	289	331	379
<b>Total Debt</b>	<b>1,419</b>	<b>900</b>	<b>296</b>	<b>331</b>	<b>379</b>
Deferred Taxes	(148)	(134)	(217)	(134)	(134)
Long Term Provisions & Others	854	677	303	949	957
<b>TOTAL SOURCES OF FUNDS</b>	<b>6,347</b>	<b>6,524</b>	<b>6,606</b>	<b>8,836</b>	<b>10,559</b>
<b>APPLICATION OF FUNDS</b>					
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
<b>Total Non-current Assets</b>	<b>3,044</b>	<b>3,176</b>	<b>3,213</b>	<b>3,540</b>	<b>3,987</b>
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
<b>Total Current Assets</b>	<b>8,377</b>	<b>9,047</b>	<b>9,024</b>	<b>12,658</b>	<b>14,643</b>
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
<b>Total Current Liabilities</b>	<b>5,074</b>	<b>5,699</b>	<b>5,631</b>	<b>7,362</b>	<b>8,072</b>
<b>Net Current Assets</b>	<b>3,303</b>	<b>3,348</b>	<b>3,393</b>	<b>5,296</b>	<b>6,571</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>6,347</b>	<b>6,524</b>	<b>6,606</b>	<b>8,836</b>	<b>10,559</b>

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)
<b>OPERATING CASH FLOW ( a )</b>	<b>373</b>	<b>1,948</b>	<b>879</b>	<b>1,434</b>	<b>1,258</b>
Capex	(219)	(203)	(175)	(619)	(700)
Free cash flow (FCF)	154	1,745	704	815	558
Investments + Interest income	267	(297)	63	63	70
<b>INVESTING CASH FLOW ( b )</b>	<b>48</b>	<b>(500)</b>	<b>(112)</b>	<b>(555)</b>	<b>(630)</b>
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)	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(303)</b>	<b>(983)</b>	<b>(868)</b>	<b>(108)</b>	<b>(112)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>117</b>	<b>465</b>	<b>(100)</b>	<b>770</b>	<b>516</b>
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

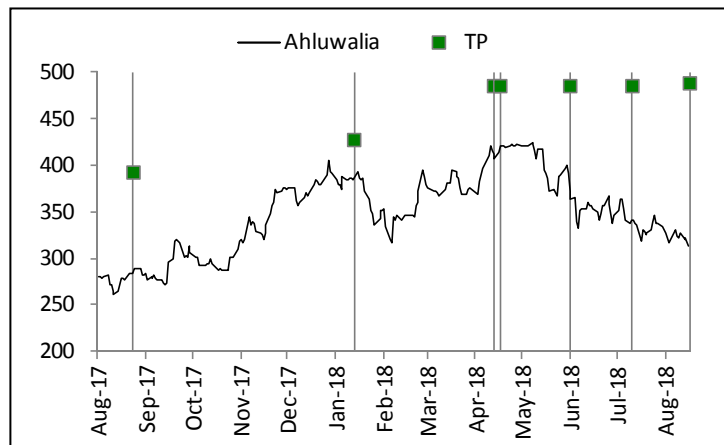
**Key Ratios (Standalone)**

	FY16	FY17	FY18	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
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
<b>EFFICIENCY</b>					
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
<b>Net Working Capital Cycle (Days)</b>	<b>71</b>	<b>51</b>	<b>48</b>	<b>63</b>	<b>68</b>
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
<b>PER SHARE DATA</b>					
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
<b>VALUATION</b>					
P/E	25.2	24.7	18.4	14.3	12.5
P/BV	5.0	4.2	3.4	2.8	2.3
EV/EBITDA	13.5	12.0	9.2	7.5	6.4
OCF/EV (%)	1.7	9.4	4.3	7.3	6.6
FCF/EV (%)	0.7	8.4	3.5	4.2	2.9
FCFE/Market Cap (%)	(2.4)	4.5	(0.7)	3.4	2.2
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
10-Jul-18	337	BUY	486
16-Aug-18	313	BUY	489

### 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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