

Ahluwalia Contracts

BUY
INDUSTRY INFRASTRUCTURE
CMP (as on 15 Nov 2018) Rs 324
Target Price Rs 465

Nifty	10,617
Sensex	35,261

KEY STOCK DATA

Bloomberg	AHLU IN
No. of Shares (mn)	67
MCap (Rs bn) / (\$ mn)	22/302
6m avg traded value (Rs mn)	11

STOCK PERFORMANCE (%)

52 Week high / low	Rs 445/256		
	3M	6M	12M
Absolute (%)	0.6	(18.0)	1.1
Relative (%)	7.5	(17.2)	(6.5)

SHAREHOLDING PATTERN (%)

Promoters	57.96
FIs & Local MFs	19.14
FPIs	18.26
Public & Others	4.64

Source : BSE

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Growth visible

AHLU posted strong 2QFY19 numbers with Revenue/ EBITDA/ APAT Rs 4.4/ 0.6/ 0.3bn (19/ 15/ 21% beat vs. estimates). Interest cost shot up to Rs 51mn (+10% YoY, +31% QoQ) as debt increased from Rs 340mn to 520mn QoQ.

AHLU has managed record inflows of Rs 31bn in YTD FY19 (the order book now stands at Rs ~53bn ex L1 of Rs 4.3bn in the hospital segment). Management has attributed this to improved pre-election tendering, low competitive intensity (especially in the >Rs 7bn segments with 4-5 key players bidding) and to make up for a projected ordering slowdown in 1HFY20E with the elections looming.

Despite strong order accretion AHLU has maintained 15-20% FY19E revenue growth guidance. We believe with YoY order backlog multiplying 2x, AHLU can deliver 20% Revenue CAGR. We have upgraded FY20E Revenue/PAT by 8.5/8.1%. Maintain BUY with an increased SOTP of Rs 465/sh (EPC segment at 18x Mar-20E EPS, Kota BOT – 1x P/BV).

Financial Summary (Standalone)

Year Ending March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	4,392	3,345	31.3	4,039	8.7	14,265	16,466	19,610	23,631
EBITDA	575	498	15.4	525	9.6	1,730	2,194	2,589	3,072
APAT	312	258	21.0	281	11.1	860	1,156	1,415	1,682
Diluted EPS (Rs)	4.7	3.9	21.0	4.2	11.1	12.8	17.3	21.1	25.1
P/E (x)						24.8	18.4	15.1	12.7
EV / EBITDA (x)						12.1	9.3	7.5	6.2
RoE (%)						18.5	20.5	20.4	19.9

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Strong order accretion bodes well for growth:** AHLU secured YTD FY19 new orders worth Rs 31bn ex L1 of Rs 4.3bn. This takes order backlog to Rs 53bn ex L1 of Rs 4.3bn. Bid pipeline is strong at Rs 30bn and AHLU is targeting Rs 40bn of new inflows for FY19E. New lifetime high order wins are in view of expected ordering slowdown in 1HFY20E. Hospital and other Government building orders are key drivers.
- Balance sheet still net cash:** AHLU gross debt has increase QoQ from Rs 340mn to Rs 520mn. Still, net cash is Rs 0.6bn cash. Kota project reported accounting loss of Rs 45mn and cash profit of Rs 0.2mn and is expected to generate Rs 5.4mn cash profit for FY19E. Hence it won't be cash drag on BS.
- Near-term outlook:** AHLU focus remains on building projects awards by, (1) Private commercial, (2) Government-led capex (AIIMS, State hospitals, DDA projects), (3) Airports, and (4) Redevelopment projects. Robust inflows and strong BS re-affirms our positive stance. We continue to remain constructive.

Standalone Quarterly Financials

Particulars (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	1HFY19	1HFY18	YoY (%)
Net Sales	4,392	3,345	31.3	4,039	8.7	8,431	8,387	0.5
Material Expenses	(3,335)	(2,454)	35.9	(3,022)	10.4	(6,357)	(6,539)	(2.8)
Employee Expenses	(358)	(342)	4.8	(360)	(0.6)	(718)	(661)	8.7
Other Operating Expenses	(124)	(51)	141.7	(132)	(6.1)	(256)	(153)	67.4
EBITDA	575	498	15.4	525	9.6	1,100	1,035	6.3
Interest Cost	(51)	(46)	10.4	(39)	30.8	(90)	(84)	6.6
Depreciation	(69)	(64)	8.7	(66)	4.9	(135)	(127)	6.3
Other Income (Incl. EO Items)	13	10	32.7	13	0.8	26	25	4.0
PBT	468	399	17.4	433	8.1	901	848	6.2
Tax	(156)	(141)	10.9	(152)	2.6	(308)	(295)	4.4
RPAT	312	258	21.0	281	11.1	593	553	7.2

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)	1HFY19	1HFY18	YoY (bps)
Material Expenses % Net Sales	75.9	73.4	258	74.8	111	75.4	78.0	(256)
Employee Expenses % Net Sales	8.2	10.2	(206)	8.9	(76)	8.5	7.9	64
Other Operating Expenses % Net Sales	2.8	1.5	129	3.3	(44)	3.0	1.8	121
EBITDA Margin (%)	13.1	14.9	(181)	13.0	10	13.0	12.3	71
Tax Rate (%)	33.3	35.3	(195)	35.1	(178)	34.2	34.8	(59)
APAT Margin (%)	7.1	7.7	(61)	7.0	15	7.0	6.6	44

Source: Company, HDFC sec Inst Research

Revenue: Rs 4.4bn
 (+31%YoY, +9% QoQ, 19% beat)

EBITDA: Rs 575mn (+15% YoY, +10% QoQ, 19% beat)

EBITDA margins in line at 13.1% (-181bps YoY, flat QoQ)

Interest cost shot up to Rs 51mn (+10% YoY, +31% QoQ) as debt increased from Rs 340mn to 520mn QoQ

APAT: Rs 312mn (+21% YoY, +11% QoQ, 14.0% beat)

We expect EBIDTA margins around ~13% range over FY19-20E

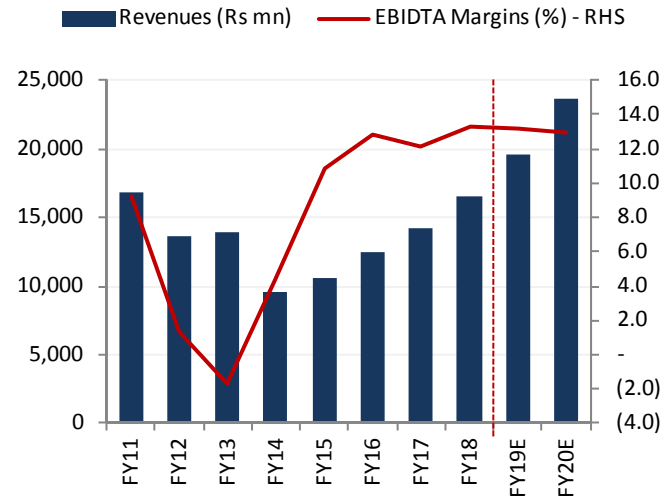
Well-diversified order book segmentation

Government dominance (now 78%) has increased by ~1,000bps over last 4-5 quarters

Eastern region's share has been growing steadily and is now almost at par with North

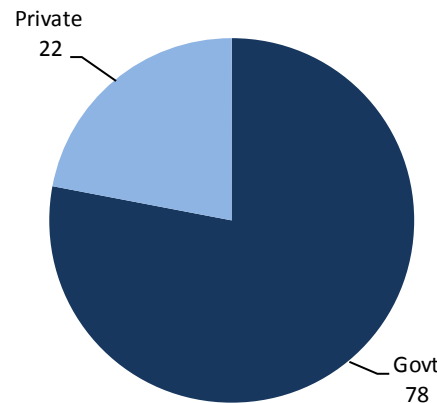
There are no plans to expand to South in the near future

EBIDTA Margins To Remain ~13% Over FY19-20E



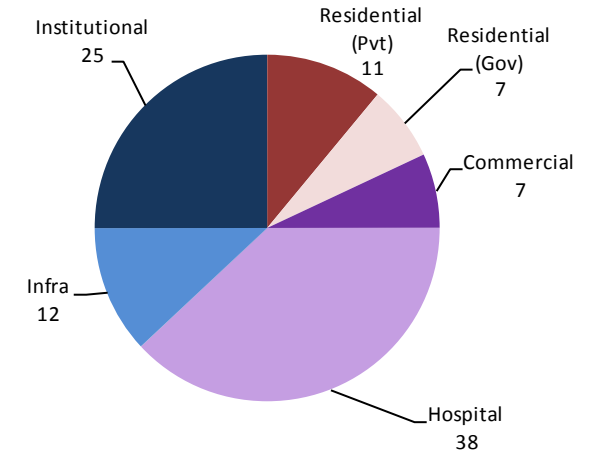
Source: Company, HDFC sec Inst Research

Client Mix (%):Government Dominated – 2QFY19



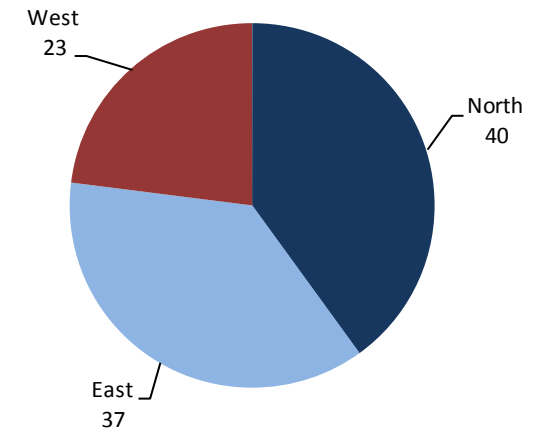
Source: Company, HDFC sec Inst Research

Well Diversified Order Mix (%) – 2QFY19



Source: Company, HDFC sec Inst Research

East now at par with North (%) – 2QFY19



Source: Company, HDFC sec Inst Research

FY18-20E revenue CAGR 19.8%, EBIDTA CAGR 18.3% with majority of the Rs ~2bn 1H FY19 inflows already witnessing execution start

Margins to remain in 13-13.2% range with ~Rs 12-15bn of fixed price projects in the order book

Interest expense to be minimal

FY18-20E RPAT CAGR of 20.6%

Key Assumptions And Estimates

Key Assumptions	FY19E	FY20E	Comments
Closing order book	51,130	50,670	A strong order book with YTD inflows already breaching full year guidance by ~50%
Order book growth (%)	66.3	(0.9)	
New order booking	40,000	20,000	With FY19 witnessing record inflows so far, 1H FY20E could remain muted with elections looming
Book to bill ratio	2.6	2.1	
Total Revenue	19,610	23,631	FY18-20E Revenue CAGR of 19.8%
Growth (%)	19.1	20.5	
EBIDTA	2,589	3,072	FY18-20E EBIDTA CAGR of 18.3%
EBIDTA margin (%)	13.2	13.0	Margins to remain in 13-13.2% range with ~Rs 12bn of fixed price projects in the order book
Depreciation	270	306	
Financial Charges	197	238	To remain minimal
PBT	2,176	2,588	FY18-20E PBT CAGR of 21.6% on the back of low interest costs
PBT margin (%)	11.1	11.0	
Tax	761.7	905.9	
Tax rate (%)	35.0	35.0	
RPAT	1,415	1,682	FY18-20E APAT CAGR of 20.6%
Net margin (%)	7.2	7.1	
Adjusted PAT	1,415	1,682	
Gross Block Turnover	4.3	4.9	
Debtor days	135	135	
CFO - a	1,465	875	
CFI - b	(214)	(289)	
FCF - a+b	1,251	586	
CFF - c	(174)	(193)	
Total change in cash - a+b+c	1,077	393	

Source: HDFC sec Inst Research

Outlook and valuation

Maintain BUY with an increased TP of Rs 465/sh

Valuation methodology

- We have valued AHLU's EPC business at 18x one-year forward Mar-20E EPS (in line with other peers in the Buildings segment). Our rationale behind this is (1) Superior earnings quality vs. peers, (2) Robust YTD order backlog of Rs ~53bn (incl. post 1HFY19 wins of Rs ~11bn), (2) Expected to remain a net cash company over FY19-20E, and (4) Limited BOT capex (Kota BOT equity of Rs 900mn already invested, Hotel capex not yet planned in the near future).
- 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 especially in Urban Infra (incl. Station redevelopment), Govt. Residential, Hospitals etc. **We maintain BUY with an increased SOTP-based target price of Rs 465/sh (vs Rs 431 earlier).**
- We value the (1) Standalone EPC business at Rs 452/share (18x one-year forward Mar-20E EPS), (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	30,284	452	At 18x one-year forward Mar-20E EPS
Kota BOT Project	Lease rental	866	13	DCF Valuation, implied P/BV (x) – 0.96x
Total		31,150	465	

Source: HDFC sec Inst Research

Change in Estimates

Particulars	FY19E			FY20E		
	FY19E New	FY19E Old	%/ bps Change	FY20E New	FY20E Old	%/ bps Change
Revenues (Rs mn)	19,610	19,029	3.1	23,631	21,788	8.5
EBITDA (Rs mn)	2,589	2,512	3.0	3,072	2,767	11.0
EBITDA Margins (%)	13.2	13.2	(0.1)	13.0	12.7	30.0
APAT (Rs mn)	1,414.6	1,420.0	(0.4)	1,682.5	1,557.0	8.1

We value the standalone Building business at Rs 452/share (18x one-year forward Mar-20E EPS)

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

Maintain BUY with an increased TP of Rs 465/sh (vs Rs 431 earlier)

We have revised our revenue estimates for FY19/20E by +3.1/8.5% to factor in strong inflows in 1HFY19 of which majority will start contributing to the order book from 2HFY19E

We have also adjusted for a higher interest outgo in FY19E due to bump up in debt by Rs 180mn QoQ

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	67.3	492	BUY	817	46.5	53.8	54.1	8.7	7.5	7.5	6.6	5.0	4.2	29.5	26.0	20.8
IRB Infra Developers	50.3	143	BUY	256	19.7	14.5	17.2	0.8	1.1	0.9	2.0	2.2	2.0	30.2	22.0	24.4
NCC	54.1	90	BUY	168	5.2	8.0	8.8	15.5	10.2	9.2	7.9	5.6	5.1	8.1	10.8	10.8
PNC Infratech	37.7	147	BUY	270	4.1	8.6	13.0	22.3	10.6	7.0	9.2	6.5	4.6	6.2	11.4	15.1
Sadbhav Engineering	37.9	221	BUY	423	12.9	16.0	16.9	7.9	6.3	6.0	7.7	6.1	4.9	11.8	13.0	12.1
Ashoka Buildcon	35.1	125	BUY	223	8.4	8.3	8.5	6.5	6.6	6.5	5.4	4.8	4.4	13.0	11.5	10.7
KNR Constructions	26.6	189	BUY	330	13.4	11.6	15.0	9.6	11.1	8.6	5.1	5.3	4.2	18.3	13.0	14.3
ITD Cementation *	19.4	113	BUY	189	6.1	8.3	10.5	18.5	13.6	10.8	8.5	6.3	6.3	16.2	16.7	15.3
Ahluwalia Contracts	21.3	324	BUY	465	17.3	21.1	25.1	17.7	14.4	12.1	8.9	7.1	5.9	20.5	20.4	19.9
JMC Projects	15.1	90	BUY	163	6.3	7.3	8.0	10.3	8.9	8.1	5.9	5.2	4.6	14.4	14.4	13.9
PSP Projects	14.4	399	BUY	576	18.0	23.5	32.0	22.1	17.0	12.5	12.0	8.9	6.2	31.7	25.0	27.5
HG Infra	14.7	225	BUY	399	12.9	20.7	25.6	17.4	10.9	8.8	8.2	5.3	4.4	23.5	22.1	22.0
J. Kumar Infraprojects	10.8	143	BUY	284	17.5	20.3	23.7	8.1	7.1	6.0	4.5	3.8	3.2	9.2	9.8	10.6
Average					14.5	17.1	19.9	12.7	9.6	8.0	7.1	5.6	4.6	17.9	16.6	16.7

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	12,496	14,265	16,466	19,610	23,631
Growth (%)	17.9	14.2	15.4	19.1	20.5
Material Expenses	9,099	10,712	12,608	14,865	18,196
Employee Expenses	1,588	1,536	1,338	1,569	1,890
Other Operating Expenses	200	287	326	588	473
EBIDTA	1,608	1,730	2,194	2,589	3,072
EBIDTA (%)	12.9	12.1	13.3	13.2	13.0
EBIDTA Growth (%)	40.0	7.6	26.8	18.0	18.7
Depreciation	201	241	256	270	306
EBIT	1,408	1,489	1,938	2,318	2,766
Other Income (Incl. EO Items)	136	84	63	55	61
Interest	352	267	251	197	238
PBT	1,192	1,306	1,750	2,176	2,588
Tax	347	446	594	762	906
RPAT	844	860	1,156	1,415	1,682
APAT	844	860	1,156	1,415	1,682
APAT Growth (%)	31.6	1.9	34.4	22.4	18.9
EPS	12.6	12.8	17.3	21.1	25.1
EPS Growth (%)	31.6	1.9	34.4	22.4	18.9

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	7,481	9,137
Total Shareholders Funds	4,221	5,081	6,224	7,614	9,271
Minority Interest	-	-	-	-	-
Long Term Debt	1	-	7	-	-
Short Term Debt	1,418	900	289	343	415
Total Debt	1,419	900	296	343	415
Deferred Taxes	(148)	(134)	(217)	(134)	(134)
Long Term Provisions & Others	854	677	303	1,551	961
TOTAL SOURCES OF FUNDS	6,347	6,524	6,606	9,375	10,513
APPLICATION OF FUNDS					
Net Block	1,965	1,925	1,844	1,842	1,886
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	3,190	3,287
Inventories	2,047	2,478	1,891	2,955	3,561
Debtors	4,997	4,549	5,659	7,253	8,740
Cash & Equivalents	882	1,347	1,247	2,324	2,717
ST Loans & Advances, Others	451	673	227	735	769
Total Current Assets	8,377	9,047	9,024	13,268	15,787
Creditors	2,946	3,522	3,778	4,766	5,756
Other Current Liabilities & Provns	2,128	2,176	1,853	2,317	2,804
Total Current Liabilities	5,074	5,699	5,631	7,083	8,561
Net Current Assets	3,303	3,348	3,393	6,184	7,226
TOTAL APPLICATION OF FUNDS	6,347	6,524	6,606	9,375	10,513

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Cash Flow (Standalone)

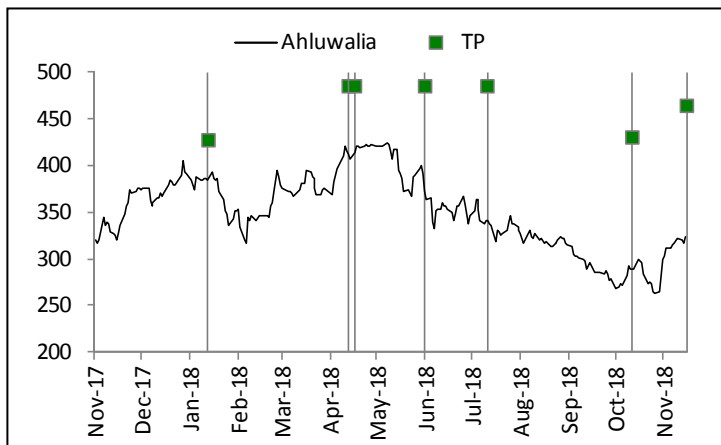
Year ending March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
PBT	1,192	1,306	1,750	2,176	2,588
Non-operating & EO items	(136)	(84)	(63)	(55)	(61)
Interest expenses	352	267	251	197	238
Depreciation	201	241	256	270	306
Working Capital Change	(892)	650	(721)	(362)	(1,291)
Tax paid	(343)	(432)	(594)	(762)	(906)
OPERATING CASH FLOW (a)	373	1,948	879	1,465	875
Capex	(219)	(203)	(175)	(269)	(350)
Free cash flow (FCF)	154	1,745	704	1,196	525
Investments + Interest income	267	(297)	63	55	61
INVESTING CASH FLOW (b)	48	(500)	(112)	(214)	(289)
Share capital Issuance	0	-	0	(0)	-
Debt Issuance	(311)	(520)	(604)	47	71
Interest expenses	(352)	(267)	(251)	(197)	(238)
Dividend	-	-	-	(24)	(27)
Others	360	(196)	(13)	-	-
FINANCING CASH FLOW (c)	(303)	(983)	(868)	(174)	(193)
NET CASH FLOW (a+b+c)	117	465	(100)	1,077	393
Opening cash balance	765	882	1,347	1,247	2,324
Closing Cash & Equivalents	882	1,347	1,247	2,324	2,717

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	27.2	24.9	23.4	24.2	23.0
EBITDA Margin	12.9	12.1	13.3	13.2	13.0
EBIT Margin	11.3	10.4	11.8	11.8	11.7
APAT Margin	6.8	6.0	7.0	7.2	7.1
RoE	22.2	18.5	20.5	20.4	19.9
Core RoCE	18.5	19.2	24.2	21.6	23.2
RoCE	17.2	15.9	20.0	16.5	17.5
EFFICIENCY					
Tax Rate (%)	29.2	34.1	33.9	35.0	35.0
Asset Turnover (x)	2.0	2.2	2.5	2.1	2.3
Inventory (days)	60	63	42	55	55
Debtors (days)	146	116	125	135	135
Payables (days)	86	90	84	89	89
Cash Conversion Cycle (days)	120	90	84	101	101
Other Current Assets (days)	13	17	5	14	12
Other Current Liab (days)	62	56	41	43	43
Net Working Capital Cycle (Days)	71	51	48	72	70
Debt/EBITDA (x)	0.9	0.5	0.1	0.1	0.1
Net D/E	0.13	(0.1)	(0.2)	(0.3)	(0.2)
Interest Coverage	4.0	5.6	7.7	11.8	11.6
PER SHARE DATA					
EPS (Rs/sh)	12.6	12.8	17.3	21.1	25.1
CEPS (Rs/sh)	15.6	16.4	21.1	25.2	29.7
DPS (Rs/sh)	-	-	-	0	0
BV (Rs/sh)	63	76	93	114	138
VALUATION					
P/E	25.2	24.8	18.4	15.1	12.7
P/BV	5.0	4.2	3.4	2.8	2.3
EV/EBITDA	13.6	12.1	9.3	7.5	6.2
OCF/EV (%)	1.7	9.3	4.3	7.6	4.6
FCF/EV (%)	0.7	8.4	3.5	6.2	2.8
FCFE/Market Cap (%)	(2.4)	4.5	(0.7)	4.9	1.7
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
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
11-Oct-18	288	BUY	431
16-Nov-18	324	BUY	465

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

Disclosure:

We, **Parikshit Kandpal, CFA** and **Kunal Bhandari, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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