

View: Poor operating performance to continue, downgrade to Reduce

- ACIL reported revenue above estimates, however EBITDA margins and PAT much below estimates.
- ACIL posted 14.4%/ (59.5%)/ (80.3%) YoY growth in revenue/ EBITDA/ PAT to Rs5.5 bn/ Rs230 mn/ Rs61 mn in Q4FY20.
- We reduce our revenue estimates by 20.1%/ 8.5% for FY21E/ FY22E on account of lockdown due to covid-19. We factor EBITDA loss in H1FY21E leading to reduction in EBITDA margin estimates by 712/ 19 bps for FY21E/ FY22E to 4.9%/ 12.0%. Accordingly, we drastically reduce our PAT estimates by 95.1%/ 13.2% for FY21E/ FY22E. We estimate a 0.5%/ 35.5% revenue/ PAT CAGR over FY20-22E.
- ACIL should remain a net cash company, with an average RoCE/ RoE of 11.7%/ 7.2% over FY20-22E. The stock is down/ increased ~35%/ 22% since our Q3FY20 result update/ covid-19 report dated 14 Feb'20/ 24 Mar'20, the current price leaves limited upside. Thus we downgrade to Reduce with a downward TP of Rs212 (12x FY22E EPS).

Sharp contraction in EBITDA margin due to write off

ACIL has written off Rs270 mn/ Rs420 mn in Q4FY20/ FY20 resulting in sharp 764 bps/ 422 bps YoY contraction in EBITDA margin to 4.2%/ 8.1%. Adjusting the write off, EBITDA margin is lower by 272 bps/ 199 bps YoY to 9.1%/ 10.3%.

Order book at 4.2x (FY20 revenue)

ACIL received fresh orders worth Rs41.5 bn/ Rs32.4 bn during FY19/ FY20 and is L1 in orders worth Rs5 bn (Sion hospital). With comfortable orderbook, management will be less aggressive in further bidding and will opt for similar clients and geography where they are already present. The current order book (Rs79.6 bn) including L1, provides revenue visibility for 4.2x FY20 revenue. Government orders contribute 80% vs. 88% (FY19) v/s 32% (FY14). We reduce/ maintain our order inflow estimates to Rs20 bn/ Rs30 bn for FY21E/ FY22E.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	5,492	4,874	12.7	4,980	10.3
Total Expense	5,262	4,307	22.2	4,544	15.8
EBITDA	230	567	(59.5)	436	(47.3)
Depreciation	81	70	15.5	81	(0.3)
EBIT	149	497	(70.1)	355	(58.0)
Other Income	29	32	(8.2)	25	15.9
Interest	101	52	96.4	93	8.3
EBT	77	477	(84.0)	286	(73.3)
Tax	16	167	(90.7)	75	(79.2)
RPAT	61	310	(80.3)	211	(71.1)
APAT	61	310	(80.3)	211	(71.1)
			(bps)		(bps)
Gross Margin (%)	18.4	21.3	(297)	20.8	(242)
EBITDA Margin (%)	4.2	11.6	(745)	8.7	(457)
NPM (%)	1.1	6.4	(525)	4.2	(313)
Tax Rate (%)	20.3	35.0	(1478)	26.1	(586)
EBIT Margin (%)	2.7	10.2	(749)	7.1	(441)

CMP	Rs 210
Target / Upside	Rs 212 / 1%
BSE Sensex	35,382
NSE Nifty	10,430

Scrip Details

Equity / FV	Rs 134mn / Rs 2
Market Cap	Rs 14bn
	USD 186mn
52-week High/Low	Rs 370/Rs 136
Avg. Volume (no)	24,497
NSE Symbol	AHLUCONT
Bloomberg Code	AHLU IN

Shareholding Pattern Mar'20(%)

Promoters	58.0
MF/Banks/FIs	23.3
FIIIs	15.5
Public / Others	3.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	21.9	248.0	11.9
EV/EBITDA	7.9	15.9	4.9
ROE (%)	8.4	0.7	13.7
RoACE (%)	12.4	5.4	18.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	18,849	14,571	19,038
EBITDA	1,530	708	2,285
PAT	644	57	1,183
EPS (Rs.)	9.6	0.8	17.7

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Exhibit 1: Actual vs. DART estimates

(in Rs mn)	Actual	DART Est.	% Variation	Comment
Revenue	5,492	4,562	20.4	Better execution than estimates
EBITDA	230	459	(50.0)	-
EBITDA Margin (%)	4.2	10.1	(589 bps)	Higher construction and other expenses (incl. provision worth Rs270 mn)
Adj. PAT	61	255	(76.0)	Poor operating performance

Source: Company, DART

Exhibit 2: Change in estimates – Drastically reduce FY21E estimates

(Rs mn)	FY21E			FY22E		
	New	Old	% chg	New	Old	% chg
Revenue	14,571	18,227	(20.1)	19,038	20,815	(8.5)
EBITDA	708	2,182	(67.6)	2,285	2,538	(10.0)
EBITDA Margin (%)	4.9	12.0	(712)	12.0	12.2	(19)
Adj. PAT	57	1,162	(95.1)	1,183	1,363	(13.2)
EPS (Rs)	0.8	17.3	(95.1)	17.7	20.3	(13.2)

Source: Company, DART

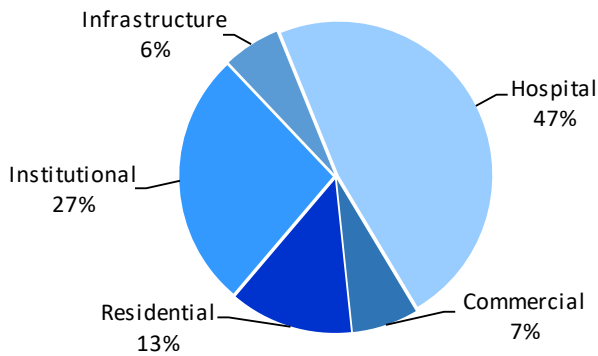
Key earnings takeaways

- ACIL expects EBITDA level loss in Q1FY20E and Q2FY20E. Fixed cost per quarter stands at Rs400 mn.
- ACIL took a write off of Rs420 mn in FY20 (Rs150 mn/ Rs 270 mn in Q3FY20/ Q4FY20). Few minor provisions are expected in FY21E.
- If not for Covid-19 and NGT ban, FY20 revenue growth would be 20% YoY vs. actual growth of 7.4%.
- ACIL is L1 in Sion hospital order worth Rs5 bn.
- ACIL has comfortable orderbook and will be less aggressive in bidding. Will work with same clients and states currently. Removed 2 orders from orderbook worth Rs7.3 bn (Rs5.4 bn - Charbagh NBCC and Rs1.93 bn – Delhi agricultural order).
- ACIL has very few fixed price contracts; rest all have built in escalation clause.
- Clients in hospital sector asking to ramp up the execution. Labour at AIIMS Kalyani and Nagpur currently at 1,000 labours vs. nil in Mar'20.
- Labour strength currently at 25% and expect 50% by Aug'20. (Labour strength in Bihar at 50%).
- Work commenced on all sites but projects in Maharashtra and Delhi are slow due to higher cases.
- Payment issues in Kolkata order (Rs2.6 bn). Slowdown in Amity orders as well; should pick up in 2-3 months. Billing of Gardanibagh project should start in Aug'20. Parivahan project concrete work going on and moving in full speed. Mohammadpur project ground work started but bit slow.
- Already received advance of Rs500 mn in Mar'20 for Central Vista project.
- Mobilization advance/ Retention money stood at Rs2.07 bn/ Rs1.74 bn as on FY20. Gross Debt stood at Rs460 mn as on FY20.

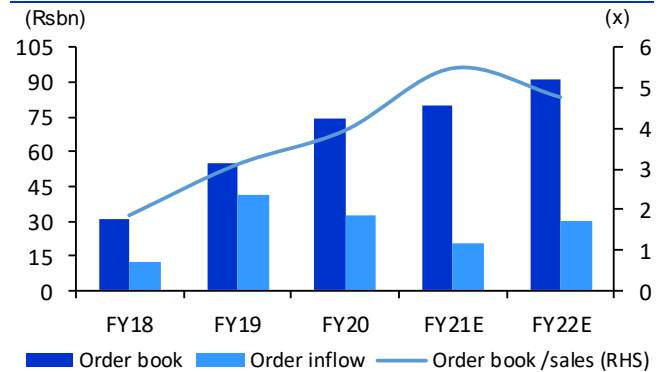
Exhibit 3: Q4FY20 Performance (Standalone)

Particulars (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	5,492	4,801	14.4	4,980	10.3	18,849	17,547	7.4
Raw materials	2,715	2,332	16.4	2,451	10.7	9,047	8,007	13.0
Operating expenses	269	196	36.7	225	19.3	955	792	20.5
Employees cost	423	348	21.3	370	14.1	1,543	1,433	7.7
Sub - contract	1,500	1,233	21.7	1,268	18.3	5,036	4,702	7.1
Other expenditure	356	124	186.8	229	55.5	738	449	64.3
Total expenditure	5,262	4,234	24.3	4,544	15.8	17,319	15,382	12.6
EBITDA	230	568	(59.5)	436	(47.3)	1,530	2,165	(29.3)
Depreciation	81	70	15.5	81	(0.3)	319	276	15.7
Operating profit	149	497	(70.1)	355	(58.0)	1,211	1,889	(35.9)
Other income	29	32	(8.2)	25	15.9	104	98	6.9
EBIT	178	529	(66.4)	380	(53.2)	1,316	1,987	(33.8)
Interest	101	52	96.4	93	8.3	350	192	82.1
EBT	77	478	(84.0)	286	(73.3)	966	1,795	(46.2)
Provision for taxation	16	167	(90.7)	75	(79.2)	322	621	(48.2)
Net income	61	310	(80.3)	211	(71.1)	644	1,174	(45.1)
EPS (Rs)	0.9	4.6	(80.3)	3.2	(71.1)	9.6	17.5	(45.1)
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	4.2	11.8	(764)	8.7	(457)	8.1	12.3	(422)
EBIDTA Margin (Incl. O.I.)	4.7	12.5	(777)	9.3	(454)	8.7	12.9	(422)
NPM (%)	1.1	6.4	(531)	4.2	(312)	3.4	6.7	(325)
Tax/PBT (%)	20.3	35.0	(1,478)	26.1	(586)	33.3	34.6	(131)
Construction/Revenue (%)	81.6	78.3	330	79.2	242	79.8	76.9	284

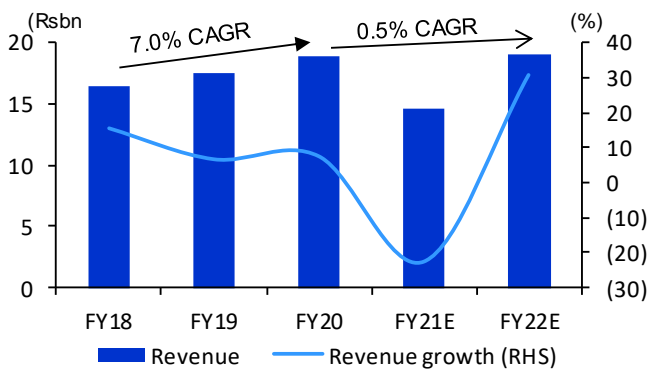
Source: Company, DART

Exhibit 1: Rs74.6 bn order book break up


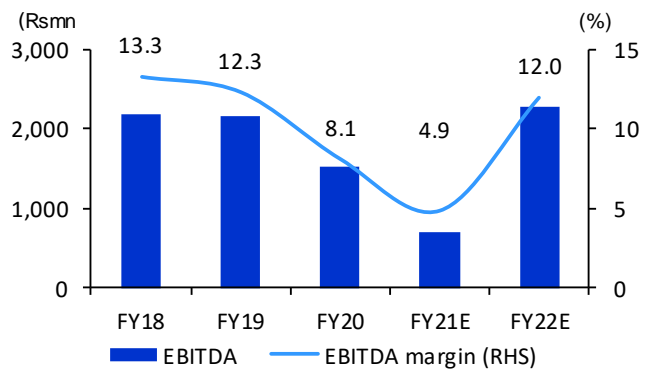
Source: Company, DART

Exhibit 2: Order book trend (Standalone)


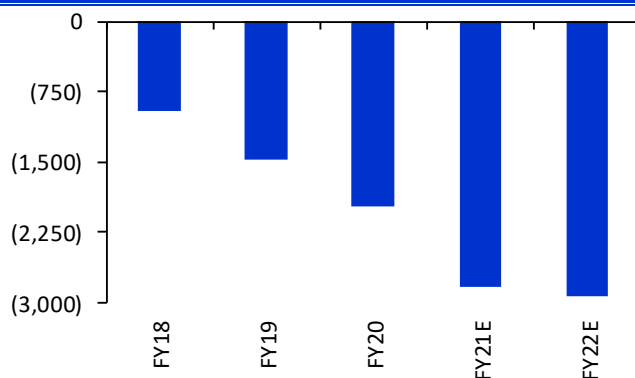
Source: Company, DART

Exhibit 3: 0.5% revenue CAGR over FY20-22E


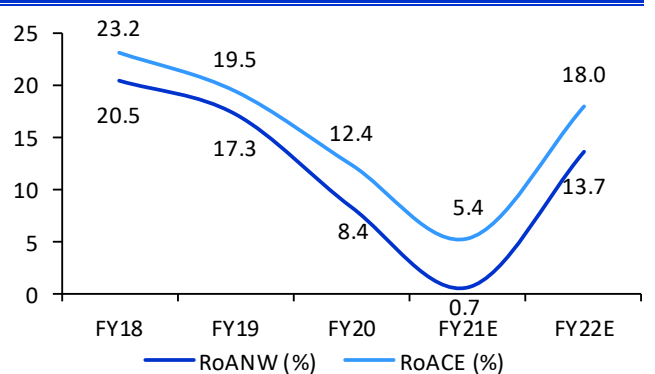
Source: Company, DART

Exhibit 4: EBITDA Margin trend


Source: Company, DART

Exhibit 5: Net debt free company (Rs mn)


Source: Company, DART

Exhibit 6: Return ratios trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	17,547	18,849	14,571	19,038
Total Expense	15,382	17,319	13,864	16,754
COGS	13,500	15,038	11,686	14,359
Employees Cost	1,433	1,543	1,698	1,867
Other expenses	449	738	480	528
EBIDTA	2,165	1,530	708	2,285
Depreciation	276	319	367	411
EBIT	1,889	1,211	341	1,873
Interest	192	350	390	420
Other Income	98	104	125	138
Exc. / E.O. items	0	0	0	0
EBT	1,795	966	76	1,591
Tax	621	322	20	408
RPAT	1,174	644	57	1,183
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,174	644	57	1,183

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	134	134	134	134
Minority Interest	0	0	0	0
Reserves & Surplus	7,250	7,906	7,943	9,106
Net Worth	7,384	8,040	8,077	9,240
Total Debt	611	470	450	450
Net Deferred Tax Liability	(283)	(236)	(227)	(218)
Total Capital Employed	7,712	8,275	8,300	9,472

Applications of Funds

Net Block	1,862	2,208	2,141	2,230
CWIP	4	2	2	2
Investments	63	63	63	63
Current Assets, Loans & Advances	12,651	15,092	13,353	15,732
Inventories	1,481	2,208	1,802	2,010
Receivables	5,950	5,973	4,809	6,187
Cash and Bank Balances	2,092	2,439	3,278	3,390
Loans and Advances	0	0	0	0
Other Current Assets	3,128	4,472	3,464	4,144
Less: Current Liabilities & Provisions	6,868	9,089	7,259	8,555
Payables	4,285	5,231	4,159	4,859
Other Current Liabilities	2,583	3,858	3,100	3,696
<i>sub total</i>				
Net Current Assets	5,783	6,002	6,094	7,178
Total Assets	7,712	8,275	8,300	9,472

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	23.1	20.2	19.8	24.6
EBIDTA Margin	12.3	8.1	4.9	12.0
EBIT Margin	10.8	6.4	2.3	9.8
Tax rate	34.6	33.3	25.6	25.6
Net Profit Margin	6.7	3.4	0.4	6.2
(B) As Percentage of Net Sales (%)				
COGS	76.9	79.8	80.2	75.4
Employee	8.2	8.2	11.6	9.8
Other	2.6	3.9	3.3	2.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	9.8	3.5	0.9	4.5
Inventory days	31	43	45	39
Debtors days	124	116	120	119
Average Cost of Debt	42.3	64.7	84.7	93.3
Payable days	89	101	104	93
Working Capital days	120	116	153	138
FA T/O	9.4	8.5	6.8	8.5
(D) Measures of Investment				
AEPS (Rs)	17.5	9.6	0.8	17.7
CEPS (Rs)	21.6	14.4	6.3	23.8
DPS (Rs)	0.4	0.4	0.3	0.3
Dividend Payout (%)	2.1	3.8	35.4	1.7
BVPS (Rs)	110.2	120.0	120.6	137.9
RoANW (%)	17.3	8.4	0.7	13.7
RoACE (%)	19.5	12.4	5.4	18.0
RoAIC (%)	25.6	17.4	8.2	28.9
(E) Valuation Ratios				
CMP (Rs)	210	210	210	210
P/E	12.0	21.9	248.0	11.9
Mcap (Rs Mn)	14,081	14,081	14,081	14,081
MCap/ Sales	0.8	0.7	1.0	0.7
EV	12,600	12,113	11,252	11,140
EV/Sales	0.7	0.6	0.8	0.6
EV/EBITDA	5.8	7.9	15.9	4.9
P/BV	1.9	1.8	1.7	1.5
Dividend Yield (%)	0.2	0.2	0.1	0.1
(F) Growth Rate (%)				
Revenue	6.6	7.4	(22.7)	30.7
EBITDA	(1.3)	(29.3)	(53.7)	222.8
EBIT	(2.4)	(35.9)	(71.8)	449.2
PBT	2.6	(46.2)	(92.1)	1983.6
APAT	1.7	(45.1)	(91.2)	1983.6
EPS	1.7	(45.1)	(91.2)	1983.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	857	1,097	1,446	914
CFI	(203)	(386)	(175)	(362)
CFF	191	(364)	(431)	(440)
FCFF	564	734	1,145	414
Opening Cash	1,247	2,092	2,439	3,278
Closing Cash	2,092	2,439	3,278	3,390

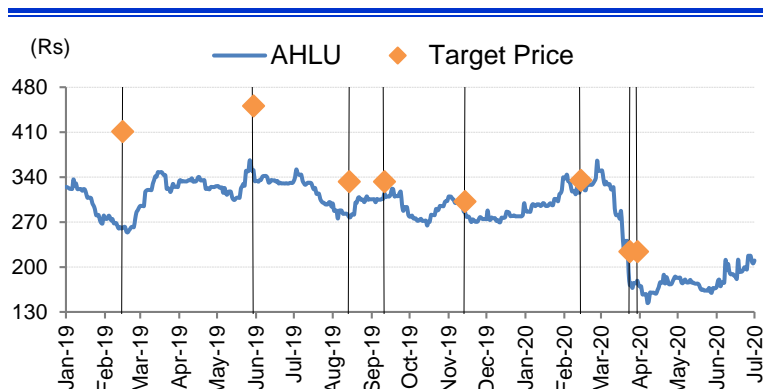
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Buy	411	261
May-19	Buy	451	351
Aug-19	Buy	333	278
Sep-19	Buy	333	315
Nov-19	Buy	302	286
Feb-20	Buy	335	326
Mar-20	Accumulate	224	172
Mar-20	Buy	224	179

*Price as on recommendation date

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