

Ahluwalia Contracts (India) (AHLU IN)

Rating: BUY | CMP: Rs244 | TP: Rs288

August 14, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	288		264	
Sales (Rs. m)	27,299	31,025	25,816	29,509
% Chng.	5.7	5.1		
EBITDA (Rs. m)	3,139	3,568	2,969	3,394
% Chng.	5.7	5.1		
EPS (Rs.)	27.4	31.0	25.1	28.4
% Chng.	9.4	9.2		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	18,849	16,861	27,299	31,025
EBITDA (Rs. m)	1,530	1,517	3,139	3,568
Margin (%)	8.1	9.0	11.5	11.5
PAT (Rs. m)	644	638	1,838	2,074
EPS (Rs.)	9.6	9.5	27.4	31.0
Gr. (%)	(45.1)	(1.0)	188.2	12.9
DPS (Rs.)	0.2	0.2	0.5	0.6
Yield (%)	0.1	0.1	0.2	0.3
RoE (%)	8.4	7.6	19.2	18.1
RoCE (%)	14.3	12.2	26.0	24.8
EV/Sales (x)	0.8	0.9	0.5	0.4
EV/EBITDA (x)	9.7	10.2	4.6	3.3
PE (x)	25.4	25.7	8.9	7.9
P/BV (x)	2.0	1.9	1.6	1.3

Key Data

AHLU.BO | AHLU IN

52-W High / Low	Rs.370 / Rs.136
Sensex / Nifty	37,877 / 11,178
Market Cap	Rs.16bn/ \$ 218m
Shares Outstanding	67m
3M Avg. Daily Value	Rs.17.45m

Shareholding Pattern (%)

Promoter's	58.00
Foreign	15.06
Domestic Institution	23.45
Public & Others	3.49
Promoter Pledge (Rs bn)	3.86

Stock Performance (%)

	1M	6M	12M
Absolute	15.5	(25.0)	(12.0)
Relative	9.9	(18.3)	(13.3)

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Healthy execution despite low labour availability

Quick Pointers:

- Despite pandemic and large projects being in containment zone, execution surprises positively; however, write-offs & provisions (Rs55mn) dent margins.
- Labour availability remains low at 40-45% pre-covid levels (20% in June'20) as projects currently operate at ~45% efficiency levels.
- Order book stands strong at Rs76.2bn (4.2x TTM revenues) as on 1QFY21 primarily driven by Hospital (48%) and Institutional (26%) segments.

Ahluwalia Contracts (ACIL) posted a decent set of results with revenues falling 21.1% YoY (vs PLe 44% decline) despite challenging environment. Even with several cost control measures, margins were weak due to write-offs & provisions for doubtful debts (~Rs55mn) during the quarter. Labour availability at 40-45% pre-covid levels (up from 20% in June'20) continue to hamper execution as projects currently operate at ~45% efficiency levels. Management cited caution on execution and delays in payments primarily in West Bengal and Bihar state government projects as Covid-19 cases have risen sharply and fear for diversion of state funds is increasing.

ACIL is among few EPC companies which have turned around with significant improvement in profitability through sound business strategy, focus on asset –light business model, prudent selection of orders (state & central agencies) and better working capital management. At CMP, the stock trades at a P/E of 25.7x/8.9x on FY21E/FY22E EPS and is trading at an EV of 10.2x/4.6x FY21E/FY22E EBITDA. Given execution surprise in 1Q, we have revised our FY21E/FY22E earnings estimates by 34% / 9.4%. We maintain BUY rating on the stock with a revised TP of Rs288 (earlier TP Rs264).

Revenues strong in tough scenario; provisions impact margins: ACIL's revenues during 1QFY21 fell by 21.1% YoY to Rs2.5bn (PLe of Rs1.8bn), led by strong revival in execution amidst tough scenario. EBITDA declined by 52.7% YoY to Rs185mn (PLe: loss of Rs71mn) with EBITDAM contracting 495bps to 7.4% due to write-offs & provisions for receivables to the tune of Rs55mn. Adjusting to this, margins stood at 9.6%. On the bottom-line front, adj. PAT fell by 58.1% YoY to Rs75mn (PLe: loss of Rs240mn). Other income was higher at Rs71mn (up 131% YoY) due to write-back of Rs30mn during the quarter.

Healthy order book; strong liquidity position: Order book as on 1QFY21 stands strong at Rs72.6bn. This translates into an order-book-to-sales ratio of 4.2x trailing revenues providing comfortable revenue visibility for next two-three years. The order book comprises of Hospital segment (48%), Institutional (26%), Infrastructure (6%), Residential-government (13%) and Commercial segment (7%). Gross debt continues to remain low at ~Rs440mn with healthy cash & cash equivalents of ~Rs1.75bn as at 1QFY21. Net cash balance came down to Rs1.3bn from Rs1.9bn in 4QFY20 due to stretched working capital cycle.

Exhibit 1: Quarterly Financials (Standalone): Healthy revenues in tough scenario; Write-offs & provisions dent margins

Y/e March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	3,168	4,173	4,980	5,492	2,498	(21.1)	(54.5)	18,849	17,522	7.6
Total Revenues	3,168	4,173	4,980	5,492	2,498	(21.1)	(54.5)	18,849	17,522	7.6
Expenditure	2,776	3,790	4,544	5,262	2,313	(16.7)	(56.0)	17,319	15,359	12.8
<i>as % of sales</i>	<i>87.6</i>	<i>90.8</i>	<i>91.3</i>	<i>95.8</i>	<i>92.6</i>			<i>91.9</i>	<i>87.7</i>	
Consumption of RM	2,117	3,085	3,720	4,215	1,768	(16.5)	(58.0)	9,047	7,983	13.3
<i>as % of sales</i>	<i>66.8</i>	<i>73.9</i>	<i>74.7</i>	<i>76.7</i>	<i>70.8</i>			<i>48.0</i>	<i>45.6</i>	
Employee Cost	362	388	370	423	264	(27.0)	(37.4)	1,543	1,433	7.7
<i>as % of sales</i>	<i>11.4</i>	<i>9.3</i>	<i>7.4</i>	<i>7.7</i>	<i>10.6</i>			<i>8.2</i>	<i>8.2</i>	
Other expenditure	297	317	454	625	280	(5.5)	(55.1)	6,729	5,943	13.2
<i>as % of sales</i>	<i>9.4</i>	<i>7.6</i>	<i>9.1</i>	<i>11.4</i>	<i>11.2</i>			<i>35.7</i>	<i>33.9</i>	
EBITDA	392	383	436	230	185	(52.7)	(19.3)	1,530	2,163	(29.3)
Depreciation	77	79	81	81	72	(6.2)	(10.7)	319	276	15.7
EBIT	315	303	355	149	113	(64.1)	(24.0)	1,211	1,887	(35.8)
Other Income	31	20	25	29	71	131.2	142.8	104	98	6.9
Interest	70	85	93	101	83	18.2	(18.3)	350	192	82.1
PBT	275	238	286	77	101	(63.3)	31.8	966	1,793	(46.1)
Total Tax	97	112	75	16	26	(73.1)	68.0	322	620	(48.2)
Adjusted PAT	178	126	211	61	75	(58.1)	22.6	644	1,173	(45.1)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	178	126	211	61	75	(58.1)	22.6	644	1,173	(45.1)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	178	126	211	61	75	(58.1)	22.6	644	1,173	(45.1)
Adjusted EPS	2.7	1.9	3.2	0.9	1.1	(58.1)	22.6	9.6	17.5	(45.1)
Margins (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	bps	bps	FY20	FY19	bps
EBIDTA	12.4	9.2	8.7	4.2	7.4	(495)	323	8.1	12.3	(423)
EBIT	9.9	7.3	7.1	2.7	4.5	(541)	181	6.4	10.8	(435)
EBT	8.7	5.7	5.7	1.4	4.0	(465)	264	5.1	10.2	(511)
PAT	5.6	3.0	4.2	1.1	3.0	(263)	188	3.4	6.7	(327)
Effective Tax rate	35.2	47.1	26.1	20.3	25.8	(936)	557	33.3	34.6	(131)

Source: Company, PL

Exhibit 2: Key Assumptions

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Order inflow	11,673	47,187	32,380	30,761	38,451	48,064
Revenues	16,466	17,547	18,849	16,861	27,299	31,025
Order book	30,740	60,380	74,620	88,520	99,672	1,16,712
Execution cycle (%)	35%	23%	20%	16%	22%	21%
Ob to sales (x)	1.9	3.4	4.0	5.3	3.7	3.8

Source: Company, PL

Concall Highlights

- Revenues for Q1FY21 fell 21.1% YoY to Rs2.5bn due to nationwide lockdown and lower labour availability.
- EBITDA margins fell to 7.4% vs 12.4% YoY (despite several cost control initiatives), mainly due to write-offs & provisions for receivables to the tune of Rs55mn. Adjusting to this, margins came in at ~9.6% for the quarter.
 - Management expects further write-offs and provisioning for receivables to continue over the coming quarters.
 - Other income was higher at Rs71mn (up 131% YoY) as Rs30mn of liabilities were written back during the quarter upon final billing and reconciliation with vendors.
- The company's order book stood at ~Rs72.6bn as on 1QFY21 translating into a healthy order book-to-sales of 4.2x TTM revenues. The order book comprises of Hospital segment (48%), Institutional Segment (26%), Infrastructure (6%), Residential (13%) and Commercial segment (7%) respectively.
 - In Aug'20, the company bagged a hospital project worth Rs2.9bn.
 - Despite various tenders being floated, management would be conservatively bidding for selective projects as their current order book is strong enough to provide revenue visibility for coming 2-3 years.
- Labour availability continues to impact execution at project sites which are currently operating at ~45% efficiency levels.
 - Labour force improved to 40-45% pre-covid levels (vs ~20% pre-covid levels in June). Management expects labour issues to prevail for the coming 3-4 months.
 - Company expects to reach 60% operational efficiency by the end of Q2FY21.
- Management cited concerns on state government funded projects in the states of West Bengal and Bihar where impact of Covid-19 pandemic is severe. Steep diversion of state funds towards welfare measures is likely to result in delays in payments to contractors.
- ACIL's gross debt continues to remain low at ~Rs440mn with healthy cash & cash equivalents of ~Rs1.75bn as on 1QFY21.
 - Overall slowdown in collection have led to Net cash balance coming down sequentially to Rs1.3bn from Rs1.9bn in 4QFY20.
- Considering the ongoing uncertainty due to Covid-19, management has refrained from giving any guidance for FY21

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	18,849	16,861	27,299	31,025
YoY gr. (%)	7.4	(10.5)	61.9	13.6
Cost of Goods Sold	9,047	7,756	12,830	14,582
Gross Profit	9,803	9,105	14,468	16,443
Margin (%)	52.0	54.0	53.0	53.0
Employee Cost	1,543	2,023	2,184	2,482
Other Expenses	1,693	1,180	1,911	2,172
EBITDA	1,530	1,517	3,139	3,568
YoY gr. (%)	(29.3)	(0.8)	106.9	13.6
Margin (%)	8.1	9.0	11.5	11.5
Depreciation and Amortization	319	389	417	491
EBIT	1,211	1,128	2,723	3,077
Margin (%)	6.4	6.7	10.0	9.9
Net Interest	350	408	426	454
Other Income	104	131	154	142
Profit Before Tax	966	850	2,451	2,766
Margin (%)	5.1	5.0	9.0	8.9
Total Tax	322	213	613	691
Effective tax rate (%)	33.3	25.0	25.0	25.0
Profit after tax	644	638	1,838	2,074
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	644	638	1,838	2,074
YoY gr. (%)	(45.1)	(1.0)	188.2	12.9
Margin (%)	3.4	3.8	6.7	6.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	644	638	1,838	2,074
YoY gr. (%)	(45.1)	(1.0)	188.2	12.9
Margin (%)	3.4	3.8	6.7	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	644	638	1,838	2,074
Equity Shares O/s (m)	67	67	67	67
EPS (Rs)	9.6	9.5	27.4	31.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,054	2,304	2,604	2,904
Tangibles	2,054	2,304	2,604	2,904
Intangibles	-	-	-	-
Acc: Dep / Amortization	980	1,369	1,786	2,277
Tangibles	980	1,369	1,786	2,277
Intangibles	-	-	-	-
Net fixed assets	1,074	935	818	627
Tangibles	1,074	935	818	627
Intangibles	-	-	-	-
Capital Work In Progress	12	12	12	12
Goodwill	-	-	-	-
Non-Current Investments	1,502	1,542	1,454	1,503
Net Deferred tax assets	236	217	217	217
Other Non-Current Assets	882	936	1,116	1,319
Current Assets				
Investments	-	-	-	-
Inventories	2,208	2,310	3,740	4,250
Trade receivables	5,973	7,622	8,227	9,350
Cash & Bank Balance	2,439	1,791	2,937	5,415
Other Current Assets	3,152	3,274	3,347	1,319
Total Assets	17,364	18,646	21,918	24,112
Equity				
Equity Share Capital	134	134	134	134
Other Equity	7,906	8,531	10,332	12,365
Total Network	8,040	8,665	10,466	12,499
Non-Current Liabilities				
Long Term borrowings	442	442	442	442
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	465	465	465	465
Trade payables	5,231	5,081	5,983	5,950
Other current liabilities	3,421	4,209	4,778	4,973
Total Equity & Liabilities	17,364	18,646	21,918	24,112

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	966	850	2,451	2,766
Add. Depreciation	319	389	417	491
Add. Interest	350	408	426	454
Less Financial Other Income	104	131	154	142
Add. Other	-	-	-	-
Op. profit before WC changes	1,635	1,648	3,294	3,710
Net Changes-WC	(355)	(1,431)	(772)	255
Direct tax	(322)	(213)	(613)	(691)
Net cash from Op. activities	958	5	1,909	3,274
Capital expenditures	(662)	(250)	(300)	(300)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(662)	(250)	(300)	(300)
Issue of share cap. / premium	-	-	-	-
Debt changes	296	-	-	-
Dividend paid	(16)	(13)	(37)	(41)
Interest paid	(350)	(408)	(426)	(454)
Others	120	19	-	-
Net cash from Fin. activities	51	(402)	(463)	(495)
Net change in cash	347	(648)	1,146	2,478
Free Cash Flow	560	(245)	1,609	2,974

Source: Company Data, PL Research

Key Financial Metrics

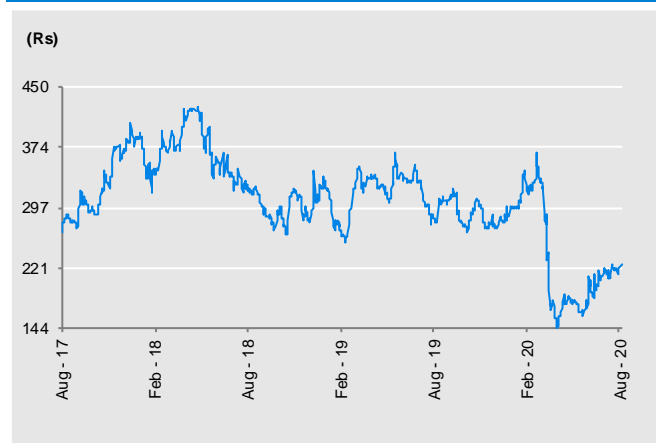
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	9.6	9.5	27.4	31.0
CEPS	14.4	15.3	33.7	38.3
BVPS	120.0	129.4	156.2	186.6
FCF	8.4	(3.7)	24.0	44.4
DPS	0.2	0.2	0.5	0.6
Return Ratio(%)				
RoCE	14.3	12.2	26.0	24.8
ROIC	13.4	11.3	27.1	33.1
RoE	8.4	7.6	19.2	18.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.4)
Net Working Capital (Days)	56	92	66	52
Valuation(x)				
PER	25.4	25.7	8.9	7.9
P/B	2.0	1.9	1.6	1.3
P/CEPS	17.0	15.9	7.3	6.4
EV/EBITDA	9.7	10.2	4.6	3.3
EV/Sales	0.8	0.9	0.5	0.4
Dividend Yield (%)	0.1	0.1	0.2	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	4,173	4,980	5,492	2,498
YoY gr. (%)	(5.0)	19.0	14.4	(21.1)
Raw Material Expenses	(158)	-	-	-
Gross Profit	4,331	4,980	5,492	2,498
Margin (%)	103.8	100.0	100.0	100.0
EBITDA	383	436	230	185
YoY gr. (%)	(33.4)	(12.2)	(59.5)	(52.7)
Margin (%)	9.2	8.7	4.2	7.4
Depreciation / Depletion	79	81	81	72
EBIT	303	355	149	113
Margin (%)	7.3	7.1	2.7	4.5
Net Interest	85	93	101	83
Other Income	20	25	29	71
Profit before Tax	238	286	77	101
Margin (%)	5.7	5.7	1.4	4.0
Total Tax	112	75	16	26
Effective tax rate (%)	47.1	26.1	20.3	25.8
Profit after Tax	126	211	61	75
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	126	211	61	75
YoY gr. (%)	(59.6)	(21.6)	(80.3)	(58.1)
Margin (%)	3.0	4.2	1.1	3.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	126	211	61	75
YoY gr. (%)	(59.6)	(21.6)	(80.3)	(58.1)
Margin (%)	3.0	4.2	1.1	3.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	126	211	61	75
Avg. Shares O/s (m)	67	67	67	67
EPS (Rs)	1.9	3.2	0.9	1.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	BUY	264	215
2	01-Jul-20	BUY	264	211
3	07-Apr-20	Accumulate	264	142
4	14-Feb-20	Accumulate	296	328
5	10-Jan-20	Accumulate	283	295
6	03-Jan-20	Accumulate	283	284
7	23-Dec-19	Accumulate	283	280

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	264	215
3	Ashoka Buildcon	BUY	147	60
4	Bharat Electronics	Hold	99	97
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	106
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	437
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	276	250
16	KEC International	BUY	333	294
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	31
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,159
24	Thermax	Accumulate	798	751
25	Triveni Turbine	BUY	83	64
26	Voltamp Transformers	BUY	1,244	1,132

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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