

5<sup>th</sup> December, 2007

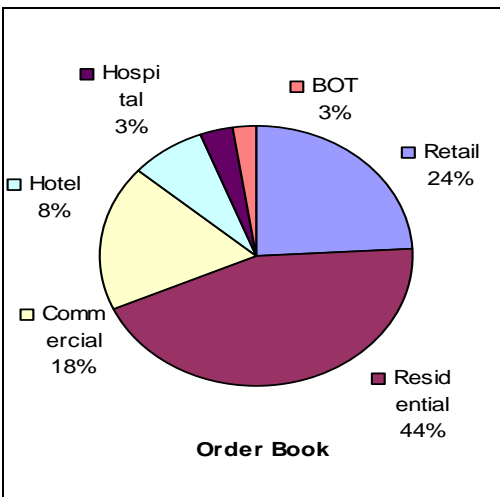
**BUY**

**Key Data**

BSE Code	532811
Reuters Code	AHLU.BO
Sensex	19530
CMP, Rs	305.4
No. of Shares, mn (Diluted)	62.8
Face Value	2.0
Mcap, Rs mn	19168
Mcap, USD mn @ 39	491.5
52 week H/L	321 / 101
Avg. Daily Vol. BSE	78843

**Share holding, Sept'07 % Holding**

Promoters	74.1%
Institutions	0.7%
FII's	2.6%
PCB's	16.0%
Public & Others	6.7%
<b>Total</b>	<b>100%</b>



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**Investment Rationale**

**Booming construction sector:**

Indian Economy is galloping ahead with an above 9% growth and investment in infrastructure is crucial to support this high level of growth. World Bank studies have estimated that a 1 per cent growth in infrastructure development translates into a 1 per cent growth in the economy. According to Planning Commission India may see ~\$320bn investment on infrastructure development in next five years. Being one of the major players in the construction sector Ahluwalia Contracts India Limited (ACIL) is all set to benefit from the investment.

**BOT Projects – adding advantage**

ACIL is now venturing into high margin BOT projects. It has already bagged a BOT project at Kota, Rajasthan, comprising a bus terminal with commercial complex with an investment of **Rs 720 mn would be operated for a period of 40 years**. Also company is in various stages of negotiation for other BOT projects. We believe these projects will bring substantial value to the company. ACIL is pre-qualified for 7 multilevel car parking projects in Delhi-NCR region.

**Huge order Book**

Currently the order book stands at Rs 28bn (4.2x FY07 revenues) which is to be executed in a time span of 24-30 months. This includes ~Rs 5bn worth of orders which does not include procurement of raw material and around Rs 7bn of common wealth village to be finished before December 2009. Further order of ~Rs10bn is in the pipeline which ACIL can get in the coming months.

**Project execution efficiency – the key strength**

Quality construction and timely execution of projects are the key requirements in the sector. ACIL is an ISO-9001:2000, ISO-14000:2004 and OHSAS-18001:1999 certified company with an excellent project execution ability which makes it one of the preferred name in construction industry. Some of the prestigious projects it has successfully executed in time are; ITC Grand Central at Mumbai, ITC Sonar Bangla at Kolkata, Ansal Plaza at New Delhi, IFCI Tower at New Delhi, Signature Towers at Gurgaon, Apollo Hospital at Kolkata, Forties Hospital at Noida, Goa Legislative Assembly and Chancery Building at Dubai.

**Valuations**

We estimate ACIL's revenue and profits to grow at CAGR of 45% and 68% respectively, between FY07 and FY09F. We expect **ROE to improve substantially to 56%** in FY09F from 39% in FY07. At CMP of Rs 305 stock is trading at 37.3x FY08F EPS of Rs 8.2 and 21.7x FY09F EPS of Rs 14.1. Given the trigger from BOT projects, huge order book, growth in the industry, and growing margins; we initiate coverage with **BUY**.

Brief Financials Rsm	Revenues	growth %	EBITDA	Net Profit	growth %	EPS Rs.	P.E x	EV / EBITDA	ROE %
FY05A	3012.0		139.3	43.9		2.8	109.1	135.5	13%
FY06A	4157.1	38%	390.3	193.5	340%	3.1	99.0	48.4	37%
FY07A	6692.8	61%	695.4	311.8	61%	5.0	61.5	26.9	39%
FY08F	9696.8	45%	1124.8	513.7	65%	8.2	37.3	16.3	48%
FY09F	14168.4	46%	1756.9	884.7	72%	14.1	21.7	10.2	56%

Source: Company & Sunidhi Research



## Investment Rationale

### Booming construction sector:

The Indian Economy is galloping ahead with an above 9% growth, and the Urban Infrastructure Sector is keeping pace. Investment in infrastructure is crucial to support a higher level of industrial growth. World Bank studies have estimated that a 1 per cent growth in infrastructure development translates into a 1 per cent growth in the economy. India's immediate goal is to achieve sustainable GDP growth of at least 10 per cent per annum.

Infrastructure development is the backbone for the economic growth. According to Planning Commission, the forecast for Indian infrastructure spend requirements range close to \$320 billion over FY 2007-12. With US\$ 191.51 billion of investment committed over the next five years, infrastructure sector is by far underinvested. The sector is estimated to grow at a CAGR of 15 per cent over the next few years. The construction sector accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years.

### BOT Projects – adding advantage

The company is now getting into BOT projects and has already bagged a BOT (Build Operate Transfer) Project at Kota, Rajasthan, comprising a bus terminal with commercial complex valued at **Rs 720 mn to be licensed for 40 years.**

### Kota Bus Terminal

Under the Kota project ACIL would be constructing a bus terminal and commercial complex with a total investment of ~ Rs 720mn. For this ACIL will earn lease rentals for the commercial space of ~250,000 sqft will be leased for 40 years. We believe ACIL would get ~20% IRR from this project. This project is expected to complete by May'09.

### Potential Projects

**Development of 7 commercial and under-ground parking lots in Delhi by MCD.** MCD has sited 42 multilevel car parking projects in Delhi NCR region, will be developed on the BOT basis of which 7 has been called for tender so far. Under these projects the structure will have 8-10 level below ground parking and will have commercial space above it. The lease revenue is expected to be much higher because of the prominent locations for these projects. ACIL has pre qualified in all the seven projects. The expected capex in each parking project would be ~ Rs1.5bn. We believe this project if awarded will add substantial value to ACIL.

### Huge order Book

ACIL has a strong order book on the back of buoyancy in the infrastructure development activities across the nation. ACIL's order book stands at Rs 28 bn at the end of Q2 FY08. The total execution period for these projects is 2.5 years. Out of Rs28 bn, the residential vertical contributes Rs12.3 bn followed by the retail Rs 6.8 bn and the commercial Rs 5.1 bn. The order book break up is given as below

Order book		
	Rsm	%age
Retail	6800	24.3%
Residential	12300	43.9%
Commercial	5100	18.2%
Hotel	2150	7.7%
Hospital	930	3.3%
BOT	720	2.6%
<b>Total</b>	<b>28000</b>	<b>100.0%</b>



### Project execution efficiency – the key strength

The company has executed number of prestigious projects in the past such as ITC Grand Central at Mumbai, ITC Sonar Bangla at Kolkata, Ansal Plaza at New Delhi, IFCI Tower at New Delhi, Signature Towers at Gurgaon, Apollo Hospital at Kolkata, Forties Hospital at Noida, Goa Legislative Assembly and Chancery Building at Dubai.

ACIL has business in various business segments including IT parks, retail; multi storied housing complexes, industrial complexes, luxury hotels and hospitals. ACIL provides end to end turnkey construction solutions and are equipped with a full range of project capabilities, such as engineering design, procurement of resources, construction management and timely commissioning of projects, which enables ACIL to finish its projects in time.

ACIL is associated with some of the reputed corporates including Hughes Software Limited, GE Capital Limited, Moser Baer, Xansa India Limited, New Holland Tractors Limited, DLF group, Mahindra and Mahindra, etc. ACIL is currently executing projects for corporates such as Four Seasons Hotel, Aman Resorts, Erosgroup, Ansal group, Brigade group, ITC group, MBD group, Leela group, Honda Siel, etc

Some ongoing Projects	Rsm
Emaar MGF, common wealth village	7,000
South City	1,600
PWD, District Court	1,450
Brigade Group	1,320
Pearl Group	1,070
Aerens Entertainment	1,000
RSRTC	720
Reliance Petroleum	480
Reliance Retail, Hyper market	450
Caparo India	400
India Bulls Properties	350
IDBI	350
Agilent Technologies	230

### Valuations

We estimate ACIL's revenue and profits to grow at CAGR of 45% and 68% respectively, between FY07 and FY09F. We expect ROE to improve substantially to 56% in FY09F from 39% in FY07. OPM is growing from 10.4% in FY07 to 12.4% in FY09F. At CMP of Rs 305 stock is trading at 37.3x FY08F EPS of Rs 8.2 and 21.7x FY09F EPS of Rs 14.1.

The potential trigger is the entry into BOT projects the revenue of which will start flowing from FY10. This will help ACIL to diversify from a construction company to a real estate player. Any additional order from multilevel car parking will further enhance the company's potential.

Given the trigger from BOT projects, huge order book, growth in the industry, and growing margins; we initiate coverage with **BUY**.

### Concerns

- Delay in execution of projects would impact the earnings of the company.
- Delay in tendering process for various BOT projects would impact the company's future plans.
- In case of not getting awarded the BOT projects would impact company's future growth plans.
- The sector is directly related with the infrastructure growth. Any slowdown in these sectors will affect the company.



## Company

The company is primarily engaged in the business of offering construction services and specializes in executing turnkey projects that comprise civil construction, electrical works, plumbing, fire-fighting, etc. its associate company, Ahlcons India (Private) Limited is also engaged in the manufacturing and fabrication of aluminum doors, windows, curtain walls, facades, etc. the company has experience in construction of super structures, integrated townships, hospitals, hotels, commercial complexes, manufacturing facilities and pipelines. Its clientele includes government and semi-government organizations, foreign agencies, corporate houses like IFCI, HUDCO, Tata Projects, DCM Daewoo, Samtel Colour, J. K. Industries, etc. spanning various industries like hospitals, hotels, IT, retail, etc.

## Business overview

Business activities could be categorized into the following segments:

**1. Commercial:** This segment includes the construction of buildings for malls, shopping complexes and exhibition facilities; healthcare services, educational facilities and hospitality sector; and corporate offices and buildings. Some of the major constructions works carried out by the company in this segment are given below

***Malls and Shopping Complexes:*** Ansal Plaza, New Delhi, India Exposition Mart, Greater Noida and DLF Mega Mall, Gurgaon

***Healthcare, Educational Facilities and Hospitality.*** Trauma Centre for the AIIMS, New Delhi, ITC Grand Central, Mumbai, ITC Sonar Bangla, Kolkata, Grand Hyatt, New Delhi. Company is currently constructing a new hotel complex for the Four Seasons group in Mumbai.

***Corporate Offices and Buildings:*** Signature Towers, Gurgaon, IFCI Tower, New Delhi, headquarters of the SEBI, Mumbai, local head office of SBI, Mumbai, regional headquarters of the Asian Development Bank, New Delhi and the Chancery building for the High Commission of India, Dubai.

**2. Industrial Institutions:** This segment includes construction of buildings for manufacturing facilities with structural steel work, sheeting, and specialized flooring, external and internal finishes. Some of the prominent constructions include factory premises for New Holland Tractors, Greater Noida, and Hindustan Computers Limited, Noida, Mahindra and Mahindra, Rudrapur, Uttaranchal, Tata Chemical Limited, Babrala, Uttar Pradesh and Moser Baer, Greater Noida.

**3. Infrastructure:** This segment includes construction of airports, roads, highways, canals, urban infrastructure, stations, etc. the finished projects include Seelampur, Rohini, Pritampura and Rithala stations for the Delhi Metro Rail Corporation, multi-level basement parking at IFCI building, New Delhi etc.

**4. Housing (Residential):** This segment includes construction of buildings for group housing projects. Some of the prominent group housing projects undertaken by the company include Richmond Park for DLF, Belvedere Towers for DLF, colonies for the housing boards of the Indian Air Force and Indian Navy in Noida, South City, and Kolkata. The company also has undertaken a number of projects for the DDA. ACIL executes turnkey projects including civil, electrical, plumbing, fire-fighting, lifts, external and internal finishes, external landscaping.

## Services portfolio:

ACIL has specialized in house divisions for various allied services to minimize external dependency. These divisions are as given below;

**Construction** – the company undertakes all kinds of construction work from piling to pre-cast- pre stressing work.



**Design** – Exemplary In-house design cell comprising of design experts from architectural discipline

**Ready mix concrete** – Ready Mix Concrete (RMC) is critical to the construction industry as it results in higher quality as well as better speed in construction. ACIL has 6 plants for RMC and has the largest transit mixer fleet in Northern India. It produces over 1800 cubic meters of concrete a day with self owned transit mixers, stationery and boom pumps.

**Plumbing** – Provide procurement, execution, testing & commissioning services for Water Supply, Sanitary & Fire Fighting Works

**Building facades aluminium and glass facades** – company undertakes design, supply and installation of aluminum doors, windows, structural gazing, glass façade & aluminum cladding.

**Electro mechanical** – Provides supply, installation, testing & commissioning services for electrical works

Income Statement								
Rsm	Q2FY07	Q1FY08	Q2FY08	QOQ	YOY	H1FY07	H1FY08	YOY
<b>Net Sales</b>	<b>1548</b>	<b>1706</b>	<b>1881</b>	10%	21%	<b>2741</b>	<b>3586</b>	31%
<b>Total Expenditure</b>	<b>1394</b>	<b>1510</b>	<b>1633</b>	8%	17%	<b>2455</b>	<b>3142</b>	28%
<b>EBITDA</b>	<b>154</b>	<b>196</b>	<b>248</b>	27%	61%	<b>286</b>	<b>444</b>	55%
Other Income	7	7	12			13	18	
<b>Gross Profit</b>	<b>161</b>	<b>202</b>	<b>260</b>	28%	61%	<b>298</b>	<b>462</b>	55%
Interest	9	17	17			18	34	
Depreciation	46	56	54			87	110	
<b>PBT</b>	<b>106</b>	<b>130</b>	<b>189</b>	46%	79%	<b>194</b>	<b>318</b>	64%
Tax	37	45	67			68	112	
<b>PAT</b>	<b>68</b>	<b>85</b>	<b>122</b>	44%	79%	<b>126</b>	<b>207</b>	64%
Equity, Rsm	126	126	126			126	126	
No of Shares, million	63	63	63			63	63	
EPS, Rs (Annualised)	4.4	5.4	7.8			4.0	6.6	
OPM	9.9%	11.5%	13.2%			10.4%	12.4%	
NPM	4.0%	4.6%	5.9%			4.1%	5.3%	
Tax%	35%	35%	35%			35%	35%	



Valuations Summary	FY05A	FY06A	FY07A	FY08F	FY09F
Revenues, Rsm	3012.0	4157.1	6692.8	9696.8	14168.4
growth, %		38%	61%	45%	46%
EBITDA, Rsm	139.3	390.3	695.4	1124.8	1756.9
Net profit, Rsm	43.9	193.5	311.8	513.7	884.7
growth, %		340%	61%	65%	72%
EPS, Rs	2.8	3.1	5.0	8.2	14.1
CEPS, Rs	5.8	4.6	8.1	11.6	17.8
P/E, x	109.1	99.0	61.5	37.3	21.7
P/Bv, x	14.0	37.3	24.3	18.2	12.1
EV/EBITDA, x	135.5	48.4	26.9	16.3	10.2
Mcap/Sales, x	6.4	4.6	2.9	2.0	1.4
Dividend Payout, %	12%	11%	12%	49%	40%

Key Ratios	FY05A	FY06A	FY07A	FY08F	FY09F
OPM %	5%	9%	10.4%	11.6%	12.4%
NPM %	1%	5%	4.7%	5.3%	6.2%
ROE %	13%	37%	39%	48%	56%
ROCE %	7%	21%	23%	23%	29%
D/E x	0.7	0.8	0.7	1.1	0.9
Asset Turnover Ratio x	0.2	0.2	0.2	0.1	0.1

*Source: Company & Sunidhi Research*

Income Statement					
Rsm	FY05A	FY06A	FY07A	FY08F	FY09F
<b>Revenues</b>	3012.0	4157.1	6692.8	9696.8	14168.4
Inc/Dec in Stock	0.0	0.0	0.0	0.0	0.0
Raw Materials	2225.5	2931.8	4621.4	6652.0	9677.0
Manufacturing Expenses	182.1	228.3	322.1	436.4	595.1
Employment Costs	380.0	510.2	885.6	1260.6	1841.9
Administrative expenses	85.1	96.5	168.4	223.0	297.5
<b>Operating Expenditure</b>	2872.7	3766.8	5997.4	8571.9	12411.5
<b>Operating Income</b>	139.3	390.3	695.4	1124.8	1756.9
Other Income	40.6	39.8	53.9	30.0	30.0
<b>Gross Profits</b>	179.9	430.1	749.4	1154.8	1786.9
Finance and Interest Costs	33.4	40.5	66.5	142.8	181.3
Depreciation	47.2	97.5	198.9	214.3	231.9
<b>Profit Before Tax</b>	99.3	292.2	484.0	797.7	1373.7
Tax	55.3	98.6	172.2	284.0	489.0
<b>Profit after Tax</b>	43.9	193.5	311.8	513.7	884.7
Extraordinary items	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	43.9	193.5	311.8	513.7	884.7

*Source: Company & Sunidhi Research*



<b>Balance Sheet</b>					
<b>Rs,mn</b>	<b>FY05A</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08F</b>	<b>FY09F</b>
<b>Sources of Funds</b>					
Equity Share Capital	31.4	125.5	125.5	125.5	125.5
Reserves & Surplus	309.7	387.7	663.1	926.4	1453.4
<b>Net Worth</b>	<b>341.1</b>	<b>513.2</b>	<b>788.7</b>	<b>1052.0</b>	<b>1578.9</b>
Secured	219.6	394.5	582.9	1182.9	1482.9
Unsecured	8.7	0.0	9.7	9.7	9.7
<b>Loan Funds</b>	<b>228.3</b>	<b>394.5</b>	<b>592.6</b>	<b>1192.6</b>	<b>1492.6</b>
Deffered Tax Liability	24.9	17.0	-11.0	-11.0	-11.0
<b>Total Liability</b>	<b>602.8</b>	<b>933.1</b>	<b>1378.5</b>	<b>2241.8</b>	<b>3068.7</b>
<b>Application of Funds</b>					
Gross Block	519.3	816.2	1231.8	1339.5	1449.5
Less: Depreciation	191.8	286.5	480.9	695.3	927.2
Net Block	327.5	529.7	750.9	644.3	522.3
WIP	10.1	21.8	17.7	20.0	0.0
<b>Net Fixed Assets</b>	<b>337.6</b>	<b>551.5</b>	<b>768.6</b>	<b>664.3</b>	<b>522.3</b>
<b>Investments</b>	<b>28.7</b>	<b>31.3</b>	<b>42.4</b>	<b>42.4</b>	<b>42.4</b>
<b>Current Assets</b>					
Inventories	225.6	283.9	506.5	770.4	1242.2
Debtors	557.7	748.0	1290.2	1939.4	3027.8
Cash and Bank	344.4	456.0	716.8	1514.8	2070.9
Loans and Advances	142.7	136.6	250.2	398.5	659.9
Other Current Assets	0.0	31.7	38.9	38.9	38.9
Current Liabilities	1025.7	1274.3	2163.4	3055.1	4464.0
Provisions	8.4	34.2	72.3	72.3	72.3
<b>Net Current Assets</b>	<b>236.3</b>	<b>347.7</b>	<b>566.9</b>	<b>1534.5</b>	<b>2503.3</b>
Misc Expnses	0.2	2.6	0.6	0.6	0.6
<b>Total Assets</b>	<b>602.8</b>	<b>933.1</b>	<b>1378.5</b>	<b>2241.8</b>	<b>3068.7</b>

Source: Company & Sunidhi Research





<b>Cash flow statement</b>				
<b>Rsm</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08F</b>	<b>FY09F</b>
Cash flow from operations	291	511	728	1,117
Cash for working capital	0	42	(170)	(413)
<b>Net operating cash flow- A</b>	<b>291</b>	<b>552</b>	<b>558</b>	<b>704</b>
Net purchase of fixed assets	(309)	(411)	(110)	(90)
Net Purchase of investments	(3)	(11)	-	-
<b>Net cash flow from investing- B</b>	<b>(311)</b>	<b>(423)</b>	<b>(110)</b>	<b>(90)</b>
Proceeds from equity	0	0	0	0
Proceeds/Repayments from borrowings	153	167	600	300
Dividend payments	(21)	(36)	(250)	(358)
<b>Net cash flow from financing- C</b>	<b>132</b>	<b>131</b>	<b>350</b>	<b>(58)</b>
Net cash flow (A+B+C)	112	261	798	556
Opening Cash	344	456	717	1,515
Closing Cash	456	717	1,515	2,071

*Source: Company & Sunidhi Research*

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