

We recommended Ahluwalia Contracts or 'ACIL' in Jun, 10. Lately, the company came out with its Q1, FY 11 Results wherein it recorded healthy financial performance and operating performance.

We expect ACIL, to continue with its stellar performance, backed by solid Order Backlog, firm financial performance in the past and actuated by the GoI's focus on the upgrading and developing the Physical and Social Infrastructure.

We maintain our Rating and Target price on the stock.

Q1, FY 11 Financial Performance

Q1, 11 Revenue growth, In-line with estimates

ACIL came out with healthy number during the first quarter of 2010-11. The company recorded around 30% growth in the Operating income which rose to Rs 394 Crore (Q1, 11) as compared to Rs 305 Crore (Q1, 10). However, on a YoY comparison, the Operating income slipped by nearly 20%. This was expected as the company generates larger part of its Revenue during the second half.

Quarterly Financials - Ahluwalia Contracts India Ltd.

Units: In Rs Crore	Jun 10	% Growth	Jun 09	% Growth	Mar 10
Operating Income	393.6	29.2%	304.6	-19.6%	489.4
Raw Materials	159.7	-7.2%	172.1	-33.6%	240.5
% of Sales	40.6%	-	56.5%	-	49.1%
Sub-Contracting charges	88.1	146.1%	35.8	-19.7%	109.7
% of Sales	22.4%	-	11.8%	-	22.4%
Labour Charges	47.5	104.8%	23.2	0.5%	47.2
% of Sales	12.1%	-	7.6%	-	9.7%
Employees Cost	19.5	35.9%	14.3	-2.1%	19.9
Other Expenditure	32.7	75.3%	18.6	-16.3%	39.0
Operating Expenses	346.7	31.3%	264.0	-24.0%	456.3
EBITDA	46.9	15.5%	40.6	41.7%	33.1
OPM	11.9%	-	13.3%	-	6.8%

Higher Sub-Contracting costs impute Margins, despite fall in Raw materials cost

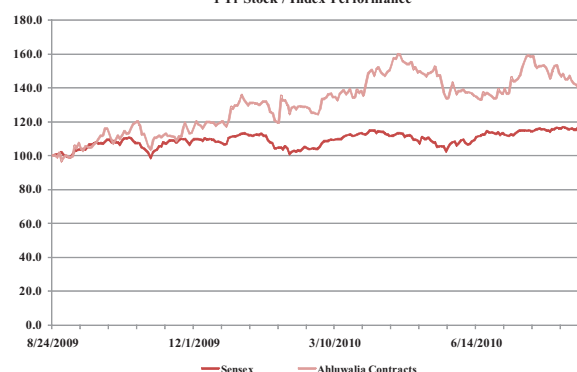
Net Raw materials cost of the company slipped by more than 7% and stood at Rs 160 Crore (Q1, 11). On a YoY basis, Raw materials cost as a % of Sales fell by more than 1500 bps from 56.5% (Q1, 10) to 40.6% (Q1, 11) while on a QoQ basis the same



Industry: Construction & Engineering

Current Price	221
Target Price	258
Market Cap (Cr.)	1283
52 Week H/L	246/165
FV	2
Book Value/Share	40
BSE Sensex	18399
NSE Nifty	5543
BSE Code	532811
NSE Code	AHLUCONT
Reuters Code	AHLU.BO
Bloomberg Code	AHLU:IN

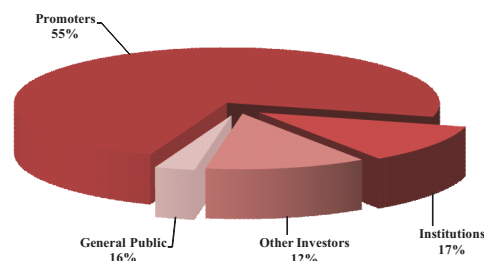
1 Yr Stock / Index Performance



Particulars	FY 09	FY 10	FY 11E	FY 12E
Net Revenue	1156.6	1561.8	1928.8	2338.6
Operating Exp	1023.0	1398.9	1730.4	2096.8
EBITDA	141.1	168.8	205.9	249.3
Net Profit	57.7	81.8	101.3	125.9
EPS	9.2	13.0	16.1	20.1

* EPS based on Fully Diluted Equity Share Capital

Share Holding Pattern as on Jun 30, 2010



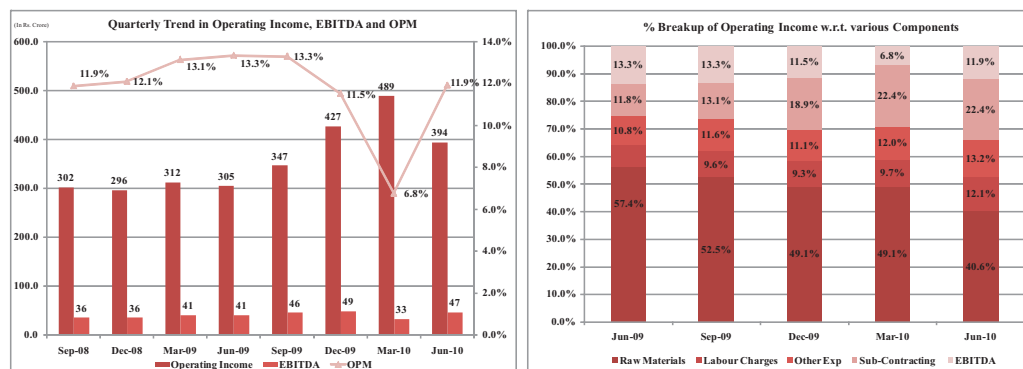
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came down by around 900 bps from 49.1% (Q4, 10).

On the other side, Sub-Contracting and Labour Charges moved up by more than 145% and 100% on a YoY basis whereas remained almost flattish sequentially. Sub-Contracting costs went up to Rs 88 Crore (Q1, 11) from Rs 36 Crore (Q1, 10) while the Labour charges doubled to Rs 48 Crore (Q1, 11) as against Rs 23 Crore (Q1, 10).



Source: Company Data, JRG Research

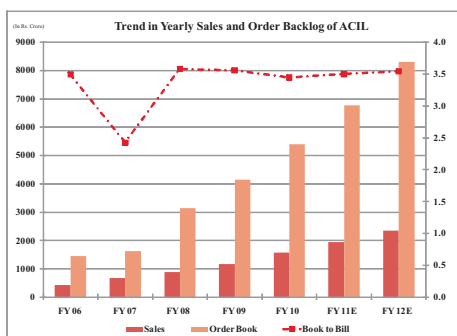
The total Operating expenses of the company were up by more than 31% to 347 Crore (Q1, 11) as equated to Rs 264 Crore (Q1, 10) and fell by around 25% from Rs 456 Crore (Q4, 10). With the expenses growing at a higher pace than Revenue (YoY), the EBITDA of ACIL stepped up by around 16% from Rs 41 Crore (Q1, 10) to Rs 47 Crore (Q1, 11). The OPM's too contracted by nearly 140 bps to 11.9% (Q1, 11). However, the margins registered significant improvement on a quarter on quarter scenario from 6.8% (Q4, 10).

Quarterly Financials - Ahluwalia Contracts India Ltd.					
Units: In Rs Crore	Jun 10	% Growth	Jun 09	% Growth	Mar 10
Operating Income	393.6	29.2%	304.6	-19.6%	489.4
Other Income	1.2	7.0%	1.1	-34.9%	1.8
Interest	3.1	-13.6%	3.6	-32.4%	4.6
Depreciation	7.8	-23.4%	10.1	16.3%	6.7
Tax	12.2	28.3%	9.5	37.0%	8.9
% of Tax	32.9%	-	34.0%	-	37.7%
Net Profit	25.0	35.4%	18.4	69.7%	14.7
NPM	6.3%	-	6.0%	-	3.0%

While the EBITDA growth was inflicted by higher operating expenses, Bottom-line surged by more than 35% from Rs 18 Crore (Q1, 11) to Rs 25 Crore (Q1, 10). Growth was actuated by fall in interest and depreciation expenses by 13% and 23% respectively. The Tax outgo was too lower o both YoY and QoQ basis and stood at 32.9% (Q1, 11) from 34% (Q1, 10) and 37.7% (Q4, 10). The NPM's came in at 6.3% (Q1, 11) compared to 6% (Q1, 10) and a mere 3% (Q4, 10).

Order backlog of more than Rs 5000 Crore provides strong Revenue visibility

As of June 10, ACIL had well diversified Order backlog of over Rs 5000 Crore consisting of different segments like Industry and Infrastructure, Retail, Commercial complexes, Residential complexes, Hospital and related works and Hotels. During the previous quarter, ACIL bagged cumulative orders worth Rs 505 Crore.



Source: Company Data, JRG Research

Out of the Total Order book of ACIL, around Rs 3200 Crore is to be executed over the next 24 months. The current Order backlog is more than 1.65x its FY 11E Operating Income of Rs 1936 Crore. We expect ACIL's Order Book to record at a CAGR of over 23% and rise to Rs 8300 Crore (FY 12E).

Financial Valuation and Projections

We are keeping our FY 11 and FY 12 estimates for the company, unchanged. For the next two years, we expect the company's Net Sales to grow at a CAGR of 22% to Rs 2346 Crore (FY 12E) from Rs 1568 Crore (FY 10).

The EBITDA of the company is seen moving almost in-line with the Top-line and jump up at a CAGR of 23.7% to Rs 258 Crore (FY 12E) from Rs 169 Crore (FY 10), whereas the Operating Margins are seen stabilizing near 11% mark.

Financial Projections - Ahluwalia Contracts India Ltd.				
Units: in Rs Crore	FY 09	FY 10	FY 11E	FY 12E
Operating Income	1164.1	1567.7	1936.3	2346.1
Other Income	7.9	5.7	7.5	10.0
Operating Exp	1023.0	1398.9	1730.4	2096.8
EBITDA	141.0	169.0	206.0	249.0
Interest	14.6	16.3	21.8	25.0
Depreciation	46.4	33.1	37.0	42.2
Tax	30.2	43.4	53.3	66.3
% of Tax	34.4%	34.7%	34.5%	34.5%
Net Profit	57.7	81.8	101.3	125.9

Recommendation

ACIL is strong player in the Construction sector having a proven track record of Executing general and complex Engineering and Construction orders for the different segment of the economy. We recommended a "Buy" rating on ACIL in June 10 at Rs 204. Backed by the solid order backlog of over Rs 5000 Crore, we expect ACIL to record prominent financial and operating growth in the future.

At the Trailing market price of Rs 221, ACIL discounts its FY 11E and FY 12E earnings by 13.7X and 11X respectively. We maintain our Rating and Target price of Rs 258 on the stock for an investment period of Twelve months.

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