

Institutional Equity Research

Ahluwalia Contracts

Construction | India

Management Meet Update | March 29, 2019

CMP (Rs)	326
Upside/ (Downside) (%)	24
Bloomberg Ticker	AHLU IN
Market Cap. (Rs bn)	21.7
Free Float (%)	42.0
Shares O/S (mn)	67

BUY 

Target Price: Rs405

Healthy Growth Visibility & Attractive Valuations Augur Well

We recently visited Ahluwalia Contracts (India) Ltd. (AHLU) to understand its current status of business and way forward.

No Significant Revenue Loss Expected: Unlike Rs1.2bn revenue loss in 3QFY19 from projects in Bihar and Delhi/NCR, AHLU is unlikely to report any revenue loss in the current quarter, as issues pertaining to the National Green Tribunal (NGT) are sorted out and execution of those projects are underway now. Notably, around ~45% of its total projects are from Delhi/NCR and NGT's adverse order in various projects had impacted execution. Further, one CPWD project worth Rs2.6bn is still stuck due to tree cutting issues and pending decision from the Supreme Court, which is most likely to see change in scope of work. We expect AHLU to report >20% revenue growth in 4QFY19 and thus, the Company is likely to maintain its revenue growth guidance of 10% in FY19E.

Order Book Surged Further: As AHLU received LoA for 3 projects aggregating to Rs10bn in Feb-Mar'19, its order book has surged to Rs64bn (including 3QFY19 execution), which is 3.7x of TTM revenue. Total order inflow for FY19 now stands at Rs45bn as against Rs13bn in FY18. Notably, there is no L1 position as of now and it is currently bidding projects worth Rs20bn and expects to add projects worth Rs20bn in FY20E mainly from hospital, institutional, commercial and residential segments.

Fixed Price Contracts Unlikely to Impact Margin: AHLU currently has 2 projects from NBCC aggregating worth Rs8bn, which are fixed price based. NBCC had awarded Charbagh railway station projects (Rs5.4bn) and auditorium work contract at Kolkata (Rs3.15bn) to AHLU as fixed-price contracts. However, as designing right in these projects are with AHLU and it has sufficiently built escalation provisioning while bidding, it does not expect any adverse impact in margin in a scenario of higher input cost. It expects EBITDA margin in 13% range, going forward.

Working Capital Cycle to Remain at Simailar Level: AHLU does not expect any meaningful improvement in its working capital cycle, which is currently around 60 days. However, with the likely realisation of amounts from arbitration award may aid the Company to see marginal improvement in its receivable days. Further, it has not witnessed any delay in payment from private residential segment despite liquidity crisis in the industry.

Outlook & Valuation

We maintain our positive stance on AHLU mainly on the back of: (1) asset light business model; (2) strong balance-sheet (D/E ratio at 0.05x); (3) best-in-class return ratios; and (4) no equity commitment unlike several other construction companies. **Expecting AHLU's revenue and PAT to clock 17% and 20% CAGR, respectively over FY18-FY21E, we reiterate our BUY recommendation on the stock with an unrevised Target Price of Rs405 (16x FY20 EPS).**

Key Financials (Rs mn)	FY18	FY19E	FY20E	FY21E
Sales	16,466	18,019	22,825	26,332
EBITDA	2,193	2,293	2,920	3,409
Net Profit	1,154	1,266	1,699	2,003
EPS (Rs)	17.2	18.9	25.4	29.9
DPS (Rs)	0	0.3	0.4	0.5
P/E (x)	18.9	17.2	12.8	10.9
P/B (x)	3.5	2.9	2.4	2.0
EV/EBITDA (x)	9.5	9.2	7.0	5.7
RoE (%)	20.4	18.4	20.4	19.8
Divi. Yield (%)	0.0	0.1	0.1	0.2

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	10.5	(0.2)	(12.6)
Relative to Nifty	3.8	(6.9)	(26.4)

Shareholding Pattern (%)	Sep'18	Dec'18
Promoter	58.0	58.0
Public	42.0	42.0

1 Year Stock Price Performance



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Engineers Hiring Increases: As AHLU has witnessed a sizeable increase in its order inflow, hiring of engineers increased from annualised average of 70-80 to >100 and the trend is likely to continue for sometimes.

Kota Project Leased out up to 70%; Divestment on the Cards: Kota project has been leased out its commercial spaces ~70%. Further, AHLU is still committed to exit the projects in the due course once it reaches 80-90% lease out mark in order to focus on core operation.

Arbitration Award: The conclusion of Talkatora award (balance amount Rs130mn) is at final stage and the final hearing is expected in 1HFY20E. However, there is no significant progress in Emaar MGF arbitration award (Rs470mn), as the presiding judge is still not available. AHLU does not expect any amount to be written-off.

Risks to the View

- ▶ Lower-than-expected order inflow due to delay in capex recovery.
- ▶ Any delay in project execution.

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Profit & Loss Statement

Y/E Mar (Rsmn)	FY18	FY19E	FY20E	FY21E
Net Sales	16,466	18,019	22,825	26,332
Total Expenditure	14,273	15,726	19,905	22,923
EBITDA	2,193	2,293	2,920	3,409
EBITDA Margin (%)	13.3	12.7	12.8	12.9
Financial Charges	251	178	131	113
Depreciation	256	271	300	358
Other Income	63	73	83	96
Profit before tax	1749	1917	2573	3034
Total Tax	594	651	874	1,031
% of PBT	34.0	34.0	34.0	34.0
Profit after tax	1,154	1,266	1,699	2,003
PAT Margin (%)	7.0	7.0	7.4	7.6
Adjusted EPS	17.23	18.89	25.36	29.90

Balance Sheet

Y/E Mar (Rsmn)	FY18	FY19E	FY20E	FY21E
Shareholders Funds				
Share Capital	134	134	134	134
Reserves and Surplus	6,114	7,356	9,022	10,985
Total	6,248	7,490	9,156	11,119

Loan Funds

Secured Loans	130	330	310	290
Unsecured Loans	168	150	30	30
Total	298	480	340	320
TOTAL	6,546	7,970	9,496	11,439

Application of Funds

Fixed Assets

Gross Block	1,396	1,736	2,136	2,636
Less: Depreciation	429	700	1,000	1,358
Net Block	967	1,036	1,136	1,278
Capital Work-in Progress	3	3	3	3
Investments	932	932	932	932

Current Assets, Loans and Advances

Inventories	1,891	1,876	2,376	2,741
Sundry debtors	6,743	7,504	9,193	10,461
Cash and bank balances	1,247	1,253	1,618	2,690
Loans and advances	478	1,585	2,007	2,316
Total	10,359	12,217	15,194	18,208

Less: Current Liab. and Provisions

Current Liabilities	5,878	6,376	7,908	9,106
Provisions	53	59	79	93
Total	5,932	6,435	7,986	9,199
Net Current Assets	4,427	5,782	7,208	9,009
Deferred Tax Asset (Net)	217	217	217	217
TOTAL	6,546	7,970	9,496	11,439

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Cash Flow Statement

Y/E Mar (Rsmn)	FY18	FY19E	FY20E	FY21E
A. Cash Flow from Operating Activities				
Profit after tax	1,749	1,917	2,573	3,034
Depreciation	256	271	300	358
Other adjustments	72	178	131	113
Working Capital changes	(712)	(1,349)	(1,061)	(729)
Net Cash from Operating Activites	1,365	1,017	1,943	2,776
Direct Taxes paid	(556)	(651)	(874)	(1,031)
Net Cash flow from Operation activities	810	366	1,069	1,746
B. Cash flow from Investing Activities:				
Capital Expenditure	(179)	(340)	(400)	(500)
Investments	3	-	-	-
Others	(22)	(0)	(0)	-
Net Cash from Investing Activites	(198)	(340)	(400)	(500)
C. Cash flow from Financing Activities				
Net borrowing	(603)	182	(140)	(20)
Interest Payment ande Net divi & others	(93)	(202)	(163)	(154)
Net Cash from Financing Activites	(696)	(20)	(303)	(174)
Net Inc/(Dec) in Cash & Cash Equivalents	(85)	6	366	1,072

Key Ratio

Y/E Mar	FY18	FY19E	FY20E	FY21E
Valuation Matrix				
Price / Adj Earnings (x)	18.9	17.2	12.8	10.9
Price / CEPS (x)	15.4	14.2	10.9	9.2
Price / BV (x)	3.5	2.9	2.4	2.0
EV / EBIDTA (x)	9.5	9.2	7.0	5.7
EV / Sales (x)	1.3	1.2	0.9	0.7
EPS (Rs)-Adjusted	17.2	18.9	25.4	29.9
CEPS (Rs)	21.1	22.9	29.8	35.2
Book Value	93.3	111.8	136.7	166.0
Adj ROE (%)	20.4	18.4	20.4	19.8
ROCE (%)	31.0	27.9	30.0	29.1
Solvency Ratio (x)				
Total Debt / Equity (x)	0.05	0.06	0.04	0.03
Debt / EBIDTA	0.1	0.2	0.1	0.1
Debt / Capital Emp.	0.0	0.1	0.0	0.0
Capital Emp / Net Worth	1.0	1.1	1.0	1.0
Turnover Ratio (x)				
Asset Turnover Ratio	2.5	2.3	2.4	2.3
Fixed Asset Turnover Ratio	11.8	10.4	10.7	10.0
Working Capital Ratio (x)				
Current Ratio	1.7	1.9	1.9	2.0
Working Capital to Sales	0.3	0.3	0.3	0.3
Inventory (days)	42	38	38	38
Debtors (days)	149	152	147	145
Creditors (days)	130	129	126	126
Working Capital Cycle (Days)	61	61	59	57

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Rating History

Date	Reco	CMP	TP
15-Feb-19	BUY	262	405
16-Nov-18	BUY	318	475
17-Aug-18	BUY	320	450
31-May-18	BUY	372	450
20-Feb-18	BUY	346	405
20-Nov-17	BUY	348	385
23-Aug-17	BUY	283	320
5-Jun-17	HOLD	330	320

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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