

## Result update - Q3FY12

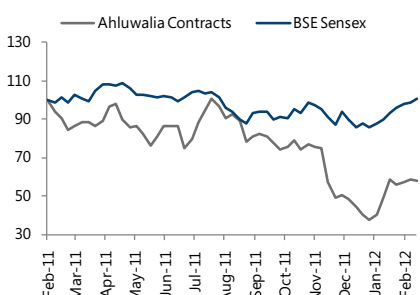
## Ahluwalia Contracts (India) Ltd.

### Sell

Reco	Maintained
CMP	₹ 80
Target Price	₹ 66
Downside Potential	17%

### Price Performance

52 wk Hi/Lo	144/51
All time Hi/Lo	246/51
6 mnth Average Vol	22481
Stock Beta	0.65



### Valuation

	FY11	FY12P	FY13P
P/E (x)	7.1	-	11.0
P/BV (x)	1.6	1.6	1.4
RONW (%)	24.6	-2.6	13.6
ROCE (%)	17.9	0.6	10.9

### Peer Valuation (FY12)

	Unity Infra	C&C Cons
PE	4.0	7.0
P/BV	0.5	0.4

### Equity Data

Market Cap. (₹ bln)	5.0
Face value (₹)	2
No of shares o/s (mln)	63

	Dec'10	Dec'11	Δ%
Promoters	72.61	72.61	0.00
DFI's	8.66	6.31	-27.1
FII's	4.98	13.25	166.1
Public	13.75	7.83	-43.10

### Rahul Metkar

rahul.metkar@msflibg.in  
(+ 91 22 3094 7115)

### Ashish Kumar

ashish.kumar@msflibg.in  
(+ 91 22 3094 7116)

February 17, 2012

### Disappointing numbers

Ahluwalia Contracts Q3FY12 reported revenues was down 6% y-o-y at ₹ 3.5bln (3% lower than our expectation). Ahluwalia reported its first ever loss at the operating level. The erosion in operating margin resulted in loss of ₹ 168mln (as against our expectation of net profit of ₹ 35mln). The order inflow too has been disappointing at ~₹ 1.4bln. We cut our order inflow assumption from ₹ 12bln to ₹ 14bln and revise our FY13E sales downward by 6%. With the interest rate cycle expected to peak out in Mar'12 the business environment for real estate is likely to remain stable and can see meaningful improvement in H2FY13E. Incorporating such a scenario we have built in order inflows of ₹ 16bln and operating margins at ~8% levels. Even after incorporating a optimistic scenario the stock is currently trading at 11x its FY13E earnings which is only 8% discount to its long term average multiple. With risk of receivable turning bad yet to moderate we may see cost overrun pain continuing over next two quarters. We shall turn constructive on the stock on signs of improved execution rate & stable operating margins. Hence, we continue to maintain Sell with a price target of ₹ 66

### Operating margin continues to disappoint

The company reported its first ever loss at the operating level. Slowdown in execution due to receivable issues with some clients has resulted in fixed costs like labour, site machinery and office expenses not getting absorbed. Delay in execution has also resulted in cost overruns in some of the fixed projects of the company. With interest rate expected to see a decline in FY13 we expect real estate sector to see some improvement and hence have factored in EBIDTA margin of 8%.

### Order inflow declines; to miss on order inflow guidance

The management had guided for an order inflow of ₹ 26bln for FY12E but has bagged only ₹ 8.1bln in 9MFY12 with ₹ 1.4bln worth inflow in Q3FY12. We have cut our order inflow assumption for FY12E to ₹ 12bln. The total order book stands at ₹ 34.6bln. Residential forms 47% and Commercial segment about 11.4% of the orderbook and is comfortable at 2.5x of FY12E sales.

### Valuation

Ahluwalia, being primarily dependent on real estate sector for orders, has been worst hit due to the real estate slump. Also, since it does not have requisite pre-qualification in other infrastructure segments we expect the company to struggle to return to normal growth & profitability levels in the immediate term. Any improvement in sentiment for the real estate sector shall be positive for the stock. However, given the recent run up in the stock it is trading at 11x FY13E earnings. We shall turn positive only on signs of stable execution rate & margins. We continue to maintain Sell with a price target of ₹ 66

### Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	15,677	16,895	14,077	15,725
OPBDIT	1,736	1,508	433	1,257
Net Profit	818	708	(83)	456
EPS	13.0	11.3	(1.3)	7.3
Net Worth	2,535	3,213	3,133	3,571
Debt	1,238	1,638	1,838	2,038
Fixed Assets	1,278	1,574	1,986	2,152
Net Current Assets	2,263	3,045	2,754	3,225

**Exhibit 1: Quarterly Financials**

Particulars	Q3FY12	Q3FY11	% chg	9MFY12	9MFY11	% chg
<b>Sales</b>	<b>3569</b>	<b>3796</b>	<b>-6.0%</b>	<b>9710</b>	<b>11144</b>	<b>-12.9%</b>
<b>Expenditure</b>	<b>3653</b>	<b>3461</b>	<b>5.5%</b>	<b>9457</b>	<b>9944</b>	<b>-4.9%</b>
(Increase)/ Dec in stocks	147	-336		-873	-870	
Consumption of raw material	1972	1918	2.8%	5654	5412	4.5%
Sub Contracts	557	884	-37.0%	1648	2367	-30.4%
Labor cost	394	472	-16.6%	1329	1421	-6.4%
Purchase of traded goods	4	4		48	19	
Employee Cost	244	223		715	623	
Other expenditure	333	295		935	972	
<b>EBITDA</b>	<b>-83</b>	<b>335</b>	<b>-124.8%</b>	<b>253</b>	<b>1200</b>	<b>-78.9%</b>
% Margin	-2.3%	8.8%		2.6%	10.8%	
Interest	57	48	19.1%	158	116	36.2%
Depreciation	85	87	-2.6%	300	243	23.6%
Other income	18	15	24.2%	51	42	21.4%
Exceptional Item	-	-	-	-	-	-
<b>PBT</b>	<b>-206</b>	<b>215</b>	<b>-195.7%</b>	<b>-154</b>	<b>883</b>	<b>-117.4%</b>
Tax	-38	74		-25.2	297.4	
<b>PAT</b>	<b>-168</b>	<b>141</b>	<b>-218.8%</b>	<b>-129</b>	<b>586</b>	<b>-122.0%</b>
% Margin	-4.7%	3.7%		-1.3%	5.3%	

Source: Company, MSFL Research

**Exhibit 2: Revision in estimates**

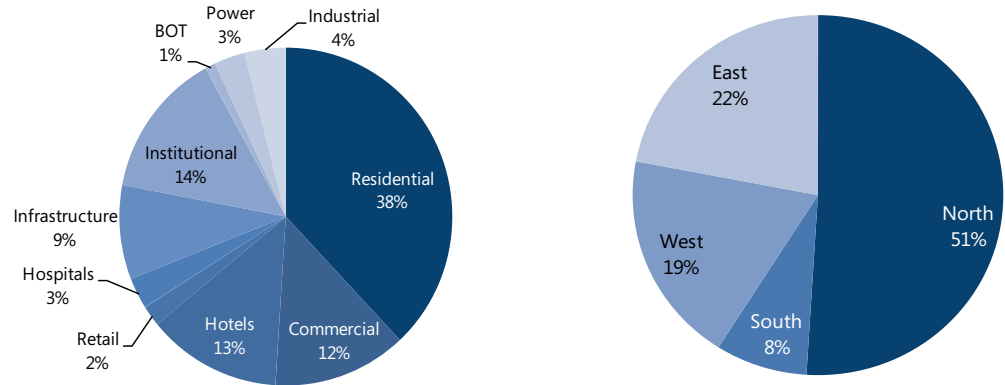
(₹ mln)	FY12E			FY13E		
	New	Old	% chg	New	Old	% chg
Revenue	14077	14536	-3%	15725	16659	-6%
EBIDTA	433	887	-51%	1257	1297	-3%
EBIDTA (%)	3.1%	6.1%	-300bps	8.0%	7.8%	+20bps
PAT	(83)	199	NA	456	452	0%

Source: MSFL Research

**Order backlog remains comfortable; dismal inflow and execution continues**

The total order book stands at ₹ 34.2bln translating into order book/sales ratio of 2.0 based on FY11 revenue. ACIL witnessed an order inflow of ₹ 8.13bln during 9MFY12 and was below management guidance of ₹ 22bln for FY12E. The order inflow was limited to residential, and industrial segments. However, order book composition still remains skewed in favour of real estate sector with both residential & commercial real estate together contributing ~51% to the total order backlog

Exhibit 3: Segmental & Regional breakup of order book



Source: Company

Exhibit 4: Order inflow trend

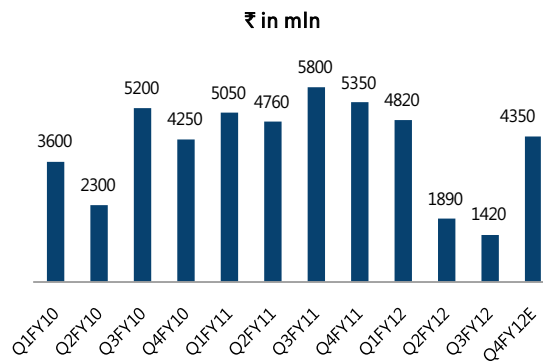
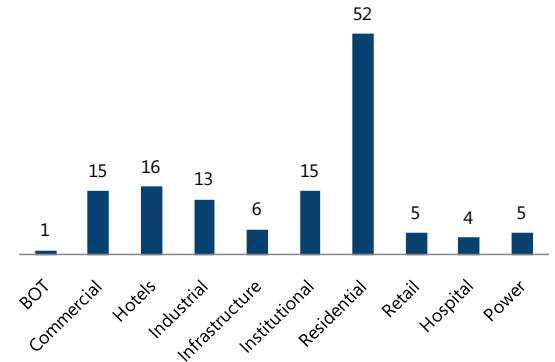
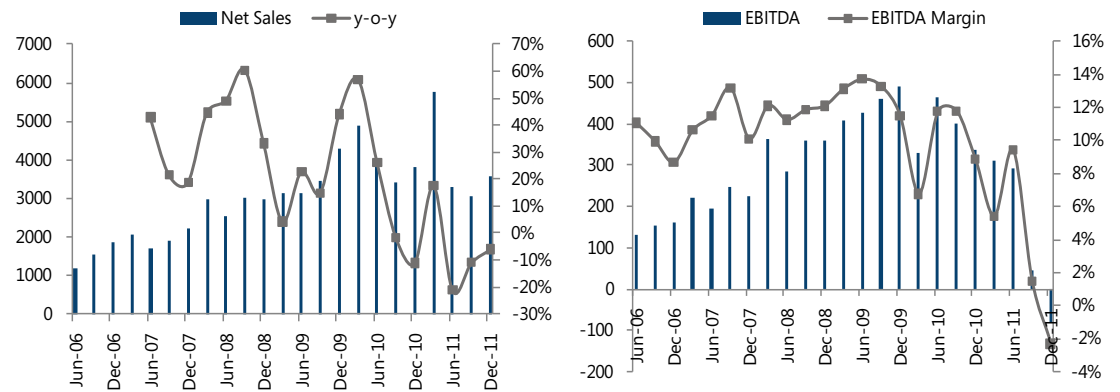


Exhibit 5: Segment wise no of projects



Source: Company, MSFL Research

Exhibit 6: Revenue & Margin trend



Source: Company, MSFL Research

## Financial Summary

### Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sales</b>	<b>11,641</b>	<b>15,677</b>	<b>16,895</b>	<b>14,077</b>	<b>15,725</b>
Total Expenditure	10,195	13,941	15,387	13,644	14,467
<b>EBIDTA</b>	<b>1,446</b>	<b>1,736</b>	<b>1,508</b>	<b>433</b>	<b>1,257</b>
EBIDTA Margin (%)	12.4%	11.1%	8.9%	3.1%	8.0%
Depreciation	464	331	338	389	433
EBIT	982	1,405	1,170	45	824
Interest cost	181	210	158	230	242
Operating Profit	801	1,194	1,013	(186)	581
Other Income	79	57	62	61	71
Extraordinary Item	-	-	-	-	-
<b>PBT</b>	<b>880</b>	<b>1,252</b>	<b>1,075</b>	<b>(125)</b>	<b>652</b>
Tax	302	434	367	(42)	196
<b>PAT</b>	<b>577</b>	<b>818</b>	<b>708</b>	<b>(83)</b>	<b>456</b>
PAT Margin (%)	4.96%	5.22%	4.19%	-0.59%	2.90%
EPS	9.2	13.0	11.3	(1.3)	7.3
Sales Growth (%)	32%	35%	7.8%	NA	11.7%
EBITDA Growth (%)	36%	20%	-13%	NA	190.1%
PAT Growth (%)	12%	42%	NA	NA	NA

### Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sources of Funds</b>					
Share Capital	126	126	126	126	126
Reserves & Surplus	1,650	2,409	3,087	3,008	3,445
<b>Networth</b>	<b>1,776</b>	<b>2,535</b>	<b>3,213</b>	<b>3,133</b>	<b>3,571</b>
Secured Loans	762	1,238	1,638	1,838	2,038
Unsecured Loans	-	-	-	-	-
<b>Total Loans</b>	<b>762</b>	<b>1,238</b>	<b>1,638</b>	<b>1,838</b>	<b>2,038</b>
<b>TOTAL</b>	<b>2,538</b>	<b>3,772</b>	<b>4,851</b>	<b>4,971</b>	<b>5,608</b>

### Application of Funds

Net Fixed Assets	1,211	1,278	1,574	1,986	2,152
Investment	15	80	80	80	80
Current Assets	5,792	7,118	9,105	7,640	8,757
Current Liabilities	4,605	4,855	6,060	4,886	5,533
<b>Net Current Assets</b>	<b>1,187</b>	<b>2,263</b>	<b>3,045</b>	<b>2,754</b>	<b>3,225</b>
Deferred Tax Asset (Net)	125	150	151	151	151
Misc. expenditure not w/o	0	-	-	-	-
<b>TOTAL</b>	<b>2,538</b>	<b>3,772</b>	<b>4,851</b>	<b>4,971</b>	<b>5,608</b>

**Cash Flows**

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	1,041	1,149	1,046	306	890
(Inc)/Dec in Net Current Assets	(944)	(189)	(877)	(502)	63
<b>Cash flow from Operations</b>	<b>97</b>	<b>959</b>	<b>169</b>	<b>(196)</b>	<b>953</b>
Inc/(Dec) in Debt	62	318	400	200	200
Inc/(Dec) in Equity	-	-	-	-	-
Dividend & Tax	(51)	(51)	(29)	3	(19)
<b>Cash flow from Financing</b>	<b>10</b>	<b>266</b>	<b>371</b>	<b>203</b>	<b>181</b>
Fixed Asset formation	(470)	(399)	(635)	(800)	(600)
Inc/(Dec) in Investment	95	(15)	-	-	-
<b>Cash flow from Investment</b>	<b>(375)</b>	<b>(414)</b>	<b>(635)</b>	<b>(800)</b>	<b>(600)</b>
<b>Net Change in Cash</b>	<b>(268)</b>	<b>811</b>	<b>(95)</b>	<b>(793)</b>	<b>534</b>

**Ratios**

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	8.7	6.1	7.1	-	11.0
P/BV	2.8	2.0	1.6	1.6	1.4
EV/EBIDTA	3.4	2.6	3.3	13.9	4.5
EV/Sales	0.4	0.3	0.3	0.4	0.4
Dividend Yield (%)	0.9%	1.0%	0.5%	-0.1%	0.3%
EPS	9.2	13.0	11.3	-1.3	7.3
DPS	0.7	0.8	0.4	0.0	0.3
Book Value	28.3	40.4	51.2	49.9	56.9
Adj. ROE	33%	37.9%	24.6%	-2.6%	13.6%
Adj. ROCE	25%	29.1%	17.9%	0.6%	10.9%

**Solvency Ratio (x)**

Debt/Equity	0.4	0.5	0.5	0.6	0.6
Debt/EBIDTA	0.5	0.7	1.1	4.2	1.6

**Turnover Ratio (x)**

Asset Turnover	4.6	4.2	3.5	2.8	2.8
Fixed Asset Turnover	5.0	6.8	5.9	3.9	3.7
Current Ratio	1.3	1.5	1.5	1.6	1.6
Inventory (days)	42.3	35.8	36.5	41.9	50.9
Debtors (days)	96.9	77.7	108.9	115.0	101.0
Creditors (days)	121.1	78.0	108.8	107.0	107.0

**MSFL Disclaimer:**

All information/opinion contained/expressed herein above by MSFL has been based upon information available to the public and the sources, we believe, to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Neither MSFL nor any of its employees shall be in any way responsible for the contents. Opinions expressed are subject to change without notice. This document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. This document is for the information of the addressees only and is not to be taken in substitution for the exercise of judgement by the addressees. All information contained herein above must be construed solely as statements of opinion of MSFL at a particular point of time based on the information as mentioned above and MSFL shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Analyst declaration**

We, **Rahul Metkar & Ashish Kumar**, hereby certify that the views expressed in this report are purely our views taken in an unbiased manner out of information available to the public and believing it to be reliable. No part of our compensation is or was or in future will be linked to specific view/s or recommendation(s) expressed by us in this research report. All the views expressed herewith are our personal views on all the aspects covered in this report.

**MSFL Investment Rating**

The ratings below have been prescribed on a potential returns basis with a timeline of up to 12 months. At times, the same may fall out of the price range due to market price movements and/or volatility in the short term. The same shall be reviewed from time to time by MSFL. The addressee(s) decision to buy or sell a security should be based upon his/her personal investment objectives and should be made only after evaluating the stocks' expected performance and associated risks.

**Key ratings:**

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

**Marwadi Shares & Finance Limited**

**Institutional Business Group, MSFL**

@p-sec, 306, Gresham Assurance House  
 132, Mint Road, Fort, Mumbai - 400 001  
 Tel : + 91 22 30947100 / 102 Fax : +91 22 2269 0478

**Registered Office**

Marwadi Financial Plaza, Nava Mava Main Road,  
 Off 150 FT. Ring Road, Rajkot - 360 005  
 Tel : + 91 281 2481313 / 3011000