

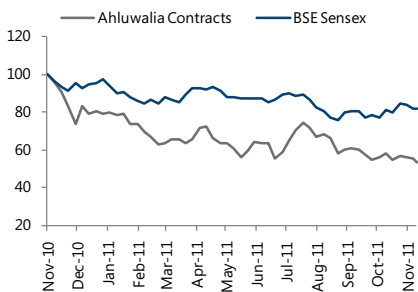
Result update - Q2FY12

Sell

Reco	Downgraded
CMP	₹ 80
Target Price	₹ 69
Downside Potential	13%

Price Performance

52 wk Hi/Lo	176/77
All time Hi/Lo	246/85
6 mnth Average Vol	23389
Stock Beta	0.58



Valuation

	FY11	FY12P	FY13P
P/E (x)	7.1	25.3	11.1
P/BV (x)	1.6	1.5	1.3
RONW (%)	22.0	5.8	11.8
ROCE (%)	15.9	5.9	10.1

Peer Valuation (FY12)

	Unity Infra	C&C Cons
PE	2.9	7.0
P/BV	0.4	0.4

Equity Data

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

	Sep'10	Sep'11	Δ%
Promoters	72.61	72.61	0.00
DFI's	10.03	19.61	95.51
FII's	2.31	-	0.00
Public	15.05	7.78	-48.30

Rahul Metkar

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

Ashish Kumar

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

November 19, 2011

Ahluwalia Contracts (India) Ltd.

Disappointing numbers

Ahluwalia Contracts Q2FY12 reported revenues was down 10.9% y-o-y at ₹ 3.1bln (9.8% lower than our expectation). Operating margin was dismal at 1.5% and was down 1030bps y-o-y from 11.8%. This erosion in operating margin resulted in loss of ₹ 67mln (as against our expectation of net profit of ₹ 116mln). The order inflow too has been disappointing at ~₹ 2bln. We cut our order inflow assumption from ₹ 20bln to ₹ 16bln and revise our FY12E & FY13E earnings downward by 72% & 38% respectively. The uncertainty on Emaar MGF receivable still remains raising concerns on the possibility of similar developer exposures turning bad. With the business environment likely to remain in the current state, if not worsen, for few quarters, we downgrade our recommendation to Sell with a price target of ₹ 69

Topline below expectations; Management cuts topline guidance

Ahluwalia reported revenues of ₹ 3.1bln down 10.9% y-o-y. The reported revenue came in 9.8% below our estimate. With 57% of its order book exposed to commercial & residential real estate the poor execution inspite of a low base last year indicates that the environment for real estate is getting increasingly difficult. Management has cut its topline guidance from ₹ 17bln-18bln to ₹ 14bln-15bln. We estimate 14% & 72% decline in revenue & net profit for FY12E

Operating margin: a shocker

EBIDTA declined 89% y-o-y to ₹ 45.3mln as against ₹ 402mln last year. EBIDTA margins declined from 11.8% in Q2FY11 to 1.5%. The decline in the operating margins is primarily due to lower absorption of fixed costs. The margin performance has surprised negatively since the management had guided for margins to be in the range of 6-8% during the next three quarters for FY12 during the Q1FY12 conference call. We expect the margins to be in the range of 6-8% for FY12E & FY13E

Order inflow declines 50%; to miss on order inflow guidance

The management had guided for an order inflow of ₹ 26bln for FY12E but has bagged only ₹ 7.1bln in H1FY12 with ₹ 2bln worth inflow in Q2FY12. We have cut our order inflow assumption for FY12E to ₹ 16bln. The total order book stands at ₹ 36.2bln.

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 near term. Factoring in the same we cut our earnings estimate for FY12E & FY13E by 72% & 38% & downgrade the recommendation on the stock to Sell with a PT of ₹ 69

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	15,677	16,895	14,536	16,659
OPBDIT	1,736	1,508	887	1,297
Net Profit	818	708	199	452
EPS	13.0	11.3	3.2	7.2
Net Worth	2,535	3,213	3,403	3,837
Debt	1,238	1,638	1,838	2,038
Fixed Assets	1,278	1,574	1,953	2,100
Net Current Assets	2,263	3,045	3,056	3,543

Exhibit 1: Quarterly Financials

Particulars	Q2FY12	Q2FY11	% chg	H1FY12	H1FY11	% chg
Total Income	3039.4	3412.0	-10.9%	6140.7	7347.8	-16.4%
Expenditure	2994.1	3009.9	-0.5%	5804.6	6483.5	-10.5%
(inc.)/dec in stock	-372.0	53.5		-1020.5	-533.5	
Raw Material	1725.1	1317.1	-1.3%	3682.4	3494.5	5.4%
Sub-contract	572.6	601.7	-4.8%	1090.8	1482.5	-26.4%
Labour cost	490.2	474.3	3.4%	935.7	949.0	-1.4%
Purchase of traded goods	19.0	8.7	118.3%	44.4	15.0	196.1%
Employee cost	238.3	204.6	16.5%	470.4	399.3	17.8%
Other expenditure	320.9	350.0	-8.3%	601.4	676.6	-11.1%
EBIDTA	45.3	402.1	-88.7%	336.1	864.3	-61.1%
EBIDTA margin	1.5%	11.8%	-10.3%	5.5%	11.8%	
Depreciation	104.9	78.4	33.8%	215.6	156.1	38.1%
Interest	52.4	37.2	40.7%	101.2	68.3	48.1%
Other Income	17.5	15.6	12.2%	33.0	27.5	19.8%
Exceptional items	0.0	0.0		0.0	0.0	
PBT	-94.5	302.0	-131.3%	52.3	667.4	-92.2%
Tax	-27.5	100.9	-127.3%	13.3	223.0	-94.0%
PAT	-67.0	201.1	-133.3%	39.0	444.4	-91.2%
PAT Margin	-	5.9%		0.6%	6.0%	

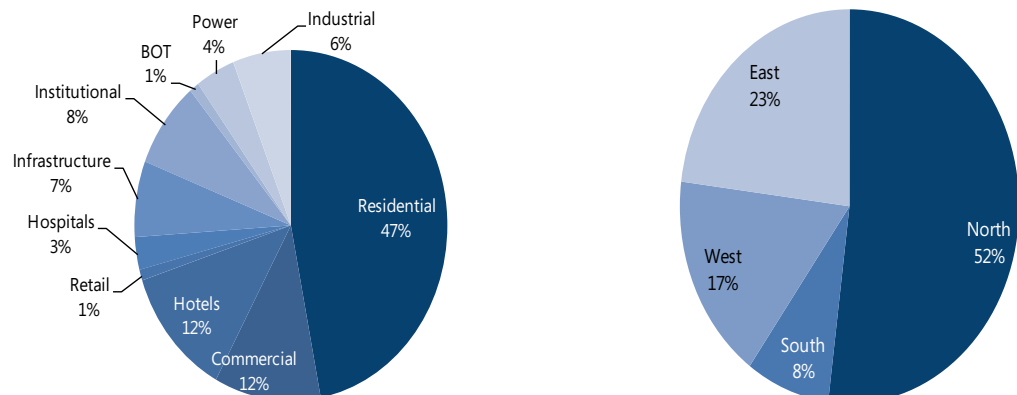
Source: Company, MSFL Research

Exhibit 2: Revision in estimates

₹ mln)	FY12E			FY13E		
	New	Old	% chg	New	Old	% chg
Revenue	14536	18349	-21%	16659	22118	-25%
EBIDTA	887	1624	-45%	1297	1960	-34%
EBITDA (%)	6.1%	8.8%	-270bps	7.8%	8.9%	-110bps
PAT	199	715	-72%	452	869	-48%

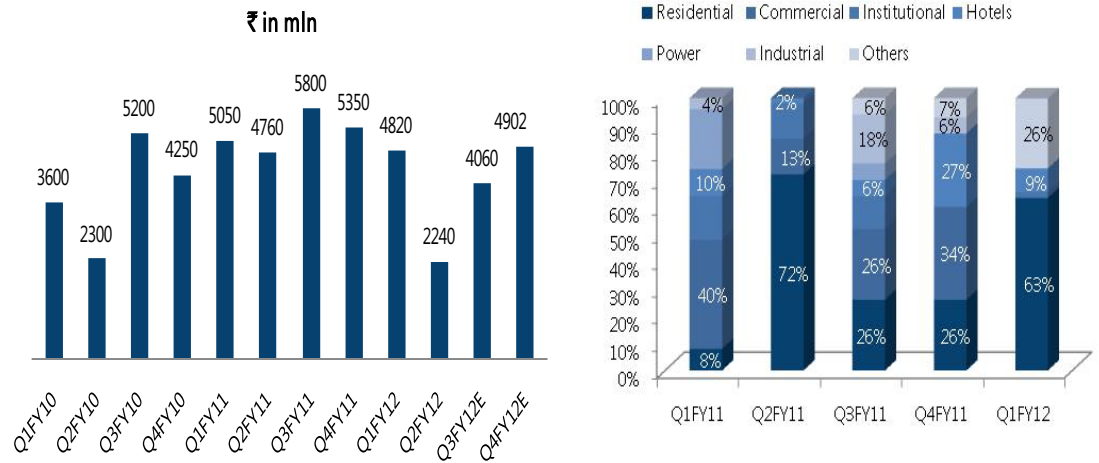
Source: MSFL Research

Exhibit 3: Segmental & Regional breakup of order book



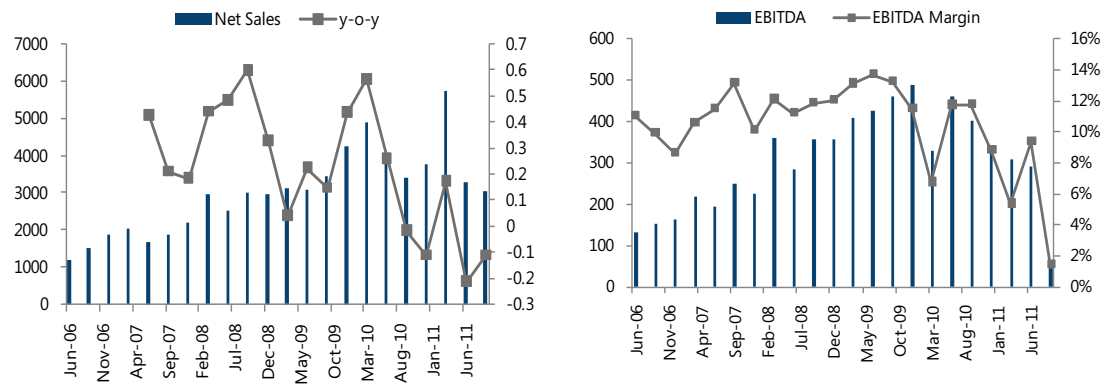
Source: Company

Exhibit 4: Segmentwise order inflow trend



Source: Company, MSFL Research

Exhibit 5: Revenue & Margin trend



Source: Company, MSFL Research

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sales	11,641	15,677	16,895	14,536	16,659
Total Expenditure	10,195	13,941	15,387	13,649	15,362
EBIDTA	1,446	1,736	1,508	887	1,297
EBIDTA Margin (%)	12.4%	11.1%	8.9%	6.1%	7.8%
Depreciation	464	331	338	421	453
EBIT	982	1,405	1,170	466	844
Interest cost	181	210	158	235	262
Operating Profit	801	1,194	1,013	231	583
Other Income	79	57	62	68	64
Extraordinary Item	-	-	-	-	-
PBT	880	1,252	1,075	299	646
Tax	302	434	367	100	194
PAT	577	818	708	199	452
PAT Margin (%)	4.96%	5.22%	4.19%	1.37%	2.72%
EPS	9.2	13.0	11.3	3.2	7.2
Sales Growth (%)	32%	35%	7.8%	-14.0%	14.6%
EBITDA Growth (%)	36%	20%	-13%	-41.2%	46.3%
PAT Growth (%)	12%	42%	-13%	-71.9%	127.9%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	126	126	126	126	126
Reserves & Surplus	1,650	2,409	3,087	3,278	3,711
Networth	1,776	2,535	3,213	3,403	3,837
Secured Loans	762	1,238	1,638	1,838	2,038
Unsecured Loans	-	-	-	-	-
Total Loans	762	1,238	1,638	1,838	2,038
TOTAL	2,538	3,772	4,851	5,241	5,874

Application of Funds

Net Fixed Assets	1,211	1,278	1,574	1,953	2,100
Investment	15	80	80	80	80
Current Assets	5,792	7,118	9,105	8,142	9,400
Current Liabilities	4,605	4,855	6,060	5,086	5,857
Net Current Assets	1,187	2,263	3,045	3,056	3,543
Deferred Tax Asset (Net)	125	150	151	151	151
Misc. expenditure not w/o	-	-	-	-	-
TOTAL	2,538	3,772	4,851	5,241	5,874

Cash Flows

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	1,041	1,149	1,046	620	906
(Inc)/Dec in Net Current Assets	(944)	(189)	(877)	(525)	(29)
Cash flow from Operations	97	959	169	95	876
Inc/(Dec) in Debt	62	318	400	200	200
Inc/(Dec) in Equity	-	-	-	-	-
Dividend & Tax	(51)	(51)	(29)	(8)	(19)
Cash flow from Financing	10	266	371	192	181
Fixed Asset formation	(470)	(399)	(635)	(800)	(600)
Inc/(Dec) in Investment	95	(15)	-	-	-
Cash flow from Investment	(375)	(414)	(635)	(800)	(600)
Net Change in Cash	(268)	811	(95)	(514)	458

Ratios

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	8.7	6.1	7.1	25.3	11.1
P/BV	2.8	2.0	1.6	1.5	1.3
EV/EBIDTA	3.4	2.6	3.3	6.5	4.2
EV/Sales	0.4	0.3	0.3	0.4	0.3
Dividend Yield (%)	0.9%	1.0%	0.5%	0.1%	0.3%
EPS	9.2	13.0	11.3	3.2	7.2
DPS	0.7	0.8	0.4	0.1	0.3
Book Value	28.3	40.4	51.2	54.2	61.1
Adj. ROE	33%	32.3%	22.0%	5.8%	11.8%
Adj. ROCE	25%	24.3%	15.9%	5.9%	10.1%
Solvency Ratio (x)	2009	2010	2011	2012P	2013P
Debt/Equity	0.4	0.5	0.5	0.5	0.5
Debt/EBIDTA	0.5	0.7	1.1	2.1	1.6
Turnover Ratio (x)	2009	2010	2011	2012P	2013P
Asset Turnover	4.6	4.2	3.5	2.8	2.8
Fixed Asset Turnover	5.0	6.8	5.9	4.0	3.9
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