

March 8, 2018

## Q3FY18 Result Update

## Ahluwalia Contracts (India) Ltd

## Good quarter, order book execution – key to growth

Accumulate

Ahluwalia Contracts (India) Ltd (ACIL), for Q3FY18, reported decent numbers. Revenue grew by ~1% YoY to ₹361 crore, growth was muted on the back of GST impact (adjusting for the same, revenue would have been up by 9-10%). Execution of better margin orders led to EBITDA margin expansion of 413bps to 17.3%. Good operational performance aided net profit growth of 20% to ₹29 crore. As of 31 Dec'17 debt was at ₹61 crore (vs ₹63 crore as of 30 Sept'17).

**Management Guidance:** For FY18, the management has maintained revenue growth guidance of 15-20%, EBITDA margin guidance to 13-14%. It expects order inflows worth ₹1,300 crore in FY18 and ₹1,600 crore in FY19.

**Recommendation:** Post our Q2FY18 result update [click here](#) (21 Nov'17 @ ₹358, Rating: Accumulate), ACIL touched its 52 week high of ₹426 (on 27 Dec'17). The stock has corrected to ₹371 levels (return ~4% since the update) and trades at a P/E of 16.6/14.1x on FY19E/20E basis. ACIL's cautious bidding approach and execution of better margin orders has enabled EBITDA margin expansion for the quarter. Owing to the competitive intensity being high we have maintained our EBITDA margin estimates of ~13% over FY18-20. The company has a healthy bid pipeline and its focus on higher ticket size projects (+₹500 crore) could aid future growth. We maintain our Accumulate rating and value the company at 16x FY20E EPS giving a target price of ₹421.

## Q3FY18 Result Summary

| Y/E Mar (₹ Cr.) | Q3FY18 | Q3FY17 | YoY (%) | Q2FY18 | QoQ (%) |
|-----------------|--------|--------|---------|--------|---------|
| Revenue         | 361    | 358    | 0.8     | 335    | 7.9     |
| EBITDA          | 62     | 47     | 32.4    | 50     | 25.4    |
| Margin (%)      | 17.3   | 13.2   | 413bps  | 14.9   | 240bps  |
| PAT             | 29     | 24     | 19.5    | 26     | 13.2    |
| EPS (₹)         | 4.35   | 3.64   |         | 3.85   |         |

Source: Company, Centrum Wealth Research

**Focus on high margin orders – to augur well:** So far during FY18, ACIL has received orders worth ₹1,260 crore, taking the order book to ₹3,575 crore (as of 31 Dec'17). Over the last few months competitive intensity has been high owing to regional players coming in. ACIL has thus adopted a cautious bidding approach in order to safe guard margins and is now looking at higher ticket size orders (where competition is low at present). Given the opportunities and competitive intensity, we expect the company to maintain margin of ~13% over FY18E-20E.

**Good balance sheet position:** As of 31 Dec'17 debt stands at ₹61 crore. We anticipate ACIL to be a debt free company by FY20E. We believe for now the company would not be requiring any major capex (~₹20 crore – regular capex estimated), however the same could differ owing to the requirements of any big ticket orders. We expect lower capex requirement and better order execution to generate healthy cash flows which could aid debt reduction and improve the working capital cycle. In addition, the company has some assets in the real estate segment which it would look to monetise once the market stabilizes.

**Risk factors:** 1) Any adverse news on the CBI investigation case could result in stock price correction, 2) Prolonged increase in sub-contracting expenses to hurt margins, 3) Delay in payments, leading to higher working capital requirement.

## Financial Summary

| Y/E Mar (₹ Cr.) | Revenue | YoY (%) | EBITDA | EBITDA (%) | NPAT | YoY (%) | EPS (₹) | P/E (x) | EV/EBITDA (x) | RoE (%) |
|-----------------|---------|---------|--------|------------|------|---------|---------|---------|---------------|---------|
| FY16A           | 1,250   | 17.9    | 161    | 12.9       | 84   | 31.8    | 12.60   | 29.4    | 15.7          | 22.2    |
| FY17A           | 1,427   | 14.2    | 173    | 12.1       | 86   | 1.9     | 12.84   | 28.9    | 14.2          | 18.5    |
| FY18E           | 1,684   | 18.0    | 219    | 13.0       | 119  | 37.9    | 17.70   | 20.9    | 11.0          | 21.2    |
| FY19E           | 1,909   | 13.4    | 256    | 13.4       | 149  | 25.9    | 22.29   | 16.6    | 9.0           | 22.0    |
| FY20E           | 2,153   | 12.8    | 291    | 13.5       | 176  | 18.1    | 26.32   | 14.1    | 7.5           | 21.4    |

Source: Company, Centrum Wealth Research

## Key Data

|                           |         |
|---------------------------|---------|
| Current Market Price (₹)  | 371     |
| Target Price (₹)          | 421     |
| Potential upside          | 13.7%   |
| Sector Relative to Market | In-line |
| Stock Relative to Sector  | In-line |

## Stock Information

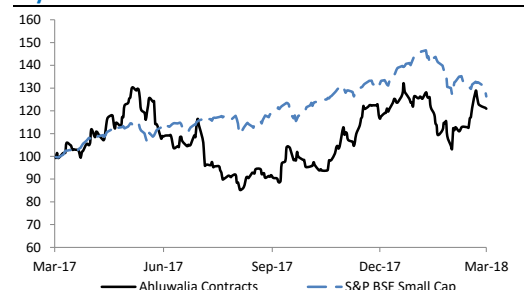
|                                  |          |
|----------------------------------|----------|
| BSE Code                         | 532811   |
| NSE Code                         | AHLUCONT |
| Face Value (₹/Share)             | 2.0      |
| No. of shares (Cr.)              | 6.7      |
| Market Cap (₹ Cr.)               | 2,482    |
| Free float (₹ Cr.)               | 1,043    |
| 52 Week H / L (₹)                | 426/236  |
| Avg. Daily turnover (12M, ₹ Cr.) | 1.8      |

## Shareholding Pattern (%)

|                         | Dec-17 | Dec-16 |
|-------------------------|--------|--------|
| Promoters#              | 58.0   | 62.4   |
| Mutual Funds            | 14.3   | 14.8   |
| FPIs                    | 20.1   | 15.8   |
| Others including Public | 7.6    | 7.0    |

#Promoter holding diluted post sale of shares by promoter member in Apr'17.

## 1 year Indexed Price Performance

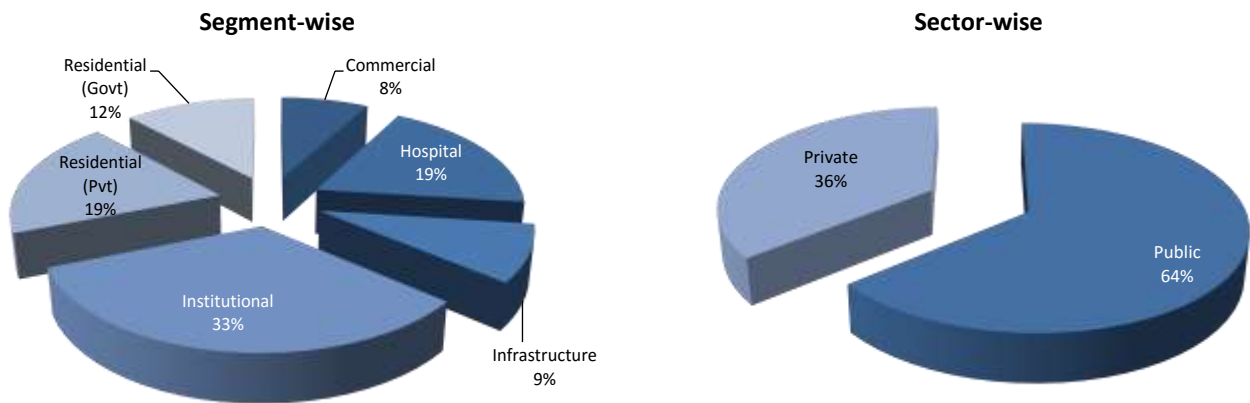


## Price Performance (%)

|                   | 1M    | 3M    | 6M   | 1YR  |
|-------------------|-------|-------|------|------|
| ACIL              | 8.5   | 2.9   | 33.6 | 21.9 |
| S&P BSE Small Cap | (4.7) | (5.2) | 5.8  | 26.7 |

Source: Bloomberg, Centrum Wealth Research

Mrinalini Chetty, Research Analyst

**Exhibit 1: Order Book as of 31 Dec'17 (₹3,575 crore)**

Source: Company, Centrum Wealth Research

**Q3FY18 Concall Highlights**

- Current order book of ₹3,575 crore is to be executed over 2.5 years. Over the long term, the company targets to keep the public and private order book mix to 50:50. Slow moving orders at ₹200 crore.
- Currently working at 40 project sites (has capacity to handle 50 projects at once).
- Project Bid Pipeline – At present stands at ₹2,500 crore, 80% of which is from Government – NBCC, CPWD, HSCC, it also includes Private orders from existing clients – Brookfield, Emaar MGF. The company is looking at bidding for airport projects along with JV partners (as it does not qualify on a standalone basis as they are higher ticket size projects of ₹1,000 crore). The management stated that it is witnessing some traction in the commercial arena and also in the realty space.
- The competition intensity for project bidding has increased on the back of regional players coming in. In some projects the company has witnessed qualification criteria (technical and net worth) being diluted and hence has adopted a cautious bidding approach. The management expects the same to stabilize in the months to come.
- Interest cost during the quarter were high owing to a one-time provision of ₹8 crore (on account of DVAT liability). Average cost of debt at present stands at 9-9.5%.
- Kota Project - 9MFY18 revenue ₹85 lakh, Accounting loss ₹8 crore, Cash loss ₹1.44 crore.

**Exhibit 2: Quarterly Performance**

| Y/E Mar (₹ Cr.)        | Q3FY17      | Q4FY17      | Q1FY18      | Q2FY18      | Q3FY18      |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Revenue</b>         | <b>358</b>  | <b>472</b>  | <b>504</b>  | <b>335</b>  | <b>361</b>  |
| YoY Growth %           | 11.9        | 23.0        | 64.6        | 15.2        | 0.8         |
| Raw Materials          | 189         | 250         | 275         | 118         | 146         |
| % of sales             | 52.7        | 53.0        | 54.5        | 35.1        | 40.5        |
| Personnel Expenses     | 37          | 33          | 32          | 34          | 34          |
| % of sales             | 10.4        | 7.0         | 6.3         | 10.2        | 9.5         |
| Other Expenses         | 85          | 145         | 144         | 133         | 118         |
| % of sales             | 23.7        | 30.8        | 28.5        | 39.8        | 32.7        |
| <b>EBIDTA</b>          | <b>47</b>   | <b>43</b>   | <b>54</b>   | <b>50</b>   | <b>62</b>   |
| <b>EBIDTA margin %</b> | <b>13.2</b> | <b>9.1</b>  | <b>10.6</b> | <b>14.9</b> | <b>17.3</b> |
| Depreciation           | 6.1         | 6.7         | 6.3         | 6.4         | 6.4         |
| Interest               | 6.0         | 7.3         | 3.8         | 4.6         | 12.4        |
| Other Income           | 1.2         | 2.1         | 1.5         | 1.0         | 1.1         |
| PBT                    | 36.3        | 31.2        | 45.0        | 39.8        | 44.8        |
| Provision for tax      | 11.9        | 10.9        | 15.4        | 14.1        | 15.6        |
| Effective tax rate %   | 32.7        | 34.8        | 34.3        | 35.3        | 34.9        |
| <b>Net Profit</b>      | <b>24.4</b> | <b>20.4</b> | <b>29.5</b> | <b>25.8</b> | <b>29.2</b> |
| YoY Growth %           | 23.0        | (23.8)      | 35.3        | 29.0        | 19.6        |
| <b>PAT margin %</b>    | <b>6.8</b>  | <b>4.3</b>  | <b>5.9</b>  | <b>7.7</b>  | <b>8.1</b>  |

Source: Company, Centrum Wealth Research

**From the Technical & Derivative Desk**

- After a strident rally in 2014, the stock has started moving in the sideways direction.
- The consolidation phase of last three years has resulted into formation of a 'Rising Channel' on weekly chart.
- The stock is currently hovering around the upper end of the mentioned channel and forming a 'Triple Top' pattern on weekly chart.
- The 'RSI' oscillator too has given a negative divergence on weekly chart; indicating limited upside in the counter.
- Considering above technical evidence, we may see a corrective move in the stock towards 310 – 320 levels in coming weeks. ON the flipside strong resistance is placed around 425 level.

**Exhibit 3: Technical Chart**

Source: Company, Centrum Wealth Research

## Financials

### Income Statement

| Y/E Mar (₹ Cr)         | FY16         | FY17         | FY18E        | FY19E        | FY20E        |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>         | <b>1,250</b> | <b>1,427</b> | <b>1,684</b> | <b>1,909</b> | <b>2,153</b> |
| Growth %               | 17.9         | 14.2         | 18.0         | 13.4         | 12.8         |
| Raw Materials          | 607          | 726          | 839          | 951          | 1,072        |
| % of sales             | 48.6         | 50.9         | 49.8         | 49.8         | 49.8         |
| Personnel Expenses     | 159          | 154          | 150          | 170          | 192          |
| % of sales             | 12.7         | 10.8         | 8.9          | 8.9          | 8.9          |
| Other Expenses         | 323          | 374          | 477          | 533          | 599          |
| % of sales             | 25.8         | 26.2         | 28.3         | 27.9         | 27.8         |
| <b>EBIDTA</b>          | <b>161</b>   | <b>173</b>   | <b>219</b>   | <b>256</b>   | <b>291</b>   |
| <b>EBIDTA margin %</b> | <b>12.9</b>  | <b>12.1</b>  | <b>13.0</b>  | <b>13.4</b>  | <b>13.5</b>  |
| Depreciation           | 20           | 24           | 26           | 27           | 28           |
| Interest               | 35           | 27           | 21           | 10           | 3            |
| Other Income           | 14           | 8            | 8            | 8            | 8            |
| PBT                    | 119          | 131          | 180          | 226          | 267          |
| Provision for tax      | 35           | 45           | 61           | 77           | 91           |
| Effective tax rate %   | 29.2         | 34.1         | 34.0         | 34.0         | 34.0         |
| <b>Net Profit</b>      | <b>84</b>    | <b>86</b>    | <b>119</b>   | <b>149</b>   | <b>176</b>   |
| Growth %               | 31.8         | 1.9          | 37.9         | 25.9         | 18.1         |
| <b>PAT margin %</b>    | <b>6.8</b>   | <b>6.0</b>   | <b>7.0</b>   | <b>7.8</b>   | <b>8.2</b>   |

Source: Company, Centrum Wealth Research

### Balance Sheet

| Y/E Mar (₹ Cr)             | FY16       | FY17       | FY18E      | FY19E      | FY20E      |
|----------------------------|------------|------------|------------|------------|------------|
| Share capital              | 13         | 13         | 13         | 13         | 13         |
| Reserves & surplus         | 409        | 495        | 598        | 731        | 892        |
| Shareholder's fund         | 422        | 508        | 611        | 745        | 906        |
| Loan fund                  | 133        | 90         | 60         | 25         | 0          |
| <b>Total cap. employed</b> | <b>555</b> | <b>598</b> | <b>671</b> | <b>770</b> | <b>906</b> |
| Net fixed assets           | 197        | 193        | 187        | 180        | 172        |
| Deferred Tax Assets        | 15         | 13         | 13         | 13         | 13         |
| Investments                | 6          | 6          | 6          | 6          | 6          |
| Cash and bank              | 88         | 123        | 144        | 201        | 298        |
| Inventories                | 205        | 201        | 281        | 314        | 354        |
| Debtors                    | 557        | 602        | 761        | 863        | 973        |
| Loans & adv and OCA        | 89         | 98         | 135        | 153        | 172        |
| Total current assets       | 939        | 1,023      | 1,322      | 1,531      | 1,797      |
| Current lia. and prov.     | 602        | 637        | 857        | 961        | 1,083      |
| Net current assets         | 337        | 386        | 464        | 570        | 714        |
| <b>Total assets</b>        | <b>555</b> | <b>598</b> | <b>671</b> | <b>770</b> | <b>906</b> |

Source: Company, Centrum Wealth Research. OCA – Other Current Assets

### Cash Flow

| Y/E Mar (₹ Cr)                  | FY16        | FY17        | FY18E       | FY19E       | FY20E       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Profit Before Tax           | 119         | 131         | 180         | 226         | 267         |
| Depreciation                    | 20          | 24          | 26          | 27          | 28          |
| Others                          | 17          | 16          | 13          | 2.6         | (4.6)       |
| Change in working capital       | (72)        | (31)        | (57)        | (49)        | (48)        |
| Tax expenses                    | (7)         | (12)        | (61)        | (77)        | (91)        |
| <b>Cash flow from Ops</b>       | <b>77</b>   | <b>127</b>  | <b>101</b>  | <b>130</b>  | <b>152</b>  |
| Capex                           | (22)        | (20)        | (20)        | (20)        | (20)        |
| Other investing activities      | (3)         | 11          | 8           | 8           | 8           |
| <b>Cash flow from Invest</b>    | <b>(25)</b> | <b>(9)</b>  | <b>(12)</b> | <b>(12)</b> | <b>(12)</b> |
| Proceeds from equity            | -           | -           | -           | -           | -           |
| Borrowings/(Repayments)         | (31)        | (52)        | (30)        | (35)        | (25)        |
| Dividend paid                   | -           | -           | (16)        | (16)        | (16)        |
| Interest paid                   | (26)        | (19)        | (21)        | (10)        | (3)         |
| <b>Cash flow from financing</b> | <b>(58)</b> | <b>(71)</b> | <b>(67)</b> | <b>(61)</b> | <b>(44)</b> |
| <b>Net Cash Flow</b>            | <b>(6)</b>  | <b>48</b>   | <b>22</b>   | <b>57</b>   | <b>96</b>   |

Source: Company, Centrum Wealth Research

### Key Ratios

| Y/E Mar                       | FY16 | FY17 | FY18E | FY19E | FY20E |
|-------------------------------|------|------|-------|-------|-------|
| <b>Return ratios (%)</b>      |      |      |       |       |       |
| RoE                           | 22.2 | 18.5 | 21.2  | 22.0  | 21.4  |
| RoCE                          | 29.5 | 27.3 | 31.6  | 32.8  | 32.2  |
| <b>Turnover Ratios (days)</b> |      |      |       |       |       |
| Inventory                     | 54   | 52   | 52    | 57    | 57    |
| Debtors                       | 152  | 148  | 148   | 155   | 156   |
| Creditors                     | 82   | 83   | 86    | 89    | 89    |
| Fixed asset turnover (x)      | 3.6  | 3.6  | 3.6   | 4.0   | 4.3   |
| <b>Solvency Ratio (x)</b>     |      |      |       |       |       |
| Debt-Equity                   | 0.3  | 0.2  | 0.1   | 0.0   | 0.0   |
| Interest coverage             | 4.4  | 5.9  | 9.6   | 23.2  | 90.1  |
| <b>Per share (₹)</b>          |      |      |       |       |       |
| EPS                           | 12.6 | 12.8 | 17.7  | 22.3  | 26.3  |
| BVPS                          | 63.0 | 75.9 | 91.2  | 111.2 | 135.2 |
| CEPS                          | 15.6 | 16.4 | 21.6  | 26.3  | 30.5  |
| <b>Dividend Ratios</b>        |      |      |       |       |       |
| DPS (₹)                       | -    | -    | 2.0   | 2.0   | 2.0   |
| Dividend Yield (%)            | -    | -    | 0.5   | 0.5   | 0.5   |
| Dividend Payout (%)           | -    | -    | 13.1  | 10.4  | 8.8   |
| <b>Valuation (x)</b>          |      |      |       |       |       |
| P/E                           | 29.4 | 28.9 | 20.9  | 16.6  | 14.1  |
| P/BV                          | 5.9  | 4.9  | 4.1   | 3.3   | 2.7   |
| EV/EBIDTA                     | 15.7 | 14.2 | 11.0  | 9.0   | 7.5   |
| EV/Sales                      | 2.0  | 1.7  | 1.4   | 1.2   | 1.0   |

Source: Company, Centrum Wealth Research

## Appendix

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**Website:** www.centrum.co.in

**Investor Grievance Email ID:** investor.grievances@centrum.co.in

**Compliance Officer Details:**

Kavita Ravichandran  
 (022) 4215 9842; Email ID: compliance@centrum.co.in

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| <b>REGD. OFFICE Address</b><br><b>Bombay Mutual Bldg.,</b><br><b>2nd Floor,</b><br><b>Dr. D.N. Road,</b><br><b>Fort,</b><br><b>Mumbai - 400 001</b> | <b>Corporate Office &amp; Correspondence Address</b><br><b>Centrum House</b><br><b>6th Floor, CST Road,</b><br><b>Near Vidya Nagari Marg,</b><br><b>Kalina, Santacruz (E)</b><br><b>Mumbai 400 098.</b><br><b>Tel: (022) 4215 9000</b><br><b>Fax: +91 22 4215 9344</b> |
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