



Company Name	: AHLUWALIA CONTRACTS (INDIA)
BSE Code	: 532811
Time Duration	: 1 year
CMP	: ₹317 (as on 09 May, 2019)
Target Price	: ₹388

Our Value Pick for the month of May 2019 is Ahluwalia Contracts, an integrated construction company which has over five decades of experience in executing projects across residential and commercial complexes, luxury hotels and buildings, hospital and medical colleges, among others. At present, it has more than 45 ongoing projects across high rise residential, commercial complexes, luxury hotels, institutional buildings, hospitals and medical colleges, corporate office complexes, IT parks and industrial complexes, metro rail stations and depots, power plants, motorised car parking, among others. The company has an inherent strength with 99 cranes, 175 batching plants, 45 transit mixers, concrete pumps and load excavators, among other equipments.

### Resolution of issue pertaining to NGT to boost execution

In the third quarter of FY19, the company's performance was impacted due to weak execution in Bihar and Delhi projects owing to issue related to the NGT (National Green Tribunal). The unfavourable order from NGT had an adverse impact on the company's execution as major orders were from these projects only. However, the NGT has cleared the projects in Bihar, which would lead to faster execution of project and thereby strong performance in the coming quarters. In terms of Delhi projects, the company said in its concall that it has redesigned the projects and submitted the design. Part of these approvals have come in and now the environmental approval is stuck, which is to come from the local government. Post the resolution of the issue related to NGT, the company is likely to witness faster execution which, in turn, would positively affect the company's topline.

### Robust order book gives strong revenue visibility

During 9MFY19, the company has bagged orders worth Rs. 4,500 crore which surpassed the company's own order inflow guidance of Rs. 4,000 crore. Public sector orders account for almost 86 per cent of the total order book, while private sector form around 14 per cent. This robust order inflows have led to order book of Rs. 5,338 crore as on Q3FY19, which translates into book-to-bill of

3.1x on TTM revenue, giving good revenue visibility for the next 2-3 years. Due to weak execution, the company's performance in the third quarter of FY19 was disappointing, which made the management to revise its revenue guidance of FY19 to around 10 per cent from the earlier 15-20 per cent. Consequently, the management has also revised revenue guidance of FY20E upward to 20 per cent from earlier 15 per cent. With high margin in the government orders, the company expects profitability to improve going forward. Besides, it expects order inflows of around Rs. 2,000 crore in FY20E.

### Government impetus to boost growth prospect

In the Union budget 2018-19, the government has allocated around Rs. 5.97 lakh crore towards infrastructure, which provides enormous opportunity for the players like Ahluwalia Contracts to grow further. Post the general elections, the order activity from government is likely to accelerate. The company's clients are spread across the public and private sectors and execution capabilities spread across geographies and across construction value chain, which gives diversification benefit to the company. With this strong positioning, we believe Ahluwalia Contracts would be one of the key players which would be reaping benefits from the government's impetus to boost infrastructure in India and the expected revival in private sector capex.

### Financial Performance

In the third quarter of FY19, the company's total income increased to Rs. 418.54 crore from Rs. 361.07 crore in the corresponding quarter of the previous year, representing 16 per cent growth. Its EBITDA for the quarter was Rs. 49.60 crore, down by nearly 21 per cent from Q3FY18. EBITDA margin for the quarter contracted to 11.85 per cent. This was due to weak execution and rise in other expenses. Net profit in the December ended quarter declined marginally by 7.6 per cent yoy to Rs. 26.93 crore. As of 9MFY19, the company's gross debt was only Rs 49 crore, thus, we believe company is well-positioned to achieve its target to become debt-free by FY20E.

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## Valuation

In terms of return ratios, the company enjoys relatively higher ROCE and ROE of around 32 per cent and 20.5 per cent in the industry. Negligible debt and net cash position further strengthens the company's balance sheet. Looking at TTM P/E multiple valuation of 18x, the stock looks attractive as compared to its five-year

median P/E of 22.93x. Also, in terms of P/B valuations, the stock is trading at attractive valuation of 3x as against five-year median P/B of 4.26x. Considering healthy balance sheet, higher return ratios and asset light model, we recommend a **BUY** on the stock with an expected target of Rs. 388, representing an upside of around 22 per cent.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1646.58	1426.58	1249.58	1059.92	960.34
Total Income	1652.89	1434.94	1263.16	1071.61	989.01
Total Expenditure	1427.33	1252.89	1088.75	945.07	932.87
PBIDT	225.57	182.05	174.41	126.54	56.14
PAT	115.45	86.31	84.41	64.14	21.75
Dividend %	15.00				
Adj. EPS(Rs)	17.23	12.88	12.60	9.57	3.47

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Net Sales	418.54	439.20	-4.70	361.07	15.92
Total Expenditure	368.95	381.75	-3.35	298.61	23.55
PBIDT (Excl OI)	49.59	57.45	-13.67	62.46	-20.60
PAT	26.94	31.16	-13.56	29.16	-7.63
PBIDTM% (Excl OI)	11.85	13.08	-9.40	17.30	-31.50
PBIDTM%	12.80	13.39	-4.41	17.61	-27.31
PATM%	6.44	7.10	-9.30	8.08	-20.30
Adj. EPS(Rs)	4.02	4.65	-13.55	4.35	-7.59



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