

Ahluwalia Contracts (I) Ltd.

Industry Eng. & Cons.
Bloomberg AHLU IN
BSE CODE 532811

Modest Revenue growth with subdued Margins

RATING	NEUTRAL
CMP	261
Price Target	270
Potential Upside	3%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	243.60/445
Mkt Capital (Rs Cr)	1748
Free float (%)	42%
Avg. Vol 1M (,000)	13.5
No. of Shares (Cr)	7
Promoters Pledged %	0

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3QFY19 Results Update

- The Revenue during the quarter went up by 16% YoY to Rs.419 which is well below our expectation. Execution was affected on account of NGT issues on projects in Bihar and Delhi.
- The EBITDA during the quarter was down by 20% YoY and EBITDA margins was also down to 11.9% compared to 13% of normal range on account of lower revenue.
- While PAT is down by only 8% YoY as the same period last year include one time VAT payment of Rs.8 Cr. Though, the margin was down 170 bps.
- The Order inflow during the quarter was Rs 1425 Cr while the Order Book Stood at Rs5337 Cr.
- The work at the Kolkata project has started and work is expected to pick up from March but no revenue is expected from them in Q4FY19.
- The Kota project has earned Revenue of Rs 3.11 Cr during 9MFY18 and accounting loss of Rs 6.56 Cr while reported cash profit of around 35 lakhs.
- The Capex incurred till Q3FY19 stands at Rs 23 Cr and management expects to incur further Rs 8-10 Cr in Q4FY19.

View and Valuation

AHLUCONT has reported mixed earning numbers for Q3FY19 on account of environment related issue on Delhi and Bihar projects and management has lower down its FY19 revenue guidance to 10% from earlier guidance of 15-20%. However, company has received the approval for the same and revenue is likely to come back from Q4FY19. Order pipeline continue to remain strong at Rs.2500 Cr with L1 orders of Rs.1000 Cr and management is also ready in cash the opportunities before code of conduct is set to apply. General election is likely to slow down the ordering and execution of public sector projects. Management has also stated that the working capital may stretch by 20-30 days on account of delay in payment as the 86% of the order book comprised orders from public sector.

We have factored in lower revenue and higher working capital requirement into our estimates and reduce FY20E Revenue/PAT estimates by 7/11%. We reduce our target multiple to 12x (earlier 14x) and value stock at Rs.270. Hence, we change our rating from ACCUMULATE to NEUTRAL.

Key Risks to our rating and target

- The work progress in Delhi, Kolkata and Bihar projects.
- Slow down in order inflows during FY20.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1250	1427	1647	1797	2100
EBITDA	161	173	219	227	276
EBIT	141	149	194	200	249
PAT	84	86	115	124	150
EPS (Rs)	13	13	17	18	22
EPS growth (%)	32%	2%	34%	7%	21%
ROE	20%	17%	19%	17%	17%
ROCE	33%	29%	31%	27%	28%
BVPS	63.0	75.4	92.8	110.1	130.4
P/B (X)	4.7	4.1	4.0	2.4	2.0
P/E (x)	23.5	24.1	21.8	14.1	11.6

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3QFY19 Results

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	9MFY18	9MFY19	YoY %
Net Sales	361	447	404	439	419	16%	-5%	1,200	1,262	5.2%
Other Income	1	3	1	1	4	249%	196%	4	7	81.7%
Total Income	362	449	405	441	423	17%	-4%	1,203	1,268	5.4%
COGS	146	218	176	181	198	35%	9%	538	554	2.9%
Expenditure	299	393	351	382	369	24%	-3%	1,034	1,102	6.6%
EBITDA	62	53	52	57	50	-21%	-14%	166	160	-3.8%
Depreciation	6	7	7	7	7	10%	2%	19	21	7.7%
EBIT	56	47	46	51	43	-24%	-16%	147	139	-5.3%
Interest	12	4	4	5	5	-59%	1%	21	14	-32.5%
PBT	45	45	43	47	41	-8%	-11%	130	132	1.5%
Tax	16	14	15	16	14	-7%	-7%	45	45	0.3%
PAT	29	31	28	31	27	-8%	-13%	84	86	2.1%

Modest Revenue growth with subdued Margin

Q3FY19 was a subdued quarter for the company; it registered the revenue growth of 16% V/s our revenue growth expectation of 44%. The revenues were down on account of the Environmental issues which affected the work at Bihar and Delhi projects for the majority of the quarter and it lead to revenue loss of Rs 120 Cr. Rental assets at Kota has reported revenue of Rs 3.11 Cr during 9MFY18 and accounting loss of Rs 6.56 Cr but 35 lakh of cash profit. The EBIDTA during the quarter was down by 20% on account of lower revenue and higher fixed cost as the company has invested into capability building. However margin is expected to bounce back once the revenue goes up. Though, the bottom line was down by only 8% YoY as the same quarter previous year has one time VAT payment of Rs.8 Cr. Order inflow continue to witness sharp growth of 100% YoY during the quarter reported Rs 1425 Cr while the order book stood at Rs 5337 Cr.

Revenue growth expected to pick up

FY19 is expected to be a subdued year in terms of revenue growth with management revising its guidance from 15-20% YoY to 10%. The major reason for the subdued revenues was the National green tribunal issues at Delhi and Bihar projects and also the low revenue contribution from Kolkata project in FY19. But going forward into FY20 management expects revenue growth of 15-20% based on the strong order book. In last 3-4 years management has invested into manpower and equipment in order to increase its capabilities. Secondly, Bihar projects have received approval from NGT and expect to start contribution from FY20. Company has submitted redesign for Delhi projects which is also start contribution in revenue from FY20. As the revenue will go up we expect EBITDA margin will bounce back at 13%.

General election will stretch the working capital cycle by 20-30 days

Currently 86% of the order book is from government sector and reaming 14% from private players. The ratio between two will likely to remain more or less same in next couple years. General election is due next year and it will lead to sluggishness in ordering and execution of the public sector projects. Management does believe it may lead to delay in payment and working capital cycle may go up by 20-30 days.

Concall Highlights

- The revenue during the quarter was impacted on account of NGT issues in Delhi and Bihar projects which in turn resulted in revenue loss of around Rs 120 Cr. The size of the Bihar projects is around Rs 1000 Cr.
- The Revenue guidance for FY19 has been lowered to 10% on account of NGT issues in Delhi and Bihar projects. The revenue guidance for FY20 stands at 15-20% with EBITDA margins of around 13-14%.
- The Capex incurred till Q3FY19 stands at Rs 23 Cr and management expects to incur further Rs 8-10 Cr in Q4FY19. The Capex guidance for FY20 stands above 40 Cr.
- Gross Debt as of Q3FY19 stands at Rs 49 Cr and the cash and bank balance stands at Rs 130 Cr.
- The Order Book consists of 86% government projects and 14% private projects, The Order Book consists of 40% orders from north, 48% from the east and 12% from the west.
- The Order Book as on 31 DEC 2018 stands at Rs 5337 Cr with the company being in L1 in Orders worth Rs 1000 Cr. The order inflow during 9MFY19 is Rs 3529 Cr.
- The Order Book consists of 19% from infrastructure, hospital is 43%, commercial 7%, Institutional 24%, residential private 2% and residential government 5%.
- The Order Inflow guidance for FY20 stands at Rs 2000 Cr.
- The Trade receivables at the end of Q3FY19 stand at Rs 655 Cr while the Trade payables are Rs 350 Cr and the inventory levels at Rs 180 Cr. Management has guided that the payable days may increase by 20-30 days due to general election.
- The work at the Kolkata project has started and work is expected to pick up from March but no revenue is expected from them in Q4FY19.
- The Current Order Book is expected to get exhausted by FY20 end.
- The Kota project has earned Revenue of Rs 3.11 Cr during 9MFY18 with accounting loss of Rs 6.56 Cr with cash profit of around 35 lakhs.

SEGMENTAL REVENUE

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Contract Work	504	334	361	446	400	433	412	14%	-5%
Lease Rental	0	0	0	0	1	1	1	315%	13%
Others	-	-	-	-	3	5	6	NA	12%

Exhibit: Order Inflow

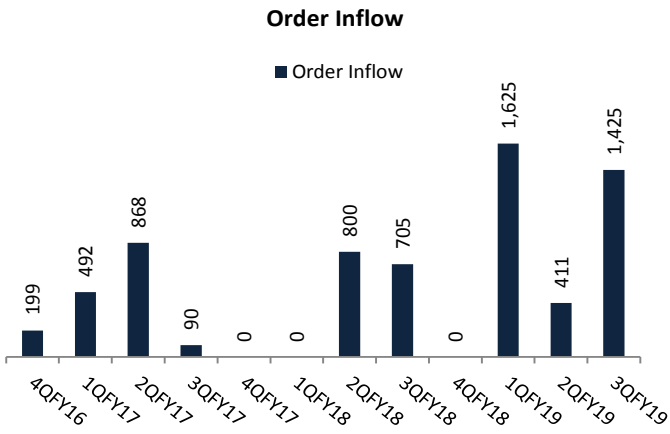


Exhibit: Order Book: Public vs Private

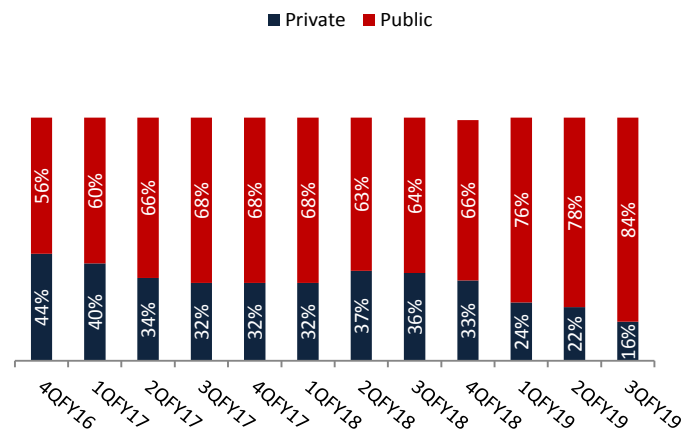


Exhibit: EBITDA and EBITDA Margin

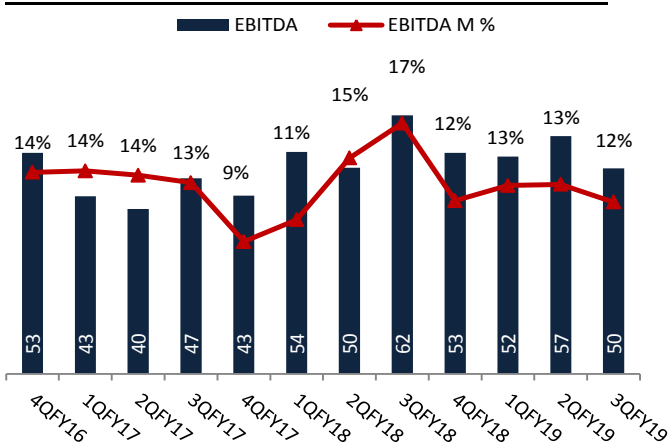
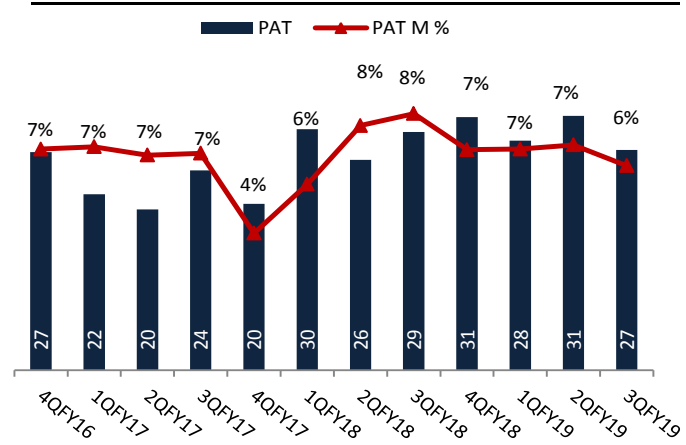


Exhibit: PAT and PAT Margin



Financial Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,388	960	1,060	1,250	1,427	1,647	1,797	2,100
Change (%)	2%	-31%	10%	18%	14%	15%	9%	17%
EBITDA	(24)	42	115	161	173	219	227	276
Change (%)	-233%	-276%	175%	40%	8%	27%	4%	21%
Margin (%)	-2%	4%	11%	13%	12%	13%	13%	13%
Depr & Amor.	35	12	21	20	24	26	28	27
EBIT	(59)	30	94	141	149	194	200	249
Int. & other fin. Cost	33	36	39	35	27	25	20	26
Other Income	15	14	12	14	8	6	10	5
EBT	(77)	8	67	119	131	175	189	228
Exp Item	(1)	(14)	-	-	-	-	-	-
Tax	0	0	3	35	45	59	66	77
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	(76)	22	64	84	86	115	124	150
Adjusted PAT	(75)	36	64	84	86	115	124	150
Change (%)		-147%	79%	32%	2%	34%	7%	21%
Margin(%)	-5%	4%	6%	7%	6%	7%	7%	7%

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	13	13	13	13	13	13	13	13
Reserves	192	214	324	409	491	608	724	860
Networth	204	226	338	422	505	621	737	873
Debt	232	226	155	133	90	30	51	117
Other Non Cur Liab	35	67	48	85	66	30	30	30
Total Capital Employed	437	453	493	555	595	651	788	990
Net Fixed Assets (incl CWIP)	179	198	195	197	197	189	194	213
Non Cur Investments	1	1	6	6	0	-	-	-
Other Non Cur Asst	173	169	157	116	189	154	163	183
Non Curr Assets	352	368	351	313	386	342	358	395
Inventory	167	172	167	205	248	189	246	288
Debtors	410	404	417	500	455	566	615	834
Cash & Bank	85	55	76	88	84	75	120	104
Other Curr Assets	22	50	25	45	59	72	75	94
Curr Assets	685	681	685	838	846	902	1,056	1,320
Creditors	297	291	269	295	352	378	394	460
Provisions	0	3	3	1	3	2	2	3
Other Curr Liab	270	237	230	221	191	140	153	179
Curr Liabilities	567	530	502	516	571	563	595	694
Net Curr Assets	118	151	183	321	275	339	461	626
Total Assets	1,039	1,051	1,042	1,157	1,232	1,245	1,414	1,715

Financial Details

Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	(76)	22	67	119	131	175	189	228
(inc)/Dec in Working Capital	34	7	(49)	(64)	(31)	(67)	(88)	(190)
Non Cash Op Exp	35	12	21	20	24	26	28	27
Int Paid (+)	29	32	33	27	19	9	20	26
Tax Paid	28	20	(37)	7	12	56	66	77
others	(9)	(24)	(11)	(10)	(3)	(1)	-	-
CF from Op. Activities	(15)	28	98	84	127	81	85	19
(inc)/Dec in FA & CWIP	(35)	(34)	(22)	(22)	(21)	(18)	(33)	(45)
Free Cashflow	(51)	(5)	76	62	107	63	52	(27)
(Pur)/Sale of Inv	2	2	-	-	-	0	-	-
others	30	34	38	(10)	12	(2)	-	-
CF from Inv. Activities	(4)	2	16	(33)	(9)	(19)	(33)	(45)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	39	(14)	(65)	(31)	(52)	(60)	21	66
Int. Paid	29	31	33	26	19	9	20	26
Div Paid (inc tax)	-	-	-	-	-	-	7	14
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	11	(45)	(98)	(58)	(71)	(70)	(6)	26
Inc(Dec) in Cash	(8)	(15)	16	(6)	48	(8)	46	(1)
Add: Opening Balance	50	42	27	42	36	84	125	170
Closing Balance	42	27	42	36	84	125	171	169

Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	-37%	10%	19%	20%	17%	19%	17%	17%
ROCE	-25%	11%	27%	33%	29%	31%	27%	28%
Asset Turnover	1.34	0.91	1.02	1.08	1.16	1.32	1.27	1.22
Debtor Days	108	154	144	146	116	125	125	145
Inv Days	44	65	57	60	63	42	50	50
Payable Days	78	110	93	86	90	84	80	80
Int Coverage	(2)	1	2	4	6	8	10	9
P/E	(2)	12	26	23	24	22	14	12
Price / Book Value	1	1	5	5	4	4	2	2
EV/EBITDA	(4)	6	14	12	11	11	7	6
FCF per Share	(51)	(5)	76	62	107	63	52	(27)
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.7%

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