Stock Update
Ahluwalia Contracts (India) Ltd.

January 02, 2023

RETAILRESEARCH

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Ahluwalia Contracts (India) Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Realty - Civil Construction	Rs. 476	Buy in the Rs. 471-481 band & add more on dips to Rs. 425- 433 band	Rs. 525	Rs. 557	2 quarters

HDFC Scrip Code	AHLCON
BSE Code	532811
NSE Code	AHLUCONT
Bloomberg	AHLU IN
CMP Dec 30, 2022	476
Equity Capital (Rs Cr)	13.4
Face Value (Re)	2
Equity Share O/S (Cr)	6.7
Market Cap (Rs Cr)	3188.0
Book Value (Rs)	166.0
Avg. 52 Wk Volumes	926839
52 Week High	563.5
52 Week Low	358.7

Share holding Pattern % (Sept, 2022)	
Promoters	55.3
Institutions	39.8
Non Institutions	4.9
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Ahluwalia Contracts (India) Limited (ACIL), is one of the leading infrastructure companies. ACIL is engaged in civil construction and execution of turnkey projects. It is actively engaged in construction of institutional & industrial buildings, corporate office complexes, multi-storied housing complexes, township development projects, hospitals, medical colleges, hotels, educational & technical institutes, schools, and gymnasiums and sports complexes. Mr. Bikramjit Ahluwalia is a key promoter in the company being experienced in the construction industry in India with more than five decades of experience. Besides, Mr. Shobhit Uppal, Deputy Managing Director, and Mr. Vikas Ahluwalia, Whole time Director, have significant experience in infrastructure space.

The company has successfully completed several projects ranging over construction of institutional buildings, corporate office complexes, multi-storied housing complexes, township development projects, hospitals, hotels, educational institutes, gymnasiums & sport complexes over the past. The company sees strong opportunities in healthcare (three hospital and medical college in Bihar, two hospitals in Haryana, Delhi NCR, and Himachal Pradesh, one in UP, J&K, Maharashtra and J&K –orders under execution) and several large orders for government buildings (including central Vistas tender of Rs 1300 crore). Redevelopment of AIIMS Delhi could be another big opportunity for ACIL.

We feel company's order inflow guidance of Rs 3500-4000 crore for FY23E is conservative and is likely to be exceeded given the strong opportunities. We expect that the company could report revenue growth of 13.6% and 12% in FY24E and FY25E, respectively. The high-priority healthcare sector comprises one third of ACIL's backlog and is likely to be a key driver of both fresh inflows and execution in FY23/24E. ACIL operates an asset-light business, with consistent FCF generation since FY15.

On 06 September, 2021, we had issued Stock Update on Ahluwalia Contracts (India) Ltd and recommended to buy at LTP of Rs 382.9 and add further on dips to Rs. 339 for base case target of Rs 420 and bull case target of Rs 462. Given healthy growth outlook and expectation of strong set of numbers in H2FY23E, we have now revised earnings and increased target price for the stock.

Valuation & Recommendation:

ACIL's pursuit of engineering and construction perfection, which have been achieved through ground-breaking technologies, creative systems, and procedures, aided the Company in delivering challenging projects and solutions on time, maintaining the best quality and within the budget. ACIL continues to see robust prospects in healthcare, data centers, industrial structures apart from government buildings. Competitive intensity remains elevated and ACIL remains very selective in bidding for projects. While there are near term headwinds of high input costs, ACIL expects to report 15% revenue growth and margins in the range of 11%-12% moving ahead. The promoter family remains closely involved in the business with well-defined responsibilities and clear understanding of future roles. ACIL's robust and diversified order book, strong bidding pipeline, timely execution could help to bring more orders going forward.

Investors could buy the stock in the Rs. 471-481 band and add more on dips to Rs. 425-433 (10x Sept 24E EPS). We feel the Base case fair value of the stock is Rs. 525 (12.25x Sept 24E EPS) and the Bull case fair value is Rs. 557 (13x Sept 24E EPS) over the next two quarters. At the CMP of Rs 476 the stock trades at 11.1x Sept 24E EPS.

Financial Summary (Standalone)

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Total Operating Income	623	698	-10.8	609	2.2	1,982	2,692	2,936	3,336	3,736
EBITDA	62	63	-2.0	61	2.1	154	257	327	406	463
Depreciation	9	8	5.0	9	3.5	30	34	38	40	44
Other Income	7	7	-5.2	7	-8.8	22	29	24	26	29
Interest Cost	7	12	-39.3	8	-8.7	43	44	34	37	35
Tax	13	14	-5.9	14	-2.6	26	53	70	89	104
APAT	39	36	9.4	38	3.7	77	155	208	266	309
Diluted EPS (Rs)	5.8	5.3	9.4	5.6	3.7	11.5	23.2	31.1	39.6	46.1
RoE-%						9.2	16.2	18.3	19.4	18.7
P/E (x)						41.3	20.5	15.3	12.0	10.3
EV/EBITDA (x)						17.7	10.7	8.4	6.5	5.5

(Source: Company, HDFC sec)

Q2FY23 Result Update

- ACL reported muted performance in Q2FY23. Its consolidated revenue stood at Rs 623 crore in Q2FY23 vs. Rs 698 crore in Q2FY22 and Rs 609 crore in Q1FY23. It reported revenue growth -10.8% YoY and 2.2% QoQ. Revenue was impacted due to delay in execution on account of heavy monsoon.
- The company's EBITDA stood at Rs 62 crore vs. Rs 63 crore in Q2FY22 and Rs 61 crore in Q1FY23, reported EBITDA de grew 2% YoY and grew 2% QoQ. EBITDA margin was at 9.9% in Q2FY23 vs. 9% in Q2FY22 and 9.9% in Q1FY23. EBITDA margin contracted on QoQ basis due to higher employee cost in the quarter.
- The company's net profit grew by 9.4% YoY basis and 3.7% QoQ to Rs 36 crore in Q2FY23 and net profit margin stood at 6.3% in Q2FY23 vs. 5.1% in Q2FY22 and 6.2% in Q1FY23.

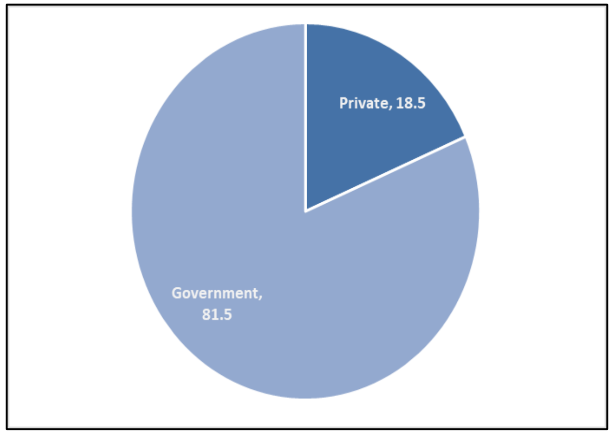
Key Update

Diversified construction activities with wide presence across the geographies

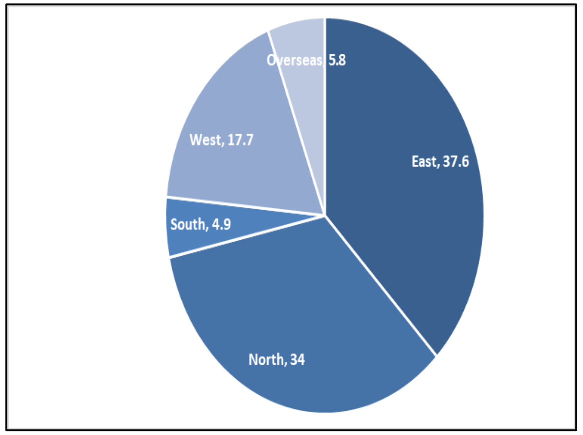
ACIL is delivering state-of-the-art infrastructure and buildings projects for clients in India. The company has more than four decades of strong, customer-centric approach and extraordinary track record of success in all segments of construction. The company has expanded its expertise across industries and geographies with experiences in working on residential, commercial, institutional, corporate offices, power plants, hospitals, hotels, IT parks, Metro stations and depots, and automated car parking lots for Government as well as private clients.

Government contracts constitute around 81.5% of the order book as on Sept 30, 2022 vs. 86% as on September 30, 2021. This is against the earlier position till FY18 wherein there was relatively higher dependence on private real estate contracts facing execution challenges and payment issues. Besides, the company's order book position is fairly diversified geographically with orders to be executed across various states such as Bihar, Jammu and Kashmir, West Bengal, Delhi NCR, Maharashtra, Uttar Pradesh, Assam, and Himachal Pradesh, and also to be executed in Nepal. Furthermore, the company has reduced its exposure towards residential/real estate segment (private) and subsequently increased its exposure in other segments like hospitals and educational institutions.

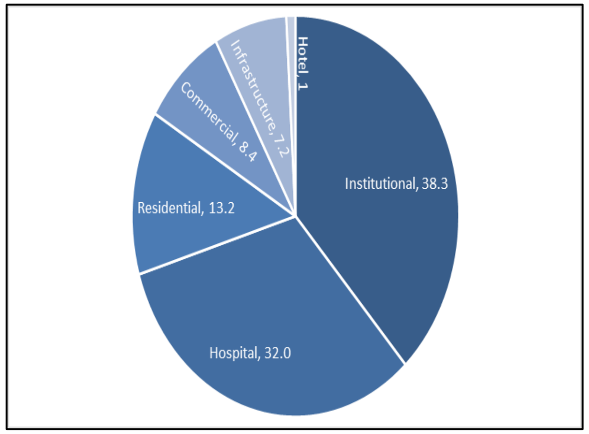
Order Book break-up



Diversified Regional Presence



Segment wise Ongoing projects

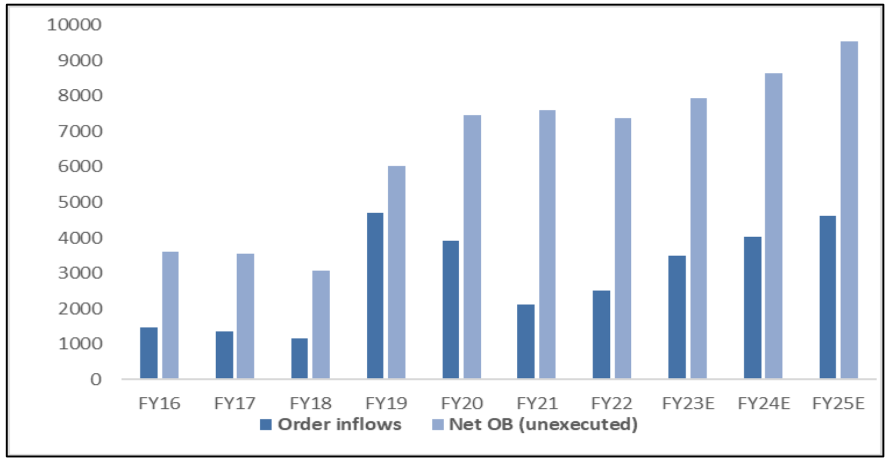


Healthy and diversified order book position to provide medium to long term revenue visibility

ACIL's last three to four quarters have been strong in terms of order intake and execution. The company's gross order book stood at Rs 12,730 crore and net order book of the company as on September 30, 2022 stood at Rs 7,588 crores, to be executed in the next two to two and half years. Total order inflow was at Rs 2,150 crore in Q2FY23, and Rs 3,180 crore in H1FY23.

The order inflow during the FY23E stands at Rs 4017 crore till date. This provides revenue visibility over medium to long term. Execution is expected to gain traction from 2HFY23E. The company faced project execution hurdles owing to design-related work of new EPC projects and extended monsoon season which impacted revenue growth for the company in the company in H1FY23. Currently, the company has presence across 13 states with 40+ ongoing projects.

Order Inflow (Rs in Cr).



Relief measures by government to support the infrastructure industry
The Government has announced significant allocations towards infrastructure development. A budget of Rs 2.5 Trillion, ~14% higher than the revised estimates for 2021-22, has been allocated to Railway infrastructure development focussing on new lines, guage conversion, electrification and other performance and efficiency enhancement initiatives. Affordable housing, smart cities, data centres etc. also witnessed heightened focus and budget allocations. Focus and rigour displayed by GoI is expected to auger well for the infrastructure sector and create multiple opportunities.

The Indian real estate sector is predicted to reach a market size of USD1 Trillion by 2030, up from USD200 Billion in 2021, and to contribute 13% of the country's GDP by 2025. The government's increasing focus on the construction industry is expected to generate better order flows going forward. The construction of office spaces, hotels, retail, entertainment units. The net office space absorption across India's six largest cities stood at 31.9 Mn. Sq. ft in 2020.

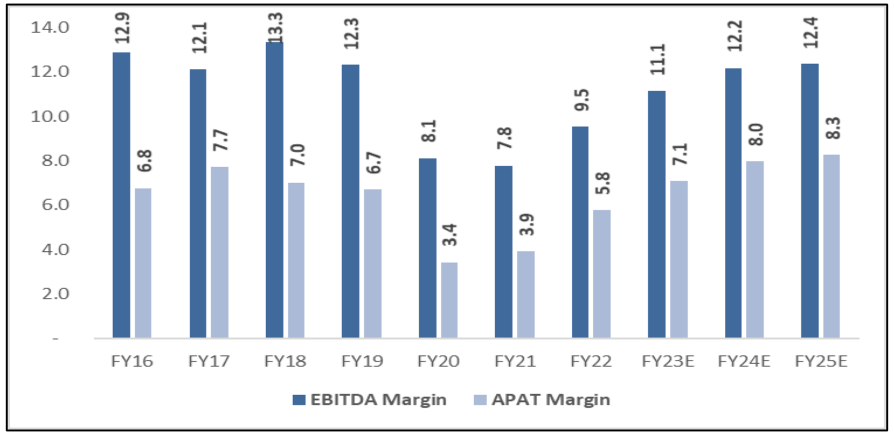
Growth drivers
Rising income: Real annual personal income is expected to grow at a steady rate of 8-10 percent annually over the next couple of years.
Wealth creation: Real Estate Holdings - personal and corporate have grown many fold in value and generation of wealth has aided in bigger faster expansion plans of companies

Foreign investment: Rapid acceleration of inflows of FDI in India is expected. Around 26% growth expected in residential construction and 10% growth in commercial, industrial construction over the next 5 years.

Expectation to regain its margins to 12-12.5% going forward

ACIL's operating profit margin has been impacted over FY20 and FY21 due to higher input cost. However the company is performing better over the past seven quarters. Still, margin is lower than the company's guidance of 12%. Further scope of margin improvement exists due to a higher proportion of Government orders, better operating efficiencies along with better utilisations of capital equipment. Besides, ACIL has increased focus on executing high margin orders in the current order book, departing from the low margin orders, as in the past. It expects margins in FY23 to return to 11-12.5% on past projects mostly delivered, and rising contributions from new orders with better margins. ACIL expects the margins recovery to continue and has guided for margin upwards of 11-12.5% for FY23/24E.

Margins (%)

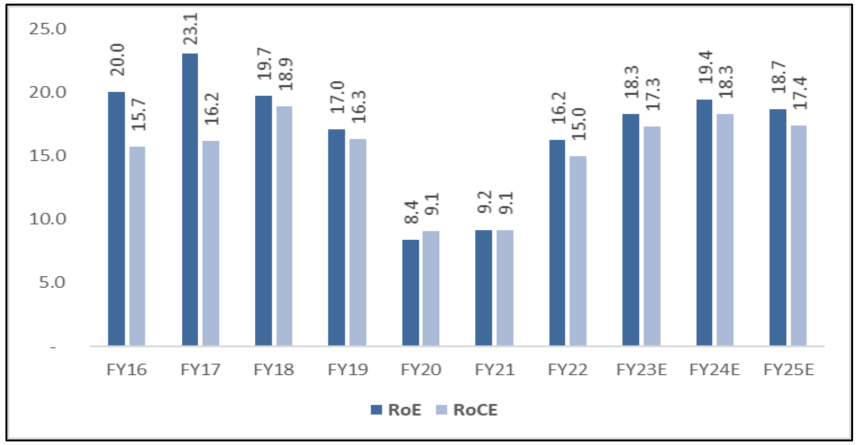


Sound fundamentals led by Comfortable capital structure and strong debt coverage indicators

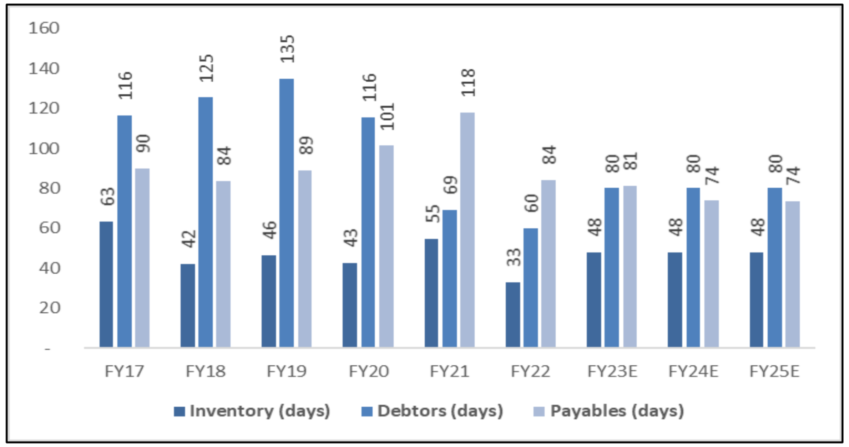
- ACIL reported revenue growth at 14% CAGR over the last six years and the company has seen healthy growth in profitability at ~11% CAGR over the same period. We expect revenue growth at a ~12% CAGR over the FY22 to FY25E and PAT is expected to grow by 26% CAGR over the FY22 to FY25E.
- Its EBITDA margin was at six years' low at 7.8% in FY21 and it increased to 9.5% in FY22. Net profit margin was at 5.8% in FY22 vs. 3.9% in FY21. We think, there is a strong case for a potential improvement in EBITDA margin towards double-digits, going forward. We expect that the EBITDA margin at 11-12.5% band for FY23E and FY24E.
- ACIL's capital structure stands comfortable with strong net-worth base which stood at Rs. 1112 crore as against the zero debt position (excluding lease liability) as on Sept 30, 2022, thus overall gearing stood almost negligible as on Sept 30, 2022. Debt equity ratio in both the years is very negligible.

- ACIL believes to enhance its value of networth rather than paying dividend to its shareholders.
- Debtors turnover ratio as on March 31, 2022 has decreased as compared to March 31, 2021, which indicates the efficiency of the company in collecting the receivables. Debtor's days declined to 60 days as on March 31, 2022 from 69 days as on March 31,2021.
- Inventory turnover ratio as on March 31, 2022 has dipped as compared to March 31, 2021, which is within the recommended range for the industry indicating a good balance between having enough inventory on hand and not having to reorder too frequently. Inventory days stood at 33 days as on March 31, 2022 from 55 days as on March 31,2021.

Return Ratio (%)



Working Capital (Days)



(Source: Company, HDFC sec)

What could go wrong?

- Economic slowdown and changes in regulatory environment may impact the construction industry and/or real estate market. This could adversely affect the company's operations.
- Contractual obligations for quality, timeliness, protection of confidential information and other specific terms and conditions are crucial for EPC orders.
- ACIL is engaged in business with large industrial houses, corporates, institutions and Government authorities. These clientele demand strict adherence to timely delivery, quality and costs. If their expectations are not met with, it may damage the company's brand and prevent repeat orders.
- ACIL has a track record of not paying dividend frequently to its shareholders.
- The company largely depends on Government orders, any delay in payment could impact its operations. Also slowdown in Govt spend could impact its order inflow and revenues.
- The promoters have pledged its shares, which is 12.9% of total holdings, as on Sept 30, 2022. Further rise in pledged shares by promoter could impact investors sentiment towards the stock.

Top Ongoing Projects (As on Sept, 30, 2022)

Projects, Rs in Crore	Order Value	Unexecuted Value
AIIMS Jammu	1,254	649
Bihar Animal Science University, Patna, Bihar	890	890
Medical College, Koriyawas, Haryana	536	131
LTMG Hospital Sion, Mumbai	534	492
Mandale, Depot, Mumbai	530	278
Officer Enclave, Gardanibagh , Patna	519	328
Central University of Himachal Pradesh,Kangra	512	512
Additional Campus of NIT, Patna	470	470
National Police Academy, Nepal	442	442
Government Medical College and Hospital,Chhapra , Bihar	425	185

Other ongoing projects

STATE	LOCATION	STATE	LOCATION
JAMMU & KASHMIR	Jammu (1)	**BIHAR**	Bodh Gaya (2)
UTTARAKHAND	Dehradun (1)		Chappra (1)
HIMACHAL PRADESH	Chamba (1)		Nalanda (1)
	Hamirpur (1)		Patna (4)
	Shimla (1)	**MAHARASHTRA**	Mumbai (3)
	Dharamshala (1)		Nagpur (1)
PUNJAB	Mohali (1)	**WEST BENGAL**	Kolkata (4)
DELHI NCR	Delhi (9)	**ASSAM**	Bongaigaon
HARYANA	Gurgaon (2)	**ODISHA**	Bhubaneswar (1)
	Rewari (1)	**KARNATAKA**	Bengaluru (2)
UTTAR PRADESH	Greater Noida (1)		
	Noida (1)	**NEPAL**	Kavre (1)

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBITDA			PAT			RoE-%			P/E (x)		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
PSP Projects	2,516	1,952	2,246	2561	243	282	320	154	176	198	20.6	19.9	19.1	16.4	14.3	12.7
Ahluwalia Contracts	**3,188**	**2,936**	**3,336**	**3,736**	**327**	**406**	**463**	**208**	**266**	**309**	18.3	19.4	18.7	15.3	12.0	10.3

Financials (Standalone)

Income Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	**1982**	**2692**	**2936**	**3336**	**3736**
Growth (%)	**5.2**	**35.8**	**9.1**	**13.6**	**12.0**
Operating Expenses	1828	2436	2610	2929	3273
EBITDA	**154**	**257**	**327**	**406**	**463**
Growth (%)	**0.8**	**66.4**	**27.4**	**24.3**	**13.8**
EBITDA Margin (%)	**7.8**	**9.5**	**11.1**	**12.2**	**12.4**
Depreciation	30	34	38	40	44
EBIT	**124**	**223**	**289**	**366**	**419**
Other Income	22	29	24	26	29
Interest expenses	43	44	34	37	35
PBT	**104**	**208**	**278**	**355**	**412**
Tax	26	53	70	89	104
RPAT	**77**	**155**	**208**	**266**	**309**
APAT	**77**	**155**	**208**	**266**	**309**
Growth (%)	**19.9**	**101.0**	**34.0**	**27.7**	**16.2**
EPS	11.5	23.2	31.1	39.6	46.1

Balance Sheet

As at March	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	13	13	13	13	13
Reserves	867	1023	1226	1487	1791
Shareholders' Funds	**880**	**1036**	**1239**	**1500**	**1804**
Long Term Debt	1	0	0	0	0
Net Deferred Taxes	16	1	20	22	25
Long Term Provisions & Others	186	103	100	119	141
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**1082**	**1140**	**1359**	**1641**	**1970**
APPLICATION OF FUNDS					
Net Block & Goodwill	230	223	214	198	198
CWIP	0	0	0	0	0
Other Non-Current Assets	250	240	276	348	442
Total Non Current Assets	**480**	**463**	**490**	**546**	**641**
Current Investments					
Inventories	297	242	386	439	491
Trade Receivables	374	443	644	731	819
Cash & Equivalents	418	433	368	433	559
Other Current Assets	470	440	478	562	656
Total Current Assets	**1559**	**1558**	**1876**	**2165**	**2525**
Trade Payables	640	619	652	674	753
Other Current Liab & Provisions	316	261	355	396	443
Total Current Liabilities	**956**	**881**	**1007**	**1070**	**1196**
Net Current Assets	603	677	868	1095	1329
Total Application of Funds	**1082**	**1140**	**1359**	**1641**	**1970**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	104	208	278	355	412
Non-operating & EO items	33	-8	-24	-26	-29
Interest Expenses	30	32	34	37	35
Depreciation	30	34	38	40	44
Working Capital Change	94	-141	-279	-199	-165
Tax Paid	-32	-59	-70	-89	-104
OPERATING CASH FLOW (a)	**259**	**66**	**-22**	**118**	**194**
Capex	-35	-27	-47	-40	-59
Free Cash Flow	224	39	-68	78	135
Investments	-13	-74	24	26	29
Non-operating income	0	0	0	0	0
INVESTING CASH FLOW (b)	**-48**	**-101**	**-23**	**-14**	**-30**
Debt Issuance / (Repaid)	-31	-16	19	2	3
Interest Expenses	-20	-29	-34	-37	-35
FCFE	173	-5	-84	44	102
Share Capital Issuance	0	0	0	0	0
Dividend	0	0	-5	-5	-5
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	**-51**	**-44**	**-20**	**-40**	**-38**
NET CASH FLOW (a+b+c)	**161**	**-79**	**-65**	**65**	**126**

Key Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratio (%)					
EBITDA Margin	19.9	18.3	21.0	22.0	22.2
EBIT Margin	6.2	8.3	9.8	11.0	11.2
APAT Margin	3.9	5.8	7.1	8.0	8.3
RoE	9.2	16.2	18.3	19.4	18.7
RoCE	9.1	15.0	17.3	18.3	17.4
Solvency Ratio (x)					
Net Debt/EBITDA	-2.7	-1.7	-1.1	-1.1	-1.2
Net D/E	-0.5	-0.4	-0.3	-0.3	-0.3
PER SHARE DATA (Rs)					
EPS	11.5	23.2	31.1	39.6	46.1
CEPS	16.1	28.2	36.8	45.7	52.7
Dividend	0.0	0.0	0.7	0.7	0.7
BVPS	131.4	154.7	185.0	223.9	269.3
Turnover Ratios (days)					
Debtor days	69	60	80	80	80
Inventory days	55	33	48	48	48
Creditors days	118	84	81	74	74
VALUATION (x)					
P/E	41.3	20.5	15.3	12.0	10.3
P/BV	3.6	3.1	2.6	2.1	1.8
EV/EBITDA	17.7	10.7	8.4	6.5	5.5
EV / Revenues	1.4	1.0	0.9	0.8	0.7
Dividend Yield (%)	0.0	0.0	0.2	0.2	0.2
Dividend Payout (%)	0.0	0.0	2.3	1.8	1.6

One Year Price Chart

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

ABDUL KARIM

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Disclosure:
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