

Sector Construction & Engineering
Company Ahluwalia Contracts Ltd
Market Cap Rs8.4bn, CMP Rs134
Rating Buy

Ahluwalia Contracts Q3FY11 results are lower and are unexpectedly worse than our expectations.

- Revenue is lower by 26% at Rs3.8bn v/s our expectation of Rs5.1bn. We didn't expect this huge a variance in execution for the quarter.
- Operating margins (EBITDA) is lower at 8.8% (Rs336mn v/s our expectation of 11% at Rs564mn). This is lower than company's guidance range of 11%-13%.
- Depreciation & Interest expenses are lower at Rs87mn & Rs48mn v/s our expectation of Rs119mn & Rs59mn respectively. However, it is inline with lower revenue bookings.
- However, other income was inline at Rs15mn v/s our expectation.
- In a nutshell, lower revenue & lower operating margins brought the net profit off by 47% from our expectation of Rs264mn at Rs141mn.

As per post-result chat with CFO – Mr S K Sachdeva, he said that there are issues with client certification of projects which impacted revenue bookings for the quarter. On the cost side, he mentioned that labor charges, staff cost, etc has increased impacting margins. On the overall environment, he said that there is slack in the environment (execution and order-intake). Real estate projects are available, but they do not want to expose themselves too much considering economic environment and buildings sales by the clients. Also mentioned that government spending has reduced (which is also mentioned by other players) which has impacted order-intake target. We wait for further details from the company on its conference call.

The stock has corrected 9% 1M, 26% 3M and 38% in 6M period. We would update investors post conference call which should be conducted in couple of days.

Exhibit - IVRCL Infrastructure & Projects Q3FY11 Results analysis

Particulars	Q3FY11A	Q3FY10A	YoY%	Q2FY11A	QoQ%	Q3FY11E	Variance %	Q3FY11E Street	Variance %	Comments
Net sales	3,796	4,269	(11.1)	3,412	11.2	5,111	(25.7)	5,002	(24.1)	<i>Client certification o bills impacted revenue bookings</i>
Consumption of RM	2,941	2,906	1.2	2,455	19.8	3,439	(14.5)			
% of sales	77.5	68.1	943	72.0	553	67.3				
Employee costs & SG&A	519	872	(40.5)	555	(6.5)	1,109	(53.2)			
% of sales	13.7	20.4	(677)	16.3	(259)	21.7				
EBITDA	336	491	(31.6)	402	(16.5)	564	(40.5)	573	(41.4)	
EBITDA Margin (%)	8.8	11.5	(266)	11.8	(294)	11.0		11.5		<i>Labour & staff cost increase impacted margins</i>
Dep and amortisation	87	81	7.0	78	11.1	119	(26.6)			
Interest	48	44	8.1	37	27.6	59	(19.6)			
EBT	201	365	(45.0)	286	(29.8)	386	(47.9)			
Other income	15	13	12.1	16	(5.0)	15	0.7			
PBT	216	379	(43.0)	302	(28.6)	401	(46.1)			
Exceptional item (reported)										
Provision for tax	74	130	(42.8)	101	(26.3)	136	(45.4)			
Effective Tax Rate %	34.4	34.3	14	33.4	104	34.0				
JV partner's share in profit										
PAT (reported)	141	249	(43.1)	201	(29.7)	264	(46.5)	280	(49.5)	
PAT (adjusted)	141	249	(43.1)	201	(29.7)	264	(46.5)	280	(49.5)	
NPM (%)	3.7	5.8	(5.9)	5.9	(217)	5.2		5.6		
EPS (adjusted)	2.3	4.0	(43.1)	3.2	(29.7)	4.2				

Source: Company, Centrum Research