

Ahluwalia Contracts Ltd

Q1FY12Result/Target price change 19 August 2011

Buy

Target Price: Rs142

CMP: Rs125*

Upside: 13%

*as on 18 August 2011

Lower Revenue on Slow Execution, Op. Margins Surprised. Buy, But with Riders

Q1FY12 results were a mixed bag with revenue 25% lower but higher operating margin led to net profit beat of 83% at Rs106mn v/s our expectation of Rs58mn. Margins at 9.4% were contrary to the management's guidance of sub 6% in FY11 con-call. Though our numbers suggest a Buy based on FY13 numbers, we caution investors on the company's high residential real estate exposure of 57% and substantial contingent liabilities/net worth ratio of around 55% as on FY10 which is much higher than that of peers. Otherwise, it is one of the quality companies in the construction space with ROE in excess of 20%, hardly seen among peers, with robust recall from clients for orders. We ascribe a target of Rs142, upside of 13%. Read the conference-call takeaway section on page 2 for more updates.

- **Mixed bag:** Revenue lower by 25% and net profit beat by 83% primarily led by 413bps higher operating margin. We factored 5.2% v/s sub 6% guided for FY12 in FY11 con-call.
- **Order-Intake & Guidance:** The company has a net order-book of Rs37bn. Intake in Q1FY12 was Rs4.8bn. Sales guidance of Rs17bn-Rs18bn (flat growth) and operating margin in range of 9%-11% for FY12. The current guidance is way-off from Q4FY11 con-call guidance of 20% revenue growth and 7%-8% op. margins. We would like investors to note that it is getting difficult for us to get an outlook perspective from the management based on such volatile outlook commentary.
- **Risks to our call** – Compared to company's guidance and operating margins, and Mr. Bikramjit Ahluwalia's statement a month back that his company was confident of achieving Rs900mn - Rs1bn net profit in FY12, our net profit figures is 36% lower at Rs607mn. This could pose an upside risk.
- **Maintain Buy:** We maintain Buy on the stock with negligible change in earnings (lower revenue offsets higher operating profit). We ascribe a target of Rs142 (upside of 13%), but caution investors over its high real estate exposure and relatively higher contingent liability/net worth ratio v/s peers.

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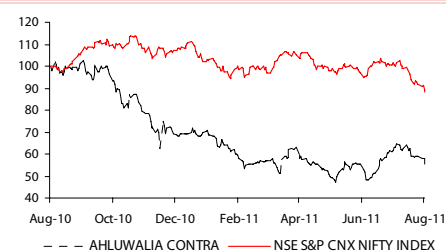
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Key Data

Bloomberg Code	AHLU IN
Reuters Code	AHLU.BO
Current Shares O/S (mn)	62.8
Diluted Shares O/S(mn)	62.8
Mkt Cap (Rsbn/USDmn)	7.8/171.5
52 Wk H / L (Rs)	230/97
Daily Vol. (3M NSE Avg.)	47,318
Face Value (Rs)	2

1 USD = Rs45.7

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Ahluwalia	(6.3)	(0.6)	(42.2)
NIFTY	(13.1)	(10.6)	(11.9)

Source: Bloomberg, Centrum Research

*as on 18 August 2011

Y/E March (Rsmn) (Standalone)	Q1FY12A	Q1FY11A	YoY%	Q4FY11A	QoQ%	Q1FY12E	Var %
Net sales	3,101	3,936	(21.2)	5,752	(46.1)	4,157	(25.4)
Consumption of RM	2,298	2,952	(22.2)	4,843	(52.5)	3,440	(33.2)
% of sales / bps	74.1	75.0	(92)	84.2	(1,010)	82.8	
Employee costs & SG&A	513	521	(1.7)	600	(14.6)	499	2.8
% of sales / bps	16.5	13.2	328	10.4	609	12.0	
EBITDA	291	462	(37.1)	309	(5.9)	218	33.4
EBITDA Margin (%) / bps	9.4	11.7	(237)	5.4	401	5.2	
Depn and Amort.	111	78	42.4	95	16.6	95	16.8
Interest	49	31	56.9	42	16.5	51	(4.4)
EBT	131	353	(62.9)	172	(23.7)	72	82.1
Other income	15	12	29.7	20	(21.7)	16	(0.2)
PBT	147	365	(59.8)	192	(23.5)	88	67.5
Provision for tax	41	122	(66.6)	70	(41.6)	30	37.0
Effective Tax Rate %/bps	27.8	33.4	(562)	36.4	(859)	34.0	
PAT (reported)	106	243	(56.4)	122	(13.2)	58	83.2
PAT (adjusted)	106	243	(56.4)	122	(13.2)	58	83.2
NPM (%) / bps	3.4	6.2	(44.7)	2.1	130	1.4	142.9
EPS (adjusted)	1.7	3.9	(56.4)	1.9	(13.2)	0.9	83.2

Source: Company, Centrum Research Estimates

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	15,677	34.7	1,688	10.8	818	41.7	13.0	37.9	44.8	9.6	5.4
FY11E	16,896	7.8	1,509	8.9	708	(13.4)	11.3	24.8	28.7	11.1	6.3
FY12E	17,311	2.5	1,491	8.6	607	(14.3)	9.7	17.6	19.9	12.9	7.4
FY13E	21,076	21.7	2,046	9.7	870	43.3	13.9	21.1	21.3	9.0	6.0
FY14E	25,425	20.6	2,392	9.4	1,003	15.3	16.0	20.1	20.5	7.8	5.4

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Q1FY12 Results Review – Mixed Bag

Overall Q1FY12 results were a mixed bag with revenue at Rs3bn (25% & 19% lower than our & consensus expectation respectively). However, better operating margins of 9.4% v/s our expectation of 5.2% & consensus expectation of 7.4% led to higher operating profit by 33% & 3% respectively.

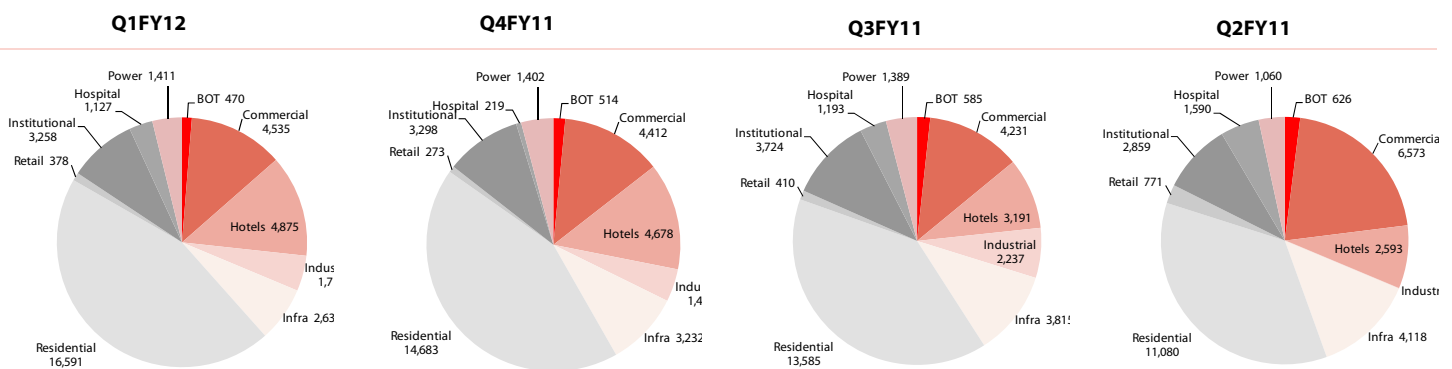
Depreciation was higher by 17%, because of purchase of scaffolding materials during the quarter which is fully depreciated as per company policy. Other income and interest expense was in line with our expectation.

Overall, net profit was higher by 83% v/s our expectation on account of better operating margins, but, it was lower by 23% compared to street expectations.

Key Takeaways from Conference Call

- Inquiries are robust in the real estate segment. As the company has a presence in high-end real estate projects, developers with signature projects are approaching the company. However, the company is careful about adding doubtful clients. In Q1FY12 of the total Rs4.8bn order-intake most was in the real estate segment (residential and commercial). This segment forms 57% of the total unexecuted order-book.
- 20% are fixed price contracts, 70% variable price contracts, and the remaining 10% in other categories.
- Execution challenges remain with clients delaying payments or making part payments, forcing the company to slow down project execution. However, clients are not saying to slow execution directly.
- The environment is tough when compared to the FY09 downturn. Management said that in the earlier downturn, ground reality was robust with strong project pipelines in various segments. However, currently inquiries are low compared to that period.
- Kota infrastructure cum real estate project is completed to the extent of 35% (30% as on FY11) will be complete by Dec'12. Investment made in the project is Rs200mn and Rs350mn more would be invested in FY12.

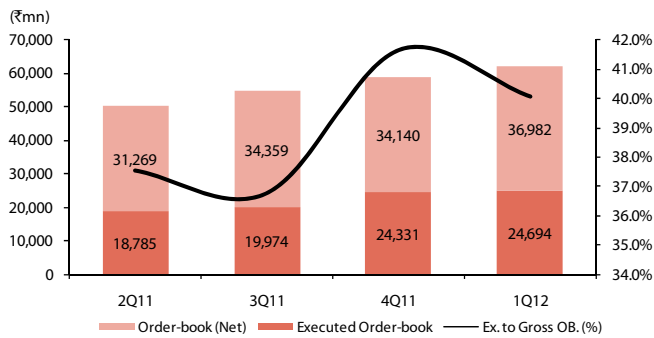
Exhibit 1: Order-book Sector Exposure...real estate forming 2/3rd of the total order-book, lowers revenue visibility on tough macro and credit environment particularly for realty clients



Source: Company, Centrum Research

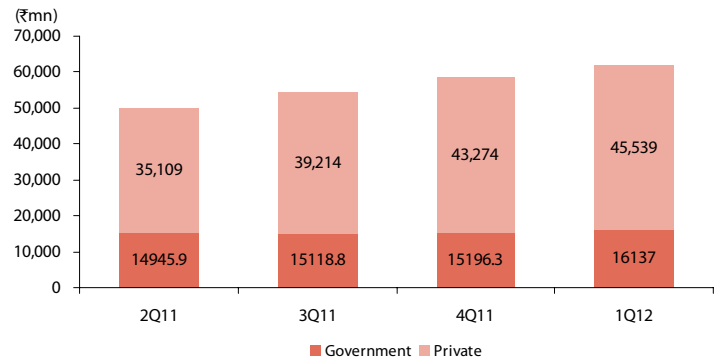
Key Charts & Tables

Exhibit 2: Order-book Status (Rsmn)



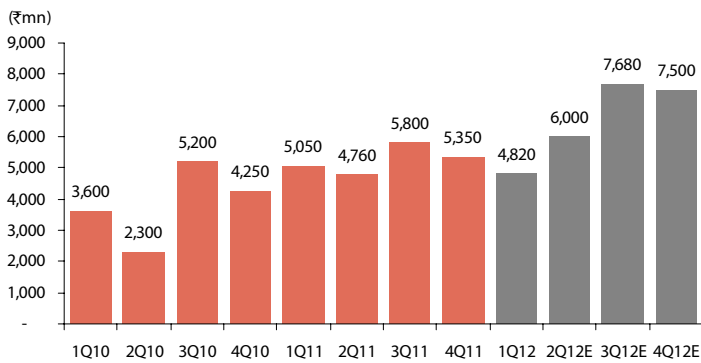
Source: Company, Centrum Research

Exhibit 3: Gross Order-Book Client Mix (Rsmn)



Source: Company, Centrum Research

Exhibit 4: Order-Intake (Past & Expected) (Rsmn)



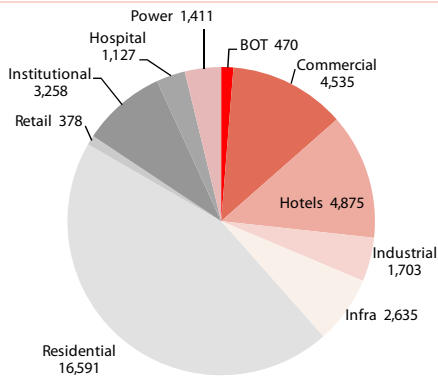
Source: Company, Centrum Research

Exhibit 5: Order-Book Region Mix (Net, Rsmn)



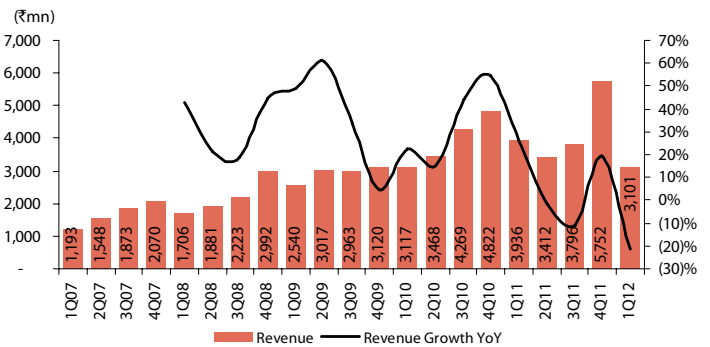
Source: Company, Centrum Research

Exhibit 6: Order-book break-up (Unexecuted/Net, Rsmn)



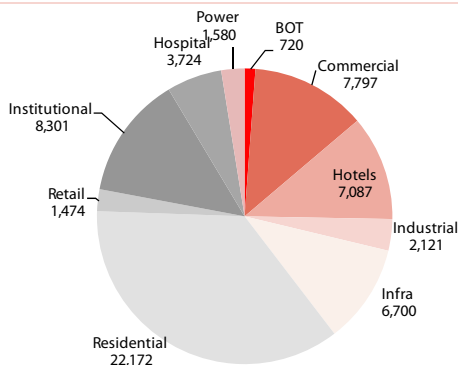
Source: Company, Centrum Research

Exhibit 7: Revenue trend over last 5 Years



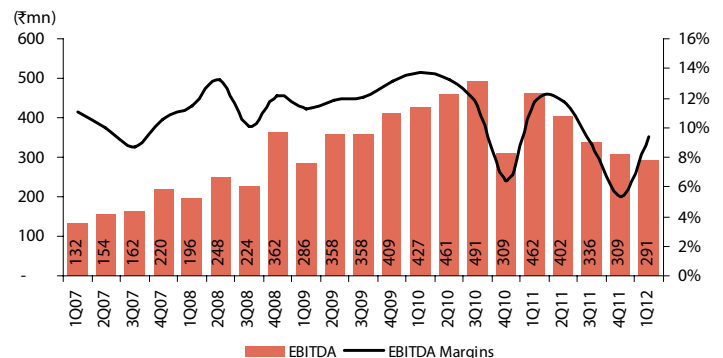
Source: Company, Centrum Research

Exhibit 8: Order-book break-up (Gross, Rsmn)



Source: Company, Centrum Research

Exhibit 9: EBITDA Margin trend over last 5 Years



Source: Company, Centrum Research

Estimate Revision does not impact earnings as lower revenue offsets higher operating profit.

Exhibit 10: Revised estimates for FY12 and FY13

Particulars Centrum Estimates	New Estimates			Old Estimates			Consensus Estimates		
	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Revenue	17,311	21,076	25,425	19,118	22,250	NA	18,795	22,476	NA
EBITDA	1,491	2,046	2,392	1,479	1,964	NA	1,731	2,178	NA
Op. Margins	8.6	9.7	9.4	7.7	8.8	NA	9.2	9.7	NA
PAT	607	870	1,003	613	863	NA	764	996	NA

Source: Company, Centrum Research Estimates

Exhibit 11: New Estimates Variance with Old & Consensus Estimates

Particulars Analysis w/Centrum's New Est.	v/s New Estimates			v/s Old Estimates			v/s Consensus Estimates		
	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Revenue	NA	NA	NA	(9.5)	(5.3)	NA	(7.9)	(6.2)	NA
EBITDA	NA	NA	NA	0.8	4.2	NA	(13.8)	(6.1)	NA
PAT	NA	NA	NA	(1.0)	0.8	NA	(20.5)	(12.7)	NA

Source: Company, Centrum Research Estimates

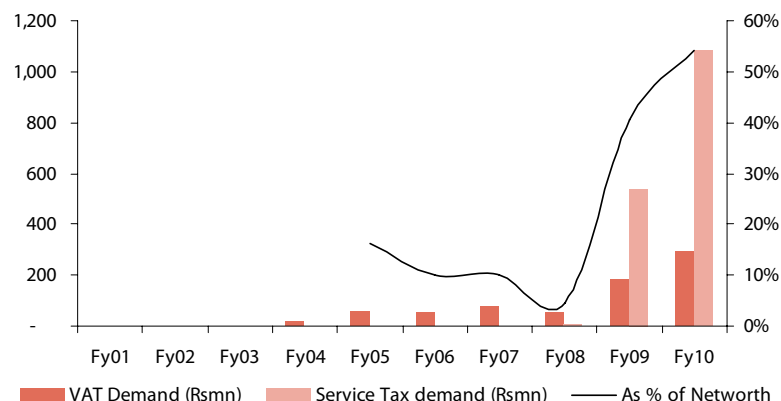
Maintain Buy, but we caution Investors over high real estate exposure of 57% and high contingent liability to net worth ratio. Play for 13% upside.

We maintain our Buy rating on the stock. We believe the company presents better risk-reward for investors compared to other construction companies. It is one of the quality construction companies with good corporate governance, consistent order-intakes, ROEs 20%+ (with FY12 an aberration at 18%) and strong recall value among clients. It is trading at P/BV of 2.1 FY12 & 1.7X FY13.

...However, we would alert investors on high contingent liability to net worth ratio compared to peers.

- The company had a total contingent liability of Rs7bn as on FY10 with Rs5.5bn related to business operations. However, Rs1.4bn related to service tax and sales tax, which forms around 54% of the net worth as on FY10.
- Post FY10, addition to contingent liabilities happened from Delhi Value Added Tax Assessment order (passed by DVAT Officer in March'11) raising demand of Rs1.3bn (Tax amount Rs483mn, Interest Amount Rs168mn & Penalty Amount Rs609mn). This raises the total contingent liability to net worth ratio to more than 100% based on FY10 net worth.

Exhibit 12: Trend of Contingent Liabilities (Ex-business related bank guarantee's, etc)



Source: Company, Centrum Research

We believe that after this VAT order against the company (though contestable), the risk-reward ratio skews negatively along with pending receivables from EMAAR MGF (for CWG Village project) of Rs600mn. We believe, these contingent liabilities will offset any upside triggers on the stock in the near term. We maintain Buy, but remain skeptical over the above uncertainties fed by contingent liabilities. We ascribe a target price of Rs142 (core construction business at Rs139 (10X FY13 P/E for EPS of Rs13.9) and nominal value for RMC business at Rs3. Stock currently trading at 9X FY13 EPS.

Financials (Standalone)

Exhibit 13: Income Statement

Y/E March (Rsmn)	FY10	FY11E	FY12E	FY13E	FY14E
Revenues	15,677	16,896	17,311	21,076	25,425
<i>Growth in revenue</i>	34.7	7.8	2.5	21.7	20.6
Cost of Raw Material	12,192	13,192	13,011	15,526	18,755
<i>% of Revenue</i>	77.8	78.1	75.2	73.7	73.8
Employee cost	685	843	1,354	1,691	2,064.8
<i>% of Sales</i>	4.4	5.0	7.8	8.0	8.1
O&M expenses	1,112	1,352	1,455	1,813	2,212.6
<i>% of Sales</i>	7.1	8.0	8.4	8.6	8.7
EBITDA	1,688	1,509	1,491	2,046	2,392
<i>EBITDA Margin</i>	10.8	8.9	8.6	9.7	9.4
Depreciation	331	338	390	433	506
PBIT	1,357	1,171	1,102	1,613	1,886
Interest expenses	163	158	268	383	473
PBIT from operations	1,195	1,013	834	1,230	1,414
Other non operating income	57	62	72	88	106
PBT before ext.od items	1,252	1,075	906	1,318	1,520
Extra-ordinary income/ (exp)					
PBT	1,252	1,075	906	1,318	1,520
Provision for tax	434	367	299	448	517
<i>Effective tax rate (%)</i>	34.7	34.2	33.0	34.0	34.0
<i>Minority interest</i>					
PAT	818	708	607	870	1,003
Adjustment for Ext.Od items					
Adjusted PAT	818	708	607	870	1,003
<i>Growth in PAT (%)</i>	41.7	(13.4)	(14.3)	43.3	15.3
<i>PAT margin (%)</i>	5.2	4.2	3.5	4.1	3.9

Source: Company, Centrum Research Estimates

Exhibit 14: Balance Sheet

Y/E March (Rsmn)	FY10	FY11E	FY12E	FY13E	FY14E
Share Capital	126	126	126	126	126
Stock Options / Warrants					
Reserves	2,409	3,054	3,607	4,399	5,313
Shareholders' fund	2,535	3,179	3,732	4,525	5,438
Debt	1,238	1,640	3,257	4,457	5,057
Deferred Tax Liability	(150)	(162)	(169)	(169)	(169)
Total Capital Employed	3,622	4,657	6,821	8,813	10,326
Gross Block	2,295	2,991	3,777	4,726	5,823
Accumulated dep.	1,028	1,374	1,764	2,196	2,702
Net Block	1,268	1,617	2,013	2,530	3,121
Capital WIP	10	13	16	20	25
Total Fixed Assets	1,278	1,630	2,029	2,550	3,146
Investments	80	160	230	330	330
Deferred Tax Asset					
Inventories	1,539	1,690	2,908	3,845	4,638
Debtors	3,338	5,040	5,626	6,964	8,123
Cash & bank balances	1,708	1,530	1,242	1,187	1,353
Loans and Advances	466	670	916	1,204	1,404
Other Current Assets	68	70	96	116	140
Total current assets	7,119	9,000	10,787	13,317	15,659
Current lia & provisions	4,855	6,133	6,226	7,384	8,808
Net current assets	2,264	2,867	4,561	5,933	6,850
Total Assets	3,622	4,657	6,821	8,813	10,326

Source: Company, Centrum Research Estimates

Exhibit 15: Cash flow Statement

Y/E March (Rsmn)	FY10	FY11E	FY12E	FY13E	FY14E
CF from operating					
Profit before tax	1,252	1,075	906	1,318	1,520
Depreciation	331	338	390	433	506
Interest expenses	158	158	268	383	473
OP profit before WC change	1,691	1,891	1,050	2,133	2,498
Working capital adjustment	(274)	(781)	(1,982)	(1,426)	(752)
Gross cash from operations	1,417	1,110	(933)	707	1,746
Direct taxes paid	(458)	(367)	(299)	(448)	(517)
Cash from operations	958	743	(1,231)	259	1,230
CF from investing					
Capex	(399)	(699)	(789)	(953)	(1,102)
Investment	(65)	(80)	(70)	(100)	-
Others	50	-	-	-	-
Cash from investment	(414)	(778)	(859)	(1,053)	(1,102)
CF from financing					
Proceeds from sh cap & prem.					
Borrowings/ (Repayments)	475	402	1,800	1,200	600
Interest paid	(158)	(158)	(268)	(383)	(473)
Dividend paid	(51)	(63)	(54)	(77)	(89)
Others					
Cash from financing	266	182	1,478	739	38
Net cash increase/ (dec)	811	146	(612)	(55)	166

Source: Company, Centrum Research Estimates

Exhibit 16: Key Ratios

Y/E March	FY10	FY11E	FY12E	FY13E	FY14E
Margin Ratios (%)					
<i>EBITDA Margin</i>	10.8	8.9	8.6	9.7	9.4
<i>PBIT Margin</i>	7.6	6.0	4.8	5.8	5.6
<i>PBT Margin</i>	8.0	6.4	5.2	6.3	6.0
<i>PAT Margin</i>	5.2	4.2	3.5	4.1	3.9
Growth Ratios (%)					
<i>Revenues</i>	34.7	7.8	2.5	21.7	20.6
<i>EBITDA</i>	19.6	(10.6)	(1.2)	37.2	16.9
<i>Net Profit</i>	41.7	(13.4)	(14.3)	43.3	15.3
Return Ratios (%)					
<i>ROCE</i>	44.8	28.7	19.9	21.3	20.5
<i>ROIC</i>	43.0	27.3	18.7	20.2	19.4
<i>ROE</i>	37.9	24.8	17.6	21.1	20.1
Turnover Ratios					
Asset turnover ratio (x)	12.7	11.7	9.5	9.3	9.0
Working Capital Turnover (x)	9.1	6.6	4.7	4.0	4.0
Avg collection period (days)	78	109	119	121	117
Avg payment period (days)	124	143	141	139	137
Per share (Rs)					
Fully diluted EPS	13.0	11.3	9.7	13.9	16.0
CEPS	18.3	16.7	15.9	20.7	24.0
Book Value	40.4	50.7	59.5	72.1	86.6
Solvency ratios (x)					
Debt/ Equity	0.5	0.5	0.9	1.0	0.9
Interest coverage ratio	6.0	5.5	3.3	3.3	3.1
Valuation parameters (x)					
P/E	9.6	11.1	12.9	9.0	7.8
P/BV	3.1	2.5	2.1	1.7	1.4
EV/ EBITDA	5.4	6.3	7.4	6.0	5.4
EV/ Sales	0.6	0.6	0.6	0.6	0.5
M-Cap/ Sales	0.5	0.5	0.5	0.4	0.3

Source: Company, Centrum Research Estimates

Appendix

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