INSTITUTIONAL EQUITY RESEARCH

Ahluwalia Contracts (ACIL IN)

A perfect portfolio stock

INDIA | Infrastructure | Initiating Coverage

24 January 2017

Impeccable turnaround story – another manifestation of our 'EPC Trinity'

ACIL's turnaround story has played out to perfection over the last three years. It reported topline/PAT/ROE/leverage of Rs 12.5bn/Rs 844mn/22%/0.3x in FY16 versus Rs 13.9bn/Rs (-) 762mn/(-)31%/1.2x in FY13. The stock market rewarded the company for the turnaround, and its market cap grew to Rs 16bn (currently) from Rs 1.4bn in March 2013. Just like NCC and ITD Cementation, we see ACIL's story as another manifestation of our 'EPC Trinity' hypothesis, where we expect companies to benefit from three forces — order awards, reduced competition, lower interest rates — acting simultaneously on the P&L, leading to manifold earnings growth (read here).

The real estate downturn of FY10-14 had left ACIL in a bad shape, with a highly stretched balance sheet, delayed payment from builders, and an orderbook with high share of 'private' clients. But it decided to regroup itself and embarked upon a strategy to completely transform its business. Over the next three years (FY14-17), its management decided to move its business (hitherto dominated by private residential fixed-price projects) to public escalation-based contracts, spread across different segments (education, healthcare, industrial, and commercial). Because struggling private real-estate builders were delaying payments, this move also improved its working-capital cycle.

As old legacy orders shifted out of the orderbook, new orders, won at better margins due to waning competition, provided a fillip to margins and profitability. At the same time, fund infusion from promoters and higher cash generation lowered both leverage and interest expense, leading to higher profitability and cashflows. ACIL is now set to become a net-cash company by March 2018 with a robust orderbook and staring at a mammoth opportunity in the buildings segment.

Turnaround complete – What next?

ACIL's current strong orderbook of Rs 43.5bn (3.3x book-to-sales) is spread across segments and geographies (though north India still dominates) providing high revenue visibility for the next 2-3 years. It is uniquely positioned in the buildings space, with waning competition. We expect ACIL to grab market share in this segment, where we see huge opportunity on increased budgetary allocations, government initiatives like Housing-for-All, Smart-Cities, and higher institutional capex in education and health.

At the same time, it has a lean balance sheet and is currently one of the few companies in the construction space that reports positive operating and free cash flow – this would lead it to becoming net cash company by March 2018, which in turn will ensure that its entire EBITDA flows into PAT, leading to one of the best earnings growth in the sector.

Lastly, we expect the management to start paying dividends to its shareholders soon (no dividend for the last four years) backed by the strong cashflow generation and incrementally lower capex requirements – this will also translate into higher ROEs, in turn boosting the return profile of the company.

A perfect portfolio stock

We view ACIL as a perfect portfolio stock that would deliver healthy returns 20-25% annual returns to investors (even without any valuation rerating) driven by healthy earnings growth that is in turn propelled by a strong orderbook and cashflow generation.

Valuations in line with sector despite superior returns profile

ACIL is currently trading at 14.5x FY18 P/E – in line with peer valuations. While its higher ROEs and strong balance sheet warrant that the stock should trade at a premium to the sector, we see handsome returns, even with these in line valuations. We value ACIL at 15x FY19 P/E (in line with our multiple for peers), which gives us a target of Rs 350, implying a significant 32% upside from current levels. We initiate coverage with a BUY rating.

BUY

CMP RS 266

TARGET Rs 350 (+32%)

COMPANY DATA

O/S SHARES (MN) :	67
MARKET CAP (RSBN) :	18
MARKET CAP (USDBN) :	0.3
52 - WK HI/LO (RS) :	336 / 17
LIQUIDITY 3M (USDMN) :	0.2
PAR VALUE (RS) :	2

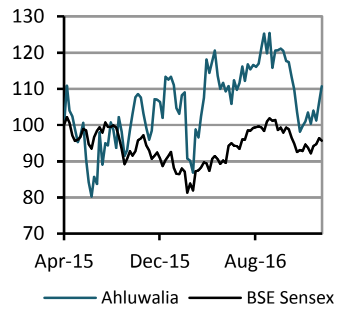
SHARE HOLDING PATTERN, %

	Dec 16	Sep 16	Jun 16
PROMOTERS :	62.4	62.4	62.4
FII / NRI :	18.2	18.5	19.1
FI / MF :	12.3	9.9	9.6
NON PRO :	1.3	5.2	6.0
PUBLIC & OTHERS :	5.8	4.0	2.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	10.0	-6.2	7.0
REL TO BSE	5.8	-2.8	-4.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E	FY19E
Net Sales	12,496	13,808	15,879	19,055
EBIDTA	1,608	1,864	2,144	2,572
Net Profit	844	1,001	1,226	1,551
EPS, Rs	12.6	14.9	18.3	23.2
PER, x	21.1	17.8	14.5	11.5
EV/EBIDTA, x	11.4	9.8	8.2	6.7
P/BV, x	4.2	3.5	2.9	2.4
ROE, %	22.2	21.5	22.0	23.0
Debt/Equity (x)	0.3	0.2	0.1	0.0

Source: PhillipCapital India Research Est.

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A remarkable turnaround story

ACIL has reported a remarkable transformation in its business mix, over the last three years, leading to an unprecedented turnaround in its fortunes. The company reported topline/PAT/ROE/leverage of Rs12.5n/Rs844mn/22%/0.3x in FY16 – versus Rs13.9bn/(-)Rs762mn/(-)31%/1.2x in FY13. The stock market too rewarded the company for the turnaround, and its market cap grew to Rs 16bn (currently) from Rs 1.4bn in March 2013.

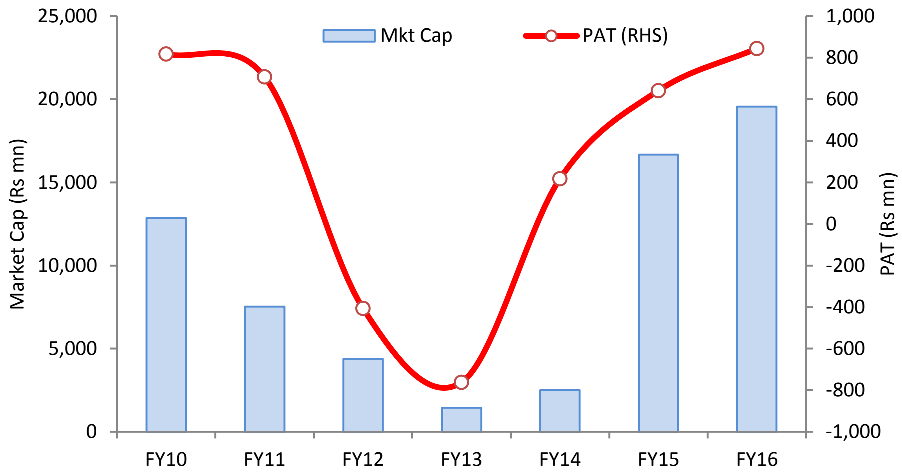
The real estate downturn of FY10-14 had left ACIL in a bad shape, with a highly stretched balance sheet, delayed payment from builders and an orderbook with an excessive share of 'private' clients. But the company decided to regroup and embarked upon a strategy to completely transform its business. Over the next three years (FY14-16), a virtuous loop of better orderbook mix, higher profitability, and lower leverage led to a 180 degree turnaround in its profitability.

The company decided to regroup and embarked upon a strategy to completely transform its business

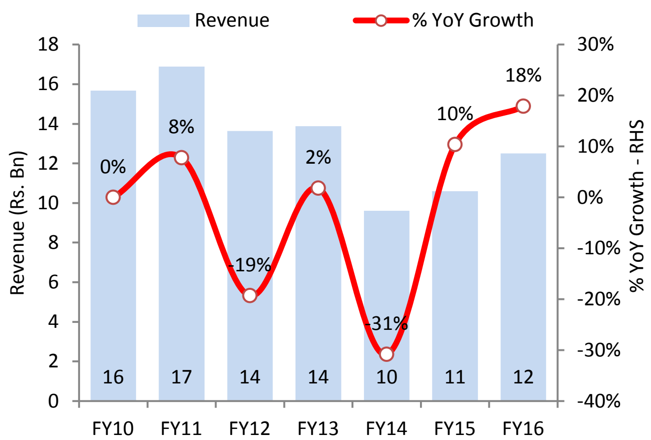
- The management decided to move the business (hitherto dominated by private residential fixed price projects) to public escalation-based contracts spread across different segments like education, healthcare, industrial, and commercial. This improved its working capital cycle, as the struggling private real estate builders were delaying payments
- As old legacy orders moved out of orderbook, new orders, won at better margins due to waning competition, provided a fillip to margins and profitability
- At the same time, fund infusion from promoters and higher cash generation led to lowering of leverage and interest expense, leading to higher profitability and cashflows

A virtuous loop of better orderbook mix, higher profitability, and lower leverage led to a 180 degree turnaround in its profitability.

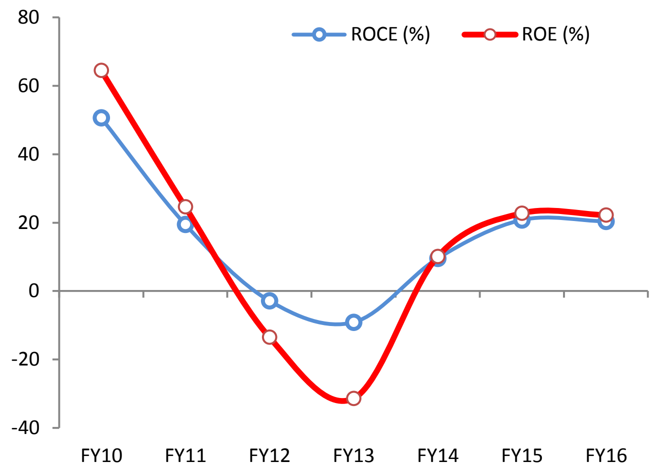
Markets have handsomely rewarded the company's return to profitability



Strong revenue growth over FY14-16 ....



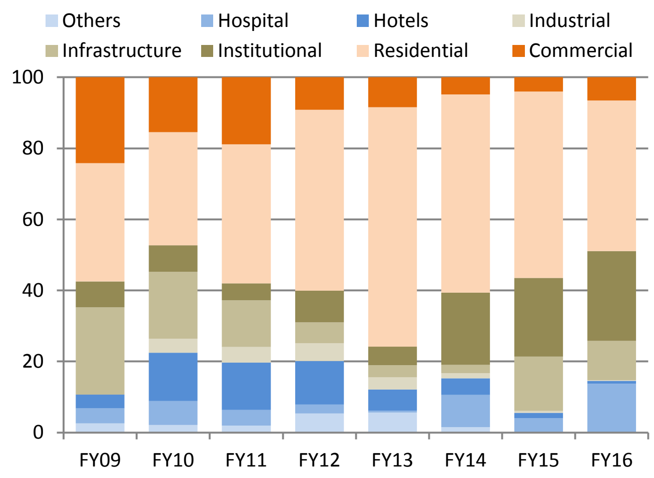
..... led to significant improvement in returns profile



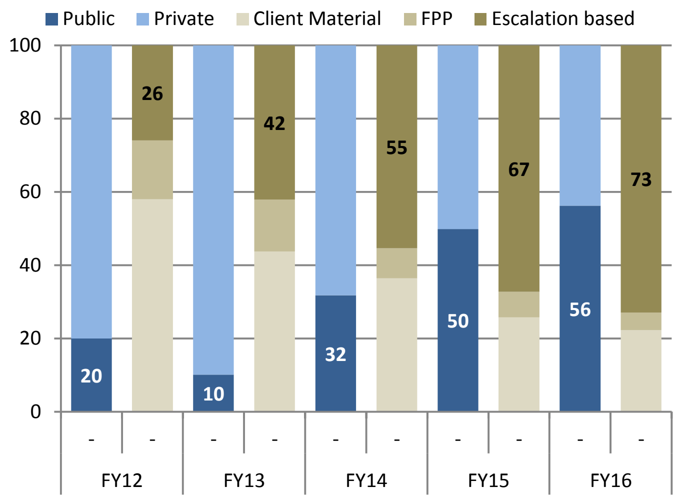
Source: Company, PhillipCapital India Research

A quick snapshot of the turnaround

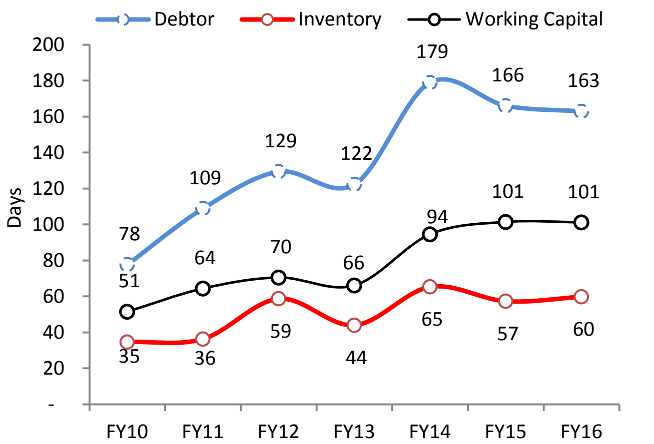
Orderbook underwent a significant transformation...



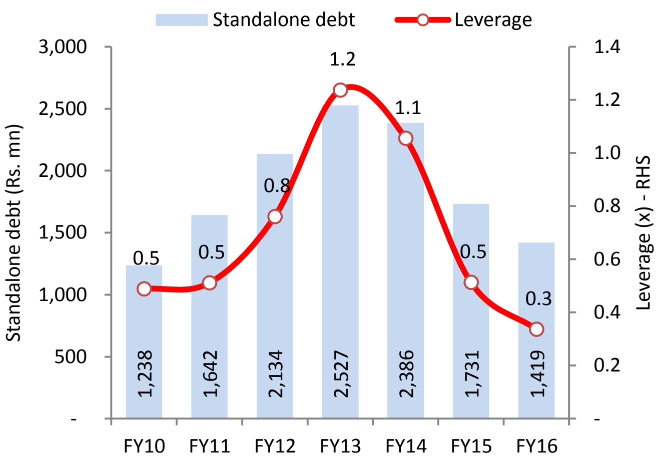
.. with diminishing share of private and FPP contracts



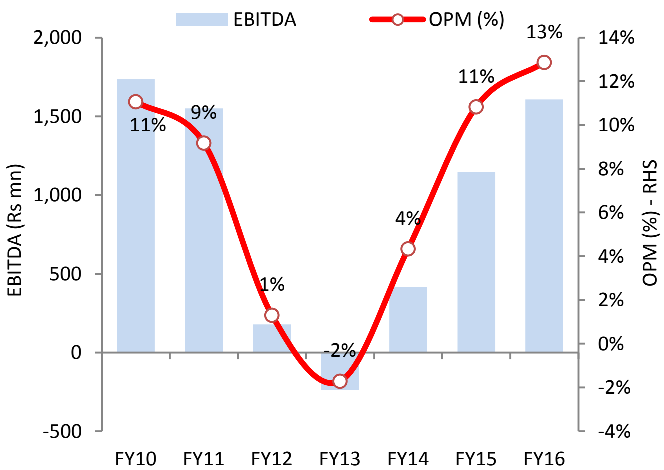
While WC remained elevated due to stuck payments ...



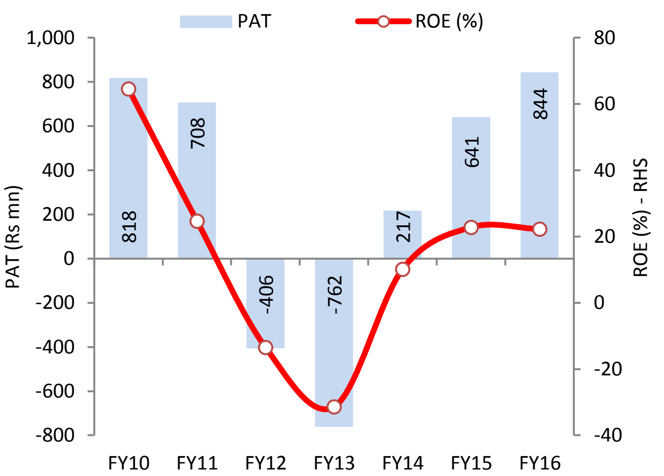
.....leverage reduced due to strong cash flow generation



Legacy orders moving out translated into higher margins ...



.... in turn leading to revival in profitability and returns



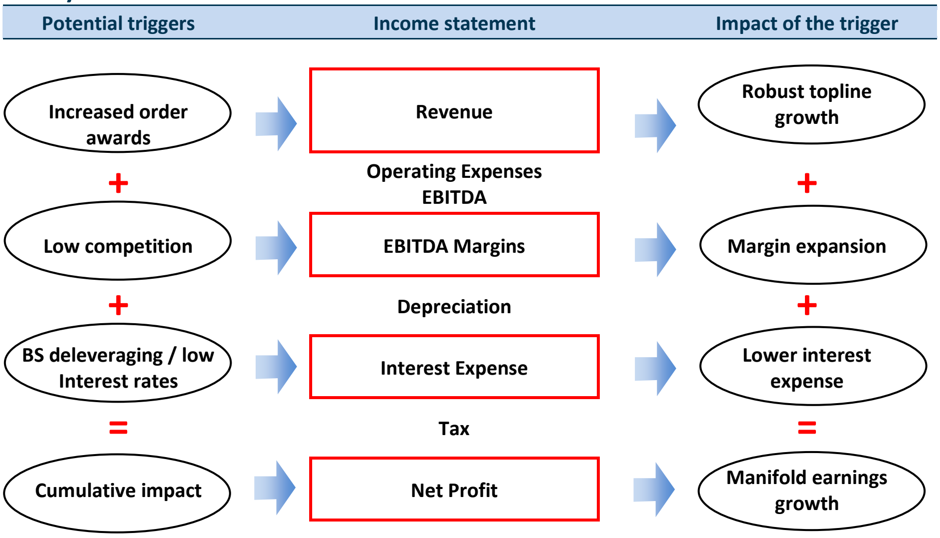
Source: Company, PhillipCapital India Research Estimates

Another manifestation of the 'EPC Trinity'

We see this turnaround in fortunes of ACIL as another manifestation of our 'Trinity of Forces' hypothesis, where we had predicted that the EPC companies will benefit from three forces, acting simultaneously on their P&L, leading to manifold earnings growth (read our detailed report here). The 'trinity' is:

1) Increased order awards
2) Reduced competition
3) Balance sheet deleveraging / low interest rates

Trinity at work for the EPC Sector



Source: PhillipCapital India Research

Over the last three years, we have already seen three companies reporting a turnaround in their fortunes, exactly along the lines of 'EPC Trinity' hypothesis – NCC, ITD Cementation and Ahluwalia Contracts. All these companies actively deleveraged their balance sheets, and benefitted from a revival in order award activity and lower competition. The market too rewarded them handsomely; their market caps have grown by 688%, 1566% and 1134% since March 2014.

How our EPC Trinity has worked for NCC, ITDC and ACIL

	NCC				ITD Cementation				ACIL			
Rs mn	**FY14**	**FY15**	**FY16**	**FY17E**	**CY13**	**CY14**	**CY15**	**CY16e**	**FY13**	**FY14**	**FY15**	**FY16**
Revenue	61,173	82,969	83,252	88,468	15,841	17,189	30,709	33,780	13,882	9,603	10,599	12,496
EBITDA	4,049	6,494	7,374	8,183	1,625	911	1,916	2,365	-238	417	1,149	1,608
EBITDA Margins	6.6%	7.8%	8.9%	9.3%	10.3%	5.3%	6.2%	7.0%	-1.7%	4.3%	10.8%	12.9%
Interest Expense	4,660	5,736	5,076	4,232	1,283	1,355	1,377	1,151	334	363	386	352
PAT	405	1,118	2,371	2,785	93	-475	275	664	-762	76	641	844
EPS	1.6	2.0	4.0	5.0	0.8	1.3	-3.8	4.3	-12.1	3.5	9.6	12.6
Debt	24,746	19,951	18,885	16,385	7,695	7,653	6,007	5,507	2,527	2,386	1,731	1,419
Leverage	1.0	0.6	0.6	0.4	1.9	1.3	1.2	1.0	1.2	1.1	0.5	0.3
Share price	22	95	78	80*	14	81	111	168*	23	40	249	266
Market Cap	5,645	53,034	43,138	44,473*	1,565	12,490	17,223	26,067*	1,444	2,511	16,680	17,819
Returns since March-14	**688%**				**1566%**				**1134%**			

Source: Company, PhillipCapital India Research

Transformation complete – What next?

The market has already rewarded ACIL for its turnaround – its market cap has risen 1200% over the last three years. The stock currently trades at an FY18 P/E of 14.5x – in line with EPC companies like KNR and PNC.

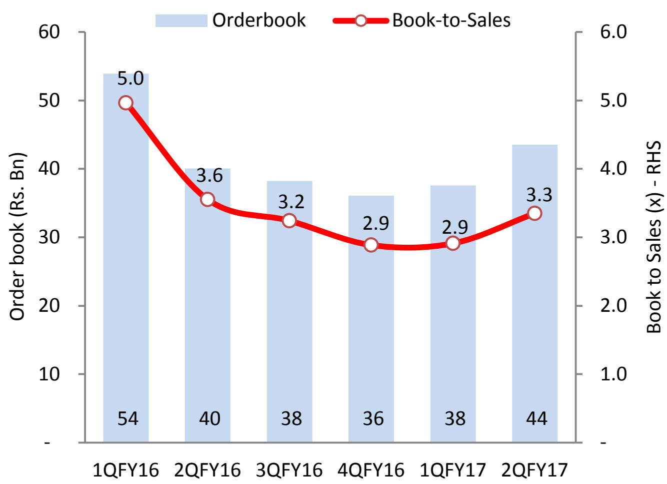
However, we expect the stock to trade at premium to the sector, because of its superior fundamentals. At the same time, its unique positioning – strong orderbook, robust balance sheet and mammoth opportunity in buildings segment – will ensure that it delivers healthy, consistent, and superior returns over the next few years.

Its unique positioning will ensure that it delivers healthy, consistent, and superior returns over the next few years

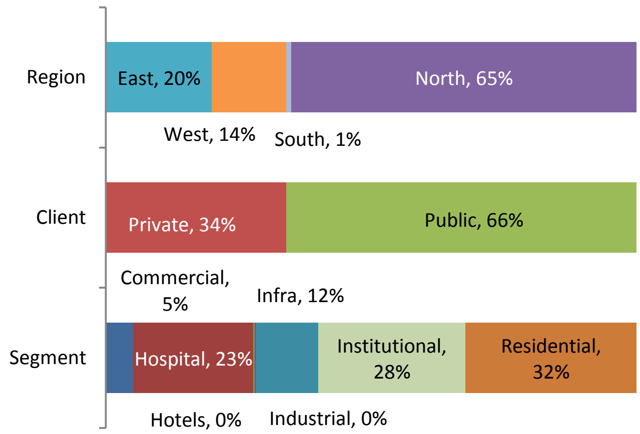
Strong orderbook to drive topline growth

ACIL has reported strong order inflow over last two years – particularly in 1HFY17. Its current orderbook (Rs 43.5bn, 3.3x book-to-sales) is well spread across segments and geographies (though North India still dominates) and ensures strong topline growth for the next 2-3 years.

Orderbook remains strong providing high revenue visibility ..



... and is also well spread across segments



Source: Company, Phillip Capital India Research

Key ongoing projects in the orderbook

Project	Gross Value (Rs mn)	Net Value (Rs mn)
HSCC Ltd: Construction of Mother & Child, OPD Block & Other Associates Services in AIIMS Campus Ansari Nagar New Delhi	4,981	3,187
Housing Development and Infrastructure Ltd: Construction of Residential Building at Mulund, Mumbai	4,237	2,600
BCD Patna: Construction of International Convention Centre at Patna	4,171	693
South Asian University : Construction of university at Delhi	4,016	3,947
DDA: Construction of Residential Building on design & built basis at Narela, Delhi	3,389	2,962
BCD Patna: Construction of Police Head Quarters at Patna	3,350	2,270
HSCC Ltd: Construction of Residential Complex for National Cancer Institute at Jhajjar Haryana	3,130	3,081
IIM Rohtak : Construction of Phase 1A of Permanent Campus for Indian Institute of Management Rohtak at Sunaria Village Rohtak	3,097	2,465
Brookfield : Construction of Civi Package for T-6, T-7 and T-9 at unitech Reality project ltd Gurgaon	2,451	1,656
HSCC Ltd: Construction of Hospital Building for Chittaranjan National Cancer Institute at Kolkata	2,441	2,441
IIITD Delhi: Construction of IIITD Campus at Okhla Phase II Delhi	2,195	1,368
CPWD: Construction of PNB Head Office Building at Dwarka, Delhi	2,029	305
Parteek Group: Civil & Structural work of the proposed multistory group housing Project Parteek Grand City Ghaziabad	1,780	1,251
Amity University : Construction of university Campus at Kolkata	1,750	380
CPWD: Construction of Office Building of Income Tax Dept. at BKC Mumbai	1,631	1,107
NBCC Ltd : Construction of infrastructure Building for National Intelligence Grid at Delhi	1,542	1,329
Total	**46,190**	**31,042**

Source: Company, Phillip Capital India Research

Demonetisation to have limited impact

After GoI's demonetisation announcement on 8th November 2016, ACIL's stock corrected sharply (-15%) mainly due to the perceived impact of the announcement on the real estate sector, and hence ACIL's growth prospects. However, ACIL's orderbook transformation over the last three years – where the share of private developers has reduced to 34% from 80% – will ensure that demonetisation has limited impact on its growth prospects. In ACIL's orderbook, the share of "private – residential" projects likely to be impacted the most by demonetisation is 24%. Even in this 24%, the company sees 'potential problems' in mainly two projects:

1) Rs 2.9bn residential project by HDIL in Mumbai
2) Rs 876mn project by JP Associates in Noida

ACIL's orderbook transformation over the last three years will ensure that demonetisation has limited impact on its growth prospects.

These projects form 8% of its orderbook, and have anyways been stuck due to the financial distress of the developers. Other than these, the management does not foresee any major slowdown in execution or payment in any of its projects. Having said that, the management has already guided to a lower revenue growth in FY17 (10-15%) than the strong 15-20% that it was expecting earlier.

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Slow moving orders and payments stuck

ACIL has relatively high debtor days (160 days) as compared to the industry average of 90-120 days; the primary reason is payments stuck with various developers. Adjusted for these, its debtors days are around 75. Some of its key debtors are:

Common Wealth Games (CWG)

ACIL had bagged multiple orders for infrastructure related to the CWG held in Delhi in October 2010 for clients DDA/CPWD and Emmar. However the CBI inquiry into the alleged mismanagement of funds led to a delay in payments from these entities. While ACIL was given a clean chit from the CBI, it is yet to receive ~Rs 650mn for various projects that it executed for CWG.

HDIL and JP Associates

HDIL's Mulund project (Mumbai) and JP Associate's Knight Court project (Noida) are running significantly behind schedules due to financial distress. To that extent, a significant amount of ACIL's receivables is stuck with these developers.

Kota Bus Terminal complex

In FY08, ACIL entered into the asset-ownership space when it bagged the Kota Bus Terminal complex from Rajasthan State Road Transport Corp (RSRTC). Under this model, ACIL would be leasing ~300,000 sq. ft. of commercial space and collect rentals for 40 years. Due to delays in various approvals, the project was delayed and was completed only in FY15. As of December 2016, ACIL had already leased 55% of the total leasable area and expects to lease the entire complex in the next few months.

Kota Bus Terminal: Project details

Particulars	Details (Rs mn, wherever applicable)
Project Cost	720
Debt	310
Revenue streams	Lease rentals & Advertisement revenues
Revenue Share	50% of external advertisement revenues to be shared with RSRTC
Leasable area	300,000 sqft
Maintenance	Commercial complex - ACIL; Bus terminal - RSRTC
Status	55% leased till Dec'16

We are not particularly fond of the company foraying into the asset-ownership space. We have seen similar exercises by EPC companies in the last cycle that have led to higher leverage at the standalone level, eventually leading to these companies coming under severe financial stress (GMR, GVK, JP Associates) or going into CDR (Gammon, IVRCL, HCC). We do not attribute any value to the Kota BOT project, and hope that the management refrains from such investments in future.

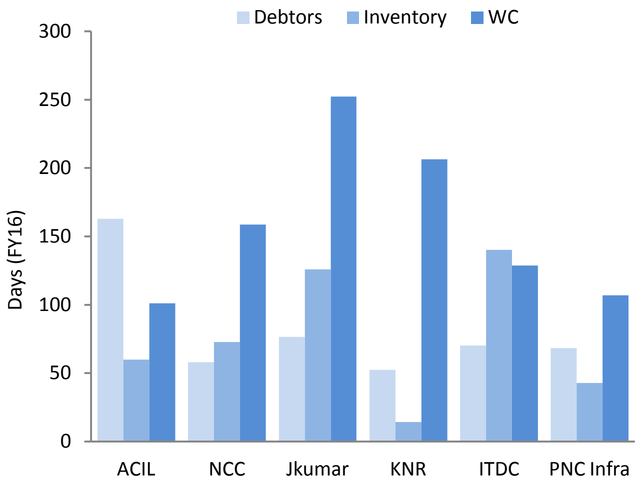
We are not particularly fond of the company foraying into the asset-ownership space

Robust balance sheet to drive earnings growth

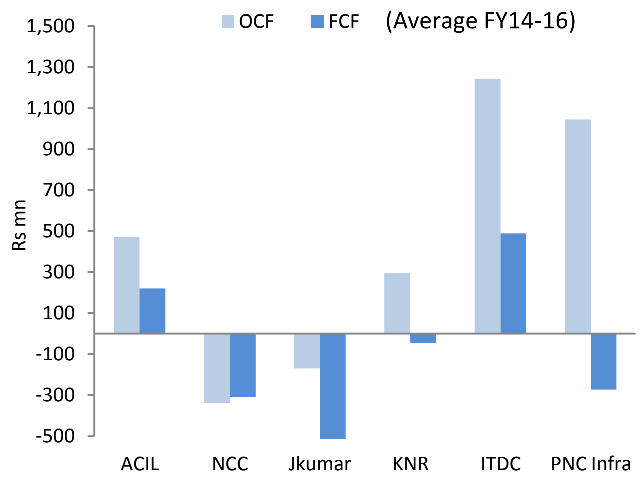
'Net cash' by March 2018 – a status matched only by PNC Infratech in the sector

ACIL is currently one of the few companies in the construction space that reports positive operating and free-cash flow because of its lean working-capital cycle. We expect this to lead to the company becoming 'net cash' by March 2018 – a status matched only by PNC Infratech in the sector. This net cash position will ensure that its entire EBITDA flows into its PAT – leading to one of the best earnings growth in the sector.

ACIL has one of the leanest WC cycles ....

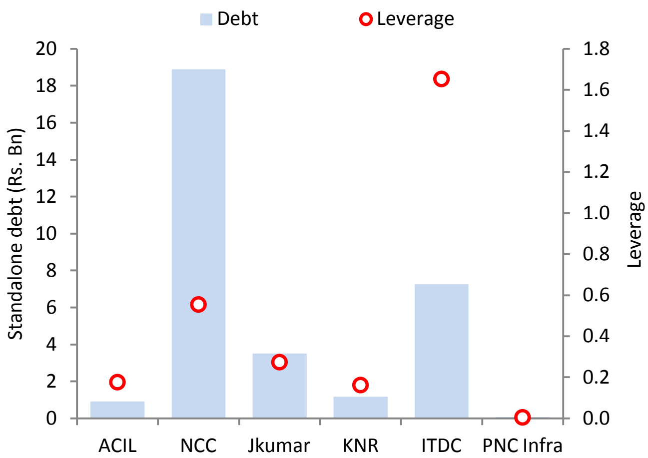


.... and consistently generates positive OCF and FCF

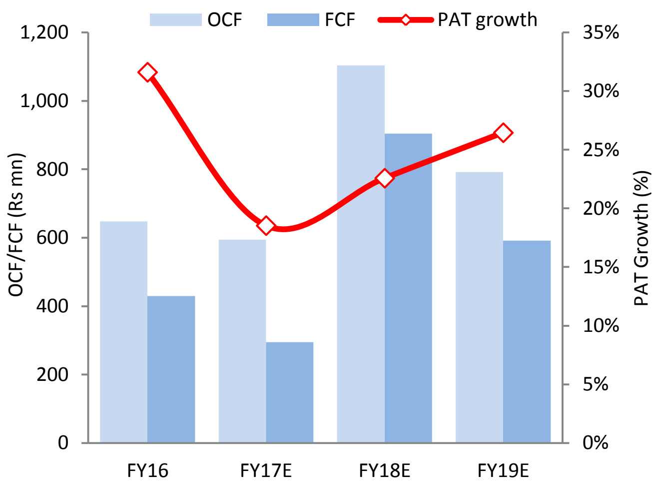


Source: Companies, Phillip Capital India Research

One of the lowest leverages in the industry ...



.. should lead to strong cash flow and earnings growth for ACIL



Source: Companies, Phillip Capital India Research Estimates

Strong cash flow to lead to dividend and superior ROEs

ACIL should generate Rs 2.5bn of OCF and Rs 1.8bn of FCF over the next three years (FY17-19). With the company likely to become net cash by March 2018, we expect this strong cashflow to be distributed to shareholders through dividend payouts. The company has not paid any dividend for the last four years because of a stretched balance sheet. But with the prospect of becoming net cash by next year, we expect the management to follow a sound capital-allocation policy and start paying dividends. This will also translate into higher ROEs, in turn boosting the returns profile of the company.

Mammoth opportunity to drive orderbook

ACIL is uniquely positioned in the buildings space, with waning competition. This will help it to grab market share in this segment, where we see huge opportunity on increased budgetary allocations, government initiatives like Housing-for-All, Smart-Cities, and higher capex in education and health.

Housing for All

Under this programme, the government has set an ambitious target of achieving Housing-For-All by 2022 – marking 75 years of the country's independence. The government envisages *pucca* houses with water connections, toilet facilities, and 24x7 electricity.

Rural housing

- **National Gramin Awaas Mission (NGAM):** The government plans to spend Rs 3.5tn to build ~30mn houses for the homeless by 2022, in rural areas. NGAM will replace the Indira Awaas Yojana (IAY) that covered BPL families only.

BPL – *Below Poverty Line*
EWS – *Economically Weaker Sections*
LIG – *Low Income Groups*

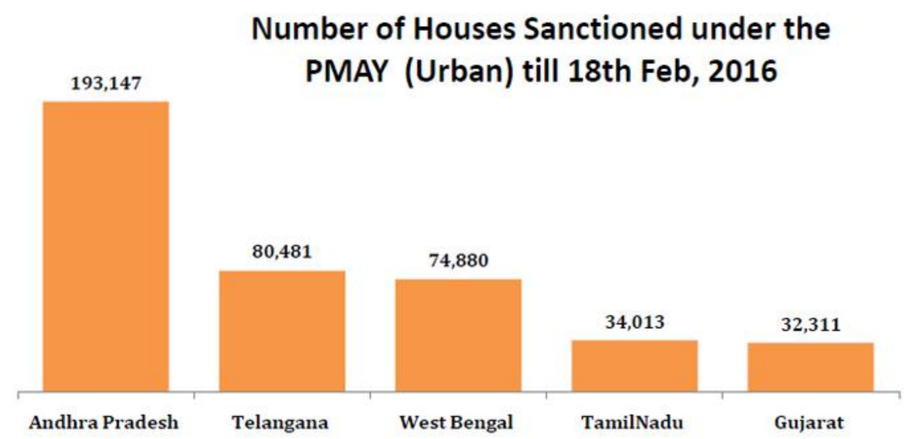
Urban housing

- **Pradhan Mantri Awaas Yojana (PMAY):** The government intends to construct 20mn affordable houses by spending of Rs 3tn over the next seven years. The central government will provide assistance under the following components:
    - **Slum redevelopment scheme:** This involves redevelopment of slums with the participation of private developers, aided by a central grant of Rs 100k per beneficiary. State governments can use this grant as VGF (viability gap funding) for any slum redevelopment scheme.
    - **Affordable housing through interest subsidy:** An interest subsidy of 6.5% on housing loans up to tenure of 15 years to EWS and LIG beneficiaries will be provided for loan amounts up to Rs 600k.
    - **Affordable housing in partnership with private sector:** Central assistance of Rs 150k per beneficiary, to promote housing stock for urban poor with the involvement of private/public sectors – 35% of proposed units to be earmarked for the EWS category.
    - **Subsidy for beneficiary-led individual construction or enhancement:** Central assistance of Rs 150k to each eligible urban poor beneficiary to help him build his own house or undertake improvements to an existing one.

Source: *http://www.pmindia.gov.in/en/news_updates/housing-for-all-by-2022-mission-national-mission-for-urban-housing/*

Until February 2016 a total of ~500,700 houses have been sanctioned under the various components of the scheme. A total of 13 states got houses sanctioned under the PMAY so far. Out of these, three states – Andhra Pradesh, Telangana, West Bengal – received 69% of all sanctioned houses.

Strong implementation of PMAY in few states



Source: Telangana Housing (click here for the link)

Smart Cities and AMRUT

The much-hyped flagship scheme of Smart Cities entails a central outlay of Rs 1tn. With an equal or more contribution expected from state governments, the total spend will exceed Rs 2tn. There are two schemes under this project:

Smart City project

This aims to enhance the quality of life in 100 selected cities with 24-hour water & power supply, world-class transportation systems, better education & recreational facilities, e-governance and environment-friendly atmosphere. The project will be implemented by an SPV – 50:50 JV between state government and city corporation. The SPV will manage the entire development process, including approval of plan, release of funds, and implementation/monitoring of the plan. It will be headed by a full-time CEO, with nominees from central and state government, and urban local body (ULB) on its Board.

The central government will provide Rs 500bn for the scheme, translating into each city getting Rs 1bn per annum for five years

The central government will provide Rs 500bn for the scheme, translating into Rs 1bn per annum per city for five years. An equal amount will be contributed by the SPV. Thus, a total of Rs 1tn will be invested for development of Smart Cities.

The cities selected have started project preparations and implementation:

- The projects launched by Ahmedabad are "sewage treatment plant, housing project, and smart learning in municipal schools".
- Bhubaneswar launched "railway multi-modal hub, traffic signalisation project, and urban knowledge centre".
- New Delhi Municipal Council launched "mini-sewerage treatment plants, 444 smart class rooms, WiFi, smart LED streetlights, city surveillance, command and control centre".

AMRUT (Atal Mission For Rejuvenation and Urban Transformation)

AMRUT aims to spend Rs 500bn over the next five years, ensuring basic infrastructure for 500 cities

The AMRUT project is a rehash of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Under AMRUT, state governments will get the flexibility of designing schemes based on the needs of identified cities (unlike JNNURM). State governments will submit annual action plans to the Centre for the funds to be released. Against Rs 364bn funds invested under JNNURM over FY05-14, AMRUT aims to spend Rs 500bn over the next five years.

AMRUT seeks to ensure basic infrastructure for 500 cities. Under this, the central government will provide each city with Rs 1bn for improving its amenities. The state government/ULB will also invest an equal amount, implying total investment of Rs 1tn. The central assistance will be provided as:

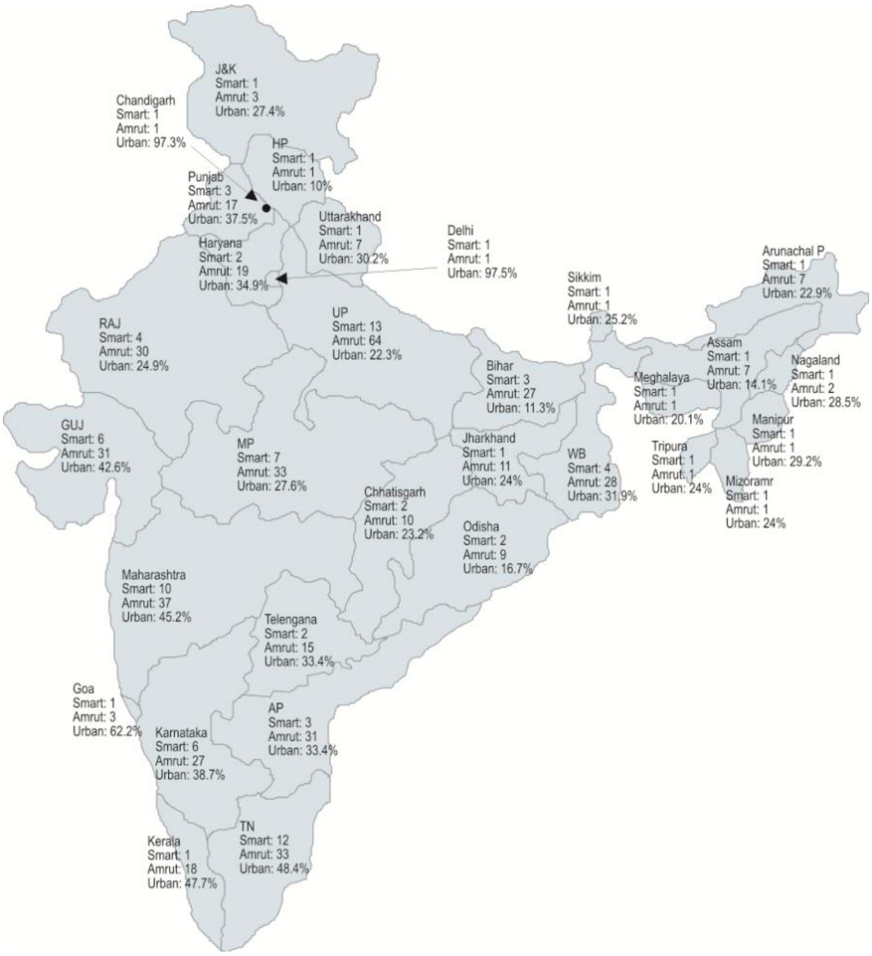
- 50% of project cost for cities and towns with a population below 1mn
- 33% of project cost for those with population above 1mn.

Cities that will be covered under AMRUT include:

- All cities and towns with a population of over 0.1mn with notified municipalities.
- All capital cities of states not covered in Smart City
- All cities/towns classified as Heritage Cities by MoUD.
- 13 cities and towns on the stem of main rivers with a population above 75,000 and less than 0.1mn.
- 10 cities from hill states, islands and tourist destinations (not more than 1 from each state).

We believe Smart City and the AMRUT schemes, with total outlay of over Rs 2tn, will offer huge opportunity for companies like ACIL.

State-wise allocation of Smart and AMRUT cities



Source: Smart city, AMRUT websites

Education institutions

Over the last few years, we have seen a renewed impetus from various governments – central and state – on improving the quality of the existing educational institutions and setting up new ones. Since IITs, IIMs, and AIIMs remain the only educational institutions of some global recognition, various governments have announced new institutes under these umbrellas. These steps will not only improve the standard of higher education in the country, but also present a huge opportunity for companies like ACIL, who can expect significant incremental order inflow from these projects over the next five years.

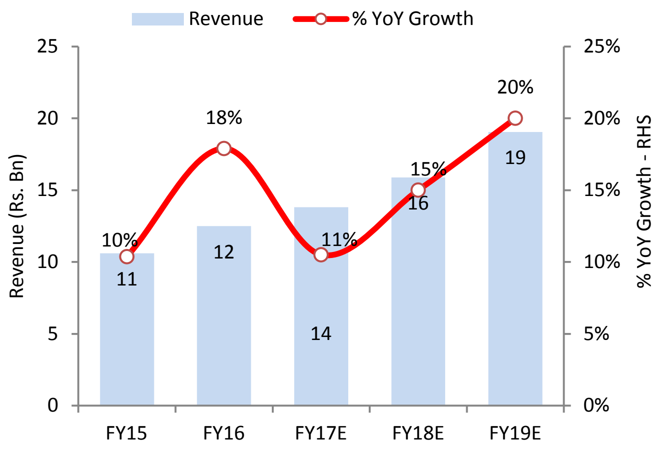
Huge opportunity from various IITs, IIMs and AIIMs to be set up, across the country

	Approx	Existing institutes		New institutes planned					
	Cost per institute			Year	City	Year	City	Year	City
IITs	Rs 20bn	Kharagpur	Delhi	2008	Bhubaneswar	2008	Ropar	2015	Tirupati
		Bombay	Guwahati	2008	Gandhinagar	2009	Indore	2015	Palakkad
		Kanpur	Roorkee	2008	Hyderabad	2009	Mandi	2015	Chattisgarh
		Madras		2008	Jodhpur	2012	Varanasi (BHU)	2015	Goa
				2008	Patna	2015	Dhanbad (ISM)	2015	Jammu
								2015	Karnataka
IIMs	Rs 5bn	Kolkata	Lucknow	2007	Shillong	2011	Kashipur	2015	Amritsar
		Ahmedabad	Kozhikode	2009	Rohtak	2011	Udaipur	2015	Sambalpur
		Bangalore	Indore	2010	Ranchi	2015	Nagpur	2015	Sirmaur district
				2010	Raipur	2015	Visakhapatnam	2016	Jammu
				2011	Tiruchirappalli	2015	Bodh Gaya		
AIIMs	Rs 8bn	Delhi	Patna		Assam		Jammu		Mangalagiri, AP
		Bhopal	Raipur		Bhathinda		Srinagar		Nagpur
		Bhubaneswar	Rishikesh		Bilaspur		Kalyani, WB		Saharsa, Bihar
		Jodhpur	Kanpur		Gorakhpur		Tamil Nadu		Rae Bareli, UP

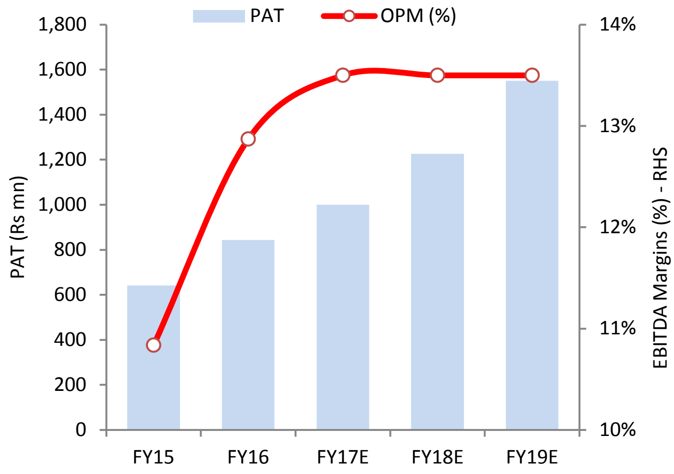
Source: Government documents

Financials to continue improving

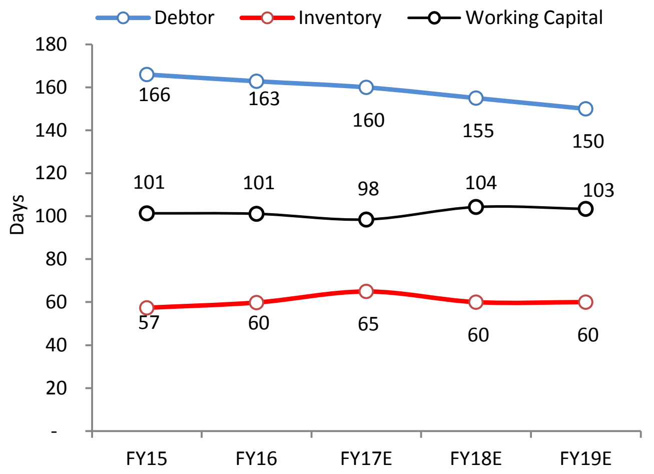
We expect strong topline growth ...



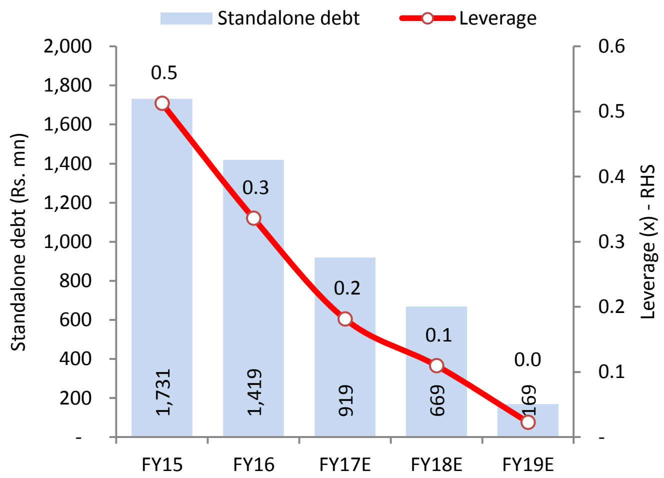
... along with steady EBITDA margins ....



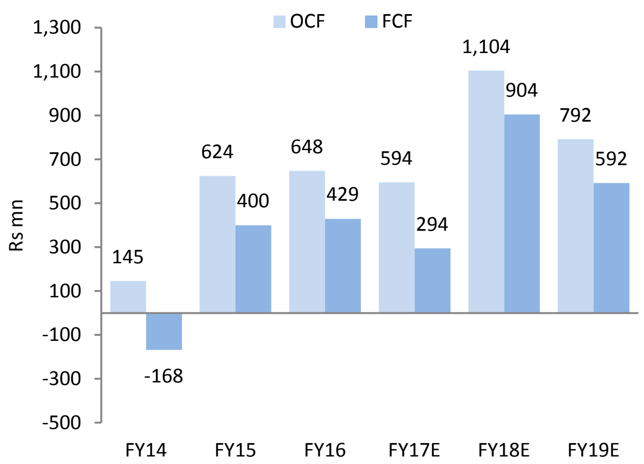
and a combination of lean WC cycle ...



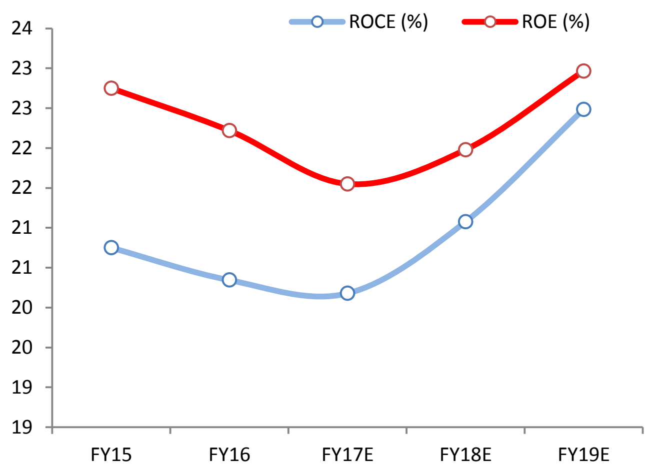
.... and a deleveraged balance sheet ....



to lead to strong cash flow generation ...



.... in-turn leading to superior return profile

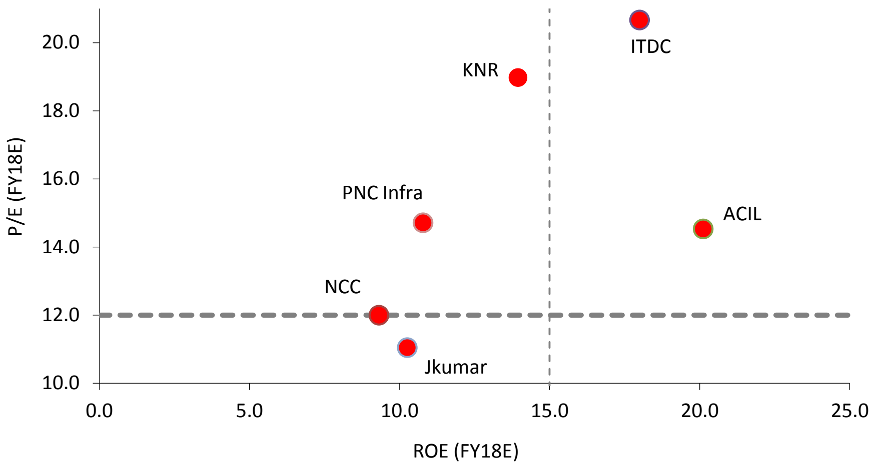


Source: Company, PhillipCapital India Research Estimates

Valuations inline, despite superior return profile

ACIL is currently trading at 14.5x FY18 P/E – in line with peer valuations. We believe that the stock deserves to trade at a premium to the sector – on higher ROEs and strong balance sheet.

Despite superior returns, ACIL trades in line with sector valuations



Source: Companies, PhillipCapital India Research

ACIL's strong orderbook and balance sheet will ensure healthy earnings growth over the next three years (24% CAGR over FY16-19). That itself will ensure healthy returns to investors, even without any valuations rerating.

ACIL's strong orderbook and balance sheet will ensure healthy earnings growth over the next three years

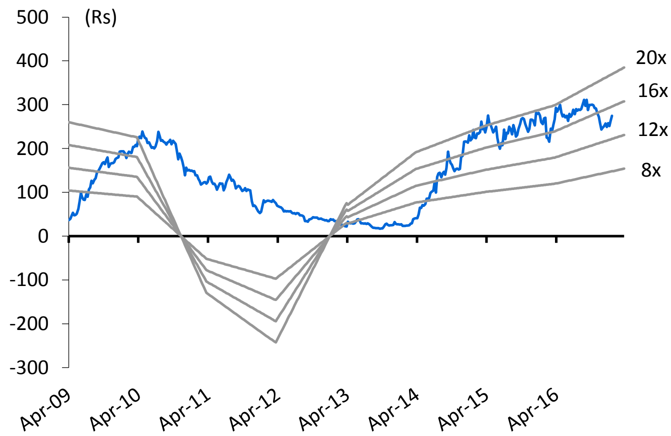
We value ACIL at 15x FY19 P/E (in line with our multiple for peers). That gives us a price target of Rs 365, implying a significant 35% upside from current levels. We initiate with a BUY rating.

Infrastructure sector – Valuation table

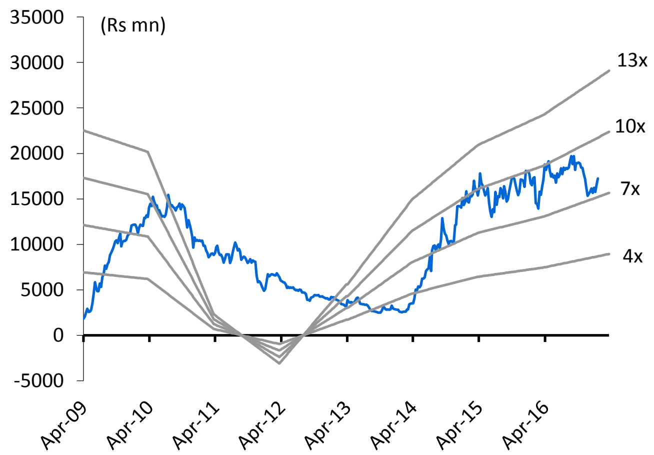
Company	Mkt Cap	CMP	Price	Upside	P/E		EV/EBITDA		ROE		D/E	
	Rs bn	Rs	Target	%	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
NCC	44.5	80	125	56%	12.0	9.6	6.5	5.7	9.3	10.5	0.4	0.4
J Kumar	17.3	229	NA*	NA*	11.0	8.3	6.1	5.1	10.3	12.1	0.4	0.3
KNR Construction	25.9	184	180	-2%	19.0	16.7	12.2	9.9	13.9	13.7	0.2	0.2
ITD Cementation	26.1	168	145	-14%	20.7	17.4	9.4	8.6	18.0	17.6	0.7	0.6
PNC Infratech	27.2	106	140	32%	14.7	13.2	8.5	7.2	10.8	10.8	0.1	0.1
Ahluwalia Contracts	17.8	266	350	32%	14.5	11.5	8.2	6.7	20.1	20.9	0.1	0.0

Source: Bloomberg, PhillipCapital India Research Estimates *(FY18 equivalent to CY17 for ITDC, * JKumar rating currently 'Under Review')*

One-year forward P/E band



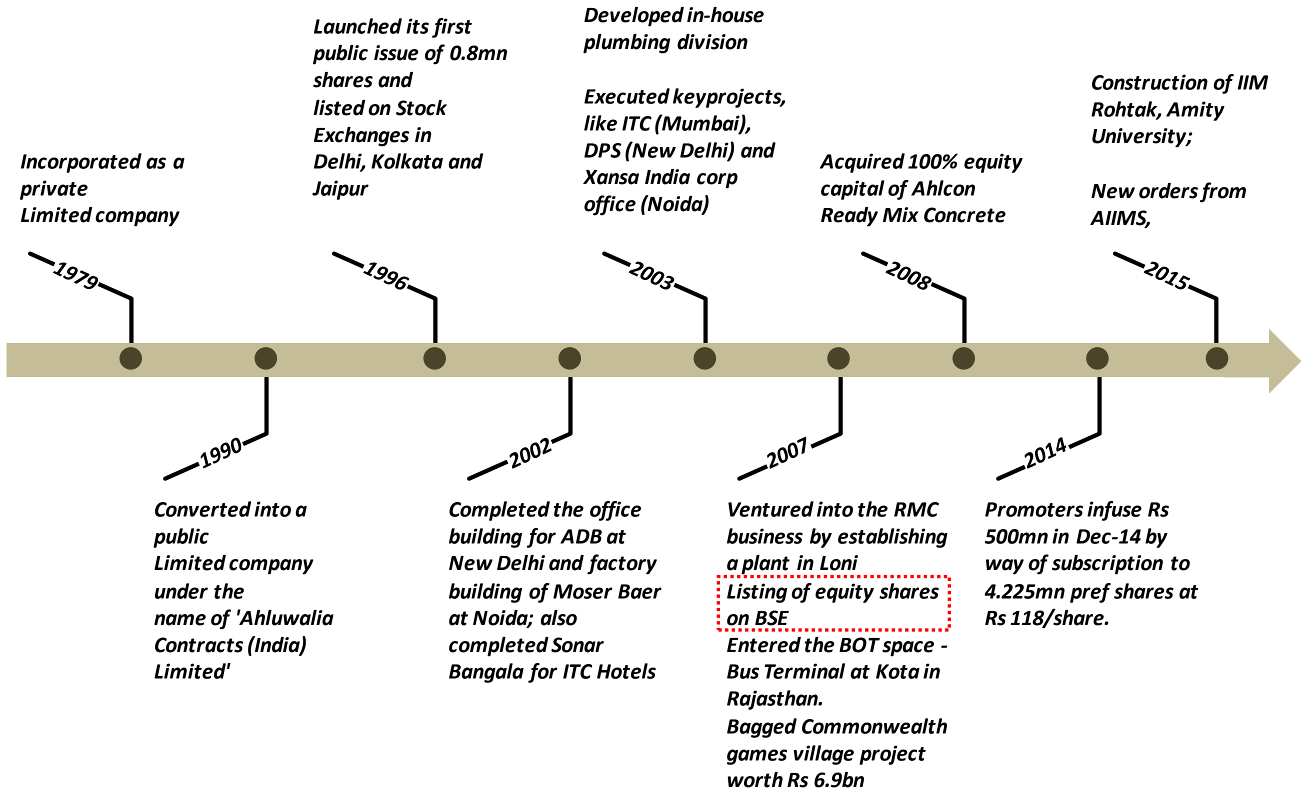
EV/EBITDA band



Source: Bloomberg, PhillipCapital India Research

Company history and management profile

Ahluwalia Contracts – A strong history of over 35 years



Leadership team

Name	Designation	Remarks
Bikramjit Ahluwalia	Founder, Promoter & MD	Promoter, founder and chairman. The guiding figure directing, managing and overseeing all activities, has been involved in construction for the last 45 years. Holds leadership positions such as the office of President of Builders Association of India.
Shobhit Uppal	Promoter and Deputy Managing Director	Graduate in electrical engineering and has to his credit more than 17 years experience in multifarious activities relating to infrastructure. Has led the company through the successful award and execution of many mega projects.
Arun K Gupta	Independent Director	CA, with ~30 years experience in subjects relating to tax planning, corporate re-structuring, management-information systems and company law.
Vinay Pal	Whole-time Director	Experience of nearly 29 years in construction; has executed prestigious projects.
S K Chawla	Independent Director	About 33 years' experience in handling construction projects and engineering activities. An engineer, been associated with various government departments. Retired as director, CPWD.
Sushil Chandra	Independent Director	M.A., Ph.D. At present, director Andhra Cements, Radials International, Tip-Top General Agencies (Germany), Oswal Electricals and Group Industries, Faridabad.
Ms. Mohinder Kaur Sahlot	Independent Director	Ph. D. in Aviation Law, with extensive experience as a commercial pilot and an aviation legal expert. Member of various bar associations, with experience in mediation and also a member of International Counsel of Arbitration (ICA), handling cases in various courts for the last 14 years.

Contingent liabilities

Particulars (Rs mn)	FY16	FY15
Counter guarantees given to bankers against Bank guarantees	5,348.6	4,399.5
Indemnity/Performance/Surety Bonds & Corporate guarantees given to clients	682.4	943.6
Value Added Tax liability	220.6	2,529.4
Demand of stamp duty on Real Estate Project	5.7	5.7
Claims against the company not Acknowledged as debts	329.3	539.6
Excise duty demand for F.Y. 1998-99 & 2000-2001	1.4	1.4
Service tax demand on alleged		
(i) wrong availment of abatement on account of free supply of material by the Client	1,978.1	1,978.1
(ii) Composition scheme	479.5	478.4
(iii) Exempted projects	658.5	887.4
(iv) Others	213.8	218.3
Provident fund demand	545.7	545.7
Total	**10,463.6**	**12,527.3**

Source: Company, PhillipCapital India Research

Financials (Standalone)

Income Statement

Y/E Mar, Rs mn	FY16	FY17E	FY18E	FY19E
Net sales	**12,496**	**13,808**	**15,879**	**19,055**
Growth, %	18	11	15	20
Total income	12,496	13,808	15,879	19,055
Employee expenses	-1,588	-1,755	-2,018	-2,422
Other Operating expenses	-3,252	-3,507	-4,033	-4,840
EBITDA (Core)	**1,608**	**1,864**	**2,144**	**2,572**
Growth, %	40.0	15.9	15.0	20.0
Margin, %	12.9	13.5	13.5	13.5
Depreciation	-201	-218	-233	-245
EBIT	**1,408**	**1,646**	**1,910**	**2,327**
Growth, %	50.3	16.9	16.1	21.8
Margin, %	11.3	11.9	12.0	12.2
Interest paid	-352	-257	-175	-92
Other Non-Operating Income	136	105	95	80
Pre-tax profit	**1,192**	**1,493**	**1,830**	**2,315**
Tax provided	-347	-493	-604	-764
Profit after tax	**844**	**1,001**	**1,226**	**1,551**
Net Profit	**844**	**1,001**	**1,226**	**1,551**
Growth, %	31.6	18.5	22.6	26.5
Net Profit (adjusted)	**844**	**1,001**	**1,226**	**1,551**
Unadj. shares (m)	67	67	67	67
Wtd avg shares (m)	67	67	67	67

Orderbook

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Orderbook	36,073	42,265	51,386	57,331
Growth YoY (%)	7%	17%	22%	12%
Book-to-Sales (x)	2.9	3.1	3.2	3.0
Order Inflow	14,864	20,000	25,000	25,000

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17E	FY18E	FY19E
Cash & bank	882	520	978	834
Debtors	5,575	6,053	6,743	7,831
Inventory	2,047	2,459	2,610	3,132
Loans & advances	717	757	870	1,044
Total current assets	9,391	9,957	11,370	13,010
Investments	63	63	63	63
Gross fixed assets	3,491	3,791	3,991	4,191
Less: Depreciation	-2,363	-2,582	-2,815	-3,061
Add: Capital WIP	838	838	838	838
Net fixed assets	1,966	2,047	2,014	1,968
Total assets	**11,569**	**12,217**	**13,597**	**15,191**
Current liabilities	5,928	6,232	6,832	7,611
Total current liabilities	5,928	6,232	6,832	7,611
Non-current liabilities	1,419	919	669	169
Total liabilities	7,348	7,152	7,501	7,780
Paid-up capital	134	134	134	134
Reserves & surplus	4,087	4,931	5,961	7,277
Shareholders' equity	4,221	5,065	6,095	7,411
Total equity & liabilities	**11,569**	**12,217**	**13,597**	**15,191**

Cash Flow

Y/E Mar, Rs mn	FY16	FY17E	FY18E	FY19E
Pre-tax profit	1,192	1,493	1,830	2,315
Depreciation	201	218	233	245
Chg in working capital	-401	-625	-356	-1,005
Total tax paid	-343	-493	-604	-764
Cash flow from operating activities	**648**	**594**	**1,104**	**792**
Capital expenditure	-218	-300	-200	-200
Chg in investments	0	0	0	0
Cash flow from investing activities	**-218**	**-300**	**-200**	**-200**
Free cash flow	429	294	904	592
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-312	-500	-250	-500
Dividend (incl. tax)	0	-157	-196	-235
Cash flow from financing activities	**-312**	**-657**	**-446**	**-735**
Net chg in cash	117	-362	458	-144

Valuation Ratios

	FY16	FY17E	FY18E	FY19E
Per Share data				
EPS (INR)	12.6	14.9	18.3	23.2
Growth, %	31.6	18.5	22.6	26.5
Book NAV/share (INR)	63.0	75.6	91.0	110.6
FDEPS (INR)	12.6	14.9	18.3	23.2
CEPS (INR)	15.6	18.2	21.8	26.8
CFPS (INR)	7.6	7.3	15.1	10.6
Return ratios				
Return on assets (%)	9.7	9.8	10.3	11.2
Return on equity (%)	22.2	21.5	22.0	23.0
Return on capital employed (%)	19.9	20.0	20.9	22.4
Turnover ratios				
Asset turnover (x)	2.9	2.8	2.9	3.1
Sales/Total assets (x)	1.1	1.2	1.2	1.3
Sales/Net FA (x)	6.4	6.9	7.8	9.6
Working capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	162.8	160.0	155.0	150.0
Inventory days	59.8	65.0	60.0	60.0
Payable days	197.2	190.5	181.5	168.5
Working capital days	75.4	84.7	81.8	87.4
Liquidity ratios				
Current ratio (x)	1.6	1.6	1.7	1.7
Quick ratio (x)	1.2	1.2	1.3	1.3
Interest cover (x)	4.0	6.4	10.9	25.2
Total debt/Equity (x)	0.3	0.2	0.1	0.0
Net debt/Equity (x)	0.1	0.1	(0.1)	(0.1)
Valuation				
PER (x)	21.1	17.8	14.5	11.5
PEG (x) - y-o-y growth	0.7	1.0	0.6	0.4
Price/Book (x)	4.2	3.5	2.9	2.4
EV/Net sales (x)	1.5	1.3	1.1	0.9
EV/EBITDA (x)	11.4	9.8	8.2	6.7
EV/EBIT (x)	13.0	11.1	9.2	7.4

Source: Company, PhillipCapital India Research Estimates

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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