

CMP: ₹ 920

Target: ₹ 1160 (26%)

Target Period: 12 months

November 22, 2024

BUY

Weak Quarter; Margins to improve in H2...

About the stock: Ahluwalia Contracts (India) Limited is a leading construction company operating across residential/commercial complex, hotels, hospitals, institutional/corporate offices, IT parks, Railway station redevelopment, metro station/depot, parking lot etc.

- The order book stood at ₹ 16,193 crore as of Q2FY25 (3.9x book to bill). Ahluwalia enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 754 crore in Q2FY25).

Q2FY25 Performance: Revenue was at ₹ 1011.5 crore, up 12.2% YoY, with slightly moderate growth amid extended monsoon. EBITDA stood at ₹73.5 crore, down 18% YoY. Effectively, EBITDA margin reported at 7.3% was down 274 bps YoY given the weak execution amid lower labour availability, large projects design approval delays and extended monsoon. PAT was reported at ₹38.7 crore, down 29.8% YoY amid weak operating performance.

Investment Rationale:

- Healthy revenue visibility on current order book:** Ahluwalia has a strong order book of ₹ 16193 crore as of Q2 (3.9x book to bill). The company has received total inflow for FY25YTD of ₹7,794.4 crore and expects ₹1000 crore worth of inflow from current bid pipeline of ~ ₹5000 crore. We highlight that the company has now lowered its FY25 topline guidance to 15% (vs. 15-20% earlier) and expects 20%+ growth in FY26. Given the robust orderbook, we expect strong revenue CAGR of ~19% over FY24-27E to ₹ 6492 crore.
- Margin guidance trimmed for FY25, to improve in FY26:** The company has trimmed its margin guidance to 9% FY25 (vs. 10% earlier), and 10%+ thereafter in FY26, with execution pick ahead. We note that factors such as lower labour availability, large projects design approval delays and extended monsoon have impacted margins in H1FY25. With strong execution and price escalation in ~85% of the order book, we expect margins to bounce back to 10.3% and 11% in FY26 and FY27, respectively vs. 9% in FY25, driving 28.8% adjusted earnings CAGR over FY24-27E.

Rating and Target Price

- Ahluwalia is a key beneficiary of the tailwinds in the segments such as real estate, hotels, hospitals, station redevelopment as well as corporate/industrial capex. Given the expertise of 5 decades, strong order book visibility, history of robust execution and balance sheet strength, Ahluwalia is poised for a robust growth ahead
- We value Ahluwalia at ₹ 1160 i.e. 18x on average of FY26E & FY27E EPS and maintain our BUY rating

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24E	5 Year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Net Sales	1,964.4	2,667.7	2,799.2	3,855.3	17.5	4,460.9	5,402.8	6,491.5	19.0
EBITDA	154.2	256.6	304.1	388.5	12.4	400.9	553.8	716.7	22.6
EBITDA Margin (%)	7.8	9.6	10.9	10.1		9.0	10.3	11.0	
Adj. Net Profit	77.2	155.2	194.1	230.6	14.5	238.3	367.9	493.2	28.8
EPS (₹)	11.5	23.2	29.0	56.1		35.6	54.9	73.6	
P/E (x)	80.0	39.8	31.8	16.4		25.9	16.8	12.5	
EV/EBITDA (x)	37.5	22.4	18.4	14.0		13.3	9.3	6.8	
RoCE (%)	16.7	25.0	24.5	22.2		20.7	24.4	26.1	
RoE (%)	8.8	15.0	15.8	23.5		13.0	16.7	18.3	

Source: Company, ICICI Direct Research



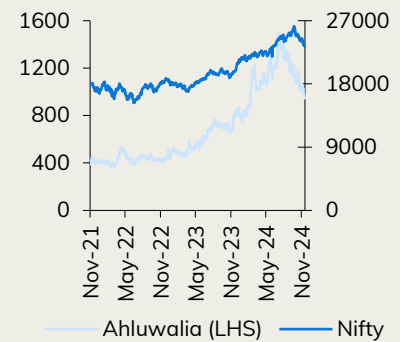
Particulars

Particular	Amount
Market Cap (₹ crore)	6,163
Debt (FY24) (₹ crore)	45
Cash (FY24) (₹ crore)	780
EV (₹ crore)	5,427
52 week H/L (₹)	1542 / 748
Equity capital (₹ crore)	13.4
Face value (₹)	2.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	55.3	55.3	55.3	55.3
DII	26.4	26.0	25.3	25.0
FII	12.7	13.3	13.3	12.9
Other	5.6	5.3	6.1	6.9

Price Chart



Key risks

- Any delay in major projects could impact revenues
- Volatility in Raw material prices could impact margins

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FY24 Performance highlights and outlook

- **Order book** - Ahluwalia has a strong order book of ₹ 16,193 crore as of Q2FY25, implying 3.9x book to bill, executable over the next 2 to 2.5 years. The total order inflows in H1FY25 stood at ₹6700 crore with additional orders of ₹1094.7 crore received in October, hence the total inflow for FY25 stands at ₹7,794.4 crore. The management indicated that they would not be bidding too aggressively for the remainder of the year and only expect about ₹1000 crore worth of inflow from a bid pipeline of about ₹5000 crore for FY25. For FY26, it has guided for order inflows of ₹5000 to ₹6000 crore of new orders.
- **Orderbook internals** – Geographically, order book is spread across West – 37.7%, North – 37.8%, East – 18.7%, South – 3.8% and Overseas (Nepal)– 2%. The government and private segments form 48.4% and 51.5% of the overall project. The company aspires to make it 50:50 by increasing share of private projects. 85% of the orders have price escalation clause, while 15% are fixed price.
- **Revenue and Margin guidance** – The management has guided for a topline growth of 15% for FY25 (vs. 15-20%, earlier) with execution being impacted by extended monsoon and labour scarcity. The margin guidance has been revised to 9% for the year (vs 10% as guided earlier), given the weak H1. The management is optimistic to cross the double-digit margin during FY26 given its healthy order book position along with the revenue guidance pegged at ~20% for FY26.
- **Capex, Debt and Working Capital** – The company incurred a capex of ₹101 crore as of H2FY25 (₹ 47 crore in Q2) with ₹30-35 crore of additional capex for the remainder of the year. It is looking to reduce its CapEx expenditure and looking to rent for equipment and stuttering. The company's gross debt stood at ₹9 crore as of Q2 FY25 along with the net working capital which has reduced from 117 days in the previous quarter to 93 days in the current quarter. Cash and Bank stood at ₹ 763 crore.
- **Labour Woes** – The management has indicated that the labour woes it has been facing still persists, amid elections and monsoon. This has impacted productivity and led to the reduction in margins. The company had earlier indicated it had been operating at 60-70% labour capacity.

Key project updates –

- **DLF Arbour project** – The management indicated they are executing a run rate of ₹11 to ₹12 crore every month with plans to double it going forward and maintain about ₹25 crore every month. The current quarter has been impacted by NGT along with few issues related to labour shortages, it indicated that once NGT issues are dealt with, the project is set to take off.
- **CSMT Station Re-development** – The project was initially delayed due to certain issues with drawing approval and some changes from the initial tender drawing provided to the company necessitated by the client's requirements and the local authority. The management has indicated that the project's execution timeline remains unchanged, and it would compensate for the time it had lost over last 6 to 8 months because of the design and approvals from railways. The management also indicated an average revenue run rate of about ₹70-80 crore every month going forward. For FY25 it is targeting a turnover of about ₹300 crore, while for FY26, the company expects revenues of ₹ 800 crore from this project. As of Q2 FY25, the unexecuted value of the project stood at ₹2367 crore.
- **Gems and Jewellery Park** – The project had been stalled on account of the impending elections. The management indicated that they have not yet received the notice to proceed with the project. It expects the notice in the month of December and the project will go into the design stage. It expects the revenues to start flowing from H2FY26. The unexecuted value of the project stands at ₹2157 crore.

- **Darbhanga and Varanasi airport** – The two airports are currently under execution being in the design stage and nearing completion. The projects are collectively worth ₹1465.5 crore.
- **Emaar Settlement** – The pending receivables from Emaar stood at ₹ 56 crore, which is due in January as the the last tranche. We note that total dues from Emaar was ₹ 218 crore.

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	3,855.3	4,460.9	5,402.8	6,491.5
Growth (%)	37.7	15.7	21.1	20.2
Raw Material Cost	1,839.5	2,128.4	2,566.3	3,083.5
Employee Cost	282.4	330.1	378.2	447.9
Other Expenditure	1,344.9	1,601.4	1,904.5	2,243.5
Total Op Expenditure	3,466.8	4,059.9	4,849.0	5,774.8
EBITDA	388.5	400.9	553.8	716.7
Growth (%)	46.6	3.2	38.1	29.4
EBITDA Margin (%)	10.1	9.0	10.3	11.0
Other income	36.6	44.0	52.8	66.0
Depreciation	66.9	62.0	67.2	76.4
EBIT	358.3	382.9	539.3	706.3
Interest	48.1	60.1	47.5	46.9
Exceptional items	195.0	-	-	-
PBT	505.1	322.9	491.9	659.3
Tax	129.6	84.6	123.9	166.2
Rep. PAT	375.5	238.3	367.9	493.2
Adj. Net Profit	230.6	238.3	367.9	493.2
Growth (%)	18.8	3.3	54.4	34.1
EPS (₹)	56.1	35.6	54.9	73.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	375	238	368	493
Depreciation	67	62	67	76
Interest	48	60	47	47
Others	(42)	(44)	(53)	(66)
Cash Flow before wc changes	448	316	430	551
Net Increase in CA	(437)	(296)	(460)	(532)
Net Increase in CL	287	233	362	418
Net CF from op. activities	299	253	331	436
Net purchase of Fixed Assets	(117)	(114)	(120)	(120)
Others	20	20	15	23
Net CF from Inv. Activities	(97)	(94)	(105)	(97)
Proceeds from share capital	(1)	0	(1)	6
Debt Proceeds/Repayment	42	-	-	-
Interest paid	(48)	(60)	(47)	(47)
Dividend paid	(3)	(3)	(5)	(6)
Net CF rom Fin Activities	(10)	(63)	(53)	(47)
Net Cash flow	192	96	173	292
Opening Cash	588	780	876	1,049
Closing Cash	780	876	1,049	1,342

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity capital	13.4	13.4	13.4	13.4
Reserves & Surplus	1,586.5	1,821.5	2,183.3	2,676.5
Networth	1,599.9	1,834.9	2,196.7	2,689.9
Loan Funds	45.0	45.0	45.0	45.0
Deferred Tax liability	(32.5)	(32.5)	(32.5)	(32.5)
Total Liabilities	1,612.4	1,847.3	2,209.2	2,702.4
Assets				
Net Block	336.5	394.6	447.3	491.0
Capital WIP	7.3	0.8	0.8	0.8
Non-current Investments	63.5	73.5	89.0	107.0
Othe non-current assets	89.4	103.5	125.3	150.5
Inventories	315.8	365.5	442.6	531.8
Trade Receivables	780.3	902.8	1,093.5	1,313.8
Cash & Bank Balances	780.3	876.2	1,049.3	1,341.6
Loans & Advances	0.7	0.7	0.7	0.7
Other current assets	788.2	912.0	1,104.5	1,327.1
Total current assets	2,665.3	3,057.1	3,690.6	4,515.0
Total Current liabilities	1,549.7	1,782.2	2,143.9	2,561.9
Net Current Assets	1,115.6	1,274.9	1,546.7	1,953.1
Total Assets	1,612.4	1,847.3	2,209.2	2,702.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
Reported EPS	56.1	35.6	54.9	73.6
Cash EPS	66.0	44.8	65.0	85.0
BV per share	238.8	273.9	327.9	401.6
Operating Ratios (%)				
EBITDA Margin	10.1	9.0	10.3	11.0
EBIT/ Net Sales	8.3	7.6	9.0	9.9
PAT Margin	6.0	5.3	6.8	7.6
Inventory days	29.9	29.9	29.9	29.9
Debtor days	73.9	73.9	73.9	73.9
Creditor days	66.3	66.3	66.3	66.3
Return Ratios (%)				
RoE	23.5	13.0	16.7	18.3
RoCE	22.2	20.7	24.4	26.1
RoIC	39.1	35.0	42.1	47.2
Valuation Ratios (x)				
P/E	16.4	25.9	16.8	12.5
EV / EBITDA	14.0	13.3	9.3	6.8
EV / Net Sales	1.4	1.2	1.0	0.8
Price to Book Value	3.9	3.4	2.8	2.3
Solvency Ratios (x)				
Debt / EBITDA	0.1	0.1	0.1	0.1
Net Debt / Equity	(0.5)	(0.5)	(0.5)	(0.5)

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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