

CMP: ₹ 614

Target: ₹ 800 (30%)

Target Period: 12 months

BUY

July 5, 2023

## Strong Growth Visibility!

**About the stock:** Ahluwalia Contracts (India) Limited is a leading construction company with five decades of expertise.

- The company largely carries out EPC construction spanning residential/commercial complex, hotels, hospitals, institutional/corporate offices, IT parks, Railway station redevelopment, metro station/depot, parking lot etc.
- The **order book stood at ₹ 8162.7 crore as of FY23 (2.9x book to bill)**. Ahluwalia enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 585 crore in FY23).

### Key Investment Thesis:

- Strong Order book to drive robust execution ahead:** Ahluwalia has a strong order book of ₹ 8162.7 crore as of FY23 end (2.9x book to bill) which was at an all-time high. Furthermore, the company also received orders worth ₹ 4178 crore in Q1FY24. Thereby, taking the order book to ~₹ 12000+ crore, provides strong growth visibility for the next 3 years. The company has a bid pipeline of ₹ 4000-5000 crore and is targeting further orders worth ₹ 2000+ crore in FY24. We highlight that the company has guided for 20%+ revenues growth in FY24. Given the robust orderbook, we expect strong revenue CAGR of ~23% over FY23-25E to ₹ 4296 crore
- Operating leverage led Margins improvement to boost PAT further:** Going ahead, the company has guided for 11%+ margins in FY24 vs 10.7% in FY23 led by operating leverage led benefits and benign raw material regime. With strong execution, stabilised raw material prices, price escalation in ~72% of the order book, we expect margins to improve to 11% and 11.5% in FY24 and FY25, respectively vs. 10.7% in FY23. Strong topline growth coupled with margins expansion is likely to drive 31% earnings CAGR over FY23-25E

### 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 strong expertise of 5 decades, order book visibility, history of robust execution and balance sheet strength, Ahluwalia is poised for a strong growth ahead.
- We initiate coverage with a **BUY** rating
- We value Ahluwalia at ₹ 800 per share (based on 16x FY25 P/E)

### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23E	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	1,868.7	1,964.4	2,667.7	2,838.4	11.6	3,491.9	4,295.6	23.0
EBITDA	153.0	154.2	256.6	304.1	6.8	384.8	494.9	27.6
EBITDA Margin (%)	8.2	7.8	9.6	10.7		11.0	11.5	
Net Profit	64.4	77.2	155.2	194.1	11.0	251.2	332.9	31.0
EPS (₹)	9.6	11.5	23.2	29.0		37.5	49.7	
P/E (x)	63.9	53.3	26.5	21.2		16.4	12.4	
Price / Book (x)	5.1	4.7	4.0	3.3		2.8	2.3	
EV/EBITDA (x)	25.6	24.1	14.3	11.6		8.9	6.6	
RoCE (%)	15.9	16.7	25.0	24.5		25.6	27.2	
RoE (%)	8.0	8.8	15.0	15.8		17.0	18.5	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization (₹ crore)	4,113
Debt (FY23) (₹ crore)	3
Cash (FY23) (₹ crore)	588
EV (₹ crore)	3,527
52 week H/L (₹)	644 / 394
Equity capital (₹ crore)	13.4
Face value (₹)	₹ 2

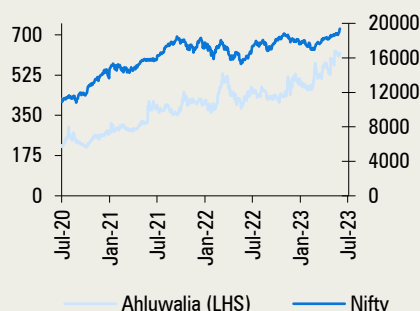
### Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	55.3	55.3	55.3	55.3
DII	27.5	27.4	27.2	28.0
FII	12.3	12.3	12.2	11.5
Other	4.9	4.9	5.3	5.2

### Risks to our call

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

### Price Performance



### Research Analyst

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## Company Background

Ahluwalia Contracts is a leading construction company with five decades of expertise. The company largely carries out EPC construction spanning residential/commercial complex, Hotels, hospitals, institutional/corporate offices, IT parks, Railway station redevelopment, metro station/depot, parking lot etc. The company has expanded its presence across 16 states in India with fairly well distributed presence across regions in the North, West and East of India.

Ahluwalia has a **strong order book of ₹ 8162.7 crore as of FY23 end (2.9x book to bill) which was at an all-time high. The company reported robust order inflow of ₹ 5057 crore in FY23. Furthermore, the company also received orders worth ₹ 4178 crore in Q1FY24. Some marquee projects order that it received in Q1FY24 include a) CSMT Station redevelopment project- ₹ 2450 crore, b) The Arbour Project from DLF – ₹ 745 crore, c) Dharavi Wastewater Treatment facility – ₹ 557 crore. Thereby, taking the order book to ~₹ 12000+ crore, provides strong growth visibility for the next 3 years.** The company has a bid pipeline of ₹ 4000-5000 crore and is targeting further orders worth ₹ 2000+ crore in FY24.

**Exhibit 1: Journey of Ahluwalia**



Source: Company, ICICI Direct Research

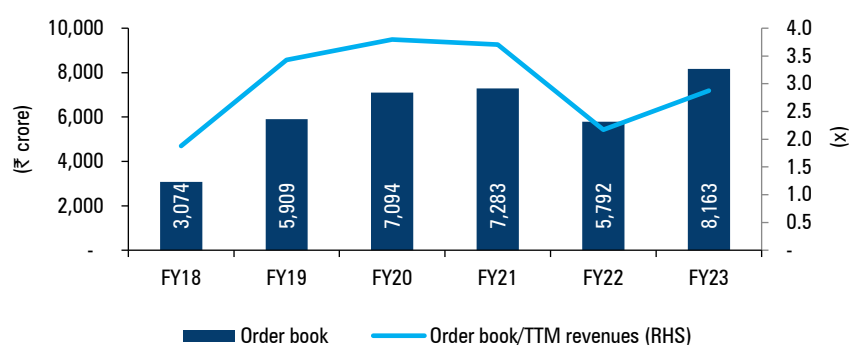
## Investment Rationale

### Strong Order Book provides growth visibility

Ahluwalia reported a **strong order book of ₹ 8162.7 crore as of FY23 end (2.9x book to bill) which was at an all-time high. The company reported an order inflow of ₹ 5057 crore in FY23.** Geographically the order break-up (as of FY23) is East – 38%, North – 33%, West – 19%, South – 5% and Overseas - 5%. The government and private segments form 83.3% and 16.7% of the overall project.

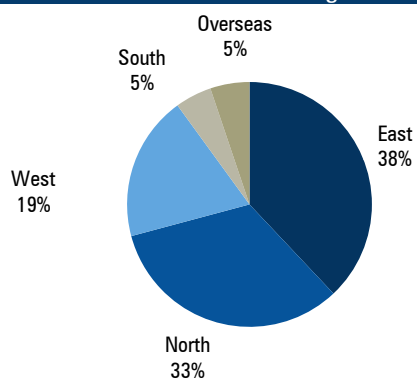
Furthermore, the company **also received orders worth ₹ 4178 crore in Q1FY24. Thereby, taking the order book to ~₹ 12000+ crore, which provides strong growth visibility for the next 3 years.** The new orders during Q1FY24 included some marquee projects such as a) CSMT Station redevelopment project- ₹ 2450 crore, b) The Arbour Project from DLF – ₹ 745 crore, c) Dharavi Wastewater Treatment facility – ₹ 557 crore and d) Retail Block Construction at Aerocity, Delhi ₹ 427 crore. The company has a bid pipeline of ~₹ 4000-5000 crore, which we believe is sufficient for them to achieve their further order inflow target of ₹ 2000+ crore in FY24.

Exhibit 2: Order Book provides strong visibility



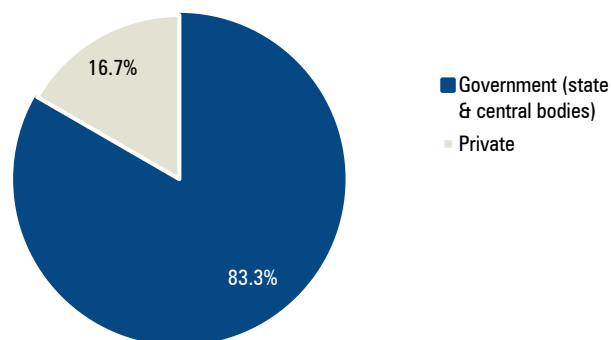
Source: Company, ICICI Direct Research

Exhibit 3: Well Diversified across region\*



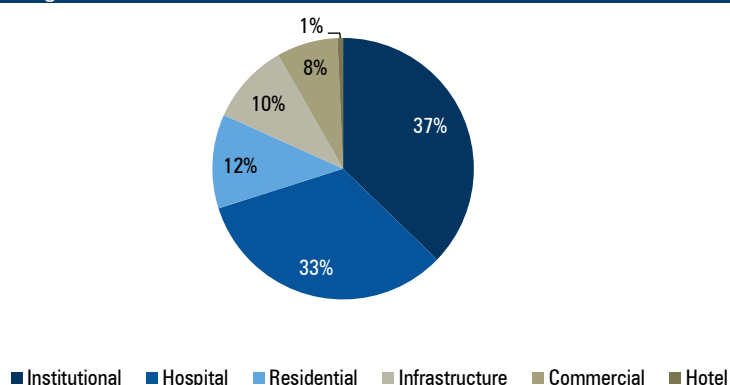
Source: Company, ICICI Direct Research \*As of FY23

Exhibit 4: Government Projects form bulk of order book\*



Source: Company, ICICI Direct Research \*As of FY23

Exhibit 5: Segment wise order book\*



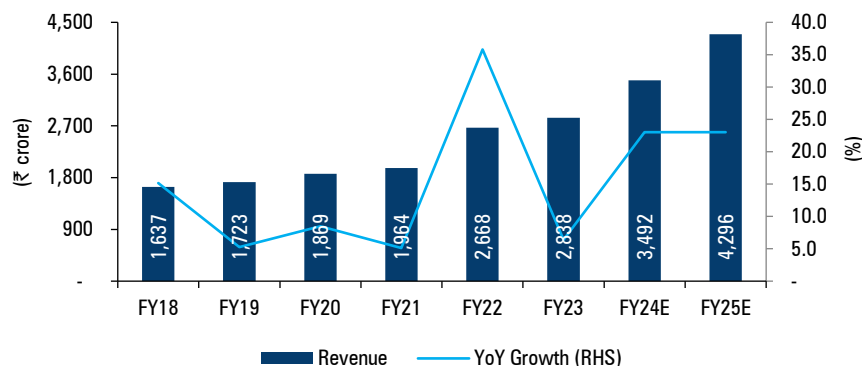
Source: Company, ICICI Direct Research \*As of FY23

## Strong Revenue growth likely ahead

Ahluwalia topline CAGR of ~8.2% over the last 5 years seem modest largely due to covid impacted years. Nonetheless, the company has built on the order book and current order book (including Q1FY24 receipts) at ~₹ 12000+, to be executed over the next 3-3.5 years, implies robust revenue growth visibility ahead. We highlight that the company has guided for 20%+ revenues growth in FY24.

Given the robust orderbook, we expect strong revenue CAGR of ~23% over FY23-25E to ₹ 4296 crore.

Exhibit 6: Healthy revenue growth ahead



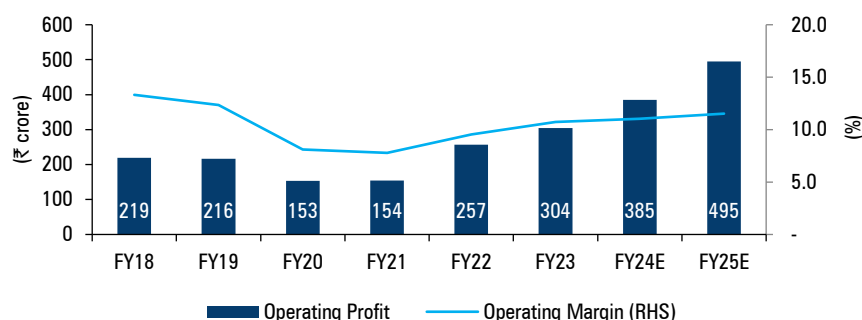
Source: Company, ICICI Direct Research

## Margins to improve ahead

We highlight that margins have averaged ~11% in the last 8 years, notwithstanding the provision impact in covid impacted years due to certain client issues.

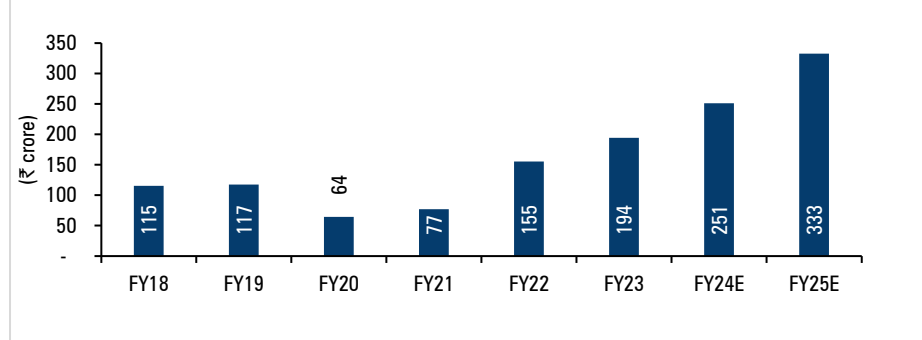
Going ahead, the company has guided for 11%+ margins in FY24 vs 10.7% in FY23. With strong execution, stabilised raw material prices, price escalation in ~72% of the order book, we expect margins to improve to 11% and 11.5% in FY24 and FY25, respectively. Strong topline growth coupled with margins expansion is likely to drive 31% earnings CAGR over FY23-25E.

Exhibit 7: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



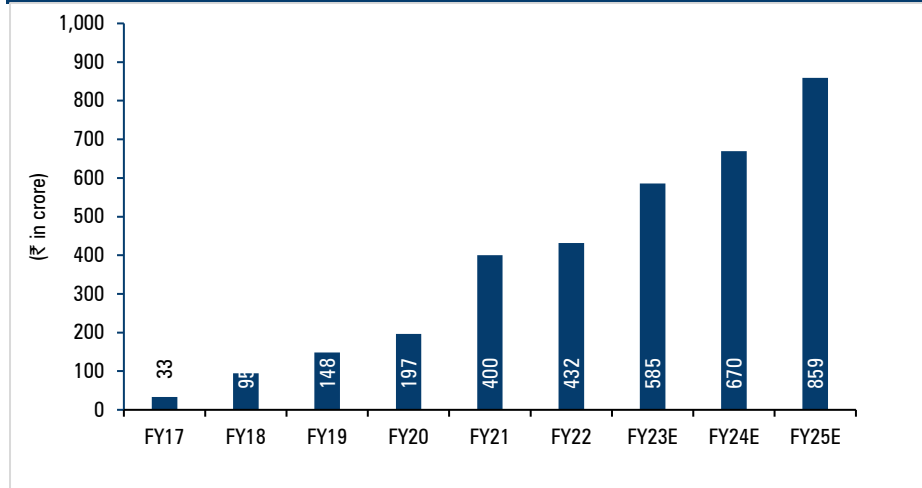
Source: Company, ICICI Direct Research

## Healthy Balance Sheet drives further comfort

Ahluwalia enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 585 crore in FY23). This is of great strength especially, as downcycle execution and working capital stress have historically led to extreme impact on levered construction companies in the sector. Thus, lean balance sheet provides an extra comfort for Ahluwalia on one hand, it also enables the company to scale up easily.

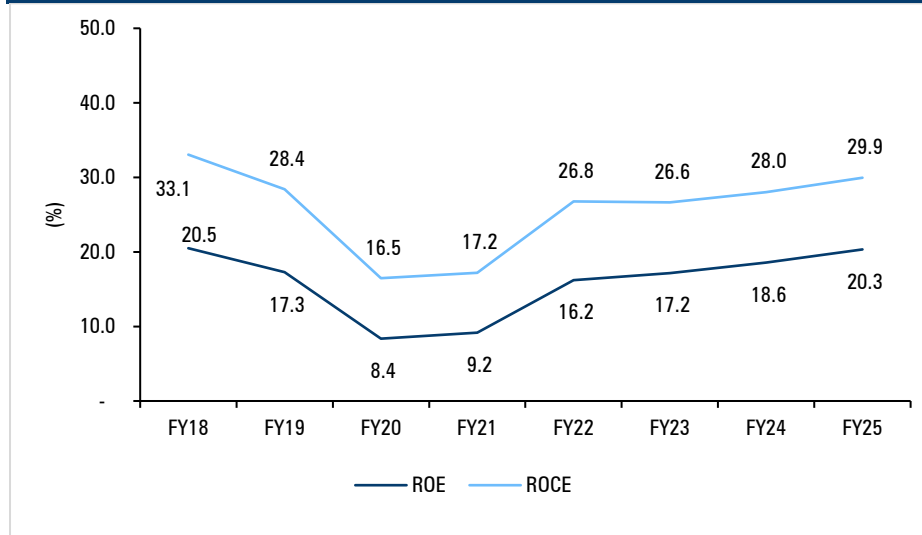
The company also enjoys healthy return ratios profile and has report ~25% and above ROCE in most of the financial years in last decade (barring covid impacted years). We expect strong earnings growth to translate into further improvement in return ratios for Ahluwalia.

Exhibit 9: Net cash balance sheet



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

## Key risk and concerns

### Slower execution could impact revenues

Slower execution be it from the company front or any delays at client end could impact overall revenue growth potential.

### Any delay in major orders ramp up such as CSMT redevelopment

The company during Q1FY24 bagged CSMT redevelopment order on EPC mode. Any delay in ground breaking, ramp-up could lead to lower revenues

### Raw material volatility

The EPC companies in FY22 and H1FY23 witnessed an impact on margins owing steep rise in raw material prices including cement and steel. Nonetheless, the raw material prices have eased over the last 2-3 quarters. The company has price escalation built in for ~72% of the order book. However, any steep volatility in raw material prices could impact margins

### Increase in competitive environment

While Ahluwalia operates in a competitive industry, any competitive bidding led mistake could impact margins for certain projects.

## Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>2,667.7</b>	<b>2,838.4</b>	<b>3,491.9</b>	<b>4,295.6</b>
Growth (%)	35.8	6.4	23.0	23.0
Raw Material Cost	1,239.0	1,360.8	1,669.1	2,031.8
Employee Cost	187.9	200.0	244.4	300.7
Other Expenditure	1,009.0	973.5	1,193.5	1,468.2
Total Operating Expenditure	2,435.9	2,534.3	3,107.1	3,800.7
<b>EBITDA</b>	<b>231.8</b>	<b>304.1</b>	<b>384.8</b>	<b>494.9</b>
Growth (%)	70.0	31.2	26.5	28.6
<b>EBITDA Margin (%)</b>	<b>8.7</b>	<b>10.7</b>	<b>11.0</b>	<b>11.5</b>
Other income	29.1	29.5	33.9	40.7
Depreciation	33.6	38.8	46.7	52.4
EBIT	227.4	294.9	372.1	483.2
Interest	43.7	33.1	34.9	36.3
PBT	183.6	261.8	337.2	446.9
Tax	53.2	67.7	86.0	114.0
<b>Rep. PAT</b>	<b>130.5</b>	<b>194.1</b>	<b>251.2</b>	<b>332.9</b>
Exceptional items	-	-	-	-
<b>Adj. Net Profit</b>	<b>130.5</b>	<b>194.1</b>	<b>251.2</b>	<b>332.9</b>
Growth (%)	119.7	48.8	29.4	32.5
<b>EPS (₹)</b>	<b>23.2</b>	<b>29.0</b>	<b>37.5</b>	<b>49.7</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	155.2	194.1	251.2	332.9
Depreciation	33.6	38.8	46.7	52.4
Interest	43.7	33.1	34.9	36.3
Others	(32.5)	(29.8)	(33.9)	(40.7)
Cash Flow before wc changes	200.1	236.1	298.9	380.9
Net Increase in Current Assets	32.6	(279.0)	(333.4)	(410.0)
Net Increase in Current Liabilities	(155.1)	252.6	276.0	339.3
<b>Net CF from operating activities</b>	<b>77.5</b>	<b>209.7</b>	<b>241.4</b>	<b>310.3</b>
Net purchase of Fixed Assets	(26.3)	(104.8)	(120.0)	(80.0)
Others	22.9	82.5	2.6	2.2
<b>Net CF from Investing Activities</b>	<b>(3.4)</b>	<b>(22.4)</b>	<b>(117.4)</b>	<b>(77.8)</b>
Proceeds from share capital	1.2	1.0	(0.0)	(0.0)
Proceeds/Repayment from Loan	(15.8)	1.4	-	-
Interest paid	(43.7)	(33.1)	(34.9)	(36.3)
Dividend paid	-	(2.0)	(4.7)	(6.7)
<b>Net CF from Financing Activities</b>	<b>(58.3)</b>	<b>(32.7)</b>	<b>(39.6)</b>	<b>(43.0)</b>
<b>Net Cash flow</b>	<b>15.8</b>	<b>154.7</b>	<b>84.4</b>	<b>189.4</b>
Opening Cash and Cash Equivalent	417.6	433.4	588.1	672.4
<b>Closing Cash &amp; cash equivalents</b>	<b>433.4</b>	<b>588.1</b>	<b>672.4</b>	<b>861.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity capital	13.4	13.4	13.4	13.4
Reserves & Surplus	1,021.8	1,214.9	1,461.5	1,787.7
Networth	1,035.2	1,228.3	1,474.9	1,801.1
Loan Funds	1.3	2.7	2.7	2.7
Deferred Tax liability	(26.4)	(26.7)	(26.7)	(26.7)
<b>Total Liabilities</b>	<b>1,010.1</b>	<b>1,204.3</b>	<b>1,450.8</b>	<b>1,777.1</b>
<b>Assets</b>				
Net Block	227.9	293.2	366.5	394.1
Capital WIP	0.1	0.8	0.8	0.8
Non-current Investments	26.3	68.3	84.0	103.4
Other non-current assets	162.7	67.8	83.4	102.6
Inventories	242.0	244.0	300.2	369.3
Trade Receivables	487.1	638.6	785.7	966.5
Cash & Bank Balances	433.4	588.1	672.4	861.9
Loans & Advances	0.5	0.4	0.4	0.4
Other current assets	439.9	565.4	695.6	855.7
Total current assets	1,602.8	2,036.5	2,454.3	3,053.7
Total Current liabilities	1,009.7	1,262.3	1,538.3	1,877.6
Net Current Assets	593.1	774.2	916.0	1,176.1
<b>Total Assets</b>	<b>1,010.1</b>	<b>1,204.3</b>	<b>1,450.8</b>	<b>1,777.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Reported EPS	23.2	29.0	37.5	49.7
Cash EPS	28.2	34.8	44.5	57.5
BV per share	154.5	183.4	220.2	268.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.6	10.7	11.0	11.5
EBIT/ Net Sales	8.4	9.3	9.7	10.3
PAT Margin	5.8	6.8	7.2	7.8
Inventory days	33.1	31.4	31.4	31.4
Debtor days	66.6	82.1	82.1	82.1
Creditor days	84.7	86.4	86.4	86.4
<b>Return Ratios (%)</b>				
RoE	15.0	15.8	17.0	18.5
RoCE	25.0	24.5	25.6	27.2
RoIC	38.8	43.3	43.6	48.5
<b>Valuation Ratios (x)</b>				
P/E	26.5	21.2	16.4	12.4
EV / EBITDA	14.3	11.6	8.9	6.6
EV / Net Sales	1.4	1.2	1.0	0.8
Price to Book Value	4.0	3.3	2.8	2.3
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	(0.4)	(0.5)	(0.5)	(0.5)

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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