

CMP: ₹ 1027

Target: ₹ 1260 (23%)

Target Period: 12 months

BUY

Mar 19, 2024

Order Book provides 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 ₹ 11247 crore as of Q3FY24 (3.2x book to bill). Ahluwalia enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 544 crore in Q3FY24).

Investment Rationale:

- Strong Order book to drive robust execution ahead:** Ahluwalia has a strong order book of ₹ 11247 crore as of Q3FY24 (3.2x book to bill). Furthermore, the company also received orders worth ₹ 703 crore, in Q4FY24, post earnings announcement so far. The company had received ₹ 5834 crore as of Q3FY24 (and ₹ 6537 crore till date). The company is also lowest bidder for Gem & Jewellery Park project worth ₹2840 crore. The company is targeting ₹ 5000 crore of order inflows in FY25. We highlight that the company has guided for 20%+ revenues growth in FY25. Given the robust orderbook, we expect strong revenue CAGR of ~24.6% over FY23-26E to ₹ 5494 crore.
- Operating leverage led Margins improvement to boost Earnings:** Going ahead, the company has guided for 11%+ margins in FY25 led by operating leverage led benefits and benign raw material regime. With strong execution, stabilised raw material prices, price escalation in ~77% of the order book, we expect margins to improve to 10.8%, 11.2% and 11.5% in FY23, FY25 and FY26, respectively vs. 10.7% in FY23. Strong topline growth coupled with margins expansion is likely to drive 29.4% earnings CAGR over FY23-25E. The return ratios are likely to expand, driven by strong earnings with RoCEs/RoEs to expand to 27.3%/18.9% in FY26E vs. 24.5%/15.8% in FY23.

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 ₹ 1260 i.e. 20x P/E on FY26E and maintain our **BUY** rating



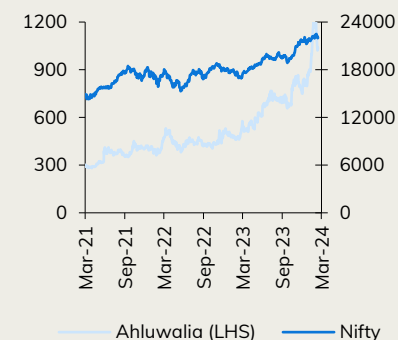
Particulars

Particular	Amount
Market Cap (₹ crore)	6,876
Debt (FY23) (₹ crore)	3
Cash (FY23) (₹ crore)	588
EV (₹ crore)	6,291
52 week H/L (₹)	1250 / 449
Equity capital (₹ crore)	13.4
Face value (₹)	2.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	55.3	55.3	55.3	55.3
DII	28.0	27.4	26.7	26.4
FII	11.5	11.8	12.6	12.7
Other	5.2	5.5	5.4	5.6

Price Chart



Key risks

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

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23E	5 Year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Net Sales	1,964.4	2,667.7	2,838.4	11.6	3,791.6	4,566.2	5,493.9	24.6
EBITDA	154.2	256.6	304.1	6.8	410.7	512.4	632.9	27.7
EBITDA Margin (%)	7.8	9.6	10.7		10.8	11.2	11.5	
Net Profit	77.2	155.2	194.1	11.0	258.4	332.8	420.4	29.4
EPS (₹)	11.5	23.2	29.0		38.6	49.7	62.8	
P/E (x)	90.2	44.8	35.9		26.9	20.9	16.6	
Price / Book (x)	7.9	6.7	5.7		4.7	3.8	3.1	
EV/EBITDA (x)	42.5	25.4	21.0		15.5	12.2	9.5	
RoCE (%)	16.7	25.0	24.5		26.3	27.1	27.3	
RoE (%)	8.8	15.0	15.8		17.4	18.4	18.9	

Source: Company, ICICI Direct Research

Q3FY24 Performance highlights and outlook

- **Order Book is strong and well diversified:** Ahluwalia has a strong order book of ₹ 11247 crore as of Q3FY24 (3.2x book to bill). Furthermore, it had received orders worth ₹ 703 crore in Q4FY24, post earnings announcement so far. It is also the lowest bidder for Gem & Jewellery Park project worth ₹2840 crore (the value of which is likely to be negotiated downward). The had company received ₹ 5834 crore as of Q3FY24 (and ₹ 6537 crore till date). The company continues to diversify across segment and has also bid for two Airport projects – Varanasi and Darbhanga cumulatively worth ₹ 2000 crore.
- **Order book internals:** Geographically the order break-up is West – 38.5%, North – 33.2%, East – 23.2%, South – 1.5% and Overseas (Nepal)– 3.6%. The government and private segments form 70.6% and 29.4% of the overall project (The company aspires to make it 50:50 by increasing share of private projects). 77% of the orders have price escalation clause, while 23% are fixed price.
- **Revenue and Margin guidance:** Post ~36% revenues growth in 9MFY24, the company indicated that it expects revenues of ₹ 1100 crore, which implies that FY24 revenue growth is likely to be 33-34%. We highlight that the company has guided for 20%+ revenues growth in FY25. Going ahead, the company has guided for 11%+ margins in FY25 led by operating leverage led benefits and benign raw material regime.
- **Capex, Debt and Cash position:** During 9MFY24, capex was ~₹ 86 crore and company guided for capex of ₹ 120 crore in FY24. It also indicated that FY25 capex would be at similar levels. The balance sheet position continues to remain healthy, with a gross debt of ₹ 42 crore as of Q3FY24, while the bank and balance equivalent amount stood at ₹ 586 crore.
- **Key Projects Update**
 - **Gems & Jewellery Park:** The company indicated that Gems and Jewellery project for which it is lowest bidder, for ₹ 2840 crore, has not yet been converted to LoA. The project could be revised downwards as the client is contemplating re-design/de-scope some portion of the project to lower the overall cost, as the received bids exceeded the allocated budget.
 - **CSTM station redevelopment:** The company indicated that the project (worth ₹ 2450 crore) has received clearances for certain portions of the buildings and anticipates revenue of ~₹ 50 crore in Q4. The company expects the completion of the project over FY25 and FY26, with execution likely to pick up in FY25.

Financial Summary

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Net Sales	2,838.4	3,791.6	4,566.2	5,493.9	
Growth (%)	6.4	33.6	20.4	20.3	
Raw Material Cost	1,360.8	1,817.8	2,168.9	2,598.6	
Employee Cost	200.0	267.2	319.6	384.6	
Other Expenditure	973.5	1,295.9	1,565.2	1,877.8	
Total Op Expenditure	2,534.3	3,380.9	4,053.8	4,861.0	
EBITDA	304.1	410.7	512.4	632.9	
Growth (%)	31.2	35.0	24.7	23.5	
EBITDA Margin (%)	10.7	10.8	11.2	11.5	
Other income	29.5	33.4	40.0	48.0	
Depreciation	38.8	50.3	58.7	68.3	
EBIT	294.9	393.7	493.7	612.7	
Interest	33.1	46.9	48.7	50.6	
PBT	261.8	346.8	445.0	562.1	
Tax	67.7	88.4	112.1	141.6	
Rep. PAT	194.1	258.4	332.8	420.4	
Exceptional items	-	-	-	-	
Adj. Net Profit	194.1	258.4	332.8	420.4	
Growth (%)	48.8	33.1	28.8	26.3	
EPS (₹)	29.0	38.6	49.7	62.8	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(₹ Crore)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	194	258	333	420	
Depreciation	39	50	59	68	
Interest	33	47	49	51	
Others	(30)	(33)	(40)	(48)	
Cash Flow before wc changes	236	322	400	491	
Net Increase in Current Assets	(279)	(429)	(383)	(459)	
Net Increase in Current Liabilit	253	284	303	363	
Net CF from operating activit	210	177	320	395	
Net purchase of Fixed Assets	(105)	(120)	(120)	(120)	
Others	82	(12)	3	4	
Net CF from Investing Activiti	(22)	(132)	(117)	(116)	
Proceeds from share capital	1	(0)	(0)	7	
Proceeds/Repayment from Loc	1	39	-	-	
Interest paid	(33)	(47)	(49)	(51)	
Dividend paid	(2)	(5)	(7)	(7)	
Net CF rom Financing Activiti	(33)	(12)	(55)	(51)	
Net Cash flow	155	33	147	228	
Opening Cash and Cash Equiv	433	588	621	768	
Closing Cash & cash equival	588	621	768	996	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
Equity capital	13.4	13.4	13.4	13.4	
Reserves & Surplus	1,214.9	1,468.6	1,794.7	2,215.2	
Networth	1,228.3	1,482.0	1,808.1	2,228.6	
Loan Funds	2.7	42.0	42.0	42.0	
Deferred Tax liability	(26.7)	(26.7)	(26.7)	(26.7)	
Total Liabilities	1,204.3	1,497.3	1,823.4	2,243.8	
Assets					
Net Block	293.2	362.8	424.1	475.8	
Capital WIP	0.8	0.8	0.8	0.8	
Non-current Investments	68.3	91.2	109.9	132.2	
Othe non-current assets	67.8	90.6	109.1	131.3	
Inventories	244.0	342.8	412.8	496.7	
Trade Receivables	638.6	779.1	938.3	1,128.9	
Cash & Bank Balances	588.1	620.9	768.0	995.7	
Loans & Advances	0.4	0.4	0.4	0.4	
Other current assets	565.4	755.3	909.6	1,094.4	
Total current assets	2,036.5	2,498.4	3,029.0	3,716.1	
Total Current liabilities	1,262.3	1,546.6	1,849.6	2,212.4	
Net Current Assets	774.2	951.8	1,179.5	1,503.7	
Total Assets	1,204.3	1,497.3	1,823.4	2,243.8	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Per share data (₹)					
Reported EPS	29.0	38.6	49.7	62.8	
Cash EPS	34.8	46.1	58.4	73.0	
BV per share	183.4	221.2	269.9	332.7	
Operating Ratios (%)					
EBITDA Margin	10.7	10.8	11.2	11.5	
EBIT/ Net Sales	9.3	9.5	9.9	10.3	
PAT Margin	6.8	6.8	7.3	7.7	
Inventory days	31.4	33.0	33.0	33.0	
Debtor days	82.1	75.0	75.0	75.0	
Creditor days	86.4	75.0	75.0	75.0	
Return Ratios (%)					
RoE	15.8	17.4	18.4	18.9	
RoCE	24.5	26.3	27.1	27.3	
RoIC	43.3	41.3	43.1	45.4	
Valuation Ratios (x)					
P/E	35.9	26.9	20.9	16.6	
EV / EBITDA	21.0	15.5	12.2	9.5	
EV / Net Sales	2.2	1.7	1.4	1.1	
Price to Book Value	5.7	4.7	3.8	3.1	
Solvency Ratios (x)					
Debt / EBITDA	0.0	0.1	0.1	0.1	
Net Debt / Equity	(0.5)	(0.4)	(0.4)	(0.4)	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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