Ahluwalia (AHLCON)

ICICI direct Research

CMP: ₹ 674 Target: ₹ 880 (31%) Target Period: 12 months

BUY

February 20, 2025

Weak Performance in Q3; Recovery likely in FY26 ...

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 ₹ 16,258 crore as of Q3FY25 (4x book to bill). Ahluwalia enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 724 crore in Q3FY25).

Q3FY25 Performance: Ahluwalia reported revenue at ₹952 crore, down 7.3% YoY. EBITDA stood at ₹84.4 crore, down 24.5% YoY given the negative operating leverage. Effectively, EBITDA margin reported at 8.9% was down 200 bps YoY. PAT reported at ₹49.4 crore was down 30% YoY given the weak operating performance.

Investment Rationale:

- **NGT Ban impacts Q3; Execution to ramp up in FY26:** The weak operating performance was largely attributable to the impact of the NGT ban in the Delhi-NCR region (forms 33% of the orderbook). Consequently, the topline growth guidance was also revised downward to 8.5-9% (vs. 10% earlier) for FY25. We highlight that the company has now lowered its FY26 topline guidance to 15%+ (vs. 20% earlier). Nonetheless, Ahluwalia has a strong order book of ₹ 16258 crore as of Q3 (4x book to bill). It has received order inflows of ₹7,794 crore in 9MFY25. Given the bid pipeline of ₹25000 crore, it expects order inflows of ₹ 8000 crore for FY25 and FY26. Given the robust orderbook, we expect strong revenue CAGR of ~13.6% over FY24-27E to ₹ 5655 crore, with recovery from FY26.
- **Margin to improve in FY26**: The management is optimistic with margins improving to double digits in FY26 (exceeding 10%) owing to the completion of slow-moving projects, better management of the NGT issue and absence of additional expenses. For Q4, it expects incremental margin improvement over Q3 in the range of 9-10% given that January month was also affected by the NGT bans. With strong execution and price escalation in ~85% of the order book, we expect margins to bounce back to 10% and 10.5% in FY26 and FY27, respectively vs. 8.3% in FY25, driving 19.4% adjusted earnings CAGR over FY24-27E.

Rating and Target Price

- 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 recovery ahead
- We value Ahluwalia at ₹ 880 i.e. 15x on FY27E EPS and maintain our BUY rating

Company Update

ICICI Securities – Retail Equity Research

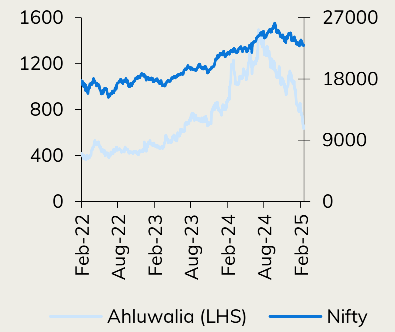
Particulars

Particular	Amount
Market Cap (₹ crore)	4,515
Debt (FY24) (₹ crore)	45
Cash (FY24) (₹ crore)	780
EV (₹ crore)	3,780
52 week H/L (₹)	1542 / 620
Equity capital (₹ crore)	13.4
Face value (₹)	2.0

Shareholding pattern

	Mar-24	Jun-24	Sep-24	Dec-24
Promoters	55.3	55.3	55.3	55.3
DII	26.0	25.3	25.0	24.7
FIIs	13.3	13.3	12.9	12.5
Other	5.3	6.1	6.9	7.5

Price Chart



Key risks

- Lower than expected execution
- Heightened competitive intensity impacting margins

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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	4,192.5	4,870.9	5,655.0	13.6
EBITDA	154.2	256.6	304.1	388.5	12.4	349.5	487.1	596.0	15.3
EBITDA Margin (%)	7.8	9.6	10.9	10.1		8.3	10.0	10.5	
Adj. Net Profit	77.2	155.2	194.1	230.6	14.5	196.7	307.7	392.8	19.4
EPS (₹)	11.5	23.2	29.0	56.1		29.4	45.9	58.6	
P/E (x)	58.5	29.1	23.3	12.0		23.0	14.7	11.5	
EV/EBITDA (x)	26.7	15.9	12.9	9.7		10.5	7.2	5.5	
RoCE (%)	16.7	25.0	24.5	22.2		18.1	22.0	22.9	
RoE (%)	8.8	15.0	15.8	23.5		11.0	14.7	15.8	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Orderbook internals and inflow guidance –**
    - **The unexecuted orderbook as of Q3FY25 stood at ₹16258 crore, implying 4x book to bill, executable over the next 3 years. The YTD order inflows stood at ₹7794.4 crore.**
    - Geographically the order break-up is West – 36.4%, North – 42%, East – 16.6%, South – 3.1% and Overseas (Nepal)– 1.9%.
    - The government and private segments form 42.7% and 55.4% of the overall project (The company had aspired to make it 50:50).
    - 87% of the orders have price escalation clause, while 13% are fixed price.
    - Going ahead, the management has indicated a bid pipeline of ₹25000 crore for FY26 across residential, commercial, healthcare etc, which should translate into order inflows of around ₹8000 crore for FY26, as well as similar number for FY25. As of Q3FY25, the company has already bid for projects worth ₹5500 crore and by Q4 it expects to bid for another ₹3000 crore worth of projects.
- **Topline and Margin Guidance** – The company expects 8.5%-9% growth for the current financial year, lower than the previously guided 10% growth due to the impact of NGT bans in the NCR region which forms 33% of the orderbook**. The company has guided for 15%+ growth in FY26 (vs 20% earlier). On margins front, the management is optimistic with margins improving to double digits FY26 exceeding 10% due to the completion of slow-moving projects, better management of the NGT issue and absence of additional expenses**. For Q4 FY25, it expects incremental margin improvement over Q3 in the range of 9-10%, given that January month was also affected by the NGT bans.
- **Capex** – The capex incurred for Q3 stood at ₹53 crore, as of 9M FY25, the total capex incurred is ₹154 crore. By the year end, the total capex is expected to be around ₹175 crore. As for FY26, capex is expected to be lower at around ₹125 crore, given that the CSMT project and other larger projects have taken off, hence the capex has been incurred.
- **Labour issues and status** – The management has indicated that the labour woes it has been facing still persists. During previous quarters, the company witnessed huge scarcity of labor which impacted productivity and led to the reduction in margins. The company had earlier indicated it had been operating at 60-70% labor capacity. In Q3, it has also witnessed an increase in labor costs attributed to the NGT ban In the Delhi-NCR region which resulted in idle labor hence contributing to the labor percentage ticking upwards.

Key project updates –

- **DLF Harbour project** – The project had taken off prior to the NGT ban coming into effect. DLF had compensated the labor force to stay back, hence work had commenced post lifting of the ban. The company has already installed 4000 CBM of concrete, it expects to clock a healthy run rate during the quarter and into FY26. Total billing in excess of ₹200 crore has already been done.
- **CSMT Station Re-development** – Being the company's largest project till date (worth ₹2367 crore), the fixed overheads and slow execution on the ground due to various factors like the general/state elections, extended monsoon and scarcity of labor had significantly impacted the margins. However, the management has indicated that the project's execution timeline remains unchanged, as the design issues have been dealt with and most of the approvals from the clients are in

place, hence, execution is expected to take off and from April 2025 onwards it expects to clock steady turnover which should contribute to the company's growth and margins outlook for FY26. The management also indicated a revenue run rate of about ₹80-100 crore during Q4, and for FY26, it expects around ₹700-750 crore in revenues from the project.

- **Gems and Jewellery Park** – The project had been stalled on account of the impending elections. The management indicated they are expecting to receive the notice to proceed with the project in the next one to two months and the project will go into the design stage and approvals. It expects the revenues to start flowing from Q2 FY26 with revenues pegged at around ₹500 crore from the project. The unexecuted value of the project stands at ₹2157 crore.
- **Darbhanga and Varanasi airport** – The two airports are currently under execution. The projects are collectively worth ₹1465.5 crore. Both the projects so far have clocked revenues to the tune of ₹40 crore (Varanasi) and ₹20 crore (Darbhanga).
- **Emaar Settlement** – The total receivables from Emaar stood at ₹218 crore, out of which the company had received ₹56 crore and total of ₹70 crore received in Q2. The final installment of ₹56 crore has also been received.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	**3,855.3**	**4,192.5**	**4,870.9**	**5,655.0**
Growth (%)	37.7	8.7	16.2	16.1
Raw Material Cost	1,839.5	2,000.3	2,313.7	2,686.1
Employee Cost	282.4	310.2	341.0	390.2
Other Expenditure	1,344.9	1,532.3	1,729.2	1,982.6
Total Op Expenditure	3,466.8	3,842.9	4,383.8	5,058.9
EBITDA	**388.5**	**349.5**	**487.1**	**596.0**
Growth (%)	46.6	(10.0)	39.4	22.4
EBITDA Margin (%)	**10.1**	**8.3**	**10.0**	**10.5**
Other income	36.6	47.6	52.4	57.6
Depreciation	66.9	70.6	75.6	81.6
EBIT	358.3	326.6	463.8	572.0
Interest	48.1	60.1	52.5	46.9
Exceptional items	195.0	-	-	-
PBT	505.1	266.5	411.4	525.1
Tax	129.6	69.8	103.7	132.3
Rep. PAT	**375.5**	**196.7**	**307.7**	**392.8**
Adj. Net Profit	**230.6**	**196.7**	**307.7**	**392.8**
Growth (%)	18.8	(14.7)	56.5	27.6
EPS (₹)	**56.1**	**29.4**	**45.9**	**58.6**

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	375	197	308	393
Depreciation	67	71	76	82
Interest	48	60	52	47
Others	(42)	(48)	(52)	(58)
Cash Flow before wc changes	448	280	383	464
Net Increase in CA	(437)	(165)	(332)	(383)
Net Increase in CL	287	129	261	301
Net CF from op. activities	**299**	**244**	**312**	**382**
Net purchase of Fixed Assets	(117)	(114)	(120)	(120)
Others	20	34	25	27
Net CF from Inv. Activities	**(97)**	**(79)**	**(95)**	**(93)**
Proceeds from share capital	(1)	(0)	(1)	6
Debt Proceeds/Repayment	42	-	-	-
Interest paid	(48)	(60)	(52)	(47)
Dividend paid	(3)	(3)	(5)	(6)
Net CF rom Fin Activities	**(10)**	**(63)**	**(58)**	**(47)**
Net Cash flow	**192**	**102**	**159**	**241**
Opening Cash	588	780	882	1,041
Closing Cash	**780**	**882**	**1,041**	**1,283**

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	1,779.9	2,081.6	2,474.3
Networth	1,599.9	1,793.3	2,095.0	2,487.7
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**	**1,805.7**	**2,107.4**	**2,500.2**
Assets				
Net Block	336.5	385.9	430.3	468.6
Capital WIP	7.3	0.8	0.8	0.8
Non-current Investments	63.5	69.1	80.3	93.2
Othe non-current assets	89.4	97.2	113.0	131.1
Inventories	315.8	343.5	399.1	463.3
Trade Receivables	780.3	848.5	985.8	1,144.5
Cash & Bank Balances	780.3	882.0	1,041.4	1,282.6
Loans & Advances	0.7	0.7	0.7	0.7
Other current assets	788.2	857.1	995.8	1,156.1
Total current assets	2,665.3	2,931.8	3,422.7	4,047.1
Total Current liabilities	1,549.7	1,679.2	1,939.7	2,240.7
Net Current Assets	1,115.6	1,252.6	1,483.1	1,806.4
Total Assets	**1,612.4**	**1,805.7**	**2,107.4**	**2,500.2**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
Reported EPS	56.1	29.4	45.9	58.6
Cash EPS	66.0	39.9	57.2	70.8
BV per share	238.8	267.7	312.7	371.4
Operating Ratios (%)				
EBITDA Margin	10.1	8.3	10.0	10.5
EBIT/ Net Sales	8.3	6.7	8.4	9.1
PAT Margin	6.0	4.7	6.3	6.9
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	11.0	14.7	15.8
RoCE	22.2	18.1	22.0	22.9
RoIC	39.1	30.3	38.7	42.4
Valuation Ratios (x)				
P/E	12.0	23.0	14.7	11.5
EV / EBITDA	9.7	10.5	7.2	5.5
EV / Net Sales	1.0	0.9	0.7	0.6
Price to Book Value	2.8	2.5	2.2	1.8
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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