

SADBHAV ENGINEERING

ENGINEERING

18 SEP 2017

Company Update

BUY

Target Price: Rs 336

Past issues resolved; outlook positive

We met Sadbhav's (SEL) management to discuss various investor concerns. **Key takeaways:**

Slow growth in last two years was primarily due to stuck projects in irrigation and payment issues in mining; the issues are now nearing resolution. SEL expects FY18 revenue to grow 14-17% YoY to ~Rs 38-39 bn with Rs 13-15 bn from 7 HAM projects. Road EPC order backlog worth ~Rs 17 bn should be executed in FY18. Mining and Irrigation combined together should contribute Rs 7.5-8 bn.

SEL is targeting order inflow of Rs 60-70 bn in FY18 with 80-85% from road projects (equal share of EPC and HAM). Sadbhav has adequate capacity and equipment for concrete as well as bitumen roads and would require capex of only Rs 500 mn each in FY18, FY19.

CMP : Rs 292
Potential Upside : 15%

MARKET DATA

No. of Shares : 172 mn
Free Float : 53%
Market Cap : Rs 50 bn
52-week High / Low : Rs 351 / Rs 220
Avg. Daily vol. (6mth) : 156,547 shares
Bloomberg Code : SADE IB Equity
Promoters Holding : 47%
FII / DII : 18% / 25%

Management rejig: Due to health issues, Vishnubhai Patel (Promoter and MD) has now taken a back seat. His son, Mr. Shashin Patel has now taken over as MD of SEL. Vasistha Patel, son-in-law of Vishnubhai, is MD of SIPL[^] and heads northern region, SEL. Vikram Patel and Vipul Patel, son-in-laws of Vishnubhai, head western and southern regions, SEL.

Past issues now almost resolved: Low growth in last 2 years due to stuck legacy project. Sadbhav has learned from these mistakes and will not go for JV in future contracts and also not do back to back subcontracting of work.

- **Irrigation projects:** SEL had taken irrigation projects in JV with GK Infra, which is facing financial issues and is undergoing CDR. Hence Sadbhav had to take over the execution of these projects and consequently working capital requirement too shot up. Management expects that these irrigation projects should be completed by FY19
- **Coal mining:** Sadbhav has issued a foreclosure notice to BCCL for Katras Area project - order book of Rs 1.75 bn. This is due to requirement to replace the tire mounted equipment with chain-mounted equipment, and issues related to service tax. Awaiting final clearance from paneled consultant, which is expected in the next 1-2 months

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	31,863	33,203	38,781	45,448
EBITDA (Rs mn)	3,254	3,556	4,314	5,364
Adj PAT (Rs mn)	1,390	1,878	2,506	2,652
Con. EPS* (Rs)	-	-	12.6	13.9
EPS (Rs)	8.1	10.9	14.6	15.5
Change YOY (%)	5.9	35.1	33.4	5.8
P/E (x)	23.3	17.2	12.9	12.2
RoE (%)	9.8	12.0	14.1	13.2
EV/E (x)	18.5	18.3	13.0	10.3
DPS (Rs)	0.8	0.8	1.1	1.2

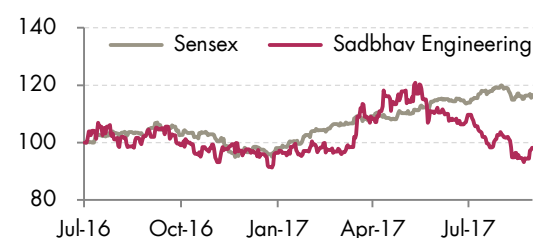
Source: *Consensus broker estimates, Company, Axis Capital

[^] SIPL: Sadbhav Infrastructure Project Ltd

Key drivers(Rs bn)

	FY17	FY18E	FY19E
Order inflow	35.1	66.0	78.0
Order backlog	76.8	104.2	136.8
Margin	10.7%	11.1%	11.8%

Price performance



Strong order pipeline: In road projects, SEL has submitted bids for 9 EPC projects for 754 kms worth ~Rs 65 bn and will participate in 15 EPC projects for 453 kms worth ~Rs 130 bn, for which bids have to be submitted by Sep'17 which includes Vadodara to Kim expressway project of length 124 kilometers has now fall under the EPC mode worth ~Rs 67 bn. Apart from these, there are 11 HAM projects worth ~Rs 140 bn in the pipeline by Sep'17. Management commented that NHAI would be ordering projects for 6,500 kms worth ~Rs 700-750 bn during FY18 with 60-65% HAM share, in addition to project awards from MoRTH and state roads.

In the mining business, the pipeline includes 3 mining projects worth ~Rs 16 bn. On the irrigation side, SEL would participate in projects in Madhya Pradesh, Gujarat and Rajasthan worth ~Rs 40 bn. The company is also targeting metro construction projects in the transport segment.

Sadbhav Infrastructure Project Ltd: Post GST, traffic growth nose-dived in July, but has recovered in August. Sale of 2 BOT projects has not been completed due to demonetization and GST. Base traffic declined due to these events and the acquirer was extrapolating for balance period of 18 years based on lower base traffic. The two projects are Bijapur and Dhule. As against equity invested of Rs 5.5 bn, the management is expecting shade lower than Rs 10 bn.

Maintain estimates, TP; BUY: We maintain our FY18/19 standalone EPS at Rs 14.6 and Rs 15.5. Our SoTP-based TP stands at Rs 336 (standalone at Rs 233/sh on 15x FY19E and BOT at Rs 103/sh).

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	31,863	33,203	38,781	45,448
Other operating income	-	-	-	-
Total operating income	31,863	33,203	38,781	45,448
Cost of goods sold	(25,905)	(26,552)	(31,286)	(36,533)
Gross profit	5,958	6,651	7,494	8,915
<i>Gross margin (%)</i>	<i>18.7</i>	<i>20.0</i>	<i>19.3</i>	<i>19.6</i>
Total operating expenses	(2,704)	(3,095)	(3,180)	(3,552)
EBITDA	3,254	3,556	4,314	5,364
<i>EBITDA margin (%)</i>	<i>10.2</i>	<i>10.7</i>	<i>11.1</i>	<i>11.8</i>
Depreciation	(849)	(1,000)	(983)	(1,118)
EBIT	2,404	2,556	3,331	4,245
Net interest	(863)	(992)	(1,175)	(1,095)
Other income	253	333	350	385
Profit before tax	1,795	1,897	2,506	3,535
Total taxation	(405)	(18)	-	(884)
<i>Tax rate (%)</i>	<i>22.5</i>	<i>1.0</i>	<i>-</i>	<i>25.0</i>
Profit after tax	1,390	1,878	2,506	2,652
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,390	1,878	2,506	2,652
<i>Adj. PAT margin (%)</i>	<i>4.4</i>	<i>5.7</i>	<i>6.5</i>	<i>5.8</i>
Net non-recurring items	(53)	-	-	-
Reported net profit	1,337	1,878	2,506	2,652

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	172	172	172	172
Reserves & surplus	14,543	16,437	18,750	21,198
Net worth	14,715	16,609	18,922	21,369
Borrowing	10,588	15,183	14,183	13,183
Other non-current liabilities	232	-	-	-
Total liabilities	25,534	31,792	33,105	34,553
Gross fixed assets	9,498	10,177	11,677	13,177
Less: Depreciation	(3,948)	(4,948)	(5,932)	(7,050)
Net fixed assets	5,550	5,229	5,745	6,127
Add: Capital WIP	-	-	-	-
Total fixed assets	5,550	5,229	5,745	6,127
Total Investment	11,691	11,075	11,075	11,075
Inventory	1,406	1,234	2,656	3,113
Debtors	10,372	17,010	11,687	13,697
Cash & bank	366	230	8,279	7,829
Loans & advances	5,948	4,790	8,500	9,961
Current liabilities	10,652	8,411	15,581	18,120
Net current assets	8,293	15,489	16,285	17,351
Other non-current assets	-	-	-	-
Total assets	25,534	31,792	33,105	34,553

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,795	1,897	2,506	3,535
Depreciation & Amortisation	849	1,000	983	1,118
<i>Chg in working capital</i>	<i>(1,388)</i>	<i>(7,333)</i>	<i>7,252</i>	<i>(1,516)</i>
Cash flow from operations	1,661	(3,462)	11,916	3,349
<i>Capital expenditure</i>	<i>(1,042)</i>	<i>(679)</i>	<i>(1,500)</i>	<i>(1,500)</i>
Cash flow from investing	(2,695)	(1,055)	(2,675)	(2,595)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>1,205</i>	<i>4,596</i>	<i>(1,000)</i>	<i>(1,000)</i>
<i>Dividend paid</i>	<i>(145)</i>	<i>(145)</i>	<i>(193)</i>	<i>(204)</i>
Cash flow from financing	1,060	4,451	(1,193)	(1,204)
Net chg in cash	26	(66)	8,049	(450)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	8.1	10.9	14.6	15.5
CEPS (Rs)	12.7	16.8	20.3	22.0
DPS (Rs)	0.8	0.8	1.1	1.2
Dividend payout ratio (%)	10.8	7.7	7.7	7.7
GROWTH				
Net sales (%)	7.3	4.2	16.8	17.2
EBITDA (%)	5.3	9.3	21.3	24.3
Adj net profit (%)	15.7	35.1	33.4	5.8
FDEPS (%)	5.9	35.1	33.4	5.8
PERFORMANCE				
RoE (%)	9.8	12.0	14.1	13.2
RoCE (%)	10.9	10.1	11.3	13.7
EFFICIENCY				
Asset turnover (x)	1.3	1.2	1.4	1.8
Sales/ total assets (x)	0.9	0.9	0.9	0.9
Working capital/ sales (x)	0.2	0.3	0.3	0.2
Receivable days	118.8	187.0	110.0	110.0
Inventory days	17.9	15.2	28.1	28.3
Payable days	119.8	103.3	164.8	164.8
FINANCIAL STABILITY				
Total debt/ equity (x)	0.7	1.0	0.8	0.7
Net debt/ equity (x)	0.7	1.0	0.3	0.3
Current ratio (x)	1.8	2.8	2.0	2.0
Interest cover (x)	2.8	2.6	2.8	3.9
VALUATION				
PE (x)	23.3	17.2	12.9	12.2
EV/ EBITDA (x)	18.5	18.3	13.0	10.3
EV/ Net sales (x)	1.9	2.0	1.4	1.2
PB (x)	3.4	3.0	2.6	2.3
Dividend yield (%)	0.3	0.3	0.4	0.4
Free cash flow yield (%)	-	(0.1)	0.2	-

Source: Company, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.