

# Sadbhav Engineering

BSE SENSEX

33,149

S&amp;P CNX

10,227

**CMP: INR 380 TP: INR435 (+15%)**
**Buy**

## Well placed for upcoming opportunity

### Focus on balance sheet improvement

We recently met management of Sadbhav Engineering (SADE) at our 'Midcap Conference'.

- **SADE sees robust business opportunity coming up in the road sector post the Bharatmala project announcement – the company expects annual awarding from the NHAI to be ~INR800b in FY18 versus INR600b in the previous year.**
- **The company has maintained its standalone revenue guidance of INR38b/INR45b for FY18/FY19, and expects the operating margin to be in the range of 11-12%. Order inflow is expected to be ~INR70b for FY18.**
- **Management has reiterated its commitment to reduce debt incrementally by ~INR2b to INR12.5b by end-FY18.**

- **Focus on strengthening balance sheet quality:** SADE's balance sheet quality improved in 1HFY18, led by its focus on reducing debt and overall working capital requirement. The company was able to bring down debt by INR3.5b in 1HFY18, and expects a reduction of another INR2b in 2H. Debt reduction would be driven by the recovery of stuck debtors and the receipt of mobilization advance and also money from loans given to SIPL. A lean balance sheet would provide SADE with the necessary growth capital to take advantage of the massive capex planned by the government under the Bharatmala program.

- **Expect NHAI ordering to pick up in 4Q, project pipeline provides confidence:** SADE expects NHAI ordering to be ~INR800b this fiscal, as against INR600b in FY17. The company expects ordering to pick up hereon, especially in 4QFY18. The NHAI has already floated RFP of INR600b, which should be finalized by end-FY18. SADE expects order inflow of INR70b in FY18, of which it has already bagged orders worth INR35b in 1HFY18.

- **Expect execution of INR38/INR45b in FY18/FY19:** SADE expects revenue booking of INR38b in FY18 and INR45b in FY19. Given its strong order book of INR77b – of which 40% is captive in nature – SADE expects execution to pick up significantly. The company expects revenue growth of 18-20% over FY18-20 and an operating margin of 11-12%.

- **Traffic to grow strongly in 2HFY18:** SADE has witnessed average traffic growth of 7% in 2QFY18 across its BoT portfolio. Furthermore, it expects traffic growth to be ~10% in 2HFY18, given the low base (impact of demonetization) and an improvement in traffic across projects.

- **Cost of borrowing to reduce further for BoT portfolio:** SADE's subsidiary SIPL is in the final stages to refinance the Maharashtra border check-post project, after which it expects the cost of borrowing to come down to 9.2% from 9.8% in FY17. It also plans to raise INR5.5b of loan on MBCP and use it to repay loan to SADE and Rohtak Hissar project. SADE's consolidated debt stands at INR80.2b.



#### Stock Info

Bloomberg	SADE IN
Equity Shares (m)	171.5
52-Week Range (INR)	384 / 256
1, 6, 12 Rel. Per (%)	20/15/14
M.Cap. (INR b)	65.0
M.Cap. (USD b)	1.0
Avg Val, INRm	42
Free float (%)	53.2

#### Financials Snapshot (INR b)

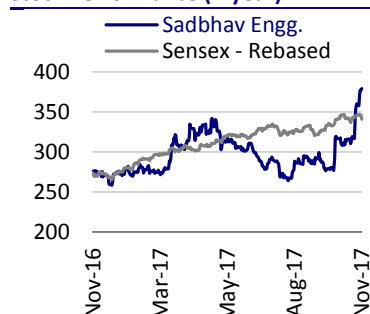
Y/E MARCH	FY17	FY18E	FY19E
Net Sales	33.2	38.4	45.0
EBITDA (INR b)	3.6	4.3	5.1
NP	1.9	2.4	2.5
EPS	11.0	14.3	14.5
EPS Gr (%)	42.3	30.4	1.8
BV/Share (INR)	96.8	109.7	122.8
P/E (x)	34.6	26.5	26.1
P/BV (x)	3.9	3.5	3.1
RoE (%)	12.0	13.8	12.5
RoCE (%)	7.9	9.0	10.2

#### Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	46.8	46.8	46.8
DII	25.5	25.3	25.3
FII	16.6	18.2	17.6
Others	11.1	9.7	10.4

FII Includes depository receipts

#### Stock Performance (1-year)



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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **River linking, metro to provide strong opportunity:** SADE expects the river linking and metro projects to provide massive business opportunity over the medium term. Government has announced plans to inter-link more than 60 rivers across India to reduce floods and address the issue of water shortage in India. Total capex planned for the project is INR5.5t, and the first project is expected to be awarded over the next one year. SADE has all pre-qualifications in place, and the scope of work includes construction of canals and dams.
- SADE also expects metro to provide strong opportunity (INR800b) in the medium term. SADE has worked on the DMRC project, and thus, fulfills the pre-requisites for the metro projects.
- **Valuation view:** We believe that SADE is well placed to take advantage of the upcoming opportunity in the INR7t road sector, given its execution capability, management bandwidth and recent balance sheet improvement. Over FY17-20, we expect a CAGR of 17% in revenue and 16% in earnings. We maintain our **Buy** rating with an SOTP-based TP of INR435, valuing its EPC business at INR265 (16x its Dec'19E EPS of INR16.4) and its SIPL stake at INR170 (15% discount to CMP).

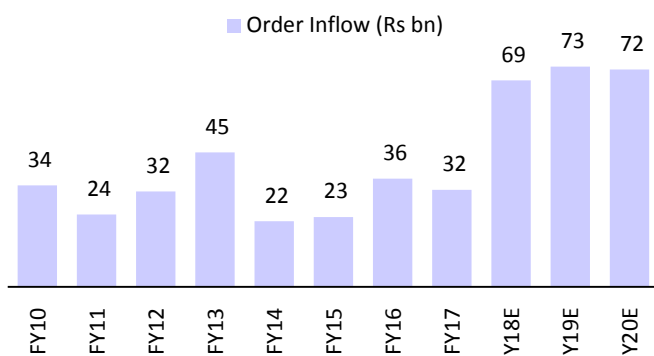
**Exhibit 1: SOTP Table**

Particulars	Segments	Value (INR m)	Value per share(INR)	Rationale
Sadbhav Standalone	EPC business	45,466	265	At 16x DEC19E EPS
SIPL stake	Subsidiary	28,649	170	Valued using current market cap of SIPL and ascribing a holding company discount for SEL stake in SIPL
<b>SOTP Value</b>		<b>73,665</b>	<b>435</b>	

Source: MOSL, Company

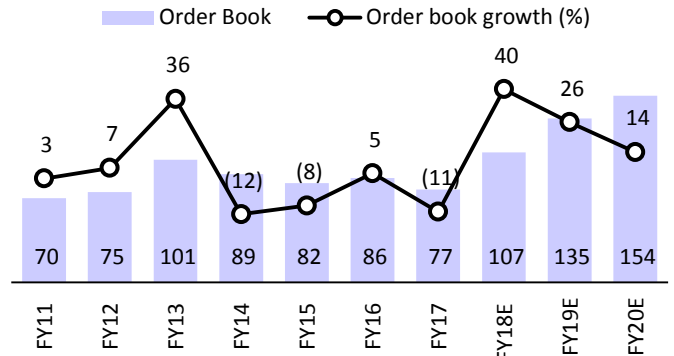
## Story in charts

**Exhibit 2: Order inflow to remain robust over the next three years**



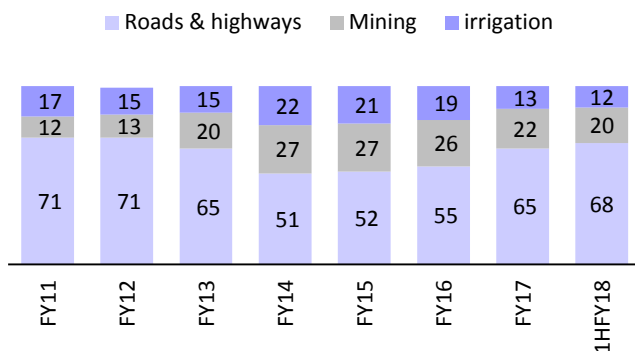
Source: MOSL, Company

**Exhibit 3: Order backlog provides robust medium-term revenue visibility**



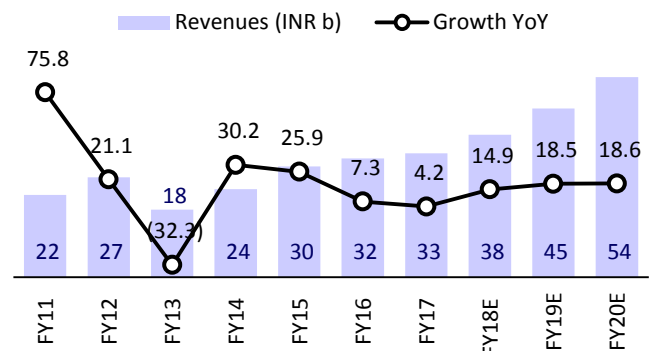
Source: MOSL, Company

**Exhibit 4: Segment-wise order book bifurcation**



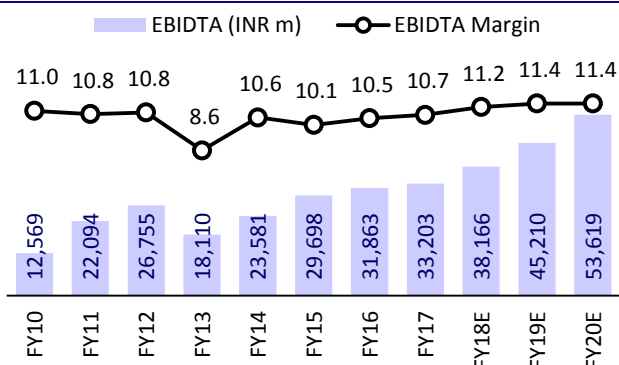
Source: MOSL, Company

**Exhibit 5: Revenue to register 18% CAGR over FY17-20E**



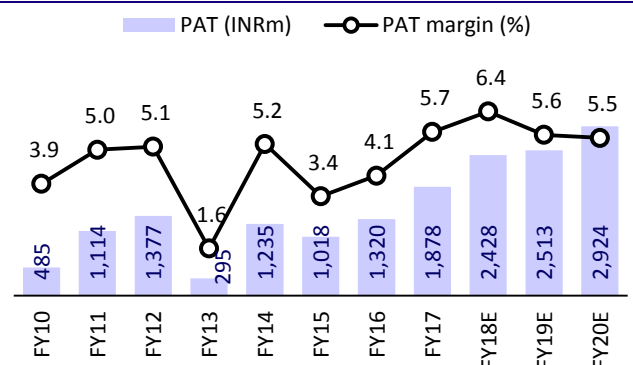
Source: MOSL, Company

**Exhibit 6: Operating margins to remain stable**



Source: MOSL, Company

**Exhibit 7: Adjusted PAT to register 16% CAGR over FY17-20E**



Source: MOSL, Company

## Financials and Valuations

### Standalone - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Total Income from Operations</b>	<b>18,110</b>	<b>23,581</b>	<b>29,698</b>	<b>31,863</b>	<b>33,203</b>	<b>38,166</b>	<b>45,210</b>	<b>53,619</b>
Change (%)	-32.3	30.2	25.9	7.3	4.2	14.9	18.5	18.6
Raw Materials & Construction Exp.	15,197	19,450	24,362	25,805	26,552	31,230	37,032	43,925
Employees Cost	428	602	974	1,228	1,366	1,336	1,447	1,555
Other Expenses	928	1,040	1,360	1,482	1,729	1,336	1,582	2,038
<b>Total Expenditure</b>	<b>16,553</b>	<b>21,092</b>	<b>26,696</b>	<b>28,515</b>	<b>29,647</b>	<b>33,902</b>	<b>40,061</b>	<b>47,517</b>
% of Sales	91.4	89.4	89.9	89.5	89.3	88.8	88.6	88.6
<b>EBITDA</b>	<b>1,557</b>	<b>2,489</b>	<b>3,002</b>	<b>3,348</b>	<b>3,556</b>	<b>4,264</b>	<b>5,148</b>	<b>6,102</b>
Margin (%)	8.6	10.6	10.1	10.5	10.7	11.2	11.4	11.4
Depreciation	318	474	817	971	1,000	1,005	1,289	1,439
<b>EBIT</b>	<b>1,239</b>	<b>2,015</b>	<b>2,185</b>	<b>2,377</b>	<b>2,556</b>	<b>3,259</b>	<b>3,860</b>	<b>4,663</b>
Int. and Finance Charges	844	1,181	1,382	855	992	1,054	903	764
Other Income	1,342	-188	775	512	333	350	394	0
<b>PBT bef. EO Exp.</b>	<b>1,737</b>	<b>646</b>	<b>1,578</b>	<b>2,035</b>	<b>1,897</b>	<b>2,556</b>	<b>3,350</b>	<b>3,899</b>
EO Items	-629	174	-119	-194	0	0	0	0
<b>PBT after EO Exp.</b>	<b>1,108</b>	<b>820</b>	<b>1,459</b>	<b>1,840</b>	<b>1,897</b>	<b>2,556</b>	<b>3,350</b>	<b>3,899</b>
Total Tax	185	-242	321	325	18	128	838	975
Tax Rate (%)	16.7	-29.5	22.0	17.7	1.0	5.0	25.0	25.0
<b>Reported PAT</b>	<b>924</b>	<b>1,062</b>	<b>1,137</b>	<b>1,515</b>	<b>1,878</b>	<b>2,428</b>	<b>2,513</b>	<b>2,924</b>
<b>Adjusted PAT</b>	<b>295</b>	<b>1,235</b>	<b>1,018</b>	<b>1,320</b>	<b>1,878</b>	<b>2,428</b>	<b>2,513</b>	<b>2,924</b>
Change (%)	-78.6	319.3	-17.6	29.7	42.3	29.3	3.5	16.4
Margin (%)	1.6	5.2	3.4	4.1	5.7	6.4	5.6	5.5

### Standalone - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	151	152	172	172	172	172	172	172
Total Reserves	8,174	9,189	13,349	14,543	16,437	18,625	20,897	23,580
<b>Net Worth</b>	<b>8,325</b>	<b>9,572</b>	<b>13,521</b>	<b>14,715</b>	<b>16,609</b>	<b>18,796</b>	<b>21,068</b>	<b>23,751</b>
Total Loans	7,630	10,257	10,964	12,167	15,183	13,683	12,883	11,383
Deferred Tax Liabilities	317	357	244	232	-477	-477	-477	-477
<b>Capital Employed</b>	<b>16,272</b>	<b>20,186</b>	<b>24,728</b>	<b>27,113</b>	<b>31,316</b>	<b>32,003</b>	<b>33,475</b>	<b>34,658</b>
Gross Block	5,148	7,264	8,512	9,388	10,638	12,138	13,638	15,138
Less: Accum. Deprn.	1,845	2,282	3,155	3,838	4,838	5,843	7,132	8,571
<b>Net Fixed Assets</b>	<b>3,303</b>	<b>4,982</b>	<b>5,357</b>	<b>5,550</b>	<b>5,229</b>	<b>6,295</b>	<b>6,506</b>	<b>6,567</b>
Capital WIP	0	0	0	0	0	0	0	0
<b>Total Investments</b>	<b>5,385</b>	<b>5,210</b>	<b>5,313</b>	<b>5,278</b>	<b>5,694</b>	<b>5,394</b>	<b>5,394</b>	<b>5,394</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>16,221</b>	<b>20,088</b>	<b>24,580</b>	<b>25,358</b>	<b>28,804</b>	<b>32,255</b>	<b>35,715</b>	<b>39,464</b>
Inventory	1,022	1,638	2,134	1,406	1,234	1,280	1,518	1,800
Account Receivables	7,365	7,319	9,067	9,994	17,010	12,548	13,625	16,159
Cash and Bank Balance	218	762	351	366	230	6,568	6,525	4,844
Loans and Advances	7,617	10,369	13,028	13,591	10,331	11,859	14,047	16,660
<b>Curr. Liability &amp; Prov.</b>	<b>8,636</b>	<b>10,093</b>	<b>10,522</b>	<b>9,073</b>	<b>8,411</b>	<b>11,940</b>	<b>14,140</b>	<b>16,767</b>
Account Payables	6,474	8,879	8,902	7,814	8,391	10,352	12,262	14,543
Provisions	2,162	1,215	1,620	1,259	20	1,588	1,878	2,224
<b>Net Current Assets</b>	<b>7,585</b>	<b>9,994</b>	<b>14,058</b>	<b>16,285</b>	<b>20,393</b>	<b>20,314</b>	<b>21,575</b>	<b>22,697</b>
<b>Appl. of Funds</b>	<b>16,272</b>	<b>20,186</b>	<b>24,728</b>	<b>27,113</b>	<b>31,316</b>	<b>32,003</b>	<b>33,475</b>	<b>34,658</b>

## Financials and Valuations

### Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>1.7</b>	<b>7.2</b>	<b>5.9</b>	<b>7.7</b>	<b>11.0</b>	<b>14.2</b>	<b>14.6</b>	<b>17.0</b>
Cash EPS	3.6	10.0	10.7	13.4	16.8	20.0	22.2	25.4
BV/Share	48.5	55.8	78.8	85.8	96.8	109.6	122.8	138.5
DPS	0.5	0.6	0.7	0.9	1.1	1.2	1.2	1.2
Payout (%)	11.5	11.7	12.4	11.9	11.8	9.9	9.6	8.2
<b>Valuation (x)</b>								
P/E			64.0	49.4	34.7	26.8	25.9	22.3
Cash P/E			35.5	28.5	22.6	19.0	17.1	14.9
P/BV			4.8	4.4	3.9	3.5	3.1	2.7
EV/Sales			2.6	2.4	2.4	1.9	1.6	1.3
EV/EBITDA			25.2	23.0	22.5	17.0	13.9	11.8
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3
FCF per share	-0.2	14.2	-10.8	4.5	-50.9	52.8	8.8	4.8
<b>Return Ratios (%)</b>								
RoE	3.7	13.8	8.8	9.4	12.0	13.7	12.6	13.0
RoCE	14.7	8.2	10.7	9.0	7.9	9.0	10.2	10.8
RoIC	10.4	13.0	10.5	9.4	8.7	11.5	14.8	16.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.5	3.2	3.5	3.4	3.1	3.1	3.3	3.5
Asset Turnover (x)	1.1	1.2	1.2	1.2	1.1	1.2	1.4	1.5
Inventory (Days)	21	25	26	16	14	12	12	12
Debtor (Days)	148	113	111	114	187	120	110	110
Creditor (Days)	130	137	109	90	92	99	99	99
<b>Leverage Ratio (x)</b>								
Current Ratio	1.9	2.0	2.3	2.8	3.4	2.7	2.5	2.4
Interest Cover Ratio	1.5	1.7	1.6	2.8	2.6	3.1	4.3	6.1
Net Debt/Equity	0.2	0.4	0.4	0.4	0.6	0.1	0.0	0.0

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	741	1,062	1,137	1,337	1,897	2,556	3,350	3,899
Depreciation	318	474	817	849	1,000	1,005	1,289	1,439
Interest & Finance Charges	756	1,178	1,381	1,506	992	1,054	903	764
Direct Taxes Paid	-495	-486	-589	-659	-18	-128	-838	-975
(Inc)/Dec in WC	-1,069	2,507	-2,963	-1,105	-11,025	6,417	-1,303	-2,803
<b>CF from Operations</b>	<b>252</b>	<b>4,734</b>	<b>-217</b>	<b>1,928</b>	<b>-7,154</b>	<b>10,904</b>	<b>3,401</b>	<b>2,324</b>
Others	407	-112	-148	-289	-333	-350	-394	0
<b>CF from Operating incl EO</b>	<b>658</b>	<b>4,623</b>	<b>-365</b>	<b>1,639</b>	<b>-7,487</b>	<b>10,554</b>	<b>3,007</b>	<b>2,324</b>
(Inc)/Dec in FA	-695	-2,183	-1,489	-860	-1,250	-1,500	-1,500	-1,500
<b>Free Cash Flow</b>	<b>-37</b>	<b>2,440</b>	<b>-1,854</b>	<b>779</b>	<b>-8,737</b>	<b>9,054</b>	<b>1,507</b>	<b>824</b>
(Pur)/Sale of Investments	-2,160	-100	-390	-237	6,474	-271	0	0
Others	-329	-3,364	-531	-8	333	350	394	0
<b>CF from Investments</b>	<b>-3,184</b>	<b>-5,647</b>	<b>-2,411</b>	<b>-1,104</b>	<b>5,557</b>	<b>-1,421</b>	<b>-1,106</b>	<b>-1,500</b>
Issue of Shares	29	36	3,153	2	0	0	0	0
Inc/(Dec) in Debt	3,096	2,815	662	1,119	3,005	-1,500	-800	-1,500
Interest Paid	-840	-1,177	-1,325	-1,495	-992	-1,054	-903	-764
Dividend Paid	-105	-106	-124	-145	-221	-241	-241	-241
CF from Fin. Activity	2,180	1,568	2,366	-519	1,792	-2,795	-1,944	-2,505
<b>Inc/Dec of Cash</b>	<b>-345</b>	<b>543</b>	<b>-410</b>	<b>16</b>	<b>-137</b>	<b>6,338</b>	<b>-43</b>	<b>-1,681</b>
Opening Balance	563	218	761	351	367	230	6,568	6,525
<b>Closing Balance</b>	<b>218</b>	<b>761</b>	<b>351</b>	<b>367</b>	<b>230</b>	<b>6,568</b>	<b>6,525</b>	<b>4,844</b>

## Disclosures:

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