

SADBHAV ENGINEERING

ENGINEERING

21 FEB 2018

Quarterly Update

BUY

Target Price: Rs 497

Strong growth ahead

Sadbhav's (SEL) Q3FY18 standalone revenue (up 8% YoY) was in line with our estimate. EBITDA margin increased 45 bps YoY to 11.3%, slightly above our/consensus estimates. PAT was almost flat at Rs 531 mn due to higher tax rate. Company booked orders of ~Rs 25 bn (up 12% YoY) in Q3. Order backlog at **Rs 96 bn (up 25% YoY)** provides good revenue visibility till FY20.

Management guides for healthy growth in FY18/19: SEL's management expects order inflow of Rs 70 bn (up 100% YoY), revenue of ~Rs 37 bn (vs. Rs 38 bn earlier) due to delay in appointed date of 2 HAM projects and EBITDA margin of ~11.35% in FY18. Further, management guided for order inflow of ~Rs 80 bn (up 14% YoY), revenue of ~Rs 43 bn (up 16% YoY) and EBITDA margin of ~11.5% in FY19.

CMP : Rs 396
Potential Upside : 25%

MARKET DATA

No. of Shares : 172 mn
Free Float : 54%
Market Cap : Rs 68 bn
52-week High / Low : Rs 439 / Rs 262
Avg. Daily vol. (6mth) : 331,089 shares
Bloomberg Code : SADE IB Equity
Promoters Holding : 46%
FII / DII : 15% / 23%

Strong order pipeline: In road projects, SEL has submitted bids for 3 EPC projects worth ~Rs 27 bn and Q4 bid pipeline includes **56 EPC projects from NHAI worth ~Rs 350 bn, 13 MSRDC projects for Mumbai Nagpur expressway worth ~Rs 240 bn and 89 HAM projects worth ~Rs 900 bn.** Mining pipeline includes 2 projects for overburden removal worth ~Rs 3 bn. Irrigation pipeline includes 13 projects in Madhya Pradesh, Karnataka and Rajasthan worth ~Rs 103 bn.

Balance sheet expected to improve further: SEL continued its focus on balance sheet improvement and debt has declined to Rs 14.5 bn (vs. Rs 17.8 bn in Mar'17) and flat vs. Rs 14.2 bn in Sep'17. Management expects debt to reduce further by ~Rs 2.0 bn to ~Rs 12.5 bn by Mar'18.

Adjust FY18/19 estimates, roll forward TP; maintain BUY: We cut FY18E standalone EPS to Rs 13.8 (vs. Rs 14.6 earlier) and raise FY19E standalone EPS to Rs 16.7 (vs. Rs 15.5 earlier) to adjust for delay in appointed date of 2 HAM projects and their execution. We roll forward to FY20. Our revised SoTP-based TP stands at Rs 497 (standalone at Rs 340/sh on 18x FY20E and BOT at Rs 157/sh) vs. Rs 416 earlier.

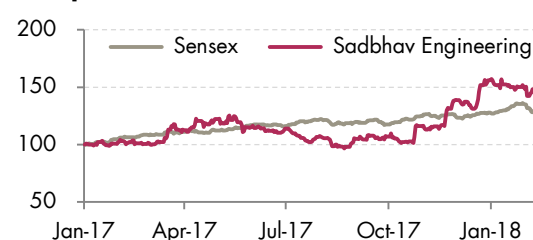
Financial summary (Standalone)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	33,203	37,036	43,547	53,956
EBITDA (Rs mn)	3,556	4,182	5,159	6,359
Adj PAT (Rs mn)	1,878	2,373	2,865	3,245
Con. EPS* (Rs)	-	13.4	14.5	16.8
EPS (Rs)	10.9	13.8	16.7	18.9
Change YOY (%)	35.1	26.3	20.7	13.3
P/E (x)	21.8	17.3	14.3	12.6
RoE (%)	12.0	13.4	14.2	14.1
EV/E (x)	23.3	17.6	14.0	11.1
DPS (Rs)	0.8	1.1	1.3	1.5

Key drivers(Rs bn)

	FY17	FY18E	FY19E
Order inflow	35.1	70.5	81.5
Order backlog	76.8	110.4	148.4
Margin	10.7%	11.3%	11.8%

Price performance



Source: *Consensus broker estimates, Company, Axis Capital Prices as on Feb 14, 2018

^ SIPL: Sadbhav Infrastructure Project Ltd

Exhibit 1: Results update (Rs mn)

	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	FY18E	FY17	% Chg
Net Sales/Income form op	9,351	8,648	8.1	6,931	34.9	37,036	33,203	11.5
EBITDA	1,056	938	12.6	788	34.1	4,182	3,556	17.6
Other income	74	60	22.9	5	1,278.8	350	333	5.0
PBITD	1,130	998	13.2	793	42.5	4,531	3,889	16.5
Depreciation	247	250	(1.3)	251	(1.8)	983	1,000	(1.7)
Interest	285	243	17.3	215	32.5	1,175	992	18.4
PBT	598	505	18.4	327	83.1	2,373	1,897	25.1
Tax	67	(19)	-	(8)	-	0	18	-
Adjusted PAT	531	524	1.3	335	58.6	2,373	1,878	26.3
Extra ordinary income/ (exp.)	0	0	-	0	-	0	0	-
Reported PAT	531	524	1.3	335	58.6	2,373	1,878	26.3
No. of shares (mn)	172	172	-	172	-	172	172	-
EBITDA margin (%)	11.3	10.8	-	11.4	-	11.3	10.7	-
PBITD margin (%)	12.1	11.5	-	11.4	-	12.2	11.7	-
EPS (Rs)	3.1	3.1	1.3	2.0	58.6	13.8	10.9	26.3

Source: Company, Axis Capital

BOT assets – performance in line: In Q3, toll revenues grew 9% QoQ to Rs 2.62 bn. Since Q3FY17 was impacted by demonetization, toll revenues grew 53% YoY. However, even on daily toll collection rates, toll revenues grew 15% YoY.

Sadbhav Infrastructure Project Ltd (SIPL) does not need any further fund infusion from SEL. SIPL expects to fund equity contribution of Rs 5.5 bn required in the 5 HAM projects through internal accruals. Sale of 2 BOT projects (Bijapur and Dhule) 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. As against equity invested of Rs 5.5 bn, the management is expecting shade lower than Rs 10 bn.

Past issues almost resolved: Low growth in past 2 years due to stuck legacy projects. SEL 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 these irrigation projects to 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 and can now focus on other mining projects. This was due to requirement to replace the tire mounted equipment with chain-mounted equipment, and issues related to service tax

Exhibit 2: Sadbhav's BOT toll revenues

Toll Revenues	Mar-16	Jun-16	Sep-16	Dec-16*	Mar-17	Jun-17	Sep-17	Dec-17
Ahmedabad Ring Road (ARRIL)	246	237	227	181	240	234	227	250
Aurangabad Jalna (AJTL)	88	100	88	71	91	93	86	96
Bijapur Hungund (BHTPL)	302	304	286	200	293	296	297	300
Hyderabad Yadgiri (HYTPL)	153	149	125	105	153	171	159	185
Maharashtra Border (MBCPNL)	432	415	406	308	448	451	432	493
Dhule Palesnar (DPTL)	391	418	399	316	449	426	441	475
Rohtak Panipat (RPTPL)	181	205	193	153	225	247	250	284
Srinathji-Udaipur (SUTPL)	228	252	243	196	250	263	265	273
Bhilwara-Rajsamand (BRTPL)	-	23	94	79	105	116	110	108
Rohtak-Hisar (RHTPL)	-	-	83	100	130	132	136	153
Total	2,021	2,101	2,144	1,708	2,383	2,430	2,402	2,617

Source: Company, Axis Capital

* Estimated based on per day collections in Oct'16 and Dec'16. Dec-16 quarter toll revenues are not comparable as toll collection at all toll roads in India was stopped from 9 Nov'16 – 2 Dec'16

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	33,203	37,036	43,547	53,956
Other operating income	-	-	-	-
Total operating income	33,203	37,036	43,547	53,956
Cost of goods sold	(26,552)	(29,753)	(34,922)	(43,511)
Gross profit	6,651	7,283	8,625	10,444
<i>Gross margin (%)</i>	<i>20.0</i>	<i>19.7</i>	<i>19.8</i>	<i>19.4</i>
Total operating expenses	(3,095)	(3,101)	(3,466)	(4,085)
EBITDA	3,556	4,182	5,159	6,359
<i>EBITDA margin (%)</i>	<i>10.7</i>	<i>11.3</i>	<i>11.8</i>	<i>11.8</i>
Depreciation	(1,000)	(983)	(1,078)	(1,132)
EBIT	2,556	3,198	4,081	5,227
Net interest	(992)	(1,175)	(1,095)	(1,015)
Other income	333	350	385	423
Profit before tax	1,897	2,373	3,371	4,636
Total taxation	(18)	-	(506)	(1,391)
<i>Tax rate (%)</i>	<i>1.0</i>	<i>-</i>	<i>15.0</i>	<i>30.0</i>
Profit after tax	1,878	2,373	2,865	3,245
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,878	2,373	2,865	3,245
<i>Adj. PAT margin (%)</i>	<i>5.7</i>	<i>6.4</i>	<i>6.6</i>	<i>6.0</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,878	2,373	2,865	3,245

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	172	172	172	172
Reserves & surplus	16,437	18,628	21,272	24,268
Net worth	16,609	18,799	21,444	24,439
Borrowing	15,183	14,183	13,183	12,183
Other non-current liabilities	-	-	-	-
Total liabilities	31,792	32,983	34,627	36,623
Gross fixed assets	10,177	11,677	12,277	12,877
Less: Depreciation	(4,948)	(5,932)	(7,010)	(8,142)
Net fixed assets	5,229	5,745	5,267	4,735
Add: Capital WIP	-	-	-	-
Total fixed assets	5,229	5,745	5,267	4,735
Total Investment	11,075	11,075	11,075	11,075
Inventory	1,234	2,537	2,983	3,696
Debtors	17,010	11,162	13,124	16,261
Cash & bank	230	8,488	9,153	9,511
Loans & advances	4,790	8,117	9,544	11,826
Current liabilities	8,411	14,852	17,353	21,516
Net current assets	15,489	16,163	18,285	20,812
Other non-current assets	-	-	-	-
Total assets	31,792	32,983	34,627	36,623

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	1,897	2,373	3,371	4,636
Depreciation & Amortisation	1,000	983	1,078	1,132
<i>Chg in working capital</i>	<i>(7,333)</i>	<i>7,585</i>	<i>(1,458)</i>	<i>(2,168)</i>
Cash flow from operations	(3,462)	12,116	3,579	3,223
<i>Capital expenditure</i>	<i>(679)</i>	<i>(1,500)</i>	<i>(600)</i>	<i>(600)</i>
Cash flow from investing	(1,055)	(2,675)	(1,695)	(1,615)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>4,596</i>	<i>(1,000)</i>	<i>(1,000)</i>	<i>(1,000)</i>
<i>Dividend paid</i>	<i>(145)</i>	<i>(183)</i>	<i>(221)</i>	<i>(250)</i>
Cash flow from financing	4,451	(1,183)	(1,221)	(1,250)
Net chg in cash	(66)	8,259	664	359

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	10.9	13.8	16.7	18.9
CEPS (Rs)	16.8	19.6	23.0	25.5
DPS (Rs)	0.8	1.1	1.3	1.5
Dividend payout ratio (%)	7.7	7.7	7.7	7.7
GROWTH				
Net sales (%)	4.2	11.5	17.6	23.9
EBITDA (%)	9.3	17.6	23.4	23.3
Adj net profit (%)	35.1	26.3	20.7	13.3
FDEPS (%)	35.1	26.3	20.7	13.3
PERFORMANCE				
RoE (%)	12.0	13.4	14.2	14.1
RoCE (%)	10.1	11.0	13.2	15.9
EFFICIENCY				
Asset turnover (x)	1.2	1.3	1.7	2.1
Sales/ total assets (x)	0.9	0.8	0.9	1.0
Working capital/ sales (x)	0.3	0.3	0.2	0.2
Receivable days	187.0	110.0	110.0	110.0
Inventory days	15.2	28.2	28.4	28.3
Payable days	103.3	164.8	164.8	164.8
FINANCIAL STABILITY				
Total debt/ equity (x)	1.0	0.8	0.7	0.5
Net debt/ equity (x)	1.0	0.3	0.2	0.1
Current ratio (x)	2.8	2.1	2.1	2.0
Interest cover (x)	2.6	2.7	3.7	5.2
VALUATION				
PE (x)	21.8	17.3	14.3	12.6
EV/ EBITDA (x)	23.3	17.6	14.0	11.1
EV/ Net sales (x)	2.5	2.0	1.7	1.3
PB (x)	4.1	3.6	3.2	2.8
Dividend yield (%)	0.2	0.3	0.3	0.4
Free cash flow yield (%)	(0.1)	0.2	-	-

Source: Company, Axis Capital

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