HDFC securities

INSTITUTIONAL RESEARCH

RESULTS REVIEW 4QFY18 | 31 MAY 18

Sadbhav Engineering

BUY

INDUSTRY	**INFRASTRUCTURE**
CMP *(as on 30 May 18)*	**Rs 349**
Target Price	**Rs 438**
Nifty	10,614
Sensex	34,345
KEY STOCK DATA	
Bloomberg	SADE IN
No. of Shares (mn)	172
MCap (Rs bn) / ($ mn)	60/887
6m avg traded value (Rs mn)	88

STOCK PERFORMANCE (%)

52 Week high / low			**Rs 440/261**
	3M	6M	12M
Absolute (%)	(13.0)	(8.1)	10.9
Relative (%)	(13.5)	(11.7)	0.6

SHAREHOLDING PATTERN (%)

Promoters	46.47
FIs & Local MFs	22.35
FPIs	15.54
Public & Others	15.64

Source : BSE

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Execution on track

SEL reported 4QFY18 net revenue at Rs 11.0bn (+6.9% YoY, +18.1% QoQ) was 3.4% below our estimates. EBITDA came in at Rs 1.2bn (+13.2% YoY, +17.3% QoQ). EBITDA margins inched up in FY18 to 11.8% (vs. 10.7% YoY) on account of increased contribution from HAM projects.

SEL has won Rs 85.9bn orders in FY18 leading to an all time high order book of Rs 132.5bn (dominated by Roads – 81%). SEL's pace of execution is notable and it has applied for PCOD for Yamunanagar (Pkg I & II) and Eastern peripheral (Pkg II) during 4QFY18.

SEL's execution in the 7 HAM projects which have received appointed date is going well. Lucknow ring road project is expected to start in ~1.5 months where as execution is already in full swing in Kandla port project which will likely get completed in FY19E itself. With growth prospects looking positive, margins inching higher and debt reduction likely we maintain BUY with SOTP based TP of Rs 438/sh.

Highlights of the quarter

- **New HAMs to start contributing from 3QFY19E:** Out of the 5 HAM projects FC, the biggest Vadodara exp. already has 100% land available and appointed date for Jodhpur ring road is expected by Jul-18. Tumkur – Shivamogga & Bhimasar Junction both have ~75% land available and FC is expected in 4 months. Visakhapatnam Port is not expected to be challenging.
- **Bid pipeline is impressive:** SEL is targeting ~80bn of new orders in FY18. SEL has already bid for ~Rs 105bn worth packages under MSRDC which are likely to be opened soon. It will also bid for 26 EPC (Rs 180bn) and 41 HAM projects (Rs 440bn) before Jul-18. It is also looking at Rs 15bn of mining projects and Rs 65bn of irrigation projects in Gujarat and Rajasthan.
- **Near term outlook:** Debt should likely reduce in the near term with Rs 0.4bn of GST payments, Rs 2.0bn of SIPL repayments and further scope of arbitration awards likely (Mgmt has guided for ~2bn reduction by FY19E). Timely pace of FC of HAM projects to aid execution ramp up.

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY18	4QFY17	*YoY (%)*	3QFY18	*QoQ (%)*	FY17	FY18	FY19E	FY20E
Net Sales	11,045	10,329	*6.9*	8,394	*31.6*	33,203	35,051	44,337	54,028
EBITDA	1,240	1,096	*13.2*	1,056	*17.4*	3,556	4,151	5,099	6,240
APAT	699	682	*2.4*	618	*13.0*	2,166	2,207	2,679	2,785
Diluted EPS (Rs)	4.1	4.0	*2.4*	3.6	*13.0*	12.6	12.9	15.6	16.2
P/E (x)						27.9	27.4	22.5	21.7
EV / EBITDA (x)						21.9	18.1	14.3	11.4
RoE (%)						13.0	11.8	12.7	11.8

Source: Company, HDFC sec Inst Research

SADE 4QFY18 net revenues at Rs 11.0bn (+6.9% YoY, +18.1% QoQ) was 3.4% below our estimates

EBITDA at Rs 1.2bn (+13.2% YoY, +17.3% QoQ) was 5.1% below our estimates, with EBITDA margin expansion of 61.8bps YoY to 11.2%

We expect current EBITDA margins to sustain over FY19-20E with an increasing share of HAM projects

Standalone Quarterly Financial (Rs mn)

Particulars	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Net Revenues	**11,045**	**10,329**	***6.9***	**8,394**	***31.6***	**35,051**	**33,203**	***5.6***
Material Expenses	(8,934)	(8,106)	*10.2*	(6,777)	*31.8*	(28,134)	(26,552)	*6.0*
Employee Expenses	(552)	(379)	*45.6*	(376)	*46.7*	(1,553)	(1,366)	*13.7*
Other Expenses	(318)	(748)	*(57.5)*	(184)	*73.0*	(1,211)	(1,729)	*(29.9)*
EBITDA	**1,240**	**1,096**	***13.2***	**1,056**	***17.4***	**4,151**	**3,556**	***16.7***
Depreciation	(236)	(243)	*(2.7)*	(247)	*(4.5)*	(979)	(1,000)	*(2.1)*
EBIT	**1,004**	**853**	***17.7***	**809**	***24.1***	**3,172**	**2,556**	***24.1***
Interest Cost	(345)	(507)	*(31.9)*	(285)	*21.1*	(1,167)	(992)	*17.7*
Other Income (inc EO Item)	39	369	*(89.4)*	74	*(47.2)*	157	333	*(52.7)*
PBT	**698**	**716**	***(2.4)***	**598**	***16.7***	**2,163**	**1,897**	***14.0***
Tax	0	(33)	*(101.3)*	20	*(97.7)*	44	(18)	*(339.5)*
RPAT	**699**	**682**	***2.4***	**618**	***13.0***	**2,207**	**1,878**	***17.5***
EO Items (Adj For Tax)	-	-	*0.0*	-	*0.0*	-	-	***0.0***
APAT	**699**	**682**	***2.4***	**618**	***13.0***	**2,207**	**1,878**	***17.5***

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)	FY18	FY17	YoY (%)
Material Expenses % Net Sales	80.9	78.5	*241.6*	80.7	*15.2*	80.3	80.0	*30.0*
Employee Expenses % Net Sales	5.0	3.7	*132.7*	4.5	*51.6*	4.4	4.1	*31.7*
Other Operating Expenses % Net Sales	2.9	7.2	*(436.0)*	2.2	*68.9*	3.5	5.2	*(175.1)*
EBITDA Margin (%)	11.2	10.6	*61.8*	12.6	*(135.7)*	11.8	10.7	*113.4*
Tax Rate (%)	(0.1)	4.7	*(474.0)*	(3.3)	*323.6*	(2.0)	1.0	*(299.7)*
APAT Margin (%)	6.3	6.6	*(27.9)*	7.4	*(103.9)*	6.3	5.7	*63.8*

Source: Company, HDFC sec Inst Research

With a pick up in the Roads segment, share of Road orders have been growing

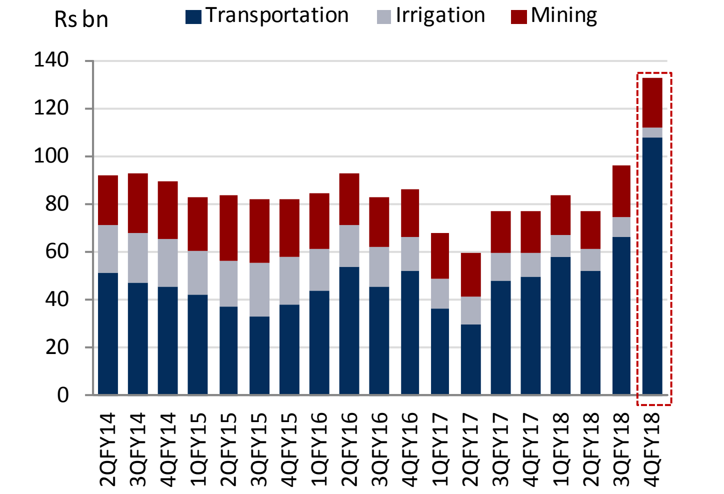
Within the Roads vertical, captive BOT projects have been increasing on the back of new HAM projects

Share of Roads in revenue has been increasing; Mining segment is stable and Irrigation has been highly volatile

With HAM projects moving into execution, captive revenue share has gone up significantly

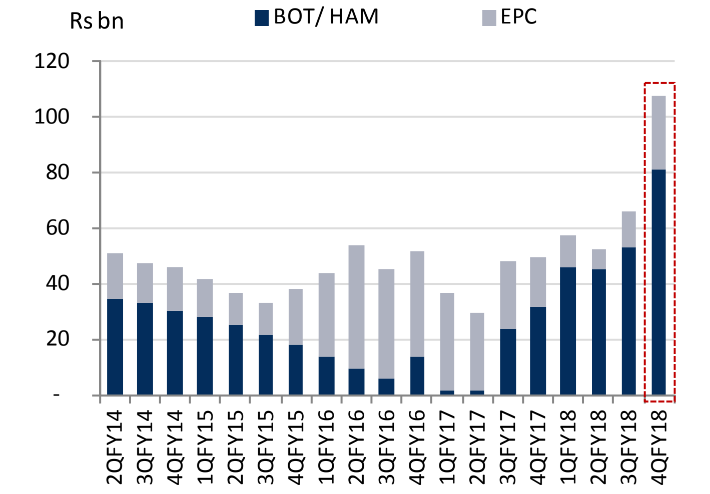
This trend is likely to continue as further HAM projects move into execution in 2HFY19E

Road's Share In Order Book Has Been Growing



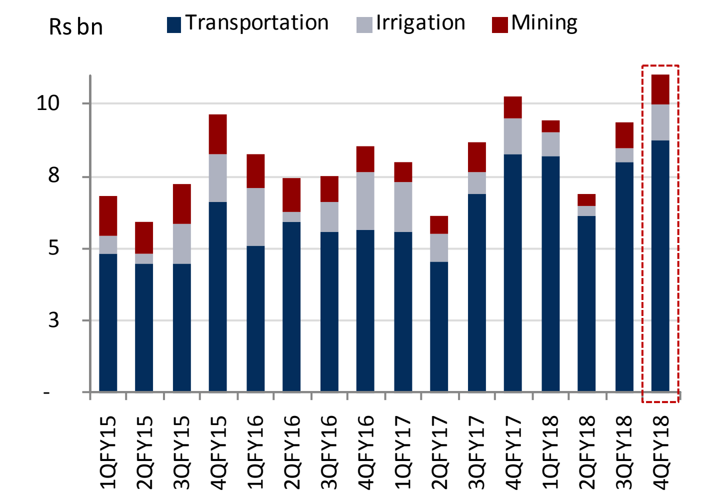
Source: Company, HDFC sec Inst Research

Road Orders: Captive BOT (HAM) Increasing



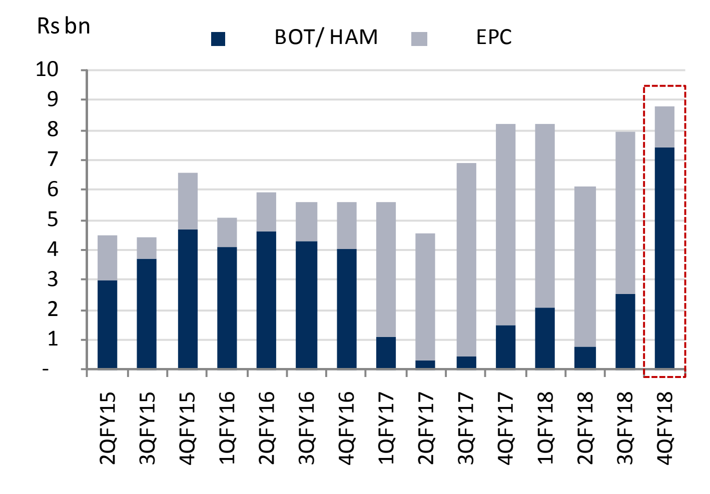
Source: Company, HDFC sec Inst Research

Road's Share Of Revenue Increasing



Source: Company, HDFC sec Inst Research

Captive BOT (HAM) Road Revenue Share To Go Up



Source: Company, HDFC sec Inst Research

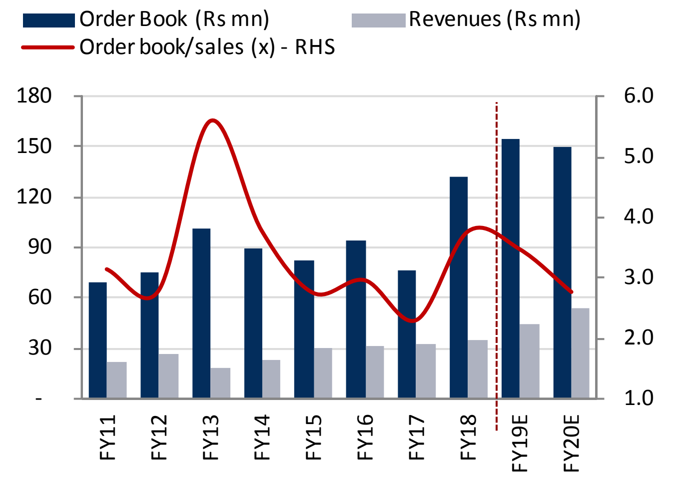
We expect SEL's order book to multiply 1.1x over FY18-20E

Roads, Mining and Irrigation segments shall be the key drivers of the order book

<u>After the Delhi metro experience, SEL is looking to bid for Elevated Metro projects. This could add incrementally to the order book and revenue growth</u>

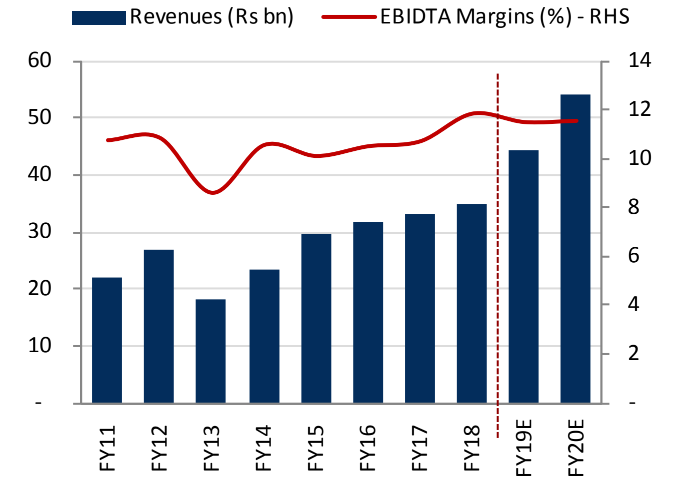
Road's vertical contributes about 81% to the order book, followed by Mining and Irrigation at 15% and 4%, respectively

Order Book To Multiply 1.1x Over FY18-20E



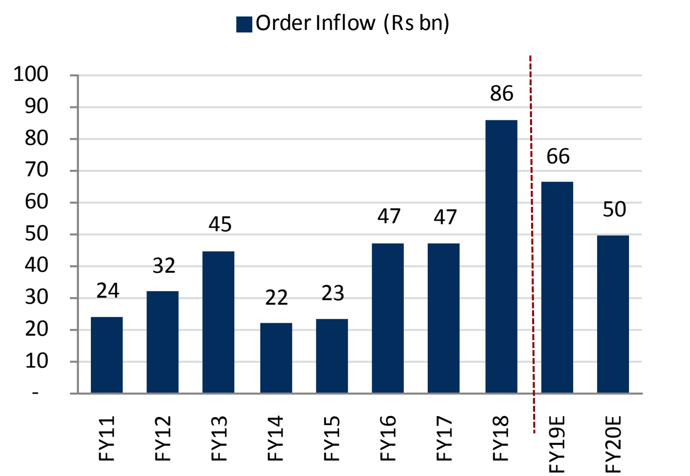
Source: Company, HDFC sec Inst Research

EBIDTA Margin To Remain ~11.5% In FY19-20E



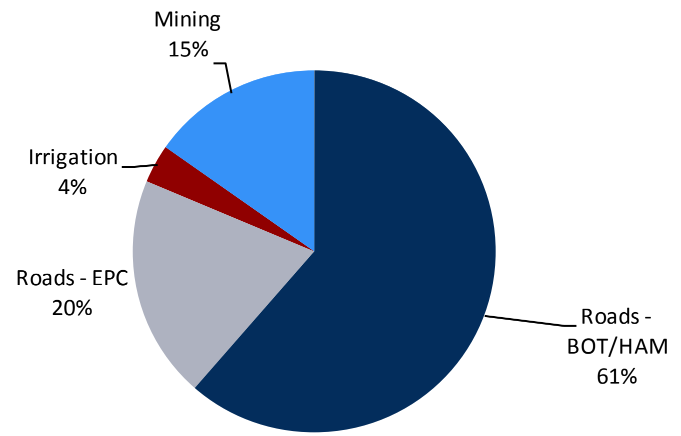
Source: Company, HDFC sec Inst Research

Order Inflows to remain strong



Source: Company, HDFC sec Inst Research

Order Book Mix: 4QFY18 (%)



Source: Company, HDFC sec Inst Research

We estimate 21.9% revenue growth in FY20E

EBIDTA margins to remain around 11.5%, as new HAM orders have 100bps higher margins vs EPC orders

SEL expects to bring down standalone debt by Rs 2bn in FY19E. New HAM orders have time-based billing vs milestone-based billing in EPC orders. This will help reduce WC demand

SEL is also expected to receive ~Rs 5.9bn mobilisation advance at bank rate; this will also reduce WC demand

Tax rate will ramp up as MAT credit will get over

Key Assumptions And Estimates

Key Assumptions Rs mn	FY19E	FY20E	Growth% FY19E	Growth% FY20E	Comments
Closing order book	154,404	150,034	16.5	(2.8)	Order book to remain robust with bid pipeline strong
Order book growth (%)	16.5	(2.8)			
New order booking	66,248	49,658	(22.9)	(25.0)	
Book to bill ratio	3.5	2.8			Book-to-bill ratio to remain stable
Total Revenue	**44,337**	**54,028**	26.5	21.9	**We estimate 21.9% revenue growth in FY20E**
Growth (%)	26.5	21.9			
EBIDTA	5,099	6,240	22.8	22.4	EBIDTA margins to remain around 11.5%, as new HAM orders have 100bps higher margins vs EPC orders
EBIDTA margin (%)	11.5	11.6	(34.4)	5.0	
Depreciation	1,189	1,330	21.5	11.8	
Financial Charges	1,070	1,039	(8.4)	(2.9)	SEL expects to bring down standalone debt by Rs 2bn in FY19E. New HAM orders have time-based billing vs milestone-based billing in EPC orders. This will help reduce WC demand
PBT	3,044	4,096	40.7	34.6	
PBT margin (%)	6.9	7.6	69.5	71.6	PBT margin expansion in line with EBIDTA expansion and reduction in interest expense
Tax	365	1,311	(931.7)	258.8	
Tax rate (%)	12.0	32.0			Tax rate to move higher in FY20E as MAT credit gets exhausted
APAT	2,679	2,785	21.4	4.0	
Net margin (%)	6.0	5.2	(25.4)	(88.6)	Margin to remain stable
Gross Block Turnover	5.5	5.3	1.8	(3.8)	Improvement on account of new orders' inflow
Debtor days	124	123	(15.9)	(0.9)	
CFO - a	3,941	3,621			Cash flow improvements in line with EBIDTA growth and EBIDTA margins expansion
CFI - b	(366)	(794)			
FCF - a+b	2,941	2,121			Strong FCF generation as growth picks up
CFF - c	(3,424)	(3,003)			Surplus cash flows utilised to repay debt
Total change in cash - a+b+c	151	(177)			

Source: HDFC sec Inst Research

We value the standalone EPC business at Rs 292/share (18x one-year forward Mar-20E EPS)

We value SEL stake in SIPL at 20% holding company discount to current market capitalisation of SIPL at Rs 145/sh.

We maintain a BUY rating for SEL, with an increased SOTP-based target price of Rs 438/share (vs. Rs 445/share earlier), largely driven by SIPL valuation re-rating higher at CMP.

Outlook and valuation

Maintain BUY - Target Price to Rs Rs 438/sh

Valuation methodology

- We have valued SEL at 18x one-year forward Mar-20E EPS. Our investment premise is based on (1) Robust order book at 3.8x FY18 revenue, (2) Improving balance sheet (FY20E net D/E will improve to 0.46x from 0.79x end 4QFY18), (3) EBIDTA margins expansion, and (4) New order accretion from the Metro segment. With SIPL turning cash positive, it may be in a position to return SEL loans, and may not require further equity support for Hybrid BOT/Toll projects. This will help SEL to retire its own debt.
- Government-led spends in the Infrastructure sector will continue to drive stock performance and SEL, with its strong credentials, will likely benefit from the pick-up in ordering activity. The company, over the past many years, has built strong pre-qualification in potentially large ordering segments such as Roads, Mining and Irrigation.
- **We maintain BUY with a SOTP-based target price of Rs 438/share.** We value the (1) Standalone EPC business at Rs 292/share (18x one-year forward Mar-20 EPS), and (2) SEL stake in SIPL at 20% holding company discount to current market capitalization at Rs 136/sh.

SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Sadbhav Standalone	Core construction business	51,131	292	At 18x Mar-20E EPS
SIPL stake	Subsidiary	24,950	145	We have valued the 68.64% stake of SEL in SIPL by giving a 20% holding company discount to current market capitalization
Total		**75,081**	**438**	

Source: HDFC sec Inst Research

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	**31,863**	**33,203**	**35,051**	**44,337**	**54,028**
Growth (%)	***7.3***	***4.2***	***5.6***	***26.5***	***21.9***
Material Expenses	25,805	26,552	28,134	36,223	44,168
Employee Expenses	1,228	1,366	1,553	1,552	1,945
Other Expenses	1,482	1,729	1,211	1,463	1,675
EBIDTA	**3,348**	**3,556**	**4,151**	**5,099**	**6,240**
EBIDTA (%)	***10.5***	***10.7***	***11.8***	***11.5***	***11.6***
EBIDTA Growth (%)	***11.5***	***6.2***	***16.7***	***22.8***	***22.4***
Depreciation	971	1,000	979	1,189	1,330
EBIT	**2,377**	**2,556**	**3,172**	**3,909**	**4,910**
Other Income (Incl EO Items)	776	875	157	204	224
Interest	1,507	1,534	1,167	1,070	1,039
PBT	**1,646**	**1,897**	**2,163**	**3,044**	**4,096**
Tax	325	18	(44)	365	1,311
RPAT	**1,320**	**1,878**	**2,207**	**2,679**	**2,785**
OCI/EO (Loss) / Profit (Net Of Tax)	73	287	-	-	-
APAT	**1,393**	**2,166**	**2,207**	**2,679**	**2,785**
APAT Growth (%)	***36.9***	***55.5***	***1.9***	***21.4***	***4.0***
EPS	**8.1**	**12.6**	**12.9**	**15.6**	**16.2**
EPS Growth (%)	***36.8***	***55.5***	***1.9***	***21.4***	***4.0***

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	172	172	172	172	172
Reserves	14,721	16,437	18,496	20,934	23,478
Total Shareholders Funds	**14,892**	**16,609**	**18,668**	**21,105**	**23,649**
Long Term Debt	4,932	3,062	2,863	2,262	762
Short Term Debt	7,275	14,709	11,987	10,709	10,709
Total Debt	**12,207**	**17,771**	**14,850**	**12,971**	**11,471**
Deferred Taxes	(90)	(477)	(994)	(994)	(994)
Other Long Term Liabilities & LT Provs	32	98	83	98	98
TOTAL SOURCES OF FUNDS	**27,041**	**34,002**	**32,607**	**33,180**	**34,225**
APPLICATION OF FUNDS					
Net Block	5,931	5,229	5,028	4,838	4,408
Investments	5,629	5,694	5,775	6,494	6,944
Long Term Loans & Advances	285	316	351	221	237
Other Non-current Assets	692	630	563	630	630
Total Non-current Assets	**12,537**	**11,870**	**11,716**	**12,184**	**12,220**
Inventories	1,406	1,234	1,643	1,985	2,420
Debtors	9,994	16,651	15,922	16,763	19,539
Cash & Equivalents	166	230	127	332	670
ST Loans & Advances	5,547	5,065	6,531	5,831	5,921
Other Current Assets	5,211	4,678	6,774	6,074	6,661
Total Current Assets	**22,324**	**27,857**	**30,996**	**30,984**	**35,211**
Creditors	3,703	4,910	5,990	6,681	8,881
Other Current Liabilities	4,083	795	4,089	3,280	4,293
Short Term Provisions	33	20	27	27	32
Total Current Liabilities & Provns	**7,819**	**5,725**	**10,105**	**9,987**	**13,206**
Net Current Assets	**14,505**	**22,132**	**20,891**	**20,997**	**22,005**
TOTAL APPLICATION OF FUNDS	**27,041**	**34,002**	**32,607**	**33,181**	**34,225**

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Reported PBT	1,646	1,897	2,163	3,044	4,096
Non-operating & EO items	(522)	(759)	(157)	(204)	(224)
Interest expenses	1,507	1,534	1,167	1,070	1,039
Depreciation	971	1,000	979	1,189	1,330
Working Capital Change	(1,261)	(4,302)	639	176	(686)
Taxes	(659)	235	44	(365)	(1,311)
OPERATING CASH FLOW (a)	**1,682**	**(394)**	**4,834**	**4,910**	**4,244**
Capex	(983)	(322)	(778)	(1,000)	(900)
Free cash flow (FCF)	*699*	*(716)*	*4,056*	*3,910*	*3,344*
Investments + Interest income	(37)	1,133	77	(515)	(226)
INVESTING CASH FLOW (b)	**(1,020)**	**811**	**(701)**	**(1,516)**	**(1,126)**
Share capital Issuance	2	2	-	-	-
Debt Issuance	1,059	3,747	(2,921)	(1,879)	(1,500)
Interest expenses	(1,507)	(3,957)	(1,167)	(1,070)	(1,039)
FCFE	*250*	*(926)*	*(32)*	*961*	*805*
Dividend	(145)	(145)	(148)	(241)	(241)
FINANCING CASH FLOW (c)	**(591)**	**(353)**	**(4,236)**	**(3,189)**	**(2,780)**
NET CASH FLOW (a+b+c)	**70**	**64**	**(103)**	**205**	**339**
Closing Cash & Equivalents	166	230	127	332	671

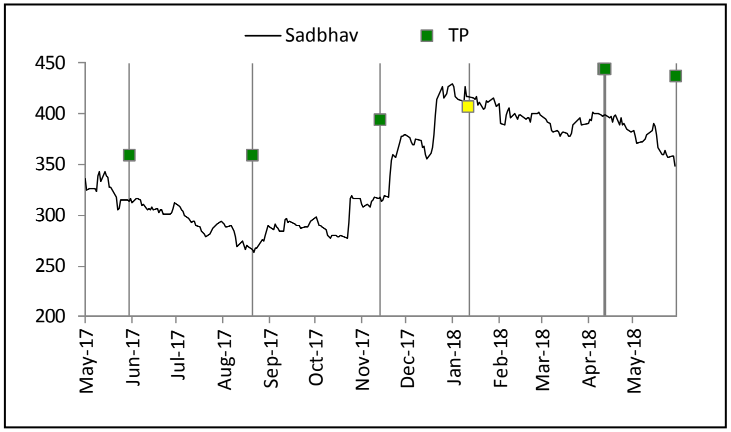
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	19.0	20.0	19.7	18.3	18.3
EBITDA Margin	10.5	10.7	11.8	11.5	11.6
EBIT Margin	7.5	7.7	9.1	8.8	9.1
APAT Margin	4.1	5.7	6.3	6.0	5.2
RoE	9.4	13.0	11.8	12.7	11.8
Core RoCE	9.0	9.0	12.1	13.1	12.5
RoCE	12.2	13.1	12.7	13.7	12.8
EFFICIENCY					
Tax Rate (%)	19.8	1.0	(2.0)	12.0	32
Asset Turnover (x)	4.7	4.9	4.7	5.2	2
Inventory (days)	*16*	*14*	*17*	*16*	16
Debtors (days)	*109*	*146*	*170*	*135*	123
Other Current Assets (days)	*134*	*118*	*148*	*105*	85
Payables (days)	*42*	*54*	*62*	*55*	89
Other Current Liab (days)	*48*	*10*	*44*	*28*	*30*
Cash Conversion Cycle (days)	*170*	*214*	*229*	*173*	*105*
Debt/EBITDA (x)	3.6	5.0	3.6	2.5	1.8
Net D/E	0.81	1.06	0.79	0.60	0.46
Interest Coverage	1.6	1.7	2.7	3.7	4.7
PER SHARE DATA					
EPS (Rs/sh)	8.1	12.6	12.9	15.6	16.2
CEPS (Rs/sh)	16.6	21.0	21.1	25.6	27.3
DPS (Rs/sh)	0.9	1.1	1.2	1.2	1.2
BV (Rs/sh)	86.8	96.8	108.8	123.0	137.9
VALUATION					
P/E	43.3	27.9	27.4	22.5	21.7
P/BV	4.1	3.6	3.2	2.9	2.6
EV/EBITDA	21.6	21.9	18.1	14.3	11.4
OCF/EV (%)	2.3	(0.5)	6.4	6.7	6.0
FCF/EV (%)	1.0	(0.9)	5.4	5.4	4.7
FCFE/Market Cap (%)	0.4	(1.5)	(0.1)	1.6	1.3
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
1-Jun-17	315	BUY	360
22-Aug-17	267	BUY	360
15-Nov-17	316	BUY	395
12-Jan-18	406	NEU	407
12-Apr-18	398	BUY	445
14-Apr-18	399	BUY	445
31-May-18	349	BUY	438

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

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