

Sadbhav Engineering

BUY

A torrid quarter

We maintain BUY on SEL with a reduced SOTP of Rs 353/sh (vs Rs 382 earlier). We value SEL's EPC business at 15x FY21E EPS and assign a 20% hold co discount to SIPL stake's market value. Owing to delay in Appointed Dates (AD) we have downgraded FY20/21E standalone EPS by 15.1/9.4%.

HIGHLIGHTS OF THE QUARTER

- 4QFY19 a big miss:** 4QFY19 Rev/EBITDA/APAT was 22/18/68% below estimate (~21% below guidance). FY19 was a miss both in terms of inflows (~61% below original guidance) and top line (13% below original guidance). Even though NHA tendering was virtually non-existent over 9MFY19, SEL failed to add any major projects in the last leg of tendering witnessed in 4QFY19. The MSRDC and KSHIP HAM wins though have provided some respite.
- Only ~85bn order book firing currently:** 5 HAM projects worth ~Rs 41.8bn are yet to start. Additionally work is progressing slowly in the Maharashtra EPC project (Rs 16.2bn). We have downgraded our top line estimate by 9/7% in FY19/20E to factor in the delay.
- Appointed Dates (AD) delayed:** FC for 3 NHA HAMS is done and Appointed Dates (ADs) will be taken at ~80% land availability. The Tumkur and Gadag projects are facing delays. Full scale execution in SEL can be

witnessed only post 1HFY20E. Further ~Rs 750/550mn in Rampur Kathgodam/ Uda Kodinar have got descope from the backlog.

- SIPL deal close to attaining finality:** While management refused to divulge anything substantial on the asset monetization deal (which has been going on for a while now), they maintained that the deal is virtually done and the lenders (~12-13) and NHA are being approached for approvals.

STANCE

After a muted 1HFY19 (2% degrowth YoY), SEL had started to show signs of recovery in 3QFY19, but 4QFY19 execution was exceptionally weak. We believe the SIPL deal will culminate in a complete strategic shift at SEL, with more focus towards an asset light EPC play in addition to the availability of a ready platform for offering HAM projects in future. ~Rs 5.4bn (vs. 4.6bn QoQ) of SIPL loans could be returned back leading to a further debt reduction (Rs 14.9bn currently, +0.3bn QoQ) and free its hands for additional projects once NHA bidding picks up (~Rs 60-80bn targeted in FY20E).

We maintain BUY. Key risks (1) Delay in SIPL stake sale; (2) Slow order inflows; and (3) Further delay in appointed dates.

Financial Summary (Standalone)

YE March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Revenues	10,217	11,045	(7.5)	9,255	10.4	35,051	35,493	42,758	51,395
EBIT	1,268	1,240	2.2	1,108	14.4	4,152	4,281	5,045	6,065
APAT	283	699	(59.6)	563	(49.8)	2,206	1,863	2,371	3,044
Diluted EPS (Rs)	1.6	4.1	(59.6)	3.3	(49.8)	12.9	10.9	13.8	17.7
P/E (x)						19.7	23.4	18.4	14.3
EV / EBITDA (x)						14.0	13.5	11.0	9.0
RoE (%)						11.8	9.2	10.6	12.0

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 31 May 2019)	Rs 254
Target Price	Rs 353

Nifty	11,923
Sensex	39,714

KEY STOCK DATA

Bloomberg	SADE IN
No. of Shares (mn)	172
MCap (Rs bn) / (\$ mn)	44/624
6m avg traded value (Rs mn)	56

STOCK PERFORMANCE (%)

52 Week high / low	Rs 362/162		
	3M	6M	12M
Absolute (%)	33.5	21.9	(26.3)
Relative (%)	22.7	12.1	(38.7)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	46.55	46.55
FIs & Local MFs	22.23	24.20
FPIs	16.48	14.69
Public & Others	15.60	14.56
Pledged Shares	20.31	22.89

Source : BSE

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**Revenues Rs 10.2bn (-8/
+10% YoY/QoQ, 22% miss)**

**EBITDA: 1.3bn
(+2/14%YoY/QoQ, 18%
miss) with EBITDA margins
robust despite very weak
execution at 12.4%
(+118/44bps YoY/QoQ)**

**APAT: Rs 283mn (-59/49%
YoY, 68% miss). This was led
by an unusually high
effective tax rate of ~64.5%
(because of deferred tax
charge of Rs 190mn)**

Standalone Quarterly Financial (Rs mn)

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Revenues	10,217	11,045	(7.5)	9,255	10.4	35,493	35,051	1.3
Material Expenses	(8,052)	(8,934)	(9.9)	(7,543)	6.7	(28,521)	(28,134)	1.4
Employee Expenses	(460)	(552)	(16.6)	(441)	4.3	(1,016)	(1,553)	(34.6)
Other Expenses	(437)	(318)	37.3	(163)	168.4	(1,675)	(1,211)	38.3
EBITDA	1,268	1,240	2.2	1,108	14.4	4,281	4,152	3.1
Depreciation	(231)	(236)	(2.1)	(241)	(4.3)	(957)	(979)	(2.3)
EBIT	1,037	1,004	3.3	867	19.6	3,324	3,172	4.8
Interest Cost	(415)	(345)	20.1	(468)	(11.3)	(1,749)	(1,907)	(8.3)
Other Income (inc EO Item)	194	39	397.1	304	(36.2)	1,009	897	12.5
PBT	817	698	17.0	703	16.1	2,584	2,162	19.5
Tax	(527)	0	(118261.4)	(141)	274.2	(714)	44	(1723.7)
RPAT	290	699	(58.6)	563	(48.5)	1,869	2,206	(15.3)
EO Items (Adj For Tax)	(7)	-	0.0	-	0.0	(7)	-	0.0
APAT	283	699	(59.6)	563	(49.8)	1,863	2,206	(15.6)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (%)
Material Expenses % Net Sales	78.8	80.9	(208.5)	81.5	(269.1)	80.4	80.3	8.9
Employee Expenses % Net Sales	4.5	5.0	(49.3)	4.8	(26.5)	2.9	4.4	(157.0)
Other Ope Expenses % Net Sales	4.3	2.9	139.6	1.8	251.8	4.7	3.5	126.4
EBITDA Margin (%)	12.4	11.2	118.2	12.0	43.8	12.1	11.8	21.7
Tax Rate (%)	64.5	(0.1)	6460.8	20.0	4452.3	27.7	(2.0)	2968.8
APAT Margin (%)	2.8	6.3	(356.0)	6.1	(331.4)	5.2	6.3	(104.8)

Source: Company, HDFC sec Inst Research

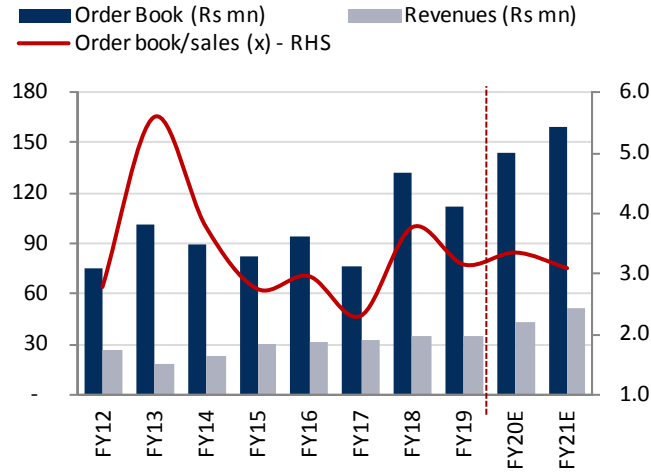
We expect SEL's order book to multiply 1.4x over FY19-21E

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

FY19 was a miss in terms of inflows as majority of the NHAI tenders got postponed due to elections

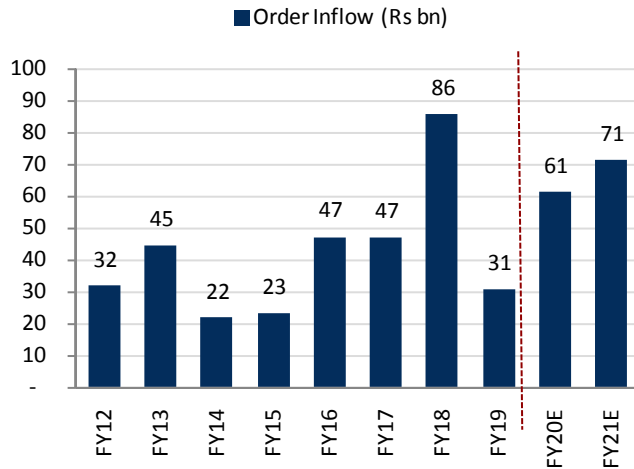
Road's vertical contributes about 77% to the order book, followed by Mining and Irrigation at 19% and 4%, respectively

Order Book To Multiply 1.4x Over FY19-21E



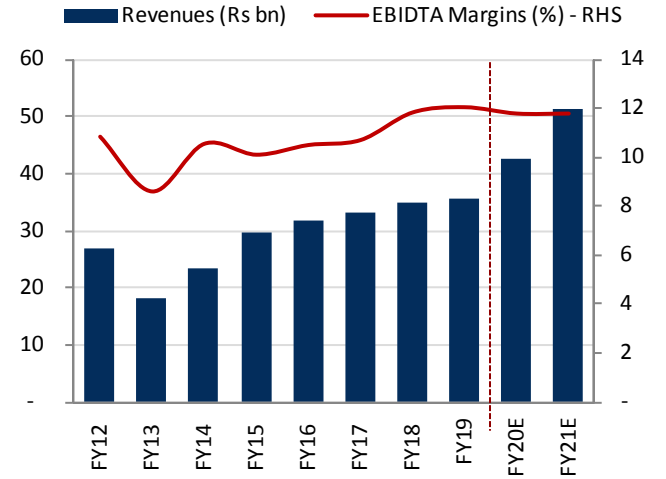
Source: Company, HDFC sec Inst Research

Inflows To Pick Up in FY20E



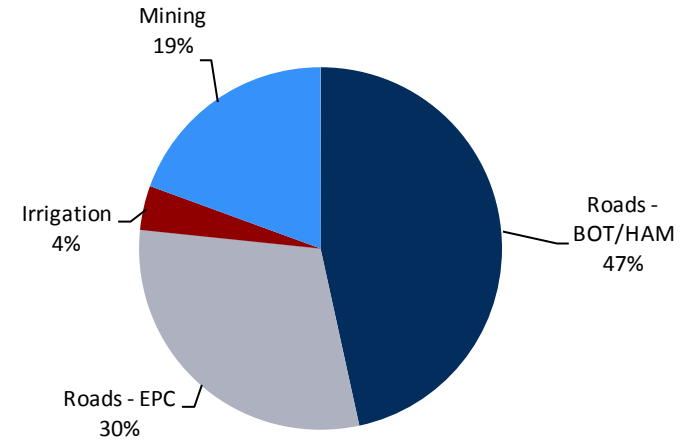
Source: Company, HDFC sec Inst Research

EBIDTA Margin To Remain At ~11.8% Over FY20-21E



Source: Company, HDFC sec Inst Research

Order Book Mix: 4QFY19 (%)



Source: Company, HDFC sec Inst Research

FY19 expectedly witnessed a dip in order intake as majority of NHAI tenders will see light only in FY20E

We estimate 20.3% revenue CAGR over FY19-21E

EBIDTA Margin To Remain At ~11.8% Over FY20-21E, as new HAM orders have 100bps higher margins vs EPC orders

We expect APAT CAGR of ~27.8% over FY19-21E

Annual capex to be limited to ~Rs 700-750mn

Key Assumptions And Estimates

Key Assumptions Rs mn	FY20E	FY21E	Growth%		Comments
			FY20E	FY21E	
Closing order book	143,745	159,541	28.0	11.0	FY19 expectedly witnessed a dip in order intake as majority of NHAI tenders will see light only in FY20E
Order book growth (%)	28.0	11.0			
New order booking	61,361	71,420	97.9	16.4	
Book to bill ratio	3.4	3.1			
Total Revenue	42,758	51,395	20.5	20.2	We estimate 20.3% revenue CAGR over FY19-21E
Growth (%)	20.5	20.2			
EBIDTA	5,045	6,065	17.9	20.2	
EBIDTA margin (%)	11.8	11.8	(26.1)	0.0	EBIDTA margin to remain At ~11.8% Over FY20-21E, as new HAM orders have 100bps higher margins vs EPC orders
Depreciation	941	1,023	(1.7)	8.8	
Financial Charges	1,425	1,389	(18.5)	(2.5)	
PBT	3,487	4,476	35.0	28.4	
PBT margin (%)	8.2	8.7	87.6	55.3	
Tax	1,116	1,432	56.3	28.4	
Tax rate (%)	32.0	32.0			Tax rate to move higher from FY20E as MAT credit gets exhausted
APAT	2,371	3,044	27.3	28.4	APAT CAGR of ~27.8% over FY19-21E
Net margin (%)	5.5	5.9	29.8	37.6	Margins to reduce on higher taxation
Gross Block Turnover	4.8	5.3	10.3	10.9	Improvement on account of new orders' inflow
Debtor days	145	140	(9.3)	(3.4)	
CFO - a	4,407	2,046			
CFI - b	(379)	73			Annual capex to be limited to ~Rs 700-750mn
FCF - a+b	3,690	1,296			Strong FCF generation as growth picks up
CFF - c	(3,166)	(1,630)			
Total change in cash - a+b+c	862	490			

We value the standalone EPC business at Rs 266/sh (15x one-year forward Mar-21E EPS)

We value SEL stake in SIPL at 20% holding company discount to current market capitalisation of SIPL at Rs 87/sh.

Reduced TP of Rs Rs 353/sh (vs Rs 382 earlier)

We have downgraded our top line estimate by 9/7% in FY19/20E to factor in the delay in appointed dates for 5 HAM projects (inc. KSHIP)

Outlook And Valuation

Maintain BUY With Reduced SOTP Of Rs 353/Sh (vs. Rs 382/Sh earlier)

Valuation methodology

- We have valued SEL at 15x one-year forward Mar-21E EPS. Our investment premise is based on (1) Robust order book at 3.2x FY19 revenue, (2) Improving balance sheet (FY21E net D/E will improve to 0.5x from 0.8x end-FY18), (3) EBIDTA margins stable at ~11.8%. With provision of Rs 7.3bn mobilization advance to be received from projects under development, this could help SEL keep debt under control.
- Management has guided that SIPL's monetization deal will likely see the light of the day soon. This should result in significant debt reduction (with ~Rs 5.4bn of o/s loans from SIPL) as well as a ready platform for offering future HAM projects. This will lead to SEL turning into a largely EPC focused company.
- 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.
- **Reduced TP of Rs Rs 353/sh (vs Rs 382 earlier).** We value the (1) Standalone EPC business at Rs 266/share (15x one-year forward Mar-21 EPS), and (2) SEL stake in SIPL at 20% holding company discount to current market capitalization at Rs 87/sh.

SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Sadbhav Standalone	Core construction business	45,568	266	At 15x Mar-21E EPS
SIPL stake	Subsidiary	14,893	87	We have valued the 68.64% stake of SEL in SIPL by giving a 20% holding company discount to current market capitalization
Total		60,550	353	

Source: HDFC sec Inst Research

Change In Estimates (Standalone)

Rs mn	FY20E New	FY20E Old	% Change	FY21E New	FY21E Old	% Change
Revenues	42,758	46,987	(9.0)	51,395	55,264	(7.0)
EBIDTA	5,045	5,544	(9.0)	6,065	6,411	(5.4)
EBIDTA Margins (%)	11.8	11.8	-	11.8	11.6	19.9
APAT	2,371	2,792	(15.1)	3,044	3,359	(9.4)

Source: Company, HDFC sec Inst Research

We summarize the valuations of the core EPC operations of our coverage universe and excluding the value of the asset portfolio, land and any other investment

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Dilip Buildcon	79.2	579	BUY	737	55.6	53.1	51.9	8.4	8.8	9.0	6.1	5.4	5.1	26.9	20.4	16.7
NCC	58.9	98	BUY	170	10.4	10.6	10.8	8.7	8.5	8.3	5.0	4.5	4.2	13.8	12.5	11.4
PNC Infratech	50.3	196	BUY	339	9.1	13.6	15.8	15.6	10.4	9.0	8.6	6.1	5.1	11.9	15.3	15.4
Sadbhav Engineering	43.6	254	BUY	353	10.9	13.8	17.7	15.4	12.1	9.4	10.0	8.0	6.6	9.2	10.6	12.0
KNR Constructions	39.4	280	BUY	363	12.3	14.0	16.8	17.9	15.7	13.1	7.8	7.8	6.3	13.5	12.9	13.2
Ashoka Buildcon	40.1	143	BUY	261	11.5	10.9	12.7	6.1	6.5	5.5	5.2	4.6	4.0	15.5	13.0	13.5
Ahluwalia Contracts	22.4	334	BUY	430	17.5	21.6	26.1	18.3	14.9	12.3	9.3	7.2	5.8	17.3	18.0	18.2
ITD Cementation *	19.8	115	NEU	118	4.8	7.1	7.9	23.7	16.2	14.6	7.6	7.8	7.1	10.2	11.3	11.3
JMC Projects	22.5	134	BUY	164	8.5	8.6	9.3	12.9	12.7	11.8	7.5	6.5	5.7	16.6	14.5	13.7
HG Infra	19.4	297	BUY	462	19.0	25.7	29.6	13.9	10.2	8.9	6.6	5.0	4.3	20.6	22.4	20.8
Capacite Infra	18.3	270	BUY	351	14.1	16.7	22.6	20.2	15.4	11.4	7.3	6.1	4.9	12.0	12.7	15.1
PSP Projects	18.8	521	BUY	579	25.1	31.1	36.2	20.8	16.8	14.4	11.3	9.1	7.6	26.8	26.8	25.2
J. Kumar Infraprojects	11.9	157	BUY	335	22.0	26.6	33.5	7.1	5.9	4.7	3.8	3.1	2.5	10.6	11.7	13.4
Average								14.5	11.9	10.2	7.4	6.3	5.3	15.8	15.6	15.4

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E

Income Statement (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	33,203	35,051	35,493	42,758	51,395
Growth (%)	4.2	5.6	1.3	20.5	20.2
Material Expenses	26,552	28,134	28,521	34,848	41,887
Employee Expenses	1,366	1,553	1,016	1,539	1,850
Other Expenses	1,729	1,211	1,675	1,325	1,593
EBIDTA	3,556	4,152	4,281	5,045	6,065
EBIDTA (%)	10.7	11.8	12.1	11.8	11.8
EBIDTA Growth (%)	6.2	16.7	3.1	17.9	20.2
Depreciation	1,000	979	957	941	1,023
EBIT	2,556	3,172	3,324	4,105	5,042
Other Income (Incl EO Items)	875	897	1,009	807	823
Interest	1,534	1,907	1,749	1,425	1,389
PBT	1,897	2,162	2,584	3,487	4,476
Tax	18	(44)	714	1,116	1,432
RPAT	1,878	2,206	1,870	2,371	3,044
OCI/EO (Loss) / Profit (Net Of Tax)	-	-	(7)	-	-
APAT	1,878	2,206	1,863	2,371	3,044
APAT Growth (%)	34.8	17.5	(15.6)	27.3	28.4
EPS	11.0	12.9	10.9	13.8	17.7
EPS Growth (%)	34.8	17.5	(15.6)	27.3	28.4

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	172	172	172	172	172
Reserves	16,437	18,496	20,165	22,295	25,098
Total Shareholders Funds	16,609	18,668	20,337	22,467	25,270
Long Term Debt	3,062	2,863	6,395	4,895	4,895
Short Term Debt	14,709	11,984	8,505	8,505	8,255
Total Debt	17,771	14,847	14,900	13,400	13,150
Deferred Taxes	(477)	(994)	(994)	(994)	(994)
Other Long Term Liabilities & LT Provs	98	83	55	55	55
TOTAL SOURCES OF FUNDS	34,001	32,604	34,297	34,928	37,481
APPLICATION OF FUNDS					
Net Block	5,160	5,004	4,937	4,750	4,477
CWIP	69	23	33	-	-
Investments	5,694	5,775	6,094	6,544	6,544
Long Term Loans & Advances	316	351	390	406	406
Other Non-current Assets	631	563	1,138	1,138	1,138
Total Non-current Assets	11,801	11,693	12,559	12,837	12,564
Inventories	1,234	1,643	1,792	1,909	2,295
Debtors	16,651	15,922	15,551	16,986	19,713
Cash & Equivalents	230	126	602	1,464	1,953
ST Loans & Advances	5,065	6,531	6,858	7,614	8,730
Other Current Assets	4,678	6,773	7,586	8,200	9,153
Total Current Assets	27,857	30,995	32,389	36,174	41,845
Creditors	4,119	5,988	4,351	5,272	6,336
Other Current Liabilities	1,587	4,092	6,305	8,786	10,561
Short Term Provisions	20	27	27	26	31
Total Current Liabilities & Provns	5,725	10,107	10,683	14,083	16,928
Net Current Assets	22,131	20,888	21,706	22,091	24,917
TOTAL APPLICATION OF FUNDS	34,001	32,604	34,297	34,928	37,481

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

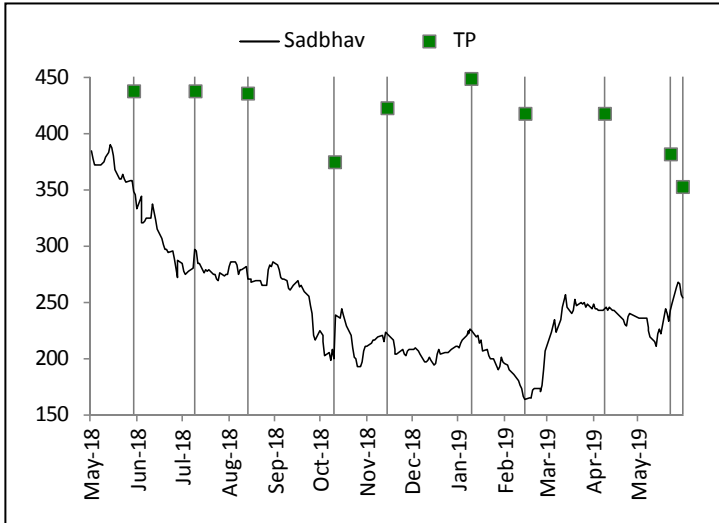
Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	1,897	2,162	2,584	3,487	4,476
Non-operating & EO items	(759)	(800)	(1,016)	(807)	(1,075)
Interest expenses	1,534	1,907	1,749	1,425	1,389
Depreciation	1,000	979	957	941	1,023
Working Capital Change	(4,302)	3,008	(342)	477	(2,334)
Taxes	235	(822)	(714)	(1,116)	(1,432)
OPERATING CASH FLOW (a)	(394)	6,434	3,218	4,407	2,046
Capex	(322)	(779)	(903)	(717)	(750)
Free cash flow (FCF)	(716)	5,655	2,315	3,690	1,296
Investments + Interest income	1,133	(773)	126	338	823
INVESTING CASH FLOW (b)	811	(1,552)	(777)	(379)	73
Share capital Issuance	2	-	-	-	-
Debt Issuance	3,747	(2,924)	25	(1,500)	-
Interest expenses	(3,957)	(1,907)	(1,749)	(1,425)	(1,389)
FCFE	(926)	824	591	765	(93)
Dividend	(145)	(155)	(241)	(241)	(241)
FINANCING CASH FLOW (c)	(353)	(4,986)	(1,965)	(3,166)	(1,630)
NET CASH FLOW (a+b+c)	64	(104)	476	862	490
Closing Cash & Equivalents	230	126	602	1,464	1,953

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	20.0	19.7	19.6	18.5	18.5
EBITDA Margin	10.7	11.8	12.1	11.8	11.8
EBIT Margin	7.7	9.1	9.4	9.6	9.8
APAT Margin	5.7	6.3	5.3	5.5	5.9
RoE	11.3	11.8	9.2	10.6	12.0
Core RoCE	9.0	12.1	8.7	10.4	11.8
RoCE	10.0	12.8	9.1	9.6	12.9
EFFICIENCY					
Tax Rate (%)	1.0	(2.0)	27.6	32	32
Asset Turnover (x)	5.0	4.8	4.3	4.8	2
Inventory (days)	14	17	18	16	16
Debtors (days)	183	166	160	145	140
Other Current Assets (days)	118	148	164	135	127
Payables (days)	45	62	45	45	45
Other Current Liab (days)	19	44	66	76	76
Cash Conversion Cycle (days)	250	225	232	176	163
Debt/EBITDA (x)	5.0	3.6	3.5	2.7	2.2
Net D/E	1.1	0.8	0.7	0.5	0.4
Interest Coverage	1.7	1.7	1.9	2.9	3.6
PER SHARE DATA					
EPS (Rs/sh)	11.0	12.9	10.9	13.8	17.7
CEPS (Rs/sh)	19.1	21.1	18.7	21.9	26.9
DPS (Rs/sh)	1.1	1.2	1.2	1.2	1.2
BV (Rs/sh)	96.8	108.8	118.6	131.0	147.3
VALUATION					
P/E	23.2	19.7	23.4	18.4	14.3
P/BV	2.6	2.3	2.1	1.9	1.7
EV/EBITDA	17.2	14.0	13.5	11.0	9.0
OCF/EV (%)	(0.6)	11.0	5.6	7.9	3.7
FCF/EV (%)	(1.2)	9.7	4.0	6.6	2.4
FCFE/Market Cap (%)	(2.1)	1.9	1.4	1.8	(0.2)
Dividend Yield (%)	0.4	0.5	0.5	0.5	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
31-May-18	349	BUY	438
10-Jul-18	280	BUY	438
16-Aug-18	271	BUY	436
11-Oct-18	208	BUY	375
16-Nov-18	221	BUY	423
10-Jan-19	227	BUY	449
16-Feb-19	163	BUY	418
9-Apr-19	245	BUY	418
23-May-19	233	BUY	382
1-Jun-19	254	BUY	353

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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