

## Full-fledged execution to pick up in H2FY20E

Sadbhav Engineering's (SEL) topline declined 7.5% YoY to ₹ 1,021.7 crore, below our estimates of ₹ 1,146.3 crore possibly on account of weak execution in Q4FY19. EBITDA margin expanded 118 bps YoY to 12.4%, slightly better than our estimates of 12.0%. PAT declined sharply by 58.7% YoY to ₹ 28.9 crore in Q4FY19 on account of higher tax expenses (64.6% in Q4FY19 vs. nil tax expense in Q4FY18). However, at PBT level it grew 16.9% YoY to ₹ 81.6 crore (our estimate: ₹ 93.2 crore).

## Order book at strong ₹ 11,227.7 crore as of Q4FY19

SEL's order book (OB) was at ₹ 11,227.7 crore as of Q4FY19, implying an order book-to-bill ratio of 3.2x on FY19 revenues. BOT/HAM and EPC divisions make up 81.3% of the OB, followed by irrigation (3.4%) and mining division (15.3%). Currently, highway sector remains the priority for bidding projects for the company. The management expects bidding activity to start in the coming months and expects to receive order inflows to the tune of ₹ 6,000-8,000 crore depending on opportunities lined up ahead.

## Execution on ~₹ 3,000 projects to commence post Q1FY20E

SEL clocked ₹ 1,021.7 crore revenues in Q4FY19. Overall execution was lower in Q4FY19 due to delay in approvals for de-scoping and de-linking (worth total ~₹ 135 crore) at couple of projects. In Q4FY19, top five projects – Waranga Mahagaon, BRT Tiger Reserve, Jodhpur Ring Road, Lucknow Ring Road and Nagpur Mumbai Expressway contributed ~61% to the overall revenues in Q4FY19. SEL commenced two projects: Mumbai-Nagpur Samruddhi Expressway (EPC value: ₹ 1,620 crore) and Chitradurga Branch-Canal (EPC value: ₹ 1,125 crore), in January, 2019. While the company expects to commence Kim-Ankaleshwar project (EPC value: ₹ 160.9 crore) in Q1FY20E, it expects to receive appointed date for four HAM projects (EPC value of ₹ 3,050 crore) after Q1FY20E. From the current ~₹ 8,000 crore OB under execution, SEL is comfortable to clock revenues worth ~₹ 3,500-4000 crore in FY20E. Overall, we expect revenues to grow 12.0% CAGR to ₹ 4,456.1 crore in FY19-21E.

## Valuation & Outlook

At CMP, SEL is trading at 17.7x FY21E EPS. We expect SEL's revenues to grow at 12.0% CAGR to ₹ 4,456.1 crore during FY19-21E. Currently, it is in advanced stage of monetising many BOT assets of its subsidiary SIPL, which could also de-leverage its balance sheet significantly and act as key catalyst for re-rating in the stock. Hence, we maintain our **BUY** recommendation on the stock with an SOTP based target price of ₹ 300/share. We now value SEL's 69% stake in SIPL at ₹ 105/share and EPC business at ₹ 196/share (9.0x FY21E EV/EBITDA implying PE multiple of 13.5x FY21E EPS).



### Particulars

Particular	Amount
Market Capitalization	₹ 4408 Crore
Total Debt	₹ 1490 Crore
Cash and Investments	₹ 65 Crore
EV	₹ 5832 Crore
52 week H/L (₹)	362 / 162
Equity capital	₹ 17 Crore
Face value	₹ 1

### Key Highlights

- Order book at ₹ 11,227.1 crore, 3.2x FY19 revenues
- Execution on ~₹ 3,000 crore projects expected to commence post Q1FY20E
- Maintain **BUY** with a target price of ₹ 300/share

### Research Analyst

Deepak Purswani, CFA  
deepak.purswani@icicisecurities.com

Harsh Pathak  
harsh.pathak@icicisecurities.com

### Key Financial Summary

(₹ crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	3320.3	3505.1	3549.2	3717.3	4456.1	12.0%
EBITDA	355.6	415.1	427.9	448.5	537.6	12.1%
EBITDA Margin (%)	10.7	11.8	12.1	12.1	12.1	
PAT	187.8	220.7	186.9	196.2	249.3	15.5%
EPS (₹)	10.9	12.9	10.9	11.4	14.5	
P/E (x)	23.5	20.0	23.6	22.5	17.7	
EV/EBITDA (x)	16.6	14.2	13.6	12.8	11.0	
P/B (x)	2.7	2.4	2.2	2.0	1.8	
RoE (%)	11.3	11.8	9.2	8.9	10.3	
RoCE (%)	10.8	9.9	10.5	10.4	12.0	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Income from Operation	1,021.7	1,146.3	1,104.5	-7.5	925.5	10.4	Topline de-growth was on account of weak execution during Q4FY19
Other Income	5.5	10.0	3.9	39.6	12.8	-57.3	
Construction Expenses	805.2	902.1	893.5	-9.9	754.3	6.7	
Employee Cost	46.0	53.9	55.2	-16.6	44.1	4.3	
Other expenditure	43.7	52.8	31.8	37.3	16.3	168.3	
Total Expenditure	894.9	1,008.8	980.5	-8.7	814.7	9.8	
EBITDA	126.8	137.5	124.0	2.2	110.8	14.4	
EBITDA Margin (%)	12.4	12.0	11.2	118 bps	12.0	44 bps	
Depreciation	23.1	25.0	23.6	-2.0	24.1	-4.2	
Interest	28.2	29.3	34.5	-18.3	29.1	-3.0	
PBT	81.7	93.2	69.8	17.0	70.3	16.1	
Taxes	52.7	22.4	0.0	-118,328.7	14.1	274.5	
Reported PAT	28.9	70.9	69.9	-58.6	56.3	-48.6	PAT declined on account of higher tax expenses

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY18	FY19	Old	FY20E New	% Change	FY21E Introduced	Comments
Revenue	3,505.1	3,549.2	4,547.9	3,717.3	-18.3	4,456.1	We introduce FY21E estimates
EBITDA	415.1	427.9	544.7	448.5	-17.7	537.6	
EBITDA Margin (%)	11.8	12.1	12.0	12.1	7 bps	12.1	
PAT	220.7	186.9	284.6	196.2	-31.0	249.3	
EPS (₹)	12.9	10.9	16.6	11.4	-31.0	14.5	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	FY16	FY17	FY18	FY19E	Current Introduced FY20E	Earlier Introduced FY20E	Comments	
Order inflow	2,463	3,503	9,064	1,519	6,000	7,000	8,000	We introduce FY21E estimates

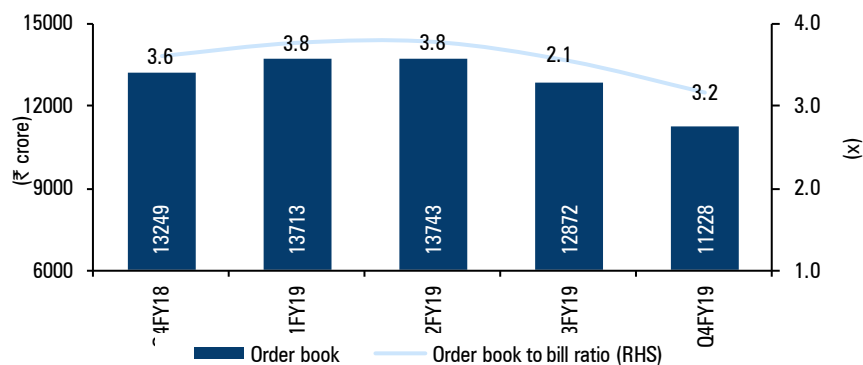
Source: Company, ICICI Direct Research

## Conference call Highlights

- **Order book update:** SEL's order book (OB) was at ₹ 11,227.7 crore as of Q4FY19. BOT/HAM and EPC divisions make up 81.3% of the OB, followed by irrigation (3.4%) and mining division (15.3%). The management expects to receive order inflows to the tune of ₹ 6,000-8,000 crore depending on the opportunities lined up ahead.
- **Execution update:** Top five projects contributed ~61% to overall revenues (excluding GST) in Q4FY19. SEL commenced two projects – Mumbai-Nagpur Samruddhi Expressway (EPC value: ₹ 1,620 crore) and Chitradurga Branch-Canal (EPC value: ₹ 1,125 crore) in January, 2019. Execution was lower in Q4FY19 due to delay in approvals for de-scoping and de-linking at couple of projects. The company expects to commence Kim-Ankaleshwar project (EPC value: ₹ 160.9 crore) in Q1FY20E. Furthermore, SEL expects to receive appointed date for four HAM projects (total EPC value of ₹ 3,050 crore) after Q1FY20E
- **Management guidance:** While the management will give revenue guidance on revenue growth in FY20E post Q2FY20E results, it is comfortable to clock revenues worth ~₹ 3,500-4,000 crore out of the ~₹ 8,000 crore OB under execution. On the margins front, the management expects 12.0-12.5% EBITDA margins in FY20E
- **Project de-scoping:** SEL has de-scoped ~₹ 55-58 crore worth work at Una-Kodinar and ₹ 78-79 crore worth work at Rampur-Katgodham HAM project in Q4FY19
- **Land acquisition status:** Currently, land availability at various HAM projects is: 67% at Kim-Ankaleshwar, 56% at Vizag Port Road, 60% at Tumkur-Shivamogga and 72% at Bhimasar-Bhuj. SEL is awaiting availability of 80% 3H land to take appointed date at these projects. Land acquisition was slow at these project sites due to national elections
- **Traffic de-growth:** Rohtak-Panipat project saw ~20% de-growth in traffic on account of diversion of vehicles to an alternate route. The company has approached NHA for resolution on this issue
- **Debt & capex:** SEL's standalone debt increased marginally to ₹ 1,490 crore in Q4FY19 from ₹ 1,460 crore in Q3FY19. Furthermore, SEL incurred capex worth ₹ 70 crore in FY19. The management has guided for capex worth ₹ 50-80 crore in FY20E
- **Tax rate:** Tax rate in FY19 for SEL was 27.7%. Effective tax rate for FY20E & FY21E is guided at 25-33%
- **Arbitration award:** The company is yet to realise arbitration award worth ₹ 60 crore plus interest for Dhule-Palasner project. This could be realised in a month. The Nagpur-Seoni arbitration has been settled and Sadbhav has received ₹ 69 crore from NHA. It will receive another ~₹ 50 crore in the form of 19 semi-annual annuities. The Mumbai-Nashik arbitration is yet not challenged by NHA (award amount: ₹ 192 crore; SEL's share: 72%) and clarity on this is expected by next month. NHA has challenged the Rohtak-Panipat arbitration in the High Court.
- **Asset monetisation update:** The company is in advanced stages of talks for monetisation of SIPL road projects. There are 12-13 lenders who are in the nine SPVs. Approvals from all these lenders would be required for monetisation of these assets

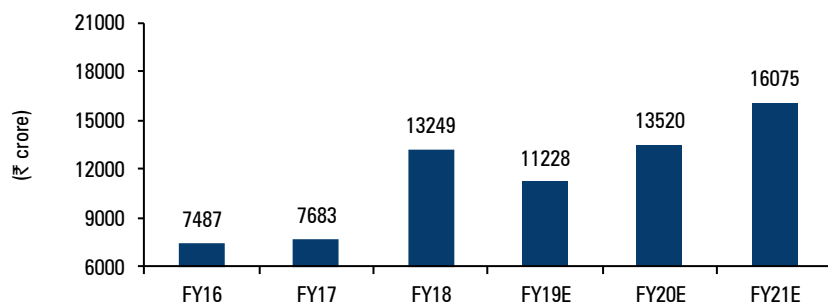
## Company Analysis

Exhibit 4: Quarterly order book trend



Source: Company, ICICI Direct Research

Exhibit 5: Annual order book trend



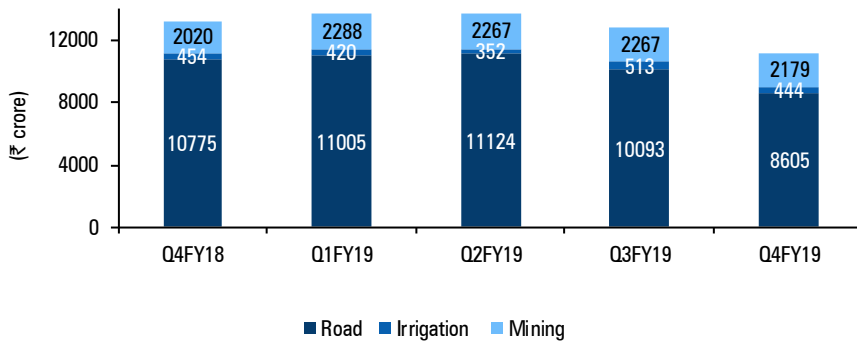
Source: Company, ICICI Direct Research

Exhibit 6: Top five projects by execution in Q4FY19

Project	Segment	Execution during Q4FY19
Waranga Mahagaon	Transport-HAM	166.2
BRT Tiger Reserve	Transport-HAM	152.1
Joghpur Ring road	Transport-HAM	142.6
Lucknow Ring road	Transport-EPC	105.8
Nagpur Mumbai Expressway	Transport-EPC	59.4
<b>Total</b>		<b>626.1</b>

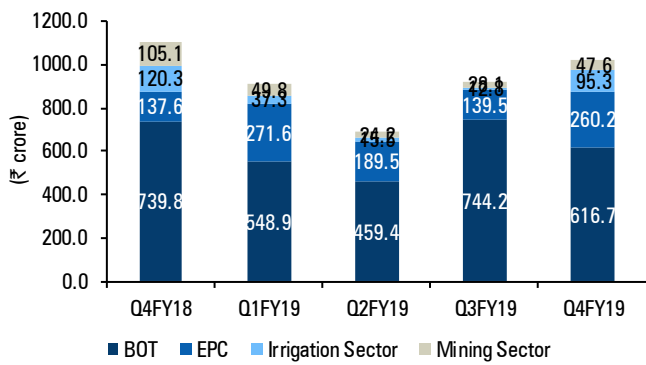
Source: Company, ICICI Direct Research

**Exhibit 7: Segmental break-up of order book**



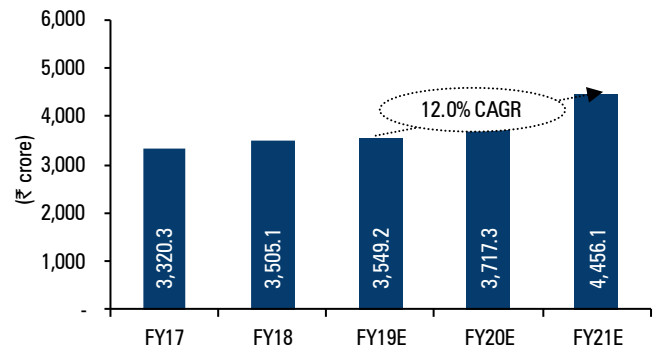
Source: Company, ICICI Direct Research

**Exhibit 8: Quarterly segmental revenue trend**



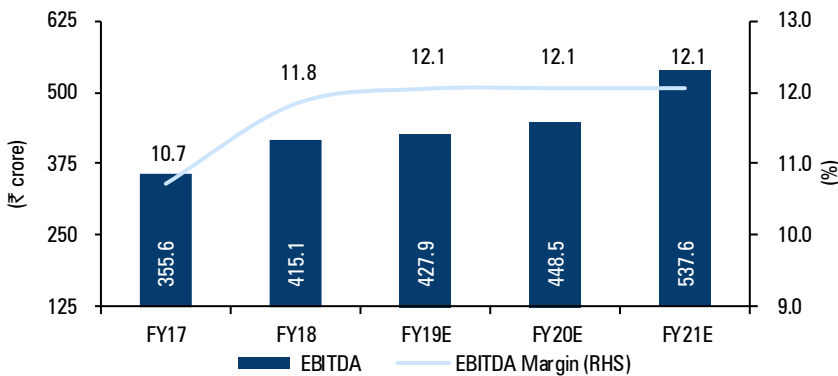
Source: Company, ICICI Direct Research

**Exhibit 9: Annual revenue trend**



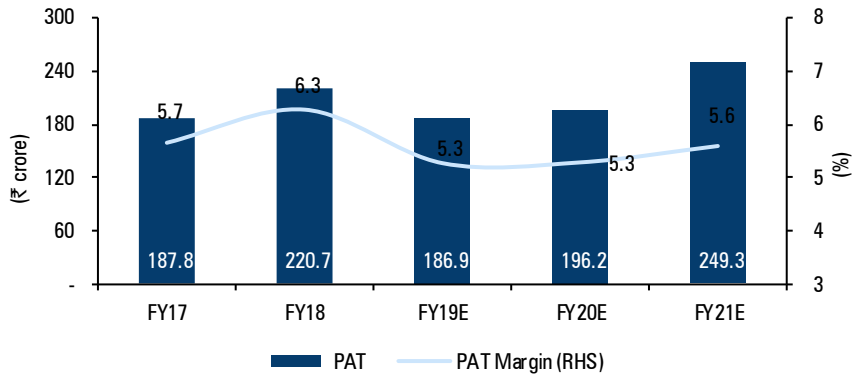
Source: Company, ICICI Direct Research

**Exhibit 10: EBITDA and EBITDA margins trend**



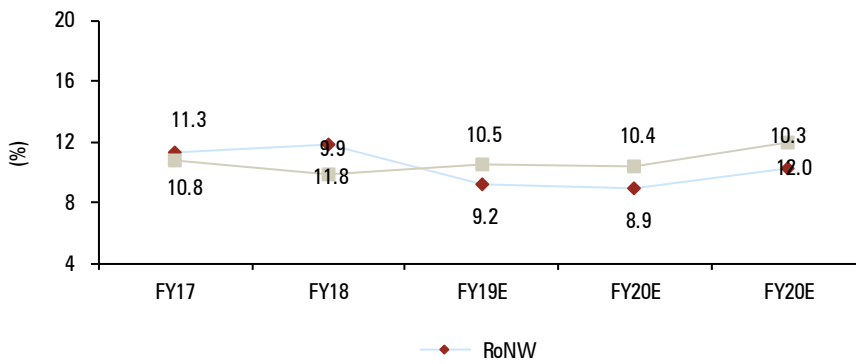
Source: Company, ICICI Direct Research

Exhibit 11: PAT trend



Source: Company, ICICI Direct Research

Exhibit 12: Return ratios trend



Source: Company, ICICI Direct Research

## Valuation & Outlook

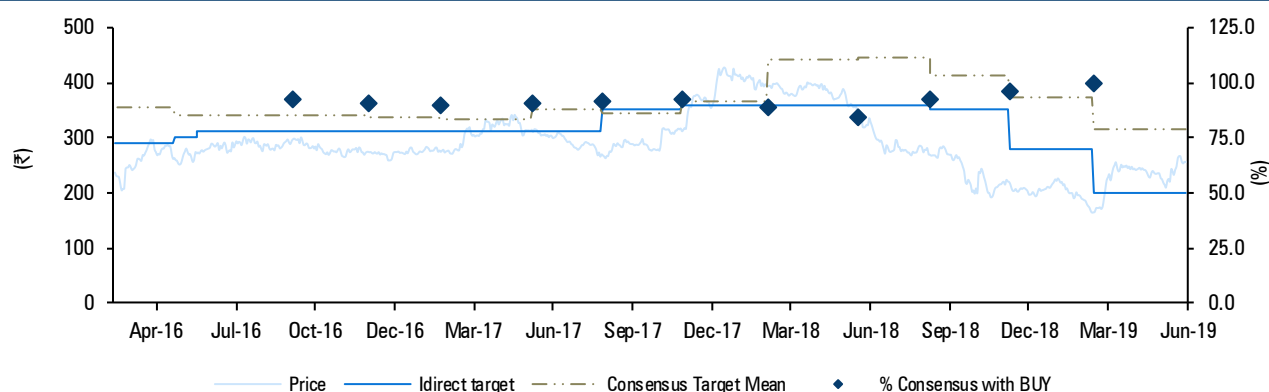
At CMP, SEL is trading at 17.7x FY21E EPS. We expect SEL's revenues to grow at 12.0% CAGR to ₹ 4,456.1 crore during FY19-21E. Currently, it is in advanced stage of monetising many BOT Assets of its subsidiary SIPL, which could also de-leverage its balance sheet significantly and could act as key catalyst for re-rating in the stock. Hence, we maintain our **BUY** recommendation on the stock with an SOTP based target price of ₹ 300/share. We now value SEL's 69% stake in SIPL at ₹ 105/share and EPC business at ₹ 196/share (9.0x FY21E EV/EBITDA implying PE multiple of 13.5x FY21E EPS).

Exhibit 13: Valuation Summary

Valuation summary	Stake (%)	₹ crore	Value per share (₹)
SIPL BOT projects (A)		5176.5	302
Less Debt		-1427	-83
SIPL Valuation		3749.5	219
<b>SEL stake valuation</b>	<b>68.6</b>	<b>1802</b>	<b>105</b>
<b>Construction Business (B)</b>			
FY21E EBITDA		537.6	
EV/EBITDA (x)		9.0	
Construction business valuation		4838.8	
FY20E Net debt		1485.3	
<b>Equity Value (B)</b>	<b>100.0</b>	<b>3353.5</b>	<b>196</b>
<b>Total SoTP Value (A)+(B)</b>		<b>5155.1</b>	<b>301</b>
<b>Rounded off target price</b>			<b>300</b>

Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Patel (Shantaben V)	31-Mar-19	28.1%	48.2	0.4
2	Sadbhav Finstock Pvt. Ltd.	31-Mar-19	9.6%	16.5	0.0
3	HDFC Asset Management Co., Ltd.	30-Apr-19	8.9%	15.3	-2.7
4	ICICI Prudential Life Insurance Company Ltd.	31-Mar-19	7.2%	12.3	-1.0
5	Nomura Asset Management Co., Ltd.	30-Jun-18	6.4%	11.1	2.7
6	SBI Funds Management Pvt. Ltd.	31-Mar-19	4.1%	7.1	-0.4
7	Patel (Shashin V)	31-Mar-19	3.6%	6.2	0.0
8	Kotak Mahindra Asset Management Company I	31-Mar-19	3.6%	6.2	0.0
9	Reliance Nippon Life Asset Management Limite	31-Mar-19	2.7%	4.7	0.0
10	Patel (Vikram R)	31-Mar-19	2.7%	4.6	0.0

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
L&T Investment Management Limited	2.4	0.7	Patel (Vishnubhai M)	-92.4	-25.7
Patel (Rekhaben Vasisthakumar)	1.2	0.4	Santokba Trust	-12.1	-4.0
Patel (Shantaben V)	1.3	0.4	HDFC Asset Management Co., Ltd.	-9.3	-2.7
Norges Bank Investment Management (NBIM)	1.3	0.4	DSP Investment Managers Pvt. Ltd.	-5.7	-1.6
BlackRock Institutional Trust Company, N.A.	0.5	0.2	ICICI Prudential Life Insurance Company Ltd.	-3.5	-1.0

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	46.5	46.5	46.5	46.5
Public	53.5	53.5	53.5	53.5
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research



## Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E
<b>Net Sales</b>	<b>3,505.1</b>	<b>3,549.2</b>	<b>3,717.3</b>	<b>4,456.1</b>
Growth (%)	5.6	1.3	4.7	19.9
Other Income	15.8	35.7	38.3	41.9
<b>Total Revenue</b>	<b>3,520.8</b>	<b>3,584.9</b>	<b>3,755.6</b>	<b>4,498.0</b>
Raw Material Expenses	863.4	0.0	918.2	1,096.2
Construction Expenses	1,950.0	2,852.1	2,064.4	2,474.7
Administrative Expenses	276.5	269.2	286.2	347.6
Total operating expenses	3,089.9	3,121.3	3,268.8	3,918.4
<b>EBITDA</b>	<b>415.1</b>	<b>427.9</b>	<b>448.5</b>	<b>537.6</b>
Growth (%)	16.7	3.1	4.8	19.9
Interest	116.7	110.3	111.8	111.8
Depreciation	97.9	95.8	102.5	111.7
PBT	216.3	258.3	272.6	356.2
Total Tax	-4.4	71.4	76.3	106.8
<b>PAT</b>	<b>220.7</b>	<b>186.9</b>	<b>196.2</b>	<b>249.3</b>
Growth (%)	17.5	-15.3	5.0	27.0
<b>EPS (Diluted)</b>	<b>12.9</b>	<b>10.9</b>	<b>11.4</b>	<b>14.5</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>				
Share capital	17.2	17.2	17.2	17.2
Stock Option Premium outstandi	0.0	0.0	0.0	0.0
Share warrant	0.0	0.0	0.0	0.0
Reserves & Surplus	1,849.6	2,008.4	2,176.6	2,397.9
<b>Total Shareholders funds</b>	<b>1866.8</b>	<b>2,025.6</b>	<b>2,193.8</b>	<b>2,415.1</b>
Secured Loans	1,096.9	1,484.7	1,490.0	1,490.0
Unsecured Loans	387.8	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
<b>Sources of funds</b>	<b>3351.5</b>	<b>3,510.3</b>	<b>3,683.8</b>	<b>3,905.1</b>
<b>Assets</b>				
Gross Block	728.2	798.2	868.2	918.2
Accumulated Depreciation	227.8	323.5	426.0	537.7
Net Block	500.4	474.7	442.2	380.5
Investments	577.5	610.0	610.0	610.0
Inventory	164.3	177.5	185.9	222.8
Debtors	1,628.0	1,668.1	1,747.2	2,094.4
Loans and Advances	688.2	696.9	655.5	696.7
Other Current Assets	677.4	674.4	743.5	935.8
Cash	12.7	65.4	165.4	4.7
Total Current Assets	3,170.6	3,282.2	3,497.4	3,954.4
Current Liabilities	417.5	443.7	427.5	490.2
Provisions	2.7	2.7	2.8	3.4
Net current assets	2,750.4	2,835.8	3,067.1	3,460.8
<b>Application of funds</b>	<b>3351.5</b>	<b>3,510.3</b>	<b>3,683.8</b>	<b>3,905.1</b>

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Profit after Tax	220.7	186.9	196.2	249.3
Depreciation	97.9	95.8	102.5	111.7
Cash Flow before WC changes	415.1	428.7	448.5	537.6
Net Increase in CA	-360.9	-58.9	-115.2	-617.6
Net Increase in CL	178.1	-40.4	9.2	174.0
<b>Cash Flow from Operating Act.</b>	<b>236.8</b>	<b>257.9</b>	<b>266.2</b>	<b>-12.8</b>
(Purchase)/Sale of FA	-54.7	-70.0	-70.0	-50.0
<b>Cash flow from Investing Act.</b>	<b>-47.0</b>	<b>-66.9</b>	<b>-31.7</b>	<b>-8.1</b>
Others	-15.8	-35.7	-38.3	-41.9
Proceeds from LT Borrowings	-150.4	-110.3	-106.4	-111.8
<b>Cash flow from Financing Act.</b>	<b>-178.5</b>	<b>-138.3</b>	<b>-134.5</b>	<b>-139.8</b>
<b>Net Cash flow</b>	<b>11.3</b>	<b>52.7</b>	<b>100.0</b>	<b>-160.6</b>
Opening Cash/ Cash Equivalent	23.0	12.7	65.4	165.4
<b>Closing Cash/ Cash Equivalent</b>	<b>12.7</b>	<b>65.4</b>	<b>165.4</b>	<b>4.7</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
	FY18	FY19E	FY20E	FY21E
<b>Per share data (₹)</b>				
Reported EPS	12.9	10.9	11.4	14.5
Cash EPS	18.6	16.5	17.4	21.0
BV per share	108.8	118.1	127.9	140.8
Dividend per share	1.6	1.6	1.6	1.6
Cash Per Share	13.3	18.9	24.8	31.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.8	12.1	12.1	12.1
PBT / Net Sales	6.2	7.3	7.3	8.0
PAT Margin	6.3	5.3	5.3	5.6
Inventory days	17	18	18	18
Debtor days	170	172	172	172
Creditor days	62	55	55	55
<b>Return Ratios (%)</b>				
RoE	11.8	9.2	8.9	10.3
RoCE	9.9	10.5	10.4	12.0
RoIC	9.5	9.6	9.8	10.9
<b>Valuation Ratios (x)</b>				
P/E	20.0	23.6	22.5	17.7
EV / EBITDA	14.2	13.6	12.8	11.0
EV / Net Sales	1.7	1.6	1.5	1.3
Market Cap / Sales	1.3	1.2	1.2	1.0
Price to Book Value	2.4	2.2	2.0	1.8
<b>Solvency Ratios</b>				
Debt/EBITDA	3.6	3.5	3.3	2.8
Debt / Equity	0.8	0.7	0.7	0.6
Current Ratio	3.2	3.4	3.5	3.5
<b>Quick Ratio</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>

Source: Company, ICICI Direct Research

**Exhibit 22: ICICI Direct coverage universe (Roads)**

Sector / Company	CMP		Rating	M Cap			EPS (₹)			P/E (x)			N/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E		
IRB Infra (IRBINF)	129	140	Hold	4,288	27.7	25.6	23.3	4.7	5.0	5.5	6.0	6.0	5.7	0.8	0.7	0.6	16.2	13.3	11.0		
PNC Infratech (PNCINF)	189	235	Buy	4,849	9.8	11.9	12.4	19.3	15.9	15.2	15.1	10.7	8.7	2.7	2.3	2.0	13.9	14.4	13.3		
Sadbhav Engg. (SADENG)	257	300	Buy	4,408	12.9	10.9	11.4	20.0	23.6	22.5	14.2	13.6	12.8	2.4	2.2	2.0	11.8	9.2	8.9		
Ashoka Buildcon (ASHBUI)	128	175	Buy	3,593	-4.2	-1.4	-1.4	NA	NA	NA	7.2	6.7	6.0	11.4	13.0	15.2	NM	NM	7.2		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

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