

Sector: Infrastructure
Event Update

	Change
Reco: Buy	↔
CMP: Rs. 249	
Price Target: Rs. 285	↔

↑ Upgrade ↔ No change ↓ Downgrade

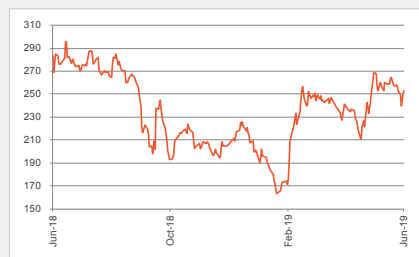
Company details

Market cap:	Rs. 4,264 cr
52-week high/low:	Rs. 303/202
NSE volume: (No of shares)	2.0 lakh
BSE code:	532710
NSE code:	SADBHAV
Sharekhan code:	SADBHAV
Free float: (No of shares)	14.7 cr

Shareholding (%)

Promoters	47
FII	15
DII	24
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	1.2	22.4	-9.1
Relative to Sensex	-4.0	-2.9	10.0	-20.1

Sharekhan Research, Bloomberg

Sadbhav Engineering Limited (SEL) has received a credit rating downgrade for its Rohtak-Hisar project (executed under Sadbhav Infrastructure Project Limited, SIPL) on account of delay in debt servicing. The project commenced tolling (FY2019 tolling revenue of Rs. 65 crore) since July 2016, which has not been sufficient enough for debt obligations (interest plus principal payment, Rs. 110 crore for FY2019). SIPL has infused Rs. 277 crore, including equity in the project till FY2019, and has been intimating NHAI about the presence of alternate routes leading to losses in the project. SEL expects the issue to get resolved as it is protected under the concession agreement (no alternate route shall be constructed within 15 years of the appointed date).

Credit rating of Rohtak-Hisar downgraded

CARE has downgraded the credit rating of Rohtak-Hisar Tollway Pvt. Limited (RHTPL), a wholly owned subsidiary of SIPL (subsidiary of SEL) to 'CARE D' from 'CARE BB+' maintaining 'Stable' outlook. RHTPL had received the appointed date in December 2013 and started tolling from July 2016. Toll income during FY2017/FY2018/FY2019 stood at ~Rs. 39 crore/57 crore/65 crore versus project debt of Rs. 952 crore. As per management, toll collection remained subdued due to presence of alternate routes leading to diversion of traffic. Management has intimated NHAI about the issue and the protection available under the concession agreement, which is yet to be resolved.

Our Call

Valuation - Maintain Buy with unchanged PT of Rs. 285: We expect the resolution of Rohtak-Hisar project as the issue is well covered in the concession agreement. Management has time and again clarified on the delays in such matters due to procedural delays. Hence, at this stage, we maintain our Buy rating with unchanged price target (PT) of Rs. 285.

Key Risks

Macro economic slowdown and high interest rates can negatively affect earnings.

Valuation (Standalone)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenue	3,320.3	3,505.1	3,549.2	4,087.9	4,763.5
OPM (%)	10.7	11.8	12.1	12.1	12.2
Adjusted PAT	187.8	220.7	186.1	208.8	259.8
% YoY growth	24.0	17.5	(15.7)	12.2	24.4
Adjusted EPS (Rs.)	10.9	12.9	10.8	12.2	15.1
P/E (x)	22.7	19.3	22.9	20.4	16.4
P/B (x)	2.5	2.3	2.1	1.9	1.7
EV/EBITDA (x)	13.5	11.6	11.3	9.7	8.3
RoNW (%)	11.9	12.5	9.5	9.8	11.1
RoCE (%)	10.0	10.7	8.8	9.0	9.7

Source: Company Data; Sharekhan estimates

About company

Incorporated in 1988, SEL is engaged in 1) engineering, procurement and construction (EPC) business for the transport, mining and irrigation sector and 2) development of roads and highways on build, operate and transfer (BOT) through SIPL. SEL is present in 15 different states and has strong in-house integrated execution capabilities. SEL has been making profits since inception in its standalone business and has paid regular dividend over the past 16 years.

Investment theme

SEL has a healthy order book of Rs. 11,981 crore (3.4x its FY2019 standalone revenue) with presence in 11 states. The company has robust in-house integrated execution capabilities with qualified human resource and owned equipment. We expect SEL to benefit from improved order execution, enhanced order inflows (particularly from the transport segment) and resolution of working capital issues, resulting in a sturdier balance sheet. Further, improving outlook for the Indian road sector and limited competitive intensity augur well for SEL since it is present in the asset creation as well as the EPC vertical.

Key Risks

- ◆ Weak macro environment leading to lower toll revenue growth in its BOT assets.
- ◆ Delay in execution of projects can negatively affect revenue and net earnings.
- ◆ Inability to divest or monetise road assets.

Additional Data

Key management personnel

Name	Designation
Mr. Vishnubhai M Patel	Chairman Emeritus
Mr. Shashin V Patel	Chairman and Managing Director
Mr. Nitin R Patel	CFO & Whole time Director
Mr. Tushar Shah	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	V PATEL SHANABEN	28.07
2	PATEL SHANTABEN V	28.07
3	SADBHAV FINSTOCK PVT LTD	9.64
4	HDFC Asset Management Co Ltd	9.18
5	ICICI Prudential Life Insurance Co	7.75
6	Nomura Holdings Inc	6.34
7	SBI Funds Management Pvt Ltd	4.12
8	PATEL SHASHIN	3.64
9	Reliance Capital Trustee Co Ltd	2.72
10	Patel Vikramkumar R	2.70

Source: Bloomberg

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