

Sector: Infrastructure
Event Update

	Change
Reco: Buy	↔
CMP: Rs. 244	
Price Target: Rs. 285	↔

↑ Upgrade ↔ No change ↓ Downgrade

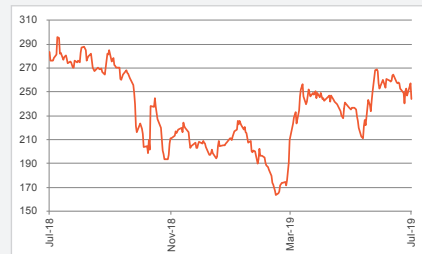
Company details

Market cap:	Rs. 4,186 cr
52-week high/low:	Rs. 316/162
NSE volume: (No of shares)	2.1 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	-2.5	0.0	18.3	-12.4
Relative to Sensex	-3.0	-2.3	6.0	-23.3

Sharekhan Research, Bloomberg

Sadbhav Engineering Limited (SEL) entered into definitive agreement with IndInfravit Trust for a 100% stake sale in nine operational projects held under listed subsidiary Sadbhav Infrastructure Projects (SIPL). The assets sold at an EV of Rs. 6612 crore and equity value of Rs. 2550 crore valuing the assets at 1.7x book value and 8.4x EV/EBITDA on FY2019 earnings. The equity value will be received as Rs. 1900 in cash and 10% stake in IndInfravit trust. The deal will aid in Rs. 4000 crore O&M contract for SIPL, more than halving leverage at both SEL and SIPL Standalone along with providing a platform for future sale of operational assets.

Divestment of nine operational assets

SEL entered into definitive agreement to offload 100% stake in nine operational assets held under SIPL to IndInfravit trust at an EV of Rs. 6612 crore and equity value of Rs. 2550 crore (as Rs. 1900 cash plus 10% stake in IndInfravit trust) valuing the assets at 1.7x P/B and 8.4x EV/EBITDA on FY2019 earnings. The proceeds from the sale will more than halve leverage at Standalone SEL/SIPL which stood at 0.7x/1.0x as on FY2019. SIPL stands to gain from O&M contract, project management fees and a platform for future divestment in projects. SIPL would be left with 15 assets (3 BOT and 12 HAM) with Rs. 450 crore net equity requirements for HAM projects over next 2-3 years.

Our Call

Valuation - Maintain Buy with unchanged PT of Rs. 285: The deal provides much needed relief to SEL to recover loans outstanding from SIPL. Additionally, reduced leverage would help SEL in bidding for upcoming HAM & BOT projects. Hence, at this stage, we continue to maintain Buy with unchanged PT of Rs. 285.

Key Risks

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

Valuation (Standalone)

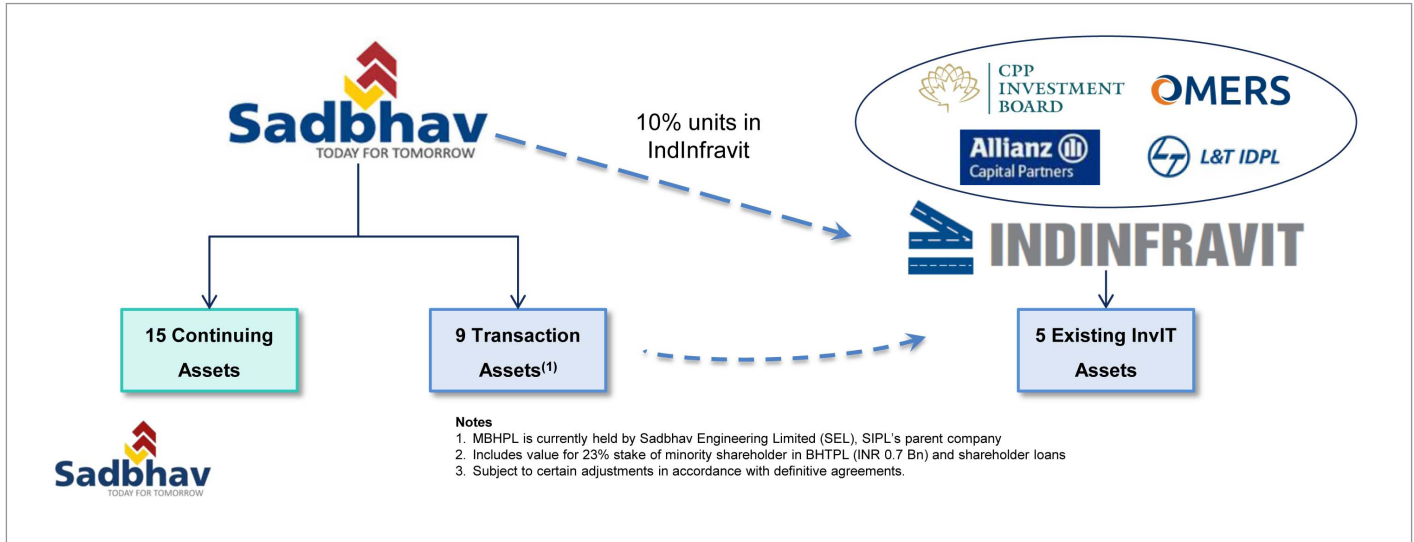
	Rs cr				
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	3,320.3	3,505.1	3,549.2	4,087.9	4,763.5
OPM (%)	10.7	11.8	12.1	12.1	12.2
Adjusted PAT	187.8	220.7	186.1	208.8	259.8
% YoY growth	24.0	17.5	(15.7)	12.2	24.4
Adjusted EPS (Rs.)	10.9	12.9	10.8	12.2	15.1
P/E (x)	22.3	19.0	22.5	20.0	16.1
P/B (x)	2.5	2.2	2.0	1.9	1.7
EV/EBITDA (x)	13.3	11.4	11.1	9.6	8.1
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

Divestment of 9 operating assets at 1.7x book value

Sadbhav Infrastructure Projects (SIPL), subsidiary of Sadbhav Engineering entered into definitive agreement with IndInfraVIT Trust for sale of 100% stake in 9 projects for an Enterprise Value of Rs. 6612 crore. The transaction will lead to a de-consolidation of net debt of Rs. 4060 crore, cash inflow of Rs. 1900 crore and 10% stake in IndInfraVIT units aggregating to equity value of Rs. 2550 crore. The transaction values the assets at 1.7x P/B against equity investment of Rs. 1500 crore.

Deal Structure



Source: Company

Transaction Assets

9 Projects⁽¹⁾ (7 Toll + 2 Annuity)	750 km (c. 2,600 lane km)	INR 9.1 Bn FY19 Revenue	INR 7.9 Bn FY19 EBITDA	INR 66.1 Bn^(2,3) Enterprise Value	INR 25.5 Bn^(2,3) Equity Value
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• Equity value to be paid as c.INR 19 Bn in cash and 10% units in IndInfraVIT

Source: Company

Project wise details

Entity Name	FY2019 total revenue (Rs cr)	% to total turnover	Net Worth (Rs cr)	Equity Invested	Debt (as on FY2018)
Ahmedabad Ring Road Infrastructure Ltd	107	2.9	38	104	257
Nagpur Seoni Expressway Ltd	21	0.6	-13	44	258
Bijapur Hungund Tollway Pvt Ltd	147	4.0	-8	140	798
Hyderabad Yadgiri Tollway Pvt Ltd	96	2.6	-25	119	373
Aurangabad Jalna Tollway Ltd	57	1.5	0	112	227
Bhilwara Rajsamand Tollway Pvt Ltd	53	1.4	111	133	280
Dhule Palesner Tollway Ltd	196	5.3	42	382	1053
Mysore Bellary Highway Pvt Ltd	95	2.6	89	79	425
Shreenathji Udaipur Tollway Pvt Ltd	124	3.3	119	312	872
Total	897	24	352	1424	4542

Source: Company, Sharekhan Research

Profile of Remaining Assets in SIPL

Continuing Assets (3 Operational BOT Assets)

MBCPNL 24 Check Posts Balance Concession: 14.4 Years	RPTPL + RHTPL 180 km (720 lane km) Balance Concession: 16.6 Years	INR 4.1 Bn FY19 Revenue	INR 3.2 Bn FY19 EBITDA	INR 30.2 Bn FY19 Debt	INR 8.4 Bn FY19 Equity invested
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Continuing Assets (12 HAM Assets)

660 km (c. 2,450 lane km)	INR 109 Bn Project Cost	c. INR 4.3 Bn Equity Invested	8 projects under-construction	Balance 4 projects achieved FC
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- 4 out of 12 assets expected to be operational in FY20
- Spread across Gujarat, Maharashtra, Rajasthan, Karnataka, Andhra Pradesh, Uttar Pradesh and Uttarakhand

Source: Company

Debt to more than halve in Standalone SIPL & SEL

The cash proceeds to the tune of Rs. 1900 crore will be utilized in bringing down the debt at SEL and SIPL Standalone levels by more than half. As of FY2019, SEL/SIPL had gross debt of Rs. 1370/1473 crore with D/E at 0.7/1.0x respectively. On FY2019 proforma basis, the D/E would stand reduced to 0.4x for both the standalone entities. The reduced leverage and cash balance would aid SIPL in loss funding of its two projects (diversion of traffic) till the issue gets resolved (have approached NHAI as the issue is covered under concession agreement) and equity requirement of balance projects. SEL would gain from reduced leverage in refurbishment of its bank limits along with ability to raise capital for future projects.

Gross Debt as on FY2019



Source: Company, Sharekhan Research

Other benefits of the deal

SIPL, apart from Rs. 2550 crore will be getting ~Rs. 400 crore (Rs. 300 crore CAR compensation for Ahmedabad ring road project to be received in installments till December 2026, Rs. 75 crore for Aurangabad-Jalna extension of concession agreement, ~Rs. 30 crore from receivables from NHAI) and ~Rs. 200-225 crore claims receivable for 9 SPVs. SIPL will be getting one board seat in the trust and expects 11-12% yield from its investment in the IndInfraVIT trust. It will continue routine and major maintenance of 9 transaction assets which is estimated to have Rs. 4000 crore contract value for remaining concession period. SIPL will also get 1% of tolling revenue as project management fees for 9 transaction assets. Further owing to Right of First Offer (ROFO) option given to IndInfraVIT in respect of all future operational assets of SIPL, it would provide a platform to offload future projects. This, in turn will lead to the churning and re-investment of capital in the projects. SEL would receive ~Rs. 750 crore from the transaction which comprises of Rs. 550 crore loan given to SIPL, Rs. 100 crore investment made in Mysore Bellary project and Rs. 95-100 crore interest due from SIPL on outstanding loans as of FY2019.

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

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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