ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

31 May 2020

Dilip Buildcon

Net debt shrinks again, Covid-19 cuts revenues; retaining a Buy

Rating: **Buy**
Target Price: ₹368
Share Price: ₹260

Key data	DBL IN / DIBL.BO
52-week high / low	₹608 / 190
Sensex / Nifty	32424 / 9580
3-m average volume	$1.1m
Market cap	₹35.6bn / $472m
Shares outstanding	137m

Shareholding pattern (%)	Mar'20	Dec'19	Sep'19
Promoters	75.0	75.0	75.0
- of which, Pledged	*21.5*	*20.8*	*20.8*
Free float	25.0	25.0	25.0
- Foreign institutions	9.4	9.4	10.1
- Domestic institutions	6.3	6.2	5.6
- Public	9.3	9.5	9.4

Estimates revision (%)	FY21e	FY22e
Sales	-20.4	-13.0
EBITDA	-25.4	-16.4
EPS	-46.8	-36.6

Covid-19 made Dilip Buildcon not only miss its year-end execution spurt, but order additions too were pushed to the future. Nevertheless, debt shrinking for a fifth straight quarter was heartening, and continued early completion of projects reinstates faith in its execution capabilities. With the Covid-19 situation yet evolving, it refrained from "guidance", but talked of execution returning to normal sooner than later. A lighter balance sheet augurs well, but the OB would need to be attended to. Here, the recent reduced dependence on a single segment (roads) would help. Proven execution capabilities, a lighter balance sheet (efforts continuing) and attractive valuations make us retain our Buy rating.

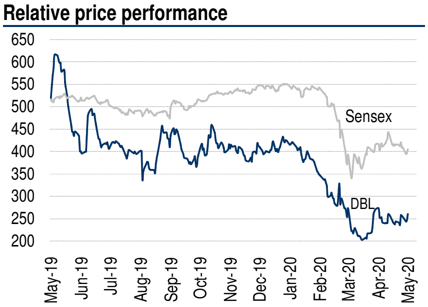
Unprecedented times, no guidance. With the Covid-19 situation yet evolving, management refrained from "guidance". Nevertheless, it indicated that despite ~50% workmen availability at sites, it's been operating at ~70% efficiency. This indicates the benefits of greater mechanisation of works and skilled labour at project sites. Management hopes normalcy to return in H2.

Net debt shrinks for fifth straight quarter. Contained capex outlays and focus on pruning its working-capital cycle enabled de-levering (net debt down ~₹1.1bn q/q to ₹29bn) for a fifth straight quarter. This reduction comes despite a ~₹2.4bn equity infusion in Q4 and no external receipts (like Shrem). Lower scale, too, would have helped in the reduced net debt.

OB healthy, need more for growth. With the year-end spurt in awarding impacted by Covid-19, Q4 inflows were weak. Hence, the OB shrank ~₹21bn q/q to ~₹191bn, but is still good to deliver in FY21 and FY22. However, growth beyond would need more, and it banks on ~₹560bn of road tenders, and ~₹250-300bn in other segments to bag enough to keep growth going.

Valuation. Adjusting for the Covid-impact, we slash FY21e earnings ~47% (~37% for FY22; changed tax assumption). At the CMP, the stock (excl. investments) quotes at a PER of 6.5x FY22e, against the TP implied 8x. **Risk.** Prolonged Covid-19 impact.

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20P	FY21e	FY22e
Sales (₹ m)	77,459	91,182	89,838	81,698	96,913
Net profit (₹ m)	6,355	7,607	4,160	2,627	4,044
EPS (₹)	46.5	55.6	30.4	19.2	29.6
Growth (%)	76.1	19.7	-45.3	-36.9	53.9
PE (x)	21.5	11.6	6.9	13.6	8.8
EV / EBITDA (x)	11.7	7.6	3.7	4.8	4.1
PBV (x)	5.6	2.7	0.8	0.9	0.8
RoE (%)	29.5	26.9	12.2	7.0	10.0
RoCE (%)	22.9	21.6	17.3	13.9	16.7
Net debt / equity (x)	1.1	1.1	0.8	0.7	0.7

Source: Company Anand Rathi Research *P- Provisional*

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	2,38,881	2,11,718	1,90,816	1,90,816	2,14,804
Order inflows	1,39,351	61,257	67,250	80,889	1,19,941
Net revenues	**77,459**	**91,182**	**89,838**	**81,698**	**96,913**
Growth (%)	*52.0*	*17.7*	*-1.5*	*-9.1*	*18.6*
Direct costs	61,604	73,114	72,089	66,202	78,427
SG&A	1,827	2,025	2,029	2,103	2,303
EBITDA	**14,028**	**16,044**	**15,720**	**13,393**	**16,182**
EBITDA margins (%)	*18.1*	*17.6*	*17.5*	*16.4*	*16.7*
Depreciation	2,750	3,202	4,241	4,110	4,454
Other income	155	464	313	290	311
Interest expenses	4,644	5,299	6,127	5,711	5,824
PBT	6,789	8,007	5,665	3,863	6,216
Effective tax rate (%)	*6.4*	*5.0*	*26.6*	*32.0*	*34.9*
+ Associates / (Minorities)	-	-	-	-	-
Net income	6,203	7,649	4,250	2,627	4,044
Adjusted income	6,355	7,607	4,160	2,627	4,044
WANS	137	137	137	137	137
FDEPS (₹ / sh)	46.5	55.6	30.4	19.2	29.6

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	1,368	1,368	1,368	1,368	1,368
Net worth	24,571	32,044	36,060	38,522	42,401
Debt	29,412	35,763	32,563	30,861	32,475
Minority interest	-	-	-	-	-
DTL / (Assets)	1,067	171	-196	-196	-196
Capital employed	**55,050**	**67,979**	**68,426**	**69,187**	**74,680**
Net tangible assets	18,290	20,482	19,967	18,953	18,066
Net intangible assets	29	341	308	203	136
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	-	43	-	-
Investments (strategic)	2,415	5,238	11,444	15,712	17,222
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	64,863	81,119	76,593	70,485	79,074
Cash	1,613	1,888	3,219	2,216	2,386
Current liabilities	32,160	41,088	43,149	38,382	42,205
Working capital	32,703	40,031	33,444	32,103	36,869
Capital deployed	**55,050**	**67,979**	**68,426**	**69,187**	**74,680**
Contingent liabilities	33,949	40,147	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT+ Net interest expense	11,278	12,842	11,479	9,283	11,729
+ Non-cash items	2,750	3,202	4,241	4,110	4,454
Oper. prof. before WC	14,028	16,044	15,720	13,393	16,182
- Incr. / (decr.) in WC	10,438	7,328	-6,587	-1,342	4,766
Others incl. taxes	128	1,299	1,835	1,236	2,172
Operating cash-flow	3,462	7,417	20,472	13,499	9,244
- Capex (tang. + intang.)	4,244	5,705	3,737	2,947	3,500
Free cash-flow	-782	1,712	16,735	10,552	5,744
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	165	165	165	165	165
+ Equity raised	-	-	-	-	-
+ Debt raised	4,087	5,455	-3,568	-1,702	1,614
- Fin investments	-2,280	2,823	6,207	4,268	1,510
- Net int. expense + Misc.	4,944	3,904	5,463	5,421	5,513
Net cash-flow	476	275	1,331	-1,003	170

Source: Company, Anand Rathi Research *P- Provisional*

Fig 4 – Ratio analysis

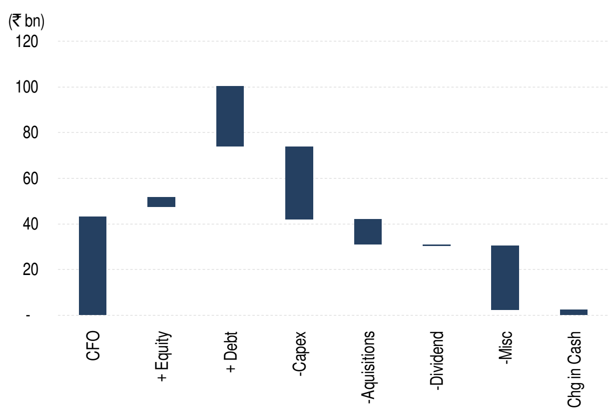
Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	21.5	11.6	6.9	13.6	8.8
EV / EBITDA (x)	11.7	7.6	3.7	4.8	4.1
EV / Sales (x)	2.1	1.3	0.6	0.8	0.7
P/B (x)	5.6	2.7	0.8	0.9	0.8
RoE (%)	29.5	26.9	12.2	7.0	10.0
RoCE (%)	22.9	21.6	17.3	13.9	16.7
Sales / FA (x)	4.2	4.4	4.4	4.3	5.3
DPS (₹ / sh)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	0.1	0.2	0.5	0.4	0.4
Dividend payout (%) - incl. DDT	2.6	2.2	4.0	6.3	4.1
Net debt / equity (x)	1.1	1.1	0.8	0.7	0.7
Receivables (days)	85	86	50	59	59
Inventory (days)	95	100	107	98	98
Payables (days)	71	69	67	63	61
CFO : PAT %	54.5	97.5	492.1	513.9	228.6

Source: Company, Anand Rathi Research *P- Provisional*

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Capital allocation – FY13-20 cumulative



Source: Company

Result / Concall Highlights

Income statement

- **Covid-19 impacts revenue performance.** Besides the ~8% y/y lower opening order backlog for Q4, the Covid-driven missing out on precious days of execution-heavy Q4 made revenues decline ~3% y/y to ~₹25bn. For the full year, delayed appointed dates, a prolonged monsoon, slow new ordering, and Covid combined to pull down revenue ~2% y/y (to ~₹89.8bn).
  - Management pegs the Covid-19-induced revenue loss at ~₹4-5bn for the quarter as well as the year.
  - In Q4 FY20, all segments recorded lower y/y revenues but mining (with ~21% lower revenues) and urban development (down ~64% y/y) were key contributors to the overall decline. Roads (~89% share) was down ~1% y/y
  - For the year, Roads (~87% share) was down ~3% y/y whereas mining (~11% share) was up ~3% y/y.
  - There was no early completion bonus during the quarter. Consequently, it was ~₹1.3bn for the year.
- **Q4 EBITDA margin at ~16.5%.** The EBITDA margin compressed ~123bps y/y. The compression appears almost entirely attributable to the change in project-/job-mix as ~112bps of the compression stemmed from the lower gross margin. The balance is on account of negative operating leverage.
  - The FY20 EBITDA margin was ~17.5%; adjusting for the ~₹1.3bn early-completion bonuses received in the year, the core EPC margin was ~16.3%.

Fig 7 – Standalone highlights – Covid-19 impacts Q4 revenues by ~₹4bn-5bn

(` m)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q	FY19	FY20	% Y/Y
Sales	25,579	24,403	16,323	24,889	25,787	22,938	18,093	23,810	24,997	*-3.1*	*5.0*	91,403	89,838	*-1.7*
EBITDA	4,726	4,366	2,901	4,424	4,573	4,179	3,214	4,201	4,127	*-9.8*	*-1.8*	16,264	15,720	*-3.3*
EBITDA margins (%)	*18.5*	*17.9*	*17.8*	*17.8*	*17.7*	*18.2*	*17.8*	*17.6*	*16.5*	*-123bps*	*-113bp*	*17.8*	*17.5*	*-30bps*
Interest	1,260	1,211	1,216	1,444	1,428	1,588	1,535	1,530	1,475	*3.2*	*-3.6*	5,299	6,127	*15.6*
Depreciation	725	754	773	805	870	1,047	1,056	1,079	1,059	*21.7*	*-1.9*	3,202	4,241	*32.5*
Other income	41	51	42	37	113	63	74	80	96	*-15.0*	*19.3*	243	313	*28.6*
Extraordinary items	152	-	-	-	-43	-	-	-40	-50	-	-	-43	-89	-
PBT	2,629	2,453	954	2,213	2,430	1,607	697	1,712	1,739	*-28.5*	*1.6*	8,050	5,754	*-28.5*
Tax	456	-96	122	144	231	354	121	442	588	*154.3*	*32.9*	400	1,505	*275.9*
PAT	2,174	2,549	832	2,069	2,199	1,252	577	1,270	1,151	*-47.7*	*-9.3*	7,649	4,250	*-44.4*
Adj. PAT	2,326	2,549	832	2,069	2,157	1,252	577	1,230	1,101	*-48.9*	*-10.5*	7,607	4,160	*-45.3*

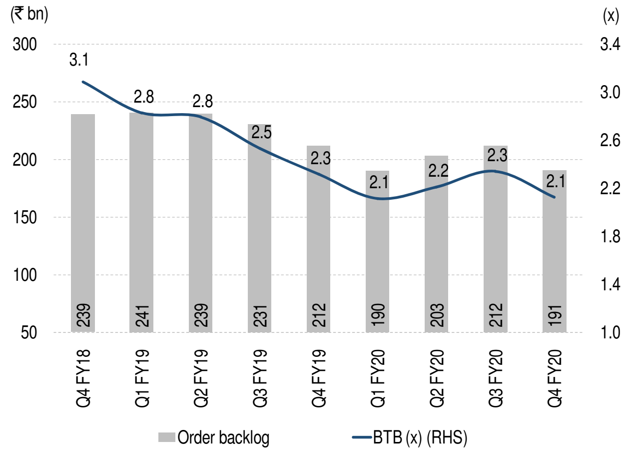
Source: Company

- **Q4 earnings almost halved y/y.** Adjusted PAT was down ~49% y/y to ~₹1.1bn. This was largely on account of lower operating profitability, higher depreciation and higher finance costs. It was further dragged down by the higher tax rate (~34%, against ~10% a year ago) on fading 80-IA benefits.
  - For FY20, adjusted PAT was down ~45% y/y to ~₹4.2bn, largely on the trifecta of higher finance costs, depreciation and the tax rate (on waning 80-IA tax benefits). Lower operating profitability and other income also contributed to the lower earnings.

Order backlog / Future scope

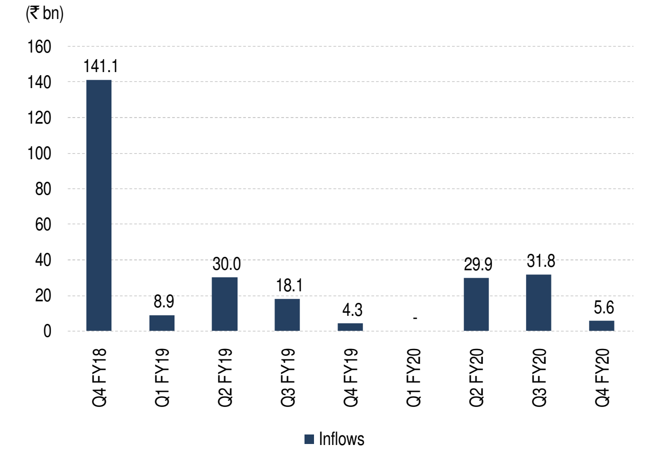
- While 9M inflows largely tracked the works executed during the period in FY20, Covid-19 played spoilsport in Q4. With the Covid-impacted environment delaying the much expected year-end spurt in awarding, the company firmed up only an NHAI hybrid-annuity project, of ~₹5.6bn EPC value in Q4 (L1 at end-Q3).
  - It was looking to the year-end spurt in awarding to meet its FY20 inflow guidance of ~₹120bn-140bn, which has consequently been missed. FY20 inflows amounted to ~₹67bn.
- Lack of sufficient inflows to cushion the Q4 execution resulted in the OB declining ~₹21bn q/q to ~₹191bn. The year-end book implied book-to-bill of ~2.1x FY20 revenues. Though the book is good for the foreseeable future, growth beyond would need more.

Fig 8– Inflows lagged execution, OB down to ~₹191bn



Source: Company Note: Quarter-end figures

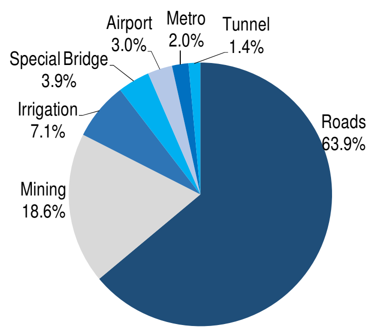
Fig 9 – ~₹5.6bn of single order in Q4; FY20 addition: ~₹67.3bn



Source: Company

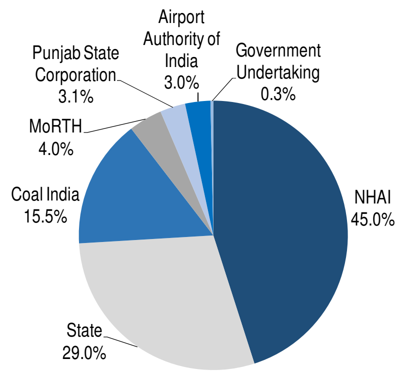
- Management says it could have had more success with inflows had it not been for Covid-19. Nevertheless, it is not overly concerned as it find comforts from a road award pipeline of ~₹560bn (spillover from Mar'20, owing to Covid) to fructify sooner than later, and to bag enough to keep growth growing. Besides this, another ~₹250bn-300bn of non-road potential is on its radar.

Fig 10 – Roads share flat q/q, but down from ~77% y/y



Source: Company

Fig 11 – Central government orders dominate the OB, @ ~68%



Source: Company

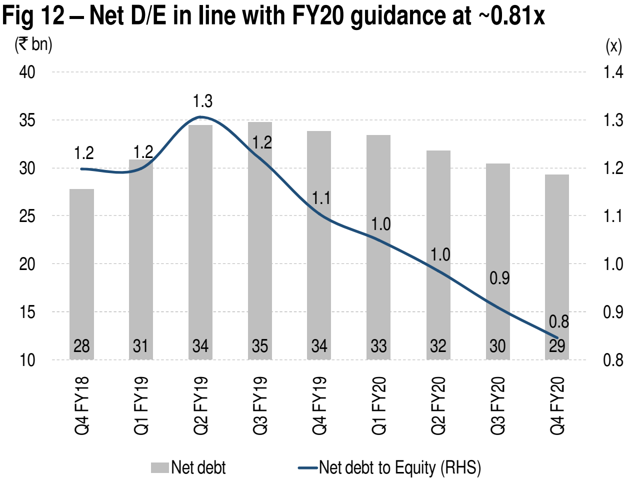
  - Of the total road pipeline, hybrid annuity projects comprise ~₹360bn; the balance on the EPC model. Management expects the authorities to invite bids for this pipeline, once the lockdown is lifted (hopefully by Q2 FY21).

- Though the road award pipeline is healthy, we see the hybrid annuity portion of the bid pipeline to face some challenges owing to the recent sharp fall in the bank rate, and the consequent deterioration in the return profile. If this doesn't correct or the ministry does not address the issue, the bids could turn out to be lower than NHAI/ministry estimates (a reason not to award), and financial institutions could become wary of funding given the issue at hand.

Balance Sheet

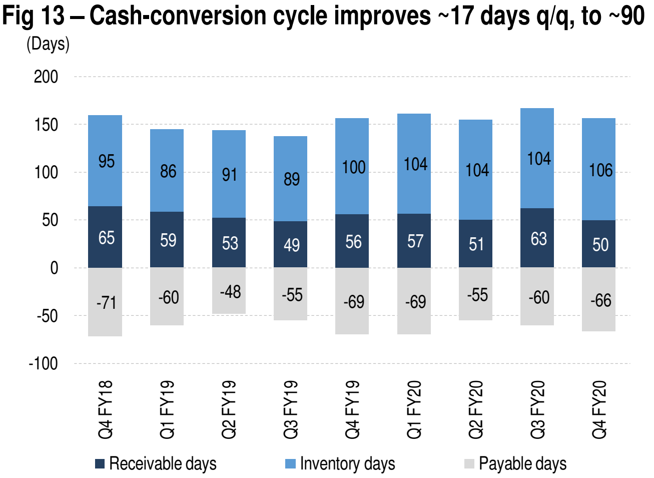
- Net debt was down ~₹1.1bn q/q to ~₹29.3bn, shrinking for the fifth straight quarter. This implied a net debt-to-equity of ~0.81x, down from ~1.06x at end-FY19 and in line with company's FY20 guidance to curb net-debt-to-equity to ~0.8x. The company looks to further lower its net-debt-to-equity.
  - The lower net debt is inspiring as it comes against the backdrop of ~₹2.4bn invested on new under-construction hybrid annuity projects in Q4, and no fresh receipts from the Shrem Group. This is clearly a sign of internal accruals sufficing for the outlay.
  - The lower debt, besides contained capex outlay and the concerted efforts to prune the working-capital cycle, appears to be also a result of the lower scale of operations.

Fig 12 – Net D/E in line with FY20 guidance at ~0.81x



Source: Company Note: Quarter-end figures

Fig 13 – Cash-conversion cycle improves ~17 days q/q, to ~90



Source: Company

- The cash-conversion cycle was ~90 days at end-FY20, up a mere three days from a year ago. However, it was down ~17 days sequentially and seems a function of both lower trade receivables (down ~₹3.3bn q/q) and higher payable days (trade payables up ~₹1.5bn q/q). Management expects the cycle at 90-95 days during FY21.

Hybrid annuities: the old and the new . . .

Old projects and the Shrem deal

- Of its six older hybrid annuities, the company has achieved COD on all projects ahead of scheduled completion dates.
  - It has already transferred a ~49% stake, as permitted by the concession agreement, for three assets; for the other three, stake transfer is in the process and expected shortly. The company has

already received the NOC for these three assets.

  - The company is cumulatively entitled to early-completion bonuses of ~₹1.2bn across these six assets.

- During the year, it received ~₹2bn toward the transfer of the stake. There is a balance of ~₹1.2bn, expected to be realised in Q1 FY21.
  - Of the FY20 receipts, it realised ~₹0.7bn as consideration toward completed projects; another ~₹1.3bn was realised toward upfront equity invested by Dilip Buildcon in the six under-construction (at the time of deal signing) hybrid annuity assets. Besides these, Shrem directly infused ~₹0.7bn in the asset SPVs.
  - Cumulatively, Dilip Buildcon has received ~₹9bn, and Shrem has infused another ~₹4.7bn directly in the SPVs.
  - There were no receipts/infusion by Shrem in Q4 FY20.

Newer projects: Sale agreement signed for 5, 7 on the block, 1 new addition in Q4

- Of the 13 newer hybrid annuity projects, twelve are already appointed and under execution. The thirteenth, of EPC value ~₹5.6bn, in Chhattisgarh was bagged in Q4.
  - For the 12 hybrid annuity projects entailing equity of ~₹16bn, Dilip Buildcon has cumulatively infused ~₹10.8bn, including ~₹2.4bn in Q4 FY20. It expects to infuse another ~₹4bn in FY21 and the balance in FY22 (~₹1.2bn). Of the balance to be infused, ~₹2.8bn is expected to come from Cube Highways but subject to fulfilment of certain conditions.
  - For the new Q4 win, equity requirement is pegged at ~₹0.6bn, expected to be infused in two equal tranches of ~₹0.3bn in FY21 and FY22.
- Having already entered into an agreement to monetise five of its thirteen assets, management highlighted it expects to soon be in a position to call Cube Highways for its share of equity infusion in the committed assets at the under-construction stage, provided set conditions are met, such as:
  - **Availability of 90% right of way at each project.** Management expects to fulfil this criterion shortly.
  - **~50% physical progress at the project.** Of the five assets, one already fulfils the criteria and three have made over 41% progress. The fifth asset, Sangli-Borgaon, is at ~29% progress.
  - Quality certification from the appointed PMC, among others.
  - Despite it is likely to soon be in a position to call on Cube Highways for the latter's share of equity infusion, it may choose to delay the infusion as Cube's investments are expected in the form of OCDs that would carry ~12% interest (higher than its blended borrowing cost).
- The company was in advanced stages of discussion with another buyer(s) to monetise another seven hybrid annuity assets. However, in view of current circumstances, discussions have come to a halt, especially after considering that the gap between interest paid by the authority on annuity payments (@ "bank rate+300bps") is lower than the cost of funding at this juncture.

- Management sees this as a temporary phenomenon, and expects the significantly widened gap between the bank rate and the MCLR to shrink by the time projects attain CODs.
- It agrees that the present situation is likely to play spoilsport in closing any deal for such assets in the short term.
- Management said that, regarding this matter, it, along with other hybrid annuity asset developers through the "The National Highway Builders Federation" (an industry body), has presented this paradox to the authority and awaits further clarity.

Other Highlights

- **Execution in Covid-environment.** Work came to a halt in Apr'20; but with the gradual relaxation of the lockdown, the company has now re-commenced execution at most of its work-sites, and is currently operating at an average efficiency of ~70%.
  - Management said that, barring a few projects in urban areas such as Indore and Bhopal metro-rail projects, it has commenced construction at all other sites. The blended average efficiency at current sites is ~70%.
  - On raw materials, management said that while all raw materials are now available (faced issues initially) and it is benefitting from the fall in prices of steel and diesel. But these gains are being offset by higher prices for cement.
  - On availability of workmen, management said that despite providing for their daily needs, it too saw its workforce return to their hometowns in the initial days of the relaxation of the lockdown. Recently, however, it has noticed a trend of the situation stabilising at projects, but no major reverse migration.
  - It believes that its sites in Uttar Pradesh, Bihar, West Bengal and Odisha would benefit as most migration has been to these states; thus, there would not be any issue with availability for projects in these states (when these people decide to start working).
  - With regard to payments from the authorities, management has seen no issues in clearances of bills raised and said that Central road authorities have developed an online system for clearing bills.
  - With the current situation in mind and considering that the monsoon is almost upon us, management sees a chance of major execution recovery in H2 only. With the situation yet evolving, it has refrained from "guidance", for want of more clarity on the actual execution progress in the coming quarter or two.
  - On the tax front, management expects an effective tax rate of ~30-32% in FY21, but expects no actual cash-outflows as unutilised MAT of ~₹3.5bn is available.
- Management doesn't envisage capex in FY21 for the current set of orders and pegs it necessary only if it bags a major mining project.
- As per relief measures announced by the Finance Minister, all under-execution projects are set to receive a blanket extension of six months to complete projects. Management intends to lever its execution capabilities to complete projects faster and aim at higher early-completion bonuses.

Valuation

On the Covid-led disruption, we anticipate loss of man-days in FY21, and inflows, too, to lag our earlier expectations. We see a part of the disruption in FY21 to stretch to FY22. On giving effect to these, we see revised FY21e and FY22e revenues falling respectively ~20% and ~13% lower than we earlier expected. Lower revenues leading to negative operating and financial leverages would lead to earnings plunging ~47% in FY21 and ~37% in FY22. With the lowering of earnings estimates, we now see the company to shift to the new tax regime in FY23 (after utilising the available MAT credit).

Mindful of the altered risk profile, we lower the PE valuation multiple for the EPC business, and introduce a holding-company discount for the asset-ownership business. Also, introducing a discount takes into account fresh concerns on return ratios for the hybrid annuity portfolio (on a steeper decline in the bank-rate vis-a-vis the MCLR).

We value the company on a sum-of-parts approach, the construction business using a PE multiple of 8x FY22e (EPS adjusted for the new tax regime, earlier 9x), and the asset-ownership business at 0.8x FY22e invested value. Consequently, we arrive at a lower target price of ₹368 (down from ₹537 earlier). The TP comprises ₹271 for the construction business and ₹97 for the asset-ownership.

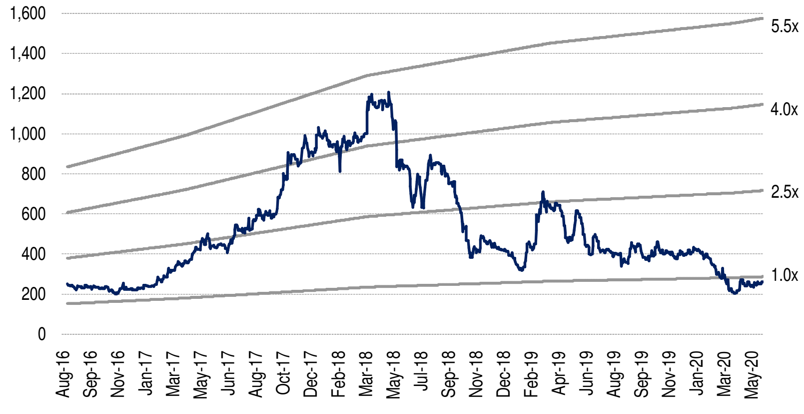
Fig 14 – Change in estimates

(₹ m)	Original Estimates		Revised Estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	1,02,698	1,11,399	81,698	96,913	*-20.4*	*-13.0*
EBITDA	17,947	19,357	13,393	16,182	*-25.4*	*-16.4*
EPS (₹)	36.1	46.6	19.2	29.6	*-46.8*	*-36.6*

Source: Anand Rathi Research

At the ruling price, the stock (excl. investments) trades at P/Es of 10x FY21e and 6.5x FY22e, against our assigned multiple of 8x for the construction business. On PBV, it quotes at 0.9x FY21e and 0.8x FY22e. Our TP implies an exit PBV of 1.2x FY22e.

Fig 15 – P/BV band



Source: Bloomberg, Anand Rathi Research

Risk

- Prolonged impact of Covid-19, leading to a slower-than-expected pace of execution.

Appendix

Analyst Certification

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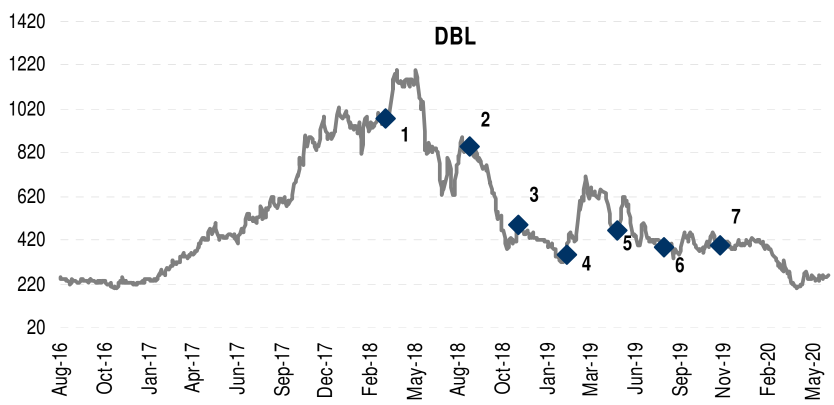
Rating and Target Price History (as of 30 May 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	22-Mar-18	Buy	1,089	975
2	20-Aug-18	Hold	1,073	854
3	15-Nov-18	Hold	776	469
4	11-Feb-19	Hold	744	336
5	13-May-19	Hold	729	485
6	06-Aug-19	Buy	586	391
7	14-Nov-19	Buy	521	398
8	11-Feb-20	Buy	537	384

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Ratings Guide (12 months)

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Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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