

Sadbhav Engineering (SADE IN)

Rating: BUY | CMP: Rs49 | TP: Rs87

July 10, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	87		128	
Sales (Rs. m)	21,626	26,615	25,174	31,621
% Chng.	(14.1)	(15.8)		
EBITDA (Rs. m)	2,206	3,247	3,071	3,858
% Chng.	(28.2)	(15.8)		
EPS (Rs.)	2.0	5.9	4.0	6.9
% Chng.	(49.4)	(13.8)		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	35,492	22,517	21,626	26,615
EBITDA (Rs. m)	4,279	2,795	2,206	3,247
Margin (%)	12.1	12.4	10.2	12.2
PAT (Rs. m)	1,861	681	351	1,018
EPS (Rs.)	10.8	4.0	2.0	5.9
Gr. (%)	(15.7)	(63.4)	(48.5)	189.9
DPS (Rs.)	1.0	0.7	0.7	0.7
Yield (%)	2.1	1.5	1.5	1.5
RoE (%)	9.5	3.3	1.7	4.7
RoCE (%)	9.5	5.0	3.3	5.8
EV/Sales (x)	0.7	0.8	0.9	0.7
EV/EBITDA (x)	5.5	6.4	8.5	6.0
PE (x)	4.5	12.3	23.8	8.2
P/BV (x)	0.4	0.4	0.4	0.4

Key Data

SADE.BO | SADE IN

52-W High / Low	Rs.196 / Rs.23
Sensex / Nifty	36,594 / 10,768
Market Cap	Rs.8bn / \$ 111m
Shares Outstanding	172m
3M Avg. Daily Value	Rs.42.27m

Shareholding Pattern (%)

Promoter's	46.81
Foreign	11.06
Domestic Institution	30.56
Public & Others	11.57
Promoter Pledge (Rs bn)	2.16

Stock Performance (%)

	1M	6M	12M
Absolute	7.6	(59.6)	(74.8)
Relative	0.7	(54.0)	(73.5)

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Execution to pick up from 2HFY21E

Quick Pointers:

- Order book as on 4QFY20 stood at Rs83.7bn (down ~30% YoY) due to muted order inflows in FY20 and termination of HAM projects (due to land issues).
- Gross standalone debt level reduced by ~Rs3.5bn to Rs12.4bn as 4QFY20 primarily led by receivable from monetization of asset in SIPL.
- The company completed transfer of its 8 BOT assets to Ind-infravit Trust and booked a profit of ~Rs170mn on its investment.

Sadbhav Engineering (SADE) reported a mixed set of results with better operating performance, however higher effective tax rate dented profitability. During 4QFY20, the company completed transfer of its 8 BOT assets to Ind-infravit Trust and booked a profit of ~Rs170mn on its investment. Further, sale of Ahmedabad Ring Road BOT project at a P/BV of ~2.5x (valuation as per agreement) is to be completed in FY21E. After a month's halt in construction activities due to nationwide lockdown, operations have now resumed in all project sites with labour force currently at 50-60% pre-covid levels. Company targets construction run-rate of Rs100mn/day with labour force returning to 80-90% levels by Sept'20 end.

SADE is one of the most reputed and credible EPC companies in infrastructure space with a strong execution track record. Lately, the company has been under pressure due to delay in receiving ADs, environment clearance issues, etc. leading to subdued revenues and stretched working capital cycle. However, with gradual receipt of ADs in all projects and conclusion of asset monetization deal have resulted in significant reduction of net debt. At CMP, the stock trades at a P/E of 23.7x/8.2x on FY21E/FY22E EPS and is trading at an EV of 8.5x/6x FY21E/FY22E EBITDA. We maintain BUY rating with a revised TP of Rs87 (earlier TP of Rs128).

Execution remain weak, margins surprise positively: SADE's revenues for 4QFY20 declined 60% YoY to Rs4.1bn (PLe Rs3.7bn), mainly on account of slow execution in some of its key projects, delayed AD's and impact of nationwide lockdown. EBITDA for the quarter declined 60% YoY to Rs505mn with EBITDA margins coming in flat YoY at 12.3% (PLe 9.9%). On bottom-line front, reported PAT came in at Rs82mn on the back of profit of Rs170mn on stake sale in eight BOT assets to Ind-infravit Trust (shown as exceptional item). Adjusting to this, bottom line stood at loss of Rs88mn (PLe loss of Rs233mn).

Order book hit by sluggish order inflows: Order book as on 4QFY20 stood at Rs83.7bn (down ~30% YoY) due to muted order inflows in FY20 and termination of HAM projects (due to land issues). This translates into order-book-to-sales ratio of ~3.7x trailing revenues. Order book comprises of Transport segment (72%), Mining segment 24% and Irrigation segment (4%). Management expects strong awarding from NHA with 24 EPC projects worth ~Rs176.6bn and 27 HAM projects worth ~Rs297.7bn in bid pipeline from which management targets order inflows of Rs25-30bn.

Exhibit 1: Quarterly Financials (Standalone): Execution in key projects hit by nationwide lockdown (Rs mn)

Y/e March	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	10,217	8,376	5,651	4,400	4,089	(60.0)	(7.1)	22,517	35,492	(36.6)
Total Revenues	10,217	8,376	5,651	4,400	4,089	(60.0)	(7.1)	22,517	35,492	(36.6)
Expenditure	8,949	7,331	4,955	3,852	3,584	(59.9)	(6.9)	19,722	31,213	(36.8)
as % of sales	87.6	87.5	87.7	87.5	87.7			87.6	87.9	
Consumption of RM	8,052	6,739	4,403	3,362	2,846	(64.7)	(15.4)	17,350	28,521	(39.2)
as % of sales	78.8	80.4	77.9	76.4	69.6			77.1	80.4	
Employee Cost	460	420	426	307	318	(30.9)	3.8	1,472	1,676	(12.2)
as % of sales	4.5	5.0	7.5	7.0	7.8			6.5	4.7	
Other expenditure	437	171	125	183	420	(3.7)	129.7	900	1,016	(11.4)
as % of sales	4.3	2.0	2.2	4.2	10.3			4.0	2.9	
EBITDA	1,268	1,046	696	548	504	(60.2)	(8.0)	2,795	4,279	(34.7)
Depreciation	231	280	277	268	260	12.2	(3.0)	1,084	958	13.3
EBIT	1,036	766	419	281	245	(76.4)	(12.8)	1,710	3,321	(48.5)
Other Income	55	41	64	76	41	(24.8)	(46.2)	222	357	(37.7)
Interest	282	273	207	231	294	4.4	27.5	1,005	1,103	(8.9)
PBT	809	534	276	126	(9)	(101.1)	(106.8)	927	2,575	(64.0)
Total Tax	527	139	17	10	80	(84.9)	726.0	246	714	NA
Adjusted PAT	281	395	259	117	(88)	(131.4)	(175.8)	681	1,861	(63.4)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	281	395	259	117	(88)	(131.4)	(175.8)	681	1,861	NA
Extra ordinary items	8	-	-	-	170	NA	#DIV/0!	170	8	NA
Reported PAT	289	395	259	117	82	(71.7)	(29.8)	852	1,869	(54.4)
Adjusted EPS	1.7	2.3	1.5	0.7	0.5	(71.7)	(29.8)	5.0	10.9	(54.4)
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	bps	bps	FY20	FY19	bps
EBIDTA	12.4	12.5	12.3	12.5	12.3	(7)	(13)	12.4	12.1	35
EBIT	10.1	9.1	7.4	6.4	6.0	(415)	(39)	7.6	9.4	(176)
EBT	7.9	6.4	4.9	2.9	(0.2)	(812)	(308)	4.1	7.3	(314)
PAT	2.8	4.7	4.6	2.6	2.0	(83)	(65)	3.8	5.3	(148)
Effective Tax rate	65.2	26.1	6.2	7.7	(929.9)	(99,507)	(93,751)	26.5	27.7	(122)

Source: Company, PL

Exhibit 2: SoTP Valuation

Particulars	Segment	Driver	Multiple	Value (Rsmn)	Value per share (Rs)	Proportionate (%) of value per share	Basis
Construction business	Construction	1,018	8	8,143	47	54.6	8x on FY22 earnings
Equity Investment in BOT/HAM excluding		8460	0.8	6,768	39	45.4	Valuing at 0.8x its investments
Investment in InVIT Trust		7240	0	-	-	0.0	
Total				8,143	87	100	

Source: Company, PL

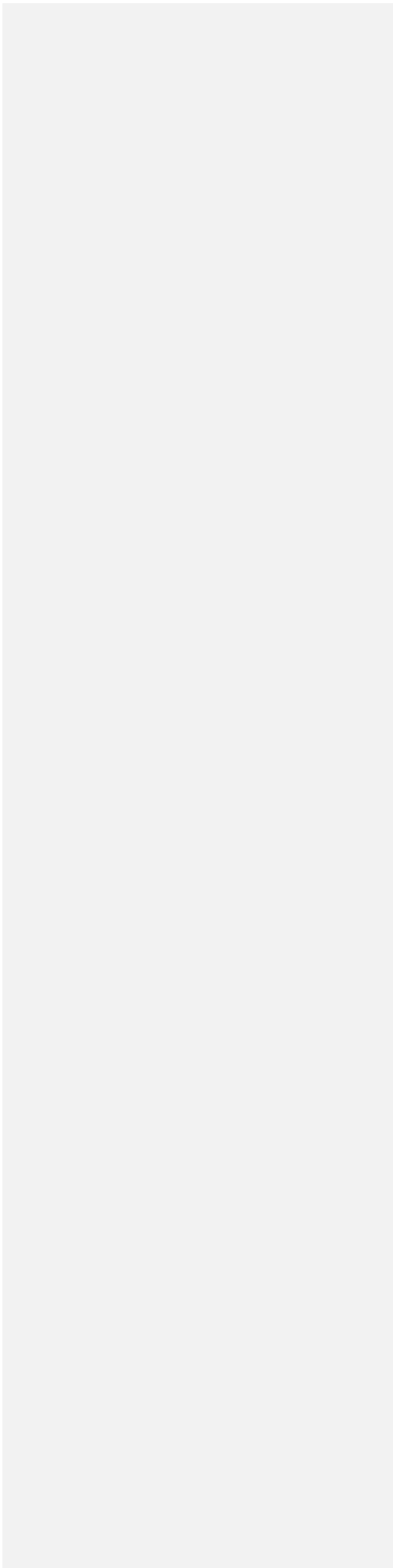
Exhibit 3: Key Assumptions

Y/e March (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Order inflows	35,164	90,709	22,419	-13,184	29,397	33,949
Revenue	33,203	35,051	35,492	22,517	21,626	26,615
Order backlog (Y/E)	76,834	1,32,493	1,19,420	83,719	91,490	98,824
Order book-to-sales ratio (x)	2.3	3.8	3.4	3.7	4.2	3.7
Burn-out Ratio (%)	44	33	28	22	25	28

Source: Company, PL

Concall Highlights

- Management expects awarding activity to pick up with 24 EPC projects worth ~Rs176.6bn and 27 HAM projects worth ~Rs297.7bn in bid pipeline (submission by Aug'20). The company has also submitted a bid for Ahmedabad metro project worth ~Rs4.7bn and is further considering to bid for 3 Metro projects worth ~Rs20bn. Company expects order inflows to the tune of Rs25bn-30bn from the recent bids.
- The company has successfully completed transfer of its 8 BOT assets to Indinfravit Trust in 4QFY20 and booked a profit of ~Rs170mn on its investment, during the quarter. Management expects to complete the sale of Ahmedabad Ring Road BOT project at a P/BV of ~2.5x (valuation as per agreement) in FY21E.
- During the quarter, the execution from its 5 key projects stood at: Kim Ankleshwar HAM project – ~Rs688mn (7% completed), Jodhpur Ring Road (HAM) – Rs357mn (22% completed), Lucknow Ring Road (EPC) – Rs350mn, BRT Tiger Reserve (HAM) – Rs289mn (83% completed) and Bhavnagar Talaja (HAM)- Rs187mn (72% completed).
- The company received Appointed Date (AD) for Gagad Honnali HAM project worth Rs9.9bn on 12th Mar'20.
- Further, as HAM projects (related to land issues) got cancelled and order inflows remained subdued in FY20, SADE's order book stood at ~Rs83.7bn (down ~30% YoY), thereby translating into an order book-to-sales ratio of 3.7x trailing revenues. The order book comprised ~72% from transport segment, while the balance comprised irrigation (~4%) and mining segments (~24%).
- The company won arbitration proceeds to the tune of Rs2bn for various projects and will soon commence process of conciliation. The process is expected to be completed in FY21E.
- Gross standalone debt level reduced by ~Rs3.5bn to Rs12.4bn as 4QFY20 primarily led by receivable from monetization of asset in SIPL. Currently, gross debt includes ~Rs3.5bn of loan & advances given to SIPL.
- Post the deal, company's equity investment in balance portfolio stands at ~Rs19bn, which includes ~Rs12.8bn for its 3 operational BOT portfolio and Rs6.2bn towards its 9 HAM projects. The company is expected to invest Rs3.9bn as equity over period of 2-3 years.
- The company has started the process of merger of SIPL and SADE and expects to complete the process by Mar'21 subject to various approvals and compliance. As per the agreement, ratio of merger stands at 1:3, i.e SADE will issue 1 equity share for every 3 equity shares held in SIPL.
- The company has incurred capex of ~Rs300mn in FY20 and has planned a capex of Rs200mn-300mn in FY21E.



Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	35,492	22,517	21,626	26,615
YoY gr. (%)	1.3	(36.6)	(4.0)	23.1
Cost of Goods Sold	24,036	14,423	14,057	17,300
Gross Profit	11,456	8,094	7,569	9,315
Margin (%)	32.3	35.9	35.0	35.0
Employee Cost	1,676	1,472	1,946	1,863
Other Expenses	-	-	-	-
EBITDA	4,279	2,795	2,206	3,247
YoY gr. (%)	3.1	(34.7)	(21.1)	47.2
Margin (%)	12.1	12.4	10.2	12.2
Depreciation and Amortization	958	1,084	1,142	1,269
EBIT	3,321	1,710	1,064	1,978
Margin (%)	9.4	7.6	4.9	7.4
Net Interest	1,103	1,005	811	884
Other Income	357	222	216	266
Profit Before Tax	2,583	1,097	469	1,360
Margin (%)	7.3	4.9	2.2	5.1
Total Tax	714	246	118	342
Effective tax rate (%)	27.7	22.4	25.2	25.2
Profit after tax	1,869	852	351	1,018
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,861	681	351	1,018
YoY gr. (%)	(15.7)	(63.4)	(48.5)	189.9
Margin (%)	5.2	3.0	1.6	3.8
Extra Ord. Income / (Exp)	8	170	-	-
Reported PAT	1,869	852	351	1,018
YoY gr. (%)	(15.3)	(54.4)	(58.8)	189.9
Margin (%)	5.3	3.8	1.6	3.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,869	852	351	1,018
Equity Shares O/s (m)	172	172	172	172
EPS (Rs)	10.8	4.0	2.0	5.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	7,977	8,454	9,454	10,454
Tangibles	7,977	8,454	9,454	10,454
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,038	4,123	5,264	6,533
Tangibles	3,038	4,123	5,264	6,533
Intangibles	-	-	-	-
Net fixed assets	4,939	4,331	4,190	3,920
Tangibles	4,939	4,331	4,190	3,920
Intangibles	-	-	-	-
Capital Work In Progress	33	10	10	10
Goodwill	-	-	-	-
Non-Current Investments	6,556	10,311	6,904	7,979
Net Deferred tax assets	994	1,110	1,110	1,110
Other Non-Current Assets	200	423	130	160
Current Assets				
Investments	-	-	-	-
Inventories	1,792	1,472	2,128	2,561
Trade receivables	16,416	19,331	17,775	16,042
Cash & Bank Balance	604	1,231	1,190	1,552
Other Current Assets	3,958	3,817	4,109	4,258
Total Assets	44,983	45,248	46,384	48,459
Equity				
Equity Share Capital	172	172	172	172
Other Equity	20,165	20,868	21,091	21,980
Total Network	20,337	21,040	21,262	22,151
Non-Current Liabilities				
Long Term borrowings	8,567	3,888	3,888	3,888
Provisions	-	-	-	-
Other non current liabilities	2,537	2,205	2,293	2,193
Current Liabilities				
ST Debt / Current of LT Debt	7,306	6,802	7,802	8,802
Trade payables	4,353	5,529	5,853	5,762
Other current liabilities	2,878	6,894	6,396	6,773
Total Equity & Liabilities	44,983	45,248	46,384	48,459

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	1,869	1,097	469	1,360
Add. Depreciation	958	1,084	1,142	1,269
Add. Interest	1,021	1,005	811	884
Less Financial Other Income	357	222	216	266
Add. Other	775	(116)	-	-
Op. profit before WC changes	4,622	3,071	2,422	3,513
Net Changes-WC	(1,890)	4,079	(406)	(796)
Direct tax	(730)	(246)	(118)	(342)
Net cash from Op. activities	2,001	6,904	1,898	2,375
Capital expenditures	(965)	(454)	(1,000)	(1,000)
Interest / Dividend Income	728	-	-	-
Others	(684)	514	(1,000)	(1,000)
Net Cash from Invst. activities	(921)	60	(2,000)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,935	(5,183)	1,000	1,000
Dividend paid	(172)	(129)	(129)	(129)
Interest paid	(1,749)	(1,005)	(811)	(884)
Others	(933)	(20)	-	-
Net cash from Fin. activities	(920)	(6,336)	60	(12)
Net change in cash	161	628	(42)	362
Free Cash Flow	1,034	6,450	898	1,375

Source: Company Data, PL Research

Key Financial Metrics

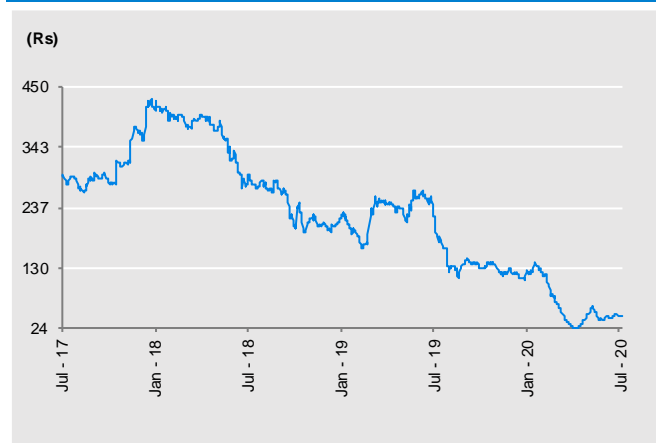
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	10.8	4.0	2.0	5.9
CEPS	16.4	10.3	8.7	13.3
BVPS	118.5	122.6	123.9	129.1
FCF	6.0	37.6	5.2	8.0
DPS	1.0	0.7	0.7	0.7
Return Ratio(%)				
RoCE	9.5	5.0	3.3	5.8
ROIC	7.0	4.1	2.6	4.6
RoE	9.5	3.3	1.7	4.7
Balance Sheet				
Net Debt : Equity (x)	0.8	0.4	0.5	0.5
Net Working Capital (Days)	236	233	328	276
Valuation(x)				
PER	4.5	12.3	23.8	8.2
P/B	0.4	0.4	0.4	0.4
P/CEPS	3.0	4.7	5.6	3.7
EV/EBITDA	5.5	6.4	8.5	6.0
EV/Sales	0.7	0.8	0.9	0.7
Dividend Yield (%)	2.1	1.5	1.5	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	8,376	5,651	4,400	4,089
YoY gr. (%)	(8.1)	(18.2)	(52.5)	(60.0)
Raw Material Expenses	-	-	-	-
Gross Profit	8,376	5,651	4,400	4,089
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	1,046	696	548	504
YoY gr. (%)	(2.3)	(16.5)	(50.5)	(60.2)
Margin (%)	12.5	12.3	12.5	12.3
Depreciation / Depletion	280	277	268	260
EBIT	766	419	281	245
Margin (%)	9.1	7.4	6.4	6.0
Net Interest	273	207	231	294
Other Income	41	64	76	41
Profit before Tax	534	276	126	162
Margin (%)	6.4	4.9	2.9	4.0
Total Tax	139	17	10	80
Effective tax rate (%)	26.1	6.2	7.7	49.4
Profit after Tax	395	259	117	82
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	395	259	117	(88)
YoY gr. (%)	(37.8)	(32.5)	(79.3)	(131.4)
Margin (%)	4.7	4.6	2.6	(2.2)
Extra Ord. Income / (Exp)	-	-	-	170
Reported PAT	395	259	117	82
YoY gr. (%)	(37.8)	(32.5)	(79.3)	(71.7)
Margin (%)	4.7	4.6	2.6	2.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	395	259	117	82
Avg. Shares O/s (m)	150	150	150	150
EPS (Rs)	2.6	1.7	0.8	(0.6)

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-20	BUY	128	25
2	16-Feb-20	BUY	147	101
3	03-Jan-20	BUY	203	125
4	23-Dec-19	BUY	203	111

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	943
2	Ahluwalia Contracts (India)	BUY	264	215
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	64
5	Bharat Electronics	Hold	90	104
6	BHEL	Hold	34	41
7	Capacite's Infraprojects	BUY	162	111
8	Container Corporation of India	Accumulate	468	434
9	Cummins India	BUY	472	411
10	Engineers India	BUY	104	73
11	GE T&D India	Hold	71	82
12	H.G. Infra Engineering	BUY	259	200
13	IRB Infrastructure Developers	BUY	139	113
14	ITD Cementation India	BUY	67	52
15	J.Kumar Infraprojects	BUY	176	102
16	Kalpataru Power Transmission	BUY	261	258
17	KEC International	BUY	296	275
18	KNR Constructions	BUY	305	215
19	Larsen & Toubro	BUY	1,192	941
20	NCC	BUY	83	33
21	PNC Infratech	BUY	205	151
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,157
25	Thermax	Accumulate	798	760
26	Triveni Turbine	BUY	83	75
27	Voltamp Transformers	BUY	1,244	1,132

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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