

22 May 2017

## Infrastructure Result Update

### Key Statistics

CMP (INR)*	105
Upside/downside (%)	27.6
Market Cap (INR/USDmn)	36,402/564
Shares outstanding (mn)	352
3 months avg volume (mn)	0.32
Dividend Yield (FY17, %)	0.0
52 Wk high/low	121/81
Sensex/Nifty	30,465/9,428
Bloomberg Code	SINP IN

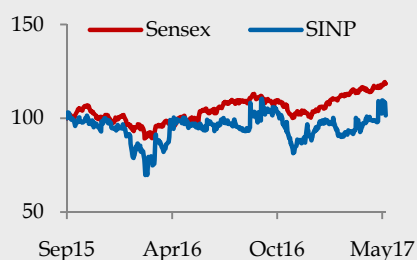
Performance (%)*	1M	3M	12M
Absolute (%)	2.2	12.0	5.2
Rel. to Sensex (%)	-1.6	5.0	-14.8

\*As on 19<sup>th</sup> May 2017

### Sh. Pattern, % (as on Mar-2017)

Promoter	69.3
FII	23.0
DII	5.0
Others	2.7
<b>Total</b>	<b>100.0</b>

### Stock Price Performance\*



\* Rebased to 100 | Based on daily closing prices

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## Value emerging

Sadbhav Infrastructure ended FY17 with PAT losses of INR 3.5 bn, down from loss of INR 4.0 bn reported in FY16. However, adjusting for non-cash items (MMR provision, depreciation and non-cash financial items), the cash profit stood at INR 1.2 bn; implying positive operating leverage as the road portfolio is getting in steady state phase. We estimate the gross toll + annuity collection to grow 2.5x to INR 21.6 bn by FY20 from INR 8.5 bn in FY17 as the new projects become operational and the existing ones' stabilize. The standalone debt stands at INR 12.7 bn, however it's not a major concern as the company can address the same by monetizing 1-2 matured assets. We look beyond the accounting treatments, and believe that the company is entering into superior cash flow generation phase. Current valuations are not demanding with implied traffic growth across all the projects throughout the concession period of less than 5.0%. Upgrade to ACCUMULATE with revised TP of INR 134 (from INR 101 earlier). Key risks include (A) lower than expected traffic growth; (b) high dependability on Maharashtra Check Post which contributes 32% to our valuation.

- ✓ **Looking beyond the accounting losses:** FY17 PAT loss stood at INR 3.5 bn, down from INR 4.0 bn loss reported in FY16. This resulted in significant erosion of the book value of the stock, down to INR 2.0 vs INR 12.9 in FY16. However, major chunk of the reported loss can be attributed to non-cash items including high depreciation, non-cash component of finance cost on account of IND-AS accounting and MMR provisions. Adjusted for the same, the cash PAT stood at INR 1.2 bn in FY17. This is in-line with our thesis that the company has started generating cash profits and is likely to witness superior cash flow generation over next few years. We estimate the gross collection to grow 2.5x to INR 21.6 bn by FY20 from INR 8.5 bn in FY17.
- ✓ **Raise TP to INR 134; upgrade to ACCUMULATE:** Current valuations imply traffic growth of 5.0%, across all the projects throughout the concession period, which is not demanding in our view. We expect SIPL's consolidated Debt/EBITDA to fall from the peak of 22.3x in FY15 to 6.5x by FY20, as the portfolio gets matured. We value the stock at INR 134 (vs INR 101 earlier) based on NPV valuation of the projects and adjusting for the valuation of the standalone business. Upgrade to ACCUMULATE from NEUTRAL rating earlier.

Year End (31 Mar)	FY15	FY16	FY17E	FY18E	FY19E
Revenues (INR mn)	5,003	19,710	13,480	13,922	16,225
Growth (%)	33.6	294.0	-31.6	3.3	16.5
EBITDA (INR mn)	2,841	6,493	8,689	9,567	11,301
EBITDA Margin (%)	56.8	32.9	64.5	68.7	69.7
Adj. PAT (INR mn)	-3,270	-4,022	-3,531	-1,914	-808
Adj. Net margin (%)	-65.4	-20.4	-26.2	-13.8	-5.0
Dil. Adj. EPS (INR/ share)	-10.5	-11.4	-10.0	-5.4	-2.3
Growth (%)	NA	NA	NA	NA	NA
ROE (%)	-40.7	-65.1	-134.0	-28.3	-4.5
Adjusted P/E (x)	NA	NA	NA	NA	NA
P/BV (x)	4.2	8.1	51.4	2.9	1.6
EV/EBITDA (x)	34.7	17.7	13.5	14.4	13.4

Source: Company, YSL estimates; Note: Valuations as on 19 May 2017

### Non-cash items marred good performance

- ✓ **FY17 adj. PAT loss at INR 3.5 bn, however cash profit at INR 1.2 bn:** Sadbhav Infrastructure ended FY17 with PAT losses of INR 3.5 bn, down from loss of INR 4.0 bn reported in FY16. However, adjusting for non-cash items (MMR provision, depreciation and non-cash financial items), the cash profit stood at INR 1.2 bn, implying positive operating leverage as the road portfolio is getting in steady state phase.

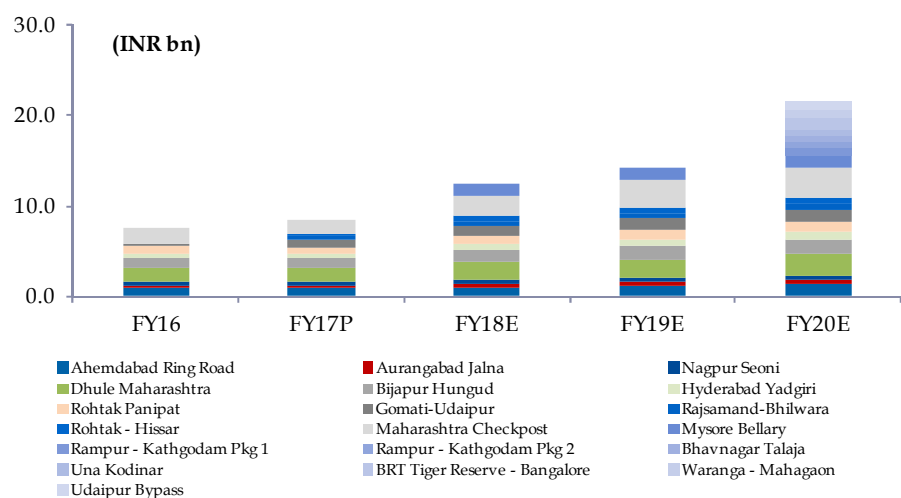
#### Exhibit 1: 4QFY17 results summary

In INR mn	4Q FY16	3Q FY17	4Q FY17	YoY Chg	QoQ Chg	FY16	FY17	YoY Chg
Revenue	4,819	3,221	3,885	-19.4%	20.6%	19,710	13,480	-31.6%
EBITDA	2,213	2,329	2,276	2.9%	-2.3%	6,493	8,689	33.8%
EBITDA margin (%)	45.9	72.3	58.6	1270 bps	-1370 bps	32.9	64.5	3150 bps
Depreciation	502	515	669	33.1%	29.8%	1,355	2,211	63.1%
Interest	2,688	2,623	2,709	0.8%	3.3%	10,013	10,562	5.5%
OI	120	169	167	39.9%	-0.9%	627	559	-10.9%
Tax	-107	57	19	NA	-67.0%	-107	76	NA
Tax rate	12.8	-9.4	-2.0	-1480 bps	740 bps	2.6	-2.2	-480 bps
MI	-26	-33	6			-119	-70	
Adj. PAT	-725	-664	-959	NA	NA	-4,022	-3,531	NA
PAT margin	-15.0	-20.6	-24.7	-960 bps	-410 bps	-20.4	-26.2	-580 bps

Source: Company, YSL

- ✓ **Gross toll collection to grow 2.5x over FY17-20E:** As the new projects commence operations, gross toll + annuity collection at the asset level is expected to increase significantly. We estimate the gross collection to grow 2.5x to INR 21.6 bn by FY20 from INR 8.5 bn in FY17.

#### Exhibit 2: Gross collection to grow 2.5x over FY17-20E, aided by new projects getting operational



Source: Company, YSL

- ✓ **Pending equity commitment of INR 7.6 bn:** The pending equity commitment in the asset portfolio stands at INR 7.6bn, of which INR 6.8 bn is attributable to newly won hybrid annuity projects. The remaining pending commitment of INR 791 mn for SIPL is attributed to the acquisition of the Mysore Bellary project from Sadbhav Engineering Ltd (SEL) at a predetermined P/Inv ratio of 1.0x. As of date, the equity required in the Mysore Bellary project has been fully infused through SEL.
- ✓ **SIPL's standalone debt not a major concern:** SIPL's standalone debt of INR 12.7 bn (of which, INR 4.4 bn is from SEL) is a near term concern. However the company has multiple options to address the same. With the superior cash flow generation in its asset's portfolio, company may look to monetize some assets to bring down the standalone debt. This may be by means of either asset sale or securitization of the cash flows of the assets. Hence, we are not too concern of the standalone debt. Our analysis below summarizes that the company is well placed in terms of cash flows. Please note that we have assumed additional debt of INR 7.0 bn over FY17-18E on account of (a) equity commitment in newly acquired projects; (b) cash outflow on account of major maintenance in few projects; and (c) buyout of the stake in Mysore Bellary from SEL. However, our cash balance at the end of FY20E stands at INR 7.2 bn, which may be utilized to bring down some portion of debt.

**Exhibit 3: SIPL's BOT portfolio is entering into superior cash flow generation phase**

Rs bn	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Ahemdabad Ring Road	419	530	134	727	880	1,049	1,235	601
Aurangabad Jalna	113	138	218	30	256	375	407	442
Nagpur Seoni	91	100	91	83	-14	71	67	64
Dhule Maharashtra	-108	705	804	929	1,083	352	1,485	1,737
Bijapur Hungud	204	-378	520	684	708	921	455	1,334
Hyderabad Yadgiri	-0	-0	-0	-2	-26	-57	264	473
Rohtak Panipat	-194	-646	-128	-61	-0	-0	-288	-0
Gomati-Udaipur	-204	-157	-502	-4	76	178	302	-148
Rajsamand-Bhilwara	84	109	133	-354	205	254	312	381
Rohtak - Hissar	-551	-570	-572	-1,135	-525	-473	-401	-307
Mysore Bellary	840	611	629	-519	58	143	-660	546
Rampur - Kathgodam Pkg 1	-443	-354	267	230	196	163	134	108
Rampur - Kathgodam Pkg 2	-394	-315	249	217	187	159	133	110
Bhavnagar Talaja	-491	-491	320	281	244	209	179	150
Una Kodinar	-374	-374	238	207	179	152	128	107
BRT Tiger Reserve - Bangalore	-605	-605	512	469	429	393	-869	334
Waranga - Mahagaon	-643	-643	357	302	251	202	158	118
Udaipur Bypass	-535	-535	279	233	189	148	111	76
Maharashtra Checkpost	312	694	705	732	1,143	1,223	1,320	1,954
<b>Total</b>	<b>-2,478</b>	<b>-2,182</b>	<b>4,254</b>	<b>3,051</b>	<b>5,519</b>	<b>5,462</b>	<b>4,472</b>	<b>8,079</b>

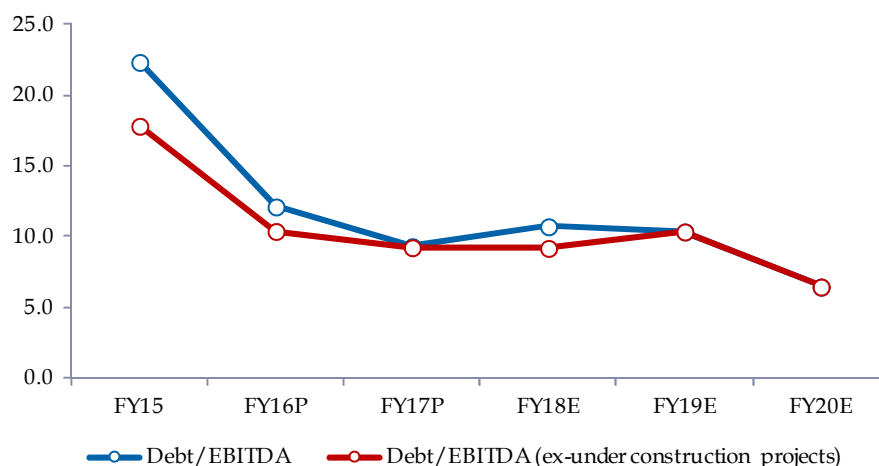
Source: Company, YSL

**Exhibit 4: SIPL's cash flow summary over FY17-20E**

Rs bn	FY17P	FY18E	FY19E	FY20E
<b>BOT</b>				
Toll Revenue		10.7	12.5	13.8
Annuity income		1.8	1.8	7.7
Payment to NHAI		-0.1	-0.3	-0.3
O&M + Admin Exp		-2.1	-2.4	-3.3
Major Maintenance		-0.9	-1.2	-0.9
Other income		0.0	0.0	0.0
Interest exp		-7.3	-7.2	-9.7
Debt repayment		-1.0	-1.8	-2.8
Taxes		-0.1	-0.3	-0.4
<b>Net cash inflow</b>		<b>1.0</b>	<b>1.1</b>	<b>4.3</b>
Others		0.3	0.2	0.3
Equity investment in BOT portfolio		-4.3	-3.3	0.0
<b>Net change in cash</b>		<b>-3.0</b>	<b>-2.0</b>	<b>4.6</b>
Additional debt at standalone		4.0	3.0	0.0
<b>Cash in hand</b>	<b>0.5</b>	<b>1.5</b>	<b>2.6</b>	<b>7.2</b>

Source: Company, YSL

- ✓ **Debt/EBITDA to fall drastically:** As the under construction projects become operational and starts generating cash flows, we expect SIPL's consolidated Debt/EBITDA to fall from the peak of 22.3x in FY15 to 6.5x by FY20. Adjusted for the debt pertaining to under-construction projects, the ratio is expected to decline from 17.8x in FY15 to 6.5x by FY20.

**Exhibit 5: Debt/EBITDA to improve drastically by FY20**


Source: Company, YSL

## Upgrade to ACCUMULATE with TP of INR 134 (from INR 101 earlier)

- ✓ **Valuation:** We calculate the NPV of the road portfolio at INR 139 per share by applying cost of equity of 13.0% for under implementation toll road project. For the annuity project we apply a discount of 1% to cost of equity as the annuity project doesn't contain the traffic risk. Also, for operational projects, we apply a discount of 1%, due to higher certainty of toll collection and base traffic. Adjusted for the non-project net debt, we arrive at a TP of INR 134 for the stock.

### Exhibit 6: Target price setting methodology

Segment	Equity Commitment (INR mn)	Equity invested (till FY18E) (INRmn)	Value (INR mn)	Value/sh (INR)	as % of TP
<b>Road BOTs - Operational</b>					
Ahemdabad Ring Road	490	1,037	3,981	11	8%
Aurangabad Jalna	830	1,118	2,872	8	6%
Nagpur Seoni	598	435	345	1	1%
Dhule Maharashtra	3,439	3,178	5,130	15	11%
Bijapur Hungud	1,621	1,621	3,842	11	8%
Hyderabad Yadgiri	1,471	1,190	2,855	8	6%
Rohtak Panipat	2,427	2,427	-1,256	-4	-3%
Gomati-Udaipur	3,115	3,115	7,602	22	16%
Rajsamand-Bhilwara	1,333	1,333	5,367	15	11%
Rohtak - Hissar	1,108	1,108	-1,088	-3	-2%
<b>Sub-total</b>	<b>16,432</b>	<b>16,563</b>	<b>29,649</b>	<b>84</b>	<b>63%</b>
<b>Road BOTs - Under implementation</b>					
Mysore Bellary	791	791	709	2	2%
Rampur - Kathgodam Pkg 1	886	531	568	2	1%
Rampur - Kathgodam Pkg 2	788	473	595	2	1%
Bhavnagar Talaja	983	491	731	2	2%
Una Kodinar	748	374	510	1	1%
BRT Tiger Reserve - Bangalore	1,210	605	433	1	1%
Waranga - Mahagaon	1,285	643	475	1	1%
Udaipur Bypass	1,069	535	258	1	1%
Maharashtra Checkpost	2,594	4,046	15,001	43	32%
<b>Sub-total</b>	<b>10,353</b>	<b>8,489</b>	<b>19,280</b>	<b>55</b>	<b>41%</b>
<b>Road BOTs (Total)</b>	<b>26,784</b>	<b>25,051</b>	<b>48,930</b>	<b>139</b>	<b>104%</b>
SIPL - Standalone	FY19E EV/EBITDA (x)	5.0	11,325	32	24%
Less: Net debt (ex-BOT)	FY18E		-13,183	-37	-28%
<b>Total fair value</b>			<b>47,072</b>	<b>134</b>	<b>100%</b>

Source: Company, YSL

- ✓ **Sensitivity analysis:** Our base case assumption for traffic growth is 6.0% and for toll tariff increases is 5%. The valuations are sensitive to these two assumptions as demonstrated in the table below. For 1% increase in traffic growth, our TP increases by 20.8% to INR 161. For 1% increase in tariff increase, our TP increases by 1.7% to INR 136.

**Exhibit 7: Sensitivity to our TP to traffic growth and toll tariff increase**

Current Assumption						
Traffic growth		6.0%				
Toll tariff increase		5.0%				
		Tariff increase				
Target Price	134	3.0%	4.0%	5.0%	6.0%	7.0%
Traffic growth	4.0%	82	84	85	85	85
	5.0%	104	106	108	109	110
	6.0%	127	131	134	136	137
	7.0%	153	158	161	165	167
	8.0%	181	187	192	196	200

Source: Company, YSL

**INCOME STATEMENT**

(InR Millions)

Year ending March	FY15	FY16	FY17E	FY18E	FY19E
Total operating revenues	5,003	19,710	13,480	13,922	16,225
Growth (%)	33.6	294.0	-31.6	3.3	16.5
EBITDA	2,841	6,493	8,689	9,567	11,301
EBITDA margin (%)	56.8	32.9	64.5	68.7	69.7
Growth (%)	16.3	128.6	33.8	10.1	18.1
Depreciation & amortization	1,418	1,355	2,211	2,360	2,682
EBIT	1,423	5,138	6,478	7,207	8,619
EBIT margin (%)	28.4	26.1	48.1	51.8	53.1
Interest	5,259	10,013	10,562	9,512	9,923
Other income	286	627	559	593	888
Profit before tax	-3,550	-4,248	-3,525	-1,713	-416
Tax	22	-107	76	229	359
Reported net profit	-3,433	-3,406	-3,531	-1,914	-808
Associate income	0	0	0	0	0
Minority interest	-302	-119	-70	-27	33
Extraordinary items	-163	616	0	0	0
Adjusted net profit	-3,270	-4,022	-3,531	-1,914	-808
Adjusted net margin (%)	-65.4	-20.4	-26.2	-13.8	-5.0
Diluted EPS (INR)	-10.5	-11.4	-10.0	-5.4	-2.3
Growth (%)	NA	NA	NA	NA	NA

**BALANCE SHEET**

(InR Millions)

Year ending March	FY15	FY16	FY17E	FY18E	FY19E
<b>SOURCE OF FUNDS</b>					
Share capital	3,110	3,522	3,522	3,522	3,522
Reserve & Surplus	4,699	1,032	-2,806	9,286	19,534
<b>Total shareholder's funds</b>	<b>7,809</b>	<b>4,554</b>	<b>716</b>	<b>12,808</b>	<b>23,056</b>
Minority Interest	570	-68	262	235	268
Debt	63,418	78,679	80,938	102,549	116,995
Deferred tax liabilities/(assets)	0	610	635	635	635
<b>TOTAL</b>	<b>71,797</b>	<b>83,775</b>	<b>82,552</b>	<b>116,228</b>	<b>140,955</b>
<b>APPLICATION OF FUNDS</b>					
Fixed assets	74,352	86,052	100,924	100,924	158,994
Less: Depn. and amort.	3,831	6,730	7,581	9,942	12,623
Net block	70,521	79,322	93,343	90,982	146,371
Capital WIP	19,385	15,790	1,831	30,866	436
Goodwill	1,333	2,044	2,044	2,044	2,044
Intangible assets	0	0	0	0	0
Long term investments	81	265	579	579	579
Other long term assets	0	0	0	0	0
Inventories	0	4	0	0	0
Debtors	140	56	5	6,778	5,965
Cash & cash equivalents	1,696	893	525	1,538	2,579
Loans & advances	4,266	178	178	178	178
Other current assets	1,459	3,733	5,844	5,693	5,528
Total current liabilities	27,083	18,509	21,796	22,429	22,724
Net current assets	-19,522	-13,645	-15,244	-8,243	-8,475
<b>TOTAL</b>	<b>71,797</b>	<b>83,775</b>	<b>82,552</b>	<b>116,228</b>	<b>140,955</b>

**CASH FLOW STATEMENT**

(InR Millions)

Year ending March	FY15	FY16	FY17E	FY18E	FY19E
Reported net profit	-3,433	-3,406	-3,531	-1,914	-808
Depreciation & amortization	1,418	2,025	2,211	2,360	2,682
Inc/dec in working cap	217	591	-4,521	-6,581	799
Others	4,778	5,542	7,874	8,892	9,068
<b>Operating cash flow</b>	<b>2,979</b>	<b>4,752</b>	<b>2,033</b>	<b>2,757</b>	<b>11,741</b>
Capex	-10,510	-13,068	-1,979	-29,035	-27,640
<b>Free cash flow (FCF)</b>	<b>-7,531</b>	<b>-8,316</b>	<b>54</b>	<b>-26,278</b>	<b>-15,899</b>
Investments & Others	0	0	0	0	0
Others	-469	340	6,312	1,186	1,362
<b>Cash flow from investing</b>	<b>-10,980</b>	<b>-12,728</b>	<b>4,333</b>	<b>-27,849</b>	<b>-26,278</b>
Equity issue	-66	4,079	0	0	0
Debt issue (net)	14,598	5,929	2,259	21,611	14,446
Dividend & tax thereon	0	0	0	0	0
Other financing cash flows	-5,375	-2,859	-8,992	4,494	1,133
<b>Cash flow from financing</b>	<b>9,157</b>	<b>7,149</b>	<b>-6,733</b>	<b>26,105</b>	<b>15,578</b>
<b>NET CASH FLOWS</b>	<b>1,156</b>	<b>-827</b>	<b>-368</b>	<b>1,013</b>	<b>1,042</b>
Opening cash	518	1,696	893	525	1,538
Closing cash	1,696	893	525	1,538	2,579

**KEY RATIOS**

Year ending March	FY15	FY16	FY17E	FY18E	FY19E
<b>PROFITABILITY RATIOS</b>					
EBITDA Margin (%)	56.8	32.9	64.5	68.7	69.7
Adjusted net margin (%)	-65.4	-20.4	-26.2	-13.8	-5.0
Return on invested capital (%)	1.1	3.9	5.1	4.6	4.3
Return on equity (%)	-40.7	-65.1	-134.0	-28.3	-4.5
<b>EFFICIENCY RATIOS</b>					
Asset Turnover	0.1	0.2	0.2	0.1	0.1
Debt to equity	8.1	17.3	113.0	8.0	5.1
Net debt to equity	7.9	17.1	112.2	7.9	5.0
Interest coverage	0.3	0.5	0.6	0.8	0.9
Debtor days	10	1	0	178	134
Inventory days	0	0	0	0	0
Payable days	267	310	364	352	302
<b>PER SHARE DATA</b>					
Diluted EPS (INR)	-10.5	-11.4	-10.0	-5.4	-2.3
Book value per share (INR)	25.1	12.9	2.0	36.4	65.5
DPS (INR)	0.0	0.0	0.0	0.0	0.0
<b>VALUATION RATIOS</b>					
P/E	NA	NA	NA	NA	NA
P/BV	4.2	8.1	51.4	2.9	1.6
EV/EBITDA	34.7	17.7	13.5	14.4	13.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0



**Recommendation History**
**Sadbhav Infrastructure Project Ltd.**


Date	Rating	Target Price	Closing Price
23-Aug-16	NEUTRAL	101	96
22-May-17	ACCUMULATE	134	105*

\*Closing Prices as on 19<sup>th</sup> May 2017

**RATING RATIONALE**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**ACCUMULATE:** expected point to point returns of 15% or more

**NEUTRAL:** expected point to point returns in the range of -10% and +15%

**REDUCE:** expected point to point decline of 10% or more

**NO VIEW:** Not in regular research coverage

**SUSPENDED:** The rating as well as the target price has been suspended temporarily. This could be due to events that made coverage impracticable or to comply with applicable regulations and/or company policies.

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