

Sadbhav Engineering (SADE IN)

Rating: BUY | CMP: Rs49 | TP: Rs87

September 3, 2020

Q1FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	87		87	
Sales (Rs. m)	21,626	26,554	21,626	26,615
% Chng.	-	(0.2)		
EBITDA (Rs. m)	2,206	3,240	2,206	3,247
% Chng.	-	(0.2)		
EPS (Rs.)	2.0	5.9	2.0	5.9
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	22,517	21,626	26,554	33,675
EBITDA (Rs. m)	2,795	2,206	3,240	4,108
Margin (%)	12.4	10.2	12.2	12.2
PAT (Rs. m)	681	351	1,012	1,566
EPS (Rs.)	4.0	2.0	5.9	9.1
Gr. (%)	(63.4)	(48.5)	188.2	54.7
DPS (Rs.)	0.7	0.7	0.7	0.7
Yield (%)	1.5	1.5	1.5	1.5
RoE (%)	3.3	1.7	4.7	6.8
RoCE (%)	5.0	3.3	5.8	7.5
EV/Sales (x)	0.8	0.9	0.7	0.8
EV/EBITDA (x)	6.4	8.6	6.0	6.3
PE (x)	12.4	24.1	8.4	5.4
P/BV (x)	0.4	0.4	0.4	0.4

Key Data

SADE.BO | SADE IN

52-W High / Low	Rs.149 / Rs.23
Sensex / Nifty	38,991 / 11,527
Market Cap	Rs.8bn / \$ 115m
Shares Outstanding	172m
3M Avg. Daily Value	Rs.65.58m

Shareholding Pattern (%)

Promoter's	46.84
Foreign	0.29
Domestic Institution	36.68
Public & Others	16.19
Promoter Pledge (Rs bn)	2.38

Stock Performance (%)

	1M	6M	12M
Absolute	14.2	(27.1)	(64.1)
Relative	8.2	(27.7)	(66.3)

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Muted quarter as pandemic disrupts operations

Quick Pointers:

- Given strong bid pipeline incremental order inflows of Rs30-35bn are expected in FY21E; Order book stands at Rs81.8bn (3.7x FY20 revenue) as on 1QFY21.
- Labour force reached 80% pre-covid levels; Execution to ramp-up from Q3 based on full labour force & commencement of large EPC projects (36bn).
- Stake sale in Ahmedabad Ring Road BOT project (worth Rs2.7bn) expected to conclude by 3QFY21.

Sadbhav Engineering reported disappointing numbers with revenues falling 73% YoY and margins contracting over 400bps YoY to 8.5% as execution was subdued due to nationwide lockdown and low labour availability. Management expects to receive Rs3.4bn (Rs2.7bn for Ahmedabad Ring Road and Rs0.7bn balance from earlier 8 BOT assets) by 3QFY21E from Canadian pension fund for its assets stake sale. Further, the company is gradually ramping up execution across project sites with labour availability reaching ~80% pre-covid levels. With full labour force expected to be back post monsoon and commencement of three large EPC projects worth Rs36bn; company targets construction run-rate of Rs90-100mn/day from Oct'20.

SADE is one of the most reputed and credible EPC companies in infrastructure space with a strong execution track record. Lately, the company faced pressures due to muted awarding, delay in receiving ADs, environment clearance issues, etc. leading to subdued revenues and stretched working capital cycle. But eventually all projects received ADs and conclusion of asset monetization deal which resulted in significant reduction of net debt. At CMP, the stock trades at a P/E of 24.1x/8.4x on FY21E/FY22E EPS and is trading at an EV of 8.6x/6x FY21E/FY22E EBITDA. We maintain BUY rating with a TP of Rs87.

Weak execution; margins contract sharply: SADE's revenues for 1QFY21 declined 72.6% YoY to Rs2.3bn (below street estimate of Rs3.6bn) as execution was impacted by nationwide lockdown, low labour availability and delayed AD's in HAM projects. EBITDA fell by 81.4% YoY to Rs195mn, with EBITDAM falling 402bps YoY to 8.5%, due to impact of negative operating leverage. On bottom-line front, SADE reported loss of Rs266mn (below street estimate of loss Rs120mn) due to lower execution and subdued margins.

New orders to strengthen order book position: Order book as at 1QFY21 stand at Rs81.8bn (down 24.3% YoY), translating into order-book-to-sales ratio of 5x trailing revenues. Order book comprises of Transport segment (72%), Mining segment (24%) and Irrigation segment (4%). Further, the company is L-1 in two EPC projects in Gujarat aggregating to Rs15.7bn. Management expects strong awarding momentum to continue with 19 EPC projects worth ~Rs142bn and 24 HAM projects worth ~Rs210bn in bid pipeline, from which management targets order inflows of Rs30-35bn in FY21 (excluding L-1 projects).

Exhibit 1: Quarterly Financials (Standalone): Muted revenues and higher losses as pandemic disrupts operations

Y/e March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	8,376	5,651	4,400	4,089	2,297	-72.6	-43.8	22,517	35,492	-36.6
Total Revenues	8,376	5,651	4,400	4,089	2,297	-72.6	-43.8	22,517	35,492	-36.6
Expenditure	7,331	4,955	3,852	3,584	2,102	-71.3	-41.3	19,722	31,213	-36.8
as % of sales	87.5	87.7	87.5	87.7	91.5			87.6	87.9	
Consumption of RM	6,739	4,403	3,362	2,846	1,744	-74.1	-38.7	17,350	28,521	-39.2
as % of sales	80.4	77.9	76.4	69.6	75.9			77.1	80.4	
Employee Cost	420	426	307	318	257	-38.9	-19.2	1,472	1,676	-12.2
as % of sales	5.0	7.5	7.0	7.8	11.2			6.5	4.7	
Other expenditure	171	125	183	420	101	-40.9	-75.9	900	1,016	-11.4
as % of sales	2.0	2.2	4.2	10.3	4.4			4.0	2.9	
EBITDA	1,046	696	548	504	195	-81.4	-61.4	2,795	4,279	-34.7
Depreciation	280	277	268	260	249	-10.9	-3.9	1,084	958	13.3
EBIT	766	419	281	245	-55	-107.2	-122.4	1,710	3,321	-48.5
Other Income	41	64	76	41	14	-66.8	-66.5	222	357	-37.7
Interest	273	207	231	294	240	-12.2	-18.6	1,005	1,103	-8.9
PBT	534	276	126	-9	-281	-152.6	3175.9	927	2,575	-64.0
Total Tax	139	17	10	80	-15	-110.9	-119.0	246	714	NA
Adjusted PAT	395	259	117	-88	-266	-167.4	200.9	681	1,861	-63.4
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	395	259	117	-88	-266	-167.4	200.9	681	1,861	NA
Extra ordinary items	0	0	0	170	0	NA	-100.0	170	8	NA
Reported PAT	395	259	117	82	-266	-167.4	-424.9	852	1,869	-54.4
Adjusted EPS	2.3	1.5	0.7	0.5	-1.5	-167.4	-424.9	5.0	10.9	-54.4
						bps	bps			bps
EBIDTA	12.5	12.3	12.5	12.3	8.5	-402	-387	12.4	12.1	35
EBIT	9.1	7.4	6.4	6.0	-2.4	-1153	-838	7.6	9.4	-176
EBT	6.4	4.9	2.9	-0.2	-12.2	-1861	-1202	4.1	7.3	-314
PAT	4.7	4.6	2.6	2.0	-11.6	-1628	-1357	3.8	5.3	-148
Effective Tax rate	26.1	6.2	7.7	-929.9	5.4	-2070	93526	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	1,012	8	8,095	47	54.5	8x on FY22 earnings
Equity Investment in BOT/HAM excluding		8,460	0.8	6,768	39	45.4	Valuing at 0.8x its investments
Investment in InVIT Trust		7,240	0	-	-	0.0	
Total				8,095	87	100	

Source: Company, PL

Exhibit 3: Key Assumptions

Y/e March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Order inflows	90,709	22,419	-13,184	29,397	36,634	47,336
Revenue	35,051	35,492	22,517	21,626	26,554	33,675
Order backlog (Y/E)	1,32,493	1,19,420	83,719	91,490	1,01,570	1,15,231
Order book-to-sales ratio (x)	3.8	3.4	3.7	4.2	3.8	3.4
Burn-out Ratio (%)	33	28	22	25	28	31

Source: Company, PL

Concall Highlights

- Management expects strong awarding momentum with 19 EPC projects worth Rs142bn and 24 HAM projects worth Rs210bn in the bid pipeline (submission by Sept-Oct'20).
 - The company have already submitted bids for EPC projects (Rs16.5bn) and Ahmedabad metro project (Rs4.7bn).
 - Company targets incremental order inflows to the tune of Rs30bn-35bn (excluding L-1 projects of Rs15.7bn).
- SADE's order book as at 1QFY21 stands at Rs81.8bn (down 24.3% YoY), translating in order-book-to-sales ratio of 5x trailing revenues. Order book comprises of Transport segment (72%), Mining segment (24%) and Irrigation segment (4%).
- Management expects to receive Rs3.4bn by Q3FY21: Rs2.7bn for stake sale in Ahmedabad Ring Road BOT project (balance approvals expected in one month) and Rs0.7bn balance from earlier stake sale in 8 BOT assets.
 - Rs2.2-2.3bn would be used to reduce debt and balance towards working capital requirements.
- Company is ramping up execution across project sites with labour availability currently at ~80% pre-covid levels which is expected to bounce-back to pre-covid levels post monsoon.
- Managements expects operations to commence in full-swing in 3 large EPC projects (Gadag Honnali, Kim Ankaleshwar and Dholera-ahmedabad) aggregating to Rs36bn, and thereby targets daily run-rate of Rs90-100mn from Oct'20.
- Toll collection in operational projects (including those transferred to Invt) have shown sharp recovery which currently stand at 94% pre-covid levels.
 - Toll collection for Q1 in operational assets were: Maharashtra Border check-post (195mn), Ahmedabad Ring Road (Rs155mn), Rohtak-Panipat (117mn) and Rohtak-Hisar (102mn).
- Gross standalone debt level as at 1QFY21 stands at Rs11.7bn (vs Rs12.4bn QoQ) which include Rs3.5bn loans given to SIPL.
 - Post the merger of SEL & SIPL, standalone debt would be ~Rs16bn which the management targets to reduce to Rs4-4.5bn by end of FY21.
- The company's equity investment in its HAM portfolio stands at Rs7.1bn till Q1FY21. Further, it would invest Rs3.1bn over next 2 years in its portfolio.
- Management indicated that pledge on promoter holding would be completely removed over next three months.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	22,517	21,626	26,554	33,675
YoY gr. (%)	(36.6)	(4.0)	22.8	26.8
Cost of Goods Sold	14,423	14,057	17,260	21,889
Gross Profit	8,094	7,569	9,294	11,786
Margin (%)	35.9	35.0	35.0	35.0
Employee Cost	1,472	1,946	1,859	2,357
Other Expenses	-	-	-	-
EBITDA	2,795	2,206	3,240	4,108
YoY gr. (%)	(34.7)	(21.1)	46.9	26.8
Margin (%)	12.4	10.2	12.2	12.2
Depreciation and Amortization	1,084	1,142	1,269	1,397
EBIT	1,710	1,064	1,971	2,712
Margin (%)	7.6	4.9	7.4	8.1
Net Interest	1,005	811	884	956
Other Income	222	216	266	337
Profit Before Tax	1,097	469	1,352	2,092
Margin (%)	4.9	2.2	5.1	6.2
Total Tax	246	118	340	527
Effective tax rate (%)	22.4	25.2	25.2	25.2
Profit after tax	852	351	1,012	1,566
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	681	351	1,012	1,566
YoY gr. (%)	(63.4)	(48.5)	188.2	54.7
Margin (%)	3.0	1.6	3.8	4.6
Extra Ord. Income / (Exp)	170	-	-	-
Reported PAT	852	351	1,012	1,566
YoY gr. (%)	(54.4)	(58.8)	188.2	54.7
Margin (%)	3.8	1.6	3.8	4.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	852	351	1,012	1,566
Equity Shares O/s (m)	172	172	172	172
EPS (Rs)	4.0	2.0	5.9	9.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	8,454	9,454	10,454	11,454
Tangibles	8,454	9,454	10,454	11,454
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,123	5,264	6,533	7,930
Tangibles	4,123	5,264	6,533	7,930
Intangibles	-	-	-	-
Net fixed assets	4,331	4,190	3,920	3,524
Tangibles	4,331	4,190	3,920	3,524
Intangibles	-	-	-	-
Capital Work In Progress	10	10	10	10
Goodwill	-	-	-	-
Non-Current Investments	10,311	6,904	7,978	9,085
Net Deferred tax assets	1,110	1,110	1,110	1,110
Other Non-Current Assets	423	130	159	202
Current Assets				
Investments	-	-	-	-
Inventories	1,472	2,128	2,555	3,240
Trade receivables	19,331	17,775	16,005	20,297
Cash & Bank Balance	1,231	1,190	1,612	(3,830)
Other Current Assets	3,817	4,109	4,249	5,388
Total Assets	45,248	46,384	48,439	53,070
Equity				
Equity Share Capital	172	172	172	172
Other Equity	20,868	21,091	21,974	23,411
Total Network	21,040	21,262	22,146	23,582
Non-Current Liabilities				
Long Term borrowings	3,888	3,888	3,888	3,888
Provisions	-	-	-	-
Other non current liabilities	2,205	2,293	2,192	2,351
Current Liabilities				
ST Debt / Current of LT Debt	6,802	7,802	8,802	9,802
Trade payables	5,529	5,853	5,749	7,290
Other current liabilities	6,894	6,396	6,771	7,266
Total Equity & Liabilities	45,248	46,384	48,439	53,070

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,097	469	1,352	2,092
Add. Depreciation	1,084	1,142	1,269	1,397
Add. Interest	1,005	811	884	956
Less Financial Other Income	222	216	266	337
Add. Other	(116)	-	-	-
Op. profit before WC changes	3,071	2,422	3,505	4,445
Net Changes-WC	4,079	(406)	(730)	(7,276)
Direct tax	(246)	(118)	(340)	(527)
Net cash from Op. activities	6,904	1,898	2,435	(3,357)
Capital expenditures	(454)	(1,000)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	514	(1,000)	(1,000)	(1,000)
Net Cash from Invst. activities	60	(2,000)	(2,000)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(5,183)	1,000	1,000	1,000
Dividend paid	(129)	(129)	(129)	(129)
Interest paid	(1,005)	(811)	(884)	(956)
Others	(20)	-	-	-
Net cash from Fin. activities	(6,336)	60	(12)	(85)
Net change in cash	628	(42)	422	(5,442)
Free Cash Flow	6,450	898	1,435	(4,357)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	4.0	2.0	5.9	9.1
CEPS	10.3	8.7	13.3	17.3
BVPS	122.6	123.9	129.1	137.4
FCF	37.6	5.2	8.4	(25.4)
DPS	0.7	0.7	0.7	0.7
Return Ratio(%)				
RoCE	5.0	3.3	5.8	7.5
ROIC	4.1	2.6	4.6	5.1
RoE	3.3	1.7	4.7	6.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.5	0.5	0.7
Net Working Capital (Days)	233	328	276	295
Valuation(x)				
PER	12.4	24.1	8.4	5.4
P/B	0.4	0.4	0.4	0.4
P/CEPS	4.8	5.7	3.7	2.9
EV/EBITDA	6.4	8.6	6.0	6.3
EV/Sales	0.8	0.9	0.7	0.8
Dividend Yield (%)	1.5	1.5	1.5	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	5,651	4,400	4,089	2,297
YoY gr. (%)	(18.2)	(52.5)	(60.0)	(72.6)
Raw Material Expenses	-	-	-	-
Gross Profit	5,651	4,400	4,089	2,297
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	696	548	504	195
YoY gr. (%)	(16.5)	(50.5)	(60.2)	(81.4)
Margin (%)	12.3	12.5	12.3	8.5
Depreciation / Depletion	277	268	260	249
EBIT	419	281	245	(55)
Margin (%)	7.4	6.4	6.0	(2.4)
Net Interest	207	231	294	240
Other Income	64	76	41	14
Profit before Tax	276	126	162	(281)
Margin (%)	4.9	2.9	4.0	(12.2)
Total Tax	17	10	80	(15)
Effective tax rate (%)	6.2	7.7	49.4	5.4
Profit after Tax	259	117	82	(266)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	259	117	(88)	(266)
YoY gr. (%)	(32.5)	(79.3)	(131.4)	(167.4)
Margin (%)	4.6	2.6	(2.2)	(11.6)
Extra Ord. Income / (Exp)	-	-	170	-
Reported PAT	259	117	82	(266)
YoY gr. (%)	(32.5)	(79.3)	(71.7)	(167.4)
Margin (%)	4.6	2.6	2.0	(11.6)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	259	117	82	(266)
Avg. Shares O/s (m)	172	172	172	172
EPS (Rs)	1.5	0.7	(0.5)	(1.5)

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-20	BUY	87	49
2	07-Apr-20	BUY	128	25
3	16-Feb-20	BUY	147	101
4	03-Jan-20	BUY	203	125
5	23-Dec-19	BUY	203	111

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	288	244
3	Ashoka Buildcon	BUY	147	60
4	Bharat Electronics	Hold	99	97
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	106
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	437
9	Engineers India	BUY	104	68
10	GE T&D India	Hold	86	108
11	H.G. Infra Engineering	BUY	259	192
12	IRB Infrastructure Developers	BUY	152	125
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	112
15	Kalpataru Power Transmission	BUY	276	250
16	KEC International	BUY	333	294
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	31
20	PNC Infratech	BUY	219	169
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,159
24	Thermax	Accumulate	798	751
25	Triveni Turbine	BUY	83	64
26	Voltamp Transformers	BUY	1,244	1,095

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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