

Sadbhav Engineering (SADE IN)

Rating: BUY | CMP: Rs48 | TP: Rs87

November 13, 2020

Q2FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	87		87	
Sales (Rs. m)	26,554	33,675	26,554	33,675
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,240	4,108	3,240	4,108
% Chng.	-	-	-	-
EPS (Rs.)	5.9	9.1	5.9	9.1
% 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	2,638	3,240	4,108
Margin (%)	12.4	12.2	12.2	12.2
PAT (Rs. m)	681	675	1,013	1,567
EPS (Rs.)	4.0	3.9	5.9	9.1
Gr. (%)	(63.4)	(0.9)	50.1	54.7
DPS (Rs.)	0.7	0.7	0.7	0.7
Yield (%)	1.6	1.6	1.6	1.6
RoE (%)	3.3	3.2	4.6	6.8
RoCE (%)	4.9	4.4	5.5	7.2
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	6.8	6.9	5.6	4.9
PE (x)	12.2	12.3	8.2	5.3
P/BV (x)	0.4	0.4	0.4	0.3

Key Data

SADE.BO | SADE IN

52-W High / Low	Rs.142 / Rs.23
Sensex / Nifty	43,443 / 12,720
Market Cap	Rs.8bn / \$ 111m
Shares Outstanding	172m
3M Avg. Daily Value	Rs.61.37m

Shareholding Pattern (%)

Promoter's	46.83
Foreign	6.17
Domestic Institution	26.14
Public & Others	20.86
Promoter Pledge (Rs bn)	2.46

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	(14.4)	(59.3)
Relative	(9.0)	(36.9)	(62.4)

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Execution picking up

Quick Pointers:

- Company posted modest revenues in Q2 (in-line with estimates) on the back of rising labour availability, which have now reached pre-covid levels.
- Toll revenues across operational assets reached pre-covid levels towards end of Sep'20 while Oct'20 witnessed ~17% YoY growth.
- With all approvals in place, stake sale in Ahmedabad Ring Road (Rs3.4bn) expected to conclude and proceeds are likely to be received by Dec'20.

Sadbhav Engineering posted a decent set of numbers with revenues in line with our estimates while margins remain healthy at 12.1%, beating our and street estimates. Execution across project sites is picking up sharply with material and labour force availability both reaching pre-covid levels. With 3 large projects moving to full-fledged execution (leading towards daily run-rate of Rs90-100mn vs current Rs70mn), labour force at pre-covid levels and strong bid pipeline, management guided revenues to be ~Rs22bn in FY21E and Rs35-36bn in FY22E with EBITDAM expected be ~12%.

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. Those pressures are easing as all projects have now received ADs, receipt of two large orders and conclusion of asset monetization deal resulting in significant net debt reduction. On the back of strong execution, toll revenues and healthy management guidance we revise our FY21 earnings estimates from Rs351mn to Rs675mn while keeping FY22/23 estimates largely unchanged. At CMP, the stock trades at a P/E of 12.3x/ 8.2x on FY21E/ FY22E EPS and is trading at an EV of 6.9x/ 5.6x FY21E/ FY22E EBITDA. We maintain BUY rating with a TP of Rs87 (Same as earlier).

Rising execution with healthy margins: For Q2FY21, SADE's revenues declined by 27% YoY to Rs4.1bn (in line with PLe Rs4.1bn) with gradual pick up in execution during the quarter. EBITDA fell by 28.4% YoY to Rs498mn, with EBITDAM softening 23bps YoY to 12.1% (PLe 9%), due to better than anticipated operational performance. On bottom-line front, adj. PAT came in at Rs52mn (beating PLe of loss Rs111mn) led by better operating margins, lower depreciation at Rs245mn (PLe Rs296mn) & effective tax credit during the quarter.

New orders support order book; strong guidance: With receipt of 2 EPC projects worth Rs15.7bn during the quarter, order book as at 2QFY21 stand at ~Rs94bn, translating order-book-to-sales ratio of 6.3x trailing revenues. Order book includes Transport segment (75%), Mining segment (21%) and Irrigation segment (4%). Awarding momentum is expected to remain strong with 22 EPC projects worth Rs144bn and 34 HAM projects worth Rs315bn in the bid pipeline, from which management targets incremental order inflows of Rs30-35bn in FY21.

Exhibit 1: Quarterly Financials (Standalone): Gradual pickup in execution with margins above estimates

Y/e March (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	5,651	4,400	4,089	2,297	4,122	-27.1	79.5	6,419	14,028	-54.2
Total Revenues	5,651	4,400	4,089	2,297	4,122	-27.1	79.5	6,419	14,028	-54.2
Expenditure	4,955	3,852	3,584	2,102	3,624	-26.9	72.4	5,726	12,286	-53.4
as % of sales	87.7	87.5	87.7	91.5	87.9			89.2	87.6	
Consumption of RM	4,403	3,362	2,846	1,744	3,246	-26.3	86.1	4,990	11,142	-55.2
as % of sales	77.9	76.4	69.6	75.9	78.7			77.7	79.4	
Employee Cost	426	307	318	257	294	-31.0	14.5	551	847	-34.9
as % of sales	7.5	7.0	7.8	11.2	7.1			8.6	6.0	
Other expenditure	125	183	420	101	84	-32.8	-16.7	185	297	-37.5
as % of sales	2.2	4.2	10.3	4.4	2.0			2.9	2.1	
EBITDA	696	548	504	195	498	-28.4	156.1	693	1,742	-60.2
Depreciation	277	268	260	249	245	-11.5	-1.7	495	557	-11.2
EBIT	419	281	245	-55	253	-39.6	-560.5	198	1,184	-83.3
Other Income	64	76	41	14	48	-24.7	247.8	62	105	-41.3
Interest	207	231	294	240	272	31.6	13.3	512	480	6.7
PBT	276	126	-9	-281	29	-89.5	-110.3	-252	810	-131.1
Total Tax	17	10	80	-15	-23	-236.6	54.1	-39	157	NA
Adjusted PAT	259	117	-88	-266	52	-79.7	-119.7	-213	653	-132.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	259	117	-88	-266	52	-79.7	-119.7	-213	653	NA
Extra ordinary items	0	0	170	0	0	NA	#DIV/0!	0	0	NA
Reported PAT	259	117	82	-266	52	-79.7	-119.7	-213	653	-132.7
Adjusted EPS	2	1	0	-2	0	-79.7	-119.7	-1	4	-132.7
						bps	bps			bps
EBIDTA	12.3	12.5	12.3	8.5	12.1	-23	362	10.8	12.4	-163
EBIT	7.4	6.4	6.0	-2.4	6.1	-127	853	3.1	8.4	-536
EBT	4.9	2.9	-0.2	-12.2	0.7	-417	1294	-3.9	5.8	-970
PAT	4.6	2.6	2.0	-11.6	1.3	-330	1284	-3.3	4.7	-798
Effective Tax rate	6.2	7.7	-929.9	5.4	-80.6	-8677	-8596	15.3	19.3	-403

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	1,013	8	8,107	47	54.5	8x on FY22 earnings
Equity Investment in BOT/HAM excluding		8460	0.8	6,768	39	45.5	Valuing at 0.8x its investments
Investment in InVIT Trust		7240	0	-	-	0.0	
Total				8,107	87	100	

Source: Company, PL

Exhibit 3: Key Assumptions

(Rsmn)	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

- Awarding momentum is expected to remain strong with 22 EPC projects worth Rs144bn and 34 HAM projects worth Rs315bn in the bid pipeline (submission by Nov-Dec'20).
 - The company already submitted bids for two EPC projects (Rs31.2bn) and Ahmedabad metro project (Rs8.5bn).
 - Company targets incremental order inflows to the tune of Rs30bn-35bn in FY21E.
- SADE's order book as at 2QFY21 stands at ~Rs94bn, translating order-book-to-sales ratio of 6.3x trailing revenues. Order book comprises of Transport segment (75%), Mining segment (21%) and Irrigation segment (4%).
 - During the quarter, SADE bagged 2 EPC projects on Ahmedabad Dholera section worth Rs15.7bn.
- Execution across project sites is picking up sharply with material availability and labour force already at pre-covid levels.
- Management expects significant pickup in operations for 3 large EPC projects (Gadag Honnali, Kim Ankaleshwar and Dholera-ahmedabad) driving the company to a daily run-rate of Rs90-100mn from Q4 vs current run-rate of Rs70mn.
- Company expects to receive PCOD for additional 3 HAM projects by end of FY21E, post which 6 out of 9 HAM projects would be operational.
- Toll collection in operational projects showed sharp recovery with toll collection surpassing pre-covid levels towards the end of Sep'20. In Oct'20, the four operational assets witnessed a 17% YoY growth in toll revenues.
 - Toll collection for Q2 in operational assets were: Maharashtra Border check-post (595mn), Ahmedabad Ring Road (Rs241mn), Rohtak-Panipat (203mn) and Rohtak-Hisar (180mn).
- Management guided for FY21 revenues to be ~Rs22bn and FY22E in range of Rs35-36bn with EBITDAM expected to be ~12%.
- With the required approvals (now received) company would conclude the stake sale of Ahmedabad Ring Road by Dec'20 and would receive a total of Rs3.4bn (including Rs0.7bn balance from earlier stake sale).
- Gross standalone debt level as at 2QFY21 stands at Rs12.2bn (vs Rs11.7bn QoQ).
- The company's equity investment in its HAM portfolio stands at Rs7.4bn till Q2FY21. Further, it would invest Rs2.1bn/ Rs0.7bn in H2FY21E/ FY22E.

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	13,977	14,057	17,260	21,889
Gross Profit	8,539	7,569	9,294	11,786
Margin (%)	37.9	35.0	35.0	35.0
Employee Cost	1,472	1,514	1,859	2,357
Other Expenses	-	-	-	-
EBITDA	2,795	2,638	3,240	4,108
YoY gr. (%)	(34.7)	(5.6)	22.8	26.8
Margin (%)	12.4	12.2	12.2	12.2
Depreciation and Amortization	1,084	1,136	1,269	1,397
EBIT	1,710	1,502	1,970	2,712
Margin (%)	7.6	6.9	7.4	8.1
Net Interest	1,005	817	882	954
Other Income	222	216	266	337
Profit Before Tax	1,097	902	1,354	2,095
Margin (%)	4.9	4.2	5.1	6.2
Total Tax	246	227	341	527
Effective tax rate (%)	22.4	25.2	25.2	25.2
Profit after tax	852	675	1,013	1,567
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	681	675	1,013	1,567
YoY gr. (%)	(63.4)	(0.9)	50.1	54.7
Margin (%)	3.0	3.1	3.8	4.7
Extra Ord. Income / (Exp)	170	-	-	-
Reported PAT	852	675	1,013	1,567
YoY gr. (%)	(54.4)	(20.7)	50.1	54.7
Margin (%)	3.8	3.1	3.8	4.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	852	675	1,013	1,567
Equity Shares O/s (m)	172	172	172	172
EPS (Rs)	4.0	3.9	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	7,732	8,732	9,732	10,732
Tangibles	7,732	8,732	9,732	10,732
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,429	4,565	5,834	7,231
Tangibles	3,429	4,565	5,834	7,231
Intangibles	-	-	-	-
Net fixed assets	4,304	4,168	3,898	3,501
Tangibles	4,304	4,168	3,898	3,501
Intangibles	-	-	-	-
Capital Work In Progress	38	38	38	38
Goodwill	-	-	-	-
Non-Current Investments	10,311	11,619	13,236	15,753
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	2,081	2,555	3,240
Trade receivables	19,331	17,775	16,005	16,607
Cash & Bank Balance	1,231	3,212	4,337	3,046
Other Current Assets	3,817	4,109	4,249	4,378
Total Assets	45,248	47,673	50,054	53,836
Equity				
Equity Share Capital	172	172	172	172
Other Equity	20,868	21,415	22,299	23,738
Total Network	21,040	21,586	22,471	23,910
Non-Current Liabilities				
Long Term borrowings	5,260	5,260	5,260	5,260
Provisions	-	-	-	-
Other non current liabilities	4,113	4,360	4,605	4,922
Current Liabilities				
ST Debt / Current of LT Debt	6,802	7,802	8,802	9,802
Trade payables	5,529	5,722	5,749	6,480
Other current liabilities	3,615	4,052	4,277	4,572
Total Equity & Liabilities	45,248	47,673	50,054	53,836

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,097	902	1,354	2,095
Add. Depreciation	1,084	1,136	1,269	1,397
Add. Interest	1,005	817	882	954
Less Financial Other Income	222	216	266	337
Add. Other	(116)	-	-	-
Op. profit before WC changes	3,071	2,855	3,505	4,445
Net Changes-WC	2,708	1,299	(29)	(3,127)
Direct tax	(246)	(227)	(341)	(527)
Net cash from Op. activities	5,532	3,926	3,135	791
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	(3,811)	1,000	1,000	1,000
Dividend paid	(129)	(129)	(129)	(129)
Interest paid	(1,005)	(817)	(882)	(954)
Others	(20)	-	-	-
Net cash from Fin. activities	(4,964)	55	(10)	(82)
Net change in cash	628	1,981	1,125	(1,291)
Free Cash Flow	5,079	2,926	2,135	(209)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	4.0	3.9	5.9	9.1
CEPS	10.3	10.6	13.3	17.3
BVPS	122.6	125.8	131.0	139.4
FCF	29.6	17.1	12.4	(1.2)
DPS	0.7	0.7	0.7	0.7
Return Ratio(%)				
RoCE	4.9	4.4	5.5	7.2
ROIC	4.0	3.7	4.7	5.8
RoE	3.3	3.2	4.6	6.8
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.4	0.5
Net Working Capital (Days)	255	243	189	166
Valuation(x)				
PER	12.2	12.3	8.2	5.3
P/B	0.4	0.4	0.4	0.3
P/CEPS	4.7	4.6	3.6	2.8
EV/EBITDA	6.8	6.9	5.6	4.9
EV/Sales	0.8	0.8	0.7	0.6
Dividend Yield (%)	1.6	1.6	1.6	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	4,400	4,089	2,297	4,122
YoY gr. (%)	(52.5)	(60.0)	(72.6)	(27.1)
Raw Material Expenses	-	-	-	-
Gross Profit	4,400	4,089	2,297	4,122
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	548	504	195	498
YoY gr. (%)	(50.5)	(60.2)	(81.4)	(28.4)
Margin (%)	12.5	12.3	8.5	12.1
Depreciation / Depletion	268	260	249	245
EBIT	281	245	(55)	253
Margin (%)	6.4	6.0	(2.4)	6.1
Net Interest	231	294	240	272
Other Income	76	41	14	48
Profit before Tax	126	162	(281)	29
Margin (%)	2.9	4.0	(12.2)	0.7
Total Tax	10	80	(15)	(23)
Effective tax rate (%)	7.7	49.4	5.4	(80.6)
Profit after Tax	117	82	(266)	52
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	117	(88)	(266)	52
YoY gr. (%)	(79.3)	(131.4)	(167.4)	(79.7)
Margin (%)	2.6	(2.2)	(11.6)	1.3
Extra Ord. Income / (Exp)	-	170	-	-
Reported PAT	117	82	(266)	52
YoY gr. (%)	(79.3)	(71.7)	(167.4)	(79.7)
Margin (%)	2.6	2.0	(11.6)	1.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	117	82	(266)	52
Avg. Shares O/s (m)	172	172	172	172
EPS (Rs)	0.7	(0.5)	(1.5)	0.3

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	87	52
2	03-Sep-20	BUY	87	49
3	10-Jul-20	BUY	87	49
4	07-Apr-20	BUY	128	25
5	16-Feb-20	BUY	147	101
6	03-Jan-20	BUY	203	125
7	23-Dec-19	BUY	203	111

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	231
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	112
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	105
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	52
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,032

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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