

# Sadbhav Engineering (SADE IN)

Rating: **ACCUMULATE** | CMP: Rs86 | TP: Rs97

July 2, 2021

## Q4FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>BUY</b>	
<b>Target Price</b>	<b>97</b>		<b>115</b>	
Sales (Rs. m)	20,163	26,234	26,902	34,300
% Chng.	(25.1)	(23.5)		
EBITDA (Rs. m)	2,460	3,200	3,282	4,185
% Chng.	(25.1)	6.6		
EPS (Rs.)	4.0	6.6	6.1	9.5
% Chng.	(34.1)	(30.1)		

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	22,517	16,236	20,163	26,234
EBITDA (Rs. m)	2,795	2,114	2,460	3,200
Margin (%)	12.4	13.0	12.2	12.2
PAT (Rs. m)	681	606	690	1,139
EPS (Rs.)	4.0	3.5	4.0	6.6
Gr. (%)	(63.4)	(11.0)	13.8	65.1
DPS (Rs.)	0.7	0.7	0.7	0.7
Yield (%)	0.9	0.9	0.9	0.9
RoE (%)	3.3	2.9	3.2	5.1
RoCE (%)	4.9	3.6	4.4	5.9
EV/Sales (x)	1.1	1.6	1.3	1.0
EV/EBITDA (x)	9.2	12.0	10.6	8.4
PE (x)	21.8	24.5	21.5	13.0
P/BV (x)	0.7	0.7	0.7	0.6

### Key Data

### SADE.BO | SADE IN

52-W High / Low	Rs.97 / Rs.37
Sensex / Nifty	52,485 / 15,722
Market Cap	Rs.15bn / \$ 197m
Shares Outstanding	172m
3M Avg. Daily Value	Rs.201.08m

### Shareholding Pattern (%)

Promoter's	46.74
Foreign	4.24
Domestic Institution	23.47
Public & Others	25.55
Promoter Pledge (Rs bn)	5.45

### Stock Performance (%)

	1M	6M	12M
Absolute	29.1	35.5	86.1
Relative	27.6	23.6	27.1

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## Disappointing execution; muted guidance

### Quick Pointers:

- Revenues for 4Q came in low at Rs4.3bn (down 23% QoQ) due to delayed commencement of new projects and deferred equity infusion in HAM projects.
- Order book as at 4QFY21 stands at Rs93.3bn (5.7x TTM revenues); targets PCOD in 4 HAM projects in FY22E and 3 HAM projects in FY23E.
- For FY22, management guided revenue growth of 15-20% YoY and EBITDA margins in the range of 12-13%.

**Sadbhav Engineering posted a weak set of numbers as execution fell 23% QoQ, considerably below our and street estimates. However, provision reversals and tax credits led to positive surprise on the bottom-line front. Toll revenues on 2 projects remain halted since Dec'20, due to farmer's protest for which the company would be pursuing revenue loss claim and termination of projects. In order to aid liquidity position, company initiated monetization process of 2 BOT and 3 HAM projects. On the back of delayed commencement in new projects and headwinds caused by second wave, management gave muted guidance of 15-20% revenue growth in FY22 with EBITDAM expected to be in the range of 12-13%.**

**SADE is one of the most reputed and credible EPC companies in the infrastructure space with strong execution track record. Pressures of stretched working capital cycle and mounting debt saw some easing through receipt of all ADs, receipt of three large orders and conclusion of asset monetization deal. However, on the back of 1) disappointing execution levels, 2) subdued management commentary and 3) a few slow-moving projects, we reduce our earnings estimates for FY22E/23E by 34%/30%. At CMP, the stock trades at a P/E of 21.5x/13x on FY22E/23E EPS and an EV of 10.6x/8.4x FY22E/23E EBITDA. Downgrade from BUY to 'ACCUMULATE' with a revised TP of Rs97 (Earlier TP Rs115).**

**Dismal execution levels; margins come in healthy:** For Q4FY21, SADE's revenues grew 4.1% YoY to Rs4.3bn (below our/ street estimates of Rs6.8bn/ Rs6.7bn) due to delay in commencement of 3 new projects and deferred infusion of equity in its HAM portfolio. EBITDA was up 35.7% YoY to Rs685mn, with EBITDAM improving 374bps YoY to 16.1% (above our/ street estimates of 12.7%/ 11.8%) mainly due to provision reversals. Adj. PAT came in at Rs668mn (ahead of PLe Rs184mn) led by higher operating margins and tax reversals (credit). The company also booked an exceptional loss on sale of assets worth Rs196mn.

**Healthy order book; bid pipeline remains strong:** SADE's order book as at 4QFY21 stands healthy at Rs93.3bn translating an order-book-to-sales ratio of 5.7x trailing revenues. Order book includes Transport segment (76%), Mining segment (21%) and Irrigation segment (3%). Awarding momentum to remain strong with EPC projects worth Rs114bn and HAM projects worth Rs268bn in bid pipeline, of which SADE has already bid for projects worth Rs112bn. Gross debt (Standalone) as at 4Q increased sequentially to Rs12.1bn (vs Rs11.8bn QoQ).

**Exhibit 1: Quarterly Financials (Standalone): Disappointing execution levels; tax reversals support profitability**

Y/e March (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue	4,089	2,297	4,122	5,560	4,257	4.1	-23.4	16,236	22,517	-27.9
Total Revenues	4,089	2,297	4,122	5,560	4,257	4.1	-23.4	16,236	22,517	-27.9
Expenditure	3,584	2,102	3,624	4,824	3,573	-0.3	-25.9	14,123	19,722	-28.4
as % of sales	87.7	91.5	87.9	86.8	83.9			87.0	87.6	
Consumption of RM	2,846	1,744	3,246	4,401	2,971	4.4	-32.5	12,362	17,350	-28.8
as % of sales	69.6	75.9	78.7	79.2	69.8			76.1	77.1	
Employee Cost	318	257	294	325	343	7.8	5.6	1,219	1,472	-17.2
as % of sales	7.8	11.2	7.1	5.8	8.1			7.5	6.5	
Other expenditure	420	101	84	98	258	-38.5	164.2	542	900	-39.8
as % of sales	10.3	4.4	2.0	1.8	6.1			3.3	4.0	
EBITDA	504	195	498	737	685	35.7	-7.0	2,114	2,795	-24.4
Depreciation	260	249	245	235	212	-18.3	-9.9	942	1,084	-13.1
EBIT	245	-55	253	501	472	93.0	-5.7	1,172	1,710	-31.5
Other Income	41	14	48	133	337	722.1	154.3	935	222	320.6
Interest	294	240	272	482	499	69.4	3.6	1,895	1,005	88.6
PBT	-9	-281	29	152	311	-3,726.4	104.2	211	927	-77.2
Total Tax	80	-15	-23	1	-357	-547.6	-54,514.8	-395	246	NA
Adjusted PAT	-88	-266	52	152	668	-856.2	340.5	606	681	-11.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	-88	-266	52	152	668	-856.2	340.5	606	681	-11.0
Extra ordinary items	170	0	0	0	-196	NA	NA	196	170	NA
Reported PAT	82	-266	52	152	472	477.1	211.3	802	852	-5.8
Adjusted EPS	0.5	-1.5	0.3	0.9	2.8	477.1	211.3	2.4	5.0	-51.8
<b>Margins (%)</b>						<b>bps</b>	<b>bps</b>			<b>bps</b>
EBIDTA	12.3	8.5	12.1	13.2	16.1	374	283	13.0	12.4	61
EBIT	6.0	-2.4	6.1	9.0	11.1	511	208	7.2	7.6	-38
EBT	-0.2	-12.2	0.7	2.7	7.3	752	457	1.3	4.1	-282
PAT	2.0	-11.6	1.3	2.7	11.1	909	836	4.9	3.8	116
Effective Tax rate	-929.9	5.4	-80.6	0.4	-114.8	81,509	-11,520	-186.8	26.5	-21,332

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	1,139	8	9,113	53	54.9	8x on FY23 earnings
Equity Investment in BOT/HAM excluding		10700	0.7	7,490	44	45.1	Valuing at 0.7x its investments
Investment in InVIT Trust		7240	0	-	-	0.0	
<b>Total</b>				<b>9,113</b>	<b>97</b>	<b>100</b>	

Source: Company, PL

**Exhibit 3: Key assumptions**

(Rsmn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Order inflows	90,709	22,419	-13,184	25,797	52,266	65,998
Revenue	35,051	35,492	22,517	16,236	20,163	26,234
Order backlog (Y/E)	132,493	119,420	83,719	93,280	125,382	165,147
Order book-to-sales ratio (x)	3.8	3.4	3.7	5.7	6.2	6.3
Burn-out Ratio (%)	33	28	22	18	18	18

Source: Company, PL

## Concall Highlights

- The company expects awarding momentum to pickup with EPC projects worth Rs114bn and HAM projects worth Rs268bn in bid pipeline (submission by Jul-Aug'21), of which the company already bided for projects worth Rs112bn.
- Execution during 4Q came in low (down 23% QoQ) mainly due to a) delay in commencement of 3 projects: 2 EPC projects on Ahmedabad-Dholera expressway and Surat Metro project and b) delayed infusion of pending equity commitment in its HAM portfolio (now regularized).
  - EBITDA margins for 4Q came in high at 16.1% on account of reversal of provisions with some projects nearing completion and classification of loss on sale of assets as exceptional item (Rs196mn).
- SADE's order book stands at ~Rs93.3bn, translating order-book-to-sales ratio of 5.7x trailing revenues.
  - Order book comprises of Transport segment (76%), Mining segment (21%) and Irrigation segment (3%).
- Management guided revenues to grow by 15-20% YoY in FY22 with EBITDAM expected in the range of 12-13%.
- Toll collection at operational assets: Ahmedabad Ring Road (Rs318mn) and Maharashtra Border Check Post (Rs611mn).
  - Toll collection on Rohtak Hissar and Rohtak Panipat projects continued to halt in 4QFY21 (halted since Dec'20) due to farmer's protest. With 180 days of toll halt, the company believes that Force Majeure is triggered as of June'21 and would be pursuing recovery of revenue loss and termination of projects with return of 110% of equity invested and 100% debt infused in the projects.
  - Company expects PCOD in 4 HAM projects in FY22E (60-90% complete) and further 3 HAM projects in FY23E.
- Gross standalone debt level as at 4QFY21 stands at Rs12.1bn (vs Rs11.8bn QoQ), which was further reduced by Rs0.9bn in Apr'21. Net debt stands at ~Rs12bn.
  - The company raised ~Rs5bn in form of NCDs (from consortium headed by Allianz) and monetized the units in Indinfravit trust worth Rs4.4bn. The proceeds were used for balance equity infusion in HAM portfolio (~Rs3.1bn) and balance to repay existing debt.
- The company has now completely infused the equity investment in its HAM portfolio of Rs10.7bn, financed through money raised from NCDs.
- The company has initiated process to monetise stake in Ahmedabad Ring Road (all approvals received), 3 operational HAM projects (Sadbhav Bhavnagar, Sadbhav Udaipur, Sadbhav Rudrapur) and Maharashtra Border Check Post project.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>22,517</b>	<b>16,236</b>	<b>20,163</b>	<b>26,234</b>
YoY gr. (%)	(36.6)	(27.9)	24.2	30.1
Cost of Goods Sold	13,977	10,733	13,106	17,052
Gross Profit	8,539	5,503	7,057	9,182
Margin (%)	37.9	33.9	35.0	35.0
Employee Cost	1,472	1,219	1,411	1,836
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,795</b>	<b>2,114</b>	<b>2,460</b>	<b>3,200</b>
YoY gr. (%)	(34.7)	(24.4)	16.4	30.1
Margin (%)	12.4	13.0	12.2	12.2
Depreciation and Amortization	1,084	942	1,013	1,143
<b>EBIT</b>	<b>1,710</b>	<b>1,172</b>	<b>1,447</b>	<b>2,058</b>
Margin (%)	7.6	7.2	7.2	7.8
Net Interest	1,005	1,895	727	798
Other Income	222	935	202	262
<b>Profit Before Tax</b>	<b>1,097</b>	<b>16</b>	<b>922</b>	<b>1,522</b>
Margin (%)	4.9	0.1	4.6	5.8
Total Tax	246	(395)	232	383
Effective tax rate (%)	22.4	(2,546.5)	25.2	25.2
<b>Profit after tax</b>	<b>852</b>	<b>410</b>	<b>690</b>	<b>1,139</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>681</b>	<b>606</b>	<b>690</b>	<b>1,139</b>
YoY gr. (%)	(63.4)	(11.0)	13.8	65.1
Margin (%)	3.0	3.7	3.4	4.3
Extra Ord. Income / (Exp)	170	(196)	-	-
<b>Reported PAT</b>	<b>852</b>	<b>410</b>	<b>690</b>	<b>1,139</b>
YoY gr. (%)	(54.4)	(51.8)	68.1	65.1
Margin (%)	3.8	2.5	3.4	4.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	852	410	690	1,139
<b>Equity Shares O/s (m)</b>	<b>172</b>	<b>172</b>	<b>172</b>	<b>172</b>
<b>EPS (Rs)</b>	<b>4.0</b>	<b>3.5</b>	<b>4.0</b>	<b>6.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,732</b>	<b>7,291</b>	<b>8,291</b>	<b>9,291</b>
Tangibles	7,732	7,291	8,291	9,291
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,429</b>	<b>4,371</b>	<b>5,383</b>	<b>6,526</b>
Tangibles	3,429	4,371	5,383	6,526
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,304</b>	<b>2,920</b>	<b>2,907</b>	<b>2,765</b>
Tangibles	4,304	2,920	2,907	2,765
Intangibles	-	-	-	-
Capital Work In Progress	38	38	38	38
Goodwill	-	-	-	-
Non-Current Investments	10,311	7,203	8,684	10,291
Net Deferred tax assets	1,110	1,338	1,338	1,338
Other Non-Current Assets	423	0	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,472	1,391	1,940	2,524
Trade receivables	19,331	6,827	8,839	11,500
Cash & Bank Balance	1,231	96	344	640
Other Current Assets	3,817	3,146	3,629	4,197
<b>Total Assets</b>	<b>45,248</b>	<b>44,471</b>	<b>47,754</b>	<b>51,892</b>
<b>Equity</b>				
Equity Share Capital	172	172	172	172
Other Equity	20,868	21,282	21,843	22,854
<b>Total Network</b>	<b>21,040</b>	<b>21,454</b>	<b>22,015</b>	<b>23,026</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,260	3,934	3,934	3,934
Provisions	-	-	-	-
Other non current liabilities	4,113	4,003	4,206	4,468
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,802	6,744	7,744	8,744
Trade payables	5,529	5,091	6,305	8,204
Other current liabilities	3,615	4,582	4,887	4,855
<b>Total Equity &amp; Liabilities</b>	<b>45,248</b>	<b>44,471</b>	<b>47,754</b>	<b>51,892</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	852	16	922	1,522
Add. Depreciation	1,084	942	1,013	1,143
Add. Interest	908	1,172	727	798
Less Financial Other Income	222	935	202	262
Add. Other	132	199	-	-
Op. profit before WC changes	2,976	2,329	2,662	3,463
Net Changes-WC	(1,023)	(323)	(325)	(857)
Direct tax	(519)	(31)	(232)	(383)
<b>Net cash from Op. activities</b>	<b>1,435</b>	<b>1,974</b>	<b>2,104</b>	<b>2,222</b>
Capital expenditures	41	235	(1,000)	(1,000)
Interest / Dividend Income	1,033	723	-	-
Others	3,156	(1,696)	(1,000)	(1,000)
<b>Net Cash from Inv. activities</b>	<b>4,231</b>	<b>(737)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,155)	575	1,000	1,000
Dividend paid	(172)	-	(129)	(129)
Interest paid	(1,895)	(1,895)	(727)	(798)
Others	475	36	-	-
<b>Net cash from Fin. activities</b>	<b>(5,746)</b>	<b>(1,284)</b>	<b>145</b>	<b>74</b>
<b>Net change in cash</b>	<b>(81)</b>	<b>(47)</b>	<b>249</b>	<b>296</b>
Free Cash Flow	1,336	1,985	1,104	1,222

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	4.0	3.5	4.0	6.6
CEPS	10.3	9.0	9.9	13.3
BVPS	122.6	125.0	128.3	134.2
FCF	7.8	11.6	6.4	7.1
DPS	0.7	0.7	0.7	0.7
<b>Return Ratio(%)</b>				
RoCE	4.9	3.6	4.4	5.9
ROIC	4.0	95.3	3.3	4.5
RoE	3.3	2.9	3.2	5.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.5	0.5	0.5
Net Working Capital (Days)	255	462	370	288
<b>Valuation(x)</b>				
PER	21.8	24.5	21.5	13.0
P/B	0.7	0.7	0.7	0.6
P/CEPS	8.4	9.6	8.7	6.5
EV/EBITDA	9.2	12.0	10.6	8.4
EV/Sales	1.1	1.6	1.3	1.0
Dividend Yield (%)	0.9	0.9	0.9	0.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Net Revenue</b>	<b>2,297</b>	<b>4,122</b>	<b>5,560</b>	<b>4,257</b>
YoY gr. (%)	(72.6)	(27.1)	26.4	4.1
Raw Material Expenses	-	-	-	-
Gross Profit	2,297	4,122	5,560	4,257
Margin (%)	100.0	100.0	100.0	100.0
<b>EBITDA</b>	<b>195</b>	<b>498</b>	<b>737</b>	<b>685</b>
YoY gr. (%)	(81.4)	(28.4)	34.3	35.7
Margin (%)	8.5	12.1	13.2	16.1
Depreciation / Depletion	249	245	235	212
<b>EBIT</b>	<b>(55)</b>	<b>253</b>	<b>501</b>	<b>472</b>
Margin (%)	(2.4)	6.1	9.0	11.1
Net Interest	240	272	482	499
Other Income	14	48	133	337
<b>Profit before Tax</b>	<b>(281)</b>	<b>29</b>	<b>152</b>	<b>115</b>
Margin (%)	(12.2)	0.7	2.7	2.7
Total Tax	(15)	(23)	1	(357)
Effective tax rate (%)	5.4	(80.6)	0.4	(310.0)
<b>Profit after Tax</b>	<b>(266)</b>	<b>52</b>	<b>152</b>	<b>472</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(266)</b>	<b>52</b>	<b>152</b>	<b>668</b>
YoY gr. (%)	(167.4)	(79.7)	30.1	(856.2)
Margin (%)	(11.6)	1.3	2.7	15.7
Extra Ord. Income / (Exp)	-	-	-	(196)
<b>Reported PAT</b>	<b>(266)</b>	<b>52</b>	<b>152</b>	<b>472</b>
YoY gr. (%)	(167.4)	(79.7)	30.1	477.1
Margin (%)	(11.6)	1.3	2.7	11.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(266)</b>	<b>52</b>	<b>152</b>	<b>472</b>
Avg. Shares O/s (m)	172	172	172	172
<b>EPS (Rs)</b>	<b>(1.5)</b>	<b>0.3</b>	<b>0.9</b>	<b>3.9</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-21	BUY	115	63
2	15-Feb-21	BUY	115	80
3	07-Jan-21	BUY	87	64
4	13-Nov-20	BUY	87	48
5	08-Oct-20	BUY	87	52
6	03-Sep-20	BUY	87	49
7	10-Jul-20	BUY	87	49

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,337	1,388
2	Ahluwalia Contracts (India)	Accumulate	410	389
3	Apar Industries	BUY	696	524
4	Ashoka Buildcon	BUY	160	98
5	Bharat Electronics	BUY	208	169
6	BHEL	Sell	34	67
7	Capacite's Infraprojects	BUY	270	210
8	Container Corporation of India	Hold	607	634
9	Cummins India	Hold	796	772
10	Engineers India	BUY	129	84
11	GE T&D India	Hold	141	137
12	H.G. Infra Engineering	BUY	476	333
13	IRB Infrastructure Developers	BUY	179	106
14	ITD Cementation India	BUY	97	83
15	J.Kumar Infraprojects	BUY	272	177
16	Kalpataru Power Transmission	BUY	448	382
17	KEC International	Accumulate	420	417
18	KNR Constructions	Accumulate	253	227
19	Larsen & Toubro	BUY	1,604	1,416
20	NCC	BUY	111	83
21	PNC Infratech	BUY	295	246
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	115	63
24	Siemens	Accumulate	2,101	2,064
25	Thermax	Accumulate	1,559	1,455
26	Triveni Turbine	BUY	156	123
27	Voltamp Transformers	Accumulate	1,565	1,424

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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