

## DILIP BUILDCON

ENGINEERING

# BUY

Target Price: Rs 309

### Monsoon impacts Q2; maintains guidance

Dilip Buildcon's (DBL) Q2FY17 sales grew 4% YoY to Rs 9.2 bn but EBITDA was down 15% at Rs 1.6 bn and margin declined by ~360 bps YoY to 17%. PBT at Rs 92 mn was down 81% YoY. Strong monsoon impacted revenue by Rs 3 bn, which coupled with almost half of projects being in initial stages of execution impacted the gross margin.

Management maintained its FY17 revenue guidance of Rs 48-50 bn and EBITDA margin of 18-20%. It highlighted its current monthly revenue run-rate has reached ~Rs 5 bn from Oct'16, which gives it visibility for achieving FY17 guidance. On the back of new project wins in mining, management revised its FY17 capex plans to Rs 3.5-4 bn (vs. Rs 2.5 bn earlier), which will push back debt reduction to FY18. We lower our FY17E EPS to factor in higher capex and debt.

CMP : Rs 222  
Potential Upside : 39%

#### MARKET DATA

No. of Shares : 137mn  
Free Float : 24%  
Market Cap : Rs 30 bn  
52-week High / Low : Rs 262 / Rs 179  
Avg. Daily vol. (1mth) : 0 shares  
Bloomberg Code : DBL IB Equity  
Promoters Holding : 76%  
FII / DII : 12% / 3%

**Net working capital** days increased to ~145 days vs. 134 QoQ and 160 as on Mar'16. Management expects NWC cycle to improve by Mar'17 on the back of improved execution and cash flows from stuck receivables. It is targeting to reduce NWC further to ~100 days by the end FY18 (our estimate 115) through: (a) halving no. of project sites to 25 lowering inventory to <100 days from 155 currently and (b) increasing share of mining that has fortnightly payments.

**Bidding selectively on strong visibility:** YTD order inflows worth ~Rs 70 bn and order book to Rs 135 bn (3xTTM sales) lend comfort to the management to bid selectively. Management highlighted that the recent two Hybrid Annuity (HAM) projects won in FY17 were 22%/27% above NHAI's estimated cost, resulting in healthy profitability. This coupled with rise in share of mining (>20% margin) lends visibility to EBITDA margin sustaining at 18%-20% in FY18.

**Maintain TP and BUY:** We lower FY17E EPS to Rs 20 (vs. Rs 22 earlier) due to higher interest & depreciation on higher capex. But, maintain FY18E EPS at Rs 28, as we believe better profitability from mining and HAM projects would offset increased interest and depreciation. Our TP stands at Rs 309 (10x FY18E EPS + 1x book value of BOT assets).

#### Financial summary (Standalone)

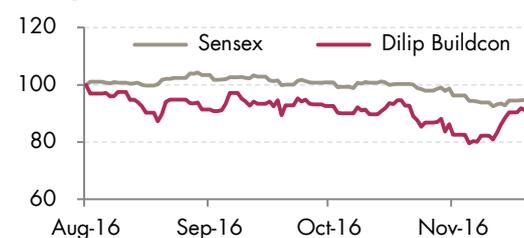
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	25,758	40,176	49,924	62,082
EBITDA (Rs mn)	5,655	7,992	9,606	11,325
Adj PAT (Rs mn)	1,458	2,199	2,760	3,845
Con. EPS* (Rs)	-	-	-	-
EPS (Rs)	12.4	18.8	20.2	28.1
Change YOY (%)	(64.5)	50.8	7.5	39.3
P/E (x)	15.6	10.4	9.6	6.9
RoE (%)	18.2	22.3	19.0	19.3
EV/E (x)	8.1	6.2	5.4	4.5
DPS (Rs)	-	-	-	-

Source: \*Consensus broker estimates, Company, Axis Capital

#### Key drivers (Rs bn)

	FY16	FY17E	FY18E
Order inflow	84.7	84.7	84.7
Order backlog	107.8	142.5	165.1
Revenue growth	55.7%	24%	24%
Margin	19.6%	19.2%	18.2%

#### Price performance



**Exhibit 1: Results update(Rs mn)**

	Quarter ended						12 months ended		
	Reported			Underlying (ex-bonus)			FY17E	FY16	% Chg
	Sep-16	Sep-15	% Chg	Sep-16	Sep-15	% Chg			
<b>Net Sales/Income form op</b>	<b>9,163</b>	<b>8,856</b>	<b>3.5</b>	<b>8,935</b>	<b>8,811</b>	<b>1.4</b>	<b>49,924</b>	<b>40,176</b>	<b>24.3</b>
EBIDTA	1,555	1,821	(14.6)	1,660	1,776	(6.5)	9,606	7,992	20.2
Other income	36	1	2,428.8	36	1	2,428.8	162	154	5.0
<b>PBIDT</b>	<b>1,591</b>	<b>1,822</b>	<b>(12.7)</b>	<b>1,696</b>	<b>1,777</b>	<b>(4.6)</b>	<b>9,767</b>	<b>8,146</b>	<b>19.9</b>
Depreciation	539	434	24.1	539	434	24.1	2,117	1,835	15.4
Interest	959	909	5.6	959	909	5.6	4,157	3,805	9.3
<b>PBT</b>	<b>92</b>	<b>479</b>	<b>(80.7)</b>	<b>197</b>	<b>434</b>	<b>(54.5)</b>	<b>3,493</b>	<b>2,507</b>	<b>39.3</b>
Tax	23	77	(70.5)	39	77	(50.0)	734	589	24.5
<b>Adjusted PAT</b>	<b>70</b>	<b>402</b>	<b>(82.7)</b>	<b>159</b>	<b>357</b>	<b>(55.5)</b>	<b>2,760</b>	<b>2,199</b>	<b>25.5</b>
Extra ordinary income/ (exp.)	0	0	-	0	0	-	0	0	-
<b>Reported PAT</b>	<b>70</b>	<b>402</b>	<b>(82.7)</b>	<b>159</b>	<b>357</b>	<b>(55.5)</b>	<b>2,760</b>	<b>2,199</b>	<b>25.5</b>
No. of shares (mn)	137	137	-	137	137	-	137	137	-
EBIDTA margin (%)	17.0	20.6	(359.1)	18.6	20.2	(157.6)	19.2	19.9	(3.3)
PBIDT margin (%)	17.4	20.6	-	19.0	20.2	-	19.6	20.3	(3.5)
<b>EPS (Rs)</b>	<b>0.5</b>	<b>2.9</b>	<b>(82.7)</b>	<b>1.2</b>	<b>2.6</b>	<b>(55.5)</b>	<b>20.2</b>	<b>16.1</b>	<b>25.5</b>

Source: Company, Axis Capital

**Key takeaways from conference call**

**Negligible impact from demonetization:** Ownership of assets coupled with bulk of employees on its roll has resulted in negligible impact on its execution. Even the contract workers are paid through banks; hence, no impact on execution. In case the currency shortage persists longer, there could be impact on logistics channel for procuring bitumen, cement and steel.

**On track to meet revenue guidance:** Heavy monsoon during Q2 impacted revenue by ~Rs 3 bn on reported revenue of ~Rs 9 bn. During Q2, rains impacted execution for 73 days vs. 23 days YoY. On track to achieve revenue guidance of Rs 48-50 bn during FY17, as monthly revenue run-rate has already reached Rs 5 bn, which lends visibility on achieving the full-year guidance.

**Gross margin impacted by ~100 bps due to adverse mix; normalize in H2:** Of the 55 odd projects under execution currently, ~25 are in initial stages of execution. In an EPC business model, the margins are non-linear, wherein they are lower in the initial phase of execution and higher during the tail end. Management expects the margin to normalize during H2 on improved execution. Strong visibility on FY18 margin as well driven by good order wins in HAM (22-27% above NHA's estimated cost) and increased share of mining.

**Diversification in mining to reduce dependence on road:** DBL has won ~Rs 32.5 bn of mining contracts during H1FY17. These contracts are principally for overburden removal from Coal India's subsidiaries. Execution risks are lower as the company need not acquire land or procure raw material or seek environment clearances for quarries. These are primarily deploying equipment and ferrying overburden to the nearest dump yard.

DBL expects revenue from mining at ~Rs 10 bn in FY18 and EBITDA margin of > 20%. The company will need to invest Rs 3.5 bn towards procurement of equipment. Mining segment has zero inventories, and the company can raise bills every fortnight, resulting in NWC of 45-60 days vs. road segment at >135 days.

Mining segment order book of Rs 32.5 bn gives revenue visibility of Rs 10 bn pa over the next 3 years. Note: the company will depreciate the assets over 5 years towards the mining division. RoIC for mining at ~50% vs. 20-25% for roads.

**On track to lower inventory / working capital cycle:** During FY18, no. of sites under execution would halve to ~25. This would lower inventory level, as bulk of them would be in their full-execution phase – inventory levels are usually higher in the initial phases and lower during ramp-up and tail-end. Further, the mining segment would constitute ~15% of FY18E revenue. NWC in mining is 45-60 days vs. 135 days in roads EPC. Additionally, reduction in stuck receivables from private sector would lower the NWC to ~110 days by FY18 vs. ~145 days as of Sep'16.

**Clear strategy for BOT assets:** DBL has 12 operational BOT projects with an overall equity investment of Rs 4.3 bn and debt of Rs 10.5 bn. These assets have generated revenue of Rs 2.37 bn (Rs 2.07 bn annuity + Rs 300 mn toll) in FY16. Company is targeting monetization of these operational BOT assets.

In addition, DBL has 7 under-construction BOT assets (1 Toll, 2 Hybrid Annuity and 4 Toll + Annuity), which would require equity investment of Rs 6.95 bn (over next 3 years, Rs 2.4 bn in FY17), debt of Rs 21.5 bn and would be getting government grant of Rs 10 bn. Company has a clear strategy of monetizing these assets too once they are operational.

**Financial summary (Standalone)**
**Profit & loss (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	25,758	40,176	49,924	62,082
Other operating income	483	677	120	150
<b>Total operating income</b>	<b>26,241</b>	<b>40,853</b>	<b>50,044</b>	<b>62,232</b>
Cost of goods sold	(19,325)	(30,170)	(37,193)	(46,872)
Gross profit	6,916	10,683	12,851	15,360
<i>Gross margin (%)</i>	<i>26.9</i>	<i>26.6</i>	<i>25.7</i>	<i>24.7</i>
Total operating expenses	(1,261)	(2,691)	(3,245)	(4,035)
<b>EBITDA</b>	<b>5,655</b>	<b>7,992</b>	<b>9,606</b>	<b>11,325</b>
<i>EBITDA margin (%)</i>	<i>22.0</i>	<i>19.9</i>	<i>19.2</i>	<i>18.2</i>
Depreciation	(1,179)	(1,835)	(2,117)	(2,367)
<b>EBIT</b>	<b>4,476</b>	<b>6,158</b>	<b>7,488</b>	<b>8,957</b>
Net interest	(2,587)	(3,805)	(4,157)	(4,000)
Other income	60	154	162	170
<b>Profit before tax</b>	<b>1,949</b>	<b>2,507</b>	<b>3,493</b>	<b>5,127</b>
Total taxation	(491)	(308)	(734)	(1,282)
<i>Tax rate (%)</i>	<i>25.2</i>	<i>12.3</i>	<i>21.0</i>	<i>25.0</i>
Profit after tax	1,458	2,199	2,760	3,845
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,458	2,199	2,760	3,845
<i>Adj. PAT margin (%)</i>	<i>5.7</i>	<i>5.5</i>	<i>5.5</i>	<i>6.2</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,458	2,199	2,760	3,845

**Balance sheet (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	1,171	1,171	1,367	1,367
Reserves & surplus	7,558	9,791	16,666	20,512
Net worth	8,730	10,962	18,034	21,879
Borrowing	21,870	25,138	24,138	23,138
Other non-current liabilities	707	965	965	965
<b>Total liabilities</b>	<b>45,551</b>	<b>53,332</b>	<b>64,474</b>	<b>71,716</b>
Gross fixed assets	15,298	19,424	22,924	24,424
Less: Depreciation	(3,408)	(5,220)	(7,337)	(9,704)
Net fixed assets	11,890	14,204	15,587	14,719
Add: Capital WIP	-	-	-	-
Total fixed assets	11,890	14,204	15,587	14,719
Total Investment	4,252	3,785	6,285	9,285
Inventory	9,476	15,803	19,833	22,962
Debtors	12,636	11,919	11,626	12,756
Cash & bank	2,342	1,476	2,938	2,639
Loans & advances	3,761	5,565	7,523	8,504
Current liabilities	14,245	16,267	21,337	25,734
Net current assets	15,165	19,077	21,266	21,979
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>45,551</b>	<b>53,332</b>	<b>64,474</b>	<b>71,716</b>

Source: Company, Axis Capital

**Cash flow (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	1,949	2,507	3,493	5,127
Depreciation & Amortisation	(1,179)	(1,835)	(2,117)	(2,367)
<i>Chg in working capital</i>	<i>(3,714)</i>	<i>(4,778)</i>	<i>(727)</i>	<i>(1,011)</i>
<b>Cash flow from operations</b>	<b>1,511</b>	<b>3,060</b>	<b>8,306</b>	<b>9,202</b>
<i>Capital expenditure</i>	<i>(6,657)</i>	<i>(4,126)</i>	<i>(3,500)</i>	<i>(1,500)</i>
<b>Cash flow from investing</b>	<b>(10,482)</b>	<b>(7,463)</b>	<b>(10,157)</b>	<b>(8,500)</b>
<i>Equity raised/ (repaid)</i>	<i>99</i>	<i>-</i>	<i>4,312</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>10,239</i>	<i>3,269</i>	<i>(1,000)</i>	<i>(1,000)</i>
<i>Dividend paid</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Cash flow from financing</b>	<b>10,638</b>	<b>3,269</b>	<b>3,312</b>	<b>(1,000)</b>
Net chg in cash	1,667	(1,134)	1,461	(298)

**Key ratios**

Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	12.4	18.8	20.2	28.1
CEPS (Rs)	22.5	34.4	35.7	45.4
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
<b>GROWTH</b>				
Net sales (%)	14.1	56.0	24.3	24.4
EBITDA (%)	20.3	41.3	20.2	17.9
Adj net profit (%)	(29.7)	50.8	25.5	39.3
FDEPS (%)	(64.5)	50.8	7.5	39.3
<b>PERFORMANCE</b>				
RoE (%)	18.2	22.3	19.0	19.3
RoCE (%)	18.0	18.5	19.1	20.5
<b>EFFICIENCY</b>				
Asset turnover (x)	1.1	1.3	1.4	1.5
Sales/ total assets (x)	0.7	0.8	0.8	0.9
Working capital/ sales (x)	0.4	0.4	0.4	0.3
Receivable days	179.1	108.3	85.0	75.0
Inventory days	168.0	175.5	179.0	164.6
Payable days	250.0	177.8	190.1	182.4
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	2.7	2.6	1.7	1.2
Net debt/ equity (x)	2.4	2.4	1.5	1.0
Current ratio (x)	2.1	2.2	2.0	1.9
Interest cover (x)	1.7	1.6	1.8	2.2
<b>VALUATION</b>				
PE (x)	15.6	10.4	9.6	6.9
EV/ EBITDA (x)	8.1	6.2	5.4	4.5
EV/ Net sales (x)	1.8	1.2	1.0	0.8
PB (x)	3.0	2.4	1.7	1.4
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(19.8)	(4.1)	15.8	25.4

Source: Company, Axis Capital

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