

# IPO Note: Dilip Buildcon Ltd.

Industry: Infrastructure

Recommendation: Not Rated

Date: July 27, 2016

## Issue Snapshot

Company Name	Dilip Buildcon Ltd.
Issue Opens	August 01, 2016 to August 03, 2016
Price Band	Rs. 214 to Rs. 219
Bid Lot	65 Equity Shares and in multiples thereof.
The Offer	Public issue of 29,861,976* Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 19,634,703* – 20,093,458 Equity Shares (Rs. 430 crore) and Offer for Sale of 10,227,273 Equity Shares (Rs. 218.9 – 224.0* crore) by Selling Shareholder).
Issue Size	Rs. 648.9 – 654.0 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
Exchanges	NSE & BSE
BRLM	IIFL Holdings Limited, Axis Capital Limited, JM Financial Institutional Securities Limited and PNB Investment Services Limited
Registrar	Link Intime India Private Limited

## Objects of the Offer

### Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling shareholder (Dilip Suryavanshi (1,136,364 eq. sh.), Devendra Jain (1,136,364 eq. sh.), and Investor Selling Shareholders (7,954,545 eq. sh.)).

### Fresh Issue

- Prepayment or scheduled repayment of a portion of term loans availed by the Company;
- To meet working capital requirements; and
- General Corporate Purposes.

## Company Highlights

Dilip Buildcon Ltd (DBL) is one of the leading private sector road-focused EPC contractors in India. During the last five Financial Years ended March 31, 2016 it has completed the construction of 47 road projects in the states of Madhya Pradesh, Gujarat, Himachal Pradesh, Rajasthan and Maharashtra in India, with an aggregate length of approximately 5,611.94 lane kms, achieving a CAGR of 38.18% of revenue growth on a consolidated basis for last 5 years. In addition to the states where DBL has completed projects, has expanded its presence to ten more states, Tamil Nadu, Punjab, Chhatisgarh, Jharkhand, Haryana, Telangana, Andhra Pradesh, Karnataka, Goa and Uttar Pradesh with ongoing projects.

As the owner of the one of the largest fleets of construction equipment in India, the company has maintained, as of March 31, 2016, a modern equipment fleet of 7,345 vehicles and other construction equipment from some of the world's leading suppliers, such as Schwing Stettar, Metso, Wirtgen and Vögele. DBL is one of the largest employers in the construction industry in India and employed 19,746 employees as of March 31, 2016.

Its core business is undertaking construction projects across India in the roads and irrigation sectors. The company specializes in constructing state and national highways, city roads, culverts and bridges. As a result of the natural growth of its road construction business, as well as the recent government support to the

## Issue Break up

Issue Size	Allocation	Equity Shares*
QIB	50%	14,930,988
HNI	15%	4,479,296
RII	35%	10,451,692
<b>Total Public</b>	<b>100%</b>	<b>29,861,976</b>

\* Based on higher price band @ Rs. 219

infrastructure sector and rising opportunities in new business areas, DBL recently expanded into the irrigation and urban development businesses. Thus its business comprises: (i) construction business, under which it undertakes roads, irrigation and urban development projects on an EPC basis; and (ii) infrastructure development business, under which it undertakes building, operation and development of road projects on a BOT basis with a focus on annuity projects. As of March 31, 2016, DBL had an order book of Rs. 10778.73 crore, consisting of 50 third party road EPC projects, six of our own road BOT projects, three irrigation projects, one mining project, one cable-stayed bridge project and three urban development projects. Management has claimed that they have completed all its projects well before the scheduled time and has thus improved its prestige and enhanced its margins with before time completion.

## View

Dilip Buildcon Ltd. (DBL) is one of the largest road EPC contractors in India with an order book of Rs 10,778 crore. About 92% of the company's revenue was from its contracting business, of which more than 90% was from the roads segment and also owns 12 BOT road projects. Its core business is undertaking construction projects across India in the roads and irrigation sectors. The company specializes in constructing state and national highways, city roads and bridges. DBL has the largest fleets of construction equipment in India with modern equipment fleet of 7,345 vehicles from some of the world's leading suppliers, such as Schwing Stettar, Metso, Wirtgen and Voegle.

DBL is raising Rs 430 crore through fresh issue of shares in order to prepay its term loans and meet working capital requirements. Promoters and investors will also be offloading their stake. On financial front, company has delivered robust growth in topline and operating level in last five years. Revenue grew at a CAGR of 38% and EBITDA CAGR was 39% between FY12-FY16, while net profitability grew at much slower pace of 16% CAGR over the same period. Rising interest cost, which has grown at a CAGR of 72% has been offsetting the robust EBITDA growth. Higher need of funds and working capital has increased the leverage on balance sheet with D/E ratio stood at 3.2x, higher among the peers. Higher EBITDA margin advantage is being erased by high cost of debt which has increased from 13% to ~16%. Interest cost as a % of revenue for DBL during FY16 stood at 11% which is at higher side compared to other industry players which is in range of 1-5%. CFO/EBITDA ratio stood at 52% during FY16, which implies that cash has been stuck in working capital, thus its balance sheet leverage has been higher than peers. Further, company has lengthy cash conversion days (~111 days) among the peers owing to higher inventory and receivables days. However, DBL enjoy highest RoE in industry at 19%, which is largely due to high leverage in balance sheet and small networth size. DBL's book to bill ratio is marginally higher than peers at 3x, while orderbook/networth is high at 10x, which is highest in industry (in range between 2-6x). Such high ratio denotes that company has been slow in executing the orders and should improve it going ahead to sustain the robust revenue growth. Overall, company's performance barring revenue and EBITDA growth is not much impressive given high leverage in balance sheet as compared with peers and slow order execution. However, infrastructure sector has traction post NDA government came into power. Recent policy changes have resulted in greater investor confidence in the highways sector. A steady rise in traffic and toll collections recorded by many highway operators in recent quarters has also improved the investment sentiment in the sector, where many companies are looking to monetize operational assets. The government is planning to award 25,000km of road projects in 2016-17, compared with 10,000km in 2015-16. This has raised the growth potential for road developers looking to win new orders. On valuation front, DBL post issue trailing P/Bv would be 2.1x, which is at par with industry average, so the company is not quoting any discount to its price as warranted by high leverage in balance sheet and depressed PAT margin. Hence, we assign **"NOT RATED"** stance on the issue.

## Financial Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	FY16
Share Capital	59.2	59.2	59.2	117.1	117.1
Net Worth	294.8	534.8	719.0	805.2	1,001.3
Long Term Borrowings	393.5	577.6	925.2	1,574.0	1,767.1
Other Long Term Liabilities	66.3	148.4	233.9	299.0	339.0
Short-term borrowings	153.3	457.3	816.2	1,376.3	1,454.3
Other Current Liabilities	497.3	677.3	873.9	1,538.3	1,825.4
Fixed Assets	691.8	1,204.4	1,772.8	2,607.9	2,773.3
Non Current Assets	93.5	70.0	95.9	310.4	289.3
Current Assets	619.9	1,121.1	1,699.6	2,674.5	3,324.4
Total Assets	1,405.2	2,395.5	3,568.3	5,592.8	6,387.0
Revenue from Operations	1,190.0	1,919.5	2,383.8	2,762.0	4,315.4
Revenue Growth (%)		61.3	24.2	15.9	56.2
EBITDA	264.0	473.3	524.8	686.6	995.5
EBITDA Margin (%)	22.2	24.7	22.0	24.9	23.1
Net Profit	108.1	241.3	185.7	87.7	196.6
Net Profit Margin (%)	9.1	12.6	7.8	3.2	4.6
Earnings Per Share (Rs.)	9.2	20.6	15.9	7.5	16.8
Return on Networth (%)	36.7	45.1	25.8	10.9	19.6
Net Asset Value per Share (Rs.)	63.2	114.6	154.1	68.7	85.5

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY12	FY13	FY14	FY15	FY16
Cash flow from Operations Activities	96.5	171.7	177.2	375.9	521.8
Cash flow from Investing Activities	(471.6)	(585.6)	(664.5)	(1038.3)	(429.1)
Cash flow from Financing Activities	422.9	372.8	505.2	856.4	(243.6)
Net increase/(decrease) in cash and cash equivalents	47.8	(41.2)	18.0	194.0	(150.9)
Cash and cash equivalents at the beginning of the year	48.2	96.0	54.9	72.8	266.8
Cash and cash equivalents at the end of the year	96.0	54.9	72.8	266.8	115.9

Source: RHP

## Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	EPS (Rs.)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Dilip Buildcon	4,315.4	23.1	16.8	3.2	10.6	19.6	15.2*	2.1*	5.9*	0.7*	2995.3*
Simplex Infra	5873.8	11.5	13.8	2.2	10.8	4.4	18.7	0.8	6.7	0.2	1533.4
Sadbhav Engg	3877.5	23.0	-2.7	4.5	4.4	2.6	33.5	3.4	18.5	1.6	5007.3
Ashoka Buildcon	2597.5	29.5	3.2	2.5	4.1	3.1	19.2	1.9	11.2	1.7	3053.3
MBL Infra	2342.4	11.0	21.3	1.8	11.8	12.7	7.5	0.9	6.6	0.3	562.5
J. Kumar Infra	1366.2	19.5	14.9	0.8	17.7	13.8	20.4	1.6	9.2	1.5	1695.3
KNR Const	993.7	21.8	44.9	0.9	6.2	18.1	8.9	2.2	8.5	1.6	1616.9
IRB Infra	5130.2	54.3	18.1	3.0	6.1	13.7	25.1	3.5	17.0	3.0	7528.1

\* Calculated higher price band

Note: Some figures are the calculated by Ashika Research.

Source: Bloomberg, Capitaline, Ashika Research

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