

Company Background

Dilip Buildcon Ltd is Bhopal, MP based Engineering, Procurement and Construction (EPC) contractor focused on road projects in India. It specializes in constructing state and national highways, city roads, culverts and bridges. The company's core business is undertaking construction projects across India in the roads and irrigation sectors and now has expanded into the irrigation and urban development businesses. The company is an owner of the one of the largest fleets of construction equipment in India with over 6,600 vehicles. In last 5 years Dilip Buildcon completed the construction of 51 road projects in the states of Madhya Pradesh, Gujarat, Himachal Pradesh, Rajasthan and Maharashtra with an length of 5,858.49 lane kms.

Objectives

The Offer consists of a Fresh Issue up to 4,300mn by the company and an Offer for Sale up to 10,227,273 shares by the selling shareholders. The proceeds from the fresh issue will be utilised towards the following objects:

- ⇒ Prepayment or scheduled repayment of a portion of term loans availed by the company;
- ⇒ To meet working capital requirements; and
- ⇒ General corporate purposes

Investment Rationale

Integrated Model & selective bidding:

Company owns a fleet of more than 6,600 equipments which is one of the largest in India. Due to this the company is able to reduce the outsourcing cost and operational overheads which further lead to higher margin. Also as the equipment and quarries are owned the company is better positioned to complete the projects ahead to given time as it has less ideal days due to non-availability of equipment. This further leads to early completion of projects and reduced fixed cost significantly evident from 20% EBITDA margin clocked by the company. The company has always bid for only the projects which were near their existing site so that the necessary material and equipment can be transported efficiently. The growth is largely attributable to this efficient business model of careful selection and geographical clustering of the projects.

Good Track-record of execution:

Dilip Buildcon has received a early completion bonus of 2200 mn in last four years. Now the road authority NHAI has proposed 3% of tendered amount as early completion bonus which is further positive for the company as the company completes most of its projects before time. This is double beneficiary as it leads to higher income from bonus and reduces fixed cost to great extent further leading to higher margins. Early completion is a rare factor in this industry. The maintenance cost of roads build by Dilip Buildcon is 16000/km compared to 1lakh/km given by NHAI. The company has an order book of 17,5000mn which leads to good revenue visibility over next 3 years.

Good BOT portfolio:

There are 12 operational assets with the company which generated the annuity income of 2070mn last year, the company follows an annuity model rather than directly collecting the toll had we believe this is one of safe model to do business. The company is having 11000mn debt at average interest rate of 10.3%, hence this division leads to cash generation on sustainable basis. The company still has right to collect annuity for more than 8 years (on average) for its road projects in their existing portfolio. The company has further 6 projects in the pipeline out of which one project is totally BOT (toll collection) and others are on annuity basis.

Outlook & Valuation

At the upper end of the price band Rs 219, the company is available at 13x to its FY18 earnings which is at discount as compared to peers. We believe that going forward the company would post a robust growth on the back of a well established business model along with an experienced management team. There has also been a credit rating upgrade in last 5 year which will further reduce interest expenses. With strong focus of government toward road sector both in terms of projects awarded and payments done on time the company tends to benefit. Thus we assign a **SUBSCRIBE** rating.

Issue Details

Offer Period	1st Aug-3rd Aug
Price Band	214-219
Bid Lot (No. Shares)	65
Listing	NSE & BSE
Issue Size (Rs mn)	6,540
Issue Size (Sh mn)	29.9
Face Value (Rs)	10

Issue Structure

QIB	Not more than 50%
NIB	Not more than 15%
Retail	Not more than 35%
BRLMs	Axis capital Ltd IIIFL Holdings Ltd JM Financials PNB Investment
Registrar	Link Intime India Pvt. Ltd.

Share Holding Pattern (%)

Particulars	Pre-issue %	*Post-issue %
Promoter & Promoter group	90.2	75.6
Others	9.8	24.4
Total	100	100

(*Assuming issue subscribed at higher band)

Research Team

022-61596406



Dilip Buildcon Ltd

Income Statement (Consolidated) (Rs. Mn)

Particulars	FY13	FY14	FY15	FY16
Revenue				
Revenue from operations	2,204	2,395	2,231	2,938
Total revenue	2,204	2,395	2,231	2,938
Expenses				
Cost of materials consumed	595	579	478	667
Purchase of traded goods	-	-	2	3
Changes in inventories of finished goods, work-in progress and traded goods	(84)	(108)	(3)	(80)
Employee benefit expenses	270	329	361	445
Other expenses	528	557	484	520
Total Operating expenses	1,309	1,357	1,322	1,555
EBITDA	896	1,038	909	1,382
Depreciation and amortisation expense	75	99	90	87
Other income	37	10	12	9
EBIT	857	949	830	1,304
Finance costs	96	132	93	79
Exceptional Item	-	540	-	-
PBT	762	278	737	1,225
Current tax	235	175	196	365
Minimum alternate tax credit entitlement	(50)	(18)	(19)	(19)
Deferred tax	74	(92)	52	86
Total Tax expense	259	64	228	432
PAT (excl Minority Interest)	503	214	509	793
Less: Share of Minority interest	11	13	8	9
Profit for the Period/ Year	492	201	501	784
Diluted EPS	23.1	9.2	23.0	36.0

Source: BP Equities, RHP

Cash Flow Statement (Consolidated) (Rs.Mn)

Particulars	FY13	FY14	FY15	FY16
Cash Flow from operating activities	411	433	539	1,027
Cash flow from investing activities	(308)	(105)	(109)	(139)
Cash flow from financing activities	(32)	(197)	(368)	(616)
Net increase/(decrease) in cash and cash equivalents	71	131	62	272
Cash and cash equivalents at the beginning of the period	53	34	23	43
Effect of exchange rate changes	(89)	(142)	(42)	(52)
Cash and cash equivalents at the end of the period	34	23	43	263

Source: BP Equities, RHP

Dilip Buildcon Ltd

Balance Sheet (Consolidated) (Rs. Mn)

Particulars	FY13	FY14	FY15	FY16
Liabilities				
Share Capital	218	218	218	218
Reserves and surplus	1,402	1,446	1,883	2,570
Net worth	1,620	1,664	2,100	2,787
Minority interest	24	36	45	54
Total Debt	1,504	1,266	777	684
Long-Term Provisions	-	-	-	2
Deferred tax liabilities	133	128	148	174
Total liabilities	3,280	3,094	3,069	3,700
Assets				
Tangible Assets	1,157	1,149	1,111	1,144
Intangible Assets	0	0	0	1
Goodwill on consolidation	1,708	1,710	1,710	1,710
Capital work in Progress	21	24	53	18
Intangible assets under development	-	11	50	62
Non-current investments	1	1	1	1
Deferred tax assets (net)	2	89	60	2
Long-Term Loans and Advances	139	168	160	180
Other non-current assets	1	1	0	1
Total fixed assets	3,029	3,154	3,146	3,119
Inventory	446	499	526	605
Trade Receivables	391	324	370	418
Cash and Bank Balances	37	26	43	263
Short-Term Loans and Advances	55	72	88	45
Other current assets	6	7	8	66
Total Current Asset	934	929	1,035	1,397
Less:Current Liabilities	683	989	1,112	816
Net Current Assets	251	(59)	(77)	581
Total assets	3,280	3,094	3,069	3,700

Key risks/concerns

- ⇒ The company owns a large fleet of equipment and have a large number of employees, and can result in increased fixed costs to the Company. If the company is not able to generate adequate cash flows it may have a material adverse impact on the operations.
- ⇒ Focus mainly on roads exposes to sector specific risks (change in government policy). Bulk of business comes from NHAI and MoRTH.
- ⇒ The working capital cycle continues to remain high due to higher inventory carried by the company as company doesn't out-source.
- ⇒ The company has negative cash flow due to which it has to raise debt constantly
- ⇒ Delays in execution of projects out of its home state Madhya Pradesh (MP) (accounts for 60% of its OB),
- ⇒ Higher dependency on debt to fund upcoming BOT projects.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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