

### Delivery on asset sales increases confidence

DBL's BOT asset sale to lead to significant deleveraging and improved credit profile

**Action: Raise TP to INR717 (implying 15% upside) as DBL continues to deliver on both execution and balance sheet strengthening**

DBL has announced that it has entered into an agreement with Shrem Infraventures (unlisted) for the sale of its entire BOT (build operate and transfer) assets for an equity consideration of INR16bn (at ~1.05x P/BV). With the asset sale, DBL has delivered on balance sheet deleveraging as well.

- Asset sale leads to a reduction in subsidiary debt of INR17bn, improving the credit metrics:** The asset sales have not only reduced the consolidated debt but also reduced corporate guarantees. This should lead to improved credit metrics, resulting in lower finance costs and should boost our EPS estimates.
- DBL will continue to generate EPC revenues and will get long-term O&M contracts:** Management has highlighted that these projects will provide INR50bn in EPC contracts and additionally will provide INR40bn in low-risk and higher-margin O&M revenue for the next 15 years. Thus, our construction revenue estimates remain unchanged, but should benefit in the long run from O&M (operations and maintenance) opportunities.
- Release of equity and reduced future commitments improve standalone gearing.** With the exception of INR1.92bn in equity commitments towards Hybrid Annuity (HAM) projects for its residual 26% share, DBL does not have any major equity outflows over FY18/19F.

**Valuation: Trading at 13.2x FY19F EPS; raise TP to INR717**

We raise our EPS for FY18/19F by 14%/22% (Fig. 2) on account of the lower financial charges as the cash from the asset sale flows in over FY18/19F. We continue to value DBL on SOTP basis with the EPC segment valued at 15x FY19F EPS of INR47.3 and residual BOT stake at 1x FY18F BV to arrive at our new TP of INR717. Key risks are aggressive competition, a slowdown in state ordering, and deterioration in working capital and debt metrics.

Year-end 31 Mar	FY16		FY17F		FY18F		FY19F	
	Actual	Old	New	Old	New	Old	New	
Currency (INR)								
Revenue (mn)	40,853	50,976	50,976	64,373	64,373	79,088	79,088	
Reported net profit (mn)	2,208	3,609	3,609	4,569	5,219	5,311	6,474	
Normalised net profit (mn)	2,208	3,609	3,609	4,569	5,219	5,311	6,474	
FD normalised EPS	16.14	26.39	26.39	33.40	38.16	38.83	47.34	
FD norm. EPS growth (%)	51.5	63.5	63.5	26.6	44.6	16.2	24.1	
FD normalised P/E (x)	38.6	N/A	23.6	N/A	16.3	N/A	13.2	
EV/EBITDA (x)	13.7	N/A	11.0	N/A	8.6	N/A	6.7	
Price/book (x)	8.0	N/A	4.6	N/A	3.6	N/A	2.8	
Dividend yield (%)	0.0	N/A	0.0	N/A	0.0	N/A	0.0	
ROE (%)	22.8	24.8	24.8	22.0	24.7	20.6	24.0	
Net debt/equity (%)	226.6	132.2	132.2	112.5	72.4	96.8	46.2	

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

### Global Markets Research

29 August 2017

Rating Remains	<b>Buy</b>
Target Price Increased from 649	INR 717
Closing price 28 August 2017	INR 622
Potential upside	+15.2%

### Anchor themes

Public infrastructure spending and the boost from reforms should lead to a revival in the road sector. With its focus on early execution and completion, we think DBL's higher margin profile is well placed to benefit from emerging opportunities.

### Nomura vs consensus

Our TP is significantly ahead of the Street. We note that the stock is not well covered.

### Research analysts

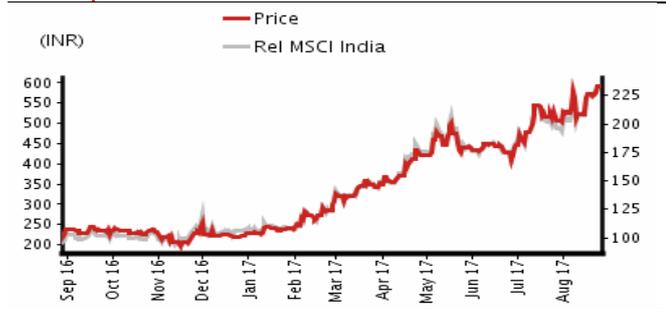
#### India Engineering & Construction

**Amar Kedia - NFASL**  
amar.kedia@nomura.com  
+91 22 4037 4182

**Priyankar Biswas - NFASL**  
priyankar.biswas@nomura.com  
+91 22 4037 4992

# Key data on Dilip Buildcon

## Relative performance chart



Source: Thomson Reuters, Nomura research

## Notes:

## Performance

(%)	1M	3M	12M		
Absolute (INR)	22.9	41.4	173.6	M cap (USDm)	1,332.9
Absolute (USD)	23.4	42.8	187.6	Free float (%)	24.4
Rel to MSCI India	24.6	37.7	162.1	3-mth ADT (USDm)	3.8

## Income statement (INRmn)

Year-end 31 Mar	FY15	FY16	FY17F	FY18F	FY19F
Revenue	26,241	40,853	50,976	64,373	79,088
Cost of goods sold	-19,325	-30,005	-37,930	-48,280	-59,316
Gross profit	6,916	10,848	13,047	16,093	19,772
SG&A	-2,077	-3,817	-4,373	-5,294	-6,171
Employee share expense	-363	-873	-1,025	-1,294	-1,590
Operating profit	4,476	6,158	7,648	9,505	12,010
EBITDA	5,655	7,992	9,922	11,966	14,702
Depreciation	-1,179	-1,835	-2,274	-2,462	-2,692
Amortisation					
EBIT	4,476	6,158	7,648	9,505	12,010
Net interest expense	-2,587	-3,814	-4,162	-3,907	-3,578
Associates & JCEs					
Other income	60	157	114	200	200
Earnings before tax	1,949	2,501	3,601	5,799	8,632
Income tax	-491	-293	9	-580	-2,158
Net profit after tax	1,458	2,208	3,609	5,219	6,474
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	1,458	2,208	3,609	5,219	6,474
Extraordinary items					
Reported NPAT	1,458	2,208	3,609	5,219	6,474
Dividends	-12	-7	-12	-17	-21
Transfer to reserves	1,446	2,201	3,598	5,202	6,454

## Valuations and ratios

Reported P/E (x)	58.4	38.6	23.6	16.3	13.2
Normalised P/E (x)	58.4	38.6	23.6	16.3	13.2
FD normalised P/E (x)	58.4	38.6	23.6	16.3	13.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Price/cashflow (x)	38.6	20.0	13.5	9.0	8.6
Price/book (x)	9.8	8.0	4.6	3.6	2.8
EV/EBITDA (x)	18.5	13.7	11.0	8.6	6.7
EV/EBIT (x)	23.4	17.7	14.3	10.8	8.2
Gross margin (%)	26.4	26.6	25.6	25.0	25.0
EBITDA margin (%)	21.6	19.6	19.5	18.6	18.6
EBIT margin (%)	17.1	15.1	15.0	14.8	15.2
Net margin (%)	5.6	5.4	7.1	8.1	8.2
Effective tax rate (%)	25.2	11.7	-0.2	10.0	25.0
Dividend payout (%)	0.8	0.3	0.3	0.3	0.3
ROE (%)	na	22.8	24.8	24.7	24.0
ROA (pretax %)	na	13.0	13.1	14.6	17.4

## Growth (%)

Revenue	55.7	24.8	26.3	22.9
EBITDA	41.3	24.1	20.6	22.9
Normalised EPS	51.5	63.5	44.6	24.1
Normalised FDEPS	51.5	63.5	44.6	24.1

Source: Company data, Nomura estimates

## Cashflow statement (INRmn)

Year-end 31 Mar	FY15	FY16	FY17F	FY18F	FY19F
EBITDA	5,655	7,992	9,922	11,966	14,702
Change in working capital	-2,895	-5,109	-3,483	-1,700	-2,380
Other operating cashflow	-557	1,381	-116	-776	-2,412
Cashflow from operations	2,203	4,265	6,323	9,490	9,910
Capital expenditure	-10,416	-4,503	-4,119	-2,188	-2,308
Free cashflow	-8,213	-238	2,205	7,302	7,602
Reduction in investments	-959	-109	-1,797	3,735	-960
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	3,764	391	114	200	200
CF after investing acts	-5,407	44	522	11,238	6,842
Cash dividends	-12	-7	-12	-17	-21
Equity issue	0	0	3,230	0	0
Debt issue	9,654	2,471	499	-3,570	-7,000
Convertible debt issue					
Others	-2,562	-3,791	-4,162	-3,907	-3,578
CF from financial acts	7,081	-1,327	-445	-7,493	-10,599
Net cashflow	1,674	-1,283	77	3,745	-3,756
Beginning cash	668	2,342	1,059	1,137	4,881
Ending cash	2,342	1,059	1,137	4,881	1,125
Ending net debt	19,528	24,068	24,489	17,175	13,931

## Balance sheet (INRmn)

As at 31 Mar	FY15	FY16	FY17F	FY18F	FY19F
Cash & equivalents	2,342	1,059	1,137	4,881	1,125
Marketable securities					
Accounts receivable	12,636	9,119	10,165	11,464	13,001
Inventories	9,476	15,803	16,639	18,518	21,668
Other current assets	2,653	6,904	11,960	11,509	13,419
Total current assets	27,107	32,886	39,901	46,372	49,212
LT investments	2,789	2,898	4,695	960	1,920
Fixed assets	11,890	14,204	16,825	16,551	16,168
Goodwill	0	0	0	0	0
Other intangible assets					
Other LT assets	3,765	2,850	5,072	5,895	7,242
Total assets	45,551	52,837	66,493	69,778	74,543
Short-term debt	16,407	17,976	19,301	15,731	8,731
Accounts payable	8,278	10,232	8,886	11,905	14,626
Other current liabilities	3,736	3,734	8,535	6,543	8,039
Total current liabilities	28,421	31,942	36,722	34,179	31,396
Long-term debt	5,463	7,151	6,325	6,325	6,325
Convertible debt					
Other LT liabilities	2,938	3,123	4,917	5,543	6,637
Total liabilities	36,822	42,216	47,964	46,047	44,358
Minority interest					
Preferred stock					
Common stock	1,171	1,171	1,368	1,368	1,368
Retained earnings	7,558	9,450	17,161	22,363	28,817
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	8,730	10,621	18,529	23,731	30,185
Total equity & liabilities	45,551	52,837	66,493	69,778	74,543

## Liquidity (x)

Current ratio	0.95	1.03	1.09	1.36	1.57
Interest cover	1.7	1.6	1.8	2.4	3.4

## Leverage

Net debt/EBITDA (x)	3.45	3.01	2.47	1.44	0.95
Net debt/equity (%)	223.7	226.6	132.2	72.4	46.2

## Per share

Reported EPS (INR)	10.66	16.14	26.39	38.16	47.34
Norm EPS (INR)	10.66	16.14	26.39	38.16	47.34
FD norm EPS (INR)	10.66	16.14	26.39	38.16	47.34
BVPS (INR)	63.83	77.66	135.48	173.51	220.70
DPS (INR)	0.08	0.05	0.08	0.12	0.15

## Activity (days)

Days receivable		97.5	69.0	61.3	56.5
Days inventory		154.2	156.1	132.9	123.6
Days payable		112.9	92.0	78.6	81.6
Cash cycle	0.0	138.7	133.1	115.6	98.5

Source: Company data, Nomura estimates

# DBL's delivery on asset sales is a key positive

## Dilip Buildcon has announced a deal with Shrem Infraventures for the sale of all BOT assets for a consideration of INR16bn over FY18/19F

Dilip Buildcon, in its filing with the Bombay Stock Exchange (BSE), has announced that the company has entered into an agreement with Shrem Infraventures (unlisted) for the sale of its entire BOT (build operate and transfer) assets for an equity consideration of INR16bn. The details of the transaction, as gathered from the BSE filing and management commentary at today's analyst conference call are as highlighted in Fig. 1.

Based on available details, management expects cash inflows over FY18/FY19F. These amounts should lead to the release of already invested equity of INR6.8bn and also save on INR8.4bn in further equity commitments, especially for the hybrid annuity model (HAM) projects, in our view.

**Fig. 1: DBL's asset sales: Transaction details**

(INR mn)

	Invested	To be invested	Total equity
Operational	4,537.2	125.7	4,662.9
Under construction	2,219.1	959.6	3,178.7
Hybrid Annuity (HAM)	63.6	7,330.8	7,394.4
<b>Total equity at Book</b>	<b>6,819.9</b>	<b>8,416.1</b>	<b>15,236.0</b>
Consideration announced			16,000.0
Implied Book: Bill			<b>1.05</b>
<b>Management Cash Flow expectations</b>			
FY18F			5,500.0
FY19F			10,500.0

Source: Company filing, management commentary

## Dilip's asset sales come at a time when peers are struggling to dispose of assets in an increasingly buyers' market

Dilip Buildcon has achieved asset sales worth INR105bn on an overall value, making this divestment perhaps one of the biggest for some time. This comes at a time when investors are increasingly concerned over the fact that companies with BOT assets were finding it hard to monetise their assets in what is now essentially a buyers' market. The difficulty in asset sales in the industry at large can be attributed to: 1) weak traffic growth over the past few years; and 2) high IRR expectations by investors, which make even selling at book value relatively hard.

## Street was sceptical on DBL's ability to deliver on asset sale

While DBL had stated that it is on the verge of finalising the asset sales the commentary was treated with some amount of scepticism by the Street. However, the finalisation of the asset sale lends credibility to management guidance and commentary.

## DBL's assets are essentially annuity assets, providing cash flow comfort for investors

Since DBL's portfolio is almost entirely made up of annuity and hybrid annuity projects, there is a strong cash flow visibility. This feature leads to relative de-risking of the assets, which had possibly enabled the sale of its assets even in a buyers' market. We have also witnessed that KNR Construction (KNRC IN, Buy) had been able to divest its stake in annuity projects, highlighting that investors are preferring the certainty of cash flows over traffic growth.

## DBL's asset sale will lead to significant deleveraging

Management has commented that INR17bn of debt will be taken off the consolidated balance sheet in FY18F due to the asset sale. Further, since the company had equity commitments earlier for its HAM projects, the potential reduction in consolidated net debt is much higher than INR17bn over the net debt level in end-FY17.

Furthermore, with the asset sale, equity commitment will be reduced and will be limited to INR1920mn as contribution for its 26% residual stake in HAM projects over FY18/19F, in our view. This should lead to sustained reduction in net debt at the standalone level for FY18/19F.

### Lower debt leads to lower interest and guarantee costs

A boost to our EPS estimates should entirely come from lower interest costs as a result of lower standalone net debt and reduced costs on bank/corporate guarantees. Further, we note that there could be further upside to our EPS estimates as we are not factoring in a lower interest rate from a potential credit rating revision due to this asset sale.

### DBL can continue to benefit from operations and maintenance (O&M) revenues for these projects

DBL will likely remain involved in these projects as an O&M contractor for the concessionaire. We estimate that DBL can possibly earn INR2-3bn annually in O&M revenue from these projects for the next 15 years. These O&M revenues are annuity-like and should provide cash flow and margin visibility as well.

DBL management has stated that there is a binding agreement for O&M contracts for the next 15 years and this should lead to INR40bn in revenue. Further, the EBITDA margins for O&M contracts are guided by management to be higher than EPC margins which we estimate at ~18.5%.

We are not building in O&M revenues into our estimates for FY18/19F, and if O&M revenues materialise, we may expect a small improvement in overall EBITDA margins as well.

## Changes to our estimates

We maintain our revenue and EBITDA estimates for FY18/19F as the standalone order book remains unchanged by the sale and we do not factor in the potential O&M revenue and margins, which can provide further upside. The increase in our EPS estimates by 14%/22% is entirely owing to lower financial costs as a result of lower net debt. We highlight that if there is a revision in credit ratings, the financials costs may fall further boosting our EPS estimates even more.

**Fig. 2: Changes in estimates**

(INR mn, except for EPS in INR)

	FY18			FY19		
	Old	New	Diif (%)	Old	New	Diif (%)
Revenue	64,373	64,373	0%	79,088	79,088	0%
EBITDA	11,966	11,966	0%	14,702	14,702	0%
<i>EBITDA margin (%)</i>	<i>18.6%</i>	<i>18.6%</i>	-	<i>18.6%</i>	<i>18.6%</i>	-
PAT	4,569	5,219	14%	5,311	6,474	22%
EPS	33.4	38.2	14%	38.8	47.3	22%

Source: Nomura estimates

## Valuation: Inexpensive at 13.2x FY19F P/E

We value DBL's EPC and BOT businesses separately. We value the EPC business at 15x FY19F EPS of INR47.3 to arrive at INR710/share value for the business. We value the BOT assets on book value of investments which is estimated at INR7/share for FY18F (which is derived from the INR960mn equity contribution in HAM projects expected in FY18F). Hence, we arrive at a target price of INR717, which implies around 15% upside from current price levels.

The construction sector as a whole, we believe, has re-rated significantly over the past two years, led by the government's push on infrastructure. The ongoing build-up of opportunities in this space is likely to keep the multiples elevated, especially for companies which have a proven track record of profitable growth with reasonable leverage. DBL, in our view, given its superior financial profile and proven track record, will continue to trade at least in line with the sector average.

Fig. 3: Dilip Buildcon – Sum-of-the-parts valuation

EPS FY19 - standalone	47.3	INR/share
Target PE 1Y fwd (X)	15.0	
<b>Value of EPC business</b>	<b>710</b>	
Book value of Subs - FY18 (INR mn)	960	INR mn
No of share (mn)	136.8	
<b>BV of subsidiaries/share</b>	<b>7</b>	INR/share
<b>Implied Target price</b>	<b>717</b>	INR/share
CMP	623	
Upside	15.2%	

Source: Nomura estimates

## Peer comparison

Fig. 4: Indian peer comparison

Company	Rating	Ticker	P/E (x)			EV/EBITDA (x)			ROE (%)		
			FY17	FY18F	FY19F	FY17	FY18F	FY19F	FY17	FY18F	FY19F
JMC	NR	JMCP IN	20.5	17.5	14.2	12.3	10.9	9.7	8.5	9.6	10.7
Simplex	NR	SINF IN	28.5	19.2	14.6	8.7	7.6	6.9	5.7	7.9	9.3
NCC Ltd	NR	NJCC IN	19.1	17.7	14.6	9.9	9.1	8.1	7.2	7.6	8.4
Gayatri Projects	NR	GAYP IN	51.7	24.6	17.8	22.7	15.9	13.0	7.4	12.6	16.7
Sadbhav Engg	NR	SADE IN	NA	39.9	15.6	11.7	8.8	7.8	(0.2)	18.1	18.4
KNR Cons	Buy	KNRC IN	18.5	13.9	13.1	14.2	10.6	9.1	19.3	22.1	19.2
ITD Cem	NR	ITCE IN	30.4	18.9	14.9	10.5	9.1	7.7	14.1	18.7	20.1
HCC	NR	HCC IN	NA	30.9	11.3	15.6	15.4	12.8	2.1	4.6	8.9
Ahluwalia											
Contracts	NR	AHLU IN	19.4	17.5	13.9	10.2	9.5	8.0	20.8	19.3	20.0
J Kumar Infra	NR	JKIL IN	13.0	11.2	8.7	6.9	5.9	4.7	8.6	8.9	10.8
Dilip Buildcon	Buy	DBL IN	23.5	16.3	13.2	11.0	8.6	6.7	24.8	24.7	24.0
PNC Infratech	Buy	PNCL IN	17.2	18.1	11.9	16.3	12.0	8.1	14.2	12.0	15.9
			<b>24.2</b>	<b>20.5</b>	<b>13.7</b>	<b>12.5</b>	<b>10.3</b>	<b>8.6</b>	<b>11.0</b>	<b>13.8</b>	<b>15.2</b>

Source: Bloomberg consensus forecasts, Nomura ratings. Note: Based on share prices as of 28 August 2017

Fig. 5: Asia Pacific peers comparison

Company	Rating	Ticker	P/E (x)			EV/EBITDA (x)			ROE (%)		
			FY17	FY18F	FY19F	FY17	FY18F	FY19F	FY17	FY18F	FY19F
<b>Japanese companies</b>											
Taisei	Buy	1801 JT	13.93	12.62	11.77	6.77	6.53	6.24	16.15	16.08	15.22
Obayashi	Buy	1802 JT	10.19	9.15	9.42	7.25	6.83	6.76	15.85	14.77	12.91
Shimizu	Buy	1803 JT	10.03	10.26	9.78	6.62	6.68	6.24	16.72	13.84	12.94
Kajima	Buy	1812 JT	10.73	10.46	10.48	5.56	5.95	5.71	18.86	16.46	14.46
Maeda	Buy	1824 JT	11.27	10.72	9.86	9.03	6.27	5.72	12.10	11.45	11.58
Toda	Neutral	1860 JT	6.02	12.11	10.76	8.19	7.24	6.57	20.70	8.50	8.90
Penta-Ocean Construction	Buy	1893 JT	13.76	10.78	9.82	5.26	4.79	4.30	14.70	16.10	16.50
			<b>10.85</b>	<b>10.87</b>	<b>10.27</b>	<b>6.95</b>	<b>6.33</b>	<b>5.93</b>	<b>16.44</b>	<b>13.89</b>	<b>13.22</b>
<b>Chinese companies</b>											
CRG-H	390 HK	Buy	10.31	9.10	8.24	9.70	9.01	8.30	9.73	9.83	10.12
CRG-A	601390 CH	Reduce	14.73	12.84	11.53	9.75	8.86	8.05	9.84	10.08	10.35
CRCC-H	1186 HK	Buy	8.93	8.10	7.28	7.56	6.87	6.23	11.28	11.28	11.40
CRCC-A	601186 CH	Neutral	10.90	9.81	8.90	7.61	6.99	6.41	11.34	11.46	11.56
CCCC-H	1800 HK	Reduce	9.03	8.05	7.11	10.10	9.33	8.51	11.49	11.71	11.95
CCCC-A	601800 CH	Reduce	13.37	11.83	10.37	10.13	9.24	8.47	11.77	12.27	12.47
CSCI	3311 HK	Neutral	9.19	7.81	6.47	8.91	7.57	6.42	18.93	19.32	19.86
CSCEC	601668 CH	Reduce	8.87	7.85	6.97	7.06	6.32	5.94	16.61	16.43	15.97
			<b>10.53</b>	<b>9.35</b>	<b>8.33</b>	<b>7.47</b>	<b>6.79</b>	<b>6.16</b>	<b>12.68</b>	<b>12.90</b>	<b>13.03</b>
<b>Korean companies</b>											
Hyundai E&C	000720 KS	Buy	8.92	7.57	7.35	3.69	3.50	3.44	8.44	9.09	8.78
Daewoo E&C	047040 KS	NR	5.10	6.04	6.44	4.23	4.57	4.83	24.01	17.63	14.27
			<b>7.01</b>	<b>6.80</b>	<b>6.89</b>	<b>3.96</b>	<b>4.03</b>	<b>4.14</b>	<b>16.23</b>	<b>13.36</b>	<b>11.52</b>

Source: Bloomberg consensus forecasts, Nomura ratings. Note: Based on share prices as of 28 August 2017

## Investment risks

- The revival of competition due to the recent measures initiated to revive financially stressed infrastructure companies: recent government initiatives to revive the infrastructure sector could lead to a revival of the balance sheets of some of the ailing construction companies. With an improvement in their balance sheets, some of these companies may resort to aggressive bidding for projects as in the past, driving down sector returns.
- Further deterioration in working capital and net debt metrics: we expect the overdue receivables from Essel Infra and Topworth to realise gradually by FY19F for DBL. However, a delay or lack of the same could drive down FCF as well as the return ratios.
- A slowdown in public spending on infrastructure/road projects: Over the past few years, both the central and state governments have shown a strong will to invest in the infrastructure across the country, especially roads. While we expect this to continue and even grow further, there is a possibility that as the general elections come closer in May 2019, there could be a shift in the policy focus from infrastructure spending to populist measures, which could lead to a slowdown and hence higher competition for a smaller pie.

# Appendix A-1

## Analyst Certification

We, Amar Kedia and Priyanka Biswas, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Issuer Specific Regulatory Disclosures

The terms "Nomura" and "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries, including Nomura Securities International, Inc. ('NSI') and Instinet, LLC('ILLC'), U. S. registered broker dealers and members of SIPC.

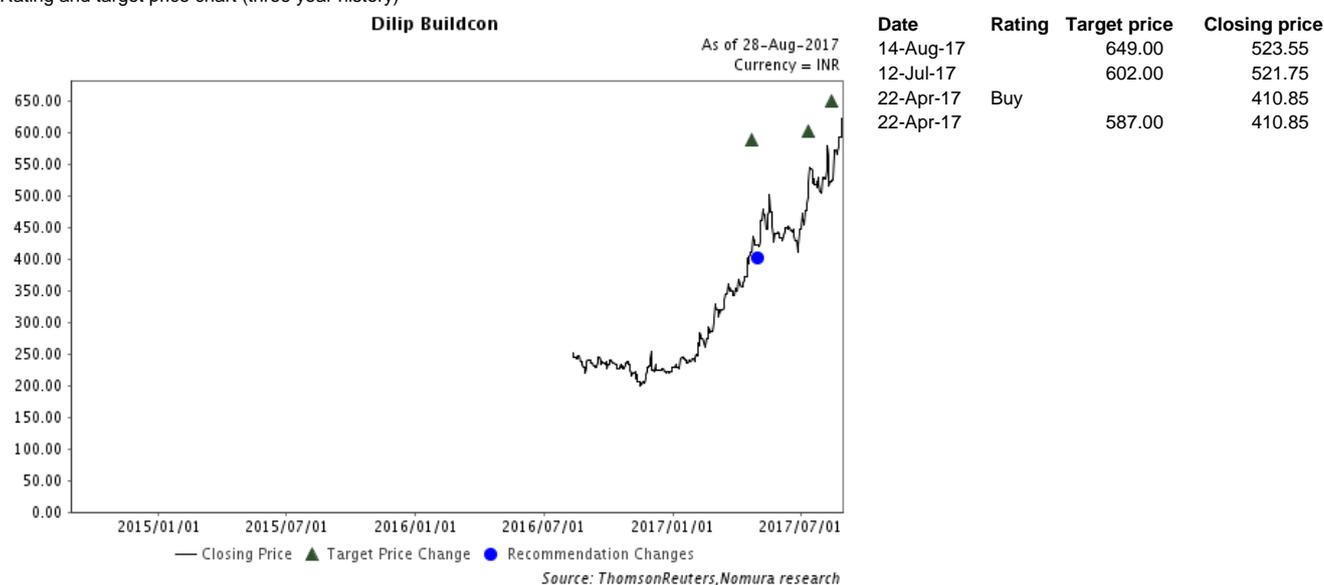
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Dilip Buildcon	DBL IN	INR 622	28-Aug-2017	Buy	N/A	

### Dilip Buildcon (DBL IN)

INR 622 (28-Aug-2017) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value DBL's EPC business at 15x FY19F standalone EPS of INR47.3 and value the residual BOT stake at book value (BV) of FY18F to yield a TP of INR717. The benchmark index for this stock is MSCI India.

**Risks that may impede the achievement of the target price** Increased competition; further deterioration of working capital; and execution/ordering slowdown in the sector.

## Important Disclosures

### Online availability of research and conflict-of-interest disclosures

Nomura Group research is available on [www.nomuranow.com/research](http://www.nomuranow.com/research), Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx> or requested from Nomura Securities International, Inc., or Instinet, LLC on 1-877-865-5752. If you have any difficulties with the website, please email [grpsupport@nomura.com](mailto:grpsupport@nomura.com) for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA rules, may not be associated persons of NSI or ILLC, and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. ("NGFP") Nomura Derivative Products Inc. ("NDPI") and Nomura International plc. ("NIplc") are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

### Distribution of ratings (Nomura Group)

The distribution of all ratings published by Nomura Group Global Equity Research is as follows:

50% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 37% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services\*\* by the Nomura Group.

42% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 51% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group

8% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 8% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.

As at 30 June 2017.

\*The Nomura Group as defined in the Disclaimer section at the end of this report.

\*\* As defined by the EU Market Abuse Regulation

### Distribution of ratings (Instinet, LLC)

The distribution of all ratings published by Instinet, LLC Equity Research is as follows:

54% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

41% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

5% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

### Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

### STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

### SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

### Target Price

A Target Price, if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

### Disclaimers

This publication contains material that has been prepared by the Nomura Group entity identified on page 1 and, if applicable, with the contributions of one or more Nomura Group entities whose employees and their respective affiliations are specified on page 1 or identified elsewhere in the publication. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries including: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Instinet, LLC ('ILLC'); Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at <http://dis.kofia.or.kr>); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; PT Nomura Sekuritas Indonesia ('PTNSI'); Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; NIHK, Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; CIN No: U74140MH2007PTC169116, SEBI

Registration No. for Stock Broking activities : BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034; SEBI Registration No. for Merchant Banking : INM000011419; SEBI Registration No. for Research: INH000001014 and Nlplc, Madrid Branch ('Nlplc, Madrid'). 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under an agreement between CNS and NSL. 'NSFSPL' next to an employee's name on the front page of a research report indicates that the individual is employed by Nomura Structured Finance Services Private Limited to provide assistance to certain Nomura entities under inter-company agreements. The "BDO-NS" (which stands for "BDO Nomura Securities, Inc.") placed next to an analyst's name on the front page of a research report indicates that the analyst is employed by BDO Unibank Inc. ("BDO Unibank") who has been seconded to BDO-NS, to provide research assistance services to NSL under an agreement between BDO Unibank, NSL and BDO-NS. BDO-NS is a Philippines securities dealer, which is a joint venture between BDO Unibank and the Nomura Group.

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) OTHER THAN DISCLOSURES RELATING TO THE NOMURA GROUP, BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Other than disclosures relating to the Nomura Group, the Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by the Nomura Group are hereby excluded and the Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. The Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The Nomura Group does not provide tax advice.

The Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. The Nomura Group companies may also act as market maker or liquidity provider (within the meaning of applicable regulations in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party.

Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

The intellectual property rights and any other rights, in Russell/Nomura Japan Equity Index belong to Nomura Securities Co., Ltd. ("Nomura") and Frank Russell Company ("Russell"). Nomura and Russell do not guarantee accuracy, completeness, reliability, usefulness, marketability, merchantability or fitness of the Index, and do not account for business activities or services that any index user and/or its affiliates undertakes with the use of the Index.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis and quantitative analysis; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. The Nomura Group publishes research product in a number of different ways including the posting of product on the Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

With respect to Fixed Income Research: Recommendations fall into two categories: tactical, which typically last up to three months; or strategic, which typically last from 6-12 months. However, trade recommendations may be reviewed at any time as circumstances change. 'Stop loss' levels for trades are also provided; which, if hit, closes the trade recommendation automatically. Prices and yields shown in recommendations are taken at the time of submission for publication and are based on either indicative Bloomberg, Reuters or Nomura prices and yields at that time. The prices and yields shown are not necessarily those at which the trade recommendation can be implemented.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by Nlplc. Nlplc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Nlplc is a member of the London Stock Exchange. This document does not constitute a personal recommendation within the meaning of applicable

regulations in the UK, or take into account the particular investment objectives, financial situations, or needs of individual investors. This document is intended only for investors who are 'eligible counterparties' or 'professional clients' for the purposes of applicable regulations in the UK, and may not, therefore, be redistributed to persons who are 'retail clients' for such purposes. This document has been approved by NIIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. The entity that prepared this document permits its separately operated affiliates within the Nomura Group to make copies of such documents available to their clients. This document has not been approved for distribution to persons other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia ('Saudi Arabia') or 'professional clients' (as defined by the Dubai Financial Services Authority) in the United Arab Emirates ('UAE') or a 'Market Counterparty' or 'Business Customers' (as defined by the Qatar Financial Centre Regulatory Authority) in the State of Qatar ('Qatar') by Nomura Saudi Arabia, Nlplc or any other member of the Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or in Qatar or to any person other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' located in Saudi Arabia or 'professional clients' in the UAE or a 'Market Counterparty' or 'Business Customers' in Qatar. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are an 'Authorised Person', an 'Exempt Person' or an 'Institution' in Saudi Arabia or that you are a 'professional client' in the UAE or a 'Market Counterparty' or 'Business Customers' in Qatar and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia or Qatar.

Notice to Canadian Investors: This research report is not a personal recommendation and does not take into account the investment objectives, financial situation or particular needs of any particular individual or account. It is made available to you in reliance on NI 31-103, section 8.25. For report with reference of TAIWAN public companies or authored by Taiwan based research analyst:

THIS DOCUMENT IS SOLELY FOR REFERENCE ONLY. You should independently evaluate the investment risks and are solely responsible for your investment decisions. NO PORTION OF THE REPORT MAY BE REPRODUCED OR QUOTED BY THE PRESS OR ANY OTHER PERSON WITHOUT WRITTEN AUTHORIZATION FROM NOMURA GROUP. Pursuant to Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers and/or other applicable laws or regulations in Taiwan, you are prohibited to provide the reports to others (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities in connection with the reports which may involve conflicts of interests. INFORMATION ON SECURITIES / INSTRUMENTS NOT EXECUTABLE BY NOMURA INTERNATIONAL (HONG KONG) LTD., TAIPEI BRANCH IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT BE CONSTRUED AS A RECOMMENDATION OR A SOLICITATION TO TRADE IN SUCH SECURITIES / INSTRUMENTS.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF THE NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

The Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

**Additional information regarding the methodologies or models used in the production of any investment recommendations contained within this document is available upon request by contacting the Research Analysts listed on the front page. Disclosures information is available upon request and disclosure information is available at the Nomura Disclosure web**

**page:** <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>

Copyright © 2017 Nomura International (Hong Kong) Ltd. All rights reserved.