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Dilip Buildcon Limited

Unmatched execution; strong order book to drive growth



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Reco	: BUY
CMP	: INR362
Target Price	: INR464
Potential Return	: 28%

INITIATING COVERAGE

Dilip Buildcon Limited

Unmatched execution; strong orderbook to drive growth

Dilip Buildcon (DBL) is one of the leading road developer and contractor in India with presence across 16 states and has completed 60+ projects. DBL has 24 BOT road projects - 14 operational and 10 under construction. DBL has showcased superior execution capabilities with 47 projects (~70% of value) completed ~150 days (average) ahead of the schedule and winning INR2.5bn early completion bonus in last five years. DBL's order book stands at ~INR182bn as on March'17 (~3.7x FY17e revenues). DBL enjoys superior margins than its peers at 18-20% due to early execution and owning equipment as against a leasing model. DBL owns large fleet of ~8,508 equipments and vehicles (with avg age of fleet at 3.4 years). We expect the Co's revenue and earnings to grow at 19% and 25% CAGR respectively over FY17e-FY19e as its robust order book provides revenue visibility for more than three years. DBL has so far invested INR6.1bn in its BOT portfolio with a residual investment of INR9.2bn to be made over the next 2-3 years. Company is looking to monetize the operational asset and is scouting for financial investors for the under construction projects and future bids. This will be positive for the company as it will lower the equity requirement of the company. With growth prospects for road construction companies remain strong due to the government's continued focus on improving the level of investments in this sector. We initiate coverage on DBL with BUY, we arrive at an SoTP-based target price of INR464. At the cmp of 362, the stock is trading at 9.5x/1.6x FY19 earnings/PBV (ex BOT).

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Market data	
Sensex	: 29,576
Sector	: Infra
Market Cap (INRbn)	: 49.5
Market Cap (USDbn)	: 0.770
O/S Shares (m)	: 136.8
52-wk HI/LO (INR)	: 374/178
Avg Daily Vol ('000)	: 230
Bloomberg	: DBL IN

Source: Bloomberg

Valuation			
	FY17e	FY18e	FY19e
EPS (INR)	21.4	29.0	33.5
P/E(x)	16.9	12.5	10.8
P/BV(x)	2.8	2.3	1.9
EV/EBITDA(x)	7.9	6.6	5.5
Dividend Yield (%)	-	-	-

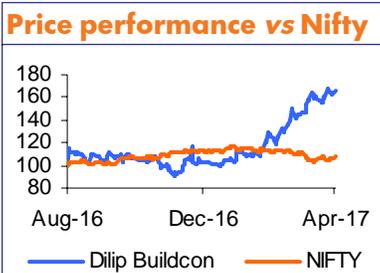
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	13	59	55	-
Relative	11	44	47	-

Source: Bloomberg

Shareholding pattern	
Promoters	: 76%
Public	: 24%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

Strong order backlog gives robust revenue growth visibility

DBL has grown to become one of the leading players in the EPC space with an order backlog of ~INR182bn as on March17, 3.7x TTM revenues. The order backlog has grown from INR26bn at the end of FY12 to the current INR182bn implying a CAGR of 48% over FY12-FY17e. In the current order book, government orders comprise ~98%, unlike in the past where majority share was from private sector. This has also helped in the working capital as in government projects payments are better. DBL has won fresh orders of INR122bn over the last 12 months which is quite significant.

Superior execution leads to higher margins

As of Feb'17, with a Gross Block of ~INR25bn and over 24,000 employees on payrolls, DBL has completed ~60 EPC projects and 13 BOT projects. Of this, 47 (~70% of value) projects were completed average 150 days ahead of the schedule. This is mainly due to ownership of equipment which helps them mobilize resources faster and is not dependent on outsourcing. Over FY12-FY16 DBL has achieved revenue CAGR of 36% which is largely due to strategy of project clustering with focus on mid size projects which helps in tackling local issues better. In the last five years, the Co has earned an early completion bonus of ~INR2.5bn constituting ~23% of FY12-9MFY17 cumulative net profit. DBL also earns superior EBITDA margins at 18-20% vs its peers mainly due to 1) early completion bonuses, 2) cost savings on early completion, 3) own fleet of equipments, 4) centralised procurement of raw material and backward integration for aggregates. EBITDA margins for FY16 and 9MFY17 stood at 19.8% and 18.9% respectively which we believe can continue.

Asset monetization to fund pending equity requirement

DBL has a portfolio of 24 BOT assets -14 operational and 10 under construction. The company has invested INR6.1bn in the BOT portfolio with a residual investment of ~INR9.3bn to be made over the next 2-3 years. It is looking to monetize the operational assets and also tie up with a financial investor for funding the equity requirement in under construction projects. This will be positive for the company as it will lower its equity requirement.

Outlook and Valuation

With robust order book in place and superior execution record, we expect DBL to grow at 19% and 25% Revenue and earnings CAGR over FY17e-19e. Further, growth prospects for road construction companies remain strong due to the government's continued focus on improving the level of investments in this sector. We Initiate coverage on DBL with BUY, we arrive at a SoTP-based target price of INR464.

Valuation

Particulars	Method	Per Share Value
EPC Segment	Assigned PER of 12.5x FY19e	418
BOT Segment	1x Equity Invested	45

Source: Company, Antique

Completed BOT Projects (INRm)

Project	Type	Awarding authority	Length (km)	Project Cost	Equity Invested
Betul SarniJunnardeo-Parasia	Annuity + Toll	MPRDC	124	3,240	810
Nadiad-Modasa	Annuity	R&BD GoG	108	2,081	572
Mundi-Sanawad	Annuity + Toll	MPRDC	68	1,410	375
Jaora-Piploda	Annuity	MPRDC	88	1,344	410
Silwani-Sultanganj	Annuity + Toll	MPRDC	76	1,287	362
Bankhlafatta-Dogawa	Annuity	MPRDC	65	1,158	317
Uchera-Nagod	Annuity + Toll	MPRDC	56	1,140	358
Sardarpur-Badnawar	Annuity + Toll	MPRDC	43	977	268
Ashoknagar-Vidisha	Annuity + Toll	MPRDC	36	847	227
Sitamau-Suwasara	Annuity + Toll	MPRDC	35	604	182
Mandsaur-Sitamau	Toll	MPRDC	44	349	137
Tikamgarh Jatara-PaleraNowgaon	Annuity + Toll	MPRDC	76	1,300	330
Hata -Dargawon	Annuity + Toll	MPRDC	64	1011	271
Patan-Rehli	Annuity + Toll	MPRDC	87	2618	668

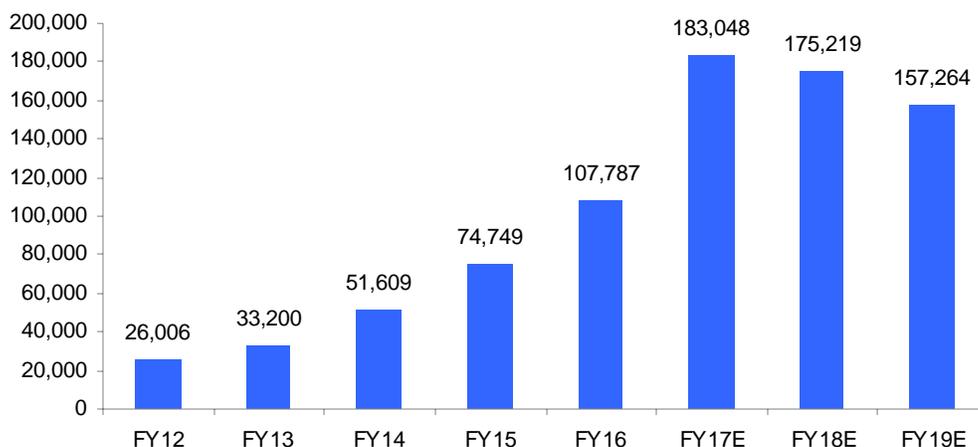
Source: Company, Antique

Investment rationale

Strong order backlog gives healthy revenue visibility

DBL has grown to become one of the leading players in the EPC space with an order backlog of ~INR182bn as on March17, 3.7x TTM revenues. The order backlog has grown from INR26bn at the end of FY12 to the current INR182bn implying a CAGR of 48% over FY12-FY17. In the current order book government orders comprise ~98%, unlike in the past where company used to have majority of its order from the private clients (In FY12, 80% of order inflow was from private clients). DBL has successfully shifted focus to executing government projects where collections are better compared to private sector clients. DBL has won fresh orders of INR122bn over the last 12 months which is higher than its peer showing its capability of winning sizeable orders.

Order book (INRmn)

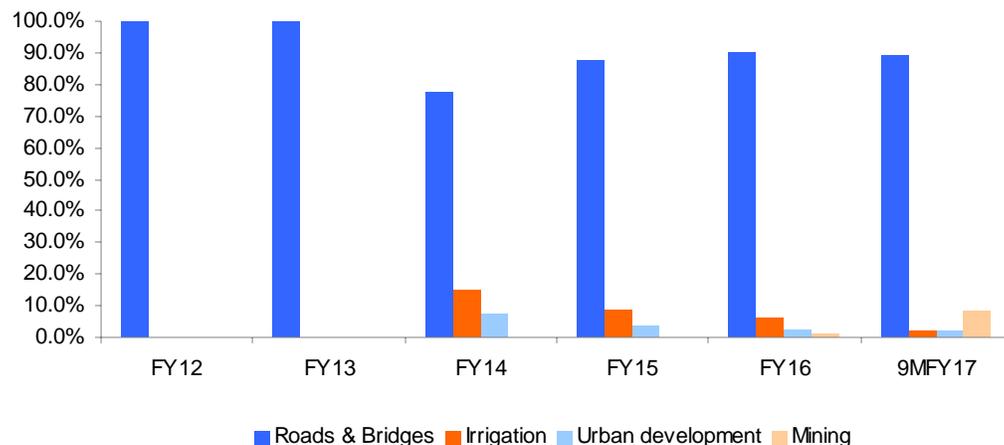


Source: Company, Antique

Order book break-up

As on Dec'16, roads constitute 89% of the order book followed by 8% mining and 2% each of urban development and Irrigation. We believe although road segment will continue to form the major share of the order book, the company is looking to diversify into other segments. DBL has increased its footprint in mining by winning orders of INR23.6bn in the last three months. Apart from this, company has also been declared L1 in the MDO tender of Tubed coal block (mineable reserves of 130mt) of Damodar Valley Corporation. DBL is also scouting for opportunities in segments like Metro and airport projects (civil).

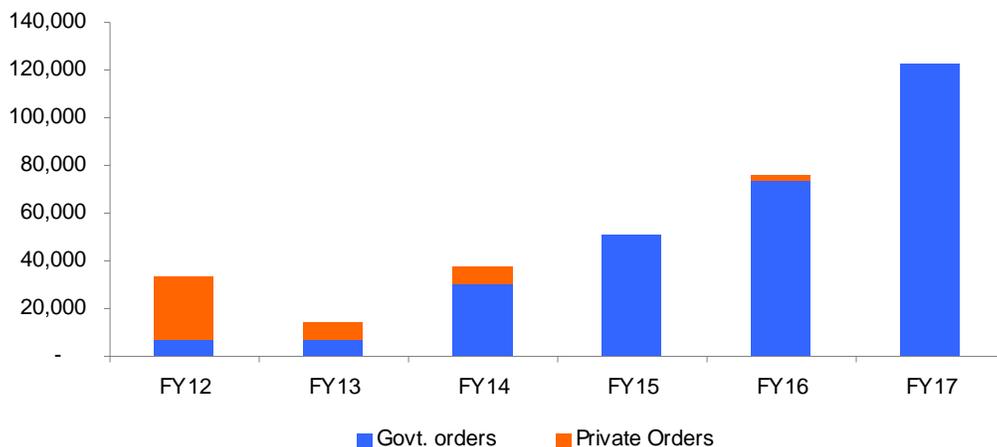
Order book break-up



Source: Company, Antique

In the last twelve months DBL has won new orders of ~INR122bn, of which INR68bn is in the last three months. With these wins, DBL has shown its capability of winning large orders and has a revenue visibility of ~3.7 years. We believe this orderbook will give comfort to company to incrementally bid for selective projects with better margins. On a conservative basis we expect DBL to win new orders of INR50bn each in FY18 and FY19.

Robust Order Inflow (INRm)

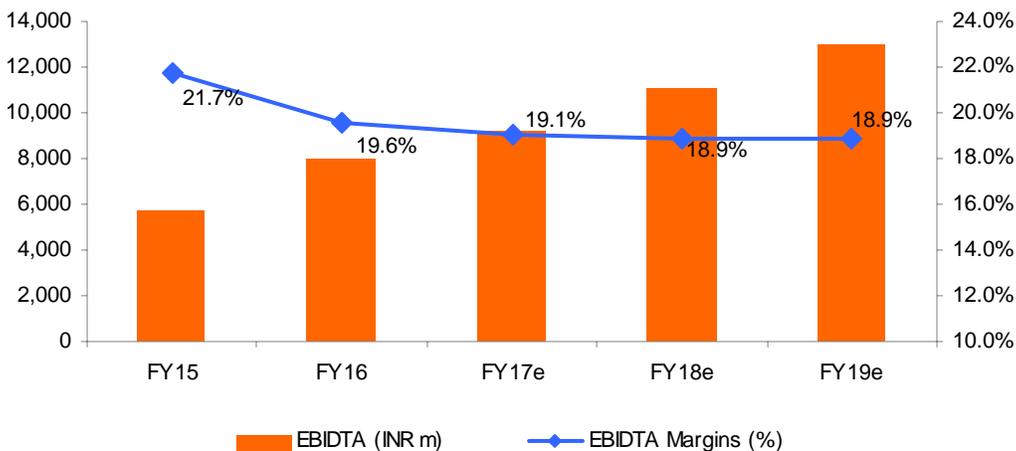


Source: Company, Antique

Superior margins vs peers; sustenance is the key

DBL has superior operating margins at 18-20% as against its peers in the EPC space. The higher margins can be attributed to early completion bonus, cost savings due to early completion, owned fleet of equipment and negligible sub-contracting, centralised procurement of raw material resulting in cost saving. It has a higher depreciation and interest expense vs its peers as it owns the equipment. Between FY12-FY17, DBL incurred a cumulative capex of ~INR23bn, which led to a 4x increase in the gross block over the same period to ~INR25bn in FY17. As per the Co, the current fleet can generate peak revenue of ~INR80bn vs. INR50bn currently. Hence, it plans to limit its capex to INR1bn vs. ~INR5.6bn pa incurred in FY17. EBITDA margins for FY16 and 9MFY17 stood at 19.8% and 18.9% respectively. We expect that the Co will be able to maintain margins at 18.9% for FY18 and FY19

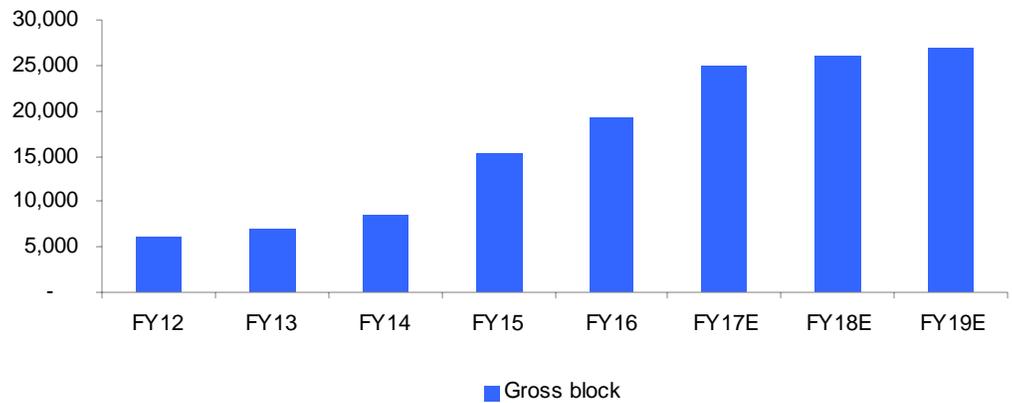
Best in class margins



Source: Company, Antique

As mentioned earlier own fleet of equipment and zero subcontracting aids in early completion of the projects which not leads to cost savings but also early completion bonus. In order to maintain the high revenue growth of 32.3% CAGR over FY12-FY17e DBL's gross block also rose from INR6bn in FY12 to ~INR25bn in FY17. However, management has guided for a capex of only INR1bn each in FY18 and FY19 as significant capex of ~INR5.6bn was already done in FY17. We believe the company would now be looking to sweat its assets to full potential before going for any major capex.

Concludes Major capex (INRm)



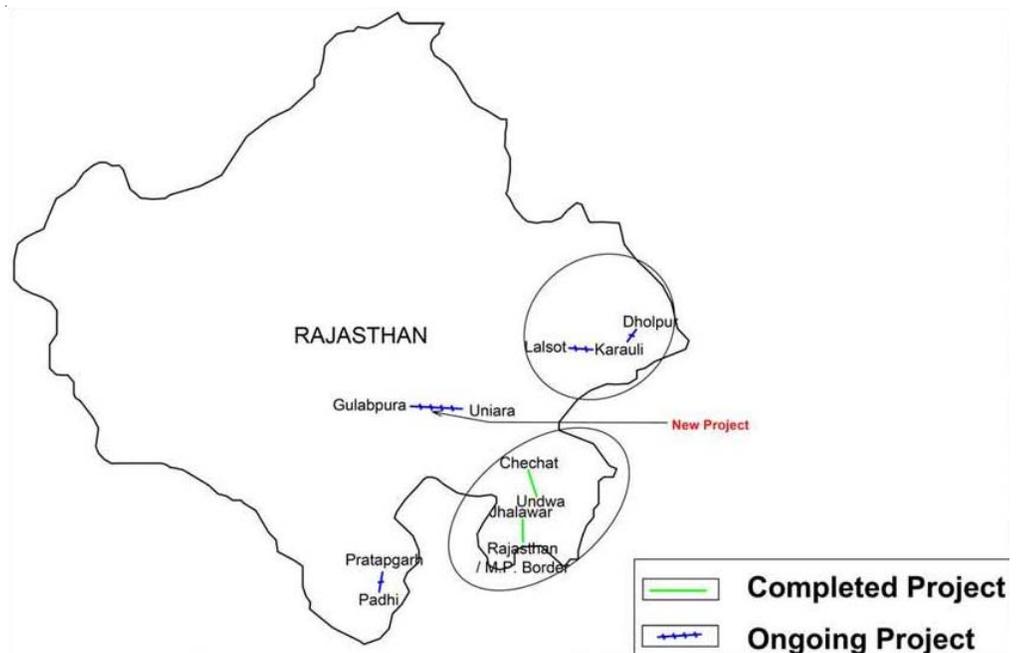
Source: Company, Antique

Superior execution remains the key

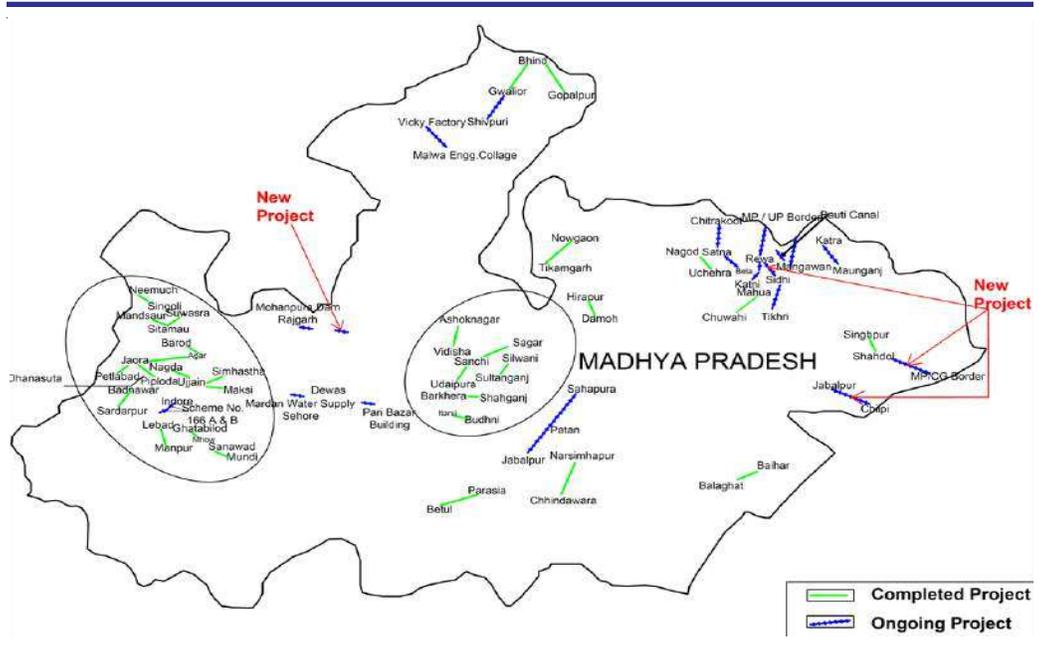
As of Feb '17, with a Gross Block of ~INR25bn and over 24,000 employees on payrolls, DBL has completed ~60 EPC projects and 13 BOT projects. Of this, 47 (~70% of value) projects were completed average 150 days ahead of the scheduled ~700 days. Over FY12-FY16 DBL has achieved a revenue CAGR of 36% which is largely due to strategy of project clustering with focus on mid size projects which helps in tackling local issues better. In the last four years, the Co has earned an early completion bonus of ~INR2.5bn constituting ~23% of FY12-9MFY17 cumulative net profit.

Cluster approach ensures efficiency

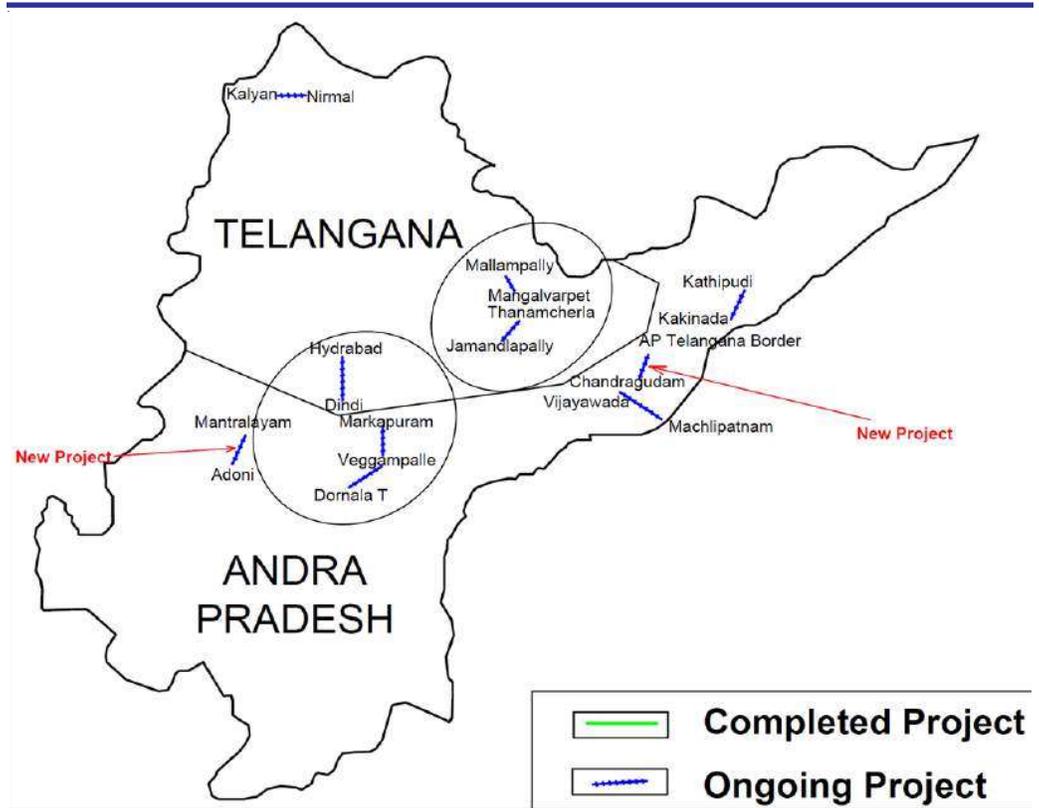
Through the cluster approach the company rotates the manpower, equipment and materials already in place at nearby work sites resulting in speedier execution and higher margins. Apart from enabling savings on mobilization costs, the key benefit of clustering projects for execution is the understanding of the local working environment, which is critical for timely execution of projects. The following charts illustrates DBL's focus on project clustering in Madhya Pradesh, Andhra Pradesh, Telangana and Rajasthan.



Source: Company, Antique



Source: Company, Antique



Source: Company, Antique

Major Ongoing EPC projects

Company is currently working on more than 40 projects across India. Some of the major ongoing projects are as under:-

Major ongoing projects

Project Name	Completion date	Project type	Contract Price (INRm)	Outstanding Order Value (INR mn)	Appointment Date
Overburden Khairagura OCP, (Telangana)	November-19	Mining	9,736	9,494	September-16
Vijayawada-Machilipatnam	January-18	Road	7,407	7,407	January-16
Mahulia-Baharagora	February-18	Road	6,741	6,741	February-16
Ghaghra Bridge to Varanasi	November-18	Road	6,743	6,512	March-15
Amritsar-Taran-taran-Harikesection	September-17	Road	5,580	4,797	September-15
Goa Zuari Cable-Stayed Bridge	February-19	Bridge	5,454	5,454	February-16
Mohanpuramajor multipurpose project	March-18	Irrigation	4,159	4,159	March-14

Source: Company, Antique

DBL's strong focus on timely execution of EPC road projects has resulted in consistent early completion bonus. Over the last 5 years, DBL has received bonus ~ INR2.5bn, amounting to ~23% of FY12-9MFY17 profit.

Following table lists out the projects where the company has received bonus (INRm)

Bonus Income	9MFY17	FY16	FY15	FY14	FY13
Jaora sailana tollways ltd	-	-	271	-	-
Ucchera nagod tollways ltd	-	-	86	-	-
Ashok nagar vidisha tollways ltd	-	-	128	-	-
Mundi sanawad vidisha tollways ltd	-	-	-	137	-
Bankhla fata dogawa tollways ltd	-	-	3	272	-
Nadiad modasa tollways ltd	-	-	1	176	-
Sardarpur badnawar tollways ltd.	-	-	-	-	142
Silwani sultanganj tollwaus ltd.	-	-	-	-	173
Sitamau suwasra tollways ltd.	-	-	-	-	80
Betul sarni tollways limited	-	246	-	-	-
Tikamangarh nogawao tollways ltd	-	211	-	-	-
Total bonus from SPV's		457	483	585	394
Pachore sujapur astha kannod road	-	-	-	-	-
Lebad manpur	-	-	-	-	10
Badwani -palsood	-	-	-	-	50
Gwalior-bhind	-	-	-	-	80
Jhalawar	-	45	-	-	-
Mangalwarpet mallampally	-	1	-	-	-
Hyderabad to dindi	-	39	-	-	-
Thanamacherla to jamandlapalli	-	22	-	-	-
Ujjain maks	-	14	-	-	-
Mahua-chuwahi	-	22	-	-	-
Jarwal to Bahraich	78	-	-	-	-
Rewa Sidhi	78	-	-	-	-
Sidhi Thikri	72	-	-	-	-
Total bonus from other than SPV	229	142	-	-	140
TOTAL	229	599	483	585	534

Source: Company, Antique

Asset Monetization to fund future equity requirement

DBL has a portfolio of 24 BOT assets -14 operational and 10 under construction. As on date the company has invested INR6.2bn in the BOT portfolio with a residual investment of ~INR9.2bn to be made over the next 2-3 years. The Company is looking to monetize the operational assets tie up with a financial investor for funding the equity requirement in under construction projects. This will be positive for the company as it will lower the equity requirement.

As the NHAI's focus is shifting towards the Hybrid Annuity Model (HAM) model from EPC, DBL's strategy is to bid for these projects with focus on the EPC work. Once the project gets operational the company will divest its stake and the proceeds will be utilised to meet equity requirement for upcoming HAM projects. Recently DBL has signed an MOU with Shrem Infraventure Pvt Ltd who will invest 49% of equity (~INR420m) in the Tuljapur-Ausa SPV, wherein company will hold the remaining 51% stake. Further, on completion of two years from the COD of the project, the investor will acquire 100% stake of the SPV and the project will be taken over by the investor. DBL has kept a threshold of ~16% IRR for determining the buyback value.

Completed BOT Projects (INRm)

Project	Project Cost	Type	Length (km)	Awarding authority	Annual annuity	COD	Concession period	Equity Invested
Betul SarniJunnardeo-Parasia	3,240	Annuity + Toll	124	MPRDC	310	May-15	15	810
Nadiad-Modasa	2,081	Annuity	108	R&BD GoG	349	Dec-13	14	572
Mundi-Sanawad	1,410	Annuity + Toll	68	MPRDC	166	May-13	15	375
Jaora-Piploda	1,344	Annuity	88	MPRDC	241	May-14	15	410
Silwani-Sultanganj	1,287	Annuity + Toll	76	MPRDC	190	Mar-13	15	362
Bankhlafatta-Dogawa	1,158	Annuity	65	MPRDC	198	Mar-14	15	317
Uchera-Nagod	1,140	Annuity + Toll	56	MPRDC	169	May-14	15	358
Sardarpur-Badnawar	977	Annuity + Toll	43	MPRDC	94	Jun-12	15	268
Ashoknagar-Vidisha	847	Annuity + Toll	36	MPRDC	101	Jul-14	15	227
Sitama-Suwasara	604	Annuity + Toll	35	MPRDC	74	Mar-13	15	182
Mandsaur-Sitama	349	Toll	44	MPRDC	-	Feb-09	25	137
Tikamgarh Jatara-PaleraNowgaon	1,300	Annuity + Toll	76	MPRDC	178	May-15	15	330
Hata Dargawon	1011	Annuity + toll	64	MPRDC	140	Mar-17	15	271
Patan-Rehli	2618	Annuity + Toll	87	MPRDC	353	Mar-17	15	668

Source: Company, Antique

Under Construction Projects (INRm)

Project	Project Cost	Type	Length (km)	Awarding authority	Annual annuity	Concession period
Guna-Biora	7,150	Toll	108	NHAI	NA	26
Mundargi-Hadagali-Harpanahalli	1,571	Annuity	88	KRDCL	355	10
Hassan-Ramanathpura-Periyapatna	2,204	Annuity	76	KRDCL	526	10
Hirekerur-Ranibennur	1,742	Annuity	65	KRDCL	392	10
Lucknow - Sultanpur	20,160	HAM	123.2	NHAI	-	18
Kalmath-Zarap	9,140	HAM	43	MORTH	-	17
Tuljapur -Ausa	9,110	HAM	56	NHAI	-	17
Mahagaon to Yavatmal section	11,606	HAM	80	NHAI	-	17.5
Yavatmal to Wardha section	10,433	HAM	65	NHAI	-	17.5
Wardha-Butibori Section	10,655	HAM	59	NHAI	-	17.5

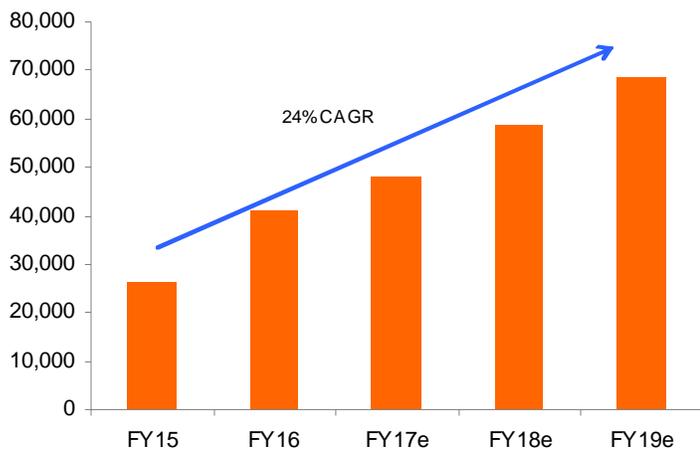
Source: Company, Antique

Key Risks

- While DBL has excellent execution skills, potential entry in new segments and geographies exposes it to execution risk. Moreover, the average size of projects is increasing. Completion of such projects within the stipulated time and cost will be paramount to maintain profitability.
- DBL owns a large fleet of equipment (gross block of ~INR 25bn) and has a large number of employees (~24,000), resulting in increased fixed costs. In the event of any slowdown in Govt ordering or failure to win new orders DBL may not be able to utilize its fleet to maximum and hence have an adverse impact on operations.
- Failure to monetize its BOT assets may put pressure on equity funding for the future BOT projects. Further, it may also lead to increase in the borrowings.
- At present, DBL's exposure to private clients is to the tune of Rs 3.5bn, in case there is delay in the collection of receivables from private clients it will impact the working capital.

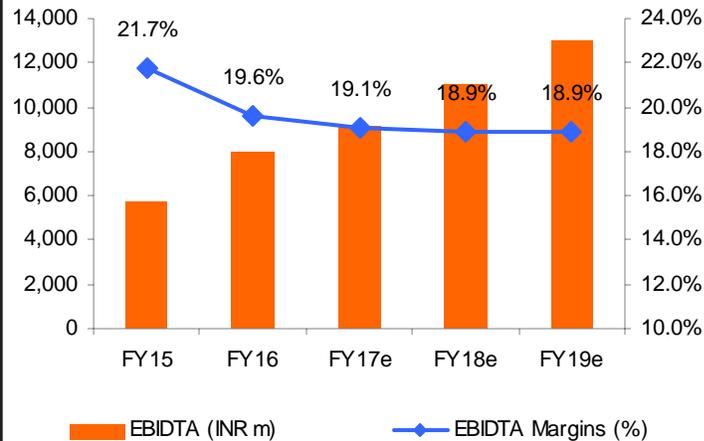
Financial Analysis

Revenue CAGR of 27% over FY15-FY19e



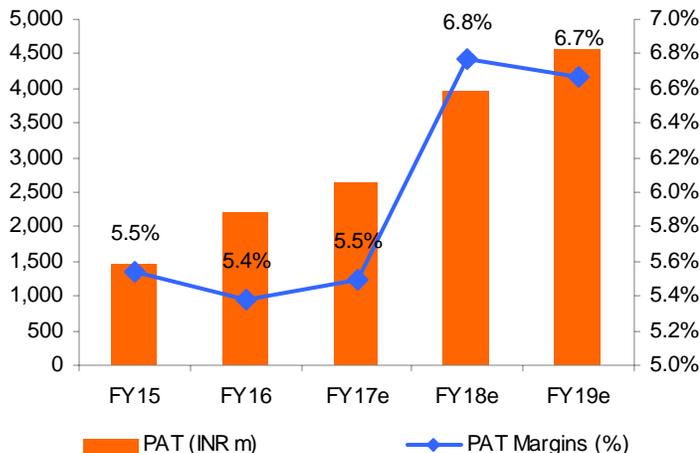
Source: Company, Antique

EBITDA CAGR of 23% over FY15-FY19e



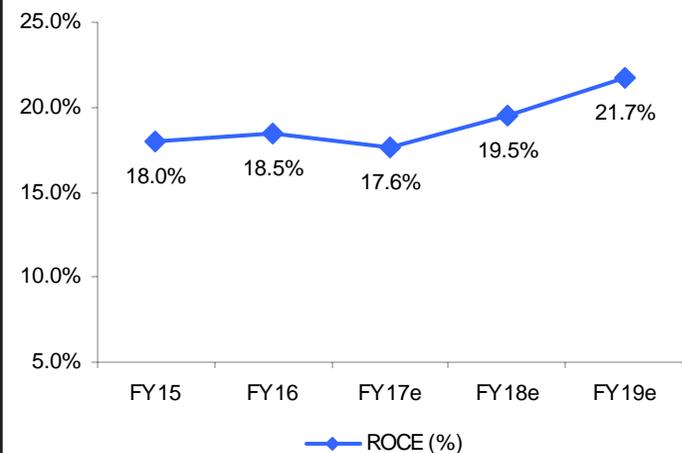
Source: Company, Antique

PAT CAGR of 33% over FY15-FY19e



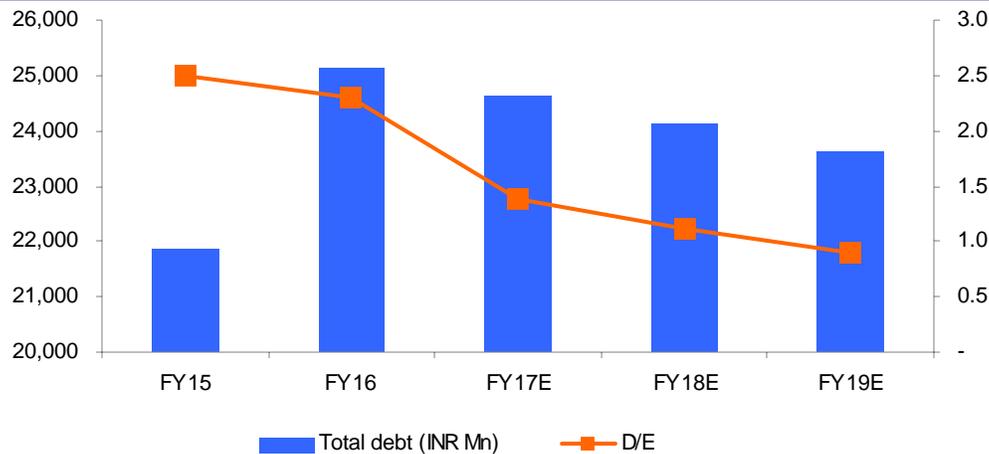
Source: Company, Antique

ROCE to improve on back of asset sweating



Source: Company, Antique

D/E to ease over FY17-FY19e



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Net Revenue	26,301	40,853	48,139	58,580	68,705
Op. Expenses	(20,586)	(32,861)	(38,954)	(47,536)	(55,723)
EBITDA	5,716	7,992	9,185	11,044	12,982
Depreciation	(1,179)	(1,835)	(2,260)	(2,407)	(2,512)
EBIT	4,537	6,158	6,925	8,637	10,470
Other income		154	140	147	150
Interest Exp.	(2,587)	(3,805)	(4,062)	(3,944)	(3,887)
Reported PBT	1,949	2,507	3,003	4,840	6,732
Tax	(491)	(308)	(360)	(871)	(2,154)
Reported PAT	1,458	2,199	2,643	3,969	4,578
Extra Ordinary Items -gain/(loss)	-	-	(278)	-	-
Net Profit	1,458	2,199	2,921	3,969	4,578
Adjusted PAT	1,458	2,199	2,921	3,969	4,578
Adjusted EPS (INR)	10.7	16.1	21.4	29.0	33.5

Balance sheet (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Share Capital	1,171	1,171	1,368	1,368	1,368
Reserves & Surplus	7,558	9,791	16,356	20,325	24,903
Networth	8,730	10,962	17,724	21,693	26,271
Debt	21,870	25,138	24,638	24,138	23,638
Net deferred Tax liabilities	707	965	970	970	970
Capital Employed	31,307	37,066	43,332	46,801	50,879
Gross Fixed Assets	15,298	19,424	22,424	23,424	24,424
Accumulated Depreciation	3,408	5,220	7,479	9,886	12,398
Net Fixed Assets	11,890	14,204	14,944	13,537	12,025
Investments	4,252	3,785	6,285	8,785	11,285
Non Current Investments	4,252	3,785	6,285	8,785	11,285
Current Assets, Loans & Adv.	29,409	35,344	42,657	49,615	57,034
Inventory	9,476	15,803	19,475	22,181	26,065
Debtors	12,636	11,919	14,282	17,428	19,549
Cash & Bank balance	2,342	1,476	1,760	1,291	1,180
Loans & advances and others	4,955	6,145	7,141	8,714	10,240
Current Liabilities & Prov.	14,245	16,267	20,554	25,136	29,464
Liabilities	14,101	16,005	20,279	24,847	29,161
Provisions	143	262	275	289	303
Net Current Assets	15,165	19,077	22,103	24,479	27,569
Application of Funds	31,307	37,066	43,332	46,801	50,879

Per share data

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
No. of shares (m)	137	137	137	137	137
Diluted no. of shares (m)	137	137	137	137	137
BVPS (INR)	63.83	80.15	129.59	158.61	192.08
CEPS (INR)	19.28	29.49	35.85	46.62	51.84

Margins (%)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
EBITDA Margin(%)	21.7	19.6	19.1	18.9	18.9
EBIT Margin(%)	17.2	15.1	14.4	14.7	15.2
PAT Margin(%)	5.54	5.36	6.05	6.76	6.65

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
PBT	1,949	2,507	3,003	4,840	6,732
Depreciation & amortisation	1,179	1,835	2,260	2,407	2,512
Interest expense	2,587	3,805	4,062	3,944	3,887
(Inc)/Dec in working capital	(2,377)	(94)	210	675	(619)
Tax paid	(52)	(50)	(355)	(871)	(2,154)
Less: Interest/Dividend Income Received	-	(154)	(140)	(147)	(150)
CF from operating activities	3,287	7,848	9,040	10,848	10,209
Capital expenditure	(6,657)	(4,126)	(3,000)	(1,000)	(1,000)
Inc/(Dec) in investments	(1,238)	467	(2,500)	(2,500)	(2,500)
Add: Interest/Dividend Income Received	-	154	140	147	150
CF from investing activities	(7,895)	(3,505)	(5,360)	(3,353)	(3,350)
Inc/(Dec) in share capital	579	(0)	196	-	-
Inc/(Dec) in debt	10,239	3,269	(500)	(500)	(500)
Dividend Paid	(12)	(7)	(10)	-	-
Others	(4,525)	(8,471)	(3,082)	(7,463)	(6,470)
CF from financing activities	6,281	(5,209)	(3,396)	(7,963)	(6,970)
Net cash flow	1,674	(866)	284	(469)	(111)
Opening balance	668	2,342	1,476	1,760	1,291
Closing balance	2,342	1,476	1,760	1,291	1,180

Growth indicators (%)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Revenue(%)	13.3	55.3	17.8	21.7	17.3
EBITDA(%)	19.9	39.8	14.9	20.2	17.5
Adj PAT(%)	-25.0	50.8	32.9	35.9	15.4
Adj EPS(%)	82.3	50.8	32.9	35.9	15.4

Valuation (x)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
P/E	34.0	22.5	16.9	12.5	10.8
P/BV	5.7	4.5	2.8	2.3	1.9
EV/EBITDA	12.08	9.16	7.88	6.55	5.54
EV/Sales	2.62	1.79	1.50	1.24	1.05

Financial ratios

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
RoE (%)	18.21	22.33	20.37	20.14	19.1
RoCE (%)	17.97	18.46	17.58	19.49	21.74
Asset turnover (x)	2.20	2.35	2.30	2.56	2.87
Net Debt/Equity (x)	2.24	2.16	1.29	1.05	0.85
EBIT/Interest (x)	1.75	1.66	1.74	2.23	2.73

Source: Company Antique

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