

DILIP BUILDCON

ENGINEERING

BUY

Target Price: Rs 765

Sale of BOT assets – right step forward

Dilip Buildcon (DBL) has signed an agreement with Shrem Group for sale of its entire BOT portfolio (14 operational, 4 under construction projects and 6 Hybrid Annuity Model (HAM) projects) at an equity value of Rs 16 bn and enterprise value of ~Rs 105 bn. DBL has invested (equity and sub-debt) Rs 6.8 bn in operational and under construction assets, while an amount of Rs 8.4 bn is yet to be invested. The transaction values BOT portfolio at ~1.05x book value.

The transaction is expected to be completed in tranches, wherein DBL would receive ~Rs 5.5 bn in FY18 and remaining in FY19, which would be utilized in strengthening the balance sheet (reduction of debt). With the monetization of BOT assets, DBL has **delivered on its strategy of being a focused EPC player** in infrastructure space.

CMP : Rs 622
 Potential Upside : 23%

MARKET DATA

No. of Shares : 137 mn
 Free Float : 24%
 Market Cap : Rs 85 bn
 52-week High / Low : Rs 627 / Rs 179
 Avg. Daily vol. (1mth) : 395,173 shares
 Bloomberg Code : DBL IB Equity
 Promoters Holding : 76%
 FII / DII : 11% / 4%

Paving the way for creation of EPC behemoth: DBL was constrained in its growth due to equity infusion required in HAM projects and we believe this sale of operational and under construction BOT assets would allow DBL to participate in new HAM projects worth Rs 150-200 bn in FY18. Strong order backlog of Rs 156 bn (at the end of Q1FY18) and participation in new HAM projects would ensure **sustained topline growth of 20-25% over next 4-5 years**. Note: NHA is expected to award projects worth ~Rs 750 bn during the balance of FY18 with higher share (~70%) of HAM projects. Moreover, competition in HAM projects has eased with 4-5 bidders in recent projects vs. 8-9 bidders in H2FY17. **Easing competition would ensure sustained or better margin** for DBL going forward.

Employing capital in right business: Return of Capital employed in EPC business is superior to capital intensive BOT business. Consolidated RoCE of DBL would rise to ~28% (in FY19) after sale of BOT portfolio from ~18% (in FY17).

Increase estimates, TP; maintain BUY: We increase our FY18/19 EPS to Rs 42/Rs 51 (vs. Rs 38/Rs 45 earlier) given the strong revenue growth visibility. We also raise our target multiple to 15x (12x earlier) to account for improved growth outlook and RoCE of the business. Our revised TP stands at Rs 765 (15x FY19E EPS) vs. Rs 610 earlier.

Financial summary (Standalone)

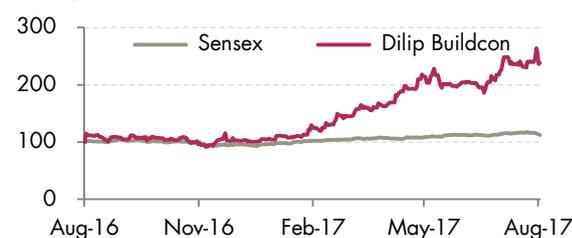
| Y/E March | FY16 | FY17 | FY18E | FY19E |
|-----------------|--------|--------|--------|--------|
| Sales (Rs mn) | 40,176 | 50,754 | 64,705 | 79,674 |
| EBITDA (Rs mn) | 7,992 | 9,923 | 12,767 | 15,288 |
| Adj PAT (Rs mn) | 2,199 | 3,609 | 5,748 | 6,971 |
| Con. EPS* (Rs) | - | - | 30.2 | 38.3 |
| EPS (Rs) | 18.8 | 26.4 | 42.0 | 51.0 |
| Change YOY (%) | 50.8 | 40.6 | 59.3 | 21.3 |
| P/E (x) | 31.6 | 21.7 | 13.6 | 11.2 |
| RoE (%) | 22.3 | 24.5 | 27.6 | 27.3 |
| EV/E (x) | 13.6 | 11.0 | 8.0 | 6.5 |
| DPS (Rs) | - | - | 8.4 | 15.3 |

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers (Rs bn)

| | FY17 | FY18E | FY19E |
|----------------|-------|-------|-------|
| Order inflow | 118 | 120 | 150 |
| Order backlog | 175 | 231 | 301 |
| Revenue growth | 25% | 27% | 23% |
| Margin | 19.5% | 19.7% | 19.2% |

Price performance



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Financial summary (Standalone)

Profit & loss (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 40,176 | 50,754 | 64,705 | 79,674 |
| Other operating income | 677 | 222 | 150 | 150 |
| Total operating income | 40,853 | 50,976 | 64,855 | 79,824 |
| Cost of goods sold | (30,170) | (37,930) | (47,882) | (59,357) |
| Gross profit | 10,683 | 13,047 | 16,973 | 20,467 |
| <i>Gross margin (%)</i> | <i>26.6</i> | <i>25.7</i> | <i>26.2</i> | <i>25.7</i> |
| Total operating expenses | (2,691) | (3,124) | (4,206) | (5,179) |
| EBITDA | 7,992 | 9,923 | 12,767 | 15,288 |
| <i>EBITDA margin (%)</i> | <i>19.9</i> | <i>19.6</i> | <i>19.7</i> | <i>19.2</i> |
| Depreciation | (1,835) | (2,274) | (2,557) | (2,807) |
| EBIT | 6,158 | 7,649 | 10,211 | 12,481 |
| Net interest | (3,805) | (4,162) | (3,944) | (3,313) |
| Other income | 154 | 114 | 120 | 126 |
| Profit before tax | 2,507 | 3,601 | 6,387 | 9,295 |
| Total taxation | (308) | 9 | (639) | (2,324) |
| <i>Tax rate (%)</i> | <i>12.3</i> | <i>(0.2)</i> | <i>10.0</i> | <i>25.0</i> |
| Profit after tax | 2,199 | 3,609 | 5,748 | 6,971 |
| Minorities | - | - | - | - |
| Profit/ Loss associate co(s) | - | - | - | - |
| Adjusted net profit | 2,199 | 3,609 | 5,748 | 6,971 |
| <i>Adj. PAT margin (%)</i> | <i>5.5</i> | <i>7.1</i> | <i>8.9</i> | <i>8.7</i> |
| Net non-recurring items | - | - | - | - |
| Reported net profit | 2,199 | 3,609 | 5,748 | 6,971 |

Balance sheet (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Paid-up capital | 1,171 | 1,368 | 1,368 | 1,368 |
| Reserves & surplus | 9,791 | 17,161 | 21,760 | 26,639 |
| Net worth | 10,962 | 18,529 | 23,127 | 28,007 |
| Borrowing | 25,138 | 25,626 | 20,626 | 15,626 |
| Other non-current liabilities | 965 | 759 | 759 | 759 |
| Total liabilities | 37,066 | 44,914 | 44,512 | 44,392 |
| Gross fixed assets | 19,424 | 24,319 | 26,819 | 29,319 |
| Less: Depreciation | (5,220) | (7,494) | (10,051) | (12,857) |
| Net fixed assets | 14,204 | 16,825 | 16,768 | 16,461 |
| Add: Capital WIP | - | - | - | - |
| Total fixed assets | 14,204 | 16,825 | 16,768 | 16,461 |
| Total Investment | 3,785 | 6,816 | 1,316 | - |
| Inventory | 15,803 | 16,639 | 19,500 | 21,828 |
| Debtors | 11,919 | 10,165 | 12,409 | 14,188 |
| Cash & bank | 1,476 | 1,137 | 3,285 | 1,928 |
| Loans & advances | 5,565 | 3,157 | 3,545 | 4,366 |
| Current liabilities | 16,267 | 21,579 | 22,947 | 25,293 |
| Net current assets | 19,077 | 21,273 | 26,428 | 27,931 |
| Other non-current assets | - | - | - | - |
| Total assets | 37,066 | 44,914 | 44,513 | 44,392 |

Source: Company, Axis Capital

Cash flow (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|----------------|-----------------|----------------|----------------|
| Profit before tax | 2,507 | 3,601 | 6,387 | 9,295 |
| Depreciation & Amortisation | 1,835 | 2,274 | 2,557 | 2,807 |
| <i>Chg in working capital</i> | <i>(4,778)</i> | <i>(2,535)</i> | <i>(3,008)</i> | <i>(2,860)</i> |
| Cash flow from operations | 3,060 | 7,511 | 9,241 | 10,231 |
| <i>Capital expenditure</i> | <i>(4,126)</i> | <i>(4,895)</i> | <i>(2,500)</i> | <i>(2,500)</i> |
| Cash flow from investing | (7,463) | (12,089) | (944) | (4,497) |
| <i>Equity raised/ (repaid)</i> | <i>2,233</i> | <i>7,566</i> | - | - |
| <i>Debt raised/ (repaid)</i> | <i>3,269</i> | <i>488</i> | <i>(5,000)</i> | <i>(5,000)</i> |
| <i>Dividend paid</i> | - | - | <i>(1,150)</i> | <i>(2,091)</i> |
| Cash flow from financing | 5,501 | 8,054 | (6,150) | (7,091) |
| Net chg in cash | 1,098 | 3,476 | 2,148 | (1,357) |

Key ratios

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|----------------------------|-------|-------|-------|-------|
| OPERATIONAL | | | | |
| FDEPS (Rs) | 18.8 | 26.4 | 42.0 | 51.0 |
| CEPS (Rs) | 34.4 | 43.0 | 60.7 | 71.5 |
| DPS (Rs) | - | - | 8.4 | 15.3 |
| Dividend payout ratio (%) | - | - | 20.0 | 30.0 |
| GROWTH | | | | |
| Net sales (%) | 56.0 | 26.3 | 27.5 | 23.1 |
| EBITDA (%) | 41.3 | 24.1 | 28.7 | 19.7 |
| Adj net profit (%) | 50.8 | 64.1 | 59.3 | 21.3 |
| FDEPS (%) | 50.8 | 40.6 | 59.3 | 21.3 |
| PERFORMANCE | | | | |
| RoE (%) | 22.3 | 24.5 | 27.6 | 27.3 |
| RoCE (%) | 18.5 | 18.9 | 23.1 | 28.4 |
| EFFICIENCY | | | | |
| Asset turnover (x) | 1.3 | 1.3 | 1.6 | 1.9 |
| Sales/ total assets (x) | 0.8 | 0.8 | 1.0 | 1.2 |
| Working capital/ sales (x) | 0.4 | 0.4 | 0.3 | 0.3 |
| Receivable days | 108.3 | 73.1 | 70.0 | 65.0 |
| Inventory days | 175.5 | 147.9 | 136.6 | 123.5 |
| Payable days | 177.8 | 189.2 | 158.1 | 140.4 |
| FINANCIAL STABILITY | | | | |
| Total debt/ equity (x) | 2.6 | 1.7 | 1.0 | 0.6 |
| Net debt/ equity (x) | 2.4 | 1.7 | 0.8 | 0.5 |
| Current ratio (x) | 2.2 | 2.0 | 2.2 | 2.1 |
| Interest cover (x) | 1.6 | 1.8 | 2.6 | 3.8 |
| VALUATION | | | | |
| PE (x) | 31.6 | 21.7 | 13.6 | 11.2 |
| EV/ EBITDA (x) | 13.6 | 11.0 | 8.0 | 6.5 |
| EV/ Net sales (x) | 2.7 | 2.2 | 1.6 | 1.2 |
| PB (x) | 6.6 | 4.6 | 3.7 | 3.0 |
| Dividend yield (%) | - | - | 1.4 | 2.5 |
| Free cash flow yield (%) | - | - | 0.1 | 0.1 |

Source: Company, Axis Capital

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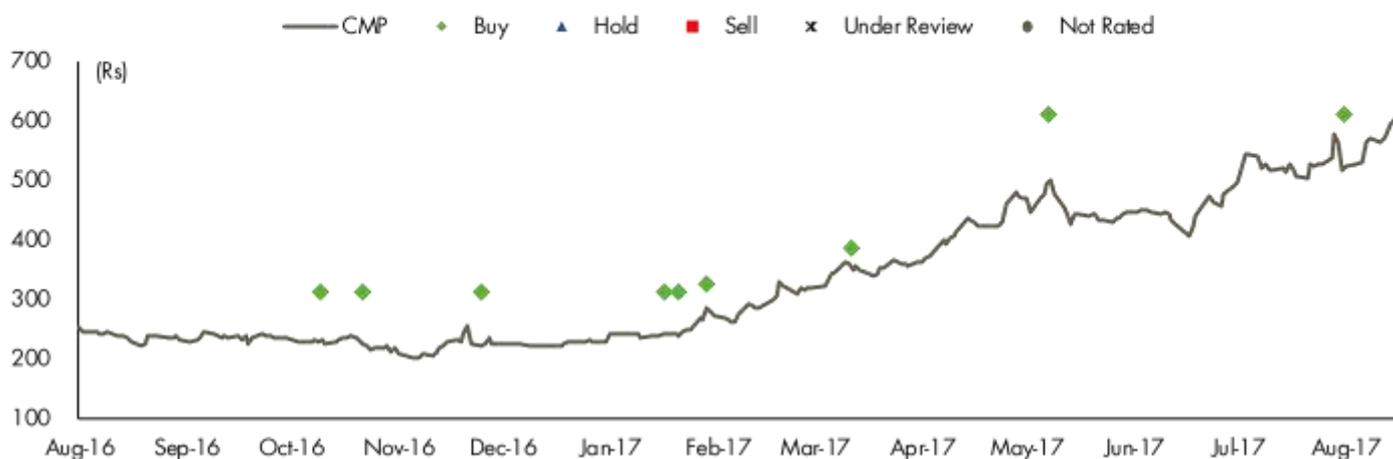
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| Ratings | Expected absolute returns over 12 months |
|---------|--|
| BUY | More than 10% |
| HOLD | Between 10% and -10% |
| SELL | Less than -10% |

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Dilip Buildcon(DIBL.BO, DBL IN) Price and Recommendation History



| Date | Target Price | Reco |
|-----------|--------------|------|
| 20-Oct-16 | 310 | Buy |
| 1-Nov-16 | 310 | Buy |
| 5-Dec-16 | 309 | Buy |
| 27-Jan-17 | 309 | Buy |
| 31-Jan-17 | 309 | Buy |
| 8-Feb-17 | 325 | Buy |
| 22-Mar-17 | 385 | Buy |
| 18-May-17 | 610 | Buy |
| 11-Aug-17 | 610 | Buy |

Source: Axis Capital