Dilip Buildcon Ltd.: Q1FY18 Result Update

From Sub-contractor to Marquee EPC Play

CMP INR 521 | **Target INR 705**

Rating: BUY | **Upside: 35%**

Dilip Buildcon (DBL), the largest road EPC road contractor in India with INR 15,630 cr of order-book and INR 5.098 cr revenue (FY17) declared their QFY18 results. Topline grew by whopping 60% YoY to INR 1,664 cr and way better than our expectations of 26.0% YoY growth. Due to high operating and financial leverage, PAT grew by 147% YoY and PAT margin improved by 260 bps to 7.4%. Due to strong beginning and high revenue visibility, management revised their topline growth guidance upward to INR 6,200 cr i.e 22% YoY growth for the full year of FY18 against 15% YoY growth guided earlier. Even after solid execution, improvement in balance sheet condition is heartening and cash onvesrionl cycle improved to 104 days against 134 days in the corresponding period of last year. We believe, DBL is best placed to capture growth in construction expenditure both by central and state governments. We reiterate our 'BUY' recommendation with a revised target price of INR 705/share.

Superior execution push the revenue growth high; Outlook improved further

DBL reported standalone topline growth of 60% YoY to INR 1,664 cr in Q1FY18 as projects won earlier across the road and mining segment started showing traction. Revenue from road segment grew by 56% YoY to INR 1,393 cr and Mining segment reported INR 193 cr revenue against INR 9 cr reported last year. EBITDA margin came at 18%, 160 bps lower YoY, as initial execution cost affected the performance. For the full year of FY18E, managmenet revised their topline growth guidance upward to 22% YoY from 15% earlier with 18% EBITDA margin. We believe, consideing the high order-book and overall traction in the construction space, topline of the company is expected to report 24% YoY growth to INR 6,320 cr backed by 20% growth in road segment 400% growth in mining segment. EBITDA margin to be maintained at 18% for the full year of FY18E.

Orderbook reported at INR 15,630 cr; Management expect INR 6,000 - 8,000 cr Order-inflow

DBL reported total orderbook of INR 15,630 cr, a 40% growth YoY, but lower sequentially, as orderinflow in the previous quarter was muted due to no ordering activity from both NHAI and MORTH. 82% of the orderbook is from road segment whereas mining orders constitute 15% of the overall orderbook. For the full year of FY18, management is expecting to have INR 6,000 - 8,000 cr of orderinglow majorly in the road space as ordering activity is expetd to pick up pace going forward. We believe, the company to have INR 6,800 cr of orderinflow in the current year and orders will be equally distributed between HAM and EPC road projetcs.

Asset Monetization, Limited Capex and Improved NWC to improve balance sheet condition

DBL, after a prolonged capex cycle is expected to spend INR100-150 cr per year on maintenance capex going forward. NWC of the company has improved significantly and expected to improve further going forward backed by recovery of stuck money and improvement in inventory cycel. The management guided that the company is at final stage of selling partly / fully 14 operational and 10 under construction BOT assets which will help them to reduce their debt by approximately INR 300 cr per year over FY18E and FY19E and moreover equity commitment on the investable projects is expected to come down significantly. We are not taking the asset sales as our base case assumption now and will wait for further clarity on that. However, with the growth in profitabilty, limited capex and NWC improvement, overall RoCE is expecte to improve to 19% in in FY18E as compared to 18% achieved in FY17.

Valuation: Maintain BUY with a revised TP of INR 650

Due to improved outlook, we revised our FY18/FY19E Topline expectations upward by 9%/6% and botllomline expectations upward by 12%/9%. At CMP of INR521, DBL's standalone operation is currently trading at 15-20% discount to peers. We value the standalone operation at INR 615/share after ascribing 15x P/E on FY19E EPS of INR41. The completed and under construction BOT, annuity and HAM projects will contribute another INR 90/share. We reiterate 'BUY' with a revisd target price of INR 705/share.

Financials	Q1FY18	Q1FY17	%Change	Q4FY17	%Change	FY17	FY18E	FY19E
Net Revenue	1,664	1,042	60%	1,750	-5%	5,098	6,320	7,536
EBITDA (INR c	300	205	47%	355	-15%	992	1,153	1,394
PAT (INR Crs)	123	50	147%	196	-37%	361	429	562
Diluted EPS (INR)						26.5	31.5	41.3
Diluted PE (x)						19.7	16.5	12.6
EV/EBITDA						12.3	9.2	7.2
ROE(%)						19%	19%	20%

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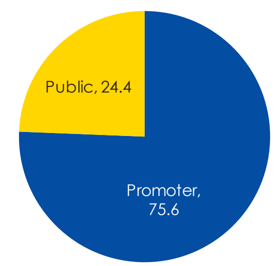
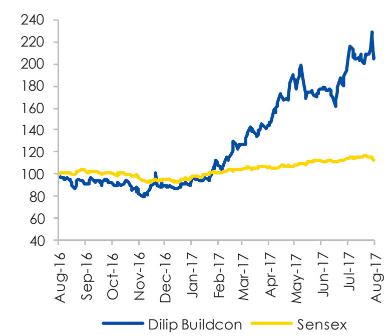
Bloomberg:	DBL:IN
52-week range (INR):	595 / 178
Share in issue (cr):	13.6
M cap (INR cr):	7,132
Avg. Daily Vol. BSE/NSE :('000):	300





Date: 12th August 2017

Other Key Highlights:

- Central Government is expected to award 35,000 km of highways over the period of next two years and DBL is expected get a reasonable market share in that. In FY17 awarding runrate was 25km/day (both EPC and HAM) and the company got 10% market share in that.
- Among the six HAM projects, three have already got financial closure and other 3 in Maharashtra is expected to get soon. Execution of 'Lucknow-Sultanpur' is at full swing and other two will start contributing to revenue in Q3FY18.
- Gross debt in the company's book in Q1FY18 was INR 2,718 cr, around a INR 200 cr increase sequentially mainly due to initial execution of few large projects which is expected to come down significantly over next three quarters. Management is confident of repaying INR 300 cr debt in FY18E.
- Receivable days came down to 69 days as compared to 75 days last year and the company has received INR 30 cr from past stuck receivables.
- Inventory days have come down by 51 days YoY to 97 days as execution of large projects reduces the aggregate inventory.
- With the improvement in both receivable and inventory cycle, management has pass on certain of benefit creditors and suppliers as payable cycle reduced from 90 days to 60 days YoY and that indicates healthy business practice to chase sustainable growth
- DBL have signed an MOU with Shrem Infraventure who will invest 49% in Tuljapur - Ausa Road Project initially and post the completion after two years, the investor will repay the equity amount to DBL.
- This agreement will reduce the capital commitment of the company by approx INR 80 cr. Management is confident of entering into these kind of deals to reduce capital commitment.

Q1FY18 Result Highlights

	Q1FY18	Q1FY17	%Change	Q4FY17	%Change	FY17	FY16	%Change
Net Revenues	1,664	1,042	60%	1,750	-5%	5,098	4,085	25%
Direct Expenses	1,277	779	64%	1,301	-2%	3,793	3,017	26%
Gross Profit	387	263	47%	449	-14%	1,305	1,068	22%
Operating Expenses	87	58	49%	95	-8%	312	269	16%
EBITDA	300	205	47%	355	-15%	992	799	24%
Depreciation	65	52	24%	62	5%	227	183	24%
Interest	111	108	2%	106	5%	416	380	-
Other Income	3	2	33%	3	-18%	11	15	-26%
PBT	127	46	178%	190	-33%	360	251	44%
Tax Payment	5	-4	-216%	-5	-185%	-1	31	-103%
PAT Before Minority & Associate Share	123	50	147%	196	-37%	361	220	64%
Share of Associates	0	0	-	0	NA	0	0	-
Reported PAT	123	50	147%	196	-37%	361	220	64%
Equity Capital	136	136	-	136	-	136	136	-
No of Shares	14	14	-	14	0%	14	14	-
EPS	9.0	3.6	147%	14.38	-37%	26.5	16.2	64%
EBITDA Margin	18%	20%		20%		19%	20%	
PAT Margin	7%	5%		11%		7%	5%	
Tax Rate	4%	-9%		-3%		0%	12%	

Change in Estimates

	FY18E			FY19E		
	Previous	New	Deviation	Previous	New	Deviation
Revenue	5,808	6,320	9%	7065	7,536	7%
EBITDA	1,045	1,153	10%	1325	1,394	5%
Core Profit	384	429	12%	515	562	9%

Financials

Income Statement (Standalone) (INR cr)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Income from operations	2,624	4,085	5,098	6,320	7,536
Direct Expenses	1,932	3,017	3,793	4,740	5,652
Employee Cost	36	71	102	126	151
Other Expenses	90	198	210	300	339
Total operating expenses	2,059	3,286	4,105	5,166	6,142
EBITDA	566	799	992	1,153	1,394
Depreciation and amortisation	118	183	227	261	277
EBIT	448	616	765	892	1,117
Interest expenses	259	380	416	398	378
Other income	6	15	11	10	10
Profit before tax	195	251	360	504	750
Provision for tax	49	31	-1	76	187
Core profit	146	220	361	429	562
Profit after tax	146	220	361	429	562
Adjusted net profit	146	220	361	429	562
Equity shares outstanding (Crs)	13.6	13.6	13.6	13.6	13.6
EPS (INR) basic	10.7	16.2	26.5	31.5	41.3
Diluted shares (Crs)	13.6	13.6	13.6	13.6	13.6
EPS (INR) fully diluted	10.7	16.2	26.5	31.5	41.3

Common size metrics- as % of net revenues

Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	78.4	80.4	80.5	81.8	81.5
Depreciation	4.5	4.5	4.5	4.1	3.7
Interest expenditure	9.9	9.3	8.2	6.3	5.0
EBITDA margins	21.6	19.6	19.5	18.3	18.5
Net profit margins	5.6	5.4	7.1	6.8	7.5

Growth metrics (%)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues	13.3	55.7	24.8	24.0	19.2
EBITDA	20.3	41.3	24.1	16.2	20.9
PBT	(19.7)	28.6	43.6	40.1	48.6
Net profit after minority interest	(25.0)	50.8	64.1	18.8	31.1
EPS	(25.0)	50.8	64.1	18.8	31.1

Balance Sheet (Standalone) (INR cr)

As on 31st March	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	117	117	136	136	136
Reserves & surplus	756	975	1,747	2,176	2,738
Shareholders funds	873	1,093	1,883	2,312	2,874
Borrowings	2,253	2,537	2,537	2,487	2,437
Sources of funds	**3,126**	**3,629**	**4,420**	**4,799**	**5,311**
Gross block	1,527	1,937	2,387	2,487	2,637
Depreciation	340	519	747	1,008	1,285
Net block	1,188	1,418	1,640	1,479	1,352
Capital work in progress	1	3	13	23	33
Total fixed assets	1,189	1,420	1,653	1,502	1,385
Non Current Assets	655	573	873	1,243	1,543
Inventories	948	1,580	1,896	2,312	2,691
Sundry debtors	1,264	1,210	1,424	1,541	1,773
Cash and equivalents	234	106	150	76	57
Loans and advances	265	444	504	564	624
Total current assets	2,711	3,341	3,975	4,494	5,145
Sundry creditors and others	1,424	1,698	2,081	2,440	2,762
Provisions	6	7	0	0	0
Total CL & provisions	1,429	1,705	2,081	2,440	2,762
Net current assets	1,281	1,636	1,894	2,054	2,383
Uses of funds	**3,126**	**3,629**	**4,420**	**4,799**	**5,311**
Book value per share (INR)	230	267	325	352	390

Cash flow statement (INR cr)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Net profit	146	220	361	429	562
Add: Depreciation	118	183	227	261	277
Add: Interest net of tax	194	334	417	338	283
Add: Deferred tax	0	0	0	0	0
Add: Others	117	74	75	75	75
Gross cash flow	575	811	1,081	1,103	1,197
Less: Changes in W. C.	119	483	214	233	349
Operating cash flow	456	328	866	870	849
Less: Capex	665	410	450	100	150
Less: Investment in subsidiaries	94	20	300	370	300
Free cash flow	**-304**	**-102**	**116**	**400**	**399**

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	17%	20%	19%	19%	20%
ROACE (%)	15%	17%	18%	19%	21%
Debtors (days)	176	108	102	89	86
Current ratio	1.9	1.9	1.9	1.8	1.9
Gross Debt/Equity	2.2	2.0	1.2	0.9	0.7
Inventory (days)	132	141	136	134	130
Payable (days)	115	91	93	90	86
Cash conversion cycle (days)	192	158	145	133	130
Gross Debt/EBITDA	3.5	2.8	2.2	1.9	1.5
Net debt/Equity	2.0	1.9	1.1	0.9	0.7

Valuation Parameters (Stanalone)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	12.4	18.8	26.5	31.5	41.3
Y-o-Y growth (%)	*(62.1)*	*50.8*	*41.2*	*18.8*	*31.1*
CEPS (INR)	22.5	34.4	43.2	50.7	61.6
Diluted P/E (x)	48.7	32.3	19.7	16.5	12.6
Price/BV (x)	8.1	6.5	3.8	3.1	2.5
EV/Sales (x)	3.4	2.3	1.8	1.5	1.2
EV/EBITDA (x)	14.0	12.5	12.3	9.2	7.2
Diluted shares O/S	13.6	13.6	13.6	13.6	13.6
Basic EPS	12.4	18.8	26.5	31.5	41.3
Basic PE (x)	48.7	32.3	19.7	16.5	12.6

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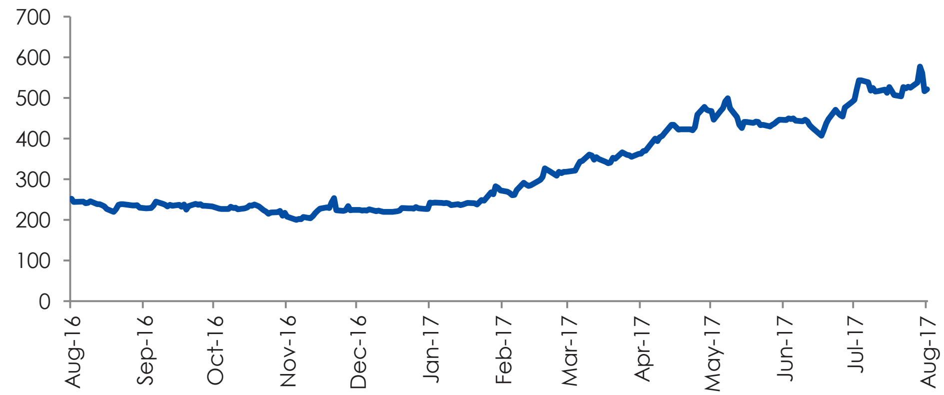
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

Dilip Buildcon price chart



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