NOMURA

Dilip Buildcon DIBL.NS DBL IN

EQUITY: ENGINEERING & CONSTRUCTION

Strong execution momentum continues

Raise earnings estimates on better execution in mining and improvement in WC metrics

Action: Raise TP to INR649, maintain Buy

DBL reported strong 1QFY18 sales of INR16.6bn, up 60% y-y while maintaining industry-leading EBITDA margin of 18%. Despite the recent run-up in the stock price, we continue to remain positive on DBL as:

- **Strong execution momentum continues**: DBL continued to report successive quarters of strong sales growth while maintaining margins. Execution momentum should improve further as Hybrid Annuity Model (HAM) projects achieve financial closure and execution ramps by FY19F.
- **Significant improvement in working capital (WC) levels**: DBL has reduced working capital levels from 134 days in 1QFY17 to 104 days in 1QFY18. With several large projects maturing, management expects working capital levels to be maintained at present levels for FY18.
- **Headway on asset sales can provide further upside**: Management expects to conclude the sale of stakes in the BOT assets in 2HFY18 and possible equity infusion by its partner in HAM projects. We had highlighted in our report Quick Note - Dilip Buildcon (DBL IN, Buy) - Possible BOT asset sales in the offing the impact of asset sales on group debt levels.
- **DBL to be the prime beneficiary of road capex in Western India** where we expect opportunities of >INR2.0tn over FY18-20F (Anchor Report: India road sector - Public spending spurring significant revival).

Valuation: Trading at 13.4x FY19F EPS estimates; TP raised to INR649

We increase our EPS estimates for FY18/19F by 8%/9% to account for higher mining revenues. We continue to value DBL on sum-of-the-parts (SOTP) basis with the EPC segment valued at 15x FY19F P/E and BOT assets valued at 1x FY18F BV to arrive at our TP of INR649. Our TP implies ~25% potential upside from current levels. Key risks: aggressive competition; a slowdown in state ordering; and deterioration in working capital and debt metrics.

Year-end 31 Mar	FY16		FY17F		FY18F		FY19F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	40,853	50,976	50,976	62,059	64,373	75,790	79,088
Reported net profit (mn)	2,208	3,609	3,609	4,219	4,569	4,881	5,311
Normalised net profit (mn)	2,208	3,609	3,609	4,219	4,569	4,881	5,311
FD normalised EPS	16.14	26.39	26.39	30.84	33.40	35.69	38.83
FD norm. EPS growth (%)	51.5	63.5	63.5	16.9	26.6	15.7	16.2
FD normalised P/E (x)	32.3	N/A	19.8	N/A	15.6	N/A	13.4
EV/EBITDA (x)	11.9	N/A	9.7	N/A	8.1	N/A	6.7
Price/book (x)	6.7	N/A	3.8	N/A	3.1	N/A	2.5
Dividend yield (%)	0.0	N/A	0.0	N/A	0.0	N/A	0.0
ROE (%)	22.8	24.8	24.8	20.4	22.0	19.4	20.6
Net debt/equity (%)	226.6	132.2	132.2	119.4	112.5	105.9	96.8

Source: Company data, Nomura estimates

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

Global Markets Research

14 August 2017

Rating Remains	**Buy**
Target Price Increased from 602	INR 649
Closing price 11 August 2017	INR 521
Potential upside	+24.5%

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.

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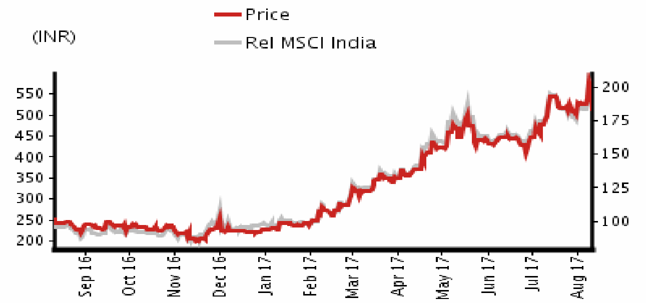
See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Dilip Buildcon

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (INR)	5.0	11.4	107.1	M cap (USDmn)	1,111.2
Absolute (USD)	5.6	11.7	115.7	Free float (%)	24.4
Rel to MSCI India	5.4	9.3	98.1	3-mth ADT (USDmn)	3.5

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	-4,527	-5,042
Associates & JCEs					
Other income	60	157	114	98	113
Earnings before tax	1,949	2,501	3,601	5,076	7,081
Income tax	-491	-293	9	-508	-1,770
Net profit after tax	1,458	2,208	3,609	4,569	5,311
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	1,458	2,208	3,609	4,569	5,311
Extraordinary items					
Reported NPAT	1,458	2,208	3,609	4,569	5,311
Dividends	-12	-7	-12	-15	-17
Transfer to reserves	1,446	2,201	3,598	4,554	5,294
Valuations and ratios					
Reported P/E (x)	48.9	32.3	19.8	15.6	13.4
Normalised P/E (x)	48.9	32.3	19.8	15.6	13.4
FD normalised P/E (x)	48.9	32.3	19.8	15.6	13.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Price/cashflow (x)	32.4	16.7	11.3	7.4	7.0
Price/book (x)	8.2	6.7	3.8	3.1	2.5
EV/EBITDA (x)	16.1	11.9	9.7	8.1	6.7
EV/EBIT (x)	20.3	15.5	12.5	10.2	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	7.1	6.7
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	22.0	20.6
ROA (pretax %)	na	13.0	13.1	13.7	15.2
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	26.6	16.2
Normalised FDEPS		51.5	63.5	26.6	16.2

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	-1,628	-2,457
Other operating cashflow	-557	1,381	-116	-704	-2,024
Cashflow from operations	2,203	4,265	6,323	9,635	10,221
Capital expenditure	-10,416	-4,503	-4,119	-2,188	-2,308
Free cashflow	-8,213	-238	2,205	7,446	7,912
Reduction in investments	-959	-109	-1,797	-4,479	-4,479
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	3,764	391	114	98	113
CF after investing acts	-5,407	44	522	3,066	3,546
Cash dividends	-12	-7	-12	-15	-17
Equity issue	0	0	3,230	0	0
Debt issue	9,654	2,471	499	2,430	1,500
Convertible debt issue					
Others	-2,562	-3,791	-4,162	-4,527	-5,042
CF from financial acts	7,081	-1,327	-445	-2,112	-3,559
Net cashflow	1,674	-1,283	77	954	-13
Beginning cash	668	2,342	1,059	1,137	2,091
Ending cash	2,342	1,059	1,137	2,091	2,079
Ending net debt	19,528	24,068	24,489	25,965	27,478

Balance sheet (INRmn)

As at 31 Mar	FY15	FY16	FY17F	FY18F	FY19F
Cash & equivalents	2,342	1,059	1,137	2,091	2,079
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	11,437	13,424
Total current assets	27,107	32,886	39,901	43,510	50,171
LT investments	2,789	2,898	4,695	9,174	13,653
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	75,130	87,235
Short-term debt	16,407	17,976	19,301	21,731	23,231
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	40,179	45,896
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	52,047	58,858
Minority interest					
Preferred stock					
Common stock	1,171	1,171	1,368	1,368	1,368
Retained earnings	7,558	9,450	17,161	21,715	27,009
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	8,730	10,621	18,529	23,083	28,377
Total equity & liabilities	45,551	52,837	66,493	75,130	87,235
Liquidity (x)					
Current ratio	0.95	1.03	1.09	1.08	1.09
Interest cover	1.7	1.6	1.8	2.1	2.4
Leverage					
Net debt/EBITDA (x)	3.45	3.01	2.47	2.17	1.87
Net debt/equity (%)	223.7	226.6	132.2	112.5	96.8
Per share					
Reported EPS (INR)	10.66	16.14	26.39	33.40	38.83
Norm EPS (INR)	10.66	16.14	26.39	33.40	38.83
FD norm EPS (INR)	10.66	16.14	26.39	33.40	38.83
BVPS (INR)	63.83	77.66	135.48	168.77	207.48
DPS (INR)	0.08	0.05	0.08	0.11	0.12
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 continues to deliver on execution and working capital improvement

DBL execution ahead of estimates; outlook remains strong

1QFY18 revenue of INR16.6bn (+60% y-y) is 30% ahead of our estimate of INR12.8bn. EBITDA margin of 18% (down ~160 bps y-y), while lower than our estimate of 19.3%, is still significantly higher than peer average of 10-12%. The relative decline has been attributed by management to lack of early completion bonus in the quarter.

Strong growth in mining revenues at INR1.93bn in 1QFY18 against INR89mn in 1QFY17 was among the prime drivers beside strong execution of road orders. With a strong orderbook of INR156.3bn, there is visibility of execution over the next 2-3 years.

Management has raised FY18 revenue guidance to over INR62bn against 10% growth guided earlier

Mining has delivered strong volumes and management expects INR8-10bn pa from mining alone for FY18 and FY19 on current orderbook. Growth may receive a further boost with most hybrid annuity model (HAM) projects likely to be in execution by 2HFY18 as management has stated that these projects are close to financial closure.

Fig. 1: Dilip Buildcon: 1QFY18 results significantly ahead of estimates

(INR mn)

	1QFY17	4QFY17	1QFY18	Nomura 1QFY18	y-y (%)	q-q (%)	vs Nom
Revenue from operations	10,390	17,323	16,641				
Other operating income	30	179					
Total revenue	**10,420**	**17,502**	**16,641**	**12,764**	**60%**	**-5%**	**30%**
	20%	29%	60%	22.5%			
Cost of materials/operating exp	9,588	12,601	13,209				
Purchase of stock-in-trade	-						
Changes in inventory of finished goods, WIP, and stock in trade	(1,795)	409	(437)				
COGS	**7,793**	**13,010**	**12,772**	**9,573**	**64%**	**-2%**	**33%**
Gross profit	**2,626**	**4,492**	**3,869**	**3,191**	**47%**	**-14%**	**21%**
GPM (%)	25%	26%	23%	25%	-195.6	-241.7	-174.9
Employee benefit expense	186	358	351	228	89%	-2%	0.54
% of sales	1.8%	2.0%	2.1%	1.8%			
Other expenses	395	588	515	494	30%	-12%	0.04
% of sales	3.8%	3.4%	3.1%	3.9%			
EBITDA	**2,045**	**3,547**	**3,002**	**2,469**	47%	-15%	**22%**
EBITDA margin (%)	19.6%	20.3%	18.0%	19.3%	-158.2	-222.6	-129.8
Depreciation & amortization expense	524	618	651	625			
EBIT	**1,521**	**2,929**	**2,352**	**1,844**	55%	-20%	28%
EBIT margin (%)	14.6%	16.7%	14.1%	14.4%	-46.6	-260.6	-31.2
Finance costs	1,084	1,057	1,106	1,050	2%	5%	
Other income	20	32	27	30	-75%	21%	
PBT before exceptional items	**457**	**1,904**	**1,272**	**824**	178%	-33%	**54%**
PBT margin (%)	4.4%	10.9%	7.6%	6.5%	325.8	-323.7	119.1
Exceptional items							
PBT from ord activities	**457**	**1,904**	**1,272**	**824**			
Tax expense	(39)	(54)	45	82			
Tax rate (%)	-8.5%	-2.8%	3.6%	10.0%	1,210.5	637.9	-643.5
Reported PAT	**496**	**1,958**	**1,226**	**741**	147%	-37%	**65%**
Recurring PAT	**496**	**1,958**	**1,226**	**741**	147%	-37%	**65%**
Other comprehensive income	3.2	3.8	(4.6)				
Total comprehensive income	**499**	**1,961**	**1,222**	**741**	145%	-38%	0.65

Source: Company data, Nomura estimates

Progress on financial closure of HAM projects provide further confidence
Management has also shown progress on achieving financial closure of the HAM projects that the company has secured in FY17. Already, three projects have achieved financial closure. We highlight the status of HAM projects in brief below:

- **Lucknow Sultanpur in Uttar Pradesh**: The project had achieved financial closure in March 2017 against LOA (Letter of Acceptance) on August 2016. DBL received the Appointed Date from the National Highways Authority of India (NHAI; unlisted) in May 2017 and has in 1QFY18 reported revenues of over INR1.0bn, highlighting execution progress.
- **Kalamath-Zarap (Maharashtra):** This project has received financial closure in June 2017 and was awarded in November 2016. DBL expects to receive the Appointment Date soon as more than 90% of the land is already available.
- **Yavatmal – Wardha (Maharashtra)** has also achieved financial closure of late and with more than 90% land availability execution can begin soon.
- **Tuljapur-Ausa, Yavatmal – Wardha and Wardha – Butibori are all under discussion for financial closure**. Tuljapur-Ausa, which was awarded in February 2017 (others were awarded in March), is likely to be the next project for financial closure with management guiding for first week of October 2017. Further, for the remaining projects, the same is expected in November. Management also highlighted that, in all the Maharashtra projects, more than 90% land is already available and that more than 25% compensation has already been disbursed. Thus, management does not expect significant delay between financial closure and Appointed Date.

Management expects to maintain order wins at INR60-80bn pa levels
Management has guided for INR60-80bn of targeted order wins in FY18 with the expressed intention of maintaining orderbook at FY17 level of INR175bn.

Improvement in working capital metrics is also a positive

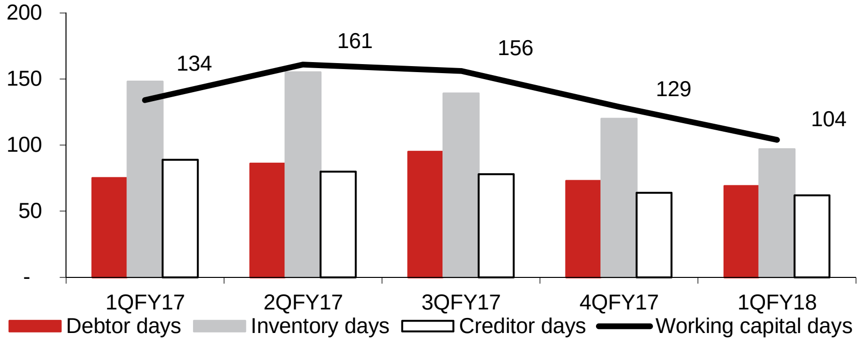
High working capital intensity was a key investor concern
The high level of working capital, especially on inventory, has been a cause of concern for investors for some time. The concern was also borne by the fact that, despite strong growth in sales and profit, the same had not translated into strong operating cash flow growth. This was largely due to the high levels of inventory that the company carried due to its business model where they would accumulate bulk of the requirement of aggregates in the early stages of the project.

The concerns were also compounded by the fact that, due to reliance on private orders in early stages of growth for the company, an elevated level of receivables had also built up. The recovery of such receivables were delayed and stood at over INR3.76bn at the end of FY17.

1QFY18 saw significant decline in working capital and management expects to sustain these levels over FY18
The improvement in working capital has been driven by decline in inventory levels as many of the larger projects ramp up on execution. Since inventory has already been built up over the past few quarters for the projects, the same is gradually being liquidated as project execution gathers momentum.

Further, there has been some progress in collection of receivables from private parties with INR300mn collected in 1QFY18 out of INR3.76bn pending at end of FY17 (YTD collection at INR420mn). Thus, recovery in aged receivables is a positive though the present run rate appears slightly below management guidance of INR1.5bn for FY18.

Fig. 2: Working capital movement
In days



Source: Company data

Management guides for maintaining inventory at present levels but initial stages of execution of HAM projects can boost inventory levels in 2HFY18
Management is hopeful of maintaining working capital days at the present level of 104 days for entire FY18. However, we are not building in such a massive improvement in our numbers (our estimate is at 116 days) as we expect the inventory to increase in 2HFY18 offset by further recovery in aged receivables. We believe that, with a fresh wave of HAM projects entering execution, DBL will start commencement of stone crushing operations to build up its stock of aggregate inventory for these projects.

DBL is in advanced stage of negotiations for asset sale and equity infusion by a partner for its BOT/HAM projects

DBL claims to have already infused INR7.2bn in BOT and HAM projects till date. Further, in FY18, DBL expects INR3.0bn of equity infusion for HAM projects and a further INR1.0bn in FY19. There were concerns among investors that standalone net debt (INR24.5bn at end of FY17) will not reduce for DBL as a result of such equity infusion despite management efforts on improving working capital and lowering the target capex at INR1.5bn for FY18.

DBL announced that it is in advanced stages of negotiations with a partner who will buy out DBL's operational BOT assets. Further, as per management, the partner will also invest 50% of the equity for HAM projects. DBL estimates that these infusions will reduce standalone debt by INR3.0bn for both FY18 and FY19.

Equity partnership/asset sale is a key upside on our numbers
We are not building in potential impact of asset sale or equity infusion in our numbers and this may very well be an upside on our estimates. We believe that, in case of HAM projects, the equity infusion can potentially be in the same pattern as that of Tuljapur Ausa project. In that project, partner Shrem Infraventures (unlisted) agreed to invest 49% equity during construction and will buy out the remaining 51% at a pre-determined IRR (Internal Rate of Return) two years from COD (Commercial Operations Date)

We have assessed the impact of such asset sale on standalone and consolidated debt levels in our report Quick Note - Dilip Buildcon (DBL IN, Buy) - Possible BOT asset sales in the offing.

Change in estimates

We increase our FY18/19F revenue estimates by 4% to account for higher mining revenues estimated at INR8bn for each year. We maintain our EBITDA margins at previous levels but our PAT estimates increase by 8%/9% respectively to account for lower interest outgo as debt levels stabilise.

Fig. 3: Change in estimates

(INR mn except for EPS in INR)

	FY18			FY19		
	Old	New	Diif (%)	Old	New	Diif (%)
Revenue	62,059	64,373	4%	75,790	79,088	4%
EBITDA	11,536	11,966	4%	14,089	14,702	4%
EBITDA margin (%)	*18.6%*	*18.6%*	*0*	*18.6%*	*18.6%*	*-0*
PAT	4,219	4,569	8%	4,881	5,311	9%
EPS	30.8	33.4	8%	35.7	38.8	9%

Source: Nomura estimates

Valuation: Inexpensive at 13.4x FY19F P/E

We value DBL's EPC and BOT businesses separately. We value the EPC business at 15x FY19F EPS of INR38.8 to arrive at INR582/share value for the business. We value the BOT assets on book value of investments which is estimated at INR67/share for FY18F. Hence, we arrive at a target price of INR649, which implies around 25% 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. 4: SOTP valuation for DBL

EPS FY19 - standalone	38.8	INR/share
Target PE 1Y fwd (X)	15.0	
Value of EPC business	**582**	
Book value of Subs - FY18 (INR mn)	9,174	INR mn
No of share (mn)	136.8	
BV of subsidiaries/share	**67**	INR/share
Implied Target price	**649**	INR/share
CMP	522	
Upside	24.3%	
Implied EV at FY18 end	114,740	
EV/share	839	
EV/EBITDA (FY19)	7.8	

Source: Nomura estimates

Peer comparison

Fig. 5: Indian peer comparison

			P/E (x)			EV/EBITDA (x)			ROE (%)		
Company	**Rating**	**Ticker**	**FY17**	**FY18F**	**FY19F**	**FY17**	**FY18F**	**FY19F**	**FY17**	**FY18F**	**FY19F**
JMC	NR	JMCP IN	19.6	17.4	13.9	12.0	10.9	9.9	8.5	9.1	10.3
Simplex	NR	SINF IN	27.4	19.7	14.7	8.5	7.6	6.8	5.7	7.5	9.1
NCC Ltd	NR	NJCC IN	19.8	18.5	15.4	10.2	9.4	8.4	7.2	7.6	8.4
Gayatri Projects	NR	GAYP IN	45.8	20.3	14.2	21.5	14.5	11.6	7.4	13.5	19.8
Sadbhav Engg	NR	SADE IN	NA	35.1	14.8	11.8	8.8	7.8	(0.2)	20.6	20.6
KNR Cons	Buy	KNRC IN	17.9	14.8	13.5	13.7	10.9	9.2	19.3	20.5	18.8
ITD Cem	NR	ITCE IN	26.1	15.2	13.0	9.5	7.9	6.8	15.6	20.0	21.3
HCC	NR	HCC IN	NA	30.9	12.4	15.5	13.8	11.8	2.1	4.4	8.3
Ahluwalia Contracts	NR	AHLU IN	18.2	16.8	13.2	9.5	8.9	7.5	20.8	18.8	19.7
J Kumar Infra	NR	JKIL IN	18.6	15.7	12.2	9.3	7.8	6.2	8.6	9.0	11.0
Dilip Buildcon	Buy	DBL IN	19.8	15.6	13.4	8.6	7.4	6.3	24.8	22.0	20.6
PNC	Buy	PNCL IN	17.1	17.5	11.3	16.2	11.7	7.7	14.2	12.3	16.6
			23.0	**19.8**	**13.5**	**12.2**	**10.0**	**8.3**	**11.2**	**13.8**	**15.4**

Source: Bloomberg consensus forecasts, Nomura ratings. Note: Based on share prices as of 11 August 2017

Fig. 6: Asia Pacific peers comparison

			P/E (x)			EV/EBITDA (x)			ROE (%)		
Company	**Rating**	**Ticker**	**FY17**	**FY18F**	**FY19F**	**FY17**	**FY18F**	**FY19F**	**FY17**	**FY18F**	**FY19F**
Japanese companies											
Taisei	Buy	1801 JT	13.98	12.92	11.91	6.80	6.62	6.33	16.15	15.90	15.03
Obayashi	Buy	1802 JT	10.19	9.19	9.46	7.25	6.84	6.77	15.85	14.75	12.89
Shimizu	Buy	1803 JT	10.15	10.43	9.92	6.70	6.81	6.35	16.72	13.77	12.88
Kajima	Buy	1812 JT	10.63	10.69	10.59	5.50	6.06	5.79	18.86	16.11	14.22
Maeda	Buy	1824 JT	12.00	11.51	10.67	9.62	6.81	6.24	12.10	11.33	11.33
Toda	Neutral	1860 JT	5.99	12.64	11.14	8.12	7.55	6.80	20.70	8.13	8.63
Penta-Ocean Construction	Buy	1893 JT	13.68	10.71	9.76	5.22	4.76	4.27	14.70	16.10	16.50
			10.94	**11.16**	**10.49**	**7.03**	**6.49**	**6.08**	**16.44**	**13.73**	**13.07**
Chinese companies									-	-	-
CRG-H	390 HK	Buy	10.19	9.16	8.26	9.65	8.91	8.21	9.74	9.83	10.12
CRG-A	601390 CH	Reduce	14.04	12.55	11.27	9.63	8.76	7.96	9.84	10.08	10.35
CRCC-H	1186 HK	Buy	8.82	8.03	7.21	7.47	6.78	6.14	11.26	11.27	11.40
CRCC-A	601186 CH	Neutral	10.59	9.56	8.66	7.55	6.92	6.32	11.34	11.45	11.55
CCCC-H	1800 HK	Reduce	8.54	7.59	6.71	9.86	9.06	8.27	11.58	11.82	12.01
CCCC-A	601800 CH	Reduce	12.71	11.24	9.83	9.94	9.08	8.30	11.94	12.23	12.54
CSCI	3311 HK	Neutral	9.57	7.90	6.45	9.29	7.91	6.68	20.20	20.83	20.74
CSCEC	601668 CH	Reduce	8.65	7.64	6.82	6.91	6.28	5.99	17.05	16.75	16.33
			10.28	**9.16**	**8.15**	**7.44**	**6.76**	**6.13**	**12.95**	**13.12**	**13.20**
Korean companies									-	-	-
Hyundai E&C	000720 KS	Buy	8.79	7.43	7.15	3.61	3.41	3.34	8.45	9.15	8.89
Daewoo E&C	047040 KS	NR	5.51	6.59	7.06	4.34	4.71	4.98	23.26	16.88	13.71
			7.15	**7.01**	**7.11**	**3.98**	**4.06**	**4.16**	**15.85**	**13.01**	**11.30**

Source: Bloomberg consensus forecasts, Nomura ratings. Note: Based on share prices as of 11 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.
- Similarly, we expect BOT assets to be monetised by the company such that the overall debt levels of the company will remain reasonable. Any change in this strategy would be a key risk.
- 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

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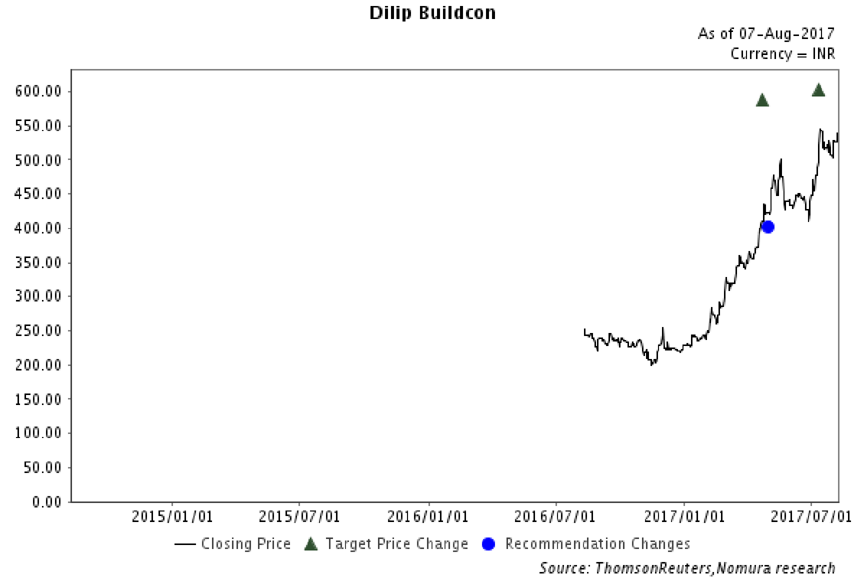
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Dilip Buildcon	DBL IN	INR 521	11-Aug-2017	Buy	N/A	

Dilip Buildcon (DBL IN) **INR 521 (11-Aug-2017)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Jul-17		602.00	521.75
22-Apr-17	Buy		410.85
22-Apr-17		587.00	410.85

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

Valuation Methodology We value DBL's EPC business at 15x of FY19F standalone EPS of INR38.8 and value the BOT assets at Book Value (BV) of FY18F to yield a TP of INR649. 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

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