Dilip Buildcon – BUY

10 March 2017

Initiating coverage

IIFL Institutional Equities

Excelling in execution

With FY16 revenue of Rs41bn (57% Cagr over FY11-16), Dilip Buildcon (DBL) has emerged as one of the largest road contractors in the country with industry-leading margins of ~20%. This performance has come on the back of 100% in-house execution of projects across 16 states through owned equipment and a strong employee base. Given a large order book of Rs131bn (2.8x book-to-bill), we expect revenue 18% Cagr and 15% Ebitda Cagr over FY16-19. Along with declining operating cycle, these factors will keep debt and interest costs stable despite incremental capex and investments in BOT assets, driving 30% PBT Cagr. We initiate with BUY and 12m TP of Rs382.

Large, diversified, order book provides growth visibility: Healthy order inflow from the road and highway segment has driven steady increase in DBL's order book from Rs51.6bn in FY14 to Rs131bn (2.8x trailing 12m revenue). Coupled with a large project pipeline in roads and mining segment, this provides strong revenue growth visibility over FY16-19 for DBL. Importantly, strict pre-bid due diligence of required land acquisition and clearances, and focus on possibility of clustering projects continue to ensure early execution and healthy profitability.

Tight control on all aspects of execution would sustain healthy growth: DBL's strategy of 100% in-house execution with a large owned equipment base and on-roll employee base of ~24k, combined with institutionalised processes, has supported strong 57% revenue Cagr and average Ebitda margin of ~21% over FY11-16. This includes majority revenue from execution of third-party contracts outside its home state of Madhya Pradesh. We expect the execution focus to continue and support 18% revenue Cagr and 15% Ebitda Cagr over FY16-19.

Stable debt and interest costs to drive PBT growth: Debt and interest costs had increased sharply, to support a large capex and working capital needs. Debt should remain stable over FY17-19, as a lower working capital cycle will support healthy generation of operating cash to meet capex and equity commitments in the new BOT assets. Further, healthy aggregate cash flow from a portfolio of 12 operational BOT projects (majority annuity) will support investment needs of ~Rs6.5bn in new BOT projects.

Company update

CMP	**Rs319**
12-mth TP (Rs)	**382 (20%)**
Market cap (US$m)	**560**
Enterprise value(US$m)	**921**
Bloomberg	**DBL IN**
Sector	**Infrastructure**

Shareholding pattern (%)

Promoter	75.6
FII	14.8
DII	3.4
Others	6.2

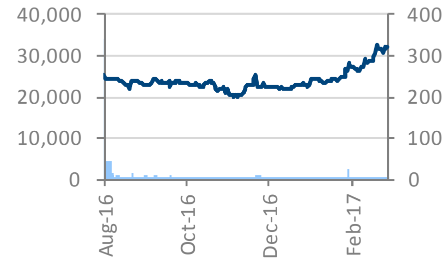
52Wk High/Low (Rs)	340/178
Shares o/s (m)	137
Daily volume (US$ m)	0.8
Dividend yield FY17ii (%)	0.0
Free float (%)	24.4

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	14.4	42.7	0.0
Absolute (US$)	20.2	38.2	0.0
Rel. to Sensex	12.3	34.6	0.0

Cagr (%)	**3 yrs**	**5 yrs**
EPS	(23.8)	11.1

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenues (Rs m)	26,241	40,853	49,432	58,330	67,663
Ebitda margins (%)	21.6	19.6	19.4	18.5	18.0
Pre-exceptional PAT (Rs m)	1,374	2,199	3,211	2,868	3,705
Reported PAT (Rs m)	1,374	2,199	3,211	2,868	3,705
Pre-exceptional EPS (Rs)	11.7	18.8	23.5	21.0	27.1
Growth (%)	(64.2)	60.1	25.1	(10.7)	29.2
PER (x)	**27.2**	**17.0**	**13.6**	**15.2**	**11.8**
ROE (%)	17.2	22.4	21.9	14.4	16.0
Net debt/equity (x)	2.2	2.2	1.2	1.1	0.9
EV/Ebitda (x)	10.1	7.7	6.9	6.2	5.5
Price/book (x)	4.3	3.4	2.4	2.0	1.7

Source: Company, IIFL Research. Priced as on 09 March 2017

Anupam Gupta | anupam.gupta@iiflcap.com
91 22 4646 4641

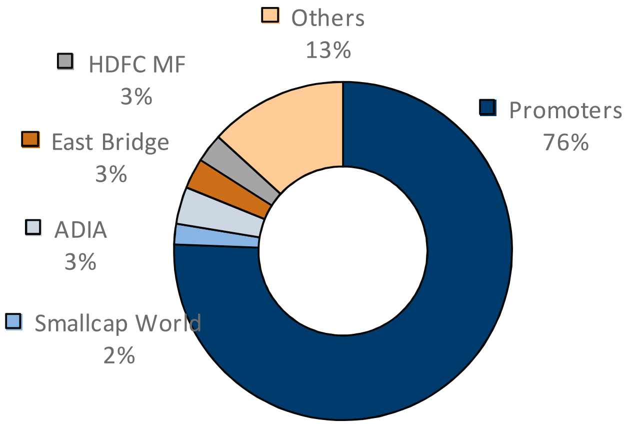
Urvil Bhatt | urvil.bhatt@iiflcap.com
91 22 4646 4648

Company background and management

Dilip Suryavanshi, Devendra Jain and the Suryavanshi family promoted Dilip Buildcon (DBL) as Dilip Buildcon Private Limited in June 2006. Starting from a base in Madhya Pradesh, the company scaled up rapidly on the back of extensive road construction/development during FY06-11. DBL has now expanded presence as a road, irrigation and mining contractor to over 16 states in the country.

DBL's shares were listed in Aug-2016 with a fresh equity raising of Rs4.3bn and offer for sale that provided exit to Banyan Tree Growth Capital, which had invested Rs750m for 9.75% stake in Feb-2012.

Figure 1: Shareholding pattern



Source: Bloomberg, IIFL Research

Figure 2: Leadership team at DBL

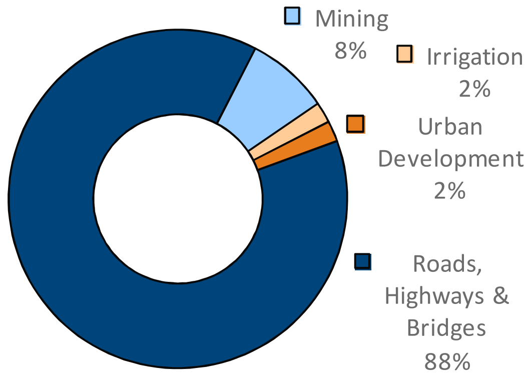
Name	Designation	Stake
Dilip Suryavanshi	Chairman & MD	49.4%*
Devendra Jain	CEO and ED	26.2%
Rohan Suryavanshi#	Head-Strategy and Planning	-
Karan Suryavanshi#	Head - Business Development	-

Source: Company, IIFL Research *Includes stake held by Seema Suryavanshi (Wife and also Executive Director of DBL), #-Son of Dilip Suryavanshi

Leading road focused EPC contractor-cum-developer

DBL has emerged as one of the largest EPC road contractors in India with over 47 road projects aggregating over 5,612 lane kms completed until date across five states. The company is executing 64 projects in 12 states covering 8,422 lane kms. Apart from road construction, the company has a presence in irrigation and urban development sectors and it has recently forayed into the mining segment in a significant way.

Figure 3: Large diversified order book worth Rs131bn as at end-9MFY17



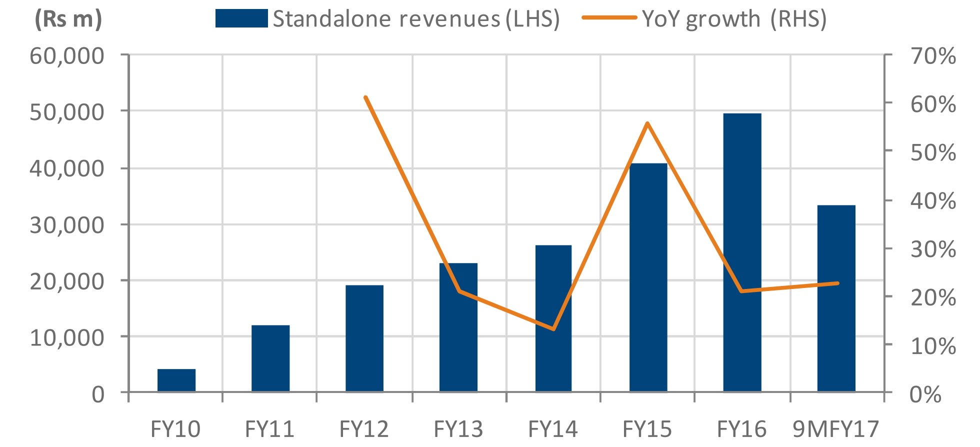
Source: Company, IIFL Research *does not include order inflow worth Rs32bn won in 4QFY17

Apart from the EPC-contracting business, the company also owns a portfolio of 21 BOT road projects. Of these, 12 road projects with aggregate cost of Rs15.7bn are operational and the balance nine projects (including three projects won recently on the Hybrid Annuity Model (HAM) worth Rs38.4bn) are under development/construction.

Robust execution track-record across states

Over the past six years, DBL has emerged as one of the largest road EPC contractors in India with standalone FY16 revenue of Rs41bn and 9MFY17 revenue of Rs33bn, larger than most other road-focused EPC contractors. DBL's standalone revenue increased at 57% Cagr over FY11-16, one of the fastest among the EPC contractors in India.

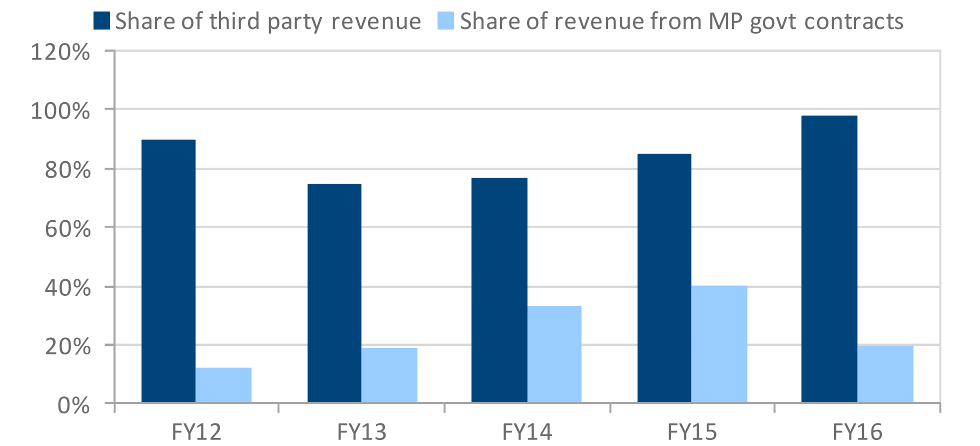
Figure 4: DBL delivered 57% revenue cagr over FY11-16; 9MFY17 rev grew 23% YoY



Source: Company, IIFL Research

Importantly, DBL has been able to sustain its revenue trajectory despite progressively diversifying away from Madhya Pradesh, its home state. Share of third-party EPC revenues also increased steadily, lending credibility to bidding and execution capabilities for DBL.

Figure 5: Execution has remained strong for external and non-MP government projects



Source: Company, IIFL Research

Business model enables faster execution and healthy margins

Focus on tight control of its contracting operations has driven excellence in execution. DBL has achieved this through in-house execution of all contracts and minimal sub-letting of work. Dependence on 100% owned construction equipment, and a large on-roll employee base are the key factors that support timely execution of the projects completed until date.

- DBL owns one of the largest fleet of construction equipment in India comprising 8,213 vehicles and other construction equipment, which are from some of world's leading suppliers such as Schwing Stettar, Metso, Wirtgen, and Vogele. DBL's tangible assets of Rs16bn as of 9MFY17 are the largest among listed road contractors with revenue of similar scale.
- DBL is also one of the largest employers in India's construction industry, with 24,369 employees on its rolls as at end-9MFY17. A majority of these employees have received training from OEMs, which ensures better productivity during execution.
- Backward integration and in-house production of essential structures, sections, or components (metal beam crash barriers, sign boards, bus shelters, overhead gantries, toll plaza canopies, electrical poles, hume pipes, reinforced earth blocks, fly ash bricks etc) used in road projects ensure high quality, low cost, and most importantly, timely project completion.
- DBL has focused on geographical clustering of projects. Apart from enabling savings on mobilisation 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.

This business model and strategy deliver a few important advantages and enable faster execution and industry-leading profitability for DBL.

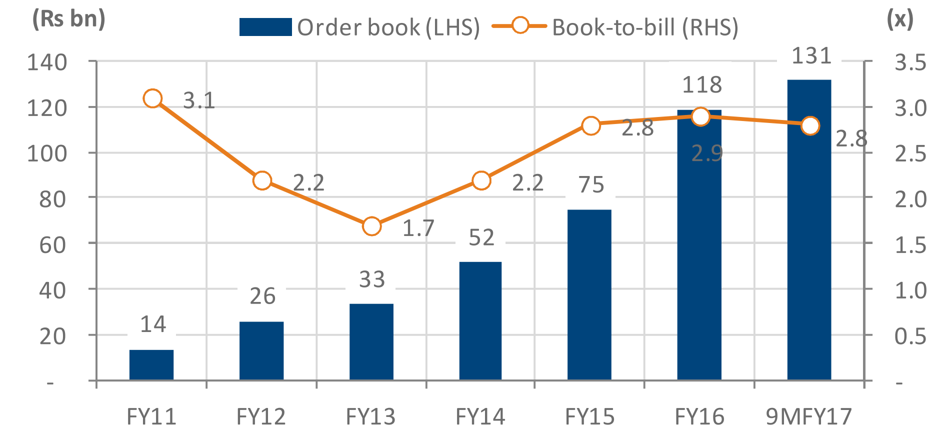
- DBL has earned a reputation for high reliability of timely execution and lower costs, given 100% owned equipment vs. leased equipment. Further, the company makes extensive use of technology comprising GPS trackers (to track equipment usage, maintenance and efficiency). It has an in-house team for management and maintenance of equipment. Reliance on best-in-class single brands to optimise use of spare parts supports ease of maintenance and lowers costs as well. However, 100% ownership of equipment and large on-roll employee base also mean to the high fixed costs. To support such fixed costs, the company has to ensure that the order book remains healthy.

- DBL has no dependence on local third parties for delivery of structures/components such as concrete pipes. Most local suppliers do not have large capacities to support DBL's needs and thus, contracting with them could lead to delays and result in poor quality.
- DBL follows the policy of large-scale centralised procurement of raw materials vs. other contractors that sub-contract work to many smaller vendors. Centralised procurement managed from DBL's corporate head office in Bhopal allows the company to lower raw material costs through volume discounts from suppliers.

Strong growth visibility given order book and pipeline

Existing order book provides strong growth visibility
The jump in project awards by NHAI, MoRTH, and state governments has boosted order books of many road contractors. DBL too has received a flurry of new road construction contracts both from the NHAI/central government as well as state road development agencies.

Figure 6: Order book has grown steadily, led primarily by road awards

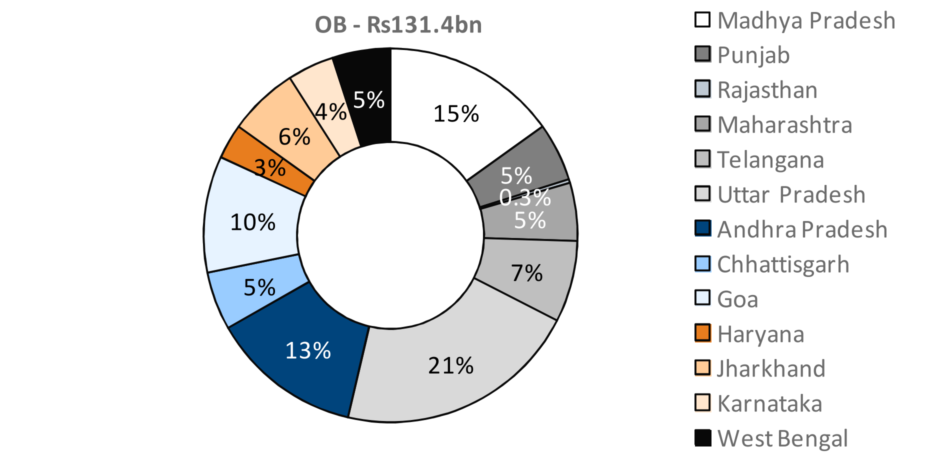


Source: Company; , IIFL Research

As a result, order book for the company has jumped from Rs51.6bn in FY14 to Rs118.4bn in FY16 and to Rs131bn as at end-9MFY17. Including new orders worth ~Rs32bn won in Jan-Feb 2017, order book stands at Rs163bn. The end-9MFY17 order book implies book-to-bill ratio of 2.8x (order book/trailing 12m revenues) and provides strong visibility for sustained revenue growth. Importantly many orders include mostly two-laning or four-laning contracts, which normally have much lower land acquisition needs. Hence, they entail much lower delays in securing the appointed dates from the government.

DBL has steadily increased its presence in various states, apart from its home state of MP, buttressed by its execution capabilities and business model. This reflects in the composition of its current order book in which MP contributes only 15% of project work.

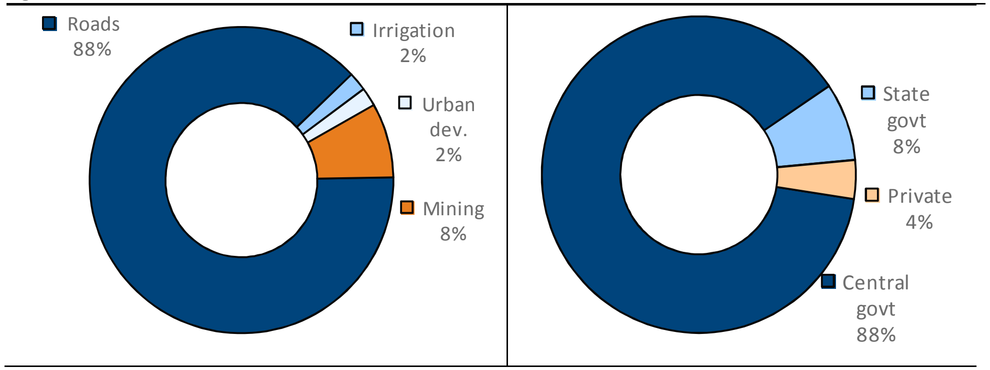
Figure 7: Order book highlights capability to execute works in various states



Source: Company, IIFL Research

The order book has a healthy mix of third-party road EPC contracts (from NHAI, MoRTH and state governments), captive road projects won on HAM basis, as well as third-party coalmining EPC contracts. In addition, share of central government orders has increased to 88%, given increased comfort on contract terms and payment timelines for central government projects.

Figure 8: Order book is diversified across sectors but is primarily from central govt agencies



Source: Company; , IIFL Research

DBL's intent to leverage its expertise in aggregate crushing/over-burden removal has driven its foray into the mining segment. Similar to roads, order accretion in the coal-mining segment has been quite healthy, driving an increase in contribution of coal-mining segment to 8% of order book as at end-9MFY17.

Figure 9: Coal mining EPC orders won recently

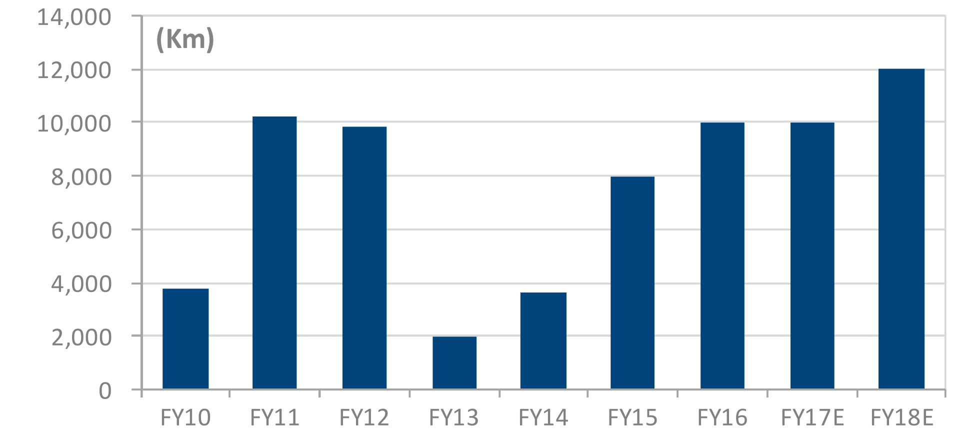
Project	Cost (Rs m)
Singareni Collieries - Khairagura OCP	9,735
Western Coalfield - Kolarpimpari OCM	5,411
Northern Coalfield - Nigahi OCP	14,698
Northern Coalfield - Nigahi OCP	16,736

Source: Company, IIFL Research

Large project pipeline should support future order accretion

The two key focus segments currently, roads and highways and mining, have a large project pipeline for awards over FY18-20. For roads, various central government agencies, including NHAI, NHIDCL and MoRTH, are well on track to award ~10,000km of highway projects annually for the next few years. Additionally, state governments Maharashtra, Uttar Pradesh, and Karnataka are focusing on development of state highways.

Figure 10: Current project pipeline should translate into ~10-12k km of highway awards annually.



Source: MoRTH, NHAI, IIFL Research

In the mining segment, DBL is looking to undertake both EPC contracts for overburden removal as well as MDO contracts guaranteeing certain output for end-use plants. These contracts will come from government PSUs (Coal India, Singareni Coal, Nevyeli Lignite), which are looking to expand coal production, and from private entities that have or will win coal blocks for captive end-use. Traditional EPC contracts for overburden removal are better from the point of risk management compared with MDO contracts, given that the contractor would also need to handle environmental clearances, land acquisition, and R&R for MDO contracts.

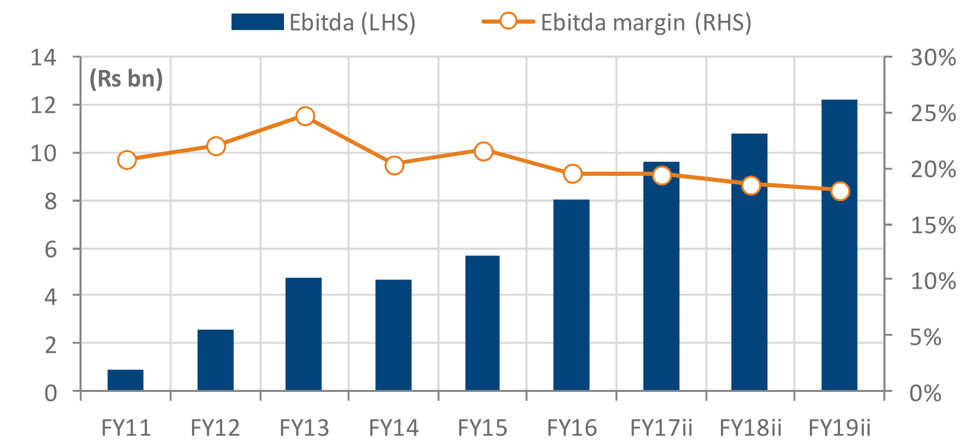
In the irrigation segment, the company is focusing on building pre-qualifications through smaller strategic contracts, to be ready for likely large awards for river linking. Hence, while the irrigation segment may remain small in terms of composition of order book in the near term, longer-term prospects remain large and promising.

Improving profitability and return ratios

Industry-leading Ebitda margins should sustain

Over FY11-16, DBL reported average Ebitda margin of 21% and average return on equity of 39% at the standalone level. 9MFY17 Ebitda margin of 18.9% also includes expense towards IPO amounting to Rs260m. These are significantly higher than most other listed construction contractors in India. Compared with other contractors, many factors drive better profitability for DBL. These flow from company's business model and strategy for execution of work. Most of these are sustainable, even as the company grows, given that it has focused on institutionalising the processes behind these practices.

Figure 11:DBL has sustained industry leading Ebitda margins since FY11



Source: Company, IIFL Research

- Extensive pre-bid project evaluation ensures that major risks to execution are recognised and the costs are adequately built into the estimates, which minimises delays and cost overruns once the project work commences.
- Focus on clustering of projects helps in managing mobilisation costs ensuring timely execution on the back of better understanding of the local work environment.
- Optimum utilisation of key resources (equipments as well as labour) through tested project management processes, majority ownership of resources and extensive use of technology maximises productivity. New equipment and young fleet helps the company to extract high productivity and keep maintenance costs low. About 74% of excavators, 60% of DG sets and 57% of transit mixers owned by DBL were less than three years old as at Mar-2015.
- The company gains form bulk procurement of key raw material such as cement, steel, bitumen, diesel, fuel oil, emulsion, scaffolding, shuttering, lubricant, tyres, batteries, survey items, signboards, laboratory equipment and electrical items. Being one of the largest contractors executing all contracts in house, the company is able to extract benefits from bulk procurement of these items.
- Minimal leasing and hiring costs for equipment reflect in higher depreciation (as a proportion of revenues), boosting Ebitda margin by a few percentage points.
- Receipt of early completion bonus on the back of faster-than-expected completion also boosts reported margins for the company. The company reported total bonus receipt of Rs2.2bn over FY11-1HFY17.

DBL has been able to sustain the industry-leading Ebitda margins across FY11-16 and this was not necessarily supported by execution of construction contracts for its own captive BOT road projects. Revenue contribution from owned captive BOT road projects was 10-25% during FY12-16. With majority of revenues being booked from third party construction contracts (figure 5), there is much higher comfort on sustainability of Ebitda margins for DBL.

PBT margin to improve on stable debt and interest costs

DBL had seen its PBT margin decline from 13.5% in FY11 to 6.1% in FY16, led by sharply higher interest expenses. Interest expense as a percentage of Ebitda increased from 17% in FY11 to 48% in FY16. This was driven by aggregate capex of Rs16.9bn over FY12-16, incremental working capital needs for revenue growth, elongation of working capital cycle itself, and investment Rs2.8bn as equity for owned BOT assets.

Figure 12:Debt increased steadily on negative free cash flow over FY13-16

Rs m	FY13	FY14	FY15	FY16	FY17ii	FY18ii	FY19ii
EBIT	4,011	3,912	4,476	6,158	7,330	8,331	9,529
Net working capital change	(4,808)	(3,362)	(2,895)	(3,255)	(1,497)	(1,742)	(2,605)
Operating cash flow before interest	(528)	563	2,203	4,265	8,046	7,716	7,749
Operating cash flow after interest	(1,552)	(923)	(389)	614	4,020	3,666	3,749
Capital expenditure	(852)	(1,699)	(6,682)	(4,156)	(3,800)	(2,000)	(2,000)
Long-term investments	(365)	(865)	(959)	(65)	(2,700)	(2,300)	(2,000)
Free cash flow	**(2,758)**	**(3,523)**	**(7,969)**	**(3,757)**	**(2,480)**	**(634)**	**(251)**

Source: Company, IIFL Research

- Expansion in working capital was led by higher raw material inventory in anticipation of the higher execution, as the company received healthy order inflows.
- Additionally, the company also reported increase in receivable days as a few projects from private developers (Essel Infra and Topsworth) witnessed significant delays in payments.
- Receivable from these two clients stood at Rs5.9bn in FY15 and has steadily declined to Rs4bn in FY16 and ~Rs2.8bn as at end-9MFY17.

Figure 13: Working capital cycle expected to come down on lower receivables

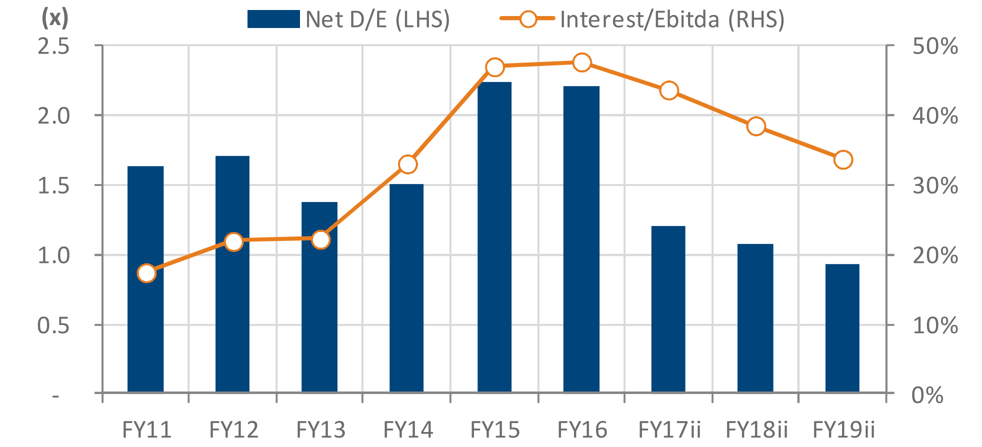
Days	FY14	FY15	FY16	FY17ii	FY18ii	FY19ii
Inventory	82	132	141	141	141	141
Receivables	167	176	108	90	80	75
Loans & advances	43	73	58	56	55	55
Other current assets	7	17	7	6	5	5
Payables	73	115	91	91	91	91
Other current liabilities	59	81	53	50	50	50
Provisions	5	2	2	2	2	2
Net working capital	**162**	**199**	**168**	**150**	**138**	**133**

Source: Company, IIFL Research

- **Going forward, inventory levels will remain high given the business model of crushing entire aggregates in the early stages of project execution.**
- Receivables will come down as payments from private developers (Essel & Topsworth) are recovered. Further, receivables cycle from the mining segment would be much lower than that for roads and highways, further supporting a lower working capital cycle.
- In terms of new capex, the company expects to incur Rs3.8bn in FY17 (Rs3.6bn incurred in 9MFY17), primarily towards mining equipment. FY18-19 capex should be ~Rs2bn, largely towards maintenance and some amount of growth capex.
- Total equity commitment (adjusted for cash generation from operational assets) from the standalone balance sheet for nine under-construction/development BOT projects stands at Rs9bn, of which Rs2.3bn has been invested in 9MFY17. The balance will be invested over FY18-20.
- To minimise incremental investment into BOT assets, the company plans to monetise the operational projects. Management also highlighted that it is looking to add investors for the three HAM projects during the construction period, to limit equity commitment from the standalone balance sheet while retaining the EPC contract for the standalone entity.

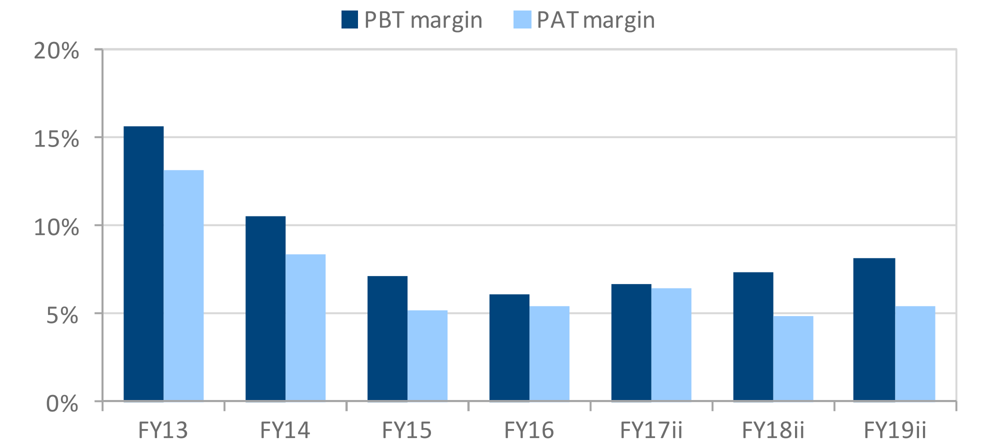
Overall, we largely expect debt to remain stable following the equity raising. This would translate into steady improvement in net D/E ratio and lower interest-to-Ebitda ratio, driving the uptick in PBT margin. PAT margin may remain largely stable since tax rate would increase, as benefits under section 80-IA taper off over FY18-19.

Figure 14: Net D/E and interest/Ebitda to moderate steadily



Source: Company, IIFL Research

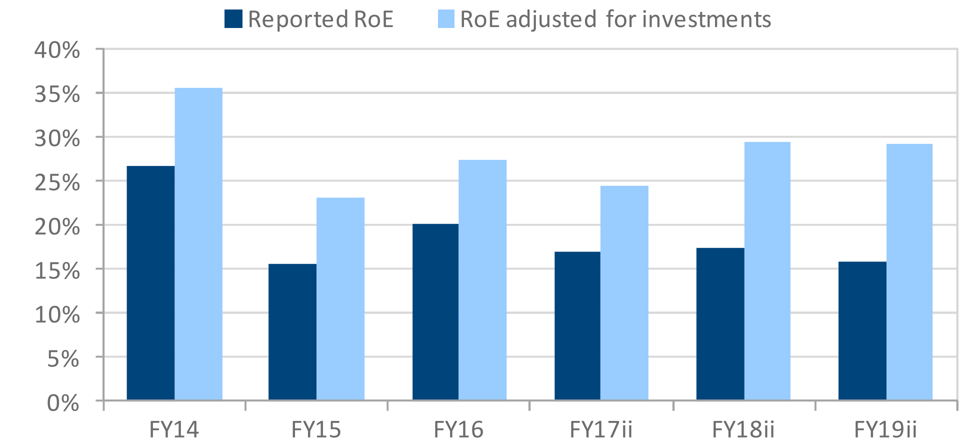
Figure 15:PBT/PAT margin should trend up on stable finance expenses



Source: Company, IIFL Research

Reported standalone ROE for DBL would come down over FY17-19 compared with earlier years, despite improving profitability at the PAT level. This is the result of recent equity raising and increasing equity investments into BOT/HAM projects. Adjusted for equity invested in BOT assets, ROE should improve to ~29% over FY18-19.

Figure 16: Net D/E and interest/Ebitda to moderate steadily



Source: Company, IIFL Research

Owns a portfolio of 21 BOT projects

12 operational BOT projects are cash positive

DBL owns 21 BOT road projects of which 12 projects are operational as of date and 9 projects are under construction. The 12 completed projects have total length of 1629 lane kms in Gujarat and Madhya Pradesh. Most of the operational projects were completed ahead of their respective schedules, which resulted in early completion bonus of Rs1.92bn paid to DBL as part of the EPC contract.

Figure 17:Portfolio of 12 BOT projects - 100% owned and operational

Project	Type	Client	Cost (Rs m)	Annuity (Rs m)	COD
Nadiad-Modasa	Annuity	R & BD GOG	2,081	349	Dec-13
Bankhlafatta-Dogawa	Annuity	MPRDC	1,158	198	Mar-14
Jaora-Piploda	Annuity	MPRDC	1,344	241	May-14
Mandsaur-Sitamau	Toll	MPRDC	349	-	Feb-09
Sardarpur-Badnawar	Annuity + Toll	MPRDC	977	94	Jun-12
Silwani-Sultanganj	Annuity + Toll	MPRDC	1,287	190	Mar-13
Sitamau-Suwasara	Annuity + Toll	MPRDC	604	74	Mar-13
Mundi-Sanawad	Annuity + Toll	MPRDC	1,410	166	May-13
Uchera-Nagod	Annuity + Toll	MPRDC	1,140	169	May-14
Ashoknagar-Vidisha	Annuity + Toll	MPRDC	847	101	Jul-14
Tikamgarh (Dhajrai) Jatara-Palera Nowgaon	Annuity + Toll	MPRDC	1,300	178	May-15
Betul Sarni Junnardeo-Parasia#	Annuity + Toll	MPRDC	3,216	310	May-15

Source: Company, IIFL Research

The 100% owned 12 operational projects are cash positive on an aggregate basis and do not put any further strain on the parent's balance sheet for cash support. Given that majority of revenues for these operational projects come in the form of annuities, risk to cash flows is also low.

Figure 18:Consolidated cash flow for 12 operational projects

Rs m	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
PAT	298	159	201	222	254	411	354
Add depreciation	903	1,032	1,046	1,060	1,077	1,094	1,114
less increase in WC	(212)	(0)	-	-	0	0	0
less debt repaid	373	653	695	767	813	879	1,050
FCF Equity	**1,039**	**538**	**552**	**515**	**517**	**626**	**418**

Source: Company, IIFL Research

Nine under construction projects largely based on HAM model

Apart from the operational project, the company also owns nine under-construction/development projects with an aggregate length of 646 lane kms. Of these, the Guna-Biora project in Madhya Pradesh is toll based; all other projects have annuity or hybrid annuity revenue streams. Among these, the company recently declared provisional CoD for the Hata-Fatehpur project 400 days ahead of scheduled completion. The company is eligible for a bonus amount of Rs153.8mn for MPRDC

Figure 19:Summary of new BOT projects

Project	Type	State	Length (km)	Concession period (years)	Cost (Rs m)
Hirekerur Ranibennur	Annuity	Karnataka	55.7	10.0	1,680
Hassan Periyapatna	Annuity	Karnataka	73.7	10.0	2,250
Mundargi Harapanahalli	Annuity	Karnataka	51.2	10.0	1,510
Guna Biora	Toll	MP	93.5	26.0	7,000
Patan Rehli	Annuity + toll	MP	86.6	15.0	2,720
Hata Fatehpur*	Annuity + toll	MP	64.4	15.0	1,010
Lucknow Sultanpur	HAM	UP	123.2	17.5	20,160
Tuljapur Bypass	HAM	Maharashtra	54.0	17.0	9,111
Kalmath Zarap	HAM	Maharashtra	44.0	17.0	9,140

Source: Company, IIFL Research *achieved provisional CoD on 9-Mar-2017.

- The Guna-Biora project won by DBL is the second 100% toll-based project in its portfolio. The company made an exception for this, driven by specific experience from the ongoing EPC work for the Gwalior-Shivpuri project. This provides significant comfort to existing traffic levels.
- The Lucknow-Sultanpur HAM project was won by quoting a 6% higher bid vs. the MoRTH project cost. L2 bid by PNC Infra was only 5.5% higher than that of DBL.
- The Kalmath-Zarap HAM project was won by quoting a 27% higher bid compared with MoRTH project cost. L2 bid by Chetak-Eagle JV was 2.6% higher in NPV terms.

For the new projects won, the total equity commitment stands at Rs9bn of which ~Rs2.3bn has already been invested. The balance equity commitment would be invested over the next two three years, based on execution timelines (FY18-Rs2.8bn, FY19-Rs2.5bn, FY20-Rs1.2bn). The equity requirement would be funded through cash generated from operational assets and the standalone balance sheet as well. Monetisation of the existing BOT road portfolio can reduce dependence on the standalone balance sheet as and when fructifies. Management has already indicated intentions to sell operational projects.

We initiate with BUY and TP of Rs382

For the standalone EPC business, we estimate 18% revenue Cagr over FY16-19, supported by healthy existing order book, a large project pipeline, and sustained pace of execution. Ebitda Cagr over this period should be 15%, assuming margin contraction to 18% in FY19 vs. 19.6% in FY16, on the back of higher competition in recent project awards. PBT should grow at 30% as interest expense remains stable. Building in the increasing tax rate post expiry of concession under section 80-IA, PAT Cagr would be 19%, as per our estimate.

We do a sum-of-parts valuation for DBL to arrive at 12m target price of Rs382. This is based on 13x FY19ii PER for the standalone entity. This is lower than PER ascribed to KNR Construction or Sadbhav, given higher D/E for DBL and market concerns on sustainability of industry-leading Ebitda margin. We value the 12 operational BOT projects based on DCF, assuming 10% annual toll revenue growth, 10.5% cost of debt, and discount rate of 12%. We do not ascribe any value to the investments of Rs2.3bn made in new BOT projects.

Figure 20: Sum-of-the-parts valuation

DBL - SOTP Valuations	Rs m	Per share
Standalone PAT FY19ii	3,705	
Target P/E multiple (x)	13.0	
Equity value	**48,161**	**352**
DCF for 12 operational BOT assets	4,111	30
Total value	**52,272**	**382**

Source: Company, IIFL Research

Figure 21: DCF valuation of operational BOT projects

	DCF (Rs m)	BV (Rs m)	Implied P/BV (x)	Per share (Rs)
Nadiad-Modasa	463	578	0.8	3
Bankhlafatta-Dogawa	264	330	0.8	2
Jaora-Piploda	290	200	1.4	2
Mandsaur-Sitamau	412	33	12.6	3
Sardarpur-Badnawar	114	366	0.3	1
Silwani-Sultanganj	292	120	2.4	2
Sitamau-Suwasara	189	114	1.7	1
Mundi-Sanawad	(91)	169	(0.5)	(1)
Uchera-Nagod	215	320	0.7	2
Ashoknagar-Vidisha	265	200	1.3	2
Tikamgarh (Dhajrai) Jatara-Palera Nowgaon	518	100	5.2	4
Betul Sarni Junnardeo-Parasia	1,180	246	4.8	9
Total	**4,111**	**2,775**	**1.5**	**30**

Source: Company, IIFL Research

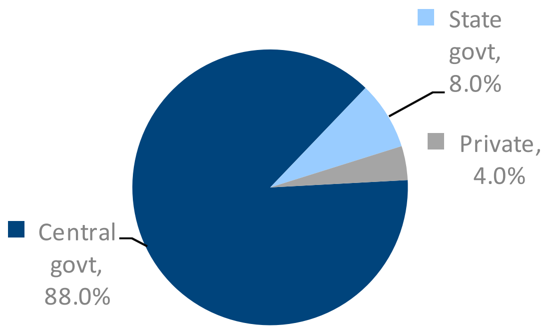
Background: Dilip Buildcon Limited is a Bhopal based road contractor and developer. Starting from 2006, the company gained scale in road EPC as the MP government increased expenditure on road network development. The company progressively diversified from MP government orders to central and state government road projects across 16 states. DBL focuses on maximizing control over the execution process through in-house execution, owned equipments and on-roll employee base. This enabled DBL to post robust 57% revenue cagr over FY11-16 with industry leading Ebitda margins. It also undertakes irrigation, urban development and mining contracts to expand the addressable market. DBL also has a portfolio of 21 BOT road projects of which 12 annuity projects are currently operational.

Management

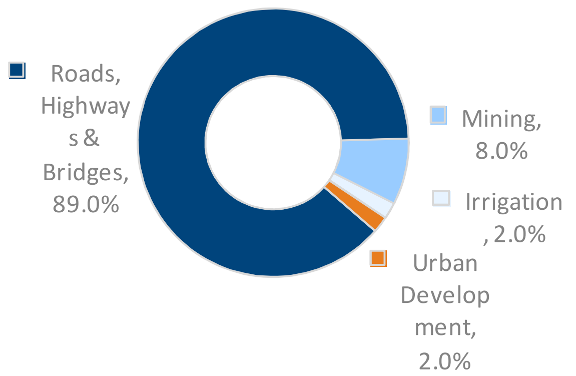
Name	Designation
Dilip Suryavanshi	Chairman & MD
Devendra Jain	ED & CEO
Rohan Suryavanshi	Head-Strategy

Competitors: L&T, KNRC, IRB Infra, Sadbhav Eng

Order book composition by client (9MFY17)



Order book (Rs131bn) - 9MFY17



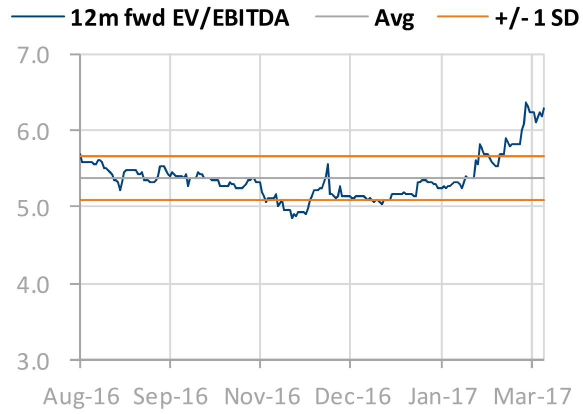
Assumptions

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenue growth	13.3	55.7	21.0	18.0	16.0
Ebitda margin	21.6	19.6	19.4	18.5	18.0
Working capital cycle	199	168	150	138	133

Source: Company data, IIFL Research

PE chart

EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Revenues	**26,241**	**40,853**	**49,432**	**58,330**	**67,663**
Ebitda	5,655	7,992	9,590	10,791	12,179
Depreciation and amortisation	(1,179)	(1,835)	(2,260)	(2,460)	(2,650)
Ebit	4,476	6,158	7,330	8,331	9,529
Non-operating income	60	154	154	100	100
Financial expense	(2,653)	(3,805)	(4,180)	(4,150)	(4,100)
PBT	1,884	2,507	3,304	4,281	5,529
Exceptionals	0	0	0	0	0
Reported PBT	1,884	2,507	3,304	4,281	5,529
Tax expense	(510)	(308)	(93)	(1,413)	(1,825)
PAT	1,374	2,199	3,211	2,868	3,705
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**1,374**	**2,199**	**3,211**	**2,868**	**3,705**

Ratio analysis

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Per share data (Rs)					
Pre-exceptional EPS	11.7	18.8	23.5	21.0	27.1
DPS	0.1	0.0	0.0	0.0	0.0
BVPS	74.5	93.3	134.8	155.8	182.8
Growth ratios (%)					
Revenues	13.3	55.7	21.0	18.0	16.0
Ebitda	20.3	41.3	20.0	12.5	12.9
EPS	(64.2)	60.1	25.1	(10.7)	29.2
Profitability ratios (%)					
Ebitda margin	21.6	19.6	19.4	18.5	18.0
Ebit margin	17.1	15.1	14.8	14.3	14.1
Tax rate	27.1	12.3	2.8	33.0	33.0
Net profit margin	5.2	5.4	6.5	4.9	5.5
Return ratios (%)					
ROE	17.2	22.4	21.9	14.4	16.0
ROCE	18.0	18.5	18.9	19.0	20.0
Solvency ratios (x)					
Net debt-equity	2.2	2.2	1.2	1.1	0.9
Net debt to Ebitda	3.5	3.0	2.3	2.1	1.9
Interest coverage	1.7	1.6	1.8	2.0	2.3

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Cash & cash equivalents	2,342	1,059	579	1,045	995
Inventories	9,476	15,803	19,122	22,564	26,174
Receivables	12,636	12,103	12,189	12,785	13,903
Other current assets	6,416	7,270	8,397	9,589	11,123
Creditors	8,278	10,232	12,381	14,609	16,947
Other current liabilities	5,967	6,107	6,994	8,252	9,573
Net current assets	**16,626**	**19,896**	**20,913**	**23,121**	**25,676**
Fixed assets	11,890	14,204	15,744	15,284	14,634
Intangibles	0	0	0	0	0
Investments	2,789	2,898	5,598	7,898	9,898
Other long-term assets	0	0	0	0	0
Total net assets	**31,305**	**36,998**	**42,255**	**46,303**	**50,208**
Borrowings	21,870	25,138	22,838	23,938	24,138
Other long-term liabilities	707	937	982	1,062	1,062
Shareholders' equity	**8,728**	**10,923**	**18,434**	**21,303**	**25,007**
Total liabilities	**31,305**	**36,998**	**42,255**	**46,303**	**50,208**

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY15A	FY16A	FY17ii	FY18ii	FY19ii
Ebit	4,476	6,158	7,330	8,331	9,529
Tax paid	(647)	(589)	(47)	(1,333)	(1,825)
Depreciation and amortization	1,179	1,835	2,260	2,460	2,650
Net working capital change	(2,895)	(3,255)	(1,497)	(1,742)	(2,605)
Other operating items	90	117	0	0	0
Operating cash flow before interest	2,203	4,265	8,046	7,716	7,749
Financial expense	(2,653)	(3,805)	(4,180)	(4,150)	(4,100)
Non-operating income	60	154	154	100	100
Operating cash flow after interest	**(389)**	**614**	**4,020**	**3,666**	**3,749**
Capital expenditure	**(6,682)**	**(4,156)**	**(3,800)**	**(2,000)**	**(2,000)**
Long-term investments	(959)	(65)	(2,700)	(2,300)	(2,000)
Others	62	(151)	0	0	0
Free cash flow	**(7,969)**	**(3,757)**	**(2,480)**	**(634)**	**(251)**
Equity raising	0	0	4,300	0	0
Borrowings	9,654	2,482	(2,300)	1,100	200
Dividend	(12)	(7)	0	0	0
Net chg in cash and equivalents	1,674	(1,283)	(480)	466	(51)

Source: Company data, IIFL Research

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

a) This research report ("Report") is for the personal information of the authorized recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.

b) Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

c) The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.

d) Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.

e) IIL has other business segments / divisions with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.

f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.

g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company(ies) mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company(ies) mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.

h) As IIL and its associates are engaged in various financial services business, it might have:-

(a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.

i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report.

j) The Research Analyst engaged in preparation of this Report or his/her relative:-

(a) does not have any financial interests in the subject company (ies) mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.

k) The Research Analyst engaged in preparation of this Report:-

(a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

L) IIFLCAP accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of IIFLCAP and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp, www.bseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Name, Qualification and Certification of Research Analyst: Anupam Gupta(PGDBM), Urvil Bhatt(Chartered Accountant)

India Infoline Limited (Formerly "India Infoline Distribution Company Limited"), CIN No.: U99999MH1996PLC132983, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.:- INH000000248

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

Distribution of Ratings: Out of 202 stocks rated in the IIFL coverage universe, 114 have BUY ratings, 9 have SELL ratings, 53 have ADD ratings and 26 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.