AXIS DIRECT

DILIP BUILDCON

ENGINEERING

25 MAY 2017

Quarterly Update

BUY

Target Price: Rs 610

Blockbuster year; on the right track

FY17sales grew 25% YoY to Rs 51.1 bn,EBITDA was up24% at Rs 9.9 bn and EBITDA margin was flat at 19.5%. PAT was up 63% YoY at ~Rs 3.6bn. The company is delivering well on its strategy of executing projects ahead of schedule and booked early completion bonus of Rs 1.06 bn during the year.

Strong orders/visibility: DBL booked order inflow of ~Rs 62 bn (up250% YoY) in Q4 and Rs 118 bn (up 45% YoY) in FY17. Order backlog at ~Rs 176 bn is up 63% YoY from Rs 107 bn in Mar'16. Order backlog of 3.5x of FY17 sales gives clear visibility for revenue growth of 20-25% over FY17-19 and lends comfort to management to bid selectively in FY18. This coupled with rise in share of mining (>20% margin) should result in EBITDA margin of 19%-20% in FY18/FY19.

CMP	: Rs 500
Potential Upside	: 22%

MARKET DATA

No. of Shares	: 137 mn
Free Float	: 24%
Market Cap	: Rs 68 bn
52-week High / Low	: Rs 529 / Rs 179
Avg. Daily vol. (1mth)	: 256,816 shares
Bloomberg Code	: DBL IB Equity
Promoters Holding	: 76%
FII / DII	: 15% / 3%

Cash conversion cycle improves: Net Working Capital (NWC) days decreasedto 129 vs. 156 QoQand 136 YoY.Receivable days declined to 73 vs. 95 QoQ and 86 YoY, inventory days declined to 120 vs. 139 QoQ and 141 YoY partially offset by decline in payable days to 64 vs. 78 QoQ and 91 YoY. The company targets to reduce NWC further to ~100-110 days by the end FY18(our estimate 115) through: (a) halving the number of project sites to 25 lowering inventory to<100 days from 155 days and (b) increasing the share of mining that has fortnightly payments.

Cash flow turns positive: DBL generated operating cash flow of ~Rs 4.3 bn in FY17 (vs. outflow of ~Rs 1 bn in FY16). It invested Rs 2.9 bn in BOT/HAM assets and incurred capex of ~Rs 4.9 bn. Capital raised during the year resulted in net debt of ~24 bn (flat YoY).

Increaseestimates, TP; maintain BUY: Weincrease ourFY18/19 EPS to Rs 38/Rs 45 (vs. Rs 28/Rs 34 earlier) given the strong revenue growth and margin visibility. Further, we raise our target multiple to 12x (vs. 10x earlier) to account for strong outlook for the sector. Our revised TP stands at Rs 610(12x FY19E EPS + 1x book value of BOT assets).

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	40,176	50,754	62,462	74,729
EBITDA (Rs mn)	7,992	9,923	12,330	14,722
Adj PAT (Rs mn)	2,199	3,609	5,202	6,144
EPS (Rs)	18.8	26.4	38.0	44.9
Change YOY (%)	50.8	40.6	44.1	18.1
P/E (x)	25.1	17.0	11.8	10.0
RoE (%)	22.3	24.5	24.6	22.9
EV/E (x)	11.5	9.4	7.4	6.1

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers(Rs bn)

	FY17	FY18E	FY19E
Order inflow	118	80	100
Order backlog	175	192	218
Revenue growth	25%	23%	20%
Margin	19.5%	19.7%	19.7%

Price performance

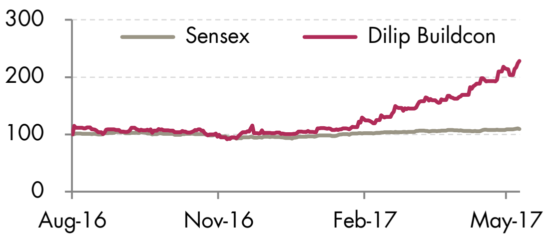


Exhibit 1: Results update

	Quarter ended					12 months ended		
(Rs. mn)	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net Sales/Income from op	**17,502**	**13,538**	**29.3**	**13,891**	**26.0**	**62,462**	**50,754**	**23.1**
EBIDTA	3,547	2,208	60.6	2,776	27.8	12,330	9,923	24.3
Other income	32	127	(74.6)	27	21.0	120	114	5.0
PBIDT	**3,580**	**2,335**	**53.3**	**2,802**	**27.7**	**12,450**	**10,037**	**24.0**
Depreciation	618	502	23.1	593	4.2	2,507	2,274	10.2
Interest	1,057	1,045	1.2	1,062	(0.4)	4,164	4,162	0.0
PBT	**1,904**	**788**	**141.5**	**1,147**	**65.9**	**5,780**	**3,601**	**60.5**
Tax	(54)	185	(128.9)	61	(187.8)	578	-	-
PAT	**1,958**	**603**	**224.5**	**1,086**	**80.2**	**5,202**	**3,609**	**44.1**
No. of shares (mn)	137	137	-	137	-	137	137	-
EBIDTA margin (%)	20.3	16.3	395.7	20.0	-	19.7	19.6	1.0
PBIDT margin (%)	20.5	17.2	-	20.2	-	19.9	19.8	0.8
EPS (Rs)	**14.3**	**4.4**	**224.5**	**7.9**	**80.2**	**38.0**	**26.4**	**44.1**

Source: Company, Axis Capital

Other highlights

Clear strategy for BOT assets: The management highlighted that change in the mix of road awards towards Hybrid Annuity (HAM) vs. EPC earlier is driving the company to take HAM projects. However, it has a clear strategy of churning the existing assets as well as selling the BOT/HAM assets on commissioning. During the quarter, DBL signed a **MOU with Shrem Infraventure Private Limited who will invest 49% equity in the Tuljapur-Ausa Road Project** and would buy remaining 51% stake two years after the completion (COD) of the project.

DBL has 12 operational BOT projects with an overall equity investment of Rs 4.3 bn and debt of Rs 10.5 bn. The company is targeting monetization of these operational BOT assets. In addition, DBL has 7 under-construction BOT assets (1 Toll, 3 Hybrid Annuity and 4 Toll + Annuity), which would require equity investment of ~Rs 9 bn (over next 3 years, Rs 2.5 bn each in FY17 / 18), debt of ~Rs 25 bn and would get government grant of ~Rs 14 bn. The company has a clear strategy of monetizing these assets too once they are operational.

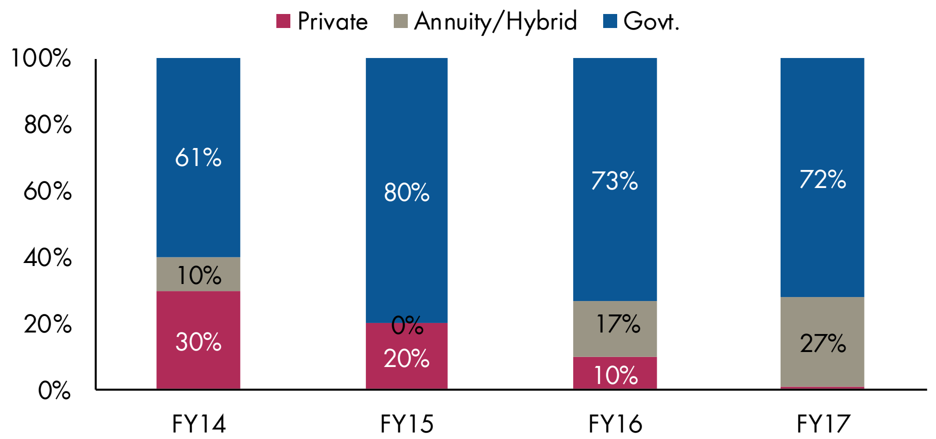
Diversification in mining to reduce dependence on road: DBL has won ~Rs 32.5 bn of mining contracts during H1FY17. These contracts are principally for overburden removal from Coal India's subsidiaries. Execution risks are lower, as the company neednot acquire land or procure raw material or seek environment clearances for quarries. These are primarily deploying equipment and ferrying overburden to the nearest dump yard.

DBL expects revenue from mining at ~Rs 7-8 bn in FY18 and EBITDA margin of > 20%. The company has invested~Rs 2bn towards procurement of equipment. Mining segment has zero inventories, and the company can raise bills every fortnight, resulting in NWC of 45-60 days vs. road segment at >135 days.

Mining segment order book of Rs 32.5 bn gives revenue visibility of ~Rs 7-8 bn pa over the next 3-5 years. Note: The company will depreciate the assets over 5 years towards the mining division. RoIC for mining is at ~50% vs. 20-25% for roads.

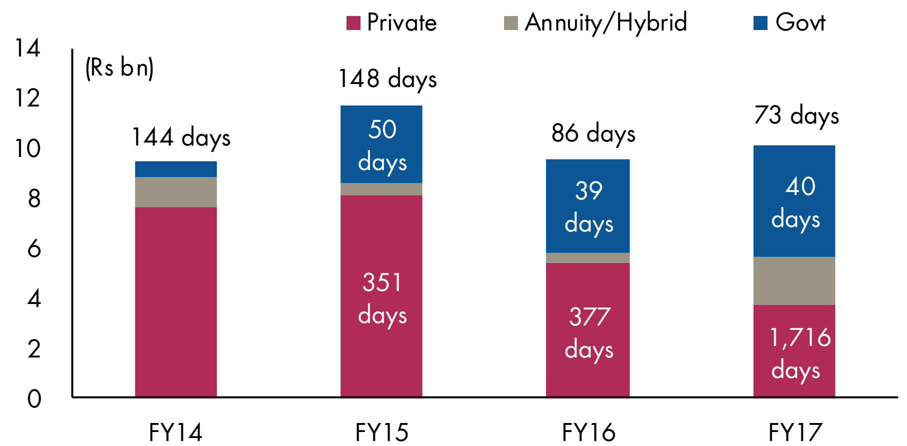
On track to lower inventory/ working capital cycle: During FY18, the number of sites under execution would halve to ~25.This would lower inventory level, as bulk of them would be in their full-execution phase. Inventory levels are usually higherin the initial phases and lower during ramp-up and tail-end. Further, the mining segment would constitute ~15% of FY18E revenue. NWC in mining is 45-60 days vs. 135 days in roads EPC. Additionally, reduction in stuck receivables from private sector would lower the NWC to ~110 days by FY18 vs. ~129 days in FY17.

Exhibit 2: Changing composition of order-book…



Source: Company, Axis Capital

Exhibit 3: …would bring debtor days further down



Source: Company, Axis Capital

Financial summary (Standalone)

Profit &loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	40,176	50,754	62,462	74,729
Other operating income	677	222	150	150
Total operating income	**40,853**	**50,976**	**62,612**	**74,879**
Cost of goods sold	(30,170)	(37,930)	(46,222)	(55,300)
Gross profit	10,683	13,047	16,390	19,580
Gross margin (%)	*26.6*	*25.7*	*26.2*	*26.2*
Total operating expenses	(2,691)	(3,124)	(4,060)	(4,857)
EBITDA	**7,992**	**9,923**	**12,330**	**14,722**
EBITDA margin (%)	*19.9*	*19.6*	*19.7*	*19.7*
Depreciation	(1,835)	(2,274)	(2,507)	(2,657)
EBIT	**6,158**	**7,649**	**9,823**	**12,065**
Net interest	(3,805)	(4,162)	(4,164)	(3,999)
Other income	154	114	120	126
Profit before tax	**2,507**	**3,601**	**5,780**	**8,193**
Total taxation	(308)	9	(578)	(2,048)
Tax rate (%)	*12.3*	*(0.2)*	*10.0*	*25.0*
Profit after tax	2,199	3,609	5,202	6,144
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,199	3,609	5,202	6,144
Adj. PAT margin (%)	*5.5*	*7.1*	*8.3*	*8.2*
Net non-recurring items	-	-	-	-
Reported net profit	2,199	3,609	5,202	6,144

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	22,363	28,507
Net worth	10,962	18,529	23,730	29,875
Borrowing	25,138	25,626	24,626	22,626
Other non-current liabilities	965	759	759	759
Total liabilities	**37,066**	**44,914**	**49,115**	**53,260**
Gross fixed assets	19,424	24,319	25,819	27,319
Less: Depreciation	(5,220)	(7,494)	(10,001)	(12,657)
Net fixed assets	14,204	16,825	15,818	14,661
Add: Capital WIP	-	-	-	-
Total fixed assets	14,204	16,825	15,818	14,661
Total Investment	3,785	6,816	9,816	12,816
Inventory	15,803	16,639	18,824	21,497
Debtors	11,919	10,165	11,123	13,308
Cash & bank	1,476	1,137	2,073	1,194
Loans & advances	5,565	3,157	5,989	7,166
Current liabilities	16,267	21,579	24,796	29,666
Net current assets	19,077	21,273	23,481	25,783
Other non-current assets	-	-	-	-
Total assets	**37,066**	**44,914**	**49,116**	**53,260**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	2,507	3,601	5,780	8,193
Depreciation & Amortisation	1,835	2,274	2,507	2,657
Chg in working capital	*(4,778)*	*(2,535)*	*(1,272)*	*(3,181)*
Cash flow from operations	3,060	7,511	10,600	9,619
Capital expenditure	*(4,126)*	*(4,895)*	*(1,500)*	*(1,500)*
Cash flow from investing	(7,463)	(12,089)	(8,664)	(8,499)
Equity raised/ (repaid)	*2,233*	*7,566*	-	-
Debt raised/ (repaid)	*3,269*	*488*	*(1,000)*	*(2,000)*
Dividend paid	-	-	-	-
Cash flow from financing	5,501	8,054	(1,000)	(2,000)
Net chg in cash	1,098	3,476	936	(879)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	18.8	26.4	38.0	44.9
CEPS (Rs)	34.4	43.0	56.4	64.4
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	56.0	26.3	23.1	19.6
EBITDA (%)	41.3	24.1	24.3	19.4
Adj net profit (%)	50.8	64.1	44.1	18.1
FDEPS (%)	50.8	40.6	44.1	18.1
PERFORMANCE				
RoE (%)	22.3	24.5	24.6	22.9
RoCE (%)	18.5	18.9	21.1	23.8
EFFICIENCY				
Asset turnover (x)	1.3	1.3	1.4	1.5
Sales/ total assets (x)	0.8	0.8	0.9	1.0
Working capital/ sales (x)	0.4	0.4	0.3	0.3
Receivable days	108.3	73.1	65.0	65.0
Inventory days	175.5	147.9	136.6	130.4
Payable days	177.8	189.2	177.7	178.0
FINANCIAL STABILITY				
Total debt/ equity (x)	2.6	1.7	1.2	0.8
Net debt/ equity (x)	2.4	1.7	1.1	0.8
Current ratio (x)	2.2	2.0	1.9	1.9
Interest cover (x)	1.6	1.8	2.4	3.0
VALUATION				
PE (x)	25.1	17.0	11.8	10.0
EV/ EBITDA (x)	11.5	9.4	7.4	6.1
EV/ Net sales (x)	2.3	1.8	1.5	1.2
PB (x)	5.3	3.7	2.9	2.3
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	-	-	0.1	0.1

Source: Company, Axis Capital

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SELL	Less than -10%

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