

Dilip Buildcon Ltd.: Q4FY17 Result Update

From Sub-contractor to Marquee EPC Play

CMP INR 509

Target INR 620

Rating: BUY

Upside: 24%

Dilip Buildcon (DBL) is one of the largest road EPC contractors in India with more than INR 17,500 cr order-book and INR 5,000 cr revenue (in FY17). Over the years, the company has created a sustainable business model by focusing on fostering end-to-end execution capability, expanding presence across geographies and securing higher revenue share of government projects. Moreover, by virtue of its efficient & in-house execution and early completion bonus, it earns the highest EBITDA margin and RoCE among peers. After spending aggressively to expand vertically and horizontally, DBL will rein in capex over the next few years and its NWC cycle too is envisaged to improve. Also, the company's 12 completed road projects are consistently generating positive cash flow and considering their healthy positioning one can expect it to garner INR350-380cr from their sale, which is an option value. DBL is expected to repay debt of INR 400 cr over the next 4 years as FCF from standalone operations will be sufficient to fund the capital requirement of 12 under-construction projects. Higher growth, limited capex and repayment of debt are estimated to boost RoCE up to 21% in FY20E. We reiterate our 'BUY' ratings.

Superior execution push the revenue growth high; Margin traction continues

DBL reported standalone topline growth of 29% YoY to INR 1,750 cr in Q4FY17. Among the segments, Road sector reported revenue growth of 23% YoY to INR 1,570 cr and contributed 90% to the overall revenue of the company. Mining segment also started showing traction and reached INR 70 cr revenue runrate in the previous quarter. For the full year of FY17, DBL reported INR 5,098 cr of revenue; 25% growth YoY. With higher growth and contained expenses, EBITDA margin came back to 20% levels in Q4FY17 as compared to 16% reported in the corresponding quarter of previous year. For the full year of FY17, reported EBITDA margin was 19% which is similar to last year. The company reported INR 83 cr of early completion bonus in Q4FY17 and for the full year early completion bonus was INR 106 cr as compared to INR 60 cr in FY16. Without considering the early completion bonus, core EBITDA margin came at 16% for Q4FY17 and 18% for the full year of FY17 which is like-to-like basis 60 bps lower than previous year.

Orderbook reported at INR 17,568 cr; Highest among the peers

DBL reported total order book of INR17,568 cr at the end FY17, a 63% jump YoY and highest among peers. In the road segment, the company got more than INR 9,000 cr of order-inflow in FY17 stood at INR 14,500 cr of orderbook, which provides more than 3 years of revenue visibility. In mining, the company accumulated INR 2,775 cr orderbook in the previous financial year. Among the order book 99% are from government authorities and PSUs which offers better revenue visibility and receivable security. Moreover, the orderbook is spread in 13 different states with MP, Rajasthan, Maharashtra and UP contributing the maximum.

Limited Capex & improved NWC benefited RoCE

DBL did a capex of INR 483 cr in FY17 which is significantly lower than previous three years. NWC in quarter four also showing improvement in trend and partially reduced to 129 days as compared to 136 days in the corresponding quarter. Inventory cycle reduced to 120 days against 139 days, debtor cycle also improved by 16 days in FY17. Due to limited investment both in standalone and consolidated operation, debt level of the standalone company remained stable at INR 2,100 cr. With growth in profitability, limited capex and NWC improvement, overall RoCE improved to 18% in FY17 as compared to 17% achieved in FY16.

Valuation: Maintain BUY with TP of INR 618

At CMP of INR500, DBL's standalone operation is currently trading at 15-20% discount to peers. We value the standalone operation at INR 530/share after ascribing 14x P/E on FY19E EPS of INR38. The completed and under construction BOT, annuity and HAM projects will contribute another INR90/share. We reiterate with a revised target price of INR 620/share.

Financials	Q4FY17	Q4FY16	Q3FY17	%Change	FY17	FY18E	FY19E
Net Revenues (INR cr)	1,750	1,354	1,389	26%	5,098	5,808	7,065
EBITDA (INR crs.)	355	220	278	28%	992	1,045	1,325
PAT (INR Crs)	196	61	109	80%	361	384	515
Diluted EPS (INR)					26.5	28.2	37.8
Diluted PE (x)					18.7	17.6	13.1
EV/EBITDA					12.3	9.2	7.2
ROE(%)					19%	17%	19%

Debashish Mazumdar

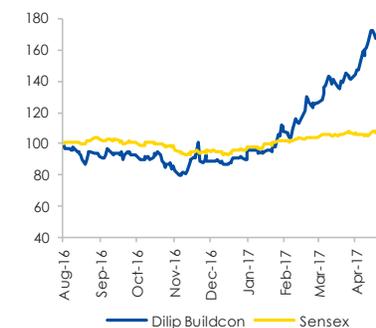
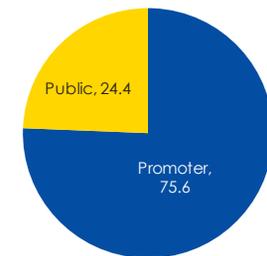
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Bloomberg:

DBL:IN

52-week range (INR):	497/ 178
Share in issue (cr):	13.6
M cap (INR cr):	6,737
Avg. Daily Vol.	
BSE/NSE :('000):	300

Date: 18th May 2017

Other Key Highlights:

- The company completed 10 projects before time in FY17 translating into early completion bonus of 106 cr.
- The company is currently executing 10 road projects currently and among that 6 are HAM projects, 3 are annuity projects and one is toll based project.
- DBL have signed an MOU with Shrem Infraventure 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.

Change in Estimates

	FY18E			FY19E		
	Previous	New	Deviation	Previous	New	Deviation
Revenue	5,566	5,808	4%	6,646	7,065	6%
EBITDA	1,002	1,045	4%	1,246	1,325	6%
Core Profit	347	384	11%	526	515	-2%

Q4FY17 Result Highlights

Particulars	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY16	% change
Net Revenues	1,750	1,354	29%	1,389	26%	5,098	4,085	25%
Direct Expenses	1,301	1,008	29%	1,037	25%	3,793	3,017	26%
Gross Profit	449	346	30%	352	28%	1,305	1,068	22%
Operating Expenses	95	126	-25%	75	27%	312	269	16%
EBITDA	355	220	61%	278	28%	992	799	24%
Depreciation	62	50	23%	59	4%	227	183	24%
Interest	106	105	0%	106	0%	416	380	-
Other Income	3	13	-75%	3	21%	11	15	-26%
PBT	190	77	146%	115	66%	360	251	44%
Tax Payment	-5	17	-132%	6	-188%	-1	31	-103%
PAT Before Minority & Associate Share	196	61	222%	109	80%	361	220	64%
Share of Associates	0	0	-	0	NA	0	0	-
Reported PAT	196	61	222%	109	80%	361	220	64%
Equity Capital	136	136	-	136	-	136	136	-
No of Shares	14	14	-	14	0%	14	14	-
EPS	14.4	4.5	222%	7.98	80%	26.5	16.2	64%
EBITDA Margin	20%	16%		20%		19%	20%	
PAT Margin	11%	4%		8%		7%	5%	
Tax Rate	-3%	22%		5%		0%	12%	

Financials

Income Statement (Standalone)						Balance Sheet (Standalone)						Profit & Efficiency Ratios (Standalone)					
(INR cr)						(INR cr)											
Year to March	FY15	FY16	FY17	FY18E	FY19E	As on 31st March	FY15	FY16	FY17E	FY18E	FY19E	Year to March	FY15	FY16	FY17E	FY18E	FY19E
Income from operations	2,624	4,085	5,098	5,808	7,065	Equity share capital	117	117	136	136	136	ROAE (%)	17%	20%	19%	17%	19%
Direct Expenses	1,932	3,017	3,793	4,356	5,263	Reserves & surplus	756	975	1,747	2,131	2,646	ROACE (%)	15%	17%	18%	18%	21%
Employee Cost	36	71	102	145	177	Shareholders funds	873	1,093	1,883	2,267	2,782	Debtors (days)	176	108	102	89	86
Other Expenses	90	198	210	261	300	Borrowings	2,253	2,537	2,537	2,487	2,437	Current ratio	1.9	1.9	1.9	1.9	1.8
Total operating expenses	2,059	3,286	4,105	4,763	5,740	Sources of funds	3,126	3,629	4,420	4,754	5,219	Gross Debt/Equity	2.2	2.0	1.2	1.0	0.8
EBITDA	566	799	992	1,045	1,325	Gross block	1,527	1,937	2,387	2,487	2,637	Inventory (days)	132	141	136	134	129
Depreciation and amortisation	118	183	227	236	251	Depreciation	340	519	747	983	1,234	Payable (days)	115	91	93	90	86
EBIT	448	616	765	809	1,074	Net block	1,188	1,418	1,640	1,504	1,403	Cash conversion cycle (days)	192	158	145	133	130
Interest expenses	259	380	416	373	353	Capital work in progress	1	3	13	23	33	Gross Debt/EBITDA	3.5	2.8	2.2	2.1	1.6
Other income	6	15	11	15	15	Total fixed assets	1,189	1,420	1,653	1,527	1,436	Net debt/Equity	2.0	1.9	1.1	0.9	0.7
Profit before tax	195	251	360	451	736	Non Current Assets	655	573	873	1,243	1,543	Valuation Parameters (Standalone)					
Provision for tax	49	31	-1	68	221	Inventories	948	1,580	1,896	2,125	2,506	Year to March	FY15	FY16	FY17E	FY18E	FY19E
Core profit	146	220	361	384	515	Sundry debtors	1,264	1,210	1,424	1,417	1,662	Diluted EPS (INR)	12.4	18.8	26.5	28.2	37.8
Profit after tax	146	220	361	384	515	Cash and equivalents	234	106	150	192	87	Y-o-Y growth (%)	(62.1)	50.8	41.2	6.3	34.3
Adjusted net profit	146	220	361	384	515	Loans and advances	265	444	504	564	624	CEPS (INR)	22.5	34.4	43.2	45.5	56.2
Equity shares outstanding (Cr)	13.6	13.6	13.6	13.6	13.6	Total current assets	2,711	3,341	3,975	4,298	4,880	Diluted P/E (x)	46.2	30.6	18.7	17.6	13.1
EPS (INR) basic	10.7	16.2	26.5	28.2	37.8	Sundry creditors and others	1,424	1,698	2,081	2,314	2,640	Price/BV (x)	7.7	6.2	3.6	3.0	2.4
Diluted shares (Cr)	13.6	13.6	13.6	13.6	13.6	Provisions	6	7	0	0	0	EV/Sales (x)	3.3	2.2	1.8	1.6	1.3
EPS (INR) fully diluted	10.7	16.2	26.5	28.2	37.8	Total CL & provisions	1,429	1,705	2,081	2,314	2,640	EV/EBITDA (x)	14.0	12.5	12.3	9.2	7.2
Common size metrics- as % of net revenues						Uses of funds											
Year to March	FY15	FY16	FY17	FY18E	FY19E	Book value per share (INR)	230	267	325	349	383	Cash flow statement (INR cr)					
Operating expenses	78.4	80.4	80.5	82.0	81.3	Year to March						FY15	FY16	FY17E	FY18E	FY19E	
Depreciation	4.5	4.5	4.5	4.1	3.5	Net profit	146	220	361	384	515	Net profit	146	220	361	384	515
Interest expenditure	9.9	9.3	8.2	6.4	5.0	Add: Depreciation	118	183	227	236	251	Add: Interest net of tax	194	334	417	317	247
EBITDA margins	21.6	19.6	19.5	18.0	18.8	Add: Interest net of tax	194	334	417	317	247	Add: Deferred tax	0	0	0	0	0
Net profit margins	5.6	5.4	7.1	6.6	7.3	Add: Deferred tax	0	0	0	0	0	Add: Others	117	74	75	75	75
Growth metrics (%)						Free cash flow											
Year to March	FY15	FY16	FY17	FY18E	FY19E	Free cash flow	-304	-102	116	494	277						
Revenues	13.3	55.7	24.8	13.9	21.6												
EBITDA	20.3	41.3	24.1	5.4	26.7												
PBT	(19.7)	28.6	43.6	25.3	63.1												
Net profit after minority interest	(25.0)	50.8	64.1	6.3	34.3												
EPS	(25.0)	50.8	64.1	6.3	34.3												

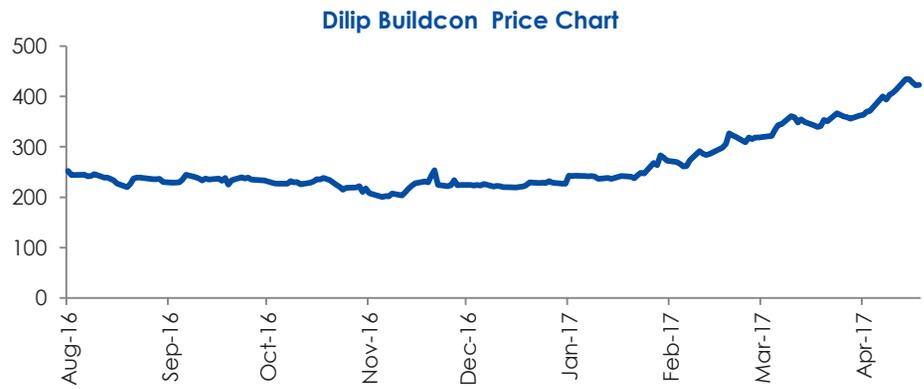
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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