

INDUSTRY INFRASTRUCTURE
CMP (as on 18 May 2017) Rs 501
Target Price Rs 501

Nifty	9,429
Sensex	30,435

KEY STOCK DATA

Bloomberg	DBL IN
No. of Shares (mn)	137
MCap (Rs bn) / (\$ mn)	69/1,057
5m avg traded value (Rs mn)	83

STOCK PERFORMANCE (%)
52 Week high / low Rs 530/178

	3M	6M	12M
Absolute (%)	82.7	142.0	NA
Relative (%)	75.8	125.7	NA

SHAREHOLDING PATTERN (%)

Promoters	75.63
FIs & Local MFs	2.99
FPIs	15.26
Public & Others	6.12

Source : BSE

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Continues to surprise

DBL delivered stellar 4QFY17 PAT growth at 227.1% YoY, led by a pickup in execution, lower interest growth and high early completion bonus of Rs 800mn. Adj for early bonus, net profit beat was 84%.

During FY17, DBL secured new orders worth Rs 119bn (1.5x of our FY17E assumption). This resulted in the order book ramping up to Rs 175.6bn (3.5x FY17 rev). FY17 early completion bonus stood at Rs 1,060mn (4QFY17-Rs 800mn) vs Rs 677mn in FY16.

DBL recovered private debtors worth Rs 1.8bn in FY17. Working capital cycle improved from 156 to 129 days QoQ. The pending equity requirement is Rs 8bn. On the back of robust order intake and MAT credit/lower taxes; we upgrade DBL FY18/19E EPS by 53.3/47.4%. **Maintain NEUTRAL with a SOTP-based TP of Rs 501/sh (15x FY19E EPS, BOT at 0.8x Equity Invested).**

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Sales	16,702	13,538	23.4	13,891	20.2	40,176	49,916	55,641	64,382
EBITDA	2,747	2,200	24.9	2,776	(1.0)	7,315	8,863	9,960	11,537
APAT	1,961	600	227.1	1,085	80.7	2,205	3,611	3,768	4,646
Diluted EPS (Rs)	14.3	4.4	227.1	7.9	80.7	16.1	26.4	27.6	34.0
P/E (x)						31.1	19.0	18.2	14.7
EV / EBITDA (x)						12.7	10.1	9.0	7.8
RoE (%)						22.4	25.3	19.3	19.6

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Stellar all-round performance:** DBL delivered strong 23.4% YoY revenue growth. This, along with 20bps EBITDA margins, stable interest cost and MAT credit led to 227.1% PAT growth.
- Balance sheet stable:** Gross/net debt stands at Rs 25.6/24.5bn resp, and Net D/E stands at 1.3x vs 1.4x QoQ. Net debt remains stable at 3QFY17 levels, despite a sharp pick up in execution. Working capital cycle improved to 129days vs 156days QoQ, on the back of reduction in debtor and inventory days by 22/19 days respectively to 73/120 days.
- Near-term outlook:** (1) Existing BOT asset monetisation: Rs 4.7bn equity, (2) Balance sheet de-leveraging, and (3) Private debtors recovery (Rs 3.7bn balance) are key for further re-rating.

DBL delivered strong 4QFY17 execution, as net revenues grew 23.4/20.2% YoY/QoQ.

EBITDA margins expanded ~19.7bps YoY to 16.4%, resulting in YoY growth of 24.9%. We have adjusted Rs 800mn of early completion bonus from revenue and added it to other income

Saving in interest, higher other income (inc. bonus) and MAT credit resulted in APAT growth of 227.1% YoY

DBL's FY17 order intake was Rs 119bn:taking its FY17-end order backlog to Rs 175.6bn

Standalone gross/net debt in FY17 was Rs 25.6/24.5bn. Standalone Net D/E at 1.3x

FY17 Rev/EBIDTA/PAT grew 24.2/21.1/63.8% YoY. DBL earned Rs 1,060mn early completion bonus vs. Rs 677mn YoY

Standalone Quarterly Financial

Particulars	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY17	FY16	YoY (%)
Net Revenues	16,702	13,538	23.4	13,891	20.2	49,916	40,176	24.2
Material Expenses	13,010	10,081	29.1	10,370	25.5	37,930	30,005	26.4
Employee Expenses	358	450	(20.5)	226	58.4	1,025	873	17.4
Other Expenses	588	807	(27.2)	520	13.1	2,099	1,983	5.9
EBITDA	2,747	2,200	24.9	2,776	(1.0)	8,863	7,315	21.1
Depreciation	618	502	23.1	593	4.2	2,274	1,835	23.9
EBIT	2,129	1,698	25.4	2,183	(2.4)	6,589	5,481	20.2
Interest Cost	1,057	1,054	0.3	1,062	(0.4)	4,162	3,814	9.1
Other Income (Inc early bonus)	832	130	537.7	27	3024.4	1,174	834	40.8
PBT	1,904	775	145.8	1,147	65.9	3,601	2,501	44.0
Tax	(54)	168	-	61	-	(9)	293	-
RPAT	1,958	607	222.5	1,086	80.2	3,609	2,208	63.5
OCI	4	(7)		(1)	-	1.8	(3)	-
APAT	1,961	600	227.1	1,085	80.7	3611	2205	63.8

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)	FY17	FY16	YoY (%)
Material Expenses % Net Sales	77.9	74.5	342.9	74.7	323.9	76.0	74.7	130.3
Employee Expenses % Net Sales	2.1	3.3	(118.3)	1.6	51.6	2.1	2.2	(12.0)
Other Ope Expenses % Net Sales	3.5	6.0	(244.4)	3.7	(22.2)	4.2	4.9	(72.9)
EBITDA Margin (%)	16.4	16.3	19.7	20.0	(353.3)	17.8	18.2	(45.4)
Tax Rate (%)	(2.8)	21.6	(2,443.8)	5.3	(813.3)	(0.2)	11.7	(1,195.8)
APAT Margin (%)	11.7	4.4	731.4	7.8	393.0	7.2	5.5	174.6

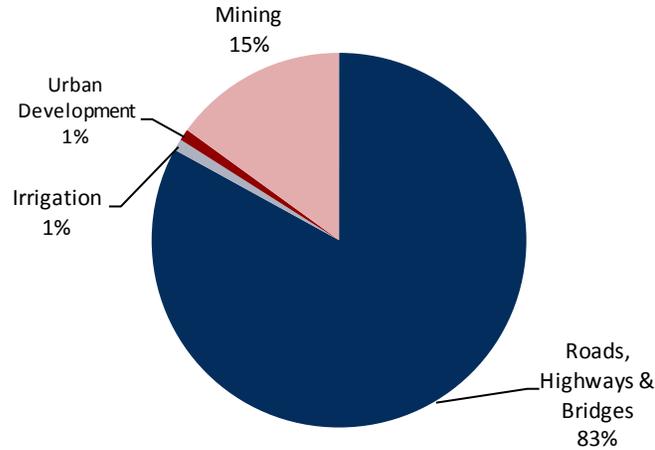
Source: Company, HDFC sec Inst Research

Roads contribute about 83% to FY17 order backlog. Mining contribution is 15%

15.7% of the order book is from MP (DBL's home state)

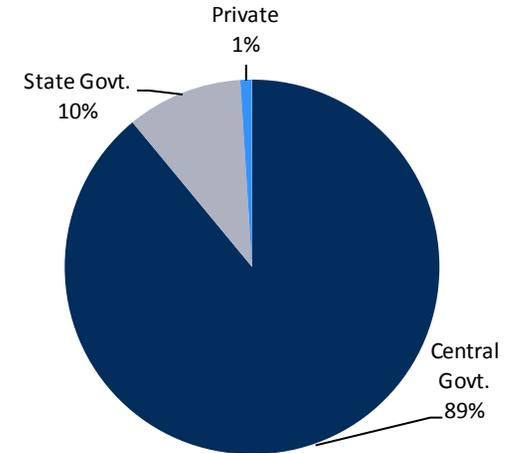
Government projects contributes about 99% to the order backlog

Order Book By Sector: FY17



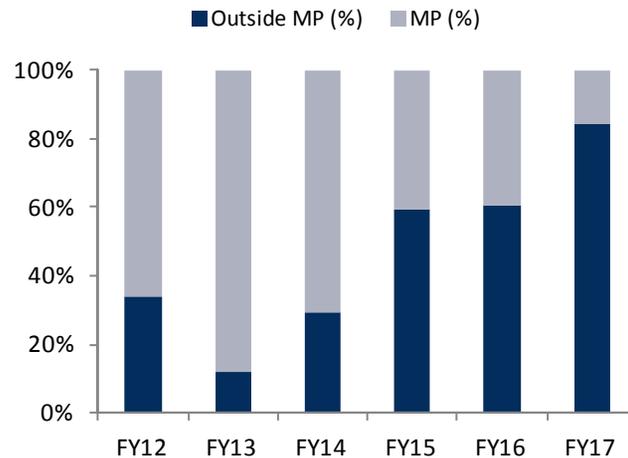
Source: Company, HDFC sec Inst Research

Order Book By Clientele: FY17



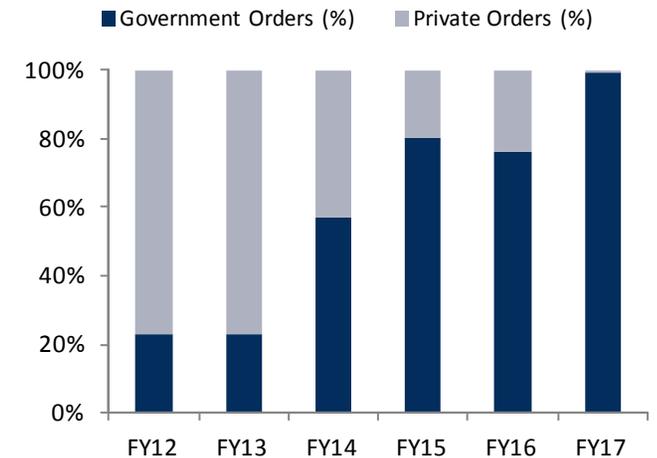
Source: Company, HDFC sec Inst Research

Share Of Orders Outside MP



Source: Company, HDFC sec Inst Research

Changing Composition Of Order Book



Source: Company, HDFC sec Inst Research

Total equity invested in 14 operational BOT projects is Rs 4.7bn

DBL has 10 BOT under construction, in which Rs 2bn has already been invested and pending equity requirement is Rs 8bn over next 3 yrs

10 BOT/Annuity/HAM projects are currently under development

We estimate DBL completed projects to be cash profit

BOT portfolio: Rs 8bn pending equity requirement

- DBL owns a portfolio of 24 BOT projects: 14 completed and 10 under construction. DBL has so far invested Rs 4.7bn in its completed BOT portfolio.
- Under-construction projects' total equity requirement is Rs 10bn, of which DBL has already invested Rs 2bn. Pending equity requirement is Rs 8bn to be met over the next 3 yrs.
- A majority of DBL's BOT assets are annuity based, which reduces traffic risks and ensures fixed annuity payments.
- HAM portfolio: Of the 10 under-construction BOT projects, nine are HAM. DBL is currently working toward achieving financial closure for these projects.

Project Under Development	Type	Length (km)	Awarding authority	Equity (Rs mn)	Total project cost (Rs mn)
Jalpa Devi Tollways Ltd	Toll	93.5	NHAI	2200	9,010
Mundargi-Hadagali-Harpanahalli	Hybrid	51.21	KRDCL	293	1,790
Hassan-Ramanathpura-Periyapatna	Hybrid	73.69	KRDCL	362	2,456
Hirekerur-Ranibennur	Hybrid	55.69	KRDCL	321	1,984
Lucknow - Sultanpur	HAM	127.4	NHAI	2846	20,160
Kalmath-Zarap	HAM	43.9	MORTH	805	7,808
Tuliapur Ausa	HAM	67	NHAI	856	7,850
Mahagaon Yavatmal	HAM	65	NHAI	1,156	9,500
Yavatmal Wardha	HAM	59	NHAI	1,035	8,520
Wardha Butibori	HAM	48	NHAI	1,114	8,930
Total		819		10,988	78,008

Source: HDFC sec Inst Research, Company

We expect 5.7% FY17-19E order book CAGR

FY17-19E revenue CAGR 13.6%, EBIDTA CAGR 14.1%

EBIDTA margins to remain stable in 17-18% range

Tax rate assumed at ~10% for FY18E & 18% for FY19E as company loses MAT benefit

FY17-19E APAT CAGR of 13.5%

Key Assumptions & Estimates

Key Assumptions	FY17E	FY18E	FY19E	Comments
Closing order book	175,683	185,421	196,224	We expect 5.7% FY17-19E order book CAGR
Order book growth (%)	63.0	5.5	5.8	
New order booking	118,872	65,380	75,187	We expect an average annual order inflow run-rate of Rs 60-75bn over FY18-19E
Book to bill ratio	3.5	3.3	3.0	Book to bill ratio to improve on new orders wins
Total Revenue	49,916	55,641	64,382	Expect 13.6% CAGR over FY17-19E
Growth (%)	24.2	11.5	15.7	
EBIDTA	8,863	9,960	11,537	FY17-19E EBIDTA CAGR of 14.1%
EBIDTA margin (%)	17.8	17.9	17.9	Expect margins to remain stable
Depreciation	2,274	2,399	2,506	Limited CAPEX will result in stable depreciation
Financial Charges	4,162	4,323	4,285	Expect finance cost to be stable as debt increase will be limited
Other Income (Including EO Items)	1,174	949	919	
PBT	3,601	4,187	5,665	FY17-19E PBT CAGR of 25.4%
PBT margin (%)	7.2	7.5	8.8	PBT margins to expand by ~159bps
Tax	(9)	419	1,020	
Tax rate (%)	(0.2)	10.0	18.0	Tax rate assumed at ~10% for FY18E & 18% for FY19E as company loses benefit of MAT credit
APAT	3,609	3,768	4,646	FY17-19E PAT CAGR of 13.5%
Net margin (%)	7.2	6.8	7.2	APAT margins to remain stable
Gross Block Turnover	2.3	2.4	2.7	Improvement on account of new orders inflow
NWC Days	140.0	141.6	136.7	NWC cycle to improve as debtor collection improves and strict control exercised on inventory
Cash flow from operations	7,672	7,099	8,002	Higher profitability coupled with ease in NWC to drive robust cash flow generation
Capex	(2,500)	(1,000)	(1,000)	Capex to be limited to roads segment only
Free cash flows	5,172	6,099	7,002	Expect FCFE CAGR of ~16.3% over FY17-19E
Cash flow from investments	(3,826)	(3,051)	(3,081)	BOT investment of Rs 2.5-3bn per annum over FY18-19E
Debt issuance	(2,000)	750	200	Debt to remain stable
Cash flow from financing	(1,850)	(3,573)	(4,085)	
Total change in cash - a+b+c	1,996	475	835	

Increase revenue estimate on back of strong order inflow of Rs 119bn

Accordingly, EBIDTA and EPS estimates have been adjusted

Sharp reduction in tax outgo on account of MAT credit. We have reduced tax rate from 31% in FY18/19E to 10% and 18% respectively

EPS increased by 53.3/47.4% during FY18/19E

Change In Estimates

Rs mn	FY18E			FY19E			Comments
	New	Old	% Change	New	Old	% Change	
Net Revenues	55,641	53,062	4.9	64,382	59,918	7.5	On back of strong FY17E order inflows of Rs 119bn we have increased our revenue estimate
Material Expenses	41,953	40,008	4.9	48,596	45,226	7.5	
Employee Expenses	1,224	955	28.2	1,352	1,079	25.4	
Other Operating Expenses	2,504	2,653	(5.6)	2,897	2,996	(3.3)	
EBIDTA	9,960	9,445	5.5	11,537	10,617	8.7	EBIDTA increase in line with revenue growth
EBIDTA (%)	17.9	17.8	10bps	17.9	17.7	20bps	
Depreciation	2,399	2,399	-	2,506	2,506	-	
EBIT	7,561	7,046	7.3	9,032	8,112	11.3	
Other Income (incl. early completion bonus)	949	700	35.5	919	777	18.2	Increase on account of higher share of bonus
Interest	4,323	4,186	3.3	4,285	4,323	(0.9)	Marginal increase
PBT	4,187	3,561	17.6	5,665	4,567	24.1	
Tax	419	1,104	(62.1)	1,020	1,416	(28.0)	Sharp reduction on account of MAT credit. We have reduced tax rate from 31% in FY18/19E to 10% and 18% respectively
RPAT	3,768	2,457	53.3	4,646	3,151	47.4	

Source: HDFC sec Inst Research

We value standalone EPC business at Rs 429/share (15x one-year forward Mar-19E EPS) vs Rs 294/share earlier (12.8x one-year forward Mar-19E EPS)

Robust order intake, strong private debtors recovery, stable balance sheet and stellar execution are key factors contributing to our 15x P/E multiple attribution. The valuation multiple is in line with peers

BOT assets at Rs 72/share (at 0.8x P/BV of equity invested until Mar-19E)

Our SOTP target price is Rs 501/share vs Rs 366/sh earlier

Outlook and valuation

Increase target price to Rs 501/sh

- Valuation methodology:** We have valued DBL on P/E basis in line with peers viz. Sadbhav/Ashoka Buildcon at 15x vs 15% discount earlier. Our justification for DBL P/E expansion is (i) Robust FY17 order intake: Rs 119bn (ii) Strong private debtors' recovery: Rs 1.8bn during FY17 (iii) Above-average EBIDTA margins and (iv) Likely BOT asset monetisation.
- A further expansion in multiples is premised on robust execution and stability of debt at current levels of Rs 23 to 25bn.
- Investments in the roads, mining, irrigation and urban infra sectors would continue to drive stock performance. DBL, with strong credentials, is likely to benefit from the pick-up in ordering activity.
- We value the standalone EPC business at Rs 429/share (15x Mar-19E EPS) vs Rs 294/share (12.8x Mar-19E EPS), and BOT assets portfolio at Rs 72/share (at 0.8x P/BV of equity invested end Mar-19E). We arrive at a SOTP-based target price of Rs 501/share (vs Rs 366/sh earlier). With limited upside from CMP we maintain **NEUTRAL**.

SOTP Valuation

Particulars	Segments	Value (Rsmn)	Value per share (Rs)	Rationale
Standalone	Core construction business	58,638	429	At 15x FY19E EPS. We have factored in 31% tax rate for valuation purpose vs 18% used for net profit estimation
BOT Assets	Roads toll	9,840	72	At 0.8x P/BV(x) of invested equity until FY19E
Total		68,478	501	

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	25,758	40,176	49,916	55,641	64,382
Growth (%)	14.1	56.0	24.2	11.5	15.7
Material Expenses	19,325	30,005	37,930	41,953	48,596
Employee Expenses	363	873	1,025	1,224	1,352
Other Expenses	898	1,983	2,099	2,504	2,897
EBIDTA	5,172	7,315	8,863	9,960	11,537
EBIDTA (%)	20.1	18.2	17.8	17.9	17.9
EBIDTA Growth (%)	25.7	41.4	21.1	12.4	15.8
Depreciation	1,179	1,835	2,274	2,399	2,506
EBIT	3,993	5,481	6,589	7,561	9,032
OI (Incl EO Items+bonus)	543	834	1,174	949	919
Interest	2,587	3,814	4,162	4,323	4,285
PBT	1,949	2,501	3,601	4,187	5,665
Tax	491	293	(9)	419	1,020
RPAT	1,458	2,208	3,609	3,768	4,646
EO (Loss) / Profit	(29)	(3)	2	-	-
APAT	1,429	2,205	3,611	3,768	4,646
APAT Growth (%)	(24.9)	54.3	63.8	4.3	23.3
Adj. EPS	10.4	16.1	26.4	27.6	34.0
Adj. EPS Growth (%)	(24.9)	54.3	63.8	4.3	23.3

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	1,171	1,171	1,367	1,367	1,367
Reserves	7,558	9,754	16,289	20,057	24,703
Total Shareholders Funds	8,730	10,925	17,656	21,424	26,070
Long Term Debt	5,463	10,232	8,232	8,232	8,232
Short Term Debt	16,407	14,906	14,906	15,656	15,856
Total Debt	21,870	25,138	23,138	23,888	24,088
Deferred Taxes	707	937	937	937	937
TOTAL SOURCES OF FUNDS	31,307	37,000	41,731	46,249	51,095
APPLICATION OF FUNDS					
Net Block	11,890	14,204	14,493	13,094	11,588
Investments	4,252	3,785	6,285	9,285	12,285
Total Non-current Assets	16,142	17,989	20,777	22,379	23,873
Inventories	9,476	15,803	18,156	19,817	22,049
Debtors	12,636	12,103	11,173	12,958	14,993
Cash & Equivalents	2,342	1,059	1,803	2,277	3,113
Loans & Advances	3,761	5,572	7,070	7,717	8,930
Other Current Assets	1,194	812	1,031	1,125	1,302
Total Current Assets	29,409	35,351	39,233	43,895	50,387
Creditors	8,278	10,232	15,712	14,942	17,974
Other Current Liabilities	5,823	5,893	2,342	4,846	4,943
Short Term Provisions	143	215	225	237	248
Total Current Liabilities & Provns	14,245	16,339	18,279	20,025	23,165
Net Current Assets	15,165	19,012	20,954	23,871	27,222
TOTAL APPLICATION OF FUNDS	31,307	37,000	41,731	46,249	51,095

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

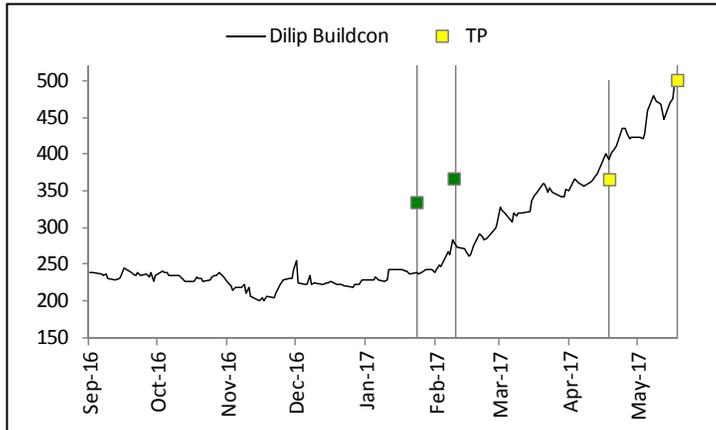
(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,949	2,507	2,886	3,561	4,567
Non-operating & EO items	29	(37)	(641)	(700)	(777)
Interest expenses	2,587	3,805	4,268	4,186	4,323
Depreciation	1,179	1,835	2,211	2,399	2,506
Working Capital Change	(2,895)	(3,255)	(1,370)	(1,973)	(1,910)
Taxes	(647)	(589)	(606)	(1,104)	(1,416)
OPERATING CASH FLOW (a)	2,203	4,265	6,748	6,368	7,292
Capex	(6,682)	(4,156)	(2,500)	(1,000)	(1,000)
Free cash flow (FCF)	(4,479)	109	4,248	5,368	6,292
Investments	(959)	(109)	(2,500)	(3,000)	(3,000)
Interest received on FDR	31	44	641	700	777
INVESTING CASH FLOW (b)	(7,610)	(4,221)	(4,359)	(3,300)	(3,223)
Share capital Issuance	-	-	4,312	-	-
Debt Issuance	9,654	2,482	(2,000)	750	200
Interest expenses	(2,562)	(3,802)	(4,268)	(4,186)	(4,323)
FCFE	2,613	(1,211)	(2,020)	1,932	2,169
Dividend	(12)	(7)	-	-	-
FINANCING CASH FLOW (c)	7,081	(1,327)	(1,956)	(3,436)	(4,123)
NET CASH FLOW (a+b+c)	1,674	(1,283)	433	(368)	(53)
Non-operating and EO items	-	-	(1,253)	-	-
Closing Cash & Equivalents	2,342	1,059	1,492	1,124	1,071

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	25.0	25.3	24.0	24.6	24.5
EBITDA Margin	20.1	18.2	17.8	17.9	17.9
EBIT Margin	15.5	13.6	13.2	13.6	14.0
APAT Margin	5.5	5.5	7.2	6.8	7.2
RoE	17.8	22.4	25.3	19.3	19.6
Core RoCE	14.9	17.0	20.1	19.9	21.0
RoCE	13.3	16.3	19.8	17.4	16.8
EFFICIENCY					
Tax Rate (%)	25	12	(0)	10	18
Asset Turnover (x)	1.7	2.1	2.3	2.4	2.7
<i>Inventory (days)</i>	<i>134.3</i>	<i>143.6</i>	<i>133</i>	<i>130</i>	<i>125</i>
<i>Debtors (days)</i>	<i>179.1</i>	<i>110.0</i>	<i>82</i>	<i>85</i>	<i>85</i>
<i>Loans & Advances (days)</i>	<i>53.3</i>	<i>50.6</i>	<i>52</i>	<i>51</i>	<i>51</i>
<i>Other Current Assets (days)</i>	<i>16.9</i>	<i>7.4</i>	<i>8</i>	<i>7</i>	<i>7</i>
<i>Payables (days)</i>	<i>117.3</i>	<i>93.0</i>	<i>115</i>	<i>98</i>	<i>102</i>
<i>Other Current Liabilities & Provns (days)</i>	<i>84.6</i>	<i>55.5</i>	<i>19</i>	<i>33</i>	<i>29</i>
<i>Cash Conversion Cycle (days)</i>	<i>181.7</i>	<i>163.1</i>	<i>140</i>	<i>142</i>	<i>137</i>
Debt/EBITDA (x)	4.2	3.4	2.6	2.4	2.1
Net D/E	2.2	2.2	1.2	1.0	0.8
Interest Coverage	1.5	1.4	1.6	1.7	2.1
PER SHARE DATA					
EPS (Rs/sh)	10.4	16.1	26.4	27.6	34.0
CEPS (Rs/sh)	19.1	29.5	43.0	45.1	52.3
DPS (Rs/sh)	0.1	0.1	1.0	1.0	1.0
BV (Rs/sh)	63.8	79.9	129.1	156.7	190.7
VALUATION					
P/E	47.9	31.1	19.0	18.2	14.7
P/BV	7.8	6.3	3.9	3.2	2.6
EV/EBITDA	17.0	12.7	10.1	9.0	7.8
EV/Net Revenues	3.4	2.3	1.8	1.6	1.4
OCF/EV (%)	2.5	4.6	8.5	7.9	8.9
FCF/EV (%)	(5.1)	0.1	5.8	6.8	7.8
FCFE/Market Cap (%)	3.8	(1.8)	(1.4)	3.7	4.3
Dividend Yield (%)	0.0	0.0	0.2	0.2	0.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
23-Jan-17	236	BUY	333
9-Feb-17	284	BUY	366
18-Apr-17	400	NEU	366
18-May-17	501	NEU	501

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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