

## ONE YEAR OUTLOOK

### BUSINESS & EARNINGS ◀▶

- Dilip Buildcon is well-placed to continue delivering faster execution in FY22E due to the strong order book and execution visibility. 3QFY21 engineering, procurement and construction(EPC) revenues came in at Rs. 24,667mn (+4% YoY), surpassing pre-Covid project execution momentum. PAT for 3QFY21 came in at Rs. 1,111mn, a 13% drop yoy.
- We expect execution to increase in FY22. We believe the Company's readily-executable orderbook of Rs. 261bn and a strong order pipeline from NHAI, irrigation, metro and railway projects should give a strong boost. Besides, we expect the company to win ~Rs. 360bn order inflow in the next three years. Company booked an order inflow worth ~Rs.158 in the last 3 quarters. Balance sheet quality (D/E of ~0 in FY20 at standalone) is robust.
- We remain positive on the Company given it is best placed to take advantage of the upcoming thrust on Infrastructure by the Government.

### VALUATION MULTIPLES ◀▶

- We attribute 6x multiple and retain our "BUY" rating with a TP of Rs. 600/ share (Rs. 459/share value for EPC business @ 6x P/E on FY23 EPS) and an asset value Rs. 126/share for company's assets; Multiple can rapidly rerate higher once execution momentum and ordering activity in the industry pick up.

### FINANCIAL SUMMARY - Standalone

Year	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE(%)
FY20	89,838	15,720	4,160	30.4	18.3	12.2%
FY21E	111,968	17,880	6,198	45.3	12.3	15.9%
FY22E	120,475	21,182	7,951	58.1	9.6	17.3%
FY23E	125,562	22,074	10,416	76.2	7.3	18.9%

## THREE YEAR OUTLOOK

### BUSINESS & EARNINGS ◀▶

- NHAI project awards in the medium-term are expected to be higher. Budget FY22 has clearly indicated a strong upcycle for road players. The positives for the sector are a) ~19000kms of Bharatmala projects in the pipeline (worth Rs. 4tn). ~30% of this opportunity still present in the states of Maharashtra, Tamil Nadu and Uttar Pradesh, and b) NHAI has streamlined land acquisition process and has achieved a robust ~26,000 hectares of acquisition in FY19 (up ~150% yoy). This is likely to result in the new projects coming in with relatively lower land-related disruptions.
- Company's strategy to do an end-to-end execution of a project in-house (without sub-contracting) employing more labour and equipment (nearest competitor L&T has less than 1/3<sup>rd</sup> of its equipment base in roads and nearest competitors have less than 1/4<sup>th</sup> of its manpower) is not without its risks as: a) it requires continuous CAPEX making the EPC business asset-heavy, b) fixed-cost builds up (labor cost higher than peers) which can hurt in a low growth phase and c) order intake pressure could lead to aggressive bidding. These factors could lead to a drop in margins.

### VALUATION MULTIPLES ◀▶

- We arrive at a value of Rs. 126/share for the Company's assets and Rs. 685/share for the EPC business attributing 9x multiple on FY24E EPS leading to an overall 3-year TP of Rs. 811/ share, implying a total return of 46%.

### KEY ESTIMATES REVISION - Standalone

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Revenue	120,475	120,475	0%	125,562	125,562	0%
EBITDA	21,182	21,182	0%	22,074	22,074	0%
Margin (%)	17.5%	17.5%		17.6%	17.6%	
PAT	7,951	7,951	0%	10,416	10,416	0%
Margin (%)	6.6%	6.6%		8.3%	8.3%	
EPS	58.1	58.1	0%	76.2	76.2	0%
P/E		6x			6x	

All figures in Rs. mn except EPS, which is in Rs.

## OUTLOOK REVIEW 3QFY21 16 February 2021

Industry	Infrastructure
CMP	Rs. 556
Target Price	Rs. 600
Key Stock Data	
Bloomberg	DBL IN
Shares o/s	137mn
Market Cap	Rs. 75bn
52-wk High-Low	Rs. 556-190
3m ADV	Rs. 157mn
Index	BSE500

	Jun'20	Sep'20	Dec'20
Promoters	-	-	75.0
Institutions	-	-	15.5
Public	-	-	9.5
Pledge	-	-	18.9

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## Quarterly Financial Statement

Standalone Financial Results					
Rs. mn \ Period	3QFY21	3QFY20	YoY Growth	2QFY21	QoQ
<b>Total Income</b>	<b>24,667</b>	<b>23,810</b>	<b>4%</b>	<b>19,252</b>	<b>28%</b>
Construction Expenses	19,544	18,140	8%	15,084	30%
Employee Expenses	523	531	-1%	481	9%
Other Expenses	530	939	-44%	627	-15%
Total Expenses	20,598	19,610	5%	16,192	27%
<b>EBITDA</b>	<b>4,069</b>	<b>4,201</b>	<b>-3%</b>	<b>3,060</b>	<b>33%</b>
<b>EBITDA margin</b>	<b>16.5%</b>	<b>17.6%</b>		<b>15.9%</b>	
Other income	59	80	-26%	94	-37%
Depreciation	1,000	1,079	-7%	1,044	-4%
Interest & Finance Charges	1,449	1,530	-5%	1,402	3%
PBT	1,680	1,672	0%	708	137%
Exceptionals	0	40		0	
Taxes	569	442	29%	235	142%
<b>PAT</b>	<b>1,111</b>	<b>1,270</b>	<b>-13%</b>	<b>473</b>	<b>135%</b>
<b>EPS (in Rs.)</b>	<b>8.1</b>	<b>9.3</b>	<b>-13%</b>	<b>3.5</b>	<b>135%</b>

## Valuation – Dilip Buildcon

### Dilip Buildcon - SoTP Valuation as at end of FY23E

	Operational Methodology	Equity Value	Stake	Value to Co.	Value to Co.
		Rs. mn	%	Rs. mn	Rs./ share
<b>EPC Business</b>					
EPC business	6x FY23E P/E	62,831	100%	62,831	459
<b>Road Assets</b>	Yes/No	Rs. mn	%	Rs. mn	Rs./ share
<b>HAM</b>					
Churhat Bypass Road	No	FCFE using 12%CoE	1,007	100%	1,007
Byrapura Challakere Road	No	FCFE using 12%CoE	844	100%	844
Anandapuram Pendurthi Anapalli Road	No	FCFE using 12%CoE	2,019	100%	2,019
Bangalore Nidagatta Road	No	FCFE using 12%CoE	2,254	100%	2,254
Gorhar Khairatunda Road	No	FCFE using 12%CoE	944	100%	944
Nidagatta Mysore Road	No	FCFE using 12%CoE	2,395	100%	2,395
Bellary Byrapura Road	No	FCFE using 12%CoE	1,378	100%	1,378
Pathrapali-Kathghora Road	No	FCFE using 12%CoE	766	100%	766
Dhrol - Bhadra Patiya section	No	FCFE using 12%CoE	637	100%	637
Repallewada to Telangana/Maharashtra border	No	FCFE using 12%CoE	798	100%	798
Doddabalapur to Hoskote	No	FCFE using 12%CoE	902	100%	902
Narenpur Purnea	No	FCFE using 12%CoE	1,336	100%	1,336
<b>HAM - Under Construction Assets</b>					
NPV of Cash Flows Due to Cube Deal		NPV as at end of FY22E		1,997	15
<b>Total Value for Road Assets</b>				<b>17,276</b>	<b>126</b>
<b>Total Value for Dilip Buildcon</b>				<b>80,107</b>	<b>586</b>

<b>Bear Case</b>		
Methodology	Value to Co.	Value to Co.
	Rs. mn	Rs./ share
3x FY23E P/E	31,415	230
FCFE using 12%CoE	1,007	7
FCFE using 12%CoE	844	6
FCFE using 12%CoE	2,019	15
FCFE using 12%CoE	2,254	16
FCFE using 12%CoE	944	7
FCFE using 12%CoE	2,395	18
FCFE using 12%CoE	1,378	10
FCFE using 12%CoE	766	6
FCFE using 12%CoE	637	5
FCFE using 12%CoE	798	6
FCFE using 12%CoE	902	7
FCFE using 12%CoE	1,336	10
NPV as at end of FY22E	1,997	15
<b>Total Value for Road Assets</b>	<b>17,276</b>	<b>126</b>
<b>Total Value for Dilip Buildcon</b>	<b>48,692</b>	<b>356</b>

<b>Bull Case</b>		
Methodology	Value to Co.	Value to Co.
	Rs. mn	Rs./ share
9x FY23E P/E	94,246	689
1x Book Value	1,007	7
1x Book Value	844	6
1x Book Value	2,202	16
1x Book Value	2,254	16
1x Book Value	944	7
1x Book Value	2,395	18
1x Book Value	1,378	10
1x Book Value	766	6
1x Book Value	1,058	8
1x Book Value	1,369	10
1x Book Value	1,534	11
1x Book Value	2,286	17
NPV as at end of FY23E	1,997	15
<b>Total Value for Road Assets</b>	<b>20,033</b>	<b>146</b>
<b>Total Value for Dilip Buildcon</b>	<b>114,280</b>	<b>836</b>

## Financial Summary

Standalone Financial Statements									
Rs. mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
<b>Profit &amp; Loss</b>									
<b>Revenue</b>	<b>26,241</b>	<b>40,853</b>	<b>50,976</b>	<b>77,459</b>	<b>91,403</b>	<b>89,838</b>	<b>111,968</b>	<b>120,475</b>	<b>125,562</b>
Gross profit									
EBITDA	5,655	7,992	9,923	14,028	16,264	15,720	17,880	21,182	22,074
Depreciation	1,179	1,835	2,274	2,750	3,202	4,241	4,310	4,580	4,760
EBIT	4,476	6,158	7,649	11,278	13,062	11,479	13,570	16,602	17,314
Other Income	60	157	114	155	243	313	154	100	66
Interest expense	2,587	3,814	4,162	4,644	5,299	6,127	4,608	4,470	3,460
Exceptional items	0	0	0	(152)	43	89	0	0	0
PBT	1,949	2,501	3,601	6,637	8,050	5,754	9,115	12,233	13,920
Reported PAT (after minority interest)	1,458	2,208	3,609	6,203	7,649	4,250	6,198	7,951	10,416
<b>Adj PAT</b>	<b>1,458</b>	<b>2,208</b>	<b>3,609</b>	<b>6,355</b>	<b>7,607</b>	<b>4,160</b>	<b>6,198</b>	<b>7,951</b>	<b>10,416</b>
<b>EPS (Rs.)</b>	<b>12.4</b>	<b>18.9</b>	<b>26.4</b>	<b>46.5</b>	<b>55.6</b>	<b>30.4</b>	<b>45.3</b>	<b>58.1</b>	<b>76.2</b>
<b>Balance Sheet</b>									
Net Worth	8,730	10,621	18,529	24,571	32,044	36,060	42,121	49,936	60,215
Deferred Tax	707	775	759	1,067	171	0	0	0	0
Total debt	21,870	25,114	25,634	29,549	35,764	29,343	37,343	27,343	19,343
Other liabilities and provisions	5,967	6,095	12,685	23,213	23,846	29,980	29,980	29,980	29,980
<b>Total Network and liabilities</b>	<b>37,273</b>	<b>42,605</b>	<b>57,607</b>	<b>78,399</b>	<b>91,826</b>	<b>95,382</b>	<b>109,444</b>	<b>107,258</b>	<b>109,538</b>
Gross Fixed assets	15,298	19,415	24,276	28,499	33,166	34,666	37,166	39,166	40,166
Net fixed assets	11,890	14,204	16,825	18,319	20,822	20,275	18,466	15,886	12,126
Capital work-in-progress	0	0	0	0	0	43	43	43	43
Goodwill	0	0	0	0	0	0	0	0	0
Investments	2,789	2,898	4,695	5,376	7,995	12,996	16,090	15,634	19,598
Cash and bank balances	2,342	1,059	1,137	1,613	1,888	3,219	2,923	1,084	1,552
Loans & advances and other assets	8,304	9,754	17,032	31,867	39,231	36,532	36,532	36,532	36,532
Net working capital	11,948	14,690	17,918	21,225	21,890	22,317	35,391	38,080	39,687
<b>Total assets</b>	<b>37,273</b>	<b>42,605</b>	<b>57,607</b>	<b>78,399</b>	<b>91,826</b>	<b>95,382</b>	<b>109,444</b>	<b>107,258</b>	<b>109,537</b>
Capital Employed	31,307	36,510	44,922	55,186	67,979	65,403	79,464	77,278	79,558
Invested Capital (CE - cash - CWIP)	28,965	35,451	43,785	53,573	66,091	62,141	76,498	76,152	77,963
Net debt	19,528	24,055	24,497	27,936	33,876	26,124	34,420	26,259	17,791
<b>Cash Flows</b>									
Cash flows from Operations (Pre-tax)	2,850	4,857	7,372	5,696	9,116	20,479	4,960	18,593	20,532
Cash flows from Operations (post-tax)	2,203	4,268	6,537	4,192	7,512	18,529	2,043	14,312	17,028
Capex	(6,870)	(4,176)	(4,932)	(4,442)	(5,711)	(3,086)	(2,500)	(2,000)	(1,000)
Free cash flows	(4,667)	92	1,605	(250)	1,801	15,443	(457)	12,312	16,028
Free cash flows (post interest costs)	(7,229)	(3,719)	(2,554)	(4,895)	(3,498)	9,317	(5,065)	7,842	12,568
Cash flows from Investing	(7,610)	(4,221)	(6,592)	(4,560)	(8,128)	(7,709)	(5,594)	(1,545)	(4,963)
Cash flows from Financing	7,081	(1,329)	132	843	892	(9,489)	3,255	(14,607)	(11,596)
Total cash & liquid investments	2,342	1,059	1,137	1,613	1,888	3,219	2,923	1,084	1,552

## Financial Summary

Standalone Financial Statements									
	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
<b>Growth ratios</b>									
Revenue	13.3%	55.7%	24.8%	52.0%	18.0%	-1.7%	24.6%	7.6%	4.2%
EBITDA	20.3%	41.3%	24.1%	41.4%	15.9%	-3.3%	13.7%	18.5%	4.2%
Adj PAT	-25.0%	51.5%	63.5%	71.9%	23.3%	-44.4%	45.8%	28.3%	31.0%
<b>Margin ratios</b>									
Gross									
EBITDA	21.6%	19.6%	19.5%	18.1%	17.8%	17.5%	16.0%	17.6%	17.6%
Adj PAT	5.6%	5.4%	7.1%	8.2%	8.3%	4.6%	5.5%	6.6%	8.3%
<b>Performance ratios</b>									
Pre-tax OCF/EBITDA	50.4%	60.8%	74.3%	40.6%	56.0%	130.3%	27.7%	87.8%	93.0%
OCF/IC (%)	7.6%	12.0%	14.9%	7.8%	11.4%	29.8%	2.7%	18.8%	21.8%
RoE (%)	18.2%	22.8%	24.8%	29.5%	26.9%	12.2%	15.9%	17.3%	18.9%
RoCE (%)	15.8%	17.3%	18.8%	21.7%	20.6%	15.0%	14.7%	15.7%	17.6%
RoCE (Pre-tax)	18.0%	18.6%	19.1%	22.8%	21.6%	17.7%	18.9%	21.3%	22.2%
RoIC (Pre-tax)	18.9%	19.1%	19.3%	23.2%	21.8%	17.9%	19.6%	21.8%	22.5%
Fixed asset turnover (x)	2.2	2.4	2.3	2.9	3.0	2.6	3.1	3.2	3.2
Total asset turnover (x)	0.9	1.0	1.0	1.1	1.1	1.0	1.1	1.1	1.2
<b>Financial stability ratios</b>									
Net Debt to Equity (x)	2.2	2.3	1.3	1.1	1.1	0.7	0.8	0.5	0.3
Net Debt to EBITDA (x)	3.5	3.0	2.5	2.0	2.1	1.7	1.9	1.2	0.8
Interest cover (x)	0.9	1.1	1.6	0.9	1.4	3.0	0.4	3.2	4.9
Cash conversion days	166	131	128	100	87	91	115	115	115
Working capital days	163	159	153	164	157	129	146	144	143
<b>Valuation metrics</b>									
Fully Diluted Shares (mn)	117	117	137	137	137	137	137	137	137
Market cap (Rs.mn)				76,044					
P/E (x)	44.7	29.5	21.1	12.0	10.0	18.3	12.3	9.6	7.3
P/OCF(x)	34.5	17.8	11.6	18.1	10.1	4.1	37.2	5.3	4.5
EV (Rs.mn) (ex-CWIP)	95,572	100,099	100,541	103,979	109,920	102,168	110,464	102,303	93,835
EV/ EBITDA (x)	16.9	12.5	10.1	7.4	6.8	6.5	6.2	4.8	4.3
EV/ OCF(x)	43.4	23.5	15.4	24.8	14.6	5.5	54.1	7.1	5.5
FCF Yield	-6.1%	0.1%	2.1%	-0.3%	2.4%	20.3%	-0.6%	16.2%	21.1%
Price to BV (x)	8.7	7.2	4.1	3.1	2.4	2.1	1.8	1.5	1.3
BV/Share (x)	74.5	90.7	135.5	179.6	234.3	263.7	308.0	365.1	440.3
Dividend pay-out (%)	0.4%	0.1%	3.8%	2.2%	1.8%	3.2%	2.2%	1.7%	1.3%
Dividend yield (%)	0.0%	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

### Crystal Ball Gazing

We forecast a growth in EPC Revenue to be ~10% CAGR over FY20-24E driven by an expected order inflow of ~Rs. 120bn p.a. over next three years. We expect EBITDA margin to sustain at ~17% over FY20-24E.

Revenue to grow at a CAGR of 9.7% over FY20-24E

Standalone	FY13-FY15	FY16-FY19	FY20-FY24E
Revenues CAGR	30.3%	36.5%	9.7%
Gross Margin			
EBITDA CAGR	29.3%	29.8%	9.9%
EBITDA margin	22.2%	18.7%	17.2%
EPS CAGR	10.5%	51.1%	30.3%
Total Asset Turnover (x)	1.1	1.1	1.1
Total WC days	164	112	110
Pre-tax OCF/EBITDA (%)	25.8%	58.1%	86.6%
Post Tax OCF as a % of IC	2%	12%	19%
Debt/EBITDA	2.4	2.4	1.2

Return metrics to decline on account higher base effect

Standalone	FY13-FY15	FY16-FY19	FY20-FY24E
RoE (%)	36.7%	26.0%	16.5%
RoCE (%)	22.9%	19.5%	16.1%
RoIC (%)	22.2%	19.6%	15.0%
<b>Average 1 yr fwd</b>			
PE (x)	-	14.0	-
EV/EBITDA (x)	-	7.3	-
PB (x)	-	2.9	-
<b>Peak 1 yr fwd</b>			
PE (x)	-	23.7	-
EV/EBITDA (x)	-	11.7	-
PB (x)	-	5.2	-

Multiple rerating on account of improved macro-environment and higher execution

Construction Business	Equity Value	BOT Asset	Target Price
P/E Multiple	Rs./Share	FCFE	Rs./Share
6.0x	457	125	582
9.0x	685	125	811

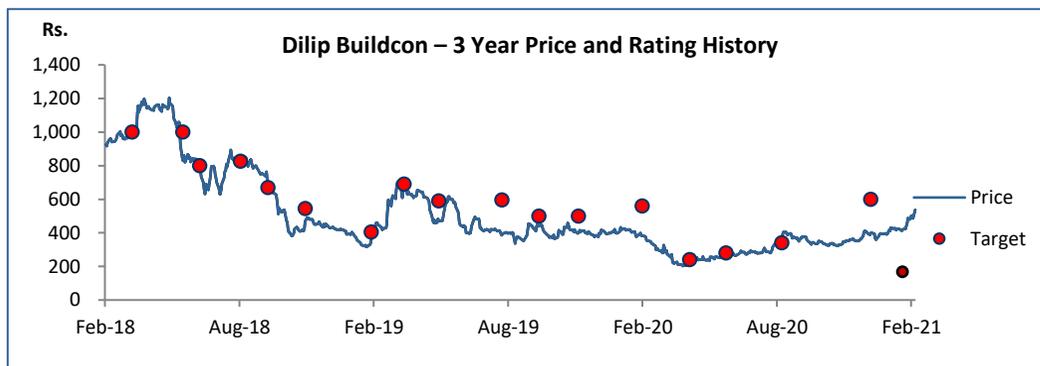
Entry = Rs. 556 @7x implied FY23E standalone EPS

Cumulative Dividends of Rs. 4.0/ share

Exit Multiple of 9x P/E on FY24E EPS, Asset value of Rs. 125/share

TOTAL RETURN OF 46%

## Spark Recommendation History



Absolute Rating Interpretation	
<b>BUY</b>	Stock expected to provide positive returns of >15% over a 1-year horizon
<b>ADD</b>	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
<b>REDUCE</b>	Stock expected to provide returns of <5% – -10% over a 1-year horizon
<b>SELL</b>	Stock expected to fall >10% over a 1-year horizon
Symbol Interpretation	
◀ No Change   ▼ Downgrade   ▲ Upgrade	

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
15-Dec-20	388	600	Buy
17-Aug-20	350	340	Reduce
03-Jun-20	285	280	Reduce
15-Apr-20	204	240	Reduce
11-Feb-20	380	560	Add
15-Nov-19	398	500	Add
25-Sep-19	440	500	Add
06-Aug-19	390	595	Add
13-May-19	485	590	Add
27-Mar-19	608	690	Add
11-Feb-19	336	405	Add
14-Nov-18	430	545	Add
25-Sep-18	711	670	Reduce
17-Aug-18	853	825	Reduce

## Disclosure of Interest Statement

Details of Financial Interest of Research Entity [Spark Capital Advisors (India) Private Limited] and its Associates	No
Details of Financial Interest of covering analyst/ and his relatives	No
Investment banking relationship with the company covered	No
Any other material conflict of interest at the time of publishing the research report by Spark and its associates	No
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