

Dilip Buildcon Ltd.: Q2FY18 Result Update

CMP INR 854 **Target INR 1,100**
Rating: BUY **Upside: 30%**

 Date: 15th November 2017

From Sub-contractor to Marquee EPC Play

Dilip Buildcon (DBL), the largest road EPC / HAM contractor in India with INR 14,204 cr of order-book and INR 5,098 cr revenue (FY17) declared their Q2FY18 results. Topline grew by whopping 73% YoY to INR 1,582 cr and way better than our expectations of 26% YoY growth. Due to high operating and financial leverage, PAT grew by 18x YoY and PAT margin improved by 650 bps YoY to 7.3%. Due to strong beginning and high revenue visibility, management revised their topline growth guidance upward to INR 7,000 cr i.e 37% YoY growth for the full year of FY18E. We believe, DBL is best placed to capture growth in construction expenditure both by central and state governments. We reiterate our 'BUY' recommendation with a revised target price of INR 1,100/share.

Superior execution push the revenue growth high; Outlook improved further

DBL reported standalone topline growth of 73% YoY to INR 1,582 cr in Q2FY18 as projects won earlier across the road and mining segment started showing traction. Revenue from road segment grew by 62% YoY to INR 1,366 cr and Mining segment reported INR 186 cr revenue against INR 13 cr reported last year. EBITDA margin came at 18%, 110 bps higher YoY mainly due growth and operating leverage. Management revised their topline growth guidance upward to 37% YoY from 22% earlier with 18% EBITDA margin. We believe, considering the high order-book and overall traction in the construction space, topline of the company is expected to report 36% YoY growth to INR 6,926 cr backed by 32% growth in road segment 400% growth in mining segment. We also revised our FY19E topline expectations to INR 8,493 cr from INR 7,536 cr earlier.

Orderbook reported at INR 14,024 cr; Management expect INR 8,000 - 10,000 cr Order-inflow

DBL reported total orderbook of INR 14,024 cr, a 4% growth YoY, but lower sequentially, as the company has no order inflow in Q2FY18. 82% of the orderbook is from road segment whereas mining orders constitute 15% of the overall orderbook. For the full year of FY18, management is expecting to have INR 8,000 - 10,000 cr of order-inflow majorly in the road space as ordering activity is expected to pick up pace going forward. We believe, the company to have INR 10,000 cr of order-inflow in FY18E.

Asset Monetization, Limited Capex and Improved NWC to improve balance sheet condition

DBL, after a prolonged capex cycle is expected to spend INR150 - 200 cr per year on maintenance capex going forward. NWC of the company has improved significantly and expected to improve further going forward backed by recovery of stuck money and improvement in inventory cycle. The company is expected to reduce debt by INR 300 cr in FY18E and another INR 300 cr in FY19E from the money they will receive from the asset sales. With the growth in profitability, limited capex and NWC improvement, overall RoCE is expected to improve to 20% in FY18E as compared to 18% achieved in FY17.

Valuation: Maintain BUY with a revised TP of INR 650

Due to improved outlook, we revised our FY18/FY19E Topline expectations upward by 10%/13% and bottomline expectations upward by 21%/22%. At CMP of INR 854, the stock is trading at 17x of FY19E EPS. The standalone EPC business (without considering the cash balance of INR 1,600 cr) is trading at 16x of FY19E EPS. We reiterate 'BUY' with a revised target price of INR 1,100/share.

Financials	Q2FY18	Q2FY17	%Change	Q1FY18	%Change	FY17	FY18E	FY19E	Bloomberg:	DBL:IN
Net Revenues (INR cr)	1,582	916	73%	1,664	-5%	5,098	6,926	8,493	52-week range (INR):	924.90 / 191.20
EBITDA (INR crs.)	291	155	88%	300	-3%	992	1,247	1,529	Share in issue (cr):	13.7
PAT (INR Crs)	122	7	1720%	123	-1%	361	520	680	M cap (INR cr):	11,690
Diluted EPS (INR)						26.4	38.0	49.7	Avg. Daily Vol. BSE/NSE	300
Diluted PE (x)						23.9	22.5	17.2	:(('000):	75.6
EV/EBITDA						12.3	9.2	7.2	Promoters (%)	
ROE(%)						19%	18%	15%		

Other Key Highlights:

- Central Government is expected to award 35,000 km of highways over the period of next two years and DBL is expected get a reasonable market share in that. In FY17 awarding runrate was 43 km/day (both EPC and HAM) and the company got 10% market share in that.
- Currently the company has INR 50,000 cr of bid pipeline and among that 80% are in EPC and 20% are in HAM mode. Management is confident of adding INR 8,000 cr of EPC projects and INR 4,000 cr of HAM projects in the medium term.
- Among the six HAM projects, all projects got financial closure. In Lucknow-Sultanpur projects, 20% milestone achieved way before the stipulated deadline. In Maharashtra HAM projects, one got appointed date already and two other will get in December and January respectively.
- Gross debt in the company's book in Q2FY18 was INR 2,800 cr, around a INR 200 cr increase sequentially mainly due to initial execution of few large projects which is expected to come down significantly over next three quarters. Management is confident of repaying INR 300 cr debt in FY18E.
- Receivable days came down to 67 days as compared to 86 days last year and the company has received INR 18 cr from past stuck receivables.
- Inventory days have come down by 52 days YoY to 102 days as execution of large projects reduces the aggregate inventory.
- The company sold all its BOT/HAM assets with a total consideration of INR 1,600 cr and among that INR 500 cr is expected to come in within FY18E.

Q2FY18 Result Highlights

	Q2FY18	Q2FY17	%Change	Q1FY18	%Change	H1FY18	H1FY17	%Change
Net Revenues	1,582	916	73%	1,664	-5%	3,246	1,958	66%
Direct Expenses	1,218	676	80%	1,277	-5%	2,496	1,455	72%
Gross Profit	363	240	51%	387	-6%	750	503	49%
Operating Expenses	72	85	-15%	87	-17%	159	143	11%
EBITDA	291	155	88%	300	-3%	592	360	64%
Depreciation	68	54	25%	65	4%	133	106	25%
Interest	111	96	16%	111	0%	222	204	-
Other Income	3	4	-12%	3	18%	6	6	4%
PBT	116	9	1194%	127	-9%	243	55	344%
Tax Payment	-6	2	-355%	5	-228%	-1	-2	-23%
PAT Before Minority & Associate Share	122	7	1720%	123	-1%	244	56	334%
Share of Associates	0	0	-	0	NA	0	0	-
Reported PAT	122	7	1720%	123	-1%	244	56	334%
Equity Capital	137	137	-	137	-	137	137	-
No of Shares	14	14	-	14	0%	14	14	-
EPS	8.9	0.5	1720%	8.97	-1%	17.9	4.1	334%
EBITDA Margin	18%	17%		18%		18%	18%	
PAT Margin	8%	1%		7%		8%	3%	
Tax Rate	-5%	25%		4%		-1%	-3%	

Change in Estimates

	FY18E			FY19E		
	Previous	New	Deviation	Previous	New	Deviation
Revenue	6,320	6,926	10%	7,536	8,493	13%
EBITDA	1,153	1,247	8%	1,394	1,529	10%
Core Profit	429	520	21%	562	680	21%

Financials

Income Statement (Standalone)

	(INR cr)				
Year to March	FY15	FY16	FY17	FY18E	FY19E
Income from operations	2,624	4,085	5,098	6,926	8,493
Direct Expenses	1,932	3,000	3,793	5,195	6,370
Employee Cost	36	87	102	139	170
Other Expenses	90	198	210	346	425
Total operating expenses	2,059	3,286	4,105	5,680	6,965
EBITDA	566	799	992	1,247	1,529
Depreciation and amortisation	118	183	227	249	278
EBIT	448	616	765	997	1,251
Interest expenses	259	381	416	432	419
Other income	6	16	11	12	18
Profit before tax	195	250	360	578	850
Provision for tax	49	29	-1	58	170
Core profit	146	221	361	520	680
Extraordinary items	0	0	0	0	0
Profit after tax	146	221	361	520	680
Minority interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	146	221	361	520	680
Equity shares outstanding (Crs)	13.7	13.7	13.7	13.7	13.7
EPS (INR) basic	10.7	16.1	26.4	38.0	49.7
Diluted shares (Crs)	13.7	13.7	13.7	13.7	13.7
EPS (INR) fully diluted	10.7	16.1	26.4	38.0	49.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0

Common size metrics- as % of net revenues

Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	78.4	80.4	80.5	82.0	82.0
Depreciation	4.5	4.5	4.5	3.6	3.3
Interest expenditure	9.9	9.3	8.2	6.2	4.9
EBITDA margins	21.6	19.6	19.5	18.0	18.0
Net profit margins	5.6	5.4	7.1	7.5	8.0

Growth metrics (%)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues	13.3	55.7	24.8	35.9	22.6
EBITDA	20.3	41.3	24.1	25.6	22.6
PBT	(19.7)	28.3	44.0	60.5	47.0
Net profit after minority interest	(25.0)	51.5	63.5	44.1	30.7
EPS	(25.0)	51.5	63.5	44.1	30.7

Balance Sheet (Standalone)

	(INR cr)				
As on 31st March	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	117	117	137	137	137
Warrants	0	0	0	0	0
Reserves & surplus	725	945	1,716	2,236	2,916
Shareholders funds	842	1,062	1,853	2,373	3,053
Borrowings	2,235	2,518	2,697	2,397	2,097
Minority interest	0	0	0	0	0
Sources of funds	3,078	3,581	4,550	5,270	6,650
Gross block	1,529	1,940	2,424	2,624	2,924
Depreciation	340	519	742	991	1,269
Net block	1,189	1,420	1,682	1,633	1,655
Capital work in progress	0	0	0	10	20
Total fixed assets	1,189	1,420	1,682	1,643	1,675
Goodwill	0	0	0	0	0
Non Current Assets	590	575	977	727	1,727
Inventories	948	1,579	1,664	2,259	2,654
Sundry debtors	1,129	912	1,017	1,385	1,699
Cash and equivalents	234	106	114	400	286
Loans and advances	330	502	888	1,256	1,316
Other current assets	0	0	0	0	0
Total current assets	2,641	3,099	3,682	5,300	5,955
Sundry creditors and others	1,422	1,697	2,091	2,399	2,707
Provisions	5	7	8	0	0
Total CL & provisions	1,427	1,703	2,099	2,399	2,707
Net current assets	1,214	1,396	1,583	2,900	3,248
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	2,992	3,391	4,242	5,270	6,650
Book value per share (INR)	219	248	310	385	486

Cash flow statement

	(INR cr)				
Year to March	FY15	FY16	FY17	FY18E	FY19E
Net profit	146	221	361	520	680
Add: Depreciation	118	183	227	249	278
Add: Interest net of tax	194	337	417	388	336
Add: Deferred tax	0	0	0	0	0
Add: Others	117	94	28	75	75
Gross cash flow	575	836	1,034	1,233	1,368
Less: Changes in W. C.	136	414	298	724	461
Operating cash flow	439	421	735	509	907
Less: Capex	667	411	485	200	300
Less: Investment in subsidiaries	165	-50	402	-250	1,000
Free cash flow	-393	60	-151	559	-393

Profit & Efficiency Ratios (Standalone)

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	17%	21%	19%	18%	15%
ROACE (%)	16%	18%	17%	20%	20%
Debtors (days)	157	81	73	73	73
Current ratio	1.9	1.9	1.9	2.2	2.2
Gross Debt/Equity	2.3	2.1	1.2	0.7	0.4
Inventory (days)	132	141	119	119	114
Payable (days)	115	91	64	60	60
Cash conversion cycle (days)	174	131	128	132	127
Gross Debt/EBITDA	3.5	2.8	2.2	1.7	1.2
Net debt/Equity	2.0	2.0	1.1	0.7	0.5

Valuation Parameters (Standalone)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	12.4	18.9	26.4	38.0	49.7
Y-o-Y growth (%)	(62.1)	51.5	40.0	44.1	30.7
CEPS (INR)	22.5	34.5	43.0	56.3	70.0
Diluted P/E (x)	59.1	39.0	23.9	22.5	17.2
Price/BV(x)	10.2	8.1	4.7	4.1	2.6
EV/Sales (x)	3.9	2.6	2.1	1.9	1.6
EV/EBITDA (x)	14.0	12.5	12.3	9.2	7.2
Diluted shares O/S	13.7	13.7	13.7	13.7	13.7
Basic EPS	12.4	18.9	26.4	38.0	49.7
Basic PE (x)	59.1	39.0	23.9	22.5	17.2
Dividend yield (%)	0%	0%	0%	0%	0%

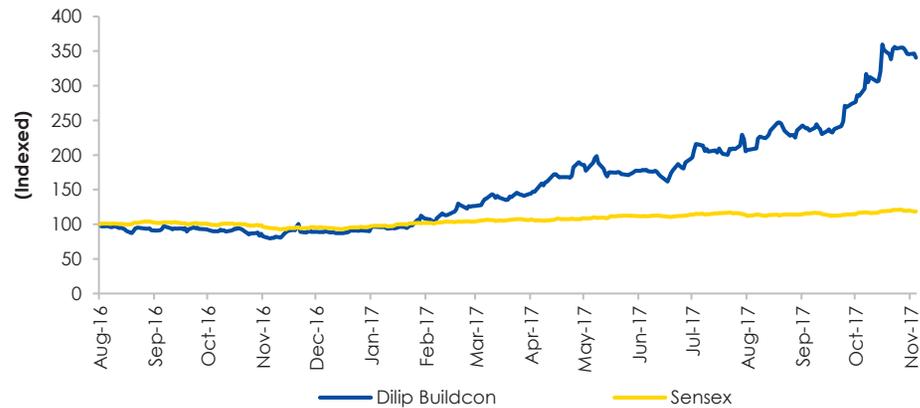
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Rating	Expected to
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Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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