

## DILIP BUILDCON

ENGINEERING

# BUY

Target Price: Rs 765

### Sale of BOT assets – right step forward

Dilip Buildcon (DBL) has signed an agreement with Shrem Group for sale of its entire BOT portfolio (14 operational, 4 under construction projects and 6 Hybrid Annuity Model (HAM) projects) at an equity value of Rs 16 bn and enterprise value of ~Rs 105 bn. DBL has invested (equity and sub-debt) Rs 6.8 bn in operational and under construction assets, while an amount of Rs 8.4 bn is yet to be invested. The transaction values BOT portfolio at ~1.05x book value.

The transaction is expected to be completed in tranches, wherein DBL would receive ~Rs 5.5 bn in FY18 and remaining in FY19, which would be utilized in strengthening the balance sheet (reduction of debt). With the monetization of BOT assets, DBL has **delivered on its strategy of being a focused EPC player** in infrastructure space.

CMP : Rs 622  
Potential Upside : 23%

#### MARKET DATA

No. of Shares : 137 mn  
Free Float : 24%  
Market Cap : Rs 85 bn  
52-week High / Low : Rs 627 / Rs 179  
Avg. Daily vol. (1mth) : 395,173 shares  
Bloomberg Code : DBL IB Equity  
Promoters Holding : 76%  
FII / DII : 11% / 4%

**Paving the way for creation of EPC behemoth:** DBL was constrained in its growth due to equity infusion required in HAM projects and we believe this sale of operational and under construction BOT assets would allow DBL to participate in new HAM projects worth Rs 150-200 bn in FY18. Strong order backlog of Rs 156 bn (at the end of Q1FY18) and participation in new HAM projects would ensure **sustained topline growth of 20-25% over next 4-5 years**. Note: NHA is expected to award projects worth ~Rs 750 bn during the balance of FY18 with higher share (~70%) of HAM projects. Moreover, competition in HAM projects has eased with 4-5 bidders in recent projects vs. 8-9 bidders in H2FY17. **Easing competition would ensure sustained or better margin** for DBL going forward.

**Employing capital in right business:** Return of Capital employed in EPC business is superior to capital intensive BOT business. Consolidated RoCE of DBL would rise to ~28% (in FY19) after sale of BOT portfolio from ~18% (in FY17).

**Increase estimates, TP; maintain BUY:** We increase our FY18/19 EPS to Rs 42/Rs 51 (vs. Rs 38/Rs 45 earlier) given the strong revenue growth visibility. We also raise our target multiple to 15x (12x earlier) to account for improved growth outlook and RoCE of the business. Our revised TP stands at Rs 765 (15x FY19E EPS) vs. Rs 610 earlier.

#### Financial summary (Standalone)

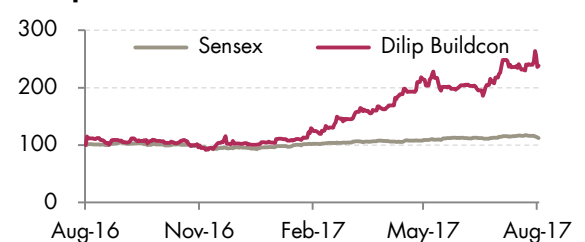
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	40,176	50,754	64,705	79,674
EBITDA (Rs mn)	7,992	9,923	12,767	15,288
Adj PAT (Rs mn)	2,199	3,609	5,748	6,971
Con. EPS* (Rs)	-	-	30.2	38.3
EPS (Rs)	18.8	26.4	42.0	51.0
Change YOY (%)	50.8	40.6	59.3	21.3
P/E (x)	31.6	21.7	13.6	11.2
RoE (%)	22.3	24.5	27.6	27.3
EV/E (x)	13.6	11.0	8.0	6.5
DPS (Rs)	-	-	8.4	15.3

Source: \*Consensus broker estimates, Company, Axis Capital

#### Key drivers (Rs bn)

	FY17	FY18E	FY19E
Order inflow	118	120	150
Order backlog	175	231	301
Revenue growth	25%	27%	23%
Margin	19.5%	19.7%	19.2%

#### Price performance



## Financial summary (Standalone)

### Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	40,176	50,754	64,705	79,674
Other operating income	677	222	150	150
<b>Total operating income</b>	<b>40,853</b>	<b>50,976</b>	<b>64,855</b>	<b>79,824</b>
Cost of goods sold	(30,170)	(37,930)	(47,882)	(59,357)
Gross profit	10,683	13,047	16,973	20,467
<i>Gross margin (%)</i>	<i>26.6</i>	<i>25.7</i>	<i>26.2</i>	<i>25.7</i>
Total operating expenses	(2,691)	(3,124)	(4,206)	(5,179)
<b>EBITDA</b>	<b>7,992</b>	<b>9,923</b>	<b>12,767</b>	<b>15,288</b>
<i>EBITDA margin (%)</i>	<i>19.9</i>	<i>19.6</i>	<i>19.7</i>	<i>19.2</i>
Depreciation	(1,835)	(2,274)	(2,557)	(2,807)
<b>EBIT</b>	<b>6,158</b>	<b>7,649</b>	<b>10,211</b>	<b>12,481</b>
Net interest	(3,805)	(4,162)	(3,944)	(3,313)
Other income	154	114	120	126
<b>Profit before tax</b>	<b>2,507</b>	<b>3,601</b>	<b>6,387</b>	<b>9,295</b>
Total taxation	(308)	9	(639)	(2,324)
<i>Tax rate (%)</i>	<i>12.3</i>	<i>(0.2)</i>	<i>10.0</i>	<i>25.0</i>
Profit after tax	2,199	3,609	5,748	6,971
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,199	3,609	5,748	6,971
<i>Adj. PAT margin (%)</i>	<i>5.5</i>	<i>7.1</i>	<i>8.9</i>	<i>8.7</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,199	3,609	5,748	6,971

### 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	21,760	26,639
Net worth	10,962	18,529	23,127	28,007
Borrowing	25,138	25,626	20,626	15,626
Other non-current liabilities	965	759	759	759
<b>Total liabilities</b>	<b>37,066</b>	<b>44,914</b>	<b>44,512</b>	<b>44,392</b>
Gross fixed assets	19,424	24,319	26,819	29,319
Less: Depreciation	(5,220)	(7,494)	(10,051)	(12,857)
Net fixed assets	14,204	16,825	16,768	16,461
Add: Capital WIP	-	-	-	-
Total fixed assets	14,204	16,825	16,768	16,461
Total Investment	3,785	6,816	1,316	-
Inventory	15,803	16,639	19,500	21,828
Debtors	11,919	10,165	12,409	14,188
Cash & bank	1,476	1,137	3,285	1,928
Loans & advances	5,565	3,157	3,545	4,366
Current liabilities	16,267	21,579	22,947	25,293
Net current assets	19,077	21,273	26,428	27,931
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>37,066</b>	<b>44,914</b>	<b>44,513</b>	<b>44,392</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	2,507	3,601	6,387	9,295
Depreciation & Amortisation	1,835	2,274	2,557	2,807
<i>Chg in working capital</i>	<i>(4,778)</i>	<i>(2,535)</i>	<i>(3,008)</i>	<i>(2,860)</i>
<b>Cash flow from operations</b>	<b>3,060</b>	<b>7,511</b>	<b>9,241</b>	<b>10,231</b>
<i>Capital expenditure</i>	<i>(4,126)</i>	<i>(4,895)</i>	<i>(2,500)</i>	<i>(2,500)</i>
<b>Cash flow from investing</b>	<b>(7,463)</b>	<b>(12,089)</b>	<b>(944)</b>	<b>(4,497)</b>
<i>Equity raised/ (repaid)</i>	<i>2,233</i>	<i>7,566</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>3,269</i>	<i>488</i>	<i>(5,000)</i>	<i>(5,000)</i>
<i>Dividend paid</i>	-	-	<i>(1,150)</i>	<i>(2,091)</i>
<b>Cash flow from financing</b>	<b>5,501</b>	<b>8,054</b>	<b>(6,150)</b>	<b>(7,091)</b>
Net chg in cash	1,098	3,476	2,148	(1,357)

### Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
<b>OPERATIONAL</b>				
FDEPS (Rs)	18.8	26.4	42.0	51.0
CEPS (Rs)	34.4	43.0	60.7	71.5
DPS (Rs)	-	-	8.4	15.3
Dividend payout ratio (%)	-	-	20.0	30.0
<b>GROWTH</b>				
Net sales (%)	56.0	26.3	27.5	23.1
EBITDA (%)	41.3	24.1	28.7	19.7
Adj net profit (%)	50.8	64.1	59.3	21.3
FDEPS (%)	50.8	40.6	59.3	21.3
<b>PERFORMANCE</b>				
RoE (%)	22.3	24.5	27.6	27.3
RoCE (%)	18.5	18.9	23.1	28.4
<b>EFFICIENCY</b>				
Asset turnover (x)	1.3	1.3	1.6	1.9
Sales/ total assets (x)	0.8	0.8	1.0	1.2
Working capital/ sales (x)	0.4	0.4	0.3	0.3
Receivable days	108.3	73.1	70.0	65.0
Inventory days	175.5	147.9	136.6	123.5
Payable days	177.8	189.2	158.1	140.4
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	2.6	1.7	1.0	0.6
Net debt/ equity (x)	2.4	1.7	0.8	0.5
Current ratio (x)	2.2	2.0	2.2	2.1
Interest cover (x)	1.6	1.8	2.6	3.8
<b>VALUATION</b>				
PE (x)	31.6	21.7	13.6	11.2
EV/ EBITDA (x)	13.6	11.0	8.0	6.5
EV/ Net sales (x)	2.7	2.2	1.6	1.2
PB (x)	6.6	4.6	3.7	3.0
Dividend yield (%)	-	-	1.4	2.5
Free cash flow yield (%)	-	-	0.1	0.1

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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