

30 April 2018

Initiating Coverage (BUY)

DILIP BUILDCON LTD

CMP

INR 1161

Target Price

INR 1365

Stock Details

Industry	Roads & Highways
Bloomberg Code	DBL:IN
BSE Code	540047
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	158,778
52wk. Low/High (Adjusted) (Rs.)	405.05/1217.00

Shareholding Pattern Dec '17

Promoter (%)	75.63
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	24.37
No. of Share Outstanding (mn)	136.76

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	12.45	42.13	36.00	26.00
EV/EBITDA (x)	5.00	15.34	13.20	11.52
P/BV (x)	3.58	9.24	7.67	6.44

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	43,005	53,192	66,489	86,436
EBITDA	9,966	11,722	15,018	19,446
Net Profit	2,295	3,579	4,651	7,182
EPS (Rs.)*	19.6	27.6	34.0	52.5

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	23.1	22.0	22.5	22.4
EBIT Margin (%)	18.5	17.4	18.4	19.3
Net Pro. Margin (%)	5.3	6.7	7.0	8.3
Debt/Equity (x)	1.89	1.32	1.04	0.78
RoNW (%)	26.4	27.0	23.8	28.3
RoCE (%)	8.1	9.8	10.2	13.7

One Year Price / Volume

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We recommend 'BUY' on DILIP BUILDCON LTD for a target of INR 1365 - valuing the company at P/E 26x of FY19E Earning.

INVESTMENT RATIONALE:

- DBL is known for its timely and efficient project execution skills.
- Largest owner of Construction equipment's.
- Differentiated Business Model, focusing on roads and government contracts with equipment ownership, skilled manpower, minimal subcontracting and backward integration for profitable growth.
- On track to lower inventory/ working capital cycle.
- Asset Monetization, Limited Capex to aid containing elevated debt levels going forward.
- Superior execution push the revenue growth high; Outlook improved further.
- Pan India Project Execution Capability.
- Building a strong corporate foundation through timely project delivery.
- In-house design, engineering and construction.
- Established relationship with public sector clientele and excellent pre-qualification credentials.

VALUATIONS AND VIEW:

Dilip Buildcon Limited (DBL) is one of the leading private sector road focused EPC contractors in India. Their core business is undertaking construction projects across India in the road and irrigation sectors. DBL's strength lie in its ability to execute projects on time, within cost and of the highest quality. We value the business at 26x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 1365 per share.

RISK & CONCERNS:

- **Competition risk:** The Company competes with a number of Indian infrastructure operators in acquiring concessions for both new and existing road projects. After two decades of consistent competition, it has now eased out relatively in the last two years.
- **Capital-intensive business risk:** Infrastructure business is capital-intensive by nature. Availability of funds is critical for bidding of projects, particularly fund based projects such BOT-toll, hybrid annuity model.
- **Input cost risk:** The availability of the right quality and quantity of resources is critical for the timely completion of infrastructure projects. Any unexpected increase in the input costs will have direct impact on margins.
- **Labour risk:** People represent the most valuable asset in the construction business. Undue attrition could lead to loss of competitive edge. Recruitment and retention of trained and talented professionals is an industry-wide problem.

COMPANY BACKGROUND:

Dilip Buildcon Limited (DBL) is the largest road construction company in India. Over the years, since its incorporation in 2006, through outstanding track performance of constructing landmark infrastructure projects in record time, DBL has moved to a different league altogether. DBL's strength lie in its ability to execute projects on time, within cost and of the highest quality. Its clientele in the road segment includes National Highway Authority of India (NHAI), state governments and private companies. The company is also an established player in irrigation, urban development and mining segments.

DBL is one of the leading private sector road focused EPC contractors in India. Their core business is undertaking construction projects across India in the road and irrigation sectors. They specialize in constructing state and national highways, city roads, culverts and bridges. DBL with its differentiated business model that lays on project selection and execution with operational efficiency continues to remain one of the prime beneficiaries of Govt's Bharatmala project. Initially started with presence in Madhya Pradesh, DBL ventured out into other states in India and currently has presence in almost 16 states. Witnessing opportunities in other space, DBL also diversified into segment like irrigation, urban development and mining in 2014 and 2015.

Products:

- Construction of Roads and Highways
- Irrigation Activity
- Urban Development and Mining Activity

INDUSTRY OVERVIEW:

India has the second largest road network across the world at 4.7 million km. This road network transports more than 60 per cent of all goods in the country and 85 per cent of India's total passenger traffic. Road transportation has gradually increased over the years with the improvement in connectivity between cities, towns and villages in the country. The Indian roads carry almost 90 per cent of the country's passenger traffic and around 65 per cent of its freight. In India sales of automobiles and movement of freight by roads is growing at a rapid rate. Population of Indian cities will increase from 340 million in 2008 to 590 million by 2030. The investment required for building urban infrastructure in India, over the next 20 years, is estimated at approximately USD 1 trillion. By 2031, about 600 million Indians will reside in urban areas, an increase of over 200 million in just 20 years.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
IRB Infra.Devl.	264	10.1	8,992.8	1.95	207.3	12.53	1,296.2	(8.13)	1.51
Noida Tollbridg.	166	20.3	212.3	-	(16.0)	(69.89)	4.0	(67.85)	5.24
IL&FS Transport	62	8.2	2,059.3	3.19	60.3	8.41	712.8	(10.33)	0.69
PNC Infratech	167	25.1	4,341.9	0.30	93.1	21.28	472.5	1.90	2.54
MEP Infrast.	83	26.5	1,493.1	0.27	24.9	2,516.84	756.6	94.51	40.94
Ashoka Buildcon	277	NaN	5,171.6	0.58	(7.3)	(30.81)	729.2	(9.19)	3.09
Dilip Buildcon	1,161.0	36.0	15,877.8	0.09	164.7	51.60	1,942.1	39.81	9.24

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	13,890.96	17,502.36	16,640.85	15,817.92	19,421.19	39.81%	22.78%
Other Income	26.64	32.22	26.53	31.33	56.49		
Total Income	13,917.60	17,534.58	16,667.38	15,849.25	19,477.68	39.95%	22.89%
Expenditure	-11,115.40	-15,012.50	-14,744.91	-14,075.21	-17,142.15		
As a % of Sales	80.02%	85.77%	88.61%	88.98%	88.27%		
Interest	-1061.79	-1057.44	-1106.29	-1110.45	-1167.97	10.00%	5.18%
PBDT	1740.41	2522.08	1922.47	1774.03	2335.53		
As a % of Sales	12.53%	14.41%	11.55%	11.22%	12.03%		
Depreciation	-593.02	-617.99	-650.73	-675.86	-697.52		
PBT	1147.39	1904.09	1271.74	1098.17	1638.01	42.76%	49.16%
As a % of Sales	8.26%	10.88%	7.64%	6.94%	8.43%		
Tax	-61.03	53.57	-45.34	57.85	8.98	-114.71%	-84.48%
Net Profit	1086.36	1957.66	1226.4	1156.03	1646.99	51.61%	42.47%
As a % of Sales	7.82%	11.19%	7.37%	7.31%	8.48%		
Equity	1367.7	1367.7	--	--	--	#VALUE!	#VALUE!
EPS (Rs)	--	14.34	8.97	8.46	12.04	#VALUE!	42.32%
CEPS (Rs)	12.28	18.83	--	--	--		
OPM %	20.17	14.41	11.55	11.22	12.03		
NPM %	7.82	11.19	7.37	7.31	8.48		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	24,596	27,620	43,005	53,192	66,489	86,436	101,995
Other Operating Income	197	102	162	122	295	307	358
Expenditure	19,347	20,764	33,201	41,592	51,767	67,297	78,445
EBITDA	5,445	6,957	9,966	11,722	15,018	19,446	23,909
Depreciation	994	2,061	2,000	2,452	2,727	2,730	2,733
EBIT	4,451	4,896	7,966	9,270	12,291	16,716	21,176
Interest Expenses	2,007	3,605	5,193	5,549	7,493	9,380	11,276
PBT	2,445	1,291	2,773	3,721	4,798	7,336	9,900
Tax	70	479	478	143	147	154	161
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	2,375	812	2,295	3,579	4,651	7,182	9,740
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	2,375	812	2,295	3,579	4,651	7,182	9,740

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	592	1,171	1,171	1,368	1,368	1,368	1,368
Reserves & surplus	6,692	6,879	8,150	15,822	20,459	27,619	37,329
Misc Expenditure	-	-	-	-	-	-	-
Net worth	7,284	8,050	9,321	17,190	21,827	28,987	38,697
Minority Interest	-	-	-	-	-	-	-
Loan Funds	9,252	15,740	17,598	22,723	22,725	22,723	22,721
Net deferred tax liability	347	753	699	837	837	837	837
Other Long-term Liabilities	1,960	2,144	2,213	2,037	2,546	3,310	3,906
Long-term Provisions	65	92	156	258	322	419	494
Total Liabilities	18,907	26,781	29,988	43,047	48,258	56,278	66,657
Net block	17,733	26,079	16,548	24,271	22,513	21,326	19,756
Investment, Loan & Adv.	626	3,130	13,838	18,231	24,417	34,442	51,349
Total Current Assets	17,388	26,718	32,376	37,690	35,539	42,335	43,541
Current Liabilities & Provisions	16,839	29,147	32,774	37,148	34,212	41,826	47,992
Net Current Assets	549	(2,429)	(398)	542	1,327	508	(4,451)
Total Assets	18,907	26,781	29,988	43,047	48,258	56,278	66,657

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	6,139	1,305	9,206	16,150
Cash Flow from Investments	(10,071)	(7,367)	(11,781)	(18,284)
Cash Flow from Financing	4,404	(3,718)	(3,735)	(6,883)
Net Changes in Cash	472	(9,780)	(6,311)	(9,017)
Opening Cash	1,158	1,630	(8,150)	(14,460)
Closing Cash Balance	1,630	(8,150)	(14,460)	(23,477)

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