

RESULT PREVIEW (1Q FY19E)**CONSTRUCTION AND ENGINEERING (ROADS & HIGHWAYS)**

3-Jul-18

Company Recommendation

DBL	Neutral
SADBHAV	ACCUMULATE
ASHOKA	BUY
KNRCON	BUY
PNCINFRA	BUY
IRB	BUY

NHAI focuses more on Execution

NHAI has deliberately slow down the awarding activity in order to focus more on execution. NHAI is focusing on execution of the projects awarded in last year. Transportation ministry is focusing on to complete 300 projects before the end of this fiscal year. This strategic move of NHAI will help sector to accelerate execution of current projects. As result of this long time stalled projects gets clearances and construction will start after that. We are confident that the NHAI will catch up the speed later in the year and award Rs.100000 Cr worth of projects in FY19.

Company	Order Inflow in Q1FY19	Order Book as on 30th June 2018	Book to Bill
DBL	3000	24667	2.93
SADBHAV	2500	14692	3.90
ASHOKA	760	11047	4.47
KNRCON	1144	7531	4.06
PNCINFRA	3256	13320	6.27
IRB	0	14075	3.90

Execution will speed Up, more tenders than last year

Transportation ministry focusing more on construction of the projects and ensure that the tenders will be more than last year. Ministry has set target of 45 km construction per day compared to 27 km in day last year. As result of this many road developer has received appointment date on long time stalled projects and work will start immediately. All the projects awarded before and up to 2014-15 would be completed this year on priority basis so that no prior legacy is pending. We expect the NHAI will catch up the tendering speed in later part of the year. NHAI is expecting to award more than Rs.100000 Cr of projects.

Execution will be key to Success

Post the strong tendering by NHAI in last year order book of major road developers is robust but execution will be key to success. NHAI's focus on faster execution has helped some the developers. PNCINFRA has received appointment date on all long time stalled projects and execution will kick off shortly. Similarly, SADBHAV and ASHOKA have received appointment date on stalled projects. However revenue growth in Q1FY19 will be mixed for our coverage companies as the orders are relatively newer. But we expect strong growth from H2FY19. EBITDA margin will remain stable for all the companies. Bottom line growth will lower/negative on account of higher tax rate. Tax rate will be higher as the execution on 80 IA benefited projects completed.

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(Rs in Crore)

DBL	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	2338	1164	101%	2558	-9%
EBITDA	417	300	39%	473	-12%
PAT	176	123	43%	217	-19%

Key Highlights

We continue to believe that the strong momentum in execution will continue. We expect 100% growth in revenue backed by strong execution of road EPC projects. EBITDA will be in range of 17-19% for the Q1FY19 and for the full year. During the quarter DBL has received new orders worth Rs.3000 Cr and for the full year we expect Rs.10000-12000 Cr. We continued to remain positive on fundamental front but current events has raise question over corporate governance.

SADBHAV	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	1035	944	9.6%	1104	-6%
EBITDA	114	107	6.5%	124	-8%
PAT	69	55	25.5%	70	-1%

Key Highlights

Revenue growth will be higher single digit as the major EPC orders are in early stage. We expect robust revenue growth for rest of the year. Management expects to receive arbitration claims of Rs.515 Cr by October of this year. So progress on this front is key monitorable. Order Inflow for the quarter was Rs.2500 Cr. EBITDA margin will continue to remain in range of 10.5-11.5%.

ASHOKA	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	732	723	1%	702	4%
EBITDA	91	98	-7%	81	12%
PAT	57	62	-8%	105	-46%

Key Highlights

Revenue growth in Q1FY19 will be flat QoQ and YoY as the couple of large EPC projects gets completed in last quarter. But however for the full year we expect strong revenue growth of 32%. Margin will remain above 12.5%. During the quarter company has won arbitration claim of Rs.383 Cr. NHAI focusing on execution of projects which were awarded last year and as result of this ordering activity was muted and ASHOKA end Q1FY18 with just Rs.760 Cr of orders.

KNRCON	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	406	481	-16%	624	-35%
EBITDA	57	85	-33%	121	-53%
PAT	23	68	-66%	80	-71%

Key Highlights

Revenue will be down by 15% as the couple of projects are moving slowly and facing some land related issue on Irrigation project. However management expect strong recovery in revenue growth during the H2FY19 and for the full year we have estimated mid single digit revenue growth. EBITDA margin will back to the normal level of 14% in Q1FY19 and FY19 as well. Higher tax rate will drag down the bottom line growth. During the quarter KNRCON has secured new orders of Rs.1144 Cr.

PNCINFRA	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	626	357	75%	759	-18%
EBITDA	92	52	77%	161	-43%
PAT	53	30	77%	112	-53%

Key Highlights

On back of strong order book we have estimated robust revenue growth of 70% plus in Q1FY19. PNC has received appointment date on Jhansi-Khajuraho pkg-1 in June. With this all the pending projects gets appointment date and construction will start immediately. EBITDA margin will remain in range of 13.5-14%. During the quarter company has received couple of EPC and one HAM project total worth Rs.5000 Cr. Out of this one EPC project of Rs.1738 Cr get cancelled by the UPEIDA and will re-invite bids.

IRB	1Q FY19e	1Q FY18	YoY Gr %	4Q FY18	QoQ Gr %
Revenue	1571	1817	-14%	1382	14%
EBITDA	786	818	-4%	659	19%
PAT	252	238	6%	240	5%

Key Highlights

IRB's revenue growth will be negative YoY for the Q1FY19 on account of completion of large projects in last quarter and transfer of one BoT assets in InvIT, which was contributed in Q1FY18. Order book continues to remain strong and we expect strong EPC revenue for the full year. EBITDA margin of the EPC and BOT segments will remain stable but blended margin is result of revenue mix, so it will move accordingly. Order Inflow for the Q1FY19 is NIL.

Peer Comparison

Company	Revenue Growth %		EBITDA %		EPS Growth %		RoE %		P/E(x)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
DBL	29	35	35	34	40	19	26	24	10	9
SADBHAV	24	43	15	43	34	5	14	13	16	15
ASHOKA	33	37	39	37	9	23	12	13	17	13
KNRCON	5	60	(26)	60	(48)	84	11	17	23	12
PNCINFRA	55	41	21	37	(9)	18	11	12	16	14
IRB	19	27	23	0	7	(13)	15	12	8	9

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