Narnolia™

DILIP BUILDCON LTD.

BOOK PROFIT

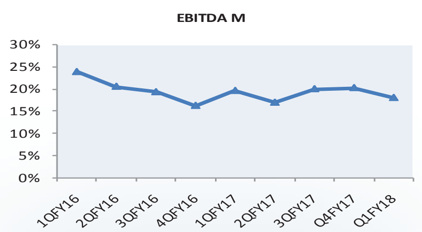
05-Oct-17

INDUSTRY -	Eng. & Cons.
Bloomberg -	DBL IN
BSE Code -	540047
NSE Code -	DBL
NIFTY -	9888

Company Data

CMP	682
Target Price	-
Previous Target Price	680
Upside	**NA**
52wk Range H/L	692/178
Mkt Capital (Rs Cr)	9,338
Av. Volume (,000)	346

Superior EPC EBITDA% compared to other Players in Industry

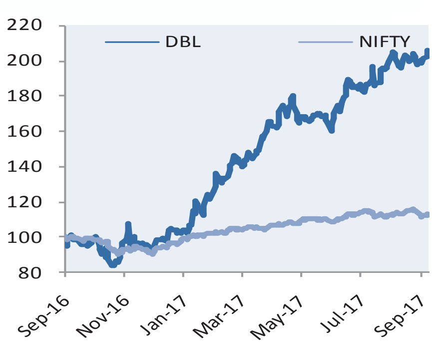


Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	75.6	75.6	75.6
Public	24.4	24.4	24.4
Total	**100.0**	**100.0**	**100.0**

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	9	35	163
Rel.to Nifty	9	32	149



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Key Highlights of the Report:

- ☑ DBL has completed deal for monetization of its 14 operational, 4 under construction and 6 under development projects to Shrem Group for the aggregate value of Rs.1600 Cr.
- ☑ For total equity investment of Rs.783 Cr DBL will receive Rs.830 Cr as compensation at 1.05 P/B of invested book value.
- ☑ DBL will receive Rs.550 Cr in cash in FY18 and rest in FY19 which will be used for repayment of debt and acquiring new projects.
- ☑ The company is fundamentally strong and management is also optimistic about the future growth but valuation is the only concern at this stage.
- ☑ Currently stock has achieved our recommended target price of Rs.680 and we do not see further upside from here on based on given fundamental. Hence, we recommend to book profit at this level.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,624	4,085	5,098	6,267	7,330
EBITDA	566	799	992	1,222	1,414
EBIT	448	616	765	953	1,168
PAT	146	221	361	523	603
EPS (Rs)	12	19	26	38	44
EPS growth (%)	-77%	51%	40%	45%	15%
ROE (%)	17%	21%	19%	22%	21%
ROCE (%)	32%	35%	31%	34%	35%
BV	1,959	2,206	2,206	2,114	2,399
P/B (X)	NA	NA	25.8	36.4	29.2
EV/EBITDA (x)	NA	NA	4.6	7.3	6.2

Recent Development:-

- ✓ Dilip Buildcon completed divestment in 24 Subsidiaries for the aggregate value of Rs.1600 Cr.
- ✓ DBL will transfer 14 operational, 4 under construction and 6 under development projects to Shrem Group for the value of Rs. 1600 Cr.
- ✓ Till date DBL has invested Rs. 674 Cr in 14 operational and 4 under construction projects and 6 Cr in 6 HAM projects.
- ✓ Company will invest Rs.192 Cr (26% of required equity) in 6 HAM projects and after 2 years Shrem Group will payback entire amount.
- ✓ DBL will receive Rs.550 Cr in Cash in FY18 and balance will in FY19.
- ✓ Around Rs.5000 Cr of EPC work is left which will carried by DBL and Rs.4000 Cr of O&M over 15 years will also carried by DBL.

Quarterly Performance

In Rs. Cr

Financials	1QFY17	2QFY17	3QFY17	Q4FY17	Q1FY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	1,039	916	1,388	1,732	1,664	*60%*	*-4%*	4,074	5,075	*25%*
Other Op. Income	2.97	0.67	0.67	17.93	-	*-100%*	*-100%*	11	22	*96%*
Net Sales	**1,042**	**916**	**1,389**	**1,750**	**1,664**	***60%***	***-5%***	**4,085**	**5,098**	***25%***
Other Income	2	4	3	3	3	*32%*	*-18%*	16	11	*-27%*
Total Income	**1,044**	**920**	**1,392**	**1,753**	**1,667**	***60%***	***-5%***	**4,101**	**5,109**	***25%***
COGS	779	674	1,037	1,301	1,277	*64%*	*-2%*	3,000	3,793	*26%*
Expenditure	**837**	**761**	**1,111**	**1,396**	**1,364**	***63%***	***-2%***	**3,286**	**4,105**	***25%***
EBITDA	**204**	**156**	**278**	**355**	**300**	***47%***	***-15%***	**799**	**992**	***24%***
EBITDA %	19.6%	17.0%	20.0%	20.3%	18.0%			19.6%	19.5%	
Depreciation	52	54	59	62	65	***24%***	***5%***	183	227	***24%***
EBIT	**152**	**102**	**219**	**293**	**235**	***55%***	***-20%***	**616**	**765**	***24%***
Interest	108	96	106	106	111	*2.0%*	*4.6%*	381	416	*9%*
PBT	**46**	**9**	**115**	**190**	**127**	***178%***	***-33%***	**250**	**360**	***44%***
Tax	(4)	2	6	(5)	5	***-216%***	***-184%***	29	(1)	***-103%***
PAT	**50**	**7**	**109**	**196**	**123**	***147%***	***-37%***	**221**	**361**	***63%***
PAT %	4.8%	0.8%	7.9%	11.2%	7.4%			5.4%	7.1%	

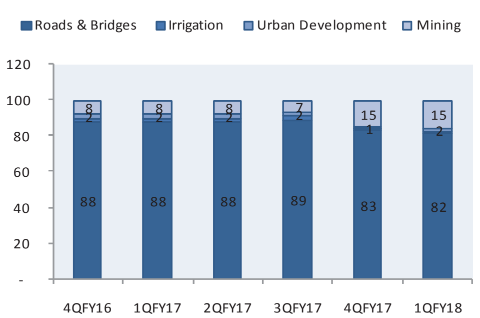
Interest as % of sales come down to 6% from 10% YoY on back of improved working capital

- ***Revenue from Roads and Mining segment jumped by 56% and 2065% respectively.***
- ***Working capital days improved to 104 days from 132 days a year ago.***

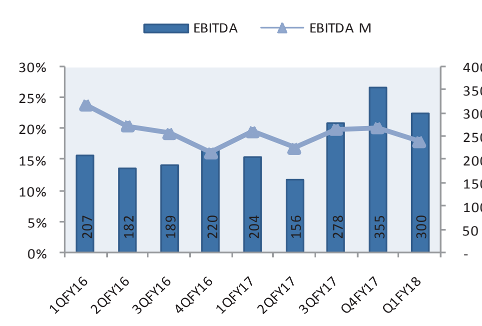
Strong Revenue growth coupled with lower interest outgo

- ✓ DBL posted robust revenue growth of 59% YoY to Rs.1664 Cr on account of healthy execution of road and mining projects. Revenue from Road and Mining was up by 56% and 2065% respectively.
- ✓ EBITDA margin has contracted by the 160 bps to Rs.300 Cr.But if we adjust bonus of 23 Cr in Q1FY17 than adj.EBITDA margin improved by 60 bps to 18%. No bonus during the Q1FY18.
- ✓ Improvement in working capital requirement led to lower interest as percentage of sales in Q1FY18 (6% Vs 10%).
- ✓ Lower interest outgo resulted into 260 bps improvement in bottom line.
- ✓ Considering the strong growth in first quarter management has revised it's revenue guidance to 6200 Cr compared to 5900 Cr earlier.
- ✓ Expecting to receive appointment date of remain HAM projects by Oct- Nov. which ensures healthy revenue growth in FY18.

Increasing contribution from Mining will help to reduce Working Capital



Superior EBITDA margin led by Strong Execution Capabilities



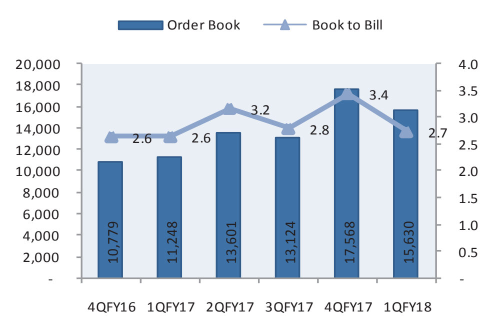
Order Book Analysis

Order Book Break Up	*1QFY17*	*2QFY17*	*3QFY17*	*4QFY17*	*1QFY18*	*YoY %*	*QoQ%*	*FY16*	*FY17*	*YoY %*
Roads & Bridges	9,898	11,969	11,680	14,582	12,763	***29%***	***-12%***	9,485	14,582	***54%***
Irrigation	225	272	262	176	113	***-50%***	***-36%***	216	176	***-19%***
Urban Development	225	272	262	176	334	***49%***	***90%***	216	176	***-19%***
Mining	900	1,088	919	2,635	2,419	***169%***	***-8%***	862	2,635	***206%***
Total	**11,248**	**13,601**	**13,124**	**17,568**	**15,630**	***39%***	***-11%***	**10,779**	**17,568**	***63%***

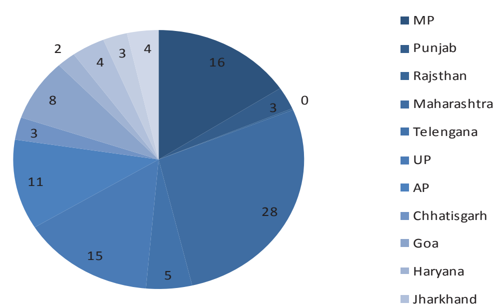
New orders will pick up from Second half

- ✓ During the quarter DBL witnessed only one order inflow of Rs 125 Cr in road and Bridges segment. GST and slow land acquisition led to slow down in new order intake.
- ✓ But the management expecting to pick up in new orders from the second half of the year. DBL targets 6000-8000 Cr of new order in FY18.
- ✓ All the projects under current order book progressing well and management has increased revenue growth guidance to 20-22% from 10-15% earlier.

Strong Order Book



Diversified Order Book Reduce Execution Risk



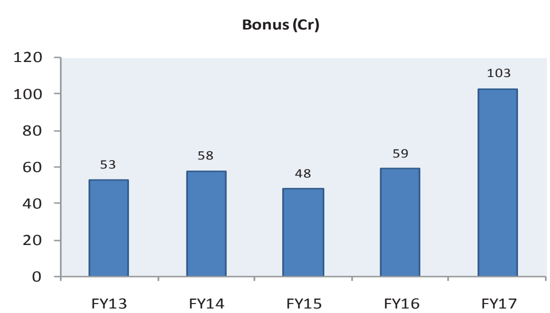
Concall Highlights:

- ✓ In 14 operational and 4 under construction projects DBL has invested/yet to invested 784 Cr and it will receive 830 Cr for that.
- ✓ Equity requirement in 6 HAM projects are Rs.740 Cr out of this 192 Cr will invest by the DBL and same will pay back by the Sharem Group after 2 years.
- ✓ O&M part of the transferred assets will carried by the DBL amounting of Rs.4000 Cr over period of 15 years.
- ✓ Rs.10500 Cr worth of assets sold by DBL out of this around Rs.5000 Cr of EPC work is left which will carried by DBL.
- ✓ Early completion bonus on projects will belong to Dilip buildcon only.
- ✓ Around Rs.1700 Cr of projects related debt will transferred to Buyersfrom Dilip buildcon's consolidated books. The company will receive Rs.550 Cr in cash in FY18 and rest will receive in FY19.
- ✓ Maintain debt reduction of Rs. 300 Cr in FY18 and FY19 each.
- ✓ Equity invested in HAM projects will be pay back by Shrem Group after 2 years.
- ✓ O&M margins are better than Road EPC margin.

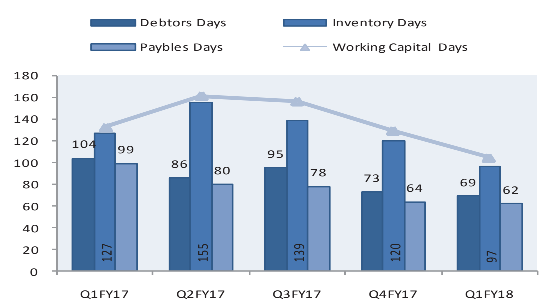
Investment Arguments:

- **Strong Execution coupled with healthy margin: -** During the quarter DBL has posted robust top line growth of 59% and 128% of PAT growth. Strong execution in Roads and Mining led to robust growth in topline. Roads and bridges revenue was up by the 56% and mining was up by 2065% compared to last year. Considering the healthy numbers in Q1FY18 management has revised its guidance to 20-22% compared to 10-15% earlier. EBITDA margin is in line with our expectation. No significant order intake till the date is little concern for us. But we anticipate Rs.6000-8000 Cr of new orders in FY18. We expect 23% and 17% revenue growth in FY18 and FY19 respectively with strong operating margin in range of 19-20%.
- **Assets Monetization will boost the bottom line and provide growth Capital :-** On 24th Aug 2017 DBL has completed deal for monetization of its 14 operational, 4 under construction and 6 under development projects to Shrem Group for the aggregate value of Rs.1600 Cr. Dilip Buildcon has invested Rs.675 Cr in 14 operational and 4 under construction as equity and Rs.108 Cr yet to be invested. For total equity investment of Rs.783 Cr DBL will receive Rs.830 Cr as compensation at 1.05 P/B of invested book value. Post the deal Rs. 1700 Cr of project related debt will transfer to the buyer and company will receive Rs.550 Cr in cash in FY18 which will be used for repayment of debt and acquiring new projects. The balance amount will receive in FY19. Management has guided Rs.300 Cr of debt reduction FY18 and FY19 each. Cash inflow from assets monetization will boost the bottom line and provide growth capital for the future projects.
- **Improving Working Capital:-** Working capital days improved from 129 days to 104 days QoQ in Q1FY18 on back of better collection and improvement in inventory level as the number of sites come down. Coming up of HAM projects (Working capital requirement is lower compare to BOT/EPC) and increasing share of mining will help to DBL to keep working capital days down. During the quarter company has recovered Rs.42 Cr from debtors and management expects to recover Rs.180 Cr in FY18.

Strong Execution resulted into Healthy Bonus



Improving Working Capital Cycle



View & Valuation

Dilip Buildcon is one of the best EPC Company in Roads and Highway with strong execution capabilities. DBL has completed deal for monetization of its 14 operational, 4 under construction and 6 under development projects to Shrem Group for the aggregate value of Rs.1600 Cr. Post this deal around Rs.1700 Cr of project related debt will transfer to buyer. DBL will receive Rs.550 Cr in cash in FY18 and rest in FY19 which will be used for repayment of debt and acquiring new projects. Reduction in debt will boost the bottom line going ahead. Till date in FY18 DBL has not received any new orders except small order of Rs.125 Cr, which drag down the revenue visibilities from 3.4x to 2.7x of TTM. However we expect at least Rs.6000-8000 Cr of new orders in FY18. We continue to expect 23% and 17% revenue growth in FY18 and FY19 respective. The company is fundamentally strong and management is also optimistic about the future growth but valuation is the only concern at this stage. **Currently stock has achieved our recommended target price of Rs.680 and we do not see further upside from here on based on given fundamental. Hence, we recommend to book profit at this level. We had initiated our coverage on this stock on 14th June 2017 with BUY rating for target price of Rs.504. Subsequently after achieving our target price we revised it twice on 16th Aug & 29th Aug 2017 for Rs.595 and Rs.680 respectively.**

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	4,085	5,098	6,267	7,330
Change (%)	*56%*	*25%*	*23%*	*17%*
EBITDA	799	992	1,222	1,414
Change (%)	*41%*	*24%*	*23%*	*16%*
Margin (%)	**20%**	**19%**	**20%**	**19%**
Dep & Amortization	183	227	269	246
EBIT	*616*	*765*	*953*	*1,168*
Interest & other finance cost	381	416	385	437
Other Income	*16*	*11*	*13*	*13*
EBT	250	360	581	744
Exceptional Item	-	-	-	-
Tax	**29**	**(1)**	**58**	**141**
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	221	361	523	603
Adjusted PAT	*221*	*361*	*523*	*603*
Change (%)	**1**	**1**	**0**	**0**
Margin(%)	*5%*	*7%*	*8%*	*8%*

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	19%	22%	21%
ROCE	35%	31%	34%	35%
Asset Turnover	0.8	0.8	0.9	0.9
Debtor Days	81	73	70	70
Inventory Days	141	119	108	108
Payable Days	91	64	62	62
Interest Coverage	1.61	1.84	2.48	2.67
P/E	NA	13	16	14
Price / Book Value	NA	25.8	36.4	29.2
EV/EBITDA	*NA*	*4.6*	*7.3*	*6.2*
FCF per Share	1	86	57	56
Dividend Yield	NA	0.3%	0.2%	0.3%

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	117	137	137	137
Reserves	945	1,716	2,216	2,791
Networth	**1,062**	**1,853**	**2,353**	**2,928**
Debt	*2,206*	*2,206*	*2,114*	*2,399*
Other Non Current Liab	312	492	492	492
Total Capital Employed	*3,268*	*4,059*	*4,466*	*5,327*
Net Fixed Assets (incl CWIP)	*1,420*	*1,682*	*1,538*	*1,417*
Non Current Investments	*346*	*606*	*906*	*1,006*
Other Non Current Assets	*1,649*	*2,053*	*1,908*	*1,787*
Non Current Assets	**1,995**	**2,659**	**2,815**	**2,794**
Inventory	1,580	1,664	1,854	2,169
Debtors	*912*	*1,017*	*1,202*	*1,406*
Cash & Bank	106	114	99	160
Other Current Assets	**690**	**1,196**	**1,381**	**1,549**
Current Assets	3,289	*3,990*	*4,537*	*5,706*
Creditors	1,023	889	1,065	1,245
Provisions	7	*8*	*8*	*8*
Other Current Liabilities	673	1,202	1,321	1,428
Curr Liabilities	1,703	2,099	2,394	2,682
Net Current Assets	**1,585**	**1,891**	**2,143**	**3,024**
Total Assets	*5,284*	*6,649*	*7,351*	*8,500*

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17E*	FY18E	FY19E
PBT	251	360	581	744
(inc)/Dec in Working Capital	(326)	-	(266)	(398)
Non Cash Op Exp	183	227	269	246
Interest Paid (+)	380	416	385	437
Tax Paid	59	1	58	141
others	(4)	-	-	-
CF from Op. Activities	**427**	**1,005**	**911**	**887**
(inc)/Dec in FA & CWIP	*(418)*	-	*(125)*	*(125)*
Free Cashflow	*9*	*1,005*	*786*	*762*
(Pur)/Sale of Investment	(11)	-	(300)	(523)
others	6	-	-	-
CF from Inv. Activities	**(422)**	**(500)**	**(425)**	**(648)**
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	248	-	(92)	285
Interest Paid	380	416	385	437
Dividend Paid (inc tax)	**1**	**16**	**24**	**27**
others	-	-	-	-
CF from Fin. Activities	(133)	(433)	(500)	(179)
Inc(Dec) in Cash	(128)	72	(15)	60
Add: Opening Balance	**234**	**106**	**114**	**99**
Closing Balance	106	178	99	160

* FY17 Cash flow is not actual