

## DILIP BUILDCON LTD. HOLD

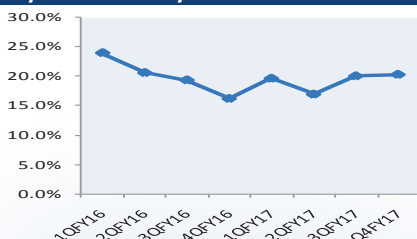
12-Jul-17

INDUSTRY - Eng. & Cons.  
BSE Code - 540047  
NSE Code - DBL  
NIFTY - 9816

### Company Data

CMP	520
Target Price	-
Previous Target Price	504
Upside	
52wk Range H/L	529/178
Mkt Capital (Rs Cr)	7,124
Av. Volume (,000)	296

### Superior EPC EBITDA% compared to other Players in Industry

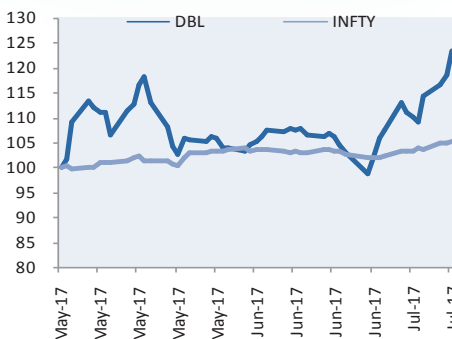


### Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	75.6	75.6	75.6
Public	24.4	24.4	24.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	17	41	117
Rel.to Nifty	15	33	101



### Key Highlights of the Report:

- ✓ Management's new strategy for the HAM projects will pay the way for the strong growth with assets light balance sheet. Reduction in debt with improving credit rating going ahead will strengthen future outlook.
- ✓ DBL current order book stands at Rs.17568 Cr, 3.5x of TTM revenue which gives strong revenue growth visibilities for next couple of years. During the year company has witnessed Rs.11783 Cr of order inflow. We expect 15% plus revenue growth in FY18 and FY19 with healthy EBITDA.
- ✓ Currently, stock is trading at 8x FY18 EV/EBITDA. However stock has achieved our recommended target price but we advise our investors to "HOLD" it considering the strong outlook and we will upgrade our target price post the result.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,624	4,085	5,098	5,964	6,963
EBITDA	566	799	992	1,168	1,348
EBIT	448	616	765	899	1,102
PAT	146	221	361	429	508
EPS (Rs)	12	19	26	31	37
EPS growth (%)	-77%	51%	40%	19%	18%
ROE (%)	17%	21%	19%	19%	18%
ROCE (%)	32%	35%	31%	31%	33%
BV	7	9	14	17	20
P/B (X)	NA	NA	25.9	27.1	22.3
EV/EBITDA (x)	NA	NA	4.7	5.7	4.8

### Management Interview Highlights:-

- ✓ Management is in talk with strategic investors to invest equity in HAM projects. DBL will announce the same arrangement by Q2FY18.
- ✓ Currently Debt on Std. books is 2500 Cr and 4200 Cr on consolidated books and it will come down going ahead.
- ✓ Recently CRISIL and CARE upgrade credit rating to A and management expects AA+ rating by the year end. Which will helps to reduce cost of debt.
- ✓ In Q4FY17 Dilip Buildcon has signed MoU with Shrem Infraventure Pvt. Ltd. for the equity investment in Tuljapur – Ausa HAM road project.
- ✓ After completion of two years from commercial operation date investors will repay equity invested by the company.
- ✓ This arrangement will help company to free up it's invested equity in projects after two years from CoD and it will utilize for the upcoming new projects

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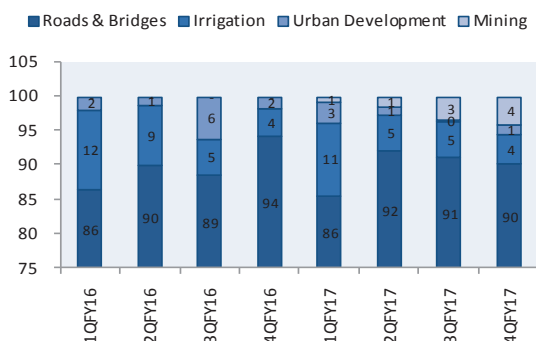
### Quarterly Performance

Financials								In Rs. Cr		
	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	1,345	1,039	916	1,388	1,732	29%	25%	4,074	5,075	25%
Other Op. Income	8.61	2.97	0.67	0.67	17.93	108%	2585%	11	22	96%
<b>Net Sales</b>	<b>1,354</b>	<b>1,042</b>	<b>916</b>	<b>1,389</b>	<b>1,750</b>	<b>29%</b>	<b>26%</b>	<b>4,085</b>	<b>5,098</b>	<b>25%</b>
Other Income	13	2	4	3	3	-75%	21%	16	11	-27%
<b>Total Income</b>	<b>1,367</b>	<b>1,044</b>	<b>920</b>	<b>1,392</b>	<b>1,753</b>	<b>28%</b>	<b>26%</b>	<b>4,101</b>	<b>5,109</b>	<b>25%</b>
COGS	1,008	779	674	1,037	1,301	29%	26%	3,000	3,793	26%
<b>Expenditure</b>	<b>1,134</b>	<b>837</b>	<b>761</b>	<b>1,111</b>	<b>1,396</b>	<b>23%</b>	<b>26%</b>	<b>3,286</b>	<b>4,105</b>	<b>25%</b>
<b>EBITDA</b>	<b>220</b>	<b>204</b>	<b>156</b>	<b>278</b>	<b>355</b>	<b>61%</b>	<b>28%</b>	<b>799</b>	<b>992</b>	<b>24%</b>
EBITDA %	16.3%	19.6%	17.0%	20.0%	20.3%			19.6%	19.5%	
Depreciation	50	52	54	59	62	23%	4%	183	227	24%
<b>EBIT</b>	<b>170</b>	<b>152</b>	<b>102</b>	<b>219</b>	<b>293</b>	<b>73%</b>	<b>34%</b>	<b>616</b>	<b>765</b>	<b>24%</b>
Interest	105	108	96	106	106	0.3%	-0.4%	381	416	9%
<b>PBT</b>	<b>77</b>	<b>46</b>	<b>9</b>	<b>115</b>	<b>190</b>	<b>146%</b>	<b>65%</b>	<b>250</b>	<b>360</b>	<b>44%</b>
Tax	17	(4)	2	6	(5)	-132%	-188%	29	(1)	-103%
<b>PAT</b>	<b>61</b>	<b>50</b>	<b>7</b>	<b>109</b>	<b>196</b>	<b>222%</b>	<b>79%</b>	<b>221</b>	<b>361</b>	<b>63%</b>
PAT %	4.5%	4.8%	0.8%	7.9%	11.2%	149%	42%	5.4%	7.1%	31%

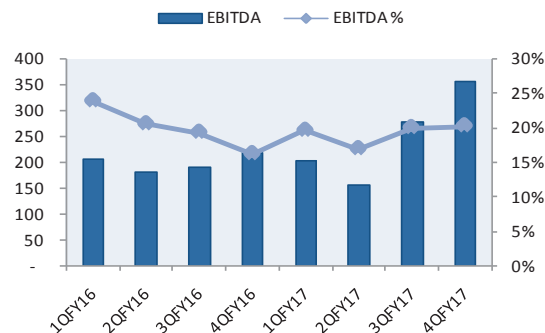
### Strong execution led to robust revenue growth coupled with healthy EBITDA margin

- ✓ DBL has clocked 29% YoY revenue growth to Rs.1750 Cr compared to Rs.1354 Cr a year back on account of strong execution. In FY17 DBL has completed 17 projects, out of this 10 projects were completed ahead of schedule time.
- ✓ Early completion of project has helped to earn bonus of Rs. 83 Cr in Q4FY17 and Rs.103 Cr in full year FY17.
- ✓ EBITDA during the quarter stood at Rs.355 Cr, 62% higher compared to corresponding period last year. Higher bonus in Q4FY17 leads to 400 bps improvement in margin.
- ✓ Higher portion of EPC revenue in top line resulted into lower tax rate during the quarter and led to 222% growth in PAT. PAT margin in FY17 improved by 170 bps on account of higher bonus and 80 IA tax benefit.
- ✓ Revenue contribution from Mining segment has increased from 1% in Q1FY17 to 4% in Q4FY17. It will improve further. Higher portion of mining revenue will led to lower working capital cycle.

### Increasing contribution from Mining will help to reduce Working Capital



### Superior EBITDA margin led by Strong Execution Capabilities



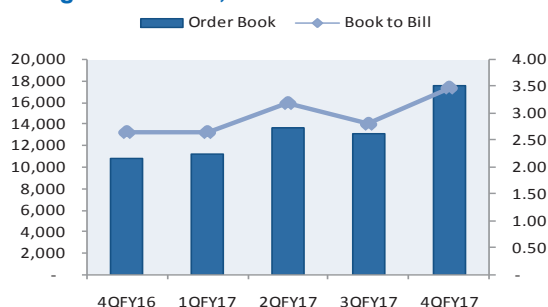
### Order Book Analysis

Order Book Break Up	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Roads & Bridges	9,485	9,898	11,969	11,680	14,582	54%	25%	9,485	14,582	54%
Irrigation	216	225	272	262	176	-19%	-33%	216	176	-19%
Urban Development	216	225	272	262	176	-19%	-33%	216	176	-19%
Mining	862	900	1,088	919	2,635	206%	187%	862	2,635	206%
Total	10,779	11,248	13,601	13,124	17,568	63%	34%	10,779	17,568	63%

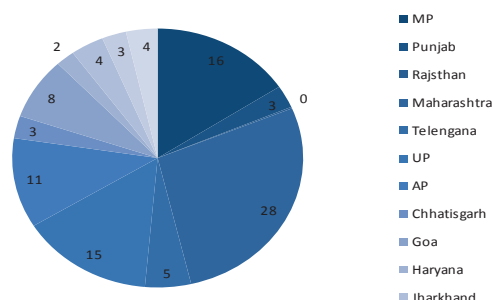
### Healthy opening order book support 15% plus revenue growth

- ✓ DBL current order book stands at Rs.17568 Cr, which 3.5x of TTM revenue which gives strong revenue growth for next couple of years. During the year company has witnessed Rs.11783 Cr of order inflow.
- ✓ Mining order book increased by two fold to Rs.2635 Cr in FY17 compared to Rs.862 Cr in FY16. Facing some environment related issue at WCL projects in Maharashtra worth of Rs.700 Cr. However it is not the part of the order book and management expects Rs.750-800 Cr of top line in FY18.

### Strong Order Book, i.e. 3.5x of TTM



### Diversified Order Book Reduce Execution Risk



### Concall Highlights:

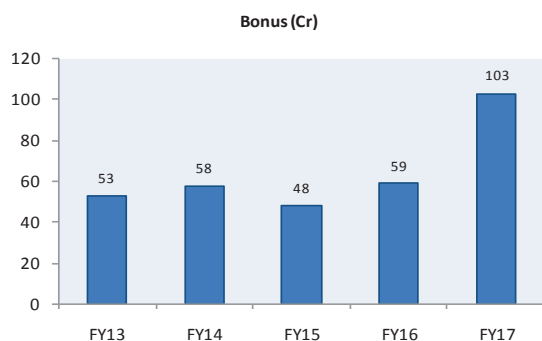
- ✓ Ties up with one partner for equity investment in Taljapur HAM projects where DBL will hold 51% upto commercial operation of the project and after that DBL will sale it's stake to existing holder. DBL is looking for the same arrangement for the other HAM project and will come up with news in month time
- ✓ Booked 83.18 Cr as bonus in Q4FY17 and Rs.102 Cr in full FY17. Management expects to receive higher bonus in FY18 compare to FY17.
- ✓ Management expects 10-15% revenue growth in next couple of year on conservative approach with 18-20% of EBITDA margin
- ✓ Facing Environmental issue at WCL mining projects in Maharashtra worth of 700 Cr and it is not the part of Order book. Mgt. Expect 750-800 Cr of revenue from Mining in next 3 years.
- ✓ Rs. 800 Cr required as equity over next 3 years
- ✓ Capex requirement of Rs.100-125 Cr in FY18 and FY19 each
- ✓ Debt will come down by Rs.200-300 Cr in FY18.
- ✓ Tax rate will be 8-10% in FY18
- ✓ Debtors from private party have recovered to the tune of Rs. 180 Cr in FY17 and expects to recovered same amount from Rs.376 Cr pending.
- ✓ Inventory has come down as the number of site has come down.
- ✓ Management expects to start work on all HAM projects by December 2017
- ✓ Management expects to complete Guna Biora one year ahead of schedule date.

Expect 10-15% revenue growth with 18-20% EBITDA margin

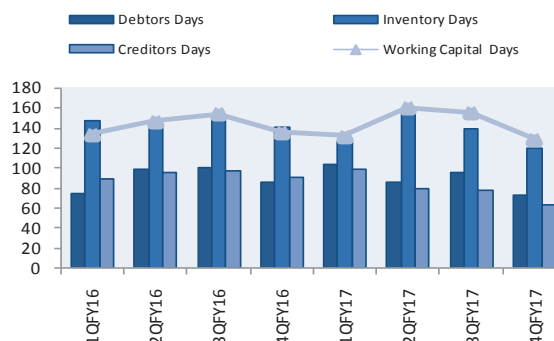
### Investment Arguments:

- ✓ **Strong Order Book coupled with healthy margin:** - Current order book stands at Rs.17568 Cr, 3.5x of TTM revenue which gives strong revenue visibilities going forward. Mining order book increased three times to Rs.2635 Cr and management expects Rs.700-800 Cr top line from it. Most of the projects are in advance stage and work on recently won HAM projects will start by November 2017, which supports 15% plus revenue growth in FY18 and FY19. Strong execution capabilities helped to earn Rs.103 Cr in FY17 as early completion bonus which resulted into superior EPC EBITDA margin (19.5%) compared to other players in industry. Going forward management expects to earn higher
- ✓ **Equity arrangement scheme for HAM projects:-** In Q4FY17 DBL has signed MoU with Shrem Infracore Pvt. Ltd. for equity investment in Tujapur – Ausa road projects. Under the contract Shrem Infracore will invest 49% of the required equity initially and remaining portion will be invested by DBL. 2 years after commercial operational date, the investor will repay the equity amount invested by the company. This arrangement will free up invested capital early which can be utilized for the new projects. Management's new strategy will ultimately help to keep balance sheet assets light. In short time period DBL will come up with same arrangement for other HAM projects as well.
- ✓ **Improving Working Capital:-** Working capital days improved from 132 days to 129 days in FY17 on back of better collection from private players and reduction in number of sites. During the year DBL has recovered Rs.180 Cr and management expects to recover same amount in FY18 from Rs.367 Cr outstanding at the end of FY17. Inventory days has come down from 127 days to 120 days and it will improve further as the number of operating sites has come down and increasing mining revenue contribution in top line. Mining segment has zero inventory level and fortnight payment cycle.

### Strong Execution resulted into Healthy Bonus



### Improving Working Capital Cycle



### View & Valuation

DBL is one of the best EPC Company in Engineering and Construction with strong execution capabilities. In FY17 DBL has completed 17 projects, out of this 10 projects were completed before its scheduled time. Early completion of projects helped DBL to earn Rs.103 Cr as early completion bonus which resulted in superior EBITDA margin compared to other players in the industry. Strong opening order book gives us the confidence of 15% plus revenue growth in EPC business going forward. Increasing contribution from Mining segment in top line will help to improve working capital cycle. Debt to equity will remain under control as the management introduces equity arrangement scheme for HAM projects. According to recent management interview, DBL will announce equity arrangement scheme by Q2FY18 which makes strong outlook going forward. **The stock has achieved our recommend target price of Rs.504 but still we are positive on the stock and advice our investors to "HOLD" it. We will upgrade target price post the quarterly result.**

## Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	4,085	5,098	5,964	6,963
Change (%)	56%	25%	17%	17%
EBITDA	799	992	1,168	1,348
Change (%)	41%	24%	18%	15%
Margin (%)	20%	19%	20%	19%
Dep & Amortization	183	227	269	246
EBIT	616	765	899	1,102
Interest & other finance cost	381	416	435	488
Other Income	16	11	13	13
EBT	250	360	477	627
Exceptional Item	-	-	-	-
Tax	29	(1)	48	119
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	221	361	429	508
Adjusted PAT	221	361	429	508
Change (%)	1	1	0	0
Margin(%)	5%	7%	7%	7%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	19%	19%	18%
ROCE	35%	31%	31%	33%
Asset Turnover	0.8	0.8	0.8	0.8
Debtor Days	81	73	73	73
Inventory Days	141	119	119	119
Payable Days	91	64	64	64
Interest Coverage	1.61	1.84	2.07	2.26
P/E	NA	13	14	12
Price / Book Value	NA	25.9	27.1	22.3
EV/EBITDA	NA	4.7	5.7	4.8
FCF per Share	1	34	48	52
Dividend Yield	NA	0.3%	0.3%	0.3%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	117	137	137	137
Reserves	945	1,716	2,125	2,610
Networth	1,062	1,853	2,262	2,747
Debt	2,206	2,206	2,305	2,585
Other Non Current Liab	312	492	492	492
Total Capital Employed	3,268	4,059	4,567	5,332
Net Fixed Assets (incl CWIP)	1,420	1,682	1,538	1,417
Non Current Investments	346	606	872	1,138
Other Non Current Assets	1,649	2,053	1,908	1,787
Non Current Assets	1,995	2,659	2,781	2,926
Inventory	1,580	1,664	1,947	2,273
Debtors	912	1,017	1,189	1,389
Cash & Bank	106	114	147	359
Other Current Assets	690	1,196	1,333	1,491
Current Assets	3,289	3,990	4,616	5,511
Creditors	1,023	889	1,040	1,214
Provisions	7	8	8	8
Other Current Liabilities	673	1,202	1,290	1,391
Curr Liabilities	1,703	2,099	2,338	2,613
Net Current Assets	1,585	1,891	2,278	2,898
Total Assets	5,284	6,649	7,397	8,437

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17*	FY18E	FY19E
PBT	251	360	477	627
(inc)/Dec in Working Capital	(326)	(117)	(354)	(408)
Non Cash Op Exp	183	227	269	246
Interest Paid (+)	380	416	435	488
Tax Paid	59	1	48	119
others	(4)	-	-	-
CF from Op. Activities	427	888	779	834
(inc)/Dec in FA & CWIP	(418)	(489)	(125)	(125)
Free Cashflow	9	398	654	709
(Pur)/Sale of Investment	(11)	184	(266)	(266)
others	6	(141)	-	-
CF from Inv. Activities	(422)	(447)	(391)	(391)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	248	(1)	99	280
Interest Paid	380	416	435	488
Dividend Paid (inc tax)	1	16	20	23
others	-	-	-	-
CF from Fin. Activities	(133)	(433)	(355)	(231)
Inc(Dec) in Cash	(128)	8	33	212
Add: Opening Balance	234	106	114	147
Closing Balance	106	114	147	359

\* FY17 Cash flow is not actual