Narnolia™

DILIP BUILDCON LTD.

ACCUMULATE

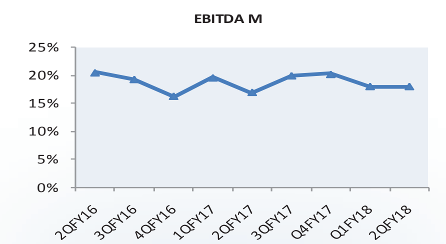
15-Nov-17

INDUSTRY -	Eng. & Cons.
Bloomberg -	DBL IN
BSE Code -	540047
NSE Code -	DBL
NIFTY -	10186

Company Data

CMP	850
Target Price	**956**
Previous Target Price	680
Upside	**12%**
52wk Range H/L	924/190
Mkt Capital (Rs Cr)	11,725
Av. Volume (,000)	466

Superior EPC EBITDA% compared to other Players in Industry

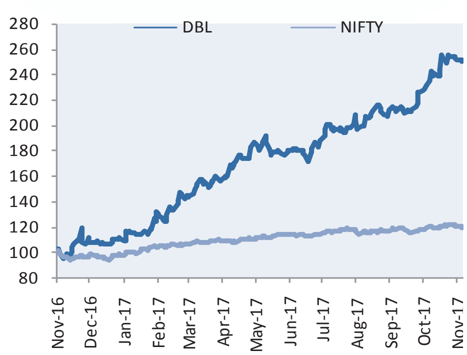


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
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	19	63	307
Rel.to Nifty	19	59	286



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Key Highlights of the Report:

- ☑ DBL posted robust revenue growth of 72.6% YoY to Rs.1582 Cr on account of healthy execution of road and mining segment. Revenue from Road and Mining was up by 62% and 1307% respectively.
- ☑ Expect to win new orders worth Rs.8000-10000 Cr in FY18. Out of this 80% will be EPC and rest from HAM.
- ☑ Considering strong execution in H1FY18 management has upward revised revenue target to Rs.7000 Cr in FY18.
- ☑ Working capital days improved to 132 days from 162 days in Q2FY18 on back of better collection and improvement in inventory level as the number of sites comes down.
- ☑ We have revised our EPS estimate by 18% for FY18. We value DBL at 20 times of FY18 Expected EPS and recommend “ACCUMALATE” with target price Rs.956.

Financials/Valu	FY15	FY16	FY17	FY18E
Net Sales	2,624	4,085	5,098	7,012
EBITDA	566	799	992	1,345
EBIT	448	616	765	1,116
PAT	146	221	361	655
EPS (Rs)	12	19	26	48
EPS growth (%)	-77%	51%	40%	81%
ROE (%)	17%	21%	19%	26%
ROCE (%)	32%	35%	31%	38%
BV	1,959	2,206	2,206	2,313
P/B (X)	NA	NA	2.6	4.7
EV/EBITDA (x)	NA	NA	4.6	8.8

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	2QFY17	3QFY17	Q4FY17	Q1FY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	916	1,388	1,732	1,664	1,582	73%	-5%	4,074	5,075	25%
Other Op. Income	1	1	18	-	-	-100%		11	22	96%
Net Sales	**916**	**1,389**	**1,750**	**1,664**	**1,582**	**73%**	**-5%**	**4,085**	**5,098**	**25%**
Other Income	4	3	3	3	3	-12%	18%	16	11	-27%
Total Income	**920**	**1,392**	**1,753**	**1,667**	**1,585**	**72%**	**-5%**	**4,101**	**5,109**	**25%**
COGS	674	1,037	1,301	1,277	1,224	82%	-4%	3,000	3,793	26%
Expenditure	**761**	**1,111**	**1,396**	**1,364**	**1,296**	**70%**	**-5%**	**3,286**	**4,105**	**25%**
EBITDA	**156**	**278**	**355**	**300**	**285**	**83%**	**-5%**	**799**	**992**	**24%**
EBITDA %	17.0%	20.0%	20.3%	18.0%	18.0%			19.6%	19.5%	
Depreciation	54	59	62	65	68	25%	4%	183	227	24%
EBIT	**102**	**219**	**293**	**235**	**218**	**114%**	**-7%**	**616**	**765**	**24%**
Interest	96	106	106	111	111	15.8%	0.4%	381	416	9%
PBT	**9**	**115**	**190**	**127**	**110**	**1088%**	**-14%**	**250**	**360**	**44%**
Tax	2	6	(5)	5	(6)	-354%	-228%	29	(1)	-103%
PAT	**7**	**109**	**196**	**123**	**116**	**1559%**	**-6%**	**221**	**361**	**63%**
PAT %	0.8%	7.9%	11.2%	7.4%	7.3%			5.4%	7.1%	

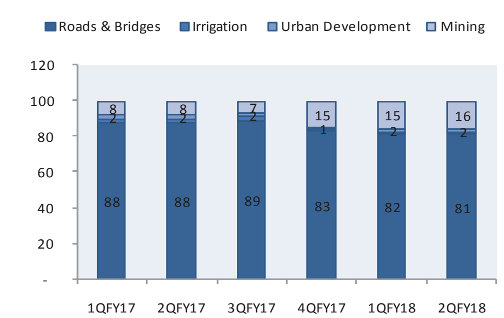
Interest as % of sales come down to 7% from 10% YoY on back of improved working capital

Robust Revenue growth coupled with improving Working Capital

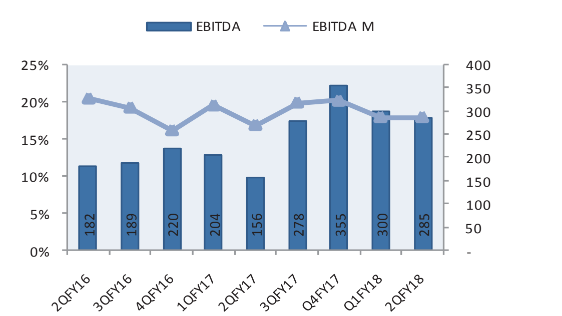
- ✓ DBL posted robust revenue growth of 72.6% YoY to Rs.1582 Cr on account of healthy execution of road and mining projects. Revenue from Road and Mining was up by 62% and 1307% respectively.
- ✓ EBITDA margin has improved by the 100 bps to Rs.285 Cr in Q2FY18 compared to Q2FY17 on back of strong revenue growth.
- ✓ Improvement in working capital requirement led to lower interest as percentage of sales in Q2FY18 (7% Vs 10%).
- ✓ PAT margin improved by 650 bps to 7.3% during the quarter mainly on account of lower interest cost.
- ✓ Considering the strong growth in H1FY18 management has revised revenue guidance upward to Rs.7000 Cr for full year FY18.
- ✓ Working capital days improved to 132 days compared to 162 days based on healthy collection from private players and improvement in inventory level. Inventory come down based on reduction in number site.

♦ ***Revenue from Roads and Mining segment jumped by 62% and 1307% respectively.***

Increasing contribution from Mining will help to reduce Working Capital



Superior EBITDA margin led by Strong Execution Capabilities



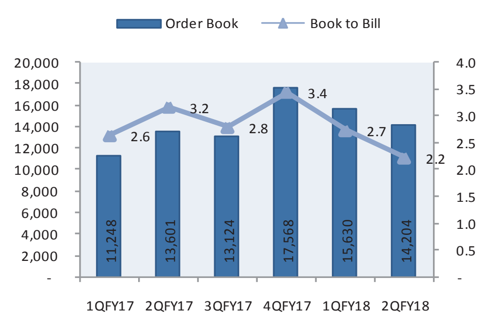
Order Book Analysis

Order Book Break Up	*2QFY17*	*3QFY17*	*4QFY17*	*1QFY18*	*2QFY18*	*YoY %*	*QoQ%*	*FY16*	*FY17*	*YoY %*
Roads & Bridges	11,969	11,680	14,582	12,763	11,506	***-4%***	***-10%***	9,485	14,582	***54%***
Irrigation	272	262	176	113	142	***-48%***	***26%***	216	176	***-19%***
Urban Development	272	262	176	334	284	***4%***	***-15%***	216	176	***-19%***
Mining	1,088	919	2,635	2,419	2,273	***109%***	***-6%***	862	2,635	***206%***
Total	**13,601**	**13,124**	**17,568**	**15,630**	**14,204**	***4%***	***-9%***	**10,779**	**17,568**	***63%***

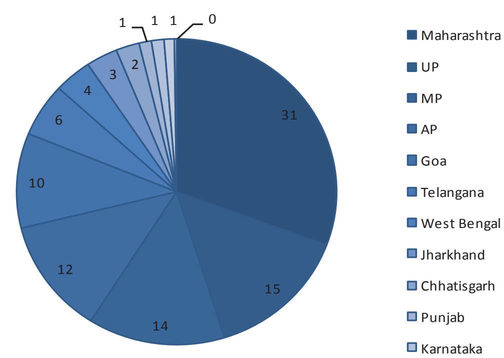
New orders will pick up from Second half

- ✓ During the quarter DBL did not received any new orders. Hence, revenue visibilities come down to 2.23x from 2.74x of TTM. Tepid bidding and delay in new orders due to GST lead to sluggish quarter in term new order.
- ✓ We expect strong recovery in new orders in second half of the year and management expects to receive Rs.8000-10000 Cr of new orders in FY18. Major inflow will be in EPC segment.
- ✓ All the projects under current order book progressing well and management have revised revenue target to Rs.7000 Cr.

Strong Order Book



Diversified Order Book Reduce Execution Risk



Concall Highlights:

- ✓ Booked Rs.28 Cr as early completion bonus during the Q2FY18.
- ✓ Strong bidding pipeline of Rs.50000 Cr. 80% will be EPC and 20% HAM
- ✓ Expect to win new orders of Rs.8000-10000 Cr in rest of the FY18.
- ✓ Revised revenue guidance to Rs.7000 Cr for FY18
- ✓ Capex for H1FY18 was 150 Cr and 50 Cr for H2FY18.
- ✓ Rs.80 Cr of recovery during the quarter from private players and expect to recover another Rs.50 Cr by March 2017.
- ✓ Debt at the end of the September is Rs.2800 Cr and management expects to bring down it to Rs.2200 Cr by the year end.
- ✓ DBL will raise approx. Rs.1600 Cr through NCDs and CPs
- ✓ 4 HAM projects in Maharashtra has achieved financial closure and one project out these four has received appointment date.
- ✓ Evaluating opportunity in Railways for earthwork, bridges and ROB

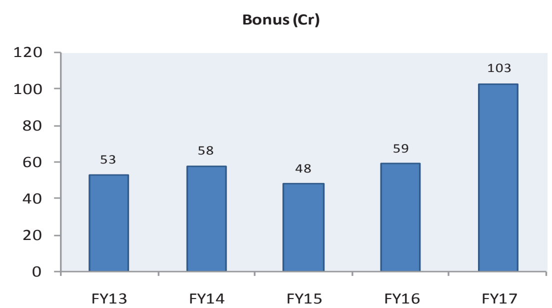
Investment Arguments:

- ✓ **Strong Execution coupled with healthy margin: -** During the quarter DBL has posted robust top line growth of 73%. Strong execution in Roads and Mining led to robust growth in topline. Roads and bridges revenue was up by the 62% and mining was up by 1307% compared to last year. Considering the robust execution in H1FY18 management has revised revenue guidance to Rs.7000 Cr. Management expect to win new orders of Rs.8000-10000 Cr in FY18 in order to maintain revenue growth of 20-25% going ahead. Management's strategy of equipment ownership and zero subcontracting policy gives us confidence of 20-22% revenue growth in upcoming year.

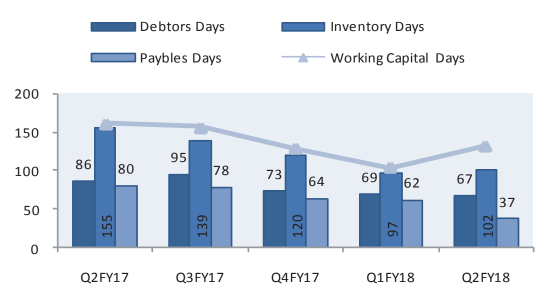
- ✓ **Strong Bid Pipeline :-** Current order book stand at Rs.14204 Cr, which is 2.23x of TTM revenue. Tepid tendering by NHAI and delay in tendering due to GST implementation lead to reduction in revenue visibility from 3.4x to 2.24x in September 2017. However H1FY18 was sluggish in terms on new order inflow but we expect strong recovery from H2FY18. DBL will bid Rs.50000 Cr of new tenders alone in Roads and Highways. Government's big push in infra by announcing Bharat Mala project will boost the order inflow going ahead. We see immense opportunity especially in roads and highway sector. Company's controlled debt to equity along with assets monetization gives enough headroom from robust growth going ahead.

- ✓ **Improving Working Capital:-** Working capital days improved to 132 days from 162 days in Q2FY18 on back of better collection and improvement in inventory level as the number of sites come down. DBL has recovered Rs.80 Cr from private players and expecting another Rs.50 Cr by March 2017.Strong recovery has helped to reduce debtors' days from 86 days in Q2FY17 to 67 days in Q2FY18. Coming up of HAM projects(Working capital requirement is lower compared to EPC/BOT) and increasing pie of mining in revenue will help DBL to further reduce working capital.

Strong Execution resulted into Healthy Bonus



Improving Working Capital Cycle



View & Valuation

Dilip Buildcon is one of the best EPC Company in Engineering and Construction with strong execution capabilities. DBL posted robust set of numbers in Q2FY18. Sales were up by 73% YoY and PAT manifold by 17 times on back of strong execution in Roads & Highways and Mining segment. DBL ended up quarter with NIL order intakes on account of tepid bidding and delay in tender due to GST. But we expect recovery in bidding activity in second half of the year and company expect to win new orders to the tune of Rs.8000-10000 Cr in order to grow 20% annually. Based on the strong performance in H1FY18 management has revised revenue guidance upward to Rs.7000 Cr in FY18, we believe which will comfortably achieved by the company. DBL is in process to raise approx. Rs.1600 Cr through NCDs and CPs in order to pay costlier debt and management expects to reduce debt by Rs.300 Cr from FY17 level. Debt reduction and refinancing of debt will improve the bottom line going ahead. We have revised our EPS estimate by 18% for FY18. **We value DBL at 20 times of FY18 Expected EPS and recommend "ACCUMULATE" with target price Rs.956.**

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	2,624	4,085	5,098	7,012
Change (%)	*13%*	*56%*	*25%*	*38%*
EBITDA	566	799	992	1,345
Change (%)	*20%*	*41%*	*24%*	*36%*
Margin (%)	**22%**	**20%**	**19%**	**19%**
Dep & Amortization	118	183	227	229
EBIT	*448*	*616*	*765*	*1,116*
Interest & other finance cost	259	381	416	428
Other Income	*6*	*16*	*11*	*9*
EBT	195	250	360	698
Exceptional Item	-	-	-	-
Tax	**49**	**29**	**(1)**	**43**
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	146	221	361	655
Adjusted PAT	*146*	*221*	*361*	*655*
Change (%)	**(0)**	**1**	**1**	**1**
Margin(%)	*6%*	*5%*	*7%*	*9%*

Key Ratios

Y/E March	FY15	FY16	FY17	FY18E
ROE	17%	21%	19%	26%
ROCE	32%	35%	31%	38%
Asset Turnover	0.6	0.8	0.8	0.9
Debtor Days	176	81	73	70
Inventory Days	132	141	119	108
Payable Days	-	91	64	62
Interest Coverage	1.73	1.61	1.84	2.61
P/E	NA	NA	13	18
Price / Book Value	NA	NA	2.6	4.7
EV/EBITDA	*NA*	*NA*	*4.6*	*8.8*
FCF per Share	(132)	1	14	60
Dividend Yield	NA	NA	0.3%	0.2%

Balance Sheet

Rs in Crores

Y/E March	FY15	FY16	FY17	FY18E
Share Capital	117	117	137	137
Reserves	756	945	1,716	2,342
Networth	**873**	**1,062**	**1,853**	**2,479**
Debt	*1,959*	*2,206*	*2,206*	*2,313*
Other Non Current Liab	294	312	492	492
Total Capital Employed	*2,832*	*3,268*	*4,059*	*4,792*
Net Fixed Assets (incl CWIP)	*1,189*	*1,420*	*1,682*	*1,403*
Non Current Investments	*279*	*346*	*606*	*906*
Other Non Current Assets	*1,565*	*1,649*	*2,053*	*1,773*
Non Current Assets	**1,844**	**1,995**	**2,659**	**2,680**
Inventory	948	1,580	1,664	2,075
Debtors	*1,264*	*912*	*1,017*	*1,345*
Cash & Bank	234	106	114	281
Other Current Assets	**265**	**690**	**1,196**	**1,498**
Current Assets	2,711	*3,289*	*3,990*	*5,199*
Creditors	-	1,023	889	1,191
Provisions	6	*7*	*8*	*8*
Other Current Liabilities	303	673	1,202	1,396
Curr Liabilities	308	1,703	2,099	2,595
Net Current Assets	**2,403**	**1,585**	**1,891**	**2,604**
Total Assets	*4,555*	*5,284*	*6,649*	*7,879*

Cash Flow Statement

Rs in Crores

Y/E March	FY15	FY16	FY17	FY18E
PBT	195	250	360	698
(inc)/Dec in Working Capital	(289)	(350)	(297)	(545)
Non Cash Op Exp	118	183	227	229
Interest Paid (+)	259	381	416	428
Tax Paid	65	59	83	43
others	3	21	30	-
CF from Op. Activities	**220**	**427**	**654**	**767**
(inc)/Dec in FA & CWIP	*(687)*	*(418)*	*(493)*	*50*
Free Cashflow	*(467)*	*9*	*161*	*817*
(Pur)/Sale of Investment	(96)	(11)	(180)	(300)
others	22	6	14	-
CF from Inv. Activities	**(761)**	**(422)**	**(659)**	**(250)**
inc/(dec) in NW	-	-	430	-
inc/(dec) in Debt	965	249	(1)	108
Interest Paid	256	381	416	428
Dividend Paid (inc tax)	**1**	**1**	**0**	**30**
others	-	-	-	-
CF from Fin. Activities	708	(133)	13	(350)
Inc(Dec) in Cash	167	(128)	8	168
Add: Opening Balance	**67**	**234**	**106**	**114**
Closing Balance	234	106	114	281

* FY17 Cash flow is not actual