

DILIP BUILDCON LTD.

HOLD

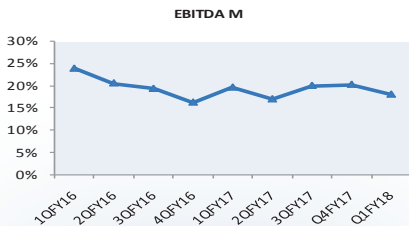
16-Aug-17

INDUSTRY - Eng. & Cons.
BSE Code - 540047
NSE Code - DBL
NIFTY - 9794

Company Data

CMP	525
Target Price	595
Previous Target Price	504
Upside	13%
52wk Range H/L	593/178
Mkt Capital (Rs Cr)	7,187
Av. Volume (,000)	90

Superior EPC EBITDA% compared to other Players in Industry

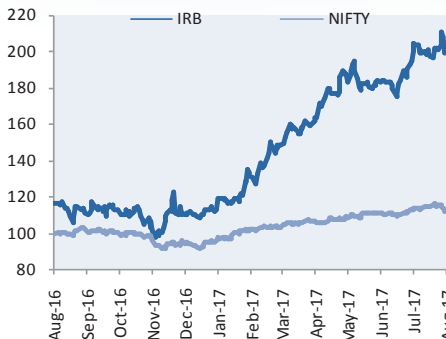


Shareholding patterns %

	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	5	12	108
Rel.to Nifty	5	8	94



Key Highlights of the Report:

- ✓ DBL posted robust revenue growth of 59% YoY to Rs.1664 Cr on account of healthy execution of road and mining projects with strong operating margin. Revenue from Road and Mining was up by 56% and 2065% respectively.
- ✓ We expect improvement in working capital along with debt reduction based on monetization of operating assets which will boost the bottom line. We continue to believe healthy revenue growth of 23% and 17% based on robust execution capabilities.
- ✓ Revenue visibility has reduced from 3.4X to 2.75x of TTM, but we anticipate Rs. 6000-8000 Cr of new orders in FY18.
- ✓ Currently, stock is trading at 5.5x of FY19E EV/EBITDA and we maintained our "HOLD" rating with target price of Rs.595.

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	490	573
EPS (Rs)	12	19	26	36	42
EPS growth (%)	-77%	51%	40%	36%	17%
ROE (%)	17%	21%	19%	21%	20%
ROCE (%)	32%	35%	31%	32%	33%
BV	1,959	2,206	2,206	2,314	2,599
P/B (X)	NA	NA	25.8	31.0	25.1
EV/EBITDA (x)	NA	NA	4.6	6.4	5.5

Recent Development :-

- ✓ Board of directors has approved issuance of Non Convertible and Commercial Papers up to Rs. 1000 Cr each.
- ✓ Company will raise money using above mentioned instruments to repay costlier debt. Management expects improvement in cost of debt by 100 bps.
- ✓ The benefit will likely to visible from late FY18 on the financial.
- ✓ Company is in final stage to close equity arrangement scheme for HAM projects and and monetization of operating assets (BOT projects).
- ✓ Cash inflow from sales of BOT projects will use for debt repayment. Management expect debt reduction of 300 Cr each in FY18 and FY19.

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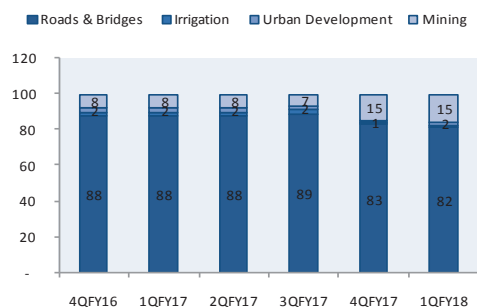
Quarterly Performance

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

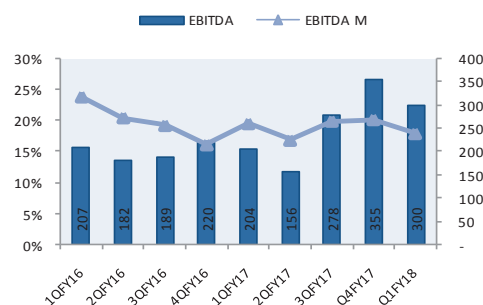
Interest as % of sales come down to 6% from 10% YoY on back of improved working capital

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



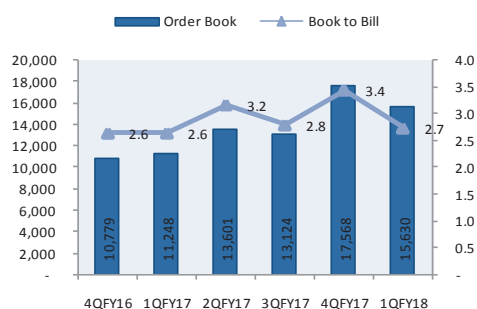
Order Book Analysis

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%

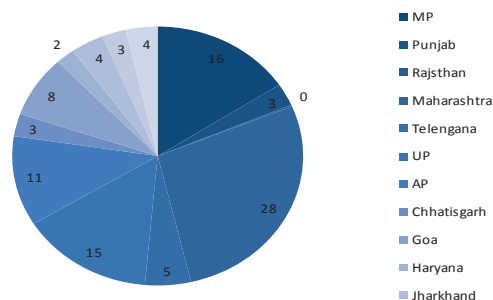
New orders will pick up from Second half

- ✓ 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:

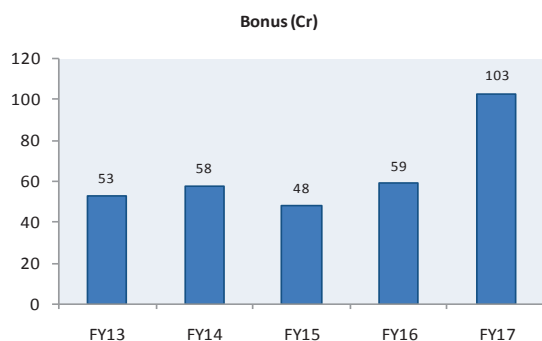
- ✓ Target 6000-8000 Cr of new projects in FY18 across all the segment.
- ✓ Key focus area going ahead are strengthen balance sheet position and improving working capital
- ✓ DBL is in final stage to close deal of monetize it's BOT/HAM assets
- ✓ Expect pick up in new orders from 2nd half.
- ✓ Management expect 6200 Cr of top line @ 20-22%. Earlier management guided for 10-15% revenue growth.
- ✓ Working capital days has improved compared to YoY and QoQ
- ✓ Expect reduction in cost of debt by 100 bps in FY18. Impact will seeing in late H2FY18 and FY19.
- ✓ Expect debt reduction of 300 Cr each in FY18 and FY19
- ✓ Till date in FY18 recovered 42 Cr of debtors which resulted in lower working capital.
- ✓ Expect debt reduction on the basis of stake sale in BOT/HAM.
- ✓ 300 Cr and 100 cr equity requirement in FY18 and FY19 respectively.
- ✓ Tax rate for FY18 :- 8-10%
- ✓ 90% 3D land has been done for 3 HAM projects in Maharashtra and 25% of payment has made to land owner by NHAI.
- ✓ Expect to receive appointment date on HAM projects by Oct-Nov.
- ✓ Change in strategy for Inventory and come of large size of project resulted into improvement into Inventory.

Management revised revenue guidance to Rs. 6200 Cr from 5900 Cr earlier.

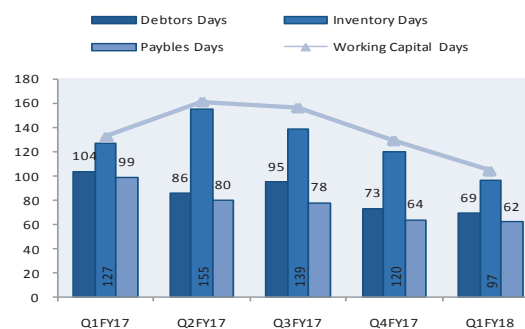
Investment Arguments:

- ✓ **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%.
- ✓ **Equity arrangement scheme for HAM projects:-** DBL is in final stage to finalize equity arrangement scheme for upcoming projects and sell of its operating assets to strategic investors. Under the contract Strategic investor 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. Cash inflow from assets monetization will be used to repay debt. Management has guided for the debt reduction of Rs.300 Cr each in FY18 and FY19.
- ✓ **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 compared 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 Engineering and Construction with strong execution capabilities. DBL continue to outpace other major players in the industry in terms of top line and bottom line growth. During the quarter it has posted 59% and 128% growth in sales and PAT respectively. Improvement in working capital (WC days down from 129 days to 104 days QoQ) and strong execution boosted the bottom line. Till date this quarter DBL did not receive any new orders expect 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 expect 23% and 17% revenue growth in FY18 and FY19 respective based on the current order book. DBL is in final stage to close the deal to monetize operating asset and equity arrangement for the upcoming HAM projects. Cash inflow from sale of assets will be used to repay some of the debt. Reduced revenue visibility gives us limited upside at the current valuation. **Hence, we maintain our "HOLD" rating on the stock with target price of Rs. 595**

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	421	473
Other Income	16	11	13	13
EBT	250	360	545	708
Exceptional Item	-	-	-	-
Tax	29	(1)	54	134
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	221	361	490	573
Adjusted PAT	221	361	490	573
Change (%)	1	1	0	0
Margin(%)	5%	7%	8%	8%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	21%	19%	21%	20%
ROCE	35%	31%	32%	33%
Asset Turnover	0.8	0.8	0.8	0.8
Debtor Days	81	73	70	70
Inventory Days	141	119	108	108
Payable Days	91	64	62	62
Interest Coverage	1.61	1.84	2.26	2.47
P/E	NA	13	NA	NA
Price / Book Value	NA	25.8	NA	NA
EV/EBITDA	NA	4.6	NA	NA
FCF per Share	1	86	58	56
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	2,184	2,731
Networth	1,062	1,853	2,321	2,868
Debt	2,206	2,206	2,314	2,599
Other Non Current Liab	312	492	492	492
Total Capital Employed	3,268	4,059	4,635	5,467
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	268	300
Other Current Assets	690	1,196	1,381	1,549
Current Assets	3,289	3,990	4,705	5,846
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	2,312	3,165
Total Assets	5,284	6,649	7,520	8,640

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17E*	FY18E	FY19E
PBT	251	360	545	708
(inc)/Dec in Working Capital	(326)	-	(266)	(398)
Non Cash Op Exp	183	227	269	246
Interest Paid (+)	380	416	421	473
Tax Paid	59	1	54	134
others	(4)	-	-	-
CF from Op. Activities	427	1,005	914	894
(inc)/Dec in FA & CWIP	(418)	-	(125)	(125)
Free Cashflow	9	1,005	789	769
(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	-	108	285
Interest Paid	380	416	421	473
Dividend Paid (inc tax)	1	16	22	26
others	-	-	-	-
CF from Fin. Activities	(133)	(433)	(335)	(214)
Inc/Dec in Cash	(128)	72	154	32
Add: Opening Balance	234	106	114	268
Closing Balance	106	178	268	300

* FY17 Cash flow is not actual