

## SADBHAV ENGINEERING

Industry  
Bloomberg  
BSE Code  
NSE Code

Con. & Eng.  
SADE IN  
532710  
SADBHAV

16 August 2018

RATING	BUY
CMP	270
Price Target	387
Previous Target	385
Potential Upside	43%

## Stock Info

52wk Range H/L	438/262
Mkt Capital (Rs Cr)	4636
Free float (%)	54%
Avg. Vol 1M (,000)	183
No. of Shares (Crore)	17
Promoters Pledged %	34.1%

## In line performance coupled with Improving Balance sheet

## Key Highlights

- Sadbhav Engineering is primary into roads and highway business. Over the years company has diversified its business into Mining and Irrigation business. Currently 80% orders are from roads and highway business and it will remain focus area going ahead.
- Company's wholly owned subsidiary has tied up the funds for 8 HAM projects out of 12 and has received appointment date on 7 of them. Financial closure on remaining projects is expected to achieve by September.
- At the end of Q1FY19 total borrowings has come down by Rs.100 Cr and another Rs.200-250 Cr is expect to reduce by year end.

## 1Q FY19 Result:

Revenue de grew by 3.5% on YoY bases to Rs 911 Cr from Rs 944 Cr. EBITDA remained YoY flat to Rs 107 Cr however EBITDA margin improved by 40 bps to 11.7%. EBIT grew by 0.9% YoY to Rs 83 Cr sustaining EBIT margin to 9.1%. While, PAT jumped by 14% YoY on account of reduction in interest cost. Interest cost as % of sales has come down to 2.8% v/s 3.4%. Company's wholly owned subsidiary SIPL has achieved financial closer for 8 HAM projects out of 12 projects and received appointment for 7 projects and balance 1 will receive by end of September also the rate of interest of 7 financially closed projects is 9.25% and for the 1 financially closed project is 9.45%. Order Inflow for the quarter is Rs.1312 Cr. Order book stand robust at Rs.13713 Cr, i.e 3.8x of TTM EPC revenue.

## View and Valuation

SADBHAV has reported Q1FY19 numbers in line with our estimates. Revenue was down due to lower executable order book but EBITDA margin has shown uptick and we anticipate that it will go further up as the contribution from HAM projects increases. From last 2 quarters Company is strengthening its balance sheet position and trend will remain continue in FY19 as well. Company's wholly owned subsidiary SIPL has tied up funds for HAM projects and construction will start from H2FY19 onwards. We expect strong revenue growth in H2FY19 with improvement in EBITDA margin. **We value SADBHAV at Rs. 387 and maintain our BUY rating on the stock. We value SADBHAV EPC business at Rs. 249 (14x FY20 EPS) and Rs.138 per share for SIPL business.**

## Key Risks to our rating and target

- ◆ Delay in appointment date
- ◆ Slow down in execution due to external factors

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	2970	3186	3320	3505	4234	6041
EBITDA	300	335	356	415	489	695
EBIT	219	238	256	317	386	580
PAT	113.7	132	188	221	276	306
EPS (Rs)	6.6	7.7	10.8	12.9	16.1	17.8
EPS growth (%)	-5%	17%	40%	19%	24%	11%
ROE	0.1	9%	11%	12%	13%	13%
ROCE	10%	9%	8%	10%	11%	15%
BVPS	79	87	97	109	124	141
P/B (X)	4.2	2.1	2.0	2.2	2.2	1.9
P/E (x)	50.2	24.0	18.2	18.7	16.8	15.2

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**1QFY19 Result :- In line with our Estimate**

Financials	1QFY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	YoY %	QoQ%	FY17	FY18	YoY %
<b>Net Sales</b>	<b>944</b>	<b>693</b>	<b>935</b>	<b>1,104</b>	<b>911</b>	<b>-3%</b>	<b>-17%</b>	<b>3,320</b>	<b>3,505</b>	<b>5.6%</b>
Other Income	4	1	7	4	11	176%	177%	88	16	-82.0%
COGS	744	555	773	893	743	0%	-17%	2,655	2,813	6.0%
Employee Exp.	31	32	38	55	42	37%	-23%	137	155	13.7%
Other Exp.	63	28	18	32	19	-70%	-41%	173	121	-29.9%
<b>Total Exp.</b>	<b>838</b>	<b>614</b>	<b>829</b>	<b>980</b>	<b>804</b>	<b>-4%</b>	<b>-18%</b>	<b>2,965</b>	<b>3,090</b>	<b>4.2%</b>
<b>EBITDA</b>	<b>107</b>	<b>79</b>	<b>106</b>	<b>124</b>	<b>107</b>	<b>0%</b>	<b>-14%</b>	<b>356</b>	<b>415</b>	<b>16.7%</b>
<b>EBITDA M (%)</b>	<b>11.3%</b>	<b>11.4%</b>	<b>11.3%</b>	<b>11.2%</b>	<b>11.7%</b>	<b>40 bps</b>	<b>50bps</b>	<b>10.7%</b>	<b>11.8%</b>	<b>10 bps</b>
Depreciation	25	25	25	24	24	-2%	2%	100	98	-2.1%
<b>EBIT</b>	<b>82</b>	<b>54</b>	<b>81</b>	<b>100</b>	<b>83</b>	<b>1%</b>	<b>-17%</b>	<b>256</b>	<b>317</b>	<b>24.1%</b>
Intreset	32	22	29	35	26	-20%	-25%	153	117	-23.9%
Excep. Item	-	-	-	-	-	NA	NA	-	-	NA
<b>PBT</b>	<b>54</b>	<b>33</b>	<b>60</b>	<b>70</b>	<b>68</b>	<b>26%</b>	<b>-3%</b>	<b>190</b>	<b>216</b>	<b>14.0%</b>
Tax	(2)	(1)	(2)	(0)	5	-408%	NA	2	(4)	NA
<b>PAT</b>	<b>55</b>	<b>33</b>	<b>62</b>	<b>70</b>	<b>63</b>	<b>14%</b>	<b>-9%</b>	<b>188</b>	<b>221</b>	<b>17.5%</b>
<b>PAT %</b>	<b>5.9%</b>	<b>4.8%</b>	<b>6.6%</b>	<b>6.3%</b>	<b>7.0%</b>	<b>110bps</b>	<b>70bps</b>	<b>5.7%</b>	<b>6.3%</b>	<b>60bps</b>

**In line performance with stable operating Margin**

Q1FY19 was soft in terms of revenue. Revenue was down by 3.5% YoY to Rs.911 Cr on account of low executable EPC order book. Despite the softness in revenue EBITDA margin has shown improvement of 40 bps and reported 11.7% which is in line with our estimates. Higher contribution from HAM projects has helped to post better margin and it will improve going ahead as the contribution increases. PAT was up by 14.3% YoY to Rs. 63 Cr on account of lower interest cost. Order inflow during the quarter was Rs.1312 Cr (not include Rs.1165 Cr of Road EPC) and taking the total order book at Rs.13713 Cr, i.e 3.8x of TTM EPC revenue.

**Improving Balance sheet**

During the quarter Interest cost as % of sales has come down to 2.4% from 3.8% on account of 1) low bank guarantee charges due to lower bidding 2) reduction in WC usage on account of increased contribution from HAM and 3) Interest payment from SIPL. Overall debt has come down by Rs.100 Cr in Q1FY19 and it will further come down by the Rs.100 Cr by September. Loan given to SIPL has also come down by Rs.130 Cr post the quarter. Additionally increasing contribution from HAM projects will help to keep WC requirement down and mobilisation advances of Rs.400-450 Cr is yet to utilize. So by the end management expect to reduce borrowings by Rs.200-250 Cr. Strengthen balance sheet position will help company to tie up funds for upcoming projects.

**Concall Highlights:-**

- ✓ Company expects HAM projects to be the drivers for FY19. Bid pipeline of 38 HAM projects of total length 1777 km with tender amounting Rs 36,066 Cr is expected to start from October.
- ✓ Irrigation bidding amounting to Rs 2376 cr will start from end of September (Gujarat). FY 19 order inflow is expected to be Rs 8000 Cr majorly coming from Transportation projects and Execution will be Rs 4100 Cr (Excluding GST)
- ✓ Financial closer for 4 HAM projects of total 12 HAM projects will be done by 4QFY19.
- ✓ Non PCA banks in PSU has stringent their rules for Financial closer. Additional condition of 80% land acquisition on the date of financial closer has been added by non PCA banks.
- ✓ EBITDA margin is expected to grow along with the increase in the number of HAM projects. It is expected to be 12% in FY19 and FY20.
- ✓ Mumbai Nagpur LOA is expected to be received by the end of August
- ✓ GST to be received amounts to Rs 90-100 Cr and received in Q1FY19 is Rs 38Cr
- ✓ Capex for FY19 and FY20 amounts to Rs 70-75 Cr
- ✓ Tax rate is expected to be 5% in FY19
- ✓ SIPL gross equity requirement amounts to total Rs 1000 Cr till FY21 (Rs 300- 350 Cr in FY19, FY20 and FY21)
- ✓ Without adding any NEW Projects company expects Revenue of Rs 5400 – Rs 5500 Cr in FY20.
- ✓ Debtors are expected to decrease Rs 100 – Rs 130 cr net to net by end of September.

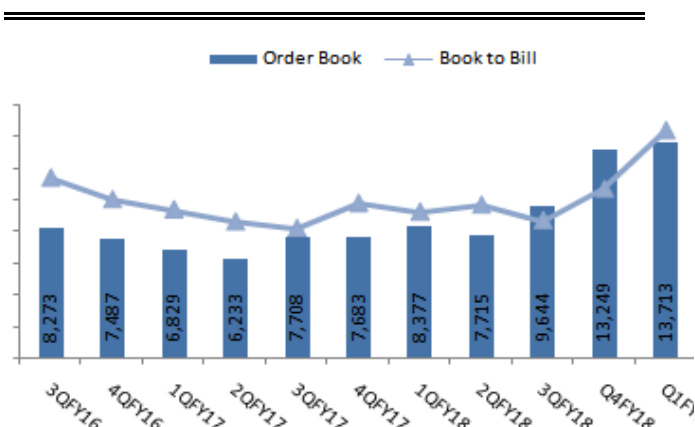
## Revenue Breakup

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	Q4FY18	Q1FY19	YoY %	QoQ%
Transportation									
BOT & HAM	42	146	208	74	254	740	549	164%	-26%
EPC	648	678	615	540	541	138	272	-56%	97%
Irrigation	74	125	80	30	55	120	37	-54%	-69%
Mining	100	78	39	48	84	105	50	27%	-53%
Others	1	5	3	2	1	2	4	54%	132%
<b>Total</b>	<b>865</b>	<b>1,033</b>	<b>944</b>	<b>693</b>	<b>935</b>	<b>1,104</b>	<b>911</b>	<b>-3%</b>	<b>-17%</b>

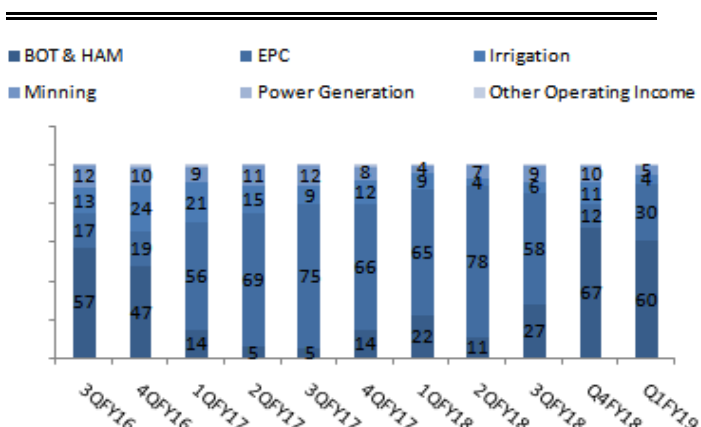
## Order Book Breakup

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	Q4FY18	Q1FY19	YoY %	QoQ%
Transportation									
BOT & HAM	2,406	3,204	4,605	4,541	5,311	8,138	8,592	87%	6%
EPC	2,436	1,793	1,181	695	1,290	2,637	2,413	104%	-9%
<b>Total</b>	<b>4,843</b>	<b>4,997</b>	<b>5,786</b>	<b>5,237</b>	<b>6,601</b>	<b>10,775</b>	<b>11,005</b>	<b>90%</b>	<b>2%</b>
Irrigation	1,113	990	912	896	863	454	420	-54%	-8%
Mining	1,753	1,697	1,679	1,583	2,180	2,020	2,288	36%	13%
<b>Grand Total</b>	<b>7,708</b>	<b>7,683</b>	<b>8,377</b>	<b>7,715</b>	<b>9,644</b>	<b>13,249</b>	<b>13,713</b>	<b>64%</b>	<b>3%</b>

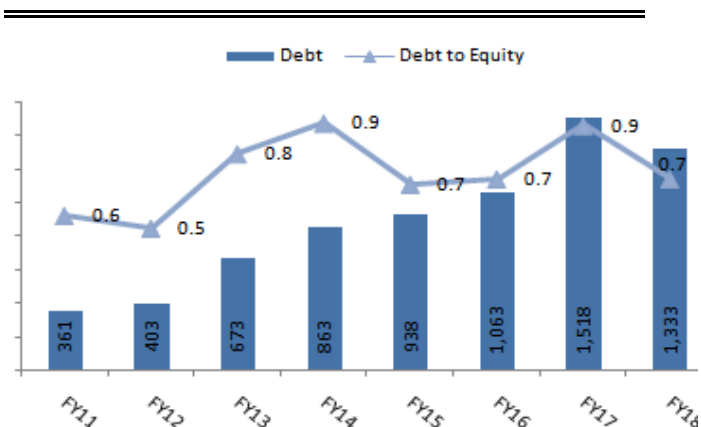
### Exhibit: Order book and book to bill trend



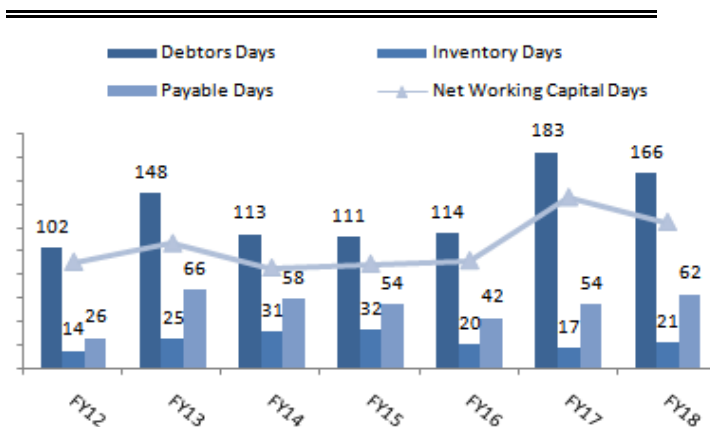
### Exhibit: Revenue Contribution (%)



### Exhibit: Debt to Equity



### Exhibit: Working Capital Trend



## Financials Details

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,811	2,358	2,970	3,186	3,320	3,505	4,234	6,041
Change (%)	-32%	30%	26%	7%	4%	6%	21%	43%
<b>EBITDA</b>	<b>156</b>	<b>249</b>	<b>300</b>	<b>335</b>	<b>356</b>	<b>415</b>	<b>489</b>	<b>695</b>
Change (%)	-46%	60%	21%	12%	6%	17%	18%	42%
Margin (%)	9%	11%	10%	11%	11%	12%	12%	12%
Depr & Amor.	32	47	82	97	100	98	103	114
<b>EBIT</b>	<b>124</b>	<b>202</b>	<b>219</b>	<b>238</b>	<b>256</b>	<b>317</b>	<b>386</b>	<b>580</b>
Int. & other fin. Cost	84	118	138	151	153	117	110	133
Other Income	10	37	66	97	88	16	16	16
<b>EBT</b>	<b>50</b>	<b>120</b>	<b>146</b>	<b>184</b>	<b>190</b>	<b>216</b>	<b>292</b>	<b>463</b>
Exp Item	(61)	38	-	19	-	-	-	-
Tax	37	(24)	32	33	2	(4)	5	157
Min. Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>74</b>	<b>106</b>	<b>114</b>	<b>133</b>	<b>186</b>	<b>221</b>	<b>287</b>	<b>306</b>
<b>Adjusted PAT</b>	<b>90</b>	<b>60</b>	<b>114</b>	<b>117</b>	<b>186</b>	<b>221</b>	<b>287</b>	<b>306</b>
Change (%)	-47%	-33%	89%	3%	60%	19%	30%	6%
Margin(%)	5%	3%	4%	4%	6%	6%	7%	5%

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	15	15	17	17	17	17	17	17
Reserves	817	919	1,335	1,472	1,644	1,850	2,109	2,396
<b>Networth</b>	<b>833</b>	<b>934</b>	<b>1,352</b>	<b>1,489</b>	<b>1,661</b>	<b>1,867</b>	<b>2,126</b>	<b>2,413</b>
<i>Debt</i>	673	863	938	1,063	1,518	1,333	1,250	1,520
Other Non Cur Liab	112	87	58	3	10	8	8	8
<i>Total Capital Employed</i>	1,145	1,356	1,910	1,982	1,967	2,153	2,421	2,874
<i>Net Fixed Assets (incl CWIP)</i>	330	498	536	593	523	503	480	466
<i>Non Cur Investments</i>	538	521	531	563	569	577	627	677
<i>Other Non Cur Asst</i>	524	1,000	1,124	700	665	694	671	657
Non Curr Assets	1,393	2,019	2,191	1,856	1,758	1,774	1,778	1,800
Inventory	102	164	213	141	123	164	247	353
Debtors	736	732	907	999	1,665	1,592	1,856	2,483
Cash & Bank	22	76	35	17	23	13	61	99
<b>Other Curr Assets</b>	<b>568</b>	<b>535</b>	<b>715</b>	<b>1,076</b>	<b>974</b>	<b>1,331</b>	<b>1,327</b>	<b>1,747</b>
<i>Curr Assets</i>	1,428	1,507	1,870	2,232	2,786	3,100	3,491	4,681
Creditors	329	376	441	370	491	599	724	1,026
<i>Provisions</i>	216	121	162	4	2	3	3	5
Other Curr Liab	330	625	573	566	338	561	678	1,042
Curr Liabilities	873	1,120	1,177	940	831	1,163	1,405	2,073
<b>Net Curr Assets</b>	<b>555</b>	<b>387</b>	<b>693</b>	<b>1,293</b>	<b>1,954</b>	<b>1,937</b>	<b>2,086</b>	<b>2,608</b>
<b>Total Assets</b>	<b>2,491</b>	<b>3,028</b>	<b>3,525</b>	<b>3,495</b>	<b>4,020</b>	<b>4,371</b>	<b>4,789</b>	<b>6,015</b>

## Financials Details

## Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E	FY20E
PBT	74	106	114	134	188	216	292	463
(inc)/Dec in Working Capital	(107)	251	(296)	(110)	(442)	(188)	(101)	(378)
Non Cash Op Exp	32	47	82	85	100	98	103	114
Int Paid (+)	76	118	138	151	153	117	110	133
Tax Paid	49	49	59	66	(23)	(4)	16	157
others	41	(11)	(15)	(29)	(74)	-	-	-
CF from Op. Activities	66	462	(37)	164	(51)	247	387	69
(inc)/Dec in FA & CWIP	(72)	(222)	(158)	(114)	(38)	(78)	(81)	(100)
Free Cashflow	(6)	240	(195)	50	(89)	169	307	(31)
(Pur)/Sale of Inv	3	0	(1)	(0)	-	-	-	-
others	(263)	(346)	(93)	4	119	(8)	(50)	(50)
CF from Inv. Activities	(332)	(568)	(252)	(111)	81	(86)	(131)	(150)
inc/(dec) in NW	3	4	315	0	0	-	-	-
inc/(dec) in Debt	310	258	66	112	375	(186)	(82)	270
Int. Paid	84	118	132	150	153	117	110	133
Div Paid (inc tax)	10	11	12	14	14	13	17	18
others	3	27	315	0	0	136	-	-
CF from Fin. Activities	218	157	237	(52)	(35)	(180)	(208)	118
Inc(Dec) in Cash	(48)	51	(52)	1	(5)	(19)	49	37
Add: Opening Balance	55	6	58	6	8	23	13	61
Closing Balance	6	58	6	8	2	4	61	98

\* FY18 numbers are estimated

## Key Ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	9%	11%	8%	9%	11%	12%	13%	13%
ROCE	8%	11%	10%	9%	8%	10%	11%	15%
Asset Turnover	0.73	0.78	0.84	0.91	0.83	0.80	0.88	1.00
Debtor Days	148	113	111	114	183	166	160	150
Inv Days	25	31	32	20	17	21	21	21
Payable Days	66	58	54	42	54	62	62	62
Int Coverage	1.47	1.71	1.58	1.58	1.67	2.72	3.52	4.36
P/E	24	14	50	24	18	19	17	15
Price / Book Value	2	2	4	2	2	2	2	2
EV/EBITDA	13	7	21	11	10	11	10	7
FCF per Share	(0)	16	(11)	3	(5)	10	18	(2)
Div Yield	1%	1%	0%	0%	0.4%	0.3%	0.3%	0.3%

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