

Sadbhav Engg.

BSE SENSEX	S&P CNX
35,261	10,617
Bloomberg	SADE IN
Equity Shares (m)	172
M.Cap.(INRb)/(USDb)	38 / 0.5
52-Week Range (INR)	439 / 190
1, 6, 12 Rel. Per (%)	-8/-41/-36
Avg Val, INRm	88
Free float (%)	53.5

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	35.1	40.3	50.3
EBITDA	4.2	4.8	5.9
PAT	2.2	2.7	2.7
EPS (INR)	12.9	16.0	15.8
Gr. (%)	17.5	24.2	-0.9
BV/Sh (INR)	108.8	123.4	137.8
RoE (%)	12.5	13.8	12.1
RoCE (%)	8.4	9.6	11.2
P/E (x)	17.1	13.8	13.9
P/BV (x)	2.0	1.8	1.6

Estimate change

TP change

Rating change



CMP: INR221

TP: INR275 (+25%)

Buy

A quarter characterized by weaker-than-expected execution

- **Operating performance below expectations:** Revenue declined 0.4% YoY (LTL growth of 11.6%) to INR6.9b, below our estimate of INR7.6b. EBITDA increased 6% YoY to INR833m, also below our estimate of INR880m. Operating margin of 12.1% (+70bp YoY) was above our estimate of 11.5%. PAT increased 14.3% YoY to INR383m, below our estimate of INR426m. Overall operating performance was below our expectation due to weaker-than-expected execution of projects in hand.
- **In-house HAM projects execution supports Transport revenue:** Although Transport segment (94% of revenue) grew by a muted 6% YoY (INR649m v/s INR614m in 2QFY18), the revenue mix has tilted more toward in-house HAM projects. HAM EPC contributed 71% of Transport revenue (+522% YoY), while third-party EPC formed 29% (-65% YoY as third-party order book available for execution declined YoY). Irrigation segment (2% of revenue) de-grew by 48% YoY due to lower order backlog available for execution. Mining revenue declined by 49% YoY to INR242m. Management guided for revenue of INR40b in FY19, led by pick-up in execution of 12 in-house HAM projects. It, however, lowered the FY20 revenue guidance to INR50b (prior: INR53-54b), as challenges in land acquisition are leading to a delay in procuring the appointed date from the NHAI.
- **Margin expansion led by execution of better-margin orders:** Operating margin stood at 12.1% (+70bp YoY) in 2QFY19, led by execution of in-house HAM projects (where margins are better compared to third-party EPC contracts) and value-accretive projects. Thus, SADE maintained its guidance of 12% operating margin for FY19.
- **Order backlog provides robust revenue visibility:** SADE's order book stands at INR137b, providing revenue visibility of 3.7x its FY18 revenue. Order inflow in 2QFY19 stood muted at INR16b, as not many projects were awarded in the roads sector during the quarter. SADE expects order inflow of INR75-80b for FY19.
- **Valuation view:** We cut our FY20 estimates by 11% to factor in weaker-than-expected execution of the newly won HAM project, given the challenges faced in acquiring land by the NHAI and the delay in the awarding of the appointed date. We, however, maintain our **Buy** rating on the stock with an SOTP-based target price of INR275, given its strong execution track record, balance sheet-strengthening initiatives, robust order backlog and strong operational BoT.

Standalone - Quarterly earning Model

(INR m)

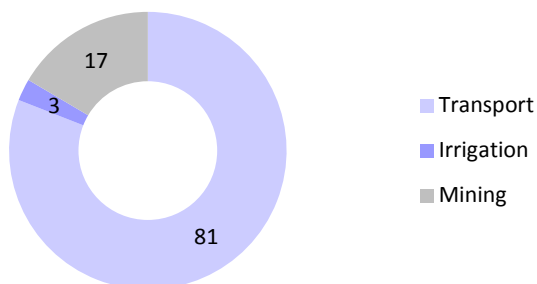
Y/E March	FY18				FY19				FY18	FY19E	MOSL Variance	(%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY19	
Net Sales	9,444	6,931	9,351	11,045	9,114	6,906	10,668	13,570	36,770	40,258	7,649	-10
YoY Change (%)	17.0	12.6	8.1	6.9	-3.5	-0.4	14.1	22.9	10.7	9.5	10.4	
Total Expenditure	8,376	6,143	8,295	9,804	8,044	6,073	9,442	11,950	32,618	35,508	6,769	
EBITDA	1,068	788	1,056	1,240	1,070	833	1,227	1,621	4,151	4,750	880	-5
Margins (%)	11.3	11.4	11.3	11.2	11.7	12.1	11.5	11.9	11.3	11.8	11.5	
Depreciation	245	251	247	236	241	244	246	254	979	986	246	
Interest	322	215	285	345	257	273	267	379	1,167	1,175	229	
Other Income	39	5	74	39	108	66	74	46	157	294	45	
PBT	540	327	598	698	681	383	787	1,034	2,163	2,884	449	
Tax	-15	-8	-20	0	46	0	39	59	-44	144	22	
Rate (%)	-2.8	-2.6	-3.4	-0.1	6.8	0.0	5.0	5.7	-2.0	5.0	5.0	
Reported PAT	555	335	618	699	634	383	748	975	2,207	2,740	426	
Adj PAT	555	335	618	699	634	383	748	975	2,207	2,740	426	-10
YoY Change (%)	14.0	80.8	17.9	2.4	14.3	14.3	21.0	39.6	17.5	24.2	27.3	
Margins (%)	5.9	4.8	6.6	6.3	7.0	5.5	7.0	7.2	6.0	6.8	5.6	

Exhibit 1: Segmental revenue breakup

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19*	YoY % chg.
Transport Sector	6,902	8,237	8,223	6,138	7,954	8,774	8205	6488.3	5.7
BoT	420	1,461	2,076	739	2,540	7,398	5,488.6	4593.6	521.5
EPC	6,482	6,776	6,147	5,399	5,414	1,376	2,716.4	1894.7	-64.9
Irrigation sector	739	1,255	804	300	545	1,203	372.9	155	-48.3
Mining Sector	1,002	785	392	476	840	1,051	497.5	242.1	-49.2
Power generation	5	11	23	17	5.7	8.6	20.9	20.5	24.2
Other income	0	42	3	0	5.9	8.2	18.1	0	0
Total Income	8,648	10,329	9,444	6,931	9,351	11,045	9,114.4	6905.9	(0.4)

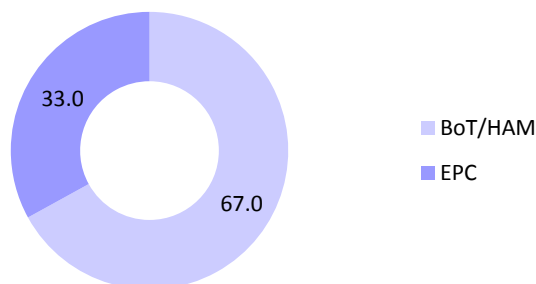
* revenue excluding GST

Exhibit 2: Order book bifurcation - segment wise (%)



Source: MOSL, Company

Exhibit 3: Road order book bifurcation (%)



Source: MOSL, Company

Key highlights of the conference call

- SADE expects EPC projects worth INR533b to be awarded in FY19 and another INR353b projects to be awarded on HAM model.
- Four mining projects worth INR12.4b are expected to be awarded; irrigation projects worth INR50.1b are expected to be awarded from MP, Punjab and Karnataka region.
- Has arbitration claims worth INR5.6b.
- Maintains revenue guidance of INR40b for FY19, given strong order backlog position of INR137b; however, it has moderated its FY20 guidance to INR50b as compared to earlier guidance of INR54b, given the challenges faced in procuring timely appointed date given delays in land acquisition.

- Debt has increased to INR15.1b as compared to INR14.2b in 1QFY19. Increase in debt is on account of cash payment made to suppliers to avail better pricing for the materials.
- Capex of INR500m planned for FY19.
- Mobilization advance of INR7.7b is yet to be received, which will further ease out the funding requirement for the company.
- SADE expects projects worth INR45.9b to be started in 3QFY19; incrementally, projects worth INR33b are expected to start in 4QFY19.

Valuation and View

We cut our FY20 estimates by 11% to factor in weaker-than-expected execution of the newly won HAM project, given the challenges faced in acquiring land by the NHAI and the delay in the awarding of the appointed date. We, however, maintain our **Buy** rating on the stock with an SOTP-based target price of INR275, given its strong execution track record, balance sheet-strengthening initiatives, robust order backlog and strong operational BoT.

Exhibit 4: SOTP valuation

Particulars	Segments	Value (INRm)	Value per share (INR)	Rationale
Sadbhav Standalone	EPC business	27,157	158	At 10x FY20E EPS
SIPL stake	Subsidiary	20,415	117	Valued using current market cap of SIPL and ascribing a 20% holding company discount for SEL stake in SIPL
SOTP Value		47,572	275	

Exhibit 5: Change in estimates:

	Old estimates			New estimates		% Change	
	FY18	FY19	FY20	FY19E	FY20E	FY19E	FY20E
Revenue	35,051	40,258	55,205	40,258	50,334	0%	-9%
EBIDTA	4,151	4,750	6,514	4,750	5,939	0%	-9%
EBIDTA Margin	11.8	11.8	11.8	11.8	11.8	-	-
PAT	2,207	2,751	3,061	2,740	2,715	0%	-11%

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	18,110	23,581	29,698	31,863	33,203	35,051	40,258	50,334
Change (%)	-32.3	30.2	25.9	7.3	4.2	5.6	14.9	25.0
Raw Materials & Construction Exp.	15,197	19,450	24,362	25,805	26,552	28,134	32,851	41,073
Employees Cost	428	602	974	1,228	1,366	1,553	1,288	1,611
Other Expenses	928	1,040	1,360	1,482	1,729	1,211	1,369	1,711
Total Expenditure	16,553	21,092	26,696	28,515	29,647	30,899	35,508	44,395
% of Sales	91.4	89.4	89.9	89.5	89.3	88.2	88.2	88.2
EBITDA	1,557	2,489	3,002	3,348	3,556	4,151	4,750	5,939
Margin (%)	8.6	10.6	10.1	10.5	10.7	11.8	11.8	11.8
Depreciation	318	474	817	971	1,000	979	986	1,179
EBIT	1,239	2,015	2,185	2,377	2,556	3,172	3,765	4,761
Int. and Finance Charges	844	1,181	1,382	855	992	1,167	1,175	1,175
Other Income	1,342	-188	775	512	333	157	294	293
PBT bef. EO Exp.	1,737	646	1,578	2,035	1,897	2,163	2,884	3,879
EO Items	-629	174	-119	-194	0	0	0	0
PBT after EO Exp.	1,108	820	1,459	1,840	1,897	2,163	2,884	3,879
Total Tax	185	-242	321	325	18	-44	144	1,164
Tax Rate (%)	16.7	-29.5	22.0	17.7	1.0	-2.0	5.0	30.0
Reported PAT	924	1,062	1,137	1,515	1,878	2,207	2,740	2,715
Adjusted PAT	295	1,235	1,018	1,320	1,878	2,207	2,740	2,715
Change (%)	-78.6	319.3	-17.6	29.7	42.3	17.5	24.2	-0.9
Margin (%)	1.6	5.2	3.4	4.1	5.7	6.3	6.8	5.4

Standalone - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	151	152	172	172	172	172	172	172
Total Reserves	8,174	9,189	13,349	14,543	16,437	18,496	20,995	23,469
Net Worth	8,325	9,572	13,521	14,715	16,609	18,668	21,167	23,641
Total Loans	7,630	10,257	10,964	12,167	15,183	13,326	14,326	13,326
Deferred Tax Liabilities	317	357	244	232	-477	-994	-994	-994
Capital Employed	16,272	20,186	24,728	27,113	31,316	31,000	34,498	35,973
Gross Block	5,148	7,264	8,512	9,388	10,638	10,845	12,345	13,845
Less: Accum. Deprn.	1,845	2,282	3,155	3,838	4,838	5,817	6,803	7,981
Net Fixed Assets	3,303	4,982	5,357	5,550	5,229	5,028	5,542	5,864
Capital WIP	0	0	0	0	0	0	0	0
Total Investments	5,385	5,210	5,313	5,278	5,694	5,775	5,775	5,775
Curr. Assets, Loans&Adv.	16,221	20,088	24,580	25,358	28,804	31,910	31,898	36,787
Inventory	1,022	1,638	2,134	1,406	1,234	1,643	1,346	1,683
Account Receivables	7,365	7,319	9,067	9,994	17,010	16,280	13,236	15,169
Cash and Bank Balance	218	762	351	366	230	127	4,368	3,103
Loans and Advances	7,617	10,369	13,028	13,591	10,331	13,860	12,948	14,467
Curr. Liability & Prov.	8,636	10,093	10,522	9,073	8,411	11,713	10,505	14,395
Account Payables	6,474	8,879	8,902	7,814	8,391	11,686	10,478	13,101
Provisions	2,162	1,215	1,620	1,259	20	27	27	27
Net Current Assets	7,585	9,994	14,058	16,285	20,393	20,197	21,393	22,392
Appl. of Funds	16,272	20,186	24,728	27,113	31,316	31,000	32,710	34,030

Financials and valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	1.7	7.2	5.9	7.7	11.0	12.9	16.0	15.8
Cash EPS	3.6	10.0	10.7	13.4	16.8	18.6	21.7	22.7
BV/Share	48.5	55.8	78.8	85.8	96.8	108.8	123.4	137.8
DPS	0.5	0.6	0.7	0.9	1.1	1.2	1.2	1.2
Payout (%)	11.5	11.7	12.4	11.9	11.8	10.9	8.8	8.9
Valuation (x)								
P/E			37.1	28.6	20.1	17.1	13.8	13.9
Cash P/E			20.6	16.5	13.1	11.8	10.1	9.7
P/BV			2.8	2.6	2.3	2.0	1.8	1.6
EV/Sales			1.6	1.6	1.6	1.5	1.1	0.8
EV/EBITDA			16.1	14.8	14.8	12.3	9.7	7.0
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.5	0.5	0.5	0.5
FCF per share	-0.2	14.2	-10.8	4.5	-50.9	16.2	35.9	7.2
Return Ratios (%)								
RoE	3.7	13.8	8.8	9.4	12.0	12.5	13.8	12.1
RoCE	14.7	8.2	10.7	9.0	7.9	8.4	9.6	11.2
RoIC	10.4	13.0	10.5	9.4	8.7	10.1	12.6	17.9
Working Capital Ratios								
Fixed Asset Turnover (x)	3.5	3.2	3.5	3.4	3.1	3.2	3.3	3.6
Asset Turnover (x)	1.1	1.2	1.2	1.2	1.1	1.1	1.2	1.6
Inventory (Days)	21	25	26	16	14	17	12	12
Debtor (Days)	148	113	111	114	187	170	120	110
Creditor (Days)	130	137	109	90	92	122	95	95
Leverage Ratio (x)								
Current Ratio	1.9	2.0	2.3	2.8	3.4	2.7	3.0	2.6
Interest Cover Ratio	1.5	1.7	1.6	2.8	2.6	2.7	3.2	4.1
Net Debt/Equity	0.2	0.4	0.4	0.4	0.6	0.4	0.1	0.1

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	741	1,062	1,137	1,337	1,897	2,163	2,884	3,879
Depreciation	318	474	817	849	1,000	979	986	1,179
Interest & Finance Charges	756	1,178	1,381	1,506	992	1,167	1,175	1,175
Direct Taxes Paid	-495	-486	-589	-659	-18	44	-144	-1,164
(Inc)/Dec in WC	-1,069	2,507	-2,963	-1,105	-11,025	86	3,045	-2,263
CF from Operations	252	4,734	-217	1,928	-7,154	4,439	7,945	3,036
Others	407	-112	-148	-289	-333	-157	-294	-293
CF from Operating incl EO	658	4,623	-365	1,639	-7,487	4,281	7,651	2,743
(Inc)/Dec in FA	-695	-2,183	-1,489	-860	-1,250	-1,500	-1,500	-1,500
Free Cash Flow	-37	2,440	-1,854	779	-8,737	2,781	6,151	1,243
(Pur)/Sale of Investments	-2,160	-100	-390	-237	6,474	218	0	0
Others	-329	-3,364	-531	-8	333	157	294	293
CF from Investments	-3,184	-5,647	-2,411	-1,104	5,557	-1,125	-1,206	-1,207
Issue of Shares	29	36	3,153	2	0	0	0	0
Inc/(Dec) in Debt	3,096	2,815	662	1,119	3,005	-1,851	1,000	-1,000
Interest Paid	-840	-1,177	-1,325	-1,495	-992	-1,167	-1,175	-1,175
Dividend Paid	-105	-106	-124	-145	-221	-241	-241	-241
CF from Fin. Activity	2,180	1,568	2,366	-519	1,792	-3,259	-416	-2,416
Inc/Dec of Cash	-345	543	-410	16	-137	-103	4,241	-1,265
Opening Balance	563	218	761	351	367	230	127	4,368
Closing Balance	218	761	351	367	230	127	4,368	3,104

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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