

BSE SENSEX

35,658

S&P CNX

10,773

CMP: INR276

TP: INR385 (+39%)

Buy

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Stock Info

| | |
|------------------------|-------------|
| Bloomberg | SADE IN |
| Equity Shares (m) | 171.5 |
| 52-Week Range (INR) | 439 / 260 |
| 1, 6, 12 Rel. Per (%) | -16/-38/-23 |
| M.Cap. (INR b)/(USD b) | 47.3/0.7 |
| Avg Val, INRm | 79.0 |
| Free float (%) | 53.5 |

Financials Snapshot (INR b)

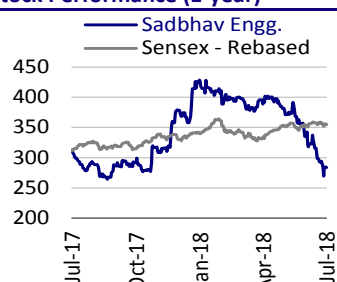
| Y/E Mar | 2018 | 2019E | 2020E |
|-------------|-------|-------|-------|
| Net Sales | 35.1 | 43.3 | 55.5 |
| EBITDA | 4.2 | 5.1 | 6.5 |
| PAT | 2.2 | 3.0 | 3.0 |
| EPS (INR) | 12.9 | 17.3 | 17.4 |
| Gr. (%) | 17.5 | 34.2 | 0.7 |
| BV/Sh (INR) | 108.8 | 124.7 | 140.7 |
| RoE (%) | 12.5 | 14.8 | 13.1 |
| RoCE (%) | 8.4 | 10.4 | 12.8 |
| P/E (x) | 21.5 | 16.0 | 15.9 |
| P/BV (x) | 2.5 | 2.2 | 2.0 |

Shareholding pattern (%)

| As On | Mar-18 | Dec-17 | Mar-17 |
|----------|--------|--------|--------|
| Promoter | 46.5 | 46.5 | 46.8 |
| DII | 22.4 | 23.5 | 26.3 |
| FII | 15.5 | 15.4 | 17.2 |
| Others | 15.6 | 14.7 | 9.8 |

FII Includes depository receipts

Stock Performance (1-year)



Asset monetization plans to deleverage balance sheet

Expect execution CAGR of 26% over FY18-20

Balance sheet improvement via monetization of assets: Sadbhav Infrastructure Project (SIPL) intends to monetize its operational asset portfolio of 12 projects, proceeds of which will be utilized to (a) reduce debt at SIPL standalone level, (b) provide growth funding for the upcoming hybrid-annuity model (HAM) projects and (c) repay debt taken from Sadbhav Engineering (SADE). SIPL intends to offload a majority stake (51-100%) in its portfolio of 12 operational projects, due diligence for which is being carried out by international funds; the deal is expected to conclude by Dec'18. Total equity investment in this portfolio stands at INR23b, for which it expects valuation of 2x its invested capital. Successful completion of the transaction would help SADE to improve its balance sheet quality by significantly reducing outstanding debt (INR14.5b) and bring down the debt-equity ratio to 0.4:1 (debt below INR8b). Even after excluding the asset sale transaction, SADE expects to reduce debt by INR2.5b in FY19 by improving the receivable cycle.

Working capital cycle to normalize to 120 days: SADE expects the working capital cycle to normalize to 120 days from 180 days now on account of (a) release of money stuck on account of variation jobs – SADE expects release of INR2.6b blocked in two projects (Eastern Peripheral Expressway: INR1.7b and Mysore Bellary: INR0.9b) and (b) repayment of loans taken by SIPL.

Highway segment to be key focus area: SADE had diversified into the irrigation and mining segments as ordering activity in the core highway sector had come to a standstill. However, with the highway segment now providing multi-year strong ordering visibility, SADE intends to shift the focus back to its core area. In the current order backlog, 82% of the orders are from highway segment, 15% from mining segment and the balance from irrigation segment. SADE intends to (a) focus on the highway segment, where it has the requisite expertise to execute projects, (b) move out of the irrigation segment (avoid projects with last-mile connectivity) and (c) continue with mining segment projects to keep the machinery occupied.

Guides for revenue of INR41/INR55b for FY19/20, operating margin of 12%:

SADE's revenue growth was muted over FY15-18 (6% CAGR) due to constrained execution in the newly ventured irrigation, mining and railway segments. However, SADE expects revenue of INR41b in FY19 and INR55b in FY20 (26 CAGR), driven by execution of the 12 HAM projects (76% of highway segment orders). As the revenue mix tilts in favor of in-house projects where it has all clearances in place, revenue growth is expected to strengthen. Of the 12 HAM projects, 7 are under construction, 1 has received financial closure, and financial closure and concession agreements for the remaining 4 projects are expected to be signed by Oct'18. Operating margins at the company level are estimated at 12% levels, given (a) completion of legacy projects in irrigation and mining, (b) execution of in-house HAM projects, where the margin is better than that in road EPC projects.

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Order backlog provides strong medium-term revenue visibility: Over the past year, SADE has witnessed healthy order inflow in the HAM category (which has helped it to generate order backlog of INR133b as on Mar'18), providing healthy revenue visibility until FY20. Even in 1QFY19, SADE has bagged incremental road projects worth INR30b (Mumbai-Nagpur and Karnataka order). Its order book stands at INR132b, of which 82% comes from transportation projects (76% from BoT/HAM and balance from EPC), 15% from mining projects, and balance from irrigation projects. SADE's order book provides good medium-term revenue visibility – CAGR of 26% over FY18-20.

Arbitration claims to be settled over next year: SADE has claims outstanding worth INR7.2b (INR4.1b for Mumbai-Nashik, INR0.7b for Dhule-Palesnar, INR1.6b for Nagpur-Seoni and INR1b for Rohtak-Panipat), which it expects to be settled over the next year.

Valuation and view: A healthy order backlog, an established execution track record and a strong upcoming ordering pipeline from the NHAI put SADE in a sweet spot. This, coupled with the likely improvement in its balance sheet quality (through monetization of assets, improvement in the working capital cycle), further strengthens the investment case for SADE. Moreover, the recent stock price correction provides a decent opportunity to play the infrastructure story through one of the established players in the sector. We maintain our **Buy** rating on the stock with a revised SOTP-based target price of INR385 (prior: INR450).

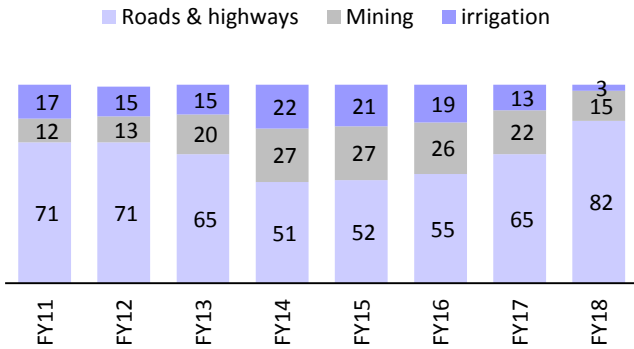
Exhibit 1: Valuation table

| Particulars | Segments | Value (INRm) | Value per share(INR) | Rationale |
|--------------------|--------------|---------------|----------------------|--|
| Sadbhav Standalone | EPC business | 44,754 | 261 | At 15x FY20E EPS |
| SIPL stake | Subsidiary | 21,378 | 125 | Valued using current market cap of SIPL and ascribing a 20% holding company discount for SEL's stake in SIPL |
| SOTP Value | | 66,132 | 385 | |

Source: Company, MOSL

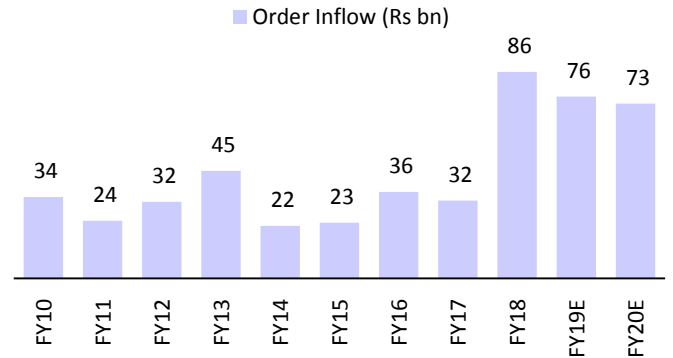
Story in charts

Exhibit 2: Order backlog has now moved in favor of the roads and highways sector



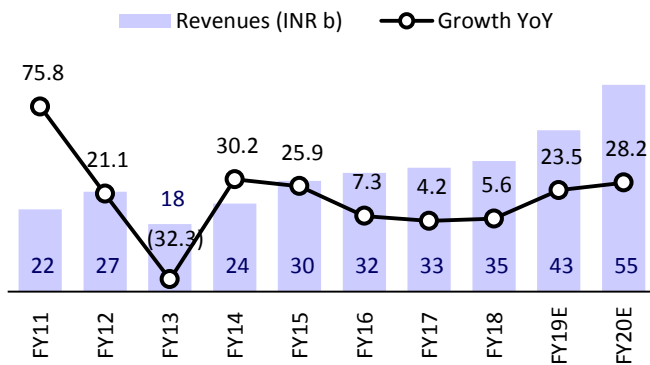
Source: MOSL, Company

Exhibit 3: After a period of muted activity, order inflow increased meaningfully in FY18; expect activity to remain strong in FY19 as well



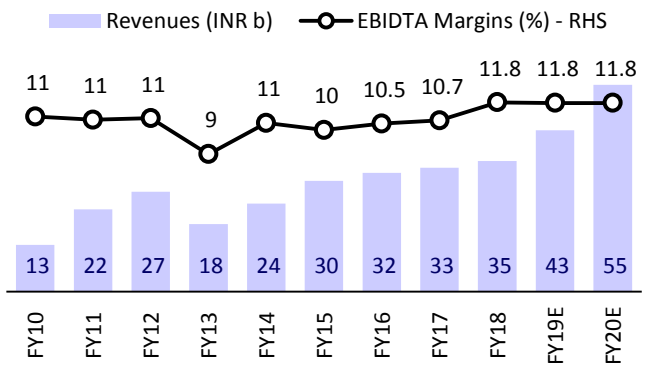
Source: MOSL, Company

Exhibit 4: Expect revenue CAGR of 26% over FY18-20E given healthy order backlog



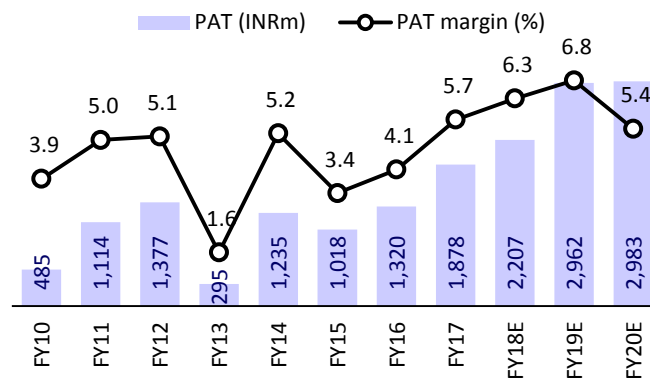
Source: MOSL, Company

Exhibit 5: Margins to remain healthy at 11.8% for FY19 given completion of legacy projects



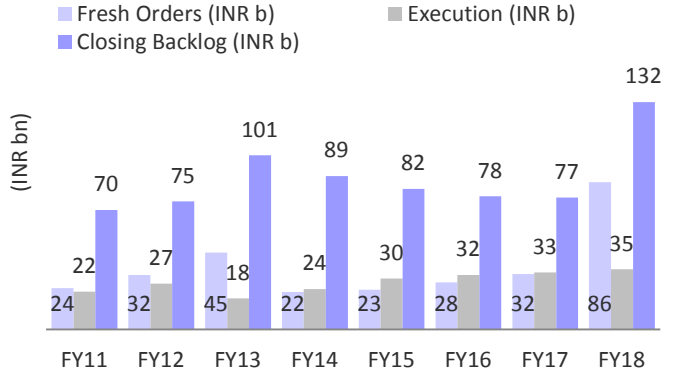
Source: MOSL, Company

Exhibit 6: Expect PAT CAGR of 16% over FY18-20E despite company returning to full tax rate profile



Source: MOSL, Company

Exhibit 7: Execution to be driven by healthy order backlog created on account of robust order inflow



Source: MOSL, Company

Financials and Valuations

Standalone - Income Statement

(INR m)

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Income from Operations | 29,698 | 31,863 | 33,203 | 35,051 | 43,271 | 55,458 |
| Change (%) | 25.9 | 7.3 | 4.2 | 5.6 | 23.5 | 28.2 |
| Raw Materials & Construction Exp. | 24,362 | 25,805 | 26,552 | 28,134 | 35,309 | 45,254 |
| Employees Cost | 974 | 1,228 | 1,366 | 1,553 | 1,385 | 1,775 |
| Other Expenses | 1,360 | 1,482 | 1,729 | 1,211 | 1,471 | 1,886 |
| Total Expenditure | 26,696 | 28,515 | 29,647 | 30,899 | 38,165 | 48,914 |
| % of Sales | 89.9 | 89.5 | 89.3 | 88.2 | 88.2 | 88.2 |
| EBITDA | 3,002 | 3,348 | 3,556 | 4,151 | 5,106 | 6,544 |
| Margin (%) | 10.1 | 10.5 | 10.7 | 11.8 | 11.8 | 11.8 |
| Depreciation | 817 | 971 | 1,000 | 979 | 986 | 1,179 |
| EBIT | 2,185 | 2,377 | 2,556 | 3,172 | 4,120 | 5,365 |
| Int. and Finance Charges | 1,382 | 855 | 992 | 1,167 | 1,163 | 1,060 |
| Other Income | 775 | 512 | 333 | 157 | 161 | 147 |
| PBT bef. EO Exp. | 1,578 | 2,035 | 1,897 | 2,163 | 3,118 | 4,452 |
| EO Items | -119 | -194 | 0 | 0 | 0 | 0 |
| PBT after EO Exp. | 1,459 | 1,840 | 1,897 | 2,163 | 3,118 | 4,452 |
| Total Tax | 321 | 325 | 18 | -44 | 156 | 1,469 |
| Tax Rate (%) | 22.0 | 17.7 | 1.0 | -2.0 | 5.0 | 33.0 |
| Reported PAT | 1,137 | 1,515 | 1,878 | 2,207 | 2,962 | 2,983 |
| Adjusted PAT | 1,018 | 1,320 | 1,878 | 2,207 | 2,962 | 2,983 |
| Change (%) | -17.6 | 29.7 | 42.3 | 17.5 | 34.2 | 0.7 |
| Margin (%) | 3.4 | 4.1 | 5.7 | 6.3 | 6.8 | 5.4 |

Standalone - Balance Sheet

(INR m)

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital | 172 | 172 | 172 | 172 | 172 | 172 |
| Total Reserves | 13,349 | 14,543 | 16,437 | 18,496 | 21,217 | 23,960 |
| Net Worth | 13,521 | 14,715 | 16,609 | 18,668 | 21,389 | 24,131 |
| Total Loans | 10,964 | 12,167 | 15,183 | 13,326 | 12,526 | 11,026 |
| Deferred Tax Liabilities | 244 | 232 | -477 | -994 | -994 | -994 |
| Capital Employed | 24,728 | 27,113 | 31,316 | 31,000 | 32,921 | 34,163 |
| Gross Block | 8,512 | 9,388 | 10,638 | 10,845 | 12,345 | 13,845 |
| Less: Accum. Deprn. | 3,155 | 3,838 | 4,838 | 5,817 | 6,803 | 7,981 |
| Net Fixed Assets | 5,357 | 5,550 | 5,229 | 5,028 | 5,542 | 5,864 |
| Capital WIP | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 5,313 | 5,278 | 5,694 | 5,775 | 5,775 | 5,775 |
| Curr. Assets, Loans&Adv. | 24,580 | 25,358 | 28,804 | 31,910 | 32,893 | 36,986 |
| Inventory | 2,134 | 1,406 | 1,234 | 1,643 | 1,447 | 1,855 |
| Account Receivables | 9,067 | 9,994 | 17,010 | 16,280 | 14,226 | 16,713 |
| Cash and Bank Balance | 351 | 366 | 230 | 127 | 3,818 | 3,179 |
| Loans and Advances | 13,028 | 13,591 | 10,331 | 13,860 | 13,402 | 15,239 |
| Curr. Liability & Prov. | 10,522 | 9,073 | 8,411 | 11,713 | 11,289 | 14,461 |
| Account Payables | 8,902 | 7,814 | 8,391 | 11,686 | 11,262 | 14,434 |
| Provisions | 1,620 | 1,259 | 20 | 27 | 27 | 27 |
| Net Current Assets | 14,058 | 16,285 | 20,393 | 20,197 | 21,604 | 22,525 |
| Appl. of Funds | 24,728 | 27,113 | 31,316 | 31,000 | 32,921 | 34,163 |

Financials and Valuations

Ratios

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|-------------------------------|------------|------------|-------------|-------------|-------------|-------------|
| Basic (INR) | | | | | | |
| EPS | 5.9 | 7.7 | 11.0 | 12.9 | 17.3 | 17.4 |
| Cash EPS | 10.7 | 13.4 | 16.8 | 18.6 | 23.0 | 24.3 |
| BV/Share | 78.8 | 85.8 | 96.8 | 108.8 | 124.7 | 140.7 |
| DPS | 0.7 | 0.9 | 1.1 | 1.2 | 1.2 | 1.2 |
| Payout (%) | 12.4 | 11.9 | 11.8 | 10.9 | 8.1 | 8.1 |
| Valuation (x) | | | | | | |
| P/E | 47.2 | 36.4 | 25.6 | 21.8 | 16.2 | 16.1 |
| Cash P/E | 26.2 | 21.0 | 16.7 | 15.1 | 12.2 | 11.5 |
| P/BV | 3.6 | 3.3 | 2.9 | 2.6 | 2.2 | 2.0 |
| EV/Sales | 2.0 | 1.9 | 1.9 | 1.7 | 1.3 | 1.0 |
| EV/EBITDA | 19.5 | 17.9 | 17.7 | 14.7 | 11.1 | 8.5 |
| Dividend Yield (%) | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| FCF per share | -10.8 | 4.5 | -50.9 | 16.2 | 33.4 | 11.7 |
| Return Ratios (%) | | | | | | |
| RoE | 8.8 | 9.4 | 12.0 | 12.5 | 14.8 | 13.1 |
| RoCE | 10.7 | 9.0 | 7.9 | 8.4 | 10.4 | 12.8 |
| RoIC | 10.5 | 9.4 | 8.7 | 10.1 | 13.6 | 17.7 |
| Working Capital Ratios | | | | | | |
| Fixed Asset Turnover (x) | 3.5 | 3.4 | 3.1 | 3.2 | 3.5 | 4.0 |
| Asset Turnover (x) | 1.2 | 1.2 | 1.1 | 1.1 | 1.3 | 1.6 |
| Inventory (Days) | 26 | 16 | 14 | 17 | 12 | 12 |
| Debtor (Days) | 111 | 114 | 187 | 170 | 120 | 110 |
| Creditor (Days) | 109 | 90 | 92 | 122 | 95 | 95 |
| Leverage Ratio (x) | | | | | | |
| Current Ratio | 2.3 | 2.8 | 3.4 | 2.7 | 2.9 | 2.6 |
| Interest Cover Ratio | 1.6 | 2.8 | 2.6 | 2.7 | 3.5 | 5.1 |
| Net Debt/Equity | 0.4 | 0.4 | 0.6 | 0.4 | 0.1 | 0.1 |

Standalone - Cash Flow Statement

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (INR m) | | | | | | |
| OP/(Loss) before Tax | 1,137 | 1,337 | 1,897 | 2,163 | 3,118 | 4,452 |
| Depreciation | 817 | 849 | 1,000 | 979 | 986 | 1,179 |
| Interest & Finance Charges | 1,381 | 1,506 | 992 | 1,167 | 1,163 | 1,060 |
| Direct Taxes Paid | -589 | -659 | -18 | 44 | -156 | -1,469 |
| (Inc)/Dec in WC | -2,963 | -1,105 | -11,025 | 86 | 2,284 | -1,559 |
| CF from Operations | -217 | 1,928 | -7,154 | 4,439 | 7,395 | 3,662 |
| Others | -148 | -289 | -333 | -157 | -161 | -147 |
| CF from Operating incl EO | -365 | 1,639 | -7,487 | 4,281 | 7,234 | 3,515 |
| (Inc)/Dec in FA | -1,489 | -860 | -1,250 | -1,500 | -1,500 | -1,500 |
| Free Cash Flow | -1,854 | 779 | -8,737 | 2,781 | 5,734 | 2,015 |
| (Pur)/Sale of Investments | -390 | -237 | 6,474 | 218 | 0 | 0 |
| Others | -531 | -8 | 333 | 157 | 161 | 147 |
| CF from Investments | -2,411 | -1,104 | 5,557 | -1,125 | -1,339 | -1,353 |
| Issue of Shares | 3,153 | 2 | 0 | 0 | 0 | 0 |
| Inc/(Dec) in Debt | 662 | 1,119 | 3,005 | -1,851 | -800 | -1,500 |
| Interest Paid | -1,325 | -1,495 | -992 | -1,167 | -1,163 | -1,060 |
| Dividend Paid | -124 | -145 | -221 | -241 | -241 | -241 |
| CF from Fin. Activity | 2,366 | -519 | 1,792 | -3,259 | -2,204 | -2,801 |
| Inc/Dec of Cash | -410 | 16 | -137 | -103 | 3,691 | -639 |
| Opening Balance | 761 | 351 | 367 | 230 | 127 | 3,818 |
| Closing Balance | 351 | 367 | 230 | 127 | 3,818 | 3,180 |

Explanation of Investment Rating

Investment Rating

| | |
|--------------|--|
| 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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Sadbhav Engg

Analyst ownership of the stock

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