

Sadbhav Engineering Ltd - Positive

Muted performance; outlook bright

Sadbhav Engineering Ltd (SEL) reported muted numbers during Q3 FY19 with topline growing 10% yoy. Operating margin declined 61bps yoy to 12% owing to higher construction and employee expenses. Also, higher tax outgo negated the benefits of benign depreciation and interest costs, thereby, impacting company's performance at net level. At the end of Dec'18, SEL's order book position remained strong at ~Rs.129bn (3.5x TTM revenues), mainly contributed by transport (78%) and mining (18%) segments. However, ~60% of the overall order book is yet to start meaningful execution owing to delays in receipt of appointed dates. Recently, during Dec'18 and Jan'19, the company has received appointed dates for 4 projects. In addition, the company expects receipt of appointed dates in remaining 4 projects worth ~Rs.31bn. With this, we expect revenues to witness sharp increase in FY20E. Also, margin is likely to hover at ~12% given current mix of order book. Debt is likely to decline gradually from the current levels of ~Rs.14.5bn. With strong execution capabilities coupled with elevated order book position, we are positive on the growth prospects.

Order book at elevated levels; execution to pick-up

SEL's order book position remains robust at ~Rs.129bn. In addition, the company expects inflows of ~Rs.25bn in the near term backed by huge bid pipeline from NHAI. This is likely to keep its order book at elevated levels. However, the company faced delays in receipts of appointed dates, which kept its performance muted during 9M FY19. Going forward, with expected appointed dates receipts in most of the projects by Q1 FY20, the company is poised for strong growth over next couple of years.

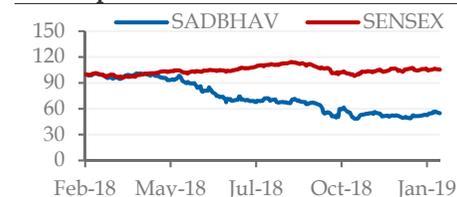
CMP (Rs) 163

Stock data (As on Feb 15, 2019)

Sensex:	35,809
52 Week h/l (Rs)	410 / 162
Market cap (Rs mn)	28,000
Enterprise value (Rs mn)	41,165
6m Avg t/o (Rs mn):	69.3
FV (Rs):	1
Div yield (%):	1.1
Bloomberg code:	SADE IN
BSE code:	532710
NSE code:	SADBHAV

Sector: Infrastructure

Stock performance



Shareholding pattern (As of Dec'18 end)

Promoter	46.5%
FII+DII	37.9%
Others	15.6%

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs mn)	Q3 FY19	Q3 FY18	yoy(%)	Q2 FY19	qoq (%)
Revenue	9,255	8,394	10.3	6,906	34.0
Operating Profit	1,108	1,056	4.9	833	33.0
OPM (%)	12.0	12.6	-61 bps	12.1	-9 bps
Other Income	127	74	72.4	66	91.9
Depreciation	(241)	(247)	(2.2)	(244)	(1.1)
Interest	(291)	(285)	2.0	(273)	6.6
PBT	703	598	17.6	383	83.8
Tax	(141)	20	-	0	-
Reported PAT	563	618	(9.0)	383	46.9

Source: Company, YSL

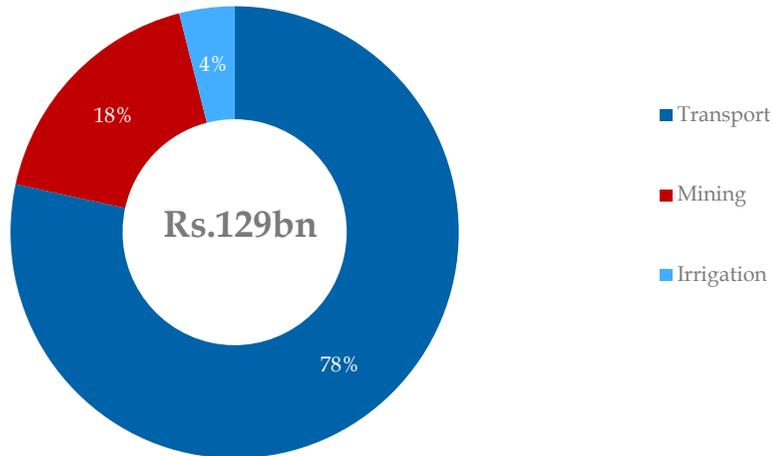
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Research Analyst: Alok Deora ✉ alok.deora@yessecuritiesltd.in | Lokesh Kashikar ✉ lokesh.kashikar@yessecuritiesltd.in

Head of Research: Amar Ambani ✉ amar.ambani@yessecuritiesltd.in

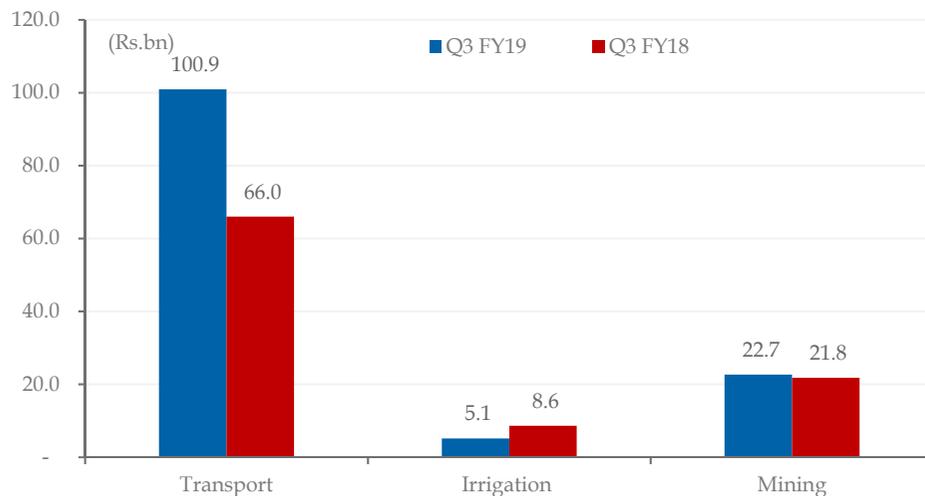
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Exhibit 2: Order book provides revenue visibility over next couple of years



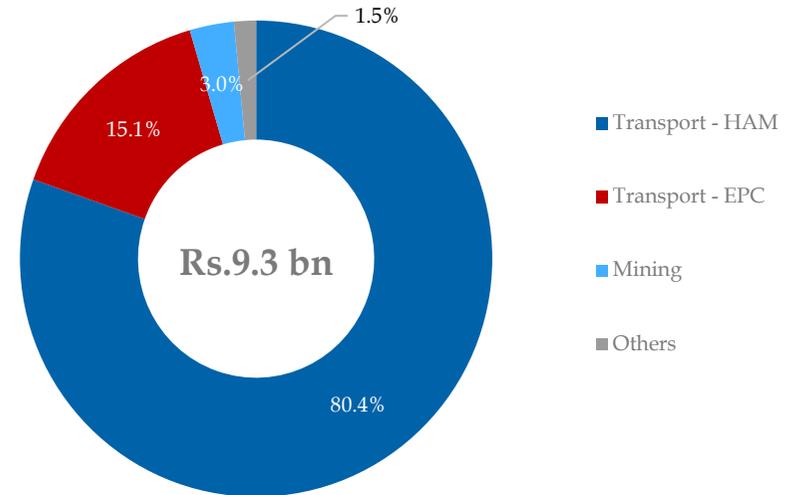
Source: Company, YSL

Exhibit 3: Order book witnessed massive traction driven by transport segment



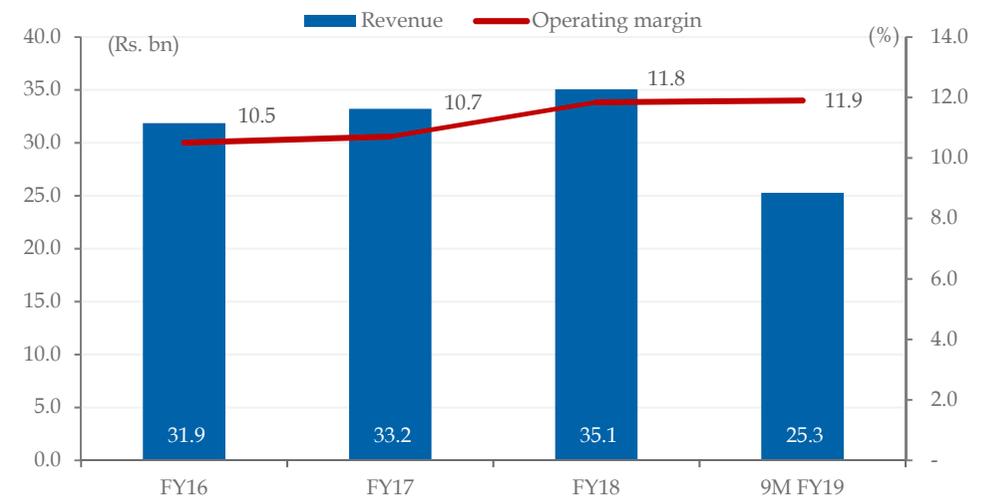
Source: Company, YSL

Exhibit 4: Transport business contribution to the revenue stood at ~95% during Q3 FY19



Source: Company, YSL; *Order book at the end of Q3 FY19 stood at ~Rs.129bn

Exhibit 5: Revenue steady; margins improving over past 3 years



Source: Company, YSL

CONFERENCE CALL HIGHLIGHTS

- ✓ Despite of strong order book position, topline performance during 9M FY19 remained muted as execution in projects worth ~Rs.70bn has not picked-up owing to delays in receipt of appointed dates.
- ✓ With receipt of appointed dates for 4 projects in Dec'18 and Jan'19, the company expects execution to pick-up in Q4 FY19 and has retained its topline guidance of ~Rs.38bn (10% yoy growth) for FY19E.
- ✓ The company also expects execution of Bhimsar-Bhuj (EPC value-Rs.8.5bn), Gadag-Honnali (Rs.10bn), Tumkur-Shivamogga (Rs.7.9bn) and Vizag Port(Rs.4.2bn) to commence during Q1 FY20E. The management has guided for ~20% topline growth in FY20E.
- ✓ As per the management, bidding pipeline in transport segment is strong as projects worth ~Rs. 410bn from NHAI are in various stages of bidding. Most of these projects are likely to be awarded by mid-March'19.
- ✓ The company has secured projects worth ~Rs.30bn during 9M FY19. With robust order pipeline, the company expects to bag ~Rs.25bn projects in the near term.
- ✓ Given current mix of order book, the management expects margin to remain at ~12% in FY19E and FY20E.
- ✓ The tax outgo during Q3 FY19 has increased considerably as contribution from projects having 80-IA benefits has reduced. Effective tax rate for FY20E would be ~20%.
- ✓ Balance outstanding mobilization advance at the end of Q3 FY19 is Rs.7.3bn. The management expects to receive ~Rs.1.8bn advance by end-19 and balance in H1 FY20.

- ✓ Recently, Sadbhav's SPV namely Mumbai-Nasik Expressway has won an arbitration award amounting to Rs.1.9bn against NHAI. As per the MOU, Sadbhav is entitled to receive 72% of awarded amount.
- ✓ Despite of delays in BOT monetization, management does not expect any capital infusion from SEL to Sadbhav Infrastructure Projects Ltd. (SIPL) for existing equity requirements. O&M revenues, and LC available from Border check-post project and banks would be sufficient for necessary equity requirements.
- ✓ Debt at the end of Dec'19 stood at ~Rs.14.5bn. The management expects reduction of ~Rs.1bn by end-FY19.
- ✓ The company has incurred capex of ~Rs.500mn in 9M FY19 and likely to spend another ~Rs.200mn in Q4 FY19. The management expects similar kind of capex (~Rs.700mn) in FY20E.

Exhibit 6: Valuation summary (Standalone)

Y/e 31 Mar (Rs m)	FY18	FY19E	FY20E	FY21E
Revenues	35,051	37,855	44,668	50,029
yoy growth (%)	5.6	8.0	18.0	12.0
Operating profit	4,151	4,499	5,357	6,037
OPM (%)	11.8	11.9	12.0	12.1
Reported PAT	2,207	2,338	2,817	3,361
yoy growth (%)	17.5	6.0	20.5	19.3
EPS (Rs)	12.9	13.6	16.4	19.6
P/E (x)	12.7	12.0	9.9	8.3
Debt/Equity (x)	0.7	0.6	0.5	0.4
RoE (%)	12.5	11.9	12.8	13.5

Source: Company, YSL

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ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

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YES SECURITIES (INDIA) LIMITED

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre,
Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.
Tel: +91-22-71123123 | **Email:** research@yesscuritiesltd.in | **Website:** www.yesinvest.in

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Name of the Research Analyst : Alok Deora, Lokesh Kashikar

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INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |
Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@yesscuritiesltd.in, Contact No:+91-22-33479208