

BUY

TP: Rs 600 | ▲ 56%

DILIP BUILDCON

Infrastructure

07 September 2019

Successful stake sale to Cube; another deal in the offing

Dilip Buildcon (DBL) has entered into a SPA with Cube Highways (Cube) for 100% stake sale in five under-construction NHAI HAM projects for a pre-tax equity consideration of ~Rs 7bn, against a total equity requirement of Rs 5.7bn. The company is likely to monetise its remaining seven NHAI HAM projects in the next 3-4 months, thereby offloading the existing HAM portfolio of 12 road assets by FY20. Divestment will help deleverage DBL's balance sheet and give it access to capital for funding capex and new projects.

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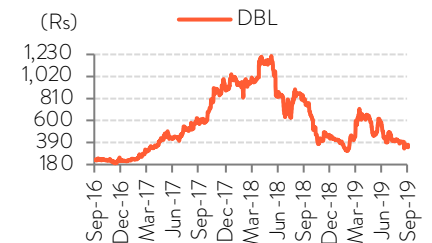
Stake sale concluded at Rs 7bn: DBL's 100% stake sale in five HAM projects will be executed in two stages – the first post COD, with transfer of 49% stake to Cube, and the second after the mandatory lock-in period (COD + two years). DBL and Cube shall infuse 51% (Rs 2.9bn) and 49% (~Rs 2.8bn) of the equity requirement respectively during the construction period. Cube's investment shall be in the form of OCDs (interest at ~12%), subject to specific milestones (likely from Q1FY21). Against the investment of Rs 2.9bn (51% stake), DBL will get ~Rs 4.1bn pre-tax, which is 1.4x P/BV.

Ticker/Price	DBL IN/Rs 385
Market cap	US\$ 712.2mn
Shares o/s	137mn
3M ADV	US\$ 2.1mn
52wk high/low	Rs 750/Rs 312
Promoter/FPI/DII	76%/10%/5%

Source: NSE

Balance HAM portfolio to be monetised shortly: DBL is in advanced talks to sell 100% stake in its remaining seven HAM projects (equity requirement of Rs 10.5bn). The deal is likely to be concluded in the next 3-4 months at valuations similar to the Cube transaction. According to management, other investors are in the fray for the second round of asset monetisation.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: DBL is likely to use the monetisation proceeds to pare standalone debt and fund new projects. The deal is contingent on achieving specific conditions and regulatory approvals, and hence not considered in our valuation. We maintain our Jun'20 TP at Rs 600.

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total Revenue (Rs mn)	77,459	91,182	1,00,378	1,15,713	1,34,260
EBITDA (Rs mn)	14,028	16,044	17,708	20,237	23,429
Adj. net profit (Rs mn)	6,355	7,607	5,351	6,614	8,248
Adj. EPS (Rs)	46.5	55.6	39.1	48.4	60.3
Adj. EPS growth (%)	63.4	19.7	(29.7)	23.6	24.7
Adj. ROAE (%)	29.5	26.9	15.4	16.3	17.3
Adj. P/E (x)	8.0	6.7	9.5	7.7	6.2
EV/EBITDA (x)	5.4	4.9	4.8	4.0	3.5

Source: Company, BOBCAPS Research

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FIG 1 – HAM PROJECTS SOLD TO CUBE; ~RS 3BN OF EQUITY INVESTED SO FAR*

Project (Rs bn)	State	TPC	Equity requirement	Equity invested so far	Appointed date	Work completed up to Jul'19
DBL Chandikhole Bhadrak Highways Pvt Ltd	Odisha	12.6	1.22	0.66 ^	16-Dec-18	21%
DBL Mangloor Highways Pvt Ltd	Karnataka	7.5	0.66	0.66	12-Apr-19	14%
DBL Sangli-Borgaon Highways Pvt Ltd	Maharashtra	8.8	1.05	0.57 ^	23-May-19	3%
DBL Borgaon Watambare Highways Pvt Ltd	Maharashtra	8.4	1.23	0.53 ^	22-Apr-19	10%
DBL Mangalwedha Solapur Highways Pvt Ltd	Maharashtra	9.5	1.53	0.59 ^	23-May-19	4%
Total		46.8	5.68	3.0		

Source: Company, BOBCAPS Research | *Over 90% land is available in 3H stage, ^ Estimates | Note: TPC – Total Project Cost

FIG 2 – CONTOURS OF THE DEAL

(Rs bn)	DBL at 100% stake	DBL at 51% stake (a)	Cube stake at 49% (in the form of OCD)	Gross consideration to DBL for 51% stake (b) (refer FIG 3)*	Total deal value	Implied P/BV (b/a)
Total equity requirement	5.68	2.90	2.78	4.09	7.02	1.41x
Consideration to DBL						
- Stage 1: On transfer of 49% stake to Cube post COD	-	-	-	1.80	-	-
- Stage 2: On transfer of remaining stake to Cube on completion of COD + 2 years	-	-	-	2.29	-	-

Source: Company, BOBCAPS Research | *Amount may undergo some changes at the time of COD

DBL has invested more than the committed equity of Rs 2.9bn – this shall be reimbursed by Cube on attaining specific milestones

FIG 3 – CALCULATION OF PRE-TAX CONSIDERATION TO DBL FOR 51% STAKE

Total deal value (Rs mn) (a)	Cube stake at 49% (via OCD) (b)	Gross consideration to DBL for 51% stake (c = a-b)	Interest on OCD (d)*	Gross consideration to DBL for 51% stake adj. for interest (e = c-d)
7.02	2.78	4.24	0.15	4.09

Source: Company, BOBCAPS Research | *Interest rate at ~12%

Conditions precedent to the Cube deal

DBL and Cube shall infuse 51% and 49% of the equity requirement respectively during the construction period of the five HAM projects. Cube will invest in the form of optionally convertible debentures (OCD) bearing interest of ~12%, on achievement of certain key conditions as under –

- 90% ROW being acquired by NHAI and allotted to the company,
- completion of physical progress milestones up to 50% (likely by Feb'20/Mar'20),
- completion of qualitative due diligence based on identified parameters, and
- others, if any, as per the agreement.

On COD, DBL will receive 80% of the invested equity, which is ~Rs 4.6bn of ~Rs 5.7bn invested

Operation & maintenance work post COD will be undertaken by Cube

FIG 4 – ~80% OF INVESTED EQUITY WILL BE REALISED ON COD

Transfer of 49% stake to Cube on COD	Rs bn
Cube stake at 49% (a) (1x P/BV)	2.78
Total deal consideration to DBL for 51% stake	4.09
-Part consideration of above on COD (b)	1.80
Total consideration expected on COD (c = a+b)	4.58
Total equity requirement (d)	5.68
% of consideration on COD (c/d)	~80%

Source: Company, BOBCAPS Research

FIG 5 – 7 HAM PROJECTS LIKELY TO BE DIVESTED IN 3-4 MONTHS; EQUITY OF ~RS 4.25BN INVESTED SO FAR

Project name	State	TPC (Rs bn)	Equity (Rs bn)	Appointed date
DBL Anandpuram Anakapalli Highways Pvt. Ltd.	Andhra Pradesh	50.8	2.2	04-Jan-19
DBL Bangalore Nidagatta Highways Pvt. Ltd.	Karnataka	56.2	2.2	14-May-19
DBL Nidgatta -Myosre Highways Pvt. Ltd.	Karnataka	61.1	2.3	Likely in Oct'19
DBL Gorhar Khiratunda Highways Pvt. Ltd.	Jharkhand	39.5	0.7	19-Jul-19
DBL Rewa Sidhi Highways Pvt. Ltd.	Madhya Pradesh	15.4	0.9	14-Dec-18
DBL Byrapura Challakere Highways Pvt. Ltd.	Karnataka	50.0	0.8	31-Dec-18
DBL Bellary Byrapura Highways Pvt. Ltd	Karnataka	55.0	1.2	Likely in Sep'19
Total equity requirement		327.8	10.3	
Total equity requirement including contingencies			10.5	

Source: Company, BOBCAPS Research | Note: TPC – Total Project Cost

Valuation methodology

DBL, with its strong execution capabilities, is well placed to benefit from growth opportunities offered by India's roads, railways and irrigation sectors. Recent differences between the government and NHAI over the mode of project awards have caused investors to turn cautious towards the sector. Notwithstanding any future changes in NHAI's mode of awarding, DBL is confident that tender's worth ~Rs 1tn, with a mix of EPC (40%) and HAM (60%), will be awarded in FY20.

Equity requirements for the company's existing five HAM projects are unlikely to be a concern due to the deal with Cube (49% stake to be monetised during the construction period). However, we have not considered this transaction in our valuation as Cube will begin investing only on achieving identified milestones. DBL expects to monetise its balance seven HAM projects over the next 3-4 months, thereby offloading the existing HAM portfolio of 12 road assets by FY20. The proceeds are likely to be utilised to fund future capex, repay debt and invest in new HAM projects.

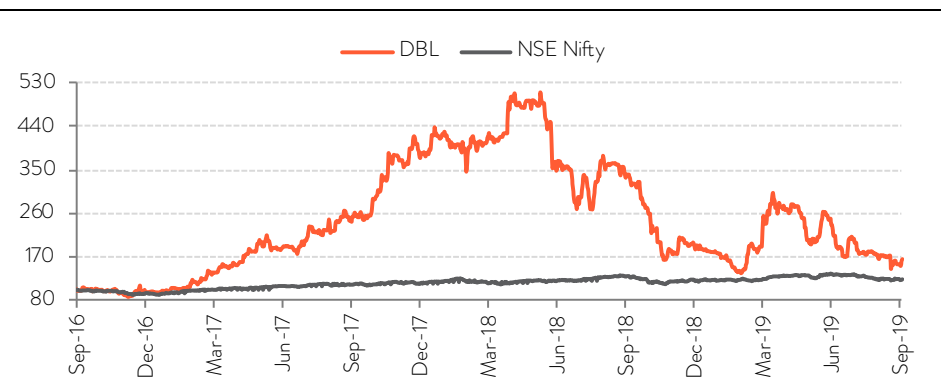
The stock is trading at 7.6x/6.2x FY20E/FY21E standalone earnings, adjusted for Rs 87/sh of asset value. We maintain BUY and a Jun'20 SOTP-based target price of Rs 600. For our SOTP model, we value (i) the standalone EPC business at Rs 513/sh based on 10x Jun'21E earnings, and (ii) HAM projects at Rs 87/sh (implied P/BV of 1x for equity investment in 12 projects as on Mar'20E). Maintain BUY.

FIG 6 – SOTP-BASED JUN'20 TARGET PRICE OF RS 600

Business	Rationale	Rs mn	Multiple (x)	Value (Rs mn)	Value per share (Rs)
Standalone business (EPC)	P/E on Jun'21E earnings	7,022	10.0	70,224	513
Value of 12 HAM projects	P/BV - Equity investment as on Mar'20E	11,845	1.0	11,845	87
Target price				82,069	600
O/s shares (mn)				137	

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Slowdown in road sector capex:** Capex in the road sector has witnessed some revival over the last two years. Any slowdown in project awarding would impact the company's growth and our estimates.
- **Delay in execution of projects in hand/awards:** DBL has the largest fleet of construction equipment compared to its road segment peers and hence is under greater obligation to have reasonably strong asset utilisation to preserve return ratios. Execution hurdles due to delays in land acquisition, delay in appointed dates, regulatory bottlenecks or sluggish award progression from the government would drive return ratios lower and lead to P/E compression.
- **Slide in working capital efficiency:** DBL follows a 100% backward integration business model. Thus, its net working capital days are usually higher than most peers. Any further increase in this metric would worsen return ratios.

FINANCIALS (STANDALONE)

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	77,459	91,182	1,00,378	1,15,713	1,34,260
EBITDA	14,028	16,044	17,708	20,237	23,429
Depreciation	2,750	3,202	4,157	4,417	4,859
EBIT	11,278	12,842	13,551	15,820	18,570
Net interest income/(expenses)	(4,644)	(5,299)	(6,371)	(6,427)	(6,749)
Other income/(expenses)	155	464	463	478	489
Exceptional items	0	0	0	0	0
EBT	6,789	8,007	7,644	9,872	12,310
Income taxes	(434)	(400)	(2,293)	(3,258)	(4,062)
Extraordinary items	(152)	43	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	6,203	7,649	5,351	6,614	8,248
Adjustments	0	0	0	0	0
Adjusted net profit	6,355	7,607	5,351	6,614	8,248

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	15,078	17,241	17,827	20,606	24,057
Other current liabilities	0	0	0	0	0
Provisions	732	971	823	1,030	1,104
Debt funds	29,549	35,764	32,819	34,073	32,578
Other liabilities	19,736	20,118	21,895	24,495	27,563
Equity capital	1,368	1,368	1,368	1,368	1,368
Reserves & surplus	23,203	30,677	35,862	42,310	50,392
Shareholders' fund	24,571	32,044	37,229	43,678	51,760
Total liabilities and equities	89,665	1,06,138	1,10,592	1,23,882	1,37,061
Cash and cash eq.	1,613	1,887	1,967	1,985	2,020
Accounts receivables	20,480	23,093	27,426	31,702	36,416
Inventories	20,262	25,038	24,683	28,532	32,921
Other current assets	0	0	0	0	0
Investments	2,415	5,238	7,189	9,271	9,398
Net fixed assets	18,319	20,822	18,166	17,249	16,390
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,067)	(171)	96	393	762
Other assets	27,643	30,231	31,066	34,751	39,155
Total assets	89,665	1,06,138	1,10,592	1,23,882	1,37,061

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	8,953	10,851	9,507	11,031	13,107
Interest expenses	4,644	5,299	6,371	6,427	6,749
Non-cash adjustments	152	0	0	0	0
Changes in working capital	(10,268)	(8,091)	(2,866)	(6,520)	(7,284)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,481	8,059	13,012	10,937	12,571
Capital expenditures	(4,244)	(5,705)	(1,500)	(3,500)	(4,000)
Change in investments	2,280	(2,823)	(1,951)	(2,082)	(127)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,964)	(8,528)	(3,451)	(5,582)	(4,127)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	3,915	6,215	(2,945)	1,255	(1,495)
Interest expenses	(4,644)	(5,299)	(6,371)	(6,427)	(6,749)
Dividends paid	(165)	(165)	(165)	(165)	(165)
Other financing cash flows	(146)	(7)	0	0	0
Cash flow from financing	(1,042)	744	(9,481)	(5,338)	(8,410)
Changes in cash and cash eq.	476	274	79	18	35
Closing cash and cash eq.	1,613	1,887	1,967	1,985	2,020

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	45.4	55.9	39.1	48.4	60.3
Adjusted EPS	46.5	55.6	39.1	48.4	60.3
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	179.6	234.3	272.2	319.4	378.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.0	0.9	0.8	0.7	0.6
EV/EBITDA	5.4	4.9	4.8	4.0	3.5
Adjusted P/E	8.0	6.7	9.5	7.7	6.2
P/BV	2.1	1.6	1.4	1.2	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	93.6	95.0	70.0	67.0	67.0
Interest burden (PBT/EBIT)	60.2	62.4	56.4	62.4	66.3
EBIT margin (EBIT/Revenue)	14.6	14.1	13.5	13.7	13.8
Asset turnover (Revenue/Avg TA)	99.7	93.1	92.6	98.7	102.9
Leverage (Avg TA/Avg Equity)	3.6	3.5	3.1	2.9	2.7
Adjusted ROAE	29.5	26.9	15.4	16.3	17.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	52.0	17.7	10.1	15.3	16.0
EBITDA	41.4	14.4	10.4	14.3	15.8
Adjusted EPS	63.4	19.7	(29.7)	23.6	24.7
Profitability & Return ratios (%)					
EBITDA margin	18.1	17.6	17.6	17.5	17.5
EBIT margin	14.6	14.1	13.5	13.7	13.8
Adjusted profit margin	8.2	8.3	5.3	5.7	6.1
Adjusted ROAE	29.5	26.9	15.4	16.3	17.3
ROCE	22.8	21.6	20.3	22.1	23.7
Working capital days (days)					
Receivables	97	92	100	100	99
Inventory	95	100	90	90	90
Payables	71	69	65	65	65
Ratios (x)					
Gross asset turnover	2.9	2.9	2.9	3.1	3.3
Current ratio	2.0	2.1	2.1	2.1	2.1
Net interest coverage ratio	2.4	2.4	2.1	2.5	2.8
Adjusted debt/equity	1.1	1.1	0.8	0.7	0.6

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

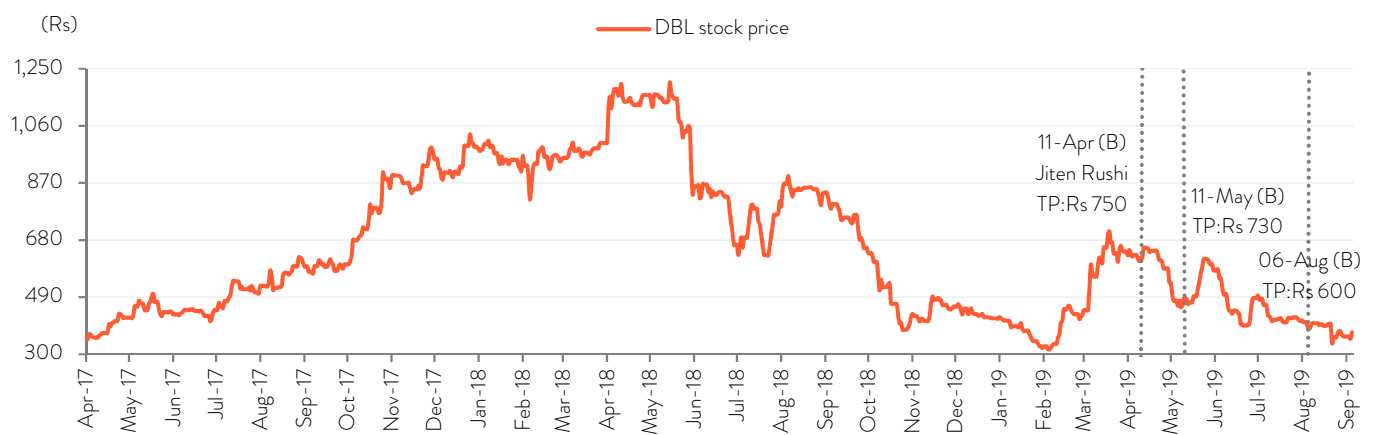
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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B – Buy, A – Add, R – Reduce, S – Sell

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