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**SADBHAV  
ENGINEERING**

Infrastructure

15 February 2020

### Q3 disappoints as tight liquidity impedes execution

Sadbhav Engineering's (SADE) Q3FY20 standalone revenue plunged 52% YoY as prolonged monsoons and tight liquidity slowed execution. EBITDA margins were healthy, up 50bps YoY to 12.5%, aided by a better revenue mix, but PAT dropped 79% YoY to Rs 117mn (Rs 399mn est.). SADE's Dec'19 order backlog was at Rs 87bn (3x TTM revenues) and gross debt at Rs 15bn (0.7x net D/E). We slash FY20/FY21/FY22 EPS by 44%/27%/19% on lower revenue forecasts and cut our Mar'21 TP to Rs 135 (vs. Rs 160).

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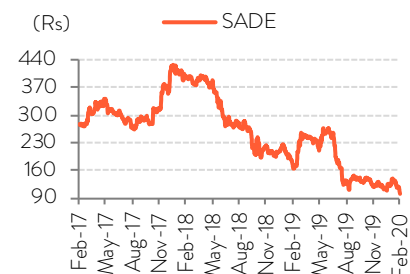
**Execution slowdown brings growth to a halt:** Q3 revenue declined 52% YoY to Rs 4.4bn (Rs 8bn est.) due to (i) the extended monsoons, (ii) pending forest clearances at the Mumbai-Nagpur Expressway project (now in place), (iii) low revenue from mining and irrigation segments (iv) tight liquidity situation – disbursements from lenders being delayed, and (v) Rs 18bn depletion in order backlog due to termination of three NHAI HAM projects that were facing land issues. As a result, management has cut FY20 revenue guidance from ~Rs 35bn to ~Rs 24bn (~Rs 32bn for FY21).

Ticker/Price	SADE IN/Rs 100
Market cap	US\$ 239.8mn
Shares o/s	172mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 274/Rs 99
Promoter/FPI/DII	47%/12%/25%

Source: NSE

**Loans to SIPL swell, receivables remain high:** Loans & advances to subsidiary SIPL swelled by Rs 340mn QoQ to Rs 8.3bn mainly to support investments in HAM projects. Standalone gross debt declined Rs 410mn QoQ to Rs 15.1bn; net D/E as on Dec'19 was at 0.7x, unchanged QoQ. The debtor cycle remained stretched at ~245 days as on Dec'19 vs. ~215 days in Sep'19 due to outstanding payments of ~Rs 6bn in relation to cost escalation, change of scope and GST issues, besides pending net receivables of ~Rs 4bn from SPVs.

### STOCK PERFORMANCE



Source: NSE

**SIPL stake sale to improve liquidity:** Management highlighted that the deal to sell a stake in SIPL's operational assets will fully conclude by end-Mar'20. Proceeds from monetisation (Rs 19.1bn) will be utilised to pare debt and fund growth (currently not factored into estimates pending conclusion).

### KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	35,051	35,492	23,931	31,582	35,533
EBITDA (Rs mn)	4,151	4,279	2,967	3,872	4,356
Adj. net profit (Rs mn)	2,207	1,862	930	1,462	1,836
Adj. EPS (Rs)	12.9	10.9	5.4	8.5	10.7
Adj. EPS growth (%)	17.5	(15.6)	(50.0)	57.2	25.6
Adj. ROAE (%)	12.5	9.5	4.5	6.7	7.9
Adj. P/E (x)	7.8	9.2	18.4	11.7	9.3
EV/EBITDA (x)	7.6	7.8	10.8	8.3	7.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – STANDALONE QUARTERLY AND 9M FINANCIAL PERFORMANCE**

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Revenue</b>	<b>4,400</b>	<b>9,255</b>	<b>(52.5)</b>	<b>5,651</b>	<b>(22.1)</b>	<b>18,428</b>	<b>25,276</b>	<b>(27.1)</b>
Total Expenses	3,852	8,147	(52.7)	4,955	(22.3)	16,138	22,264	(27.5)
<b>EBIDTA</b>	<b>548</b>	<b>1,108</b>	<b>(50.5)</b>	<b>696</b>	<b>(21.2)</b>	<b>2,290</b>	<b>3,012</b>	<b>(24.0)</b>
EBITDA Margin (%)	12.5	12.0	49bps	12.3	15bps	12.4	11.9	51bps
Other income	344	304	12.9	313	9.9	926	816	13.5
Interest (gross)	498	468	6.6	456	9.3	1,455	1,334	9.1
Depreciation	268	241	10.9	277	(3.4)	825	758	8.8
<b>PBT</b>	<b>126</b>	<b>703</b>	<b>(82.1)</b>	<b>276</b>	<b>(54.2)</b>	<b>936</b>	<b>1,734</b>	<b>(46.0)</b>
Tax provision	10	141	(93.1)	17	(43.6)	166	187	(11.2)
Effective tax rate (%)	7.7	20.0	(1,237bps)	6.2	144bps	17.8	10.8	697bps
<b>Adjusted PAT</b>	<b>117</b>	<b>563</b>	<b>(79.3)</b>	<b>259</b>	<b>(54.9)</b>	<b>770</b>	<b>1,547</b>	<b>(50.3)</b>
Exceptional income / (expenses)	-	-	NM	-	NM	-	-	NM
<b>Reported PAT</b>	<b>117</b>	<b>563</b>	<b>(79.3)</b>	<b>259</b>	<b>(54.9)</b>	<b>770</b>	<b>1,547</b>	<b>(50.3)</b>
Adjusted PAT margin (%)	2.6	6.1	(343bps)	4.6	(193bps)	4.2	6.1	(194bps)
<b>EPS (Rs)</b>	<b>0.7</b>	<b>3.3</b>	<b>(79.3)</b>	<b>1.5</b>	<b>(54.9)</b>	<b>4.5</b>	<b>9.0</b>	<b>(50.3)</b>

Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL REVENUE BREAKUP**

Segments (Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
BOT/HAM	2,076	739	2,270	7,398	5,489	4,594	7,442	6,167	4,320	4,012	2,709
EPC	6,147	5,399	4,914	1,376	2,716	1,895	1,395	2,602	3,005	1,151	1,277
Mining	392	476	724	1,051	498	242	281	475	535	295	346
Irrigation	804	300	474	1,203	373	155	128	953	482	187	60
Power generation	23	17	6	9	21	21	7	12	20	6	8
Other operating revenue	3	-	6	8	18	-	4	8	15	-	-
<b>Total</b>	<b>9,444</b>	<b>6,931</b>	<b>8,394</b>	<b>11,045</b>	<b>9,114</b>	<b>6,906</b>	<b>9,255</b>	<b>10,217</b>	<b>8,376</b>	<b>5,651</b>	<b>4,400</b>
<b>% growth YoY</b>											
BOT/HAM	86.4	122.3	440.8	406.5	164.4	521.5	227.8	(16.6)	(21.3)	(12.7)	(63.6)
EPC	36.8	27.2	(24.2)	(79.7)	(55.8)	(64.9)	(71.6)	89.1	10.6	(39.2)	(8.4)
Mining	(45.8)	(27.7)	(27.7)	34.0	27.0	(49.2)	(61.2)	(54.8)	7.5	21.9	23.3
Irrigation	(52.3)	(66.8)	(35.8)	(4.1)	(53.6)	(48.3)	(73.1)	(20.8)	29.4	20.6	(52.7)
Power generation	1.4	(14.1)	5.6	(18.1)	(7.1)	24.2	24.6	38.4	(3.3)	(70.7)	18.3
Other operating revenue	(91.7)	na	na	(80.5)	546.4	na	(35.6)	(4.9)	(18.2)	na	na
<b>Total</b>	<b>17.0</b>	<b>12.6</b>	<b>(2.9)</b>	<b>6.9</b>	<b>(3.5)</b>	<b>(0.4)</b>	<b>10.3</b>	<b>(7.5)</b>	<b>(8.1)</b>	<b>(18.2)</b>	<b>(52.5)</b>
<b>% share</b>											
BOT/HAM	22.0	10.7	27.0	67.0	60.2	66.5	80.4	60.4	51.6	71.0	61.6
EPC	65.1	77.9	58.5	12.5	29.8	27.4	15.1	25.5	35.9	20.4	29.0
Mining	4.1	6.9	8.6	9.5	5.5	3.5	3.0	4.7	6.4	5.2	7.9
Irrigation	8.5	4.3	5.7	10.9	4.1	2.2	1.4	9.3	5.8	3.3	1.4
Power generation	0.2	0.2	0.1	0.1	0.2	0.3	0.1	0.1	0.2	0.1	0.2
Other operating revenue	0.0	-	0.1	0.1	0.2	-	0.0	0.1	0.2	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, BOBCAPS Research

**FIG 3 – ORDER BACKLOG BREAKUP (100% EXECUTABLE)**

Segments (Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
BOT/HAM	46,053	45,414	53,109	81,381	85,920	74,525	64,472	59,815	52,085	40,556	34,154
EPC	11,810	6,952	12,901	26,370	24,126	36,718	36,453	33,767	30,792	29,874	28,658
Mining	16,792	15,831	21,801	20,204	22,883	22,679	22,671	21,790	21,293	21,021	20,701
Irrigation	9,119	8,956	8,633	4,539	4,197	3,519	5,128	4,438	3,927	3,762	3,749
<b>Total</b>	<b>83,774</b>	<b>77,152</b>	<b>96,443</b>	<b>1,32,493</b>	<b>1,37,126</b>	<b>1,37,441</b>	<b>1,28,725</b>	<b>1,19,810</b>	<b>1,08,097</b>	<b>95,212</b>	<b>87,262</b>
<b>Book-to-bill (x)</b>	<b>2.4</b>	<b>2.2</b>	<b>2.7</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>	<b>3.5</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>	<b>3.0</b>
<b>% share</b>											
BOT/HAM	55.0	58.9	55.1	61.4	62.7	54.2	50.1	49.9	48.2	42.6	39.1
EPC	14.1	9.0	13.4	19.9	17.6	26.7	28.3	28.2	28.5	31.4	32.8
Mining	20.0	20.5	22.6	15.2	16.7	16.5	17.6	18.2	19.7	22.1	23.7
Irrigation	10.9	11.6	9.0	3.4	3.1	2.6	4.0	3.7	3.6	4.0	4.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Order inflows</b>											
BOT/HAM	15,750	-	9,750	31,800	9,950	-	-	-	-	-	-
EPC	-	-	9,000	11,482	-	16,200	-	-	-	-	-
Mining	-	1,413	6,740	-	3,171	-	-	-	-	-	-
Irrigation	-	-	-	-	-	-	1,609	-	-	-	-
<b>Total</b>	<b>15,750</b>	<b>1,413</b>	<b>25,490</b>	<b>43,282</b>	<b>13,121</b>	<b>16,200</b>	<b>1,609</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company, BOBCAPS Research

### Earnings call highlights

- Bid pipeline:** NHAI's current bid pipeline stands at Rs 721bn (35 EPC projects worth Rs 243bn and 52 HAM projects worth Rs 478bn), and management expects tenders to be placed before end-Mar'20. SADE plans to focus on EPC bids and may target select HAM projects post conclusion of the stake sale deal to IndInfravit Trust. The company has participated in bids worth ~Rs 45bn which are likely to be opened soon (five NHAI EPC projects). It is also planning to bid for select irrigation and mining projects.
- Low revenue from mining and irrigation segments:** Few mining project sites were submerged during Oct/Nov'19 due to the extended monsoons which impacted the site execution; now the work has started. Further, the two irrigation projects in Madhya Pradesh are stuck due to land issues resulting in nil revenue contribution in Q3; the situation is status quo as of now.
- FY20 guidance:** Management has guided for Q4FY20 revenue at Rs 550mn-600mn, taking the FY20 revenue guidance to ~Rs 24bn and EBITDA margins to 12-12.5%.
- AD and land availability:** According to management, over 80% of the land is in place for the HAM project of Gadag-Honnali (awarded by KSHIP) and it is likely to be awarded appointed date (AD) by end-Feb'20. Execution is expected to commence from Mar'20.

- **Equity requirement in HAM projects:** Of the total equity requirement of Rs 9.8bn in nine HAM projects, subsidiary Sadbhav Infrastructure Projects (SIPL) has invested ~Rs 6bn up to Dec'19. The balance is likely to be invested over the next two years. Equity requirement for SADE's Gadag-Honnali project stands at Rs 1bn, to be invested over 2-2.5 years (AD awaited).
- **Stake sale in operational road assets:** SIPL, a 69.6% subsidiary of SADE, has concluded its 100% stake sale in nine operational road assets to IndInfravit. The gross equity value of the deal stands at Rs 26.3bn (~1.75x invested capital) to be paid out in two parts: Rs 19.1bn in cash and the balance Rs 7.2bn as 10% of the units in IndInfravit Trust. SIPL's stake sale is effective 1 Apr 2019.
  - As on mid-Feb'20, the company has transferred the entire stake of its six operational NHAI assets to IndInfravit Trust for a total equity value of Rs 18.9bn against which the company has received 62mn units of the trust worth Rs 7.2bn; the balance cash proceeds of Rs 11.7bn will be received subsequently (by next week, per management).
  - For the remaining two state projects of AJTL and MBHPL, regulatory approvals are in place and the transaction is likely to be concluded by end-Feb'20. Their total combined equity value is Rs 4.7bn.
  - For the final asset of ARRIL (equity value Rs 2.7bn), regulatory approvals have been applied for and final approvals are likely to come through by end-Mar'20.

The deal should be concluded by the end of Q4FY20 and monetisation proceeds will be used to deleverage the balance sheet of SIPL and SADE, to support future growth and meet equity requirements in nine under-construction HAM projects. As on Dec'19, the combined net debt of SADE/SIPL was at Rs 23.7bn; according to management, post the deal net debt is expected to reduce to ~Rs 4bn (after adjusting for the value of units).

- **SADE-SIPL merger update:** The board has approved the merger of SIPL into SADE at a swap ratio of 1:3. At present, the promoter group holds 46.55% stake in SADE, which will reduce to 38.74% post this transaction. The merger is subject to approvals from NCLT and respective stakeholders.
- **Equity investment in SIPL:** Equity investment in three operational assets of SIPL (not part of the deal with IndInfravit) as of Dec'19 is shown as under.

**FIG 4 – EQUITY INVESTED IN SIPL OPERATIONAL ASSETS**

Project	Equity	Sub-debt	Total
Maharashtra Border Check Post	Rs 4.9bn	Rs 140mn	Rs 5.1bn
Rohtak Panipat	Rs 2.4bn	Rs 2.5bn	Rs 5.0bn
Rohtak Hissar	Rs 1.1bn	Rs 1.9bn	Rs 2.7bn

Source: Company, BOBCAPS Research

- **Dec'19 key balance sheet items:** Debtors stood at Rs 18.2bn, creditors at Rs 5.9bn, mobilisation advances at Rs 1.8bn, cash and bank balance at Rs 780mn, gross standalone debt at Rs 15.1bn, loans & advances to SIPL at Rs 8.3bn, and net worth at Rs 20.9bn. 9MFY20 capex totals Rs 200mn-220mn.
- **Bank limits:** Fund based/non-fund-based limits total Rs 6.5bn (~90 utilised)/Rs 20bn (~95% utilised).
- **Arbitration status for NHAI projects:** As on date, SADE has been awarded arbitration claims of ~Rs 4.1bn (including interest). Of this, the actual claim portion excluding interest stands at ~Rs 3bn. The company has started the conciliation process with NHAI and expects to settle the claims soon. Further, it expects to settle the ongoing arbitration proceedings on the Maharashtra Border Check Post project (claims of Rs 3.2bn) and Rohtak Panipat project (claims of Rs 11.5bn incl. interest) over the next one year.

**FIG 5 – PROJECT WHERE APPOINTED DATE EXPECTED BY END-MAR'20**

Sr. No.	Projects	EPC value (Rs mn)
1	Gadag-Honnali	8,880
<b>Total</b>		<b>8,880</b>

Source: Company, BOBCAPS Research

**FIG 6 – MOBILISATION ADVANCES LIKELY BY END-MAR'20**

Sr. No.	Projects	Rs mn
1	Gadag-Honnali	1,000
2	Kim-Ankleshwar	1,400
<b>Total</b>		<b>2,400</b>

Source: Company, BOBCAPS Research

**FIG 7 – UTILISATION OF PROCEEDS FROM SIPL STAKE SALE**

Details	(Rs mn)	Details	(Rs mn)
<b>Total proceeds to be received by SIPL</b>	<b>26,320</b>	<b>SADE will receive</b>	<b>4,500</b>
- IndInfravit Trust 62mn units (10% stake)	7,423	<b>Utilisation of proceeds from the deal by SADE</b>	
- Cash proceeds	19,077	- Repay gross external debt (b)	(3,000)
<b>Utilisation of proceeds from the deal by SIPL</b>		- Fund working capital requirements	(1,500)
- Transaction cost and payment of tax	(970)		
- Payment to minority shareholder for its stake in Bijapur Hungud project	(700)	SADE outstanding L&As to SIPL before the deal	8,340
- Repayment of loans taken by SIPL (Parent) from its SPV's	(2,140)	<b>SADE outstanding L&amp;As to SIPL after the deal</b>	<b>4,840</b>
- Repayment of SIPL standalone gross debt	(10,300)		
<b>Net outstanding proceeds</b>	<b>4,967</b>	SADE's total debt before the deal as on Dec'19 (a)	15,140
<b>Payments to SADE</b>		<b>SADE's total debt after the deal (a-b)</b>	<b>12,140</b>
- Repayment of L&As	(3,500)		
- Payment for purchasing balance stake in Mysore Bellary project	(1,000)		
<b>Net outstanding proceeds will be utilised by SIPL to fund its working capital requirements</b>	<b>467</b>		

Source: Company, BOBCAPS Research

**FIG 8 – GROSS TOLL COLLECTION TREND**

(Rs mn)	Q3FY18	Q4FY18	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>SPV's Under Operation</b>										
Ahmedabad RR (ARR)*	249	261	970	255	249	259	270	249	256	275
Aurangabad Jalna (AJTL)*	131	141	528	102	140	145	151	161	147	153
Bijapur Hungud (BHTL)	300	319	1,217	316	315	296	298	308	314	280
Hyderabad Yadgiri (HYTL)	185	179	696	202	171	193	203	221	177	212
Dhule Palesnar (DPTL)	475	475	1,816	458	484	482	488	477	477	487
Rohtak Panipat (RPTL)	284	290	1,073	303	264	262	235	234	210	223
Maharashtra Border Check Post (MBCPNL)	493	494	1,846	582	574	567	573	557	527	546
Shreenathji Udaipur (SUTPL)	273	262	1,076	282	280	311	331	339	315	330
Bhilwara Rajsamand (BRTPL)	108	104	438	115	120	134	146	147	136	144
Rohtak Hisar (RHTPL)	153	150	571	151	150	171	178	172	171	190
<b>Total toll revenues</b>	<b>2,651</b>	<b>2,674</b>	<b>10,232</b>	<b>2,766</b>	<b>2,747</b>	<b>2,819</b>	<b>2,873</b>	<b>2,863</b>	<b>2,730</b>	<b>2,838</b>
<b>YoY growth (%)</b>										
Ahmedabad RR (ARR)	3.5	8.9	2.9	8.8	9.8	4.2	3.5	(2.4)	2.8	6.2
Aurangabad Jalna (AJTL)	1.3	10.8	3.2	(22.9)	13.0	10.5	7.4	57.7	5.1	5.5
Bijapur Hungud (BHTL)	11.2	8.9	5.6	6.8	6.3	(1.5)	(6.6)	(2.7)	(0.4)	(5.4)
Hyderabad Yadgiri (HYTL)	33.8	17.1	23.1	17.9	7.7	4.3	13.2	9.5	3.9	9.6
Dhule Palesnar (DPTL)	10.7	5.7	7.2	7.4	9.7	1.4	2.7	4.2	(1.4)	1.0
Rohtak Panipat (RPTL)	41.3	29.1	30.2	22.4	5.7	(7.7)	(19.1)	(22.5)	(20.7)	(15.0)
Maharashtra Border Check Post (MBCPNL)	19.3	10.1	9.7	29.1	32.8	15.1	16.2	(4.4)	(8.1)	(3.8)
Shreenathji Udaipur (SUTPL)	3.8	4.8	6.7	7.5	5.9	13.8	26.6	20.0	12.2	6.0
Bhilwara Rajsamand (BRTPL)	1.1	(0.6)	NM	(0.9)	8.9	24.2	40.3	27.3	13.6	7.5
Rohtak Hisar (RHTPL)	14.9	15.6	NM	14.1	10.8	11.8	18.4	13.6	14.0	11.3
<b>Total toll revenues</b>	<b>14.1</b>	<b>10.6</b>	<b>13.0</b>	<b>12.0</b>	<b>12.6</b>	<b>6.3</b>	<b>7.4</b>	<b>3.5</b>	<b>(0.6)</b>	<b>0.7</b>

Source: Company, BOBCAPS Research | \*Includes revenue from claims

## Valuation methodology

SADE is well placed to benefit from the large growth opportunities offered by India's road sector. Further, SIPL's InvIT deal is at high valuations which shall bring in significant cash flows to pare debt (by ~Rs 3bn) and support future growth (currently not factored into estimates pending conclusion). Execution visibility on the existing order backlog remains intact but the current challenges due to tight liquidity and project-level impediments are likely to dampen execution in Q4FY20 and FY21 as well. We thus expect revenue to remain flat over FY19-FY22.

We downgrade FY20/FY21/FY22 earnings estimates by 44%/27%/19% due to a reduction in revenue assumptions post the Q3FY20 results, and revise our Mar'21 target price to Rs 135 (from Rs 160). SADE is trading at 10.4x/6.6x/5.3x FY20E/FY21E/FY22E standalone earnings, adjusted for Rs 43/sh of asset value. The stock has corrected ~25% in the past 30 days and largely prices in the negatives, in our view – we thus maintain BUY but will continue to closely monitor order inflows and execution pickup.

**FIG 9 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	34,013	23,931	(29.6)	37,709	31,582	(16.2)	40,584	35,533	(12.4)
EBITDA	4,156	2,967	(28.6)	4,594	3,872	(15.7)	4,957	4,356	(12.1)
EBITDA margin (%)	12.2	12.4	18bps	12.2	12.3	8bps	12.2	12.3	4bps
Adjusted PAT	1,672	930	(44.4)	2,003	1,462	(27.0)	2,270	1,836	(19.1)
PAT margin (%)	4.9	3.9	(103bps)	5.3	4.6	(68bps)	5.6	5.2	(43bps)

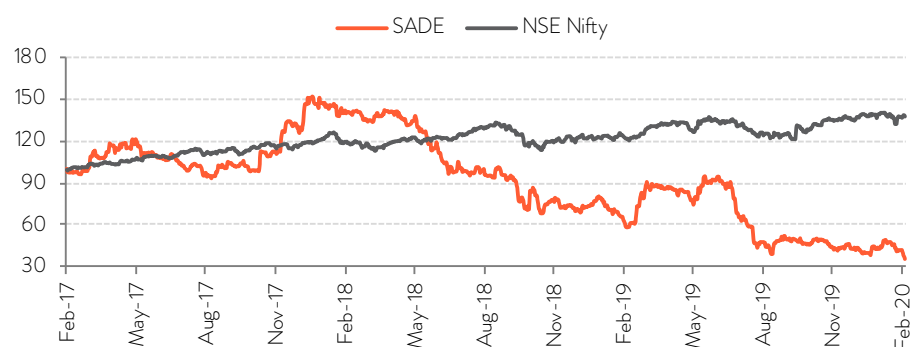
Source: Company, BOBCAPS Research

For our SOTP model, we value (i) the standalone EPC business at Rs 92/sh (9x Mar'22E earnings), (ii) SINP at Rs 39/sh (20% discount to its current market cap after adjusting for SADE's stake of 69.6%), and (iii) the Gadag-Honnali HAM project at Re 4/sh, valuing the cumulative equity investment made up to Mar'21E on a 1x P/BV multiple.

**FIG 10 – MAR'21 SOTP-BASED TARGET PRICE OF RS 135**

Business (Rs mn)	Basis of valuation	Value	Multiple (x)	Valuation	SADE's stake (%)	Holding company discount (%)	SADE's value	Per share (Rs)
SADE standalone (EPC)	P/E (x) on Mar'22E earnings	1,745	9	15,701	-	-	15,701	92
Sadbhav Infrastructure Project	Market Cap	12,117	-	12,117	69.6	20.0	6,749	39
Gadag - Honnali (HAM project - KSHIP)	P/BV (x) on investment made upto Mar'21E	700	1.0	700	-	-	700	4
<b>Total</b>		<b>14,561</b>		<b>28,518</b>			<b>23,151</b>	<b>135</b>
O/S shares								172

Source: Company, BOBCAPS Research

**FIG 11 – 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:** Execution hurdles due to delays in land acquisition or delay in appointed dates or other regulatory bottlenecks could affect SADE's revenue.
- **Slowdown in traffic:** A slowdown in industrial activity in areas housing SADE's toll BOT projects may impair revenue collection, resulting in negative cash flows. This may cause the company to infuse further equity from its standalone balance sheet to support BOT SPVs.



## FINANCIALS (STANDALONE)

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>35,051</b>	<b>35,492</b>	<b>23,931</b>	<b>31,582</b>	<b>35,533</b>
EBITDA	4,151	4,279	2,967	3,872	4,356
Depreciation	(979)	(958)	(1,094)	(1,158)	(1,252)
EBIT	3,172	3,321	1,873	2,714	3,103
Net interest income/(expenses)	(1,908)	(1,749)	(1,950)	(1,928)	(1,881)
Other income/(expenses)	898	1,003	1,240	1,244	1,246
Exceptional items	0	0	0	0	0
EBT	2,163	2,575	1,163	2,031	2,468
Income taxes	44	(714)	(233)	(569)	(633)
Extraordinary items	0	8	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>2,207</b>	<b>1,869</b>	<b>930</b>	<b>1,462</b>	<b>1,836</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,207</b>	<b>1,862</b>	<b>930</b>	<b>1,462</b>	<b>1,836</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	5,990	4,353	4,577	5,624	6,328
Other current liabilities	0	0	0	0	0
Provisions	182	224	220	189	243
Debt funds	14,847	15,873	15,000	14,800	13,350
Other liabilities	4,020	5,191	4,217	5,538	6,323
Equity capital	172	172	172	172	172
Reserves & surplus	6,291	6,291	6,291	6,291	6,291
Shareholders' fund	18,668	20,337	21,060	22,351	23,963
<b>Total liabilities and equities</b>	<b>43,706</b>	<b>45,977</b>	<b>45,074</b>	<b>48,502</b>	<b>50,207</b>
Cash and cash eq.	127	604	507	754	930
Accounts receivables	16,280	16,416	16,019	17,738	18,497
Inventories	1,643	1,792	1,635	2,163	2,434
Other current assets	0	0	661	0	0
Investments	5,775	6,094	6,343	6,793	7,093
Net fixed assets	5,004	4,939	4,095	3,637	3,085
CWIP	23	33	33	33	33
Intangible assets	0	0	0	0	0
Deferred tax assets, net	994	994	1,115	1,115	1,115
Other assets	13,860	15,107	14,667	16,269	17,021
<b>Total assets</b>	<b>43,706</b>	<b>45,977</b>	<b>45,074</b>	<b>48,502</b>	<b>50,207</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	3,186	2,827	2,024	2,620	3,088
Interest expenses	1,908	1,749	1,950	1,928	1,881
Non-cash adjustments	0	0	0	0	0
Changes in working capital	632	(1,998)	110	(1,478)	(290)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>5,725</b>	<b>2,578</b>	<b>4,084</b>	<b>3,070</b>	<b>4,679</b>
Capital expenditures	(778)	(902)	(250)	(700)	(700)
Change in investments	(80)	(319)	(249)	(450)	(300)
Other investing cash flows	59	0	0	0	0
<b>Cash flow from investing</b>	<b>(799)</b>	<b>(1,221)</b>	<b>(499)</b>	<b>(1,150)</b>	<b>(1,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,924)	1,026	(873)	(200)	(1,450)
Interest expenses	(1,908)	(1,749)	(1,950)	(1,928)	(1,881)
Dividends paid	(145)	(165)	(197)	(207)	(172)
Other financing cash flows	(52)	7	(661)	661	0
<b>Cash flow from financing</b>	<b>(5,029)</b>	<b>(881)</b>	<b>(3,681)</b>	<b>(1,673)</b>	<b>(3,503)</b>
<b>Changes in cash and cash eq.</b>	<b>(103)</b>	<b>477</b>	<b>(97)</b>	<b>247</b>	<b>176</b>
<b>Closing cash and cash eq.</b>	<b>127</b>	<b>604</b>	<b>507</b>	<b>754</b>	<b>930</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	12.9	10.9	5.4	8.5	10.7
Adjusted EPS	12.9	10.9	5.4	8.5	10.7
Dividend per share	0.8	1.0	1.0	1.0	1.3
Book value per share	108.8	118.5	122.7	130.3	139.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.9	0.9	1.3	1.0	0.9
EV/EBITDA	7.6	7.8	10.8	8.3	7.2
Adjusted P/E	7.8	9.2	18.4	11.7	9.3
P/BV	0.9	0.8	0.8	0.8	0.7

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	102.0	72.3	80.0	72.0	74.4
Interest burden (PBT/EBIT)	68.2	77.5	62.1	74.8	79.5
EBIT margin (EBIT/Revenue)	9.1	9.4	7.8	8.6	8.7
Asset turnover (Revenue/Avg TA)	83.5	79.2	52.6	67.5	72.0
Leverage (Avg TA/Avg Equity)	2.4	2.3	2.2	2.2	2.1
Adjusted ROAE	12.5	9.5	4.5	6.7	7.9

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	5.6	1.3	(32.6)	32.0	12.5
EBITDA	16.7	3.1	(30.7)	30.5	12.5
Adjusted EPS	17.5	(15.6)	(50.0)	57.2	25.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.8	12.1	12.4	12.3	12.3
EBIT margin	9.1	9.4	7.8	8.6	8.7
Adjusted profit margin	6.3	5.2	3.9	4.6	5.2
Adjusted ROAE	12.5	9.5	4.5	6.7	7.9
ROCE	9.6	9.8	5.3	7.6	8.6
<b>Working capital days (days)</b>					
Receivables	170	169	245	205	190
Inventory	17	18	25	25	25
Payables	62	45	70	65	65
<b>Ratios (x)</b>					
Gross asset turnover	5.0	4.7	3.0	3.7	3.8
Current ratio	3.1	3.5	3.6	3.3	3.0
Net interest coverage ratio	1.7	1.9	1.0	1.4	1.6
Adjusted debt/equity	0.8	0.8	0.7	0.6	0.5

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

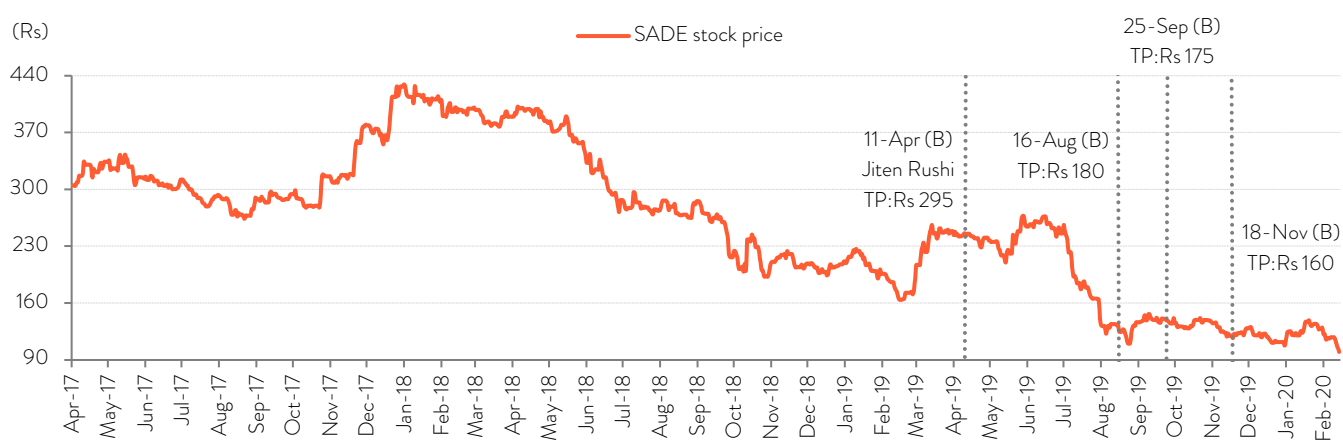
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: SADBHAV ENGINEERING (SADE IN)



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

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