

Dilip Buildcon

1st June 2020

Reuters: DIBL.NS; Bloomberg: DBL:IN

Growth to remain elusive

Dilip Buildcon Ltd (DBL) has reported marginally better than expected results for 4QFY20 with 2.8% YoY decline in revenue and 8.2% YoY decline in EBITDA. Revenue and EBITDA are in-line with consensus estimates, whereas PAT at Rs1.15bn (down 48% YoY) is 8% ahead of expectations. The management has withdrawn its guidance for FY21 and will review it after couple of quarters once more clarity emerges on working conditions and availability of resources. For FY20, DBL reported revenue of Rs89.8bn, down 1.7% and EBITDA of Rs15.7bn, down 3.3%. EBITDA margin at 17.5% was down marginally by 30bps. PAT at Rs4.25bn declined by 44% owing to higher interest, depreciation and tax. On the positive side, the company has improved its working capital as well as leverage parameters. The order book at Rs190.8bn implies trailing book to bill ratio of 2.1x, which does not leave much scope for growth. We have maintained our FY21 and FY22 estimates for the time being. We maintain BUY and TP of Rs405 based on SOTP method. In spite of our BUY rating and significant upside DBL is not our preferred pick at the moment, based on our investment matrix.

Loss of revenue on account of COVID shutdowns: DBL in its conference call mentioned loss of Rs3.5-4.0bn of revenue in March on account of COVID related shutdown. Revenue growth would have been in excess of 10% in the absence of the loss of days.

Important time period before monsoon lost: Construction activities generally take a break or move at slower speed during monsoon. That's why construction picks up pace before monsoon and is considered busy season for the sector. The lockdown in, March, April and May, has resulted in loss of important time period in the year which will result in weak execution in FY21 as well. The labour availability is at 60% right now.

Progress on deleveraging and working capital: In 4QFY20, the working capital days declined to 90 from 107 in 3QFY20. The company's net debt for FY20 stood at Rs29.3bn compared to Rs33.9bn in FY19. Net debt: equity ratio has come down from 1.06x to 0.81x during the same period. Net debt to trailing 12-month EBITDA currently stands at 1.87x. The company has not utilized the moratorium period.

Order inflow could be lower this year as well: DBL reported closing order book of Rs190.8bn with book to bill ratio of 2.1x. The total order inflow in FY20 stood at Rs67.25bn with minimal orders from NHAI. We expect FY21 to be another year of weak order inflow, which will impact the company's growth profile.

BUY

Sector: Construction

CMP: Rs260

Target Price: Rs405

Upside: 56%

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Key Data

| | |
|--------------------------|------------|
| Current Shares O/S (man) | 136.8 |
| Mkt Cap (Rsbn/US\$mn) | 35.6/471.1 |
| 52 Wk H / L (Rs) | 608/190 |
| Daily Vol. (3M NSE Avg.) | 311,454 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|----------------|-------|--------|--------|
| Dilip Buildcon | 0.3 | (36.3) | (55.0) |
| Nifty Index | (2.8) | (20.5) | (19.6) |

Source: Bloomberg

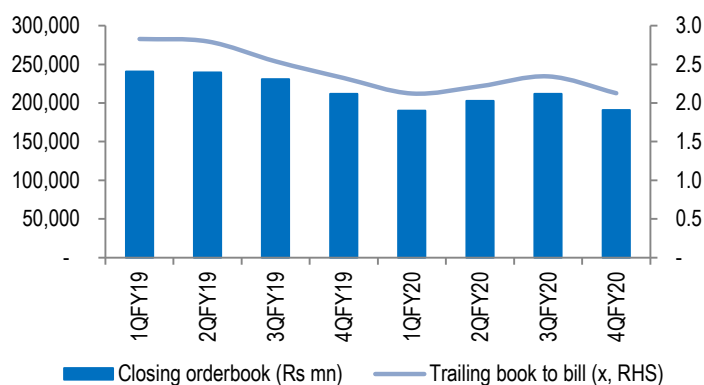
| Y/E March (Rsm) | 4QFY19 | 3QFY20 | 4QFY20 | YoY (%) | QoQ (%) |
|--------------------------|---------------|---------------|---------------|-----------------|-----------------|
| Net Sales | 25,710 | 23,810 | 24,997 | (2.8) | 5.0 |
| Operating Expenses | 21,214 | 19,610 | 20,870 | (1.6) | 6.4 |
| EBITDA | 4,495 | 4,201 | 4,127 | (8.2) | (1.8) |
| EBITDA Margin (%) | 17.5 | 17.6 | 16.5 | (98)bps | (113)bps |
| Other Income | 191 | 80 | 96 | (49.7) | 19.3 |
| Interest Costs | 1,428 | 1,530 | 1,475 | 3.2 | (3.6) |
| Depreciation | 870 | 1,079 | 1,059 | 21.7 | (1.9) |
| PBT | 2,388 | 1,672 | 1,689 | (29.3) | 1.0 |
| Tax | 231 | 442 | 588 | 154.3 | 32.9 |
| Reported PAT | 2,157 | 1,230 | 1,101 | (48.9) | (10.5) |
| Exceptional Items | 43 | 40 | 50 | NA | NA |
| Adjusted PAT | 2,199 | 1,270 | 1,151 | (47.7) | (9.3) |
| NPM (%) | 8.6 | 5.3 | 4.6 | (395)bps | (73)bps |
| EPS (Rs.) | 16.1 | 9.3 | 8.4 | (47.7) | (9.3) |

Source: Company, Nirmal Bang Institutional Equities Research

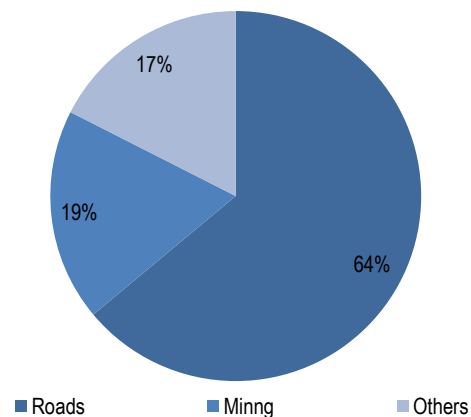
Exhibit 1: Detailed financials (Standalone)

| Y/E March (Rsmm) | 4QFY19 | 3QFY20 | 4QFY20 | YoY (%) | QoQ (%) | FY19 | FY20 | YoY (%) |
|---|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|-----------------|
| Net Sales | 25,710 | 23,810 | 24,997 | (2.8) | 5.0 | 91,403 | 89,838 | (1.7) |
| Expenditure | | | | | | | | |
| Change in Stock | 2 | 1,026 | (262) | (12,486.8) | (125.5) | (319) | 1,175 | (468.4) |
| Cost of Materials Consumed and Operating Expenses | 20,373 | 17,114 | 20,291 | (0.4) | 18.6 | 71,659 | 68,956 | (3.8) |
| Employee Costs | 528 | 531 | 499 | (5.3) | (5.9) | 1,774 | 1,958 | 10.4 |
| Other Expenses | 311 | 939 | 341 | 9.6 | (63.6) | 2,025 | 2,029 | 0.2 |
| Total Operating Expense | 21,214 | 19,610 | 20,870 | (1.6) | 6.4 | 75,138 | 74,118 | (1.4) |
| EBITDA | 4,495 | 4,201 | 4,127 | (8.2) | (1.8) | 16,264 | 15,720 | (3.3) |
| EBITDA Margins (%) | 17.5% | 17.6% | 16.5% | (98)bps | (113)bps | 17.8% | 17.5% | (30)bps |
| Other Income | 191 | 80 | 96 | (49.7) | 19.3 | 243 | 313 | 28.6 |
| Interest Costs | 1,428 | 1,530 | 1,475 | 3.2 | (3.6) | 5,299 | 6,127 | 15.6 |
| Depreciation | 870 | 1,079 | 1,059 | 21.7 | (1.9) | 3,202 | 4,241 | 32.5 |
| PBT | 2,388 | 1,672 | 1,689 | (29.3) | 1.0 | 8,007 | 5,665 | (29.2) |
| Tax | 231 | 442 | 588 | 154.3 | 32.9 | 400 | 1,505 | 275.9 |
| Reported PAT | 2,157 | 1,230 | 1,101 | (48.9) | (10.5) | 7,607 | 4,161 | (45.3) |
| Exceptional Items | 43 | 40 | 50 | - | - | 43 | 89 | - |
| Adjusted PAT | 2,199 | 1,270 | 1,151 | (47.7) | (9.3) | 7,649 | 4,250 | (44.4) |
| NPM (%) | 8.6% | 5.3% | 4.6% | (395)bps | (73)bps | 8.4% | 4.7% | (364)bps |
| EPS (Rs.) | 16.1 | 9.3 | 8.4 | (47.7) | (9.3) | 55.9 | 31.1 | (44.4) |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Order book growth has stagnated


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Sectoral breakup of order book


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Equity requirement for HAM projects

| Particulars | Requirement | FY18-19 Actual | FY19-20 Actual | FY20-21 Projected | FY21-22 Projected |
|-----------------------------------|---------------|----------------|----------------|-------------------|-------------------|
| Investment for 12 HAM Projects | 15,996 | 3,893 | 6,945 | 3,958 | 1,200 |
| Investment for 1 new HAM Projects | 620 | 0 | 0 | 310 | 310 |
| Total | 16,616 | 3,893 | 6,945 | 4,268 | 1,510 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Valuation summary

| Particulars | (Rs) |
|------------------------------------|------------|
| FY22E PAT | 6,323 |
| Target Multiple (x) | 7.0 |
| Value of EPC business | 44,262 |
| Value of HAM equity investment | 11,105 |
| Equity value | 55,366 |
| No of shares | 137 |
| Target price (Rs) | 405 |
| CMP (Rs) | 260 |
| Potential upside/(downside) | 56% |

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement
Exhibit 6: Income statement

| Y/E (Rs mn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|----------------------------|---------------|---------------|---------------|----------------|----------------|
| Net sales | 77,459 | 91,182 | 89,780 | 100,008 | 110,009 |
| growth (%) | 52.0 | 17.7 | (1.5) | 11.4 | 10.0 |
| Operating expenses | 63,583 | 75,138 | 73,370 | 83,755 | 92,407 |
| EBITDA | 13,876 | 16,044 | 16,410 | 16,253 | 17,601 |
| growth (%) | 39.8 | 15.6 | 2.3 | -1.0 | 8.3 |
| Depreciation | 2,750 | 3,202 | 3,589 | 3,710 | 3,831 |
| EBIT | 11,126 | 12,842 | 12,821 | 12,543 | 13,771 |
| Interest paid | 4,644 | 5,299 | 5,346 | 5,267 | 4,717 |
| Other income | 155 | 464 | 219 | 233 | 245 |
| Pre-tax profit | 6,637 | 8,007 | 7,694 | 7,509 | 9,299 |
| Tax | 434 | 400 | 2,308 | 2,403 | 2,976 |
| Effective tax rate (%) | 6.5 | 5.0 | 30.0 | 32.0 | 32.0 |
| Minority Interest | - | - | - | - | - |
| Net profit | 6,203 | 7,607 | 5,386 | 5,106 | 6,323 |
| Exceptional items | - | 43 | - | - | - |
| Adjusted net profit | 6,203 | 7,649 | 5,386 | 5,106 | 6,323 |
| growth (%) | 71.9 | 23.3 | (29.6) | (5.2) | 23.8 |
| EPS | 45.4 | 55.9 | 39.4 | 37.3 | 46.2 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

| YE March | FY18 | FY19 | FY20E | FY21E | FY22E |
|---------------------------------------|------|------|--------|-------|-------|
| Adj EPS (Rs) | 45.4 | 55.9 | 39.4 | 37.3 | 46.2 |
| Adj EPS growth (%) | 71.9 | 23.3 | (29.6) | (5.2) | 23.8 |
| EBITDA margin (%) | 17.9 | 17.6 | 18.3 | 16.3 | 16.0 |
| Pre-tax margin (%) | 8.6 | 8.8 | 8.6 | 7.5 | 8.5 |
| ROE (%) | 28.8 | 27.0 | 15.5 | 12.8 | 13.9 |
| ROCE (%) | 17.9 | 17.4 | 11.3 | 9.9 | 10.3 |
| Turnover & Leverage ratios | | | | | |
| Asset turnover (x) | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 |
| Leverage factor (x) | 3.8 | 3.4 | 3.2 | 3.0 | 2.8 |
| Net margin (%) | 8.0 | 8.3 | 6.0 | 5.1 | 5.7 |
| Net Debt/Equity (x) | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Working Capital Ratio | | | | | |
| Inventory days | 95 | 100 | 110 | 109 | 105 |
| Receivable days | 76 | 56 | 70 | 70 | 70 |
| Payable days | 87 | 84 | 87 | 87 | 87 |
| Valuation (x) | | | | | |
| PER (x) | 25.4 | 4.6 | 6.6 | 7.0 | 5.6 |
| Price/Book value (x) | 6.4 | 1.1 | 1.0 | 0.8 | 0.7 |
| PCE (x) | 17.6 | 3.3 | 4.0 | 4.0 | 3.5 |
| EV/Net sales (x) | 2.1 | 0.5 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA (x) | 12.0 | 2.8 | 2.8 | 2.9 | 2.5 |
| Dividend Yield (%) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance Sheet

| Y/E (Rs mn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------------------|---------------|----------------|----------------|----------------|----------------|
| Equity Capital | 1,368 | 1,368 | 1,368 | 1,368 | 1,368 |
| Reserves and Surplus | 23,203 | 30,677 | 35,925 | 40,895 | 47,081 |
| Networth | 24,571 | 32,044 | 37,293 | 42,262 | 48,449 |
| Total Debt | 29,549 | 32,012 | 34,012 | 33,512 | 30,012 |
| Deferred tax liability | - | - | - | - | - |
| Other noncurrent liabilities | 14,403 | 12,580 | 13,562 | 14,643 | 15,831 |
| Trade Payables | 15,078 | 17,241 | 17,399 | 19,861 | 21,913 |
| Other Current Liabilities | 8,395 | 9,394 | 9,730 | 10,839 | 11,923 |
| Total Current Liabilities | 24,955 | 32,430 | 33,800 | 38,379 | 42,676 |
| Total liabilities | 93,477 | 109,066 | 118,668 | 128,797 | 136,968 |
| NB | 18,319 | 20,822 | 20,233 | 17,773 | 15,192 |
| CWIP | - | - | - | - | - |
| Investment | 5,376 | 5,237 | 10,237 | 15,737 | 17,237 |
| Other non-current assets | 5,450 | 7,575 | 7,953 | 8,749 | 9,623 |
| Inventories | 20,262 | 25,038 | 27,137 | 29,831 | 31,646 |
| Sundry Debtors | 16,040 | 14,093 | 17,218 | 19,180 | 21,098 |
| Cash and Bank | 1,613 | 1,888 | 2,686 | 894 | 2,182 |
| Other current assets | 17,493 | 19,079 | 20,276 | 22,586 | 24,844 |
| Total Current Assets | 61,350 | 72,516 | 77,328 | 83,622 | 91,998 |
| Total Assets | 93,477 | 109,066 | 118,668 | 128,797 | 136,968 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow statement

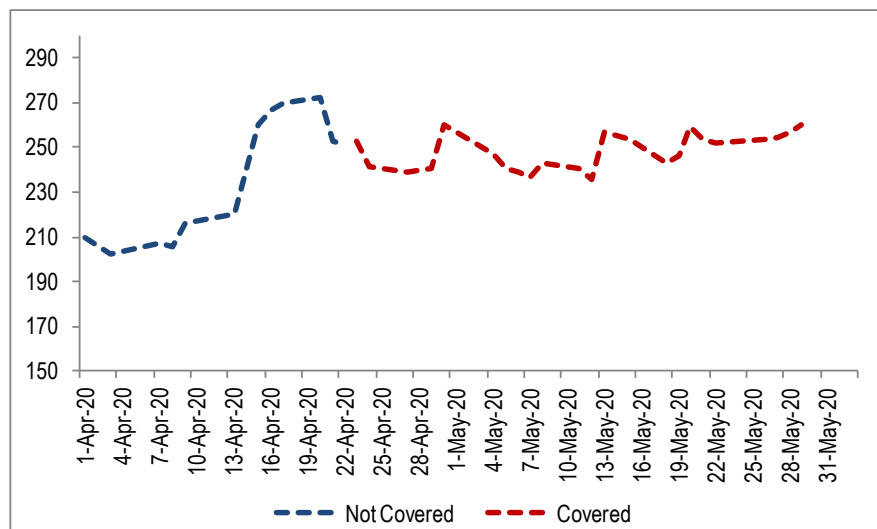
| YE March, Rsmn | FY18 | FY19 | FY20E | FY21E | FY22E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBIT | 11,281 | 13,306 | 13,040 | 12,776 | 14,016 |
| Add: Depreciation & Impairment | 2,750 | 3,202 | 3,589 | 3,710 | 3,831 |
| Cash flow from operations b4 WC | 13,906 | 16,327 | 16,439 | 16,287 | 17,637 |
| Net change in Working capital | (6,690) | (5,252) | (1,661) | (2,426) | (1,603) |
| Tax paid | (434) | (400) | (2,308) | (2,403) | (2,976) |
| Net cash from operations | 6,782 | 10,675 | 12,470 | 11,458 | 13,058 |
| Capital expenditure | (4,244) | (5,705) | (3,000) | (1,250) | (1,250) |
| Sale of investments | (2,293) | 205 | (5,000) | (5,500) | (1,500) |
| Net cash from investing | (8,160) | (7,444) | (8,189) | (7,346) | (3,416) |
| Issue of shares | - | - | - | - | - |
| Increase in debt | 6,659 | 2,476 | 2,000 | (500) | (3,500) |
| Dividends paid incl. tax | (137) | (137) | (137) | (137) | (137) |
| Net cash from financing | 1,854 | (2,998) | (3,483) | (5,904) | (8,354) |
| Net Cash | 476 | 232 | 798 | (1,792) | 1,288 |
| Opening Cash | 1,137 | 1,613 | 1,888 | 2,686 | 894 |
| Closing Cash | 1,613 | 1,845 | 2,686 | 894 | 2,182 |

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|---------------|--------|-------------------|-------------------|
| 23 April 2020 | BUY | 251 | 392 |
| 27 May 2020 | BUY | 253 | 392 |
| 1 June 2020 | BUY | 260 | 405 |

Rating track graph



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ACCUMULATE -5% to 15%

SELL < -5%

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