

CMP: ₹ 50

Target: ₹ NA

Target Period: NA

DROPPING COVERAGE

November 23, 2020

Dropping coverage...

Sadbhav Engineering (SEL) continued to report disappointing numbers in H1FY21 with revenue falling 54.2% YoY to ₹ 641.9 crore, largely marred by disruptions caused by Covid-19 pandemic. Operating margin fell 162 bps YoY to 10.8% for H1. At net level, the company reported loss of ₹ 21.3 crore during H1FY21 on account of lower operational revenue and higher costs.

Order book at ₹ 9,397 crore

SEL's order book was robust at ₹ 9,397 crore as of Q2FY21, implying order book-to-bill ratio of 6.3x, providing good revenue visibility ahead. Roads (BOT/HAM and EPC) divisions make up 71.3% of the overall OB, followed by mining (24.3%) and irrigation (4.4%) segments. Also, the management has indicated towards strong bidding pipeline that includes 22 EPC projects (₹ 40,386 crore) and 34 HAM projects (₹ 31,496 crore). Thus, with robust order pipeline, the management expects order inflows of ₹ 30-3,500 crore in H2FY21.

Company expects lower debt ahead

SEL's standalone net debt (including loans) at the end of September 2020 was at ₹ 1,095 crore. However, the company expects the potential realisation of arbitration awards, SPV debtors, GST refunds, and proceeds from transfer of Ahmedabad ring road project to Indinfravit to aid in reducing its debt burden over next couple of years. Additionally, its receivable has reduced by ~₹ 250 crore in H1FY21 but remains elevated at ~₹ 1,700 crore.

Valuation & Outlook

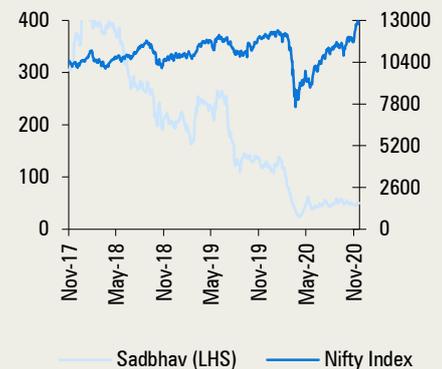
While Sadbhav aims to gradually ramp up execution across its project sites with better labour availability, the company has faced pressure with persistent delays in receiving ADs, cancellation/de-scoping of projects, erroneous selection of projects, which collectively translated into substandard performance. Additionally, we do not find major comfort in its execution skills (lagging vis-à-vis peers, guidance). The decision of the merger of SEL with Sadbhav Infraprojects (SIPL) is also not fairly understandable. While reshuffling in the management team and their aim to thrive may create value over the long term horizon, we would like to witness significant progress in execution and benefits arising from the merging process. With operational issues/uncertainty still looming, we **DROP COVERAGE** on the stock.



Particulars

Particular	Amount
Market Capitalization	₹ 860 Crore
Total Debt	₹ 1242 Crore
Cash and Investments	₹ 123 Crore
EV	₹ 1979 Crore
52 week H/L (₹)	142 / 23
Equity capital	₹ 17 Crore
Face value	₹ 1

Price performance



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Key Financial Summary

(₹ crore)	FY16	FY17	FY18	FY19	FY20
Net Sales	3186.3	3320.3	3505.1	3549.2	2251.7
EBITDA	325.4	355.6	415.1	427.9	279.5
EBITDA Margin (%)	10.2	10.7	11.8	12.1	12.4
PAT	133.7	187.8	220.7	186.9	85.1
EPS (₹)	7.8	10.9	12.9	10.9	5.0
P/E (x)	6.4	4.6	3.9	4.6	10.1
EV/EBITDA (x)	5.9	6.6	5.6	5.6	7.1
P/B (x)	0.6	0.5	0.5	0.4	0.4
RoE (%)	9.0	11.3	11.8	9.2	4.0
RoCE (%)	13.0	10.8	9.9	10.2	5.8

Source: Company, ICICI Direct Research

Business Highlights

- Bidding pipeline:** The management has indicated towards strong bidding pipeline which includes 22 EPC projects worth ₹ 40,386 crore and 34 HAM projects worth ₹ 31,496 crore. All these bids are to be submitted before December 2020. As of now, SEL has submitted bids for two roads, one metro projects worth ₹ 3,124 crore, ~₹ 800 crore, respectively
- Order book update:** SEL has secured two packages of Ahmedabad-Dholera project during Q2FY21 worth ₹ 1,572 crore, which aided its order book (OB) to reach ₹ 9,397 crore by end-Q2FY21. Roads (BOT/HAM, EPC) divisions make up 71.3% of the overall OB, followed by mining (24.3%) and irrigation (4.4%) segment. With robust order pipeline, the management expects order inflows of ₹ 30-3,500 crore during H2FY21
- Status of HAM projects:** Among major HAM projects, the company has achieved a) 77% progress in Sadbhav Bhavnagar project (₹ 819 crore), b) 89% in Sadbhav Udaipur (₹ 891 crore), c) 73% in Sadbhav Rudrapur project (₹ 738 crore), d) 87% in Sadbhav Bangalore (₹ 1,008 crore) and e) 67% in Sadbhav Vidarbha (₹ 1,071 crore)
- Management guidance:** With normalcy in labour and raw material availabilities, the operating activity on an MoM basis has got ramped-up and is currently clocking revenue of ~ ₹ 7 crore/day. This is also aided by commencement of execution in the Gadag Honali and Kim Ankaleshwar projects. Going forward, the management expects further pick-up in execution to ~₹ 9 crore/day with the receipt of AD in Ahmedabad-Dholera project by December 2020. On overall basis, the management has guided for ₹ 2,200 crore, ₹ 3,500 crore for FY21E, FY22E, respectively. Operating margin is likely to remain in the range of 12.0-12.5%
- Arbitration award:** NHAI has recently disbursed ₹ 43 crore of the arbitration amount towards Dhule-Palesner Tollway Ltd, one of the subsidiaries of SIPL. Out of this amount, 40% belongs to SIPL while the balance is to be paid to JV partners. In Rohtak-Panipat project, the decision on arbitration amount of ₹ 121 crore is expected soon. In addition, the company has submitted claim of ₹ 107 crore towards NHAI pertaining to toll loss due to alternate route being built to the Rohtak-Panipat project
- Equity requirement and capex:** SEL has a total equity requirement of ₹ 350 crore for its HAM projects. Out of this, ~₹ 210 crore is likely to get infused in the rest of FY21 and balance in FY22E. Additionally, the management has guided for minimal capex of ~₹ 20 crore in H2FY21
- Debt:** SEL's gross debt (including loan and advances given to SIPL: ₹ 368 crore) at the end of September 2020 was at ₹ 1,224 crore. The management expects debt to come down <₹ 1,000 crore by FY21-end
- Tax rate:** The management has guided for effective tax rate of ~22% during H1FY21, FY22E (MAT credit available: ₹ 110 crore)

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY17	FY18	FY19	FY20
Net Sales	3,320.3	3,505.1	3,549.2	2,251.7
Growth (%)	0.0	5.6	1.3	-36.6
Other Income	87.5	15.8	35.7	22.2
Total Revenue	3,407.8	3,520.8	3,584.9	2,273.9
Raw Material Expenses	817.9	863.4	0.0	0.0
Construction Expenses	1,837.3	1,950.0	2,852.1	1,735.0
Administrative Expenses	309.5	276.5	269.2	237.2
Total operating expenses	2,964.7	3,089.9	3,121.3	1,972.2
EBITDA	355.6	415.1	427.9	279.5
Growth (%)	0.0	16.7	3.1	-34.7
Interest	153.4	116.7	110.3	100.5
Depreciation	100.0	97.9	95.8	108.4
PBT	189.7	216.3	258.3	109.7
Total Tax	1.8	-4.4	71.4	24.6
PAT	187.8	220.7	186.9	85.1
Growth (%)	0.0	17.5	-15.3	-54.4
EPS (Diluted)	10.9	12.9	10.9	5.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(₹ Crore)	FY17	FY18	FY19	FY20
Profit after Tax	187.8	220.7	186.9	85.1
Depreciation	100.0	97.9	95.8	108.4
Cash Flow before WC changes	355.6	415.1	428.7	296.5
Net Increase in CA	-607.9	-360.9	-173.5	-78.1
Net Increase in CL	-101.5	178.1	-42.4	312.9
Cash Flow from Operating Act.	-381.0	248.6	120.9	518.3
(Purchase)/Sale of FA	-2.3	-54.7	-77.9	47.9
Cash flow from Investing Act.	78.7	-47.0	-74.2	121.5
Others	-112.9	-3.9	-56.1	-10.6
Proceeds from LT Borrowings	302.0	-150.4	-7.6	-445.6
Cash flow from Financing Act.	309.4	-211.9	1.1	-577.0
Net Cash flow	7.1	-10.3	47.7	62.7
Opening Cash/ Cash Equivalent	16.6	23.0	12.7	60.4
Closing Cash/ Cash Equivalent	23.0	12.7	60.4	123.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(₹ Crore)	FY17	FY18	FY19	FY20
Liabilities				
Share capital	17.2	17.2	17.2	17.2
Stock Option Premium outstandi	0.0	0.0	0.0	0.0
Share warrant	0.0	0.0	0.0	0.0
Reserves & Surplus	1,643.7	1,849.6	2,016.5	2,086.8
Total Shareholders funds	1660.9	1,866.8	2,033.7	2,104.0
Total Loans	1,518.3	1,484.7	1,587.3	1,242.2
Deferred Tax Liability	0.0	0.0	0.0	0.0
Sources of funds	3179.2	3,351.5	3,621.0	3,346.2
Assets				
Gross Block	675.9	728.2	805.2	759.6
Accumulated Depreciation	153.0	227.8	311.3	326.5
Net Block	522.9	500.4	493.9	433.1
Capital WIP	0.0	2.3	3.3	1.0
Investments	569.4	577.5	609.4	558.0
Deferred & current Tax assets	108.0	119.8	99.4	111.0
Inventory	123.4	164.3	179.2	147.2
Debtors	1,701.0	1,628.0	1,641.6	1,933.1
Loans and Advances	538.1	688.2	724.7	477.5
Other Current Assets	434.7	677.4	785.9	851.7
Cash	23.0	12.7	60.4	123.1
Total Current Assets	2,820.0	3,170.6	3,391.8	3,532.7
Current Liabilities	348.1	417.5	538.8	733.3
Creditors	491.0	599.0	435.3	552.9
Provisions	2.0	2.7	2.7	3.4
Net current assets	1,979.0	2,151.4	2,415.0	2,243.1
Application of funds	3179.2	3,351.5	3,621.0	3,346.2

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY17	FY18	FY19	FY20
Per share data (₹)				
Reported EPS	10.9	12.9	10.9	5.0
Cash EPS	16.8	18.6	16.5	11.3
BV per share	96.8	108.8	118.5	122.6
Dividend per share	0.8	0.0	0.0	0.0
Cash Per Share	1.3	13.3	18.1	19.0
Operating Ratios (%)				
EBITDA Margin	10.7	11.8	12.1	12.4
PBT / Net Sales	5.7	6.2	7.3	4.9
PAT Margin	5.7	6.3	5.3	3.8
Inventory days	14	17	18	24
Debtor days	187	170	169	313
Creditor days	54	62	45	90
Return Ratios (%)				
RoE	11.3	11.8	9.2	4.0
RoCE	10.8	9.9	10.2	5.8
RoIC	8.1	9.5	9.3	5.3
Valuation Ratios (x)				
P/E	4.5	3.9	4.6	10.0
EV / EBITDA	6.6	5.6	5.6	7.1
EV / Net Sales	0.7	0.7	0.7	0.9
Market Cap / Sales	0.3	0.2	0.2	0.4
Price to Book Value	0.5	0.5	0.4	0.4
Solvency Ratios				
Debt/EBITDA	4.3	3.6	3.7	4.4
Debt / Equity	0.9	0.8	0.8	0.6
Current Ratio	3.5	3.2	3.5	2.7
Quick Ratio	3.3	3.1	3.3	2.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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