

# Stock Update

Financial and business outlook remains favourable; retain Buy with revised PT of Rs.400

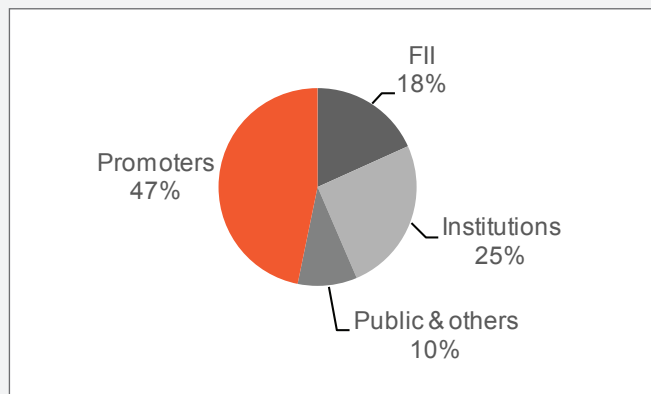
## Sadbhav Engineering

Reco: Buy | CMP: Rs268

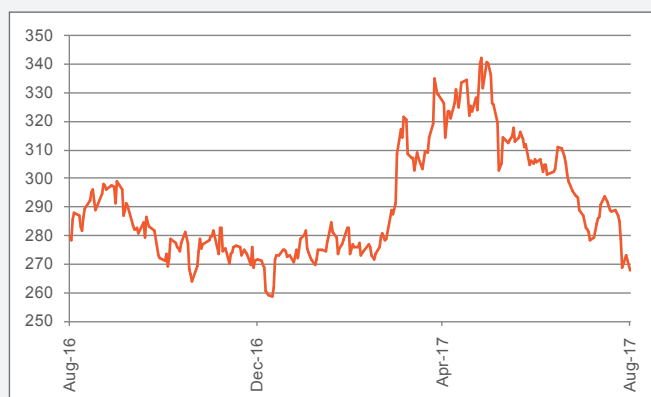
### Company details

Price target:	Rs400
Market cap:	Rs4,593 cr
52-week high/low:	Rs351/220
NSE volume: (No of shares)	1.2 lakh
BSE code:	532710
NSE code:	SADBHAV
Sharekhan code:	SADBHAV
Free float: (No of shares)	9.1 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-17.7	-3.0	-2.2
Relative to Sensex	-3.7	-21.6	-13.5	-13.6

### Key points

- Strong transport division execution with improvement in operating margins supports earnings growth:** Sadbhav Engineering Limited (SEL) reported 17.0% YoY growth in its standalone net revenue to Rs.944 crore for Q1FY2018, which was led by strong execution in the transport segment (revenue up 47% YoY led by 2x increase in BOT revenue). However, irrigation and mining reported sluggish revenue decline of 52% and 46% YoY, respectively. Further, marginal improvement in operating margin (up 55BPS YoY led by scope of EPC work along with higher contribution from HAM project execution) coupled with tax credit (due to MAT credit of previous years) led to 14% YoY growth in its adjusted net profit to Rs.55.5 crore.
- Healthy order book along with strong bidding pipeline provides earnings visibility over the next two to three years:** SEL has a strong order book of Rs.8,377 crore (2.8x its FY2017 revenue, two HAM projects worth Rs.1,575 crore bagged during Q1FY2018), which provides strong revenue visibility over the next two years. SEL has bid for nine EPC projects worth Rs.6,518 crore. Further, industry project pipeline across segments remains robust (11 HAM projects worth Rs.14,672 crore, 15 EPC road projects worth Rs.12,939 crore, 3 mining projects Rs.1,653 crore and 5 irrigation Rs.4,558 crore). SEL is targeting Rs.7,000 crore order inflow in the transport segment alone for FY2018. We believe the current strong order backlog along with high visibility of project orders in the near term is likely to maintain strong earnings visibility over the next two to three years.
- Outlook – Project awarding to gather momentum, expect improvement in balance sheet:** The project awarding activity remained sluggish during Q1FY2018 on account of 1) change in NHAI chairman; 2) NHAI's thrust on bidding out project post 80% land acquisition; and 3) GST-related uncertainty on project costing. Given that these issues are now behind, there is industry expectation of strong order inflow for the rest of FY2018 and India's general election nearing in FY2019, we expect project awarding to gather pace and provide SEL further opportunities to strengthen its order book. On the other hand, SEL has been trimming debt (Rs.200 crore reduction in Q1FY2018), lowering

debtors (Rs.155 crore reduction) and expects release of working capital tied up in mining (Rs.530 crore) in one and a half month along with inflow from SIPL (Rs.200 crore by FY2018-end). These measures are likely to improve the balance sheet quality.

- ♦ **Valuation - Retain Buy with revised price target of Rs.400:** SEL has been underperforming lately in conjunction with lower tendering in the road sector during Q1FY2018 for reasons highlighted

above. We expect SEL to maintain strong execution momentum along with improvement in operating margins and overall cash flows during FY2018-FY2019. We have fine tuned our earnings estimates for FY2018 factoring in improvement in margins and MAT credit entitlement. However, due to delay in tendering activity in the road sector, we have reduced our EPC multiple, thus leading to revision in our target price to Rs.400. We retain our Buy rating on the stock.

#### Result (Standalone)

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %
<b>Net sales</b>	<b>944.4</b>	<b>807.0</b>	<b>17.0</b>	<b>1032.9</b>	<b>-8.6</b>
Total expenses	837.6	720.1	16.3	923.3	-9.3
<b>Operating profit</b>	<b>106.8</b>	<b>86.8</b>	<b>23.0</b>	<b>109.6</b>	<b>-2.6</b>
other income	3.9	4.8	-17.7	21.8	-82.0
Depreciation	24.5	25.4	-3.6	24.3	1.0
Interest	32.2	17.2	86.9	35.5	-9.4
Profit Before Tax	54.0	48.9	10.3	71.6	-24.6
Taxes	-1.5	0.2	-740.1	3.3	-145.0
PAT	55.5	48.7	14.0	68.2	-18.7
<b>Adjusted PAT</b>	<b>55.5</b>	<b>48.7</b>	<b>14.0</b>	<b>68.2</b>	<b>-18.7</b>
No of equity shares	17.2	17.2	0.0	17.2	0.0
EPS	3.2	2.8	14.0	4.0	-18.7
			<b>BPS</b>		<b>BPS</b>
OPM(%)	11.3	10.8	55	10.6	69
NPM(%)	5.9	6.0	-16	6.6	-73
Tax rate (%)	-2.8	0.5	-327	4.7	-747

#### Valuation (standalone)

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net Sales (Rs cr)	2,969.8	3,186.3	3,320.3	3,805.8	4,261.7
% yoy growth	25.9	7.3	4.2	14.6	12.0
EBITDA (Rs cr)	300.2	334.8	355.6	432.8	484.1
Margin (%)	10.1	10.5	10.7	11.4	11.4
Adjusted.Net profit (Rs cr)	113.7	151.5	187.8	233.9	241.2
% yoy growth	(21.3)	33.2	24.0	24.5	3.1
Shares in issue (Cr)	17.2	17.2	17.2	17.2	17.2
EPS (Rs)	6.6	8.8	10.9	13.6	14.1
% yoy growth	(30.4)	33.2	24.0	24.5	3.1
PER (x)	40.4	30.3	24.5	19.6	19.0
Book Value (Rs)	79.8	87.8	97.8	110.6	123.9
P/BV (Rs)	3.4	3.0	2.7	2.4	2.2
EV/EBIDTA (x)	17.0	15.3	14.4	11.8	10.5
RoCE (%)	9.7	10.2	11.9	12.0	10.8
RoNW (%)	9.8	10.7	11.9	13.2	12.1

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by BNP PARIBAS

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