

Dilip Buildcon

BUY

CMP Rs523

Target Rs609

Upside 16%

Robust outlook - BUY

Our View

The Company has won orders worth ~Rs.150 bn during YTD FY21 and is sitting on robust order book of Rs.261 bn. The massive order pipeline would mean further order inflows in the next few months. Taking all the factors into consideration, execution is set to pick up well in FY22 and beyond with healthy margins. Company's focus to bid only for well-funded projects would augur well over the long term. Constant focus on asset monetization would help keep the balance sheet under comfort zone. We upgrade our FY22 numbers to incorporate the strong Q3 performance. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for revised target price of Rs.609.

Conference Call takeaways

- ✓ NHA has a target to build 60,000 km of highways in the next five years. 7,597 Kms of national highways awarded till Jan-21 by MoRTH, expected to cross 10,000 Kms by the end of FY21. The budget allocation by the Road ministry has been on rise every year and the trend is expected to continue.
- ✓ The government has taken few steps to boost the infrastructure like 1) Relaxation in the payment terms 2) Relaxation in the change of Ownership clause in HAM projects to COD + 6 months vs COD + 2 year 3) Given extension of time by 3-6 months in all project due to pandemic 4) Released the work proportionate performance Bank guarantees 5) Introduction of PPP model in Railways 6) Allowed Privatization in Coal mining through new revenue sharing model.
- ✓ The company has won orders of Rs. 158.3 bn spread across 9 states and 6 sectors, Road forms ~39% of the new orders followed by irrigation (26%). Gujarat forms 32% of the book followed by Bihar/Jharkhand (12% each). EPC forms 67% while BOT/HAM forms 33% of the orderbook. The company has won new orders during the quarter 1) Won Delhi - Vadodara Greenfield Expressway tunnel project in Rajasthan 2) MDO Project in Odisha with a peak rated capacity of 50 MTPA (largest in private segment) 3) Entered into Railways segment and won New BG electrified double railway line project in Chhattisgarh
- ✓ Total Order Book stands at Rs.261.4 bn of which road segment forms ~44%, Irrigation 18.4% and Mining 16.1%.
- ✓ **Revenue guidance:** FY21 will be at ~FY20 levels while 15-20% growth expected for FY22/FY23 on the back of strong orderbook.
- ✓ **Bid Pipeline:** Bid for Rs.200 bn projects in Road segment of which Rs60 bn is on EPC segment. Expects to receive 50-70 bn orders to achieve the guidance of ~Rs.300 bn orderbook by year end.
- ✓ **Equity:** The company expects Rs20 bn of equity divestment from the projects in next 2 years. Rs.9 bn targeted in FY22 and Rs11 bn in FY23 come. This will help to reduce the debt at standalone level, and provide further capital for growth.
- ✓ Commodity prices has increased but escalation clause takes care of, thus no major impact seen.
- ✓ **Debt:** The company has plans to reduce the debt/equity to 0.5x in coming years.
- ✓ **RVNL project:** Mobilization advance has been received on-time. The company generally considers the budget allocation before bidding.
- ✓ **Asset monetization:** The company has already monetized 5 projects to Cube investments and 7 projects are in advance stage (can conclude in coming 2 months)

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- ✓ Coal handling projects are long term in nature and provide longer revenue stream. The company has won 25 years contract for handing coal. The IRR for these projects are in high teens. Government of India to supply the electricity which reduces the cost. The coal unit will be set up in 6th year and production will be given to nearby units. This long term project is tied with Mahanadi coal field and has long term contracts with its customers.
- ✓ **Other details:** 1) Cost of borrowings stands at 9.5-10% vs ~11% earlier. 2) The early completion bonus is difficult to say for FY22. 3) The capex till 9M stands at Rs1.6 bn and target to end FY21 with Rs.2 bn. 4) The executable orderbook is Rs60bn 5) The o/s mobilization advances stand at Rs2 bn, retention money ~Rs.7 bn and unbilled revenue at Rs.5 bn.

Dilip Buildcon Q3 FY21 results summary

- ✓ Dilip Buildcon reported topline growth of 3.6% yoy (at Rs.24.7 bn) on standalone basis. The execution improved sharply over Q2 with better labor availability and with monsoon impact behind.
- ✓ Operating margin remained healthy at 16.5% (17.6% in Q3 FY20 and 15.9% in Q2 FY21).
- ✓ Higher tax outgo saw PAT decline 10% yoy to Rs.1,111 mn.
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.261 bn.

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue	24,667	23,810	3.6	19,252	28.1
Operating Profit	4,070	4,201	(3.1)	3,060	33.0
OPM (%)	16.5	17.6	-114 bps	15.9	60 bps
Other Income	59	80	(26.2)	94	(37.0)
Depreciation	(1,000)	(1,079)	(7.4)	(1,044)	(4.3)
Interest	(1,449)	(1,530)	(5.3)	(1,402)	3.4
PBT	1,680	1,712	(1.8)	708	137.3
Tax	(569)	(442)	28.8	(235)	141.9
Reported PAT	1,111	1,270	(12.5)	473	135.0
Adjusted PAT	1,111	1,230	(9.7)	473	135.0

Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	89,838	88,491	104,419	121,126
yoy growth (%)	(1.5)	(1.5)	18.0	16.0
Operating profit	15,720	14,511	17,805	21,281
OPM (%)	17.5	16.4	17.1	17.6
Reported PAT	4,250	3,289	5,766	8,135
Adjusted PAT	4,160	3,289	5,766	8,135
yoy growth (%)	(45.3)	(20.9)	75.3	41.1
EPS (Rs)	30.4	24.1	42.2	59.5
P/E (x)	17.1	21.7	12.4	8.8
EV/EBITDA (x)	6.1	6.5	5.3	4.3
Debt/Equity (x)	0.8	0.7	0.6	0.5
RoE (%)	12.5	8.7	13.7	16.6

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