

Retail Equity Research (South India Focus)

# DILIP BUILDCON Ltd

Construction & Engineering

BSE CODE : 540047

NSE CODE: DBL

BLOOMBERG CODE: DBL:IN

SENSEX : 49,751

**BUY**

12M Investment Period

Rating as per Small Cap

CMP Rs630

TARGET Rs753

RETURN 20% ↑

(Closing: 23-02-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

## Execution to pick up pace...

Dilip Buildcon Ltd (DBL) is one of the largest road construction company in India. The company is also an established player in irrigation, urban development and mining segments.

- Q3FY21 revenue grew by 3.6% YoY led by normalcy in operation and strong order book.
- EBITDA margin declined by 115bps YoY to 16.5% due to higher material cost while other expenses declined by 44% YoY.
- Order book remain healthy at Rs26,141cr (3x TTM revenue) supported by strong inflow of Rs15,831cr in 9MFY21, provides strong revenue visibility for the next three years.
- PAT de-grew by 13% YoY due to higher tax rate of 33.9% compared to base quarter and lower other income (-26% YoY).
- DBL is in the advance stage of monetising 12 HAM projects and expects cash flow of Rs 2,000cr over FY22 & FY23.
- We maintain Buy rating due to strong order book and positive economic activity. Our TP of Rs753 based on a P/E of 13x FY23E EPS & HAM business at 0.3x P/B of invested equity.

## Operation back to normalcy...

Q3FY21 revenue grew by 3.6% YoY to Rs2,467cr aided by strong order book and normalcy in execution. The revenue from roads & bridges de-grew by 6% YoY to Rs1,918cr, while irrigation business grew by 513% YoY to Rs200cr and Urban development grew by 292% YoY to Rs132cr. The company indicates that the labour availability is back to 100% and execution to pick up from Q4FY21 and expects FY22 revenue to grow by 15-20%. Due to strong order book, executional capability and pick up in economic activity, we increase FY22 revenue estimate by 12%. The company is in the advance stage of monetising 12 HAM projects and expects Rs2,000cr over FY22-FY23. This will help to reduce company's debt and provide capital support to future projects.

## Strong order book provides visibility...

DBL's order book remains healthy at Rs26,141cr (3x TTM revenue) which provides strong revenue visibility for the next three years. The company has received order inflow of Rs15,831cr in 9MFY21 largely from road, irrigation and tunnel projects. Further, DBL is diversifying its order book and has entered into railway segment in Q4FY21 with orders of Rs655cr in the state of Chhattisgarh. DBL has made remarkable diversification, in 2016 road projects constitute 87% of the order book while in Q3FY21 the road segment was at 43%. This will aid long term growth.

## Higher tax impacted earnings...

In Q3FY21, EBITDA margin declined by 115bps YoY to 16.5% due to higher material costs while and other expenses declined by 44% YoY. Moreover, a higher tax rate of 33.9% (vs 25.8% in Q3FY20) impacted Q3FY21 earnings which de-grew by 10% YoY to Rs111cr. The management indicates that effective tax rate for FY21 will be in the range of 33-35%. The company is not opting for concessional tax under section 115BAA as it will result in into higher cash outflow due to non-availability of MAT credit.

## Valuations

We expect timely payment from Govt. and recovery in execution from H2FY21 will help to manage working capitals. Therefore, we increase FY21EFY22E earnings estimate by 17%/27% respectively and maintain Buy rating with a TP Rs753 based on a P/E of 13x on FY23E EPS & HAM business at 0.3x P/B of invested equity.

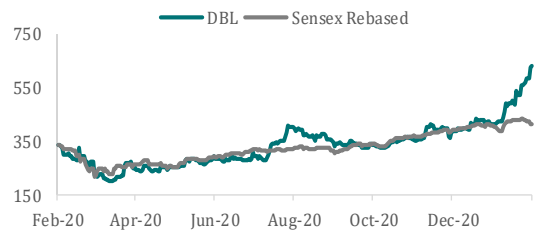
## Company Data

|                         |         |
|-------------------------|---------|
| Market Cap (cr)         | ₹ 7,381 |
| Enterprise Value (cr)   | ₹ 9,794 |
| Outstanding Shares (cr) | 13.7    |
| Free Float              | 25%     |
| Dividend Yield          | 0.16%   |
| 52 week high            | ₹ 657   |
| 52 week low             | ₹ 193   |
| 6m average volume (cr)  | 4.8     |
| Beta                    | 1       |
| Face value              | ₹ 10    |

| Shareholding (%) | Q1FY21 | Q2FY21 | Q3FY21 |
|------------------|--------|--------|--------|
| Promoters        | 75.00  | 75.00  | 75.00  |
| FII's            | 8.68   | 8.83   | 8.84   |
| MFs/Insti        | 6.78   | 7.17   | 7.14   |
| Public           | 9.54   | 9.0    | 9.02   |
| Total            | 100.0  | 100.0  | 100.0  |
| Promoter pledge% | 28.6   | 25.23  | 25.23  |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return   | 79%     | 61%     | 87%    |
| Absolute Sensex   | 14%     | 27%     | 23%    |
| Relative Return*  | 66%     | 33%     | 64%    |

over or under performance to benchmark index



| Standalone (cr) | FY21E | FY22E  | FY23E  |
|-----------------|-------|--------|--------|
| Sales           | 9,186 | 11,489 | 12,896 |
| Growth (%)      | 2.3   | 25.1   | 12.2   |
| EBITDA          | 1,488 | 1,838  | 2,102  |
| EBITDA Margins% | 16.2  | 16.0   | 16.3   |
| PAT Adj.        | 341   | 590    | 767    |
| Growth (%)      | -18.0 | 72.7   | 30.1   |
| Adj.EPS         | 25.0  | 43.1   | 56.1   |
| Growth (%)      | -18.0 | 72.7   | 30.1   |
| P/E             | 25.2  | 14.6   | 11.2   |
| P/B             | 1.9   | 1.6    | 1.4    |
| EV/EBITDA       | 6.7   | 5.3    | 3.5    |
| ROE (%)         | 9.1   | 14.0   | 34.1   |
| D/E             | 0.7   | 0.6    | 0.5    |

Antu Eapen Thomas  
Research Analyst

| Particulars                  | Value (Rs Cr) | Value/Share (Rs) | Rationale        |
|------------------------------|---------------|------------------|------------------|
| Standalone EPC               |               | 729              | PE 13x FY23E EPS |
| HAM (Invested equity)        | 1,084         | 24               | 0.3x P/BV        |
| <b>Total Value per share</b> |               | <b>753</b>       |                  |

## Quarterly Financials (Standalone)

### Profit & Loss

| Rs (cr)                        | Q3FY21 | Q3FY20 | YoY Growth % | Q2FY21 | QoQ Growth % | 9MFY21 | 9MFY20 | YoY Growth % |
|--------------------------------|--------|--------|--------------|--------|--------------|--------|--------|--------------|
| <b>Sales</b>                   | 2467   | 2381.0 | 3.6          | 1925.2 | 28.1         | 6284   | 6484   | -3.1         |
| <b>EBITDA</b>                  | 407    | 420.1  | -3.1         | 306.0  | 33.0         | 1013   | 1159   | -12.6        |
| EBITDA margins %               | 16.5   | 17.6   | -115bps      | 15.9   | 60bps        | 16.1   | 17.9   | -176bps      |
| Depreciation                   | 100.0  | 107.9  | -7.4         | 104.4  | -4.3         | 311    | 318    | -2.3         |
| <b>EBIT</b>                    | 312.8  | 320.2  | -2.3         | 211.0  | 48.3         | 726    | 863    | -15.9        |
| Interest                       | 144.9  | 153.0  | -5.3         | 140.2  | 3.4          | 436    | 465    | -6.2         |
| Other Income                   | 5.9    | 8.0    | -26.1        | 9.4    | -36.9        | 24     | 22     | 9.8          |
| Exceptional Items              |        |        |              |        |              | 0      | 4      |              |
| <b>PBT</b>                     | 167.9  | 171.2  | -1.9         | 70.8   | 137.2        | 290    | 402    | -27.9        |
| Tax                            | 60.0   | 52.5   | 14.3         | 35.8   | 67.9         | 125    | 122    | 2.5          |
| Share of profit from Associate |        |        |              |        |              |        |        |              |
| <b>Minority Interest</b>       |        |        |              |        |              |        |        |              |
| <b>Reported PAT</b>            | 111.0  | 127.0  | -12.6        | 47.3   | 134.9        | 192    | 310    | -38.1        |
| Adjustments                    | 1.3    | 1.2    |              | 0.4    |              | 1      | 0      |              |
| <b>Adj PAT</b>                 | 111.0  | 123.0  | -9.8         | 47.3   | 134.9        | 192    | 306    | -37.2        |
| No. of Shares                  | 13.7   | 13.7   |              | 13.7   |              | 13.7   | 13.7   |              |
| <b>EPS (Rs)</b>                | 9.5    | 11     | -9.8         | 3      | 229.4        | 16     | 26     | -37.2        |

### Change in Estimates

| Year / Rs cr | Old estimates |        | New estimates |        |        | Change % |        |
|--------------|---------------|--------|---------------|--------|--------|----------|--------|
|              | FY21E         | FY22E  | FY21E         | FY22E  | FY23E  | FY21E    | FY22E  |
| Revenue      | 9,100         | 10,295 | 9,186         | 11,489 | 12,896 | 0.9      | 11.6   |
| EBITDA       | 1420          | 1668   | 1488          | 1838   | 2102   | 4.8      | 10.2   |
| Margins (%)  | 15.6%         | 16.2%  | 16.2%         | 16.0%  | 16.3%  | 60bps    | -20bps |
| Adj. PAT     | 293           | 466    | 341           | 590    | 767    | 16.5     | 26.5   |
| EPS          | 21.4          | 34.1   | 25.0          | 43.1   | 56.1   | 16.5     | 26.5   |

## Standalone Financials

### PROFIT & LOSS ACCOUNT

| Y.E March (Rs Cr)   | FY19A | FY20A | FY21E | FY22E  | FY23E  |
|---------------------|-------|-------|-------|--------|--------|
| <b>Sales</b>        | 9,118 | 8,984 | 9,186 | 11,489 | 12,896 |
| % change            | 18    | -1    | 2     | 25     | 12     |
| <b>EBITDA</b>       | 1,604 | 1,572 | 1,488 | 1,838  | 2,102  |
| % change            | 14    | -2    | -5    | 24     | 14     |
| Depreciation        | 320   | 424   | 421   | 458    | 478    |
| <b>EBIT</b>         | 1,284 | 1,148 | 1,067 | 1,380  | 1,624  |
| Interest            | 530   | 613   | 588   | 552    | 537    |
| Other Income        | 46    | 31    | 34    | 45     | 50     |
| <b>PBT</b>          | 805   | 575   | 513   | 874    | 1,137  |
| % change            | 21    | -29   | -11   | 70     | 30     |
| Tax                 | 40    | 150   | 172   | 284    | 369    |
| Tax Rate (%)        | 5     | 26    | 34    | 33     | 33     |
| <b>Reported PAT</b> | 765   | 425   | 341   | 590    | 767    |
| Adj.*               | 4     | 9     | 0     | 0      | 0      |
| <b>Adj. PAT</b>     | 761   | 416   | 341   | 590    | 767    |
| % change            | 20    | -45.3 | -18.0 | 72.7   | 30.1   |
| No. of shares (cr)  | 14    | 14    | 14    | 14     | 14     |
| <b>Adj EPS (Rs)</b> | 55.6  | 30    | 25    | 43     | 56     |
| % change            | 20    | -45.3 | -18.0 | 72.7   | 30.1   |
| DPS (Rs)            | 1.0   | 1.0   | 1     | 1      | 1      |

### BALANCE SHEET

| Y.E March (Rs Cr)        | FY19A         | FY20A         | FY21E         | FY22E         | FY23E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash                     | 189           | 322           | 245           | 374           | 407           |
| Accounts Receivable      | 1,409         | 1,240         | 1334          | 1574          | 1767          |
| Inventories              | 2,504         | 2,631         | 2963          | 3468          | 3979          |
| Other Cur. Assets        | 3,923         | 3,634         | 3926          | 4344          | 4946          |
| Investments              | 524           | 1,144         | 1511          | 1813          | 2175          |
| Gross Fixed Assets       | 3,137         | 3,387         | 3512          | 3812          | 3962          |
| Net Fixed Assets         | 2,048         | 2,001         | 1506          | 1348          | 1020          |
| CWIP                     | -             | 4             | 0             | 0             | 0             |
| Intangible Assets        | 34            | 27            | 17            | 18            | 18            |
| Def. Tax (Net)           | (17)          | 20            | 16            | 9             | -1            |
| Other Assets             | 276           | 155           | 150           | 150           | 150           |
| <b>Total Assets</b>      | <b>10,890</b> | <b>11,177</b> | <b>11,667</b> | <b>13,097</b> | <b>14,461</b> |
| Current Liabilities      | 3,231         | 3,600         | 3758          | 4657          | 5332          |
| Provisions               | 97            | 111           | 113           | 142           | 159           |
| Debt Funds               | 3,201         | 2,735         | 2865          | 2795          | 2715          |
| Other Liabilities        | 1,156         | 1,125         | 1000          | 1000          | 1000          |
| Equity Capital           | 137           | 137           | 137           | 137           | 137           |
| Reserves & Surplus       | 3,068         | 3,469         | 3794          | 4367          | 5118          |
| Shareholder's Fund       | 3,204         | 3,606         | 3931          | 4504          | 5255          |
| <b>Total Liabilities</b> | <b>10,890</b> | <b>11,177</b> | <b>11667</b>  | <b>13097</b>  | <b>14461</b>  |
| BVPS                     | 274           | 308           | 336           | 385           | 449           |

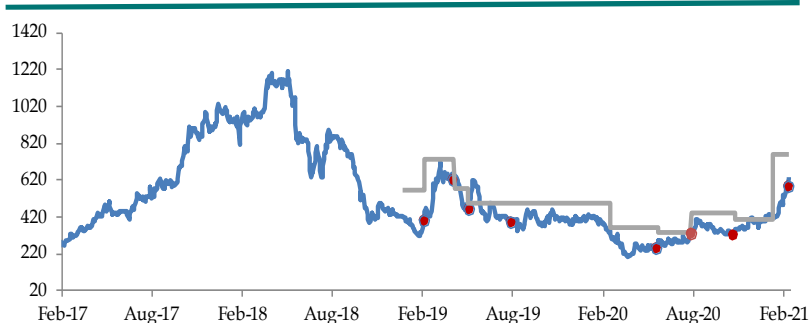
### CASH FLOW

| Y.E March (Rs Cr)       | FY19A        | FY20A         | FY21E       | FY22E        | FY23E        |
|-------------------------|--------------|---------------|-------------|--------------|--------------|
| Net inc. + Deprn.       | 1,125        | 1,000         | 934         | 1,331        | 1,615        |
| Non-cash adj.           | 443          | 431           | 382         | 223          | 118          |
| Changes in W.C          | -434         | 715           | -559        | -235         | -613         |
| <b>C.F.Operation</b>    | <b>1,045</b> | <b>2,109</b>  | <b>761</b>  | <b>1,326</b> | <b>1,129</b> |
| Capital exp.            | -468         | -263          | -133        | -306         | -157         |
| Change in inv.          | 0            | 0             | 0           | 0            | 0            |
| Other invest.CF         | 46           | 31            | 34          | 45           | 50           |
| <b>C.F - Investment</b> | <b>-704</b>  | <b>-853</b>   | <b>-465</b> | <b>-563</b>  | <b>-470</b>  |
| Issue of equity         | 0            | 0             | 0           | 0            | 0            |
| Issue/repay debt        | 451          | -346          | 135         | -70          | -80          |
| Dividends paid          | -16          | -16           | -16         | -16          | -16          |
| Other finance.CF        | -644         | -644          | -713        | -552         | -537         |
| <b>C.F - Finance</b>    | <b>-313</b>  | <b>-1,123</b> | <b>-373</b> | <b>-633</b>  | <b>-627</b>  |
| Chg. in cash            | 27           | 133           | -77         | 130          | 32           |
| Closing cash            | 189          | 322           | 245         | 374          | 407          |

### RATIOS

| Y.E March                      | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Profitab &amp; Return</b>   |       |       |       |       |       |
| EBITDA margin (%)              | 17.6  | 17.5  | 16.2  | 16.0  | 16.3  |
| EBIT margin (%)                | 14.1  | 12.8  | 11.6  | 12.0  | 12.6  |
| Net profit mgn.(%)             | 8.3   | 4.6   | 3.7   | 5.1   | 5.9   |
| ROE (%)                        | 26.9  | 12.2  | 9.1   | 14.0  | 34.1  |
| ROCE (%)                       | 19.2  | 11.1  | 9.6   | 11.1  | 24.5  |
| <b>W.C &amp; Liquidity</b>     |       |       |       |       |       |
| Receivables (days)             | 60.3  | 53.8  | 51.1  | 46.2  | 47.3  |
| Inventory (days)               | 115.9 | 133.6 | 140.7 | 129.8 | 134.8 |
| Payables (days)                | 81.8  | 85.5  | 70.3  | 48.4  | 43.4  |
| Current ratio (x)              | 2.4   | 2.1   | 2.2   | 2.0   | 2.0   |
| Quick ratio (x)                | 0.4   | 0.3   | 0.4   | 0.3   | 0.3   |
| <b>Turnover &amp; Leverage</b> |       |       |       |       |       |
| Gross asset T.O (x)            | 3.1   | 2.8   | 2.7   | 3.1   | 3.3   |
| Total asset T.O (x)            | 0.9   | 0.8   | 0.8   | 0.9   | 0.9   |
| Int. covge. ratio (x)          | 2.4   | 1.9   | 1.8   | 2.5   | 3.0   |
| Adj. debt/equity (x)           | 1.00  | 0.76  | 0.73  | 0.62  | 0.52  |
| <b>Valuation</b>               |       |       |       |       |       |
| EV/Sales (x)                   | 1.1   | 1.1   | 1.1   | 0.9   | 0.6   |
| EV/EBITDA (x)                  | 6.5   | 6.2   | 6.7   | 5.3   | 3.5   |
| P/E (x)                        | 11.3  | 20.7  | 25.2  | 14.6  | 11.2  |
| P/BV (x)                       | 2.3   | 2.1   | 1.9   | 1.6   | 1.4   |

## Recommendation Summary



Source: Bloomberg, Geojit Research.

| Dates                       | Rating     | Target |
|-----------------------------|------------|--------|
| 18 <sup>th</sup> Feb ,2019  | Buy        | 566    |
| 16 <sup>th</sup> April 2019 | Accumulate | 729    |
| 15 <sup>th</sup> May ,2019  | Buy        | 575    |
| 09 <sup>th</sup> Aug 2019   | Buy        | 489    |
| 27 <sup>th</sup> Feb 2020   | Accumulate | 358    |
| 02 <sup>nd</sup> June 2020  | Buy        | 336    |
| 17 <sup>th</sup> Aug ,2020  | Buy        | 429    |
| 07 <sup>th</sup> Nov 2020   | Buy        | 399    |
| 24 <sup>th</sup> Feb 2021   | Buy        | 753    |

## Investment Rating Criteria

| Ratings     | Large caps                 | Midcaps                   | Small Caps                |
|-------------|----------------------------|---------------------------|---------------------------|
| Buy         | Upside is above 10%        | Upside is above 15%       | Upside is above 20%       |
| Accumulate  | -                          | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold        | Upside is between 0% - 10% | Upside is between 0%-10%  | Upside is between 0%-10%  |
| Reduce/sell | Downside is more than 0%   | Downside is more than 0%  | Downside is more than 0%  |
| Not rated   |                            |                           |                           |

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

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