

# Dilip Buildcon Ltd.

BUY

CMP Rs. 544

Target Rs.663

Upside 22%

## Result Highlights

- ✓ Dilip Buildcon (DBL) has maintained its quarterly revenue momentum and posted strong revenue growth of 17.0% yoy and 18.6% qoq in Q4 FY21. The company reported revenue of Rs.29.3 bn in Q4 FY21. The execution has picked across project segments except mining which saw a deceleration of 8.0% yoy
- ✓ However, the operating margins in Q4 FY21 came under pressure due to one off charge of higher than normal CSR expenditure of Rs.450 mn and write-off of Rs.100 mn towards provision for doubtful debts. Excluding these one-off, the operating margin was 17.5%. Going forward the management expects the sharp increase in raw material cost to have near term impact on margins.
- ✓ During FY21, DBL witnessed robust order inflow of Rs.220 bn which is the highest every order inflow in a year. The order book also remains at its highest every level of Rs.274 bn with book to bill ratio of ~3.0x.
- ✓ The company has completed its project divestment deal with Shrem in FY21 and expects to close the deal with Cube in 1-2 months. The company expects a robust cash inflow of Rs.20.0 bn from its project divestment over FY22 to FY23. This would significantly improve the balance sheet strength of the company.
- ✓ The company raised Rs.5.1 bn via QIP in April 2021. This would be used to reduce debt and for Equity Investment in HAM projects. Overall the debt is expected to reduce by Rs.5.0 bn in FY22.

**Our view:** The execution has ramped up well over Q4 with better labor availability and execution in full swing. However, April and May have been impacted due to COVID related restrictions (impacting pace of execution) and the rising input costs. While Order book is extremely robust at 3x FY21 revenues, the growth in execution in FY22 is expected at ~15% with margins coming under bit of pressure. Strong pick up in execution would be expected in FY23 as COVID related challenges subside. The Cube deal payouts that is expected in near term and the QIP funds would help in reducing debt by Rs.5.0 bn in FY22. We have largely retained our estimates for FY23 and maintain our BUY rating on the stock for target price of Rs.663. (on SOTP basis). We have valued the EPC business at 10x FY23 EPS and Investments in BOT at book value.

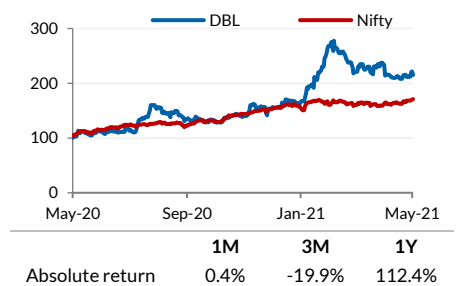
## Exhibit 1: Result table (Standalone)

| Particulars (Rs mn) | Q4 FY21 | Q4 FY20 | % yoy   | Q3 FY21 | % qoq   |
|---------------------|---------|---------|---------|---------|---------|
| Total sales         | 29,250  | 24,997  | 17.0    | 24,667  | 18.6    |
| EBITDA              | 4,562   | 4,127   | 10.6    | 4,069   | 12.1    |
| EBITDAM (%)         | 15.6    | 16.5    | -91 bps | 16.5    | -90 bps |
| Depreciation        | 961     | 1,059   | (9.2)   | 1,000   | (3.9)   |
| Interest            | 1,500   | 1,475   | 1.7     | 1,449   | 3.5     |
| Other income        | 50      | 96      | (48.2)  | 59      | (16.3)  |
| PBT                 | 2,150   | 1,689   | 27.3    | 1,680   | 28.0    |
| Tax                 | 877     | 588     | 49.3    | 569     | 54.1    |
| Adjusted PAT        | 1,273   | 1,101   | 15.6    | 1,111   | 14.6    |
| Exceptional item    | 0       | -50     | NA      | 0       | NA      |
| Reported PAT        | 1,273   | 1,151   | 10.6    | 1,111   | 14.6    |
| PATM (%)            | 4.4     | 4.4     | -5 bps  | 4.5     | -15 bps |
| EPS (Rs)            | 9.3     | 8.4     | 10.6    | 8.1     | 14.6    |

## Stock data (as on May 28, 2021)

|                         |              |
|-------------------------|--------------|
| Nifty                   | 15,436       |
| 52 Week h/l (Rs.)       | 720 / 254    |
| Market cap (Rs./USD mn) | 79592 / 1099 |
| Outstanding Shares (mn) | 146          |
| 6m Avg t/o (Rs. mn):    | 203          |
| Div yield (%):          | 0.2          |
| Bloomberg code:         | DBL IN       |
| NSE code:               | DBL          |

## Stock performance



## Shareholding pattern (As on April 26, 2021)

|          |        |
|----------|--------|
| Promoter | 70.15% |
| FII+DII  | 22.90% |
| Others   | 6.95%  |

## Δ in stance

| (1-Yr)       | New | Old |
|--------------|-----|-----|
| Rating       | BUY | BUY |
| Target Price | 663 | 613 |

## Financial Summary (Standalone)

| (Rs. mn)       | FY21   | FY22E   | FY23E   |
|----------------|--------|---------|---------|
| Revenues       | 92,089 | 104,681 | 123,470 |
| yoy growth (%) | 2.5    | 13.7    | 17.9    |
| EBITDA         | 14,690 | 16,219  | 20,927  |
| EBITDAM (%)    | 16.0   | 15.5    | 16.9    |
| Adjusted PAT   | 3,193  | 4,885   | 8,281   |
| yoy growth (%) | (6.6)  | 10.4    | 29.0    |
| EPS (Rs.)      | 23.3   | 33.4    | 56.6    |
| P/E (x)        | 23.3   | 16.3    | 9.6     |
| P/BV (x)       | 2.0    | 1.6     | 1.4     |
| EV/EBITDA (x)  | 7.5    | 6.6     | 5.0     |
| RoE (%)        | 8.5    | 11.1    | 15.6    |

## Δ in earnings estimates

|           | FY21 | FY22e | FY23e |
|-----------|------|-------|-------|
| EPS (New) | 23.3 | 33.4  | 56.6  |
| EPS (Old) | 23.3 | 39.5  | 55.7  |
| % change  | -    | -15.4 | 1.8   |

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## CON-CALL HIGHLIGHTS

- ✓ **Cube Deal:** The company expects to receive Rs.5.5 bn to Rs. 6.0 bn from the Cube deal in FY22 and around Rs.1.0 bn in FY23. The company expect to complete the deal in coming 1-2 months. The divestment agreement with Cube is a binding agreement and there is no fixed IRR clause in the agreement.
- ✓ Project execution was hampered by COVID related restrictions in April and May 2021. The labor strength has now come down to 65-70%. Other expense shot up in Q4 FY21 as DBL has done an excess CSR spend of Rs.450 mn and had a doubtful debt provision of Rs.100 mn. The company has received early completion bonus of around Rs.40 mn in Q4 FY21 and Rs.120 mn in FY21.
- ✓ **Guidance:** Given the order book, DBL is looking to achieve ~15% revenue growth in FY22. The growth could have been higher if April and May would not have been impacted. The management has guided that operating margins could come under pressure due to the sharp increase in raw material prices.
- ✓ **Order flows:** The company expects to book new orders of around Rs.120 bn in FY22 largely in the second half of the year and has currently bided for Rs.41 bn highspeed rail project where bids are yet to open.
- ✓ **Fund raise:** The company has completed its QIP of Rs.5.1 bn in April 2021 and would be using the funds largely towards debt reduction. The Company is looking to reduce Rs.5.0 bn of debt with the QIP funds along with the receipts from Cube Highways.
- ✓ **HAM Equity Infusions:** For the projects, currently in the order book the equity infusion would be around Rs.8.4 bn in FY22, Rs.4.1 bn in FY23 and Rs.3.3 bn in FY24.
- ✓ The utilization level in the company's fund based and non-fund based limits is around 80-85% and the cost of debt is in the range of 9.0% to 9.25% Vs. 10% earlier.
- ✓ The MDO Siarmal coalfield project is on schedule and the company expects to sign the agreement on 2<sup>nd</sup> June and production to start after one year. The company is open to bid for any more MDO projects but would not bid for projects from private players.
- ✓ The company has improved its net working capital cycle by 22 days qoq and by 8 days yoy. The ideal NWC cycle as per the management is 80 days and would maintain it around current levels. The increase in inventory is largely due to the sharp increase in material prices.
- ✓ The company has achieved annual order inflow of Rs.220 bn in FY21. The company has added 6 new HAM projects in Q4 FY21 with total bid project cost of Rs.68.8 bn. The total order book as at the end of FY21 stood at Rs. 274 bn.
- ✓ The land availability across all the recently won 6 HAM projects is good with 60-70% of the compensation already been released. The Company expects appointed date in October for all the 6 HAM projects.
- ✓ The company expect a capex of ~Rs.1.0 bn in FY22.
- ✓ The Panchwara coal mine case is still status quo. The last hearing is pending in the Supreme Court.
- ✓ As at the end of March 2021, Mobilization advance stood at Rs.9.7 bn, Retention money at Rs.7.5 bn and Unbilled revenue at Rs.5.8 bn

## STANDALONE FINANCIALS

### Exhibit 2: Balance sheet

| Y/e 31 Mar (Rs. mn)              | FY20          | FY21          | FY22E         | FY23E         |
|----------------------------------|---------------|---------------|---------------|---------------|
| Share capital                    | 1,368         | 1,368         | 1,462         | 1,462         |
| Reserve & Surplus                | 34,692        | 37,804        | 47,549        | 55,684        |
| <b>Total shareholder's funds</b> | <b>36,060</b> | <b>39,172</b> | <b>49,011</b> | <b>57,146</b> |
| Debt                             | 32,562        | 33,921        | 27,921        | 26,601        |
| Other liabilities                | 11,052        | 8,415         | 6,811         | 8,098         |
| <b>TOTAL</b>                     | <b>79,674</b> | <b>81,508</b> | <b>83,744</b> | <b>91,845</b> |
| Net block                        | 20,275        | 19,149        | 15,898        | 13,452        |
| Capital WIP                      | 43            | 1             | 1             | 1             |
| Long term investments            | 11,444        | 10,447        | 13,247        | 18,247        |
| Other long-term assets           | 10,664        | 9,941         | 11,472        | 13,531        |
| Inventories                      | 26,309        | 30,294        | 31,548        | 33,827        |
| Debtors                          | 12,397        | 11,047        | 12,906        | 15,222        |
| Cash & equivalents               | 3,219         | 2,922         | 1,098         | 895           |
| Other current assets             | 27,224        | 28,094        | 28,742        | 31,741        |
| Total current liabilities        | 31,902        | 30,388        | 31,168        | 35,071        |
| Net current assets               | 37,247        | 41,969        | 43,126        | 46,615        |
| <b>TOTAL</b>                     | <b>79,674</b> | <b>81,508</b> | <b>83,744</b> | <b>91,845</b> |

### Exhibit 3: Income statement

| Y/e 31 Mar (Rs mn)      | FY20          | FY21          | FY22E          | FY23E          |
|-------------------------|---------------|---------------|----------------|----------------|
| <b>Revenue</b>          | <b>89,838</b> | <b>92,089</b> | <b>104,681</b> | <b>123,470</b> |
| <b>Operating profit</b> | <b>15,720</b> | <b>14,690</b> | <b>16,219</b>  | <b>20,927</b>  |
| Depreciation            | 4,241         | 4,071         | 4,251          | 4,446          |
| PBIT                    | 11,479        | 10,619        | 11,968         | 16,481         |
| Interest expense        | 6,127         | 5,862         | 4,886          | 4,655          |
| Other income            | 313           | 291           | 320            | 352            |
| Exceptional items       | (89)          | 0             | 0              | 0              |
| Profit before tax       | 5,665         | 5,048         | 7,402          | 12,178         |
| Taxes                   | 1,505         | 1,855         | 2,517          | 3,897          |
| <b>Adj. Net profit</b>  | <b>4,160</b>  | <b>3,193</b>  | <b>4,885</b>   | <b>8,281</b>   |

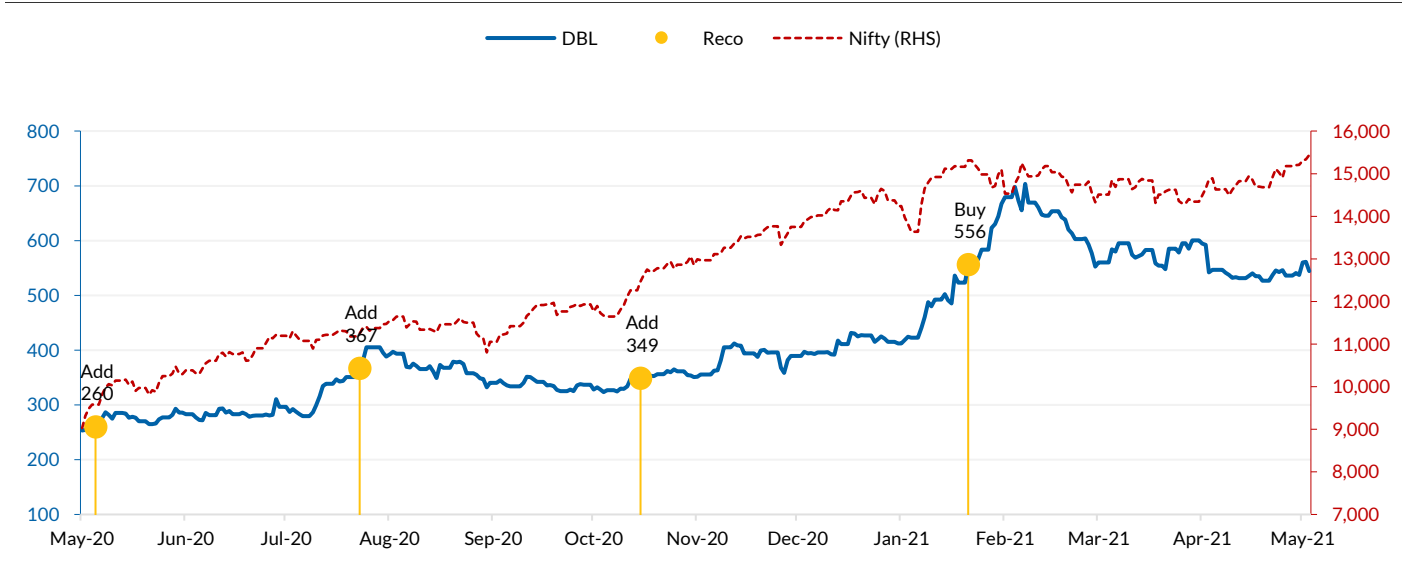
## Exhibit 4: Cash flow statement

| Y/e 31 Mar (Rs mn)              | FY20           | FY21           | FY22E          | FY23E          |
|---------------------------------|----------------|----------------|----------------|----------------|
| PBT                             | 5,754          | 5,048          | 7,402          | 12,178         |
| Depreciation                    | 4,241          | 4,071          | 4,251          | 4,446          |
| Others                          | 6,112          | 5,571          | 4,566          | 4,303          |
| Tax Paid                        | (1,950)        | (1,855)        | (2,517)        | (3,897)        |
| Changes in WC                   | 4,371          | (5,019)        | (2,980)        | (3,692)        |
| <b>Net Cash from Operations</b> | <b>18,529</b>  | <b>7,816</b>   | <b>10,722</b>  | <b>13,338</b>  |
| Capex                           | (3,068)        | (2,904)        | (999)          | (2,000)        |
| Change in Investment            | (4,911)        | 998            | (2,800)        | (5,000)        |
| Others                          | 270            | 1,013          | (1,211)        | (1,707)        |
| <b>Net Cash from Investing</b>  | <b>(7,709)</b> | <b>(893)</b>   | <b>(5,010)</b> | <b>(8,707)</b> |
| Change in debt                  | (3,201)        | 1,359          | (6,000)        | (1,320)        |
| Change in Equity                | 0              | 84             | 5,100          | 0              |
| Others                          | (6,288)        | (8,664)        | (6,636)        | (3,514)        |
| <b>Net Cash from Financing</b>  | <b>(9,489)</b> | <b>(7,221)</b> | <b>(7,536)</b> | <b>(4,834)</b> |
| <b>Net Change in Cash</b>       | <b>1,331</b>   | <b>(297)</b>   | <b>(1,824)</b> | <b>(203)</b>   |

## Exhibit 5: Ratio analysis

| Y/e 31 Mar                     | FY20  | FY21E | FY22E | FY23E |
|--------------------------------|-------|-------|-------|-------|
| <b>PROFITABILITY RATIOS</b>    |       |       |       |       |
| EBITDA Margin (%)              | 17.5  | 16.0  | 15.5  | 16.9  |
| Adjusted net margin (%)        | 4.7   | 3.5   | 4.7   | 6.7   |
| Return on invested capital (%) | 11.0  | 8.6   | 9.8   | 13.0  |
| Return on equity (%)           | 12.5  | 8.5   | 11.1  | 15.6  |
| <b>EFFICIENCY RATIOS</b>       |       |       |       |       |
| Asset Turnover (x)             | 4.4   | 4.8   | 6.6   | 9.2   |
| Debt to equity (x)             | 0.9   | 0.9   | 0.6   | 0.5   |
| Net debt to equity (x)         | 0.8   | 0.8   | 0.5   | 0.4   |
| Interest coverage (x)          | 1.9   | 1.8   | 2.4   | 3.5   |
| Debtor days                    | 50.4  | 43.8  | 45.0  | 45.0  |
| Inventory days                 | 106.9 | 120.1 | 110.0 | 100.0 |
| Payable days                   | 66.6  | 81.8  | 70.0  | 65.0  |
| <b>PER SHARE DATA</b>          |       |       |       |       |
| Diluted EPS (Rs.)              | 30.4  | 23.3  | 33.4  | 56.6  |
| Book value per share (Rs.)     | 246.6 | 267.9 | 335.2 | 390.8 |
| DPS (Rs.)                      | 1.0   | 1.0   | 1.0   | 1.0   |
| <b>VALUATION RATIOS</b>        |       |       |       |       |
| P/E (x)                        | 17.9  | 23.3  | 16.3  | 9.6   |
| P/BV (x)                       | 2.2   | 2.0   | 1.6   | 1.4   |
| EV/EBITDA (x)                  | 6.9   | 7.5   | 6.6   | 5.0   |
| Dividend Yield (%)             | 0.2   | 0.2   | 0.2   | 0.2   |

## Recommendation Tracker



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