

MBL Infrastructures

Performance Highlights

Quarterly highlights - Standalone

Y/E March (₹ cr)	2QFY16	1QFY16	2QFY15	% chg (yoy)	% chg (qoq)
Net sales	406	610	348	16.8	(33.4)
EBITDA	47	65	53	(10.0)	(26.9)
Reported PAT	18	29	21	(17.6)	(39.8)

Source: Company, Angel Research

For 2QFY2016, MBL Infrastructures (MBL) reported a 16.8% yoy top-line growth to ₹406cr. The company reported a yoy decline in EBITDA margin to 11.7% for the quarter. During 2QFY2015, MBL had received ₹5cr as escalation amount from the Guwahati project. On adjusting for the same, the EBITDA margin declined 202bp yoy. Fall in yoy EBITDA margin reflects (1) 85.8% increase in other expenses (to ₹29cr) and 82.8% increase in labor and sub-contracting costs (to ₹28cr). The 41.5% yoy increase in employee expenses is mainly on account of induction of new employees into the company in earlier quarters. Despite strong execution, EBITDA decline on a yoy basis percolated to the PAT level; PAT declined by 17.6% yoy to ₹18cr. The Reported PAT margin of the company declined from 6.2% a year ago to 4.4% in 2QFY2016.

MBL's unexecuted order book as of 2QFY2016 stands at ~₹2,150cr (order book to LTM revenues is at 1.0x).

With 3 BOT projects expected to commence tolling in FY2016-2017E and Management clarifying that it does not intend to add any new BOT projects to the company's portfolio till FY2017, we are confident that MBL's D/E ratio would peak out in FY2017E at 2.3x.

Outlook and valuation: We continue to maintain our positive view on MBL considering its historical execution experience, huge emerging market opportunity in the Roads & Highways vertical and 3 BOTs expected to commence operations in the next 12-15 months. Likelihood of 3 BOT projects commencing operations in FY2017E comforts us to estimate that the consolidated Balance Sheet should peak in FY2017E, which is comparatively better than some of its peers. Using SoTP based valuation methodology we arrive at FY2017E based price target of ₹285. **Given the upside potential, we maintain our Buy on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15P	FY16E	FY17E
Net Sales	1,355	1,766	1,962	2,313	2,797
% chg		30.3	11.1	17.9	21.0
Net Profit	57	77	82	80	84
% chg		35.9	6.0	(2.1)	5.0
EBITDA (%)	10.6	10.7	12.1	12.2	14.6
EPS (₹)	32	44	39	19	20
P/E (x)	6.4	4.7	5.2	10.7	10.2
P/BV (x)	0.9	0.8	0.7	1.1	1.0
RoE (%)	15.2	17.8	14.5	11.3	10.6
RoCE (%)	14.6	15.6	14.9	12.1	13.9
EV/Sales (x)	0.7	0.6	0.7	1.1	1.0
EV/EBITDA (x)	6.5	5.7	6.0	8.8	6.5

Source: Company, Angel Research; CMP as of November 16, 2015

BUY

CMP	₹206
Target Price	₹285

Investment Period	12 Months
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Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	856
Net debt (₹ cr)	987
Beta	1.0
52 Week High / Low	329/170
Avg. Daily Volume	7,511
Face Value (₹)	10
BSE Sensex	25,760
Nifty	7,807
Reuters Code	MBL.BO
Bloomberg Code	MBL@IN

Shareholding Pattern (%)	
Promoters	46.7
MF / Banks / Indian Fls	28.0
FII / NRIs / OCBs	11.8
Indian Public / Others	13.5

Abs. (%)	3m	1yr	3yr
Sensex	(7.6)	(8.6)	40.5
MBL	(21.1)	9.9	144.1

3-Year Daily Price Chart



Source: Company, Angel Research

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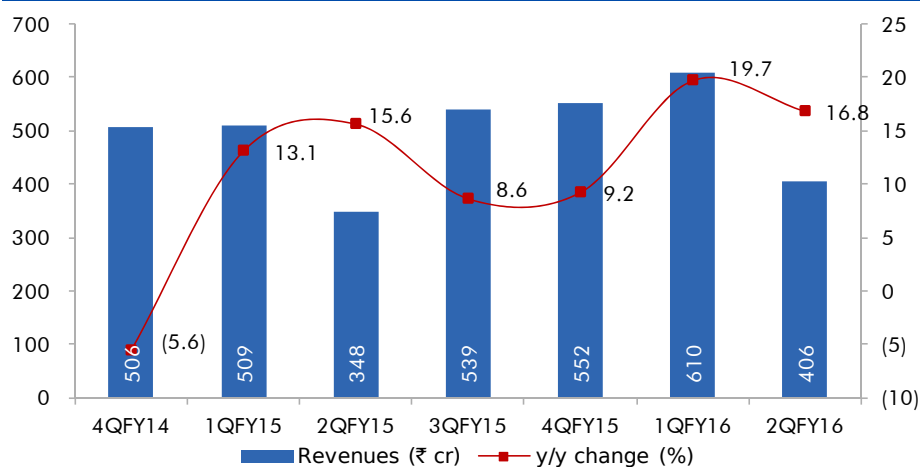
Exhibit 1: Quarterly Performance (Standalone)

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	1HFY16	1HFY15	% chg
Net Sales	406	610	(33.4)	348	16.8	1,016	857	18.5
Total Expenditure	359	545	(34.2)	295	21.5	904	751	20.3
Cost of materials consumed	290	467	(37.9)	256	13.3	757	676	11.9
Direct Labour, Sub-Contracts, etc.	28	34	(17.9)	15	82.8	62	25	147.8
Employee benefits Expense	12	11	6.1	9	41.5	23	17	41.7
Other Expenses	29	33	(12.8)	16	85.8	62	34	83.9
EBITDA	47	65	(26.9)	53	(10.0)	112	106	5.8
EBIDTA %	11.7	10.6		15.1		11.0	12.4	
Depreciation	4	4	2.2	4	12.8	8	8	11.0
EBIT	43	61	(28.9)	49	(11.7)	104	98	5.5
Interest and Financial Charges	24	24	(1.9)	23	3.8	48	42	15.7
Other Income	2	1	388.2	0	632.4	3	1	368.8
PBT before Exceptional Items	22	37	(41.1)	26	(17.1)	58	57	2.0
Exceptional Items	0	0		0		0	0	
PBT after Exceptional Items	22	37	(41.1)	26	(17.1)	58	57	2.0
Tax	4	7	(46.1)	5	(14.7)	11	12	(10.2)
% of PBT	18.1	19.8		17.6		19.1	21.8	
PAT after Minority Int.	18	29	(39.8)	21	(17.6)	47	45	5.4
Adj. PAT %	4.4	4.8		6.2		4.6	5.2	
Dil. EPS	8.53	14.18	(39.8)	12.21	(30.1)	22.71	25.49	(10.9)

Source: Company, Angel Research

Standalone Business Review
16.8% yoy revenue growth

MBL reported 16.8% yoy top-line growth to ₹406cr. On a sequential basis, the top-line de-grew by 33.4%.

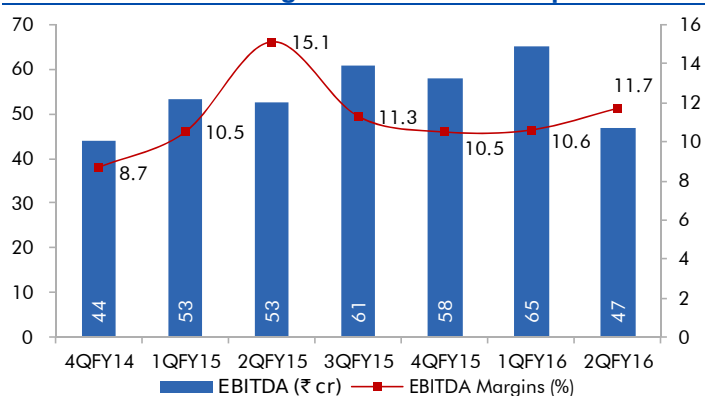
Exhibit 2: Quarterly Revenues


Source: Company, Angel Research

EBITDA margin at 11.7%

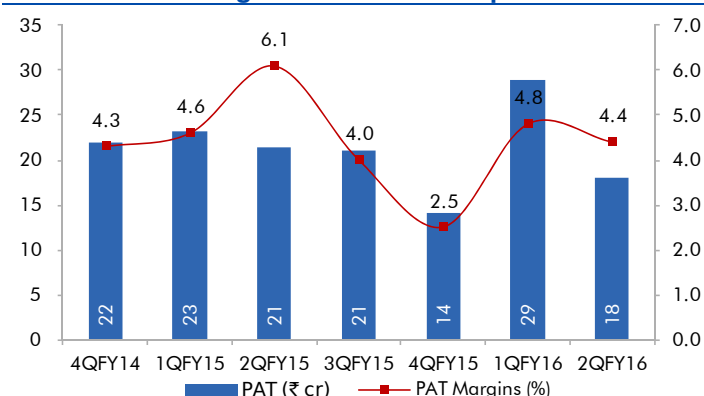
On the EBITDA margin front, MBL reported a yoy decline in margin to 11.7% for 2QFY2016. During 2QFY2015, MBL received ₹5cr as escalation amount from the Guwahati project. On adjusting for the same, the EBITDA margin declined by 202bps on a yoy basis. Fall in yoy EBITDA margin reflects (1) 85.8% increase in other expenses (to ₹29cr) and 82.8% increase in labor and sub-contracting costs (to ₹28cr). The 41.5% yoy increase in employee expenses is mainly on account of induction of new employees into the company in earlier quarters.

Exhibit 3: EBITDA margin at 11.7% for the quarter



Source: Company, Angel Research

Exhibit 4: PAT Margin at 4.4% for the quarter



Source: Company, Angel Research

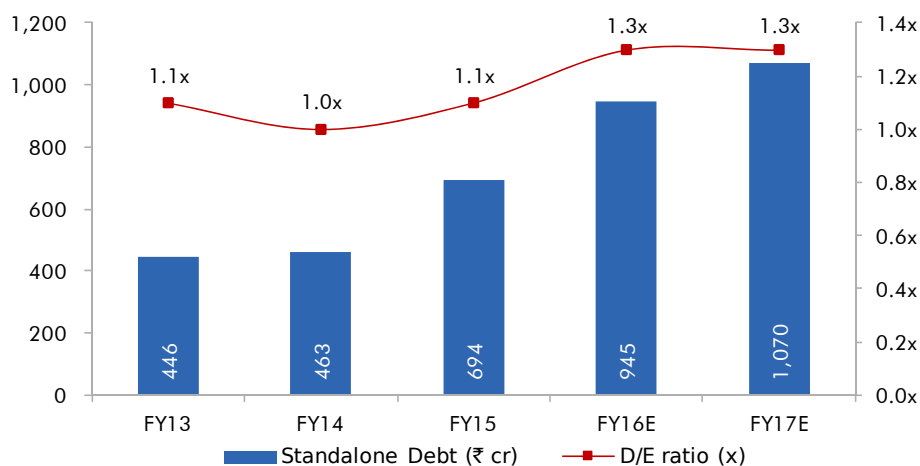
PAT margins declines yoy to 4.4%

Despite strong execution, EBITDA decline on a yoy basis percolated to the PAT level. MBL reported a 17.6% yoy decline in its PAT to ₹18cr. Reported PAT margins of the company declined from 6.2% a year ago to 4.4% in 2QFY2016.

Comfortable D/E ratio

In 4QFY2015, post correction of Steel & Stone Aggregate prices, MBL spent on building inventories. With ramp-up in execution, we expect some release of inventory, which should further lead to ease in the working capital cycle of the company. Accordingly, interest expenses on a qoq basis have seen some moderation with a 1.9% decline to ₹24cr. The Standalone entity's D/E ratio as of 1HFY2016-end stood at 1.2x, which is a comfortable level.

Exhibit 5: Standalone D/E



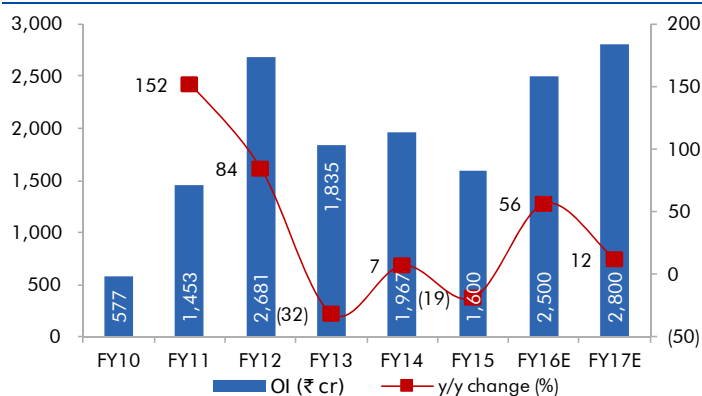
Source: Company, Angel Research

Order Inflow yet to gain momentum

In FY2015 MBL reported order inflows to the tune of ~₹1,600cr.

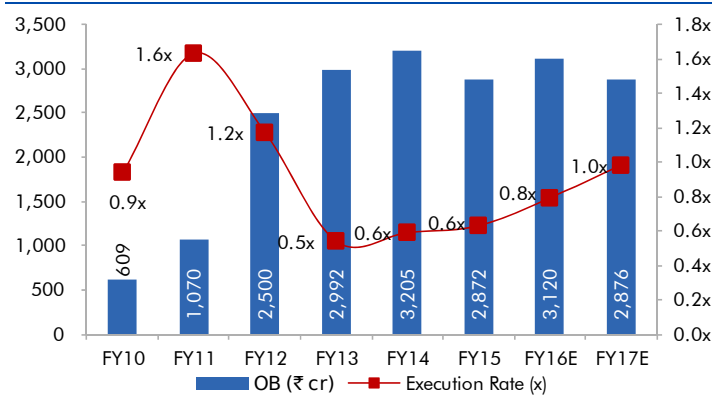
In 1QFY2016 MBL won ~₹200cr of smaller orders. In 2QFY2016, MBL benefitted from ~₹337cr of escalation in the value of the order book. At the backdrop of the company claiming strong bid pipeline and the Management maintaining its order inflow guidance of ~₹3,500cr for FY2016, we are hopeful that MBL should report new order wins during 3Q-4QFY2016E.

Exhibit 6: Order Inflows



Source: Company, Angel Research

Exhibit 7: Order Book



Source: Company, Angel Research

MBL's unexecuted order book as of 2QFY2016 stands at ~₹2,150cr (OB to LTM sales ratio of 1.0x).

Update on BOT projects

In addition to the already operational Seoni-Balaghat-Rajegaon Road BOT project, Waraseoni-Lalbarra BOT project commenced operations during the quarter.

Exhibit 8: BOT Projects Status (at 2QFY2016-end)

Name of SPV	AAPIL	MPTRCL	MPRNCL	MHDCL	SBTRCPL
Project	Seoni-Balaghat-Rajegaon	Waraseoni-Lalbarra	Garra-Waraseoni	Seoni-Katangi	Suratgarh-Bikaner
BOT Type	Toll	Toll + Annuity	Toll + Annuity	Toll	Toll
Length (kms)	114	18	47	76	172
Total Project Cost	108	57	137	212	620
EPC component	82	40	108	154	496
EPC works o/s	0	0	76	11	288
Equity	12	15	40	82	170
Debt	50	42	97	130	450
Debt Pending/ (o/s)	(28)	(49)	(97)	49	237
Equity pending	0	0	0	0	50

Source: Company, Angel Research

The Management highlighted that the Seoni-Katangi and Garra-Waraseoni BOT projects could get provisional Date of Completion (CoD) in FY2016 and full CoD in FY2017E. Similarly, Suratgarh-Bikaner BOT project is expected to report CoD in FY2017E.

Even though substantial portion of the total EPC works at Seoni-Katangi BOT project is completed, MBL's Management expects CoD for this project to come around June-2016E. Such delay is on account of change in the scope of project for a 5km stretch near Katangi Township, where Madhya Pradesh Road Dev. Corporation (MPRDC) would reimburse ~₹35cr to MBL.

With the entire equity infusion having been done across Seoni-Katangi and Garra-Waraseoni BOT projects, MBL is left with ₹50cr of equity infusion (of the total ₹278cr of equity investments for all the 4 BOT projects, excluding Seoni-Balaghat-Rajegaon BOT projects) in the next 12 months, towards the Bikaner-Suratgarh project. MBL is expected to fund the required equity for the BOT through internal accruals.

Valuation

We recommend Buy with target price of ₹285

We have valued MBL using Sum-Of-The-Parts method. MBL's EPC business (under standalone entity) has been valued using FY2017E P/E multiple, whereas BOT projects are valued using the "Free Cash flow to Equity holders" method.

Value of Core EPC business

On considering growth prospects (for the EPC business), we have valued MBL's core EPC business on P/E multiple of 9.0x for its FY2017E EPS of ₹26, resulting in a value of ₹232 per share.

Exhibit 9: Sum-of-the-Parts based Valuation Table

Particulars	Segment	FY17E Std. PAT (₹ cr)	Target Multiple	Target Value (₹ cr)	Value/ share (₹)	% of SoTP	Basis
MBL's EPC business	Construction	106	9.0	962	232	82	P/E
Total				962	232	82	
Particulars	Proj. Type	Discounted FCFE (₹ cr)	Project Stake	Adj. FCFE Value (₹ cr)	Value/ share (₹)	% of SoTP	Basis
Road BOT projects							
Seoni-Balaghat-Rajegaon	Toll	31	100%	31	7	3	K_e of 17%
Waraseoni-Lalbarra	Toll + Annuity	22	100%	22	5	2	K_e of 17%
Garra-Waraseoni	Toll + Annuity	17	100%	17	4	1	K_e of 17%
Seoni-Katangi	Toll	74	100%	74	18	6	K_e of 17%
Suratgarh-Bikaner	Toll	114	65%	74	18	6	K_e of 17%
Total		258		218	53	18	
Grand Total				1,180	285	100	
Upside					38%		
CMP					206		

Source: Company, Angel Research

Value of BOT projects

BOT projects have been valued using "Free Cash flow to Equity holders" method. Our value for all the 5 BOT projects comes to ₹53/share, which is 18% of the overall SOTP value of the company.

On combining the value of EPC business BOT projects, we arrive at a combined business value of ₹285/share, reflecting 38% upside in the stock price from the current levels. **Given the upside, we maintain our BUY rating on the stock.**

Investment arguments

- **Strong order inflows to lead to better execution:** On the back of revival in NHAI and MoRTH award activity, MBL a specialist EPC player, is expected to report strong order inflow growth during 3Q-4QFY2016. We expect MBL to report order inflows of ₹2,500cr/₹2,800cr during FY2016/FY2017E, respectively, which gives increased comfort towards strong uptick in execution. Accordingly, we expect MBL (on a standalone basis) to report a strong 17% top-line CAGR during FY2015-17.
- **15% PAT CAGR during FY2015-17:** Stronger execution, which should result in better absorption of fixed costs, should help the standalone entity report 15% EBITDA CAGR during FY2015-17. We expect the effect of strong operating performance to flow-down to the PAT level too. We expect MBL (standalone entity) to report 15% CAGR during the same period.
- **BOT projects nearing completion:** MBL has a portfolio of 5 BOT Road projects, of which 4 are won on “Toll+Grant” or “Toll+Annuity” model. This, when coupled with the fact that 4 of these projects are in the mineral belt region and are inter-connected with no alternate roads, indicates that these projects could generate impressive equity IRRs. With recent commencement of 1 BOT project and another 3 BOT projects in FY2017, we can expect a possible easing in the balance sheet stress.
- **Comfortable Balance Sheet:** MBL is one of the few Road developers with lower consolidated D/E ratio of 1.6x (as of FY2015-end). With 2 BOT projects already operating and 3 of them expected to commence tolling in FY2016-2017E, when coupled with Management’s clarification that it does not intend to add any new BOT projects to the company’s portfolio till FY2017, we are confident that MBL’s D/E ratio would peak out in FY2017.

Risks & Concerns

- Delays in order wins could pose as a risk to our estimates.
- Roads & Highways account for over 70% of the order book. Any slowdown in orders from NHAI or State governments could affect its order inflow adversely.
- MBL's order book comes majorly from the East and the North regions. Any slowdown in orders from these two areas may impact our order inflow assumption of the company.
- Any further delays in the commencement of BOT projects, than our estimated time-line.

Company background

MBL Infrastructures Ltd is engaged in the construction and maintenance of roads and highways, industrial infrastructure projects and other civil engineering projects for various government bodies and other clients. They have executed and undertaken a number of projects in states such as West Bengal, Madhya Pradesh, Uttarakhand, Orissa, Rajasthan, Assam, Uttar Pradesh, Bihar, Delhi, Andhra Pradesh, Chattisgarh, Jharkhand, Haryana and Karnataka. MBL’s clients include NHAI, MPRDC, MMRDA, CPWD and State PWDs.

Profit and Loss Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	1,355	1,766	1,962	2,313	2,797
% Chg		30.3	11.1	17.9	21.0
Total Expenditure	1,212	1,578	1,725	2,031	2,389
Cost of Materials Consumed	954	1,376	1,517	1,777	2,089
Direct Labour, Sub-Contracts	180	118	84	138	161
Employee benefits Expense	23	27	37	36	41
Other Expenses	55	57	87	79	98
EBITDA	143	188	237	282	408
% Chg		31.2	25.9	19.0	44.8
EBITDA %	10.6	10.7	12.1	12.2	14.6
Depreciation	11	14	20	33	57
EBIT	132	174	217	249	351
% Chg		31.6	24.5	14.8	41.1
Interest and Financial Charges	58	75	101	140	246
Other Income	2	4	3	3	3
PBT	76	103	119	111	108
Tax	20	26	37	31	39
% of PBT	25.7	25.2	31.3	28.1	35.6
PAT before Exceptional item	57	77	82	80	70
Exceptional item	0	0	0	0	0
PAT before Minority Interest	57	77	82	80	70
Minority Interest	0	0	0	0	(14)
PAT after Minority Interest	57	77	82	80	84
% Chg		35.9	6.0	(2.1)	5.0
PAT %	4.2	4.4	4.2	3.5	3.0
Diluted EPS	32	44	39	19	20
% Chg		36.0	(10.5)	(51.1)	5.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Sources of Funds					
Equity Capital	18	18	21	41	41
Reserves Total	380	451	635	715	779
Networth	398	469	656	756	820
Total Debt	644	772	1,063	1,680	1,848
Other Long-term Liabilities	44	40	80	73	73
Minority Interest	0	32	0	0	(14)
Deferred Tax Liability	30	34	41	35	35
Total Liabilities	1,116	1,347	1,839	2,544	2,762
Application of Funds					
Gross Block	248	287	351	921	1,663
Accumulated Depreciation	59	73	91	120	181
Net Block	189	214	260	801	1,482
Capital WIP	209	376	497	620	0
Investments	20	20	24	24	24
Current Assets					
Inventories	₹491	559	811	807	919
Sundry Debtors	253	318	395	450	544
Cash and Bank Balance	77	68	76	49	39
Loans, Advances & Deposits	72	98	88	101	104
Other Current Asset	6	8	7	6	7
Current Liabilities	208	330	379	375	417
Net Current Assets	692	721	998	1,038	1,195
Other Assets	6	16	61	61	61
Total Assets	1,116	1,347	1,839	2,544	2,762

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Profit before tax	76	103	119	111	108
Depreciation	11	14	20	33	57
Change in Working Capital	(35)	(56)	(261)	(217)	(488)
Interest & Financial Charges	58	75	101	140	246
Direct taxes paid	(48)	(14)	(37)	(31)	(39)
Cash Flow from Operations	62	122	(58)	37	(115)
(Inc)/ Dec in Fixed Assets	(172)	(206)	(186)	(552)	197
(Inc)/ Dec in Investments	(20)	0	(4)	0	0
Cash Flow from Investing	(191)	(206)	(190)	(552)	197
Issue/ (Buy Back) of Equity	0	0	117	21	0
Inc./ (Dec.) in Loans	202	128	290	617	176
Dividend Paid (Incl. Tax)	(3)	(6)	(7)	(8)	(9)
Interest Expenses	(58)	(75)	(101)	(140)	(246)
Minority Interest	0	32	(32)	0	(14)
Cash Flow from Financing	142	78	267	490	(92)
Inc./ (Dec.) in Cash	13	(6)	18	(26)	(11)
Opening Cash balances	50	63	57	75	49
Closing Cash balances	63	57	75	49	39

Key Ratios (Consolidated)

Y/E March	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)					
P/E (on FDEPS)	6.4	4.7	5.2	10.7	10.2
P/CEPS	5.3	4.0	4.2	7.6	6.1
Dividend yield (%)	1.5	1.5	1.5	0.8	0.9
EV/Sales	0.7	0.6	0.7	1.1	1.0
EV/EBITDA	6.5	5.7	6.0	8.8	6.5
EV / Total Assets	0.8	0.8	0.8	1.0	1.0
Per Share Data (₹)					
EPS (fully diluted)	32.3	44.0	39.4	19.3	20.2
Cash EPS	38.7	52.0	49.1	27.3	34.0
DPS	3.0	3.0	3.1	1.6	1.9
Book Value	227.1	267.6	316.5	182.5	197.9
Returns (%)					
RoCE (Pre-tax)	14.6	15.6	14.9	12.1	13.9
Angel RoIC (Pre-tax)	12.9	14.4	12.8	10.3	13.3
RoE	15.2	17.8	14.5	11.3	10.6
Turnover ratios (x)					
Asset Turnover (Gross Block) (X)	0.6	0.7	0.7	0.5	0.4
Inventory / Sales (days)	127	108	127	128	113
Receivables (days)	57	59	66	67	65
Payables (days)	18	25	37	32	19
Leverage Ratios (x)					
D/E ratio (x)	1.6	1.6	1.6	2.2	2.3
Interest Coverage Ratio (x)	2.3	2.4	2.2	1.8	1.4

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Disclosure of Interest Statement	MBL Infrastructures
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)