

## Sadbhav Engineering

### Performance Highlights

#### Quarterly highlights - Standalone

Y/E March (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
<b>Net sales</b>	<b>858</b>	<b>967</b>	<b>(11.3)</b>	<b>753</b>	<b>13.9</b>
Operating profit	81	96	(15.0)	74	10.2
<b>Adj. Profit</b>	<b>50</b>	<b>39</b>	<b>28.0</b>	<b>26</b>	<b>91.7</b>

Source: Company, Angel Research

Sadbhav Engineering (SEL) reported an impressive Adj. PAT for 4QFY2016. On the top-line front, it reported an 11.3% yoy decline to ₹858cr, which is lower than our estimates. Lower contribution from the in-house BOT portfolio led to such revenue decline. Further, higher employee expenses in addition to low contribution from in-house BOT projects led SEL to report a 41bp yoy decline in EBITDA margin to 9.5%, which is almost in-line with our expectations. PAT for the quarter came in at ₹41cr. On adjusting for exceptional item of ₹9cr, SEL's Adj. PAT stood at ₹50cr, which is ahead of our expectation of ₹44cr. Adjusted PAT margin stood at 5.8% for the quarter vs 4.0% in corresponding period a year ago. 4QFY2016 Adj. PAT benefited from high other income and low tax rate. As of 4QFY2016, SEL is sitting on an order book of ₹7,487cr (Order Book to LTM ratio at 2.4x), which provides good revenue visibility.

**Outlook and Valuation:** Road order wins in FY2016, strong NHA bid pipeline, uptick in MDO awarding, strengthens our view that Sadbhav is poised to report 2.4x growth in its Order Inflows during FY2016-18E to ₹6,050cr. Considering execution cycle and Order Book mix, we expect Sadbhav to report 1.6x growth in its Order book during FY2016-18E to ₹11,949cr. On the back of their strong Order Book, we expect Sadbhav to report 14.0% revenue CAGR during FY2016-18E to ₹4,140cr. On assuming 36bps EBITDA margin expansion, conservative other income and low tax rate for FY2017/2018E, we expect SEL's PAT margin to expand by 75bps during FY2016-18E to 4.9%.

We value SEL using Sum-Of-The-Parts methodology. We value standalone entity on P/E multiple of 12.0x its FY2018E EPS of ₹11.9, resulting in value of ₹143 per share. We value BOT projects individually using Free Cash flow to Equity holder's method. Our value for SIPL's portfolio of BOT projects comes to ₹154/share, which is 52% of overall SOTP value for the company. On combining the value of EPC business and BOT projects, we arrive at a combined business value of ₹298/share, reflecting 18% upside in stock price from current levels. **Accordingly, we upgrade our recommendation on the stock to BUY.**

#### Key financials (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Net Sales</b>	<b>1,811</b>	<b>2,358</b>	<b>2,970</b>	<b>3,186</b>	<b>3,598</b>	<b>4,140</b>
% chg	(32.3)	30.2	25.9	7.3	12.9	15.1
<b>Net Profit</b>	<b>13</b>	<b>145</b>	<b>118</b>	<b>134</b>	<b>155</b>	<b>205</b>
% chg	(47.3)	1000.3	(18.4)	13.4	15.8	32.3
EBITDA (%)	8.6	10.6	10.3	10.2	10.3	10.6
<b>EPS (Rs)</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>12</b>
P/E (x)	51.6	36.0	38.1	32.4	27.9	21.1
P/BV (x)	4.6	4.0	3.2	2.9	2.7	2.4
RoE (%)	9.3	11.9	9.9	9.4	9.9	11.9
RoCE (%)	9.0	12.0	10.3	10.5	0.0	12.9
EV/Sales (x)	2.5	2.0	1.8	1.7	1.5	1.3
EV/EBITDA (x)	28.7	18.5	17.4	16.4	14.4	11.9

Source: Company, Angel Research; Note: CMP as of May 5, 2016

## BUY

CMP	₹ 252
Target Price	₹ 298

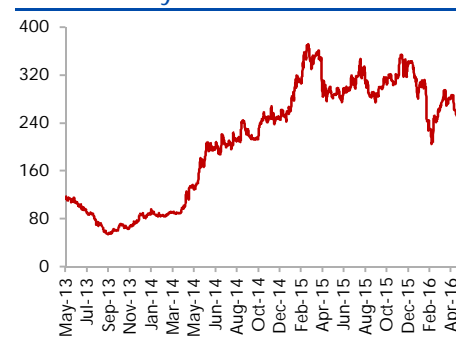
Investment Period	12 Months
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Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	4,330
Net Debt (₹ cr)	1,022
Beta	1.1
52 Week High / Low	370/199
Avg. Daily Volume	154,144
Face Value (₹)	1
BSE Sensex	25,262
Nifty	7,736
Reuters Code	SADE.BO
Bloomberg Code	SADE@IN

Shareholding Pattern (%)	
Promoters	47.1
MF / Banks / Indian FIs	28.1
FII / NRIs / OCBs	15.0
Indian Public / Others	9.8

Abs. (%)	3m	1yr	3yr
Sensex	4.0	(5.4)	28.4
Sadbhav	(15.7)	(13.3)	121.7

#### 3-Year Daily Price Chart



Source: Company, Angel Research

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**Exhibit 1: 4QFY2016 performance (Standalone)**

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)	FY16	FY15	% chg (yoy)
<b>Net Sales</b>	<b>858</b>	<b>753</b>	<b>13.9</b>	<b>967</b>	<b>(11.3)</b>	<b>3,186</b>	<b>2,970</b>	<b>7.3</b>
<b>Total Expenditure</b>	<b>777</b>	<b>679</b>	<b>14.3</b>	<b>872</b>	<b>(10.9)</b>	<b>2,861</b>	<b>2,665</b>	<b>7.3</b>
Construction Expenses	700	608	15.1	785	(10.8)	2,590	2,432	6.5
Changes in Inv. Of FG & WIP	0	0	<i>nmf</i>	0	<i>nmf</i>	0	0	<i>nmf</i>
Employee Benefits Expense	31	31	(0.5)	27	15.6	122	97	25.5
Other Expenses	46	40	14.0	60	(23.9)	148	136	8.9
<b>EBITDA</b>	<b>81</b>	<b>74</b>	<b>10.2</b>	<b>96</b>	<b>(15.0)</b>	<b>325</b>	<b>304</b>	<b>6.9</b>
EBITDA %	9.5	9.8		9.9		10.2	10.3	
Depreciation	21	22	(1.6)	15	44.6	85	82	3.9
EBIT	60	52	15.1	81	(25.9)	240	223	8.0
Interest and Financial Charges	27	20	32.9	25	8.6	86	89	(3.2)
Other Income	20	1	1,578.8	12	65.8	25	16	54.0
PBT before Exceptional Items	52	33	59.6	68	(22.6)	179	150	19.6
Exceptional Items	9	(1)		0		19	0	
PBT after Exceptional Items	43	34	26.6	68	(36.0)	160	150	6.7
Tax	3	7	(60.7)	29	(90.6)	26	32	(18.0)
% of PBT	6.3	20.2		42.7		16.5	21.4	
<b>PAT</b>	<b>41</b>	<b>27</b>	<b>48.7</b>	<b>39</b>	<b>4.7</b>	<b>134</b>	<b>118</b>	<b>13.4</b>
<b>Adj. PAT</b>	<b>50</b>	<b>26</b>	<b>91.7</b>	<b>39</b>	<b>28.0</b>	<b>153</b>	<b>118</b>	<b>29.9</b>
Adj. PAT %	5.8	3.4		4.0		4.8	4.0	
Dil. EPS	2.37	1.59	49.1	2.27	4.4	7.79	7.25	7.4

Source: Company, Angel Research

**Execution takes beating during the quarter**

SEL reported 11.3% yoy revenue decline in 4QFY2016 to ₹858cr. Revenue decline is owing to 14.5% decline in revenues booked from in-house BOT projects (46.8% of 4QFY2016 revenues booked). Completion of BOT projects and lack of contribution from orders won in FY2016, led to such fall in yoy revenues. Revenue from EPC road projects declined 15.5% yoy to ₹160cr, owing to completion of old projects in the order book.

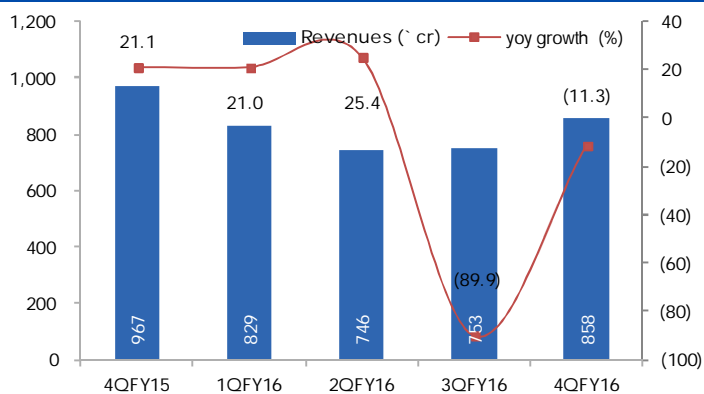
**Exhibit 2: Segment-wise Revenue movement**

Segment	4Q FY16	3Q FY16	2Q FY16	1Q FY16	4Q FY15	3Q FY15	% chg (yoy)
Roads	562	560	593	507	659	445	(14.8)
BOT	402	428	461	407	470	374	(14.5)
EPC	160	132	132	100	189	72	(15.5)
Irrigation	204	100	31	201	166	138	22.9
Mining	87	92	120	120	139	139	(37.2)
Power Gen. & Oth. Inc.	5	1	2	2	1	1	49.5
<b>Revenues</b>	<b>858</b>	<b>753</b>	<b>746</b>	<b>829</b>	<b>965</b>	<b>722</b>	<b>(11.3)</b>

Source: Company, Angel Research

Again, if we look at revenue booking for the quarter from top 5 projects, then the top 5 projects contributed 55.3% of 4QFY2016 revenues (vs 74.2% in the previous quarter). Further, all the 3 Captive Road projects contributed a major chunk of the quarter's revenues (accounted for 41.8% of the quarter's revenues).

**Exhibit 3: Quarterly Revenue movement**



Source: Company, Angel Research

**Exhibit 4: Revenues from Top 5 Projects**

Project Name	Vertical	4QFY16	3QFY16
Rohtak-Hissar	Captive Road BOT	126	162
Mysore-Bellary	Captive Road BOT	176	164
DMRC	Road EPC	69	103
Bhilwara-Rajsamand	Captive Road BOT	57	83
Radhanpur-Manpur	Irrigation	47	
Kachch Branch Cap.	Irrigation		48
<b>Total Revenues</b>		<b>858</b>	<b>753</b>
<b>As % of total</b>		<b>55.3%</b>	<b>74.2%</b>

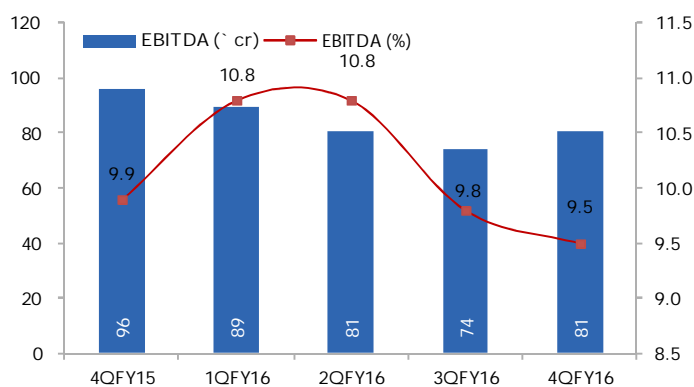
Source: Company, Angel Research

For FY2016, Sadbhav reported 7.3% yoy increase in revenues to ₹3,186cr, mainly owing to weak opening order book and minimal revenue contribution from EPC orders won since Feb-2015. For the full year, revenue from Mining & Road-EPC projects declined by 20.2% and 13.9% yoy respectively and was compensated by an impressive 20% yoy growth in revenue from Road-BOT projects segment.

**EBITDA Margins decline yoy to 9.5%**

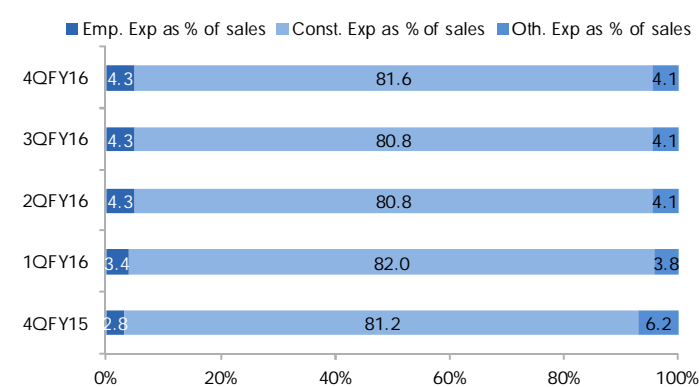
SEL reported an EBITDA of ₹81cr for 4QFY2016, down 15.0% yoy, but up 10.2% qoq. The EBITDA margin declined 41bp yoy to 9.5%. In addition to slower execution, a 15.6% yoy increase in employee expenses led to a decline in the EBITDA margin. Higher yoy contribution of low margin irrigation business and lower yoy contribution of high margin mining business led to margin decline. Also, increase in VAT rates for Rohtak-Hissar project also contributed to yoy EBITDA margin decline.

**Exhibit 5: EBITDA% declines**



Source: Company, Angel Research

**Exhibit 6: Quarterly Expense movement**



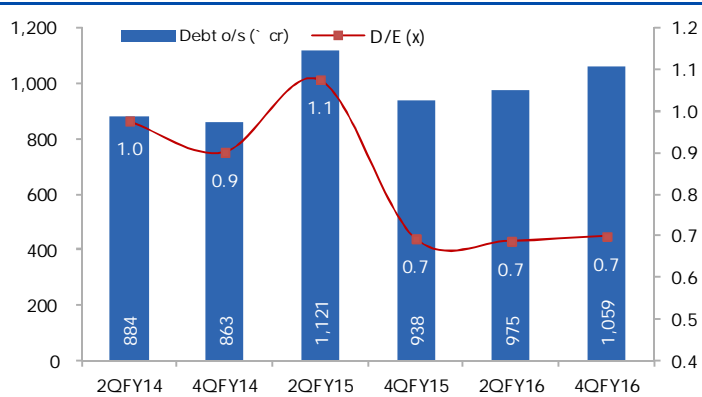
Source: Company, Angel Research

On the back of high contribution from the low margin Irrigation projects, the EBITDA margins for FY2016 declined by 4bp to 10.2%.

### Higher Other Income and lower tax aid PAT growth

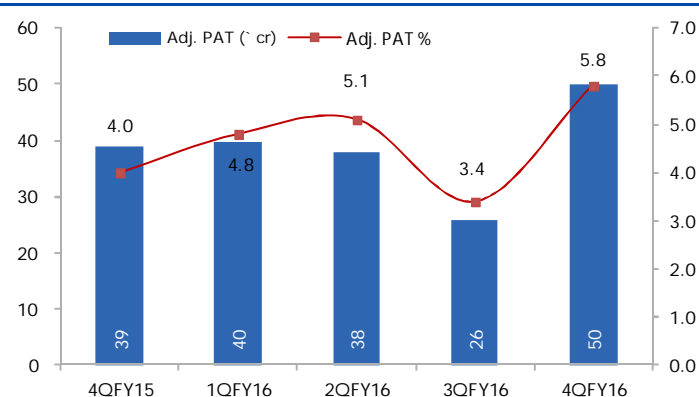
PAT for the quarter came in at ₹41cr. Adjusting for exceptional item of ₹9cr, SEL's Adj. PAT stood at ₹50cr, ahead of our expectation of ₹44cr. Exceptional item for the quarter includes, (1) ₹18.9cr write-off related to settlement agreement with Ocean Bright Corp., and (2) ₹9.8cr of provision reversal related to Dhule Palesnar BOT (as this SPV is no longer required to pay 1% labour cess to state government). Adjusted PAT margins were at 5.8% for the quarter vs 4.0% in the corresponding period a year ago. 4QFY2016 Adj. PAT benefited from high other income and low tax rate. Higher other income is owing to ₹12.6cr of interest income received from GKC's Irrigation projects. Lower tax during the quarter is on account of ₹2.7cr of benefits availed sec. 80IA. Interest expenses on yoy basis increased to ₹27cr, on account of (1) higher bank guarantees as the company bid for new projects and (2) higher working capital on mobilization of recently won EPC projects.

Exhibit 7: D/E ratio at 0.7x



Source: Company, Angel Research

Exhibit 8: PAT% also expands



Source: Company, Angel Research

Strong other income and lower tax rate contributed to 84bp yoy Adj. PAT margin expansion to 4.8% in FY2016.

Execution to pick-up on the back of orders won in FY2016...

In FY2016 SEL reported order inflows of ₹2,508cr, majorly from Road EPC projects (worth ₹2,365cr). In FY2016, SEL won 5 Road EPC projects worth ₹2,684cr and reported cancellation of 1 project worth ₹319cr (Marve-Borivalli Road EPC project).

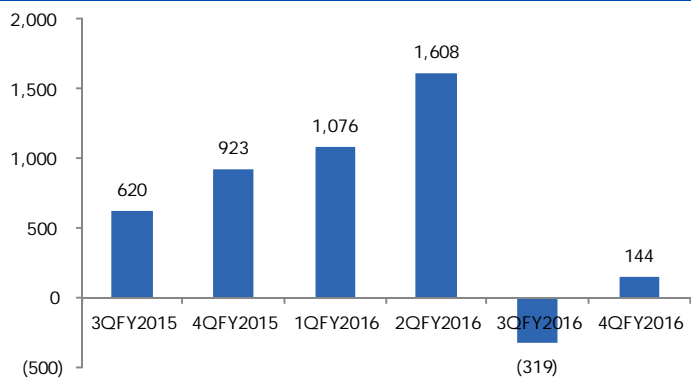
Exhibit 9: Details of Order Inflows during 1HFY2016

Project Detail	Segment	Length (kms)	TPC (₹ cr)	Duration
6-lane Eastern peripheral Expressway	Road EPC	21	792	2.5 yrs
6-lane Eastern peripheral Expressway	Road EPC	25	756	2.5 yrs
6-lane of UP/ Haryana border-Yamunanagar-Saha-Barwala-Panchkula	Road EPC	45	468	2.5 yrs
6-lane of UP/ Haryana border-Yamunanagar-Saha-Barwala-Panchkula	Road EPC	42	437	2.5 yrs
4-lane of Tapa-Bathinda (SEL stake-51%)	Road EPC	41	231	2.5 yrs
<b>Total (5 Road Projects)</b>		<b>173</b>	<b>2,684</b>	

Source: Company, Angel Research

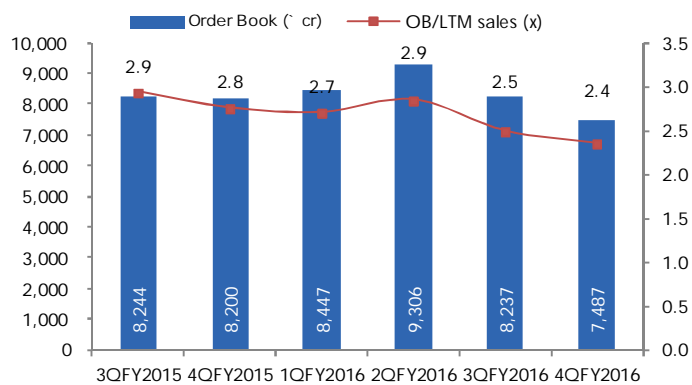
SEL has been announced L1 for 2 Hybrid project worth ~`1,350cr. SEL's unexecuted order book as of 4QFY2016 (excluding the 2 above-mentioned Hybrid projects) stands at ~`7,487cr (Order book to LTM sales ratio at 2.4x). Roads & Highways vertical (54%) continues to dominate SEL's order book mix.

Exhibit 10: Quarterly Order Inflows (` cr)



Source: Company, Angel Research

Exhibit 11: Order Book (OB/ LTM sales at 2.4x)



Source: Company, Angel Research

### Debt continues to increase...

Sadbhav has reported higher than expected increase in debt to ~`10,588cr (v/s ~`9,383cr at FY2015-end). This is mainly on account of (1) additional support for delays in receipt of grant worth ~`130cr given to SPVs (not yet returned) led to the surge in debt and (2) stretch in the working capital. Notably, despite stretch in the working capital cycle, trade payables declined from 141 days in FY2015 to 128 days in FY2016.

## Concall Highlights & Comments:

**Huge bid pipeline in the offing:** SEL's management has highlighted that a large bid pipeline, led by the Roads & Highways sector, is in the offing. SEL has guided for FY2017E order wins in the range of ~`5,000-7,000cr.

In the Roads & Highways space, the Management currently is seeing tendering activity of ~`40,000cr (EPC projects- ~`18,400cr; Hybrid Annuity projects-`3,000cr and BOT projects-`17,700cr). In the Mining space, SEL has submitted bids for Telangana & Rajasthan Coal/ Mining blocks. Also, SEL plans to submit bids for 5 more MDO jobs. Further, SEL has already participated in a `1,450cr Punjab based Irrigation bid.

**Execution to catch-up from FY2017E onwards:** SEL reported 5 large EPC project wins in FY2016. Already `65cr has been spent towards gross block to start execution of these projects. Also, SEL has received mobilization advance of `210cr. Also, management highlighted that 80% of land towards Hybrid projects has been acquired and works will start in 2HFY2017. On the whole, the Management guided for FY2017 revenues of `3,700-3,800cr on the back of `2,500cr revenues from Roads & Highways segment, ~`400cr from Mining segment and another `800cr from Irrigation segment. Earlier than expected operationalization of the Dhanbad mines could add another `100cr to the revenue guidance.

FY2016 EBITDA margins were impacted on account of (1) imposition of additional VAT charges on 2 of the EPC projects, (2) higher contribution of low margin Irrigation business, and (3) lower contribution of high margin Mining business. We do not expect any further impact of additional VAT charges on EPC revenues, as they would contribute less to FY2017E top-line. However, contribution of ongoing Irrigation projects would continue to put pressure on FY2017E EBITDA margins. Accordingly for FY2017E, we assume slightly lower EBITDA margins of 10.3%, against Management's guidance of 10.5%.

**Management guides for improvement in Working capital cycle:** Given that ~`150cr of loans and advances were made towards stalled Irrigation projects, working capital cycle increased in FY2016. With these Irrigation projects expected to get completed in FY2017E, we expect Loans & Advances to decline in FY2017E. Further, Management indicated that SIPL would start repaying Loans & Advances to SEL as SIPL has started making cash level profits.

## Update on SIPL's Quarterly performance

SIPL reported 118.9% yoy increase in its 4QFY2016 consolidated revenues to ₹281.8cr, reflecting (1) commissioning of Shrinathji-Udaipur project (contributed ₹22.8cr of toll income), and (2) increase in O&M revenues (reported under the standalone financials).

### Exhibit 12: Toll Income across Operating BOT Projects

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	yoy (%)
Ahmedabad Ring Road (ARRIL)	19	20	22	22	22	21	23	25	10.6
Aurangabad-Jalna (AJTL)	9	8	9	10	9	7	8	9	(8.6)
Dhule-Palasner (DPTL)	34	32	34	36	36	37	38	39	9.8
Maharashtra Border (MBCPNL)	20	22	24	26	34	37	42	43	65.6
Rohtak Panipat (RPTL)	22	20	21	22	22	20	22	18	(19.5)
Bijapur- Hungund (BHTPL)	26	26	25	27	28	28	28	30	10.3
Hyderabad-Yadgiri (HYTPL)	11	11	11	12	13	12	14	15	29.7
Shreenathji-Udaipur (SUTPL)	0	0	0	0	0	0	6	23	

Source: Company, Angel Research

AJTL reported 8.6% yoy decline in toll income to ₹8.7cr, owing to (1) 53.3% decline in Trucks category (to ₹1.8cr), and (2) loss of toll income owing to exemption on passenger cars and Maharashtra state government buses. However, on like-to-like basis, toll income of LCV and MAV category grew 22.1% to ₹6.9cr.

Amongst all 8 operating BOT projects, HYTPL reported an impressive 29.7% yoy increase to ₹15.2cr (includes benefit of 3.2% tariff hike). MBPCL BOT project on the other hand, reported 65.6% yoy increase in fee income to ₹43.1cr, reflecting benefits of 4 more check posts getting operational. RPTPL BOT project reported 19.5% yoy decline in toll income to ₹18.0cr, reflecting loss of toll income owing to agitation/violence impact from 17<sup>th</sup> to 27<sup>th</sup> Feb 2016.

On the back of strong yoy top-line growth, EBITDA grew 136.5% to ₹177cr. Alternatively, EBITDA margins also improved 467bp yoy to 62.8%. EBITDA margin expansion on a yoy basis is despite ₹30.1cr of periodic maintenance. SIPL reported net profit of ₹0.17cr against loss of ₹81.6cr in 4QFY2015. Net profit for 4QFY2016 includes the impact of one-time exceptional gain of ₹61.6cr resulting from stake sale of Mumbai Nashik Expressway for consideration of ₹72cr (net cost ₹10.4cr). On adjusting for exceptional gain, SIPL posted a net loss of ₹61.4cr.

With commissioning of Shrinathji Udaipur BOT project and consolidation of Dhule Palesnar BOT project, interest expenses increased 32.3% yoy to ₹185cr. Consolidated debt of SIPL at 4QFY2016-end stands at ₹7,952cr against ₹6,204cr as of 4QFY2015-end.

## Update on SIPL's FY2016 Yearly Financials

SIPL reported consolidated revenue of ₹742cr for FY2016, up 48.3% yoy, reflecting the benefits of commissioning of Shrinathji-Udaipur BOT project, commencement of additional check posts at MBCPNL and consolidation of the Dhule Palesnar BOT project. EBITDA increased 54.5% yoy to ₹477cr in FY2016. Alternatively, EBITDA margins expanded from 61.7% in FY2015 to 64.3% in FY2016. On adjusting for exceptional gains of ₹11.7cr/₹61.6cr in FY2015/FY2016, SIPL's net loss stood at ₹343cr/ ₹260.5cr in FY2015/ FY2016, respectively.

## Outlook and Valuation

Considering the Road order wins in FY2016, strong NHAI bid pipeline, uptick in MDO awarding, strengthens our view that Sadbhav is poised to report 2.4x growth in its Order Inflows during FY2016-18E to ₹6,050cr. Considering execution cycle and Order Book mix, we expect Sadbhav to report 1.6x growth in its Order book during FY2016-18E to ₹11,949cr.

On the back of strong ₹7,487cr of Order Book at 4QFY2016-end, we expect Sadbhav to report 14.0% revenue CAGR during FY2016-18E to ₹4,140cr. With contribution from the low margin Irrigation projects expected to further decline in FY2017E, we have modeled 36bps EBITDA margin expansion during FY2016-18E to 10.6%. Further, we have modeled conservative other income numbers and low tax rate for FY2017/2018E at ₹14cr/14cr and 24%, respectively. Accordingly, we expect Sadbhav's PAT margin to expand by 75bp during FY2016-18E to 4.9%.

### Exhibit 13: FY2017E Estimates & FY2018E Roll-Out

Y/E March (₹ cr)	FY2017E			FY2018E
	Old	New	Change (%)	
<b>Net Sales</b>	<b>4,219</b>	<b>3,598</b>	<b>(14.7)</b>	<b>4,140</b>
<b>EBITDA</b>	<b>456</b>	<b>370</b>	<b>(18.8)</b>	<b>438</b>
EBITDA Margins (%)	10.8	10.3		10.6
<b>PAT</b>	<b>213</b>	<b>155</b>	<b>(27.2)</b>	<b>205</b>
PAT Margins (%)	5.0	4.3		4.9

Source: Company, Angel Research

We have valued SEL using Sum-Of-The-Parts method. SEL's EPC business (under standalone entity) has been valued using FY2018E P/E multiple, whereas we have used free cash flow to equity holders method to value BOT Road projects, which are held under SIPL, the holding company for BOT Road projects.

### Value of Core EPC business

Considering visibility on SEL's core EPC business (standalone entity), we have valued the standalone entity on P/E multiple of 12.0x its FY2018E EPS of ₹11.9cr, resulting in a value of ₹143 per share.

### Value of BOT projects

We have used free cash flow to equity holders method to value BOT Road projects, which are held under SIPL, the holding company for BOT Road projects. Our value for SIPL's portfolio of BOT projects comes to ₹154/share, which is 52% of the overall SOTP value for the company.

On combining the value of EPC business and BOT projects, we arrive at a combined business value of ₹298/share, reflecting 18% upside in the stock price from the current levels. **Accordingly, we upgrade our recommendation on the stock to BUY.**



**Exhibit 14: SOTP break-up**

Particulars	Segment	FY18E Std. PAT (₹ cr)	Target Multiple	Target Value (₹ cr)	Value/share (₹)	% of SoTP	Basis
EPC business	Construction	205	12.0	2,459	143	48	P/E of 12.0x
<b>Total</b>				<b>2,459</b>	<b>143</b>	<b>48</b>	
Subsidiary	Segment	Discounted FCFE (₹ cr)	Subsidiary Stake	Adj. FCFE Value (₹ cr)	Value/share (₹)	% of SoTP	Basis
Sadbhav Infra. Projects	BOT Projects	3,826	69%	2,646	154	52	FCFE valuation
<b>Total</b>		<b>3,826</b>		<b>2,646</b>	<b>154</b>	<b>52</b>	
<b>Grand Total</b>				<b>5,106</b>	<b>298</b>	<b>100</b>	
<b>Upside</b>					<b>18%</b>		
CMP					252		

Source: Company, Angel Research

### Risks & Concerns

- Any slowdown in orders from NHAI / State governments could affect the company's order inflow adversely.
- Delays in the commencement of BOT projects than the estimated time-line.

## Investment arguments

**Strong Order Backlog:** SEL in FY2016 reported order wins to the tune of `2,509cr. All these EPC order wins are Non-Captive Road projects. As of 4QFY2016-end, SEL is sitting on a healthy order book of `7,487cr (2.4x order book to LTM ratio). We expect the awarding activity from NHAI & MoRTH to further gain momentum and SEL to emerge as a strong beneficiary. Accordingly, we model 1.6x growth in order backlog from `7,487cr in FY2016 to `11,949cr by FY2018E.

**Order Backlog gives strong revenue visibility:** At 4QFY2016-end, SEL was sitting on a strong order book of `7,487cr. Considering their diligent bidding strategy, and past execution track record, we are comforted that project execution momentum would further gain from the current levels. Accordingly, we expect SEL to report a strong 14.0% top-line CAGR during FY2016-18E.

**Strong execution to further drive PAT growth:** At the backdrop of strong execution, benign bitumen costs and other operating levers coming into play, we expect SEL to report 16.0% EBITDA CAGR during FY2016-18E. In-line with EBITDA growth, we expect SEL to report 23.8% PAT CAGR during FY2016-18E.

**Sound Balance Sheet:** SEL has a sound balance sheet with consol. net debt/equity of 0.7x as of 4QFY2016. SEL's working capital position (Working Capital to LTM sales ratio as of FY2016 stands at 24.9%) is better than most of its peers. This has helped the company maintain strong earnings growth up to a certain extent.

**Funds tied up for SIPL projects in the portfolio:** SEL successfully raised `400cr through 22% stake dilution in its subsidiary SIPL in Aug-2010. Further, in Sep-2015, SIPL got listed on the Indian bourses, where it raised equity for its last pending project Shreenathji-Udaipur. Now, SIPL is fully tied-up for all of its BOT projects in-hand. Timely fund raising exercise at regular intervals has helped SEL focus on project execution, thereby, leading to early completion of projects.

## Company background

SEL was incorporated in 1988. The company is a leading EPC and infrastructure development company based in Ahmedabad. SEL is present in the Roads and Highways (54.3% of order book), Irrigation (19.3%) and Mining (26.4%) sectors. The company forayed into the road sector in 1995 and has since then executed several projects for NHAI and state governments. Currently, SEL through its subsidiary SIPL is one of the largest BOT players in India with 12 projects in its portfolio.

**Profit & loss statement (Standalone)**

Y/E March ( ` cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Net Sales</b>	<b>1,811</b>	<b>2,358</b>	<b>2,970</b>	<b>3,186</b>	<b>3,598</b>	<b>4,140</b>
% Chg	(32.3)	30.2	25.9	7.3	12.9	15.1
Total Expenditure	1,655	2,109	2,665	2,861	3,228	3,703
Construction Expenses	1,520	1,945	2,432	2,590	2,950	3,395
Employee benefits Expense	43	60	97	122	116	132
Other Expenses	93	104	136	148	162	176
<b>EBITDA</b>	<b>156</b>	<b>249</b>	<b>304</b>	<b>325</b>	<b>370</b>	<b>438</b>
% Chg	(46.3)	60.1	22.1	6.9	13.7	18.3
EBIDTA %	8.6	10.6	10.3	10.2	10.3	10.6
Depreciation	32	47	82	85	89	96
<b>EBIT</b>	<b>124</b>	<b>202</b>	<b>223</b>	<b>240</b>	<b>281</b>	<b>342</b>
% Chg	(51.0)	63.0	10.3	8.0	16.8	21.7
Int. and Fin. Charges	84	93	89	86	91	86
Other Income	10	11	16	25	14	14
PBT	50	120	150	180	204	270
Tax	37	(24)	32	26	49	65
% of PBT	73.7	(20.1)	21.4	14.7	24.0	24.0
PAT before Exceptional item	13	145	118	153	155	205
Exceptional item	0	0	0	19	0	0
<b>PAT</b>	<b>13</b>	<b>145</b>	<b>118</b>	<b>134</b>	<b>155</b>	<b>205</b>
% Chg	(47.3)	1000.3	(18.4)	13.4	15.8	32.3
PAT %	0.7	6.1	4.0	4.2	4.3	4.9
Basic EPS	5	7	7	8	9	12
Diluted EPS	1	10	7	8	9	12
% Chg	(47.7)	43.3	(5.4)	17.6	15.8	32.3

**Balance sheet (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Sources of Funds</b>						
Equity Capital	15	15	17	17	17	17
Reserves Total	817	942	1,335	1,472	1,609	1,796
<b>Networth</b>	<b>833</b>	<b>957</b>	<b>1,352</b>	<b>1,489</b>	<b>1,626</b>	<b>1,813</b>
Total Debt	673	863	938	1,059	1,074	959
Other Long-term Liabilities	80	52	34	3	6	6
Deferred Tax Liability	32	36	24	23	23	23
<b>Total Liabilities</b>	<b>1,618</b>	<b>1,908</b>	<b>2,348</b>	<b>2,574</b>	<b>2,729</b>	<b>2,801</b>
<b>Application of Funds</b>						
Gross Block	515	726	851	955	1,054	1,163
Accumulated Depreciation	185	228	315	400	489	585
Net Block	330	498	536	555	565	578
Capital WIP	0	0	0	0	0	0
<b>Investments</b>	<b>538</b>	<b>521</b>	<b>531</b>	<b>528</b>	<b>568</b>	<b>603</b>
<b>Current Assets</b>						
Inventories	102	164	213	141	220	230
Sundry Debtors	736	732	907	999	1,129	1,265
Cash and Bank Balance	22	76	35	37	58	69
Loans, Adv. & Deposits	535	489	651	595	700	805
Other Current Asset	33	46	64	85	100	127
Current Liabilities	873	1,120	1,177	1,062	1,329	1,518
<b>Net Current Assets</b>	<b>555</b>	<b>387</b>	<b>693</b>	<b>795</b>	<b>878</b>	<b>977</b>
Other Assets	194	502	588	679	717	643
<b>Total Assets</b>	<b>1,618</b>	<b>1,908</b>	<b>2,348</b>	<b>2,557</b>	<b>2,727</b>	<b>2,801</b>

**Cash flow statement (Standalone)**

Y/E March ( ` cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	74	106	114	134	155	205
Depreciation	32	47	82	85	89	96
Change in Working Capital	(107)	312	(296)	(246)	33	168
Interest & Fin. Charges	84	118	138	86	91	86
Direct taxes paid	(49)	(49)	(59)	(26)	(49)	(65)
Other Non-Cash Charges	32	(11)	(15)	(3)	(1)	(1)
<b>Cash Flow from Operations</b>	<b>66</b>	<b>524</b>	<b>(37)</b>	<b>29</b>	<b>318</b>	<b>489</b>
(Inc)/ Dec in Fixed Assets	(70)	(218)	(149)	(104)	(99)	(109)
(Inc)/ Dec in Inv. & Oth. Adj.	(263)	(349)	(103)	99	(154)	(152)
<b>Cash Flow from Investing</b>	<b>(332)</b>	<b>(568)</b>	<b>(252)</b>	<b>(5)</b>	<b>(253)</b>	<b>(260)</b>
Issue/ (Buy Back) of Equity	3	27	315	0	0	0
Inc./ (Dec.) in Loans	310	258	66	120	15	(115)
Dividend Paid (Incl. Tax)	(10)	(11)	(12)	(10)	(18)	(18)
Interest Expenses	(84)	(118)	(132)	(86)	(91)	(86)
<b>Cash Flow from Financing</b>	<b>218</b>	<b>157</b>	<b>237</b>	<b>24</b>	<b>(94)</b>	<b>(219)</b>
Inc./ (Dec.) in Cash	(48)	113	(52)	48	(28)	9
<b>Opening Cash balances</b>	<b>55</b>	<b>6</b>	<b>58</b>	<b>6</b>	<b>55</b>	<b>26</b>
<b>Closing Cash balances</b>	<b>6</b>	<b>120</b>	<b>6</b>	<b>55</b>	<b>26</b>	<b>35</b>

**Key Ratios**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	51.6	36.0	38.1	32.4	27.9	21.1
P/CEPS	85.3	20.0	22.1	19.8	17.8	14.4
Dividend yield (%)	0.2	0.3	0.3	0.2	0.4	0.4
EV/Sales	2.5	2.0	1.8	1.7	1.5	1.3
EV/EBITDA	28.7	18.5	17.4	16.4	14.4	11.9
EV / Total Assets	2.8	2.4	2.2	2.1	2.0	1.9
<b>Per Share Data (₹)</b>						
EPS (Basic)	4.9	7.0	6.6	7.8	9.0	11.9
EPS (fully diluted)	0.9	9.5	6.6	7.8	9.0	11.9
Cash EPS	3.0	12.6	11.4	12.7	14.2	17.5
DPS	0.6	0.7	0.7	0.5	0.9	0.9
Book Value	55	63	79	87	95	106
<b>Returns (%)</b>						
RoCE (Pre-tax)	9.0	12.0	10.3	10.5	0.0	12.9
Angel RoIC (Pre-tax)	10.5	13.4	11.9	11.2	0.0	13.4
RoE	9.3	11.9	9.9	9.4	9.9	11.9
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block) (x)	5.9	5.7	5.7	5.8	6.4	7.2
Inventory / Sales (days)	19	21	23	20	18	20
Receivables (days)	150	114	101	109	108	106
Payables (days)	176	154	141	128	121	126
<b>Leverage Ratios (x)</b>						
D/E ratio (x)	0.8	0.8	0.7	0.7	0.6	0.5
Net Debt/ EBITDA (x)	4.2	3.2	3.0	3.1	2.7	2.0

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Disclosure of Interest Statement	Sadbhav Engg
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)