

Sadbhav Infrastructure Project

Performance Highlights

For 1HFY2016, Sadbhav Infrastructure Project Ltd (SIPL) reported a consol. top-line of ₹274cr (vs ₹500cr in FY2015). The Reported top-line (for 1HFY2016), on a yoy basis benefitted from (1) 16.2% toll income growth across Hyderabad-Yadagiri project, (2) 69.2% gross toll income growth across Maharashtra Border Check Post project (as 4 new check posts commenced operations in 2QFY2016; 18% toll hike seen during the quarter), and (3) 11.1% toll income growth seen across the Ahmadabad Ring Road project.

The Reported EBITDA for 1HFY2016 stood at ₹180cr while the EBITDA margin for the same period was at 65.7% (vs 61.7% for FY2015).

Higher interest expenses (₹284cr for 1HFY2016 vs ₹526cr for FY2015) led to losses for SIPL of ₹159cr for 1HFY2016.

Outlook and valuation: We expect SIPL to report a strong 44.3%/47.8% revenue/EBITDA CAGR over FY2015-17E. Management expects SIPL's entire BOT portfolio (we model MBHPL to commission operations in FY2018E only) to be operational by FY2017E only. Toll collection at its existing projects would further ramp-up, going forward. Interest expenses accounted for 170% of the FY2015 consol. EBITDA. We expect this ratio to decline to ~95% by FY2017E.

PAT level losses since FY2013 have eroded overall net worth of consol. entity from ₹971cr in FY2013 to ₹788cr in FY2015. Despite uptick in traffic numbers across its road portfolio, there exists a possibility of the company continuing to report losses for next few quarters, as it would be impacted by 3 new projects commencing operations in next few months, as highlighted by the Management. Our view that SIPL would continue to report losses stems from the point that peak debt requirement of the company (assuming no projects are added/ acquired) would be at ₹8,510cr by FY2017E. The incremental debt requirement would be towards new projects and stake acquisition of DPTL and MBHPL projects.

SIPL, at consol. level, should report cash level profits from 4QFY2016E onwards.

We have valued SIPL using Sum-of-The-Parts method, where we have valued each project using "Free Cashflow to Equityholders" method and adjusted standalone entity's FY2016E debt to arrive at a fair value of ₹100/share. **Given the limited upside potential from the current levels, we maintain our NEUTRAL rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	287	371	500	675	1,042
% chg	63.2	29.2	34.8	34.9	54.5
Net Profit	(46)	(156)	(313)	(248)	(107)
% chg	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
EBITDA (%)	59.0	65.1	61.7	64.9	66.6
EPS (₹)	(1.5)	(5.0)	(10.1)	(8.0)	(3.5)
P/BV (x)	3.2	3.8	4.5	3.7	4.1
RoE (%)	(5.0)	(17.4)	(38.9)	(28.4)	(11.8)
RoCE (%)	2.9	2.9	2.6	3.6	5.5
EV/Sales (x)	23.3	21.5	19.1	11.6	8.0
EV/EBITDA (x)	39.5	32.9	30.9	17.9	11.9

Source: Company, Angel Research

NEUTRAL

CMP ₹100
 Target Price -

Investment Period -

Stock Info

Sector	Infrastructure
Market Cap (₹ cr)	3,508
Net Debt (₹ cr)	6,034
Beta	NA
52 Week High / Low	112/96
Avg. Daily Volume	201,158
Face Value (₹)	10
BSE Sensex	26,265
Nifty	7,954
Reuters Code	SADB.NS
Bloomberg Code	SINP@IN

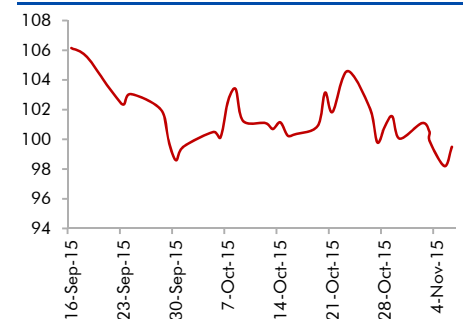
Shareholding Pattern (%)

Promoters	69.2
MF / Banks / Indian Fls	4.7
FII / NRIs / OCBs	3.1
Indian Public / Others	23.0

Abs. (%)	3m	1yr	3yr
Sensex	(7.0)	(5.8)	39.0
SIPL	(6.3)	NA	NA

*Note- SIPL listed on Sep 16, 2015

3-Year Daily Price Chart



Source: Company, Angel Research

Yellapu Santosh

022 – 3935 7800 Ext: 6811

santosh.yellapu@angelbroking.com

Key financials (Consolidated)

Particulars (₹ cr)	1HFY16
Net Sales	274
Total Expenditure	94
Operating Expense	70
Employee Benefits Expense	14
Other Expenses	9
EBITDA	180
EBITDA %	65.7
Depreciation	78
EBIT	102
Interest and Financial Charges	284
Other Income	15
PBT before Exceptional Items	(167)
Exceptional Items	0
PBT after Exceptional Items	(167)
Tax	0
% of PBT	(0.7%)
PAT	(167)
Share of loss transferred to Minority Interest	(8)
Share of loss transferred to Minority Interest related to earlier years	0
Net Loss	(159)
PAT %	(58.3)
Dil. EPS	5.05

Source: Company, Angel Research

Toll Income shows strong growth

For 1HFY2016, SIPL reported a consol. top-line of ₹274cr (vs ₹500cr in FY2015). The Reported top-line (for 1HFY2016), on a yoy basis, benefitted from (1) 16.2% toll income growth across Hyderabad-Yadagiri project, (2) 69.2% gross toll income growth across Maharashtra Border Check Post project (as 4 new check posts commenced operations in 2QFY2016; 18% toll hike seen during the quarter), and (3) 11.1% toll income growth seen across the Ahmadabad Ring Road project.

Amongst other projects, Dhule Palesnar BOT and Bijapur Hungund BOT reported a 10.4% and 9.9% yoy gross toll income growth for 1HFY2016 to ₹72.5cr and ₹56.6cr, respectively.

With toll exemption levied for passenger vehicles, Aurangabad-Jalna BOT project was the only BOT which reported a 2.4% yoy decline in toll income for 1HFY2016 to ₹16.1cr.

Exhibit 1: Gross Quarterly Toll Income (unadj. for stake)

(₹ cr)	2QFY2016	1QFY2016	4QFY2015	3QFY2015	2QFY2015	1QFY2015	4QFY2014	yoy chg. (%)
ARRIL	21	22	22	22	20	19	19	4.8
AJTL	7	9	10	9	8	9	8	(13.4)
DPTL	37	36	36	34	32	34	33	15.9
MBCPNL	37	34	26	24	22	20	15	65.3
RPTL	20	22	20	21	20	22	NA	0.0
BHTPL	28	28	27	25	26	26	24	8.5
HYTPL	12	13	12	11	11	11	12	12.0

Source: Company, Angel Research

The reported EBITDA for 1HFY2016 stood at ₹180cr while the EBITDA margin for the same period was at 65.7% (vs 61.7% for FY2015).

Overall debt increased in 1HFY2016 as the company pursued stake purchases at some of the SPVs and borrowed debt at standalone level (stop gap funding to cover for shortfall of debt servicing). This resulted in higher interest expenses (₹284cr for 1HFY2016 vs ₹526cr for FY2015). Accordingly, SIPL incurred bottom-line level loss of ₹159cr for 1HFY2016.

Update on Under-development Projects

During the quarter, construction works of Shreenathji-Udaipur (SUTPL) BOT Project were completed. SIPL has already applied for CoD in Oct-2015 and expects to commission the project soon.

Construction works across the Bhilwara-Rajsamand (BRTPL), Rohtak-Hissar (RHTPL), and Mysore-Bellary (MBHPL) BOT projects are going-on as per schedule. SIPL's Management expects BRTPL and RHTPL to complete the construction works ahead of the scheduled time of Apr-2016/ Jun-2016 by Jan-2016/ Apr-2016. Works across MBHPL are progressing as per schedule and the Management expects to finish EPC works by Jun-2016, which is before the scheduled CoD of Jun-2017.

Equity requirement for ongoing BOT projects

At the time of the IPO, SIPL had pending equity requirements towards SUTPL. SIPL through IPO route raised ₹82cr of equity and subordinate debt towards its subsidiary, SUTPL. Given that entire equity is infused and SUTPL is awaiting CoD, SIPL has no equity requirement towards the projects under execution phase.

Notably, SIPL is currently acquiring stake process from SEL and GKC for Mysore-Bellary BOT project. For stake acquisition purposes, Management expects cash outflow of ₹79cr. On completion of the stake acquisition, SIPL would hold the entire 100% in the company.

Outlook and Valuation

We expect SIPL to report a strong 44.3%/47.8% revenue/EBITDA CAGR over FY2015-17E. Management expects SIPL's entire BOT portfolio (we model MBHPL to commission operations in FY2018E only) to be operational by FY2017E only. Toll collection at its existing projects would further ramp-up, going forward. Interest expenses accounted for 170% of the FY2015 consol. EBITDA. We expect this ratio to decline to ~95% by FY2017E.

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Notably, SIPL at consol. level should report cash profits from 4QFY2016E onwards.

Exhibit 2: SOTP break-up

Particulars	Segment	Discounted FCFE (₹ cr)	Project Stake (%)	Adj. FCFE Val. (₹ cr)	Value/ share (₹)	Basis
Road BOT projects						
Maharashtra Border Check Post	Service Fee	2,051	90%	1,846	52	NPV at CoE of 12%
Rohtak-Panipat BOT Project	Toll	111	100%	111	3	NPV at CoE of 12%
Bijapur-Hungund BOT Project	Toll	330	77%	254	7	NPV at CoE of 12%
Ahmedabad Ring Road	Toll	568	100%	568	16	NPV at CoE of 12%
Aurangabad-Jalna BOT Project	Toll	428	100%	428	12	NPV at CoE of 12%
Hyderabad-Yadagiri BOT Project	Toll	135	100%	135	4	NPV at CoE of 12%
Nagpur-Seoni BOT Project	Annuity	15	100%	15	0	NPV at CoE of 12%
Shreenathji-Udaipur BOT Project	Toll	180	100%	180	5	NPV at CoE of 12%
Bhilwara-Rajsamand BOT Project	Toll	320	100%	320	9	NPV at CoE of 14%
Rohtak-Hissar BOT Project	Toll	262	100%	262	7	NPV at CoE of 14%
Mysore-Bellary BOT Project	Annuity	124	100%	124	4	NPV at CoE of 14%
Dhule-Palesnar BOT Project	Toll	390	100%	390	11	NPV at CoE of 12%
Total SIPL value				4,633	132	
Standalone entity- Net debt (FY2016E)				(1,127)	(32)	Standalone net debt
Grand Total		4,914		3,506	100	

Source: Company, Angel Research

We have valued SIPL using Sum-of-The-Parts method, where we have valued each project using "Free cash-flow to Equity holders" method and adjusted the standalone entity's FY2016E debt to arrive at fair value of ₹100/share. **Given the limited upside the stock has from the current level, we maintain our NEUTRAL rating on the stock.**

Exhibit 3: BOT Project Details

Project	ARRIL	AJTL	RHTL	NSEL	DPTL	MBCPNL	RPTL	BHTL	SUTL	BRTL	HYTL
Type	Toll	Toll	Toll	Annuity	Toll	Entry Fees	Toll	Toll	Toll	Toll	Toll
Status	Oper.	Oper.	Oper.	Oper.	Oper.	Part. Oper.	Under Dev.	Oper.	Oper.	Oper.	Under Dev.
Lane Kms	305	263	395	111	355	22 CPs	323	389	317	349	143
Issuing Auth.	AUDA	MSRDC	NHAI	NHAI	NHAI	MSRDC	NHAI	NHAI	NHAI	NHAI	NHAI
State	Gujarat	Mah.	Har.	MP	Mah./MP	Mah.	Haryana	Karn.	Raj.	Raj.	Tel.
Concession (Yrs)	20	24	22	20	18	25	25	20	27	30	23
Con. Start	Dec-06	Feb-07	Jun-16	May-07	Dec-09	Dif. for all CPs	Apr-11	Sep-10	Apr-13	Apr-16	Jul-10
Con. End	Nov-26	Jul-30	May-28	Nov-27	Dec-27	Dif. for all CPs	Mar-36	Aug-30	Mar-40	Mar-46	Jun-33
TPC (₹ cr)	544	272	1,272	375	1,420	1,426	1,161	1,369	1,151	676	495
Equity+Sub-Debt (₹ cr)	49	83	111	60	344	381	243	162	287	133	147
Debt o/s (₹ cr) (as of 30.09.2015)	350	161	663	187	1,015	1,001	986	833	820	206	395
Grant (₹ cr)	36	-	-	-	-	-	-	273	-	-	-

Source: Company, Angel Research

Company background

Sadbhav Infrastructure Project Ltd (SIPL) is a subsidiary of Ahmedabad-based Sadbhav Engineering Ltd (SEL). SIPL was incorporated in 2007 as a developer and is a roads and highways operator on a BOT- Toll/ Annuity basis. SIPL is into the business of development, operation and maintenance of national and state highways and roads in several states including Maharashtra, Gujarat, Rajasthan, Karnataka, Haryana, Madhya Pradesh and Telangana, and a border check posts project in Maharashtra.

It has a portfolio of 12 BOT projects of which 7 road projects are fully operational, 1 is partially operational (border check post) and 4 are under construction stage. 10 of the 12 BOT projects are toll projects (including service fee for the border check posts in Maharashtra) and 2 are annuity projects. Of the 12, SIPL is in the process of acquiring stake in 2 projects; ie, it would be acquiring 100% stake in Mysore-Bellary Highway Pvt. Ltd and 100% in Dhule Palesnar Tollway Ltd. Of these 2 projects, 1 is operational and the other one is under development. Again, one of them is a toll project and the other one is an Annuity project. This restructuring process is in accordance with the company's strategy to consolidate all BOT road projects to be developed by SEL under one company- SIPL.

SIPL's parent company SEL was incorporated in 1988 and has established itself as one of the leading engineering, procurement and construction (EPC) and infrastructure players in the country. In the last 25 years, SEL has developed a strong project execution track record of various construction projects across 10 states in India and has a strong Balance Sheet. SIPL derives strength from its parent SEL, which has been an EPC contractor for most of SIPL's projects.

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Sales	176	287	371	500	675	1,042
% Chg	153.2	63.2	29.2	34.8	34.9	54.5
Total Expenditure	83	118	129	191	237	348
Operating Expenses	65	97	89	141	165	240
Employee benefit Expense	6	10	16	24	33	51
Other Expenses	12	10	25	26	39	57
EBITDA	93	170	242	309	438	694
% Chg	108.2	82.1	42.5	27.8	41.7	58.6
EBIDTA %	52.9	59.0	65.1	61.7	64.9	66.6
Depreciation	22	50	92	141	152	190
EBIT	72	120	150	168	285	504
% Chg	107.8	67.1	25.4	12.1	69.5	76.7
Interest and Financial Charges	72	195	355	526	587	661
Other Income	23	28	22	28	32	31
PBT	23	(47)	(184)	(330)	(270)	(127)
Exceptional Items	0	0	0	(12)	0	0
Tax	13	5	12	0	0	0
% of PBT	56.6	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
PAT before share of losses of Minority Interest & Associates	10	(52)	(196)	(342)	(270)	(127)
Share of (Profit)/Loss attributable to Minority Interest	2	13	40	28	22	19
Share of Profit/(Loss) from Assoc. Co.	(2)	(7)	0	0	0	0
Net Profit	10	(46)	(156)	(313)	(248)	(107)
% Chg	(0.3)	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
PAT %	5.6	(15.9)	(42.0)	(62.6)	(36.7)	(10.3)
Adj. EPS	0.3	(1.5)	(5.0)	(10.1)	(8.0)	(3.5)

Nmf- Not meaningful

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Sources of Funds						
Equity Capital	26	28	28	311	352	352
Reserves Total	820	943	792	477	606	508
Networth	847	971	820	788	958	860
Minority Interest	126	159	186	57	49	48
Total Debt	2,791	3,643	4,902	6,204	8,020	8,510
Other Long-term Liabilities	0	418	2,241	2,233	2,236	2,243
Long-term Provision	39	11	38	100	51	53
Total Liabilities	3,804	5,202	8,188	9,382	11,313	11,714
Application of Funds						
Net Block & Capital WIP	3,319	4,744	7,781	9,013	10,920	11,323
Goodwill on Consolidation	50	48	45	118	128	128
Investments	17	9	105	8	21	21
Other Current Assets	10	44	14	92	81	81
Sundry Debtors	0	1	14	14	14	14
Cash and Bank Balance	124	52	52	170	165	215
Loans & Advances	101	91	35	63	69	69
Current Liabilities	190	182	434	514	412	373
Net Current Assets	45	5	(318)	(174)	(83)	5
Other Assets	373	397	575	417	327	237
Total Assets	3,804	5,202	8,188	9,382	11,313	11,714

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY12	FY13	FY14	FY15	FY16E	FY17E
Profit/ (Loss) before tax	23	(47)	(184)	(330)	(270)	(127)
Depreciation & Amortization	22	50	92	141	152	190
Other Adjustments	(22)	(27)	(13)	(27)	(16)	(17)
Change in Working Capital	26	(25)	86	54	104	110
Interest & Financial Charges	72	195	355	526	587	661
Direct taxes paid	(14)	(12)	(12)	(7)	(5)	(5)
Cash Flow from Operations	107	134	325	356	553	813
(Inc)/ Dec in Fixed Assets	(1,323)	(921)	(905)	(1,135)	(2,060)	(593)
(Inc)/ Dec in Invest., Int. recd & Oth. Adj.	(135)	17	(34)	(70)	(134)	0
Cash Flow from Investing	(1,458)	(904)	(939)	(1,206)	(2,194)	(593)
Inc./ (Dec.) in Borrowings	1,480	869	1,037	1,390	1,816	490
Issue/ (Buy Back) of Equity	224	215	68	124	409	0
Dividend Paid (Incl. Tax)	0	0	0	0	0	0
Finance Cost	(281)	(387)	(490)	(549)	(587)	(661)
Cash Flow from Financing	1,423	698	615	965	1,639	(171)
Inc./ (Dec.) in Cash	72	(72)	0	116	(2)	49
Opening Cash balances	52	124	52	52	168	165
Closing Cash balances	124	52	52	168	165	215

Key Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)						
EV/Sales	32.8	23.3	21.5	19.1	11.6	8.0
EV/EBITDA	62.0	39.5	32.9	30.9	17.9	11.9
EV / Total Assets	1.5	1.3	1.0	1.0	0.7	0.7
Per Share Data (₹)						
Adj. EPS	0.3	(1.5)	(5.0)	(10.1)	(8.0)	(3.5)
Book Value	27.2	31.2	26.4	22.4	27.2	24.4
Returns (%)						
RoCE (Pre-tax)	2.5	2.9	2.9	2.6	3.6	5.5
Angel RoIC (Pre-tax)	2.0	2.6	2.6	2.5	3.2	5.5
RoE	1.3	(5.0)	(17.4)	(38.9)	(28.4)	(11.8)
Leverage Ratios (x)						
D/E ratio (x)	3.3	3.8	6.0	7.9	8.4	9.9
Interest Coverage Ratio (x)	1.0	0.6	0.4	0.3	0.5	0.8

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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Disclosure of Interest Statement	Sadbhav Infrastructure Project
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)
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