

Conference Call Update on Sadbhav Engineering Limited Q1FY17 Results –

Current Market Price: ₹ 294.15 Cr.

RECO- UNRATED

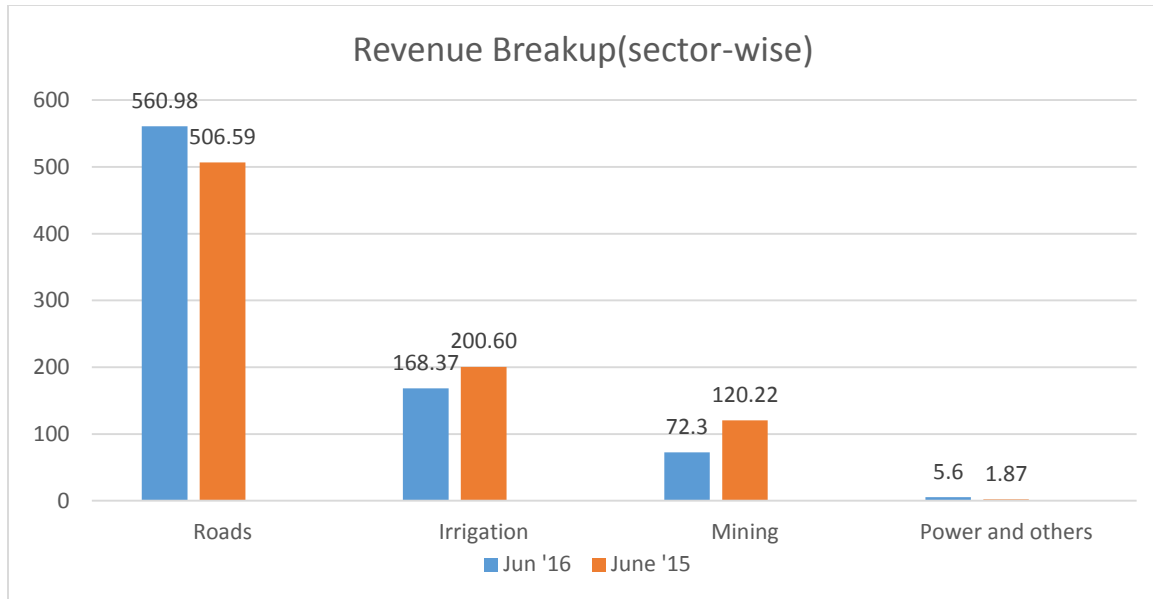
Market Cap: ₹ 5046.76 Cr.

Business Background of Sadbhav Engineering Limited –

Sadbhav Engineering Limited (SEL) is an India-based infrastructure company. The Company is engaged in the construction and maintenance of roads and highways, construction and maintenance of irrigation system (cannel), and site preparation for mining, including overburden removal and other development. Its operating segments include Construction & Engineering, and BOT (Toll & Annuity). It has constructed over 4,200 lane kilometers of roads and highways (national and state highways). Its operations also include upgrading, widening, strengthening and maintenance of roads and highways, as well as undertaking build operate and transfer (BOT) road projects. The Company through its subsidiary, Sadbhav Infrastructure Project Limited, operates BOT projects with inclusive of toll roads and annuity road projects. Its mining team executes approximately 200,000 cubic meter of overburden per day. The Company's clients include NHAI, RIDCOR, Bihar State Road Development Corporation Ltd and NVDA, among others.

Financial Performance in Q1FY17 –

- Revenue: ₹ 806.97 Cr.; de-growth of 2.69 %.
- Operating Profit: ₹ 86.83 Cr.; de-growth of 2.87 %
- Profit after tax: ₹ 48.68 Cr.; growth of 20.00 %
- Operating Profit Margin: 10.76 %
- Net Profit Margin: 6.03 %
- EPS: ₹ 2.83 /share



All figures in ₹ crore

Discussion on financials for Q1 FY17-

- The FY17 revenue to be driven by road EPC for Q1 & Q2. From Q3 onwards, hybrid annuity to be major revenue contributor. The revenue for Q1 FY17 is subdued compared to Q1 FY16 due to Q1 FY16 involving high value bituminous projects being executed during the period. Additionally, stalling of Bharat Coking Coal Project and some irrigation projects has further hit the revenue for the period. The project was stalled due to a CENVAT credit issue.
- The Companies revenue share has seen a transition compared to FY16, with EPC projects in transport and roads being the major contributor at 55.68% in Q1FY17 vs 12.01% in Q1FY16 whereas BOT projects constitute 13.80% in Q1FY17 vs 49.08% in Q1FY16.
- The Company has maintained a margin of close to 11% in road EPC projects and the Company is confident of maintaining this margin. The Company is also expecting some incremental margin in Hybrid annuity projects which would improve the overall margins by the year end.
- Other expenses of the Company has been less compared to last year, owing to reduced VAT on the execution of Rohtak Hisar Project to the tune of ₹ 148 cr.
- SEL has total outstanding debt of ₹ 1250 cr and the Company says that the debt levels have peaked and from here on the Company looks to gradually lower the same.
- The financing cost of the Company has improved substantially by 50bps compared to last year with base rate extended by institutions at 10.25% for working capital. The Company has raised 40% of its working capital requirement through commercial papers which has further reduced the base rate to 9.75% levels.
- The financing rates have improved owing to better payment terms by NHAI in EPC contracts which has improved the cash flow of the Company. Additionally working capital blocked in some irrigation

projects to the tune of ₹ 175-180 cr., DMRC project amounting to ₹ 95cr; and repayment of loan from SIPL (subsidiary) to the tune of ₹ 200 cr post its IPO and expects a further payment of the same quantum from SIPL by the end of Q4. All these factors have reduced the financing costs and the Company expects this to improve further as the cash flow improves. The Company on its part has also reworked the consortium of lenders.

- New accounting standard- There has been no substantial impact on the results of the Company due to the new accounting standards (Ind-AS).

Other points discussed by the management on the conference call –

- The Companies sees a robust order book growth in all its businesses viz. Roads, Mining and Irrigation. The Company at the same time would be doing on a selective basis depending on its comfort of execution and projects meeting financial viability.
- The Company is confident of meeting its previous guidance of upwards of 15% growth in the top-line of FY17.
- The Company is clear that it would bid only in projects clearly funded by Central Government agency or state agencies and it would focus on its existing sectors.

- **Roads and transport-**

- NHAI took bids for 11 projects in Road EPC projects worth ₹ 14,112 crores.
- An additional 98 projects which are split between NHAI and various state NH divisions are under consideration and would be up for bidding by the end of this year. These 98 projects would be worth an additional ₹ 70,000 cr to ₹ 90,000 cr.
- The Company sees the road business to have ample projects for execution not only for the Company alone but for the entire sector during the year.
- Received Mobilization advance of ₹ 206.32 cr for 7 new EPC projects won by the company in the last calendar year and ₹ 160.12 cr is yet to be received for these projects from NHAI.

- **Mining -**

- In the mining segment, there is one large Mining Developer and Operator (MDO) project by NTPC for which the bidding activity would be completed by the end of September.
- Two additional MDO projects for Gare-Palma 3 for Chhattisgarh State Power Generation and Naini Coal block for SCCL (Orissa); for which the first round of bidding process is underway.
- For the Gare-Palma Mining project, the company is in the process of setting up a joint venture in order to meet the technical requirements (read equipment and output requirement) set by the Government for the Mining.
- Expect top-line of upwards of ₹ 250 cr by the end of the year for this business alone. Amlori mine contributed ₹ 36 cr in Q1 FY17 revenue.

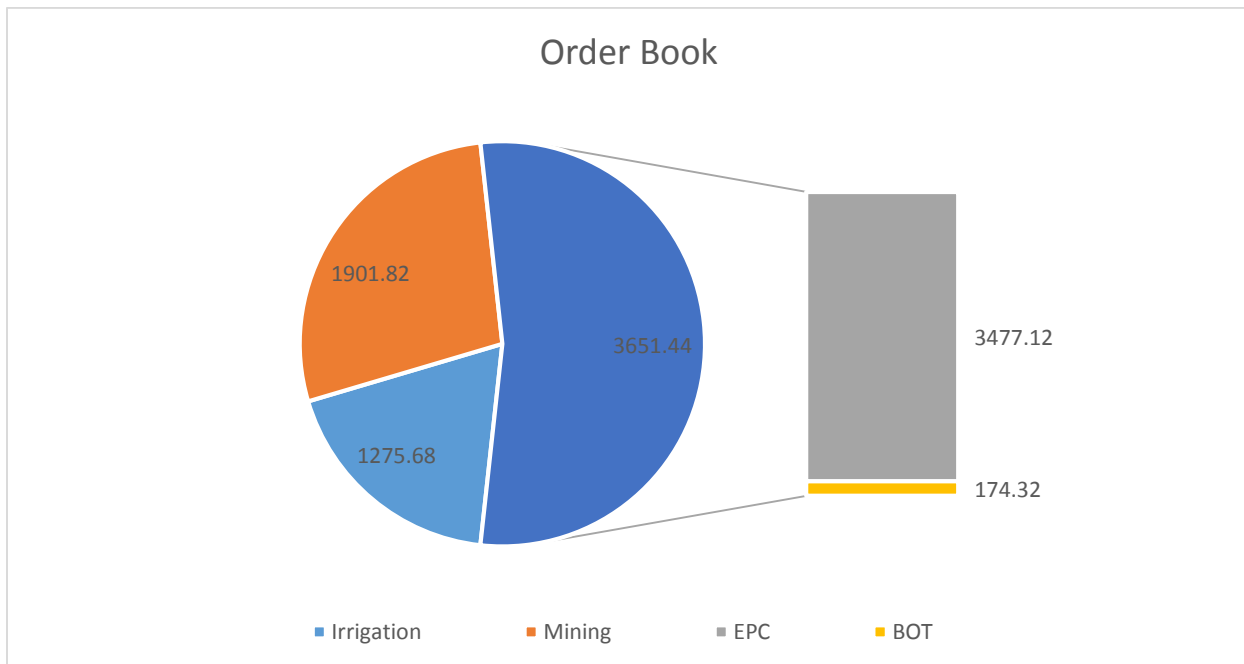
- **Irrigation**

- The Company has submitted one bid with the Irrigation Department of the Government of Telangana State for project worth ₹ 475 crore and is in the process of submitting 9 more bids roughly worth ₹ 11500 cr.
- Out of the 9 irrigation projects, the Company sees less competition in 5 projects due to technical requirements set by the Government of Telangana, which would require Companies to set-up JV in order to meet the technical requirements.

Order Book

The order book of the Company stands at ₹ 6829 cr. This excludes 5 hybrid annuity projects for roads won by SIPL (subsidiary) for which value of projects for SEL will be ₹ 3128 cr approximately.

Changes in the order book of EPC business- SIPL (subsidiary) has won 5 new hybrid annuity projects till FY17 and the EPC projects for the same would be executed by SEL as the shareholders' approval was sought owing to them being related party transactions and it was approved.



All figures in ₹ crore

Our View on Sadbhav Engineering Limited –

The Company has a well-diversified order book with further addition of orders expected in irrigation, mining and road projects expected to flow in by the end of Q2 & Q3. Company's strategy of bidding for projects funded by Government agencies and bidding for projects at comfortable margins, ensures healthy cash flows which in turn helps its credit rating and viability.

Additionally, the Company is concentrating on projects in its existing sectors i.e. roads, irrigation and mining and thus is not essentially looking to diversify into urban development or other engineering projects, which help it prioritizing and allocating its resources efficiently.