

Dilip Buildcon Ltd.

29th July, 2016

Rating:



Issue Summary:

| | |
|------------------|---------------------------|
| Price band (Rs) | 214-219 |
| Face Value (Rs) | 10 |
| Market Lot | 65 Shares |
| Opens | 1 st Aug, 2016 |
| Closes | 3 rd Aug, 2016 |
| Fresh Issue (Rs) | 430 Cr |
| OFS | 1.02 Cr Shares |
| Listing | BSE, NSE |

Issue Break Up:

| | |
|----------------|-----|
| QIB portion | 50% |
| NIB portion | 15% |
| Retail portion | 35% |

Book Running Lead Managers:

| |
|--|
| ➤ Axis Capital Ltd. |
| ➤ IIFL Holding Ltd. |
| ➤ JM Financial institutional Securities Ltd. |
| ➤ PNB Investment Services Ltd. |

Registrar

| |
|-------------------------------|
| ➤ Link Intime India Pvt. Ltd. |
|-------------------------------|

Company & Business Profile

Dilip Buildcon Ltd. is one of the leading private sector road-focused EPC contractors in India. The business comprises of (i) construction business, under which company undertakes roads, irrigation and urban development projects on an EPC basis; and (ii) infrastructure development business, under which company undertakes building, operation and development of road projects on a BOT basis with a focus on annuity projects.

In road construction business, company mainly designs, constructs and maintains roads and highways on an EPC basis with third party and EPC Contracts are awarded to the company through subsidiary companies and joint ventures.

In irrigation business, company undertakes to build canals and dams. Company entered into this business in FY14 to take advantage of the increasing opportunities in this area.

In urban development business, company undertakes redevelopment and re-densification of government housing and builds residential units under affordable housing schemes and other structures in group water supply schemes relating to irrigation or water supply for agricultural purposes. Company entered into this business in FY13.

In infrastructure development business, company develops and maintains roads and highways on a BOT basis. Presently company undertakes BOT projects opportunistically, considering factors such as their proximity to clusters where company is executing other projects to maximize efficiency of execution and profitability, and the potential cash flow from such projects after they become operational.

Objects of the Issue

The public issue comprises a fresh Issue and an offer for sale by the selling shareholders. Company will not receive any proceeds from the Offer for Sale. The proceeds from the fresh issue will be utilized towards the following:

- Prepayment or scheduled repayment of a portion of term loans availed by the company;
- To meet working capital requirements; and
- General corporate purposes.

Investment Positives

- Company operates through ownership model vs. rental model for executing its projects which has led to higher margins for the company.
- Company has tried to keep its time to execute projects well ahead of the scheduled, winning them bonuses and lower completion costs.
- Company owns one of the largest equipment banks in the country totalling 7,345 vehicles.
- With best in the class equipment, the average life of their assets is 8-10 years as against 3-4 years of the other players.
- There has been strong revenue visibility. Revenue for the company grew at a CAGR of 38% on consolidated basis.

Concern

- Company has high levels of debt on the books. However, with the IPO the debt levels are expected to drop down to comfortable zone.

**Outlook**

As the economic focus of a country is dependent on availability of reliable and high quality infrastructure, the policy focus in India has been on boosting infrastructure investment. Such investment has increased manifold over time with increased participation from private sector. The roads & bridges segment at 18.8% of the total twelfth plan projected investments is an important segment of the Indian infrastructure sector. The share of public funding in national highways is set to increase over next five years. The increase would be driven by a rise in the share of EPC contracts and higher number of projects on grant.

The company has grown robustly over the years. Revenue CAGR for the company stood at 38% over FY12-16. Company also has been able to sustain its margins over the years with EBITDA margin near to 25%. The share of government entities in client base increased over last 3 years from 23% to 76% on account of growing capability to undertake more complex projects and strengthened relationships with government clients. With climbing capital expenditures the debt for the company surged to bumpy levels resulting in lower profit margins for the company. However, with reduced debt going ahead the company may encompass improved profitability in the coming years. Also the management intends to keep capital expenditures low at about Rs 100 cr and continue to improve the working capital cycle to 120 days from present 136 days along with lower days of receivables. RoNW for the company also increased to 20% for FY16 compared to 11% in FY15.

Valuation

The issue has been offered in a price band of Rs 214-219 per equity share. At the upper price band the stock is available at P/E of 13 (x) based on FY16 financials. The issue looks fairly valued against its peer group companies. We have “3 star” rating for the issue.

Comparison (FY16)

| Peer Group | Revenue (Rs. Cr) | FV (Rs) | P/E (x) | EPS (Rs) | RoNW (%) | NAV (Rs) | D/E |
|------------------------------------|------------------|---------|---------|----------|----------|----------|-----|
| Dilip Buildcon Ltd. | 4349 | 10 | 13.0 | 16.8 | 19.6 | 85 | 3.2 |
| IRB Infrastructure Developers Ltd. | 5254 | 10 | 11.8 | 18.1 | 13.2 | 137 | 2.9 |
| KNR Constructions Ltd. | 1038 | 10 | 9.4 | 44.9 | 18.1 | 248 | 1.1 |
| MBL Infra Ltd. | 2349 | 10 | 5.6 | 21.3 | 12.0 | 178 | 1.9 |
| IL&FS Transportation Networks Ltd. | 8730 | 10 | 9.5 | 7.7 | 4.7 | 203 | 4.1 |

Financials (Rs. Cr)

| Description | Mar-16 | Mar-15 | Mar-14 | Mar-13 | Mar-12 |
|-----------------------|--------|--------|--------|--------|--------|
| Total Income | 4349 | 2769 | 2402 | 1927 | 1193 |
| PBIDT | 1029 | 693 | 543 | 481 | 267 |
| PBIT | 745 | 487 | 442 | 405 | 223 |
| PBT | 231 | 133 | 242 | 290 | 164 |
| PAT | 197 | 88 | 186 | 241 | 108 |
| Cash Profit | 481 | 294 | 286 | 317 | 152 |
| Net Worth | 1001 | 805 | 719 | 535 | 295 |
| Total Debt | 3221 | 2950 | 1741 | 1035 | 547 |
| Cash and Bank balance | 116 | 267 | 73 | 55 | 96 |
| Free Cash flow | 56 | -685 | -493 | -416 | -378 |
| Debt to Equity(x) | 3.2 | 3.7 | 2.4 | 1.9 | 1.9 |
| RONW(%) | 20% | 11% | 26% | 45% | 37% |
| PBIDTM(%) | 24% | 25% | 23% | 25% | 22% |
| PATM(%) | 5% | 3% | 8% | 13% | 9% |
| CPM(%) | 11% | 11% | 12% | 16% | 13% |
| EPS | 16.8 | 8.2 | 17.6 | 22.8 | 10.2 |



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