

View: Decadal low EBITDA margin, pressure on WC, rise in debt despite Rs5 bn QIP; Downgrade to Sell

- DBL reported results below estimates on all fronts and EBITDA margins of 13.2% were the lowest in a decade. DBL expects similar margins in Q2FY22E.
- DBL posted 13.4%/-5.8%/-10.9% YoY growth in revenue/ EBITDA/ Adj. PAT to Rs21.5 bn/ Rs2.8 bn/ Rs300 mn in Q1FY22.
- We broadly maintain our revenue estimates for FY22E/ FY23E and reduce EBITDA margin estimates by 85bps/ 80bps for FY22E/ FY23E factoring Q1FY22 results.
- We factor higher debt of Rs32.7 bn/ Rs30.9 bn (earlier Rs28.9 bn/ Rs23.9 bn) in FY22E/ FY23E leading to higher finance cost. Accordingly, we sharply decrease our APAT by 26.3%/ 20.7% in FY22E/ FY23E.
- We expect DBL's revenue/ Adj. APT to grow at CAGR of 9.2/ 26.9% over FY21-23E. Gross debt increased by Rs3 bn QoQ in Q1FY22 to Rs36.9 bn despite Rs5.1 bn QIP in Apr'21 as working capital increased by Rs7.2 bn. We factor gross debt reduction by only Rs1.2 bn/ Rs1.8 bn vs. earlier Rs5 bn/ Rs5 bn in FY22E/ FY23E as WC days to rise to 94 (FY22E & FY23E vs. 82 in FY21), reduction in APAT estimates and monetization of HAM projects (we factor lower cash inflow of Rs6 bn/ Rs6 bn in FY22E/ FY23E vs. management guidance of Rs10 bn/ Rs15 bn). NHA1 restricted DBL from bidding since 12 Jul'21 due to accident at one of its project site where DBL expect removal of restriction very soon. Thus, we downgrade the stock from Buy to Sell with a downward revised SOTP of Rs495 (10x FY23E EPS + 1x FY23E P/BV for equity investment in HAM).

Order book at 2.7x TTM revenue

DBL bagged significant order inflow of Rs172.3 bn in FY21 but nil in YTD FY22. Order book stands at Rs254.9 bn (2.7x TTM revenue). Following the ban on bidding for projects after the girder fall incident, DBL plans to commence bidding only in Q3FY22. However, we maintain our order inflow estimate for FY22E/ FY23E at Rs120 bn/ Rs120 bn.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	21,463	18,920	13.4	29,250	(26.6)
Total Expense	18,634	15,919	17.1	24,688	(24.5)
EBITDA	2,828	3,001	(5.8)	4,562	(38.0)
Depreciation	979	1,066	(8.2)	961	1.9
EBIT	1,850	1,935	(4.4)	3,601	(48.6)
Other Income	124	85	46.5	50	150.5
Interest	1,490	1,511	(1.4)	1,500	(0.7)
EBT	484	510	(5.0)	2,150	(77.5)
Tax	214	172	23.8	877	(75.7)
RPAT	270	337	(19.8)	1,273	(78.8)
APAT	300	337	(10.9)	1,273	(76.4)
			(bps)		(bps)
Gross Margin (%)	18.3	20.4	(208)	21.0	(273)
EBITDA Margin (%)	13.2	15.9	(269)	15.6	(242)
NPM (%)	1.4	1.8	(38)	4.4	(295)
Tax Rate (%)	44.1	33.9	1030	40.8	334
EBIT Margin (%)	8.6	10.2	(161)	12.3	(369)

CMP	Rs 535
Target / Downside	Rs 495 / 7%
NIFTY	16,364

Scrip Details

Equity / FV	Rs 1,368mn / Rs 10		
Market Cap	Rs 73bn		
	USD 986mn		
52-week High/Low	Rs 720/ 321		
Avg. Volume (no)	4,29,465		
Bloom Code	DBL IN		
Price Performance	1M	3M	12M
Absolute (%)	(5)	2	52
Rel to NIFTY (%)	(9)	(12)	6

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	75.0	75.0	70.2
MF/Banks/FIs	7.1	5.9	9.9
FIIIs	8.8	10.9	11.6
Public / Others	9.0	8.2	8.3

Valuation (x)

	FY21A	FY22E	FY23E
P/E	22.9	23.5	14.2
EV/EBITDA	7.1	7.1	6.2
ROE (%)	8.5	7.2	10.3
RoACE (%)	12.8	11.5	12.6

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	92,089	97,873	1,09,771
EBITDA	14,690	14,338	16,466
PAT	3,193	3,117	5,145
EPS (Rs.)	23.3	22.8	37.6

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	21,463	23,861	(10.1)	Slower execution vs. expected
EBITDA (Rs mn)	2,828	3,580	(21.0)	-
EBITDA%	13.2	15.0	(183 bps)	Due to higher construction exp
PAT (Rs mn)	300	793	(62.1)	Due to muted operating efficiency vs. estimated

Source: Company, DART

Exhibit 2: Change in estimates – Downgrade FY22E/ FY23E estimates

(Rs mn)	FY22E			FY23E		
	New	Old	% change	New	Old	%change
Net revenues	97,873	1,01,537	(3.6)	1,09,771	1,13,735	(3.5)
EBIDTA	14,338	15,738	(8.9)	16,466	17,970	(8.4)
EBIDTA margin (%)	14.7	15.5	(85)	15.0	15.8	(80)
Adj. Net Profit	3,117	4,227	(26.3)	5,145	6,485	(20.7)
EPS (Rs)	21.3	28.9	(26.3)	35.2	44.4	(20.7)

Source: DART, Company

Monetization of 12 HAM projects

DBL entered into agreement with Cube Highways for sale of 5 (out of 12 won in 2020) under construction HAM projects on 31st Aug'19 for total consideration of Rs6.4 bn. DBL also expects deal of balance 7 HAM projects soon and expects cash inflow of Rs10 bn/ Rs15 bn in FY22E/ FY23E for these 12 HAM projects.

Key earnings takeaways

- 25%-30% employees went back to their villages during the 2nd wave which impacted the operations. Employees are back now but operations are impacted by monsoons.
- Awarding activity was low in April'21 and May'21 due to COVID-19. DBL expects muted awarding in Q2FY22 and strong awarding in Q3FY22 and Q4FY22.
- DBL gave revenue guidance of Rs100-Rs100.5 in FY22 with an EBITDA margin of 15%-15.5%. DBL guided for order inflow of Rs100-120 bn for FY22E, majority the order book comprising of road projects.
- DBL will focus on roads as well other sector like water, bridges and mining. Bigger ticket size projects has always been the focus of the company. Projects in the water sector will be bidding taking into consideration the State finances and margin profile.
- EBITDA margins declined in Q1FY22 due to lower (Rs21.5 bn) than expected (Rs29-30 bn) revenues resulting in under recovering of overheads coupled with increased cost of input (aggregate, steel, cement) material and no early completion bonus. Management expect very less possibility to receive any early completion bonus going forward due to reduction in execution time line. EBITDA margins in Q2FY22 expected to be in the same range as Q1FY22 however it will improve to 15%-15.5% in H2FY22.
- The girder incident at one of their sites was posted on exchange as soon as the company received the letter from NHAI. According to the due diligence done after the incident, it came into light that there was negligence in placing the block and because of the rains and traffic it loosened up further.

- DBL is currently banned to bid for projects. NHAI is done with their due diligence and the management expects the ban to get lifted in 15 days. Company has experience of lodging more than 2,500 girders and at difficult places but this is the first time such an incident took place.
- DBL acquired DBL infrastructure a promoter company for a value of Rs20mn since there was cash of Rs20 mn in the books of DBL infrastructure. This entity will be used to channel investment in HAM projects in the future.
- DBL bids for new projects only when there is 9 month left to complete one of the existing projects since bidding procedure goes on for 3 months and then all the clearances and time to start the new project takes another 4-6 months. Once the existing project is completed the equipment's of that project is shifted on the new project, this way the company has no need to spend on equipment's.
- DBL has 12 HAM assets which are either committed or in advance stage of monetization. Expect Rs25 bn (earlier Rs20 bn) from the deal (Rs10 bn/ Rs15 bn in FY22E/ FY23E), the increase in valuation is primarily for remaining 7 projects as first 5 projects already signed deal with Cube Highways. DBL expects value appreciation of the assets which have achieved CoD and hence the management has taken decision to sell assets only after COD maximizing shareholders value. One of the HAM achieved COD and received 1st annuity in July'21. There is a lot of interest in the HAM assets of DBL from investors as DBL has 10% of the HAM portfolio awarded by NHAI. CUBE deal for sale of 5 HAM projects is in the last stages, expect to receive Rs5.5 bn in FY22 and balance Rs1 bn in FY23.
- Siarmal Open cast mining – Signing of agreement on 2 Jun'21 and expect to commence mining after 1.5 year as there are many mining procedures only after which the company can start the work. Equity infusion will take place only when the work is commenced at the site.
- Pachwara mining case still pending in the supreme court, next hearing to be held in Sept'21.
- Increase in working capital resulted in increase in debt on QoQ: DBL made investment of Rs2 bn in new HAM project in Q1FY22, Inventory increase by Rs2.6 bn QoQ as price of cement, steel, bitumen and aggregates increased, debtor increased by Rs1.7 bn QoQ and creditors reduced by Rs1.0 bn QoQ. Total cash outflow of Rs7.2 bn due to increase in net working capital resulted in Rs3 bn QoQ increase in gross debt to Rs36.9 bn (historically highest) as on Q1FY22 despite Rs5 bn QIP inflow in Apr'21. Management expect to reduce debt by Rs8 bn/ Rs5 bn from Q1FY22/ FY21 level by end of FY22 with the cash inflow from asset monetization.
- Unutilized MAT credit stands at Rs2.3 bn as on June'21. DBL utilized Rs130 mn of the MAT credit in Q1FY22. Expect to continue on the same old tax regime in FY23 as well.
- Mobilization advance/ Retention money/ Unbilled revenue stood at Rs10 bn/ Rs7.5 bn/ Rs5.0 bn. WC days stood at 100 days vs. 82 days in Q4FY21. Expect WC to reach 92-95 days by end of FY22.
- All the project of the company are moving smoothly except Indore metro project which faced some clearance issues. DBL will complete 5 EPC projects in next one month.
- Expect equity infusion of Rs7 bn, Rs1.8 bn has already been invested, the rest will be infused in a staggered manner.
- Capex – DBL incurred Rs770 mn of capex in Q1FY22 and does not expect the number to cross beyond Rs1.0 bn in FY22E.

We have not valued DBL's equity investment in 24 BOT projects, which it signed an agreement in Aug'17 to sell 100% to Shrem Group for Rs16 bn since the deal has been closed and the company has received the cash consideration.

Exhibit 3: Income statement (Standalone)

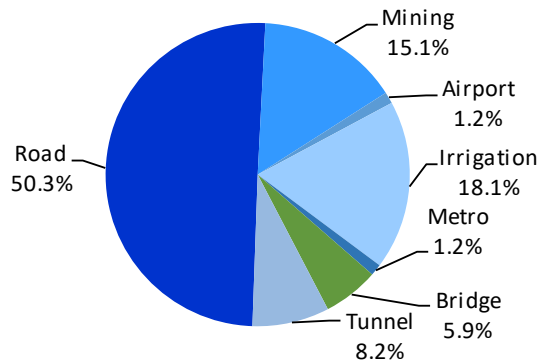
Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue	21,463	18,920	13.4	29,250	(26.6)	92,089	89,838	2.5
(Inc)/dec in stocks & WIP	(48)	124	-	(482)	-	(183)	1,175	-
Material consumed	17,586	14,944	17.7	23,585	(25.4)	72,982	68,956	5.8
Employees cost	493	488	1.1	433	13.9	1,925	1,958	(1.7)
Other expenditure	603	363	65.9	1,152	(47.7)	2,672	2,029	31.7
Total expenditure	18,634	15,919	17.1	24,688	(24.5)	77,396	74,118	4.4
EBITDA	2,828	3,001	(5.8)	4,562	(38.0)	14,693	15,720	(6.5)
Depreciation	979	1,066	(8.2)	961	1.9	4,071	4,241	(4.0)
Operating profit	1,850	1,935	(4.4)	3,601	(48.6)	10,621	11,479	(7.5)
Other income	124	85	46.5	50	150.5	288	313	(7.9)
EBIT	1,974	2,020	(2.3)	3,651	(45.9)	10,910	11,792	(7.5)
Interest	1,490	1,511	(1.4)	1,500	(0.7)	5,862	6,127	(4.3)
Exceptional item	-	-	-	-	-	-	89	-
EBT	484	510	(5.0)	2,150	(77.5)	5,048	5,754	(12.3)
Tax	214	172	23.8	877	(75.7)	1,855	1,505	(18.9)
Net income	270	337	(19.8)	1,273	(78.8)	3,193	4,250	(24.9)
Adjustments	30	-	-	-	-	-	(89)	-
Adjusted net income	300	337	(10.9)	1,273	(76.4)	3,193	4,160	(23.3)
EPS (Rs)	2.1	2.3	(10.9)	8.7	(76.4)	21.8	28.5	(23.3)
			bps		bps			bps
EBIDTA Margin (Excl. O.I.)	13.2	15.9	(269)	15.6	(242)	16.0	17.5	(154)
EBIDTA Margin (Incl. O.I.)	13.8	16.3	(255)	15.8	(201)	16.3	17.8	(158)
NPM (%)	1.4	1.8	(38)	4.3	(295)	3.5	4.6	(116)
Tax/PBT (%)	44.1	33.9	1,030	40.8	334	36.7	26.1	1,060
Material cons/Revenue (%)	81.7	79.6	208	79.0	273	79.1	78.1	99

Source: DART, Company

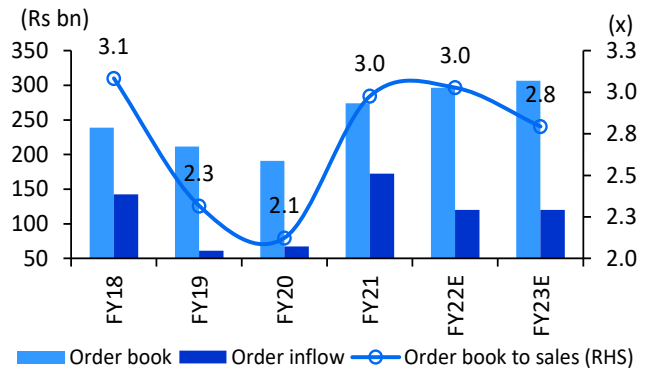
Exhibit 4: SOTP Valuation

Component	Valuation Method	Rs/sh	%
Standalone cons business	10x FY23E EPS	351.9	71.0
Road BOTs	1x FY23E P/B	143.4	29.0
Total		495.3	100.0
CMP		535.0	
Potential upside (%)		-7.4	

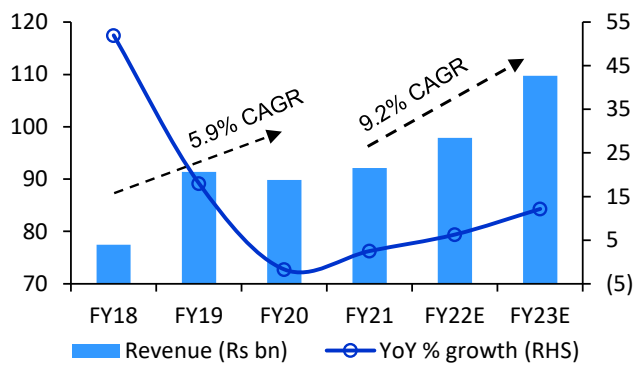
Source: DART, Company

Exhibit 5: Order book (Rs254.9 bn) break-up


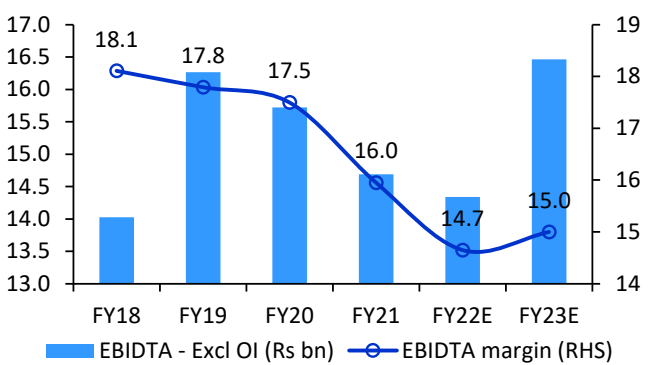
Source: Company, DART

Exhibit 6: Order book trend


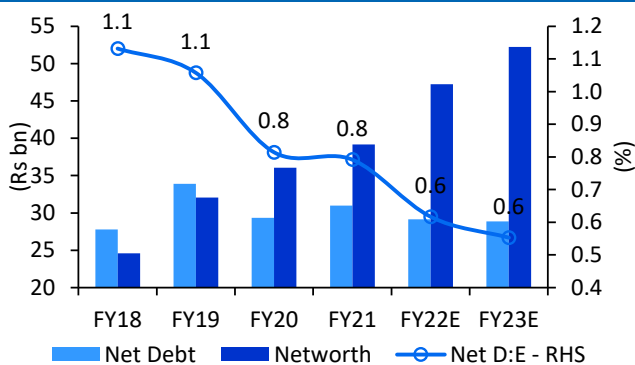
Source: Company, DART

Exhibit 7: Revenue CAGR of 9.2% over FY21-23E


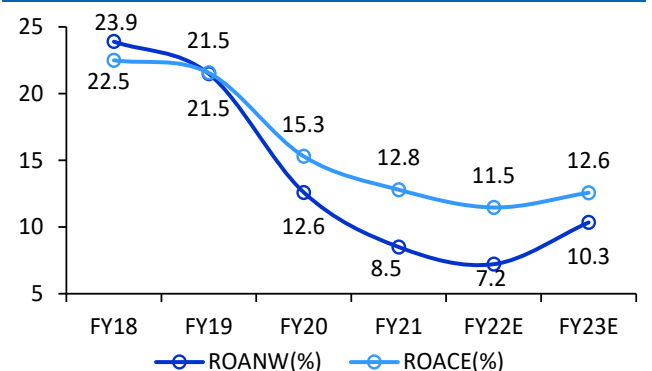
Source: Company, DART

Exhibit 8: EBITDA Margin trend


Source: Company, DART

Exhibit 9: Reduction in Net D:E


Source: Company, DART

Exhibit 10: Return Ratio Trend


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	89,838	92,089	97,873	1,09,771
Total Expense	74,118	77,399	83,535	93,305
COGS	70,132	72,799	78,641	87,817
Employees Cost	1,958	1,925	2,153	2,635
Other expenses	2,029	2,675	2,740	2,854
EBIDTA	15,720	14,690	14,338	16,466
Depreciation	4,241	4,071	4,327	4,579
EBIT	11,479	10,619	10,012	11,886
Interest	6,127	5,862	5,650	5,100
Other Income	313	291	291	262
Exc. / E.O. items	89	0	0	0
EBT	5,754	5,048	4,652	7,048
Tax	1,505	1,855	1,535	1,903
RPAT	4,250	3,193	3,117	5,145
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,160	3,193	3,117	5,145

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	1,368	1,368	1,462	1,462
Minority Interest	0	0	0	0
Reserves & Surplus	34,692	37,804	45,781	50,780
Net Worth	36,060	39,172	47,243	52,242
Total Debt	32,562	33,910	32,668	30,894
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	68,622	73,082	79,912	83,137

Applications of Funds

Net Block	20,276	19,149	17,323	15,243
CWIP	43	1	0	0
Investments	11,444	10,447	11,759	13,500
Current Assets, Loans & Advances	80,009	82,657	88,082	95,441
Inventories	26,309	30,294	33,414	37,322
Receivables	12,397	11,047	12,724	14,270
Cash and Bank Balances	3,219	2,922	3,545	2,034
Loans and Advances	5,880	7,711	8,353	8,397
Other Current Assets	32,204	30,683	30,046	33,418
Less: Current Liabilities & Provisions	43,149	39,172	37,252	41,048
Payables	16,389	20,630	20,884	23,326
Other Current Liabilities	26,761	18,542	16,368	17,722
<i>sub total</i>				
Net Current Assets	36,859	43,485	50,830	54,393
Total Assets	68,622	73,082	79,912	83,137

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	21.9	20.9	19.7	20.0
EBIDTA Margin	17.5	16.0	14.7	15.0
EBIT Margin	12.8	11.5	10.2	10.8
Tax rate	26.1	36.7	33.0	27.0
Net Profit Margin	4.6	3.5	3.2	4.7
(B) As Percentage of Net Sales (%)				
COGS	78.1	79.1	80.4	80.0
Employee	2.2	2.1	2.2	2.4
Other	2.3	2.9	2.8	2.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.9	0.9	0.7	0.6
Interest Coverage	1.9	1.8	1.8	2.3
Inventory days	107	120	125	124
Debtors days	50	44	47	47
Average Cost of Debt	17.9	17.6	17.0	16.0
Payable days	67	82	78	78
Working Capital days	150	172	190	181
FA T/O	4.4	4.8	5.7	7.2
(D) Measures of Investment				
AEPS (Rs)	30.4	23.3	22.8	37.6
CEPS (Rs)	61.4	53.1	54.4	71.1
DPS (Rs)	1.2	1.0	1.1	1.1
Dividend Payout (%)	4.0	4.3	4.7	2.8
BVPS (Rs)	263.7	286.4	345.4	382.0
RoANW (%)	12.6	8.5	7.2	10.3
RoACE (%)	15.3	12.8	11.5	12.6
RoAIC (%)	15.9	13.4	12.0	13.0
(E) Valuation Ratios				
CMP (Rs)	535	535	535	535
P/E	17.6	22.9	23.5	14.2
Mcap (Rs Mn)	73,165	73,165	73,165	73,165
MCap/ Sales	0.8	0.8	0.7	0.7
EV	1,02,508	1,04,153	1,02,289	1,02,026
EV/Sales	1.1	1.1	1.0	0.9
EV/EBITDA	6.5	7.1	7.1	6.2
P/BV	2.0	1.9	1.5	1.4
Dividend Yield (%)	0.2	0.2	0.2	0.2
(F) Growth Rate (%)				
Revenue	(1.7)	2.5	6.3	12.2
EBITDA	(3.3)	(6.6)	(2.4)	14.8
EBIT	(12.1)	(7.5)	(5.7)	18.7
PBT	(28.5)	(12.3)	(7.8)	51.5
APAT	(27.4)	(23.3)	(2.4)	65.1
EPS	(27.4)	(23.3)	(2.4)	65.1

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	18,529	6,990	6,724	9,532
CFI	(7,709)	(2,637)	(4,164)	(4,023)
CFF	(9,489)	(4,650)	(1,938)	(7,020)
FCFF	15,422	3,997	4,224	7,032
Opening Cash	1,888	3,219	2,922	3,545
Closing Cash	3,219	2,922	3,545	2,034

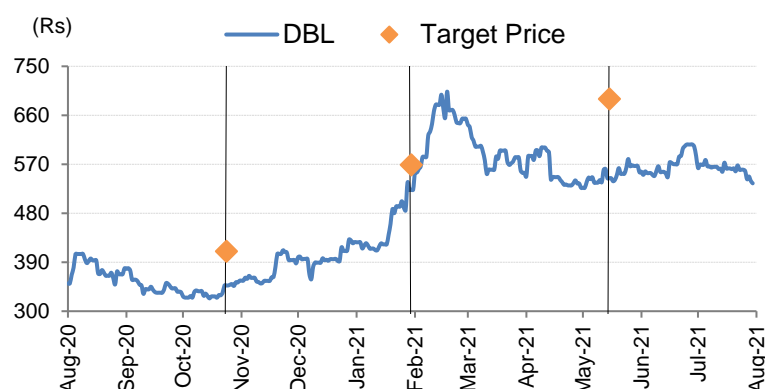
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-20	Accumulate	410	347
Feb-21	Accumulate	569	523
May-21	Buy	690	544

*Price as on recommendation date

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