

# Sadbhav Engineering (SADE IN)

Rating: BUY | CMP: Rs61 | TP: Rs97

## Execution disappoint

### Quick Pointers

- Order book stands healthy at Rs91bn (5.5x TTM revenue) as on 1QFY21; Bid pipeline remains strong Rs114bn (Rs58bn-submitted, Rs69bn to be submitted)
- Execution to ramp-up from Q3, based on full labour force & execution pick up in large EPC projects (Run rate of Rs70-80mn/day).
- Stake sale in Maharashtra Border Check Post project concluded and expect net equity inflow of Rs5.5bn (Valued at an EV of ~Rs17bn).

**Sadbhav Engineering reported disappointing numbers, led by dismal execution performance which came significantly below estimates. Execution is expected to garner pace 3Q onwards, as full labour force expected to be back post monsoon and ramp up in execution of large ticket size projects; company targets construction run-rate of Rs70-80mn/day. It has completed sale of Maharashtra Border Check Post project and expects an infusion of Rs5.5bn. With stake sale and various arbitration award, management expects liquidity position to improve significantly going ahead.**

**SADE is one of the most reputed and credible EPC companies in infrastructure space having strong execution track record. Lately, the company faced pressures due to muted awarding, delay in receiving ADs, environment clearance issues, etc. leading to subdued revenues and stretched working capital cycle. But eventually all projects received ADs and conclusion of asset monetization deal, thereby resulting in significant reduction of net debt. At CMP, the stock trades at a P/E of 15.2x/9.1x on FY22E/FY23E EPS and is trading at an EV of 7.4x/6.5x FY22E/FY23E EBITDA. Due to recent correction in the stock price, we upgrade our rating to 'BUY' (earlier Accumulate) with a SOTP based TP of Rs97 (unchanged).**

**Lower other expenses supported margin:** For Q1FY22, SADE's revenues came in at Rs2.6bn below our estimate of Rs3.2bn, led by slower execution in its key projects. EBITDA came in at Rs242mn, with EBITDAM improving 73bps YoY to 9.2% (Ple 9.3%), due to lower other expenses (down 26.8% YoY) and employee cost being flat YoY. On bottom-line front, company reported a loss of Rs169mn higher than our estimated loss of Rs64mn, mainly led by higher than expected interest cost.

**Comfortable order book position:** Order book as at 1QFY21 stand at Rs91bn, translating into order-book-to-sales ratio of 5.5x trailing revenues. Order book comprises of Transport segment (76%), Mining segment (21%) and Irrigation segment (3%). The company concluded stake sale of MBCPL and expects to conclude Ahmedabad Ring Road (SPA signed) and 3 operational HAM projects by FY22 end. Gross debt reduced by Rs650mn to Rs11.4bn with cash & cash equivalents of Rs280-300mn.

August 17, 2021

## Q1FY22 Result Update

☑ Change in Estimates | ■ Target | ☑ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		ACCUMULATE	
Target Price	97		97	
Sales (Rs. m)	20,129	26,120	20,163	26,234
% Chng.	(0.2)	(0.4)		
EBITDA (Rs. m)	2,456	3,213	2,460	3,200
% Chng.	(0.2)	0.4		
EPS (Rs.)	4.0	6.7	4.0	6.6
% Chng.	(0.5)	0.7		

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	22,517	16,236	20,129	26,120
EBITDA (Rs. m)	2,795	2,114	2,456	3,213
Margin (%)	12.4	13.0	12.2	12.3
PAT (Rs. m)	681	606	687	1,147
EPS (Rs.)	4.0	3.5	4.0	6.7
Gr. (%)	(63.4)	(11.0)	13.3	67.1
DPS (Rs.)	0.7	0.7	0.7	0.7
Yield (%)	1.2	1.2	1.2	1.2
RoE (%)	3.3	2.9	3.2	5.1
RoCE (%)	4.9	3.6	4.4	6.0
EV/Sales (x)	0.9	1.3	0.9	0.8
EV/EBITDA (x)	7.6	10.0	7.4	6.5
PE (x)	15.3	17.2	15.2	9.1
P/BV (x)	0.5	0.5	0.5	0.5

### Key Data

### SADE.BO | SADE IN

52-W High / Low	Rs.97 / Rs.37
Sensex / Nifty	55,792 / 16,615
Market Cap	Rs.10bn/ \$ 141m
Shares Outstanding	172m
3M Avg. Daily Value	Rs.288.94m

### Shareholding Pattern (%)

Promoter's	44.89
Foreign	4.39
Domestic Institution	22.17
Public & Others	28.55
Promoter Pledge (Rs bn)	5.48

### Stock Performance (%)

	1M	6M	12M
Absolute	(23.1)	(23.8)	27.4
Relative	(26.8)	(29.4)	(13.1)

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**Exhibit 1: Lower other expenses supported margin**

Y/e March (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Revenue	2,297	4,122	5,560	4,257	2,628	14.4	-38.3	16,236	22,517	-27.9
Total Revenues	2,297	4,122	5,560	4,257	2,628	14.4	-38.3	16,236	22,517	-27.9
Expenditure	2,102	3,624	4,824	3,573	2,387	13.5	-33.2	14,123	19,722	-28.4
as % of sales	91.5	87.9	86.8	83.9	90.8			87.0	87.6	
Consumption of RM	1,744	3,246	4,401	2,971	2,056	17.9	-30.8	12,362	17,350	-28.8
as % of sales	75.9	78.7	79.2	69.8	78.2			76.1	77.1	
Employee Cost	257	294	325	343	257	0.0	-25.1	1,219	1,472	-17.2
as % of sales	11.2	7.1	5.8	8.1	9.8			7.5	6.5	
Other expenditure	101	84	98	258	74	-26.8	-71.3	542	900	-39.8
as % of sales	4.4	2.0	1.8	6.1	2.8			3.3	4.0	
EBITDA	195	498	737	685	242	24.2	-64.7	2,114	2,795	-24.4
Depreciation	249	245	235	212	204	-18.3	-4.0	942	1,084	-13.1
EBIT	-55	253	501	472	38	-169.0	-92.0	1,172	1,710	-31.5
Other Income	151	48	133	337	195	29.0	-42.3	935	222	320.6
Interest	377	272	482	499	421	11.7	-15.6	1,895	1,005	88.6
PBT	-281	29	152	311	-188	-32.9	-160.6	211	927	-77.2
Total Tax	-15	-23	1	-357	-20	30.4	-94.5	-395	246	NA
Adjusted PAT	-266	52	152	668	-169	-36.6	-125.2	606	681	-11.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	0.0
PAT after MI	-266	52	152	668	-169	-36.6	-125.2	606	681	-11.0
Extra ordinary items	0	0	0	-196	0	NA	NA	-196	170	NA
Reported PAT	-266	52	152	472	-169	-36.6	-135.7	410	852	-51.8
Adjusted EPS	-1.5	0.3	0.9	2.8	-1.0	-36.6	-135.7	2.4	5.0	-51.8
<b>Margins (%)</b>						<b>bps</b>	<b>bps</b>			<b>bps</b>
EBIDTA	8.5	12.1	13.2	16.1	9.2	73	-689	13.0	12.4	61
EBIT	-2.4	6.1	9.0	11.1	1.4	383	-966	7.2	7.6	-38
EBT	-12.2	0.7	2.7	7.3	-7.2	506	-1,447	1.3	4.1	-282
PAT	-11.6	1.3	2.7	11.1	-6.4	516	-1,751	2.5	3.8	-125
Effective Tax rate	5.4	-80.6	0.4	-114.8	10.5	510	12,527	-186.8	26.5	-21,332

Source: Company, PL

**Exhibit 2: SoTP Valuation**

Particulars	Segment	Driver	Multiple	Value (Rsmn)	Value per share (Rs)	Proportionate (%) of value per share	Basis
Construction business	Construction	1,147	8	9,180	53.5	55.1	8x on FY23 earnings
Equity Investment in BOT/HAM excluding		10700	0.7	7,490	43.7	44.9	Valuing at 0.7x its investments
Investment in InVIT Trust		7240	0	-	-	0.0	
<b>Total</b>				<b>9,113</b>	<b>97</b>	<b>100</b>	

Source: Company, PL

**Exhibit 3: Key Assumptions**

(Rsmn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Order inflows	90,709	22,419	-13,184	25,797	31,994	41,589
Revenue	35,051	35,492	22,517	16,236	20,129	26,120
Order backlog (Y/E)	132,493	119,420	83,719	93,280	105,145	120,614
Order book-to-sales ratio (x)	3.8	3.4	3.7	5.7	5.2	4.6
Burn-out Ratio (%)	33	28	22	18	20	23

Source: Company, PL

## Conference Call Highlights

- Management expects awarding momentum to pick up as bid worth Rs58bn are already submitted and further expects to submit bids worth Rs69bn in Aug-Sep'21 months.
- Execution is expected to remain low in 2Q; expects to garner pace 3Q onwards (execution run rate of Rs70-80mn/day).
- Order book continues to remain healthy at Rs91bn (not major write back accepted) translating into order book-to-sales of 5.5x TTM revenues.
  - Order book comprises of Transport segment -76%(EPC-50%, HAM-26%), Mining segment-21% and Irrigation segment -3%.
- Toll collection stands at Ahmedabad Ring Road (Rs236.2mn Vs Rs135mn in 1QFY21) and Maharashtra Border Check Post (Rs715mn Vs Rs228mn in 1QFY21).
- Toll collection at Rohtak Hissar and Rohtak Panipat projects continue to halt in 1QFY22 (halted since Dec'20), owing to farmer's agitation protest. With excess 180 days of toll halted, the company triggered Force Majeure clause and started process of final termination for both projects.
- The company successfully monetized MBCPL (18 check post operational) to Adani group and expects to receive an equity of ~Rs5.5bn (valuing at an EV of ~Rs17bn) from sale of asset.
- NHAI has recommended PCOD for two HAM projects- UNA HAM (w.e.f Dec'19) and BTRS HAM projects (w.e.f Dec'20). Further, the company expects PCOD of Nainital HAM project and Vidarbha HAM projects by 2Q/3QFY22.
- Gross debt reduced by Rs650mn to Rs11.4bn as on 1QFY22 with cash and cash equivalent balance of Rs280-300mn.
- It completed entire ~Rs12bn of equity investment in its 9 HAM projects at SIPL levels and infused Rs360mn of equity of Rs1,080mn planned for Gabbar HAM projects till date.
- The company has initiated process to monetize stake in Ahmedabad Ring Road (all approvals received) and 3 operational HAM projects (Sadbhav Bhavnagar, Sadbhav Udaipur, Sadbhav Rudrapur)
- Management expects to receive arbitration proceeds worth Rs3.8bn within 4-5months from NHAI. Further, the company has filed various arbitration claims of ~Rs19bn for Rohak-Panipat project with NHAI.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>22,517</b>	<b>16,236</b>	<b>20,129</b>	<b>26,120</b>
YoY gr. (%)	(36.6)	(27.9)	24.0	29.8
Cost of Goods Sold	13,977	10,733	13,084	16,978
Gross Profit	8,539	5,503	7,045	9,142
Margin (%)	37.9	33.9	35.0	35.0
Employee Cost	1,472	1,219	1,409	1,828
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,795</b>	<b>2,114</b>	<b>2,456</b>	<b>3,213</b>
YoY gr. (%)	(34.7)	(24.4)	16.2	30.8
Margin (%)	12.4	13.0	12.2	12.3
Depreciation and Amortization	1,084	942	1,013	1,143
<b>EBIT</b>	<b>1,710</b>	<b>1,172</b>	<b>1,443</b>	<b>2,070</b>
Margin (%)	7.6	7.2	7.2	7.9
Net Interest	1,005	1,895	727	798
Other Income	222	935	201	261
<b>Profit Before Tax</b>	<b>1,097</b>	<b>16</b>	<b>918</b>	<b>1,533</b>
Margin (%)	4.9	0.1	4.6	5.9
Total Tax	246	(395)	231	386
Effective tax rate (%)	22.4	(2,546.5)	25.2	25.2
<b>Profit after tax</b>	<b>852</b>	<b>410</b>	<b>687</b>	<b>1,147</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>681</b>	<b>606</b>	<b>687</b>	<b>1,147</b>
YoY gr. (%)	(63.4)	(11.0)	13.3	67.1
Margin (%)	3.0	3.7	3.4	4.4
Extra Ord. Income / (Exp)	170	(196)	-	-
<b>Reported PAT</b>	<b>852</b>	<b>410</b>	<b>687</b>	<b>1,147</b>
YoY gr. (%)	(54.4)	(51.8)	67.3	67.1
Margin (%)	3.8	2.5	3.4	4.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	852	410	687	1,147
<b>Equity Shares O/s (m)</b>	<b>172</b>	<b>172</b>	<b>172</b>	<b>172</b>
<b>EPS (Rs)</b>	<b>4.0</b>	<b>3.5</b>	<b>4.0</b>	<b>6.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,732</b>	<b>7,291</b>	<b>8,291</b>	<b>9,291</b>
Tangibles	7,732	7,291	8,291	9,291
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>3,429</b>	<b>4,371</b>	<b>5,383</b>	<b>6,526</b>
Tangibles	3,429	4,371	5,383	6,526
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,304</b>	<b>2,920</b>	<b>2,907</b>	<b>2,765</b>
Tangibles	4,304	2,920	2,907	2,765
Intangibles	-	-	-	-
Capital Work In Progress	38	38	38	38
Goodwill	-	-	-	-
Non-Current Investments	10,311	7,203	8,680	10,279
Net Deferred tax assets	1,110	1,338	1,338	1,338
Other Non-Current Assets	423	0	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,472	1,391	1,453	1,883
Trade receivables	19,331	6,827	8,272	10,734
Cash & Bank Balance	1,231	96	3,920	2,202
Other Current Assets	3,817	3,146	3,623	4,179
<b>Total Assets</b>	<b>45,248</b>	<b>44,471</b>	<b>47,412</b>	<b>52,193</b>
<b>Equity</b>				
Equity Share Capital	172	172	172	172
Other Equity	20,868	21,282	21,840	22,859
<b>Total Network</b>	<b>21,040</b>	<b>21,454</b>	<b>22,012</b>	<b>23,030</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	5,260	3,934	3,934	3,934
Provisions	-	-	-	-
Other non current liabilities	4,113	4,003	4,206	4,468
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,802	6,744	7,744	8,744
Trade payables	5,529	5,091	6,295	8,159
Other current liabilities	3,615	4,582	4,559	5,194
<b>Total Equity &amp; Liabilities</b>	<b>45,248</b>	<b>44,471</b>	<b>47,412</b>	<b>52,193</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	852	16	918	1,533
Add. Depreciation	1,084	942	1,013	1,143
Add. Interest	908	1,172	727	798
Less Financial Other Income	222	935	201	261
Add. Other	132	199	-	-
Op. profit before WC changes	2,976	2,329	2,657	3,474
Net Changes-WC	(1,023)	(323)	3,254	(2,879)
Direct tax	(519)	(31)	(231)	(386)
<b>Net cash from Op. activities</b>	<b>1,435</b>	<b>1,974</b>	<b>5,680</b>	<b>209</b>
Capital expenditures	41	235	(1,000)	(1,000)
Interest / Dividend Income	1,033	723	-	-
Others	3,156	(1,696)	(1,000)	(1,000)
<b>Net Cash from Invt. activities</b>	<b>4,231</b>	<b>(737)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,155)	575	1,000	1,000
Dividend paid	(172)	-	(129)	(129)
Interest paid	(1,895)	(1,895)	(727)	(798)
Others	475	36	-	-
<b>Net cash from Fin. activities</b>	<b>(5,746)</b>	<b>(1,284)</b>	<b>145</b>	<b>74</b>
<b>Net change in cash</b>	<b>(81)</b>	<b>(47)</b>	<b>3,825</b>	<b>(1,718)</b>
Free Cash Flow	1,336	1,985	4,680	(791)

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	4.0	3.5	4.0	6.7
CEPS	10.3	9.0	9.9	13.3
BVPS	122.6	125.0	128.3	134.2
FCF	7.8	11.6	27.3	(4.6)
DPS	0.7	0.7	0.7	0.7
<b>Return Ratio(%)</b>				
RoCE	4.9	3.6	4.4	6.0
ROIC	4.0	95.3	3.7	4.8
RoE	3.3	2.9	3.2	5.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.5	0.4	0.5
Net Working Capital (Days)	255	462	305	267
<b>Valuation(x)</b>				
PER	15.3	17.2	15.2	9.1
P/B	0.5	0.5	0.5	0.5
P/CEPS	5.9	6.8	6.2	4.6
EV/EBITDA	7.6	10.0	7.4	6.5
EV/Sales	0.9	1.3	0.9	0.8
Dividend Yield (%)	1.2	1.2	1.2	1.2

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>4,122</b>	<b>5,560</b>	<b>4,257</b>	<b>2,628</b>
YoY gr. (%)	(27.1)	26.4	4.1	14.4
Raw Material Expenses	-	-	-	-
Gross Profit	4,122	5,560	4,257	2,628
Margin (%)	100.0	100.0	100.0	100.0
<b>EBITDA</b>	<b>498</b>	<b>737</b>	<b>685</b>	<b>242</b>
YoY gr. (%)	(28.4)	34.3	35.7	24.2
Margin (%)	12.1	13.2	16.1	9.2
Depreciation / Depletion	245	235	212	204
<b>EBIT</b>	<b>253</b>	<b>501</b>	<b>472</b>	<b>38</b>
Margin (%)	6.1	9.0	11.1	1.4
Net Interest	272	482	499	421
Other Income	48	133	337	195
<b>Profit before Tax</b>	<b>29</b>	<b>152</b>	<b>115</b>	<b>(188)</b>
Margin (%)	0.7	2.7	2.7	(7.2)
Total Tax	(23)	1	(357)	(20)
Effective tax rate (%)	(80.6)	0.4	(310.0)	10.5
<b>Profit after Tax</b>	<b>52</b>	<b>152</b>	<b>472</b>	<b>(169)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>52</b>	<b>152</b>	<b>668</b>	<b>(169)</b>
YoY gr. (%)	(79.7)	30.1	(856.2)	(36.6)
Margin (%)	1.3	2.7	15.7	(6.4)
Extra Ord. Income / (Exp)	-	-	(196)	-
<b>Reported PAT</b>	<b>52</b>	<b>152</b>	<b>472</b>	<b>(169)</b>
YoY gr. (%)	(79.7)	30.1	477.1	(36.6)
Margin (%)	1.3	2.7	11.1	(6.4)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>52</b>	<b>152</b>	<b>472</b>	<b>(169)</b>
Avg. Shares O/s (m)	172	172	172	172
<b>EPS (Rs)</b>	<b>0.3</b>	<b>0.9</b>	<b>3.9</b>	<b>(1.0)</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Jul-21	Accumulate	97	82
2	2-Jul-21	Accumulate	97	86
3	6-Apr-21	BUY	115	63
4	15-Feb-21	BUY	115	80
5	7-Jan-21	BUY	87	64
6	13-Nov-20	BUY	87	48
7	8-Oct-20	BUY	87	52
8	3-Sep-20	BUY	87	49

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,687	1,684
2	Ahluwalia Contracts (India)	Accumulate	410	370
3	Apar Industries	BUY	790	680
4	Ashoka Buildcon	BUY	160	102
5	Bharat Electronics	BUY	208	171
6	BHEL	Sell	34	59
7	Capacite's Infraprojects	BUY	270	207
8	Container Corporation of India	Hold	607	644
9	Cummins India	Accumulate	1,051	976
10	Engineers India	BUY	129	71
11	GE T&D India	Hold	141	140
12	H.G. Infra Engineering	BUY	696	571
13	IRB Infrastructure Developers	BUY	192	152
14	ITD Cementation India	BUY	97	83
15	J.Kumar Infraprojects	BUY	272	215
16	Kalpataru Power Transmission	BUY	576	472
17	KEC International	Accumulate	445	419
18	KNR Constructions	Accumulate	314	286
19	Larsen & Toubro	BUY	1,855	1,598
20	NCC	BUY	111	89
21	PNC Infratech	BUY	372	310
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	Accumulate	97	82
24	Siemens	Accumulate	2,310	2,192
25	Thermax	Accumulate	1,559	1,360
26	Triveni Turbine	BUY	156	130
27	Voltamp Transformers	Accumulate	1,825	1,604

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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