SINCE 1986

DALAL STREET INVESTMENT JOURNAL

DEMOCRATIZING WEALTH CREATION

PEARLPICK

Milking the liquidity premium

October 2020

Dilip Buildcon

BSE Code: **540047**	CMP : ₹**327.70**	Face Value : ₹**10**	Target price: ₹**460**	HP* : **Two years**

About the company

Our Pearl Pick for the month of October is Dilip Buildcon Limited (DBL). The company is one of the leading private sector road-focussed engineering, procurement & construction (EPC) contractors in the country. The core business of the company involves undertaking construction projects across India in the road and irrigation sectors. It specialises in constructing state & national highways, city roads, culverts, and bridges. The company is also the largest owner of construction equipment, giving it a competitive edge.

Diversified order book:

DBL has successfully managed to diversify its order book from roads (87.1 per cent) in the financial year 2018-19 to 49.65 per cent during the first quarter of the financial year 2020-21. As of Q1FY21, the company's sector-wise diversified order book consists of roads-49.65 per cent, irrigation-19.31 per cent, mining-12.82 per cent, special bridges-9.08 per cent, tunnels-5.5 per cent, airport, and metro- 2.15 per cent and 1.48 per cent, respectively.

Geographically, the company's 47 per cent orders come from Gujarat, 18 per cent from Jharkhand, 12 per cent from Uttarakhand & Karnataka each, and 11 per cent from Telangana. Client-wise, the company has garnered 63 per cent orders from the central government, out of which, 43 per cent are from National Highways Authority of India (NHAI). The remaining 37 per cent of the order book is from the state government.

Strong order inflow:

The company managed to have a robust order inflow even during the crucial pandemic situation. The company's order inflow stood at Rs 8,908.1 crore YTDFY21 and the total order book stood at Rs 26,115.2 crore in Q1FY20, which is three times its TTM revenue. The company's order book in FY20 stood at Rs 19,081.6 crore, which is 9.8 per cent lower as compared to Rs 21,178.1 crore in FY19.

Going forward, the company is targeting order worth Rs 50,000 crore in FY21 across various sectors as NHAI has awarded only 460 kms out of the total 4,500 kms in this financial year. Therefore, the company expects a robust and diverse order book, giving great visibility until FY24.

Impact of COVID on execution:

DBL has completed 90 per cent of its projects before time and also, earned an early completion bonus of Rs 565.5 crore to date. Moreover, it managed to complete 14 projects in FY20, which is the highest completion in a single year.

Even though the company had an exemption to resume its operations, the early factors like shortage of labour and the non-availability of raw material due to broken supply chain, early monsoon, and two hurricanes made the execution sluggish. However, post-June, it achieved normality in terms of labour availability, which is more than 90 per cent and project execution is at 80 per cent of the pre-COVID level.

Continued On PG 2...

*** HP :** Holding Period

DSIJ Pvt. Ltd. : C - 105,, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 I **For Customer Service : 020-49072626 OR service@dsij.in**

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

DSIJ INVESTMENT ADVISORY UNIT (CRU)

Working capital and debt:

The company has successfully brought down its debt-to-equity below 1x in FY20 compared to 2.27x in FY16. As of Q1FY21, its net debt-to-equity increased to 0.92x from 0.81x as of Q4FY20. The net debt stood at Rs 3,356.8 crore in the June quarter as compared to Rs 2,934.3 crore in the March quarter. This increase in the debt level was due to its investment in special purpose vehicle (SPV) created for the HAM project. Moreover, the company's working capital debt-to-equity ratio also increased to 0.57 in Q1FY21 from 0.45 in Q4FY20 on account of an increase in debtor days. In Q1FY20, the company's working capital days increased to 114 days from 90 days in Q4FY20 due to the delay in payments from clients. Nevertheless, as the situations normalise, the company expects working capital days to return to normalcy.

Asset monetisation:

After successfully delivering the HAM deal with Shrem Group, the company has started to churn its portfolio of 12 HAM projects. Out of which, five projects have been successfully sold to Cube Highways and the company is in discussions with a few large global financial investors for the remaining seven projects. The asset monetisation will help the company with its working capital requirements going forward.

Financial performance:

On the financial front, the company's consolidated net revenue declined by 13.81 per cent YoY to Rs 2,099.95 crore for Q1FY21, compared to Rs 2,436.44 crore in the corresponding quarter of the previous year. Lower revenue was due to the limited availability of workforce and disrupted supply chain on account of the lockdown imposed by the Indian Government.

EBITDA for Q1FY21 stood at Rs 461.13 crore, which saw de-growth of 9.09 per cent YoY. EBITDA margin stood at 21.96 per cent in Q1FY21, which was higher by 114 bps YoY mainly due to the lower cost of material and changes in inventories of finished goods.

The company's Q1FY21 PAT, excluding minority interest, stood at Rs 27.05 crore, which substantially declined by 73.6 per cent YoY from Rs 102.48 crore in Q1FY20. Reduced PAT was on account of a higher tax rate, under-recovery of depreciation, and lower EBITDA.

It also had a negative cash flow from operation due to delays in collections, although it is expected to get better in the coming quarters.

Investing in the stock:

The company has a share capital of Rs 136.77 crore, with promoters' holdings at 75 per cent. Therefore, the available free float comes to 3.41 crore shares. The two-week average traded quantity comes to around 4807 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given.

Price	Accumulation
275-320	40 per cent
200-275	40 per cent
<200	20 per cent

Outlook:

The stock is trading at TTM P/E of 13.76x and TTM EPS of Rs 24.38. The company's ROE for March 20 was 12.48 per cent, which was lower due to the pandemic, compared to its five-year average ROE of 21 per cent. The company's five-year sales CAGR is 29 per cent and the five-year profit CAGR is at 33 per cent.

The company's diversified order book, great execution track record, and strong order inflow makes the company an attractive pick. We see an upside of 40 per cent with a target price of Rs 460 over the next two years.

Continued On PG 3...

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	9724.89	9415.84	7937.48	5319.16	4300.47
Total Income	9762.55	9463.15	7954.68	5331.40	4316.69
Total Expenditure	7657.38	7650.86	6465.59	4159.21	3320.05
PBIDT	2105.17	1812.29	1489.10	1172.20	996.64
PAT	404.74	543.70	570.03	357.68	229.77
Dividend %	10.00	10.00	10.00	10.00	0.25
Adj. EPS(Rs)	29.64	40.03	42.23	26.15	19.62

Quarter On Quarter (Consolidated)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	2099.95	2729.66	-23.07	2436.44	-13.81
Total Expenditure	1638.82	2148.22	-23.71	1929.22	-15.05
PBIDT (Excl OI)	461.13	581.44	-20.69	507.22	-9.09
PAT	50.48	190.98	-73.57	100.28	-49.66
PBIDTM% (Excl OI)	21.96	21.30	3.10	20.82	5.48
PBIDTM%	22.46	21.70	3.50	21.39	5.00
PATM%	2.40	7.00	-65.71	4.12	-41.75
Adj. EPS(Rs)	1.98	12.20	-83.77	7.49	-73.56

Stock vs. Index