

Stock Update

Weak quarter but positives ahead

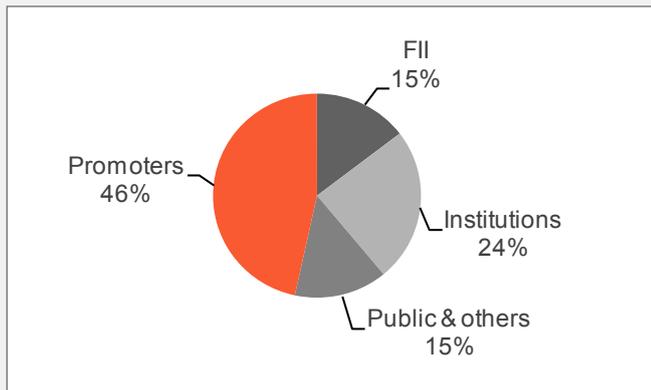
Sadbhav Engineering

Reco: Buy | CMP: Rs253

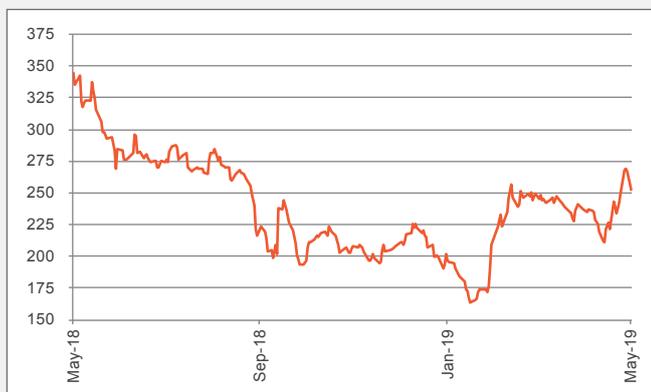
Company details

Price target:	Rs285
Market cap:	Rs4,341
52-week high/low:	Rs362/162
NSE volume: (No of shares)	2.1 lakh
BSE code:	532710
NSE code:	SADBHAV
Sharekhan code:	SADBHAV
Free float: (No of shares)	9.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.5	35.0	23.3	-26.0
Relative to Sensex	6.2	21.3	11.6	-35.9

Key points

- Weak execution and higher effective tax rate leads to decline in standalone net earnings:** Sadbhav Engineering Limited (SEL) reported a decline of 7.5% y-o-y decline in its standalone revenue to Rs. 1022 crore for Q4FY2019 which was much lower than our estimate. The revenue was affected by de-scoping and de-stocking in a few HAM projects. slow pace of execution of couple of EPC projects along with delay in the Kim Ankleshwar EPC project. The operating margins for the quarter expanded by 118BPS y-o-y to 12.4% which was marginally higher than our estimate. Value accretive works done in the projects led to margin expansion. Hence, operating profit grew by 2.2% y-o-y to Rs. 127 crore. Further higher other income (up 40% y-o-y) and lower interest expense (down 18% y-o-y) led to PBT growth of 17% y-o-y to Rs. 82 crore. However, higher effective tax rate (64.6% Vs almost nil tax during Q4FY2018, decline in 80IA tax benefits) led to a standalone adjusted net profit decline of 60% y-o-y to Rs. 28 crore.
- FY2020 revenue dependent upon receipt of appointed dates for 31% of its order book:** SEL has a strong order book of Rs. 11,981 crore which is 3.4x its FY2019 standalone revenue. However, 31% of its order book worth Rs. 3,728 crore (five projects) in which the company is awaiting the appointed dates for four projects (Rs. 3,352 crore). The company is expecting appointed dates for the same post monsoon. Further, from the balance Rs. 8,253 crore work, it is likely to execute Rs. 3400-3500 crore work during FY2020. Hence, management shied away from giving revenue guidance for FY2020 as it will depend on the receipt of appointed dates of the projects mentioned above. However, the operating margins for FY2020 are expected to be in the range of 12-12.25% for FY2020.
- Monetisation of asset a key positive trigger:** The management has once again highlighted that monetization of assets in its listed subsidiary, Sadbhav Infrastructure Projects are at an advanced stage. However, the exact timeline and details of divestment have not been communicated yet due to ongoing deal process. The divestment if materializes, will not only deleverage its consolidated balance sheet but will also help SEL in recovering funds from SIPL (Loans to SIPL to the tune of Rs. 535 crore

in addition to receivable of Rs. 140-150 crore for HAM projects and its share in Rohtak-Panipat project of Rs. 55-57 crores). Further, it will aid in investment commitment of Rs. 250 crore in its HAM projects along with capex and working capital requirement for increasing execution run-rate.

- ♦ **Valuation – Retain Buy with revised price target of Rs. 285:** We have cut our net earnings estimates for FY2020 and FY2021 factoring lower execution on want of appointed dates

in its HAM projects along with an increasing effective tax rate. The road sector is expected to see significant order tenders with the re-election of the ruling government as its manifesto had talked about Rs. 100 lakh crore investment in infrastructure by 2024. The key positive triggers for SEL in the near term would be early receipt of appointed dates and fructification of deal to monetize assets. Hence, we maintain a Buy rating on the stock albeit with a downwards revision in price target of Rs. 285 (on account of lower revision in estimates).

Results (Standalone)

Particulars	Q4FY2019	Q4FY2018	y-o-y %	Q3FY2019	q-o-q %
Net sales	1021.7	1104.5	-7.5%	925.5	10.4%
Total expenses	894.9	980.4	-8.7%	814.7	9.8%
Operating profit	126.8	124.0	2.2%	110.8	14.4%
Other income	5.5	3.9	39.7%	12.7	-57.2%
Depreciation	23.1	23.6	-2.0%	24.1	-4.2%
Interest	28.2	34.5	-18.3%	29.1	-3.0%
Profit Before Tax	81.6	69.8	16.9%	70.3	16.1%
Taxes	52.7	0.0	-	14.1	274.5%
PAT	28.9	69.9	-58.6%	56.3	-48.6%
Adjusted PAT	28.1	69.9	-59.7%	56.3	-50.0%
No. of equity shares	17.2	17.2	0.0%	17.2	0.0%
EPS	1.6	4.1	-59.7%	3.3	-50.0%
OPM (%)	12.4%	11.2%	118 bps	12.0%	43 bps
NPM (%)	2.8%	6.3%	-357 bps	6.1%	-332 bps
Tax rate (%)	64.6%	-0.1%	6467 bps	20.0%	4458 bps

Source: Company, Sharekhan Research

Valuation (Standalone)

Particulars	FY18	FY19	FY20E	FY21E
Net sales	3,505.1	3,549.2	4,087.9	4,763.5
% y-o-y growth	5.6	1.3	15.2	16.5
EBITDA	415.1	427.9	494.3	583.5
Margin (%)	11.8	12.1	12.1	12.2
Adjusted Net profit	220.7	186.1	208.8	259.8
% yoy growth	17.5	(15.7)	12.2	24.4
Shares in issue (cr)	17.2	17.2	17.2	17.2
EPS (Rs)	12.9	10.8	12.2	15.1
% yoy growth	17.5	(15.7)	12.2	24.4
PER (x)	19.7	23.3	20.8	16.7
Book Value (Rs)	109.8	119.5	130.9	145.2
P/BV (Rs)	2.3	2.1	1.9	1.7
EV/EBIDTA (x)	11.8	11.4	9.9	8.4
RoCE (%)	10.7	8.8	9.0	9.7
RoNW (%)	12.5	9.5	9.8	11.1

Source: Company, Sharekhan Research

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