

CMP: Rs. 444 Weight:7%

20/06/2017



DILIP BUILDCON LIMITED
INFRASTRUCTURE & BEYOND

STOCK DATA

Market Cap(Rs. Cr)	6074
Debt	3780
Cash	163
Enterprise Value	9691
Promoters Holding	75.63%
52 week high/low	529.70/177.90
Shares outstanding	13.68

KEY FINANCIALS

(Rs. in Cr)

Y/E March	2014	2015	2016	2017
Revenue	2402	2769	4316	5331
Operating exp	1859	2076	3320	4159
EBITDA	543	693	996	1172
Depreciation	100	206	200	245
Interest Expense	201	354	519	555
PBT	242	133	277	372
Taxes	56	45	47	14
PAT	186	88	230	358

VALUATION - Dilip Buildcon has done a PAT of 357 crores in FY 2017 and trading at 17 PE Multiple. The Orderbook to Enterprise value in Dilip buildcon is 1.81x i.e. it's the cheapest stock among its peers who trade at 1x Order book. DBL has an EV/EBITDA of 11.3 which is lower than the Industry of 17-20x. We believe it is high quality EPC player at reasonable valuation and we intend to hold it for the entire upcycle.

DILIP BUILDCON LTD.

Thesis –

At Stallion Asset we have a consistent Philosophy of buying companies that can:

- 1) Grow at more than 25%
- 2) Huge Opportunity Size
- 3) High Return on Equity
- 4) Smart and Ethical Management

Dilip Buildcon (DBL) is one of the largest road construction EPC player in the country with a strong order book of 17,568 Cr. and 95% of the total order book coming from Government projects. As the number of orders awarded by NHAI has gained momentum under the new Govt., (we believe will continue till the next general elections), the Infra companies will benefit from strong order flows and prompt execution.

Why DBL?

- Strong Order Book
- Timely Execution- 90% projects executed before time
- Highest Return Ratios in the Industry
- Reduction in debt will reduce finance cost
- Maximum order wins in HAM Projects last fiscal
- Higher EBITDA Margins than peers
- Competitors in a messy Situation

In India if government says that this project will be completed in 3 years, a common man would be very impressed even if that project is completed in 5 years, because that's exactly how much infrastructure companies screw up in execution. DBL is one of the few which not only completes the project but completes majority of Projects before time. (Too Good to be True, Right?) DBL has evolved from a small sub-contractor to an established EPC Player itself with the second highest market share in terms of projects awarded by NHAI between 2014-2016 only after L&T. It has beaten execution skills and record of India's most admired infrastructure company L&T.

Introduction and About the Business

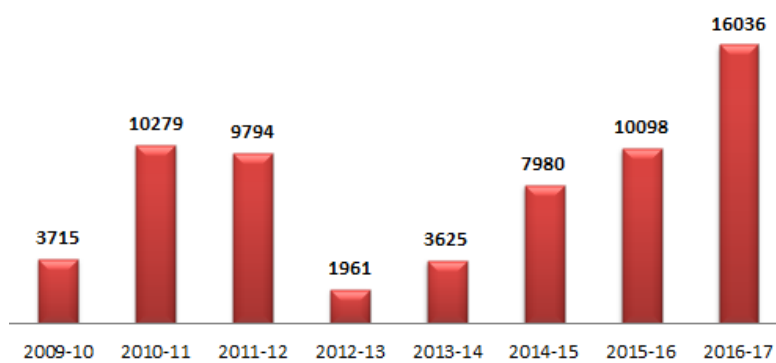
Financial Service Business – A Company that can Growth without much NPA is considered amazing – HDFC Bank grown at 27% in last 10 years, with NPA less than 0.50%.

Commodity Business – A company with the lowest cost structure always wins; For Example Saudi in the Crude oil Market.

Infrastructure Business – Every Company in Infrastructure space has large order book but only the Company with superb execution capability wins. Dilip Buildcon has proven track record of execution of majority of its projects before time.

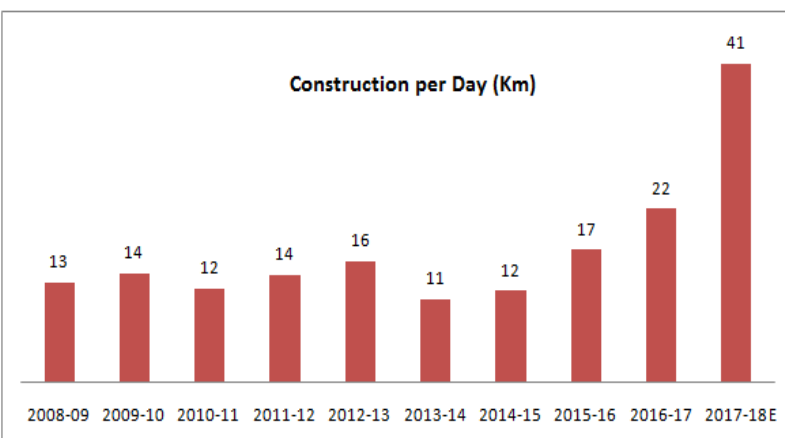
Industry – The Road Construction Industry has started to revive after dark years of 2012-2014 where projects awarded were only for 1961 KM and 3625 KM Respectively. In FY2017 16,036 KM of Road projects were awarded the highest in any year till date. The Road construction activity in India has bounced back under the leadership of transport Minister Nitin Gadkari.

Total Projects Awarded



A lot of orders awarded between 2010-2014 were later cancelled due to land acquisition problem i.e. the quality of order were poor in those years. After 2013, a new land acquisition bill was passed via which government was only allowed to award projects if they haven't completed 80% of land acquisition needed for the project. The Order Quality post 2014 has been high and execution has picked up.

Construction per Day (Km)



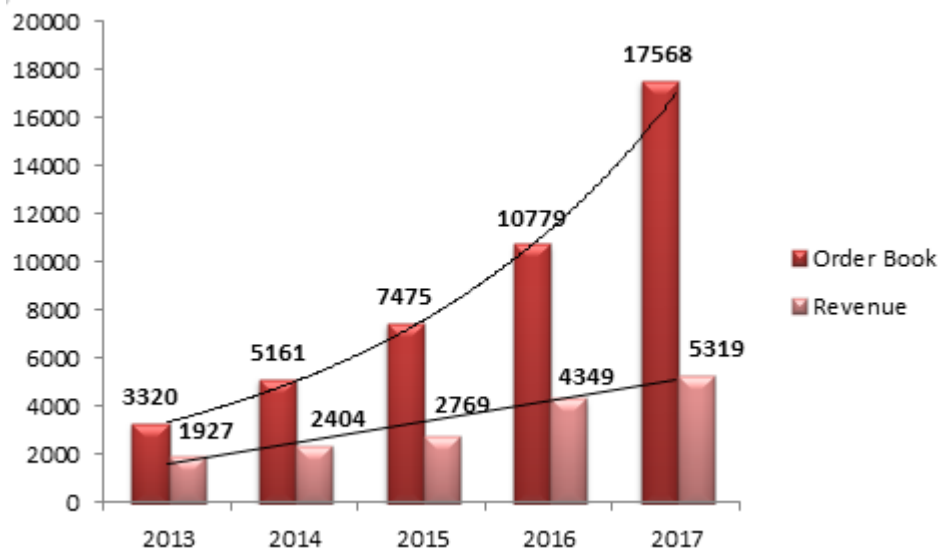
The Road Construction Activity per Day has gone higher from 11 KM/Day to 22KM/Day in 2016-2017. The Transport minister has guided for a target of 40/Day which we believe is very ambitious and far from reality. We estimate that the government could achieve 25-27KM/Day and have used it in our base case analysis estimates.

19.2 Billion Dollars or (1.4 Lakh Crores Rupees) was spent by the central government alone in building national highways and the next 2-3 year will be golden years for infrastructure companies as spending in Infrastructure increases.

2008-2009	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
6.9	6.8	8.3	8.6	8.6	11	13.4	16.1	19.2

in Billion USD

About Dilip Buildcon - DBL is one of the leading Private road contractor players in the country with a pan India presence in 16 states. Maharashtra, Madhya Pradesh, Uttar Pradesh and Andhra Pradesh are the top states where DBL's projects are present.

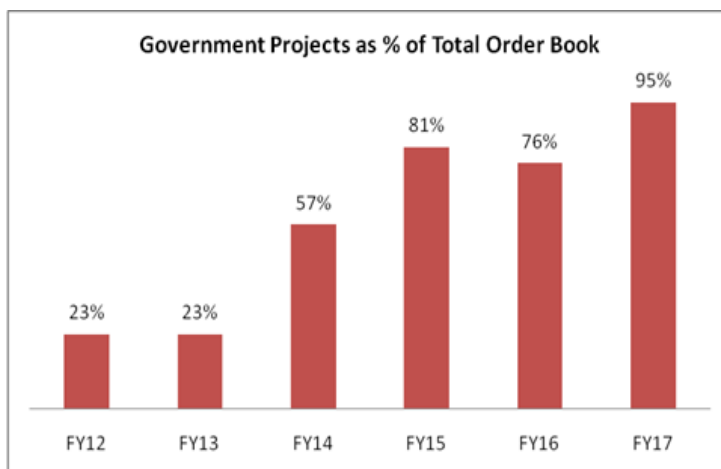


Company has shown a robust 5 year CAGR growth in Revenues and Order book of 35% and 46% respectively. The Order book has grown approximately 6x in last 5 years, with 0% stuck Projects currently.

The Current Order book is 83% Road, 15% mining and 2% other Projects.

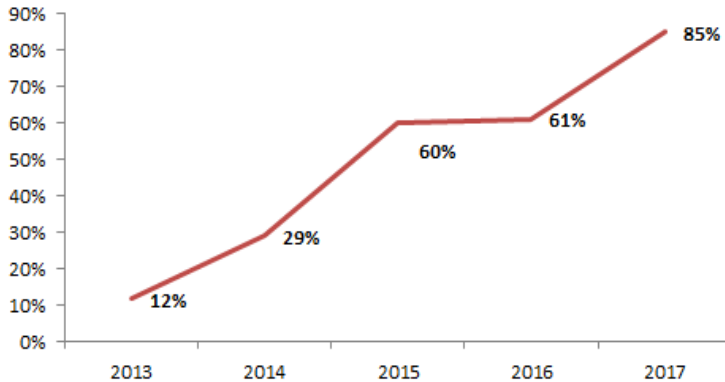
Their core business includes construction of roads, bridges and undertaking irrigation and urban development projects on EPC Basis. It has a BOT Portfolio with 14 BOT Projects completed till date.

In FY17 they have entered into mining projects and management expects that it will generate 800-850 Cr of revenue in next 2-3 years.



The Company has evolved from a Sub-Contractor to government project specialist with 95% of its Order book from the government. The orders directly from the government are more secure and receivable cycle has improved from 100 days in 2015 to 73 days today. **The present government has made payments cycles faster so that the infrastructure projects don't get delayed. Receivable cycle is expected to remain between 60-75 days going forward.**

Percentage of Projects Outside MP



The Company has shifted from a MP Only construction company to all India Player. It had only 12% of Projects outside MP in 2013 but in 2017 85% of the projects were outside MP.

Project Details –

Here is the list of the projects completed by the company in Q4 FY17. All the projects completed have been prior to their scheduled date of completion showing A+ Execution skills by the company.

Name of Project	Cost of Work	Scheduled Date of Completion	Actual Completion date	Early Completion Days
Mandla to Pindari	191	09-04-2018	06-03-2017	399
Hata Fatehpur	87	17-08-2017	08-02-2017	190
Jabalpur-Patan- Shahpura	90	27-05-2017	15-02-2017	101
Adoni to Madhavaram	164	27-01-2017	27-01-2017	0
KERALA BORDER TO KOLLEGALA	419	29-05-2017	17-02-2017	101
Jabalpur- Mandla- Chilpi Section	201	29-05-2017	17-02-2017	101
Shahdol - Anuppur	340	09-04-2017	31-03-2017	9
Patan-Tendukheda- Rehli	225	25-08-2017	28-03-2017	150
Badnagar Sundarabad	162	09-04-2018	06-03-2017	374

Why Exactly do we like Dilip Buildcon ?

- 1) Growth during tough times in Infrastructure
- 2) Timely Execution of Project
- 3) No Sub Contracting Business model
- 4) Order Book Quality
- 5) Zero Percent Stuck Projects
- 6) No Debt Additions Going Forward
- 7) Highest EDITDA in Industry
- 8) High Return on Capital Employed

1) Growth during tough Times

Dilip Buildcon was growing its revenues at 35% and order book at 43% whereas Industry was growing at 12%. The company displayed excellent execution capabilities while scaling its business during difficult times which gives us conviction that the company will do better during an ongoing upcycle.

	FY17	FY16	FY15	FY14	FY13	5 Yr CAGR
DBL	5319	4349	2769	2402	1927	35%
PNC	2220	2395	1861	1360	1306	12%
KNR	1642	995	931	895	765	13%
Ashoka	2979	2614	2320	1795	1853	15%
Sadbhav	3320	3878	3447	2733	2160	3%

2) Timely Execution – 90% of the Project completed before time

In India it's considered wonderful if the delay is a few months or less than 2 years for an Infrastructure project, this Company has an excellent track record of completing their projects on or before time. In fact 90% of the project Dilip buildcon has undertaken has been completed before time. They have the largest fleet of equipment which is owned by them and till date they have executed 47 projects on or before time. **Early execution gives them an edge over the others as they can manage their costs better.**

They even earn an early bonus from the government for completing the project in advance which lifts up their EBITDA margins as compared to the peers. In last 5 years they have earned an early bonus of 323 Cr from 11 BOT Projects and 10 EPC Projects.

Since General elections are two years away, the current govt. focus is only on execution. Better the execution of the company, higher the chances of winning the projects. DBL is one of the best Infra Companies as far as Execution and operational efficiency is concerned.

In Cr.	FY13	FY14	FY15	FY16	FY17	Total
Bonus Earned	53	59	48	60	103	323
Increase in EBITDA Margins (%)	2.7%	2.4%	1.73%	1.37%	1.9%	--

3) No Sub Contracting Business Model

The Secret to Dilip buildcon's success is that it is fully vertically integrated; all equipment's are owned by them instead of leasing them from third parties. It has the biggest fleet of 8500 equipment's which are tracked centrally via GPS system. Dilip's culture is that of a sub-contractor i.e. it hires even labours and hence it has higher employee base whereas other companies hire top engineers and outsources labour work to subcontractors.

FY2016	Employees	Revenue	Rev/Employee	SubContract/ Revenue
Dilip	19746	4349	0.22	0%
PNC	3700	2395	0.65	27%
KNR	854	995	1.17	19%
Ashoka	2565	2614	1.02	27%
Sadbhav	938	3878	4.13	51%

DBL gives 0% Work to subcontractors whereas Sadbhav gives 51% of Revenue to subcontractor. This strategy of inhouse labour has worked in the company's favour.

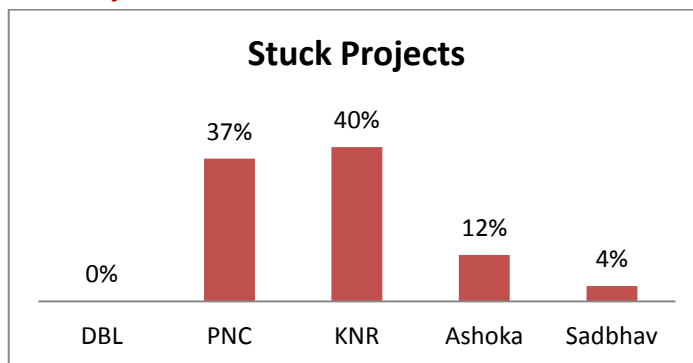
4) 95% of the order book comes from Govt. Bodies – Ensures low risk and steady cash flows

The company had only 23% of its order book from the government and rest was via private player or into sub-contracting till 2013, but currently the company has 95% of its order book from the government. Since majority of revenue comes from Government awarded projects, the operational risk is low compared to a project awarded by a private player. Company has won 10 HAM Projects and has a highest market share in the same. HAM Projects are relatively safer compared to BOT as 40% of the total cost is financed by the Govt upfront. (Partially upfront and partially annuity).

	FY17	FY16	FY13
Order Book – 31st March	17568	10779	2601
Govt. (%)	95%	76.27%	23%
Revenue	5109	4101	1193
Orderbook/Revenue	3.46 x	2.62x	2.18x

Company's order book /revenue ratio has increased in last 2 years and the management expects to at least maintain 2.5 times order book to revenue in the coming years ensuring strong revenue visibility. They expect to add 6000-7000 Cr. to their order book in FY18.

5) Zero Projects Stuck – Faster Execution



The company differentiates from its peers by having 0% projects stuck and highest order book to revenue ratio hence visibility of revenues going forward. The company has been very selective in bidding for the EPC projects and stayed away from the riskier projects.

Strong Order Book – In last 5 years DBL has increased its order book at CAGR of 46% with the second largest market share in the total orders awarded by NHAI in last 3-4 years.

	Order Book	Revenue	Order book/ Revenue
DBL	17568	5109	3.44
PNC	5379	2220	2.42
Ashoka	7005	2979	2.35
KNR	3769	1642	2.30
Sadbhav	7683	3320	2.31

High Order Book to Revenue for Dilip Buildcon of 3.44x v/s 2.3x for the Industry gives us visibility of revenues for the next few years. The management has guided that they won't bid for any new order for next 6 months. The management has also guided to add 6000-7000 Crores of Orders in FY2018 growing their order book at 30%.

6) Zero New Debt/Debt Reduction/Lower Finance cost will lift the margins

Company	Debt/Equity
DBL	2.19
PNC	1.23
KNR	0.76
Ashoka	2.2
Sadbhav	10

DBL has high debt (Total Debt- 3780 Cr.) as compared to its peers. One of the reason is because they have made huge investments in the equipment. They own 100% of their equipment's and hence they are in the position to execute projects faster than other players; making them more efficient. Management in their latest Concall has said that they are not going to raise any debt in the near future for the implementation of their current order book.

Company's debt to equity is very high as compared to its peers like Ashoka, PNC to name a few. The company with current capacity can generate revenues of 8,000 crores. There will be limited Capex going forward for next 2-3 years of 100-150Crores/Annum towards maintenance. The free Cash flows generated will be used to payoff debt.

The Management has guided that finance cost will decrease by 100bps this year and the net profit margins of the company shall improve by at least 50bps because of interest savings.

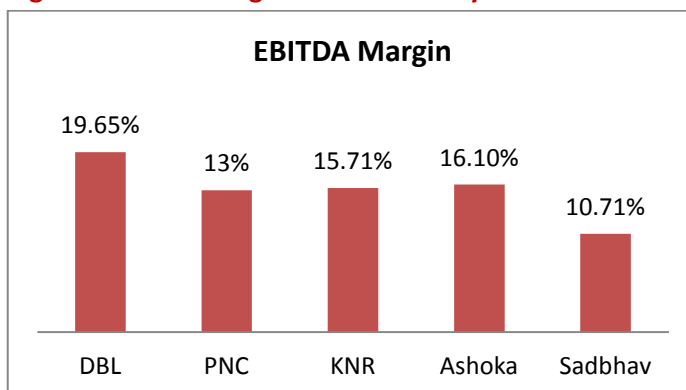
	FY17	FY18E	FY19E
Gross Total Debt	3780	3550	3350
(Repayment)- expectation	-	200	200
Savings in Finance Cost	-	44	48

7) Working Capital Cycle will improve

The New Government which got elected in 2014 clearly wants Infra spending its top priority. Since 2014 we have seen a spurt in the no. of projects awarded by NHAI & Ministry of road & Transport. The pace of execution of these projects has improved considerably. We believe that this growth will continue as the govt. will gear up to win the next general elections.

	2017	2016	2015	2014	2013
Debtors Days	64	93	150	121	79
Inventory Days	155	152	154	92	35

8) Highest EBITDA Margins in the Industry



DBL has been operationally efficient and hence the best margins in the Industry in the EPC Space. This gives them an edge over others. Due to their excellent past record for execution, we believe that the company will be L1 for more projects from NHAI and hence the revenues will keep growing at faster than Industry.

9) High Return on Capital Employed

FY2017	ROCE
Dilip	21%
PNC	9%
KNR	13%
Ashoka	8%
Sadbhav	10%

The Company has the Highest Return on Capital employed among its peers & we believe that in the on-going up cycle this is sustainable. The company doesn't need any major Capex for next 2-3 years and intends to deleverage its balance sheet which will help to boost Return Ratio's further going forward.

Risks –

Leveraged Trade on Infrastructure – Dilip Buildcon's business model is an asset heavy, labour intensive, high Equipment cost business model. Delay by government to give out projects or Dip in Execution capability of the company can hamper the whole business. The essence of this business model is continuous execution and high order inflow.

High Debt- DBL has a debt of 3500 Cr and paid an Interest of 554 Cr on an EBITDA of 1159 Cr. It is important that the Infrastructure sector doesn't go to a Down cycle like in 2012 and 2013. They do get annuity EBITDA of 150 crores which partially pays off interest expense.

Valuation & Peers – Dilip Buildcon has done a PAT of 357 crores in FY 2017 and an EPS of 26 trading at 17 PE Multiple. Dilip Buildcon has strong growth visibility for next 2-3 years via its strong orderbook which has 0% Stuck Projects. Dilip Buildcon's Order Book to Revenue stands at 3.4 Times v/s 2.3 times for the Industry clearly suggesting more visibility of revenues. The Industry is in an upcycle and we believe Dilip Buildcon has the right business model to capture this growth.

	Debt/Equity	EBITDA Margin	Order book	EV	OrderBook/EV	EV/EBITDA
DBL	2.19	19.65%	17568	9690	1.81	11.34
PNC	1.23	13%	5379	5503	0.98	17.67
KNR	0.76	15.71%	3769	3479	1.08	22.26
Ashoka	0.64	16.10%	4376	8259	0.53	19.62
Sadbhav	10	10.71%	7683	14703	0.52	35.40

The management has conservatively guided for 10-15% Revenue growth but we at Stallion Asset believe that the company will do easily more than 20% Revenue Growth for next many years. The Orderbook to Enterprise value in Dilip buildcon is 1.81x i.e. it's the cheapest stock among its peers. DBL has an EV/EBITDA of 11.3 which is lower than the Industry of 17-20x.

Conclusion – We have stayed away from infrastructure till now, but there are strong signs of revival in this space. The Bet here is not only on the management or the business model of Dilip Buildcon but also on the transport minister Nitin Gadkari. He is on a mission to make 40/KMs of highway everyday from 22/KMs currently. Majority of road construction companies have stretched balance sheet and cannot take on new projects which will help better players like Dilip Buildcon. We have bought the best stock and the sector, and we are convinced about their business model and management.

Analyst Position- Amit Jeswani and Family have Positions.

Juhi Shah-no positions

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