

Construction

3QFY18E Results Preview

12 JAN 2018

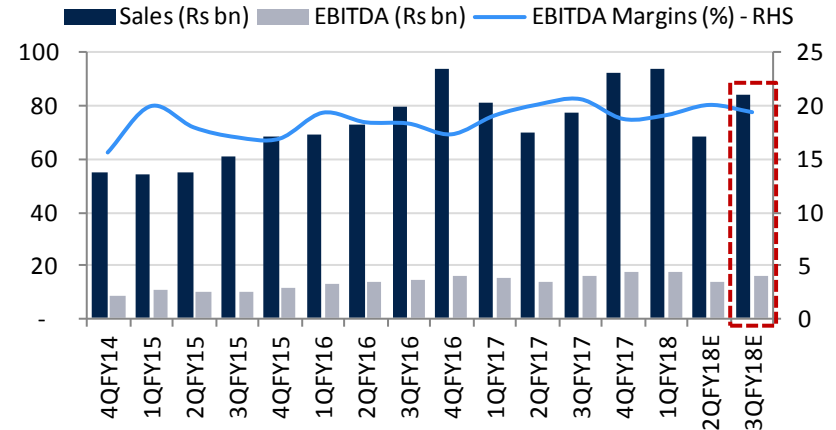
Parikshit D Kandpal
parikshit.kandpal@hdfcsec.com
+91-22-6171 7317

Kunal Bhandari
kunal.bhandari@hdfcsec.com
+91-22-6639 3035

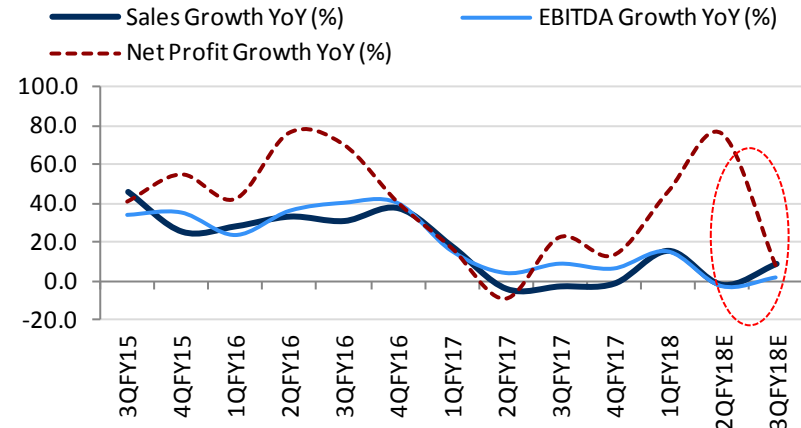
Construction (3QFY18E): Early recovery in sight

- Muted 9MFY18 ordering, expect recovery in 4QFY18:** NHA1 ordering has been muted on account of (1) GST related taxation issues (2) TOT monetization efforts & (3) NHA1 sorting out land acquisition issues. We expect NHA1 to award about Rs 500bn of projects covering 4,500km by FY18E end. The 9MFY18 awards has been sub ~1,300km. Going into election year (FY19-20E), we expect sharp ordering recovery.
- EPC companies book to bill comfortable at 3.5x FY18E revenue:** Despite weak ordering, our coverage universe order backlog is comfortable with almost 30-50% order backlog to move meaningfully into execution from 4QFY18E. This shall lead to strong execution re-rating. New order pipeline remains robust with Government projects like 'Bharatmala' & 'River interlinking'.
- Early recovery in sight, execution key for further re-rating:** We expect aggregate revenue for our coverage universe to grow 8.6% YoY as new order wins have partially moved into execution. Aggregate EBIDTA is expected to grow 2.1% YoY on back of lower margins in legacy order book. Aggregate PAT would grow 7.5% led by lower interest rate and MAT benefit. We expect higher double digit YoY earnings recovery for our coverage universe from 4QFY18E and earnings traction is likley to build positively in ensuing quarters. Execution is key for further re-rating.
- Downgrades:** Owing to sharp upmove over last 3months we have downgraded Dilip, NCC, Sadbhav & PNC to NEUTRAL from BUY. We believe 18x 1-yr forward multiple is justified and we don't find any thesis for further re-rating until ordering picks pace.
- Top Picks:** Ashoka Buildcon, JKIL, Ahluwalia & IRB Infra.

Aggregate Earnings Recovery: Early Recovery



Aggregate Growth Metrics: Headline Growth Recovery



Source: HDFC sec Inst Research

3QFY18E: Early recovery

COMPANY	3QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
IRB Infra	AVG	<ul style="list-style-type: none"> We expect 9.8% YoY revenue de-growth EBIDTA margins to contract 570bps to 47%. Higher share from EPC. EBIDTA to de-grow 19.6% YoY PAT to de-grow 7.5% YoY lower than EBIDTA de-growth on account of higher other income 	<ul style="list-style-type: none"> Commentary on new order wins Update on toll growth
Sadbhav Engineering	AVG	<ul style="list-style-type: none"> Expect 26.3% YoY revenue growth on new order wins moving into execution EBIDTA margins to expand 27.1bps YoY to 11.1% PAT to de-grow 8.9% YoY on account of tax reverting to MAT 	<ul style="list-style-type: none"> Commentary on new order wins Update on standalone debt/debtors reduction Mining MDO pipeline
Dilip Buildcon	GOOD	<ul style="list-style-type: none"> We expect 16.6% YoY revenue growth EBIDTA to grow 6.8% YoY on account of 168bps EBIDTA margins contraction to 18.3% Strong PAT growth of 35.7% expected on back of receipt of early completion bonus 	<ul style="list-style-type: none"> Commentary on new order wins Update on standalone debt reduction Early completion bonus Private debtors recovery
NCC	BAD	<ul style="list-style-type: none"> Expect revenue de-growth of 6.4% YoY EBIDTA to de-grow 3.5% YoY Net profit to de-grow 8.8% YoY. We have not factored in any exceptional loss on account of real estate monetization 	<ul style="list-style-type: none"> Progress on real estate asset monetisation Debt levels Working capital cycle
Ashoka Buildcon	GOOD	<ul style="list-style-type: none"> We expect revenue growth of 22.9% YoY Expect EBIDTA margins of 12.8% (+96bps YoY) PAT to grow 18.5% YoY 	<ul style="list-style-type: none"> EPC order intake Toll tariff growth Update on Real estate project

3QFY18E: Early recovery

COMPANY	3QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
PNC Infratech	BAD	<ul style="list-style-type: none"> Expect 19.1% YoY de-growth in revenues on back of Rs 57bn (63%) order book yet to materially contribute to execution Expect EBITDA margin of 14.2% Net profit to de-grow 33.6% YoY 	<ul style="list-style-type: none"> Debt levels New order wins Order inflow
KNR Constructions	GOOD	<ul style="list-style-type: none"> We expect 13.1% YoY revenue growth on strong execution Expect EBIDTA margins of 16.4% Net profit to grow 43.6% YoY 	<ul style="list-style-type: none"> Order intake Commentary on bidding EPC/hybrid annuity road projects BOT assets monetization
ITD Cementation	GOOD	<ul style="list-style-type: none"> We expect revenue de-growth of 27.2% YoY EBIDTA margins to expand by 482bps YoY to 12.4% APAT to grow 88.9% YoY on margins expansion 	<ul style="list-style-type: none"> Mumbai Metro Line 3 execution update Debt levels Irrigation claims recovery
Ahluwalia Contracts	GOOD	<ul style="list-style-type: none"> We expect revenue growth of 3.4% YoY EBIDTA margins to expand 131bps YoY to 14.5% APAT to grow 16.5% YoY 	<ul style="list-style-type: none"> Comments on building segment recovery in private real estate Update on margin trajectory
J Kumar Infraprojects	GOOD	<ul style="list-style-type: none"> We estimate 19.6% YoY revenue growth EBIDTA margins may expand by 170bps to 18.8% leading to 31.5% YoY EBIDTA growth APAT to grow 15% YoY 	<ul style="list-style-type: none"> Guidance on Metro order execution Sustainability of 17-19% EBIDTA margins New order inflow guidance

3QFY18E: Financial summary

COMPANY	NET REVENUES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	3Q FY18E	QoQ (%)	YoY (%)	3Q FY18E	QoQ (%)	YoY (%)	3Q FY18E	QoQ (bps)	YoY (bps)	3Q FY18E	QoQ (%)	YoY (%)	3Q FY18E	2Q FY18	3Q FY17
Dilip Buildcon	16.2	2.4	16.6	3.0	3.9	6.8	18.3	26.3	(168.1)	1.5	27.5	35.7	10.8	8.5	7.9
IRB Infra Developers*	12.7	13.3	(9.8)	6.0	4.5	(19.6)	47.0	(398.7)	(569.7)	1.7	(27.4)	(7.5)	4.8	6.7	5.2
NCC	17.8	37.1	(6.4)	1.7	35.3	(3.5)	9.4	(12.2)	28.1	0.5	(33.0)	(8.8)	1.0	1.4	1.0
Sadbhav Engineering	10.9	57.6	26.3	1.2	54.2	29.5	11.1	(24.6)	27.1	0.5	42.6	(8.9)	2.8	2.0	3.1
PNC Infratech	3.8	39.7	(19.1)	0.5	34.0	(11.6)	14.2	(59.4)	119.7	0.3	67.0	(33.6)	1.1	0.7	1.6
Ashoka Buildcon	6.4	70.1	22.9	0.8	63.2	32.9	12.8	(53.9)	96.3	0.5	55.5	18.5	2.7	1.7	2.3
KNR Constructions	4.3	9.9	13.1	0.7	23.2	26.9	16.4	177.7	179.5	0.4	(25.7)	43.6	3.1	4.2	2.2
ITD Cementation *	5.3	12.4	(27.2)	0.7	6.3	18.9	12.4	(71.5)	482.1	0.2	28.7	88.9	1.6	1.2	0.8
Ahluwalia Contracts	3.7	10.7	3.4	0.5	7.8	13.7	14.5	(39.8)	131.0	0.3	10.5	16.5	4.3	3.8	3.6
J. Kumar Infraprojects	4.4	39.3	19.6	0.8	35.1	31.5	18.8	(57.7)	169.8	0.3	33.8	15.0	4.1	3.0	3.5
Aggregate	85.6	24.8	2.0	15.9	15.3	(2.4)	18.6	(152.6)	(84.1)	6.3	(2.2)	7.2			

Source: Company, HDFC sec Inst Research *Consolidated, ITD Cementation numbers are for 4QCY17E

3QFY18E: Financial summary

Company	Old Rating	New Rating	Previous TP (Rs/sh)	New TP (Rs/sh)	TP Change - Comments
Dilip Buildcon	BUY	NEU	942	966	Roll over to Dec-19E
IRB Infra Developers	BUY	BUY	270	274	Roll over to Dec-19E
NCC	BUY	NEU	115	136	Roll over to Dec-19E. Upgrade EV/EBIDTA multiple to 10x 1yr-forward on back of strong order book and robust order inflows during FY18E
Sadbhav Engineering	BUY	NEU	395	407	Roll over to Dec-19E
PNC Infratech	BUY	NEU	203	213	Roll over to Dec-19E
Ashoka Buildcon	BUY	BUY	274	281	Roll over to Dec-19E
KNR Constructions	NEU	NEU	255	293	Roll over to Dec-19E
ITD Cementation	NEU	NEU	189	199	Roll over to Dec-19E
Ahluwalia Contracts	BUY	BUY	415	428	Roll over to Dec-19E
J. Kumar Infraprojects	BUY	BUY	385	403	Roll over to Dec-19E

Source: HDFC sec Inst Research

3QFY18E: Peer Valuation

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Dilip Buildcon	132.6	970	NEU	966	42.0	50.3	53.6	23.1	19.3	18.1	11.2	9.7	8.3	26.9	24.8	21.0
IRB Infra Developers*	85.8	244	BUY	274	24.8	26.9	24.0	9.8	9.1	10.2	8.3	7.8	8.2	15.6	15.0	12.1
NCC	75.6	136	NEU	136	5.4	4.5	4.9	25.3	30.5	27.7	10.2	9.0	8.1	8.5	6.7	7.0
Sadbhav Engineering	69.6	406	NEU	407	11.2	13.0	15.5	36.2	31.3	26.2	15.9	13.3	11.5	10.5	11.0	11.7
PNC Infratech	50.8	198	NEU	213	4.0	5.9	7.1	48.9	33.4	27.8	20.3	15.1	12.5	6.4	8.8	9.8
Ashoka Buildcon *	45.1	241	BUY	281	2.3	7.0	8.0	105.7	34.3	30.0	9.0	8.5	7.4	2.6	7.7	8.3
KNR Constructions	44.2	314	NEU	293	13.9	13.1	13.1	22.6	23.9	23.9	11.9	12.2	10.5	19.5	15.3	13.3
ITD Cementation *	32.7	211	NEU	199	5.1	8.9	11.1	41.1	23.8	19.1	13.4	11.8	9.4	13.5	19.9	20.5
Ahluwalia Contracts	25.6	382	BUY	428	17.4	21.0	23.7	22.0	18.2	16.1	11.2	9.4	8.2	20.6	20.2	18.8
J. Kumar Infraprojects	26.4	349	BUY	403	15.6	23.4	28.0	22.3	14.9	12.5	7.0	4.9	4.5	8.4	11.7	12.7
Average					13.6	16.7	18.2	32.5	21.7	19.2	12.2	10.4	9.1	12.8	13.7	13.1

Source: Company, HDFC sec Inst Research * Consolidated, ITD Cementation FY18E should be read as CY17E

INSTITUTIONAL RESEARCH
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- SELL** : Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel,
Mumbai - 400 013

Board : +91-22-6171 7330

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