



NEUTRAL

Price	Rs741
Target Price	-
Investment Period	-

Stock Info

Sector	Construction
Market Cap (Rs cr)	927
Beta	0.6
52 WK High / Low	860/220
Avg. Daily Volume	7389
Face Value (Rs)	10
BSE Sensex	15,670
Nifty	4,636
BSE Code	532710
NSE Code	SADBHAV
Reuters Code	SADE.BO
Bloomberg Code	SADE@IN

Shareholding Pattern (%)

Promoters	47.6
MF/Banks/Indian FIs	24.8
FII/ NRIs/ OCBs	24.0
Indian Public/others	3.6

Abs.	3m	1yr	3yr
Sensex (%)	37.4	9.2	45.9
SEL (%)	96.1	(12.9)	151.4

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Performance Highlights

- Top-line growth below estimates:** Sadbhav Engineering (SEL) reported a Top-line growth of 13.9% yoy to Rs299.4cr (Rs263cr), as against our estimates of Rs373cr. This slow Top-line growth came primarily on account of Canal projects in the State of Andhra Pradesh not progressing as expected, on account of Land acquisition hurdles faced by the State Government; barring this, the Top-line would have been higher by another Rs20-25cr. This slowdown is reflected in the contribution of the Canal segment in the 1QFY2010 Top-line dropping down to 9.4% (17.5%) yoy, as a percentage of Sales. Roads contributed to the tune of Rs222cr (Rs182cr), canals to the extent of Rs28cr (Rs46cr), and the Mining segment contributed Rs48cr (Rs33cr)
- Operating margins steady and sound:** SEL reported an OPM of 11.4% (11.2%), against our estimate of 10.9%. This good performance on the OPM front came majorly on account of a high proportion of Mining excavation related projects, at 16% (12.5%), in the 1QFY2010 Top-line. Cooling commodity prices also aided the operating margin improvement.
- Bottom-line in line with estimates:** For 1QFY2010, SEL reported a Bottom-line of Rs17.9cr (Rs14.9cr), which was in line with our estimates, registering a growth of 20.4% yoy. This primarily came on account of a good performance at the Operating profit front, in spite of a below-estimate performance on the Top-line front. Lower Tax provisioning at 26.6% (31%) also aided Bottom-line growth.
- Strong Order Book position:** SEL has a Strong outstanding Order Book position spread across the verticals of Roads, Mining excavation, and Canal related projects, which is more than 4.0x its FY2009 revenues.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	894.8	1,062.5	1,342.2	1,583.8
% chg	84.1	18.4	26.5	17.6
Adj. Net Profit	48.9	55.7	65.2	77.7
% chg	83.8	13.9	17.2	19.1
FDEPS (Rs)	39.1	44.5	52.2	62.1
EBITDA Margin (%)	11.2	10.4	10.4	10.7
P/E (x)	19.0	16.6	14.2	11.9
RoE (%)	24.5	20.1	16.8	16.6
RoCE (%)	25.6	18.7	18.6	18.7
P/BV (x)	3.2	2.7	2.1	1.8
EV/Sales (x)	1.2	1.0	0.8	0.7
EV/EBITDA (x)	10.6	9.9	7.8	6.6

Source: Company, Angel Research

Outlook and Valuation

Infrastructure in India requires investments to the tune of US \$500bn by FY2012E, of which around US \$125bn is expected to come from the private sector. A higher allocation to infrastructure in the Eleventh Five-Year Plan augurs well for the Sector, and is strengthened by the re-elected UPA government's renewed focus on infrastructure development. Given this, most infrastructure companies stand to benefit from this, with a decent share of the infrastructure spend expected to fall in their kitty, which would ensure good Earnings visibility for most of them in the future. Nevertheless, it may be noted that the current levels of investments (at around 4.5% of GDP) in Infrastructure are insufficient to sustain the country's GDP growth of 8%, making it a top priority.

We had upgraded the stock to a Buy from Neutral, post SEL's 4QFY2009 results. The Stock has appreciated since then, delivering returns to the tune of 14%. We do not see a substantial upside from here on and hence, **we recommend a Neutral view on the Stock.**

Exhibit 1: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	299.4	263.0	13.9	1062.5	894.9	18.7
Total Expenditure	265.4	233.6	13.6	954.2	798.5	19.5
Operating Profit	34.0	29.4	15.6	108.3	96.4	12.4
OPM (%)	11.4	11.2	-	10.2	10.8	-
Interest	6.4	4.3	49.5	21.4	15.7	35.9
Depreciation	5.6	3.8	47.5	15.7	13.9	12.9
Non-Operating Income	2.4	0.2	917.9	11.7	9.9	18.7
Non-recurring items	-	-	-	-	-	-
Profit Before tax	24.4	21.6	13.2	82.9	76.6	8.2
Tax	6.5	6.7	(2.8)	19.6	24.2	(18.9)
Reported Profit After Tax	17.9	14.9	20.4	63.3	52.4	20.8
PAT (%)	6.0	5.7	-	6.0	5.9	-
EPS (Rs)	14.3	11.9	20.4	50.6	41.9	20.8

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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