

RESULT UPDATE

MID CAP

Share Data

Reuters code	SADE.BO
Bloomberg code	SADE IN
Market cap. (US\$ mn)	340
6M avg. daily turnover (US\$ mn)	0.4
Issued shares (mn)	13
Target price (Rs)	1,486

Performance (%) 1M 3M 12M

Absolute	0	10	114
Relative	6	9	79

Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	74.3	97.1
+/- (%)	72.4	30.8
PER (x)	17.2	13.2
PBV (x)	3.2	2.6
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	1.2	0.9
EV/EBITDA (x)	10.8	8.1

Major shareholders (%)

Promoters	48
FII's	23
MFs/FIs	18
Public & Others	11

Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	3,622	4,573	26.2	10,625	12,569	18.3	16,808	33.7	22,928	36.4
EBITDA	359	544	51.5	1,083	1,377	27.1	1,883	36.8	2,568	36.4
EBITDA Margin (%)	9.9	11.9	—	10.2	11.0	—	11.2	—	11.2	—
Other Income	97*	69*	(28.8)	60	45	(25.5)	60	33.3	40	(33.3)
Interest	75*	110*	47.0	157	209	33.1	243	15.8	356	46.6
Depreciation	44	75	71.1	157	233	48.3	314	35.2	413	31.4
PBT	338	428	26.9	829	980	18.1	1,386	41.4	1,840	32.8
Tax	28	247	785.5	196	441	124.6	457	3.6	625	36.8
PAT	310	181	(41.4)	633	538	(14.9)	928	72.4	1,214	30.8
PAT Margin (%)	8.5	4.0	—	6.0	4.3	—	5.5	—	5.3	—
EPS (Rs)	24.8	14.5	(41.4)	50.6	43.1	(14.9)	74.3	72.4	97.1	30.8

*Interest received not adjusted in the quarterly numbers in other income and interest.

Sadbhav Engineering

Maintain BUY

Price: Rs 1,278

BSE Index: 16,446

21 May 2010

4QFY10 Result – Earnings impacted due to higher interest and tax

Sadbhav Engineering's (Sadbhav) results are in line with our expectations at the topline but below at the net profit level. This was due to higher interest cost (due to increase in borrowings) and tax provisions. The net sales for the quarter stood at Rs 4,573 mn (26% YoY growth) while the net profit de-grew by 41% YoY and stood at Rs 181 mn.

Sadbhav is bidding for the NHAI BOT road projects and has an impressive portfolio of 9 road BOT projects. The company requires ~Rs 8 bn as its equity commitment in various BOT projects over the next two-three years and plans to fund it partially through mobilisation advances and internal accruals. Also, it has plans to raise funds through right issue in the parent company. The company is confident in meeting its equity commitments; however delay in raising funds is little concerning. Sadbhav had taken loan in its books to start the construction work in the Dhule and Border Check Post BOT projects which resulted in high borrowings for the company. The company expects the borrowings to decrease going forward, as most of the new BOT projects have achieved financial closure.

The share of mining segment in the order book is expected to increase as the company is bullish in this segment. We remain confident for the visibility of the company as robust order book of Rs 68 bn, 4.0x FY11E sales will fuel revenue growth going forward. We are introducing FY12 estimates. At the current market price, the stock is trading at 7.2x FY11E and 5.5x FY12E (Ex-BOT) earnings. Maintain Buy.

Highlights

- The current order book of the company is Rs 68 bn. The order book constitutes orders from roads (77%), irrigation (9%) and mining (14%).
- Sadbhav has achieved financial closure (FC) of Hyderabad-Yadgiri BOT road project. The FC for Bijapur-Hungud and Rohtak-Panipat BOT road projects is expected to be completed in the next one month.
- The company has provided for tax as per current tax provisions for the tax benefit taken under Section 80 (IA) in the previous year.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Net sales	10,625	12,569	16,808	22,928
<i>Growth (%)</i>	<i>18.2</i>	<i>18.3</i>	<i>33.7</i>	<i>36.4</i>
Operating expenses	(9,542)	(11,193)	(14,926)	(20,360)
Operating profit	1,083	1,377	1,883	2,568
EBITDA	1,083	1,377	1,883	2,568
<i>Growth (%)</i>	<i>6.4</i>	<i>27.1</i>	<i>36.8</i>	<i>36.4</i>
Depreciation	(157)	(233)	(314)	(413)
Other income	60	45	60	40
EBIT	987	1,189	1,628	2,195
Interest paid	(157)	(209)	(243)	(356)
Pre-tax profit	829	980	1,386	1,840
(before non-recurring items)				
Pre-tax profit	829	980	1,386	1,840
(after non-recurring items)				
Tax (current + deferred)	(196)	(441)	(457)	(625)
Net profit	633	538	928	1,214
Adjusted net profit	633	538	928	1,214
<i>Growth (%)</i>	<i>16.1</i>	<i>(14.9)</i>	<i>72.4</i>	<i>30.8</i>
Net income	633	538	928	1,214

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Current assets	5,920	10,092	11,084	12,835
Investments	1,246	1,441	2,075	2,425
Net fixed assets	1,545	2,101	2,727	3,514
Total assets	8,712	13,634	15,886	18,774
Current liabilities	3,064	5,336	6,387	7,444
Total debt	2,111	4,242	4,425	5,100
Other non-current liab.	110	141	141	141
Total liabilities	5,285	9,719	10,953	12,685
Share capital	125	125	125	125
Reserves & surplus	3,310	3,790	4,808	5,964
Less: Misc. expenditure	(8)	—	—	—
Shareholders' funds	3,427	3,915	4,933	6,089
Total equity & liabilities	8,712	13,634	15,886	18,774

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	829	980	1,386	1,840
Depreciation	77	245	274	413
Chg in working capital	(1,050)	(1,493)	(314)	(683)
Total tax paid	(183)	(410)	(457)	(625)
Cash flow from oper. (a)	(326)	(680)	889	944
Capital expenditure	(193)	(800)	(900)	(1,200)
Chg in investments	(41)	(195)	(634)	(350)
Cash flow from inv. (b)	(234)	(995)	(1,534)	(1,550)
Free cash flow (a+b)	(560)	(1,675)	(645)	(606)
Equity raised/(repaid)	9	8	—	—
Debt raised/(repaid)	608	2,131	183	675
Dividend (incl. tax)	(58)	(116)	11	(58)
Other financing activities	(0)	(1)	147	(0)
Cash flow from fin. (c)	558	2,023	340	617
Net chg in cash (a+b+c)	(2)	348	(304)	11

Key Ratios

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
EPS (Rs)	50.6	43.1	74.3	97.1
EPS growth	16.1	(14.9)	72.4	30.8
EBITDA margin	10.2	11.0	11.2	11.2
EBIT margin	9.3	9.5	9.7	9.6
RoCE	19.6	17.1	18.3	21.1
Net debt/Equity	58.7	96.9	86.8	81.2

Valuations

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	25.2	29.7	17.2	13.2
PCE	20.2	20.7	12.9	9.8
Price/Book	4.7	4.1	3.2	2.6
Yield (%)	0.3	0.3	0.3	0.3
EV/Net sales	1.7	1.6	1.2	0.9
EV/EBITDA	16.6	14.4	10.8	8.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
Net margin (%)	6.0	4.3	5.5	5.3
Asset turnover	1.4	1.1	1.1	1.3
Leverage factor	2.5	3.0	3.3	3.1
Return on equity (%)	20.2	14.7	21.0	22.0

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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