

May 17, 2018

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|                |            |
|----------------|------------|
| Rating         | <b>BUY</b> |
| Price          | Rs253      |
| Target Price   | Rs379      |
| Implied Upside | 49.8%      |
| Sensex         | 35,388     |
| Nifty          | 10,741     |

(Prices as on May 16, 2018)

### Trading data

|                            |      |
|----------------------------|------|
| Market Cap. (Rs bn)        | 5.7  |
| Shares o/s (m)             | 22.6 |
| 3M Avg. Daily value (Rs m) | 62.9 |

### Major shareholders

|                |        |
|----------------|--------|
| Promoters      | 52.51% |
| Foreign        | 2.12%  |
| Domestic Inst. | 4.96%  |
| Public & Other | 40.40% |

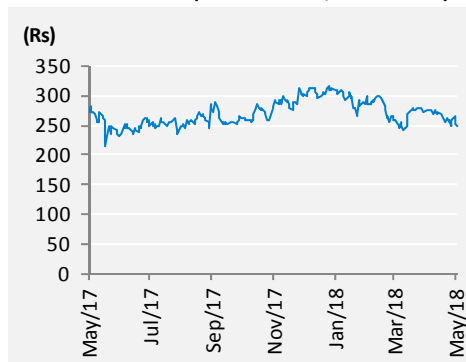
### Stock Performance

| (%)      | 1M     | 6M     | 12M    |
|----------|--------|--------|--------|
| Absolute | (7.8)  | (14.2) | (9.1)  |
| Relative | (10.9) | (21.1) | (24.8) |

### How we differ from Consensus

| EPS (Rs) | PL   | Cons. | % Diff. |
|----------|------|-------|---------|
| 2019     | 21.8 | NA    | NA      |
| 2020     | 28.7 | NA    | NA      |

### Price Performance (RIC: RPPI.BO, BB: RPP IN)



Source: Bloomberg

**RPP reported strong result in Q4FY18 led by better execution and improved margins. The company achieved its guidance of Rs5bn sales and Rs12bn order book for FY18. It is guiding for Rs7bn sales and Rs16bn order book for FY19. Positives also included improvement in working capital by 26 days led by significant reduction in debtor's days. It further expects to reduce working capital by 10-15days in FY19. We believe the company is a good play on government's increasing focus on improving rural infrastructure. We expect RPP to deliver Sales and PAT CAGR of 31%/35%, respectively, over FY17-20E. We maintain "BUY" at a TP of Rs379.**

■ **Strong execution:** RPP Infra (RPP) reported strong execution with improved margins. Revenues came in at Rs1.4bn, up 20.5% YoY in Q4FY18, EBITDA at Rs181mn was up 36.3% YoY, while EBITDA margins were up 150bps YoY at 12.8%. PBT was up 38.4% YoY at Rs126mn. Profit after Tax came in at Rs82.9mn, up 2% YoY. RPP Infra has guided for revenues of ~Rs7bn with ~14-15% EBITDA margins in FY19.

■ **Strong Order Book:** Order book at the end of the year stood at Rs11.75bn, with 28% from buildings, 23% from Water Management and Irrigation and 49% from infrastructure. Major portion of the Order Book is to be executed in FY19. RPP has bid pipeline of ~Rs11bn and is already L1 in orders worth Rs2.8bn. RPP is looking at inflow of ~Rs11bn and order book of Rs16bn by March'19. RPP management believes road and affordable housing could provide significant growth opportunity for the company. RPP has already bagged Rs2.8bn road EPC order in Maharashtra and Rs1.19bn from affordable housing in Tamil Nadu.

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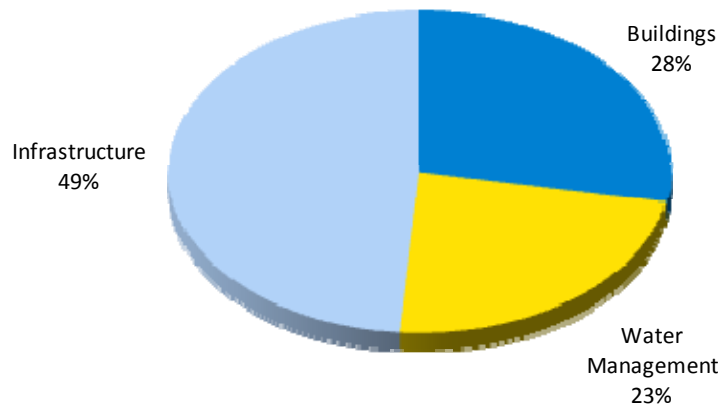
| Key financials (Y/e March) | 2017  | 2018   | 2019E | 2020E |
|----------------------------|-------|--------|-------|-------|
| Revenues (Rs m)            | 3,663 | 4,991  | 6,738 | 8,221 |
| Growth (%)                 | 16.4  | 36.2   | 35.0  | 22.0  |
| EBITDA (Rs m)              | 502   | 661    | 957   | 1,167 |
| PAT (Rs m)                 | 239   | 135    | 493   | 590   |
| EPS (Rs)                   | 10.6  | 6.0    | 21.8  | 28.7  |
| Growth (%)                 | 15.7  | (43.6) | 265.1 | 31.8  |
| Net DPS (Rs)               | 0.5   | 0.5    | 0.5   | 0.5   |

| Profitability & Valuation | 2017 | 2018 | 2019E | 2020E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%)         | 13.7 | 13.2 | 14.2  | 14.2  |
| RoE (%)                   | 14.6 | 7.4  | 23.5  | 23.2  |
| RoCE (%)                  | 14.9 | 10.1 | 22.3  | 22.8  |
| EV / sales (x)            | 1.7  | 1.1  | 0.9   | 0.6   |
| EV / EBITDA (x)           | 12.0 | 8.6  | 6.1   | 4.2   |
| PE (x)                    | 23.9 | 42.3 | 11.6  | 8.8   |
| P / BV (x)                | 3.2  | 3.1  | 2.5   | 1.9   |
| Net dividend yield (%)    | 0.2  | 0.2  | 0.2   | 0.2   |

Source: Company Data; PL Research

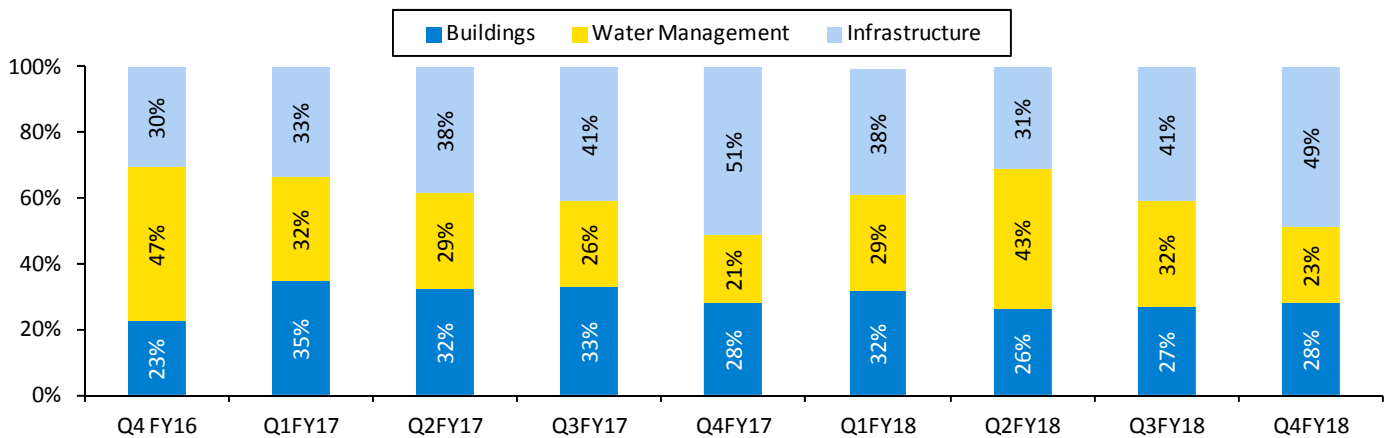
- Working capital improved:** The working capital days reduced by 26 days to 149days in FY18. The debtor’s days reduced by 64 days to 121 days. The key reasons for improvement in debtor’s days are **1)** More focus on collection **2)** GST related pending dues have started to be received **3)** Post GST, departments have started to pay faster once bill is submitted **4)** Have tuned execution to payment cycle **5)** New order taken have better payment terms. RPP expects to reduce debtor days by 10-15 days in FY19.
- Valuation:** The stock is trading at 8.8x FY20E earnings. We expect RPP to deliver Sales and PAT CAGR of 31%/35%, respectively, over FY17-20E. We believe the company is a good play on government’s increasing focus on improving rural infrastructure. We maintain a BUY with a TP of Rs379.

**Exhibit 1: Order Book Break up as on 31<sup>st</sup> March, 2018**

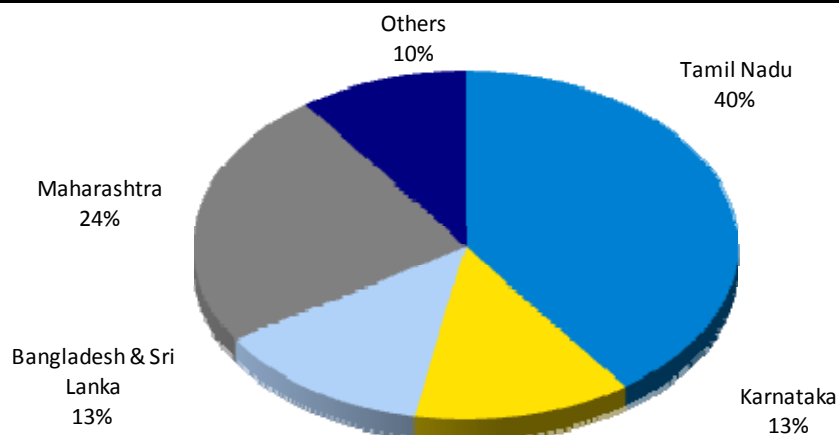


Source: Company Data, PL Research

**Exhibit 2: Order Book Break over the quarters**



Source: Company Data, PL Research

**Exhibit 3: Order Book Break up Geography-wise**


Source: Company Data, PL Research

**Exhibit 4: Q4FY18 Result Overview (Rs m)**

| Y/e March                  | Q4Y18        | Q4FY17       | YoY gr. (%) | Q3FY18       | FY18         | FY17         | YoY gr. (%)  |
|----------------------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| <b>Revenues</b>            | <b>1,417</b> | <b>1,176</b> | <b>20.5</b> | <b>1,370</b> | <b>4,991</b> | <b>3,663</b> | <b>36.2</b>  |
| Direct Cost                | 1,163        | 955          | 21.9        | 1,098        | 3,979        | 2,934        | 35.6         |
| Employee Cost              | 25           | 25           | 1.2         | 17           | 90           | 64           | 41.0         |
| Other Expenses             | 48           | 64           | (24.8)      | 74           | 262          | 163          | 60.7         |
| <b>Total Expenditure</b>   | <b>1,236</b> | <b>1,043</b> | <b>18.5</b> | <b>1,189</b> | <b>4,331</b> | <b>3,161</b> | <b>37.0</b>  |
| <b>EBITDA</b>              | <b>181</b>   | <b>133</b>   | <b>36.3</b> | <b>181</b>   | <b>661</b>   | <b>502</b>   | <b>31.5</b>  |
| <i>Margin (%)</i>          | <i>12.8</i>  | <i>11.3</i>  |             | <i>13.2</i>  | <i>13.2</i>  | <i>13.7</i>  |              |
| Depreciation               | 20           | 13           | 49.6        | 18           | 68           | 50           | 34.7         |
| EBIT                       | 161          | 119          | 34.8        | 163          | 593          | 452          | 31.2         |
| Interest                   | 47           | 42           | 11.0        | 38           | 186          | 167          | 11.1         |
| Other income               | 12           | 14           | (15.4)      | 19           | 64           | 31           | 102.9        |
| <b>PBT</b>                 | <b>126</b>   | <b>91</b>    | <b>38.4</b> | <b>144</b>   | <b>470</b>   | <b>316</b>   | <b>48.8</b>  |
| Tax                        | 43           | 10           | 346.7       | 237          | 336          | 77           | 336.4        |
| <i>Tax Rate (%)</i>        | <i>34.2</i>  | <i>10.6</i>  |             | <i>164.8</i> | <i>71.3</i>  | <i>24.3</i>  |              |
| <b>Reported net profit</b> | <b>83</b>    | <b>81</b>    | <b>1.9</b>  | <b>(93)</b>  | <b>135</b>   | <b>239</b>   | <b>-43.6</b> |

Source: Company Data, PL Research

**Income Statement (Rs m)**

| Y/e March                  | 2017         | 2018         | 2019E        | 2020E        |
|----------------------------|--------------|--------------|--------------|--------------|
| <b>Net Revenue</b>         | <b>3,663</b> | <b>4,991</b> | <b>6,738</b> | <b>8,221</b> |
| Raw Material Expenses      | 2,934        | 3,979        | 5,367        | 6,548        |
| Gross Profit               | 729          | 1,012        | 1,371        | 1,673        |
| Employee Cost              | 64           | 90           | 117          | 142          |
| Other Expenses             | 163          | 262          | 298          | 364          |
| <b>EBITDA</b>              | <b>502</b>   | <b>661</b>   | <b>957</b>   | <b>1,167</b> |
| Depr. & Amortization       | 50           | 68           | 75           | 82           |
| Net Interest               | 167          | 186          | 214          | 239          |
| Other Income               | 31           | 64           | 35           | 35           |
| <b>Profit before Tax</b>   | <b>316</b>   | <b>471</b>   | <b>704</b>   | <b>881</b>   |
| Total Tax                  | 77           | 336          | 211          | 291          |
| <b>Profit after Tax</b>    | <b>239</b>   | <b>135</b>   | <b>493</b>   | <b>590</b>   |
| Ex-Od items / Min. Int.    | —            | —            | —            | —            |
| <b>Adj. PAT</b>            | <b>239</b>   | <b>135</b>   | <b>493</b>   | <b>590</b>   |
| <b>Avg. Shares O/S (m)</b> | <b>22.6</b>  | <b>22.6</b>  | <b>22.6</b>  | <b>20.5</b>  |
| <b>EPS (Rs.)</b>           | <b>10.6</b>  | <b>6.0</b>   | <b>21.8</b>  | <b>28.7</b>  |

**Cash Flow Abstract (Rs m)**

| Y/e March           | 2017  | 2018  | 2019E | 2020E |
|---------------------|-------|-------|-------|-------|
| C/F from Operations | 359   | 945   | 416   | 859   |
| C/F from Investing  | (68)  | 16    | (15)  | (15)  |
| C/F from Financing  | (125) | (185) | (214) | (239) |
| Inc. / Dec. in Cash | 166   | 776   | 187   | 605   |
| Opening Cash        | 224   | 390   | 1,165 | 1,353 |
| Closing Cash        | 390   | 1,165 | 1,353 | 1,958 |
| FCFF                | 71    | 452   | (22)  | 632   |
| FCFE                | 113   | 452   | (22)  | 632   |

**Key Financial Metrics**

| Y/e March               | 2017 | 2018   | 2019E | 2020E |
|-------------------------|------|--------|-------|-------|
| <b>Growth</b>           |      |        |       |       |
| Revenue (%)             | 16.4 | 36.2   | 35.0  | 22.0  |
| EBITDA (%)              | 7.5  | 31.5   | 44.8  | 22.0  |
| PAT (%)                 | 15.7 | (43.6) | 265.1 | 19.8  |
| EPS (%)                 | 15.7 | (43.6) | 265.1 | 31.8  |
| <b>Profitability</b>    |      |        |       |       |
| EBITDA Margin (%)       | 13.7 | 13.2   | 14.2  | 14.2  |
| PAT Margin (%)          | 6.5  | 2.7    | 7.3   | 7.2   |
| RoCE (%)                | 14.9 | 10.1   | 22.3  | 22.8  |
| RoE (%)                 | 14.6 | 7.4    | 23.5  | 23.2  |
| <b>Balance Sheet</b>    |      |        |       |       |
| Net Debt : Equity       | 0.4  | 0.8    | 0.6   | 0.5   |
| Net Wrkng Cap. (days)   | 175  | 149    | 135   | 124   |
| <b>Valuation</b>        |      |        |       |       |
| PER (x)                 | 23.9 | 42.3   | 11.6  | 8.8   |
| P / B (x)               | 3.2  | 3.1    | 2.5   | 1.9   |
| EV / EBITDA (x)         | 12.0 | 8.6    | 6.1   | 4.2   |
| EV / Sales (x)          | 1.7  | 1.1    | 0.9   | 0.6   |
| <b>Earnings Quality</b> |      |        |       |       |
| Eff. Tax Rate           | 24.3 | 71.3   | 30.0  | 33.0  |
| Other Inc / PBT         | 9.9  | 13.5   | 5.0   | 4.0   |
| Eff. Depr. Rate (%)     | 17.7 | 22.5   | 22.8  | 23.8  |
| FCFE / PAT              | 47.1 | 335.4  | (4.5) | 107.1 |

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

| Y/e March                     | 2017         | 2018         | 2019E        | 2020E        |
|-------------------------------|--------------|--------------|--------------|--------------|
| Shareholder's Funds           | 1,770        | 1,871        | 2,329        | 2,768        |
| Total Debt                    | 745          | 746          | 746          | 746          |
| Other Liabilities             | 68           | 67           | 67           | (9)          |
| <b>Total Liabilities</b>      | <b>2,582</b> | <b>2,684</b> | <b>3,141</b> | <b>3,504</b> |
| Net Fixed Assets              | 324          | 304          | 329          | 347          |
| Goodwill                      | —            | —            | —            | —            |
| Investments                   | 10           | 7            | 7            | 7            |
| Net Current Assets            | 2,248        | 2,373        | 2,805        | 3,151        |
| <i>Cash &amp; Equivalents</i> | 402          | 794          | 662          | 985          |
| <i>Other Current Assets</i>   | 3,832        | 3,930        | 5,482        | 6,237        |
| <i>Current Liabilities</i>    | 1,986        | 2,350        | 3,339        | 4,072        |
| Other Assets                  | —            | —            | —            | —            |
| <b>Total Assets</b>           | <b>2,582</b> | <b>2,684</b> | <b>3,141</b> | <b>3,504</b> |

**Quarterly Financials (Rs m)**

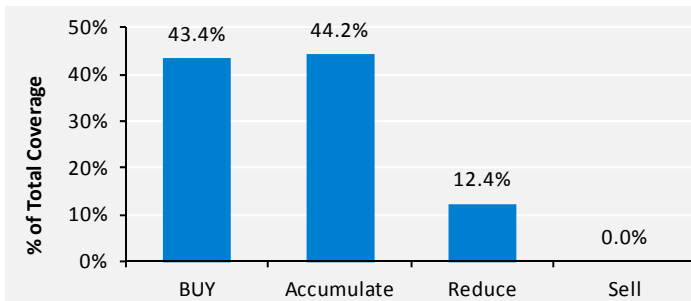
| Y/e March                | Q1FY18       | Q2FY18       | Q3FY18       | Q4FY18       |
|--------------------------|--------------|--------------|--------------|--------------|
| <b>Net Revenue</b>       | <b>1,125</b> | <b>1,079</b> | <b>1,370</b> | <b>1,417</b> |
| <b>EBITDA</b>            | <b>162</b>   | <b>137</b>   | <b>181</b>   | <b>181</b>   |
| <i>% of revenue</i>      | 14.4         | 12.7         | 13.2         | 12.8         |
| Depr. & Amortization     | 14           | 16           | 18           | 20           |
| Net Interest             | 58           | 44           | 38           | 47           |
| Other Income             | 13           | 20           | 19           | 12           |
| <b>Profit before Tax</b> | <b>103</b>   | <b>97</b>    | <b>144</b>   | <b>126</b>   |
| Total Tax                | 25           | 31           | 237          | 43           |
| <b>Profit after Tax</b>  | <b>78</b>    | <b>67</b>    | <b>(93)</b>  | <b>83</b>    |
| <b>Adj. PAT</b>          | <b>78</b>    | <b>67</b>    | <b>(93)</b>  | <b>83</b>    |

Source: Company Data, PL Research.

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|                          |   |  |
|--------------------------|---|--|
| <b>BUY</b>               | : | Over 15% Outperformance to Sensex over 12-months   |
| <b>Accumulate</b>        | : | Outperformance to Sensex over 12-months            |
| <b>Reduce</b>            | : | Underperformance to Sensex over 12-months          |
| <b>Sell</b>              | : | Over 15% underperformance to Sensex over 12-months |
| <b>Trading Buy</b>       | : | Over 10% absolute upside in 1-month                |
| <b>Trading Sell</b>      | : | Over 10% absolute decline in 1-month               |
| <b>Not Rated (NR)</b>    | : | No specific call on the stock                      |
| <b>Under Review (UR)</b> | : | Rating likely to change shortly                    |

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