

21 June 2018

Bharat Road Network

Renewed spirit, challenging environment

Incorporated in 2006, Bharat Road Network, an SREI initiative in road infrastructure, is focused on road development, specialising in BOT toll projects. Involved in developing, operating and maintaining national and state highways, its present six BOT toll projects span Uttar Pradesh, Kerala, Haryana, Madhya Pradesh, Maharashtra and Odisha.

Traffic making a comeback. During FY18, the gradual recovery in traffic from the de-monetisation lows and the fading GST impact led to average daily traffic on its range of operational assets rising ~8% y/y, and consequently driving ~30% toll revenue growth that year. Management is confident of the momentum persisting.

Growth ahead, inorganic to the fore. Sans any significant opportunities in BOT toll, management sees growth potential in the immediate future, more from the inorganic mode either through acquisition of projects or consolidation of stakes in existing projects. Having identified 1x net-debt-to-equity as comfortable, its current standalone net-debt-to-equity ratio of 0.1x provides scope to lever and grow.

HAM, a proper fit? Having recognised the government's thrust on HAM projects in recent years, the company has gone with the flow and has, till date, made 2-3 (unsuccessful) bids. Interaction with the management suggests its ~15-16% IRR hurdle rate may have worked against it but management hopes to be successful sooner than later.

InvIT still on the radar but not in a pressing hurry. At the time of the IPO, management had seen InvITs as a possible structure to augment value. It does not see, however, the current yield expectation from these vehicles as value-accretive for shareholders.

Valuation. At the ruling price, the stock trades at book value of 1.3x FY18, against a median of 2.1x since listing in Sep'17. We do not have a rating on it.

Risk: Any failure to secure further projects.

| Key financials (YE Mar)* | FY14 | FY15 | FY16 | FY17 | FY18P |
|--------------------------|--------|--------|-------|-------|-------|
| Sales (₹ m) | 96 | 84 | 8 | 1,415 | 1,532 |
| Adj. net profit (₹ m) | -608 | -264 | -925 | -623 | 233 |
| EPS (₹) | -60.8 | -26.4 | -92.5 | -11.4 | 2.8 |
| Growth (%) | NA | NA | NA | NA | NA |
| PE (x) | NA | NA | NA | NA | 67.7 |
| EV / EBITDA (x) | NA | NA | NA | 63.9 | 55.0 |
| PBV (x) | 20.5 | 36.1 | NA | 2.7 | 1.5 |
| RoE (%) | -353.8 | -321.5 | NA | -12.0 | 3.1 |
| RoCE (%) | -0.0 | 6.1 | 0.7 | 2.5 | 8.8 |
| Net debt / equity (x) | 39.1 | 93.8 | NA | 1.1 | 0.7 |

Source: Company * FY17 and FY18 financials are as per IND-AS, otherwise I-GAAP; P - Provisional

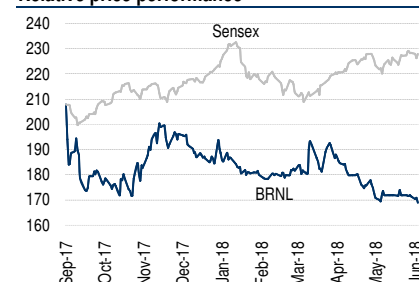
Target Price: **NR**

Share Price: ₹165

| Key data | BRNL IN / BHRNF.BO |
|--------------------|--------------------|
| 52-week high / low | ₹219 / 140 |
| Sensex / Nifty | 35547 / 10772 |
| 3-m average volume | \$0.1m |
| Market cap | ₹14bn / \$208.3m |
| Shares outstanding | 84m |

| Shareholding pattern (%) | Mar-18 | Dec-17 | Sep-17 |
|--------------------------|--------|--------|--------|
| Promoters | 65.1 | 65.1 | 65.1 |
| - of which, Pledged | 11.9 | 11.9 | 11.9 |
| Free float | 34.9 | 34.9 | 34.9 |
| - Foreign institutions | 0.0 | 0.0 | 3.6 |
| - Domestic institutions | 3.2 | 3.2 | 4.2 |
| - Public | 31.7 | 31.7 | 27.1 |

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

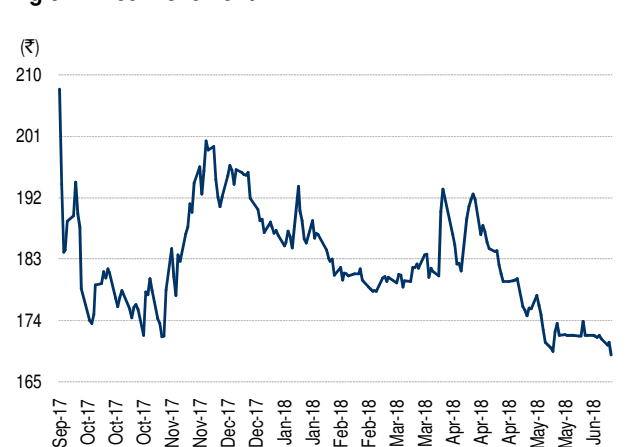
Fig 1 – Income statement (₹ m) - consolidated

| Year-end: Mar | FY14 | FY15 | FY16 | FY17 | FY18P |
|-----------------------------|-----------|-----------|------------|--------------|--------------|
| Order backlog (excl. O&M) | - | - | - | - | - |
| Order inflow | - | - | - | - | - |
| Net revenues | 96 | 84 | 8 | 1,415 | 1,532 |
| Growth (%) | 1,314.1 | (12.3) | (91.1) | NA | 8.3 |
| Direct costs | - | - | - | 1,001 | 734 |
| SG&A | 97 | 93 | 37 | 147 | 356 |
| EBITDA | -1 | -9 | -29 | 267 | 442 |
| EBITDA margins (%) | -0.6 | -10.6 | -388.0 | 18.9 | 28.8 |
| Depreciation | 0 | 0 | 0 | 0 | 4 |
| Other income | 0 | 331 | 76 | 13 | 975 |
| Interest expenses | 514 | 405 | 546 | 312 | 439 |
| PBT | -514 | -84 | -498 | -33 | 974 |
| Effective tax rate (%) | - | NA | NA | NA | 11.9 |
| + Associates / (minorities) | -94 | -180 | -427 | -585 | -625 |
| Net Income | -608 | -264 | -925 | -623 | 233 |
| Adjusted income | -608 | -264 | -925 | -623 | 233 |
| WANS | 10 | 10 | 10 | 55 | 84 |
| FDEPS (₹ / sh) | -60.8 | -26.4 | -92.5 | -11.4 | 2.8 |

Fig 3 – Cash-flow statement (₹ m) - consolidated

| Year-end: Mar | FY14 | FY15 | FY16 | FY17 | FY18P |
|--------------------------------|--------|--------|--------|--------|--------|
| PBT | -514 | -84 | -498 | -33 | 974 |
| + Non-cash items | 0 | 0 | 0 | 0 | 4 |
| Oper. prof. before WC | -514 | -84 | -498 | -32 | 978 |
| - Incr. / (decr.) in WC | -73 | 304 | 1,141 | -167 | 529 |
| Others incl. taxes | - | 0 | 0 | 6 | 116 |
| Operating cash-flow | -440 | -388 | -1,639 | 128 | 334 |
| - Capex (tang. + intang.) | 563 | 1,058 | 1,426 | 1,408 | 9,900 |
| Free cash-flow | -1,003 | -1,446 | -3,065 | -1,280 | -9,566 |
| Acquisitions | - | - | - | - | - |
| - Div. (incl. buyback & taxes) | - | - | - | - | 50 |
| + Equity raised | 474 | 219 | 197 | 6,017 | 6,844 |
| + Debt raised / (repaid) | 1,643 | 1,046 | 3,185 | -3,266 | 4,488 |
| - Fin investments | 536 | 72 | -203 | 876 | 1,130 |
| - Misc. (CFI + CFF) | 94 | 180 | 427 | 585 | 625 |
| Net cash-flow | 484 | -433 | 92 | 12 | -40 |

Source: Company Note: P - Provisional

Fig 5 – Price movement


Source: Bloomberg

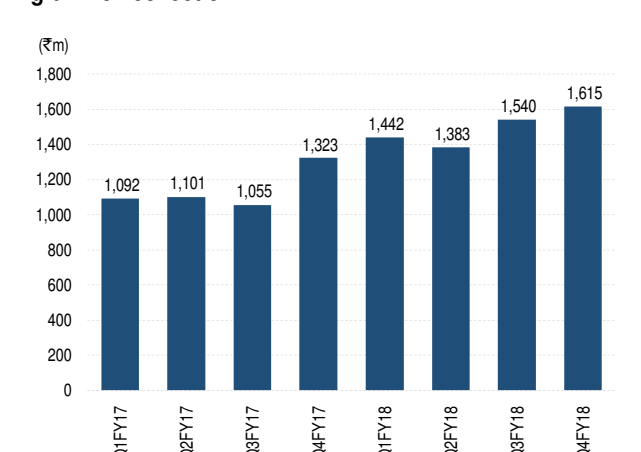
Fig 2 – Balance sheet (₹ m) - consolidated

| Year-end: Mar | FY14 | FY15 | FY16 | FY17 | FY18P |
|--------------------------|--------------|--------------|--------------|---------------|---------------|
| Share capital | 100 | 100 | 100 | 547 | 840 |
| Net worth | 105 | 60 | -669 | 4,408 | 10,633 |
| Debt | 4,624 | 5,670 | 8,855 | 5,586 | 10,045 |
| Minority interest | - | - | - | 318 | 1,119 |
| DTL / (assets) | - | - | - | 3 | 32 |
| Capital employed | 4,729 | 5,730 | 8,186 | 10,314 | 21,829 |
| Net tangible assets | -547 | -1,604 | -3,029 | -4,197 | -5,401 |
| Net intangible assets | 562 | 1,620 | 3,045 | 4,452 | 14,335 |
| Goodwill | - | - | - | - | - |
| CWIP (tang. & intang.) | 547 | 1,604 | 3,030 | 4,200 | 5,416 |
| Investments (strategic) | 3,740 | 3,812 | 3,610 | 4,404 | 4,227 |
| Investments (financial) | - | - | - | 81 | 1,389 |
| Current assets (ex cash) | 335 | 769 | 1,531 | 3,175 | 5,577 |
| Cash | 521 | 88 | 181 | 192 | 152 |
| Current liabilities | 431 | 560 | 182 | 1,993 | 3,865 |
| Working capital | -96 | 208 | 1,349 | 1,182 | 1,711 |
| Capital deployed | 4,729 | 5,730 | 8,186 | 10,314 | 21,829 |
| Contingent liabilities | - | 6 | 11 | 16 | - |

Fig 4 – Ratio analysis

| Year-end: Mar | FY14 | FY15 | FY16 | FY17 | FY18P |
|---------------------------------|--------|--------|---------|-------|-------|
| P/E (x) | NA | NA | NA | NA | 67.7 |
| EV / EBITDA (x) | NA | NA | NA | 63.9 | 55.0 |
| EV / sales (x) | 65.0 | 91.7 | 1,443.2 | 12.1 | 15.9 |
| P/B (x) | 20.5 | 36.1 | NA | 2.7 | 1.5 |
| RoE (%) | -353.8 | -321.5 | NA | -12.0 | 3.1 |
| RoCE (%) | -0.0 | 6.1 | 0.7 | 2.5 | 8.8 |
| RoIC (%) | 0.2 | 0.1 | 0.0 | 0.3 | 0.1 |
| DPS (₹ / sh) | - | - | - | - | 0.5 |
| Dividend yield (%) | - | - | - | - | 0.3 |
| Dividend payout (%) - incl. DDT | - | - | - | - | 21.6 |
| Net debt / equity (x) | 39.1 | 93.8 | NA | 1.1 | 0.7 |
| Receivables (days) | 100 | 85 | 1,123 | 12 | 247 |
| Inventory (days) | - | - | - | - | - |
| Payables (days) | 66 | 44 | 202 | 0 | 8 |
| CFO: PAT % | NA | NA | NA | NA | 143.2 |

Source: Company Note: P - Provisional

Fig 6 – Toll collection


Source: Company

Management meet - Key takeaways

- **Growth ahead, inorganic to the fore.** Sans any significant new opportunities in the BOT toll space, BRN sees growth potential in the immediate future, more from the inorganic mode either through acquisition of projects or consolidation of its stakes in existing projects.
 - It plans and has been exploring the market for projects of stressed operators (either directly from the operators or the lenders to the projects), who may be looking for a way out from their stressed assets;
 - Besides, it is focusing on consolidating its stake in existing assets, as it did in the Guruvayoor project (Thrissur-Angamali stretch).
- **HAM, a proper fit?** The company has, till date, (unsuccessfully) bid for 2-3 HAM projects, having recognized the government's thrust on such projects.
 - It has maintained a hurdle rate of ~15-16%, which may have worked against it, considering its reliance on external EPC contractors.
 - The company still sees HAM as scope for growth and will bid for such projects. It commented that, since it has rich financial management capability and access to competent local EPC contractors owing to the SREI Group's three decades of infrastructure experience, it would effectively have no problem in securing construction partners and already has identified certain operators in the different zones of the nation.
- **Debt and its relatives.** Standalone gross debt on 31st Mar'18 was ~₹1.3bn. The debt seems set to increase by ~₹0.7bn as the company acquires the remaining stake in its Guruvayoor project.
 - It seems comfortable with the idea of standalone net debt-to-equity of 1x (0.1x on 31st Mar'18). Thus, the standalone entity's ~₹11.7bn net worth leaves room for further acquisitions.
 - Management expects all the SPVs combined to generate ~₹150m-200m cash flows for the standalone entity in FY19.
 - Further, the recent restructuring of its ~₹11bn loan for the Bhubaneswar-Chandikole project has helped not only bring the finance cost down considerably but also ensure a better spread-out maturity profile (now payable till 2033).
 - The interest rates for the remaining projects have been reset to varying degrees. For its operational assets, it has brought down its interest rates since Oct'17 from ~12.5% to ~10%.
- **InvIT still on the radar but not in pressing hurry.** At the time of its IPO, management had seen InvITs as a possible structure for all its SPVs. Certain roadblocks, however, seem to have been hit.
 - Apart from consolidation of the balance stake, the company is also concerned about the inability of the InvIT platform to provide further value to investors while leveraging the growth opportunities in the primary and secondary markets.
 - As it believes that, since InvIT is basically retuning cash-flow to unit-holders on debt repayment, the timing is extremely important

to benefit from the debt cost and yield to unit-holders.

- Private InvIT is an option but it is still at a nascent stage.
- **Venture funds in shareholding pattern.** The two venture funds that have a combined ~33.4% promoter stake are approaching their end in Jun'18 and Mar'19.
 - The funds have a limited life span.
 - Management does not see any issue as it believes it would be able to replace the existing venture funds or secure their extensions.
 - We learn that the extension of tenure for the fund due to expire in Jun'18 is already ongoing.
- **Arbitration claims and extensions; possible growth drivers.**
 - **Favourable arbitration ruling.** In Sep'17 the company received a favourable arbitration award of ~₹1bn on the Bhubhaneshwar-Chandikole project for the NHAI not permitting tolling at the Mahanadi Bridge despite the six-laning during the construction period.
 - **Extensions.** The company expects a five-year extension in the concession period for Bhubaneshwar-Chandikole and a similar extension for Ghaziabad-Aligarh, due to the target traffic clause according to the concession agreements, over and above any favourable awards.
 - **The Odisha Steel project.** In the Odisha Steel project it had a 59% stake and invested ~₹460m of equity and ~₹1.3bn of debt, which eventually fell through. It has filed a claim of ~₹9bn including ~₹5bn for loss of profit, for which the arbitration process has begun with the outcome expected by this year end
- **Project specific**
 - **Solapur-Maharashtra Border,** the only project under construction, is ~65% complete and the company is expecting to start collecting partial toll once the project is 75% complete and provisional COD achieved. Thus, management expects the project to start contributing from Dec'18.
 - **The Thrissur project** has ~₹1.3bn in cash and management has proposed debt to be reduced by ~₹1bn and upstream the balance. The company is in the process of raising its 74% stake to 100% (pending final approval from the NHAI; its stake has already increased from 49% to 74%).
 - **The Ghaziabad-Aligarh project.** Management foresees ~₹2.2bn revenue from this project in FY19. The company received sanction of a ~₹1.3bn revenue-shortfall loan from the authority for the project, subject to certain conditions.

Fig 7 – Project Portfolio

| Project | Chandikole-Bhubaneswar | Ghaziabad-Aligarh | Thrissur-Angamali | Rohtak-Bawal | Ujjain-Indore | Solapur-Maharashtra Border |
|-------------------------------------|------------------------|-------------------|-------------------|--------------|----------------|----------------------------|
| Details | | | | | | |
| State | Odisha | Uttar Pradesh | Kerala | Haryana | Madhya Pradesh | Maharashtra |
| Status | Operational | Operational | Operational | Operational | Operational | Under construction |
| BRN stake (%) | 40 | 39 | 100* | 49 | 48 | 99 |
| Concession Details | | | | | | |
| Residual Concessionary Life# | 20y 8m | 17y 11m | 11y 2m | 22y 1m | 17y 2m | 22y 2m |
| Financials (₹ m)[®] | | | | | | |
| Project cost | 18,712 | 19,291 | 7,212 | 10,381 | 3,304 | 8,826 |
| Grant from NHAI | 1,774 | 3,032 | - | - | - | - |
| Sponsor fund | 2,541 | 6,476 | 2,992 | 4,688 | 2,189 | 2,942 |
| O/S debt | 10,289 | 12,051 | 4,318 | 6,962 | 1,636 | 2,897 |
| Traffic Growth (%) | | | | | | |
| FY15 | -4.0 | 0.0 | -1.9 | 1.7 | 14.5 | - |
| FY16 | 7.7 | 0.0 | 7.4 | -1.2 | 0.7 | - |
| FY17 | 11.9 | 6.6 | 6.1 | -3.4 | -1.9 | - |
| FY18 | 2.9 | 11.2 | 2.8 | 24.2 | 17.1 | - |

Source: Company * Current holding at ~74%, awaiting approval from the NHAI to acquire balance 26% # On 31st Mar'18 @ Not proportionate

Fig 8 – Quarterly toll collection- average daily traffic up ~8% y/y in FY18

| (₹m) | FY17 | | | | FY18 | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Chandikole-Bhubaneswar | 230 | 226 | 211* | 298 | 356 | 344 | 378 | 418* |
| Ghaziabad-Aligarh | 344 | 330 | 366* | 440 | 478 | 444 | 512 | 500 |
| Thrissur-Angamali | 303 | 304 | 242 | 304 | 320 | 322 | 336 | 365* |
| Rohtak-Bawal | 194 | 185 | 193* | 222 | 227 | 217* | 243 | 257 |
| Ujjain-Indore | 21 | 56 | 43 | 59 | 61 | 56 | 71 | 75 |
| Total | 1,092 | 1,101 | 1,055 | 1,323 | 1,442 | 1,383 | 1,540 | 1,615 |

Source: Company * Includes de-monetisation claims from the NHAI

Fig 9 – SPV results at a glance

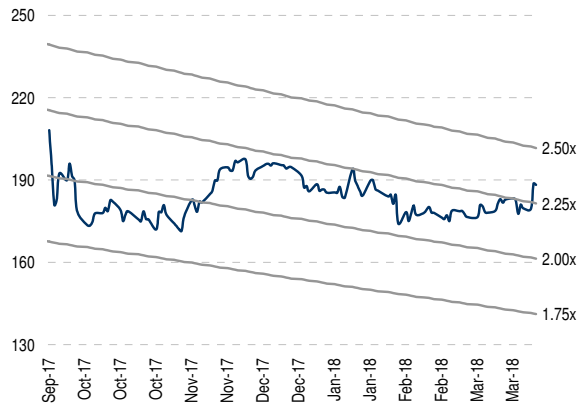
| (₹m) | FY17 | | | FY18 | | |
|------------------------|----------------|--------------|--------------|----------------|--------------|--------------|
| | Total Revenues | EBITDA | Finance Cost | Total Revenues | EBITDA | Finance Cost |
| Chandikole-Bhubaneswar | 1,509 | 1,330 | 1,323 | 2,071 | 1,539 | 1,368 |
| Ghaziabad-Aligarh | 2,449 | 1,433 | 1,905 | 2,177 | 1,857 | 1,606 |
| Thrissur-Angamali | 1,239 | 674 | 505 | 1,444 | 814 | 1,024 |
| Rohtak-Bawal | 922 | 571 | 1,136 | 1,090 | 738 | 1,069 |
| Ujjain-Indore | 186 | 129 | 259 | 272 | 209 | 210 |
| Total | 6,306 | 4,136 | 5,128 | 7,054 | 5,157 | 5,277 |

Source: Company

Valuation

At the CMP, the stock trades at a PBV of 1.3x FY18P. This is against a median of 2.1x since its listing Sep'17. We do not have a rating on it.

Fig 10 – PBV band



Source: Bloomberg

Risk

- Any failure to secure further projects
- Less-than-expected traffic growth.

Appendix

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