

Capacite Infraprojects

BUY

Striding through the Realty Stress

We maintain BUY on CIL with a TP of Rs 351/sh. We have cut our FY20/21E EPS by 8.4/6.3% to factor in higher competitive intensity in private residential segment as peers chase quality developers to gain new orders. Rising share of highly competitive government orders will also put pressure on margins.

HIGHLIGHTS OF THE QUARTER

- CIL reported 4QFY19 revenue of Rs 5.0bn (2.8% miss). EBITDA margins were weak at 13.5% (-293/-30bps YoY/QoQ, 81bps miss) as new projects like Piramal Mahalaxmi, MCGM, BSNL, Oberoi (Goregaon) etc are large size and yet to reach the profit booking threshold. We model 14.3-14.4% EBITDA margins (over FY20-21E).
- Order booking continued to be robust with CIL adding Rs 4.8bn in 4QFY19 (~Rs 36.3bn in FY19). Order book stood at Rs 71.8bn (ex. Rs 5.7bn won in YTD FY20). During 4QFY19, 2 major orders (from Radius – Sumer and Puravankara; ~Rs 1bn each) got foreclosed due to project specific challenges. CIL will continue to work with both on their other projects.
- Gross debt increased Rs 0.3bn YoY to Rs 2.7bn while net D/E deteriorated marginally from (0.1x) to 0.1x

Financial Summary (Standalone)

YE March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Revenues	4,976	3,809	30.6	4,494	10.7	13,356	17,876	21,231	26,594
EBIT	669	624	7.3	618	8.3	2,033	2,485	3,036	3,816
APAT	259	223	15.9	239	8.5	787	956	1,132	1,533
Diluted EPS (Rs)	3.81	3.29	15.9	3.51	8.5	11.6	14.1	16.7	22.6
P/E (x) (EPC)						20.0	16.5	12.7	9.4
EV / EBITDA (x) (EPC)						6.7	6.1	5.1	4.1
RoE (%)						15.0	12.0	12.7	15.1

Source: Company, HDFC sec Inst Research

YoY. Even as the real estate sector is reeling from a liquidity crunch, CIL's NWC increased marginally from 66 to 71days YoY with CIL keeping a close tab on the receivables. Its stated policy is to stop all work when dues exceed ~2 months.

- CIL acknowledges the risks of having a large private real sector exposure and has gradually started expanding its public sector portfolio (~Rs 9bn added in FY19). It intends to maintain a 2.8-3x book to bill (with ~18-20% share of public sector projects).

STANCE

We believe the recent influx of orders from Raymond, Oberoi, Raheja demonstrate CIL's growing presence (esp. in Mumbai) at a time when developers are emphasizing on timely completion of projects (post- RERA). While we appreciate its constant endeavor to expand the non-resi portfolio, we continue to closely monitor its projects for any signs of stress (esp. among the non marquee clients). We believe the backlog is healthy and have built in 22% revenue CAGR (FY19-21E). Maintain BUY.

INDUSTRY	INFRASTRUCTURE
CMP (as on 14 May 2019)	Rs 225
Target Price	Rs 351

Nifty	11,222
Sensex	37,319

KEY STOCK DATA

Bloomberg	CAPACITE IN
No. of Shares (mn)	68
MCap (Rs bn) / (\$ mn)	15/217
6m avg traded value (Rs mn)	12

STOCK PERFORMANCE (%)

52 Week high / low	Rs 363/171		
	3M	6M	12M
Absolute (%)	17.1	2.8	(36.6)
Relative (%)	13.1	(3.4)	(41.5)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	43.79	43.79
FIs & Local MFs	5.44	5.05
FPIs	7.18	7.60
Public & Others	43.59	43.56
Pledged Shares	-	-

Source : BSE

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Revenue: Rs 5.0bn
(30.6/+10.7% YoY/QoQ,
2.8% miss)

EBITDA margins dipped
293bps YoY to 13.5% (due to
low profit booking on large
recent wins viz. Piramal,
Oberoï and the Borivalli
hospital)

Quarterly depreciation
charge has been largely
volatile due to the policy of
amortization of site
establishment cost in
proportion to project
revenue (~Rs 1.2bn
capitalized in FY19)

We have cut our FY20/21E
EPS by 8.4/6.3% to factor in
high competitive intensity in
the sector and rising share
of lower margins
government order in the mix

Standalone Quarterly Financial

Particulars	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	4,976	3,809	30.6	4,494	10.7	17,876	13,356	33.8
Material Expenses	3,731	2,720	37.2	3,321	12.4	13,205	9,663	36.7
Employee Expenses	378	326	16.0	378	(0.1)	1,462	1,166	25.3
Other Operating Expenses	198	139	42.4	177	11.7	725	494	46.7
EBITDA	669	624	7.3	618	8.3	2,484	2,033	22.2
Depreciation	246	269	(8.4)	199	24.0	890	672	32.4
EBIT	423	355	19.2	419	0.9	1,595	1,361	17.2
Other Income	96	88	8.3	92	4.5	369	244	51.4
Interest Cost	151	107	42.0	117	28.8	491	397	23.6
PBT	368	337	9.1	394	(6.6)	1,472	1,207	22.0
Tax	109	114	(4.2)	155	(29.8)	517	419	23.2
RPAT	259	223	15.9	239	8.5	955	787	21.4

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses % Net Sales	75.0	71.4	355.9	73.9	108.9	73.9	72.3	152.1
Employee Expenses % Net Sales	7.6	8.6	(96.1)	8.4	(82.6)	8.2	8.7	(55.6)
Other Operating Expenses % Net Sales	4.0	3.6	32.8	3.9	3.3	4.1	3.7	35.7
EBITDA Margin (%)	13.5	16.4	(292.5)	13.7	(29.7)	13.9	15.2	(132.1)
Tax Rate (%)	29.6	33.7	(411.0)	39.4	(978.8)	35.1	34.8	34.0
APAT Margin (%)	5.2	5.9	(66.2)	5.3	(10.6)	5.3	5.9	(55.0)

Source: Company, HDFC sec Inst Research

Change In Estimates

Particulars	FY20E Old	FY20E New	Change (%) / (bps)	FY21E Old	FY21E New	Change (%) / (bps)
Revenue	21,216	21,231	0.1	26,836	26,594	(0.9)
EBITDA	3,150	3,036	(3.6)	3,985	3,816	(4.2)
EBITDA (%)	14.8	14.3	(54.7)	14.8	14.4	(49.9)
PAT	1,236	1,132	(8.4)	1,636	1,533	(6.3)

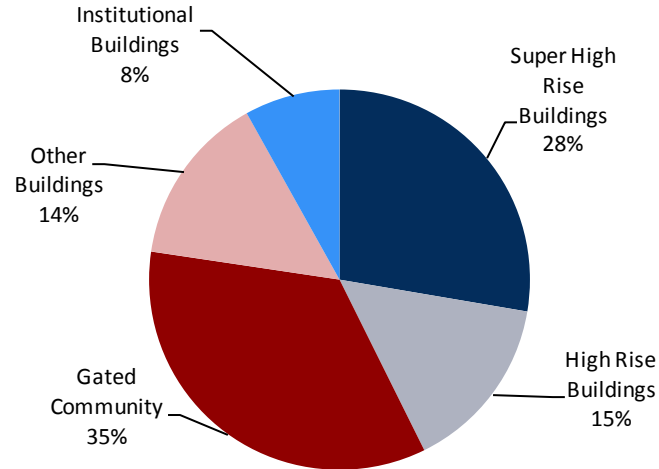
Source: Company, HDFC sec Inst Research

With the private sector (esp. in the residential segment) facing liquidity issues, CIL intends to increase public sector to ~18-20% in the mix

During 4QFY19, 2 major orders (from Radius – Sumer and Puravankara; ~Rs 1bn each) got foreclosed due to project specific challenges

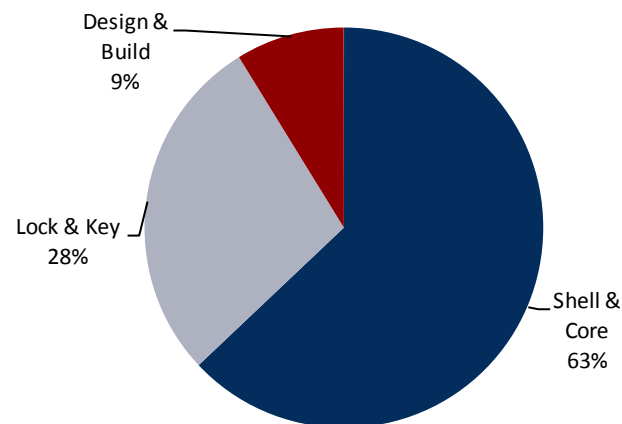
Capacite has already added orders worth ~Rs 2.3/2.3/1bn from top developers Oberoi, Raymond and Raheja respectively in 1QFY20

4QFY19 Order Book: Structure Wise



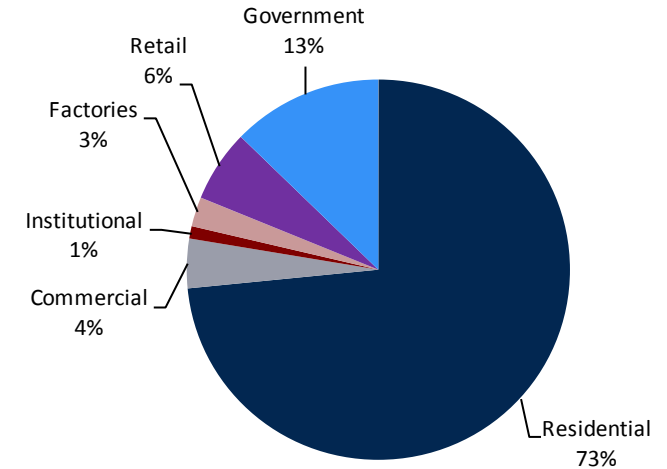
Source : Company, HDFC sec Inst Research

4QFY19 Order Book: Contract Wise



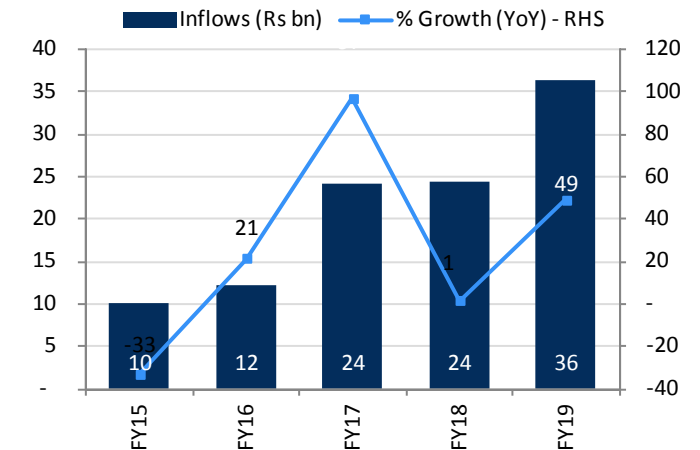
Source : Company, HDFC sec Inst Research

4QFY19 Order Book: Segment Wise



Source : Company, HDFC sec Inst Research

Record Inflows of Rs ~36bn in FY19



Source : Company, HDFC sec Inst Research

After a record FY19 with Rs 36.3bn inflow, CIL has already added ~Rs 5.7bn in 1QFY20 so far

22% Revenue CAGR over FY19-21E

Margins expected to stabilize around 14.3 -14.4%

26.6% APAT CAGR led by stable interest costs despite no significant EBITDA margin expansion

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY20E	FY21E	Comments
Closing order book	75,539	80,945	
Order book growth (%)	5%	7%	
New order booking	25,000	32,000	After a record FY19 with Rs 36.3bn inflow, CIL has already added ~Rs 5.7bn in 1QFY20 so far
Book to bill ratio	3.6	3.0	
Total Revenue	21,231	26,594	22% Revenue CAGR over FY19-21E
Growth (%)	18.8	25.3	
EBIDTA	3,036	3,816	
EBIDTA margin (%)	14.3	14.4	Margins expected to stabilize around 14.3 -14.4%
Depreciation	1,046	1,166	Depreciation to increase as site establishment expenses are now amortized over the project life
Financial Charges	556	625	We expect debt to come down and BG and other bank charges to form bulk of the finance cost
Other Income	308	334	
PBT	1,742	2,359	
PBT margin (%)	8.2	8.9	
Tax	610	826	
Tax rate (%)	35.0	35.0	Capacite will continue operating at a full tax rate
RPAT	1,132	1,533	
Net margin (%)	5.3	5.8	
Extraordinary	-	-	
Adjusted PAT	1,132	1,533	26.6% APAT CAGR led by stable interest costs despite no significant EBITDA margin expansion
Gross Block Turnover	2.6	3.0	
Debtor days	105	105	Debtor Days to stabilize as Capacite replaces retentions by furnishing BGs
CFO - a	1,791	1,762	
CFI - b	(1,512)	(1,072)	Majorly consist of capex for formworks, investment in MHADA project and capitalization of site establishment expenses
FCFF	319	264	
CFF - c	(885)	(748)	
Total change in cash - a+b+c	(606)	(57)	

Source: HDFC sec Inst Research

Outlook And Valuation

Maintain BUY with TP of Rs 351/sh

Valuation methodology

- We have valued the core construction business at 15x one-year forward Mar-21E EPS (vs. 18x assigned to Ahluwalia) at Rs 338/share and NPV of BDD project at Rs 13/sh. We arrive at SOTP value of Rs 351/sh. The discount is attributable to (1) A large proportion of the revenue is dependent on a few marquee clients operating in the luxury segment & (2) Limited listing and operating history.
- Multiple revision in future is contingent to (1) A more balanced order book mix between Government/Private & Residential/Institutional buildings, (2) Sustainable launches by Tier 1 developers, (3) Easier access to liquidity for the real estate sector (4) Further improvement in EBIDTA margins (ex other income)

surprise beyond 14.5% as share of super high rise increases in order book, (5) Improvement in NWC days as retentions are replaced with BG's & (6) Further deleveraging and gross debt free status over the next 2-3yrs.

- CIL has been able to mine a better order book share in existing clients and has very limited competition in the super high-rise segment with tickets values >Rs 4bn. CIL has been bidding conservatively for new orders as the current backlog is already robust.
- Given its strong operational credentials, a robust balance sheet, strong revenue visibility, tight control on WC, we expect CIL to continue to demonstrate exceptional execution and earnings growth trajectory.

Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Standalone	Core construction business	22,996	338	At 15x Mar-21 EPS
Associate (Effective Share)	BDD – MHADA	857	13	DCF Valuation
Total		23,853	351	

Source: HDFC sec Inst Research

We value the EPC business at 15x one-year forward Mar-21E EPS at Rs 338/share

We add NPV of BDD project at Rs 13/sh to arrive at SOTP TP of Rs 351/sh

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Dilip Buildcon	64.4	471	BUY	737	58.1	57.2	54.0	6.5	6.6	6.7	5.0	4.3	4.1	27.8	21.5	16.8
NCC	55.9	93	BUY	184	10.2	10.0	9.7	8.3	8.5	8.8	5.0	4.6	4.5	13.6	11.9	10.3
Sadbhav Engineering	36.0	210	BUY	418	14.4	16.3	18.2	7.7	6.8	6.1	6.6	5.3	4.7	11.8	11.9	11.8
PNC Infratech	39.5	154	BUY	329	7.7	13.6	14.1	13.0	7.3	6.6	7.1	4.7	4.0	10.2	15.7	14.0
Ashoka Buildcon	32.8	117	BUY	262	10.2	10.4	10.6	4.4	4.4	4.0	4.1	3.6	3.2	14.0	12.6	11.6
KNR Constructions	33.3	237	BUY	337	11.4	16.3	15.4	15.5	10.9	11.6	6.9	5.5	4.8	12.8	15.4	12.5
Ahluwalia Contracts	20.4	305	BUY	449	18.7	23.2	24.6	15.6	12.6	11.9	7.7	6.2	5.6	18.3	18.9	16.9
ITD Cementation *	19.2	112	BUY	168	8.3	9.1	9.4	13.5	12.3	11.9	6.3	6.5	6.1	16.7	13.4	12.2
JMC Projects	18.6	111	BUY	173	8.5	8.6	9.3	10.2	10.0	9.3	6.3	5.5	4.8	16.6	14.5	13.7
HG Infra	16.0	245	BUY	408	20.1	25.6	26.7	11.6	9.1	8.4	5.5	4.5	4.1	21.6	22.1	18.8
PSP Projects	15.9	443	BUY	603	24.0	31.0	34.4	18.5	14.3	12.9	10.1	7.6	6.6	25.5	26.6	24.0
Capacite Infra	15.3	225	BUY	351	14.1	16.7	22.6	16.5	12.7	9.4	6.1	5.1	4.1	12.0	12.7	15.1
J. Kumar Infraprojects	10.2	135	BUY	336	22.0	26.6	28.5	6.1	5.1	4.7	3.4	2.8	2.5	10.6	11.7	11.5
Average								11.3	9.3	8.6	6.2	5.1	4.6	16.3	16.1	14.6

Source: Company, HDFC Sec Inst Research *ITD Cementation (Consol) FY19E should be read as 15MFY19E

Income Statement(Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	11,251	13,356	17,876	21,231	26,594
Growth (%)	39.9	18.7	33.8	18.8	25.3
Material Expenses	7,955	9,663	13,204	15,689	19,653
Employee Expenses	867	1,166	1,462	1,698	2,128
Other Operating Expenses	458	494	725	807	997
EBIDTA	1,971	2,033	2,485	3,036	3,816
EBIDTA (%)	17.5	15.2	13.9	14.3	14.4
EBIDTA Growth (%)	88.6	3.1	22.2	22.2	25.7
Depreciation	651	672	890	1,046	1,166
EBIT	1,320	1,361	1,595	1,990	2,650
Other Income (Incl. EO Items)	151	244	369	308	334
Interest	417	398	491	556	625
PBT	1,054	1,207	1,473	1,742	2,359
Tax	362	420	517	610	826
RPAT	692	787	956	1,132	1,533
APAT	692	787	956	1,132	1,533
APAT Growth (%)	45.1	13.7	21.5	18.5	35.4
EPS	15.9	11.6	14.1	16.7	22.6
EPS Growth (%)	(74.1)	(27.0)	21.5	18.5	35.4

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	436	679	679	679	679
Reserves	2,552	6,816	7,752	8,773	10,173
Total Shareholders Funds	2,988	7,495	8,431	9,452	10,852
Minority Interest	-	-	-	-	-
Long Term Debt	670	480	580	590	600
Short Term Debt	1,282	1,908	2,118	1,891	1,891
Total Debt	1,952	2,388	2,698	2,481	2,491
Other Non Current Liabilities	1,099	1,035	1,198	1,258	1,384
Deferred Taxes	258	404	569	569	569
TOTAL SOURCES OF FUNDS	6,297	11,322	12,896	13,759	15,296
APPLICATION OF FUNDS					
Net Block	3,255	4,099	5,406	5,833	6,165
CWIP	67	1	43	43	43
Investments	269	420	351	698	605
Other Non Current Assets	478	1,139	1,686	1,785	1,965
Total Non-current Assets	4,069	5,659	7,486	8,359	8,778
Inventories	1,704	2,156	911	1,163	1,530
Debtors	3,578	4,147	5,289	6,107	7,650
Cash & bank balances	501	3,241	1,935	1,329	1,272
Other Current Assets	928	2,132	4,879	5,642	7,140
Total Current Assets	6,711	11,676	13,013	14,242	17,593
Creditors	3,097	4,468	5,335	6,282	7,869
Other Current Liabilities & Provns	1,387	1,545	2,268	2,559	3,206
Total Current Liabilities	4,484	6,013	7,603	8,841	11,075
Net Current Assets	2,227	5,664	5,410	5,401	6,518
Misc Expenses & Others	-	-	-	-	(0)
TOTAL APPLICATION OF FUNDS	6,296	11,322	12,896	13,759	15,295

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT	1,054	1,207	1,473	1,742	2,359
Non-operating & EO items	(59)	(208)	(369)	(308)	(334)
Interest expenses	417	398	491	556	625
Depreciation	651	672	890	1,046	1,166
Working Capital Change	(609)	(917)	(1,273)	(635)	(1,229)
Tax paid	(239)	(241)	(517)	(610)	(826)
OPERATING CASH FLOW (a)	1,215	911	695	1,791	1,762
Capex	(1,075)	(1,368)	(2,239)	(1,473)	(1,498)
Free cash flow (FCF)	140	(457)	(1,543)	319	264
Investments	(18)	(301)	69	-347	93
Non operating income	42	183	441	308	334
INVESTING CASH FLOW (b)	(1,052)	(1,486)	(1,728)	(1,512)	(1,072)
Share capital Issuance	595	3,744	-	-	-
Dividend payment	-	(31)	(92)	(112)	(132)
Debt Issuance	(236)	(14)	310	(217)	10
Interest expenses	(382)	(384)	(491)	(556)	(625)
FINANCING CASH FLOW (c)	(23)	3,315	(273)	(885)	(748)
NET CASH FLOW (a+b+c)	140	2,740	(1,306)	(606)	(57)
Opening Cash & Equivalents	361	501	3,241	1,935	1,329
Closing Cash & Equivalents	501	3,241	1,935	1,329	1,272

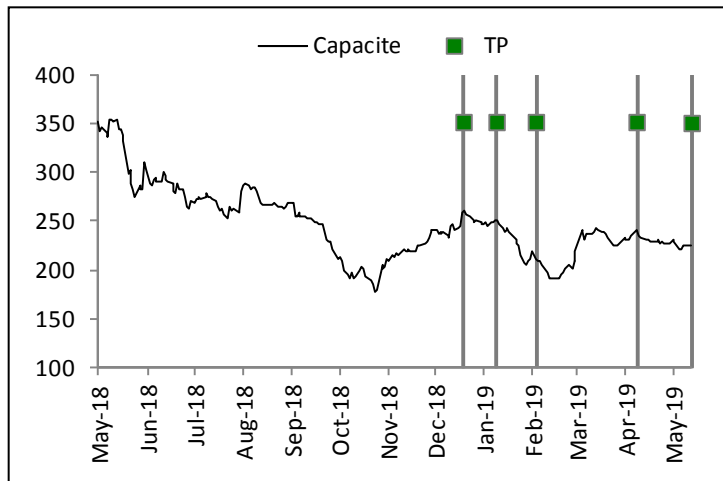
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	29.3	27.7	26.1	26.1	26.1
EBITDA Margin	17.5	15.2	13.9	14.3	14.4
EBIT Margin	11.7	10.2	8.9	9.4	10.0
APAT Margin	6.2	5.9	5.3	5.3	5.8
RoE	29.5	15.0	12.0	12.7	15.1
Core RoCE	23.5	16.1	12.9	13.0	15.3
RoCE	23.0	14.1	12.1	13.0	15.3
EFFICIENCY					
Tax Rate (%)	34.3	34.8	35.1	35.0	35.0
Asset Turnover (x)	2.9	2.6	2.5	2.6	3.0
Inventory (days)	55	59	19	20	21
Debtors (days)	116	113	108	105	105
Payables (days)	100	122	109	108	108
Cash Conversion (days)	71	50	18	17	18
Other Current Assets (days)	30	58	100	97	98
Other Current Liab (days)	45	42	46	44	44
Net Working Capital Cycle (Days)	56	66	71	70	72
Debt/EBITDA (x)	1.0	1.2	1.1	0.8	0.7
Net D/E	0.5	(0.1)	0.1	0.1	0.1
Interest Coverage	3.2	3.4	3.2	3.6	4.2
PER SHARE DATA					
EPS (Rs/sh)	15.9	11.6	14.1	16.7	22.6
CEPS (Rs/sh)	30.8	21.5	27.2	32.1	39.8
DPS (Rs/sh)	-	0.5	1.4	1.6	2.0
BV (Rs/sh)	69	110	124	139	160
VALUATION					
P/E	14.2	19.4	16.0	13.5	10.0
P/BV	3.3	2.0	1.8	1.6	1.4
EV/EBITDA	5.7	7.1	6.5	5.4	4.3
OCF/EV (%)	10.8	6.3	4.3	10.9	10.7
FCF/EV (%)	1.2	(3.2)	(9.6)	1.9	1.6
FCFE/Market Cap (%)	(4.9)	(5.6)	(11.3)	(3.0)	(2.3)
Dividend Yield (%)	0.0	0.2	0.6	0.7	0.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
21-Dec-18	261	BUY	352
10-Jan-19	251	BUY	352
5-Feb-19	210	BUY	352
9-Apr-19	241	BUY	352
14-May-19	225	BUY	351

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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