

Capacite's Infraprojects (CAPACITE IN)

Rating: BUY | CMP: Rs188 | TP: Rs270

December 11, 2020

Company Update

☒ Change in Estimates | ☒ Target | ☐ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	270		162	
Sales (Rs. m)	23,007	26,640	22,402	26,640
% Chng.	2.7	-		
EBITDA (Rs. m)	3,594	4,200	3,502	4,040
% Chng.	2.6	4.0		
EPS (Rs.)	20.3	27.0	20.2	24.1
% Chng.	0.7	11.8		

Key Financials - Consolidated

Yr Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	15,290	11,008	23,007	26,640
EBITDA (Rs. m)	2,567	1,643	3,594	4,200
Margin (%)	16.8	14.9	15.6	15.8
PAT (Rs. m)	910	158	1,381	1,832
EPS (Rs.)	13.4	2.3	20.3	27.0
Gr. (%)	(6.4)	(82.7)	775.4	32.7
DPS (Rs.)	1.1	0.2	2.4	3.2
Yield (%)	0.6	0.1	1.3	1.7
RoE (%)	10.3	1.7	13.8	16.0
RoCE (%)	12.1	4.7	15.1	15.9
EV/Sales (x)	0.9	1.3	0.7	0.6
EV/EBITDA (x)	5.2	8.4	4.5	3.6
PE (x)	14.0	80.9	9.2	7.0
P/BV (x)	1.4	1.4	1.2	1.0

Key Data

CAPEBO | CAPACITEIN

52-W High / Low	Rs.218 / Rs.70
Sensex / Nifty	46,099 / 13,514
Market Cap	Rs.13bn/ \$ 173m
Shares Outstanding	68m
3M Avg. Daily Value	Rs.34.05m

Shareholding Pattern (%)

Promoter's	43.79
Foreign	7.20
Domestic Institution	22.08
Public & Others	26.93
Promoter Pledge (Rs bn)	0.73

Stock Performance (%)

	1M	6M	12M
Absolute	47.2	88.3	8.1
Relative	39.2	37.0	(5.3)

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Indirect play on real estate recovery

We are upgrading target price of CAPACITE to Rs270 (earlier TP Rs162) as we rollover the valuations to FY23 and raise the target PE multiple to 10x (last 3-year average 14x, 20% discount to its peers) from 8x earlier. We believe worst is behind for the company and it is poised for exponential growth on account of a) real estate sector witnessing a strong turnaround across all major markets in India, b) labour availability surpassing pre-covid levels and c) execution garnering pace across its major projects.

We believe CAPACITE's impressive order book and execution momentum, lean balance sheet, strong management pedigree and asset-light business model would help gain good traction for upcoming opportunities arising in the sector. Given healthy 1HFY21 performance and clarity on project execution we have raised our FY22/23 earnings estimates by 0.7%/ 11.8%, while keeping out FY21 estimates largely unchanged. At CMP, the stock trades at a PE of 80.9x/ 9.2x FY21E/ FY22E earnings. We reiterate our conviction on the stock with a BUY rating and revised TP of Rs270.

Real Estate sector witnessing an upturn: Post upliftment of lockdown and gradual pickup in economic activity, real estate sector has been in limelight as several major markets across India have seen strong bounce-back. MMR, in particular has seen significant traction with Oct'20 & Nov'20 witnessing multi-year high monthly sales. We believe revival in real estate sector will lead to ramp-up in Capacite's execution significantly as private clients' order book stands at Rs42bn.

Huge Order Book; Strong Clientele: Order book as on 2QFY21 stands strong at Rs98.7bn (excluding Rs43.6bn MHADA orders). This translates into an order-book-to-sales ratio of ~4.3x FY22E revenues giving comfortable revenue visibility over next 3-4 years. Over 80% of the OB caters to the top 10 clients comprising marquee names both in public (CIDCO, PWD, etc) as well as the private sector (like Oberoi Realty, Godrej Properties, Piramal Group, Raymond, Purvankara, etc) having healthy balance sheet strength.

Rising labour force surpassed pre-covid levels: The pandemic led to labour availability falling below 1000 levels in June'20. However, post upliftment of lockdown and the pandemic situation gradually stabilizing, the company witnessed sharp bounce-back in labour availability (~10,000 levels in Nov'20) thereby exceeding the pre-covid levels. With such strong labour force, execution across its project sites is expected to ramp up significantly from 2HFY21E.

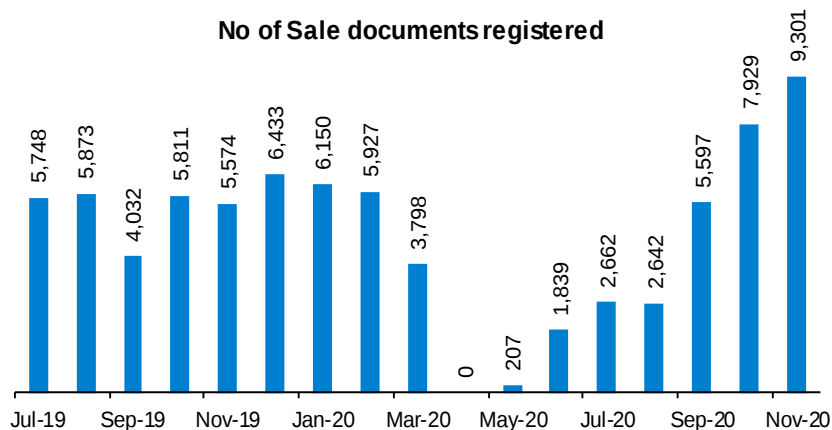
Public sector projects to fuel revenue growth: As construction activity across its key public projects such as CIDCO (worth Rs45bn, having 7 project sites) has started in full swing, execution (potential monthly run-rate of ~Rs1bn) is expected to ramp up significantly in FY22E. Further MHADA projects (worth Rs22bn) is also expected to move towards execution by FY21E end. Both projects having strong funding visibility, clear title for development and similar payment terms will result in massive contribution towards revenues, going forward.

Real Estate sector seeing a strong turn-around

Residential real estate sector was a laggard since past few years as it faced challenges of subdued demand, rising unsold inventory and an overall liquidity crisis, a scenario which worsened during the peak pandemic period of Q1FY21. However, as the economy opened up, a combination of several favorable factors such as low interest rate, stable prices, pent-up demand and lucrative terms offered by developers led to a sharp pickup in demand across all major markets. Further, Government measures like reduction in Stamp Duty (Maharashtra from 5% to 2%/3%) further strengthened demand in the sector.

Sales activity across markets showed strong revival in Q2FY21: Sales across top 7 residential markets grew by 34% QoQ in Q2FY21. Mumbai, in particular has seen strong revival as it has consistently registered highest sales among major markets in the first three quarters of 2020. In Nov'20, 9301 sale documents were registered in Mumbai (up 67% YoY) which were at multi-year high.

Exhibit 1: MMR's monthly sales were at multi-year high in Oct'20 & Nov'20



Source: Knight Frank, PL

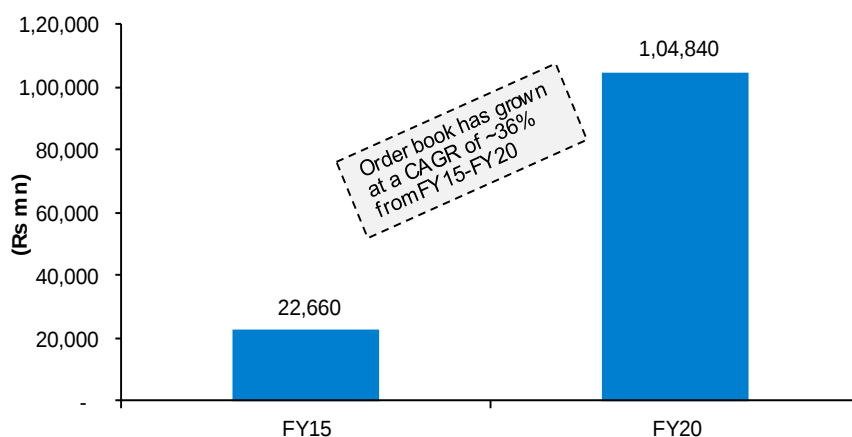
Future Outlook of the sector: The housing market in India is at an inflection point, with demand primarily driven by rising needs to own a house (for first time home buyers), improving affordability and rising NRI participation. Mid and affordable segments would be driver for the sector, as 75% of new launches cater to <Rs10mn houses. Furthermore, lowest home loan interest rates, attractive prices, extension of credit linked subsidy scheme and lucrative schemes by developers are paving way for strong outlook of the sector in H2FY21E and FY22E.

Commercial Real Estate is witnessing increased institutional investors' participation: Commercial real estate, which has been on a growth trajectory since last 3-4 years was in complete turmoil when pandemic hit the country. Though the sector is on a revival path after the economy gradually opened up, long term prospects still remain uncertain as more companies are adopting work from home culture. However, increasing participation of institutional investors will continue to drive office market in the near future.

Strong Order Book and Marquee Clientele help CIL sail through the turmoil

Over last 5 years, order book has grown exponentially clocking a growth of over 36% CAGR, taking the order book to ~Rs98.7bn (excluding Rs43.6bn MHADA projects) as on 2QFY21. This translates to an order-book-to sales ratio of ~4.3x FY22E revenues, providing comfortable revenue visibility for next 3-4 years.

Exhibit 2: Order book has grown at a healthy 36% over FY15-20

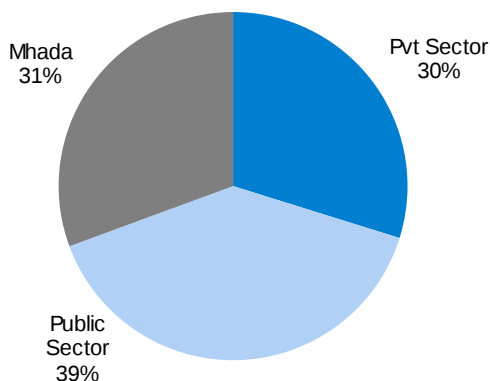


Source: Company, PL

Despite overall slowdown in real estate sector since past few years and the turbulence caused by the pandemic, CIL managed to emerge strong mainly due to its impressive execution capabilities, strong client relationship and rising public sector exposure. No project cost overruns and on-time execution have helped CIL create a niche in developing healthy relationships with its clients such as Oberoi, Godrej, Piramal, Raymond, Purvankara, Prestige, Rustomjee, among others resulting in new and repeat orders.

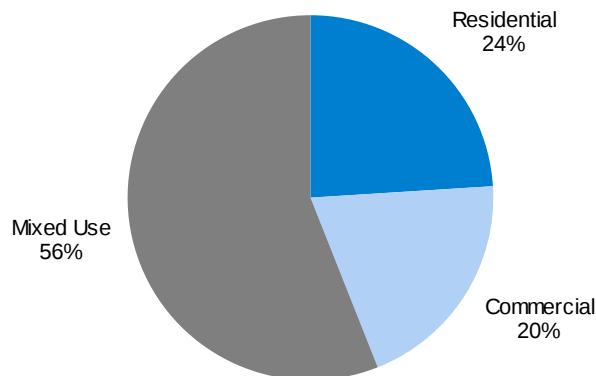
In order to reduce its dependence on private real-estate developer the company is slowly increased its exposure to public sector projects with emphasis on strong funding visibility, clear title for development and lean payment terms. CIL bagged a few large government projects in last two years raising public sector exposure (excluding MHADA orders) from 13% in FY19 to 57% of OB in 2QFY21.

Exhibit 3: Public sector projects form major part of the OB



Source: Company, PL

Exhibit 4: Residential & mixed use projects dominate the OB

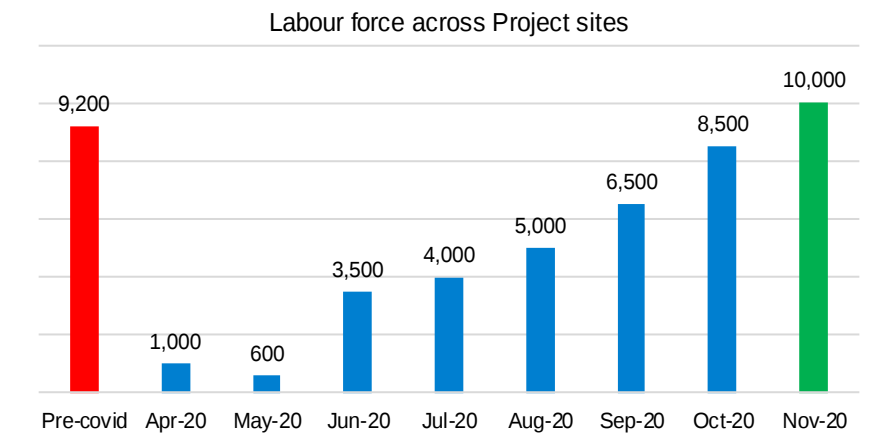


Source: Company, PL

Labour force surpassed pre-covid levels in Nov'20:

Labour availability one of prime factor in construction industry witnessed a sharp decline to lows of ~600 levels in May'20 on account of the pandemic. Post upliftment of lockdown, there has been a sharp bounce back in labour availability. in Sep'20 - Nov'20 months, CIL was able to add ~2000 labours every month taking the labour force to 10,000 levels by mid Nov'20 (surpassing pre-covid levels of ~9,200). With labour availability rising, strong execution momentum is expected in H2FY21.

Exhibit 5: Labour availability increased sharply from Sep'20

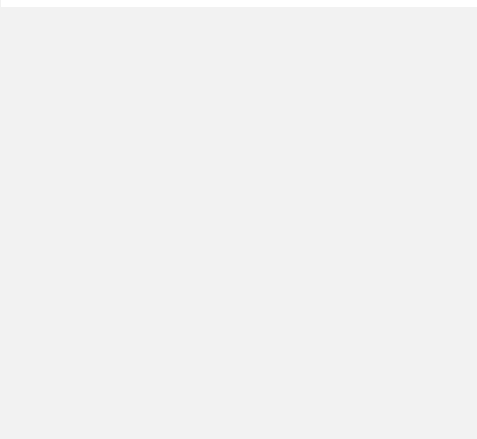


Source: Company, PL

Exhibit 6: Construction workers back on project sites



Source: Company, PL



Major public sector projects to fuel revenue growth:

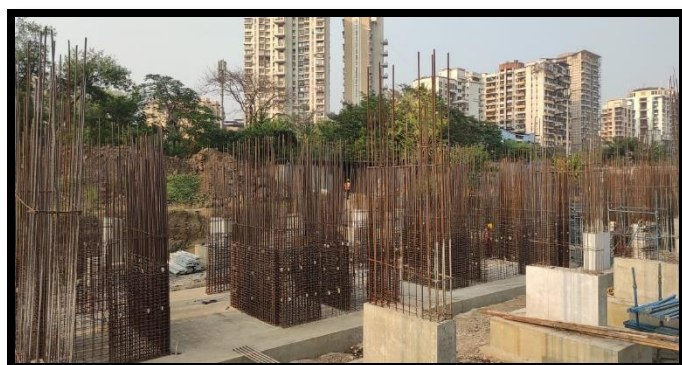
CIDCO Project (Rs45bn): CIL's foray in government projects scaled up drastically when the company bagged a major Rs45bn project from CIDCO in Sep'19 for construction of ~21,346 dwelling units across 7 project sites in Navi Mumbai. With gradual handover of sites, execution commenced on 5 sites in Q2FY21, one site in Dec'20 and the 7th site to commence by Jan'21. As the project has now moved into full-fledged execution, it would contribute significantly to the revenues over FY21-24E with a peak potential monthly run-rate of ~Rs1bn in FY22E.

Exhibit 7: Details of CIDCO project

Contract Value	Rs45,020mn
Client	CIDCO
Scope of work	Construction of ~21,346 dwelling units with development of commercial area at Navi Mumbai under PMAY scheme
No of Project sites/ Buildings	7 sites/ 132 Buildings
Built Up Area	15,08,861.50 m ² (1,62,35,349.71 Sq. Ft.)
Construction period	42 months
Construction Start date	Sites 1-4 - Jul-20; Site-5 – Aug'20; Site 6 – Dec'20; Site 7 – Jan'21
Expected Completion	Jun-24

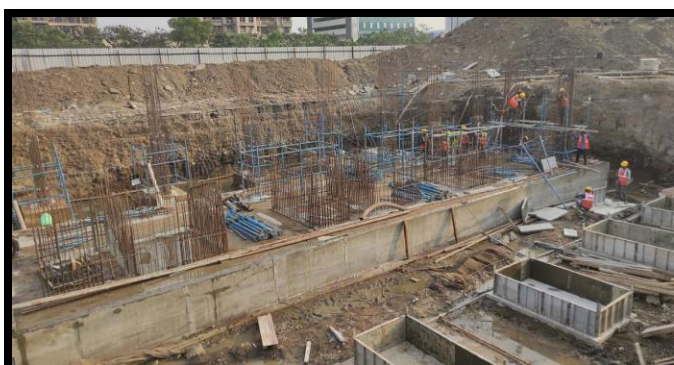
Source: Company, PL

Exhibit 8: Ongoing work at CIDCO project



Source: Company, PL

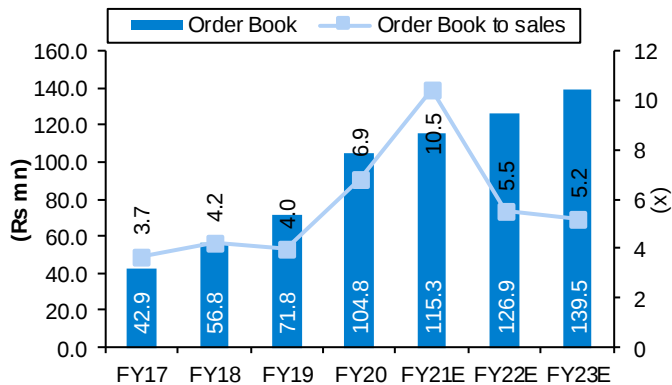
Exhibit 9: Ongoing work at CIDCO project



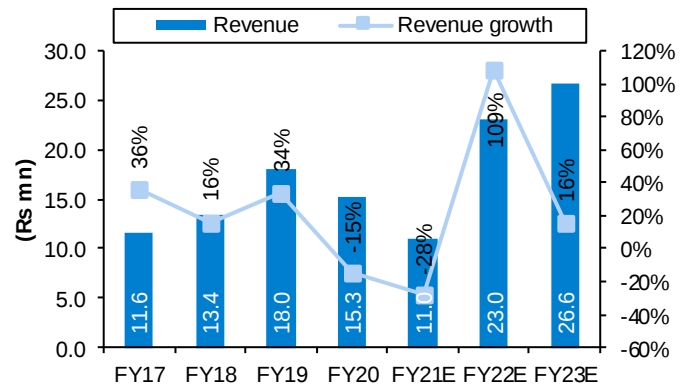
Source: Company, PL

MHADA Projects (Rs43.6bn): The company bagged MHADA project worth Rs117.4bn for redevelopment of BDD Chawl, Worli (JV with Tata Projects & CITIC Construction, CIL's share 37.1%). Over Rs22bn projects are expected to move to execution by end of FY21E which would further scale up the execution levels. As on date, the work on construction for transit camp have started at project site.

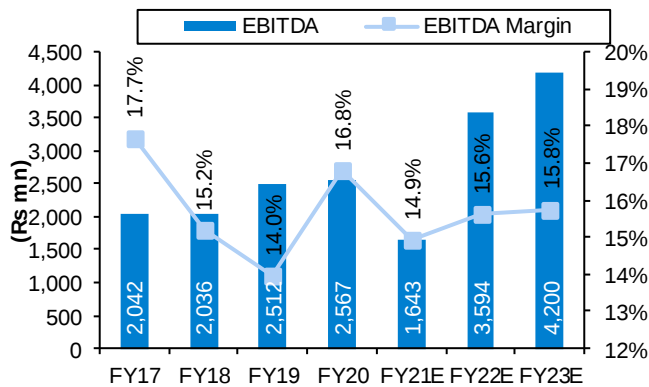
Fundamental Snapshot (Story in charts)

Exhibit 10: Strong OB gives revenue visibility for 3-4 years


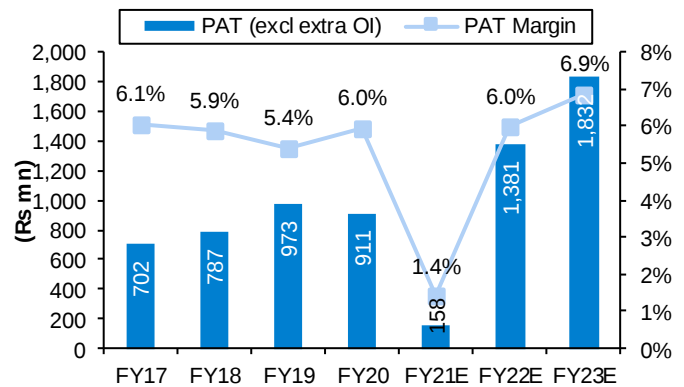
Source: Company, PL

Exhibit 11: Execution to bounce-back sharply from FY22E


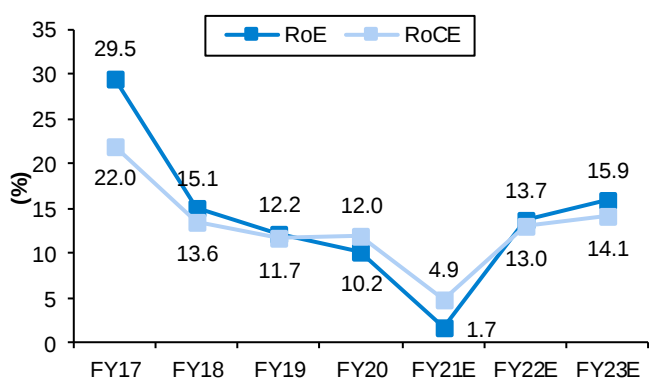
Source: Company, PL

Exhibit 12: EBITDAM to normalize (15.5-16%) from FY22E


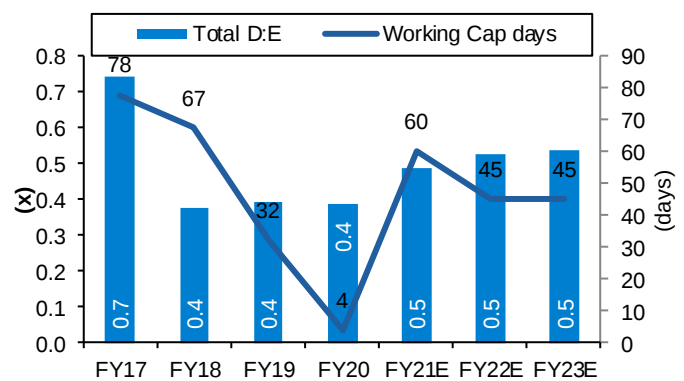
Source: Company, PL

Exhibit 13: PAT to grow at CAGR of 26% over FY20-23E


Source: Company, PL

Exhibit 14: Return ratios to dip sharply in FY21 due to Covid


Source: Company, PL

Exhibit 15: Low debt levels despite exposure to real estate


Source: Company, PL

Exhibit 16: We expect strong execution momentum in H2FY21E

Y/e March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21E	Q4FY21E
Revenue	4,112	4,053	4,049	3,072	237	1,813	3,743	5,215
Total Revenues	4,112	4,053	4,049	3,072	237	1,813	3,743	5,215
Expenditure	3,415	3,382	3,327	2,596	472	1,423	3,138	4,332
as % of sales	83.0	83.4	82.2	84.5	199.3	78.5	83.8	83.1
Consumption of RM	2,881	2,843	2,784	2,132	193	1,078	2,534	3,680
as % of sales	70.1	70.1	68.7	69.4	81.6	59.5	67.7	70.6
Employee Cost	349	354	352	316	150	175	496	618
as % of sales	8.5	8.7	8.7	10.3	63.4	9.6	13.2	11.9
Other expenditure	184	185	192	149	129	169	108	34
as % of sales	4.5	4.6	4.7	4.8	54.2	9.3	2.9	0.7
EBITDA	697	671	723	476	-235	390	605	883
Depreciation	248	294	298	301	162	257	345	261
EBIT	449	377	424	175	-397	134	260	622
Other Income	67	81	49	56	51	62	74	77
Interest	150	150	162	184	203	135	155	179
PBT	367	309	311	47	-549	61	179	520
Total Tax	129	-89	77	9	-125	15	45	118
Adjusted PAT	238	398	235	38	-424	46	134	402
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0	0	0
PAT after MI	238	398	235	38	-424	46	134	402
Extra ordinary items	0	0	0	0	0	0	0	0
Reported PAT	238	398	235	38	-424	46	134	402
Adjusted EPS	3.5	5.9	3.5	0.6	(6.2)	0.7	2.0	5.9

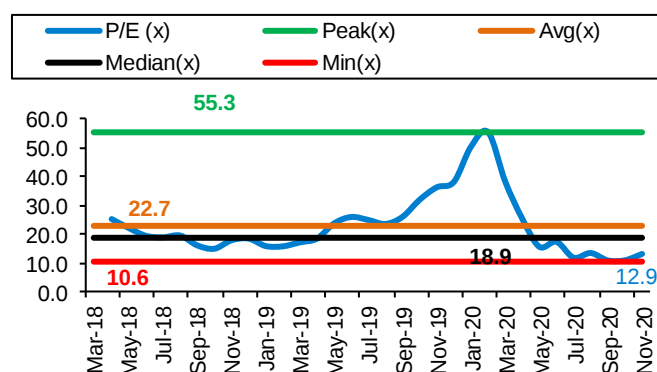
Source: Company, PL

Exhibit 17: Key Assumptions

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Order inflow	27,220	32,926	48,360	21,492	34,540	39,325
Revenues	13,411	17,976	15,290	11,008	23,007	26,640
Order book	56,820	71,770	1,04,840	1,15,324	1,26,856	1,39,542
Execution cycle (%)	27%	28%	17%	10%	19%	20%
Ob to sales (x)	4.2	4.0	6.9	10.5	5.5	5.2

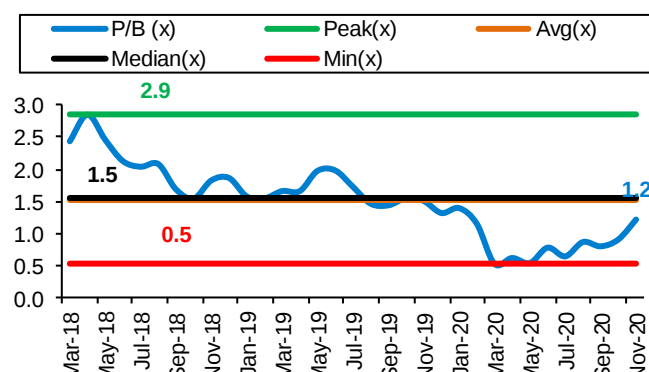
Source: Company, PL

Exhibit 18: One year forward Price / Earnings



Source: Company, Bloomberg, PL

Exhibit 19: One year forward Price / Book Value



Source: Company, Bloomberg, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	15,290	11,008	23,007	26,640
YoY gr. (%)	(14.9)	(28.0)	109.0	15.8
Cost of Goods Sold	6,576	4,623	10,353	11,988
Gross Profit	8,714	6,385	12,654	14,652
Margin (%)	57.0	58.0	55.0	55.0
Employee Cost	1,370	1,439	1,583	1,741
Other Expenses	712	440	1,150	1,332
EBITDA	2,567	1,643	3,594	4,200
YoY gr. (%)	2.2	(36.0)	118.7	16.9
Margin (%)	16.8	14.9	15.6	15.8
Depreciation and Amortization	1,142	1,025	1,372	1,470
EBIT	1,425	619	2,222	2,730
Margin (%)	9.3	5.6	9.7	10.2
Net Interest	645	672	790	868
Other Income	254	264	414	586
Profit Before Tax	1,034	211	1,845	2,448
Margin (%)	6.8	1.9	8.0	9.2
Total Tax	123	53	464	616
Effective tax rate (%)	11.9	25.2	25.2	25.2
Profit after tax	911	158	1,381	1,832
Minority interest	-	-	-	-
Share Profit from Associate	0	-	-	-
Adjusted PAT	910	158	1,381	1,832
YoY gr. (%)	(6.4)	(82.7)	775.4	32.7
Margin (%)	6.0	1.4	6.0	6.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	910	158	1,381	1,832
YoY gr. (%)	(6.4)	(82.7)	775.4	32.7
Margin (%)	6.0	1.4	6.0	6.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	910	158	1,381	1,832
Equity Shares O/s (m)	68	68	68	68
EPS (Rs)	13.4	2.3	20.3	27.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,248	10,248	11,248	12,248
Tangibles	9,248	10,248	11,248	12,248
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,659	3,684	5,056	6,526
Tangibles	2,659	3,684	5,056	6,526
Intangibles	-	-	-	-
Net fixed assets	6,589	6,565	6,192	5,723
Tangibles	6,589	6,565	6,192	5,723
Intangibles	-	-	-	-
Capital Work In Progress	48	86	86	86
Goodwill	-	-	-	-
Non-Current Investments	722	178	358	413
Net Deferred tax assets	(387)	(387)	(387)	(387)
Other Non-Current Assets	1,126	495	920	1,066
Current Assets				
Investments	-	-	-	-
Inventories	1,041	1,056	2,206	2,555
Trade receivables	4,726	4,222	5,673	6,569
Cash & Bank Balance	2,629	3,171	1,863	3,679
Other Current Assets	1,025	1,101	1,841	2,131
Total Assets	23,645	20,011	25,167	29,200
Equity				
Equity Share Capital	679	679	679	679
Other Equity	8,580	8,722	9,937	11,549
Total Network	9,259	9,401	10,616	12,228
Non-Current Liabilities				
Long Term borrowings	1,362	1,362	1,362	1,362
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,838	2,838	3,838	4,838
Trade payables	5,599	3,468	5,043	5,839
Other current liabilities	5,200	2,555	3,921	4,546
Total Equity & Liabilities	23,645	20,011	25,167	29,200

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,034	211	1,845	2,448
Add. Depreciation	1,142	1,025	1,372	1,470
Add. Interest	-	-	-	-
Less Financial Other Income	254	264	414	586
Add. Other	573	672	790	868
Op. profit before WC changes	2,748	1,908	4,008	4,786
Net Changes-WC	1,153	(587)	(3,896)	(1,266)
Direct tax	368	53	464	616
Net cash from Op. activities	3,534	1,268	(352)	2,904
Capital expenditures	(2,647)	(1,037)	(1,000)	(1,000)
Interest / Dividend Income	216	-	-	-
Others	(339)	-	-	-
Net Cash from Invt. activities	(2,769)	(1,037)	(1,000)	(1,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	758	1,000	1,000	1,000
Dividend paid	(82)	(16)	(166)	(220)
Interest paid	(663)	(672)	(790)	(868)
Others	-	-	-	-
Net cash from Fin. activities	13	312	44	(88)
Net change in cash	777	542	(1,308)	1,816
Free Cash Flow	881	230	(1,352)	1,904

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	13.4	2.3	20.3	27.0
CEPS	30.2	17.4	40.6	48.6
BVPS	136.4	138.5	156.4	180.1
FCF	13.0	3.4	(19.9)	28.0
DPS	1.1	0.2	2.4	3.2
Return Ratio(%)				
RoCE	12.1	4.7	15.1	15.9
ROIC	13.7	4.7	12.9	15.2
RoE	10.3	1.7	13.8	16.0
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.3	0.2
Net Working Capital (Days)	45	119	111	111
Valuation(x)				
PER	14.0	80.9	9.2	7.0
P/B	1.4	1.4	1.2	1.0
P/CEPS	6.2	10.8	4.6	3.9
EV/EBITDA	5.2	8.4	4.5	3.6
EV/Sales	0.9	1.3	0.7	0.6
Dividend Yield (%)	0.6	0.1	1.3	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	4,049	3,072	237	1,813
YoY gr. (%)	(9.9)	(38.3)	(94.2)	(55.3)
Raw Material Expenses	1,685	1,483	97	517
Gross Profit	2,364	1,590	140	1,296
Margin (%)	58.4	51.7	59.2	71.5
EBITDA	723	476	(235)	390
YoY gr. (%)	16.9	(28.9)	(133.7)	(41.8)
Margin (%)	17.8	15.5	(99.3)	21.5
Depreciation / Depletion	298	301	162	257
EBIT	424	175	(397)	134
Margin (%)	10.5	5.7	(167.5)	7.4
Net Interest	162	184	203	135
Other Income	49	56	51	62
Profit before Tax	311	47	(549)	61
Margin (%)	7.7	1.5	(231.6)	3.4
Total Tax	77	9	(125)	15
Effective tax rate (%)	24.6	18.6	22.8	25.2
Profit after Tax	235	38	(424)	46
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	235	38	(424)	46
YoY gr. (%)	(1.7)	(85.2)	(277.9)	(88.6)
Margin (%)	5.8	1.2	(178.8)	2.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	235	38	(424)	46
YoY gr. (%)	(1.7)	(85.2)	(277.9)	(88.6)
Margin (%)	5.8	1.2	(178.8)	2.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	235	38	(424)	46
Avg. Shares O/s (m)	68	68	68	68
EPS (Rs)	3.5	0.6	(6.2)	0.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Nov-20	BUY	162	144
2	08-Oct-20	BUY	162	120
3	12-Aug-20	BUY	162	106
4	07-Jul-20	BUY	162	111
5	19-Jun-20	BUY	162	114
6	07-Apr-20	BUY	168	75
7	11-Feb-20	BUY	262	188
8	03-Jan-20	BUY	292	200
9	23-Dec-19	BUY	292	183

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs.)	Share Price (Rs.)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	237
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Accumulate	110	103
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	109
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	133
15	Kalpitaru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	336	255
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	48
23	Siemens	Accumulate	1,516	1,513
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,186

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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