Capacite Infraprojects Limited

BUY | CMP Rs106 | Target Rs147 | Upside 39.1%

HIGHLIGHTS

- It was a washout quarter for Capacite Infraprojects Ltd (CIL) with revenues declining 94% yoy to Rs.237 mn during Q1 FY21. The execution was severely impacted due to COVID-19 related shutdown with severe disruptions in labor/raw material availability.
- The company’s profitability got impacted with almost nil revenues and continued fixed costs. The order book remained healthy at Rs.103.9bn (~9x TTM revenues).
- After major disruptions in Q1 FY21, the company has been able to restart execution on 32 sites (constitutes 90% of order book) with increasing labour availability, easing of lockdown and government permissions to start operations. The management expects normalcy from Q3 FY21.
- Labour strength is increasing gradually and the count of workmen at various sites currently stood at ~4,000 (vis-à-vis ~2,500 in Jun'20-end). The management expects workmen count to increase further to 5,000+ by Aug'20-end, sufficient for normalized operations.
- As there have been delays in payment from client side, the working capital days have increased. The Company is confident of improvement its working capital situation as its major clients are big developers with strong balance sheets.

Our View

- Despite strong order book position, we expect revenues to be under pressure in FY21. Major projects like CIDCO and MHADA are not expected to contribute meaningfully before Q4 FY21. Also, shortage of labor across projects under execution hit revenues.
- CIL has actively taken various cost cutting measures during Q1 FY21. However, operating margin is likely to be under pressure in near term as execution would only pick up gradually.
- With robust order book position, CIL would be selective in bidding for new projects. The focus would be on execution of projects in order book and managing working capital.

Valuation

- With significant impact of COVID on topline and margins, we cut our estimates for FY21. We believe, normalcy would only return from Oct'20 onwards. We expect revenues and margins to improve in FY22 as execution picks up.
- We believe, the comfortable balance sheet position would help execute the strong order book. We maintain our BUY rating on the stock for target of Rs.147 (9x FY22 EPS).

Risk to our call

- Slower than expected ramp up in execution.

Exhibit 1: Result table

<table>
<thead>
<tr>
<th>Y/e 31 Mar (Rs mn)</th>
<th>Q1 FY21</th>
<th>Q1 FY20</th>
<th>yoy(%)</th>
<th>Q4 FY20</th>
<th>qoq (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>237</td>
<td>4,112</td>
<td>(94.2)</td>
<td>3,072</td>
<td>(92.3)</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>(235)</td>
<td>697</td>
<td>NA</td>
<td>476</td>
<td>NA</td>
</tr>
<tr>
<td>OPM (%)</td>
<td>(99.3)</td>
<td>17.0</td>
<td>NA</td>
<td>15.5</td>
<td>NA</td>
</tr>
<tr>
<td>Other Income</td>
<td>51</td>
<td>67</td>
<td>(23.8)</td>
<td>56</td>
<td>(8.6)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(162)</td>
<td>(248)</td>
<td>(34.9)</td>
<td>(301)</td>
<td>(46.3)</td>
</tr>
<tr>
<td>Interest</td>
<td>(203)</td>
<td>(150)</td>
<td>35.9</td>
<td>(184)</td>
<td>10.4</td>
</tr>
<tr>
<td>PBT</td>
<td>(549)</td>
<td>367</td>
<td>NA</td>
<td>47</td>
<td>NA</td>
</tr>
<tr>
<td>Tax</td>
<td>125</td>
<td>(129)</td>
<td>NA</td>
<td>(9)</td>
<td>NA</td>
</tr>
<tr>
<td>Reported PAT</td>
<td>(424)</td>
<td>238</td>
<td>NA</td>
<td>38</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Company, YES Sec – Research

Stock data (as on Aug 12, 2020)

- Nifty: 11,308
- 52 Week h/l (Rs): 246 / 70
- Market cap (Rs/USD mn): 7227 / 97
- Outstanding Shares (mn): 68
- 6m Avg T/C (Rs mn): 9
- Div yield (%): -
- Bloomberg code: CAPACITE IN
- NSE code: CAPACITE

Stock performance

- Absolute return: 1M -4.6%, 3M 41.1%, 1Y -50.8%

Shareholding pattern (As of Jun’20 end)

- Promoter: 43.8%
- FII+DII: 30.2%
- Others: 26.0%

Δ in earnings estimates

- EPS (New): FY20 13.4, FY21 2.4, FY22e 16.4
- EPS (Old): FY20 13.4, FY21 3.2, FY22e 16.4
- % change: - NA -

ALOK DEORA
Lead Analyst
alok.deora@ysil.in
+91 98205 13792

LOKESH KASHIKAR, Analyst
lokesh.kashikar@ysil.in | +91 90044 47175

AMAR AMBANI, Sr. President, Head of Research
amar.ambani@ysil.in

For important information about YES Securities (India) Ltd. and other disclosures, refer to the end of this material.
CON-CALL HIGHLIGHTS

✓ CIL’s performance during Q1 FY21 was impacted owing to Covid-19 pandemic which impacted labor and raw material availability (most of the project sites are in Pune and MMR regions). However, the company has been able to restart execution on 32 sites (constitutes 90% of order book) with increasing labour availability, easing of lockdown and government permissions to start operations.

✓ Labour strength is increasing gradually and currently the count of workmen at various sites is ~4,000 (vis-à-vis ~2,500 in Jun’20-end). The management expects the workmen count to increase further to 5,000+ by Aug’20-end, sufficient for normalized operations. With these, the management expect operations to get stabilized during Q3 FY21 and execution pace to improve during Q4 FY21.

✓ Subdued revenues and higher fixed cost has translated into loss at operating level. However, the company has undertaken cost cutting initiatives such as renegotiation with vendors, lowering the use of rental equipment, and handing over of some offices. The management expects fixed cost to be ~Rs.300mn in Q2 FY21, increasing gradually thereafter with execution pick-up.

✓ Order book at the end of Q1 FY21 stood at ~Rs.103.9bn (excluding MHADA’s BDD chawl project worth Rs.43.6bn) having average execution period of ~3.5 years. The Company would go selective in bidding for new projects. However, bid pipeline is strong at institutional and hospital space, and awarding in such projects can be expected from Q3 FY21.

✓ Out of the total order book, ~55% is contributed by Public sector clients and rest by private clients. Top 10 client groups constitute ~78% of the total order book. With increased share of public sector orders, the order book is well diversified now.

✓ The company has excluded Rs.7.5bn worth of orders from the total order book position with its slow-moving nature. Also, the management is in discussion with private clients for ~Rs.15bn worth of orders.

✓ The company has commenced work on 5 sites of CIDCO projects and expects execution on balance 2 sites to start by Sept’20. In MHADA project, the piling work has begun and revenue booking is likely to be seen from Q3 FY21.

✓ Gross debt/cash and cash equivalent at the end of Jun’20 stood at Rs.3.5bn/Rs.3.2bn respectively (Net Debt/Equity: 0.1x). The management expects debt to come down with better profitability and improving liquidity position.

✓ Receivables for the company at the end of Jun’20 stood at Rs.5.7bn and it is likely to rise with higher bill certifications happening currently. The management expects normalcy by Q4 FY21.

✓ Capex for CIDCO project is estimated to be Rs.1bn to be spent over next two years. Besides this, capex of Rs.200mn is likely to be incurred in FY21.
Exhibit 2: Strong order book* provides revenue visibility over next few years

Source: Company, YES Sec – Research; *Order book excludes MHADA’s BDD chawl order of worth Rs.43.6 bn

Exhibit 3: Robust inflows witnessed during FY20; no major inflows in Q1 FY21

Source: Company, YES Sec – Research; *Order book excludes MHADA’s BDD chawl order of worth Rs.43.6 bn

Exhibit 4: Super/High rise buildings contributes 27% to the total order book

Source: Company, YES Sec – Research; *Order book excludes MHADA’s BDD chawl order of worth Rs.43.6 bn

For important information about YES Securities (India) Ltd. and other disclosures, refer to the end of this material.
Exhibit 5: Financial Summary

<table>
<thead>
<tr>
<th>Y/e 31 Mar (Rs m)</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21E</th>
<th>FY22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>17,866</td>
<td>15,287</td>
<td>10,278</td>
<td>21,413</td>
</tr>
<tr>
<td>yoy growth (%)</td>
<td>33.2</td>
<td>(14.4)</td>
<td>(32.8)</td>
<td>108.3</td>
</tr>
<tr>
<td>Operating profit</td>
<td>2,485</td>
<td>2,567</td>
<td>1,216</td>
<td>3,241</td>
</tr>
<tr>
<td>OPM (%)</td>
<td>13.9</td>
<td>16.8</td>
<td>11.8</td>
<td>15.1</td>
</tr>
<tr>
<td>Reported PAT</td>
<td>956</td>
<td>909</td>
<td>(160)</td>
<td>1,112</td>
</tr>
<tr>
<td>yoy growth (%)</td>
<td>20.1</td>
<td>(4.9)</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>EPS (Rs)</td>
<td>14.1</td>
<td>13.4</td>
<td>(2.4)</td>
<td>16.4</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>7.5</td>
<td>7.9</td>
<td>NA</td>
<td>6.5</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>3.1</td>
<td>2.9</td>
<td>5.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Debt/Equity (x)</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>RoE (%)</td>
<td>12.0</td>
<td>10.3</td>
<td>(1.7)</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: Company, YES Sec – Research

Recommendation Tracker
DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company’s fundamentals and opinions, as such, may not match with reports published on a company’s fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst: Alok Deora, Lokesh Kashikar

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Research Analyst has served as an officer, director or employee of the subject company(ies)</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>YSL has received any compensation from the subject company in the past twelve months</td>
<td>No</td>
</tr>
<tr>
<td>6</td>
<td>YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months</td>
<td>No</td>
</tr>
<tr>
<td>7</td>
<td>YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months</td>
<td>No</td>
</tr>
<tr>
<td>8</td>
<td>YSL has received any compensation or other benefits from the subject company or third party in connection with the research report</td>
<td>No</td>
</tr>
<tr>
<td>9</td>
<td>YSL has managed or co-managed public offering of securities for the subject company in the past twelve months</td>
<td>No</td>
</tr>
<tr>
<td>10</td>
<td>Research Analyst or YSL has been engaged in market making activity for the subject company(ies)</td>
<td>No</td>
</tr>
</tbody>
</table>

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited
Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.
Contact Details: +91-22-71231212
Email: research@ysil.in | Website: https://yesinvest.in

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No.+91-22-33497208

For important information about YES Securities (India) Ltd. and other disclosures, refer to the end of this material.
RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS
Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts’ valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months
ADD: Potential return +5% to +15% over 12 months
REDUCE: Potential return -10% to +5% over 12 months
SELL: Potential return < -10% over 12 months
NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED
YES Securities (India) Limited (“YSL”) is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.