

Capacite Infraprojects Ltd.

No. of shares (m)	67.9
Mkt cap (Rs crs/\$m)	1889/277.4
Current price (Rs/\$)	278/4.1
Price target (Rs/\$)	352/5.2
52 W H/L (Rs.)	437/266
Book Value (Rs/\$)	109/1.6
Beta	1.5
Daily NSE volume (avg. monthly)	275560
P/BV (FY19e/20e)	2.3/2.0
EV/EBITDA (FY19e/20e)	7.0/5.9
P/E (FY19e/20e)	18.9/15.0
EPS growth (FY18/19e/20e)	11.2/21.7/25.9
OPM (FY18/19e/20e)	15.2/15.2/15.1
ROE (FY18/19e/20e)	15.4/12.8/14.3
ROCE(FY18/19e/20e)	14.2/12.7/14.2
D/E ratio (FY18/19e/20e)	0.3/0.2/0.2
BSE Code	540710
NSE Code	CAPACITE
Bloomberg	CAPACITE IN
Reuters	CAPE.NS

Shareholding Pattern

	%
Promoters	43.8
MFs / Banks / FIs	6.6
Foreign Portfolio Investors	5.6
Govt. Holding	-
Public & Others	44.1
Total	100.0

As on March 31, 2018

Recommendation

BUY

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Company Brief

CIL provides construction solutions for buildings, housing, institutional, high rises, specialty buildings and urban infrastructure in Mumbai Metropolitan Region (MMR), National Capital Region (NCR), Bengaluru and other major cities spread across India.

Highlights

- Indian construction and real estate industry stands to benefit from surfeit of transformative government reforms undertaken in the past few years. The GOI has introduced several landmark policy initiatives like PMAY, AMRUT, Smart Cities Mission, infrastructure status for affordable housing, RERA and easing of FDI norms – which are expected to energize and boost the sector. While many states are taking time in finalizing and implementing their RERA guidelines, the establishment of a regulatory authority is gradually improving both consumer and investor sentiment across Indian housing market.
- Capacite has been accredited with certifications for quality management, environmental management and occupational, health and safety. Its order book with primary focus on residential, commercial and institutional buildings has grown at a CAGR of 35.4% in four years ending FY18, catering to some of the most reputed developers in the industry like Brookfield, Brigade, Four Seasons Hotels and Resorts, etc.
- Quality certifications and enhanced relationships with clients have ensured high client recall, enabling Capacite to win repeat orders as well as secure projects from new customers. Despite operating in a highly competitive market, its ability of to bid and win large construction projects and effectively execute orders have enabled it to maintain strong volume of order inflow (CAGR growth of 15.4% from FY14 to FY18).
- The stock currently trades at 18.9x FY19e EPS of Rs 14.74 and 15.0x FY20e EPS of Rs 18.55. Execution of large order book (currently at Rs 5682 crs/\$873.6m) with marquee client base offers strong revenue growth for the next two years at a CAGR of 20.6%. Capacite intends to capitalize on the fast growing construction industry by bidding for new construction projects, including in the redevelopment projects segment and mass housing projects segment across public and private sectors. Not oblivious of geographical and client concentration risk, it is now planning to expand its presence in cities with high growth potential. Increased focus on and greater execution of projects on a lock-and-key basis would allow it to corner higher margins. Weighing odds, we assign a buy rating on the stock with target of Rs 352 based on 19x FY20e earnings over a period of 9-12 months (PEG ratio ~0.8).

Consolidated figures in Rs crs	FY16	FY17	FY18	FY19e	FY20e
Income from operations	851.43	1155.27	1341.08	1633.48	1951.31
Other Income	6.96	10.51	24.15	25.65	25.05
EBITDA (other income included)	115.55	214.70	227.77	273.61	320.50
PAT after MI, Associate Profit & EO	42.97	69.16	79.57	100.08	125.96
EPS(Rs)	8.41*	10.89*	12.11*	14.74	18.55
EPS growth (%)	-22.8	29.5	11.2	21.7	25.9

*On weighted equity (assuming conversion of preference shares outstanding at the end of each fiscal)

Company Overview

Incorporated in 2012, Capacite Infraprojects is a fast growing boutique construction company, predominantly operating in Mumbai Metropolitan Region (MMR), National Capital Region (NCR) and Bengaluru. It offers to undertake construction of residential buildings, multi-level car parks, corporate office buildings and buildings for commercial, educational, hospitality and healthcare purposes. It also offers mechanical, electrical and plumbing (MEP), finishing and interior services. Fortified by owned resources and advanced technology, it has demonstrated strong and timely execution capabilities, driving large order book with marquee clientele.

With a predominant focus on construction of buildings in select large markets, Capacite is one of the few companies in the organized sector in India which has not forayed in activities like land or infrastructure development. This has helped it to acquire specialized construction technical knowhow, experience and skills for constructing super high rise buildings, high rise buildings and mass housing projects. Investments in core assets and access to technology has resulted in speedy execution and growing order book for Capacite, giving it a competitive edge compared to its peers.

Projects offered

Super High Rise Buildings

These are buildings with 40 or more floors. Some of its projects of super high rise buildings include The Park - Towers 3 and 4 for Lodha Group, H Mill for The Wadhwa Group and Enigma for Oberoi Constructions Ltd.

High Rise Buildings

These are buildings with 7 or more floors. Saifee Burhani Upliftment Project – Sub cluster 03 for Saifee Burhani Upliftment Trust, Tirumala Heights for Transcon Developers Private Limited, Century Breeze for Century Real Estate Holdings Pvt. Ltd. and The Tree for Provident Housing Ltd are some of the projects of high rise buildings.

Gated Community

A single premise or land parcel containing at least four buildings, which may include high rise buildings or super high rise buildings are classified as gated community. Some of the gated community projects include Immensa for Kalpataru, The Walk for Hiranandani Constructions Private Ltd, Prestige Hillside Gateway for Prestige Estates Projects Ltd, Godrej Central for Godrej Properties Ltd, Godrej Summit, Phase II for Godrej Premium Builders Private Ltd and Neelkanth Woods – Phase I & II in Thane for T Bhimjyani Realty.

Villaments

Duplex houses and row houses are categorized as villaments. Townsville for Patel Realty (India) Ltd is a villament project undertaken by the company.

Other Buildings

These include buildings other than super high rise buildings, high rise buildings, gated community and villaments. Cancer hospital for Tata Group, multi level car park for Sir Gangaram Hospital and Urbana Hyatt Place for Ozone Group fall under this category of project.

Investment Thesis

Indian Construction Industry

According to India Ratings and Research, India's construction sector is expected to have a stable outlook in FY19, on back of accelerated revenue growth underpinned by increased infra capital outlays by the government. The agency expects rise in engineering, procurement and construction contracts for roads as well as urban infrastructure projects to drive higher orders from the transportation segment. Going forward, change in technical specification for contracts and increase in asset utilization could amplify capex of construction companies.

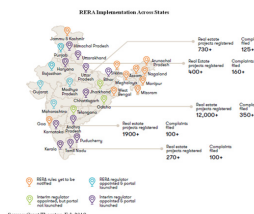
Neeraj Bansal, Partner and Head, ASEAN Corridor and Building, Construction & Real Estate, KPMG, India, believes several landmark policy reforms and government programs such as RERA Act, GST, Pradhan Mantri Awas Yojana (PMAY), AMRUT and affordable housing, to name a few, would transform the Indian real estate sector, leading to higher accountability and efficiency in the sector. These reform initiatives are expected to open a plethora of opportunities for growth in real estate and construction sector. Rise in green buildings and smart home concept is driving the sector towards sustainability.

	Project Proposal Considered	Financial Progress (Rs crs)			Physical Progress (lakh units)		
		Investment	Central Assistance Involved	Released	Houses Involved	Under Construction	Completed
States	8776	243627	64666	22988	42	18	4
NE States	323	6315	3594	1225	2	1	0
Uts	22	1035	246	139	0	0	0
Total	9121	250977	68416	24352	44.4	19.2	4.0

Source: Ministry of Housing & Urban Affairs, GOI

	MoRD Target	Central Allocation	State Allocation
States	31801	24249	15969
NE States	491	597	66
Uts	11	14	0
Total	32303	24860	16035

Source: Ministry of Housing & Urban Affairs, GOI



'Housing for All', earlier envisioned to address the housing requirement by 2022, is expected to meet its target by mid-year 2019, according to Hardeep Singh Puri, MoS for Housing and Urban Affairs, GOI. Constructions of 4.5 million houses have been sanctioned under the scheme until March 31, 2018 (target 11 million) with 3-5 lakh urban units being sanctioned every month. According to industry reports, more than 2.5 lakh homes have been sanctioned under PMAY in Maharashtra and construction work for over 25,800 homes have commenced. Yet, the scheme devised by the government continues to be dogged by various challenges like land scarcity, construction delays, mass production inability, high project funding costs and inadequate private sector participation in affordable housing segment.

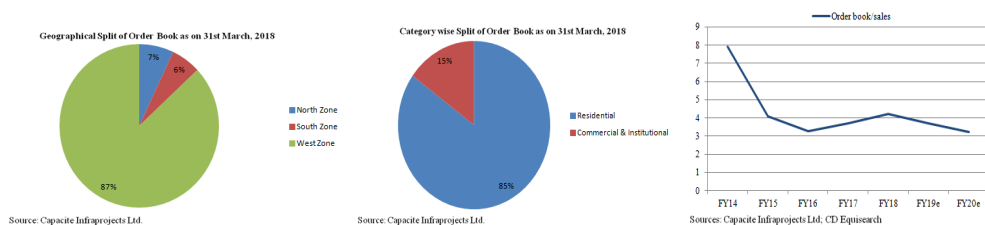
RERA Act, which came into force on 1st May 2017, aims to increase transparency, accountability and overall efficiency in the Indian real estate sector. It is anticipated that accountability would lead to higher growth across the sector, while compulsory disclosures and registrations would determine transparency. RERA would undoubtedly support robust project delivery as it mandates commitment from developers to complete projects as per schedule. However, it might lead to increased project launch time and initial backlog due to time taken up in registering the existing and new projects. Smaller players with lack of strong financial and execution capability would find it challenging to survive with increased cost of capital as developers are required to fund the land and approval cost through equity. 90% of the builders are unable to cope with stringent compliant norms under RERA, leading to a series of distressed sales.

Even after a year of its enactment, RERA's implementation is lacking, with a permanent regulator missing in most states except in Maharashtra, Madhya Pradesh and Punjab. Maharashtra has been the best executor of the Act as ~63% of over 26,000 projects registered under the RERA Act comes from that state. According to industry data, MahaRERA has registered over 16,398 real estate projects and received 2,195 complaints of which 1,168 have been resolved.

Order Book

Capacite has emerged as a fast growing building contractor with order book growing at a CAGR of 35.4% from Rs 1693 crs (\$281.7m) in FY14 to Rs 5682 crs (\$873.6m) in FY18. Although private sector forms 100% of its order book currently, the company has started bidding for certain government sector clients like Municipal Corporation of Greater Mumbai (MCGM), NBCC and Central Public Works Department (CPWD). Buoyed by large contracts from Arihant Abode Ltd. (contract worth Rs 825 crs), Kalpataru (contract worth Rs 479 crs), Brigade Enterprises (contract worth Rs 370 crs), Godrej Properties (contract worth Rs 158 crs), etc, Capacite's order book bulged by 32.5% in FY18. Stoked by its quality of work, order inflow surged by 12.9% in FY18 and it has demonstrated steadiness in the past except in FY15 in which order inflow plunged to Rs 1006 crs (\$164.5m) vs Rs 1534 crs (\$253.6m) in FY14.

West zone (comprising of MMR and Pune) dominates its share of order book with ~87%, followed by 7% share of north zone (comprising of NCR and Varanasi) and 6% share of south zone (comprising of Bengaluru, Chennai, Hyderabad, Vijaywada & Kochi). With its exclusive focus on residential, commercial & institutional building construction- constituting 85% and 15% respectively of its order book (see chart).



Market Expansion

Capacite has predominant focus on projects based in MMR, NCR and Bengaluru and it intends to increase its presence in these locations by securing new projects, including securing repeat orders from its existing clients like Oberoi Group, Kalpataru, Puravankara, Brookfield, Lodha Group, Wadhwa Group and Transcon Developers Pvt Ltd. to name a few. It also plans to expand its presence mainly in major cities in the south zone, reducing geographic concentration in MMR. The company sees Ahmedabad with high growth potential and intends to penetrate there in near future.

Technical Expertise

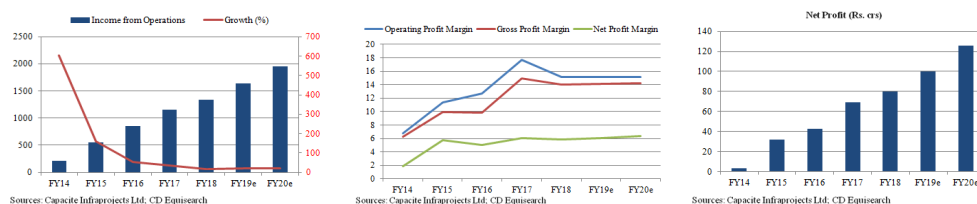
Capacite's ownership of modern system formwork – automatic climbing system formwork, aluminium formwork, table formwork, composite panel formwork (consisting of vertical panel and horizontal panel formwork systems) to meet varying construction needs of different types of buildings- and other core assets – it owns 67 tower cranes, 8 boom placer, 4 batching plants and 65,000 sqm of aluminium monolithic- enable speedier and timely completion of projects. Doka, MFE and R.M.D. Kwiform are its international formwork suppliers. Buttressed by access to modern technology like temperature-controlled concrete for mass pours, self-compacting free flow concrete for heavily reinforced pours and special concrete for vertical pumping in super high rise buildings and high rise buildings, it is able to deliver high quality work and gain competitive edge in building construction industry. Yet, the need to persistently modernize its existing capabilities may prop up its financial leverage.

Clientele

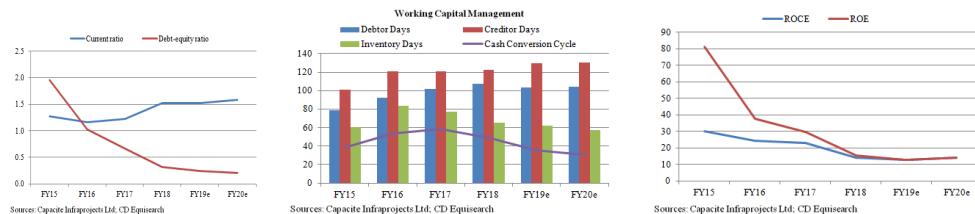
Efficiency in operations has helped Capacite court marquee clients consisting of some of India's leading real estate developers- Oberoi, Kalpataru, Lodha Group, Godrej Properties, Wadhwa Group, Prestige Group, Tata Trust, Puravankara Projects Ltd- to name a few. Strong customer confidence and satisfaction has helped it bag repeat orders from existing clients which has led to surge in its order book in last two fiscals – Rs 2411 crs (\$359.4m) and Rs 2722 crs (\$422.4m) in FY17 and FY18 vs average order inflow of ~Rs 1300 crs earlier. The company is trying to bid for government sector contracts in the mass housing segment in and around its area of operations which should further buoy its order book.

Financials & Valuations

Flurry of orders executed in last few years has helped Capacite's topline to grow at a CAGR of 58.2% in four years ending FY18. Operating margins, which were relentlessly rising for last few years (17.7% in FY17 from 6.8% in FY14), hit a roadblock last fiscal on account of higher raw material expenses (raw material to sales increased to 44.5% in FY18 vs 41.5% a year ago).

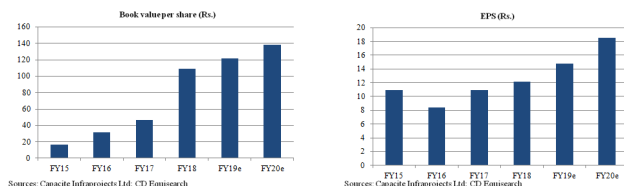


Over the years, Capacite has transformed itself from executing only 'shell & core' projects to focusing now on 'design & built' and 'lock & key' projects. It intends to execute 'design & built' projects, typically undertaken on a lump sum payment basis, as it enhances its revenue potential because of increase in scope of services provided – right from designing elements of the project to construction and finishing services. Capacite has recently been issued an LOI for two design-build projects by the Wadhwa Group. Besides, relatively limited competition in this segment may allow it to obtain greater value from projects and ensure better quality control.



It also aims to seek a greater number of 'lock & key' projects which requires involvement in all stages of construction- from foundation to MEP, finishing and interiors - which are cost effective for their projects as it enables them to spread indirect costs. As a result, the company is able to unlock greater revenues from each project, and, therefore, the provision of such services represent a significant value potential.

Although working capital management improved last fiscal with cash conversion cycle of 49.3 days (58.5 days in FY17), increase in receivables in FY16 and FY17 by 81.7% and 33.1% respectively lengthened working capital cycle to 54 days in FY16 and 58.5 days in FY17. With sturdy order execution and improving working capital management, we expect cash conversion cycle to improve to 35.7 days this fiscal.



The stock currently trades at 18.9x FY19e EPS of Rs 14.74 and 15.0x FY20e EPS of Rs 18.55. Robust order book should drive EPS by ~23.8% on average over the next two years on stable margins – average OPM and NPM of 15.2% and 6.2% in current and next fiscal respectively. Changes in government policies affecting Capacite’s business or termination of contracts by clients for failure to meet project schedules might lead to cost overruns or lower return on capital. On balance, we assign a buy rating on the stock with target of Rs 352 based on 19x FY20e earnings over a period of 9-12 months (PEG ratio ~ 0.8).

Risks & Concerns

Client concentration risk

A handful of customers – top five clients - contributed 38% of its order book as on March 31, 2018. Loss of any significant client or any adverse change in the projects like delays or stoppages in completion schedules, changes to the agreed designs or inability to obtain regulatory permits for such projects by clients can impact its business operations.

Regulator risk

The Indian real estate industry is subject to regulations of central, state and local government authorities which regulate Capacite’s clients business. Projects could face setbacks owing to any changes in the regulatory framework. The company is also required to maintain a number of labour related licenses and approvals for all projects and any delay in obtaining the same could adversely affect its operations (all licenses except for labour licenses are responsibility of client).

Socio-economic risk

Since projects are geographically concentrated in MMR, NCR and Bengaluru, its business is exposed to risk of economic, regulatory and other changes in these locations.

Cross Sectional Analysis

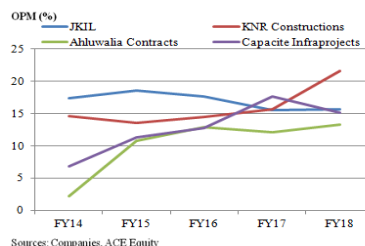
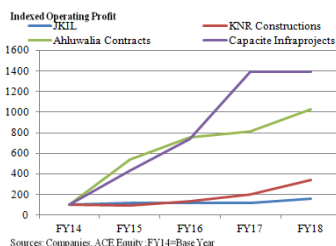
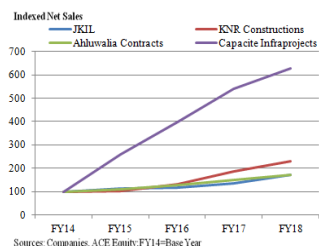
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int cov.	ROE (%)	Mcap/sales	P/BV	P/E
JKIL	38	246	1864	2051	137	15.7	6.7	3.9	9.5	0.9	1.3	13.6
KNR Constructions	28	236	3316	2070	243	21.7	11.1	3.8	26.4	1.6	3.2	13.6
Ahluwalia Contracts	13	347	2324	1647	115	13.3	7.0	8.0	20.6	1.4	3.8	20.1
Capacite	68	278	1889	1341	79	15.2	5.9	4.0	15.4	1.4	2.6	23.0

*figures in crores; consolidated or standalone data as available on March 31st, 2018

JKIL posted topline growth of 27.8% (yoy) last fiscal, mainly because of strong execution in Q4FY18 – sales up by 72.8% (yoy). In order to increase its order book, it has recently secured orders worth Rs 222 crs from Maharashtra Metro Rail Corporation (Pune Metro Rail Project), Rs 224 crs for improvement of Chheda Nagar Junction, Ghatkopar, order of Rs 560 crs from NBCC, Rs 179 crs of project for Public Works Department, Housing Development Division, New Delhi and additional work from Uttar Pradesh Rajkiya Nirman Nigam Ltd for an amount of Rs 47 crs in current fiscal. Yet, geographical risk (it mainly operate in Mumbai, Pune, Aurangabad and Vidharbha region of Maharashtra) and client concentration risk (with majority of contracts received from government agencies) cannot be ignored.

With a host of marquee clients – NMDC, Ministry of Road Transport & Highways, National Highways Authority of India, to name a few – and strong execution, KNR constructions recorded a 23.2% (yoy) growth in sales last fiscal. Buoyed by record execution, OPM improved significantly to 21.7% in FY18 from 15.7% in FY17. It has recently bagged a hybrid annuity project (HAM) worth Rs 1145 crs from Karnataka State Highways Improvement Project (KSHIP), Government of Karnataka, with a concession period of nine years, including the construction period of two years from the appointed date.

With the legacy of being the first building construction company to receive ISO 9001, ISO 14001 and ISO 18001 certifications, Ahluwalia Contracts' topline grew by 15.4% (yoy) in FY18. OPMs increased to 13.3% in FY18 (vs 12.2% a year ago) and net profit was up by 33.8% and stood at Rs 115.41 crs (\$17.9m) last fiscal. To upgrade its technology and introduce new methods of construction, it has collaborated with a Russian entity to build structures using patented high-speed precast construction with KUB 2.5 system. It has secured new orders aggregating to Rs 390 crs – Rs 261 crs for renovation and modernization of Milan Mela in Kolkata, Rs 106 crs for construction and renovation of building for Bennett Coleman & Co. and Rs 22 crs for other construction work.



Financials

Standalone Quarterly Results

Figures in Rs crs

	Q4FY18	Q4FY17	% chg	FY18	FY17	% chg
Income From Operations (Net)	380.91	303.44	25.5	1335.64	1125.08	18.7
Other Income	8.85	3.37	162.2	24.36	15.09	61.4
Total Income	389.76	306.81	27.0	1360.00	1140.17	19.3
Total Expenditure	318.48	234.06	36.1	1132.33	928.09	22.0
EBITDA (other income included)	71.28	72.75	-2.0	227.67	212.09	7.3
Interest	10.65	10.65	-	39.75	41.67	-4.6
Depreciation	26.89	21.26	26.5	67.22	65.13	3.2
PBT	33.74	40.84	-17.4	120.70	105.29	14.6
Tax	11.36	14.11	-19.5	41.95	36.19	15.9
PAT	22.38	26.73	-16.3	78.75	69.10	14.0
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	22.38	26.73	-16.3	78.75	69.10	14.0
EPS(Rs)	3.30	6.13	-46.2	11.99*	10.88*	10.2

Consolidated Income Statement

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Income From Operations (Net)	851.43	1155.27	1341.08	1633.48	1951.31
Growth (%)	53.2	35.7	16.1	21.8	19.5
Other Income	6.96	10.51	24.15	25.65	25.05
Total Income	858.39	1165.78	1365.23	1659.13	1976.36
Total Expenditure	742.84	951.08	1137.46	1385.51	1655.86
EBITDA (other income included)	115.55	214.70	227.77	273.61	320.50
Interest	31.60	42.31	39.87	42.68	41.89
Depreciation	15.68	65.39	67.22	78.94	87.07
PBT	68.27	107.00	120.67	151.99	191.53
Tax	24.85	36.83	41.95	52.85	66.60
PAT	43.42	70.17	78.72	99.14	124.94
Share of Associate Profit	-	-0.73	0.85	0.93	1.03
Minority Interest	0.19	0.28	-	-	-
PAT after Associate Profit & MI	43.23	69.16	79.57	100.08	125.96
Extraordinary Item	0.26	-	-	-	-
Adjusted Net Profit	42.97	69.16	79.57	100.08	125.96
EPS (Rs)	8.41*	10.89*	12.11*	14.74	18.55

*On weighted equity, (assuming conversion of preference shares outstanding at the end of each fiscal)

Consolidated Balance Sheet

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Sources of Funds					
Share Capital	7.77	43.61	67.89	67.89	67.89
Reserves	162.99	255.70	680.06	767.86	881.55
Total Shareholders' Funds	170.76	299.31	747.95	835.75	949.44
Minority Interest	2.14	-	-	-	-
Long Term Debt	60.75	67.12	48.03	24.03	-
Total Liabilities	233.66	366.43	795.99	859.79	949.44
Application of Funds					
Gross Block	259.74	418.30*	569.75*	644.81	694.81
Less: Accumulated Depreciation	27.19	92.58	159.80	238.74	325.81
Net Block	232.55	325.72	409.95	406.07	369.00
Capital Work in Progress	8.33	6.73	0.06	-	-
Investments	0.09	0.49	0.52	0.52	0.52
Current Assets, Loans & Advances					
Inventory	221.14	180.90	224.07	246.48	271.12
Trade receivables	276.80	368.43	418.83	506.38	604.91
Cash and Bank	37.33	49.83	323.82	316.30	419.30
Short term loans (inc. other CA)	92.94	122.00	240.34	280.28	325.35
Total CA	628.21	721.16	1207.06	1349.43	1620.68
Current Liabilities	514.94	585.83	775.97	849.95	983.59
Provisions-Short term	23.79	1.91	18.01	22.79	29.44
Total Current Liabilities	538.74	587.74	793.99	872.74	1013.03
Net Current Assets	89.47	133.43	413.07	476.69	607.65
Net Deferred Tax Asset	-11.51	-26.10	-40.52	-45.14	-48.64
Net long term assets (net of liabilities)	-85.28	-73.83	12.91	21.64	20.91
Total Assets	233.66	366.43	795.99	859.79	949.44

*estimated

Key Financial Ratios

	FY16	FY17	FY18	FY19e	FY20e
Growth Ratios(%)					
Revenue	53.2	35.7	16.1	21.8	19.5
EBITDA	64.5	86.5	6.1	20.1	17.1
Net Profit	35.7	60.9	15.1	25.8	25.9
EPS	-22.8	29.5	11.2	21.7	25.9
Margins (%)					
Operating Profit Margin	12.8	17.7	15.2	15.2	15.1
Gross profit Margin	9.8	14.9	14.0	14.1	14.3
Net Profit Margin	5.1	6.1	5.9	6.1	6.4
Return (%)					
ROCE	24.2	23.2	14.2	12.7	14.2
ROE	37.8	29.6	15.4	12.8	14.3
Valuations					
Market Cap/ Sales	-	-	1.5	1.2	1.0
EV/EBITDA	-	-	9.1	7.0	5.9
P/E	-	-	25.0	18.9	15.0
P/BV	-	-	2.8	2.3	2.0
Other Ratios					
Interest Coverage	3.1	3.5	4.0	4.6	5.6
Debt Equity	1.0	0.7	0.3	0.2	0.2
Current Ratio	1.2	1.2	1.5	1.5	1.6
Turnover Ratios					
Fixed Asset Turnover	4.2	4.1	3.6	4.0	5.0
Total Asset Turnover	4.9	3.9	2.3	2.0	2.2
Debtors Turnover	4.0	3.6	3.4	3.5	3.5
Inventory Turnover	4.4	4.7	5.6	5.9	6.4
Creditor Turnover	3.0	3.0	3.0	2.8	2.8
WC Ratios					
Debtor Days	92.0	101.9	107.1	103.4	103.9
Inventory Days	83.3	77.1	65.0	62.0	57.0
Creditor Days	121.2	120.6	122.8	129.6	130.2
Cash Conversion Cycle	54.0	58.5	49.3	35.7	30.8

Cumulative Financial Data

Figures in Rs crs	FY15-16	FY17-18	FY19-20e
Income from operations	1407	2496	3585
Operating profit	172	408	543
EBIT	160	310	428
PBT	114	228	344
PAT after MI & Associate Profit	75	149	226
Order book*	2805	5682	6297
Income from operations growth (%)	-	77.4	43.6
OPM (%)	12.2	16.3	15.2
NPM (%)	5.3	6.0	6.3
Interest coverage	3.5	3.8	5.1
ROE (%)	38.8	16.4	13.5
ROCE (%)	23.0	15.3	13.2
Debt Equity*	1.0	0.3	0.2
Fixed asset turnover	4.4	3.9	4.6
Debtors turnover	3.9	3.6	3.5
Inventory turnover	4.6	4.7	6.1
Creditors turnover	3.1	2.8	2.8
Debtor days	94.2	101.7	104.2
Inventory days	79.0	77.8	59.4
Creditor days	117.9	132.4	131.0
Cash conversion	55.3	47.1	32.7

FY 15-16 implies two year period ending fiscal 16;*as on terminal year

Spurred by speedy order execution in last two years (see table), Capacite's cumulative income from operations have grown by stunning 77.4% in FY17-18 period. Sustained focus on building projects and ability to successfully bid and win new projects have ensured 2x growth in order book from Rs 2805 crs (\$422.9m) in FY16 to Rs 5682 crs (\$873.6m) in FY18. Buttressed by higher OPMs (see table above) due to focus on technology to manage construction complexities, cumulative PBT has nearly doubled during FY17-18 compared to previous two years. Sharp increase in depreciation (up 4.3x) and finance cost (up 1.8x) constricted NPM expansion during the same period.

Capacite's cumulative revenue is expected to rise by 43.6%, driven by increasing thrust on expansion in high growth cities and robust execution. Higher order inflows and more focus on 'design & built' projects and 'lock & key' projects should improve net profit margins going ahead (see table). Thanks to equity raising, ROE and ROCE would decline over the next two years. Efficient working capital management would result in reduced cash conversion cycle.

Financial Summary- US Dollar denominated

million \$	FY16	FY17	FY18	FY19e	FY20e
Equity capital	1.2	6.7	10.4	10.0	10.0
Shareholders funds	25.7	45.7	113.6	120.9	137.6
Total debt	26.7	30.3	36.7	28.8	28.4
Net fixed assets (inc CWIP)	36.3	51.3	63.0	59.6	54.2
Investments	0.0	0.1	0.1	0.1	0.1
Net current assets	13.5	20.1	62.1	68.2	87.4
Total assets	35.2	56.0	121.0	124.5	137.6
Revenues	130.1	172.2	208.1	239.9	286.6
EBITDA	17.6	32.0	35.3	40.2	47.1
EBDT	12.8	25.7	29.2	33.9	40.9
PBT	10.4	15.9	18.7	22.3	28.1
PAT	6.6	10.3	12.3	14.7	18.5
EPS(\$)	0.13	0.16	0.19	0.22	0.27
Book value (\$)	0.47	0.72	1.67	1.78	2.03

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 68.08/\$).
All dollar denominated figures are adjusted for extraordinary items.

Recommendation

According to a recent joint report by CREDAI and JLL, Indian real estate sector is expected to reach \$180 bn by 2020 from \$126 bn in 2015, on back of regulatory reforms, steady demand generated through rapid urbanization, rising household income and emergence of affordable and nuclear housing. Cities like Nagpur, Kochi, Chandigarh and Patna could be growth centres apart from eight major cities in India. Game changing developments like RERA and GST have created a strong base for the sector to grow. JLL expects housing sector's contribution to Indian GDP to almost double to more than 11% by 2020 (up from estimated 5-6%).

HN Vijaya Raghava Reddy, National President of Builders Association of India (BAI), believes new regulatory framework would bring more order in the construction sector in India. Only organized players with proper project development plans and capital procurement systems would be able to survive. Credit flow from banks too has reduced significantly as many projects could not be sold due to combined impact of demonetization and RERA, prompting banks to be more stringent in sanctioning loans. With the government ready to mobilize \$1 trillion investment plan over the next five years, he foresees a positive outlook for the construction industry.

Despite current order book of Rs 5682 crs (\$873.6m), Capacite's business is manpower intensive, and it is dependent on supply and availability of contract labourers from sub-contractors at its project locations. Therefore, shortage of contract labour, work stoppages, increased wage demands or any changes in regulations governing contractual labour may adversely impact execution of its projects and lead to cancellation of orders. Currently, it employs ~950 contract workers and ~11,000 sub contract workers to ensure timely delivery of projects.

Thanks to its quality of work, Capacite has recently added Tata Group to its marquee list of clients by winning order worth Rs 257 crs for constructing a cancer centre at Sundarbagiya, Varanasi which is scheduled to be executed in current fiscal. Company's established credentials and timely execution has helped it secure repeat orders from Oberoi Realty Group, Kalpataru Group and Wadhwa Group worth Rs 365.50 crs, Rs 90.8 crs and Rs 156.5 crs respectively last quarter.

The stock currently trades at 18.9x FY19e EPS of Rs 14.74 and 15.0x FY20e EPS of Rs 18.55. The company's huge order book of Rs 5682 crs (4.2x of FY18 revenue) with an average project timeline of 3-3.5 years offers revenue growth of 21.8% in FY19 and 19.5% in FY20 respectively. Developers and builders in Mumbai are in a sweet spot, with 3700 hectares of land unlocked particularly in the outskirts of the city – 2400 hectares allocated for affordable housing to meet government's target of 'Housing for All by 2022' - under Mumbai's new Development Plan 2034. GOI's recent approval to increase 33% carpet area of houses eligible for interest subsidy under PMAY-Urban to 160 sq m from 120 sq m for MIG-I and to 200 sq m from 150 sq m for MIG-II is expected to increase the number of beneficiaries and enhance construction activity, giving a boost to the housing sector in India. Yet, inadequate infrastructure demands scrutiny. Transportation planning has to be improved to ensure smooth execution of housing and commercial real estate activity under the revised development plan. Scarcity of land to build new houses, inadequate private sector participation and construction delays due to numerous clearances are issues that cannot be overlooked. Buttressed by strong execution capabilities and healthy project pipeline, we expect net profits to grow at a CAGR of 25.9% in two years ending FY20. Weighing odds, we recommend buying the stock with target of Rs 352 based on 19x FY20e earnings over a period of 9-12 months (PEG ratio ~0.8).

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY15	FY16	FY17	FY18
Average	61.15	65.46	67.09	64.45
Year end	62.59	66.33	64.84	65.04

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.