

Capacit'e Infra Projects

Capacit'e for towering growth

Capacit'e Infra Projects Ltd (CIL) is a fast growing construction company in India. Residential constitutes more than 90% of the company's ₹4,602cr order book. It caters to established realtors such as Kalpataru, Wadhwa group, Oberoi Construction Ltd, Lodha, Rustomjee and Godrej properties.

Large order book with marquee client base provides revenue visibility: CIL's current order book stands at ₹4,602cr (₹4,146cr from residential segment, ₹442cr from commercial segment and remaining from institutional). This gives CIL a revenue visibility for the next 4 years. Its order book mainly consists of high rise buildings (50% order book comprises of high rise buildings).

Focused approach to strengthen position: CIL was incorporated in August 2012, and despite being a young player, the company has been able to grow its revenue from a scratch to ₹1,157cr within 4 years, largely owing to management's focused approach on the residential space (high rise) and presence in top 7 cities. This segment has less competition and lately there has been a dearth of delivery focused contractors mainly owing to leveraged position. This led CIL to report above average EBITDA margin of 13.7% and RoCE of 33% in FY2017.

Expansion into cities to thrust revenue growth: Post implementation of RERA (Real Estate Regulatory Authority), a contractor who delivers on time would get large chunk of orders. Hence, CIL's decision to expand in cities with high growth prospects would further assist revenue growth. Moreover, the company is experienced in executing large projects, which would help it to bid for mass housing project by Government (Housing for all by 2022).

Track record of healthy financial performance: CIL has reported revenue CAGR of ~74% over FY2014-17. On the bottom-line front, the company has reported CAGR of ~157% over FY2014-17. Return on equity has also improved 536bps over FY2014-17.

Outlook & Valuation: Considering, CIL's experienced management, revenue visibility, strong track record of timely delivery of projects and strong relationships, we believe that CIL would continue to gain incremental order inflow going ahead. At the upper end of the price band, the pre-issue P/E works out to be 18.6x FY2017 earnings, which is lower compared to P/E multiple of its peers i.e. Ahluwalia - 22x, PSP 32x. Moreover, post RERA, a contractor with strong track record of timely project delivery would garner major order. **Hence, owing to all the positive factors, healthy return ratios we rate this IPO as "SUBSCRIBE".**

Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17
Net Sales	214	556	853	1,157
% chg	1,105	159	54	36
Net Profit	4	32	49	70
% chg	(213)	679	52	43
EBITDA (%)	7	11	13	14
EPS (Rs)	1	6	9	13
P/E (x)	316	40	27	19
P/BV (x)	56	22	8	4
RoE (%)	18	55	28	23
RoCE (%)	11	33	30	33
EV/EBITDA	90	21	12	9
EV/Sales	6	2	2	1

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: Sep 13, 2017
 Issue Close: Sep 15, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹43.6cr

Offer for Sale: **1.60cr Shares

Fresh issue: ₹400cr

Post Eq. Paid up Capital: ₹59.6cr

Issue size (amount): **₹392cr - **400 cr

Price Band: ₹245-250

Lot Size: 60 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1,663cr - **₹1697cr

Promoters holding Pre-Issue: 57%

Promoters holding Post-Issue: 44%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	44%
Others	56%

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Company background

Capacit'e Infra Projects provides end-to-end construction services for residential buildings ("Residential"), multi-level car parks, corporate office buildings and buildings for commercial purposes (collectively, "Commercial") and buildings for educational, hospitality and healthcare purposes ("Institutional"). The company's capabilities include constructing concrete building structures as well as composite steel structures and also provide mechanical, electrical and plumbing ("MEP") and finishing works.

Furthermore, CIL believes in owning equipment that is required throughout the lifetime of a project, i.e. formwork, tower cranes, passenger and material hoists, concrete pumps and boom placers (collectively, "Core Assets"), as this allows company to have timely access to key equipment required the business. Accordingly, as at March 31, 2017, it had a consolidated net block of fixed assets (including capital work in progress) amounting to ₹261cr, including ₹214cr of Core Assets, constituting 81.78% of net block of fixed assets (including capital work in progress).

CIL is the fast growing construction company focused on Residential, Commercial and Institutional buildings, with growth in consolidated revenue from operations from ₹ 214cr for Fiscal 2014 to ₹ 11,57cr for Fiscal 2017, and an Order Book of ₹ 4,603cr as at May 2017 comprising 56 ongoing projects.

The company has been working for a number of reputed clients and is associated with some marquee construction projects in India.

Exhibit 1: Order Book Split

Type Of Project	% of Revenue
Gated Community	48.3
High Rise	33.7
Super High Rise	16.8
Other Buildings	1.17
Villament	0.03

Source: Company, Angel Research

Exhibit 2: 56 Ongoing projects

Type of Project	No of projects
Super High rise Buildings	12
High Rise Buildings	23
Other Buildings	6
Gated Communities	14
Villament	1

Source: Company, Angel Research

Issue Details

The company is raising ₹400cr through a fresh issue of equity shares in the price band of ₹240-250. The fresh issue will constitute ~23.6% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band.

Exhibit 3: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoter	2,97,28,846	57.3	2,97,28,846	43.8
Investor	2,21,62,651	42.7	3,81,62,651	56.2
	5,18,91,497		6,78,91,497	

Source: Company, Angel Research

The objects of the offer

- ₹250cr would be used for Funding working capital requirements
- ₹52cr for Funding purchase of capital assets (system formwork)
- Remaining IPO proceeds would be used for General corporate purposes

Key Management Personnel

Mr. Deepak Mitra is the Chairman and independent Director and has been associated with the company since February 25, 2015. He has a bachelors' degree in civil engineering from the Calcutta University. He has approximately 56 years of experience. Prior to joining CIL, he was on the board of directors of Petron Civil Engineering Private Limited for over 26 years.

Mr. Rahul R. Katyal is the Managing Director and has been associated with the company since incorporation. He holds a higher secondary certificate from the Maharashtra State Board. He has approximately 23 years of experience. Prior to incorporating the company, he had been on the board of directors of CSL and key managerial personnel at Pratibha Industries Limited till 2012. He is currently focused on business development and operations of our Company.

Mr. Rohit R. Katyal is the Executive Director and is also currently the Chief Financial Officer of Company. He has been associated with the company on a continuous basis since March 1, 2014. He holds a bachelors' degree in commerce and has approximately 25 years of experience. Prior to joining CIL, he had been on the board of directors of Pratibha Industries Limited till 2012 and CSL till 2014, where he was on the board of directors for about 16 years.

Investment Rationale

Large order book with marquee client base provides revenue visibility: CIL's current order book stands at ₹4,602cr (₹4,146cr from residential segment, ₹442cr from commercial segment and remaining from institutional). This gives CIL, a revenue visibility for the next 4 years. Its order book mainly consists of high rise buildings (50% order book comprises of high rise buildings).

CIL's quality of work and timely execution has allowed it to enhance and strengthen relationships with existing clients and to secure projects from new clients. For example, it has secured repeat orders from some of the clients, namely Lodha Group, Wadhwa Group, Godrej Properties Limited, Transcon Developers Private Limited, Ahuja Constructions and Puravankara Projects Limited, since the date of first contract with each of them.

Exhibit 4: Key Projects

Client	Project	Location	Type
RESIDENTIAL PROJECTS			
Kalpataru	Kalpataru Immensa	Thane, MMR	Gated Community
Oberoi Constructions	Enigma	Mulund, MMR	Super High Rise
T Bhimjyani Reality	Neelkanth Woods - Phases I & II	Thane, MMR	Gated Communities
Saifee Burhani Upliftment	Saifee Burhani Upliftment Project – Sub cluster 03	Bhendi Bazaar, MMR	High Rise
Prestige Estates	Prestige Hillside Gateway	Kochi	Gated Community
Rustomjee	Rustomjee Seasons	BKC, MMR	Gated Community
Godrej Properties	Godrej Central	Chembur, MMR	Gated Community
The Wadhwa Group	H Mill	Prabhadevi, MMR	Super High Rise
Puravankara Projects	Purva EVOQ	Chennai	Gated Community
Lodha Group	The Park – Towers 3 and 4	Worli, MMR	Super High Rise
Godrej Properties	Godrej Summit, Phase II	Gurugram, NCR	Gated Community
COMMERCIAL PROJECTS			
Bharti Land	Worldmark	Gurugram, NCR	High Rise
Ozone Group	Urbana Hyatt Palace	Bengaluru	Other Buildings
INSTITUTIONAL PROJECT			
Sri Gangaram Hospital	Multi-level Car Parking	New Delhi, NCR	Other Buildings

Source: Company, Angel Research

Exhibit 5: Zone wise Oder book

Geography	% of Order Book
South zone	22.8
North Zone	6.3
West Zone	70.8

Source: Company, Angel Research

Exhibit 6: Order Book Split

Type Of Project	% of Revenue
Gated Community	48.3
High Rise	33.7
Super High Rise	16.8
Other Buildings	1.17
Villament	0.03

Source: Company, Angel Research

Focused approach to strengthen position: CIL was incorporated in August 2012, and despite being a young player, the company has been able to grow its revenue from a scratch to ₹1,157cr within 4 years, largely owing to management's focused approach on the residential space (high rise) and presence in top 7 cities. This segment has less competition and lately there has been a dearth of delivery focused contractors mainly owing to leveraged position. This led CIL to report above average EBITDA margin of 13.7% and RoCE of 33% in FY2017.

Exhibit 7: Growth Strategies

Continue to remain focused on building construction

Expand in the mass housing segment

Increase focus on & execute greater number of projects on a lock-and-key basis

Undertake projects on a design – build basis

Bid for, and undertake, projects in the public sector

Capitalise on changes on account of the implementation of the RERA Act

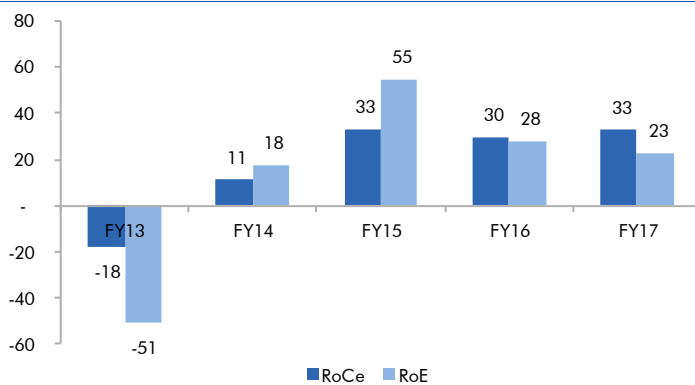
Expand presence in cities with high growth potential

Source: Company, Angel Research

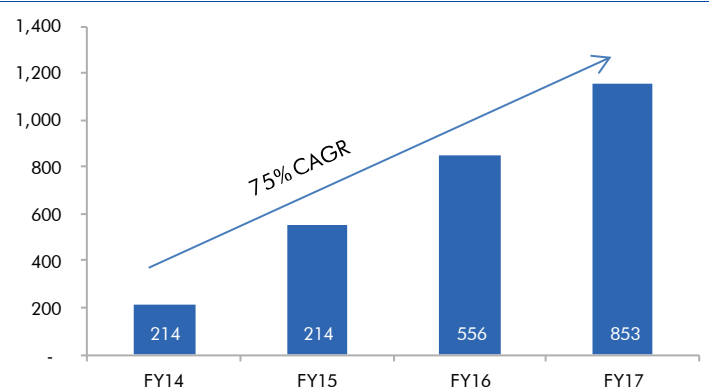
Expansion into cities to thrust revenue growth: Post implementation of RERA (Real Estate Regulatory Authority), a contractor who delivers on time would get large chunk of orders. Hence, CIL's decision to expand in cities with high growth prospects would further assist revenue growth. Moreover, the company is experienced in executing large projects, which would help it to bid for mass housing project by Government (Housing for all by 2022).

CIL's client base, consisting of some of India's leading real estate developers, allows the company to bid for and secure a broad range of projects. Further, we believe that the company's ongoing execution of certain redevelopment projects, such as the Saifee Burhani Upliftment Project – Sub cluster 03 and Rustomjee Seasons, will allow it to qualify for and to bid for mass housing projects in the future. We believe that the consistent growth in CIL's Order Book position is a result of the company's sustained focus on building projects and ability to successfully bid and win new projects.

Track record of healthy financial performance: CIL has reported revenue CAGR of ~74% over FY2014-17 largely on the back of – (a) Promoters are experienced in the construction business, they come with hefty experience with Pratibha Industry, which is involved in the similar business. This has helped them to deliver projects on time, and (b) Focused approach in the residential space in top cities, which helps them to expand. On the bottom-line front, the company has reported CAGR of ~157% over FY2014-17. Return on equity has also improved 536bps over FY2014-17.

Exhibit 8: Healthy Return ratio


Source: Company, Angel Research

Exhibit 9: Revenue Trend (₹ in cr)


Source: Company, Angel Research

Exhibit 10: Comparative Analysis

	ROCE (%)					EBITDA (%)				
	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17
Capacit'e	-18	11	33	30	33	-17	7	11	13	14
Ahluwalia Contracts	-16	5	19	25	25	-2	4	11	13	12
JMC	4	4	6	8	9	4	5	8	10	11
Simplex	8	9	9	10	11	8	9	9	12	13
PSP	32	30	16	25	33	9	8	8	7	15

	RoE (%)					D/E				
	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17
Capacit'e	-50.6	17.7	55.0	28.2	23.1	1.4	3.6	1.8	0.9	0.4
Ahluwalia Contracts	-45.2	-1.2	19.0	20.0	16.9	1.2	1.0	0.5	0.3	0.2
JMC	2.1	-2.4	-5.8	-12.5	-8.7	2.1	3.2	4.5	3.0	3.1
Simplex	4.1	4.1	3.9	7.5	8.8	2.1	2.0	2.2	2.4	2.1
PSP	46.1	28.9	30.0	34.4	39.3	0.5	0.7	0.7	0.7	0.7

Source: Company, Angel Research

Exhibit 11: Comparative Growth rate of related companies

Growth (%)	Over FY13-17	
	Revenue	PAT
Capacit'e	74.5	157
Ahluwalia Contracts	14.2	-
JMC	-2.4	-
Simplex	0.5	31
PSP	31	60

Source: Company, Angel Research

Exhibit 12: Working Capital (Days) of related companies

	FY12	FY13	FY14	FY15	FY16	FY17
Capacit'e		23.1	74.6	57.1	80.0	86.2
Ahluwalia Contracts	86.1	73.1	109.0	108.3	119.7	92.8
JMC	19.4	-20.0	-9.8	7.6	19.1	14.1
Simplex	58.7	90.2	83.5	82.8	31.0	36.7
PSP					-40.0	-8.8

Source: Company, Angel Research

Outlook & Valuation

Considering, CIL's experienced management, revenue visibility, strong track record of timely delivery of projects and strong relationships, we believe that CIL would continue to gain incremental order inflow going ahead. At the upper end of the price band, the pre-issue P/E works out to be 18.6x FY2017 earnings, which is lower compared to P/E multiple of its peers i.e. Ahluwalia - 22x, PSP 32x. Moreover, post RERA, a contractor with strong track record of timely project delivery would garner major order. **Hence, owing to all the positive factors, healthy return ratios we rate this IPO as "SUBSCRIBE".**

Key risk

Client concentration

Projects awarded from certain clients contribute a significant portion of the company's Order Book. As on May 31, 2017, projects awarded by the top five clients, based represented 38.73% of the Order Book.

Short history of financials

The Company was incorporated on August 9, 2012. So, all the financial analysis is done for only 4 years. This is a very less period to judge accounting quality of the any company.

Slowdown in residential market

CIL is generating 80-90% of the revenue from building residential towers and Villas. Hence, any slowdown in real-estate market would adversely impact the financials of the company.

Income Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
Total operating income	18	214	556	853	1,157
% chg		1,105	159	54	36
Total Expenditure	21	200	493	739	999
Raw Material	15	155	421	625	853
Personnel	5	29	51	73	98
Others Expenses	2	16	21	40	47
EBITDA	(3)	15	63	115	158
% chg		-	331	82	38
(% of Net Sales)	(17)	7	11	13	14
Depreciation & Amortisation	0	2	9	16	18
EBIT	(3)	12	54	99	140
% chg		-	344	83	41
(% of Net Sales)	(18)	6	10	12	12
Interest & other Charges	1	4	15	32	42
Other Income	1	2	7	7	9
(% of Sales)	3	1	1	1	1
Extraordinary Items	-	-	-	-	-
Share in profit of Associates	-	-	-	-	-
Recurring PBT	(3)	11	46	74	107
% chg	-	-	323	61	43
Tax	1	7	14	26	37
PAT (reported)	(4)	4	32	49	70
% chg					
(% of Net Sales)	(20)	2	6	6	6
Basic & Fully Diluted EPS (Rs)	(1)	1	6	9	13
% chg	-	-	679	52	43

Source: Company, Angel Research

Exhibit 13: Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17
SOURCES OF FUNDS					
Equity Share Capital	3	9	5	8	44
Reserves & Surplus	3	13	51	163	256
Minority Interest	1	1	2	2	2
Shareholders' Funds	7	23	58	173	302
Total Loans	10	83	105	159	122
Other Liab & Prov	6	85	143	119	147
Total Liabilities	24	191	305	451	571
APPLICATION OF FUNDS					
Net Block	6	88	169	233	255
Capital Work-in-Progress	-	0	-	8	7
Investments	0	5	5	0	0
Current Assets	45	219	357	613	749
Inventories	7	46	118	221	260
Sundry Debtors	10	86	152	275	334
Cash	20	56	40	37	52
Loans & Advances	8	28	42	73	68
Other Assets	1	3	5	6	35
Current liabilities	30	134	232	425	493
Net Current Assets	15	85	125	188	256
Other Non Current Asset	2	12	6	22	53
Total Assets	24	191	305	451	571

Source: Company, Angel Research

Cash Flow statement

Y/E March (₹cr)	FY13	FY14	FY15	FY16	FY17
Profit before tax	(3)	11	46	74	107
Depreciation	0	2	9	16	18
Change in Working Capital	8	31	(16)	(121)	(76)
Interest / Dividend (Net)	(1)	(2)	(4)	(5)	(7)
Direct taxes paid	(1)	(5)	(12)	(16)	(24)
Others	(1)	(4)	(15)	(34)	(45)
Cash Flow from Operations	4	41	37	(17)	62
(Inc.)/ Dec. in Fixed Assets	(4)	(84)	(73)	(80)	(47)
(Inc.)/ Dec. in Investments	(0)	-	0	-	(0)
Cash Flow from Investing	(21)	(122)	(55)	(71)	(47)
Issue of Equity	9	12	2	63	60
Inc./(Dec.) in loans	11	75	28	63	(23)
Others	0	4	15	33	44
Cash Flow from Financing	19	84	15	92	(7)
Inc./(Dec.) in Cash	2	2	(3)	4	7
Opening Cash balances	-	2	4	1	5
Closing Cash balances	2	4	1	5	12

Source: Company, Angel Research

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17
Valuation Ratio (x)					
P/E (on FDEPS)	-357	316	40	27	19
P/CEPS	-364	197	31	20	15
P/BV	181	56	22	8	4
Dividend yield (%)	-	-	-	-	-
EV/Sales	72	6	2	2	1
EV/EBITDA	-422	90	21	12	9
EV / Total Assets	54	7	4	3	2
Per Share Data (₹)					
EPS (Basic)	-1	1	6	9	13
EPS (fully diluted)	-1	1	6	9	13
Cash EPS	-1	1	8	12	17
DPS	-	-	-	-	-
Book Value	1	4	11	33	58
Returns (%)					
ROCE	-18	11	33	30	33
Angel ROIC (Pre-tax)	137	27	47	35	39
ROE	-51	18	55	28	23
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.9	2.4	3.1	3.3	3.9
Inventory / Sales (days)	139	79	77	95	82
Receivables (days)	203	147	100	118	105
Payables (days)	319	152	120	132	101
Working capital cycle (ex-cash) (days)	23	75	57	80	86

Source: Company, Angel Research, ratio calculated at Higher end price of IPO

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