

Capaci`e Infraprojects

Capacity to Build

Capaci`e Infraprojects Limited (CIL) is a leading building construction company, with majority focus on residential construction, which constitutes more than 85% of the company's ₹5,682cr order book. It caters to established realtors such as Kalpataru, the Wadhwa group, Oberoi Construction Ltd, Lodha, Rustomjee, TATA trust & Godrej properties.

Large order book with marquee client base provides revenue visibility: CIL's current order book stands at ₹ 5,682cr (₹4,830cr from residential segment and ₹852cr from commercial/institutional segment). This gives CIL a revenue visibility for the next 3-4 years. Large part of its order book is contributed by Gated Community with ~47% share, followed by High Rise and Super High Rise Buildings at ~43%.

Focused approach leads to strengthening positioning: Despite its nascent age given that it was incorporated in Aug 2012, CIL's revenue grew six-fold to ₹1,341cr in FY18 from ₹214cr in FY14 owing to management's focused approach on the residential space (high rise) and over period of time increases presence in 7 cities. This has led CIL to report above average EBITDA margin of 15.2% and RoCE of 15% in FY18.

Expansion in development area of MMR region: In a recent development, Maharashtra government has unveiled Mumbai's Development Plan 2034, which will increase the FSI (Floor space Index) for residential projects in south and central Mumbai to 3 from the earlier 1.33. We believe increased FSI will trigger construction of High and Super High Rise tower on smaller sizes of land as well.

Outlook & Valuation: The sector is undergoing tectonic changes, which in turn should increase confidence amongst home buyers towards reputed developers as a preferred choice while buying home. With 3-4X of order book, improving financial indebtedness, and association with reputed and healthy developers, we believe CIL is in a sweet spot to tap upcoming opportunities in the Real Estate sector. **At the CMP of ₹273, stock is available at PE of 14x of FY20E EPS of ₹20. On a conservative basis we like to assign a multiple of 17x to FY20E EPS and arrive at target price of ₹340 with potential upside of 24% and recommend to ACCUMULATE the stock.**

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	853	1155	1341	1676	2095
% chg	54	35	16	25	25
Net Profit	49	69	80	103	136
% chg	52	42	15	29	32
EBITDA	115	203	204	255	318
EPS (Rs)	9	13	12	15	20
P/E (x)	29	20	23	18	14
P/BV (x)	11	6.17	2	2	2
RoE (%)	28	23	11	12	15
RoCE (%)	30	30	15	18	20
EV/EBITDA	12	10	8	6	5
EV/Sales	2	2	1	1	1

Source: Company, Angel Research; Note: CMP as of May 25, 2018

BUY

CMP ₹273

Target Price ₹340

Investment Period 12 Months

Stock Info

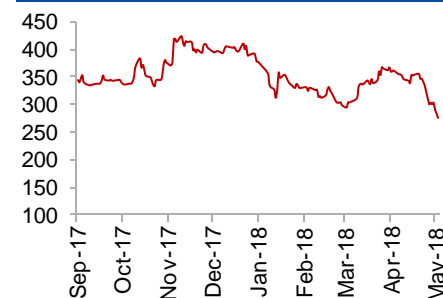
Sector	Construction-Reality
Market Cap (₹ cr)	1,850
Beta	1.2
52 Week High / Low	437/269
Avg. Daily Volume	24,342
Face Value (₹)	10
BSE Sensex	34,924
Nifty	10,605
Reuters Code	CAPE.NS
Bloomberg Code	CAPACITE.IN

Shareholding Pattern (%)

Promoters	43.8
MF / Banks / Indian FIs	6.6
FII / NRIs / OCBs	5.6
Indian Public / Others	44.1

Abs.(%)	3m	1yr	3yr
Sensex	2.0	13.0	24.0
CAPACITE	(20.0)		

Chart since inception



Source: Company, Angel Research

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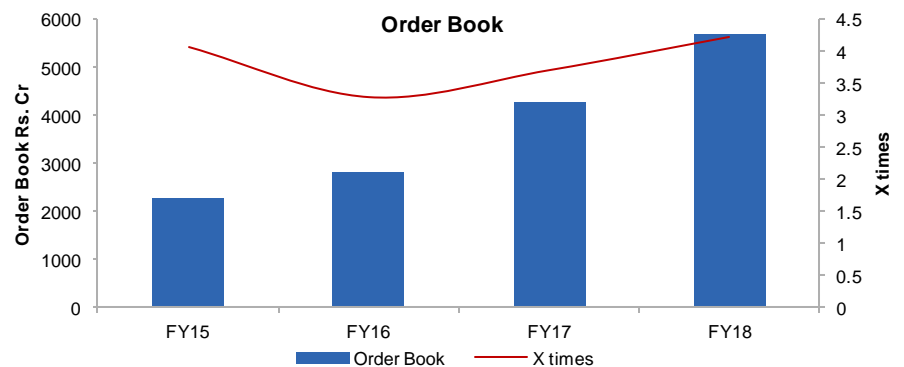
Company background

Capaci'te Infraprojects Limited is a leading building construction company having presence in MMR, NCR, Varanasi, Bengaluru, Hyderabad, Chennai, Kochi and Pune, with specialization in construction of super high-rise buildings. The key clientele include Kalpataru, Lodha Group, Oberoi Constructions, Rustomjee, Emaar, Brookfield Asset Management, Sattva Group, The Wadhwa Group, Saifee Burhani Upliftment, Godrej Properties, Radius Developers, Prestige, Purvankara, Brigade Enterprises and Tata Trust among others.

Furthermore, CIL believes in owning equipment that is required throughout the lifetime of a project or if project cycle is shorter, hire on rental basis equipment like 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 for its business.

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

Exhibit 1: Order Book



Source: Company, Angel Research

Exhibit 2: On-going projects Mar-18

Type of Project	No of projects
Super High rise Buildings	11
High Rise Buildings	24
Other Buildings	6
Gated Communities	16

Source: Company, Angel Research

Key Management Personnel

Mr. Deepak Mitra is the Chairman and Independent Director. He has been associated with the company since February 25, 2015. He has a bachelors' degree in civil engineering from the Calcutta University, with ~56 years of experience. Prior to joining the company, 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 has been on the board of directors of Capacit`e Structure Limited (CSL) and key managerial personnel at Pratibha Industries Limited till 2012. He is currently focused on business development and operations of the company.

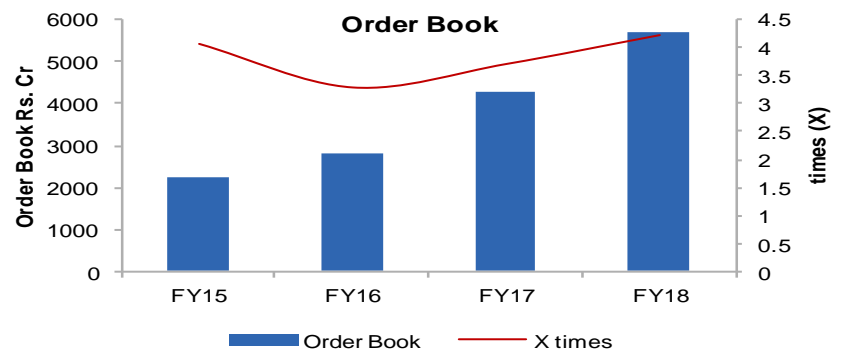
Mr. Rohit R. Katyal is the Executive Director and Chief Financial Officer of the company. He has been associated with our company on a continuous basis since March 1, 2014. He holds a bachelors degree in commerce from the University of Mumbai, with ~25 years of experience. Prior to joining the company, he has been on the board of directors of Pratibha Industries Limited till 2012 and CSL till 2014 (for about 16 years).

Investment Rationale

Large order book with marquee client base provides revenue visibility.

CIL's current order book stands at ₹5,682cr (₹4,830cr from residential segment, ₹852cr from commercial/institutional segment). This gives CIL a revenue visibility for the next 3-4 years. Large part of its order book is contributed by Gated Community with ~47% share followed by High Rise and Super High Rise Buildings at ~43%.

Exhibit 3: Order book multiple (X)



Source: Company, Angel Research

Exhibit 4: Zone wise Oder book

Geography	% of Order Book
West zone	87
North Zone	7
South Zone	6

Source: Company, Angel Research

Exhibit 5: Order Book Split

Type Of Project	% of Revenue
Gated Community	47
High Rise	28
Super High Rise	15
Other Buildings	10

Source: Company, Angel Research

Exhibit 6: Key Projects

Clients	Project	Location	Type
RESIDENTIAL PROJECTS			
Kalpataru	Magnus MIG V	Bandra, MMR	High Rise
Oberoï Constructions	Tardeo	Tardeo, MMR	Super High Rise
Kalpataru	Kalpataru Immensa	Thane, MMR	Gated Community
Oberoï 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 & INSTITUTIONAL PROJECTS			
Tata Trust	Varanasi University	Varanasi	Other Buildings
Oberoï Constructions	Worli	Worli, MMR	Other Buildings
Bharti Land	Worldmark	Gurugram, NCR	High Rise
Ozone Group	Urbana Hyatt Palace	Bengaluru	Other Buildings
Sri Gangaram Hospital	Multi-level Car Parking	New Delhi, NCR	Other Buildings
Brigade Enterprises	WTC	Chennai	High Rise

Source: Company, Angel Research

Expansion in development area of MMR region

In a recent development, Maharashtra government has unveiled Mumbai's Development Plan 2034, which has increased the FSI (Floor space Index) for residential projects in south and central Mumbai to 3 from the earlier 1.33. We believe the increase in FSI will trigger construction of High rise and Super High rise towers, on smaller sizes of land as well. The government has also raised residential FSI for suburbs to 2.5 from 2. For other commercial real estate, FSI has been raised from 1.33 in the island city to 5 and from 2.5 in the suburbs to 5. With this development, MMR has unlocked ~3,700 hectares of land in the outskirts of Mumbai, of which 2,400 hectares is allocated for affordable housing. CIL is in better position to tap this opportunity, as it already has presence in the said region with reputed developers.

Focused approach leads to strengthening positioning:

Despite its nascent age, given that it was incorporated in Aug 2012, CIL's revenue grew six-fold to ₹ 1,341cr in FY18 from ₹ 214cr in FY14 owing to management's focused approach on the residential space (high rise) and over period of time increases presence in 7 cities. This segment has less competition and of late, there has been a dearth of delivery focused contractors mainly owing to leveraged positions. This has led CIL to report above average EBITDA margin of 15.2% and RoCE of 15% in FY18.

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 RERD Act

Expand our presence in cities with high growth potential

Source: Company, Angel Research

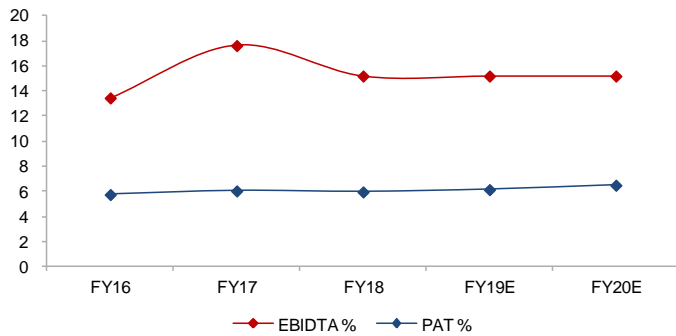
Expanding presence in cities with a high growth potential & mass housing projects supported by government:

With the implementation of RERA, timely execution of project is a must, failing which a penalty would be imposed on developers. Hence, we believe developers will approach reputed contractors having good track record of executing projects on time. This should lead to large chunk of orders getting directed towards EPC players like Capaci`e. Hence, expansion in new cities will be a focused area going ahead with reputed developers.

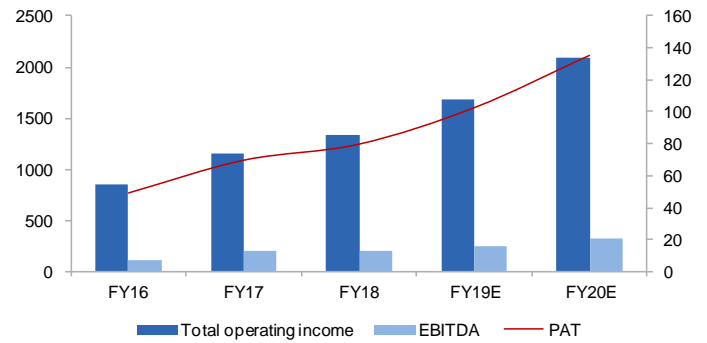
CIL's client base, consisting some of India's leading real estate developers, allows them to bid for and secure a broad range of projects. Further, we believe that its ongoing execution of certain redevelopment projects, such as the Saifee Burhani Upliftment Project – Sub cluster 03 and Rustomjee Seasons,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

Track record of healthy financial performance:

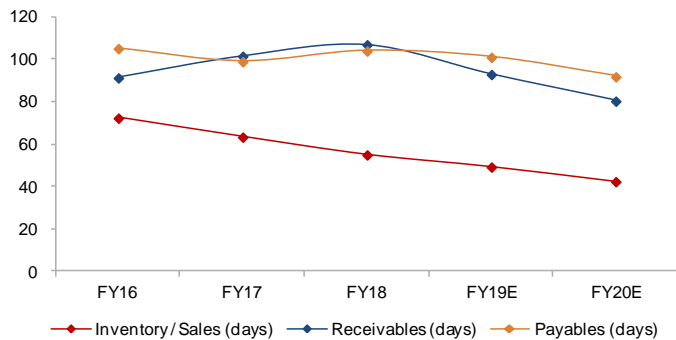
CIL has reported revenue CAGR of ~58% over FY2014-18 largely on the back of (a) experienced promoters (the long and rich experience with Pratibha Industries, involved in similar business, helped the promoters to deliver projects on time), (b) focused approach in residential space in Tier I and II cities. On the bottom-line front, the company has reported CAGR of ~109% over FY2014-18.

Exhibit 8: Improving Margin


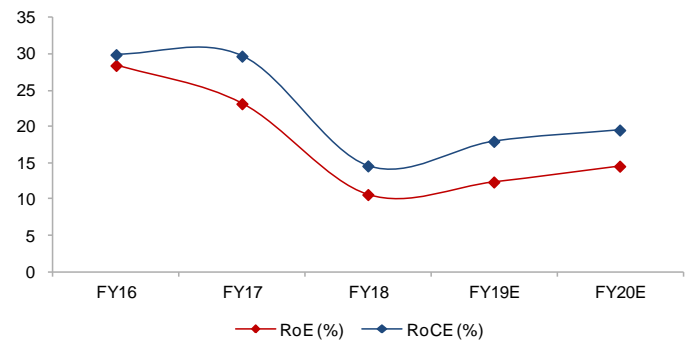
Source: Company, Angel Research

Exhibit 9: Revenue Trend (₹ in cr.)


Source: Company, Angel Research

Exhibit 10: Key Ratios


Source: Company, Angel Research

Exhibit 11: Valuation Ratios


Source: Company, Angel Research

Peer Comparison

Exhibit 12: Comparative PE (X)

	FY16	FY17	FY18	FY19E	FY20E
Capaci`e	30	33	23	18	14
Ahluwalia Contracts	25	25	22	18	15
JMC	-	-	24	17	16
Simplex	24	19	18	24	16
PSP	76	36	77	75	70

Source: Company, Angel Research

Exhibit 13: Margin %

	FY16	FY17	FY18	FY19E	FY20E
Capaci`e	13	14	15	15	15
Ahluwalia Contracts	13	12	15	13	13
JMC	10	11	10	10	10
Simplex	12	13	10	10	11
PSP	7	15	17	13	14

Source: Company, Bloomberg, Angel Research

Exhibit 14: ROE %

	FY16	FY17	FY18	FY19E	FY20E
Capacit`e	28	23	11	12	15
Ahluwalia Contracts	20	17	21	21	20
JMC	8	9	13	14	15
Simplex	8	9	10	7	10
PSP	48	34	21	27	27

Source: Company, Angel Research, Bloomberg

Outlook & Valuation

Real estate sector has gone through with historical changes like RERA (focuses on timely delivery of projects), Infrastructure status to affordable housing, credit linked saving scheme (CLSS), PPP module and GST, which brings a confidence among its all stakeholders. Government's continuous focus on affordable housing and smart city mission will attract more investments in the sector especially in Residential & Commercial segment. As the sector going through with tectonic changes which in turn increase confidence amongst home buyer towards reputed developer as preferred choice while buying home. In short span of time CIL has establishes its relation with reputed developer in India especially in MMR region most promising real estate market. With 3-4X of order book and improving financial indebtedness and association with reputed and healthy developer we believe CIL is in a sweet spot to tap upcoming opportunity in Real Estate sector. At the CMP of ₹ 273, stock is available at PE of 14x of FY20E EPS of ₹ 20. On a conservative basis we like to assign a multiple of 17x to FY20E EPS and arrive at target price of ₹ 340 with potential upside of 21% and recommend to **ACCUMULATE** the stock.

Key risks
Short history of financials

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

Manpower Shortage

Availability of manpower is key to execute any construction activity hence any shortage in manpower availability may adversely affect operational efficiency of CIL.

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Total operating income	853	1155	1341	1676	2095
% chg	54	35	16	25	25
Total Expenditure	739	952	1137	1422	1777
Raw Material	625	814	971	1214	1517
Personnel	73	90	117	146	182
Others Expenses	40	48	50	62	78
EBITDA	115	203	204	255	318
% chg	82	77	0	25	25
(% of Net Sales)	13	18	15	15	15
Depreciation & Amortisation	16	65	67	84	105
EBIT	99	138	136	170	213
% chg	83	40	(1)	25	25
(% of Net Sales)	12	12	10	10	10
Interest & other Charges	32	42	40	41	38
Other Income	7	11	25	28	30
(% of Sales)	1	1	2	2	1
Extraordinary Items	0	0	0	0	0
Share in profit of Associates	0	0	0	0	0
Recurring PBT	74	106	122	157	205
% chg	61	43	14	29	31
Tax	26	37	42	54	70
(% of PBT)	34	35	35	35	34
PAT	49	69	80	103	136
% chg	52	42	15	29	32
(% of Net Sales)	5.7	6.0	5.9	6.1	6.5
Basic & Fully Diluted EPS (Rs)	9	13	12	15	20
% chg	52	42	(12)	29	32

Balance sheet

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Equity Share Capital	8	44	68	68	68
Reserves& Surplus	163	256	680	760	862
Minority Interest	2	0	0	0	0
Shareholders Funds	173	299	748	832	930
Total Loans	159	165	187	120	195
Other Liab & Prov	119	155	144	192	239
Total Liabilities	451	619	1079	1143	1364
APPLICATION OF FUNDS					
Net Block	239	330	409	423	469
Investments	0	0	0	0	(0)
Current Assets	612	718	1207	1304	1588
Inventories	221	181	224	230	258
Sundry Debtors	275	368	419	436	488
Cash	37	50	324	351	475
Loans & Advances	73	30	52	66	82
Other Assets	5	89	188	222	284
Current liabilities	425	490	655	731	885
Net Current Assets	187	228	553	573	703
Other Non Current Asset	24	61	118	147	183
Total Assets	451	619	1079	1143	1364

Valuation Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Valuation Ratio (x)					
P/E (on FDEPS)	29	20	23	18	14
P/CEPS	29	14	13	10	8
P/BV	11	6	2	2	2
Dividend yield (%)	0	0	0	0	0
EV/Sales	2	2	1	1	1
EV/EBITDA	17	10	8	6	5
EV / Total Assets	2	2	1	1	1
Per Share Data (₹)					
EPS (Basic)	9	13	12	15	20
EPS (fully diluted)	7	10	12	15	20
Cash EPS	10	20	22	27	35
DPS	0	0	0	0	0
Book Value	24	38	100	112	127
Returns (%)					
ROCE	30	30	15	18	20
Angel ROIC (Pre-tax)	36	37	25	32	39
ROE	28	23	11	12	15
Turnover ratios (x)					
Asset Turnover (Gross Block)	3	3	4	3	3
Inventory / Sales (days)	72	64	55	49	43
Receivables (days)	91	102	107	93	81
Payables (days)	105	99	104	101	92
Working capital cycle (ex-cash) (days)	59	66	58	41	31

Note: Valuation done based on CMP as of May 25, 2018

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2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No