

## Capacit'e Infraprojects Ltd.

Recommendation	Subscribe	
<b>Price Band</b>	Rs.245 – Rs. 250	
<b>Bidding Date</b>	13 Sept - 15 Sept	
<b>Book Running Lead Manager</b>	Axis Capital, IIFL and VIVRO	
<b>Registrar</b>	Karvy Computershare Pvt. Ltd.	
<b>Sector</b>	Construction	
<b>Minimum Retail Application- Detail At Cut off Price</b>		
Number of Shares	60	
Minimum Application Money	15000	
Discount to retail	No Discount	
Payment Mode	ASBA	
<b>Consolidated Financials (Rs Cr)</b>	<b>FY17</b>	<b>FY16</b>
Total revenue	1157	853
EBITDA	158	115
PAT	69	48
<b>Valuations</b>	<b>Lower Band</b>	<b>Upper Band</b>
Market Cap (Rs in cr)	1671	1697
EPS*	10.2	10.2
P/E ratio*	24.5	24.1
EV/EBITDA (adj)*	11.2	11.0
Enterprise Value (Rs Cr)	1767	1741
*calculated on diluted equity		
<b>Post Issue Shareholding Pattern</b>		
Promoters	44%	
Institutions	28%	
Bodies Corporates & Public	28%	
<b>Offer structure for different categories</b>		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	67.9	
Issue Size (Rs in cr)	400	
Face Value (Rs)	10	

Nandish Shah -Research Analyst  
 (+91 22 3926 8021)  
[nandish.shah@nirmalbang.com](mailto:nandish.shah@nirmalbang.com)

**BACKGROUND**

Capacite Infraprojects Ltd (CIL) is construction company mainly focused on residential, commercial and institutional building segment. CIL provide end-to-end construction services for residential, mutli-level car parks, corporate office and buildings for educational, hospitality and healthcare purposes. CIL also provides mechanical, plumbing and finishing works.

**Objects and Details of the Issue**

The public issue of Capacite Infraprojects Ltd consists of fresh issue of Rs 400 cr.

The object of the issue is

- Working capital requirements – Rs 250cr
- Purchase of capital assets – Rs 52cr
- General corporate purposes-Rs.98Cr

**Investment Rational:**

- Strong order book with marquee client base offering higher revenue visibility
- Ownership of modern system formworks and other core assets
- Strong financial performance with lower debt equity ratio
- Expanding their presence in cities with high growth potential
- Experienced promoters and management teams

**Valuation and Recommendation**

Over FY13- FY17 the company's revenues have grown at a CAGR of 75% though EBIDTA has grown at a CAGR of 114%. EBIDTA margins improved from 6.8% in FY13 to nearly 13.7% in FY17 on the back of higher revenue growth and tight control over other expenses. The company has also maintained its finance charges by keeping a tight control over working capital. Net profit witnessed a growth of 170% from FY14 to FY17 at Rs. 69.4Cr during the same period. At Rs. 250 per share (upper end of the price band), CIL is offered at 24.5x P/E on a fully post issue diluted capital based on FY17 EPS of Rs.10.2. With Real estate regulatory act being passed in majority of the states, we expect professional EPC players like Capacite to gain traction as majority of the real estate developers would focus more on the business development and marketing front. There is a big emphasis on timely delivery of construction services and more emphasis on demand for quality and durability of construction. **We recommend subscribing to the issue.**

Financial Snapshot	FY14	FY15	FY16	FY17
Revenues	214	555	853	1157
EBIDTA	15	63	115	158
<b>% margins</b>	<b>6.8</b>	<b>11.4</b>	<b>13.4</b>	<b>13.7</b>
PAT	3.6	31.6	48.6	69.4
<b>% margins</b>	<b>1.7</b>	<b>5.7</b>	<b>5.7</b>	<b>6.0</b>

Source: RHP, Company data, NB Research

## Capacit'e Infraprojects Ltd.

### Business and Promoters

Capacit'e Infraprojects Ltd (CIL) provide end-to-end construction services for residential buildings, corporate office buildings, building for commercial purposes and building for educational, hospitality and healthcare purposes. CIL's majority of the revenues come from Metro city like Mumbai, Bengaluru and NCR. CIL operations are geographically divided into MMR and Pune (West Zone), NCR and Patna (north zone and Bengaluru, Chennai, Hyderabad, Kochi and Vijaywada (South zone). As on 31<sup>st</sup> may, projects in the West zone, North zone and South Zone constituted approximately 59%, 14% and 27% of the total order respectively.

**Promoters and Key management team:** CIL is promoted by first generation entrepreneur with more than 20 years of experience in the construction industry. In the table given below, we have given the details of the key team members along with their designation, qualification and experience.

Name	Brief Description about the promoters and directors
Mr. Deepak Mitra	Currently Chairman and Independent director and associated with the company since February 2015. He has a bachelor's degree in civil engineering from Calcutta University and has nearly 56 years of experience.
Mr Rahul Katyal	Currently Managing director of CIL. Associated with CIL since incorporation. Has approximately 23 years of experience. Prior to CIL, he had been on the board of directors of CSL and a key managerial personnel at Pratibha Industries till 2012. Currently he focuses on business development and operations of the Company.
Mr. Subir Malhotra	Executive director and associated with the company since incorporation. Hold a bachelors degree in civil engineering from BITS Pilani and has approximately 28 years of experience. He is currently focussed on business development and operations of CIL in the north zone
Mr Rohit Katyal	Executive director and Chief Financial officer of CIL. Associated with the Company on a continuous basis from March 2014 and he has an approximately 25 years of experience. Prior to joining to CIL, he has been on the board of directors of Pratibha Ind till 2012 and CSL till 2014 where he was on the board of directors for about 16 years. He is currently focussed on the finance, commerce and accounts function.
Mr. Sumeet Nindrajog	Non-Executive director and a nominee of Paragon. Associated with the Co since August 2015. Holds a bachelors degree in economics from the University of Pennsylvania.
Mr. Siddharth Parekh	Non-Executive director and nominee of Infina, JT HUF, Paragon, Ananya Goenka and New Quest. Associated with CIL since August 2015.
Ms Rupa R Vora	She is an independent director and associated since November 2015. Chartered Accountants by qualification with over 33 years of experience in Finance and

**Capacit'e Infraprojects Ltd.**

	been associated with IDFC group for nearly 10 years.
Mr. V.M Kannimbele	Independent director and assoaited with CIL since February 2015. Hold a Bachelors degree in Civil engineering. Prior to joining CIL, he was on the board of directors of Petro Engineering Pvt Ltd for over 27 years.

Source: RHP

**Investment Rationale**

**Large order book with marquee client base and repeat orders**

As on 31<sup>st</sup> May 2017, CIL had an order book of nearly Rs. 4602.5 Cr to be executable over a period of 24-36 months comprising 56 ongoing projects. Their order book is nearly 4x the consolidated revenues of FY17. These orders consist of construction of 12 super High rise buildings, 23 high rise buildings, 6 other buildings, 14 gates communities and 1 Villament. CIL undertake projects from reputed builders which include Kalpataru, Oberoi Constructions, The Wadhwa Group, Saiffee Burhani Upliftment trust, Lodha Group, Rustomjee, Godrej properties, Brigade Enterprises and Prestige Estate. With their execution track record, CIL was able to secure repeat orders from their clients namely the Lodhas group, The Wadhwa group and Godrej properties etc.

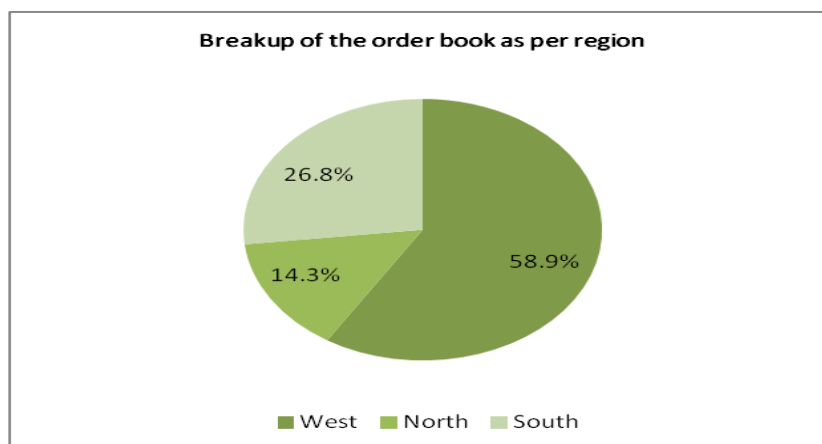
Below is table of some ongoing projects and a pie-chart of the order book in different region in %.

Table 1:

Name of Client Group	Name of contracting entity	Name of the project	Zone	Type of construction
Kalpataru	Agile Real estate Pvt Ltd	Kalpataru Immensa	West	Gate community
Oberoi Construction Ltd	Oberoi Construction Ltd	Enigma	West	Super high rise building
The Wadhwa Group	Twenty five south realty Ltd	H Mill	West	Super high rise building
Saiffee Burhani Upliftment Trust	Saiffee Burhani Upliftment Trust	Saiffee Burhani Upliftment project cluster 03	West	High rise building
Lodha Group	Capacity projects Pvt Ltd	The Park-Towers 3 and 4	West	Super high rise building
Rustomjee	Keystone Realtors Pvt Ltd	Rustomjee Seasons	West	Super high rise building
Godrej Properties Ltd	Godrej Landmark Redevelopers Pvt Ltd	Godrej Central	West	Gated community
	Godrej Premium Builders Pvt Ltd	Godrej Summit, Phase II	North	Gated community
Brigade Enterprises Ltd	Perungudi Real Estates Pvt Ltd	World Trade centre	South	High rise building
Prestige Estate Projects Ltd	Prestige Estates Projects Ltd	Prestige Hillside Gateway	South	Gated community

Source: RHP; Nirmal Bang Retail Research

**Chart of the breakup of the order book as per region in term of %.**



Source: RHP, Nirmal bang Retail research

**Ownership of modern system formworks and other core assets**

## Capacit'e Infraprojects Ltd.

CIL undertake building construction projects using modern technologies including 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. CIL uses different types of system formwork including automatic climbing system formwork, aluminium formwork, table formwork, composite panel formwork to meet the varying construction needs of different types of buildings.

As on 31<sup>st</sup> March 2017, CIL had consolidated net block of Rs. 255Cr including Rs. 214 Cr of core assets, representing nearly 84% of the net block. Investment in Core assets helps CIL in expanding their execution capabilities along with a corresponding growth in their order book. CIL is further investing Rs. 52 Cr out of the IPO proceeds for buying additional system formwork.

### Strong track record and financial stability

CIL has maintained its revenue and profit growth consistently since last 4 years. Revenues has grown at a CAGR of 75% from Rs. 214 Cr in FY14 to Rs. 1157 Cr in FY17. EBIDTA has grown from Rs. 14.6Cr in FY14 to Rs. 158Cr in FY17, CAGR of 121%.EBIDTA margin has increased from 6.8% in FY14 to 13.7% in FY17. Even with growth in Revenues, interest cost has been kept under control with growth of 128% from FY14 to FY17 from Rs. 1.8Cr to Rs. 26Cr. Net profit has grown at CAGR of 170% during the same period at Rs. 69.4Cr. Even with high growth in revenues, CIL was able to keep its debts under control with Net debt to equity has remained at 0.4x in FY17 as compared to 0.9x in FY16. CIL has improved its ROCE from 16.1% in FY14 to nearly 37.4% in FY17 and ROE improved from 16.4% in FY14 to 23.2% in FY17.

### Expanding their presence in cities with high growth potential

Currently CIL is present in MMR, NCR and Bengaluru region. CIL intend to increase their presence in these locations by bidding for more projects including securing repeat orders from existing clients. With higher working capital infusion of Rs. 250Cr via IPO, CIL would be able to bid for bigger projects from the existing and new clients. CIL also intends to expand its presence to other cities such as Ahmedabad, where they believe higher growth potential exists.

### Experienced promoters and management teams

The promoters of CIL have significant experience of more than 20 years in the construction industry. CIL has nearly 1711 employees under its payroll as on 31<sup>st</sup> May 2017 and nearly 10,000 contract laborers across their projects. The attrition levels are also lower at around 5-10%, being much lower than industry average.

### Industry

#### Urban housing

CRISIL Research estimates 10.9 billion square feet ("sq ft") of planned (including current planned residential supply as well as expected launches in the next five years) residential real estate supply in urban areas. Demand will be driven by growing population and rapid urbanisation. India's population increased nearly 18% during 2001 to 2011 and is expected to grow another approximate 16% during 2011 to 2021, reaching 1.4 billion. On the other hand, a rise in the share of urban population from 28% in 2001 to about 31% in 2011 has also been spurring housing demand. Nearly 35-37% of Indians are likely to be urbanites by 2021, which is likely to be another positive. Favourable interest rates on home loans, passing of the Real Estate Regulatory Bill, 2015 and easing of FDI norms are also expected to be other kickers.

Rising migration to urban areas is expected to put pressure on available housing stock. CRISIL Research expects urban housing shortage to rise at a faster pace than rural shortage over the next five years due to lack of developable land for housing projects, lack of affordable housing options and poor infrastructure. Affordability also plays a role, as potential demand is not met when prices of existing vacant units are unaffordable. With government focus more on affordable housing, many of the residential developers are planning to enter that segment. The RBI defines the segment based on overall ticket size and the size of the home loan, the Ministry of Housing and Urban poverty Alleviation defines this segment based on area of the apartments. As per the RBI, affordable housing is defined as houses of values up to Rs.6.5mln in the

## Capacit'e Infraprojects Ltd.

6 major cities namely Mumbai, New Delhi, Kolkata, Bengaluru and Hyderabad and houses upto Rs.5 mln located in cities other than above 6 major cities.

### Risk

- CIL business is manpower intensive and they are dependent on the supply and availability of a sufficient pool of contract laborers from subcontractors at their project locations. If for any reasons there is unavailability or shortage of man-power than it can have significant impact on the operations of CIL.
- CIL may not be able to realize the amounts as reflected in their order book which can have material impact on their profitability and working capital cycle.
- Slow down in real estate sector

### Valuation and Recommendation

We have compared Capacite Infraprojects with Ahluwalia Constructions, BL Kashyap and PSP Projects. Capacite Infraprojects earns much higher ROE compared to other players except for PSP projects. However the size of PSP is much smaller compared to Capacite Infraprojects. CIL enjoy better EBIDTA and ROE margins compared to Ahluwalia construction.

For FY17	Sales	EBIDTA	EBIDTA margin (%)	PAT	PAT margins %	P/E (x)	ROE (%)	Net D/E
Capacite Infraprojects Ltd	1157.04	157.97	13.7%	69.38	6.0%	24.5	23.2%	0.23
Ahluwalia Construction	1426.52	173.01	12.1%	85.99	6.0%	21.6	16.9%	-0.06
BL Kashyap	907.61	72.05	7.9%	-13.25	-1.5%	NA	-3.4%	1.25
PSP Projects	456.64	87.73	19.2%	41.20	9.0%	24.9	39.2%	-0.72

Source: Co Data, RHP, Nirmal Bang Retail Research

Over FY13- FY17 the company's revenues have grown at a CAGR of 75% though EBIDTA has grown at a CAGR of 114%. EBIDTA margins improved from 6.8% in FY13 to nearly 13.7% in FY17 on the back of higher revenue growth and tight control over other expenses. The company has also maintained its finance charges by keeping a tight control over working capital. At Rs. 250 per share (upper end of the price band), CIL is offered at 24.5x P/E on a fully post issue diluted capital based on FY17 EPS of Rs.10.2. With Real estate regulatory act being passed in majority of the states, we expect professional EPC players like Capacite to gain traction as majority of the real estate developers would focus more on the business development and marketing front. There is a big emphasis on timely delivery of construction services and more emphasis on demand for quality and durability of construction. **We recommend subscribing to the issue.**

## Capacit'e Infraprojects Ltd.

## Financials

Profit & Loss (Rs cr)	FY13	FY14	FY15	FY16	FY17
<b>Net Sales</b>	<b>17.8</b>	<b>214.3</b>	<b>555.7</b>	<b>853.3</b>	<b>1,157.0</b>
<b>YoY Growth (%)</b>		<b>1104.6%</b>	<b>159.4%</b>	<b>53.6%</b>	<b>35.6%</b>
Cost of good sold	14.7	155.3	421.2	625.3	853.2
Employees expenses	4.5	28.7	50.6	73.2	98.4
Other expenses	1.6	15.6	20.9	40.2	47.5
<b>Total Expenditure</b>	<b>20.8</b>	<b>199.6</b>	<b>492.6</b>	<b>738.6</b>	<b>999.1</b>
<b>EBIDTA</b>	<b>(3.1)</b>	<b>14.6</b>	<b>63.1</b>	<b>114.7</b>	<b>158.0</b>
<b>EBIDTA Margins (%)</b>	<b>-17.2%</b>	<b>6.8%</b>	<b>11.4%</b>	<b>13.4%</b>	<b>13.7%</b>
Other income	0.6	2.3	6.9	7.0	8.9
EBIT	(2.5)	17.0	70.0	121.6	166.9
Depreciation	0.1	2.5	9.1	15.7	18.1
Finance Charges	0.5	3.6	14.7	31.6	42.1
<b>Profit Before Tax</b>	<b>(3.1)</b>	<b>10.9</b>	<b>46.1</b>	<b>74.3</b>	<b>106.6</b>
Extraordinary	-	-	-	-	-
<b>PBT After Exception</b>	<b>(3.1)</b>	<b>10.9</b>	<b>46.1</b>	<b>74.3</b>	<b>106.6</b>
Current Tax	0.6	6.8	14.1	25.5	36.9
Deferred tax assets					
<b>PAT</b>	<b>(3.63)</b>	<b>4.11</b>	<b>32.05</b>	<b>48.84</b>	<b>69.66</b>
Minority interest	(0.48)	0.54	0.40	0.21	0.28
<b>PAT</b>	<b>(3.15)</b>	<b>3.57</b>	<b>31.65</b>	<b>48.63</b>	<b>69.38</b>
<b>PAT Margins (%)</b>	<b>-17.7%</b>	<b>1.7%</b>	<b>5.7%</b>	<b>5.7%</b>	<b>6.0%</b>
EPS Rs. (Post Issue)	(0.5)	0.5	4.7	7.2	10.2
P/E - @ Rs 250	(538.1)	475.3	53.6	34.9	24.5
B.V Per share	0.9	3.2	8.3	25.2	44.1
P/BV - @ Rs 250	270.2	78.0	30.1	9.9	5.7
Debt/Equity (x)	1.7	3.8	1.9	0.9	0.4
EV/Sales	99.3	8.2	3.2	2.1	1.5
EV/EBIDTA	(578.6)	120.8	28.0	15.4	11.2
ROCE %	-12.0%	16.1%	42.1%	34.2%	37.4%
ROE %	-50.2%	16.4%	56.1%	28.4%	23.2%

Source: RHP, Company data, Nirmal Bang Research

## Capacit'e Infraprojects Ltd.

Balance sheet	FY13	FY14	FY15	FY16	FY17
<b>Equity &amp; Liabilities</b>					
Equity share capital	3.00	8.55	4.94	7.77	43.61
Reserves Total	3.28	13.20	51.46	163.25	256.04
<b>Total Shareholders Funds</b>	<b>6.3</b>	<b>21.8</b>	<b>56.4</b>	<b>171.0</b>	<b>299.6</b>
<b>Minority Interest</b>	<b>0.90</b>	<b>1.48</b>	<b>1.88</b>	<b>1.89</b>	<b>2.43</b>
Long term borrowings	2.23	48.36	56.74	60.75	67.33
Other long term Liabilities	6.35	84.53	142.57	118.70	147.18
<b>Total Non-current Liabiliti</b>	<b>9.5</b>	<b>134.4</b>	<b>201.2</b>	<b>179.5</b>	<b>214.5</b>
Short term borrowings	8.18	34.57	47.83	98.48	54.70
Trade payable	15.54	88.98	183.09	309.34	320.67
Other Current Liabilities	14.39	44.54	48.68	106.41	168.53
Short term provisions	0.09	0.23	0.69	9.05	3.55
<b>Total Current Liabilities</b>	<b>38.2</b>	<b>168.3</b>	<b>280.3</b>	<b>523.3</b>	<b>547.4</b>
<b>Total Equity &amp; Liabilities</b>	<b>53.9</b>	<b>324.5</b>	<b>537.9</b>	<b>875.6</b>	<b>1,064.0</b>
<b>Assets</b>					
Fixed Assets	6.1	88.1	169.2	240.9	261.3
- Tangible assets	6.05	87.66	167.26	238.86	259.20
- Intangible assets	0.10	0.39	1.99	2.02	2.06
- Capital work in progress	-	-	-	-	-
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.04
Long term trade receivable	0.00	0.00	0.00	0.00	15.60
Long term Loans & Advances	2.32	17.26	11.15	22.01	37.90
<b>Tota Non-current Assets</b>	<b>8.5</b>	<b>105.3</b>	<b>180.4</b>	<b>262.9</b>	<b>314.8</b>
Current investments	0.07	0.07	0.00	0.00	0.41
Trade receivables	9.90	86.45	152.33	275.33	333.64
Trade Inventories	6.77	46.35	117.73	221.14	260.20
Cash & Bank balance	19.69	55.52	39.89	37.33	51.95
Short term Loans & advances	9.06	30.75	47.51	78.95	103.05
<b>Total Current Assets</b>	<b>45.5</b>	<b>219.1</b>	<b>357.5</b>	<b>612.7</b>	<b>749.2</b>
<b>Total Assets</b>	<b>53.9</b>	<b>324.5</b>	<b>537.9</b>	<b>875.6</b>	<b>1064.0</b>

Source: RHP, Company data, Nirmal Bang Research

**Disclaimer:**

Nirmal Bang Securities Private Limited (hereinafter referred to as "NBSPL") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX stock Exchange Limited. We have been granted certificate of Registration as a Research Analyst with SEBI. Registration no. is INH000001766 for the period 23.09.2015 to 22.09.2020 .NBSPL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst (in case any financial interest is held kindly disclose) NBSPL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. NBSPL /analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst. The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment decision.

**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**

B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park  
Off. Ganpatrao Kadam Marg  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 3926 8000/8001  
Fax. : 022 3926 8010