

IPO Analysis

Capacit'e Infraprojects Limited (CIL) undertakes construction of residential, commercial and institutional buildings in Mumbai Metropolitan Region, National Capital Region, Bangalore and other major cities spread across India.

Construction sector in India:

India's construction industry is expected to log materially faster growth, fuelled by spends in the road, irrigation, rail and urban infrastructure projects from 2016-17 to 2020-21. Total spending in the period is expected to be in the range of INR 23-24 trillion, translating into a CAGR of 10-12%, way faster than a 2-4% rate observed between 2012-13 and 2014-15, when an economic slowdown and attendant sluggish demand had stalled India's investment cycle. Over the next five years, infrastructure projects will provide the maximum construction opportunity at almost 92% of overall construction spending, owing to the central government's continued focus on roads, urban infrastructure and railways. Conversely, spend on industrial projects is expected to be lower as companies dealing in metals, petrochemicals, and cement slow expansion plans amid low utilisation levels and muted demand. (Source: CRISIL Report)

CRISIL Research expects demonetisation of high denomination currency to have limited impact on the construction sector considering that it is a short-term policy measure and since most high-value transactions in infrastructure, as well as industrial segments, are usually in cashless form. Investments in these sectors also receive government funding which will mitigate the impact of demonetisation.

Characteristics of Industry:

- Create jobs in large numbers
- Low entry barriers keep the industry fragmented
- Payment delays results in high working capital requirements
- Project awarded to lowest bidders but execution skills are crucial too

About Company:

Capacit'e Infraprojects Limited (CIL) is a fast-growing construction company focused on Residential, Commercial and Institutional buildings, with growth in consolidated revenue from operations from ₹ 2,142 million for Fiscal 2014 to ₹ 8,532 million for Fiscal 2016 and an Order Book of ₹ 40,490 million as at January 31, 2017 comprising 51 ongoing projects.

They provide end-to-end construction services for residential buildings, multi-level car parks, corporate office buildings and buildings for commercial purposes and buildings for educational, hospitality and healthcare purposes. Their capabilities include constructing concrete building structures as well as composite steel structures. They also provide mechanical, electrical and plumbing ("MEP") and finishing work.

They work for a number of reputed clients and are associated with some marquee construction projects in India. Some of their clients include Kalpataru, Oberoi Constructions Limited, The Wadhwa Group, Saifee Burhani Upliftment Trust, Lodha Group, Rustomjee, Godrej Properties Limited and Prestige Estates Projects Limited.

Objective of the issue:

The company is issuing fresh equity of INR 400 Crore for the purpose of

1. Working capital requirements (INR 250 Crore)
2. Purchase of capital assets (INR 51.95 Crore)
3. General corporate purpose (98.05 Crore)

In addition, CIL expects that listing on Stock Exchanges would garner the visibility, enhance brand image and create a public market for its equity shares.

Strength and Weakness:

Strength: <ol style="list-style-type: none"> 1. Well established and good client base 2. Strong order book 3. Focus on expanding mass housing segment 4. Experienced Promoters and team 5. Strong financials with low debt 6. Focus on major cities 7. Proficient to work in multiple segments 8. Strong operating performance post RERA Act 	Weakness: <ol style="list-style-type: none"> 1. Excessive dependency on manpower 2. Customers require large capital 3. Heavy competition
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Clients and Projects:

Name of client group	Name of client entity	Name of Project	Location	Type of building
Kalpataru	Agile Real Estate Private Limited	Kalpataru Immensa	Thane, MMR	Gated Community
Oberoi Constructions Limited	Oberoi Constructions Limited	Enigma	Mulund, MMR	Super High Rise Buildings
T Bhimjyani Realty	T Bhimjyani	Neelkanth Woods – Phases I & II	Thane, MMR	Gated Communities
Saifee Burhani Upliftment Trust	Saifee Burhani Upliftment Trust	Saifee Burhani Upliftment Project – Subcluster 03	Bhendi Bazaar, MMR	High Rise Buildings
Prestige Estates Projects Limited	Prestige Estates Projects	Prestige Hillside Gateway	Kochi	Gated Community
Rustomjee	Keystone Realtors Pvt. Ltd.	Rustomjee Seasons	BKC, MMR	Gated Community
Godrej Properties Limited	Godrej Landmark Redevelopers Private Limited	Godrej Central	Chembur, MMR	Gated Community
The Wadhwa Group	Twenty Five South Realty Limited	H Mill	Prabhadevi, MMR	Super High Rise Buildings
Puravankara Projects Limited	Puravankara Projects Limited	Purva EVOQ	Chennai	Gated Community
Lodha Group	Capacity Projects Private Limited	The Park – Towers 3 and 4	Worli, MMR	Super High Rise Buildings
Godrej Properties Limited	Godrej Premium Builders Private Limited	Godrej Summit, Phase II	Gurgaon, NCR	Gated Community

Comparison with Peers:

Peer Group Comparison for the year 2017				(in Rupees Crore)
Particulars	Capacit'e Infraprojects	Ahluvalia Contracts	JMC Projects	Simplex Infraprojects
Sales	1157.04	1426.52	2472.14	5612.49
EBITDA	157.97	173.01	316.94	798.16
EBITDA Margin (%)	13.65%	12.13%	12.82%	14.22%
PAT	69.38	85.99	-41.85	134.24
PAT Margins (%)	6.00%	6.03%	0.00%	2.39%
ROE (%)	23.2	16.9	-8.7	8.78
P/E	24.5	21.6	-	18.60
EPS	10.2	12.84	-12.46	27.65

Financial Performance:

Financial Performance over the years					(in Rupees Crore)
Particulars	FY 2016-17	FY 2015-16	FY 2014-15	FY 2013-14	
Revenues	1157	853	555	214	
EBITDA	158	115	63	15	
EBITDA Margins	13.66%	13.48%	11.35%	7.01%	
PAT	69.4	48.6	31.6	3.6	
PAT Margins	6.00%	5.70%	5.69%	1.68%	

About the issue:

Price Band	INR 245 – 250/Share
Issue Size	INR 400 Crore
Face Value	INR 10.00/Share
Lot Size	60 Shares
Bidding Date	13 th Sept. 2017 – 15 th Sept. 2017
Subscription	Over-subscribed 183 times
Offer Structure (QIB/NIB/Retail)	50% - 15% - 35%
Book Running	Axis Capital, IIFL, VIVRO

Analysis:

The company has been consistently increasing revenues and margins. The revenue has increased with a CAGR of 20% and its EBITDA has increased with a CAGR of 23% over the last 4 years. The company has better ROE in comparison with other listed peers. It has also kept its debt under control even though the revenues were increasing and has marquee clients who have given them orders repeatedly. They also have an order book of INR 4600 Crore as of 31st May 2017.