CAPACIT'E INFRAPROJECTS

Building a Reputation for Quality

May 28, 2018

Edelweiss
Ideas create, values protect

Building a Reputation for Quality

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Edelweiss Securities Limited

India Midcaps

INITIATING COVERAGE

CAPACIT'E INFRAPROJECTS

Building a reputation for quality

India Equity Research| Infrastructure - Construction

Capacit'e Infraprojects (Capacit'e) has etched a name for itself as a quality contractor in the buildings space since its inception in August 2012; today, it is working with almost all major real estate developers in the country. We believe it is in a sweet spot, due to: (1) RERA driven consolidation in the realty space; (2) improving work profile; (3) ability to bag repeat orders; and (4) better balance sheet (negative net debt) & leaner working capital cycle (~75 days) versus peers. We expect robust order book (book-to-bill at 4.3x) and likely diversification into public sector space to translate into 31% EPS CAGR over FY18-20, along with improvement in return ratios. Initiate coverage with 'BUY' and target price of INR397.

Emerging as a marquee contractor focused on buildings space

In the past six years, Capacit'e has been rapidly emerging as a marquee contractor in the building space with good repute. The company's sharp focus on the single segment of buildings, emphasis on technology, robust asset base and promoters' rich experience in the EPC space have enabled it to scale up quickly. Commendably, Capacit'e has been developing in-house capabilities and moved away from plain vanilla 'shell and core' buildings to integrated design and build jobs in a short span of time.

Building blocks to help extend trailblazer run

Improving performance of organised realty developers is leading to robust order inflows for Capacit'e; the company's order book reached ~INR57bn as at FY18 end (book-to-bill at 4.3x), up by strong ~102% since FY16. Sturdy operating margins, healthy balance sheet (negative net debt), lean working capital cycle (~75 days) and positive free cash flows will see the company deliver steady growth going ahead. Venture into public sector jobs, which is witnessing increasing spending on buildings (***Buildings: Dawn of a new era***), will hedge any slowdown in the realty cycle and also boost the company's growth prospects.

Outlook and valuations: Growth oriented; initiate with 'BUY'

We expect steady top-line growth, stable margin trajectory and declining debt to result in 23% revenue CAGR and 31% EPS CAGR over FY18-20. Additionally, rising scale and better cash flows will lend impetus to return ratios going ahead. We have valued Capacit'e at INR397, assigning P/E of 20x to FY20E earnings. We initiate coverage with a **'BUY'** recommendation.

Financials (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	11,251	13,356	16,428	20,207
EBITDA	1,970	2,033	2,468	3,036
Adj. profit	691	787	1,039	1,347
Dilu.EPS (INR)	17.1	11.6	15.3	19.8
Dilu.P/E (x)	16.0	23.6	17.9	13.8
EV/EBITDA (x)	6.3	8.7	7.1	5.5
ROAE (%)	29.5	15.0	13.0	14.8

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EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: CAPE , B: CAPACITE IN)*

CMP	: INR 274
Target Price	: INR 397
52-week range (INR)	: 437 / 281
Share in issue (mn)	: 67.9
M cap (INR bn/USD mn)	: 19 / 280
Avg. Daily Vol.BSE/NSE('000)	: 759.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	43.8	43.8	43.8
MF's, FI's & BK's	6.6	6.8	9.1
FII's	5.6	6.5	1.8
Others	44.0	42.9	45.3

** Promoters pledged shares (% of share in issue) : Nil*

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	0.5	(21.8)	(22.3)
3 months	0.6	(14.1)	(14.7)
12 months	12.7	NA	NA

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Investment Summary

Capacit'e has been on high growth path since commencing operations in August 2012, and emerged a reputed contractor patronised by major realty developers of the country. While an improving realty cycle and ongoing consolidation in the sector are driving strong order book growth, the company's technology focus, healthy asset base and skills to undertake 'integrated jobs' are resulting in an improving margin trajectory, lean working capital cycle and strong balance sheet. Diversification into government sector projects will further boost its growth prospects. Ergo, we expect 31% EPS CAGR over FY18-20. Initiate coverage with 'BUY' and target price of INR397 (20x FY20E earnings).

Making a mark as niche building contractor

Since inception, Capacit'e had decided to concentrate on a single segment - buildings, where its promoters have around two decades of experience. Eschewing dabbling in multiple segments, the company instead chose to enhance its capabilities in the buildings segment by adopting the latest technologies, investing in a strong asset base and trying to tap major realty markets in the country. Admittedly, the focus on specialisation has not only seen the company emerge a player with the skills to complete 'integrated' design and build jobs, but it has also bagged repeat orders from customers. We believe there can't be better testimony to the quality work done by the company.

Robust fundamentals lend strong visibility

The potent combination of an improving realty cycle along with strong execution skills have seen Capacit'e grow at a rapid pace - revenue catapulted at CAGR of 67% over FY14-18 (on a small base), while EBITDA margin expanded steadily from 8.5% in FY14 to 15.2% in FY18. The company ended FY18 with order book of ~INR57bn, which is 4.3x TTM revenues and provides strong revenue visibility.

In view of the government's thrust on the building space (housing/educational/healthcare), Capacit'e intends to venture into the public sector space. This, we believe, will lend further fillip to growth. In addition, the company proposes to target segments like airport buildings, which require similar skill-set and management sees huge growth opportunities here.

Another attractive feature of Capacit'e's business model is its comparatively low working capital requirement; the company's net working capital cycle is ~75 days versus the typical 130-140 days for the EPC sector. As a result, the company has a healthy balance sheet (negative net debt) and likely to result in free cash flow generation going ahead.

Outlook and valuation: Attractive

Healthy order book is likely to result in steady 23% revenue CAGR over FY18-20E; with free cash flow generation and improvement in balance sheet, we expect debt to reduce, leading to improving margins and 31% EPS CAGR over the mentioned period.

Improving balance sheet will lead to uptick in return ratios going ahead as well. This, along with growth diversification, should lead to re-rating, in our view. We value Capacit'e at INR397, assigning P/E multiple of 20x to FY20E earnings.

Our assigned P/E multiple is at a premium to other EPC peers, which we believe is justified due to: (1) company’s lean balance sheet and lower fixed asset requirement, which is likely to lead to free cash flow generation; (2) robust working capital management; and (3) better (and improving) return ratios. We initiate coverage with ‘**BUY**’ recommendation.

Risks

Concentration risk: Given that Capacit’e is engaged in a single segment, it faces concentration risks; the other contractors having presence across multiple segments are insulated from this. This is magnified by the fact that Capacit’e works solely pertains to the private sector as of now.

Realty cycle risk: In the past, contractors working for real estate developers grappled with issues like stalled/slow moving projects and liquidity issues (elongated payment cycle) when the realty cycle turned for the worse. While fortunes of realty developers are on an upswing, any slowdown in the realty space can hurt the company’s growth prospects. Considering that ~87% of the company’s current order book emanates from the Western region (MMR and Pune), its growth trajectory will be determined by performance of the realty sector in this geography, to a large extent.

While Capacit’e’s expected venture into public sector projects will reduce this risk, we believe its performance in the medium term is still likely to be influenced by fortunes of its major customers, more so due to order book concentration (top-five orders constituted 38% of the order book as at FY18 end).

Investment Rationale

Quality contractor, focus on technology and scale

Capacit'e, a Mumbai-based construction company, has created a niche for itself in the building space by offering turnkey solutions. Set up in August 2012, the company has emerged as contractor of choice for major realty developers in a short span of time. It now proposes to venture into the public sector space to benefit from increasing government spending in the building space. With strong emphasis on emerging construction technologies and building a robust asset base, we believe Capacit'e has significant growth potential.

Capacit'e offers integrated (design and engineering) turnkey solutions in the buildings construction space. Incorporated in 2012, it has grown rapidly and emerged as a premier building contractor in the country. It went public in 2017 and boasts of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications.

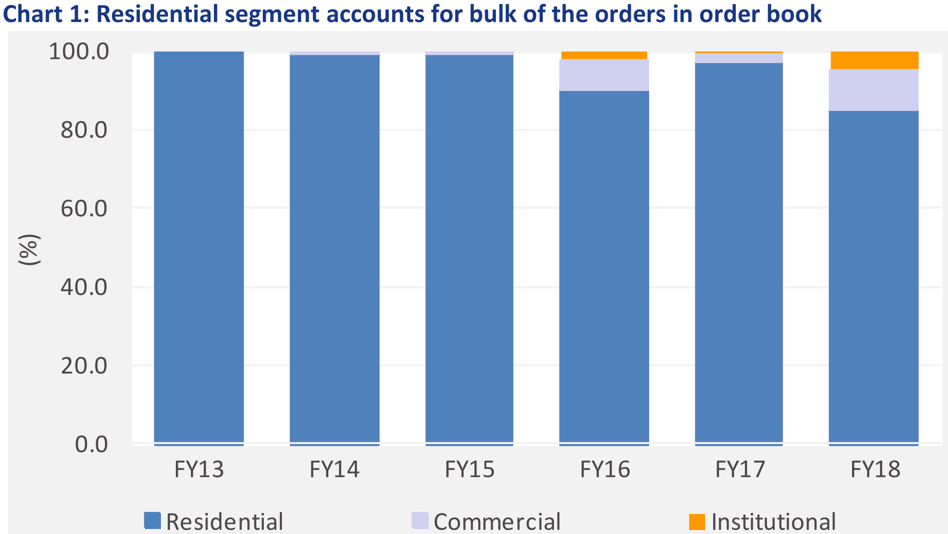
Capacit'e has positioned itself as a contractor of choice for major realty developers, by dint of its emphasis on quality of work and technology induction

The company provides end-to-end construction services in the following segments:

- Residential: includes residential buildings
- Commercial: includes corporate office buildings, buildings for commercial purposes and multi level car parks
- Institutional: includes buildings for educational, hospitality and healthcare purposes

Starting from a small base of INR26mn revenues in FY13, the company has quickly scaled up - ~INR13.4bn topline in FY18. Its order book has grown rapidly from INR3.3bn at FY13 end to ~INR57bn at FY18 end. Its clients include reputed names like Lodha Group, Godrej Properties, Oberoi Realty, Brigade Enterprises, Prestige Estates, Kalpataru, The Wadhwa Group, Rustomjee, Tata Trust etc.

Chart 1: Residential segment accounts for bulk of the orders in order book



Source: Company, Edelweiss research

Table 1: Major orders in residential segment

Client	Project	Location	Classification	Contract Type	Pending order value at FY18 end (INR mn)
Arihant Abode	Arihant Aspire	Panvel, MMR	Gated community	Lock & key	8,174
Kalpataru	Kalpataru Immensa	Thane, MMR	Gated community	Shell & core	4,043
Purvankara	Purva Silver Sands	Pune	Gated community	Lock & key	3,373
The Wadhwa Group	Wadhwa Wisecity	Panvel, MMR	Gated community	Design & build	3,000
The Wadhwa Group	H Mill - Tower 1 & 2	Prabhadevi, MMR	Super high rise building	Shell & core	2,675
T Bhimjyani Realty	Neelkanth Woods Phase I & II	Thane, MMR	Gated community	Shell & core	2,064
The Wadhwa Group	Wadhwa Pepsico	Chembur, MMR	High rise building	Design & build	2,000
Oberoi Realty	The Enigma	Mulund, MMR	Super high rise building	Shell & core	1,884
The Wadhwa Group	Wadhwa Pepsico	Chembur, MMR	High rise building	Design & build	2,000
Prestige Estates	Prestige Hill Side Gateway	Kochi	Gated community	Shell & core	1,500
Godrej Properties	Godrej Emerald	Thane, MMR	High rise building	Shell & core	1,498
DB - Radius	One Mahalakshmi, MMR	Mahalakshmi, MMR	High rise building	Shell & core	1,393
Saifee Burhani Upliftment Trust	Upliftment Project - Sub Cluster 03	Bhendi Bazaar, MMR	High rise building	Lock & key	1,321
Oberoi Realty	Tardeo	Tardeo, MMR	Super high rise building	Shell & core	1,233
Puravankara Projects	Purva EVOQ	Chennai	Gated community	Lock & key	1,205

Source: Company, Edelweiss research

Table 2: Major orders in the commercial/institutional segment

Client	Project	Location	Classification	Contract Type	Pending order value at FY18 end (INR mn)
Brigade Enterprises	WTC	Chennai	High rise buildings	Lock & key	3,279
Tata Trust	Hospital	Varanasi	Other buildings	Lock & key	2,556
Oberoi Realty	Worli-Mall	Worli, MMR	Other buildings	Shell & core	2,200
Ramkrishnan Housing Pvt Ltd	Venzuia	Vijaywada	High rise buildings	Shell & core	295
Bharti Land	Worldmark	Gurgaon, NCR	High rise buildings	Shell & core	130
Brookfield Asset Management	Seaview	Noida - SEZ, NCR	High rise buildings	Shell & core	91

Source: Company, Edelweiss research

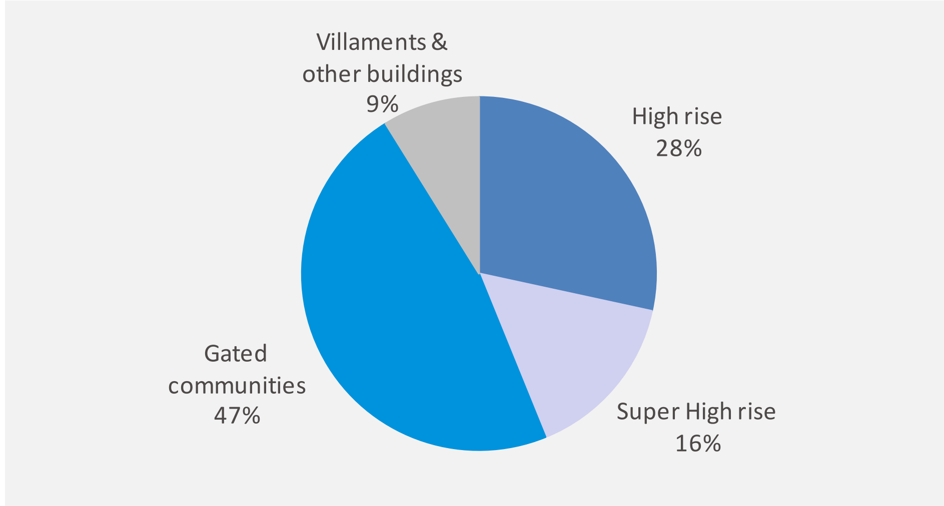
The company can build concrete building structures as well as composite steel structures. It has widened its service offerings by providing mechanical, electrical and plumbing (MEP) services, apart from finishing and interior services.

The various buildings that the company constructs can be categorised as:

- Super high-rise buildings with 40 or more floors
- High rises: Seven or more floor buildings
- Gated community: single premise or land parcel containing at least four buildings, which may include high rise/super high rise buildings
- Villaments: duplex houses and row houses
- Other buildings

Majority of the projects of are located in the West zone

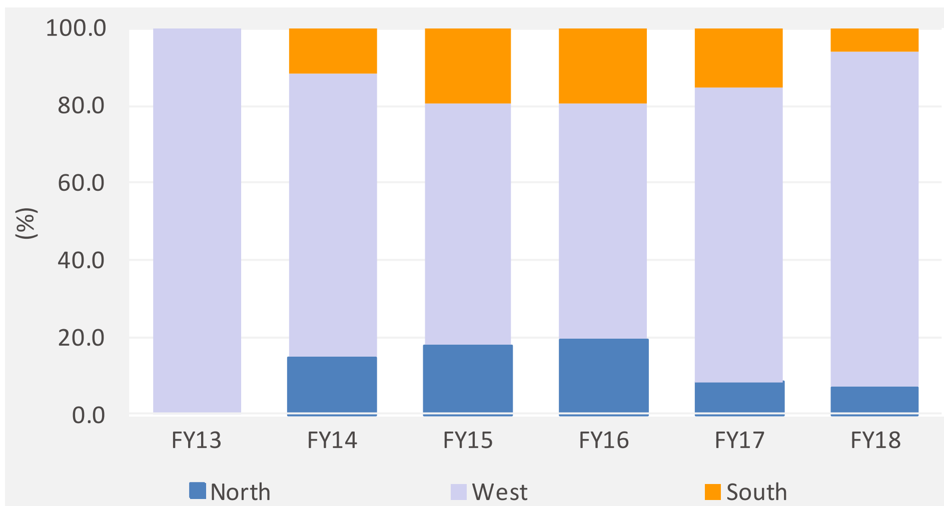
Chart 2: Types of buildings being constructed by the company (FY18 end order book)



Source: Company, Edelweiss research

To begin with, Capacit'e is focusing only on those markets which have sizeable volumes. As a result, its operations have been concentrated in major cities in the Western region (MMR and Pune), NCR and South India (Bengaluru, Hyderabad, Chennai and Kochi).

Chart 3: West zone accounts for bulk of order book



Source: Company, Edelweiss research

Following strong emphasis on technology, the company has quickly gained a reputation for timely execution, which has enabled it to grow its pre-qualifications and bag repeat orders from its clients. Moreover, a fortified balance sheet post the IPO, makes the company well placed to capture the large opportunities arising from consolidation in the realty space and increasing government spending in the buildings segment.

Experienced management at helm to drive fast growth

The company's promoters have been involved in the construction industry for the past around two decades and have thus built strong industry connects which has helped the company grow as a fast pace. They had decided pretty early that a single minded focus on

Capacit'e has augmented its credentials as a specialised buildings contractor; ongoing consolidation in the realty sector is a boon for the company

specialization, domain knowledge and technology induction were key to create a niche in the highly competitive construction industry. In addition, their unwavering emphasis on quality, enhanced product offerings and ability to stay ahead of the curve have played a vital role to ensure sustainable growth.

Consequently, management has undertaken a series of steps to ensure that these concepts actually transform into strategy at the ground level. In the sections ahead, we will discuss how the management's thought process has delivered results for the company.

Segment specialisation opened the doors for robust growth

Concentrated approach: Capacit'e has limited itself to working only in the building segment; it has stayed away from venturing into EPC services in other infra segments or getting into realty development. This concentrated approach has: 1) enabled Capacit'e to develop pre-qualifications in a short span of time and accelerate its growth trajectory; 2) also helped it quickly amass the requisite experienced manpower, equipment base, specialised construction technology and develop the systems & processes specific to the building segment.

Tailwinds aplenty for organized realty: Management realised pretty early that there are significant tailwinds in the buildings segment. The first is that consolidation in the real estate sector will help organised sector players (both the developer and contractor fraternity). Post demonetisation, which proved to be beneficial for organised real estate developers, the company booked record amount of orders.

Similarly, RERA is driving further consolidation in the sector; the increasing focus on timely completion and control on project-specific cash flows is beneficial for contractors like Capacit'e since developers want to work only with those companies who have a track record of quality and timely project delivery.

Hence, instead of looking at other infra segments, management concentrated on shoring up capabilities to tackle different types of projects within the buildings space. A look at the list of projects won by the company over last year indicates that this strategy has borne fruits.

Table 3: Orders won since start of FY18 **(INR mn)**

Client	Location	Details	Value
Brigade Enterprises	Chennai	WTC project	3,700
Godrej Properties	Thane, MMR	Godrej Emerald	1,580
DB Radius Group	Mumbai, MMR	One Mahalaxmi	1,570
Arihant Superstructures	Navi Mumbai, MMR	Arihant Aspire" - an affordable housing project	8,250
Kalpataru Group	Mumbai, MMR	Kalpataru Magnus (MIG-V) in Bandra	908
The Wadhwa Group	Mumbai, MMR	Tower-2 of project at Hindustan Mills at Prabhadevi	1,565
The Tata Trusts	Varanasi	Cancer centre project	2,566
Oberoi Realty	Mumbai, MMR	Residential rehab and sale tower at Tardeo	1,455
Oberoi Realty	Mumbai, MMR	Mixed use development project at Worli	2,200
Sea View Developers	Noida, NCR	Civil and structure work package for construction of tower and multi level car park	1,627

Source: Company, Edelweiss research

Projects won by Capacit'e the start of FY18 include commercial realty projects, affordable housing, residential, multi level car parks, mixed use projects and healthcare projects. Thus, the company straddles across the entire gamut of projects available in the buildings segment.

Going ahead, management intends to maintain keen focus on the buildings segment. They have no plans to venture into any other segments and would strive to acquire the skill-sets for complex projects (hospitality segment, etc) in the buildings space. It also believes there's huge opportunity in the airports segment (both public and private) and intends to keep track of same.

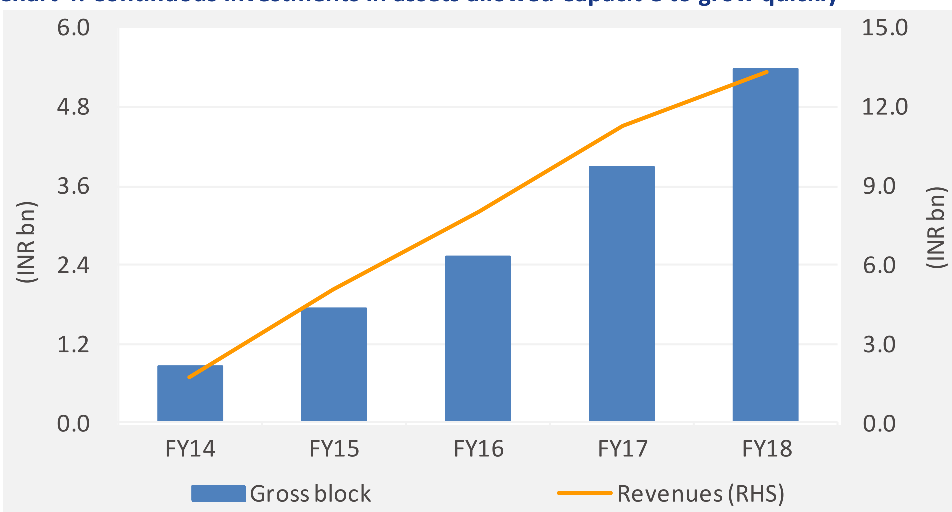
In addition, the company is actively looking at entering the public sector segment. Increasing government spending on housing/healthcare/education is creating significant opportunities in the buildings space. There is a huge bids pipeline of government projects up for grabs; *these projects, which fetch margins similar to those from the private sector, come with an added advantage of payment certainty.* Management intends to bid for projects with cash-rich public sector bodies like NBCC, CPWD, MHADA, MCGM, etc., in the NCR/MMR area going ahead.

Induction of latest technology and significant investment in assets are key calling cards for Capacit'e, which intends to diversify into public sector jobs in future

Technology focus, asset ownership to aid operational flexibility

Since inception, Capacit'e has been focusing on the use of latest construction technology in its work. The company also invested heavily in asset ownership, as equipment leasing is not a viable option for longer duration projects in India because of the undeveloped leasing market in the country.

Chart 4: Continuous investments in assets allowed Capacit'e to grow quickly



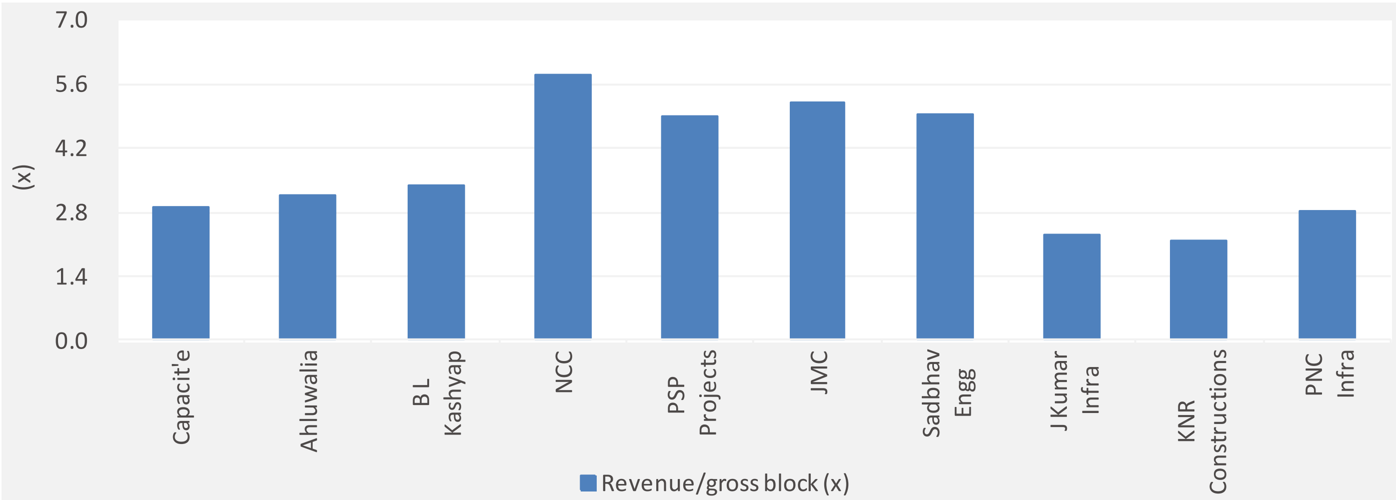
Source: Company, Edelweiss research

Note: Till FY16, gross block didn't include site establishment/temporary structures

The company uses specialised formwork technologies, including vertical composite panel system for columns, horizontal composite panel system for slabs, crane enabled composite table formwork, aluminium panel formwork and automatic climbing system formwork. These modern formwork technologies help it reduce the construction cycle time of replicating floors in a high rise construction compared to conventional formwork systems.

As a result of technology induction, execution period of projects is declining –top-3 orders in the company's order book currently have execution period of ~22-23 months versus the usual 30-36 months. Recently, the company won a ~INR2.6bn order from the Tata Trust to build a hospital in Varanasi; execution period of this project is only around nine months. This indicates the way technology is helping bring down project timelines.

Chart 5: Revenue/gross block ratios for major EPC companies (FY17 end)



Source: Company, Edelweiss research

Technology focus enables shortening of execution cycle while integrated capabilities enable the company to offer a wide bouquet of service offerings

Capacit'e has also invested in acquiring capabilities to 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/high rise buildings.

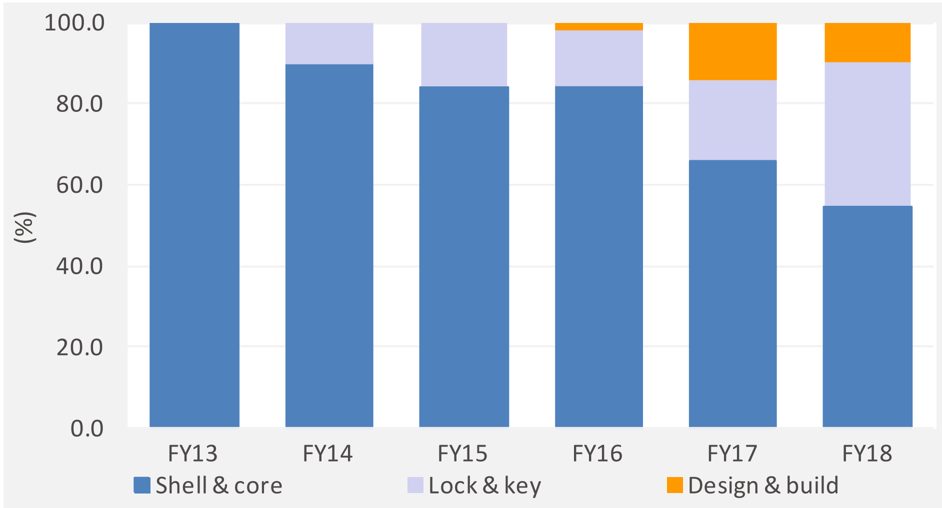
It also uses different types of system formwork including, automatic climbing system formwork, aluminium formwork, tunnel formwork, table formwork, composite panel formwork (consisting of vertical panel and horizontal panel formwork systems) to meet the myriad requirements of various types of buildings. The plethora of technological options available at the company's disposal enables it to shorten execution cycle and thereby complete projects early.

Widening bouquet of services enhancing growth avenues

Within the building segment, Capacit'e speedily built capabilities to offer allied services like MEP, finishing and interior works over and above the plain vanilla contracting works; this enabled it to provide end-to-end solutions to clients, thereby widening its playing field.

The company has also been able to complete projects on time by minimising its dependence on external parties. All services are now offered in-house, ensuring greater operational control. In addition, its skills in concrete and composite steel structures allowed it to provide the full spectrum of services enabling it to make a mark as a niche contractor in the buildings space.

Chart 6: Steady increase in project complexity (order book break-up)



Source: Company, Edelweiss research

In "Lock and key" projects Capacit'e offers building construction services, including MEP, finishing and interior services; in such projects, the company is involved at all stages of construction - from foundation to warm shell to MEP, finishing and interiors.

Graduating to "lock and key projects" from simple "shell and core" projects impart twin benefits to the company:

- Increase in scope of work of projects, resulting in higher revenue opportunity
- Higher margin accretion due to better absorption of indirect costs

Capacit'e has now graduated to the next league of projects, i.e., "design and build' where architectural drawing/layout is provided by the client while the company does technical designing. This will enable it to capture even higher wallet share from clients.

Capacit'e is steadily striving to provide value-accretive services to its clients (beyond plain vanilla contracting works), resulting in repeat orders

Repeat orders from clients bear testimony to immaculate credentials

In our view, there can't probably be a better indicator of the work quality of a contractor in the private space than the amount of repeat orders that a company gets from its clients. Not only do satisfied clients give incremental work, they can also give positive references to potential new clients.

Capacit'e scores handsomely on this parameter; it has time and again received repeat orders from its customers.

Table 4: Repeat orders won by Capacit'e **(INR mn)**

Client	Project	Location	Type	Classification	Contract Type
Lodha Developers	Splendora	Thane, MMR	Residential	Gated community	Shell & core
	The Park - Blue Moon	Worli, MMR	Residential	Super high rise buildings	Shell & core
Godrej Properties					
	Godrej Emerald	Thane, MMR	Residential	High rise buildings	Shell & core
	Godrej Avenues	Bengaluru	Residential	Gated community	Shell & core
	Godrej Summit Phase - II	Gurgaon, NCR	Residential	Gated community	Lock & key
	Godrej Central	Chembur, MMR	Residential	Gated community	Shell & core
Oberoi Realty	The Enigma	Mulund, MMR	Residential	Super high rise buildings	Shell & core
	Juhu,MMR Bunglow	Juhu,MMR	Residential	Other buildings	Shell & core
	Residential rehab and sale tower	Tardeo, MMR	Residential	Super high rise buildings	Shell & core
	Mixed use development project	Worli, MMR	Commercial + Residential	Other buildings	Shell & core
Puravankara	Purva Coronation Square Phase-II	Bengaluru	Residential	Other buildings	Shell & core
	Purva EVOQ	Chennai	Residential	Gated community	Lock & key
	Purva Silver Sands	Pune	Residential	Gated community	Lock & key
The Wadhwa Group	Samarpan	Bandra, MMR	Residential	Other buildings	Shell & core
	Wadhwa Wisecity	Panvel, MMR	Residential	Gated community	Design & build
	Wadhwa Pepsico	Chembur, MMR	Residential	High rise buildings	Design & build
	H Mill	Prabhadevi, MMR	Residential	Super high rise buildings	Shell & core
	Platina Elite	Thane, MMR	Residential	High rise buildings	Shell & core
	W54	Dadar, MMR	Residential	Super high rise buildings	Shell & core
Rustomjee	Rustomjee Seasons	BKC, MMR	Residential	Gated community	Shell & core
	Rustomjee Summit	Borivali, MMR	Residential	High rise buildings	Shell & core
Brookfield Asset Management	MLCP	Gurgaon, NCR	Commercial	Other buildings	Shell & core
	Civil and Structural work Package for Tower 5, 6 & 7	Noida - SEZ, NCR	Commercial	High rise buildings	Shell & core
Emaar MGF	Colonade	Gurgaon, NCR	Residential	High rise buildings	Design & build
	Imperial Garden	Gurgaon, NCR	Residential	Gated community	Lock & key
Ahuja Constructions	L'amor & Varona	Jogeshwari, MMR	Residential	Gated community	Shell & core
	Altus	Worli, MMR	Residential	Super high rise buildings	Shell & core
ABIL Group	ABIL Mansion, MMR	Hughes Road, MMR	Residential	High rise buildings	Shell & core
	Olympia	Pune	Residential	High rise buildings	Shell & core

Source: Company, Edelweiss research

From its existing projects in the private sector, Capacit'e believes additional orders worth ~INR15-20bn can accrue over next 1-2 years when work on additional phases begins. This will be a significant boosts to the company's order book.

Since the company gets repeat orders from its private sector customers, it feels it will be able to grow in future despite limiting the number of work sites to ~45-50. We believe this will boost its operating margins by bringing in economies of scale.

Overall, the single minded focus on building construction in select large markets has gelled well with the company's philosophy to have state-of-the-art equipment and integrated offerings, allowing it to deliver strong revenue and profit growth since inception. With large opportunities emanating in the buildings space, we believe this strategy will hold the company in good stead going ahead as well.

Robust business fundamentals, strong balance sheet - key value drivers

Improving operational performance of realty developers has led to ~102% surge in Capacit'e's order book since FY16; FY18 end order book at ~INR57bn is ~4.3x TTM revenue and imparts healthy revenue visibility. Operating leverage and better quality of work profile have led to steady expansion in margins (~350bps jump in EBITDA margin since FY15). Robust profitability, declining leverage and lean working capital cycle (~75 days) have resulted in healthy return ratios.

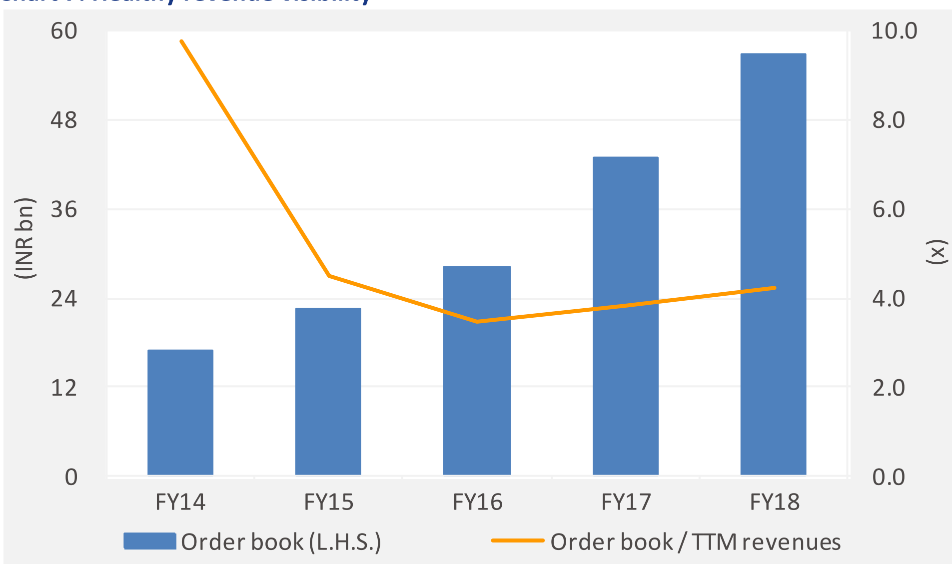
When Capacit'e started operations in FY13, the realty cycle was on a downturn. Despite this, the company didn't face any major hiccups due to the strong industry associations of its promoters and focus on quality and timely execution.

Robust order inflows have buoyed the company's revenue visibility

Prudent client selection also played its part in ensuring that the company didn't face any major risks. Capacit'e benefited by working for bigger players like Lodha Developers, Godrej Properties, Oberoi Realty and Kalpataru, among others who were able to weather the industry turbulence much better than the smaller realty developers. As a result, its order inflow remained strong, growing from ~INR15bn in FY14 to ~INR27bn in FY18. Healthy order inflow over the years ensured that the company's order book rose from INR3.3bn as at FY13 end to ~INR57bn as at FY18 end.

FY18 end order book at ~INR57bn (~4.3x TTM revenues) imparts strong revenue visibility over the medium term. With organised developers gaining market share, we believe the company's order inflow prospects remain healthy.

Chart 7: Healthy revenue visibility



Source: Company, Edelweiss research

With real estate developers in West and South India performing better than their counterparts in the NCR, we believe these two regions will continue to provide a lion's share of fresh order inflows in future.

Limited competition, operating leverage and transition to value-added services is improving the company's operating margins

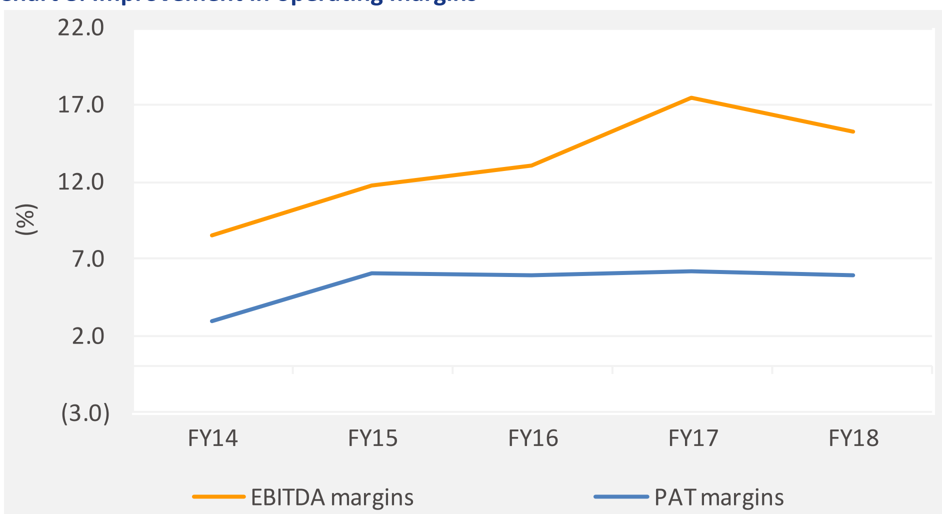
With the company looking to take on public sector jobs going ahead, the share of institutional projects may increase going ahead.

Operating leverage, limited competition boosting margins

The company's operating margins have been on a steady uptrend; its EBITDA margin has expanded from 8.5% in FY14 to 15.2% in FY18. Major reasons for this include:

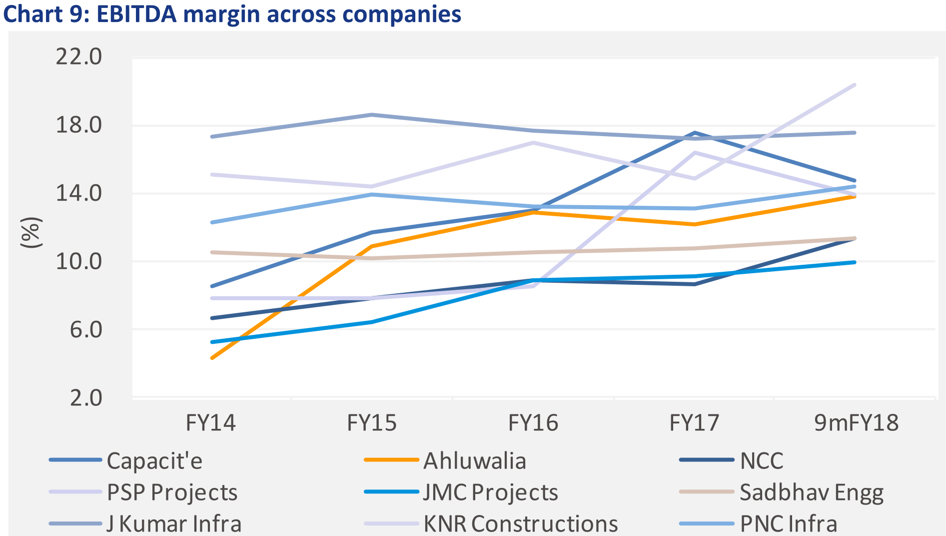
- **Operating leverage**: Rising revenue base has enabled the company to better absorb overheads, leading to margin expansion.
- **Limited competition**: Unlike the public sector where the lowest bidder (L1) bags the order, private sector orders are usually awarded on the basis of negotiations. This automatically reduces competition since cost is not the sole deciding criterion; quality of work and comfort levels between the developer and contractor also plays an equally important role.

Chart 8: Improvement in operating margins



Source: Company, Edelweiss research

Chart 9: EBITDA margin across companies



Source: Company, Edelweiss research

Also, some of the other specialised building contractors like B L Kashyap and Consolidated Construction have faced liquidity crunch in past few years, thereby reducing competition for projects. Management has indicated that there are only a handful of bidders for large size contracts with competition being limited to L&T, Shapoorji Pallonji, Ahluwalia Projects, Simplex Infra and JMC Projects.

- **Increasing project size and complexity:** The company has progressively moved towards larger projects which ensures economies of scale. In addition, it has bolstered its capabilities by winning composite contracts (design and build contracts which involve lump sum turnkey skills) rather than plain vanilla core and shell contracts; higher complexity of these projects has resulted in better margins for the company.

Going ahead, we believe Capacit'e will be able to maintain its high operating margins, which will boost its future prospects.

Lean working capital cycle, low leverage to result in stellar return ratios

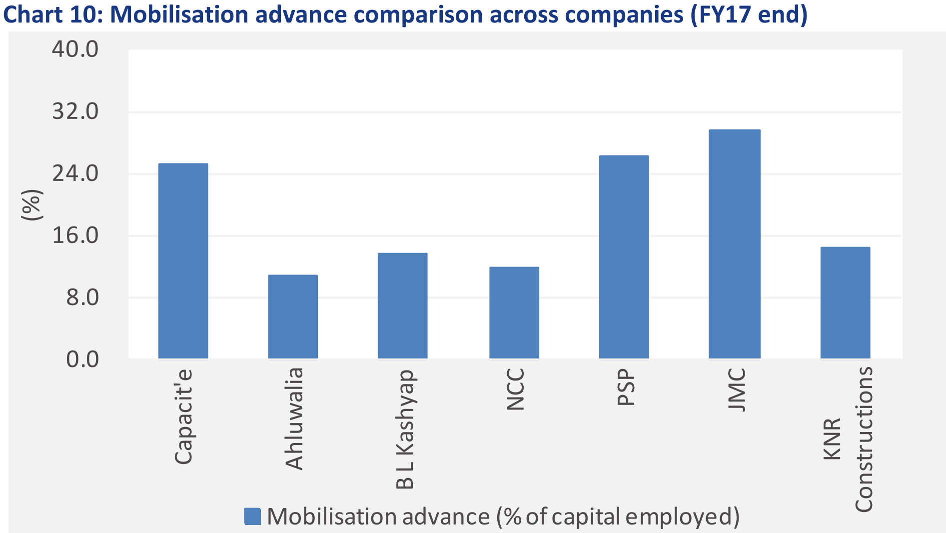
For Capacit'e, improving profit margins, tight leash on working capital and timely fund raising have led to balance sheet deleveraging apart from robust return ratios. We analyse the company's financial health in detail here below:

Healthy working capital cycle and robust balance sheet aids return ratios

- **Efficient working capital management:** Capacit'e boasts of tight control on its working capital requirements, evident in lean inventory management and high creditor cycle. Its mobilisation advance was as high as 13% of sales and ~25% of its capital employed as at FY17 end.

  In certain contracts, the company's clients either directly provide resources like formwork or plant & machinery or fund the purchase of formwork. Sometimes, clients directly pay vendors who provide ready mix concrete and steel to the company. These measures have a salubrious impact on capital investment and working capital requirements of Capacit'e.

Chart 10: Mobilisation advance comparison across companies (FY17 end)



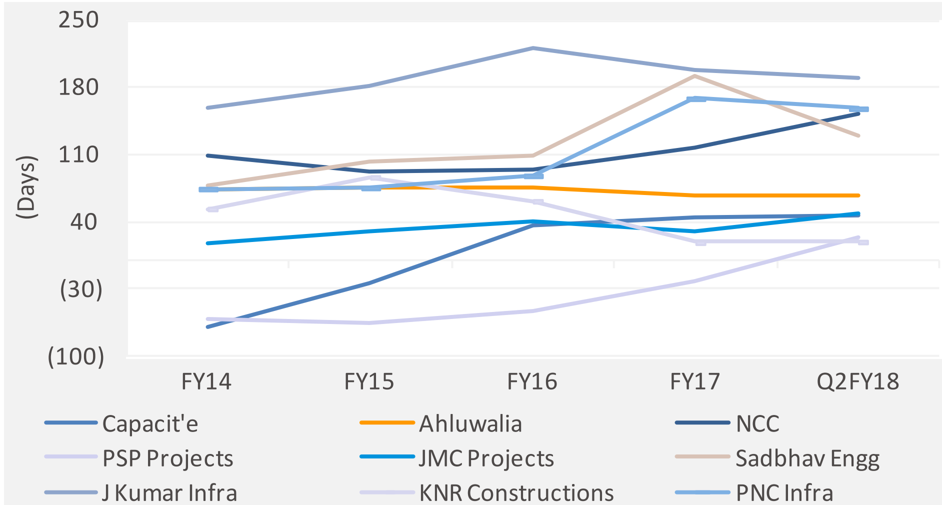
Source: Company, Edelweiss research

As a result, cash conversion is significantly faster than peers and Capacit'e is able to maintain its working capital cycle at ~75 days. In fact, its working capital cycle is

Efficient working capital management and fund infusion have led to lower leverage for Capacit'e, leading to strong return ratios

generally even lower. Capacit'e has seen temporary spike in H2FY18 due to debtor build up post GST implementation; the same is however expected to reverse going ahead.

Chart 11: Lean working capital cycle*

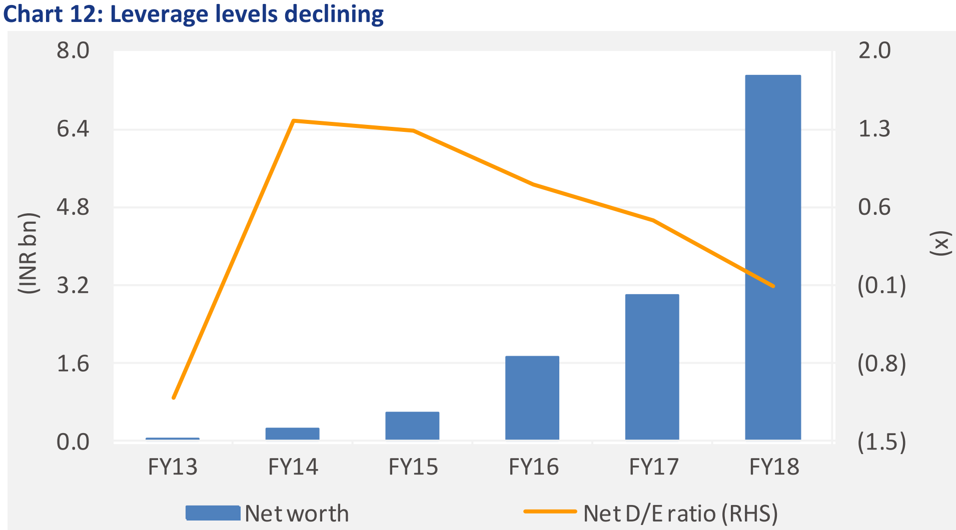


Source: Company, Edelweiss research

*Note: * Net working capital cycle, excluding cash and adjusted for loans and advances given to subsidiaries*

- **Falling leverage:** Steadily rising profitability along with efficient working capital management have resulted in strong operating cash flow generation. This, coupled with infusion of funds (by strategic investors and via IPO) has lowered leverage levels.

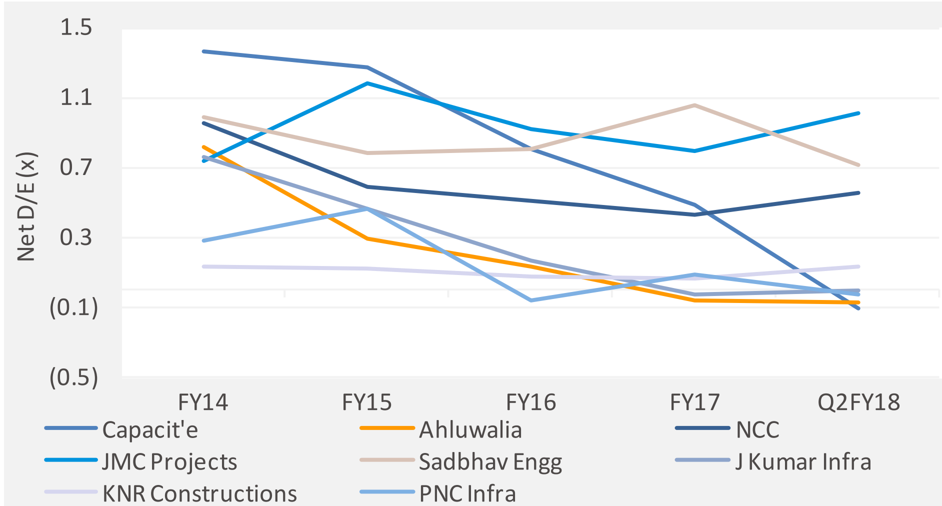
Chart 12: Leverage levels declining



Source: Company, Edelweiss research

Leverage levels for Capacit'e are lower than peers

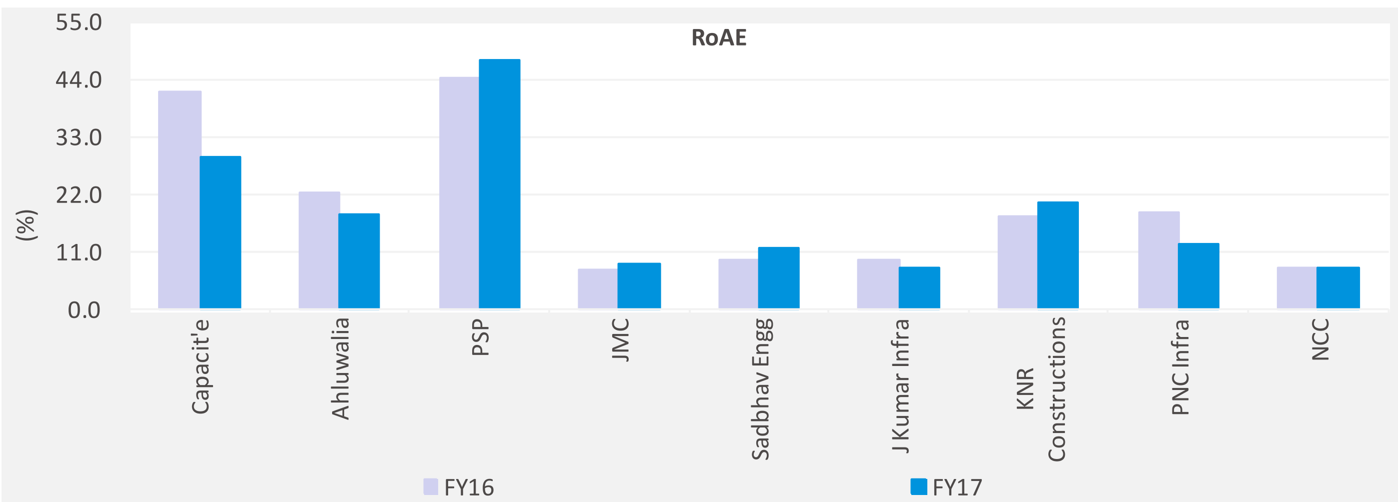
Chart 13: Capacit'e has amongst the best balance sheets in the EPC space



Source: Company, Edelweiss research

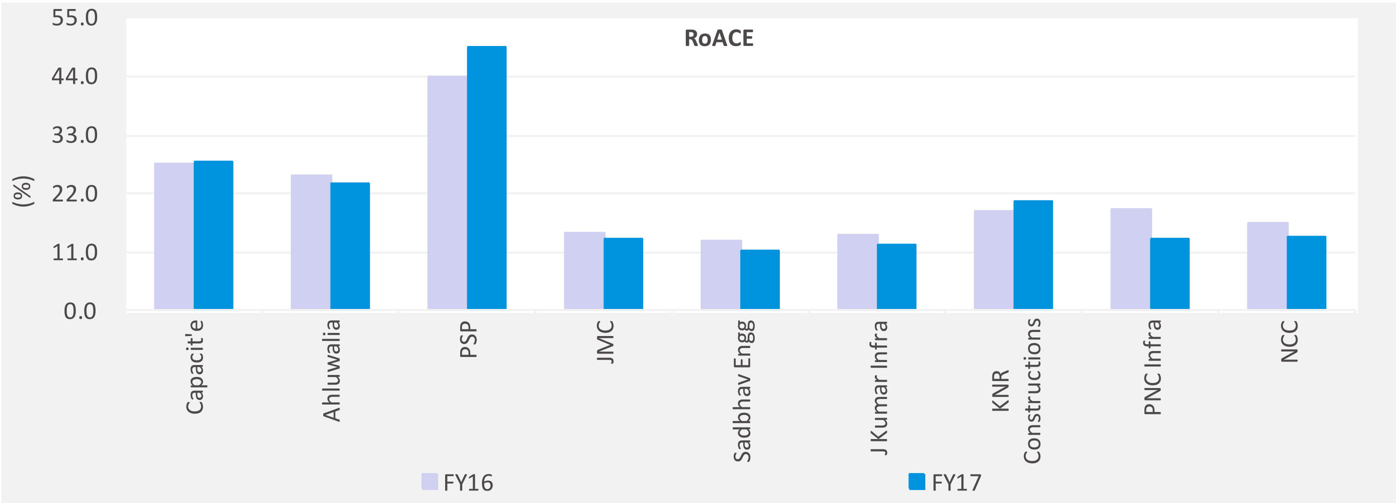
- **Healthy return ratios:** Robust operating profitability along with lean working capital cycle have ensured healthy return ratios for Capacit'e.

Chart 14: Robust RoE



Source: Company, Edelweiss research

Chart 15: Healthy RoCE



Source: Company, Edelweiss research

Valuation

Healthy earnings growth, scale expansion and diversification into public sector works will lead to rerating

Improving order book traction to result in earnings spurt

On healthy order inflows, we expect Capacit'e's order book to cross INR85bn by FY20, a growth of 50% plus over FY18.

We expect the company to post steady revenue growth going ahead with 23% top-line CAGR between FY18 and FY20. A stable margin trajectory and declining leverage levels are expected to improve PAT margins. Consequently, we estimate 31% earnings CAGR during the period. On free cash flow generation we expect return ratios to rebound post the temporary dip in FY18 when the company made its IPO.

Re-rating to follow profitable execution and scale expansion

We believe pick up in order intake will not only drive earnings growth, but also lead to multiple re-rating for the company by improving visibility of future earnings.

We believe that Capacit'e's scale of operations is set to expand significantly going ahead. We expect the company to turn in strong execution going ahead, while maintaining high profitability. Also, associated risks of relatively small scale of operations in contracting business should minimise with the company's operations expanding, enabling it to improve its risk-reward profile going ahead.

In addition, Capacit'e is trying to venture into the public sector space where it will bid for projects being awarded by cash-rich government bodies. This will not only diversify its growth avenues, but also reduce concerns on payment cycle from private sector. The company will also be better prepared to handle any adverse impact of realty slowdown, thereby improving investors' confidence on cash flows and profitability. This, along with scale expansion, will act as a trigger for multiple re-rating.

We have valued Capacit'e at INR397, assigning P/E of 20x to FY20E earnings. Our P/E multiple is at a premium to other EPC peers, which we believe is justified due to: (1) the company's lean balance sheet; (2) robust working capital management; and (3) better (and improving) return ratios. We initiate coverage on the stock with a '**BUY**' recommendation.

Table 5: Peer comparison

Company	Market cap	PAT CAGR (%)	Diluted P/E (X)		EV/EBITDA (X)		ROAE (%)	
	(INR bn)	(FY18-FY20E)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Capacit'e	18.6	31	17.9	13.8	7.1	5.5	13.0	14.8
Ahluwalia	26.1	26	17.4	13.9	9.1	7.2	21.3	21.6
PSP Projects *	18.7	37	20.7	15.3	14.0	8.6	20.7	28.5
JMC Projects *	22.1	14	18.9	16.0	8.8	7.8	13.7	14.2

Source: Bloomberg, Edelweiss research

*Note: * Consensus Bloomberg estimates*

Key Risks

Execution delays/payment risk in private sector projects

Liquidity issues have put the spanner in the works of many developers' projects, slowing execution. In case any of the clients face liquidity issues, it can lead to delays in project execution/elongated payment cycle for Capacit'e. This is particularly important for a sector like real estate, which is inherently cyclical in nature.

Concentration risk

We assess Capacit'e's concentration risks on three different parameters:

- **Segmental:** With the company present only in a single segment, its growth avenues are restricted as compared to other more diversified peers.

- **Geographical**: Historically, the Western region (MMR and Pune) has contributed the bulk of the company's orders; the region had ~87% share in the order book as at FY18 end. This exposes the company to risks of slowdown in realty sector in this region and other miscellaneous risks like sand mining ban in the region, etc.

- **Client specific risk**: The top-5 orders constituted 38% of the company's order book as at FY18 end. Any delays in execution of these projects could materially impact the company's growth prospects.

Company Description

Incorporated in August 2012, Capacit'e is a fast growing construction company focused on residential, commercial and Institutional buildings. The company's capabilities include constructing concrete building structures and composite steel structures as well as providing mechanical, electrical and plumbing (MEP) and finishing works.

The company's promoters, Mr. Rohit Katyal and Mr. Rahul Katyal, have vast experience in the EPC space, having been earlier associated with the Pratibha Group. Mr. Rohit Katyal had established the mechanical division for one of the group companies of the Pratibha Industries' promoter in 1996 and has experience of working in various capacities in the group companies of the Pratibha Group. At Pratibha Industries, he worked in various capacities like the Chief Operating Officer (COO) and Whole Time Director; he was responsible for planning & execution, team building, interacting with clients, finance and accounts and corporate affairs etc.

Similarly, Mr. Rahul Katyal worked in various capacities like the Chief Marketing Officer and the Chief Operating Officer (COO) at Pratibha Industries; he was responsible for business development, follow-up with tendering department, team building and such other activities. Prior to this assignment, he was employed with Pratibha Pipes & Structural Limited, an associate concern of Pratibha Industries, as a Director.

The operations of Capacit'e are geographically divided into MMR and Pune (West Zone), NCR and Patna (North Zone) and Bengaluru, Chennai, Hyderabad, Kochi and Vijaywada (South Zone).

The company's operations are focused on timely completion and delivering high quality work to its clients; this has enabled it to secure repeat orders from the Lodha Group, Godrej Properties, Oberoi Realty, The Wadhwa Group, and Puravankara Projects, etc.

Capacit'e focuses on ramping up its capabilities to undertake 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/high rise buildings. It uses different types of system formwork including, automatic climbing system formwork, aluminium formwork, tunnel formwork, table formwork, composite panel formwork (consisting of vertical panel and horizontal panel formwork systems) to meet the varying construction needs of different types of buildings.

Going ahead, the company intends to capitalise on the government's thrust on affordable housing. It plans to bid for new projects, including in the redevelopment projects segment and the mass housing projects segment in major cities. Its experience of executing projects relating to redevelopment, such as, Saifee Burhani Upliftment Project (Sub cluster 03), Rustomjee Seasons, as well as the projects in gated communities, such as, Kalpataru Immensa and Godrej Central will provide it with appropriate pre-qualifications for undertaking redevelopment and mass housing projects.

The company went public in 2017 with public issue of 1.6mn shares at INR250/share, aggregating ~INR4bn.

Fig. 1: Growth journey of Capacit'e

FY13
- Incorporated as Capacit'e Infraprojects
- Received the ISO 9001: 2008, ISO 14001: 2004 and OHSAS 18001: 2007 certifications

FY14
- Conversion from private limited company to a public limited company
- Won a project for "The Park (Towers 3 and 4)" from the Lodha Group

FY15
- Won the Godrej Central and Godrej Summit, Phase II projects
- Won the commercial project "Worldmark" from Bharti Land

FY16
- Investment of INR 630 mn by HW Investments
- Won an institutional project for a multi level car park from Sir Gangaram Hospital
- Won the Rustomjee Seasons and the "H Mill – The Wadhwa Group" projects

FY17
- Investment of INR 600 mn by Paragon, Infina, JT HUF and NewQuest
- Won the Kalpataru Immensa , Oberoi-Enigma and Prestige Hillside Gateway projects

FY18
- Went public, raised INR 4 bn through an IPO
- Won an INR 8.25 bn affordable housing project from Arihant Superstructures

FY19
- Bags INR 3.7 bn repeat orders from Oberoi Realty

Source: Company, Edelweiss research

Management overview

Table 6: Board of directors

Name	Position	Remarks
Mr. Rahul R. Katyal	Managing Director	He has been associated with the company since inception. He holds a higher secondary certificate from the Maharashtra State Board of Secondary and Higher Secondary Education Divisional Board. He has approximately 23 years of experience. Prior to incorporating the company, he has been on the board of directors of Capacit'e Structures till 2012 and a key managerial personnel at Pratibha Industries till 2012. He is currently focused on business development and operations of the company.
Mr. Rohit R. Katyal	Executive Director and Chief Financial Officer	He has been associated with the company since March 1, 2014. He holds a bachelors' degree in commerce from the University of Mumbai with specialisation in financial accounting and auditing. He has approximately 25 years of experience. Prior to joining the company, he has been on the board of directors of Pratibha Industries till 2012 and Capacit'e Structures till 2014 where he was on the board of directors for about 16 years. He is currently focused on the finance, commerce and accounts functions of the company.
Mr. Subir Malhotra	Executive Director	He has been associated with the company since inception. He holds a bachelor's degree in civil engineering (honours) from the Birla Institute of Technology & Science, Pilani. He has approximately 28 years of experience. He is currently focused on business development and operations of the company in the North zone.
Mr. Sumeet Nindrajog	Non – Executive Director	He is a nominee of Paragon Advisor Partners, LLP on the Board. He has been associated with the company since August 6, 2015. He has a bachelors' degree in economics from the University of Pennsylvania. He has approximately 16 years of experience. Prior to joining the company, he has worked at Ares Management in Los Angeles and UBS in the Investment Banking Group.
Mr. Siddharth D. Parekh	Non – Executive Director	He is the nominee of Infina, JT HUF, Paragon, Ananya Goenka and NewQuest on the board. He has been associated with the company since August 6, 2015. He has a bachelors' degree in economics from the University of Pennsylvania. He has approximately 16 years of experience. Prior to joining the company, he has worked at International Finance Corporation in Washington D. C. and the Boston Consulting Group in New York.
Ms. Farah Nathani-Menzies	Independent Director	She has an MBA from Harvard Business School and a B.A-B.Sc. magna cum laude from the University of Pennsylvania's Wharton School and College of Arts and Sciences. She graduated from the Huntsman Program in International Studies & Business with a minor in Spanish. She began her career as a management consultant at Bain & Company's New York office. She then spent eight years in their London, Madrid and Delhi offices in various industries spanning consumer goods, private-equity, retail & telecom.
Mr. Suryakant B Mainak	Independent Director	He was previously the MD of LIC of India. He has also served on the Boards of various companies such as National Stock Exchange (NSE), Stock Holding Corporation of India. He was appointed by the Government of India with erstwhile Satyam Computers for restructuring post the fraud. He also serves as a Professor and Head of Finance at National Insurance Academy (NIA).

Table 6: Board of directors (Contd…)

Name	Position	Remarks
Mr. Arun Karambelkar	Independent Director	He has 37 years of experience in energy, transportation and infrastructure business and brings expertise in engineering costing, design, procurement, construction and outsourcing, apart from general management skills. Mr. Karambelkar served as a Director on the Board of HCC Group Companies. He is silver Medalist with a Bachelor of Engineering (Mechanical) from Mumbai University and a top ranker in Masters in Material Management from Pune University.

Source: Company, Edelweiss research

Table 7: Major clients in each segment

Segment	Client
Residential	Lodha Group, Godrej Properties, Prestige Estates, Oberoi Realty, Kalpataru, Purvankara, Arihant Superstructures, The Wadhwa Group, Rustomjee, T Bhimjyani Realty, Saifee Burhani Upliftment Trust, DB – Radius, Sumer Radius Realty, Patel Realty, Sheth Transcon, Emaar MGF, Century Real Estate Holding, Four Seasons, Ramkrishnan Housing, Ozone,
Commercial/Institutional	Brigade Enterprises, Tata Trust, Samsung C&T India, Bharti Land, Brookfield Asset Management, Sir Gangaram Hospital

Source: Company, Edelweiss research

Table 8: Major projects completed in the past

Client	Project	Location	Type	Contract Type	Contract Value (INR mn)
Lodha Developers	Splendora	Thane, MMR	Residential	Shell & core	2,269
Godrej Properties	Godrej Central	Mumbai, MMR	Residential	Shell & core	1,895
Hiranandani Constructions	The Walk	Thane, MMR	Residential	Shell & core	937
Transcon Developers - Sheth	Auris Serenity Tower-1	Mumbai, MMR	Residential	Shell & core	736
The Wadhwa Group	W54	Mumbai, MMR	Residential	Shell & core	576
T-Series Super Casette	Office building	Mumbai, MMR	Commercial	Shell & core	133

Source: Company, Edelweiss research

Industry Overview

Buildings space brimming with humungous growth opportunities

The past couple of years have seen increasing opportunities in buildings construction, driven by revival of the fortunes of real estate developers and increasing public sector spending. Consolidation of realty sector is leading to market share gains for the organised sector. Government spending in housing (especially affordable housing) and healthcare along with improving fortunes of NBCC (which is at the forefront of self-revenue generation through monetisation of government properties) are leading to increased opportunities for contractors. Apart from this, there are various other growth avenues for building contractors like development and modernisation of airports, railway stations, etc.

India's real estate sector is on an upcycle, aided by regulatory changes, which are helping organised players

Real estate sector on an uptrend

As per a recent CREDAI-JLL report, the Indian realty sector is projected to reach USD180bn by 2020 from USD126bn in 2015; in addition, contribution of the residential segment to GDP would almost double to 11% by 2020. The report also indicated that investment inflows in the housing sector since 2014 have been ~INR590bn, ~47% of the total invested money in real estate.

According to Knight Frank's Frank Global House Price Index, India figures among the top-10 price appreciating housing markets internationally. Mumbai and Bengaluru have been rated amongst the top real investment destinations in Asia. Overall, the Indian realty sector is set for strong growth going ahead.

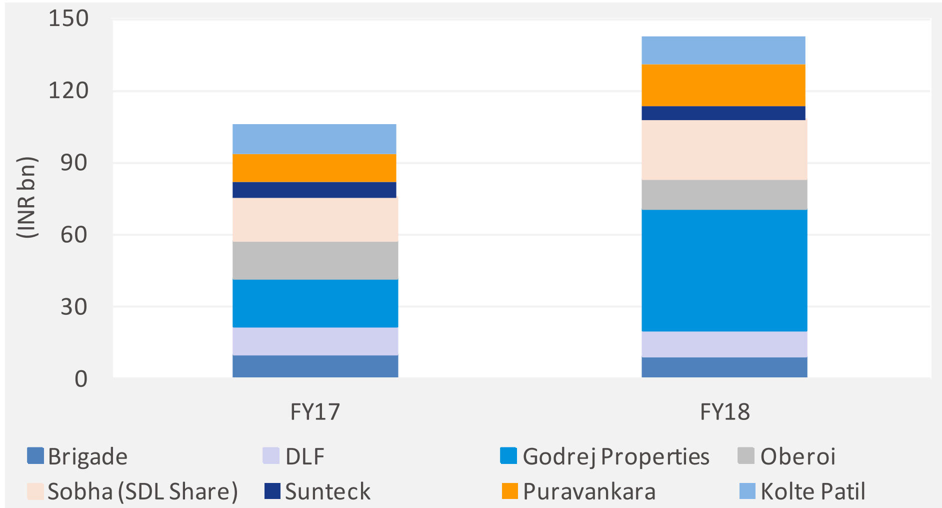
Recent developments in the sector

Introduction of RERA, have led to improved transparency levels, instilling greater confidence among the buyers. Since RERA mandates commitment from developers to complete projects on schedule, it is likely to result in demand for faster and timely contracting services by the developers. RERA also mandates developers to deposit 70% of the amount realised from customers in an escrow account to cover construction costs. This is likely to be beneficial for larger and organised developers who are likely to adapt better to the stringent conditions compared to the smaller developers.

In addition, **new financing models like REITs** have enhanced attractiveness of the sector as far as attracting institutional capital is concerned. This will once again be beneficial for developers with large portfolios since the chances of them attracting investments will be higher compared to smaller ones.

We are already seeing signs of consolidation in the realty industry. Major realty developers have seen an uptrend in sales bookings post the introduction of RERA.

Chart 16: Sales booking of major realty developers shows an uptrend



Source: Government, Edelweiss research

Going ahead, we believe, this trend will only strengthen. As a result, consolidation in the Indian real estate segment will be a key theme in future.

Government Spending on Buildings: Metamorphosis Underway

The government spending on housing, education, urban infrastructure, etc., which entail construction of buildings is increasingly becoming a substantial opportunity for civil contractors. A major reason behind the surge in expenditure is the increasing allocation for numerous schemes/programmes overseen by various ministries. This ensures that the funding burden does not fall on any single ministry. We evaluate various schemes below:

Government's spending is driving higher opportunities in the buildings segment

- With India's urban population projected to touch 814mn by 2050, the government aims to tackle problems of urban housing shortage and dilapidated urban infra via programmes like Housing For All (HFA), Smart Cities and AMRUT. These schemes are run by various ministries:
  - Under the umbrella scheme for HFA, rural housing falls under the ambit of Ministry of Rural Development (MoRD).
  - Urban housing schemes under HFA are run by the Ministry of Housing and Urban Affairs (MoHUA)
- Redevelopment of government properties
- Ministry of Health (MoH) funds construction of healthcare institutes like AIIMS

Additionally, individual ministries also run their own schemes to facilitate housing for their employees. In all, opportunities for civil construction players in this field are increasing at a fast pace. We analyse developments in various schemes in detail below.

"Housing For All"

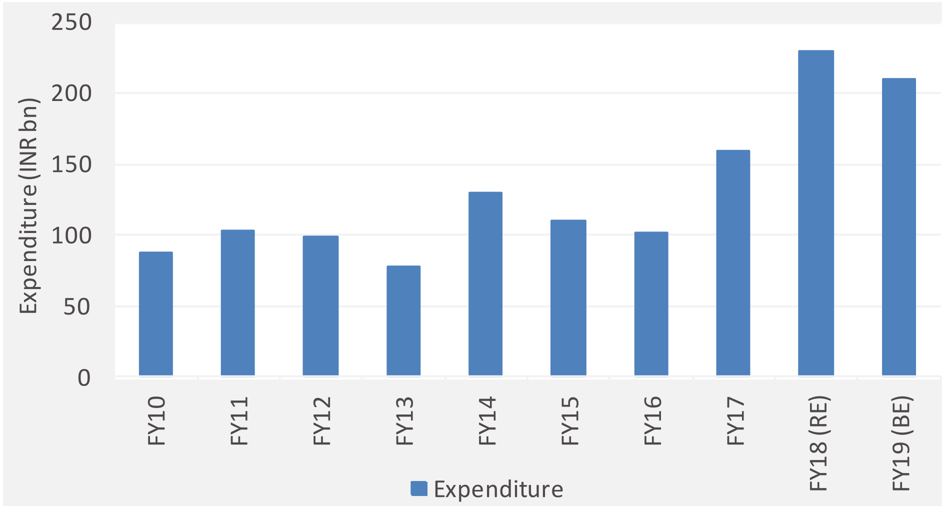
Under this programme, the government has set an ambitious target of achieving Housing For All by 2022. The programme envisages completion of 20mn houses in urban areas and 40mn in rural areas.

Affordable housing has emerged as a big draw for contractors

Rural housing: The erstwhile rural housing scheme, Indira Awaas Yojana has been restructured as the Pradhan Mantri Awaas Yojana - Gramin (PMAY-G). Under the scheme, the government is targeting to provide an environmentally safe and secure *pucca* house to every rural household by 2022; overall, ~29.5mn houses are to be built by 2022.

In phase I, the target is to complete building 10mn houses by March 2019 at a cost of ~INR1.3tn; of this, the central government will provide ~INR820bn, with the balance coming from the state governments.

Chart 17: Sharp jump in outlay for rural housing



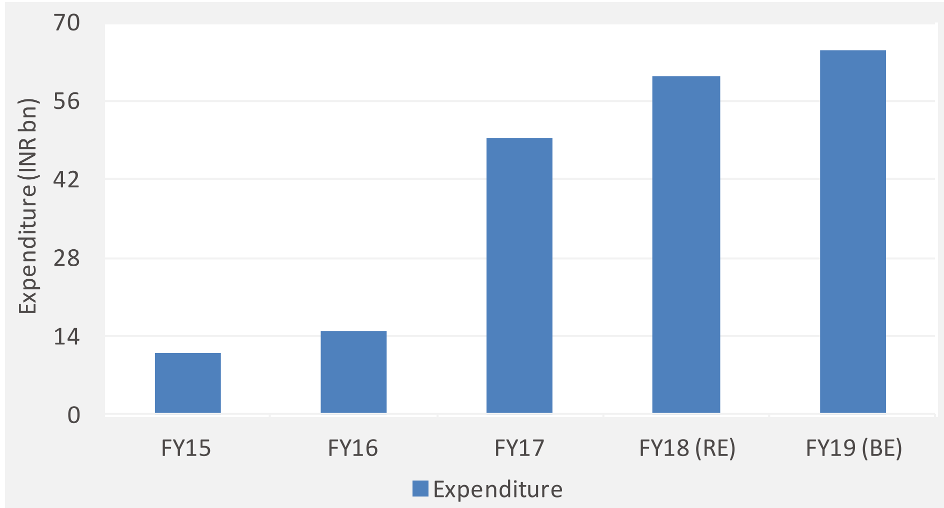
Source: Government documents, Edelweiss research

Urban housing: Here the government launched the Pradhan Mantri Awas Yojana (Urban) in June 2015. The scheme targets building 20mn affordable houses in urban areas (for slum dwellers and people from EWS & LIG segments) by 2022. This will be done through ~INR2tn financial assistance from the central government. The central government will provide assistance in the INR0.1-0.23mn range per beneficiary under the various components of National Urban Housing Mission (NUHM) in urban areas.

The targeted spending on urban housing at ~INR65bn in FY19 is >4x the expenditure incurred in FY16.

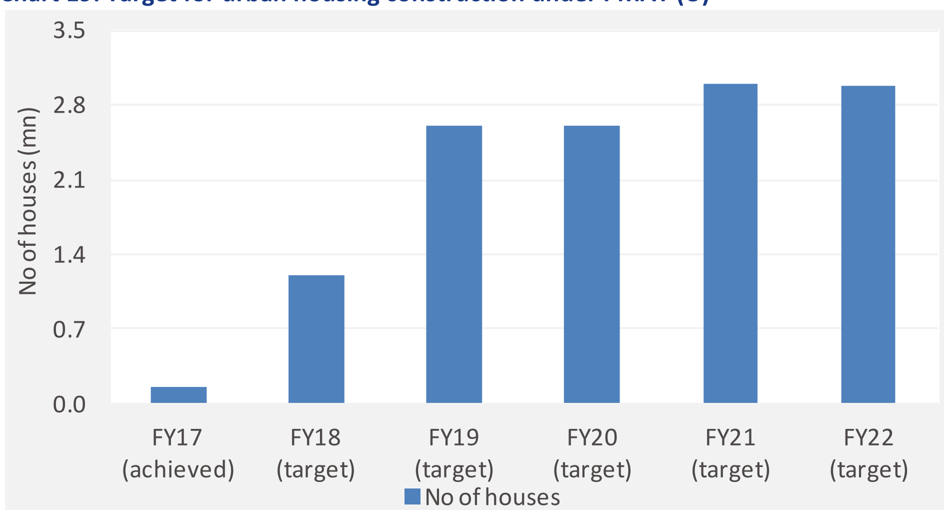
Large contractors have started to make a mark in affordable housing contracts

Chart 18: Steady increase in urban housing outlay



Source: Government documents, Edelweiss research

Chart 19: Target for urban housing construction under PMAY (U)



Source: News reports, Edelweiss research

The PMAY (Urban) scheme has achieved important milestones since inception. Over 3.75mn houses had been sanctioned by CY17 end with a total investment of INR2tn. Out of the approved total central assistance of ~INR577bn, ~INR129bn had already been released to states/union territories by CY17 end.

Recent news flow indicates that the private sector has started participating / benefiting from these schemes. For example:

- **L&T bagged an INR13.2bn order** in June 2017 for **construction of 22,000 residential buildings under the PMAY scheme** from the Andhra Pradesh Township Infrastructure Development Corporation.
- In February 2018, L&T bagged another order to construct 284 residential towers of G+3 floors under the PMAY scheme at various locations of Krishna district of Andhra Pradesh.

NBCC is witnessing significant growth potential due to its ability to generate revenues through monetisation of government property

We believe, the opportunity in housing will continue to remain strong going ahead, resulting in significant ordering opportunities for civil contractors.

Redevelopment of government properties

Shortage of houses for government employees remains a major issue for the government. To address this, central and state governments have undertaken various schemes to provide accommodation to government employees. A major scheme which has really gathered traction in past few years is the redevelopment of government properties.

Under this, government agencies like NBCC/CPWD, etc., undertake construction of houses on government land; the funds required for construction are generated by commercial monetisation of surplus land available i.e. by developing residential/commercial properties on a part of the land and selling it to the general public. NBCC, with experience in the real estate sector, has taken a lead here. Some of the major projects being undertaken by NBCC on 'self revenue generation' basis are:

- The Union Cabinet approved redevelopment of seven GPRA colonies in Delhi in July 2016 at a total estimated project cost of ~INR328bn (including maintenance cost for 30 years). In terms of cost of construction, NBCC will incur ~IN250bn, with the balance to be borne by CPWD. However, generation of entire fund through commercial monetisation will be NBCC's responsibility.

  Work on redevelopment of these GPRA colonies in Delhi has gathered pace in the past six months. NBCC had awarded the INR19.5bn contract for Nauroji Nagar to NCC in October 2017. It has also awarded the INR10.4bn contract for Netaji Nagar (Pkg 1) to Shapoorji Pallonji and the INR8.5bn contract for Sarojini Nagar (Pkg 1) to Girdhari Lal Constructions.

- NBCC is also undertaking two redevelopment projects for AIIMS in New Delhi, costing ~INR44bn. Tendering for award of the Ayurvigyan Nagar contract (~INR25bn) has already started, while that for Ansari Nagar project (~INR19bn) will happen later.

- Apart from these seven colonies, there are plans to redevelop other colonies in Delhi as well. For instance, news reports indicate the **MoUD has decided to develop a 240-acre plot at Ghitorni on Mehrauli-Gurgaon road in Delhi at an estimated cost of ~INR150bn**.

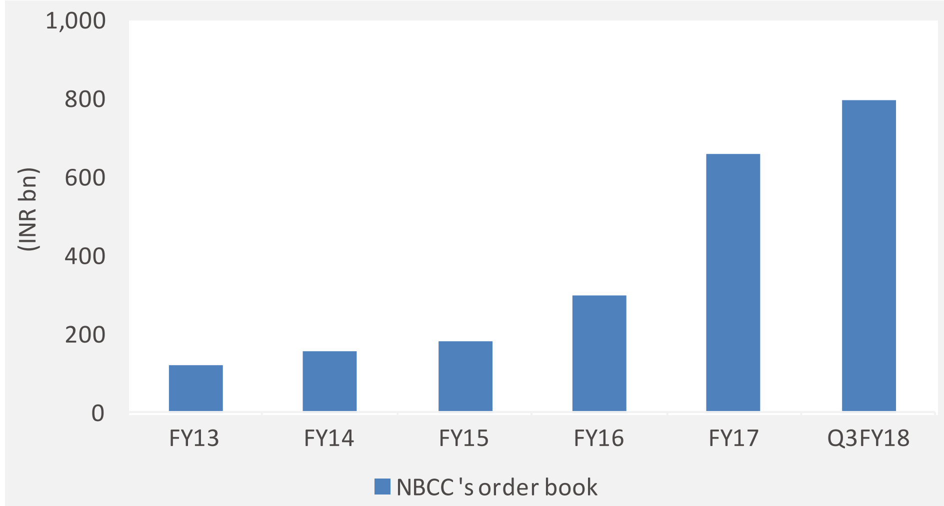
- NBCC has bagged an INR32bn project to develop a residential-cum-office complex in Wadala in Mumbai.

- NBCC is also undertaking redevelopment of 10 railway stations. Foundation stones of Gomati Nagar and Charbagh stations in Lucknow were laid recently. The total project cost (station work along with realty development) for each of these two projects is ~INR20bn.

Due to its expertise in its redevelopment projects/self revenue generation projects, NBCC's order book has grown rapidly over the years.

NBCC's order book has surged, driven by large order inflows of the 'self revenue generation' category

Chart 20: Rapid growth in NBCC's order book creating opportunities for contractors



Source: Company, Edelweiss research

With a large number of orders in the company's order book yet to be awarded, there will be significant growth opportunities for civil contractors going ahead.

Upsurge in Capex in Health Institutions

Burgeoning demand for healthcare in premier institutes like AIIMS is leading the government to announce setting up of new branches in various states. This is resulting in substantial opportunities for building contractors.

- **Status:** Currently, there are seven AIIMS in India. In past couple of years, the government has announced setting up of a number of new AIIMS in various states.

Table 9: New AIIMS announced

Year	Name	Project Cost (INR bn)
2014	Andhra Pradesh	16
2014	Maharashtra	16
2014	Uttar Pradesh	10
2014	West Bengal	18
2015	Assam	11
2015	Jammu	16
2015	Kashmir	18
2015	Punjab	9
2015	Tamil Nadu	NA
2015	Himachal Pradesh	NA
2015	Bihar	NA
2017	Gujarat	NA
2017	Jharkhand	NA

Source: Government, Edelweiss research

- **Beneficiaries:** Average cost of building an AIIMS has been ~INR14bn per institute, which is likely to throw up sizeable opportunities for contractors.

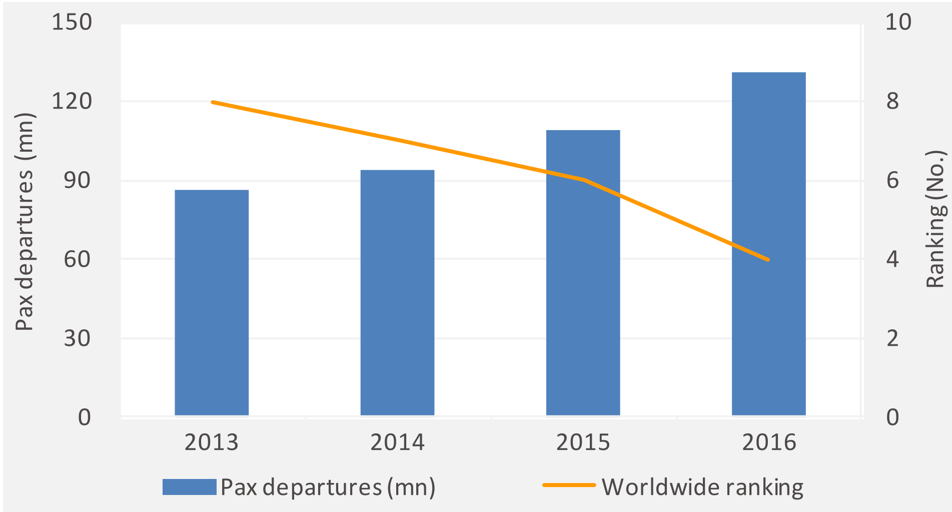
India is amongst the fastest growing aviation markets in the world; government is targeting to double the number of airports over next 15 years

Government intends to expand airport capacity by 5x to handle 1bn pax trips per year

Airport sector in India

Air traffic in India has been growing at a scorching pace. From being the eighth-largest aviation market in 2013, India became the fourth-largest with 131mn departures in 2016. It is expected to overtake Japan and become the third-largest aviation market over 2017-18.

Chart 21: Indian aviation traffic—Up, up and away



Source: IATA, Edelweiss research

India currently has ~100 operational airports and is amongst the fastest-growing aviation markets in terms of domestic passenger growth. The government's regional connectivity scheme (UDAN), which offers subsidised fares of INR2,500 to unserved and underserved airports, is likely to promote regional air connectivity in a big way going ahead. India is envisaged to surpass UK and become the world's third-largest aviation market (including arrivals and departures) by 2025, just behind US and China.

To handle this surging traffic and promote air connectivity, the government is planning to develop green-field airports/expand existing ones in various parts of the country. The programme will involve setting up of 100 airports and cost ~INR4tn over next 15 years. The target is to ensure that ~90% of India's population is within an hour or an hour and a half from any airport.

Of these 100 airports, while 70 will be green-field, balance will be second airports/brown-field expansion of existing airports. Brown-field expansion (30 airports) will happen in cities like Delhi, Mumbai, Pune, Jaipur and Guwahati, among others. The government has indicated that the private sector will play a major role in this. For example, GMR is likely to undertake ~NR120bn capex across Delhi, Hyderabad and Goa airports over next three-four years. Similarly, GVK is in the midst of developing the green-field Navi Mumbai Airport at a cost of INR160bn plus.

As per a study by the Centre for Asia Pacific Aviation (CAPA), the airports at Mumbai, Chennai, Delhi and Kolkata will reach their maximum capacity in the next one-four years, i.e., between 2019 and 2022, assuming passenger growth rate is 10% per annum. Also, 10 airports — Pune, Jaipur, Srinagar, Lucknow, Dehradun, Agartala, Guwahati, Kozhikode, Mangalore and Trichy — managed by AAI are already operating "beyond their design capacity".

Overall, the airport system is expected to exceed its maximum structural capacity by FY22. To combat this, India needs to invest up to USD45bn to create additional capacity to handle 500-600mn passengers at its airports by 2030. In the Union Budget 2019, the government indicated its target to expand airport capacity by 5x to handle 1bn pax trips per year. This is likely to lend huge fillip to airport development in the country.

Recent news flow reinforces the buoyancy in the sector:

- The Civil Aviation Ministry has indicated there will be investments to the tune of ~INR952bn for setting up new terminals, develop green-field airports and private investment in joint venture airports over next five years. This will include ~INR202bn to be invested by the Airport Authority of India (AAI) for development of infrastructure at its 22 airports, ~INR500bn for development of green-field airports by the government and ~INR250bn to be spent by airport operators of Delhi, Bengaluru and Hyderabad for upgrade and expansion.
- The central government will work with the states for innovative measures for capacity augmentation of airports in the country and revise regulatory framework for airports, apparently to attract private capital to the aviation sector. At a recent meeting between the Civil Aviation Ministry and Airline representatives, proposals for a new urban planning and multi-modal connectivity to the airports were discussed as part of the NABH (NextGen Airports for Bharat) Nirman initiative.
- The central government recently approved a proposal to build new terminal buildings at the Chennai, Lucknow and Guwahati airports at an estimated cost of over INR50bn.

Financial Outlook

Riding robust order inflows and healthy execution capabilities, we expect the company's top line to rise at 23% CAGR over FY18-20. Stable operating margins, lean working capital cycle and free cash flow generation will mean that balance sheet will remain healthy; this will lead to 31% EPS CAGR over FY18-20E and improvement in return ratios.

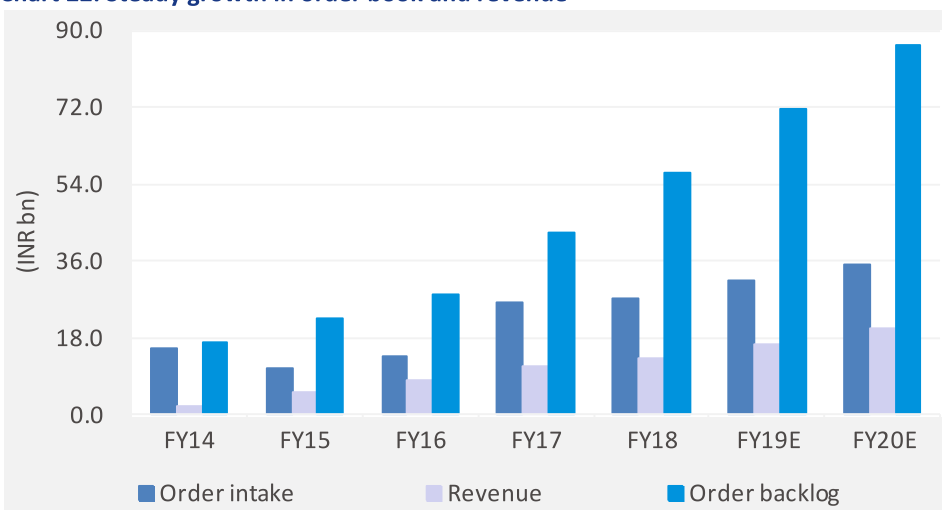
Order intake to remain robust, leading to steady execution

Strong order intake to result in stable revenue growth going ahead

RERA driven consolidation leading to improving operational performance of real estate developers and increasing government spending in the buildings segment are likely to result in substantial order inflows for Capacit'e. We expect the company's order book to cross the INR85bn mark by FY20.

We expect improving revenue visibility and healthy execution to result in 23% revenue CAGR between FY18 and FY20. Revenue growth can improve in case the sharpened focus on technology induction bears fruits in terms of further trimming the execution cycle.

Chart 22: Steady growth in order book and revenue



Source: Company, Edelweiss research

Improving balance sheet health to aid profitability

Operating margins to remain stable going ahead; declining interest costs to boost PAT margins

We expect Capacit'e to maintain its high operating margins going ahead. While it will derive some benefits from operating leverage, the company may have to sacrifice some margins as part of its entry strategy in public sector projects going ahead. Consequently, we expect EBITDA margin to remain at ~15% levels over FY18-20.

Chart 23: Operating margins to remain stable

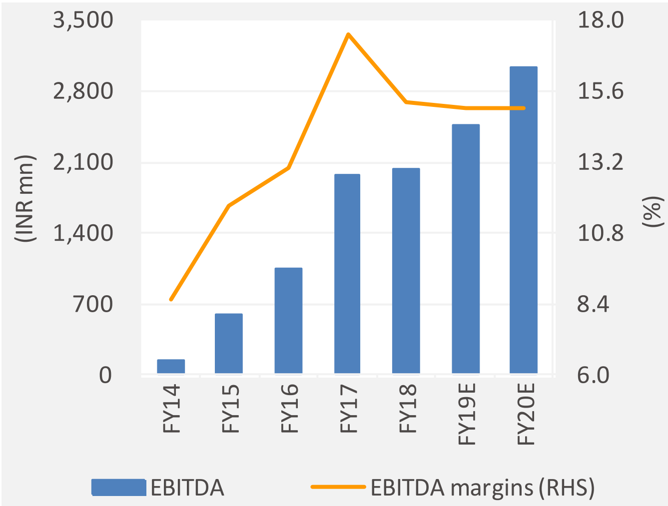
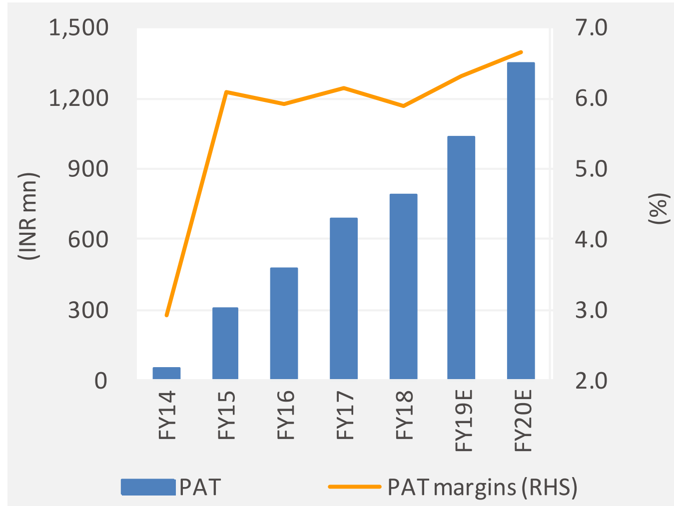


Chart 24: PAT margins to improve



Source: Company, Edelweiss research

Improving cash flow trajectory to result in declining debt levels

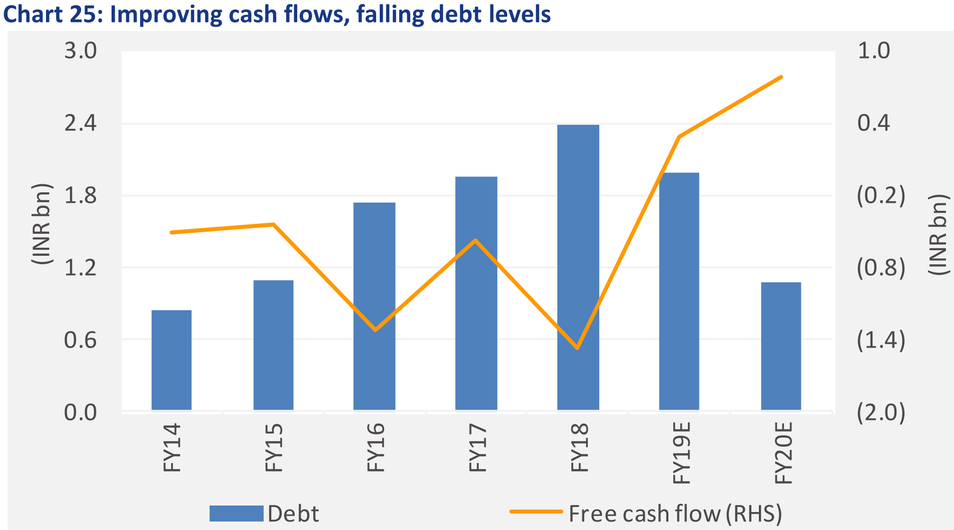
We expect the company's working capital cycle to improve going ahead led by two main factors: first, roll out of GST had led to debtor build-up for contractors as project costs had to be reworked; this is now expected to be reversed going ahead.

Second, post the IPO, cash retention money of INR1bn is expected to get released (post furnishing of equivalent bank guarantees) over next one year. Overall working capital cycle can fall to ~50 days in the long run, in our view; the subsequent reduction in debt should help the company save on interest costs. As a result, we have an upward bias for the PAT margins.

Debt to remain low

Efficient working capital management and high operating margins will ensure that Capacit'e generates free cash flows going ahead. Consequently, its leverage levels should inch down.

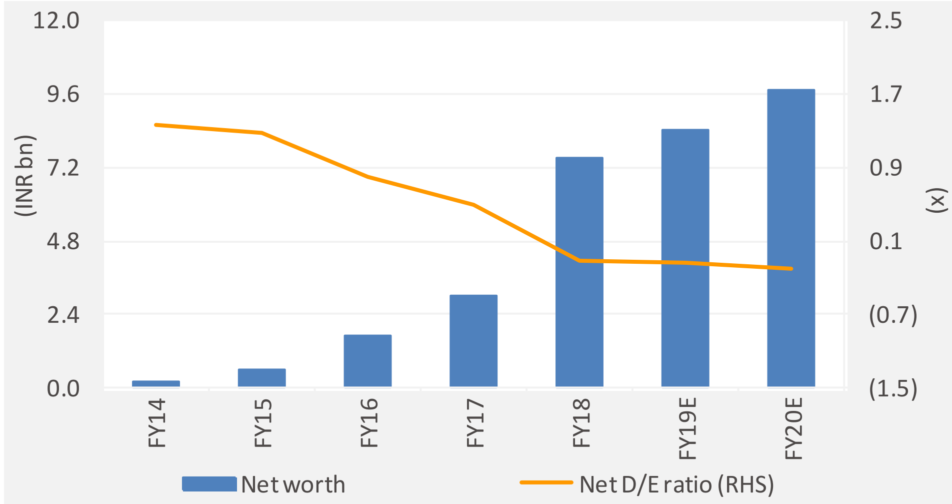
Chart 25: Improving cash flows, falling debt levels



Source: Company, Edelweiss research

We expect the company's net debt:equity to fall to (0.2)x by FY20.

Chart 26: Leverage on a decline



Source: Company, Edelweiss research

Return ratios to improve

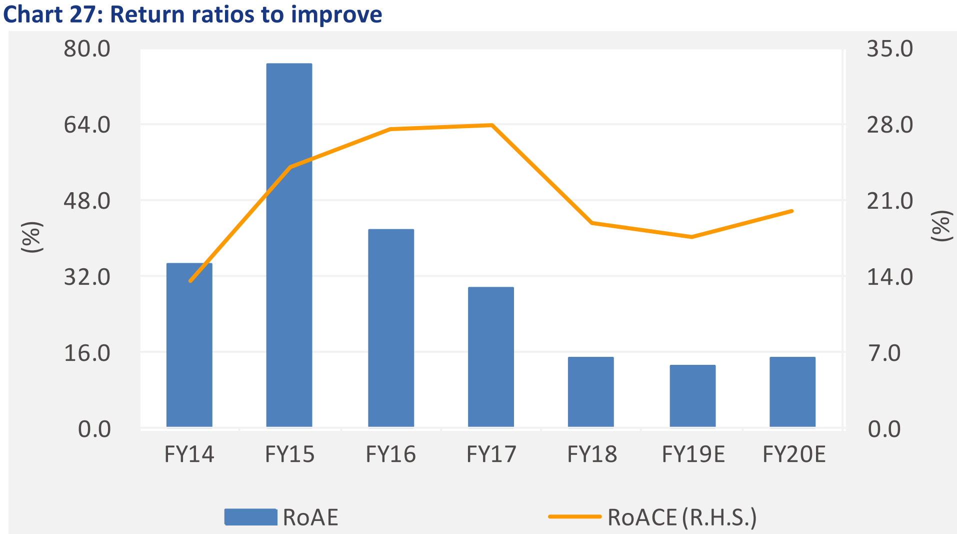
Capacit'e has historically enjoyed high return ratios – both RoAE and RoACE were ~29% at FY17 end. Capital infusion post the IPO is likely to mar the return ratios in the interim.

However, efficient capital management and healthy profitability will eventually see the return ratios improving going ahead. Due to improved financial strength post the IPO, the holding period for trade payables and other current liabilities are likely to decline going ahead. In addition, the company will be able to replace performance security in certain contracts by extending corporate guarantees, improving its working capital cycle.

Low working capital requirement and steady profit growth mean that the company will be able to maintain high return ratios over long term.

Return ratios to inch up after temporary dip post IPO

Chart 27: Return ratios to improve



Source: Company, Edelweiss research

Financial Statements (Standalone)

Key assumptions (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
INR/USD	67.1	64.5	66.0	66.0
Company				
Order intake (INR bn)	26	27	31	35
Y-o-Y growth (%)	93.4	4.8	14.7	12.8
Book-to-bill ratio (x)	3.8	4.3	4.4	4.3
Order backlog (INR bn)	43	57	72	87
Order backlog growth (%)	53	32	26	21
Revenue growth (%)	39.9	18.7	23.0	23.0
Raw mat. costs (as % of sales)	40.8	44.5	44.7	44.7
Job work costs (as % of sales)	29.9	27.8	27.8	27.8
Other mfg. costs (as % of sales)	0.0	0.0	0.0	0.0
Employee costs (as % of sales)	7.7	8.7	8.7	8.7
Other expenses (as % of sales)	4.1	3.7	3.7	3.7
Dep. rate (as % of fixed asst)	20.2	14.4	13.4	13.4
Tax rate (%)	34.4	34.8	34.5	34.5
Dividend per share	0.5	1.0	1.0	1.0
Capex (INR mn)	1,338	1,426	1,219	1,279
Incre. in investments (INR mn)	(8)	191	0	0
Debtor days	121	127	112	105
Inventory days	85	73	73	72
Other current assets days	39	65	14	14
Loans & adv. (as % of reven.)	6	4	0	0
Sundry creditors days	98	103	110	110
Other creditors days	36	37	36	37
Provisions days	2	3	4	4
Incremental debt (INR mn)	215	436	(409)	(900)
Interest rate (%)	16.4	14.0	14.0	14.0

Income statement (INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	11,251	13,356	16,428	20,207
Direct costs	7,955	9,663	11,918	14,659
Employee costs	868	1,166	1,435	1,765
Other expenses	458	494	608	748
Total operating expenses	9,281	11,323	13,960	17,171
EBITDA	1,970	2,033	2,468	3,036
Dep. and amortisation	651	672	808	976
EBIT	1,319	1,361	1,660	2,059
Less: Interest Expense	417	398	420	354
Add: Other income	151	244	346	351
Add: Prior period items	0	0	0	0
Add: Exceptional items	0	0	0	0
Profit before tax	1,053	1,207	1,587	2,056
Less: Provision for Tax	362	420	547	709
Reported Profit	691	787	1,039	1,347
Less: Prior Period (Net of Tax)	0	0	0	0
Less: Excep. Items (Net of Tax)	0	0	0	0
Adjusted Profit	691	787	1,039	1,347
No. of Share outs. (mn)	40	68	68	68
Adjusted Basic EPS	17.1	11.6	15.3	19.8
Dilu. sha. outstanding (mn)	40	68	68	68
Adjusted Diluted EPS	17.1	11.6	15.3	19.8
Adjusted Cash EPS	33.4	23.6	27.2	34.2
Dividend per share (DPS)	0.5	1.0	1.0	1.0
Dividend Payout Ratio (%)	3.5	10.4	7.9	6.1

Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	82.5	84.8	85.0	85.0
EBITDA margins	17.5	15.2	15.0	15.0
Depreciation	5.8	5.0	4.9	4.8
Interest expenditure	3.7	3.0	2.6	1.8
Other income	1.3	1.8	2.1	1.7
Tax	3.2	3.1	3.3	3.5
EBIT margins	11.7	10.2	10.1	10.2
Adjusted profit margins	6.1	5.9	6.3	6.7

Annualised growth metrics (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	39.9	18.7	23.0	23.0
EBITDA	88.5	3.2	21.4	23.0
PBT	45.0	14.6	31.5	29.5
Adjusted Profit	44.9	14.0	32.0	29.5
EPS	(79.3)	(32.4)	32.0	29.5

Balance Sheet				(INR mn)
As on 31st March	**FY17**	**FY18**	**FY19E**	**FY20E**
Share capital	403	679	679	679
Reserves & Surplus	2585	6816	7774	9038
Shareholders' funds	2,988	7,495	8,452	9,717
Long term borrowings	670	480	480	480
Short term borrowings	1,283	1,909	1,500	600
Total Borrowings	1,953	2,389	1,980	1,080
Long Term Lia. & Provisions	1,099	1,034	1,269	1,559
Deferred Tax Liability (net)	258	404	404	404
Sources of funds	**6,298**	**11,322**	**12,107**	**12,761**
Gross Block	3,881	5,374	6,591	7,869
Net Block	3,236	4,085	4,495	4,796
Capital work in progress	67	1	1	1
Intangible Assets	21	14	16	18
Total Fixed Assets	3,324	4,100	4,511	4,815
Non current investments	2	192	197	197
Cash and cash equivalents	500	3,242	3,119	3,005
Inventories	1,704	2,156	2,612	3,172
Sundry Debtors	3,734	4,647	5,436	6,190
Loans & Advances	328	548	712	838
Other Current Assets	1,189	2,453	3,017	3,711
Total Curr. Assets (ex cash)	6,955	9,803	11,777	13,911
Trade payable	3,097	4,468	5,434	6,746
Oth. Cur.Liab.&Short Term Pro.	1,387	1,546	2,064	2,421
Total Curr. Liab. & Provisions	4,483	6,015	7,497	9,167
Net Current Assets (ex cash)	2,472	3,789	4,280	4,745
Uses of funds	**6,298**	**11,322**	**12,107**	**12,761**
Book Value per share (INR)	74	110	124	143

Free cash flow				(INR mn)
Year to March	**FY17**	**FY18**	**FY19E**	**FY20E**
Reported profit	691	787	1,039	1,347
Add: Depreciation	651	672	808	976
Interest (Net of Tax)	273	259	275	232
Others	(293)	(198)	(357)	(314)
Less: Changes in W. C.	569	1,381	256	175
Operating cash flow	753	139	1,510	2,065
Less: Capex	1,338	1,426	1,219	1,279
Free cash flow	(585)	(1,287)	290	786

Cash flow metrices

Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	753	139	1,510	2,065
Financing cash flow	794	4,270	(409)	(900)
Investing cash flow	(1,330)	(1,617)	(1,219)	(1,279)
Net cash Flow	217	2,793	(118)	(114)
Capex	(1,338)	(1,426)	(1,219)	(1,279)

Profitability and liquidity ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	29.5	15.0	13.0	14.8
ROCE (%)	28.0	18.9	17.7	20.0
Current Ratio	1.7	2.2	2.0	1.8
Debtors (days)	103	115	112	105
Inventory Days	85	73	73	72
Interest Coverage Ratio	3.2	3.4	4.0	5.8
Avg. working capital t/o (x)	4.4	2.7	2.3	2.7
Avg. capital turnover ratio (x)	2.1	1.5	1.4	1.6
Net Debt/Equity	0.5	(0.1)	(0.1)	(0.2)
Debt/Equity	0.7	0.3	0.2	0.1
Payable days	190	195	201	203
Cash conversion cycle	(1)	(7)	(16)	(26)
Debt/EBITDA	1.0	1.2	0.8	0.4

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total asset turnover	2.1	1.5	1.4	1.6
Fixed assets t/o (x)	4.1	3.6	3.8	4.3
Equity turnover	4.8	2.5	2.1	2.2

Valuations parameters

Year to March	FY17	FY18	FY19E	FY20E
Adjusted Diluted EPS (INR)	17.1	11.6	15.3	19.8
Y-o-Y growth (%)	(79.3)	(32.4)	32.0	29.5
Adjusted Cash EPS (INR)	33.4	23.6	27.2	34.2
Dil. Price to Earn. Ratio (P/E) (x)	16.0	23.6	17.9	13.8
Price to Book Ratio (P/B) (x)	3.7	2.5	2.2	1.9
Enterprise Value / Sales (x)	1.1	1.3	1.1	0.8
Enterprise Value / EBITDA (x)	6.3	8.7	7.1	5.5
Dividend yield (%)	0.2	0.4	0.4	0.4

Additional Data

Directors Data

Mr. Rahul Katyal	Managing Director	Mr. Rohit Katyal	Executive Director and Chief Financial Officer
Mr. Subir Malhotra	Executive Director	Mr. Sumeet Nindrajog	Non-Executive Director
Mr. Siddharth D. Parekh	Non-Executive Director	Ms. Farah Nathani-Menzies	Independent Director
Mr. Suryakant B Mainak	Independent Director	Mr. Arun Karambelkar	Independent Director

Auditors – M/s. SRBC & CO. LLP, Chartered Accountants

*as per last available data

Holding – Top 10

	Perc. Holding		Perc. Holding
New Quest Asia Investments II Limited	9.75	Paragon Partners	8.89
Sundaram Asset Management	3.27	Goldman Sachs	2.07
Infina Finance Pvt Ltd	1.86	Mirae Asset India Mid Cap Equity Fund	1.83
IIFL Special Opportunities Fund	1.42	Aditya Birla Sunlife Asset Management	0.96
HDFC Asset Management	0.57	HSBC	0.53

*as per last available data

Bulk Deals

Date	Acquirer/Seller	B /S	Qty Traded	Price
25-Feb-17	Hari Kishan Agarwal HUF	Buy	377010	359.1
25-Feb-17	Hari Kishan Agarwal HUF	Sell	377010	359.3
25-Feb-17	Alphagrep Commodities Private Limited	Buy	1384640	358.0
25-Feb-17	Alphagrep Commodities Private Limited	Sell	1384640	358.0
25-Feb-17	Millennium Stock Broking Pvt. Ltd.	Buy	532148	366.0
25-Feb-17	Millennium Stock Broking Pvt. Ltd.	Sell	532148	366.0
25-Feb-17	N.K. Securities	Buy	609385	358.0
25-Feb-17	N.K. Securities	Sell	609385	358.0
25-Feb-17	Purity Trademax LLPllp	Buy	347449	359.0
25-Feb-17	Purity Trademax LLPllp	Sell	347449	360.0
30-Nov-17	Paragon Partners Growth Fund	Sell	2100000	417.0
30-Nov-17	Societe Generale	Buy	2100000	417.0

*as per last available data

Insider Trades

Reporting Date	Acquirer / Seller	B/S	Quantity Traded
No Data Available			

*as per last available data

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
25-May-18	**PNC Infratech**	Robust performance; bright outlook; *Result Update*	169	Buy
04-May-18	**Hindustan Construction Company**	Lavasa resolution key monitorable; *Result Update*	18	Buy
16-Apr-18	**ITD Cementation**	Moving into higher gear ; *Visit Note*	165	Not Rated

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

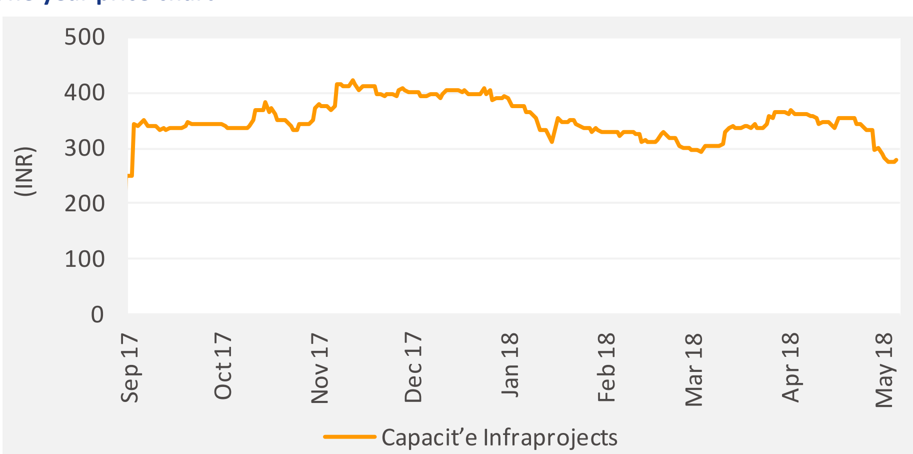
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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