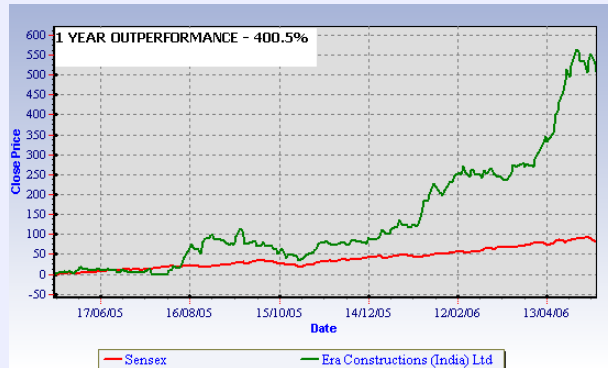
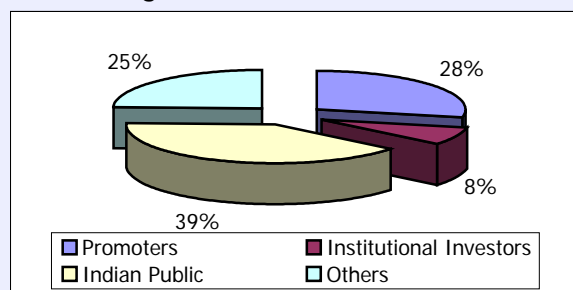



**Era Constructions (India) Ltd.**  
**Market Outperformer(CMP : Rs. 502 )**
**Q4FY06 Result Update**

BSE Code	530323
NSE Code	-
Reuters Code	ERCI.BO
Equity Capital	Rs. 18.6 cr
Face Value	Rs. 10
Market Cap	Rs. 933.7 cr
52 Week H/L	Rs. 541.9/69.0
BSE Sensex	11873

**Stock Performance**

**Financial Snapshot (Rs. Cr.)**

Particulars	FY06	FY07E	FY08E
Total Income	312.9	607.3	1006.9
Net Profit	26.4	54.1	91.0
Net Profit growth (%)	380.3	104.9	68.2
EPS (Rs.)	14.2	23.4	39.4
EPS growth (%)	68.1	64.7	68.4
P/E (x)	35.4	21.4	12.7
EV/EBITDA (x)	16.2	12.5	8.4
ROCE (%)	17.7	21.2	27.1
Div. Yield (%)	0.3	0.5	0.8

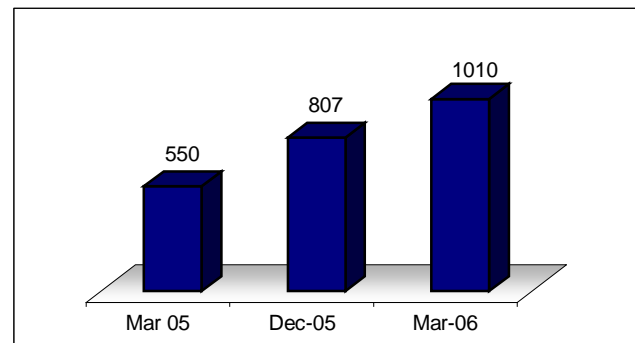
**Shareholding Pattern**


Era Construction (Era) reported an after-tax-profit of Rs 12.3 cr in the final quarter of FY06 against Rs 2.2 cr in the corresponding quarter – a steep jump of 459%. For FY06, the after-tax-profit of Rs 26.4 cr compared to Rs 5.5 cr showed a growth of 384%. Good growth in topline coupled with sharp improvement in margin resulted in such sharp surge in profitability.

**Significant improvement in margin**

In Q4 FY06, net sales of the company grew by 95%. However operating profit surged by 442% as the operating margin jumped to 20.7% from 7.4% in the year-ago quarter. According to the management, in the quarter under review, the company executed quite a few contracts in which materials were supplied by the client and Era had to only bear the labour charges. This had a salubrious impact on margin. The company also had an ad-hoc income in the form of sale of metal products.

For FY06, the topline grew by 99%. However, the jump in operating margin from 9% to 15.7% led to a 248% jump in operating profit to Rs 48.9 cr. We feel that maintaining such high margin remains a challenge amid heightened competition in the space.

**Exhibit II: Growth in Order Book (Rs cr)**


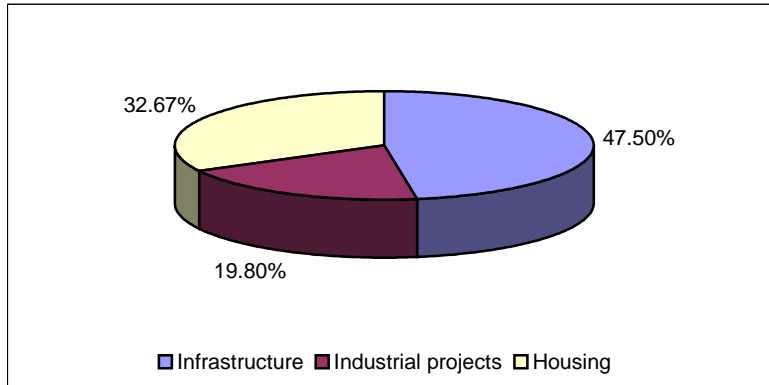
Source: Era Construction

**Growth in order book maintained**

The order book of the company has almost doubled and stood at Rs 1010 cr at the end of Mar 06. This is almost Rs 203 cr higher compared to the order book position at the end of Dec 05. The order book remains well diversified with the share of infrastructure at 47.5% - of which around 48% is in power. Industrial projects formed 19.8% of the order book and the share of housing institutional & others stood at 32.7%. The

company reportedly has an order pipeline of Rs 1700 cr and it is the lowest bidder for projects worth Rs 550-600 cr.

**Exhibit II: Order Book break-up at the end of Mar 06**



Source: Era Construction

### Group companies to add value

Era has set up sophisticated facilities to manufacture Pre Engineered Building (PEBs) materials plant at Pant Nagar (Uttaranchal) through a separate entity. Capital outlay for first phase is estimated at Rs 85 cr. Pre-Engineered Steel Buildings also widely known as PEBs are very popular worldwide for its versatility, energy efficiency, speed of construction, economy & ease of design / manufacturing. PEBs are tailor made solutions to meet customer specific requirements and demand is growing at a very fast speed. We expect this division to start contributing in the future. Era infrastructure – a promoter group company is foraying into real estate, and the construction contract for this business is expected to come to Era. Another group company – Era Financial Services, has surrendered its NBFC certificate and proposes to carry on entertainment activities like multiplexes, cineplexes, food courts etc.

### Raised capital to fund growth

Era has recently completed two rounds of capital raising. It raised Rs 60.6 cr from preferential issue of warrants and USD 30 mn (apprx Rs 133.4 cr) through issue of 0.5 cr GDRs. The same is expected to reduce the debt burden, augment the gross block and prepare the company to invest in BOT projects.

### Recommendation

Era Construction's financial performance was above our expectations on account of the positive surprise on the margin front. While maintaining such margin will remain a challenge, we feel that its backward integration to PEB would enable the entity to manage cost pressures well. FY07 remains a critical year for the company as it plans to graduate to the 'big league' in terms of size and profitability. At the CMP, the stock trades 13x its expected earnings of FY08E and EV/EBIDTA of 8.6x. We maintain our Market Out Performer rating on the stock.

<b>Financial Summary</b>						<b>(Rs. Cr.)</b>
<b>Year End March 31</b>	<b>Q4 05</b>	<b>Q4 06</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Sales	53.3	103.9	156.2	310.8	605.0	1004.5
<i>Growth (%)</i>		<i>94.7</i>	<i>42.8</i>	<i>99.0</i>	<i>94.7</i>	<i>66.0</i>
Total Expenditure	49.4	82.4	142.1	261.9	523.9	868.7
Operating Profit	4.0	21.5	14.1	48.9	81.1	135.8
Other Income	0.8	1.2	1.2	2.2	2.3	2.4
PBDIT	4.8	22.7	15.3	51.0	83.4	138.2
Interest	1.7	3.2	5.7	10.1	3.4	5.8
Depreciation	0.6	1.1	2.2	3.5	4.9	6.0
Profit Before Tax	2.6	18.3	7.4	37.4	75.1	126.4
Tax	0.6	3.2	1.9	11.0	21.0	35.4
Profit After Tax	2.2	12.3	5.5	26.4	54.1	91.0
<i>Growth (%)</i>		<i>459.1</i>	<i>90.3</i>	<i>380.3</i>	<i>104.9</i>	<i>68.2</i>
Equity	6.5	18.6	6.5	18.6	23.1	23.1
<b>Ratio Analysis</b>						
<b>Profitability Ratios (%)</b>						
OPM	7.4	20.7	9.0	15.7	13.4	13.5
NPM	4.1	11.8	3.5	8.4	8.9	9.0
<b>Per Share Data (Rs.)</b>						
Cash EPS	4.2	7.2	11.7	16.1	24.8	41.1
EPS	3.38	6.61	8.4	14.2	23.4	39.4
<b>Return Ratios (%)</b>						
RONW			17.0	11.1	15.9	21.6
ROCE			18.8	17.7	21.2	27.1
<b>Valuation Ratios (x)</b>						
P/E			59.5	35.4	21.4	12.7
EV/EBIDTA			23.2	16.2	12.5	8.4

## Rating Summary

Market Outperformer	Over the next 12 months, we expect the stock's returns to be >10% relative to the BSE Sensex.
Market Performer	Over the next 12 months, we expect the stock's returns to be between -10% and +10% relative to the BSE Sensex.
Market Underperformer	Over the next 12 months, we expect the stock's returns to decline >10% relative to the BSE Sensex.

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**Registered Office**

The IL&FS Financial Centre, Plot C-22, G-Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051. Tel.: 2653 3333; Fax: 2653 3075  
 Email: [services@investsmartindia.com](mailto:services@investsmartindia.com), URL: [www.investsmartindia.com](http://www.investsmartindia.com)T

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