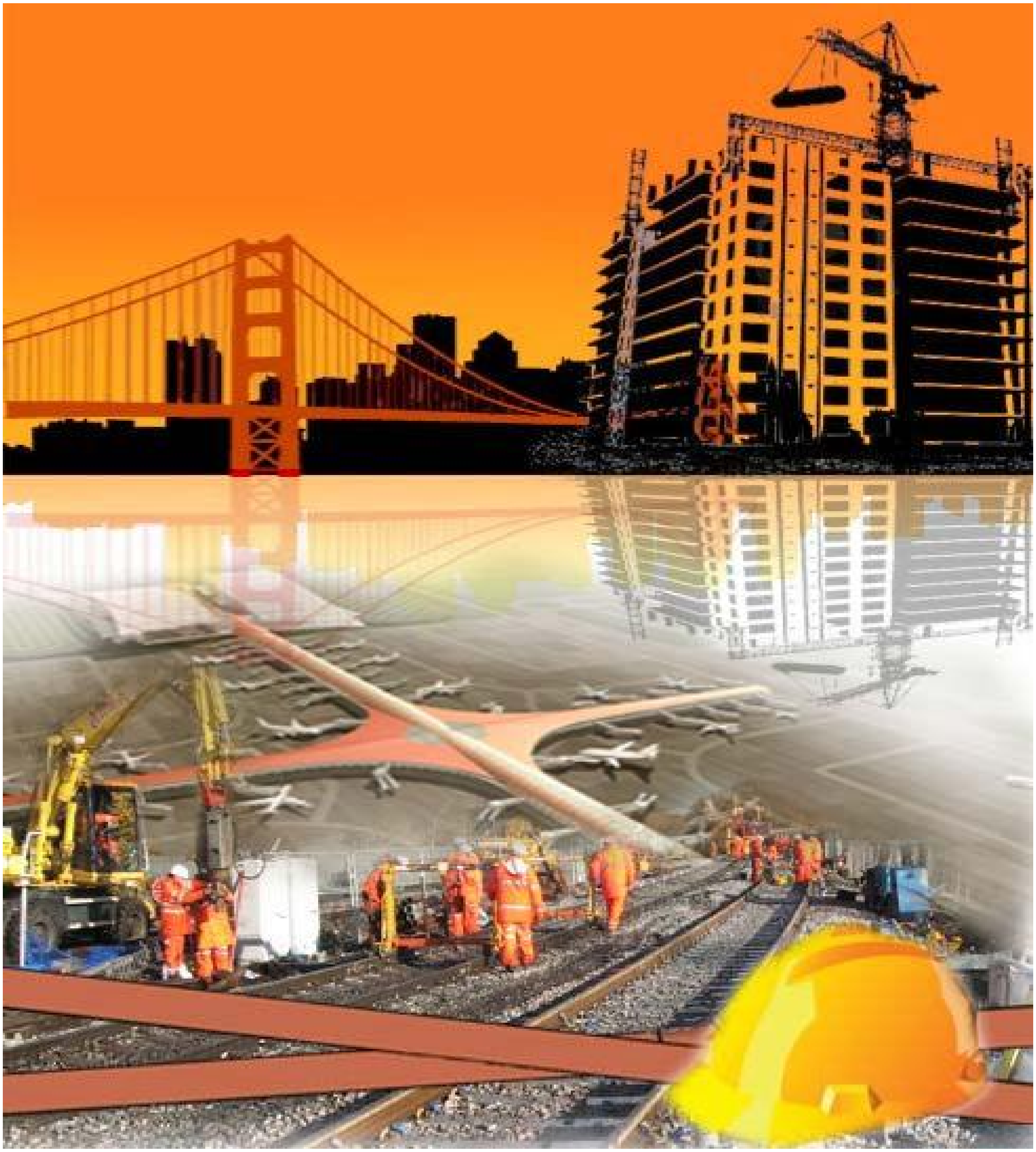
INDIA

30 Aug 2010

Construction Sector

$443bn Infra Opportunity Awaits



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CENTRUM

Construction Sector

Initiation **30 August 2010**

Sector View: Positive

Infrastructure Construction

IVRCL Infra – Buy

NCC– Buy

HCC– Buy

Era Infra Eng – Buy

CCCL – Buy

Ahluwalia Contracts –Buy

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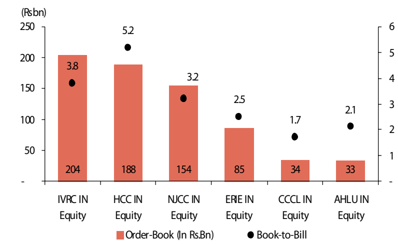
US$443bn Infra Opportunity Awaits

We initiate coverage on the construction sector with a positive long-term view due to its robust project pipeline, improving credit scenario and better execution environment. We expect increased order-book visibility, as the 12th Five-Year Plan (2012-17) envisages infrastructure investment of US$1tn and a fast-growing economy boosts industrial capex. Risk factors include land acquisition issues and unstable regulatory policies. We recommend Buy on all coverage companies: IVRCL Infra, NCC, HCC, Era Infra, CCCL and Ahluwalia Contracts (ACIL). ACIL is our Top Buy.

- **2nd fastest-growing economy; opportunity estimated at $443bn**
  - 12th Five-Year Plan targets infrastructure spend of US$1tn, presenting construction opportunity worth $443bn, as per our estimates. We expect significant activity in power, road and ports.
  - Reviving investment sentiment is expected to increase residential, commercial and industrial capex (accounts for 46% of construction's total pie).
- **Factors driving growth – government initiatives:**
  - Improved funding environment through steps taken by the government, banking authorities and regulatory agencies.
  - Improved regulatory environment with the adoption of the B.K. Chaturvedi report on the road sector. These steps indicate the government's intent to ensure good infrastructure facilities in India, which in turn, would boost construction growth.
- **Positive impact on operating environment and financials**: Funding and regulatory changes are expected to lead to better operating environment in terms of improved margins and financial position. Working capital turnover is also likely to improve.
- **Risk factors**: Land acquisition and unstable regulatory policies remain key risks. Other risks: rising raw material price and scarcity of skilled labour for complex projects.
- **Undervaluation not justified**: We believe the adjusted EPC business' current P/E of 9x-10x FY12E earnings (discount to Sensex P/E of 14x) is unwarranted. To value coverage companies, we apply a range of 11x-14x: 12x to CCCL, 11x to ACIL, 13x to IVRCL, and 14x to Era Infra, HCC and NCC's domestic business. We initiate coverage on the sector with a positive view. ACIL is our Top Buy on its better risk-reward profile.

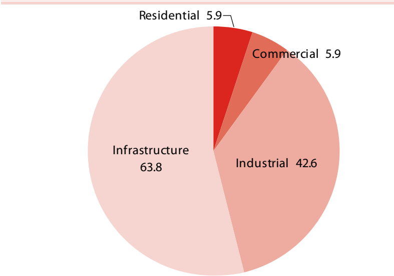
Order-Book & Book-To-Bill* as on Q1FY11



*Book-to-bill ratio calculated as OB/TTM Rev

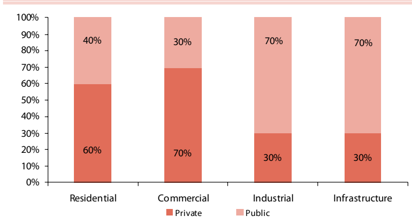
Source: Companies, Centrum Research

FY09 Construction Sector Mix ($bn)



Source: Companies, Centrum Research

FY09 Public/Private Construction Spend



Source: Companies, Centrum Research

Valuation Summary

Company	Rating	M.Cap Rsmn	M.Cap US$ mn	CMP (Rs)	Target Price	Fair P/E Multiple	Up/ Down (%)	EPS (Rs) FY11E	EPS (Rs) FY12E	EPS (Rs) FY13E	P/E (x) FY11E	P/E (x) FY12E	P/E (x) FY13E	RoE (%) FY11E	RoE (%) FY12E	RoE (%) FY13E
IVRCL Ltd	Buy	42,174	916.8	158	230	13.0	46	10.2	12.5	15.1	15.5	12.6	10.5	12.8	14.0	14.8
NCC Ltd	Buy	39,617	861.2	154	215	13.0	39	10.0	12.1	14.0	15.4	12.8	11.0	11.0	12.1	12.7
HCC Ltd	Buy	37,275	810.3	60	88	14.0	48	2.4	3.5	4.9	25.1	16.8	12.2	9.4	12.8	15.7
Era Infra	Buy	39,930	868.0	220	289	14.0	31	14.4	19.2	24.4	15.3	11.4	9.0	17.7	19.7	20.5
CCCL	Buy	15,706	341.4	85	101	12.0	19	6.9	8.4	10.4	12.3	10.1	8.1	19.8	20.2	20.9
Ahluwalia Cont.	Buy	13,180	286.5	210	276	11.0	31	18.2	24.8	31.3	11.5	8.5	6.7	37.5	36.5	33.4

Price as on 27 August 2010; Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

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Investment Argument

We initiate coverage on the construction sector with a positive view and a Buy rating on all our coverage companies in the sector. Our positive stance is based on the prominent status the construction sector is slated to occupy in the Indian economy in the coming decade, with strong long-term prospects for infrastructure and construction companies. We rate Ahluwalia Contracts (ACIL) as our Top Buy due to its better risk-reward profile.

To achieve its target of 9% GDP growth, India needs to sizeably expand its infrastructure. Consequently, the government's 12th Five-Year Plan (2012-17) targets infrastructure investment of US$1tn. As infrastructure contributes 54% (FY09) of the construction sector's total spend, this is expected to result in increased order-visibility for the sector. In addition, residential, commercial and industrial capex (contributes around 46% of construction sector's total pie) is improving as a result of the reviving economic scenario – which is a fillip for building contracting companies. We estimate the emerging opportunity for construction from infrastructure segments at US$443bn during the 12th Five-Year Plan period.

On the risks front, land acquisition remain the biggest issue followed by shortage of skilled manpower to execute increasing number of large and complex projects. However, while issues remain, the government has taken positive steps in key areas – such as funding availability and regulatory policy framework.

Strong order-inflow: Rs693bn (US$15bn) expected by FY12E

The Indian construction sector is also the fastest-growing segment among its peers in the Asia-Pacific region. Power, roads and ports offer the highest opportunity in the sector, followed by railways and urban infrastructure. (See Exhibit 3 for details)

Of the targeted infrastructure spend of US$1tn during the government's 12th Five-Year Plan period, the construction opportunity is estimated at US$443bn. The expected strong order-intake scenario is likely to translate into high revenue visibility for existing players. In the past one year, the order-intake activity of coverage companies has been robust, with Rs366bn (US$8bn) awarded in FY10. We expect intake of Rs538bn (US$12bn) in FY11E and Rs693bn (US$15bn) by FY12E.

Public-Private Partnership (PPP) model to be implemented across states

According to the *Economic Survey 2010,* projects worth Rs2,242bn are being implemented on a PPP basis. Andhra Pradesh, Maharashtra and Karnataka have the highest share in total PPP projects implemented. The roads sector garners the highest share of projects implemented on a PPP basis, at 45.5%, followed by ports with 30% share. Going forward, we expect the PPP model to be implemented across states, creating opportunities for all players in the industry (infrastructure asset owners and construction players).

Government initiatives to ease credit facilities for the sector

The funding environment in the infrastructure and construction sector has improved manifold, with the government's recent initiatives to ease credit facilities for the sector. These include:

1. Take-out financing through the Indian Infrastructure Finance Corporation (IIFCL),
2. Implementation of recommendations made by the Deepak Parekh Committee on Infrastructure,
3. Provision by the 2010 Union Budget for tax exemption of an additional Rs20,000 to individuals investing in infrastructure bonds,
4. RBI's measures on reclassification of the loan category for banks lending to the infrastructure sector.

Further, regulatory changes have been initiated by authorities to provide a level playing field to existing and new players (domestic and international). One of the major reasons for the revival of the roads sector (which had gone through a disappointing phase in the pre-2009 era) is the change in regulatory policies. Road sector is expected to see hectic activity, going forward.

Better margins and profitability expected, going forward

The sector's profitability is expected to improve following the government's new funding and regulatory measures. Our coverage companies are likely to deliver either stable operating margins or a slight increase in FY11E and FY12E, from current levels. Consequently, we expect effective utilization of capital employed to result in better working capital turnover, hence improving return on capital. We believe working capital turnover is likely to be better than in the past two years (performance in FY09 and FY10 had been impacted by issues beyond the companies' control – such as the global downturn and the Andhra Pradesh financial crisis).

Risks: land acquisition, lack of manpower, raw material prices, funding

Construction projects in India invariably faced delays on account of land acquisition problems. Despite some improvement, this risk still remains. The scarcity of skilled manpower is another risk and one that we believe will be more acute, going forward, as an increasing number of high ticket size and complex projects are implemented in India. This would result in increasing employee cost, as expats are hired for execution of complex projects in India. Other risks to the sector include impact on operating profitability due to rising raw material prices for fixed price contracts.

Current valuations vs Sensex: unwarranted discount

As per our analysis, construction stocks (adjusting for the value of infrastructure assets and real estate, which are primarily non-core construction businesses) are trading at a discount to the Sensex's FY12E P/E multiple of 14x. We believe this discount is unwarranted, since the sector's earnings growth at 22% over FY10-12E is above the 16% Sensex earnings growth estimates. We value the core construction business in the range of 11x-14x for our coverage companies, adjusting for sector presence and financial management parameters.

Exhibit 1: Core construction business – valuation

Company (Rsmn)	Rating	Fair Value (Rs)	No. of Shares (mn)	Market Cap	Other Buss Value	Const. Mcap	FY12E Net Profit Expt.	Core Business P/E (x)	EPS (Rs)	P/E We Applied (x)	CMP (Rs)	Our Target (Rs)	Upside (%)
IVRCL Inf.	Buy	230	267.0	42,174	17,989	24,186	3,342	7.2	12.5	13.0	158	230	45.7
Nagar. Const	Buy	215	256.6	39,617	11,633	27,984	3,102	9.0	12.1	13.0	154	215	39.0
HCC	Buy	88	626.0	37,275	24,187	13,088	2,212	5.9	3.5	14.0	60	88	48.0
EraInfra	Buy	289	195.9	43,017	3,898	39,119	3,768	10.4	19.2	14.0	220	289	31.7
CCCL	Buy	101	184.8	15,706	-	15,706	1,553	10.1	8.4	12.0	85	101	18.6
Ahluwalia Cont	Buy	276	62.8	13,180	-	13,180	1,558	8.5	24.8	11.0	210	276	31.3
Average / Total			**NA**	**190,969**	**52,688**	**138,281**	**15,535**	**NA**		**NA**		**NA**	

Source: Centrum Research Estimates

Coverage universe: positive view on all companies; Ahluwalia Contracts is our Top Pick

We initiate coverage on the construction sector with a positive view. Our stance is based on the huge addressable opportunity, as well as the improving regulatory and funding environment which will culminate in a better operating environment. We initiate with a Buy rating on IVRCL Infra, Nagarjuna Constructions, Hindustan Constructions, Era Infra, CCCL and Ahluwalia Contracts. Ahluwalia Contracts is our Top Pick in the sector due to its better risk-reward ratio on robust return on capital and strong resources management compared to peers.

Exhibit 2: Summary valuations

		M.Cap						EPS (Rs)			P/E (x)			*RoE (%)*		
Company	Rating	Rsmn	US$ mn	CMP (Rs)	Target Price	Fair P/E Multiple	Up/ Down (%)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	*FY11E*	*FY12E*	*FY13E*
IVRCL Ltd	Buy	42,174	916.8	158	230	13.0	46	10.2	12.5	15.1	15.5	12.6	10.5	*12.8*	*14.0*	*14.8*
NCC Ltd	Buy	39,617	861.2	154	215	13.0	39	10.0	12.1	14.0	15.4	12.8	11.0	*11.0*	*12.1*	*12.7*
HCC Ltd	Buy	37,275	810.3	60	88	14.0	48	2.4	3.5	4.9	25.1	16.8	12.2	*9.4*	*12.8*	*15.7*
Era Infra	Buy	39,930	868.0	220	289	14.0	31	14.4	19.2	24.4	15.3	11.4	9.0	*17.7*	*19.7*	*20.5*
CCCL	Buy	15,706	341.4	85	101	12.0	19	6.9	8.4	10.4	12.3	10.1	8.1	*19.8*	*20.2*	*20.9*
Ahluwalia Cont.	Buy	13,180	286.5	210	276	11.0	31	18.2	24.8	31.3	11.5	8.5	6.7	*37.5*	*36.5*	*33.4*

Source: Centrum Research Estimates

Strong Order-intake Visibility Due to US$443bn Construction Opportunity During the 12th Five-Year Plan

US$1tn investment in infrastructure during the 12th Five-Year Plan

Infrastructure has received increasing importance in the Central government's Five-Year Plans. Allocation to the infrastructure sector has increased 135%, from US$194bn in the 10th Five-Year Plan (2002-07) to US$457bn in the 11th Plan (2007-12). Continuity in the government's infrastructure policy gives strong support to the infrastructure story, which could impact overall GDP growth by 1%-2%.

Within infrastructure, power received the highest allocation of US$148bn (32.4% of total allocation), followed by roads and bridges at US$70bn (15.3%). As any economy relies heavily on the availability of power and roads, we believe the importance of these two sectors will be more dominant as India pushes for 9% GDP growth.

Exhibit 3: Estimated allocation to infrastructure in the 12th Plan (assuming similar allocations as in the 11th Plan)

(Rsbn)	10th Plan 2002–07	Eleventh Plan Period					Total 11th Plan (Rsbn)	Total 12th Plan (Rsbn)	Total 11th Plan (US$ bn)	Total 12th Plan (US$ bn)
	FY03-07	FY08	FY09	FY10	FY11	FY12	FY08-12	FY12-17		
Electricity	2,919	820	1,016	1,264	1,580	1,986	6,665	13,288	148.1	**295.3**
Roads and Bridges	1,449	518	548	592	684	800	3,142	6,263	69.8	**139.2**
Telecommunication	1,034	314	381	486	616	787	2,584	5,152	57.4	**114.5**
Railways (incl. MRTS)	1,197	342	410	495	604	767	2,618	5,220	58.2	**116.0**
Irrigation (incl. Watershed)	1,115	275	359	472	623	804	2,533	5,050	56.3	**112.2**
Water Supply & Sanitation	648	193	228	273	333	411	1,437	2,865	31.9	**63.7**
Ports	141	124	148	174	200	234	880	1,754	19.6	**39.0**
Airports	68	52	55	59	66	77	310	617	6.9	**13.7**
Storage	48	38	41	44	48	52	224	446	5.0	**9.9**
Gas	97	27	30	33	37	41	169	336	3.7	**7.5**
Total (Rs bn)	**8,714**	**2,703**	**3,216**	**3,893**	**4,791**	**5,959**	**20,562**	**40,992**	**456.9**	**910.9**
Total US$ bn (@Rs45/$)	**193.7**	**60.1**	**71.5**	**86.5**	**106.5**	**132.4**	**456.9**	**910.9**		

Source: Government, Centrum Research

…..provides a US$443bn opportunity for construction players

Infrastructure spend in the 12th Plan is expected to reach US$1tn. Assuming a similar sector mix to that of the 11th Plan, we expect construction opportunity to increase from US$223bn to US$443bn in the 12th Plan (see Exhibit 3 for details).

- **Power:** We expect capacity addition of around 100GW in the 12th Plan, creating construction opportunity of US$112bn, up from US$56bn in the 11th Plan. Thermal and hydro power is expected to provide most of the construction opportunity in the12th Plan.
- **Roads:** Improving execution environment has resulted in increased activity in the sector. Several reforms have been undertaken in the past year, including the implementation of the B.K. Chaturvedi Report. The report recommended various regulatory changes, such as the "conflict of interest clause", wherein an investor's holding limit was increased from 5% to 20% to avoid being disqualified. A substantial number of road projects are under construction and under survey. The Road Ministry's 'Work Plan 2014', envisages the addition of 37,050km, creating huge construction opportunity for construction players.
- **Ports:** The National Maritime Development Plan (NMDP) envisaged the implementation of 276 projects (in major ports). Total investment is planned at US$11bn, with the private sector contributing US$7bn. The estimated 12th Plan allocation of US$39bn creates construction opportunity to the tune of US$27bn.
- **Water supply and sanitation:** In the current scenario of scarcity that is prevailing across states, the water sector has strong potential for construction players. The 11th Plan outlined an investment of US$32bn, which presents a construction opportunity of US$19bn, rising to US$38bn in the 12th Plan.
- **Railways:** Many construction players are eyeing this segment, following the Railway Minister's statement in this year's Rail Budget that she intended to invite private players to participate on a BOT or EPC basis. The 11th Plan allocation was robust at US$58bn, and we expect this to touch US$115bn in the 12th Plan, creating a construction opportunity of US$90bn. Currently, projects are undertaken purely on an EPC basis and the ticket size too is very small. That is expected to change and the ticket size is likely to see a sharp increase, benefiting existing players like L&T, Gammon India, IVRCL Infra, NCC, and Era Infra.

Exhibit 4: Indian construction opportunity

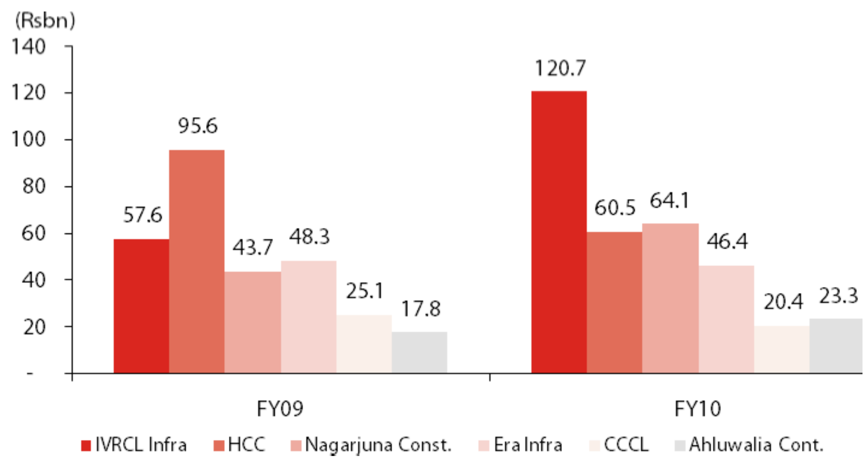
Segment	Allocation in INR bn			Allocation in US$ bn			*Share (%)*			*Construction Portion (in %) in % of total cost*	Construction Opportunity		
	10th Plan	11th Plan	12th Plan	10th Plan	11th Plan	12th Plan	*10th Plan*	*11th Plan*	*12th Plan*		10th Plan (US$bn)	11th Plan (US$bn)	12th Plan (US$bn)
Electricity (incl. NCE)	2,919	6,665	13,210	64.9	148.1	293.5	*33.5*	*32.4*	*32.4*	*38.0*	24.6	56.3	111.5
Roads and Bridges	1,449	3,142	6,226	32.2	69.8	138.4	*16.6*	*15.3*	*15.3*	*64.0*	20.6	44.7	88.5
Railways (incl. MRTS)	1,197	2,618	5,189	26.6	58.2	115.3	*13.7*	*12.7*	*12.7*	*78.0*	20.7	45.4	89.9
Irrigation (incl. Watershed)	1,115	2,533	5,020	24.8	56.3	111.6	*12.8*	*12.3*	*12.3*	*75.0*	18.6	42.2	83.7
Water Supply &Sanitation	648	1,437	2,849	14.4	31.9	63.3	*7.4*	*7.0*	*7.0*	*60.0*	8.6	19.2	38.0
Ports	141	880	1,744	3.1	19.6	38.8	*1.6*	*4.3*	*4.3*	*70.0*	2.2	13.7	27.1
Airports	68	310	614	1.5	6.9	13.6	*0.8*	*1.5*	*1.5*	*30.0*	0.5	2.1	4.1
Sub-Total (Rs crore)	**7,535**	**17,585**	**34,850**	**167.5**	**390.8**	**774.5**	***86.5***	***85.5***	***85.5***	***NA***	**95.9**	**223.5**	**442.9**

Note: Above table excludes Telecom as it is a low construction intensity sector.
Source: Construction Industry Development Council (CIDC), Planning Commission, Centrum Research

Increasing order-book intake drives revenue visibility

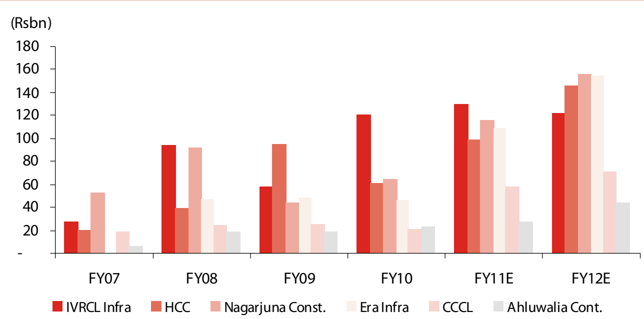
The order-book intake activity of the construction sector has seen major traction since FY09. Our coverage universe (six companies) has seen order-intake activity worth Rs366bn in FY10. Within our coverage, IVRCL garnered orders worth Rs98bn in CY10TD, while HCC garnered Rs31bn during the same period. Going forward, we expect robust activity from power and roads to benefit all frontline infrastructure construction companies. For our coverage companies, we expect order-intake to touch Rs538bn in FY11E and rise to Rs693bn in FY12E, providing robust revenue visibility**.**

Exhibit 5: Order-intake activity of coverage companies



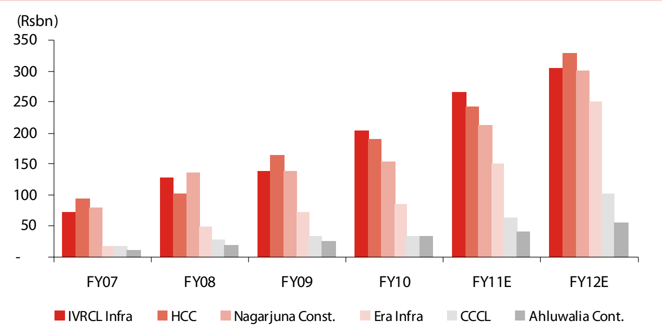
Source: Companies, Centrum Research

Exhibit6: Order-intake trend



Source: Company, Centrum Research Estimates

Exhibit 7: Order-book trend of coverage companies



Source:: Company, Centrum Research Estimates

Exhibit 8: Order-book details

Company (Rsmn)	IVRCL	NJCC	HCC	Era Infra	ACIL	CCCL	Total	*Share*
As on	**Q1FY11**	**Q1FY11**	**Q1FY11**	**Q1FY11**	**Q1FY11**	**Q1FY11**		***(%)***
Sector								
Power	**13,220**	**6,739**	**106,010**	**26,186**			**152,155**	***15.2***
Electrical		**6,739**					6,739	***0.7***
Infra	**70,155**	**10,567**	**48,920**	**43,967**	**6,158**	**23,889**	**203,656**	***20.3***
Transport	70,155	10,567	48,920				129,642	*13.0*
Industrial	**16,052**	**19,300**	**-**	**10,721**		**4,204**	**50,277**	***5.0***
Buildings	**33,294**	**50,891**	**-**	**26,175**	**25,984**	**17,176**	**153,520**	***15.3***
Commercial					15,793	15,648	31,441	*3.1*
Residential					10,192	1,528	11,720	*1.2*
Water	**100,030**	**36,387**	**38,540**				**174,956**	***17.5***
Irrigation	42,156	14,684					56,840	*5.7*
International		**29,887**					**29,887**	***3.0***
Total	**232,750**	**160,510**	**193,470**	**107,049**	**32,142**	**45,269**	**1,000,833**	***100.0***
Company Share*	**23.3%**	**16.0%**	**19.3%**	**10.7%**	**3.2%**	**4.5%**	**100.0%**	

** Company share is calculated by taking the share in the composite which is our coverage*

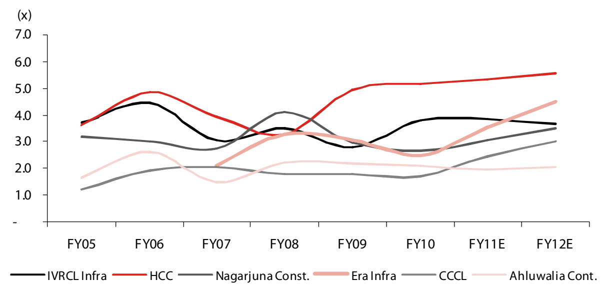
Source: Company, Centrum Research

Exhibit 9: Book-to-bill trend (table)

Company (x)	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
IVRCL Infra	3.7	4.5	3.1	3.5	2.8	3.8	3.9	3.7
HCC	3.6	4.9	3.9	3.3	4.9	5.2	5.3	5.6
Nagarjuna Const.	3.2	3.0	2.8	4.1	3.0	2.7	3.1	3.5
Era Infra	-	-	2.1	3.3	3.1	2.5	3.5	4.5
CCCL	1.2	1.9	2.0	1.8	1.8	1.7	2.4	3.0
Ahluwalia Cont.	1.7	2.6	1.5	2.2	2.2	2.1	2.0	2.1

Source: Company, Centrum Research Estimates

Exhibit 10: Book-to-bill trend (chart)



Source: Company, Centrum Research Estimates

Increasing Trend in Public-Private Partnership Projects
and
Improvement in the Funding and Regulatory Environment

Growing use of Public-Private Partnership (PPP) model

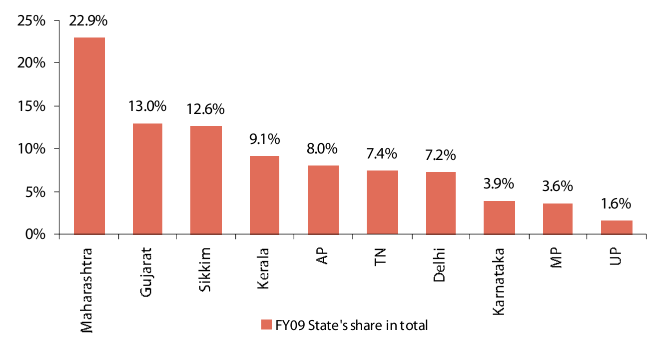
The Public-Private Partnership (PPP) model has gained prominence as a means to undertake infrastructure development. Developed as well as underdeveloped states have formulated a PPP policy to lay down the framework for infrastructure projects. Maharashtra, Gujarat, Karnataka and a few other states have shown considerable progress using the PPP model. Other states, due to their reduced ability to fund projects, are exploring PPP as a means to finance infrastructure, with the government playing the role of facilitator. Roads and ports account for the highest share in total PPP investment, with 45.5% and 30% share, respectively, of the total value of PPP projects under execution.

Exhibit 11: State-wise break-up of PPP investment

State	No.of Projects	<Rs2.5 bn	b/w Rs2.5bn & 5bn	>Rs5bn	Total value	*Share in Total (%)*	Avg Size (Rsbn)
AP	63	26	32	335	393	*17.5*	6.2
Delhi	10	1	4	104	109	*4.9*	10.9
Gujarat	29	4	34	149	187	*8.3*	6.5
Karnataka	97	27	122	246	395	*17.6*	4.1
Kerala	12	2	6	111	120	*5.3*	10.0
MP	39	21	27	29	78	*3.5*	2.0
Maharashtra	31	9	11	321	340	*15.2*	11.0
Orissa	16	2	5	69	76	*3.4*	4.8
Pudducherry	1	-	4	19	23	*1.0*	22.9
Punjab	19	10	6	-	15	*0.7*	0.8
Rajasthan	51	13	8	31	53	*2.3*	1.0
Sikkim	24	7	27	137	171	*7.6*	7.1
Tamil Nadu	30	7	64	53	125	*5.6*	4.2
Uttar Pradesh	6	-	15	6	21	*0.9*	3.5
West Bengal	5	2	12	6	21	*0.9*	4.1
Other States	17	13	16	-	30	*1.3*	1.7
Inter-State	13	4	23	60	86	*3.9*	6.6
Total	**463**	**149**	**416**	**1,677**	**2,242**	***100.0***	**4.8**
Share in Total	**NA**	**7%**	**19%**	**75%**	**100%**		

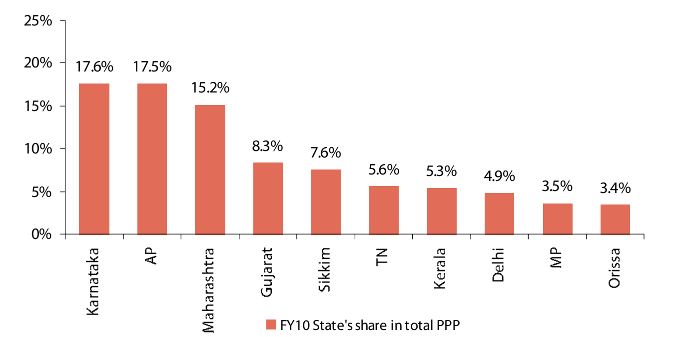
Source: Economic Survey FY10, Centrum Research

Exhibit 12: States' share of PPP projects in FY09



Source: Economic Survey FY09, Centrum Research

Exhibit 13: States' share of PPP projects in FY10



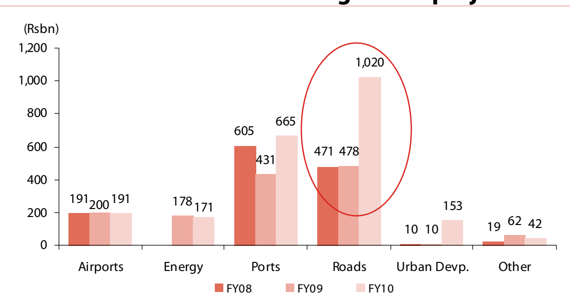
Source: Economic Survey FY10, Centrum Research

Exhibit 14: Segment-wise break-up of PPP investment

Sector	No.of Projects	<Rs2.5 bn	b/w Rs2.5Bn & 5bn	>Rs5bn	Total value	*Share in total (%)*	Avg Size (Rsbn)
Airports	5	-	3	188	191	*8.5*	38.2
Energy	24	7	27	137	171	*7.6*	7.1
Ports	43	11	24	630	665	*29.7*	15.5
Roads	271	87	329	605	1,020	*45.5*	3.8
Urban Devp.	73	28	24	101	153	*6.8*	2.1
Other	34	16	9	16	42	*1.9*	1.2
Total	**450**	**149**	**416**	**1,677**	**2,242**	***100.0***	**68**

Source: Economic Surveys of FY10, Centrum Research

Exhibit 15: Road sector leading in PPP projects



Source: Economic Surveys of FY08, FY09 and FY10, Centrum Research

Funding environment: domestic constraints are being addressed

The infrastructure sector has been on the top of the agenda for policy makers and Central bankers in the past year, with initiatives taken by various authorities in the government and by the Reserve Bank of India (RBI).

Initiatives include:

- **Indian Infrastructure Financing Corporation's (IIFCL) take-out financing facility** which enables the company to chip-in after the project is completed and free banking funds for newer projects. This is a major development, as it addresses the banking sector's asset-liability duration mismatch in lending to infrastructure. IIFCL will fund 75% of individual lenders, subject to a maximum of 50% of project loan amount.

Exhibit 16: Details of projects financed by IIFCL

	No.of. Projects				Cost (Rsbn)			Sanctioned (Rsbn)			Disbursed (Rsbn)	
	Mar-09	Aug-09	Feb-10	Mar-10	Mar-09	Aug-09	Mar-10	Mar-09	Aug-09	Mar-10	Mar-09	Feb-10
Road	57	58	58	66	352.9	376.8	580.9	60.6	64.8	86.9	19.5	30.4
Port	5	5	19.0	6	37.7	37.7	49.9	5.8	5.8	8.2	1.5	35.7
Airport	23	2	5.0	2	932.4	147.2	147.2	99.1	21.5	21.5	5.2	2.5
Power	1	22	2.0	23	147.2	910.5	942.5	21.5	94.3	96.3	22.5	6.7
Urban Infra.	1	1	1.0	1	0.7	0.7	0.7	0.1	0.1	0.1	0.0	0.1
Total	**87**	**88**	**85**	**98**	**1,470.9**	**1,472.8**	**1,721.1**	**187.2**	**186.5**	**213.0**	**48.7**	**75.3**

Source: IIFCL, Centrum Research

- **Deepak Parekh Committee on Infrastructure Finance Companies' (IFC)** recommendations, such as:
  - Measures to tap Indian savings
  - Sustainable fiscal incentives to stimulate non-government (PSU and private sector) infrastructure spend
  - Enhance risk capital through FDI, effectively bringing in expertise involving global standards in execution complex projects
  - Relaxation in bank lending and classification norms to reduce concentration risk
  - Increase capability to absorb capital inflows by offering mega projects
- **The 2010 Union budget's tax exemption of an additional Rs20,000** over and above the 80G limit of Rs100,000 for individuals investing in infrastructure bonds.
- The Indian Government plans to create an **Rs500bn-debt fund** for re-financing infrastructure projects, with a mandate to take over existing loans from banks.
- **RBI's steps** to relax classification criteria for bank lending to infrastructure companies:
  - Extension of the earlier limit of two years from date of commercial operation to four years for banks to classify a bank loan as a non-performing asset
  - Extension of overall limit to individual companies
  - Re-financing of domestic infrastructure loans through ECBs (External Commercial Borrowings)
  - Creation of a fourth category of NBFC – Infrastructure Finance Companies (IFCs) – specifically targeting fund flow for the infrastructure sector.

These steps are likely to have a positive effect on the sector. However, the long-term solution would be a deep debt market.

Exhibit 17: Infrastructure bank credit has grown 11x in 12 years

Sector	No. of Projects					Project Cost Amount (Rsbn)				
	FY05	FY06	FY07	FY08	FY09	FY05	FY06	FY07	FY08	FY09
Power	60	66	64	64	68	124	354	515	758	1,241
Ports & Airports	11	3	7	6	4	30	23	107	20	87
Roads, Storage & Water Management		22	8	4	5	-	24	131	49	5
SEZ, Industrial, biotech and IT parks		13	37	47	29	-	19	85	125	110
Construction	8	33	34	38	30	3	47	93	90	336
Total	**79**	**137**	**150**	**159**	**136**	**157**	**466**	**931**	**1,042**	**1,779**
Change (%)										
Power	NA	6	(2)	-	4	NA	185	46	47	64
Ports & Airports	NA	(8)	4	(1)	(2)	NA	(25)	368	(81)	337
Roads, Storage & Water Management	NA	22	(14)	(4)	1	NA	NA	448	(62)	89)
SEZ, Industrial, biotech and IT parks	NA	13	24	10	(18)	NA	NA	357	47	(12)
Construction	NA	25	1	4	(8)	NA	1,609	97	(3)	274
Total	**NA**	**58**	**13**	**9**	**(23)**	**NA**	**196**	**100**	**12**	**71**

Source: Planning Commission

Regulatory changes improve investment and operational scenario

The regulatory environment, particularly in the power and roads segments, has seen major improvements during the past decade. The implementation of BK Chaturvedi's recommendation in the roads segment has resulted in increased activity, with more players bidding for road projects (see Exhibit 57 for BK Chaturvedi's recommendations and the impact). Other segments like ports and railways have seen minor changes in regulation.

Initiatives such as faster addressing of litigation between government and private parties, and state government involvement in land acquisition (as in the road sector, where the Road Ministry/NHAI signed a State Support Agreement with a majority of states) are expected to add to a better investment and operational environment in infrastructure.

Exhibit 18: Regulation overview of various infrastructure sectors

	Earlier Regulations	New Regulations	Improvement
Power	Regulations too stiff for private sector to enter power sector.	Reform in regulations, such as Electricity Act, 2003, to bring in private players.	Increasing number of power plants coming up in the private sector.
Roads	Frequent changes in policies on various matters affected smooth execution of projects. Issues such as lower limit for "conflict of interest" clause, exit clause, etc excited few players. Hence, activity in the sector was very slow.	Implementation of BK Chaturvedi recommendations. Road Ministry implemented recommendations made by the committee such as reducing constraints on Conflict of Interest from 5% to 25%.	Going forward, the road sector is expected to see hectic activity in terms of projects awarded based on new regulations. Interest in the sector has revived, with international players vying for a piece of the opportunity.
Railways	Limited opportunity for private players as it was limited to project of low ticket size.	With Union Budget 2010 indicating opening up Railway sector for private sector, we believe, construction opportunity for the sector would open up large value projects as EPC as well as owning assets (similar structure to Road projects)	Huge opportunity opening up for private sector.
Ports	Stiff regulations limited private sector participation.	To entice private players into the sector, an increasing number of states are considering concessional water-front royalty payment until capex is fully recovered, and tariff rates only after considering return on capital of 16%.	Increasing participation of players from the private sector.

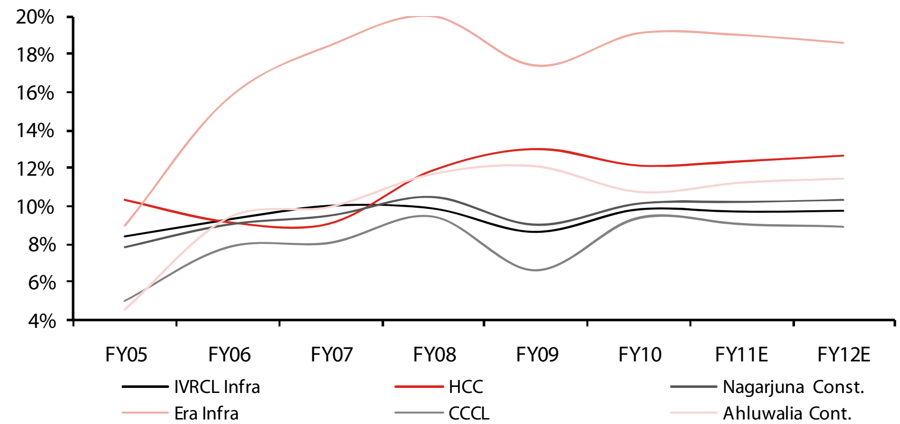
Source: Centrum Research

Margins and Profitability to Improve

Better operational and profitability environment

We believe, going forward, the operating margins of coverage companies should see stability/improvement, based on the various initiatives taken by the government and other authorities in the sector, as mentioned earlier in the report.

Exhibit 19: EBITDA margin profile of covered companies



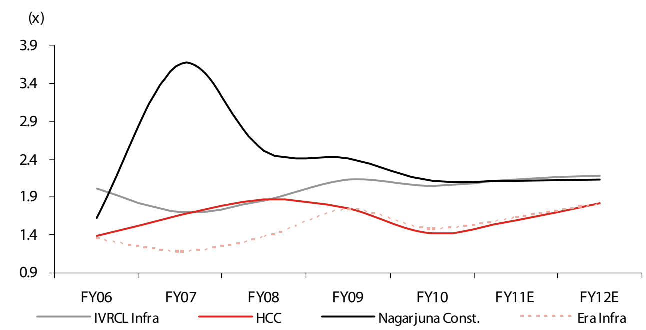
Source: Company, Centrum Research

Improved working capital turnover expected

One of the most important metrics with regard to construction companies is the working capital turnover ratio, which negatively impacted most Indian construction companies in the past two years, due to the global downturn and Andhra Pradesh's financial issues. However, going forward, we expect this ratio to be positively impacted by the improvement in operating environment.

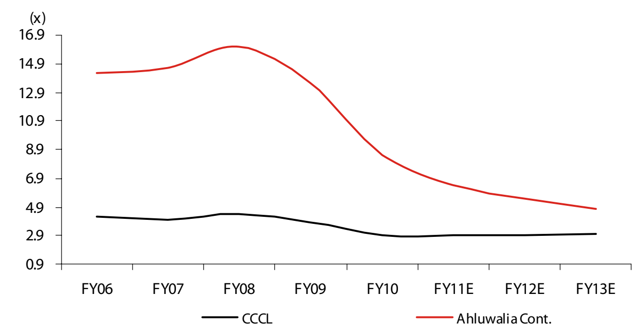
Ahluwalia Contracts and CCCL, which are primarily into building construction and now have increasing exposure to the infrastructure segment, are likely to see some deterioration (though within manageable limits).

Exhibit 20: WC turnover - Infra construction players



Source: Company, Centrum Research

Exhibit 21: WC turnover – Building construction players

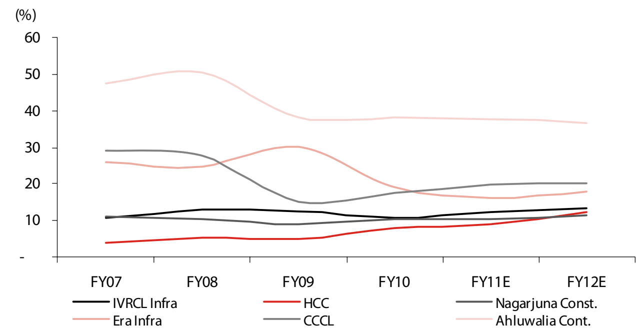


Source: Company, Centrum Research

Return on Equity (RoE) and Return on Capital Employed (RoCE)

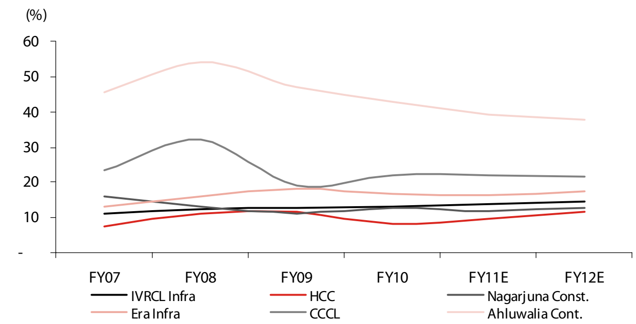
Based on the improvements in the sector, we expect Return on Equity (ROE) to improve from current levels. We, however, factor in slight improvement in the returns profile of companies under coverage and expect less volatility as compared to the past three to four years.

Exhibit 22: ROE trend of coverage companies



Source: Company, Centrum Research

Exhibit 23: ROCE trend of coverage companies

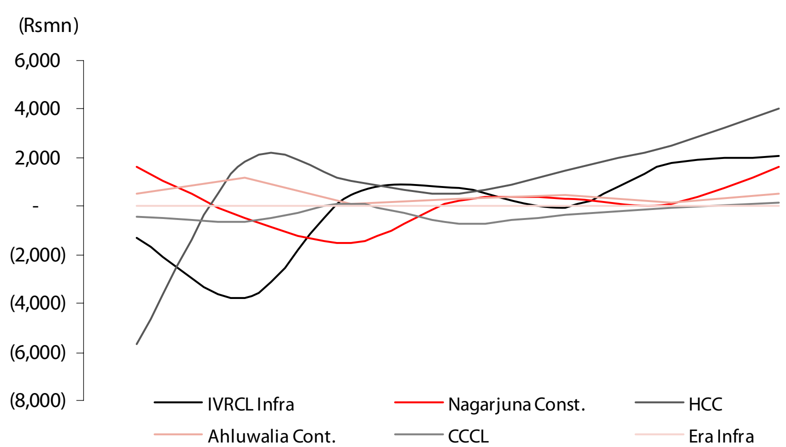


Source: Company, Centrum Research

Cash flow from operations to improve, going forward

Cash flow from operations, we believe, is an appropriate metric to use to gauge the capital requirements of the EPC/construction business. In the past two years (FY09 and FY10), due to unforeseen circumstances, the working capital of the coverage companies was severely impacted. However, going forward, we expect such situations to be less frequent. Coupled with better operating environment, we believe cash flow from operation will be less of a strain going forward.

Exhibit 24: Coverage companies: cash flow from operations (FY05-13E)



Source: Company, Centrum Research

Sector Undervalued; Deserves Valuation Multiple Similar to Sensex

Sector undervalued; we expect robust earnings growth

We believe the sector should command valuations similar to that of the Sensex, on account of its robust earnings growth expectations. The construction sector composite is expected to deliver average earnings growth of 22% over FY10-12E vs Sensex EPS growth of 16%. The Sensex trades at an FY11E P/E of 16.7x and FY12E P/E of 14x, which is close to our highest fair multiple of 14x for FY12E, applied to value the core construction / EPC business.

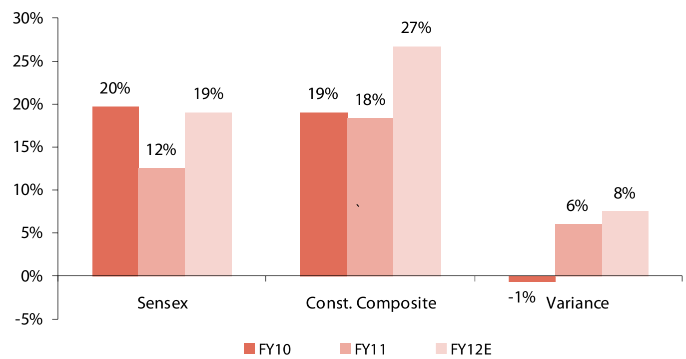
We have used the P/E multiple to value the construction/EPC business, due to its higher growth prospects, the DCF method to value operational infrastructure projects (such as road BOT projects that have revenue visibility), and the book value method for assets that are not yet operational.

Exhibit 25: Core construction business – valuation

Company (Rsmn)	Rating	Fair Value (Rs)	No. of Shares (mn)	Market Cap	Other Buss Value	Const. Mcap	FY12E Net Profit Expt.	Core Business P/E (x)	EPS (Rs)	P/E We Applied (x)	CMP (Rs)	Our Target (Rs)	Upside (%)
IVRCL Inf.	Buy	230	267.0	42,174	17,989	24,186	3,342	7.2	12.5	13.0	158	230	45.7
Nagar. Const	Buy	215	256.6	39,617	11,633	27,984	3,102	9.0	12.1	13.0	154	215	39.0
HCC	Buy	88	626.0	37,275	24,187	13,088	2,212	5.9	3.5	14.0	60	88	48.0
EraInfra	Buy	289	195.9	43,017	3,898	39,119	3,768	10.4	19.2	14.0	220	289	31.7
CCCL	Buy	101	184.8	15,706	-	15,706	1,553	10.1	8.4	12.0	85	101	18.6
Ahluwalia Cont	Buy	276	62.8	13,180	-	13,180	1,558	8.5	24.8	11.0	210	276	31.3
Average / Total			**NA**	**190,969**	**52,688**	**138,281**	**15,535**	**NA**		**NA**		**NA**	

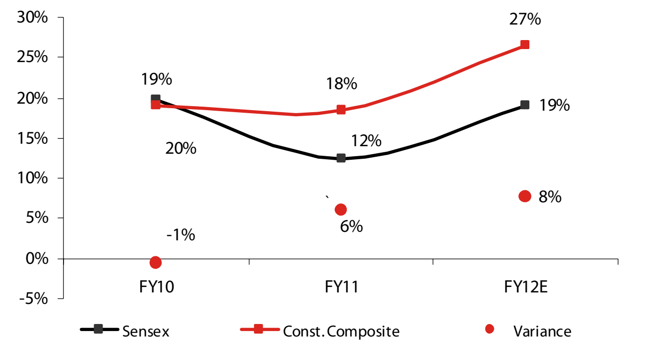
Source: Centrum Research Estimates

Exhibit 26: Net profit Analysis of Construction co. & Sensex



Source: Datastream, Centrum Research

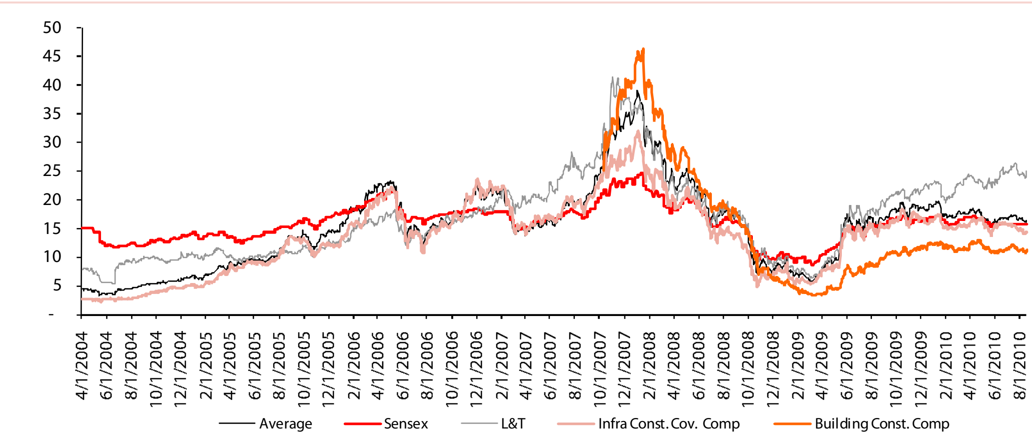
Exhibit 27: Net profit growth vs Sensex analysis



Source: Datastream, Centrum Research

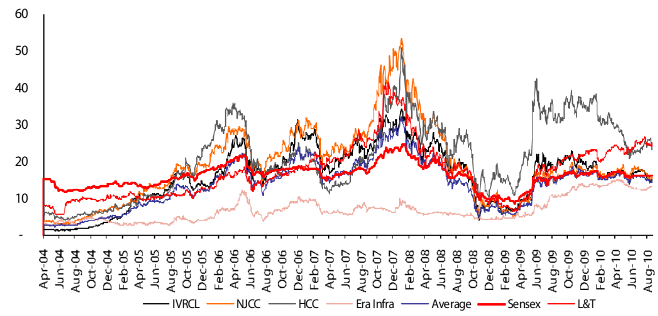
Historical P/E band

Exhibit 28: PE band: all companies and composite



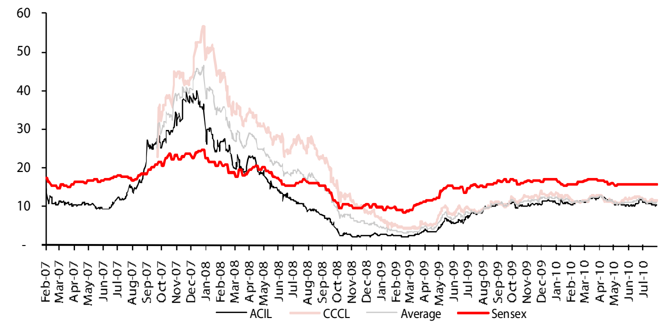
Source: Datastream, Centrum Research

Exhibit 29: P/E band: Infra construction players



Source: Datastream, Centrum Research

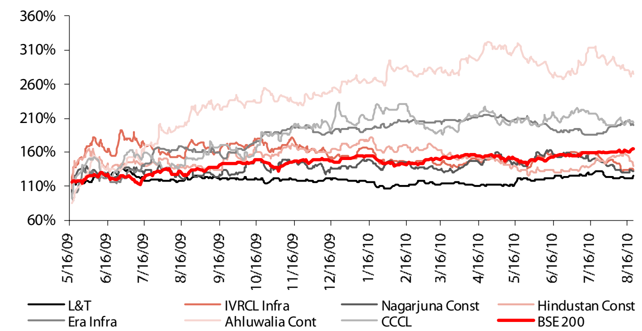
Exhibit 30: P/E band: Building construction



Source: Datastream, Centrum Research

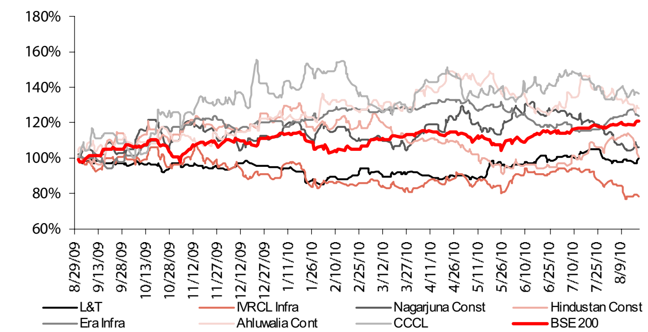
Price performance of construction player's v/s BSE200

Exhibit 31: Mixed Since general election in May'2010



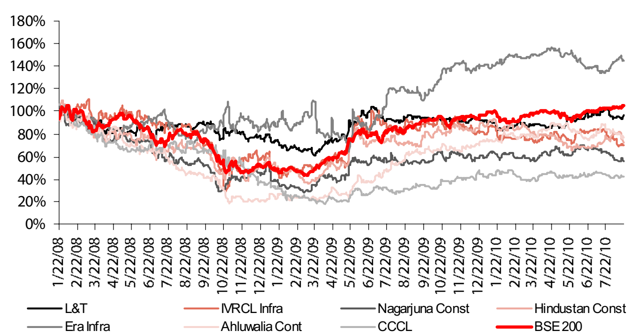
Source: Datastream, Centrum Research

Exhibit 32: Mixed 1 Year performance (since Aug 2009)



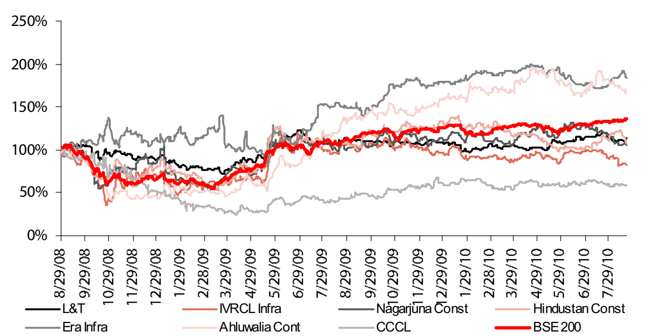
Source: Datastream, Centrum Research

Exhibit 33: Since crisis - Jan'08, prices have underperformed



Source: Datastream, Centrum Research

Exhibit 34: Similar picture in 2 Year performance (Aug'08)



Source: Datastream, Centrum Research

Sector Risks: Land Acquisition Remains Biggest Issue

Land acquisition is still an issue in key segments of roads, ports and airports

As India is a democracy, the forceful acquisition of land is not favoured. Land acquisition is prone to legal and other issues. Historically, projects have been delayed as land acquisition issues elevate the project's cost structure, making it unviable.

Government agencies have focused on peaceful negotiations to acquire land, involving local parties and the state government in the process. This has been successfully accomplished in the road sector – NHAI opened regional land acquisition cells that, along with the contractor's resources, help quicken the construction work. (As per news reports, NHAI has acquired 88% of land for the Road Ministry's "Work Plan II" for FY12, targeted at developing around 11,000km of roads.) However, we believe more needs to be done to simplify land acquisition in other important sectors such as ports and airports.

Scarcity of skilled manpower to execute complex projects

Indian engineering and construction companies face a shortage of skilled labour (the sector employs 1.2mn workers in the organized sector and over 30mn in the unorganized sector). Information technology revolution and better prospects in other sectors have attracted much of the potential workforce, resulting in a 10% increase in unskilled workforce in the past decade. Hence, Indian companies are hiring expats from various developed countries (European region) and from developing countries like the Philippines, to execute high-end work.

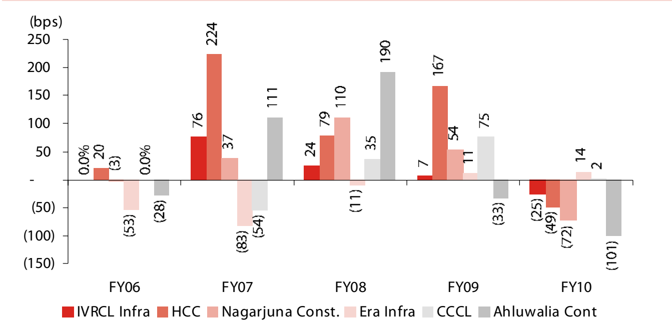
As per the National Skill Development Policy, around 15mn skilled workmen would be required by FY15 in the construction sector. The Indian government initiated the "National Commission of Skill Development" program to create human capital for various sectors including construction. The result of this initiative is expected to be felt in the medium- to long-term.

Exhibit 35: Employee mix of the sector

Occupation	**Workforce**		***% of Total***	
No. in Thousands	**1995**	**2005**	***1995***	***2005***
Engineers	687	822	*4.7*	*2.7*
Technicians, Foreman, etc	359	573	*2.5*	*1.8*
Clerical	646	738	*4.4*	*2.4*
Skilled workers	2,241	3,267	*15.3*	*10.5*
Unskilled	10,670	25,600	*73.1*	*82.6*
Total	**14,603**	**31,000**	***100.0***	***100.0***

Source: Planning Commission, Centrum Research

Exhibit 36: Employee expenses change YoY (in bps)



Source : Company, Centrum Research

Focus on large projects comes with execution risks

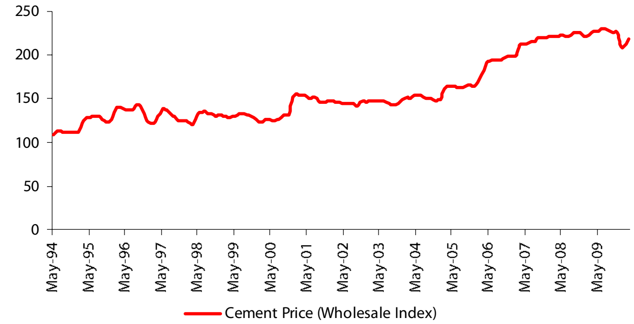
Indian construction companies are increasingly bidding for large-size projects in order to enhance their credentials and earn better margins. However, this exposes them to execution risks like environmental clearances and land acquisition issues that can impact investment (working capital) and margins.

Rising raw material prices

Construction companies are exposed to the fluctuating price of various raw materials like cement and steel. Though there is no accurate data available, steel and cement costs are estimated to amount to two-thirds of the total cost of construction. Fixed price contracts, on an average, form around 15% of the total order-book of construction companies. Operating margins are, therefore, impacted when raw material prices like cement and steel rise beyond a limit (a reasonable price increase is factored in while bidding for contracts/projects).

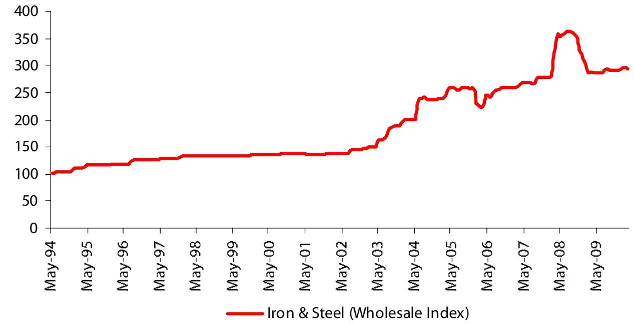
Cement prices in the recent past had either remained firm or rose on account of capacity constraints. However, we believe cement prices are likely to correct on capacity expansion, going forward. This is likely to improve margins for companies with a larger proportion of fixed price contracts.

Exhibit 37: Cement price trend



Source: Bloomberg, Centrum Research

Exhibit 38: Iron & steel price trend



Source: Bloomberg, Centrum Research

Exhibit 39: Components of construction costs for various segments

Particulars	Materials	Const. Eqpt	Labour	Finance	Enabling Exp	Admin. Exp	Profits	Total
Building	58-60	4-5	11-13	7-8	5.5-6.5	3.5-4.5	5-6	100%
Roads	42-45	21-23	10-12	7-8	5.5-6.5	3.5-4.5	5-6	100%
Bridges	46-48	16-18	11-13	7-8	5.5-6.5	3.5-4.5	5-6	100%
Dams, etc	42-46	21-23	10-12	7-8	5.5-6.5	3.5-4.5	5-6	100%
Power	41-43	21-24	10-12	7-8	5.5-6.5	3.5-4.5	5-6	100%
Railway	51-53	6-8	16-18	7-8	5.5-6.5	3.5-4.5	5-6	100%
Mineral Plant	41-44	20-22	12-'14	7-8	5.5-6.5	3.5-4.5	5-6	100%
Medium Ind	50-52	7-9	16-18	7-8	5.5-6.5	3.5-4.5	5-6	100%
Transmission	49-51	5-7	19-21	7-8	5.5-6.5	3.5-4.5	5-6	100%

Source: Planning Commission, Centrum Research

Build-Operate-Transfer (BOT) road projects

Increasingly, infrastructure projects are awarded on a PPP basis (like the BOT method), which has inherent commercial risks. Of these, the traffic estimation risk is very important, as return on capital is dependent on this revenue source. If not calculated correctly, the company could lose money on the project.

Companies bid for BOT projects in order to enable the parent company to execute the EPC. This ties up funds for the projects and can be tricky, as interest from strategic investors (private equity, etc) has historically been lukewarm. This increases the funding requirement of all coverage companies, except for IVRCL Infra and Ahluwalia Contracts, which are pure contracting players.

Fiercely competitive market

The construction sector in India is fragmented, with more than 120,000 companies vying for projects. In addition, more international companies are entering the market for mega projects. This has put existing companies under pressure, leading to the erosion of profitability as companies bid aggressively for projects.

Rating: Positive View on the Construction Sector, with a Buy on All Coverage Companies

Buy rating on all six coverage companies

We believe the infrastructure sector's robust investment pipeline will benefit all construction players. This, coupled with the improving industrial and commercial capex environment, is expected to add to the addressable opportunity. Infrastructure contributes around 54% to overall Indian construction spend, whereas the residential, industrial and commercial sectors contribute 46%. We initiate coverage on IVRCL, NCC, HCC, Era Infra, CCCL and ACIL with a Buy rating. We believe ACIL presents a better risk-reward ratio than other companies. Hence, we rate ACIL as our Top Buy.

Exhibit 40: Financials and valuation summary

		M.Cap						EPS (Rs)			P/E (x)			RoE (%)		
Company	Rating	Rsmn	US$ mn	CMP (Rs)	Target Price	Fair P/E Multiple	Up/ Down (%)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
IVRCL Ltd	Buy	42,174	916.8	158	230	13.0	46	10.2	12.5	15.1	15.5	12.6	10.5	12.8	14.0	14.8
NCC Ltd	Buy	39,617	861.2	154	215	13.0	39	10.0	12.1	14.0	15.4	12.8	11.0	11.0	12.1	12.7
HCC Ltd	Buy	37,275	810.3	60	88	14.0	48	2.4	3.5	4.9	25.1	16.8	12.2	9.4	12.8	15.7
Era Infra	Buy	43,017	935.1	220	289	14.0	32	14.4	19.2	24.4	15.3	11.4	9.0	17.7	19.7	20.5
CCCL	Buy	15,706	341.4	85	101	12.0	19	6.9	8.4	10.4	12.3	10.1	8.1	19.8	20.2	20.9
Ahluwalia Cont.	Buy	13,180	286.5	210	276	11.0	31	18.2	24.8	31.3	11.5	8.5	6.7	37.5	36.5	33.4

Source: Centrum Research Estimates

IVRCL – Follow the leader
Rating: Buy, CMP: Rs158, Target Price: Rs230, Upside: 46%

IVRCL Infrastructures & Projects (IVRCL) is a leading player in the infrastructure space and ranked just behind sector L&T and Nagarjuna Construction in revenue terms. The company is among the front-runners in the water segment and is establishing itself in the transportation and power transmission segments. We project 24% revenue and 25% earnings CAGR over FY10-12E on account of its robust order-book position, execution skills and improving business environment. We initiate coverage with a Buy rating and target price of Rs230 (46% upside potential).

Exhibit 41: IVRCL - Financial summary

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	48,824	33.4	4,223	8.6	2,260	7.3	8.5	13.2	12.7	18.7	13.3
FY10E	53,783	10.2	5,281	9.8	2,149	(4.9)	8.0	11.3	13.7	19.6	11.3
FY11E	68,468	27.3	6,644	9.7	2,727	26.9	10.2	12.8	14.7	15.5	9.6
FY12E	82,202	20.1	8,016	9.8	3,342	22.6	12.5	14.0	15.3	12.6	8.5
FY13E	97,236	18.3	9,579	9.9	4,020	20.3	15.1	14.8	16.0	10.5	7.4

Source: Centrum Research Estimates

Nagarjuna Constructions – Most Diversified, Robust Fundamentals
Rating: Buy, CMP: Rs154, Target Price: Rs215, Upside: 39%

Nagarjuna Constructions Company (NCC) has a presence in the Indian as well as Middle-eastern markets. NCC is placed to benefit from India's infrastructure opportunities and the company's short-duration, high-potential 'New segments' business. In addition, the expanding power and road portfolio of NCC's wholly owned subsidiary, NCC Infra, strengthens order-intake visibility. We expect NCC to see revenue CAGR of 21% and earnings growth of 25% in FY10-12E. We initiate coverage on the stock with a Buy rating (TP: Rs215, upside potential: 39%).

Exhibit 42: Nagarjuna Constructions – Financial summary

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	41,514	19.4	3,737	9.0	1,539	(5.0)	6.7	9.4	11.9	23.0	12.8
FY10	47,778	15.1	4,834	10.1	1,998	29.9	7.8	11.8	12.9	19.8	11.4
FY11E	57,043	19.4	5,830	10.2	2,576	28.9	10.0	11.0	12.8	15.4	10.1
FY12E	69,503	21.8	7,171	10.3	3,102	20.4	12.1	12.1	13.6	12.8	8.9
FY13E	82,649	18.9	8,609	10.4	4,310	20.2	14.0	12.7	14.0	11.0	8.0

Source: Centrum Research Estimates

HCC – Forte in high-capability EPC projects
Rating: Buy, CMP: Rs60, Target Price: Rs88, Upside 48%

We initiate coverage on Hindustan Construction Company (HCC) with a Buy rating and a target price of Rs88 (potential upside of 48%). Our stance is based on its favourable risk-reward ratio, leading status in hydro-power EPC projects and increasing traction in the roads segment. The deleveraging process initiated by the company to optimize working capital is another positive. The plan to list Lavasa Corporation in FY11, followed by a listing of HCC Infrastructure later, is expected to unlock value.

Exhibit 43: HCC - Financial summary

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	33,137	*7.5*	4,314	*13.0*	506	*(9.6)*	0.9	*5.1*	*10.2*	65.8	13.1
FY10	36,442	*10.0*	4,429	*12.2*	1,175	*132.4*	1.9	*9.4*	*8.9*	31.7	14.1
FY11E	45,159	*23.9*	5,589	*12.4*	1,486	*26.5*	2.4	*9.4*	*10.0*	25.1	12.0
FY12E	59,036	*30.7*	7,483	*12.7*	2,212	*48.9*	3.5	*12.8*	*12.0*	16.8	9.4
FY13E	75,667	*28.2*	9,591	*12.7*	3,068	*38.7*	4.9	*15.7*	*13.8*	12.2	7.6

Source: Centrum Research Estimates

Era Infra – Underplayed potential
Rating: Buy, CMP: Rs220, Target Price: Rs289, Upside: 32%

Era Infra Engineering (Era Infra), the flagship company of Era Group, is a fully-integrated infrastructure development company with diverse execution experience in power, roads and railways segments. We believe the company's robust margins, leading position in thermal power EPC projects and increasing presence in the road sector would translate into 23.4% earnings CAGR over FY10-12E. We initiate coverage with a Buy rating and target price of Rs289 (32% upside).

Exhibit 44 Era Infra – financial summary

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	23,769	*62.3*	4,136	*17.4*	1,613	*32.9*	11.0	*24.0*	*15.9*	19.9	12.1
FY10	34,155	*43.7*	6,525	*19.1*	2,475	*53.5*	12.8	*21.2*	*17.6*	17.1	10.3
FY11E	42,790	*25.3*	8,139	*19.0*	2,817	*13.8*	14.4	*17.7*	*16.8*	15.3	8.7
FY12E	55,617	*30.0*	10,346	*18.6*	3,768	*33.7*	19.2	*19.7*	*18.3*	11.4	7.2
FY13E	69,839	*25.6*	12,573	*18.0*	4,783	*26.9*	24.4	*20.5*	*19.0*	9.0	6.3

Source: Centrum Research Estimates

CCCL – Emerging player in infrastructure
Rating: Buy, CMP: Rs85, Target Price: Rs101, Upside: 19%

Consolidated Construction Consortium (¬CCCL) is a Chennai-based construction company established in 1997 by ex-L&T employees. Though mainly involved in real estate projects (both industrial and commercial), during the last couple of years, it has enhanced its presence in infrastructure (airports and multi-level car-parking). We are positive on the company given its robust order-book, increasing presence in infrastructure, strong execution skills and low risk of equity dilution (D/E ratio of 0.6x for FY10). Its diversifying exposure from south India would further allay order-intake risk. We initiate coverage with a Buy rating and target price of Rs101, valuing the stock at 12x FY12E EPS of Rs8.4.

However, in the small-cap construction space, we prefer Ahluwalia Contracts on its strong industry position and robust execution track record coupled with robust profitability of ROE in excess of 30% driving favourable risk-reward profile compared to CCCL.

Exhibit 45: CCCL – Financial summary

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	18,413	*24.8*	1,223	*6.6*	728	*(18.1)*	3.9	*15.0*	*17.5*	5.9	5.3
FY10	19,759	*7.3*	1,847	*9.3*	916	*25.8*	5.0	*17.6*	*21.2*	16.7	10.2
FY11E	26,501	*34.1*	2,397	*9.0*	1,278	*39.6*	6.9	*19.8*	*21.2*	12.3	9.2
FY12E	33,800	*27.5*	3,007	*8.9*	1,553	*21.5*	8.4	*20.2*	*20.9*	10.1	7.9
FY13E	42,056	*24.4*	3,720	*8.8*	1,930	*24.3*	10.4	*20.9*	*20.8*	8.1	6.3

Source: Centrum Research Estimates

ACIL – Most favourable risk-reward play
Rating: Top Buy, CMP: Rs210, Target Price: Rs276, Upside: 31%

Ahluwalia Contracts India (ACIL), a major player in the building construction segment (commercial, hotels, hospitals and residential), is well-positioned to benefit from increased investment spends in urban infrastructure and from the revival in industry capex. The company is also on a firm footing financially, with robust ROE of over 30%. We expect ACIL to register 32% revenue and 38% bottom-line CAGR over FY10-12E. We initiate coverage with a Buy rating and a target price of Rs276 (31% upside potential).

Exhibit 46: ACIL- Financial summary

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	11,641	*32.3*	1,411	*12.1*	577	*11.8*	9.2	*38.2*	*47.1*	22.8	9.9
FY10E	15,677	*34.7*	1,688	*10.8*	818	*41.7*	13.0	*38.1*	*42.7*	16.1	8.7
FY11E	20,427	*30.3*	2,298	*11.3*	1,142	*39.6*	18.2	*37.5*	*39.2*	11.5	6.8
FY12E	27,290	*33.6*	3,130	*11.5*	1,558	*36.5*	24.8	*36.5*	*37.6*	8.5	5.3
FY13E	34,756	*27.4*	4,055	*11.7*	1,965	*26.1*	31.3	*33.4*	*34.5*	6.7	4.5

Source: Centrum Research Estimates

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INDIA

Construction

IVRCL Infra & Projects

Initiation **30 August 2010**

Buy

Target Price: Rs230

CMP: Rs158*

Upside: 46%

**as on 27 August 2010*

Follow the leader

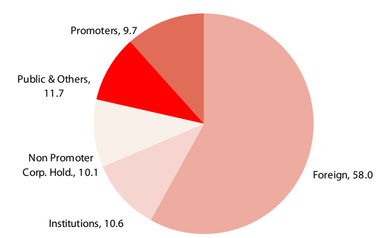
IVRCL Infrastructures & Projects (IVRCL) is a leading player in the infrastructure space and ranked behind L&T in FY10 revenue terms. The company is among the front-runners in the water segment and is establishing itself in the transportation and power transmission segments. We project 24% revenue and 25% earnings CAGR over FY10-12E on account of its robust order-book position, execution skills and improving business environment. We initiate coverage with a Buy rating and target price of Rs230 (46% upside potential).

- **Leadership position in water segment:** IVRCL's leadership position would help it capitalize on emerging opportunities in the water segment (excluding irrigation projects) like waste water treatment and industrial effluent treatment. We believe current water order-book (~Rs58bn) enables stable 19% CAGR over FY10-12E for the segment.
- **Transportation segment to drive high-growth:** With an improving execution environment and strong road projects pipeline, we expect this segment to register 35.3% CAGR over FY10-12E and contribute 15.6% to revenue in FY12E (vs 12.8% in FY10).
- **Robust order-book boosts revenue visibility:** IVRCL's order-book amounted to Rs233bn as on Q1FY11 which we expect to reach Rs303.6bn by FY12, providing comfortable revenue visibility for the next 2-3 years.
- **Group restructuring exercise a positive step:** The transfer of infrastructure assets to IVRCL Assets & Holdings (80% stake) is positive for both companies. Liquidation of IVRCL A&H's real estate assets could fund infrastructure projects.
- **Financials**: We expect 24% revenue and 25% earnings CAGR over FY10-12E. We have factored in conservative EBITDA margin of 9.7% for FY11 and 9.75% for FY12 due to impending issues on project execution during the past one year.
- **Initiate with Buy:** We initiate coverage with a Buy rating and target price of Rs230 (Rs163 for the core construction business, Rs15 for its stake in Hindustan Dorr-Oliver and Rs53 for IVRCL A&H, adjusted for IVRCL's stake and applying 25% discount). We prefer NCC v/s IVRCL Infra on account of its better risk-return profile in frontline construction space.
- **Key risks:** About 20% of the order-book is exposed to the much-delayed Andhra Pradesh irrigation segment. Several other projects have been delayed by a year.

Key Key Data

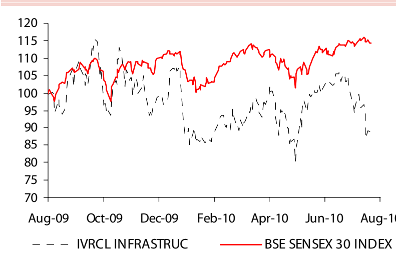
Bloomberg Code	IVRC IN
Reuters Code	IVRC.BO
Current Shares O/S (mn)	267.0
Diluted Shares O/S(mn)	267.0
Mkt Cap (Rsbn/USDmn)	42.1/897.2
52 Wk H / L (Rs)	213/144
Daily Vol. (3M NSE Avg.)	1,763,094
Face Value (Rs)	2
USD = Rs46.9	

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
IVRCL Infra	(9.5)	(2.1)	(13.0)
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research as on 27 August 2010

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Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	DEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	48,824	33.4	4,223	8.6	2,260	7.3	8.5	13.2	12.7	18.7	13.3
FY10E	53,783	10.2	5,281	9.8	2,149	(4.9)	8.0	11.3	13.7	19.6	11.3
FY11E	68,468	27.3	6,644	9.7	2,727	26.9	10.2	12.8	14.7	15.5	9.6
FY12E	82,202	20.1	8,016	9.8	3,342	22.6	12.5	14.0	15.3	12.6	8.5
FY13E	97,236	18.3	9,579	9.9	4,020	20.3	15.1	14.8	16.0	10.5	7.4

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Shareholding pattern (%)

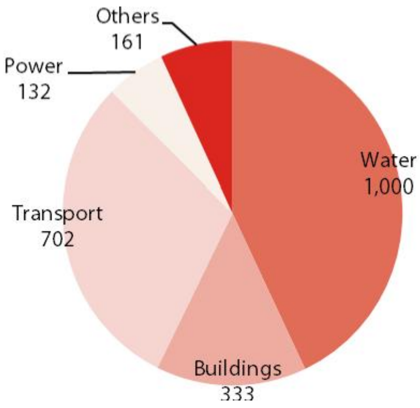
Y/E March	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	9.7	9.7	9.7	9.7	9.6
Institutions	67.2	71.1	71.3	68.0	68.5
FII	*48.0*	*54.3*	*58.1*	*57.4*	*55.2*
DII	*19.1*	*16.8*	*13.3*	*10.5*	*13.3*
Public & Others	23.1	19.2	18.9	22.3	21.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE India

Company Background

IVRCL is a Hyderabad-based construction and is ranked 3rd among listed construction players. It owns 80% of IVRCL Assets & Holdings which was earlier known as IVR Urban Prime and was in to real estate development. IVRCL also has another listed subsidiary, Hindustan Dorr Oliver, which supplies technology and equipment for solid liquid separation, beneficiation of minerals, sewerage, water and effluent treatment, the paper and pulp industries, and for oil and salt separation.

IVRCL's order-book mix as on Q1FY11 (Rsbn)



Source: Company, Centrum Research

Key events/timeline

Year	Particulars
1987	Incorporated
1990	Commenced commercial operations
1992	Executed first water project (circulating water system for the Raichur thermal power plant in Karnataka)
1995	IPO and BSE listing
1996	Formed IVR Prime Urban (Now IVRCL Asset & Holdings)
1998	Undertook first standalone water supply system project on an EPC basis for Kochi Refineries
1999	Undertook first cross-country oil and gas pipeline project
2000	NSE listing
2000	Entered transportation sector with first project a state road highway funded by the World Bank
2001	Foray into BOT/BOOT/DBOOT projects
2005	Awarded a 100mld desalination project with an estimated value of Rs4,901mn in Chennai, on a BOOT basis with a JV partner
2005	Acquired majority equity stake in HDO (obtaining access to additional design and manufacturing capabilities).

Source: Company, Centrum Research

Key management personnel

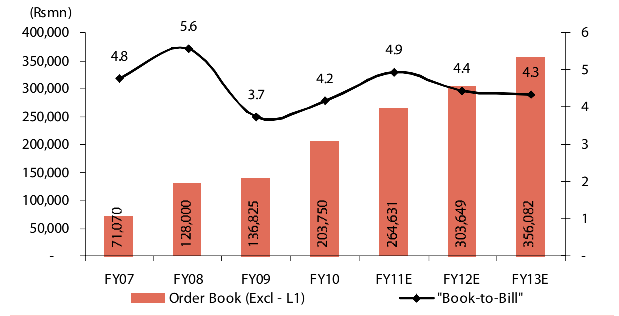
Name	Designation	Particulars
Sudhir Reddy	CMD	Mr. Reddy is the promoter of IVRCL. A commerce graduate, he started IVRCL to take up civil engineering constructions.
R Balarami Reddy	Director (Finance and Group Chief Finance Officer)	Joined IVRCL in 1994. He is a Fellow Member of the ICAI, and Associate Member of the ICWAI, and ICSI. He practiced as a chartered accountant for seven years before joining as General Manager (Finance).
Mr. E. Sunil Reddy	Director	He holds a degree in Commerce and a Bachelor of Law. He was practicing as a lawyer in the High Court and Supreme Court prior to joining IVRCL. Mr. Reddy is Managing Director of IVR Prime Urban Developers Ltd. He is also a director in Palladium Infrastructures & Projects Limited.

Source: Company, Centrum Research

Investment Rationale

- IVRCL's leadership position in the water segment will help it capitalize on emerging opportunities (environmental, industrial, irrigation, etc). We estimate current water segment order book of Rs58bn would enable 19% CAGR over FY10-12E for the segment.
- With improving environment in road project execution and the strong profile of road projects in IVRCL A&H, we expect road segment to register 35.3%% CAGR over FY10-12E and contribute 15.6% to FY12E revenue, up from 13% in FY10.

IVRCL's order-book trend



Source: Company, Centrum Research Estimates

Summary Financial (Standalone)

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**48,824**	**53,783**	**68,468**	**82,202**	**97,236**
YoY growth (%)	*33.4*	*10.2*	*27.3*	*20.1*	*18.3*
Operating profit	4,223	5,281	6,644	8,016	9,579
YoY growth (%)	*16.8*	*25.0*	*25.8*	*20.6*	*19.5*
Operating margin (%)	*8.6*	*9.8*	*9.7*	*9.8*	*9.9*
Depreciation	473	542	658	741	879
Interest expenses	1,306	1,637	1,984	2,350	2,774
Other non operating income	294	155	115	140	165
PBT	2,738	3,257	4,116	5,064	6,091
Provision for tax	478	1,108	1,389	1,722	2,071
PAT (adjusted)	**2,260**	**2,149**	**2,727**	**3,342**	**4,020**
YoY growth (%)	*7.3*	*(4.9)*	*26.9*	*22.6*	*20.3*
PAT margin (%)	*4.6*	*4.0*	*4.0*	*4.1*	*4.1*
Cash Flow Statement Data					
Cash generated from operations	468	740	(30)	1,777	2,098
Cash flow from investing activities	(2,364)	(2,251)	(1,880)	(2,132)	(2,383)
Cash flow from financing activities	1,133	1,420	2,107	1,271	(29)
Net cash increase/decrease	**(763)**	**(91)**	**197**	**916**	**(313)**
Balance Sheet Data					
Shareholders' fund	18,106	20,011	22,437	25,401	28,966
Debt	13,980	17,280	21,680	25,680	28,880
Deferred Tax Liability	117	117	117	117	117
Total Capital Employed	**32,203**	**37,409**	**44,235**	**51,199**	**57,963**
Fixed Assets	5,402	6,812	7,633	8,525	9,428
Goodwill					
Investments	3,892	4,192	4,592	5,092	5,692
Net current assets	22,909	26,406	32,002	37,575	42,836
Total Assets	**32,203**	**37,409**	**44,228**	**51,191**	**57,956**
Ratios (%)					
ROCE	*12.7*	*13.7*	*14.7*	*15.3*	*16.0*
ROIC	*9.6*	*10.2*	*10.8*	*11.2*	*11.7*
ROE	*13.2*	*11.3*	*12.8*	*14.0*	*14.8*
Per share Ratios (Rs)					
Fully diluted EPS	8.5	8.0	10.2	12.5	15.1
Solvency Ratio (x)					
Debt-equity	0.8	0.9	1.0	1.0	1.0
Interest coverage ratio	3.2	3.2	3.3	3.4	3.5
Valuation parameters (x)					
P/E (Fully Diluted)	18.7	19.6	15.5	12.6	10.5
P/BV	2.3	2.1	1.9	1.7	1.5
EV/EBITDA	13.3	11.3	9.6	8.5	7.4
EV/Sales	1.2	1.1	0.9	0.8	0.7

Source: Company, Centrum Research Estimates

Water, power transmission and road segments would drive future revenue growth

Improvement in road sector dynamics to benefit IVRCL's working capital as share of sector increases

Expect 25% net profit CAGR over FY10-12E

Investment Argument

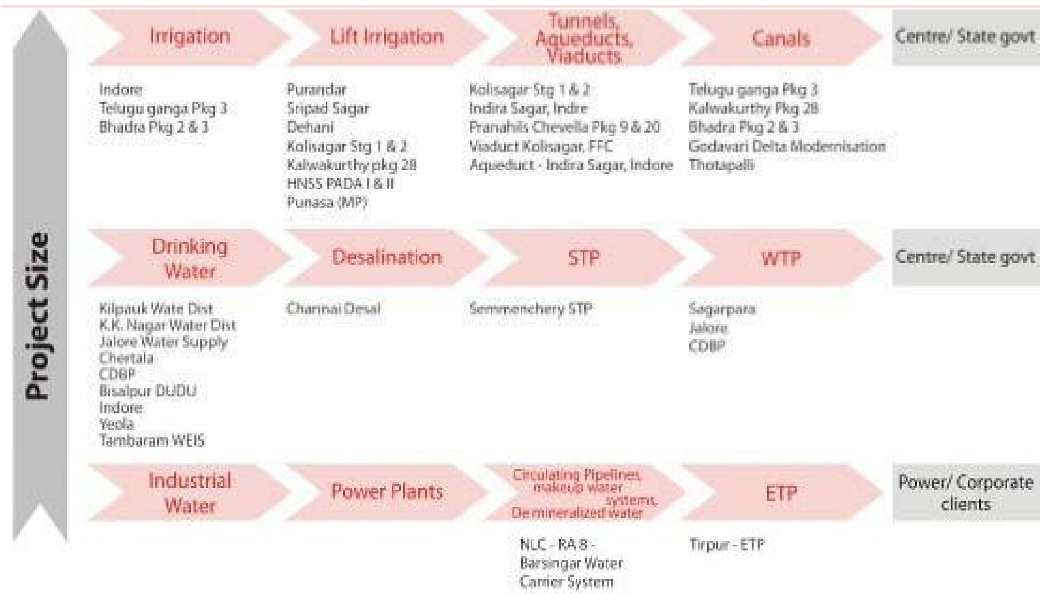
Well-placed to capitalize on opportunities in infrastructure

We believe IVRCL's strong position in the construction industry, coupled with huge opportunities emerging in infrastructure, would result in robust order intake, going forward (order intake amounted to Rs138bn in the past 15 months). We believe IVRCL's leading position in water infrastructure, increasing exposure to the transportation and transmission segments, coupled with a strong execution track record, will enable it to deliver 24% revenue CAGR between FY10-12E. The Andhra Pradesh irrigation segment, which has been long delayed, is expected to see execution improvement in 2HFY11. However, we remain conservative and have excluded AP irrigation revenue from our numbers and this negative will partially be offset from expected improvement in irrigation orders of other states like Rajasthan, Madhya Pradesh and Bihar. We initiate coverage on the stock with a Buy rating and target price of Rs230, which provides an upside of 46% from the current level.

Leadership position in water segment

Water infrastructure segment remains IVRCL's core business and would remain a major segment of the company. This segment currently contributes Rs100bn, or 43%, to total order-book. IVRCL's leading position in water infrastructure and diverse offerings will enable it to bag large projects and capitalize on increasing opportunities in the sector. Within water infrastructure, IVRCL's focus is on water supply projects, environmental projects and desalination projects which are believed to observe hectic activity in future.

Exhibit 1: IVRCL is present across the water infrastructure segment



Source: Company, Centrum Research

Intake of large and complex projects to boost capability

We see a shift in size and quality of projects IVRCL is bidding bid for (see Exhibit 3). We believe this step would translate into a huge benefit in terms of capability credentials and technical criteria meeting in future bidding and also reaping better margins as higher ticket size projects entails less competition and better coordination in terms of risk management.

Exhibit 2: Projects bagged by IVRCL

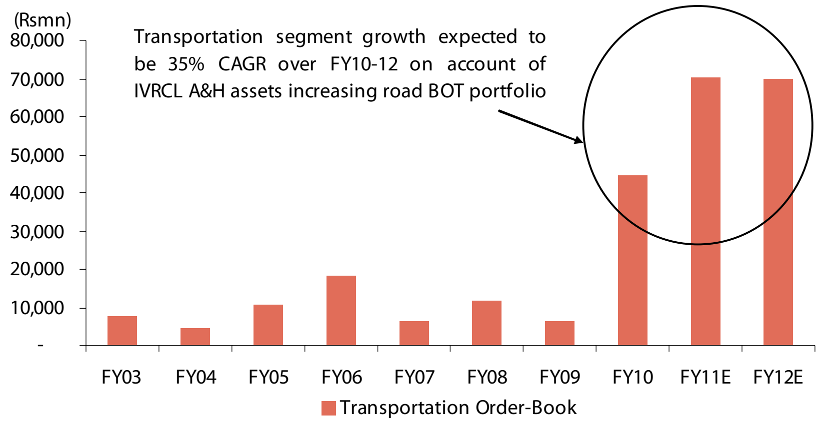
Quarter	Client	Description	State	Rsmn
Q12011	NHAI	Goa road project	Goa	31,000
Q32010	IOCL Paradip	Develop Crude/Product Terminal in IOC's Paradip Refinery on BOOT basis	Andhra Pradesh	30,000
Q42010	NHAI	155km on DBFOT basis	Madhya Pradesh	15,500
Q42010	NHAI	NHAI – Six-laning and four-laning in Tamil Nadu - 54.775Km	Tamil Nadu	11,250
Q32009	Irrigation CAD Dept, AP	Pranahita Chevella Lift Irrigation Scheme Link VII	Andhra Pradesh	8,930
Q12009	ONGC Petro Additions	Accelerated Soil Stabilization Work for Dahej Petrochemical Complex	Gujarat	8,376
Q32008	Irrigation CAD Dept, AP	Lift Irrigation Works for Kurnool & Anantapur Industries	Andhra Pradesh	7,612
Q22009	Irrigation CAD Dept, AP	Mid Manair Reservoir	Andhra Pradesh	7,150
Q32010	BMC, Mumbai	Construction of tunnel from Kapurbawadi to Bhandup complex	Maharashtra	5,729

Source: Company, Centrum Research

Transportation – major growth driver

Following a group restructuring in Dec 2009 (involving IVRCL Infra and IVR Prime Urban), the transportation segment has been witnessing increasing traction, mainly on account of the road BOT projects bagged by IVRCL Assets & Holding (IVRCL A&H), which is IVRCL's subsidiary and an infrastructure holding company. IVRCL A&H possesses a strong portfolio of road BOTs and oil tankages (see Exhibit 3) that are currently being executed by IVRCL Infrastructure. IVRCL A&H is expected to get more aggressive on bidding for road BOTs. Hence, EPC work flowing back to IVRCL would be a major positive for the parent company. Transportation segment contributed Rs58bn to the total order-intake of Rs98bn in the calendar year 2010.

Exhibit 3: Transportation segment's order-book trend (FY03-12E)



Source: Company, Centrum Research Estimates

Exhibit 4: Road BOT assets in IVRCL Assets & Holding's portfolio

Project	Segment	Stake (%)	Length	Capacity	Concession	Cost (Rsmn)	COD
Sion –Panvel	Road	51.0	25 km –10 Lane	NA	18.9 yrs	15,000	NA
Jalandhar & Amritsar Tollways	Road	100.0	49.00 km	NA	20 yrs	3,436	Dec-09
Kumarapalayan Tollways	Road	100.0	48.51 km	NA	20 yrs	4,216	Operational
Salem Tollways	Road	100.0	53.53 km	NA	20 yrs	5,020	Dec-09
Baramati to Phaltan	Road	75.0	77.90 km	NA	25 yrs	3,600	Sep-12
Chengapali to TN/Kerala Border	Road	100.0	54.775km	NA	24.5 yrs	11,250	N.A.
Indore-Jhajua-Gujarat-MP Border	Road	100.0	155km	NA	22.5 yrs	15,500	N.A.
Maharashtra-Goa Road Project	Road	100.0	33 km + 89km	NA	23 yrs	31,000	June'13
Tankage	Oil& Gas storage	37.5	NA	12 tanks	15 yrs	30,000	NA
First STP	Water BOT	95.0	NA	24 mld –Sewage Treatment plant	14 yrs	30	Operational
Chennai desalination	Water BOT	75.0	NA	100 mldpotable water	25 yrs	5,679	Operational

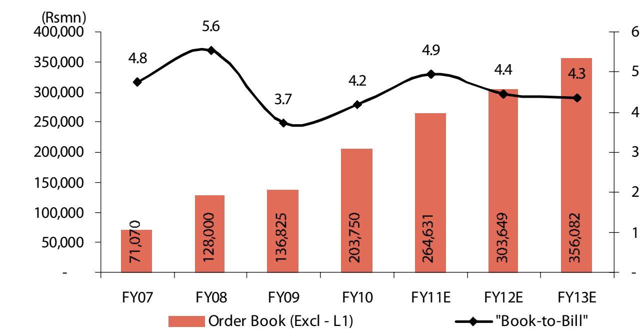
Sources: Company, Centrum Research

Robust order-book intake improves revenue visibility

IVRCL's order-book strength has increased by 70% during the past 15 months (from Rs137bn at the end of FY09 to Rs233bn at the end of Q1FY11). We believe this is an indication of recovery percolating in the Indian construction industry. IVRCL possesses a strong execution track record. We believe this order-book would ensure adequate revenue visibility till FY12-13.

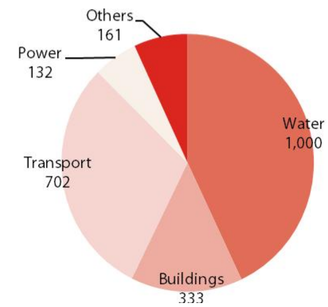
IVRCL's guidance for FY10 were impacted by issues such as the financial crisis in Andhra Pradesh and Narmada Bachao Andolan' (an NGO) agitation delaying project completion. However, going forward, on account of an improvement in project execution environment, we estimate IVRCL would be able to register 24% revenue CAGR over FY10-12E.

Exhibit 5: Order-book trend (FY07-12E)



Source: Company, Centrum Research Estimates

Exhibit 6: Order-book mix (as of Q1FY11)



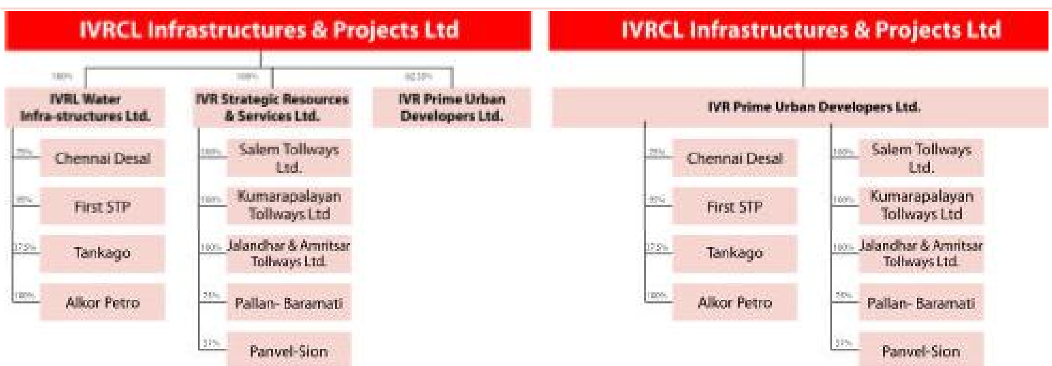
Source: Company, Centrum Research

Group restructuring exercise is positive

In Dec 2009, the group decided to merge its BOT projects in the water and transportation segment with IVRCL Asset & Holdings (earlier IVR Urban Prime Developers). We believe the new structure is optimal for a construction company. IVRCL Infra will handle EPC segment, whereas IVRCL Asset & Holding which was primarily in to real estate development will have a portfolio of infrastructure assets (like road BOT projects, oil tankages, Chennai Desalination Project, etc), going forward.

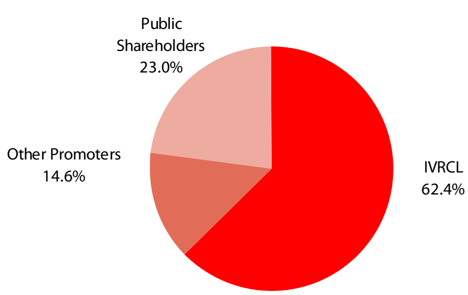
Now that the BOT projects have been shifted to IVRCL A&H, the dormant real estate assets (owns around 3,393 acres) could be liquidated to fund BOT assets, relieving concerns on IVRCL Infra's EPC business. IVRCL Asset & Holdings net worth has increased from ~Rs12bn to ~Rs23bn, driving more comfort on financial qualification for mega projects.

Exhibit 7: IVRCL Group structure before and after restructuring (ex-HDO)



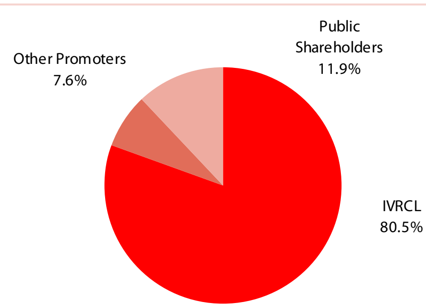
Source: Company

Exhibit 87: IVRCL A&H's shareholding before restructuring



Source: Company

Exhibit 9: IVRCL A&H's shareholding after restructuring



Source: Company

Key Risks

Our assumptions are prone to certain risks. Sector level risks have been discussed in sector section. Here we discuss company-specific risks.

Company-specific risks

- **Andhra Pradesh irrigation projects:** IVRCL have a substantial exposure to irrigation projects in Andhra Pradesh, valued at Rs40bn forming around 17% of total order-book. Since, Andhra Pradesh state is under financial stress, execution of these projects is a concern. Currently, work on these projects has been stopped or delayed until government pay dues. We expect the scenario to improve in FY12. However, we have not factored in major revenue from these projects. Company expects Rs1.5bn in FY11 from Andhra Pradesh irrigation projects.

Exhibit 10: AP irrigation projects bagged by IVRCL

Sector	Company	Client	State	Quarter	Award Date	Order Description	Total (Rsmn)
Irrigation	IVRCL	Irrigation CAD Dept, AP	Andhra Pradesh	Q12009	5-May-08	Modernization of Godavari Delta Canal	4,686
				Q22008	23-Jul-07	Package No.3/06 GNSS Main Canal	1,720
						Package No.12/06: GNSS Main Canal	1,890
						Vepagunta Reservoir, Adavikothur Reservoir, Earthwork and excavation of GNSS Main Canal	1,242
						Indira Sagar Lift Irrigation Project (Polavaram) Package No.31	1,562
				Q22009	9-Jul-08	Gouravelly Reservoir including Tunnel	4,097
					31-Jul-08	AVR HNSS Project - Phase II	3,578
					19-Aug-08	Mid Manair Reservoir	7,150
				Q32008	9-Oct-07	Lift Irrigation Works for Kurnool & Anantapur Industries	7,612
				Q32009	7-Nov-08	Kaleswaram Lift Irrigation Scheme	4,992
					10-Nov-08	Pranahita Chevella Lift Irrigation Scheme Link VII	8,930
		Govt. of Andhra Pradesh	Andhra Pradesh	Q42009	3-Mar-09	Guntakal comprehensive water supply improvement scheme	172
						Grand Total	**47,631**

Source: BSE India, Company, Centrum Research

- **Delays in executing projects:** During the past two years, IVRCL faced various delays in completion of major projects. For instance, the Chennai desalination project was operational after a delay of 2 years. The Indira Sagar project in Madhya Pradesh, and recent IOCL tankage execution issues are some of the high value projects getting delayed. Though, delays were beyond company's control, we believe such delays would occur frequently and impact our assumptions.

Exhibit 11: IVRCL Infra's orders facing delays / execution problems

Quarter	State	Client	Date awarded	Order Description	Delays	Reasons for delay	Total (Rsmn)
Q32009	Andhra Pradesh	Irrigation CAD Dept, AP	10-Nov-08	Pranahita Chevella Lift Irrigation Scheme Link VII	Yes	State financial crisis	8,930
Q42008	Madhya Pradesh	Narmada Valley Devpt Corprn, Bhopal	3-Mar-08	Canal System	Yes	Environemtal and R&R issues	4,785
Q22006	Tamil Nadu	Chennai Metro Water Supply & Sewerage Board, Chennai	11-Aug-05	100 MLD Sea Water Desalination Plant at Minjur, Chennai on DBOOT basis - transferred after 25 years	Yes	Post construction like testing, permissions, etc	5,000
						Grand Total	**18,715**

Source: Company, Centrum Research

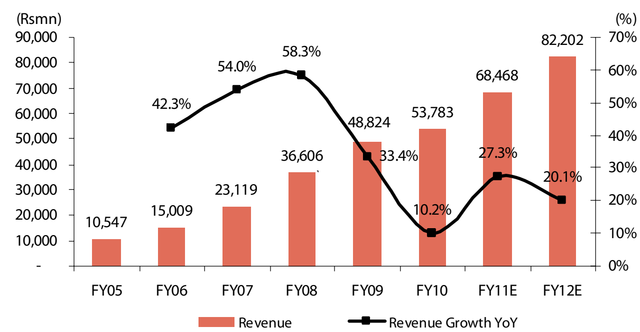
Financial Analysis

IVRCL's strong execution skills, coupled with robust order-book inflows is expected to result 24% revenue CAGR over FY10-12. Irrigation projects could see delays. But this would be offset by the increasing traction in the water and road segments. We expect stable growth in building projects. We estimate stable margin of 9.7% for FY11 and 9.75% for FY12E. However, we believe improving margins on road projects would enable the company register good profitability, which would be an upside risk to our assumptions.

24% revenue CAGR over FY10-12E

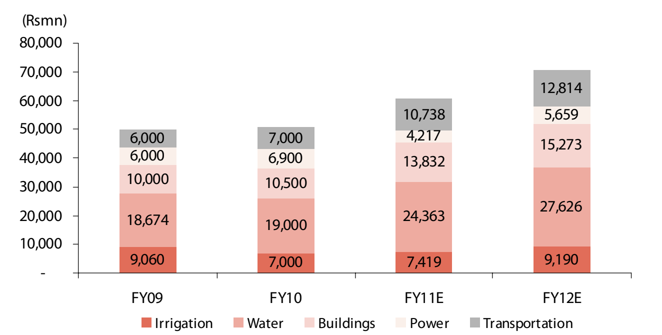
We expect IVRCL to post 24% revenue CAGR over FY10-12E. Our projections are based on the robust growth in water (ex-irrigation), power and road segments. However, this would be partially offset by low growth in the irrigation segment and moderate growth in the buildings segment.

Exhibit 12: Revenue history and expectation (FY05-12E)



Source: Company, Centrum Research Estimates

Exhibit 13: Segment revenue break-up

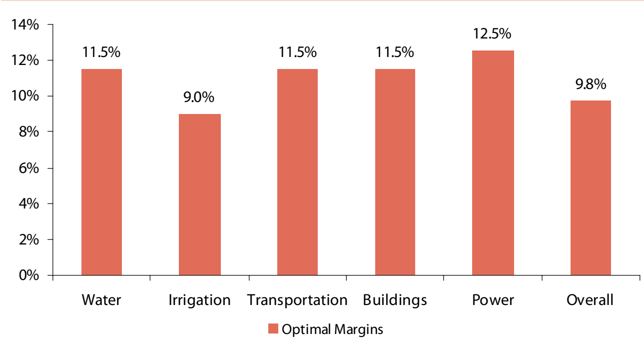


Source: Company, Centrum Research Estimates

Stable EBITDA margin

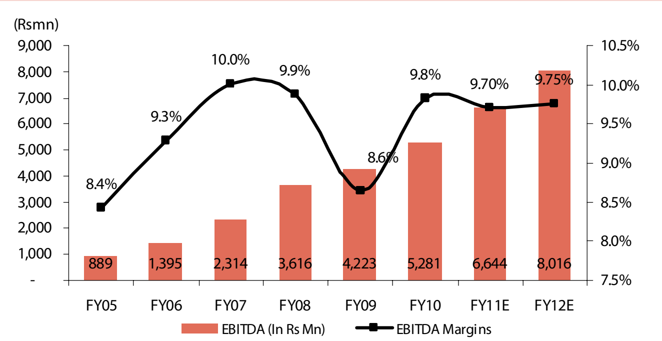
We expect EBITDA margin to improve by 20bp on account of improving execution of road projects (following various measures taken by the regulatory authorities) and ramping-up of power segment. Margins in power segment are already at optimal level. Hence, we don't expect any major improvement. We model in 9.7% for FY11 and 9.75% for FY12.

Exhibit 14: Optimal segment margin profile



Source: Company, Centrum Research

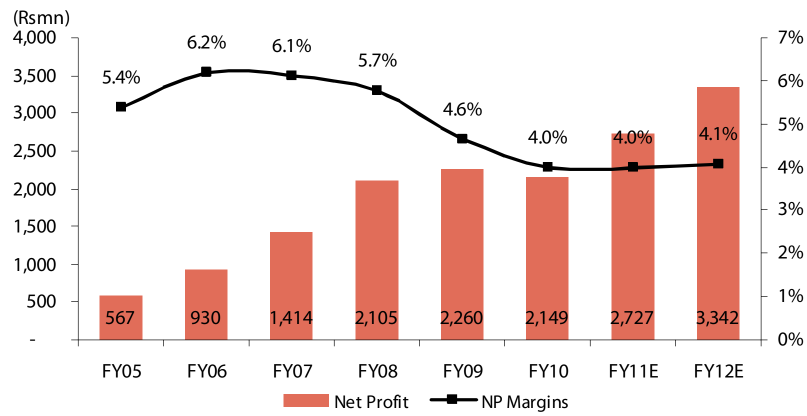
Exhibit 15: Overall margin trend (FY05-12E)



Source: Company, Centrum Research Estimates

25% PAT CAGR over FY10-12E

Exhibit 16: Net profit trend (standalone)

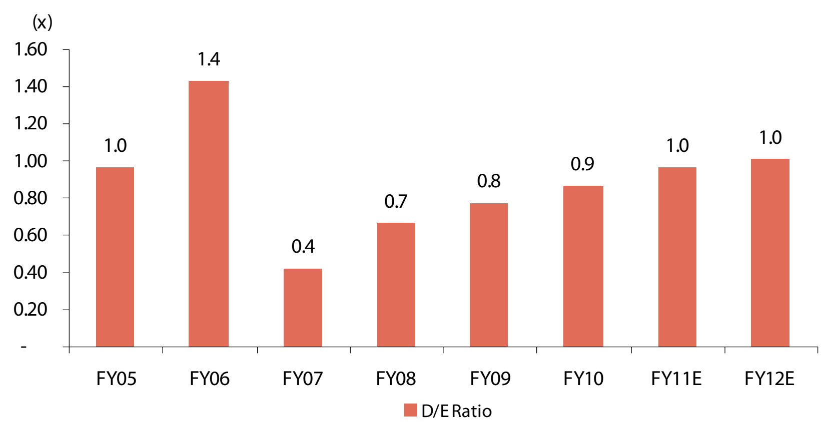


Source: Company, Centrum Research Estimates

Financial strength to support future growth

We believe IVRCL's overall financial strength will enable it grow at our projected 24% revenue CAGR over FY10-12E. Current cash of around Rs1bn and D/E ratio of ~0.9x in FY10 (vs 0.77 for FY09) would enable the company to deliver projected growth. We expect D/E to rise to 1x in FY11 on account of increasing requirement of funds for working capital.

Exhibit 17: Debt/equity ratio (stand-alone business)



Source: Company, Centrum Research Estimates

Valuation Analysis

Buy with target price of Rs230

We value IVRCL's core construction business at Rs163 (13x FY12E EPS of Rs12.5) and apply market value for listed subsidiaries adjusting for equity stake and holding company discount of 25% at Rs67 (29% to total target price). IVRCL Asset & Holding is valued at Rs53 and Hindustan Dorr Oliver at Rs15. This translates into a target price of Rs230, which provides an upside of 46% from the current level of Rs158. Buy.

Exhibit 18: IVRCL's valuation

Valuation	Method	Holding Discount	Market Cap (Rsmn)	Stake	Multiple (x)	FY12 EPS	Value / Share (Rs)
Core Construction / EPC Business	P/E				13.0	12.5	162.7
Hindustan Dorr Oliver	M.Cap	25.0%	9,789.2	53.0%	NA	NA	14.6
IVR Urban Prime	M.Cap	25.0%	23,361.3	80.5%	NA	NA	52.8
IVRCL Consolidated Value							**230.1**
Current Market Price							160.2
Upside / Downside (PE)							**45.7%**
Core Business P/E Multiple Calculation							
CMP Adjusted for stake in listed Subsidiaries							**90.6**
Current market multiple for core business							7.2

Source: Company, Centrum Research Estimates

Sensitivity analysis of core construction business valuation (Per share)

Exhibit 19: Revenue Growth Sensitivity Analysis

	(Rs)	Core Business - Revenue Growth							
	162.7	15.0%	16.0%	18.1%	20.1%	22.1%	24.1%	25.1%	26.1%
EBITDA Margins	8.6%	121.6	123.5	127.3	131.0	134.8	138.6	140.5	142.4
	9.0%	131.7	133.7	137.7	141.6	145.6	149.5	151.5	153.5
	9.4%	141.8	143.9	148.0	152.2	156.3	160.4	162.5	164.5
	9.8%	**152.0**	**154.1**	**158.4**	**162.7**	**167.0**	**171.3**	**173.5**	**175.6**
	10.2%	162.1	164.3	168.8	173.3	177.8	182.3	184.5	186.7
	10.6%	172.2	174.6	179.2	183.9	188.5	193.2	195.5	197.8
	11.0%	182.3	184.8	189.6	194.4	199.3	204.1	206.5	208.9

Source: Centrum Research Estimates

Group Overview

Leading position in the water segment is one of the important drivers of company revenue and profits

IVRCL Group has positioned itself to tap the growth opportunity in Indian infrastructure such as water, roads, and power transmission which also stand out in India's opportunity profile. Group companies consists of IVRCL Infra handling EPC business, IVRCL Asset & Holdings which owns infrastructure assets of the group and Hindustan Dorr Oliver (HDO) handling niche engineering projects in petrochemical sector.

Exhibit 20: IVRCL's EPC Sector Presence

Water	Transportation	Buildings	Power Transmission and Distribution Lines
❍ Water Supply Projects	❍ Roads	❍ Residential/ Commercial	❍ Transmission line project
❍ Transmission mains	❍ National highways/ expressways	❍ Integrated Townships	❍ High voltage distribution
❍ Distribution	❍ Bridges	❍ Others	❍ Sub-stations
❍ Systems	❍ Major/minor with well/ pile/open foundation pre-stressed concrete	❍ Storm water	
❍ Pumping & re-circulating systems	❍ Girders, rail over bridges and road under bridges	❍ Drains	
❍ Storage systems	❍ Railways/Tunnels	❍ Underground drains	
❍ Operations & Maintenance		❍ Layout formation	
❍ Environmental Projects		❍ Overburden removal	
❍ Sewage systems			
❍ Water/Sewage treatment plants			
❍ Solid waste recycling Plants			
❍ Irrigation Projects			
❍ Oil & Gas Projects			
❍ Oil & gas pipelines			
❍ Canal Works			
❍ Desalination Projects			

Source: Company

Hindustan Dorr Oliver - Niche engineering play

IVRCL Infra acquired Hindustan Dorr Oliver in 2005 from Jumbo World Group and is currently holding ~55% stake. HDO present synergies for parent company IVRCL Infra since leading position of HDO enables them bag turnkey projects and would then transfer civil portion of project to IVRCL Infra. HDO's revenue grew by a robust 57% CAGR b/w FY06-09. Order-book of the company stands at Rs13.75bn as on Q1FYY11.

Financials (StandAlone)

Exhibit 21: Income statement

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Revenues	**48,824**	**53,783**	**68,468**	**82,202**	**97,236**
Growth in revenue	*33.4*	*10.2*	*27.3*	*20.1*	*18.3*
Cost of Raw Material	41,772	45,190	56,711	68,389	80,799
% of Revenue	*85.6*	*84.0*	*82.8*	*83.2*	*83.1*
Employee cost	1,953.1	2,015.0	3,364.0	3,866.2	4,573.3
% of Sales	*4.0*	*3.7*	*4.9*	*4.7*	*4.7*
O&M expenses	875.8	1,297.2	1,748.6	1,931.5	2,284.7
% of Sales	*1.8*	*2.4*	*2.6*	*2.3*	*2.3*
EBITDA	**4,223**	**5,281**	**6,644**	**8,016**	**9,579**
EBITDA Margin (%)	*8.6*	*9.8*	*9.7*	*9.8*	*9.9*
Depreciation	473	542	658	741	879
PBIT	**3,750**	**4,739**	**5,986**	**7,275**	**8,699**
Interst expenses	1,306	1,637	1,984	2,350	2,774
PBIT from operations	**2,444**	**3,102**	**4,002**	**4,925**	**5,926**
Other non operating income	294	155	115	140	165
PBT before ext.od items	**2,738**	**3,257**	**4,116**	**5,064**	**6,091**
Extra-ordinary income/ (exp)					
PBT	**2,738**	**3,257**	**4,116**	**5,064**	**6,091**
Provision for tax	478	1,108	1,389	1,722	2,071
Effective tax rate (%)	*17.5*	*34.0*	*33.8*	*34.0*	*34.0*
Minority interest					
PAT	**2,260**	**2,149**	**2,727**	**3,342**	**4,020**
Adjustment for Ext.Od items					
Adjusted PAT	**2,260**	**2,149**	**2,727**	**3,342**	**4,020**
Growth in PAT (%)	*7.3*	*(4.9)*	*26.9*	*22.6*	*20.3*
PAT margin (%)	*4.6*	*4.0*	*4.0*	*4.1*	*4.1*

Source: Company, Centrum Research Estimates

Exhibit 22: Balance sheet

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Share Capital	267	267	267	267	267
Stock Options	-	-	-	-	-
Reserves	17,839	19,744	22,165	25,129	28,694
Shareholders' fund	**18,106**	**20,011**	**22,432**	**25,396**	**28,961**
Debt	13,980	17,280	21,680	25,680	28,880
Deferred Tax Liability	117	117	117	117	117
Minority Interest	-	-	-	-	-
Total Capital Employed	**32,203**	**37,409**	**44,230**	**51,193**	**57,958**
Gross Block	**6,624**	**8,524**	**9,974**	**11,574**	**13,324**
Accumulated dep.	1,417	1,958	2,617	3,357	4,237
Net Block	**5,207**	**6,565**	**7,357**	**8,216**	**9,087**
Capital WIP	196	247	276	308	341
Total Fixed Assets	**5,402**	**6,812**	**7,633**	**8,525**	**9,428**
Investments	**3,892**	**4,192**	**4,592**	**5,092**	**5,692**
Deferred Tax Asset					
Inventories	2,093	2,184	2,549	2,972	3,889
Debtors	11,430	14,569	19,049	22,904	27,581
Cash & bank balances	1,009	918	1,117	2,032	1,719
Loans and Advances	9,319	10,056	12,387	14,207	16,556
Other Current Assets	14,284	18,200	23,197	25,660	28,491
Total current assets	**38,135**	**45,926**	**58,298**	**67,775**	**78,236**
Current lia & provisions	15,226	19,521	26,294	30,198	35,397
Net current assets	**22,909**	**26,406**	**32,005**	**37,577**	**42,838**
Misc. Expenditure	-	-	-	-	-
Total Assets	**32,203**	**37,409**	**44,230**	**51,193**	**57,958**

Source: Company, Centrum Research Estimates

Exhibit 23: Cash flow

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	**2,738**	**3,257**	**4,116**	**5,064**	**6,091**
Depreciation	473	542	658	741	879
Interest expenses	1,907	1,637	1,984	2,350	2,774
OP profit before WC change	**4,365**	**5,436**	**6,759**	**8,155**	**9,744**
Working capital adjustment	(2,878)	(3,588)	(5,400)	(4,657)	(5,575)
Gross cash from operations	**1,487**	**1,848**	**1,359**	**3,499**	**4,169**
Direct taxes paid	**(1,018)**	**(1,108)**	**(1,389)**	**(1,722)**	**(2,071)**
Cash from operations	**468**	**740**	**(30)**	**1,777**	**2,098**
CF from investing					
Capex	(2,153)	(1,951)	(1,480)	(1,632)	(1,783)
Investment	(483)	(300)	(400)	(500)	(600)
Others	273	-	-	-	-
Cash from investment	**(2,364)**	**(2,251)**	**(1,880)**	**(2,132)**	**(2,383)**
CF from financing					
Proceeds from sh cap & prem.	0	-	-	-	-
Borrowings/ (Repayments)	3,221	3,300	4,400	4,000	3,200
Interest paid	(1,899)	(1,637)	(1,984)	(2,350)	(2,774)
Dividend paid	(189)	(243)	(309)	(378)	(455)
Others	-	-	-	-	-
Cash from financing	**1,133**	**1,420**	**2,107**	**1,271**	**(29)**
Net cash increase/ (dec)	**(763)**	**(91)**	**197**	**916**	**(313)**

Source: Company, Centrum Research Estimates

Exhibit 24: Key Ratios

Y/E March	FY09	FY10E	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	8.6	9.8	9.7	9.8	9.9
PBIT Margin	7.7	8.8	8.7	8.9	8.9
PBT Margin	5.6	6.1	6.0	6.2	6.3
PAT Margin	4.6	4.0	4.0	4.1	4.1
Growth Ratios (%)					
Revenues	33.4	10.2	27.3	20.1	18.3
EBITDA	16.8	25.0	25.8	20.6	19.5
Net Profit	7.3	(4.9)	26.9	22.6	20.3
Return Ratios (%)					
ROCE	12.7	13.7	14.7	15.3	16.0
ROIC	9.6	10.2	10.8	11.2	11.7
ROE	13.2	11.3	12.8	14.0	14.8
Turnover Ratios					
Asset turnover ratio (x)	1.5	1.4	1.5	1.6	1.7
Working Capital Turnover (x)	2.1	2.0	2.1	2.2	2.3
Avg collection period (days)	85.5	98.9	101.6	101.7	103.7
Avg payment period (days)	121.0	142.7	150.8	144.3	155.3
Per share (Rs)					
Fully diluted EPS	8.5	8.0	10.2	12.5	15.1
CEPS	10.2	10.1	12.7	15.3	18.3
Book Value	67.8	74.9	84.0	95.1	108.5
Solvency ratios (x)					
Debt/ Equity	0.8	0.9	1.0	1.0	1.0
Interest coverage ratio	3.2	3.2	3.3	3.4	3.5
Valuation parameters (x)					
P/E	18.7	19.6	15.5	12.6	10.5
P/BV	2.3	2.1	1.9	1.7	1.5
EV/ EBITDA	13.3	11.3	9.6	8.5	7.4
EV/ Sales	1.2	1.1	0.9	0.8	0.7
M-Cap/ Sales	0.9	0.8	0.6	0.5	0.4

Source: Company, Centrum Research Estimates

INDIA

Construction

CENTRUM

Nagarjuna Constructions

Initiation **30 August 2010**

Buy

Target Price: Rs215

CMP: Rs154*

Upside: 39%

**as on 27 August 2010*

Most diversified, Robust fundamentals

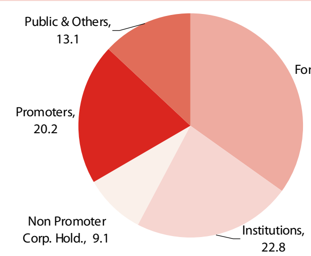
Nagarjuna Constructions Company (NCC) has a presence in the Indian as well as Middle-eastern markets. NCC is placed to benefit from India's infrastructure opportunities and the company's short-duration, high-potential 'New segments' business. In addition, the expanding power and road portfolio of NCC's wholly owned subsidiary, NCC Infra, strengthens order-intake visibility. We expect NCC to see revenue CAGR of 21% and earnings growth of 25% in FY10-12E. We initiate coverage on the stock with a Buy rating (TP: Rs215, upside potential: 39%).

- **Order-book best diversified v/s peers** – NCC's exposure to various segments like water, buildings, and power distribution, allays fears of slow growth in the event of an economic downturn. New segments such as power, metals and mining are performing well, and have high growth potential. We expect the order-book to reach Rs300bn by FY12E from Rs161bn in Q1FY11.
- **Expanding NCC Infra (100% subsidiary) portfolio boosts EPC business** – NCC Infra currently has five road and three power projects. We believe, with road and internal power projects showing good traction, EPC work to parent company is a long-term positive.
- **Strong finances –** NCC raised equity funds through QIP in FY10 and has less financial leverage v/s peers. We believe this will act as a cushion to execution of various projects in NCC Infra and gives visibility to the growth of NCC's EPC business (FY10 D/E 0.7x).
- **International exposure not a drag –** NCC also has an international presence (primarily Middle-east) and has a substantial order-book exposure of Rs30bn, 19% of total OB (as on Q1FY11). NCC is playing the Middle-east carefully, with projects spread across the region. This limits the downside risk from international operations.
- **Downside risk** – Higher share of fixed-price contracts (mostly international orders) at 33% of order book v/s peers at 10-15% can impact future operating margins.
- **Valuation** – We initiate coverage on NCC with a Buy, TP of Rs215 (potential upside of 39% from CMP of Rs154). NCC provides a better risk-reward ratio than IVRCL Infra. We are positive on the stock due to its robust 21% earnings growth in stand-alone EPC business over FY10-12E, better order-book diversification, and overall infrastructure growth opportunities. We value the domestic EPC business at Rs169 (FY12E EPS of Rs12.1@14x P/E, international EPC business at Rs20 (FY12E EPS of Rs2.4@8x P/E) and value NCC Infra and NCC Urban combined at Rs26.

Key Data

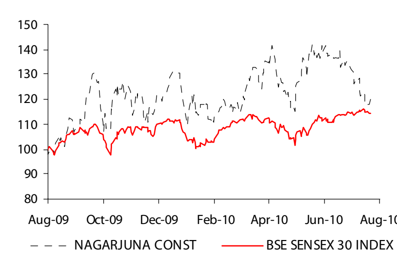
Bloomberg Code	NJCC IN
Reuters Code	NGCN BO
Current Shares O/S (mn)	256.6
Diluted Shares O/S(mn)	256.6
Mkt Cap (Rsbn/USDmn)	39.8/849.3
52 Wk H / L (Rs)	198/132
Daily Vol. (3M NSE Avg.)	834,229
Face Value (Rs)	2
USD = Rs46.9	

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Nagarjuna Constructions	(12.9)	0.3	15.2
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research as on 27 August 2010

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Financial summary – (standalone)

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	41,514	*19.4*	3,737	*9.0*	1,539	*(5.0)*	6.7	*9.4*	*11.9*	23.0	12.8
FY10	47,778	*15.1*	4,834	*10.1*	1,998	*29.9*	7.8	*11.8*	*12.9*	19.8	11.4
FY11E	57,043	*19.4*	5,830	*10.2*	2,576	*28.9*	10.0	*11.0*	*12.8*	15.4	10.1
FY12E	69,503	*21.8*	7,171	*10.3*	3,102	*20.4*	12.1	*12.1*	*13.6*	12.8	8.9
FY13E	82,649	*18.9*	8,609	*10.4*	4,310	*20.2*	14.0	*12.7*	*14.0*	11.0	8.0

Source: Company, Centrum Research Estimates

Shareholding pattern (%)

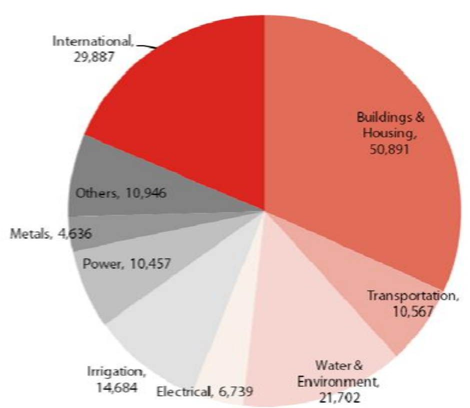
Y/E March	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	20.5	20.2	20.2	20.2
Institutions	55.4	57.3	57.8	57.2
FII	*32.3*	*35.3*	*35.9*	*34.4*
DII	*23.2*	*22.0*	*21.8*	*22.8*
Public & Others	24.1	22.5	22.0	22.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Centrum Research

Company Background

Established in 1978, NCC is one of the few construction companies with exposure to almost all segments of the Indian construction industry. NCC has international exposure in the Middle-east. NCC Urban – a 100% subsidiary – is into real estate development, while NCC Infra is into development of infrastructure assets.

NCC's current order-book



Source: Company, Centrum Research

Key events/timeline

Year	Particulars
1978	NCC established by Dr AVS Raju as a partnership firm
1990	Became a limited company
1992	IPO, listed on BSE & NSE
1995	Crossed Rs1bn turnover
1996	Property division established
1998	Transportation division established
1999	Electrical division established
2004	Irrigation division established
2005	Incorporated NCC Infrastructure Holdings Limited (NCCIHL) - a wholly owned subsidiary of NCC
2005	Incorporated NCC Urban Infrastructure Ltd (NCCUIL), a subsidiary of NCC
2005	GDR issue
2005	International division established with focus on projects in Oman & UAE
2007	Power division established
2007	Equity investment by Blackstone
2008	Mining division launched
2009	WDM listing

Source: Company, Centrum Research

Key management personnel

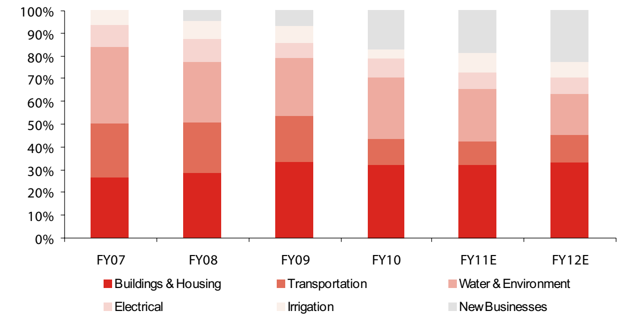
Name of the Person	Designation	Particulars
Dr AVS Raju	Founder Chairman	Dr AVS Raju has been with the company since inception and spearheaded the company's growth. He is the founder chairman.
Mr. R.S. Raju	CFO and VP (Finance & Accounts)	Mr Raju, 55, has an M.Com and FICWA. He joined NCC in April 1993 and has over 31 years of experience.
YD Murthy	Ex.VP (Finance), Head of the Finance Department	Mr. Murthy, 59, is a B.Tech (Chemical Engineering) and a Certified Associate of the Indian Institute of Bankers. He joined NCC in February 1995 and has over 33 years of experience.
Mr. Rajagopal G. Iyer	VP – Technical, Heads of the Power & Metals Division	Mr.Iyer, 56, has a B.Sc (Eng.) (Hons) degree. He joined NCC in December 2007 and has over 29 years of experience.

Source: Company, Centrum Research

Investment Rationale

- NCC's diverse exposure to various segments in Indian infrastructure, such as water, buildings and power distribution, allays fears of slow growth in an economic downturn. New short-duration segments such as power, metals and mining have high growth potential.
- NCC Infra currently has five road and three power projects. We believe, with road and internal power projects showing good traction, the EPC work to parent company is a long-term positive.
- NCC has raised equity funds through a QIP in FY10 and has less financial leverage than its peers. We believe this will act as a cushion to the execution of various projects in NCC Infra and gives visibility to the growth of NCC's EPC business.

NCC order-book mix



Source: Company, Centrum Research Estimates

Summary of Financials (standalone)

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**41,514**	**47,778**	**57,043**	**69,503**	**82,649**
YoY growth (%)	*19.4*	*15.1*	*19.4*	*21.8*	*18.9*
Operating profit	3,737	4,834	5,830	7,171	8,609
YoY growth (%)	2.5	29.4	20.6	23.0	20.1
Operating margin (%)	*9.0*	*10.1*	*10.2*	*10.3*	*10.4*
Depreciation	533	525	598	715	866
Interest expenses	964	1,322	1,398	1,830	2,398
Other non operating income	42	48	61	73	87
PBT	2,282	3,530	3,896	4,699	5,433
Provision for tax	743	1,204	1,320	1,597	1,847
PAT (adjusted)	**1,539**	**1,998**	**2,576**	**3,102**	**3,586**
YoY growth (%)	*(5.0)*	*29.9*	*28.9*	*20.4*	*15.6*
PAT margin (%)	*3.7*	*4.2*	*4.5*	*4.5*	*4.3*
Cash Flow Statement Data					
Cash generated from operations	(1,488)	238	301	78	1,626
Cash flow from investing activities	(1,082)	(3,763)	(2,278)	(2,602)	(2,535)
Cash flow from financing activities	1,586	4,177	2,018	2,566	1,804
Net cash increase/decrease	**(985)**	**652**	**40**	**42**	**895**
Balance Sheet Data					
Shareholders' fund	16,856	22,457	24,448	26,846	29,734
Debt	12,439	15,302	19,302	24,402	29,302
Minority Interest	0	0	0	0	0
Deferred Tax Liability	188	255	255	255	255
Total Capital Employed	**29,482**	**38,013**	**44,005**	**51,502**	**59,290**
Fixed Assets	4,592	5,538	6,169	6,806	7,426
Goodwill	0	0	0	0	0
Investments	7,402	9,412	10,412	11,612	12,612
Net current assets	17,206	22,629	26,940	32,552	38,671
Total Assets	**29,482**	**38,013**	**44,005**	**51,502**	**59,291**
Ratios (%)					
ROCE	*11.9*	*12.9*	*12.8*	*13.6*	*14.0*
ROIC	*19.2*	*19.9*	*20.6*	*21.4*	*21.9*
ROE	*9.4*	*11.8*	*11.0*	*12.1*	*12.7*
Per share Ratios (Rs)					
Fully diluted EPS	6.7	7.8	10.0	12.1	14.0
Solvency Ratio (x)					
Debt-equity	0.7	0.7	0.8	0.9	1.0
Interest coverage ratio	3.9	3.7	4.2	3.9	3.6
Valuation parameters (x)					
P/E (Fully Diluted)	23.0	19.8	15.4	12.8	11.0
P/BV	2.1	1.8	1.6	1.5	1.3
EV/EBITDA	12.8	11.4	10.1	8.9	8.0
EV/Sales	1.2	1.2	1.0	0.9	0.8

Source: Company, Centrum Research

NCC International's revenue CAGR of 28% is expected to support domestic revenue CAGR of 21% b/w FY10-12E. New segments within the domestic business are expected to grow at 41% in the same period.

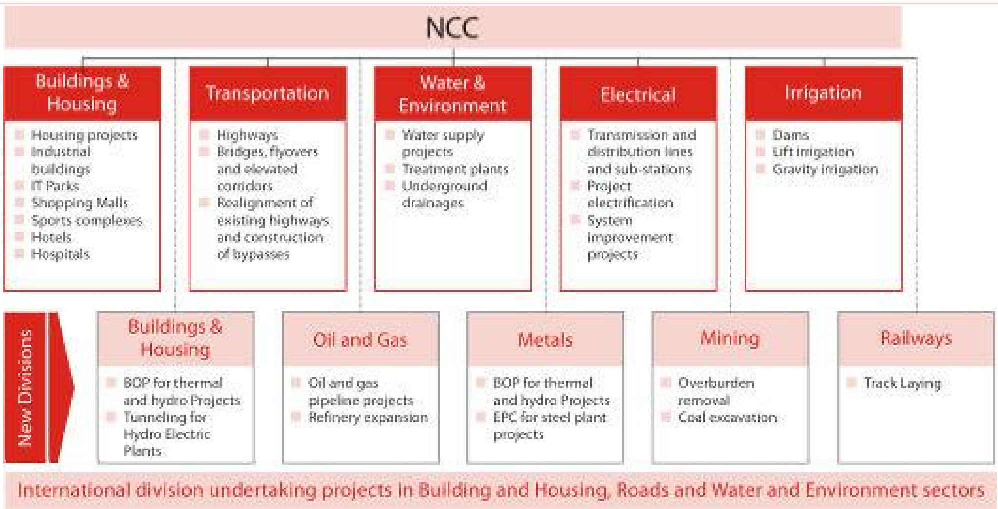
Investment Argument

We initiate coverage on Nagarjuna Constructions Company (NCC) with a Buy rating (target price of Rs215, upside potential: 39%). Our view is based on NCC's potential to leverage the opportunity in Indian infrastructure, its diversified presence, growth in short duration segments like mining, metals and power, and its well-planned exposure to the Middle-east region. We expect the company's order book to reach Rs213bn by FY11E and Rs300bn by FY12E, up from Rs161bn in Q1FY11, driving comfortable revenue visibility. We estimate revenue and earnings growth of 21% and 25% CAGR between FY10-12E. We prefer NCC to IVRCL on account of its strong internal risk management system and transparency, which we believe is ahead of peers.

Order-book most diversified v/s peers: allays order-intake risks

NCC's order-book is the most diverse amongst its peers. The project mix is expected to prevent business slowdown in case of a downturn in economy. As can be seen from the industry exposure table below (Exhibit 1), NCC has a presence in almost all areas of construction opportunity.

Exhibit 1: Presence across industry



Source: Company

Exhibit 2: Maximum exposure across segment

Players Profile	Power		Roads		Railways	Water & irrigation	Ports		Airports		Buildings		Industrial
	EPC	Asset	EPC	Asset	EPC	EPC	EPC	Asset	EPC	Asset	EPC	Asset	EPC
Covered Companies													
IVRCL Infra	√		√	√	√	√					√	√	√
NCC	√	√	√	√	√	√	√			√	√	√	√
HCC	√		√	√	√	√					√	√	√
Era Infra	√		√	√	√	√			√		√	√	√
CCCL	√				√	√			√		√	√	√
Ahluwalia Contracts	√				√	√					√		√
Others													
L&T	√	√	√	√	√	√	√	√	√	√	√	√	√
Punj Lloyd	√		√	√	√			√	√		√	√	√
Simplex Infra	√		√	√	√	√					√	√	√
Gammon India	√	√	√	√	√	√	√	√			√	√	√
Maytas Infra	√	√	√	√	√	√	√	√		√	√	√	√
BL Kashyap	√				√				√		√	√	√

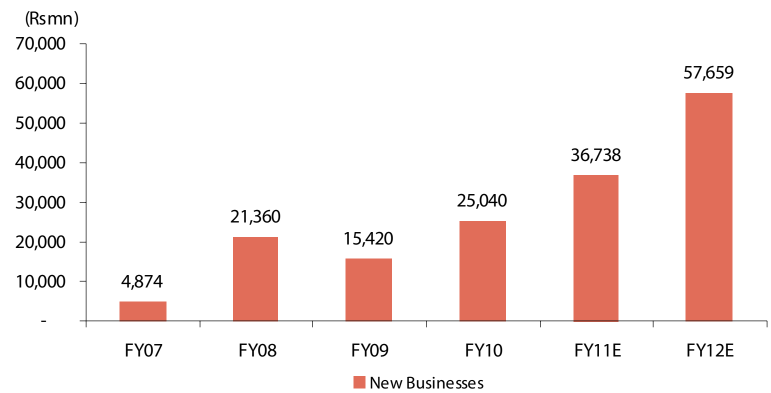
** EPC = Engineering, Procurement and Construction*

Source: Company, Centrum Research

New segments show traction in order intake growth

NCC's entry into new segments such as power, metals and mining is intended to dilute the impact of the long gestation period involved in roads, water and irrigation projects. Growth in the new segments has been robust, contributing 16% of total revenue derived and 21% of the total order book in FY10. We believe revenue visibility is strong as a result of the partnerships/JVs with international players such as POSCO in mining sub-segment. We expect new segments to witness revenue growth of 82% between FY09-12E due to a low base, and to contribute 19% to total revenue by FY12E, a minor increase from 16% in FY09.

Exhibit 3: New segments' order-book trend



Source: Company, Centrum Research Estimates

Exhibit 4: New segments: business overview

Segment	Started	FY10 (Rsmn)			Overview	What has been done in the past	Strategy going ahead
		Revenue	% Share	Order-book			
Power	FY08	1,040	1.8%	10,457	EPC & BoP of thermal & hydro power projects	Completed large power projects, tunneling for hydroelectric power projects	Diversification into the renewable energy (solar and wind) vertical
Metals	FY07	5,620	9.6%	4,636	EPC in the ferrous and non-ferrous metal sector	MoU with POSCO E&C of South Korea to bid for EPC contracts of various steel plant expansion projects and grass-root steel plants in India.	Aggressive in bidding on projects on the basis of capability and strong tie-ups
Mining	FY08	-	0.0%	-	Caters to coal needs of Group assets and the external rising demand, also seeks to enter ferrous and non-ferrous metal segments	Bidded for government & private sector ferrous and non-ferrous mining projects.	Seek bauxite and limestone mines in India
Others (Railways, Oil & Gas, etc)	FY08	1,120	1.9%	10,946	Caters to various other industries like Oil & Gas	Completed contracts in this segment	Tie-up with a new partner in the Oil & Gas segment since the earlier tie-up was quashed. Get more aggressive in railways.
Total		**7,780**	**13.4%**	**26,039**			

Source: Company, Centrum Research

NCC Infra (100% subsidiary) to boost EPC business

NCC's fully owned subsidiary, NCC Infra, is involved in roads and power projects (thermal and hydro). It owns five road projects and three power projects. We believe, with road and internal power projects showing good traction, EPC work to parent company of these projects is positive for the long term. NCC Infra is currently pre-qualified for road BOTs worth Rs45bn/Rs50bn. Though it is currently a fully owned subsidiary, NCC plans to list it separately in the future, in line with the structure followed by IVRCL.

Exhibit 5: NCC Infra's road and power assets

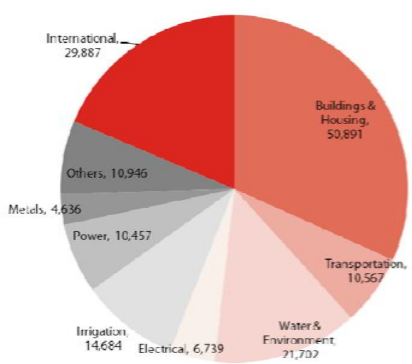
Project	Stake	Cost (Rsmn)	Category	Length / Capacity	State	Revenue Model	Partners	Concession Period	Equity IRR	Target COD	Current Status
Road BOT Assets											
NCC Infra (Wgt Share)	**49.8%**	**26,946**									
Brindavan Infrastructure	33.0%	2,475	Annuity	~62.6KM	Karnataka	297mn 6m'ly 8yr	Maytas & KMC	10 years	18.0%	Jun-06	Operational
Bangalore Elev. Tollway	51.0%	8,807	Toll	~50KM	Karnataka	Toll	Maytas & Soma	20 years	16.0%	Jan-10	Operational
Orai-Bhognipur (OB) Infra	40.0%	5,848	Annuity	63KM	UP	Annuity	KMC	20 years	16.0%	Oct-10	Submitted Request for COD
Western UP Tollway	64.0%	6,670	Toll	~78.7KM	UP	Toll	Maytas & Gayatri	20 years	16.0%	Sep-10	Major part complete
Pondicherry – Tindivanam	48.0%	3,146	Toll	36KM	Tamil Nadu	Toll	Maytas	30 years	16.0%	Oct-10	Around 1/2 complete
Power Assets											
NCC Power (Wgt Share)	**88.5%**	**94,950**									
Himachal Sorang	67.0%	5,800	Merchant	100MW	Him P	Merchant	Maytas	40 years	20%	Mar-11	50% Complete
Himalayan Green	54.0%	19,600	PPA / Merchant	280MW	Sikkim	PPA / Merchant	SMEC Int.	35 years	20%	Dec-15	DPR done, Approvals under process
NCC Power**	100.0%	69,550	PPA / Merchant	2,640MW	AP	PPA / Merchant				Jan-14	Various Issues

Source: Company, Centrum Research

Order intake activity picks up

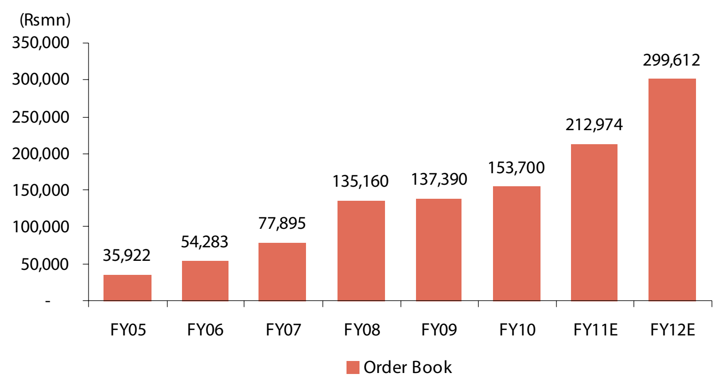
As in the case of other construction companies, NCC's order-intake has been robust since December '09, with orders worth Rs56bn. Total order inflow in FY10 was Rs89bn, indicating an improvement in the end-market environment for construction companies. We expect the order-book to grow as a result of the internal infrastructure projects in the road and power segments, as well as projects from external clients. We expect the order-book to double in the two-year period, from Rs153.7bn in FY10 to Rs300bn in FY12E. Traditional segments – such as the buildings and housing and the water segments – currently constitute 56% of the domestic order book. We expect these segments to grow to Rs119bn contributing 47% out of a total order-book of Rs300bn by FY12.

Exhibit 6: Order book mix as on Q1FY11 (Rsmn)



Source: Company, Centrum Research

Exhibit 7: Expected order book growth for FY05-12E



Source: Company, Centrum Research Estimates

International exposure: no drag to revenue

Diversified across GCC region (not just in Dubai) – NCC has also been reasonably active in the Middle-east, as it presents a good opportunity for Indian companies vying for selective large-value projects. We partially agree with the street's view that the Indian opportunity is huge and going for international projects is a negative. However, opportunity in the Middle-east region can't be ignored completely. Revenue from international operations was Rs11.3bn in FY10 (19% of total revenue), with an outstanding order book of Rs30bn (19% of total order book).

Exhibit 8: Selected projects bagged by NCC in the Middle-east (in Rsmn)

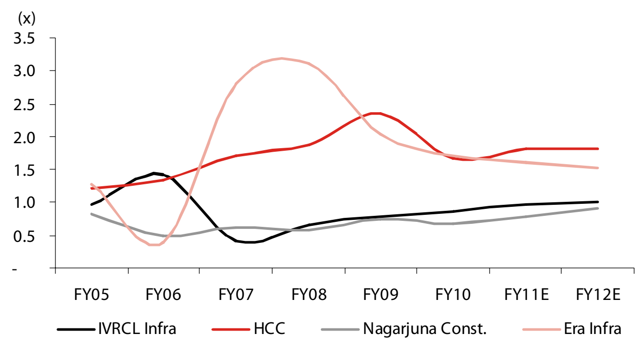
Location	Particulars	Amount (Rsmn)
Muscat, Oman	Sohar Water Network Phase -I at Sohar	1,100
Muscat, Oman	Dualisation of Al Amerat Quriyat Road (70Km)	7,200
Dubai, UAE	DEWA Pipe Line Project, Package - 512A (value $77.42mn)	7,054
Abu Dhabi, UAE	588 Villas at Al Ain	6,828
Muscat, Oman	Al Batinah Coastal Road	18,065
Muscat, Oman	Wadi Adai Amerat Road (7.5Km)	6,495
Muscat, Oman	718 Villas at Quriyat City	8,944
	Grand Total	**55,686**

Source: Company, Centrum Research

Strong financial position supports growth assumptions

NCC raised equity of Rs3.7bn in FY10 and with a D/E ratio of 0.6X in FY10. This is a strong tailwind for future growth assumptions. NCC's strong business profile has generally enabled it to raise cash easily, compared to other players. During FY10, NCC also sold off its stake in Gautami Power, generating cash inflow of Rs1.1bn and providing healthy cash status for NCC Infra.

Exhibit 9: Debt–equity ratio: NCC and its peers



Source: Company, Centrum Research Estimates

Exhibit 10: NCC's capital-raising history

Issue Type	Security	Issue Date	(Rsmn)
Ppl-Qip	Equity	3-Sep-09	3,674
Ppl	NCD (Fixed)	24-Jul-09	1,000
Ppl	Equity	3-Oct-07	4,100
Euro Issue	GDR	14-Dec-05	4,790
Ppl	Equity	3-Dec-04	820
Ppl	Equity	5-Jan-04	270
Ppl	Equity	30-Oct-02	69
Rights	FCD (Fixed)	29-Mar-96	331
Public	Equity	21-Jul-92	23
Total			**15,077**

Source: Capital-Line, Centrum Research

NCC's fund requirement is spread across two business activities: its core construction business and NCC Infra's road and power projects. Its active portfolio now includes eight infrastructure assets (five road, two hydropower and one thermal power). Equity commitment for these projects is Rs11.6bn, of which Rs5.4bn has been infused up to FY10-end. The remaining commitment of Rs11bn pertains to Himalayan Green (280 MW hydro) and NCC Power (1,320 MW thermal), and is to be invested over FY11-15. The investment is not expected to exert a major strain on the balance sheet on account of the company's strong financial position. An upside trigger may arise if NCC Infra goes public, as this would unlock value for NCC's investors.

Exhibit 11: NCC's funding requirement (ex-core construction business)

Project (Rsmn)	Stake	Project Cost	D/E Ratio	Equity	Debt	NCC's Equity Share	Already Invested	To Invest
NCC Infra	**49.8%**	**26,946**	**2.6**	**7,563**	**19,382.9**	**3,735.0**	**3,735.0**	**-**
Brindavan Infrastructure	33.0%	2,475	4.4	455	2,020.5	150.0	150.0	-
Bangalore Elev. Tollway	51.0%	8,807	2.9	2,253	6,554.1	1,149.0	1,200.0	-
Orai-Bhognipur (OB) Infra	40.0%	5,848	1.5	2,340	3,508.0	936.0	940.0	-
Western UP Tollway	64.0%	6,670	2.6	1,828	4,841.9	798.0	660.0	-
Pondicherry – Tindivanam	48.0%	3,146	3.6	688	2,458.5	330.0	330.0	-
NCC Power	**88.5%**	**94,950**	**4.7**	**16,791**	**78,159.2**	**13,303.0**	**1,660.0**	**11,643.0**
Himachal Sorang	67.0%	5,800	3.8	1,209	4,591.0	774.0	853.0	-
Himalayan Green	54.0%	19,600	1.9	6,715	12,885.2	3,626.0	315.0	3,376.0
NCC Power (Coal based)	100.0%	69,550	6.8	8,867	60,683.0	8,867.0	850.0	8,267.0
Total		**121,896**	**15.1**	**24,353.9**	**97,542.1**	**17,038.0**	**5,395.0**	**11,643.0**

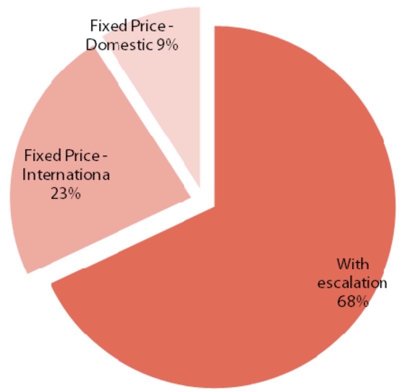
Source: Company, Centrum Research

Risks

Company-specific risks

- NCC's order book consists of a high-proportion of fixed price contracts that might affect margins, going forward, if commodity prices rise steeply in future. However, the company has already begun the process to secure long-term supply contracts from various vendors, thereby allaying the negative impact of any steep rise in raw material prices.

Exhibit 12: Current order-book mix as on Q1FY11



Source: Company, Centrum Research

- Nagarjuna Construction has witnessed high dependence on state orders and private orders in the past three years. As per our analysis, (data sourced from disclosures made on BSE website), only 10% of the total orders bagged were from Central agencies and the rest were from states and private sources. Hence, we believe there could be a risk with regard to our order assumption not achieving its projected level under financial stress, thereby affecting our assumptions.

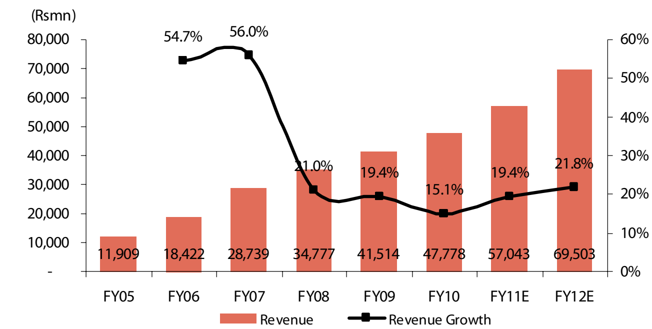
- NCC's 2340MW capacity Sompet power project is held up as a result of protests by locals. A guarantee amounting to Rs1.6bn has been given to the Government of Karnataka for the signing of the PPA agreement. Management indicates that the risk to this amount is not material. We do not factor in any traction from this project in our assumptions.

Financial Analysis

Revenue CAGR of 21% b/w FY10-12E

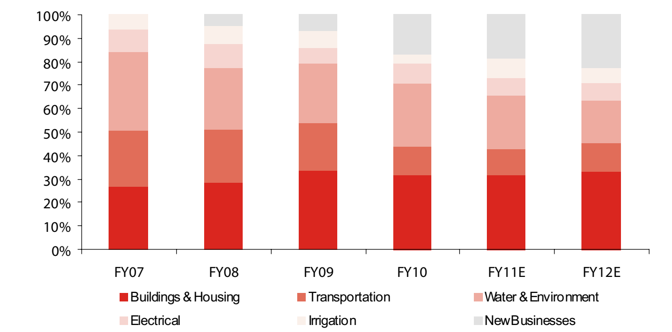
NCC's revenue grew by 32% CAGR between FY05-10. On the basis of its strong business profile and order-book diversification, we expect NCC's standalone domestic EPC revenue to grow at 21% CAGR between FY10-12E and reach Rs69.5bn by FY12E from Rs48bn in FY10.

Exhibit 13: Revenue growth (FY07-12E)



Source: Company, Centrum Research Estimates

Exhibit 14: Revenue mix (FY07-12E)

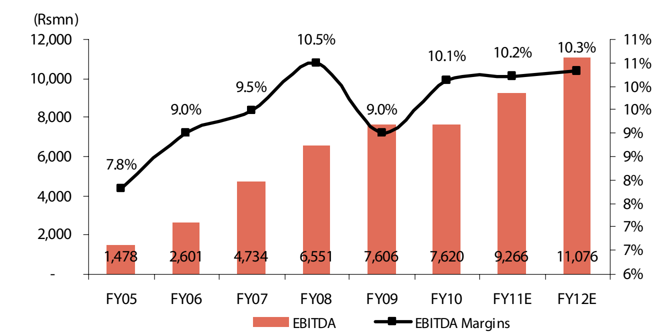


Source: Company, Centrum Research Estimates

EBITDA CAGR of 22%, PAT to grow at 25% CAGR b/w FY10-12E

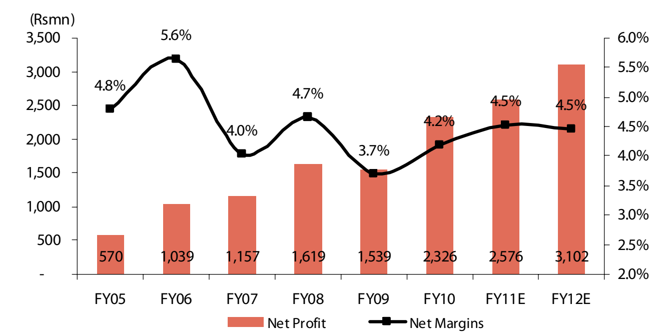
NCC's EBITDA grew by 39% CAGR between FY05-10. We expect EBITDA to grow by 22% CAGR between FY10-12E, effectively garnering margins of 10.2% for FY11E and 10.3% for FY12E. NCC's net profit grew by 33% CAGR between FY05-10, and we expect it to grow by 25% CAGR between FY10-12E, effectively operating at a PAT margin of 4.5% in FY11E and FY12E.

Exhibit 15: NCC's EBITDA trend and expectations



Source: Company, Centrum Research Estimates

Exhibit 16: PAT trend (FY05-12E)



Source: Company, Centrum Research Estimates

Valuation

We initiate coverage on NCC with a Buy rating and a target price of Rs215, with a potential upside of 39% from the current price of Rs154. We value NCC's domestic core operations at Rs169, applying a P/E of 14x to its FY12E EPS of Rs12.1. We believe its diversified order-book mix, coupled with its strong execution and financial position, strengthens our view. We value NCC's international business at Rs20, applying a P/E of 8x to its FY12E EPS of Rs2.4. We value operational road BOTs at Rs1 per share (1.8 P/B on FY10 BV) using the DCF method, projects under construction (roads and power) at Rs20 on a book value basis, and NCC Urban at a book value of Rs4 after applying a discount of 30% on account of the uncertainty of the business, going forward.

Exhibit 17: NCC's valuation

Particulars	Methodology	Multiple (x)	Discount	EPS (Rs)	Book Value (Rsmn)	Total Value (Rs per share)
NCC Core Construction Operations	P/E	14.0	NA	12.1	NA	169.3
NCC International operations	P/E	8.0	NA	2.4	NA	19.6
BOT Projects						
Road - Operational	*DCF*	*1.8*	*NA*	*NA*	*150.0*	*1.0*
Road - Under Construction	*BV*	*1.0*	*NA*	*NA*	*3,585.0*	*14.0*
Power - Under Construction	*BV*	*1.0*	*NA*	*NA*	*1,660.0*	*6.5*
NCC Urban	BV	NA	30.0%	NA	1,571.3	4.3
Total SOTP Value						**214.6**
Current Market Price						**154.4**
Upside / Downside						**39.0%**

Source: Centrum Research

Exhibit 18: Sensitivity analysis: FY12E domestic revenue

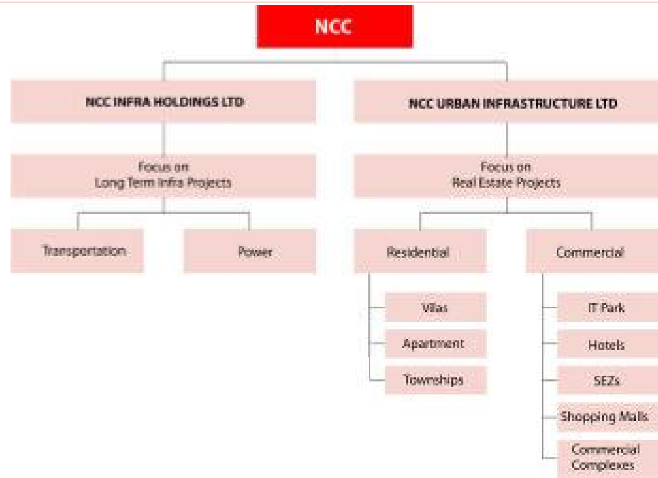
	(Rs)	FY12 - Revenue growth expectation						
	169.3	15.8%	17.8%	19.8%	**21.8%**	23.8%	25.8%	27.8%
EBITDA Margins	9.1%	112.3	115.4	118.5	121.7	124.8	128.0	131.1
	9.4%	118.2	121.5	124.7	128.0	131.2	134.5	137.7
	9.7%	124.2	127.6	130.9	134.3	137.6	141.0	144.3
	10.0%	130.2	133.7	137.1	140.6	144.0	147.5	150.9
	10.3%	136.2	139.8	143.3	**169.3**	150.4	154.0	157.6
	10.6%	142.2	145.9	149.5	153.2	156.9	160.5	164.2
	10.9%	148.2	152.0	155.7	159.5	163.3	167.0	170.8
	11.2%	154.2	158.1	161.9	165.8	169.7	173.5	177.4
	11.5%	160.2	164.2	168.1	172.1	176.1	180.0	184.0

Source: Centrum Research

Nagarjuna Construction – Group overview

Snapshot of subsidiaries

Exhibit 19: NCC's subsidiaries: overview

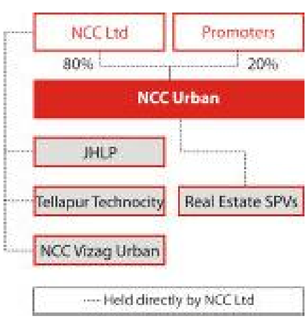


Source: Company, Centrum Research

NCC Urban: real estate is not a serious business proposal

Investments in real estate are to be deployed as and when visibility is clear, hence limiting fresh investment. If required, investment is likely to be through equity dilution at SPV level.

Exhibit 20: NCC Urban overview



Source: Company

Exhibit 21: Land holdings are not large-scale (as compared to peers)

State	City	Location	Owned / Venture	Area
Tamil Nadu	Chennai	Pallavaram	Joint Venture	25acre
		Radial Road, Pallavaram	Owned	8.5acre
	Vizag	N.A.	Owned	97.3acre
Karnataka	Bangalore	Off Outer Ring Road	Owned	45,000Sf
	Cochin	Near Kinfra Park	Owned	41,000Sf
	Raipur	N.A.	Owned	100,000Sf

Source: Company, Centrum Research

Exhibit 22: Details of NCC Urban's projects

Projects	City	% holding	Type of Development	Acreage	Area (mn. Sq Ft)	Current Status
Through - NCC Urban						
NGHC	Ranchi	88%	Residential	56.44	2.50	Ongoing
Gajularamaram	Hyderabad	25%	Residential	38.00	1.46	Yet to commence
Kompally Villas	Hyderabad	100%	Residential	38.00	0.68	Yet to commence
Bachupally	Hyderabad	100%	Residential	25.00	1.40	Yet to commence
Symphony Apts	Chennai	100%	Residential	9.25	0.57	Yet to commence
Gachibowli	Hyderabad	70%	Residential	9.24	1.16	Ongoing
Poppalaguda	Hyderabad	100%	Residential	9.12	0.90	Yet to commence
Meadows	Bangalore	60%	Residential	8.00	0.80	Ongoing
NCC Harmony	Dubai	100%	Res. & Com.	4.15	1.45	Ongoing
Aster Park	Bangalore	80%	Residential	3.20	0.31	Ongoing
Maple Heights	Bangalore	100%	Residential	2.13	0.18	Ongoing
Premier	Bangalore	55%	Residential	1.75	0.19	Ongoing
Laurel	Cochin	100%	Residential	1.24	0.16	Ongoing
Green Valley	Cochin	100%	Residential	0.89	0.18	Ongoing
Directly by NCC Ltd.						
Tellapur Technocity	Hyderabad	26%	Res. & Com.	100.00	7.50	Yet to commence
NCC Vizag Urban	Visakhapatnam	100%	Res. & Com.	98.00	4.90	Yet to commence
JHLP	Hyderabad	25%	Res. & Com.	6.00	0.90	Yet to commence
Gajularamaram	Hyderabad	75%	Res. & Com.	-	4.38	Yet to commence

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 23: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**41,514**	**47,778**	**57,043**	**69,503**	**82,649**
Growth in revenue	*19.4*	*15.1*	*19.4*	*21.8*	*18.9*
Cost of Raw Material	34,972	40,133	47,616	58,205	69,215
% of Revenue	*84.2*	*84.0*	*83.5*	*83.7*	*83.7*
Employee cost	*1,885.9*	*1,841.3*	*2,356.8*	*2,643.0*	*3,060.6*
% of Sales	*4.5*	*3.9*	*4.1*	*3.8*	*3.7*
O&M expenses	919.5	969.4	1,239.8	1,483.7	1,764.3
% of Sales	*2.2*	*2.0*	*2.2*	*2.1*	*2.1*
EBITDA	**3,737**	**4,834**	**5,830**	**7,171**	**8,609**
EBITDA Margin (%)	*9.0*	*10.1*	*10.2*	*10.3*	*10.4*
Depreciation	533	525	598	715	866
PBIT	**3,204**	**4,309**	**5,233**	**6,456**	**7,743**
Interst expenses	964	1,322	1,398	1,830	2,398
PBIT from operations	**2,240**	**2,987**	**3,835**	**4,626**	**5,345**
Other non operating income	42	48	61	73	87
PBT before ext.od items	**2,282**	**3,035**	**3,896**	**4,699**	**5,433**
Extra-ordinary income/ (exp)		495.6			
PBT	**2,282**	**3,530**	**3,896**	**4,699**	**5,433**
Provision for tax	743	1,204	1,320	1,597	1,847
Effective tax rate (%)	*32.6*	*34.1*	*33.9*	*34.0*	*34.0*
Minority interest					
PAT	**1,539**	**2,326**	**2,576**	**3,102**	**3,586**
Adjustment for Ext.Od items		328			
Adjusted PAT	**1,539**	**1,998**	**2,576**	**3,102**	**3,586**
Growth in PAT (%)	*(5.0)*	*29.9*	*28.9*	*20.4*	*15.6*
PAT margin (%)	*3.7*	*4.2*	*4.5*	*4.5*	*4.3*

Source: Company, Centrum Research Estimates

Exhibit 24: Balance Sheet

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Share Capital	458	513	513	513	513
Stock Options	-	-	-	-	-
Reserves	16,398	21,943	23,935	26,332	29,221
Shareholders' fund	**16,856**	**22,457**	**24,448**	**26,846**	**29,734**
Debt	12,439	15,302	19,302	24,402	29,302
Deferred Tax Liability	188	255	255	255	255
Minority Interest					
Total Capital Employed	**29,482**	**38,013**	**44,005**	**51,502**	**59,291**
Gross Block	**6,233**	**7,561**	**8,790**	**10,141**	**11,628**
Accumulated dep.	1,641	2,023	2,621	3,336	4,202
Net Block	**4,592**	**5,538**	**6,169**	**6,806**	**7,426**
Capital WIP	281	434	484	534	582
Total Fixed Assets	**4,873**	**5,972**	**6,653**	**7,339**	**8,008**
Investments	**7,402**	**9,412**	**10,412**	**11,612**	**12,612**
Deferred Tax Asset					
Inventories	7,495	7,539	9,883	11,607	14,439
Debtors	10,260	12,995	15,423	18,878	21,700
Cash & bank balances	1,345	1,997	2,037	2,079	2,975
Loans and Advances	14,484	18,520	21,803	25,606	29,000
Other Current Assets	30	32	54	63	75
Total current assets	**33,615**	**41,083**	**49,200**	**58,234**	**68,189**
Current lia & provisions	16,408	18,453	22,260	25,682	29,518
Net current assets	**17,206**	**22,629**	**26,940**	**32,552**	**38,671**
Total Assets	**29,482**	**38,013**	**44,005**	**51,502**	**59,291**

Source: Company, Centrum Research Estimates

Exhibit 25: Cash flow

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	**2,282**	**3,530**	**3,896**	**4,699**	**5,433**
Depreciation	533	525	598	715	866
Interest expenses	964	1,322	1,398	1,830	2,398
OP profit before WC change	**3,786**	**4,886**	**5,891**	**7,244**	**8,697**
Working capital adjustment	(3,955)	(3,345)	(4,270)	(5,569)	(5,224)
Gross cash from operations	**(169)**	**1,541**	**1,621**	**1,675**	**3,473**
Direct taxes paid	**(1,319)**	**(1,302)**	**(1,320)**	**(1,597)**	**(1,847)**
Cash from operations	**(1,488)**	**238**	**301**	**78**	**1,626**
CF from investing					
Capex	(75)	(1,628)	(1,278)	(1,402)	(1,535)
Investment	(1,107)	(2,148)	(1,000)	(1,200)	(1,000)
Others	100	12	-	-	-
Cash from investment	**(1,082)**	**(3,763)**	**(2,278)**	**(2,602)**	**(2,535)**
CF from financing					
Proceeds from sh cap & prem.	0	3,580	-	-	-
Borrowings/ (Repayments)	3,501	2,863	4,000	5,100	4,900
Interest paid	(1,567)	(1,972)	(1,398)	(1,830)	(2,398)
Dividend paid	(348)	(294)	(585)	(704)	(698)
Others	-	-	-	-	-
Cash from financing	**1,586**	**4,177**	**2,018**	**2,566**	**1,804**
Net cash increase/ (dec)	**(985)**	**652**	**40**	**42**	**895**

Source: Company, Centrum Research Estimates

Exhibit 26: Key Ratios

Y/E March	FY09	FY10E	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	9.0	10.1	10.2	10.3	10.4
PBIT Margin	7.7	9.0	9.2	9.3	9.4
PBT Margin	5.4	6.3	6.7	6.7	6.5
PAT Margin	3.7	4.2	4.5	4.5	4.3
Growth Ratios (%)					
Revenues	19.4	15.1	19.4	21.8	18.9
EBITDA	2.5	29.4	20.6	23.0	20.1
Net Profit	(5.0)	29.9	28.9	20.4	15.6
Return Ratios (%)					
ROCE	11.9	12.9	12.8	13.6	14.0
ROIC	19.2	19.9	20.6	21.4	21.9
ROE	9.4	11.8	11.0	12.1	12.7
Turnover Ratios					
Asset turnover ratio (x)	1.4	1.3	1.3	1.3	1.4
Working Capital Turnover (x)	2.4	2.1	2.1	2.1	2.1
Avg collection period (days)	90.2	99.3	98.7	99.1	96.1
Avg payment period (days)	155.8	148.7	150.4	142.6	147.6
Per share (Rs)					
Fully diluted EPS	6.7	7.8	10.0	12.1	14.0
CEPS	9.1	9.8	12.4	14.9	17.4
Book Value	73.7	87.5	95.3	104.6	115.9
Solvency ratios (%)					
Debt/ Equity	0.7	0.7	0.8	0.9	1.0
Interest coverage ratio	3.9	3.7	4.2	3.9	3.6
Valuation parameters (x)					
P/E	23.0	19.8	15.4	12.8	11.0
P/BV	2.1	1.8	1.6	1.5	1.3
EV/ EBITDA	12.8	11.4	10.1	8.9	8.0
EV/ Sales	1.2	1.2	1.0	0.9	0.8
M-Cap/ Sales	0.9	0.8	0.7	0.6	0.5

Source: Company, Centrum Research Estimates

INDIA

Construction

Hindustan Constructions

Initiation **30 August 2010**

Buy

Target Price: Rs88

CMP: Rs60*

Upside: 48%

**as on 27 August 2010*

Forte in high-capability EPC projects

We initiate coverage of Hindustan Constructions Company (HCC) with a Buy rating and a target price of Rs88 (upside potential of 48%). Our stance is based on its leading status in hydro-power EPC, increasing portfolio of roads in HCC Infra (100% Sub). HCC's deleveraging process to optimize working capital is another positive. In addition, the plan to list Lavasa Corporation in FY11, followed by a listing of HCC Infrastructure, is expected to unlock value.

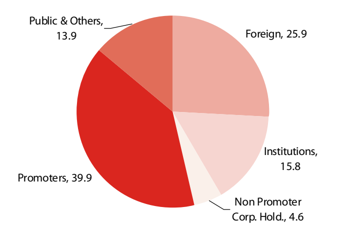
- **Experience in executing large and complex EPC projects:** HCC's presence in the complex hydro-power and nuclear plant segments gives it a strong position v/s peers. Hence, it demands higher margins of 14%-15% v/s peers' margin profile of 9%-11%. The company has a leadership position in hydro-power plant construction and executes the bulk of NHPC Ltd's projects. Going forward, we expect its order inflow to benefit from NHPC's robust pipeline. In addition, HCC has hydro-power projects in Bhutan and Nepal, where the combined opportunity is more than that of India.
- **Roads (infra) segment picking-up**: Robust growth is expected in the infrastructure EPC order-book. Activity in the roads sector is picking up, with six road BOT projects currently in HCC's portfolio worth Rs55bn and expected to reach Rs150bn by 2014, The internal order-book intake is expected to cushion any risk of external orders intake.
- **Large exposure to Central projects:** HCC is best placed in our analysis of order sources, as it mainly has Central government projects. This allays risk concerns on aspects like funding and execution, going forward.
- **Valuation & strategy**: We initiate coverage on HCC with a Buy rating and a target price of Rs88 (upside of 48%). We believe, at a CMP of Rs60, the stock provides a good risk-reward profile, with deleveraging process underway to optimize working capital. We value core operations at Rs50 (14x P/E to FY12E EPS of Rs3.5; real estate at Rs37 (Lavasa at Rs32; 247 project at Rs3; and other land banks at Rs2). Road BOTs are valued at Rs2.
- **Stock triggers**: Listing of Lavasa Corporation (65% indirect subsidiary) in 2HFY11 followed by the listing of HCC Infrastructure (100% subsidiary).
- **Downside risks**: 1. Andhra Pradesh, which is hit by a financial crisis, contributes 20% of HCC's total order book; 2. Sawalkote HEP Project, worth Rs19bn, (10% of order book) is under litigation; 3. Slower-than-expected intake and execution of hydro-power projects could affect our assumptions.

Key Key Data

Bloomberg Code	HCC IN
Reuters Code	HCNS BO
Current Shares O/S (mn)	606.5
Diluted Shares O/S (mn)	606.5
Mkt Cap (Rsbn/USDmn)	36.3/773.5
52 Wk H / L (Rs)	81/50
Daily Vol. (3M NSE Avg.)	566,189
Face Value (Rs)	1

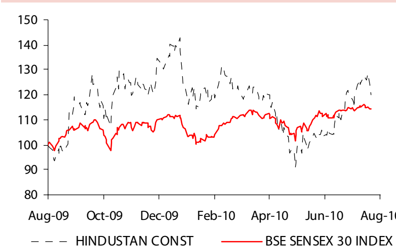
USD = Rs46.9

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Hindustan Constructions	(8.9)	(10.3)	7.8
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research as on 27 August 2010

Manish Kayal
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Standalone Financial Summary

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	33,137	7.5	4,314	13.0	506	(9.6)	0.9	5.1	10.2	65.8	13.1
FY10	36,442	10.0	4,429	12.2	1,175	132.4	1.9	9.4	8.9	31.7	14.1
FY11E	45,159	23.9	5,589	12.4	1,486	26.5	2.4	9.4	10.0	25.1	12.0
FY12E	59,036	30.7	7,483	12.7	2,212	48.9	3.5	12.8	12.0	16.8	9.4
FY13E	75,667	28.2	9,591	12.7	3,068	38.7	4.9	15.7	13.8	12.2	7.6

Source: Company, Centrum Research Estimates

Shareholding pattern (%)

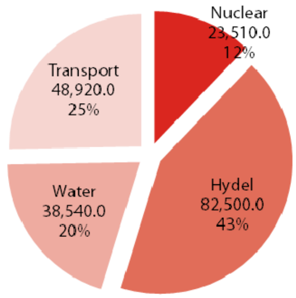
Y/E March	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	47.2	39.9	39.9	39.9	39.9
Institutions	27.1	41.6	41.6	41.4	41.6
FII	*10.8*	*26.8*	*25.8*	*28.7*	*25.8*
DII	*16.4*	*14.8*	*15.7*	*12.7*	*15.8*
Public & Others	25.7	18.6	18.6	18.8	18.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE India, Centrum Research

Company Background

HCC is a Mumbai-based construction company founded in 1926 by Seth Walchand Hirachand. HCC is a leader in hydro power civil construction and has a presence in other infrastructure construction spaces. Its 65% subsidiary, Lavasa Corporation, is in the process of developing a "Hill City" near Pune, spread across 25K acres. Recently, HCC acquired Swiss company, "Karl Steiner AG", which is into high-end and complex building construction.

HCC's order-book Q1FY11 (Rsmn)



Source: Company, Centrum Research

Key events/timeline

Year	Particulars
1926	Founded by Seth Walchand Hirachand
1926	Began with tunnel works and has since acquired substantial EPC capabilities.
1983	Ajit Gulabchand became the Managing Director of HCC
1984	Incorporated as a public limited company and shares listed on BSE
1991	Was issued a fresh certificate of Incorporation
1994	Ajit Gulabchand was elevated as the CMD.
2003	NSE listing
2010	Acquired 66% of Zurich based building construction company "Karl Steiner AG"

Source: Company, Centrum Research

Key management personnel

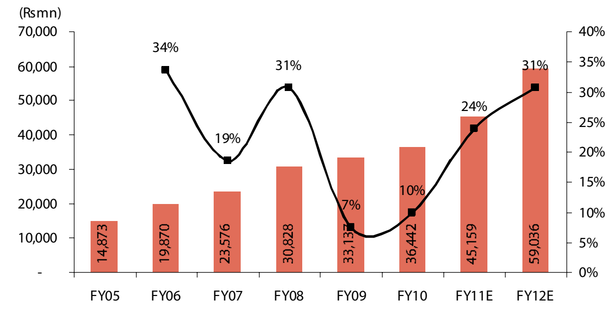
Name of the Person	Designation	Particulars
Ajit Gulabchand	CMD	Ajit Gulabchand is an eminent industrialist and holds a Bachelor's Degree in Commerce (Hons.). He is the founder member of Disaster Resource Network, a collaboration of the WEF, United Nations and International Red Cross. He is also a member of the Oxford International Advisory Board for Executive Education and a signatory member of the United Nations Global Compact's CEO Water Mandate. He is also on the Board of several other public companies.
K.G. Tendulkar	Deputy MD	K. G. Tendulkar holds a Bachelor's Degree in Commerce and General Law and is also a Fellow Member of The Institute of Chartered Accountants of India. He was in practice since 1980 before he joined HCC as a consultant. He has rendered services as a consultant in the areas of taxation, finance, MIS, auditing and contract management. He was appointed to the Board of HCC in 1993 and was appointed Executive Director (Operations) and elevated as Deputy Managing Director with effect from September 29, 2005, with responsibilities encompassing overall project execution. He is also on the Board of several other public companies.
Vinayak Deshpande	President and COO, EPC & Construction	Mr. Deshpande is a chemical engineer from the Indian Institute of Technology, Kharagpur. He is responsible for the operations of the company's EPC and construction business.
Praveen Sood	Group CFO	Praveen Sood Chief Financial Officer of the Group, holds a Bachelor's Degree in Commerce and is a qualified Chartered Accountant with over 25 years of experience. He has been with HCC since 1997. He was previously associated with Raymond Synthetics Limited in the area of finance.

Source: Company, Centrum Research

Investment Rationale

- HCC's presence in the complex hydro-power, nuclear plant segments gives it a strong position in the industry. Hence, it demands higher margins of 14%-15% v/s peers' margin profile of 9%-11%.
- HCC is best placed in our analysis on Centre/state/private sector orders, as it has mainly Central government projects.
- Activity in the roads sector is picking up, with six road BOT projects currently in HCC's portfolio (worth Rs55bn) expected to reach Rs150bn by 2014.

Revenue Growth CAGR of 27% b/w Fy10-12



Source: Company, Centrum Research

Summary Financial (Standalone)

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**33,137**	**36,442**	**45,159**	**59,036**	**75,667**
YoY growth (%)	*7.5*	*10.0*	*23.9*	*30.7*	*28.2*
Operating profit	4,314	4,429	5,589	7,483	9,591
YoY growth (%)	*17.7*	*2.7*	*26.2*	*33.9*	*28.2*
Operating margin	*13.0*	*12.2*	*12.4*	*12.7*	*12.7*
Depreciation	1,152	1,139	1,276	1,668	2,138
Interest expenses	2,105	2,052	2,369	2,639	3,009
Other non operating income	588	130	154	176	203
PBT	1,645	1,218	2,127	3,352	4,647
Provision for tax	392	404	680	1,139	1,580
PAT (adjusted)	**506**	**1,175**	**1,486**	**2,212**	**3,068**
YoY growth (%)	*(9.6)*	*132.4*	*26.5*	*48.9*	*38.7*
PAT margin (%)	*1.5*	*3.2*	*3.3*	*3.7*	*4.1*
Cash Flow Statement Data					
Cash generated from operations	1,384	979	2,140	3,639	5,592
Cash flow from investing activities	(3,083)	(4,144)	(4,219)	(2,803)	(2,904)
Cash flow from financing activities	932	3,921	1,796	400	(608)
Net cash increase/decrease	**(1,105)**	**345**	**(963)**	**98**	**500**
Balance Sheet Data					
Shareholders' fund	10,049	15,172	16,383	18,235	20,803
Debt	23,218	25,147	29,547	32,947	35,847
Deferred Tax Liability	1,132	1,426	1,426	1,426	1,426
Total Capital Employed	**34,398**	**41,745**	**47,356**	**52,608**	**58,076**
Fixed Assets	11,282	11,497	12,121	12,543	12,704
Investments	3,655	4,087	6,387	7,087	7,687
Net current assets	18,997	25,813	28,481	32,598	37,300
Total Assets	**34,398**	**41,745**	**47,356**	**52,608**	**58,076**
Ratios (%)					
ROCE	*10.2*	*8.9*	*10.0*	*12.0*	*13.8*
ROIC	*6.8*	*6.0*	*6.7*	*8.0*	*9.2*
ROE	*5.1*	*9.4*	*9.4*	*12.8*	*15.7*
Per share Ratios (Rs)					
Fully diluted EPS	0.9	1.9	2.4	3.5	4.9
Solvency Ratio (x)					
Debt-equity	2.3	1.7	1.8	1.8	1.7
Interest coverage ratio	1.9	2.2	2.4	2.8	3.2
Valuation parameters(x) (x)					
P/E (Fully Diluted)	65.8	31.7	25.1	16.8	12.2
P/BV	3.0	2.3	2.1	1.9	1.7
EV/EBITDA	13.1	14.1	12.0	9.4	7.6
EV/Sales	1.7	1.7	1.5	1.2	1.0

Source: Company, Centrum Research

Revenue to pick-up in Fy12 on execution of road projects, Andhra Pradesh Irrigation Project expected to show faster execution in FY12 with stable growth by Hydro power EPC segment

Margins remain strong with the improvement in operating environment in the roads segment

Working capital optimization process is expected to lead to a better financial position

Investment Argument

We initiate coverage on HCC with a Buy rating and a target price of Rs88, with a potential upside of 48% from CMP of Rs60. We believe HCC's business profile of its leading position in the hydro power and nuclear power segments is a huge positive presenting a favorable risk-reward profile at CMP. HCC Infrastructure's (a 100% subsidiary of HCC Ltd) increasing portfolio of road projects adds to the revenue visibility of the EPC segment. The deleveraging process initiated to reduce optimize working capital is another positive. These factors support our assumption of 27% revenue CAGR between FY10-12E and earnings growth of 37% in the same period. Stock triggers include the listing of Lavasa followed by HCC Infrastructure.

HCC's forte is in the execution of large and complex projects

Leading position in hydro power; nuclear power gains traction

HCC Ltd has strong experience in executing complex projects. This is reflected in its order-book mix, which includes hydel-power projects, nuclear power plant construction, and lift-irrigation projects. All these require technical capabilities and generate robust margins of 14%-15%, compared to vanilla construction contract margins that fall within the range of 10%-12%.

HCC has a leading position in the hydro power EPC segment. The majority of NHPC's projects are built by HCC (see Exhibit 1). As per NHPC, India has an untapped potential of 98,631MW to be developed in the hydro power segment and HCC's strong presence in the field would support its hydro-power future order-intake. We expect HCC to receive substantial hydel orders from NHPC's strong project pipeline, going forward and other organizations such as NEEPCO, SJVN, state level hydro power players.

HCC also has a substantial presence in the nuclear power EPC segment. HCC's order-intake stability is expected to benefit as the sector opens-up for private players in the near future, following India's inclusion in the Nuclear Supplies Group (NSG) improving EPC order-intake scenario.

Exhibit 1: HCC is the leading construction company involved in NHPC's ongoing projects

Name of Project	Type of project	MW	State	Total Cost	Segment	Contractor	Date of LOA	Awarded Cost (Rsmn)	Total Awarded Cost
Chamera HE Project Stage-III.	ROR with small pondage	231	HP	17,270	E&C	HCC	17-Oct-05	5,049	5,049
Chutak H E Project	Run of the River	44	J&K	9,540	E&C	HCC	30-Oct-06	4,105	4,105
Kishanganga HE Project	Run of the River	330	J&K	27,265	E&C	HCC & Halcrow	22-Jan-09	27,265	27,265
Nimoo-Bazgo HE Project	Run of the River	45	J&K	9,090	E&C	HCC	30-Oct-06	3,839	3,839
Subansiri Lower HE	Reservoir	2,000	Assam . Ar.P	79,710	E&C	BGS-SGS-SOMA	16-Jan-04	10,983	10,983
Subansiri Lower HE	Reservoir	2,000	Assam . Ar.P	79,710	E&C	L&T	19-Jan-04	9,216	9,216
Subansiri Lower HE	Reservoir	2,000	Assam . Ar.P	79,710	E&C	L&T	14-May-09	4,225	4,225
Teesta Low Dam HE Project, Stage-III	ROR with small pondage	132	WB	14,080	E&C	Patel Engg	28-Oct-03	2,391	2,391
Teesta Low Dam HE Project, Stage-IV	ROR with small pondage	160	WB	13,070	E&C	HCC	10-May-06	3,959	3,959
Uri-II HE Project	Run of the River	240	J&K	15,840	E&C	HCC	17-Oct-05	5,750	5,750

Source: NHPC, Centrum Research

Exhibit 2: Total hydro-power capability in India and its related construction opportunity in MegaWatt (MW)

Region	Potential Assessed	Potential Developed	Under Development	Balance	*Balance (%)*	Civil Cost/ MW	Civil Oppty (Rsbn)	Civil Oppty (USD bn)
North Eastern	58,971	1,116	2,724	55,131	*55.9*	75.0	4,134.8	91.9
Northern	53,395	13,310	7,064	33,021	*33.5*	75.0	2,476.6	55.0
Eastern	10,949	3,904	2,211	4,834	*4.9*	75.0	362.6	8.1
Western	8,928	7,448	400	1,080	*1.1*	75.0	81.0	1.8
Southern	16,458	11,107	786	4,565	*4.6*	75.0	342.4	7.6
Total	**148,701**	**36,885**	**13,185**	**98,631**	***100.0***	**75.0**	**7,397.3**	**164.4**

Source: NHPC, Centrum Research

Exhibit 3: Nuclear power plant under construction

Nuclear Power Station	Unit No	Reactor Type	MW	Exp. COD	Comments
Rajasthan Atomic Power Project	7	Pressurised Heavy Water Reactor(PHWR)	700	Jun-16	HCC won bid in May
Rajasthan Atomic Power Project	8	Pressurised Heavy Water Reactor(PHWR)	700	Dec-16	HCC won bid in May
Kudankulam Atomic Power Project	1	V V E R -1000 (PWR)	1,000	Dec-10	95.5 % as on Apr-2010
Kudankulam Atomic Power Project	2	V V E R -1000 (PWR)	1,000	11-Jun	89.3 % as on Apr-2010
Kaiga Atomic Power Project	4	Pressurised Heavy Water Reactor(PHWR)	220	10-Jun	97.07 % as on Mar-2010

Source: NPCIL Website, Centrum Research

HCC Infra's infrastructure asset portfolio to help grow EPC business

Through its 100% subsidiary, HCC Infrastructure Ltd, HCC is aggressively targeting the expansion of its BOT portfolio, from four road projects worth Rs55bn in FY10 to Rs150bn by FY14. HCC Infra plans to enter hydropower, water, ports and airports segments as an developer/owner rather than executing only EPC part, eventually developing a diverse infrastructure portfolio, going forward. . HCC acquired a robust track record with strong capability in executing complex projects for clients.

Exhibit 4: HCC Infrastructure Holding Portfolio

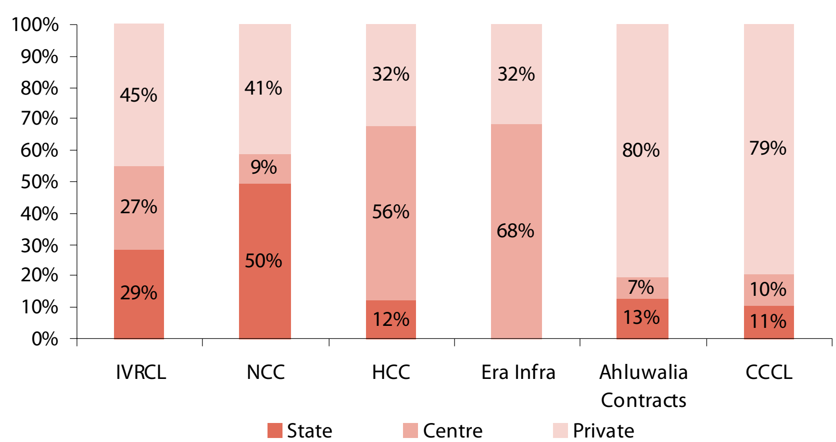
Project	Type	KM	COD*	State	Partners	Stake	Cost (Rsmn)	Period	Equity	Status
Nirmal	Annuity	30km	Nov'09	Andhra Pradesh	None	100.0%	3,150	20 years	10.0%	Operational. COD 3m ahead.
Badarpur-Faridabad E-way	Toll	4.4km	Oct'10	Haryana	None	100.0%	5,720	20 years	30.1%	82% complete. Fin closure in Dec'08
Dhule-Maharashtra/MP Border	Toll	89km	June'12	Maharashtra/MP	John Laing (UK), Sadbhav	37.0%	14,200	18 years	25.0%	19% complete. Fin.Closure in Dec'09
Bahrampore -Farakka – Raiganj - Dalkhola	Toll	256km	NA	West Bengal	None	100.0%	32,310	30yr/25yr	NA	Financial closure under progress

** = Commencement Date of Operation*
Source: Company, Centrum Research

More Central government orders adds to comfort on business profile

Our analysis of FY10 orders places HCC ahead of its order source v/s peers (with the exception of Era Infra), with 56% of orders coming from the Centre (Central government authorities, PSUs, etc). We believe, this is positive, since Central government projects have better execution visibility, high-ticket size and robust-margins.

Exhibit 5: 2nd highest in share of orders from central government agencies

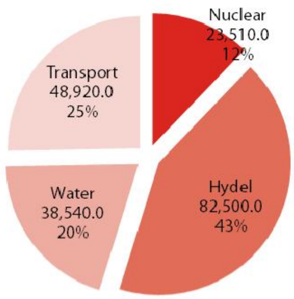


Source: BSE India, Centrum Research

Growth traction seen in order-book

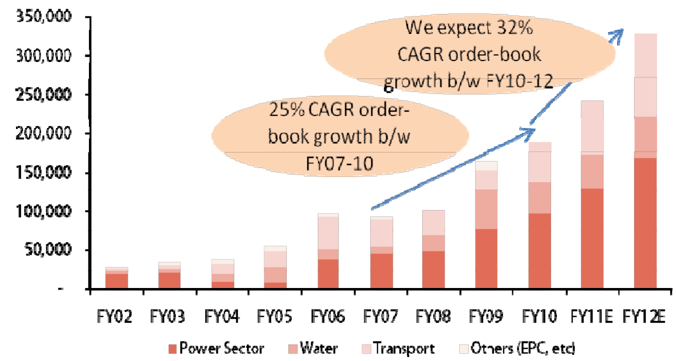
HCC's order-book has grown 18%, from Rs164bn at the end of FY09 to Rs194bn in Q1FY11. Significantly, order-book growth traction was seen post the second half of FY10, indicating increasing economic activity and client activity. We expect HCC's order-book to double to Rs328bn by FY12E from Rs188bn in FY10. The hydel segment is likely to continue to dominate the order-book, going forward. However, we expect the roads segment to garner 33% of the total order book by FY12E (25% in FY10). Power (hydel and thermal) and irrigation are expected to drop from the current combined share of 75% of the order-book in Q1FY11 to 67% by FY12E.

Exhibit 6: Current order book mix (Q1FY11)



Source: Company, Centrum Research

Exhibit 7: Order book trend (FY02-FY12E) (Rsmn)

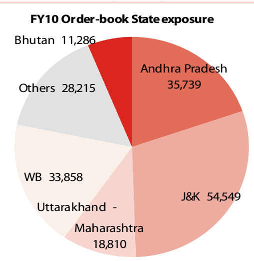


Source: Company, Centrum Research Estimates

Risks

- **Slow pace of awarding hydro projects –** Awarding hydro-power projects takes a long time and hence creates uncertainty for EPC/civil works. This impacts the revenue visibility of contractors like HCC. The Sawalkote project, worth Rs19bn (around 10% of the order-book), was delayed due to litigation.

Exhibit 8: Order-book exposure to various states (Rsmn)



Source: Company, Centrum Research

- **Two states occupy almost 50% of the total order-book –** Irrigation exposure to Andhra Pradesh has hit management expectation in FY10 severely and the execution of the same remains uncertain. HCC is also exposed to J&K, which is also a high-tension area. Hence, it would affect our numbers, going forward, if any major negative development affects the state.
- **Issues related to cost escalation claims made by the company on BWSL project –** HCC has made various claims to MSRDC for the BWSL project. Though we do not foresee any issues in this regard, there remains a slight possibility of these claims being dismissed. Till date, HCC has booked a loss of around Rs2.5bn on the project and has received escalation claims of Rs150cr. Another Rs2bn is likely to be claimed, as the company has completed the rest of the project. HCC expects the claim to be cleared by FY11.
- **FCCB –** HCC has total outstanding of around US$96.6mn. The current market price of HCC is around Rs63.4 and FCCB's conversion price is Rs124, which would hit redemption through cash. This would put a strain on financials. On the other hand, after diluting stake in the previous QIP, the FCCB conversion would further dilute stake to the extent of 5.7%.

Exhibit 9: FCCB details

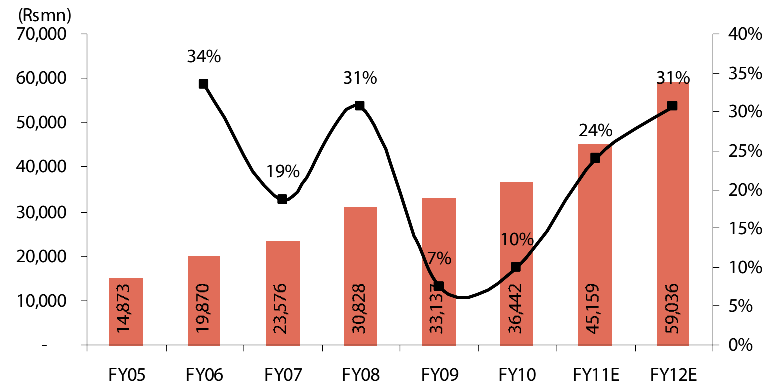
Details of the FCCB issued	Particulars
Total value of the Issue (in USD)	**100,000,000.0**
Current Outstanding	**96,600,000.0**
Conversion Price	Rs.124 / equity share
Max No. of Eq Shares/GDSs to be issued on conversion	35,939,082
Possible dilution	5.7%
Current Status	In FY10, re-purchased & cancelled 3.4% of O/S FCCBs due 2011

Source: Company, Centrum Research

Financial Analysis

HCC's revenue grew by 19.6% CAGR between FY05-10. We expect HCC to see revenue growth of 24.8% CAGR between FY10-12E, based on the huge opportunity in hydro-power, infrastructure and the company's strong execution capabilities.

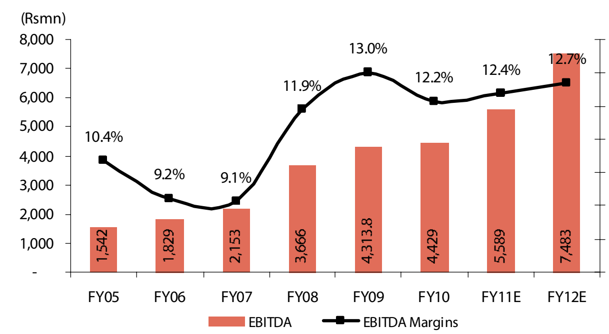
Exhibit 10: HCC's revenue trend (FY05-12E)



Source: Company, Centrum Research

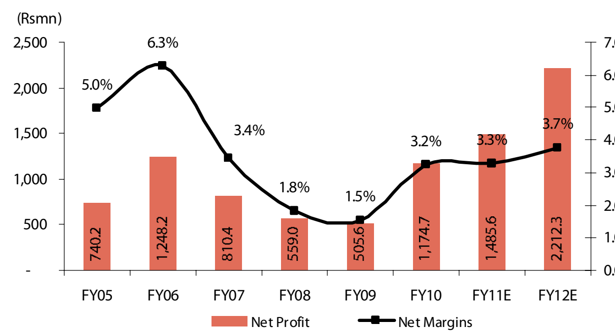
We expect the EBITDA margin to remain above 12% in FY11E and FY12E, on account of improved execution environment in the roads segment and the opportunities in the high-margin hydro-power and nuclear power segments. EBITDA grew by 23.5% between FY05-10 and we expect it to grow by 27% between FY10-12E. We expect net margins to improve slightly to 3.3% by FY11E and 3.8% by FY12E on account of the improved funding environment and the optimization of working capital.

Exhibit 11: EBITDA margin trend (FY05-12)



Source: Company, Centrum Research

Exhibit 12: Net profit margins (FY05-10)



Source: Company, Centrum Research

Financial strength

HCC's financial strength has improved to some extent due to a QIP in Q1FY10. Going forward, a successful listing of Lavasa Corporation would help it alleviate concerns on consolidated D/E levels, which are currently very high at around 4x. The recent sale of "247 Park" indicates the management's attempt to alleviate the financial stress in the balance sheet. The company's attempt to optimize working capital is likely to help it in this regard.

Exhibit 13: Funds raised by HCC

Capital issue Type	Security Type	issue Date	Amount (Rsmn)
QIP	Equity	4-Jul-09	4,801
Debt Issue	ECB (Fixed Interest Rate)	28-Mar-06	4,466
GDR	Global Depository Receipts	29-Mar-06	4,466
QIP	Equity	31-Mar-05	1,307
Debt Issue	PCD (Fixed Interest Rate)	18-Dec-95	900
Debt Issue	FCD (Fixed Interest Rate)	9-Oct-90	39

Source: Capital Line, Centrum Research

Valuation Analysis

We initiate coverage on HCC with a Buy rating, as we believe the risk-reward ratio is favorable at CMP of Rs60. We expect earnings to grow by 38% between FY10-12E due to improved execution environment and huge opportunity in hydro power and other segments of Indian infrastructure. In addition, recent deleveraging initiatives taken to optimize working capital are a positive. We value HCC on a SOTP basis (valuing real estate and infrastructure assets separately) at Rs88.1, with a potential upside of 48% from CMP of Rs60. We value the core business of HCC at Rs49.5 (applying 14x to FY12E EPS of Rs3.5).

Infrastructure projects – We value the operational project "Nirmal BOT" in Andhra Pradesh on a DCF basis, arriving at a value of Rs1.3 per share. Since other road BOT projects are under construction, we value them at the FY10 book cost.

Real estate

- We value Lavasa Corporation at Rs41bn, using a mix of the value of its first town "Dasve" and land bank. After applying 25% holding company discount and adjusting for 65% stake of HCC, we arrive at Rs32 per share (36% to target price).
- We value 247 Park at Rs3, using the NAV method, applying a rental value of Rs65/sq.ft and adjusting it for 26% stake of HCC. We believe our estimate on rentals has an upside risk, as the economy is picking up and rental values are likely to see further increase (3.4% to target price).

Exhibit 14: HCC's valuation

Valuation of HCC (Rs)	Method	Hold Co Discount	Fair Value	Book Value (Rsmn)	Stake	Multiple (x)	EPS (Rs)	Value / Share (Rs)
Core Construction Business	P/E	NA			NA	14.0	3.5	49.5
Real Estate Business								
Lavasa	DCF	25%	19,882	5,433.5	65.0%	P/B is 5.6	NA	31.8
247 IT Park (Vikhroli)	DCF	NA	1,869	NA	26.0%	N.A.	NA	3.0
Other (Land Bank, etc)	BV		1,164					1.9
BOT Projects								2.0
Total			**55,160.2**					**88.1**
Current Price								**59.6**
Upside / Downside								**48.0%**

Source: Centrum Research

Exhibit 15: Lavasa Valuation Details

Particulars	FSI@ 0.2/ acre	FSI@ 0.3/ acre
Phase I (Dasve, etc)		
Area (acres)	**1,739.0**	1,739.0
FSI	**0.2**	**0.3**
Saleable area (mn sq ft)	19.4	29.1
Realisation	**3,500.0**	3,500.0
Revenue from operations	**67,972.9**	**101,959.3**
Development cost	**1,500.0**	1,500.0
Development cost as % of realisation	42.9%	42.9%
Tax Rate	34.0%	34.0%
Discount Rate	**15.0%**	15.0%

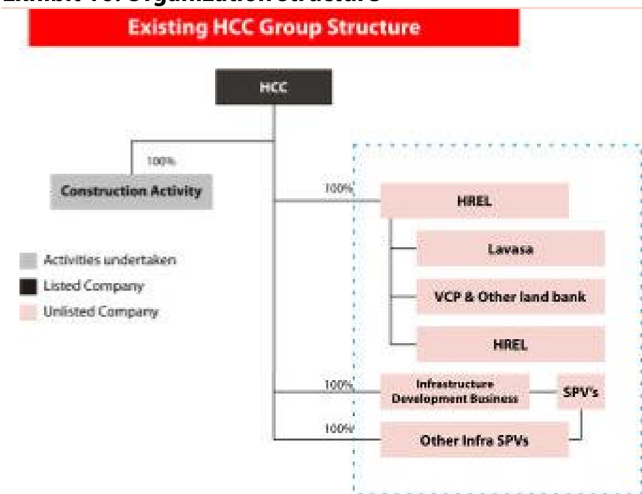
Source: Company, Centrum Research

Particulars	FSI@ 0.2/ acre	FSI@ 0.3/ acre
Gross NAV	**19,624.3**	**29,436.4**
Less: Net debt	**12,797.8**	**12,797.8**
Less: Initial Infrastructure cost	**9,770.0**	**9,770.0**
Other Land Bank Value	**43,727.2**	**43,727.2**
Non-Phase 1 Land in acres	9,261.0	9,261.0
Land value per acre (in Rsmn)	5.0	5.0
Total Value	**40,783.7**	**50,595.9**
Total BV of land Fy10	**2,577.76**	
Land	264.35	
Land - FSI	2,313.41	
Company's stake (in Rsmn)	**26,509.4**	**32,887.3**
No.of HCC Shares	626.0	626.0
Value per share	**42.4**	**52.5**

Group Structure

Hindustan Constructions Company (HCC) Ltd is one of the oldest construction companies in India, with exposure to large and complex projects. HCC is a leading player in the hydro-power EPC segment, with major works from NHPC and substantial orders from other clients. HCC Infra is a 100% subsidiary of HCC Ltd.

Exhibit 16: Organization structure

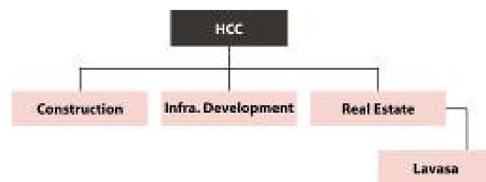


Source: Company, Centrum Research

Exhibit 17: Value creation

HCC has three distinct operating business units at corporate level:
Construction - housed in HCC
Real estate - housed in 100% subsidiary HCC Real Estate Ltd
Infrastructure developer - so far housed in HCC

The aim is to create four listed entitles to enable HCC Group to:
Raise funds in each business to sustain growth
De-risk business from each other
Develop management talent
Value creation for shareholders and investors
These entities would be:



Source: Company, Centrum Research

Core business

Established in 1928, HCC has built expertise in hydro power EPC, other power EPC works, transportation, and water solutions.

Exhibit 18: HCC's business profile in EPC and civil construction segments

Source: Company, Centrum Research

Hydro power: the driving force

HCC is a leading player in the hydro-power plant construction segment and a leading contractor for India's largest hydro-power generating company, NHPC. The order-book for the power segment is Rs106bn and we expect this to grow to Rs169bn by FY12E. HCC's core competency lies in handling complex and projects in difficult terrains, which we believe will drive hydro projects intake, going forward. Competitors in this segment are L&T, Gammon India, Soma Enterprises (private company), JaiPrakash Associates (not a competitor currently, since it is busy with internal power projects), Patel Engineering, etc. Apart from the domestic EPC presence in hydro power projects, HCC has also a presence in Bhutan and Nepal, where the combined opportunity is more than that of India.

Nuclear and special projects segment: huge opportunity in the long-term

HCC is also a leader in the nuclear power plant segment, having built around 11 nuclear plants out of the 19 nuclear plants in India. The near-term opportunity in the nuclear segment is not likely to see traction. However, on account of an NSG agreement signed last year, we believe the medium and long-term opportunity will be huge. The government plans to add capacity of 6110MW and 7200MW in the 12^{th} and 13^{th} Five Year Plans, respectively. To fully benefit from this opportunity, HCC had signed a strategic partnership with AMEC for consulting and EPC services. As per the company, around Rs140bn worth of orders would be tendered into the market in a year's time and HCC would be a major beneficiary. Major competitors in the segment are Gammon India, L&T and HCC.

Transportation: leading presence, with strong growth prospects

HCC has a leading presence in the road segment, with several road projects. HCC has the capability to work as an EPC contractor. The company has also upped the ante on its own portfolio of road projects. With the improvement in operating environment, we believe this sector has strong growth prospects. HCC also has strong credentials in the railways segment. With much opportunity expected in the railways segment (particularly in the Metro segment), we expect HCC to garner substantial business, going forward.

Water and irrigation segment: a leading player in mega projects

HCC has a substantial presence in the water segment (irrigation and water supply projects) and is one of the leading players in mega projects. HCC's water segment order-book stands at Rs38.5bn, comprising 20% of the total order-book. Though most of the water projects in the order-book are from Andhra Pradesh, HCC has shifted its focus to other states like Gujarat, Maharashtra, Uttar Pradesh and Madhya Pradesh.

Real estate segment: a cautious strategy

HCC's current presence in real estate is focused on Lavasa, which is a Rs1.4tn urban development and management project, planned to be developed over the next decade. Though the company owns a reasonable land bank, there is little visibility on the outcome of other real-estate projects. HCC's long-term strategy is to provide a compete range of building construction services in India. We expect the acquisition of the Swiss company, Karl Steiner AG, which is into high-end and complex building construction to further this strategy.

Exhibit 19: Land bank details

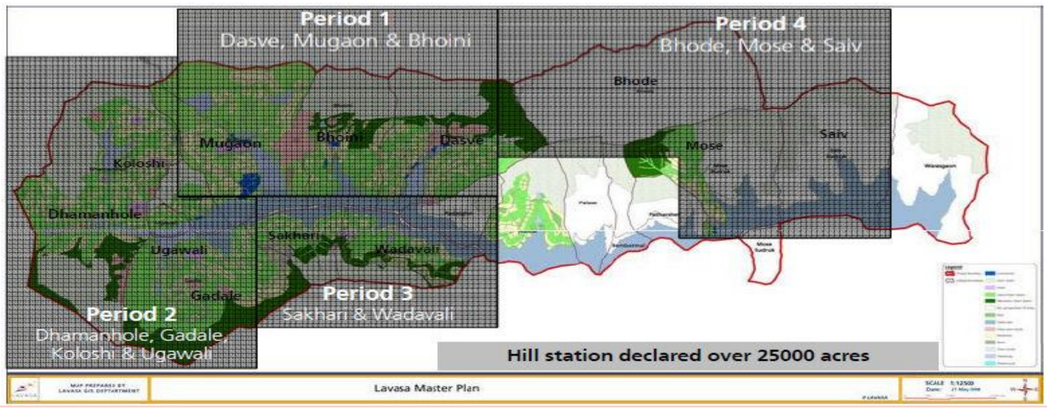
Location	Area	Nature of Right	Primary segment activities or use
Lavasa	9,961.0	Owned	Real estate development
Vikhroli (West)	12.3	Owned	HCC's office premises and real estate development
Vikhroli (East)	28.0	Owned	Proposed real estate development under SRA
Panvel- Village Tara	54.5	Owned	Company's central workshop, research & development centre, training centre & residential accommodation
Dahivali- Karjat	20.0	Owned	Non-agricultural land currently not in use
Nashik	58.0	Development rights	Proposed township development
Total	**10,133.8**		

Source: Company, Centrum Research

Lavasa is the major asset in the real estate segment

Lavasa is a 25,000acre city development project on the Mumbai-Pune corridor. The project consists of residential and industrial offerings, and tourists will be the driving force for the Lavasa economy. The development of Lavasa is spread across four phases, starting with Dasve. Out of a planned total of 201m sq, ft., 16m will be developed in Dasve (COD Dec '10). The response to the launches at Dasve has been very good. Around 75%-80% of the total offerings for Dasve has been sold out (13m out of 16mn). HCC's management plans an IPO for Lavasa by 3Q/4QFY11 to raise cash of around Rs20bn (effectively diluting 10% of the internal valuation target of Rs20,0bn).

Exhibit 20: Plan for Lavasa's development



Source: Company, Centrum Research

Exhibit 21: Lavasa's Financials

Income Statement (Rsmn)	FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Income from operation	2,120.0	932.7	1,028.5	1,428.6	1,425.7	1,810.0
Operating Expenditure	770.0	532.7	569.8	785.5	832.9	1,070.0
EBT	1,350.0	400.0	458.7	643.1	592.8	740.0
EBT Margin (%)	*63.7*	*42.9*	*44.6*	*45.0*	*41.6*	*40.9*
Tax	120.0	136.0	154.1	222.9	179.7	250.0
Tax as % of PBT (%)	*8.9*	*14.6*	*15.0*	*15.6*	*12.6*	*13.8*
PAT	1,230.0	264.0	304.6	420.2	413.1	490.0
PAT Margin (%)	*58.0*	*28.3*	*29.6*	*29.4*	*29.0*	*27.1*

Source: Company, Centrum Research

Karl Steiner AG: long-term positive, waiting for clear Indian strategy

HCC acquired 66% stake in the private Swiss company "Karl Steiner AG" (KS-AG) in March 2010. The remaining stake in the company will be purchased by 2014. The strategy is to expand its presence in the buildings construction segment, where KS-AG will cater to the high-rises and complex building structures more prevalent in developed countries. The current order-book of the company is $1.2bn and Implenia AG is the only comparable listed in the Swiss market.

HCC currently has no definite plans as far as its India operations are concerned. However, in the long-term, as high-rises and complex structures become more ubiquitous, we believe Karl Steiner AG would be a great value addition to the Group. For two months from acquisition (5th May 2010 to 30th June 2010), KSAG delivered revenue of CHF93mn with PAT of CHF3.5mn.

Other plans in the real estate division

- Expand project pipeline by starting development of the second phase of 247 Park
- Urban renewal projects (Vikhroli East and Powai) in partnership with developers that have capability in SRA schemes.

Financials (Standalone)

Exhibit 22: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**33,137**	**36,442**	**45,159**	**59,036**	**75,667**
Growth in revenue	*7.5*	*10.0*	*23.9*	*30.7*	*28.2*
Cost of Raw Material	25,074	28,070	34,522	45,044	57,734
% of Revenue	*75.7*	*77.0*	*76.4*	*76.3*	*76.3*
Employee cost	*3,749.0*	*3,943.5*	*5,048.9*	*6,508.2*	*8,341.7*
% of Sales	*11.3*	*10.8*	*11.2*	*11.0*	*11.0*
EBITDA	**4,314**	**4,429**	**5,589**	**7,483**	**9,591**
EBITDA Margin (%)	*13.0*	*12.2*	*12.4*	*12.7*	*12.7*
Depreciation	1,152	1,139	1,276	1,668	2,138
PBIT	**3,162**	**3,290**	**4,313**	**5,815**	**7,453**
Interst expenses	2,105	2,052	2,369	2,639	3,009
PBIT from operations	**1,057**	**1,238**	**1,944**	**3,176**	**4,445**
Other non operating income	588	130	154	176	203
PBT before ext.od items	**1,645**	**1,368**	**2,097**	**3,352**	**4,647**
Extra-ordinary income/ (exp)	(0.6)	149.9	(29.4)	-	-
PBT	**1,645**	**1,218**	**2,127**	**3,352**	**4,647**
Provision for tax	392	404	680	1,139	1,580
Effective tax rate (%)	*23.8*	*33.2*	*32.0*	*34.0*	*34.0*
Minority interest	-	-	-	-	-
PAT	**1,253**	**814**	**1,447**	**2,212**	**3,068**
Adjustment for Ext.Od items	(748)	360	39	-	(0)
Adjusted PAT	**506**	**1,175**	**1,486**	**2,212**	**3,068**
Growth in PAT (%)	*(9.6)*	*132.4*	*26.5*	*48.9*	*38.7*
PAT margin (%)	*1.5*	*3.2*	*3.3*	*3.7*	*4.1*

Source: Company, Centrum Research Estimates

Exhibit 23: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	256	303	303	303	303
Stock Options / Warrants	152	-	-	-	-
Reserves	9,640	14,869	16,079	17,931	20,499
Shareholders' fund	**10,049**	**15,172**	**16,383**	**18,235**	**20,803**
Debt	23,218	25,147	29,547	32,947	35,847
Deferred Tax Liability	1,132	1,426	1,426	1,426	1,426
Minority Interest					
Total Capital Employed	**34,398**	**41,745**	**47,356**	**52,608**	**58,076**
Gross Block	**16,828**	**18,142**	**20,042**	**22,132**	**24,431**
Accumulated dep.	5,547	6,645	7,921	9,589	11,727
Net Block	**11,282**	**11,497**	**12,121**	**12,543**	**12,704**
Capital WIP	464	349	367	380	385
Total Fixed Assets	**11,746**	**11,845**	**12,488**	**12,923**	**13,089**
Investments	**3,655**	**4,087**	**6,387**	**7,087**	**7,687**
Deferred Tax Asset					
Inventories	27,766	35,652	42,770	47,628	53,530
Debtors	47	27	33	43	55
Cash & bank balances	1,539	1,883	920	1,018	1,518
Loans and Advances	5,284	8,633	11,104	14,555	18,073
Other Current Assets	38	48	72	93	119
Total current assets	**34,674**	**46,242**	**54,899**	**63,338**	**73,296**
Current lia & provisions	15,677	20,430	26,418	30,739	35,996
Net current assets	**18,997**	**25,813**	**28,481**	**32,598**	**37,300**
Misc. Expenditure					
Total Assets	**34,398**	**41,745**	**47,356**	**52,608**	**58,076**

Source: Company, Centrum Research Estimates

Exhibit 24: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	**1,645**	**1,218**	**2,127**	**3,352**	**4,647**
Depreciation	1,152	1,139	1,276	1,668	2,138
Interest expenses	2,244	2,262	2,369	2,639	3,009
OP profit before WC change	**4,455**	**4,587**	**5,772**	**7,659**	**9,794**
Working capital adjustment	(3,071)	(3,608)	(3,631)	(4,019)	(4,202)
Gross cash from operations	**1,384**	**979**	**2,140**	**3,639**	**5,592**
Direct taxes paid	**(338)**	**(411)**	**(680)**	**(1,139)**	**(1,580)**
Cash from operations	**1,046**	**568**	**1,460**	**2,500**	**4,013**
CF from investing					
Capex	(1,231)	(2,574)	(1,919)	(2,103)	(2,304)
Investment	(683)	(365)	(2,300)	(700)	(600)
Others	(1,169)	(1,205)	-	-	-
Cash from investment	**(3,083)**	**(4,144)**	**(4,219)**	**(2,803)**	**(2,904)**
CF from financing					
Proceeds from sh cap & prem.	-	4,679	-	-	-
Borrowings/ (Repayments)	4,781	1,939	4,400	3,400	2,900
Interest paid	(2,204)	(2,229)	(2,369)	(2,639)	(3,009)
Dividend paid	(204)	(204)	(236)	(360)	(500)
Others	(1,440)	(264)	-	-	-
Cash from financing	**932**	**3,921**	**1,796**	**400**	**(608)**
Net cash increase/ (dec)	**(1,105)**	**345**	**(963)**	**98**	**500**

Source: Company, Centrum Research Estimates

Exhibit 25: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	13.0	12.2	12.4	12.7	12.7
PBIT Margin	9.5	9.0	9.5	9.8	9.8
PBT Margin	5.0	3.3	4.7	5.7	6.1
PAT Margin	1.5	3.2	3.3	3.7	4.1
Growth Ratios (%)					
Revenues	7.5	10.0	23.9	30.7	28.2
EBITDA	17.7	2.7	26.2	33.9	28.2
Net Profit	(9.6)	132.4	26.5	48.9	38.7
Return Ratios (%)					
ROCE	10.2	8.9	10.0	12.0	13.8
ROIC	6.8	6.0	6.7	8.0	9.2
ROE	5.1	9.4	9.4	12.8	15.7
Turnover Ratios					
Asset turnover ratio (x)	1.0	0.9	1.0	1.1	1.3
Working Capital Turnover (x)	1.7	1.4	1.6	1.8	2.0
Avg collection period (days)	0.5	0.3	0.3	0.3	0.3
Avg payment period (days)	177.6	211.2	220.9	197.3	206.3
Per share (Rs)					
Fully diluted EPS	0.9	1.9	2.4	3.5	4.9
CEPS	3.2	3.8	4.6	6.4	8.6
Book Value	19.6	26.1	28.1	31.3	35.7
Solvency ratios (x)					
Debt/ Equity	2.3	1.7	1.8	1.8	1.7
Interest coverage ratio	1.9	2.2	2.4	2.8	3.2
Valuation parameters (x)					
P/E	65.8	31.7	25.1	16.8	12.2
P/BV	3.0	2.3	2.1	1.9	1.7
EV/ EBITDA	13.1	14.1	12.0	9.4	7.6
EV/ Sales	1.7	1.7	1.5	1.2	1.0
M-Cap/ Sales	1.0	1.0	0.8	0.6	0.5

Source: Company, Centrum Research Estimates

INDIA

Infrastructure

Era Infra Engineering

Initiation **30 August 2010**

Buy

Target Price: Rs289

CMP: Rs219.6*

Upside: 31%

**as on 27 August 2010*

Underplayed potential

Era Infra Engineering (Era Infra), the flagship company of Era Group, is a fully-integrated infrastructure development company with diverse execution experience in power, roads and railways segments. We believe the company's robust margins, leading position in thermal power EPC projects and increasing presence in the road sector would translate into 23% earnings CAGR over FY10-12E. We initiate coverage with a Buy rating and target price of Rs289 (31% upside).

- **Well-positioned to leverage huge opportunity in thermal power projects:** Era Infra is currently executing 15 power projects (six for BHEL, seven for NTPC and two for Adani Power) and is well positioned to cash in on 12th Five-Year Plan (FY12-17) target of adding over 70,000 MW thermal power capacity. This is expected to translate into healthy order-book growth.
- **Increasing focus on infrastructure to boost share of EPC projects:** Era Infra's portfolio of road projects (through SPVs) is increasing. It bagged Rs17bn NHAI project recently and has presence in airport EPC and railway projects entailing robust EPC business growth.
- **Strong growth in equipment hiring (EH) and ready mix concrete (RMC) businesses:** Era Infra has strong capex plans for the EH business which has seen heightened business activity. We factor in strong 59% CAGR over FY10-12E. This is a high EBITDA margin business (sub-70%) that is likely to boost overall margins. Though small, RMC business is growing rapidly (we have modeled 17% CAGR over FY10-12E).
- **Robust margins:** Era Infra has registered robust EBITDA margins in past 3-4 years (EPC segment's FY10 EBITDA margin was 19.1% in FY10). This is because projects where the raw materials such as steel and cement supplied by clients formed substantial portion of total order-book. However, we expect EBITDA margin to decline to 18.6% by FY12E on account of increasing share of infrastructure projects and rising competition.
- **Buy rating with a target price of Rs289:** We expect company to register 28% sales and 23% PAT CAGR over FY10-12E. We value core business at Rs269 (14x FY12E EPS of Rs19.2) and Rs20 for BOT on 1.5x P/B to BV, totaling to Rs289 for the stock (31% upside).
- **Key risks – Upside**: Lower-than-expected competition in thermal power segment, faster execution of projects vs expected run-rate. **Downside:** Era Infra has high leverage vs peers. Also, competition in the segments it operates in is intensifying.

Manish Kayal
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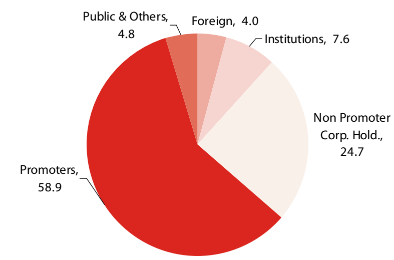
Key Data

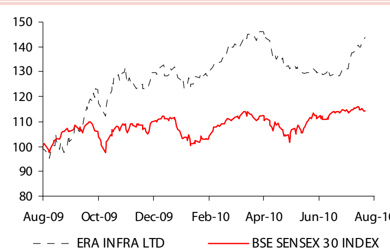
Bloomberg Code	ERIR IN
Reuters Code	ERCI.BO
Current Shares O/S (mn)	181.8
Diluted Shares O/S(mn)	181.8
Mkt Cap (Rsbn/USDmn)	40/854.1
52 Wk H / L (Rs)	235/135
Daily Vol. (3M NSE Avg.)	264,961
Face Value (Rs)	2
USD = Rs46.9	

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Era Infra Engineering	5.1	5.9	39.0
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research as on 27 August 2010

Financial Summary Standalone

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	23,769	*62.3*	4,136	*17.4*	1,613	*32.9*	11.0	*24.0*	*15.9*	19.9	12.1
FY10	34,155	*43.7*	6,525	*19.1*	2,475	*53.5*	12.8	*21.2*	*17.6*	17.1	10.3
FY11E	42,790	*25.3*	8,139	*19.0*	2,817	*13.8*	14.4	*17.7*	*16.8*	15.3	8.7
FY12E	55,617	*30.0*	10,346	*18.6*	3,768	*33.7*	19.2	*19.7*	*18.3*	11.4	7.2
FY13E	69,839	*25.6*	12,573	*18.0*	4,783	*26.9*	24.4	*20.5*	*19.0*	9.0	6.3

Source: Company, Centrum Research Estimates

Company Background

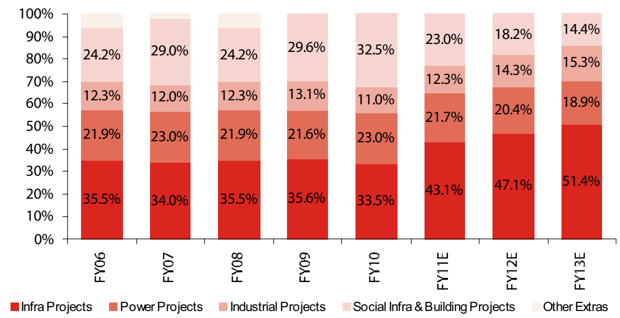
Era Infra Engineering (EIEL) is a Delhi-based company primarily involved in infra construction works. EIEL caters to most of the construction segments and also owns a portfolio of BOT road projects having a pan-India presence. Its subsidiaries provide services in to the area of construction equipment hiring (EH) and ready mix concrete (RMC) business for internal consumption and external clients.

Shareholding pattern (%)

Y/E March	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	58.1	58.1	57.9	59.8	58.9
Institutions	6.7	5.1	8.7	10.8	11.4
FII	*3.2*	*3.6*	*3.3*	*3.0*	*3.8*
DII	*3.6*	*1.5*	*5.5*	*7.8*	*7.6*
Public & Others	35.2	36.8	33.4	29.4	29.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Centrum Research

Order-book Mix



Source: Company, Centrum Research Estimates

Key events/timeline

Year	Particulars
1990	Era Constructions (India) Private Ltd. is formed as an individual business entity & enters the industrial buildings segment.
1992	Converts into a public limited company and the name changes to Era Constructions (India) Ltd
1995	Lists on the Mumbai, Delhi & Ahmadabad Stock Exchanges. Enters into public / government sectors. Forays into Aviation Sector.
1999	Forays into the power sector with the award of first mega power plant project
2003	Ventures into the institutional & health care. Receives the stringent ISO 9001: 2000 Certification.
2004	Enters the low cost housing segment with the Delhi State Industrial & Infrastructure Development Corporation Ltd (DSIIDC) project.
2005	Raised Fund through follow - on public offer. Entered into Railway sector.
2006	Bags its first BOT project from NHAI. Ventures into the highways. Lists on the National Stock Exchange and the Luxembourg Stock Exchange, Europe, through its GDR offering.
2007	Rechristened as Era Infra Engineering Ltd. Extends sectoral presence with foray into the metro segment. Raised funds through the FCCB issue.
2008	Era Infra further forays into social infra sector, bagging multiple projects for Commonwealth. Wins the Golden Peacock National Training Award for excellence in training practices
2009	Reports stellar financial performance in an extremely challenging fiscal. Awarded prestigious projects from industry stalwarts like NTPC, BHEL, SAIL, CPWD & PWD. Awarded second fastest growing construction company (large category) in India at the Annual Construction World Awards organized by ASAPP Media and supported by the Builders Association of India (BAI).
2010	Era Infra bags Muzaffarnagar - Haridwar. Snare Haridwar - Dehradun NHAI stretch. Bags Bareilly - Sitapur stretch from NHAI for app. 151 KM. Bags project for 1000MW at Nabinagar, Bihar

Source: Company, Centrum Research

Key management personnel

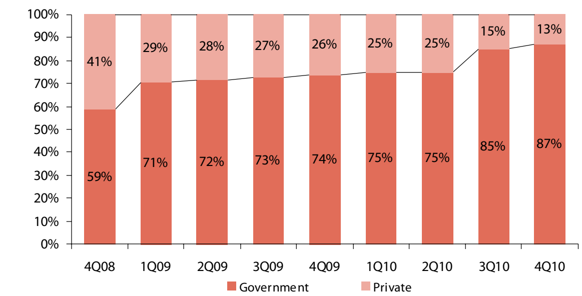
Name	Designation	Particulars
H. S. Bharana	CMD	A Civil Engineer by profession with about 28 years of experience in the field of infrastructure development, construction and administration.
J. L. Khushu	Whole Time Director	A Civil Engineer and Master in Structural Engineering, is a retired Chief Engineer, Ministry of Urban Development, Government of India.
Joy Saxena	Group CFO	Mr.Saxena is the Group CFO and is a Chartered Accountant & Cost accountant by qualification. Mr.Saxena have total experience of around 3 decades and is with Era Group since June 2008. Mr.Saxena has previously worked for DLF limited.

Source: Company

Investment Rationale

- Era Infra is well positioned to cash in on the government's 12th Five Year Plan (FY12-17) target of adding over 70,000 MW in thermal power capacity.
- Its portfolio of road projects (through SPVs) is increasing, with the recent acquisition of an Rs17bn project from NHAI. This entails good growth for Era Infra's EPC business and would catapult Era Infra into a front-line construction company.
- Era Infra has registered robust margins in the past 3-4 years (19.1% in FY10) as primary raw materials, such as steel and cement, are supplied by clients. This is higher than the margins of peers such as IVRCL and NCC (10-12%).

Order-book client mix



Source: Company, Centrum Research

Summary Financials (Standalone)

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**23,769**	**34,155**	**42,790**	**55,617**	**69,839**
YoY growth (%)	*62.3*	*43.7*	*25.3*	*30.0*	*25.6*
Operating profit	4,136	6,525	8,139	10,346	12,573
YoY growth (%)	*41.1*	*57.8*	*24.7*	*27.1*	*21.5*
Operating margin (%)	17.4	19.1	19.0	18.6	18.0
Depreciation	459	715	1,024	1,387	1,742
Interest expenses	1,484	2,474	3,089	3,511	3,846
Other non operating income	378	160	234	259	260
PBT	3,196	3,978	4,260	5,708	7,245
Provision for tax	545	1,184	1,443	1,940	2,463
PAT (adjusted)	**1,613**	**2,475**	**2,817**	**3,768**	**4,783**
YoY growth (%)	*32.9*	*53.5*	*13.8*	*33.7*	*26.9*
PAT margin (%)	*6.8*	*7.2*	*6.6*	*6.8*	*6.8*
Cash Flow Statement Data					
Cash generated from operations	(1,729)	(922)	2,508	3,160	4,411
Cash flow from investing activities	(3,962)	(4,626)	(3,711)	(4,710)	(5,241)
Cash flow from financing activities	3,219	8,419	(157)	399	38
Net cash increase/decrease	**(2,472)**	**2,870**	**(1,359)**	**(1,152)**	**(792)**
Balance Sheet Data					
Shareholders' fund	8,789	14,571	17,320	20,997	25,665
Debt	17,963	24,820	27,820	31,820	35,820
Deferred Tax Liability	910	1,584	1,584	1,584	1,584
Total Capital Employed	**27,663**	**40,975**	**46,725**	**54,402**	**63,069**
Fixed Assets	10,976	13,800	15,054	16,994	18,913
Goodwill					
Investments	1,761	2,853	3,853	5,053	6,453
Net current assets	13,781	23,331	26,394	30,748	35,916
Total Assets	**27,663**	**40,975**	**46,725**	**54,402**	**63,069**
Ratios (%)					
ROCE	*15.9*	*17.6*	*16.8*	*18.3*	*19.0*
ROIC	*11.1*	*12.0*	*11.6*	*12.8*	*13.5*
ROE	*24.0*	*21.2*	*17.7*	*19.7*	*20.5*
Per share Ratios (Rs)					
Fully diluted EPS	11.0	12.8	14.4	19.2	24.4
Solvency Ratio (x)					
Debt-equity	2.0	1.7	1.6	1.5	1.4
Interest coverage ratio	2.4	2.5	2.6	2.9	3.3
Valuation parameters (x)					
P/E (Fully Diluted)	19.9	17.1	15.3	11.4	9.0
P/BV	3.1	2.7	2.3	1.9	1.6
EV/EBITDA	12.1	10.3	8.7	7.2	6.3
EV/Sales	2.1	2.0	1.7	1.3	1.1

Source: Company, Centrum Research Estimates

12th Five Year Plan opportunity in Thermal power segment would add to comfort on Era Infra's power segment order-intake outlook

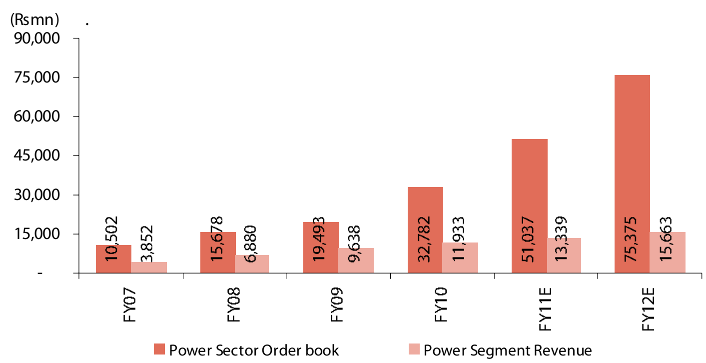
Equipment division EBITDA margins of Sub 70% add to overall robust margins ahead of EPC division, which itself is higher than peers

Investment Argument

Strong position in thermal power EPC segment

Era Infra is a major player in thermal power EPC works (mainly civil works) and is currently executing 15 power plants. These include six projects for BHEL, seven for NTPC and two for Adani Power. The power segment accounted for 33% of the total order-book of Rs85bn as on FY10-end, and contributed 28% (around Rs9.6bn) of FY10 revenue. Addition of 70,000 MW in thermal power capacity is targeted over the 12th Five-Year Plan period (FY12-17). We believe this translates into a huge opportunity that would result in healthy growth for Era Infra's power segment EPC order-book. Going forward, company plans to foray into the hydro-power EPC segment and balance of plant (BoP) segment, catering to areas like coal and ash handling and conveyer belts.

Exhibit 1: Power segment order-book and revenue



Source: Company, Centrum Research Estimates

Exhibit 2: 12th Five-Year Plan thermal power opportunity

Break-up – Thermal		Mega Watt	58,644	70,160
Particulars	**Share in total cost**	**Cost in Rsmn / MW**	**11th Plan Total (US$)**	**12th Plan Total (US$)**
Civil Works	40.0%	24.0	31.3	37.4
P&M	45.0%	27.0	35.2	42.1
Balance of Plant	15.0%	9.0	11.7	14.0
Others	5.0%	3.0	3.9	4.7
Total	**105.0%**	**60.0**	**82.1**	**98.2**

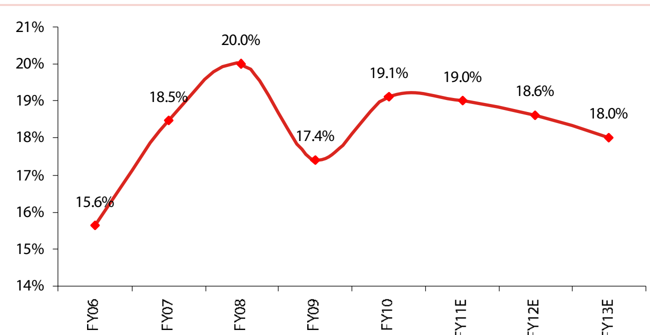
Source: Company, Centrum Research

High EBIDTA margin due to thermal power projects

Era Infra's contracting work for thermal power plants commands robust margins of 18-19% as company does not have to bear price rise impact of raw materials such as cement and steel (these are supplied by the clients directly). These high margins are also supported by the current low levels of competition existing in this segment as compared to other segments like irrigation.

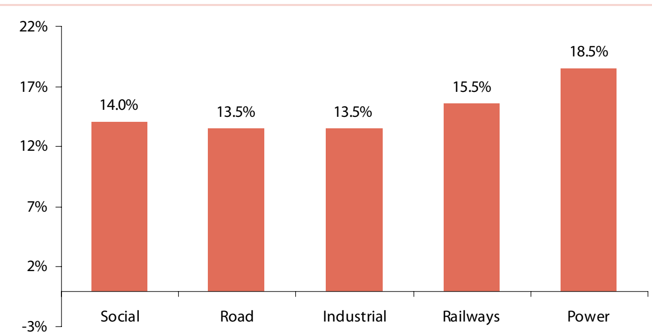
Going forward, the share of power sector projects to overall order-book is expected to decline on account of its increasing share of infrastructure projects. Operating margins in infrastructure segment are couple of percentage points below thermal power projects. Consequently, we believe, overall company level operating margin would decline from 19.1% in FY10 to 18.6% in FY12E. However, margin decline in EPC segment would offset by increasing share of equipment hiring segment, where margins which are in the range of 65%-75%.

Exhibit 3: EBITDA margin trend



Source: Company, Centrum Research Estimates

Exhibit 4: EBITDA margin by segment

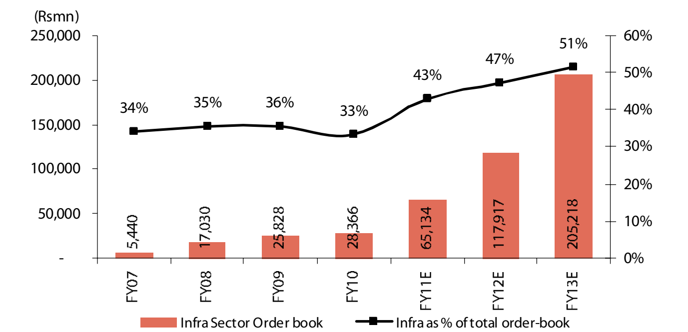


Source: Company, Centrum Research Estimates

Increasing orders from infrastructure projects

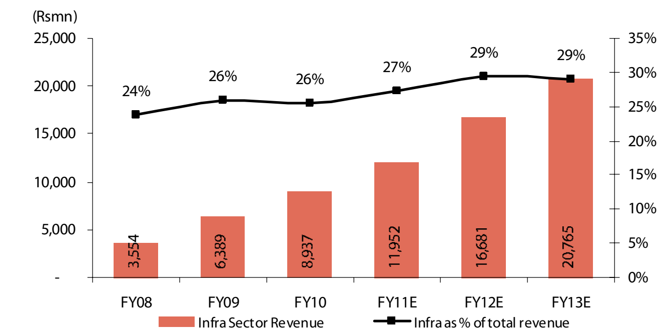
Era Infra is getting more orders from Infrastructure segment (mainly road segment), which we believe would drive revenue growth, going forward. Though margins in this segment are lower than in power sector projects, we believe high revenue growth would offset lower margins. The share of infrastructure sector projects in the total order book has increased from around 34% (Rs5.4bn) in FY07 to 55% (Rs57bn) in FY10 and is expected to sustain at the 50-55% range until FY12. Era Infra currently has a presence in segments such as roads, railways and airports and plans to get into other infrastructure segments such as ports. Among its airport projects, Pune airport is almost complete, Indore airport is 30% complete and work has just commenced on the Raipur airport.

Exhibit 5: Infra sector order-book



Source: Company, Centrum Research Estimates

Exhibit 6: Infra sector revenue



Source: Company, Centrum Research Estimates

Era Infra has a strong portfolio of road BOTs, with projects amounting to Rs30bn (see Exhibit 7). We believe with overall environment in road sector improving and company bidding for further projects, EPC projects which is executed by Era Infra, would get a boost in terms of order-intake driving revenue comfort. Era Infra would also enter segments like automated car parking lots, airports and ports as an owner rather that just a EPC contractor in long-term.

Exhibit 7: Era Infra's road asset's portfolio

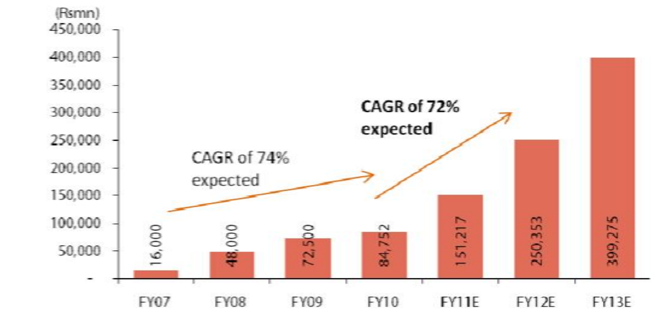
Project	Stake	Category	Cost (Rsmn)	Partners & Stake	Length	Concession Period	Revenue Stream	COD
Hyderabad Ring Road	49.0%	Annuity	3,300.0	Induni CIE - 51%	12Km	15 years	25 installments, 6m. Rs618mn p.a. starting Oct' 10	Dec-10
Gwalior Bypass	39.0%	Annuity	2,960.0	Ramky 51% & Shriram 10%	42.033km	20 years	35 Inst, 6m (Rs530mn p.a.) starting Apr'10	Sep-10
Bahadurgarh - Rohtak	49.0%	Toll	5,000.0	KCT 51%	63.49Km	25 years	Toll	Oct-10
Mazaffarnagar - Haridwar	74.0%	Toll	10,070.0	OJSC - SIBMOST 26%	80Km	25 years	Toll	Fin. Closure
Haridwar - Dehradun	74.0%	Annuity	6,520.0	OJSC - SIBMOST 26%	7.2 + 31.83Km	20 years	Annuity	Fin. Closure
Bareilly - Sitapur	74.0%	Toll	17,230.0	OJSC - SIBMOST 26%	151.20 KM	20 years	Toll	FC in 3/4 months

Source: Company, Centrum Research

Growing order-book boosts revenue visibility

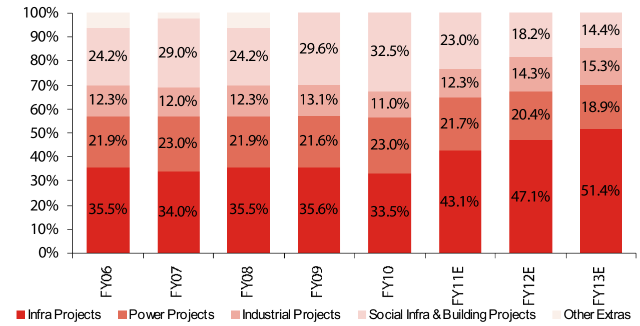
Era Infra's current order-book of Rs107bn provides adequate revenue visibility over the next two to three years, which we believe is at par with other players. Era Infra is one of the best-placed companies in terms of its exposure & execution track record to benefit from the opportunity arising in segments like power and roads. Buildings (residential and commercial) and industrial segment currently contributes around 35% of total order-book and we expect it to remain at the same level till FY12E-end.

Exhibit 8: Order-book growth



Source: Company, Centrum Research Estimates

Exhibit 9: Order-book mix

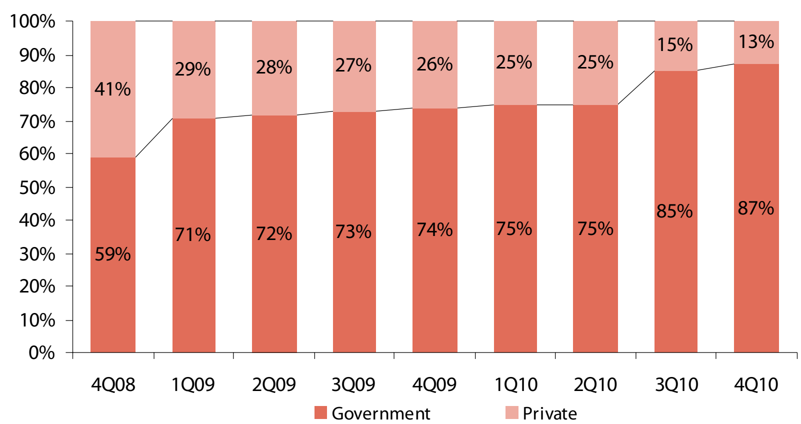


Source: Company, Centrum Research Estimates

Share of public contracts improving; provides revenue and margin stability

Era Infra's order-book mix is witnessing change towards more government sector contracts. The share of government sector contracts has risen from 59% in FY08 to 87% currently. In addition, these contracts have cost escalation clauses. We believe this increase would result in revenue and margin stability.

Exhibit 10: Client mix movement



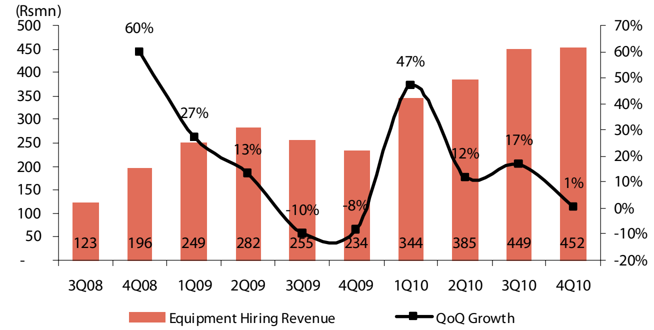
Source: Company, Centrum Research

Equipment hiring and RMC segments to boost overall margins

Equipment division forms around 5% of the total revenue of the company and margins are 60-75%. Era Infra's equipment hiring division caters to internal projects (45%) as well as external clients (55%). Increasing share of the segment in total business, as company plans capex of around Rs2.5-3bn per year until FY12 would help overall margins. We expect the segment to contribute 7.3% of total revenue in FY12 from 4.7% in FY10.

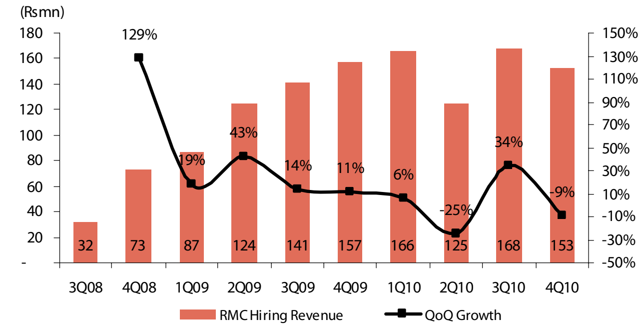
The RMC's division share in the total business was around 2% in FY10. The division achieved break-even recently and going forward, we believe the positive effect of profitability will be marginally reflected in overall margins. The segment earns margins in low-single digit. The opportunity in this segment is huge as India is second-largest cement producing country in the world, with an installed capacity expected to increase to 241mtpa by FY2011. RMC business which is a subset of cement industry is currently at its infancy in India (using only 4-5% of the total cement production) and is expected to go up to 45% of the total cement production by 2020 as per industry projection, (CAGR of 30-35%). We factor in moderate 17% CAGR over FY10-12E.

Exhibit 11: Equipment hiring division revenue trend



Source: Company, Centrum Research

Exhibit 12: RMC division revenue trend



Source: Company, Centrum Research

Risks

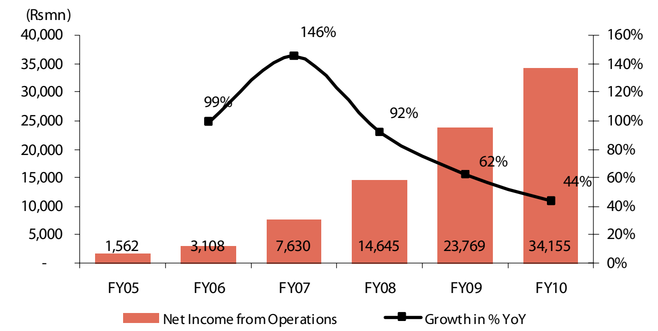
- **Dilution from FCCB outstanding:** Era Infra has an US$50mn FCCB outstanding which is getting converted in to equity gradually as the exercise price is lower than the current market price.
- **High EBITDA margins may not be sustainable:** We believe Era Infra's capability to ensure high EBITDA margins can be at risk as more players are vying to enter in power projects construction works.
- **Funding issues likely to arise in the future:** The company's existing D/E ratio is high at 1.7x vs to peers (with the exception of HCC) at around 1x. Era Infra might be required to raise equity to fund its BOT projects.

Financial Analysis

28% revenue CAGR estimated over FY10-12E

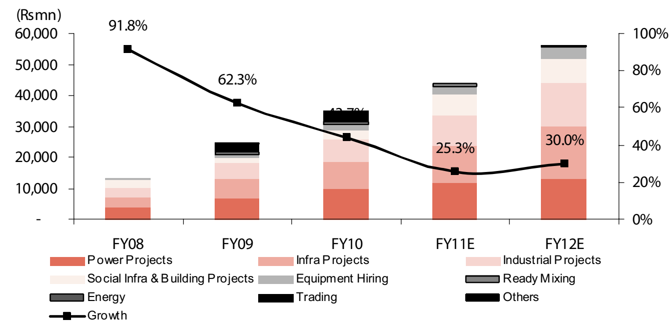
Era Infra registered 85% topline CAGR from Rs1.6bn in FY05 to Rs34bn in FY10 on account of its low-base and forays into new segments. Over the years, the company has acquired a pan-India presence and is now well-positioned to capitalize on the burgeoning opportunities. We expect the company to record 28% revenue CAGR over FY10-12E to Rs56bn.

Exhibit 13: Historical revenue trend



Source: Company, Centrum Research

Exhibit 14: Revenue projections

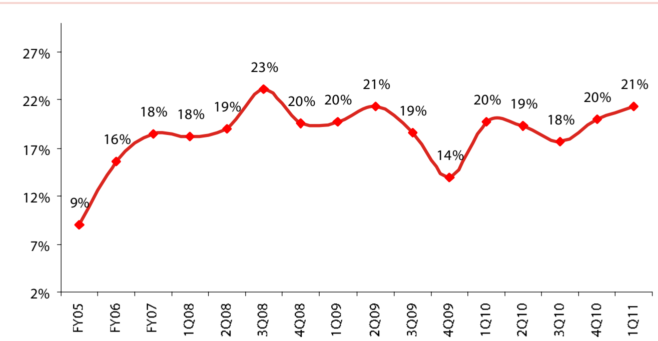


Source: Company, Centrum Research Estimates

EBITDA margin to dip, but still remain higher than peers

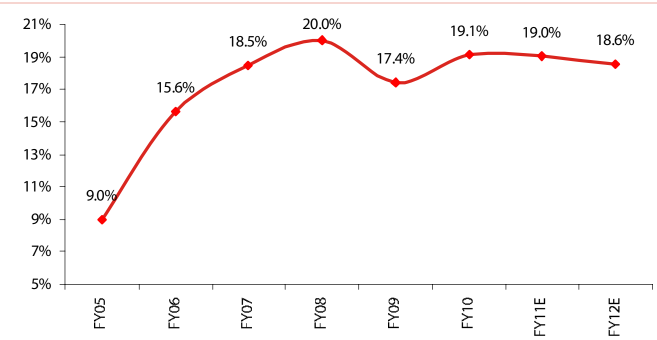
Era Infra's EBITDA margins are high vs peers. This is mainly because the company's clients supply the key raw materials (such as steel and cement), which account for two-third of the total cost in power sector projects. This has enabled Era Infra to concentrate on construction activity, which along with other internal services like RMC and EHM, has helped garner more business and better margins. However, on account of increasing share of equipment hiring business, overall EBITDA margin is expected to remain robust at 18.6% for FY12E. The EBIDTA margin for peers in the EPC business is between 10%-12%.

Exhibit 15: Historical EBITDA margins



Source: Company, Centrum Research

Exhibit 16: EBITDA margin expectations

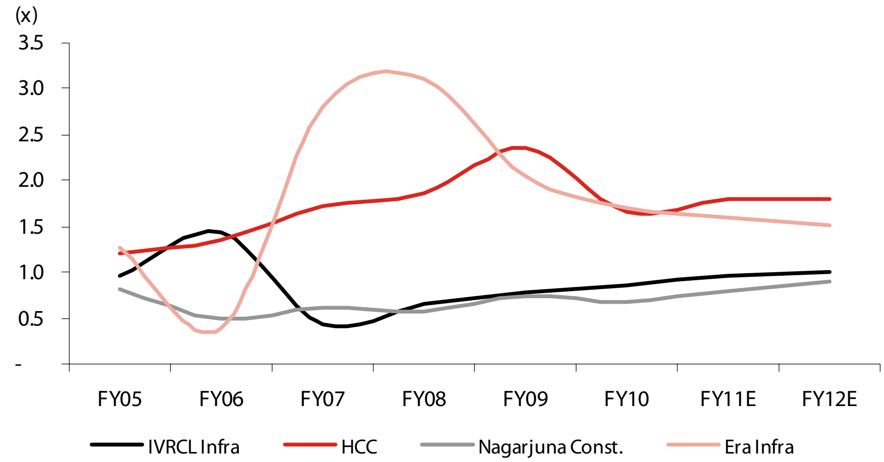


Source: Company, Centrum Research Estimates

Improved debt-equity ratio

Era Infra's debt-equity ratio had increased to an uncomfortable level of 3x in FY08 on account of its FCCB issue (current outstanding Rs2.3bn). However, with FCCB getting converted, the D/E ratio currently stands at 1.7x and we expected to further reduce to 1.4x by FY12E.

Exhibit 17: Era Infra's D/E gets comfortable

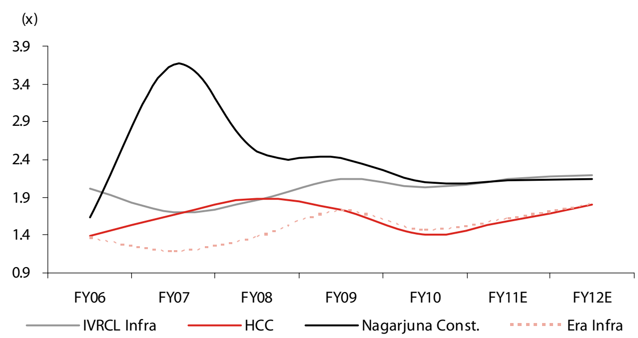


Source: Company, Centrum Research Estimates

Better prospects for working capital and fixed assets turnover

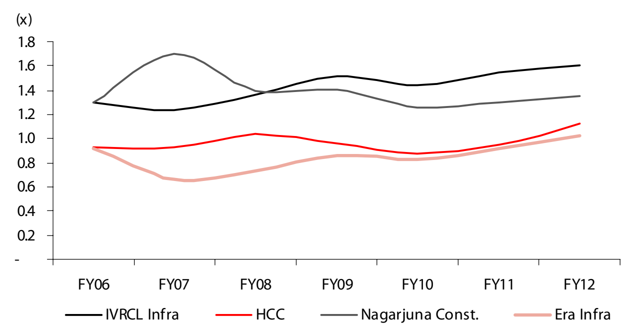
Though the company's working capital turnover has been low vs peers, we expect it to improve, going forward on improving working capital management. Commencement of operations of its various road BOT projects as well as the company diversifying its exposure from the power segment to other sub-segments of Infrastructure will help improving turnover ratios.

Exhibit 18: Working capital turnover improving from FY10



Source: Company, Centrum Research Estimates

Exhibit 19: Fixed assets turnover improving too



Source: Company, Centrum Research Estimates

Valuation Analysis

Our target price on Era Infra is at Rs289 per share, implying a potential upside of 31% from the current level of Rs225. We value the construction business 14x to FY12E EPS of Rs19.2 (Rs269). For core business of construction, we expect Era Infra's top-line to grow 28% between FY10-12E v/s 85% between FY05-10. We value the BOT projects at 1.5X book value, since these are not operational yet and will be operational in FY11.

Exhibit 20: Valuation of Era Infra

Particulars	Method	BOT - Eq. Invested	Multiple (x)	EPS (Rs)	Value / Share (Rs)
Core Construction business	P/E	NA	14.0	19.2	269.3
BOT Projects	P/BV	2,700.0	1.5	NA	19.9
Value per share					**289.2**
Current Price					**220.6**
Upside / Downside					**31.1%**

Source: Centrum Research Estimates

Exhibit 21: EBITDA margins variation – price impact

		Core Business Sensitivity - Revenue Growth						
	(Rs)	**24.0%**	**26.0%**	**28.0%**	**30.0%**	**32.0%**	**34.0%**	**36.0%**
EBITDA Margins	16.6%	168.8	174.2	179.6	184.9	190.3	195.6	201.0
	17.1%	178.8	184.4	189.9	195.4	200.9	206.5	212.0
	17.6%	188.9	194.5	200.2	205.9	211.6	217.3	223.0
	18.1%	198.9	204.7	210.6	216.4	222.2	228.1	233.9
	18.6%	208.9	214.9	220.9	**269.3**	232.9	238.9	244.9
	19.1%	218.9	225.0	231.2	237.4	243.6	249.7	255.9
	19.6%	228.9	235.2	241.5	247.9	254.2	260.5	266.9
	20.1%	238.9	245.4	251.9	258.4	264.9	271.3	277.8
	20.6%	248.9	255.6	262.2	268.9	275.5	282.2	288.8

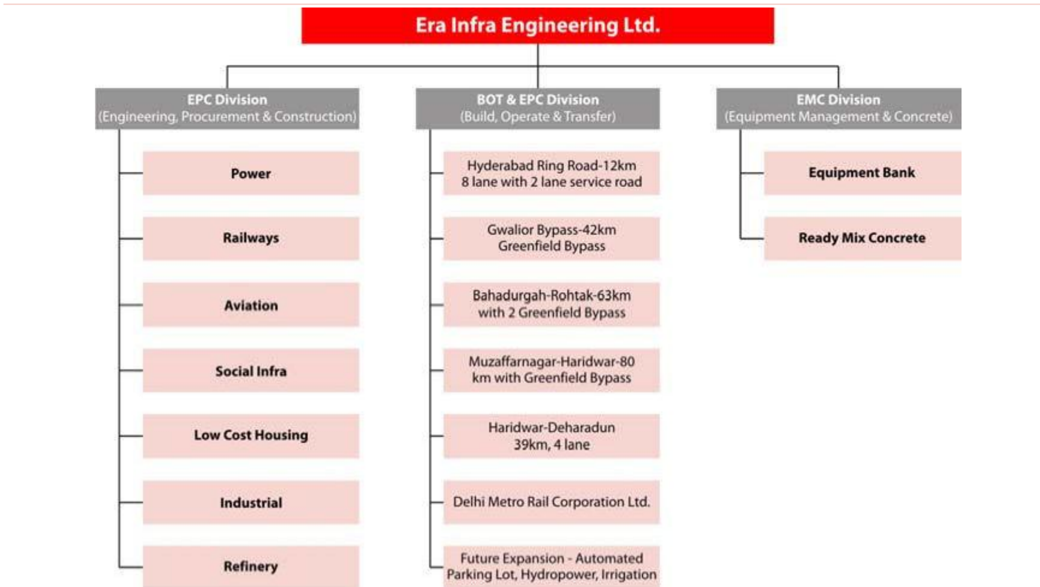
Source: Company, Centrum Research Estimates

Annexure

Company profile

Era Infra is a Delhi-based construction company. Formed in the year 1990, Era Infra has a presence in the Indian construction industry and is well-placed to capitalize on the burgeoning opportunities in Indian Infrastructure as discussed in Industry opportunity section. Further, the company has focused on offering equipment services for external clients (partly for internal projects as well) and this is a growing business. Regarding Infra assets, Era Infra has made a concerned effort on having good BOT projects under its portfolio, which is represented by the BOT & EPC division.

Exhibit 22: Era Infra's strategic business divisions



Source: Company

Construction / EPC – core business

Era Infra is a emerging player in construction/ EPC segment and has a strong presence in power segment. Apart from executing projects in various infrastructure segments mentioned in Exhibit 25, Era Infra is also executing an urban infrastructure project such as airport express-line contract for construction of an underground metro railway station and an underground tunnel (involves designing and construction of Dwarka Sector 21 underground station, approach cut and cover tunnel, and connected works). Further company plans to diversify presence by entering in to newer segments like hydro power, irrigation and ports.

Exhibit 23: Era Infra's strategic business divisions

Segment / Sector	Category	Major Projects Handled	Currently executing
Power	Power	8 projects (4 x 500 MW Talcher Super Thermal Power Project, 1st to 4th Unit of Stage - II, Orissa, 500 MW SGTPS Birsinghpur Thermal Power Project Madhya Pradesh,	15 Thermal Power projects of 12,500 MW for NTPC, BHEL, Adani are under execution
Railways	Infrastructure	Executed projects for RVNL at Rewari-Ajmer section	Executing four railway projects for RVNL of approx. 380 KM in length
Aviation	Infrastructure	Executed cargo complex at Kolkata and runway of Indore airport	Executing 3 airport modernisation & expansion projects at Pune, Raipur and Indore
Social Infra	Social Infra	Executed urban infrastructure, hospital Buildings, commercial & residential buildings for private/public/government sector.	Executing 4 stadium projects for CWG 2010, building projects for CBI headquarter, Capitol Complex for Naya Raipur Development Authority, etc.
Refinery	Infrastructure	Executed projects for IOCL, HPCL, etc	Executing expansion project of IOCL Panipat Refinery
Low Cost Housing		Executed projects for DSIIDC in Bawana.	Executing 11,000 units for DSIIDC in Delhi region
Industrial		Executed industrial work for Birla Tyres, Bajaj Hindustan, Videocon, etc	Executing project for Public and Private Sectors like SAIL, IOCL, Birla Tyres etc.

Source: Company, Centrum Research

Financials (StandAlone)

Exhibit 24: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**23,769**	**34,155**	**42,790**	**55,617**	**69,839**
Growth in revenue	*62.3*	*43.7*	*25.3*	*30.0*	*25.6*
Cost of Raw Material	18,634	26,222	32,539	42,572	53,878
% of Revenue	*78.4*	*76.8*	*76.0*	*76.5*	*77.1*
Employee cost	*666.0*	*1,004.2*	*1,507.0*	*1,933.4*	*2,427.8*
% of Sales	*2.8*	*2.9*	*3.5*	*3.5*	*3.5*
O&M expenses	332.7	403.1	604.7	764.8	960.4
% of Sales	*1.4*	*1.2*	*1.4*	*1.4*	*1.4*
EBITDA	**4,136**	**6,525**	**8,139**	**10,346**	**12,573**
EBITDA Margin (%)	*17.4*	*19.1*	*19.0*	*18.6*	*18.0*
Depreciation	459	715	1,024	1,387	1,742
PBIT	**3,677**	**5,810**	**7,115**	**8,959**	**10,831**
Interst expenses	1,484	2,474	3,089	3,511	3,846
PBIT from operations	**2,193**	**3,336**	**4,026**	**5,449**	**6,985**
Other Non-Op.Income	378	160	234	259	260
PBT before ext.od items	**2,571**	**3,496**	**4,260**	**5,708**	**7,245**
Extra-ordinary income/ (exp)	625.5	482.6	-	-	-
PBT	**3,196**	**3,978**	**4,260**	**5,708**	**7,245**
Provision for tax	545	1,184	1,443	1,940	2,463
Effective tax rate (%)	*17.0*	*29.8*	*33.9*	*34.0*	*34.0*
PAT	**2,652**	**2,794**	**2,817**	**3,768**	**4,783**
Adjustment for Ext.Od items	(1,039)	(319)	(0)	0	-
Adjusted PAT	**1,613**	**2,475**	**2,817**	**3,768**	**4,783**
Growth in PAT (%)	*32.9*	*53.5*	*13.8*	*33.7*	*26.9*
PAT margin (%)	6.8	7.2	6.6	6.8	6.8

Source: Company, Centrum Research Estimates

Exhibit 25: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	287	358	358	358	358
Stock Options / Warrants	-	-	-	-	-
Reserves	8,502	14,212	16,962	20,639	25,306
Shareholders' fund	**8,789**	**14,571**	**17,320**	**20,997**	**25,665**
Debt	17,963	24,820	27,820	31,820	35,820
Deferred Tax Liability	910	1,584	1,584	1,584	1,584
Minority Interest					
Total Capital Employed	**27,663**	**40,975**	**46,725**	**54,402**	**63,069**
Gross Block	**11,773**	**15,270**	**17,548**	**20,875**	**24,535**
Accumulated dep.	797	1,469	2,494	3,881	5,622
Net Block	**10,976**	**13,800**	**15,054**	**16,994**	**18,913**
Capital WIP	1,034	985	1,418	1,601	1,782
Total Fixed Assets	**12,010**	**14,786**	**16,472**	**18,596**	**20,695**
Investments	**1,761**	**2,853**	**3,853**	**5,053**	**6,453**
Deferred Tax Asset					
Inventories	6,722	9,083	12,007	15,014	19,336
Debtors	7,241	9,337	12,579	15,537	18,744
Cash & bank balances	1,791	4,661	3,302	2,150	1,358
Loans and Advances	3,498	5,741	5,825	7,039	7,930
Other Current Assets	28	49	63	78	98
Total current assets	**19,280**	**28,871**	**33,777**	**39,818**	**47,467**
Current lia & provisions	5,498	5,540	7,383	9,071	11,551
Net current assets	**13,781**	**23,331**	**26,394**	**30,748**	**35,916**
Misc. Expenditure	110	6	6	6	6
Total Assets	**27,663**	**40,975**	**46,725**	**54,402**	**63,069**

Source: Company, Centrum Research Estimates

Exhibit 26: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	**2,571**	**3,496**	**4,260**	**5,708**	**7,245**
Depreciation	459	715	1,024	1,387	1,742
Interest expenses	1,559	2,242	3,089	3,511	3,846
OP profit before WC change	**4,043**	**6,285**	**8,373**	**10,605**	**12,833**
Working capital adjustment	(5,470)	(6,694)	(4,422)	(5,505)	(5,960)
Gross cash from operations	**(1,427)**	**(409)**	**3,951**	**5,100**	**6,873**
Direct taxes paid	**(302)**	**(513)**	**(1,443)**	**(1,940)**	**(2,463)**
Cash from operations	**(1,729)**	**(922)**	**2,508**	**3,160**	**4,411**
CF from investing					
Capex	(5,599)	(3,693)	(2,711)	(3,510)	(3,841)
Investment	693	(1,087)	(1,000)	(1,200)	(1,400)
Others	944	154	-	-	-
Cash from investment	**(3,962)**	**(4,626)**	**(3,711)**	**(4,710)**	**(5,241)**
CF from financing					
Proceeds from sh cap & prem.	2,104	2,975	-	-	-
Borrowings/ (Repayments)	2,729	7,299	3,000	4,000	4,000
Interest paid	(1,559)	(2,242)	(3,089)	(3,511)	(3,846)
Dividend paid	(54)	(67)	(68)	(91)	(115)
Others	-	454	-	-	-
Cash from financing	**3,219**	**8,419**	**(157)**	**399**	**38**
Net cash increase/ (dec)	**(2,472)**	**2,870**	**(1,359)**	**(1,152)**	**(792)**

Source: Company, Centrum Research Estimates

Exhibit 27: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	17.4	19.1	19.0	18.6	18.0
PBIT Margin	15.5	17.0	16.6	16.1	15.5
PBT Margin	13.4	11.6	10.0	10.3	10.4
PAT Margin	6.8	7.2	6.6	6.8	6.8
Growth Ratios (%)					
Revenues	62.3	43.7	25.3	30.0	25.6
EBITDA	41.1	57.8	24.7	27.1	21.5
Net Profit	32.9	53.5	13.8	33.7	26.9
Return Ratios (%)					
ROCE	15.9	17.6	16.8	18.3	19.0
ROIC	11.1	12.0	11.6	12.8	13.5
ROE	24.0	21.2	17.7	19.7	20.5
Turnover Ratios					
Asset turnover ratio (x)	0.9	0.8	0.9	1.0	1.1
Working Capital Turnover (x)	1.7	1.5	1.6	1.8	1.9
Avg collection period (days)	111.2	99.8	107.3	102.0	98.0
Avg payment period (days)	100.4	71.5	76.0	71.4	76.4
Per share (Rs)					
Fully diluted EPS	11.0	12.8	14.4	19.2	24.4
CEPS	14.7	16.8	20.0	26.9	34.0
Book Value	69.9	81.4	95.3	115.5	141.1
Solvency ratios (x)					
Debt/ Equity	2.0	1.7	1.6	1.5	1.4
Interest coverage ratio	2.4	2.5	2.6	2.9	3.3
Valuation parameters (x)					
P/E	19.9	17.1	15.3	11.4	9.0
P/BV	3.1	2.7	2.3	1.9	1.6
EV/ EBITDA	12.1	10.3	8.7	7.2	6.3
EV/ Sales	2.1	2.0	1.7	1.3	1.1
M-Cap/ Sales	1.4	1.2	1.0	0.8	0.6

Source: Company, Centrum Research Estimates

INDIA

Construction

CCCL

Initiation 30 August 2010

Buy

Target Price: Rs101

CMP: Rs85*

Upside: 19%

**as on 27 August 2010*

Emerging player in infrastructure

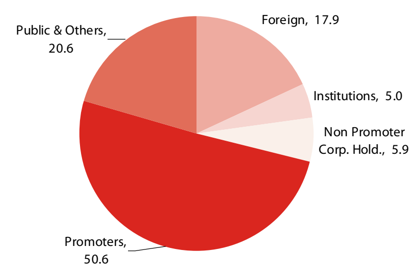
Consolidated Construction Consortium (CCCL) is a Chennai-based construction company established in 1997 by ex-L&T employees. Though mainly involved in real estate projects (both industrial and commercial), during the last couple of years, it has enhanced its presence in infrastructure (airports and multi-level car-parking). We are positive on the company given its robust order-book, increasing presence in infrastructure, strong execution skills and low risk of equity dilution (D/E ratio of 0.6x for FY10). Its diversifying exposure from south India would further allay order-intake risk. We initiate coverage with a Buy rating and target price of Rs101, valuing the stock at 12x FY12E EPS of Rs8.4.

- **Increasing focus on infrastructure:** CCCL's strategy of enhancing its presence in infrastructure has started paying dividends. In 2007, it bagged its first major airport order in Chennai, valued at Rs12.1bn. Going forward, we believe infrastructure projects would account for a major portion of company's revenue and order-book (53% of order-book in Q1FY11).
- **Diversifying out of south India:** CCCL was highly dependant on industrial and commercial capex in south India (85% of order-book in FY08). The company's financials in FY09 were impacted because of the economic slowdown. CCCL is now diversified with the north and east accounting for 21% and 5%, respectively, of its order-book.
- **Impressive operating and financial metrics:** CCCL's better-than-industry fixed-asset turnover implies better asset utilization. It debt-equity ratio is also low at 0.6x, reducing the risk of equity dilution. Reasonable net-worth promotes order-intake. Promoters' shareholding at 51% lends further confidence on growth prospects.
- **Initiate with a Buy:** We initiate coverage with a Buy rating valuing the stock at Rs101 (12x FY12E EPS of Rs8.4). We believe this valuation multiple is reasonable given its increasing infrastructure presence, strong execution skills, robust ROE and low probability of equity dilution.
- **Key risks:** Though CCCL is diversifying its geographic exposure, it is still heavily exposed to the southern states of Tamil Nadu and Karnataka. Its strategy of going solo in various segments is risky as it might be forced to bid aggressively for projects or undertake expensive inorganic acquisitions.

Key Data

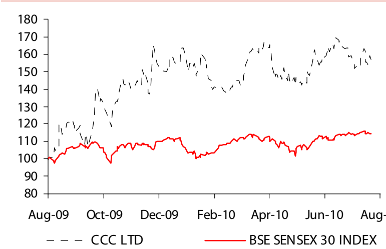
Bloomberg Code	CCCL IN
Reuters Code	CCON.BO
Current Shares O/S (mn)	184.8
Diluted Shares O/S(mn)	184.8
Mkt Cap (Rsbn/USDmn)	15.7/334.8
52 Wk H / L (Rs)	105/53
Daily Vol. (3M NSE Avg.)	91,742
Face Value (Rs)	2
USD = Rs46.9	

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
CCCL	(1.5)	9.1	52.7
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research
**as on 27 August 2010*

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Summary Financials (consolidated)

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	18,413	*24.8*	1,223	*6.6*	728	*(18.1)*	3.9	*15.0*	*17.5*	5.9	5.3
FY10	19,759	*7.3*	1,847	*9.3*	916	*25.8*	5.0	*17.6*	*21.2*	16.7	10.2
FY11E	26,501	*34.1*	2,397	*9.0*	1,278	*39.6*	6.9	*19.8*	*21.2*	12.3	9.2
FY12E	33,800	*27.5*	3,007	*8.9*	1,553	*21.5*	8.4	*20.2*	*20.9*	10.1	7.9
FY13E	42,056	*24.4*	3,720	*8.8*	1,930	*24.3*	10.4	*20.9*	*20.8*	8.1	6.3

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Shareholding pattern (%)

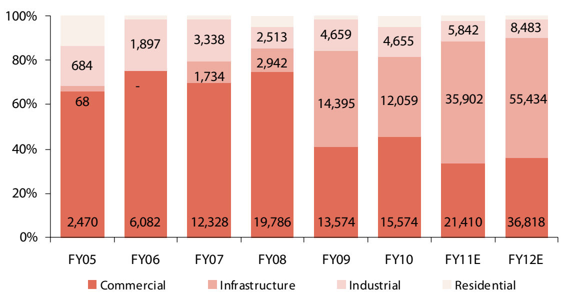
Shareholding	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	50.5	50.5	50.6	50.6	50.6
Institutions	11.3	11.5	12.4	12.2	12.4
FII	*7.5*	*6.8*	*7.3*	*7.0*	*7.4*
DII	*3.8*	*4.7*	*5.0*	*5.2*	*5.0*
Public & Others	38.2	38.0	37.0	37.2	37.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE India, Centrum Research

Company Background

CCCL is a Chennai-based civil construction company established by ex-L&T employees. The company operates in two segments – buildings (commercial and industrial projects) and infrastructure. Its subsidiary, CCCL Infrastructure, is developing a food-SEZ near Tuticorin Port and is also involved in two multi-level car parking projects awarded by DMRC. The businesses of its other subsidiaries, Noble Consolidated Glazing and Consolidated Glazings, are complementary to the parent company's construction business.

Order-book Segment Mix (Rsmn)



Source: Company, Centrum Research Estimates

Key events/timeline

Year	Particulars
1997	Company Incorporated
1999	Constructed two hyberbolic paraboloid shell structures, each 28-meter wide, which was then the largest shell structure in India
2000	Constructed dome structure with a diameter of 53 meters
2002	Constructed the world's first platinum rated green building in Hyderabad
2003	Constructed a convention centre with an orthogonal structure and curve beam elements at Mangalore
2005	Established two Regional Offices
2006	Incorporated Consolidated Interior Limited
2006	Investment by UTI Venture Funds and Evolvence
2007	Company shares listed on BSE and NSE
2007	Company went for an IPO and it was over subscribed 81 times
2007	Incorporated CCCL Infrastructure and Noble Glazings
2008	Bagged prestigious order for Chennai Airport modernisation project to HPI-CCCL JV for the value Rs12.12bn
2009	CCCL Infrastructure got SEZ approval for its food-processing facility

Source: Company, Centrum Research

Key management personnel

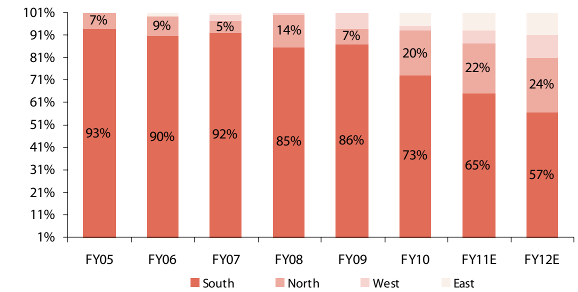
Name of the Person	Designation	Particulars
R Sarabeswar	Chairman & CEO	Mr.Sarabeswar is a gold medalist in civil engineering. He also holds a Management degree in strategy from London University. He has over 30 years of experience in construction sector and has previously worked for L&T-ECC Division, SPIC, SMO division & the Shobhakshi Group, Saudi Arabia.
S Sivaramakrishnan	Managing Director	Mr.Sivaramakrishnan is a Gold medalist - holds a bachelor's degree in civil engineering and a post graduate degree in structural engineering & Masters in Business Administration. He possesses over 30 years of experience in construction sector and has served as Engineer with L&T-ECC Division & SPIC.
V G Janarthanam	Director (Operations)	Mr.Janarthanam has degree in civil engineering and over 27 years of experience in construction sector with special emphasis on tendering & contract management. He has served as manager with L&T-ECC Division.
T.R. Seetharaman	CFO	Mr.Seetharaman is a member of Institute of Chartered Accountants of India. He has over 24 years of experience in field of finance, engineering & construction and has worked with L&T-ECC division as manager.

Source: Company

Investment Rationale

- CCCL's strategy of enhancing its presence in infrastructure has started paying dividends. It bagged its first major order for the Chennai airport valued at Rs12.1bn in 2007. Going forward, we believe infrastructure would continue to form major portion of company's revenue and order-book (infrastructure projects accounted for 53% of order-book in Q1FY11)
- The company is diversifying out of south India (the region accounted for 85% of its order book in FY08). Currently, the share of the north and east regions in its order-book is 21% and 5%, respectively
- CCCL's better-than-industry fixed-asset turnover implies better asset utilization coupled with low debt-equity ratio of 0.6x. This reduces the risk of equity dilution to fund future growth. Promoters' shareholding at 51% lends further confidence on growth prospects.

Order-book mix by region



Source: Company, Centrum Research Estimates

Summary Financial (Consolidated)

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**18,413**	**19,759**	**26,501**	**33,800**	**42,056**
YoY growth (%)	*24.8*	*7.3*	*34.1*	*27.5*	*24.4*
Operating profit	1,223	1,847	2,397	3,007	3,720
YoY growth (%)	*(12.1)*	*51.0*	*29.8*	*25.4*	*23.7*
Operating margin	6.6	9.3	9.0	8.9	8.8
Depreciation	89	110	153	201	257
Interest expenses	55	265	311	457	543
Other non operating income	31	3	3	4	4
PBT	1,110	1,420	1,937	2,353	2,924
Provision for tax	382	504	659	800	994
PAT (adjusted)	**728**	**916**	**1,278**	**1,553**	**1,930**
YoY growth (%)	*(18.1)*	*25.8*	*39.6*	*21.5*	*24.3*
PAT margin (%)	*4.0*	*4.6*	*4.8*	*4.6*	*4.6*
Cash Flow Statement Data					
Cash generated from operations	118	(732)	(362)	(80)	203
Cash flow from investing activities	(286)	156	(630)	(893)	(968)
Cash flow from financing activities	589	978	966	988	865
Net cash increase/decrease	**422**	**403**	**(25)**	**16**	**99**
Balance Sheet Data					
Shareholders' fund	5,161	5,892	7,020	8,389	10,092
Debt	1,975	3,388	4,888	6,588	8,288
Deferred Tax Liability	442	595	595	595	595
Total Capital Employed	**7,578**	**9,876**	**12,503**	**15,573**	**18,975**
Fixed Assets	1,384	1,566	2,003	2,568	3,152
Goodwill	0	0	0	0	0
Investments	569	94	194	294	394
Net current assets	5,437	8,046	10,197	12,575	15,267
Total Assets	**7,578**	**9,876**	**12,503**	**15,573**	**18,975**
Ratios (%)					
ROCE	*17.5*	*21.2*	*21.2*	*20.9*	*20.8*
ROIC	*12.3*	*13.7*	*13.4*	*13.4*	*13.5*
ROE	*15.0*	*17.6*	*19.8*	*20.2*	*20.9*
Per share Ratios (Rs)					
Fully diluted EPS	3.9	5.0	6.9	8.4	10.4
Solvency Ratio (x)					
Debt-equity	0.4	0.6	0.7	0.8	0.8
Interest coverage ratio	10.4	5.7	6.3	5.7	6.1
Valuation parameters(x)					
P/E (Fully Diluted)	5.9	16.7	12.3	10.1	8.1
P/BV	0.8	2.6	2.2	1.9	1.6
EV/EBITDA	5.3	10.2	9.2	7.9	6.3
EV/Sales	0.4	1.0	0.8	0.6	0.5

Source: Company, Centrum Research Estimates

Increasing Infrastructure share in total revenue is a huge positive for company's projected 31% CAGE b/w Fy10-12

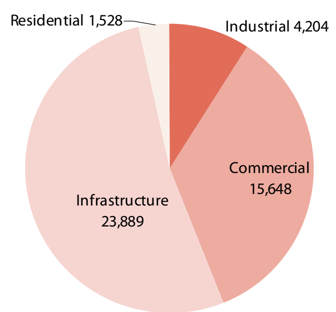
However, Increasing Infrastructure share would entail increasing competition and we factor in a slight dip in operating margins

Investment Argument

Increasing share of infrastructure projects

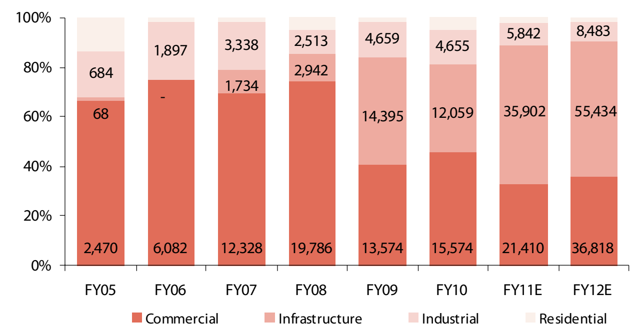
The economic slowdown in 2007 resulted in sluggish order inflows, slower execution of projects and even cancellations in some cases. Since then, CCCL has made a conscious effort to include a greater proportion of public sector projects to reduce its dependence on the private sector (private commercial and industrial spends contributed over 90% to total turnover in FY06 and FY07). We believe this move would be positive in the long-term. At the end of Q1FY11, public sector projects accounted for 53% of the company's total order-book of Rs45bn. Industrial and commercial construction projects accounted for 44%. We believe the increasing share of government contracts with major infrastructure projects like the Chennai Airport project would propel CCCL profile from contractor of small projects to an infrastructure player.

Exhibit 1: Q1FY11 Order-book mix by segment (Rsmn)



Source: Company, Centrum Research

Exhibit 2: Order-book mix trend by sector (Rsmn)



Source: Company, Centrum Research Estimates

Chennai airport project to enhance CCCL's profile

We believe the Chennai airport project would propel CCCL from a small-size buildings construction company to an infrastructure company. The Chennai airport project is worth Rs12bn and is the largest project CCCL has been awarded since its inception. As can be seen from the table below, CCCL has completed works on airport projects of sizes ranging from Rs500mn-2bn and has been mainly limited to civil works.

Chennai airport project: CCCL formed a consortium with Herve Pomerleau International, Canada (HPI) to undertake this project. The entire project would be executed by CCCL with HPI providing project management services and quality control inputs. The project is expected to be completed by June 2011**.** Project entails building a domestic terminal (74,500sq m), expansion of existing Anna International Terminal Building (65,000 sq m), multi-level car parking for domestic terminal, substation, surface car parking for international terminal, elevated road in front of terminal building (bridge 1 km) and face lifting of existing domestic and international terminals at Chennai airport.

Exhibit 3: Airport projects bagged by CCCL

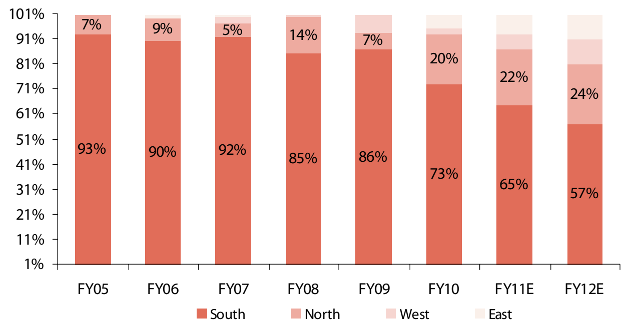
Airport	Projects Details	Status	Period	Amt in Rs
Chennai - Kamaraj (Domestic)	Terminal (comprehensive project with varied tasks involved)	Ongoing	26m	12,120.0
Chennai - Kamaraj (Domestic)	Cargo complex project (include civil, structural, fire-fighting, air-conditioning and electrical works of the terminal building)	Ongoing		680.0
Chennai	Pre-stressed concrete bridge across river Adyar awarded by AAI	Ongoing	NA	1,860.0
Goa	Construction of new Integrated Terminal Building	Awarded	NA	2,000.0
Mangalore	Various works	Ongoing	NA	NA
Rajamundhry	Various works	Ongoing	NA	NA
Trivandrum	Various works	Ongoing	NA	NA
Trichy	Integrated terminal building (spacious pubic concourse, landscape court, VIP lounges, CIP lounges, etc). expansion of service block (576sq.metre), car parking, overhead tank of 100,000 liters and underground sump of 500,000 liter capacity – designed to handle 400 passenger flow	Completed	NA	480.0
Dehradun		Completed	NA	

Source: Company, Centrum Research

Expanding out of south India

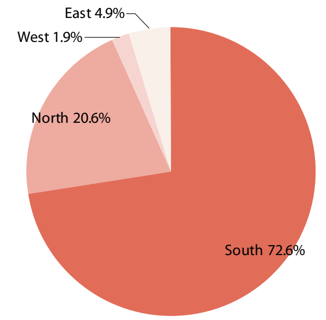
CCCL's order-book, which was more exposed to south India, has seen a substantial shift towards the northern region (primarily the NCR). As on end Q3FY10, the south accounted for 73% of the order-book (vs 87% in FY09) and the north ~23% (vs 7% in FY09). We believe company's strategy of exploring contracts on a pan-India basis would change the mix, going forward. Despite this, we believe south India would continue to account for over half of the order-book (57% in FY12E).

Exhibit 4: Order-book mix by region



Source: Company, Centrum Research

Exhibit 5: Order-book mix by region



Source: Company, Centrum Research

Ongoing projects in northern India

- **Car parking in Delhi for DMRC:** CCCL has formed a JV with Samjung Tech (a South Korean electronics company) for setting up automated car parks. CCCL will be responsible for the design and civil construction while Samjung will supply the electronic equipment.
- **ONGC's corporate office:** With green building compliance and complete side walls of curtain wall glazing, featuring central dome with a lenticular cable net system inclusive of glass canopies. The total area of the building is 10.6mn sq ft. The task consists of civil, electrical, HVAC, fire fighting and a fire alarm, IBMS, facading, interiors, etc, and is to be completed in 18 months.

Robust order-book; ticket size Improving

CCCL's order-intake in FY10 was below what the management had guided (actual orders amounted to Rs20bn vs guidance of Rs25bn). The order-intake has started improving (order intake for Q1FY11amounted to Rs15bn) and we expect strong order inflows of Rs57bn in FY11 and Rs71bn FY12.

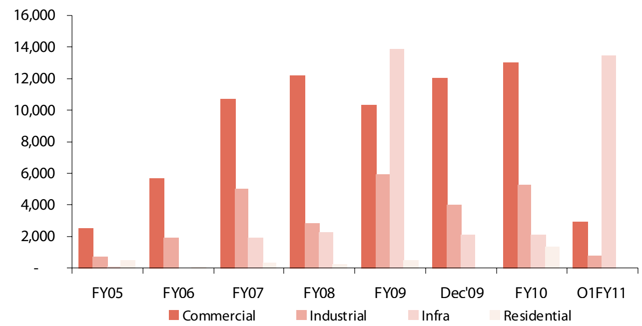
Exhibit 6: Order-intake during FY10 & Q1FY11

Particulars	(Rsmn)
Opening order-book (FY10)	**33,228.5**
Total order received for the year till date	**39,130.0**
Major orders received during the year	
ONGC	4,310.0
AAI- Bridge Project	1,860.0
Multi Level Car Parking - DMRC	1,421.5
Royal Embassy	1,109.7
Vedanta Township	1,100.0
JPSK Sports Private Limited - NOIDA	1,097.7
Malpe Manipal Builders (P) Ltd	1,109.7
IND Barath - II	5,250.0
Meenakshi Power Energy Ltd	3,540.0
Chennai Metro Rail Ltd	2,345.3
Goa Airport	2,047.2
Revenue in FY10 and Q1FY11	**24,580.0**
Order-book as on June 2010	**45,269.4**

Source: Company, Centrum Research

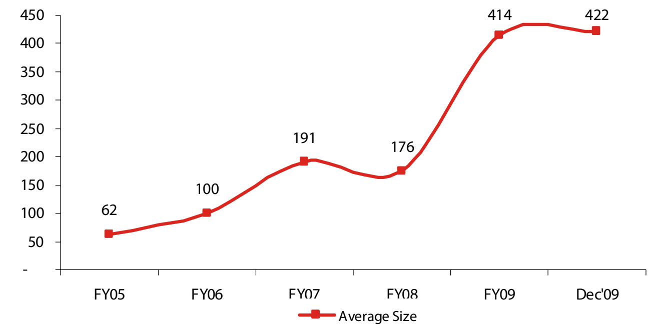
Also, in the charts below, we see that the average order size of CCCL has increased substantially from Rs62mn in FY05 to Rs422mn in FY10. This bigger order size would translate in better margins and improved risk management.

Exhibit 7: Order-intake robust (Rsmn)



Source: Company, Centrum Research

Exhibit 8: Order size increasing (Rsmn)

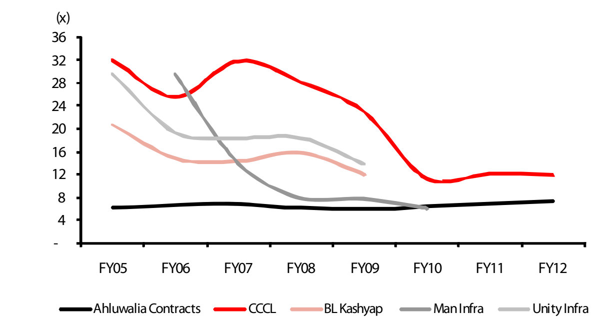


Source: Company, Centrum Research

Strong operational and financial metrics

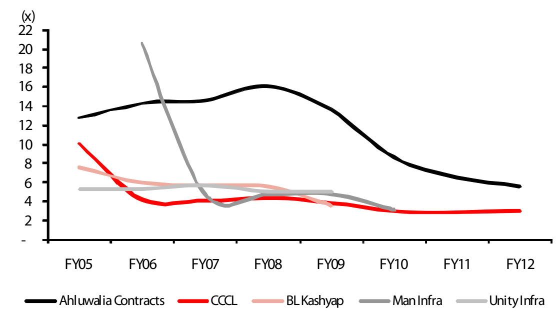
Though CCCL's working capital turnover is better than that of leading construction players like IVRCL, NCC, HCC and Era Infra, it is on par with peers in the building construction segment such as BL Kashyap and Man Infra. Fixed asset turnover is superior compared to its peers ACIL and front-line construction companies like IVRCL, NCC and HCC indicating better utilization of resources.

Exhibit 9: CCCL's FA turnover vs peers



Source: Company, Centrum Research Estimates

Exhibit 10: CCCL's WC turnover vs peers

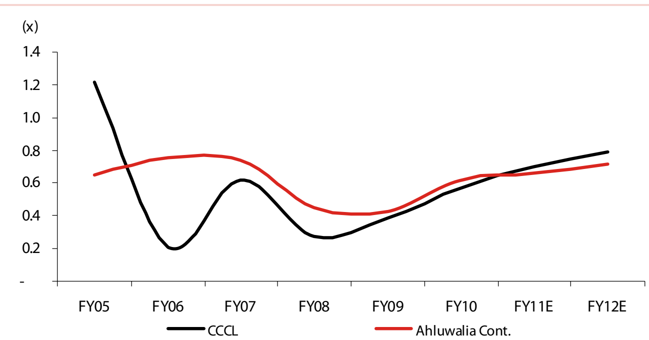


Source: Company, Centrum Research Estimates

Risk of equity dilution is low

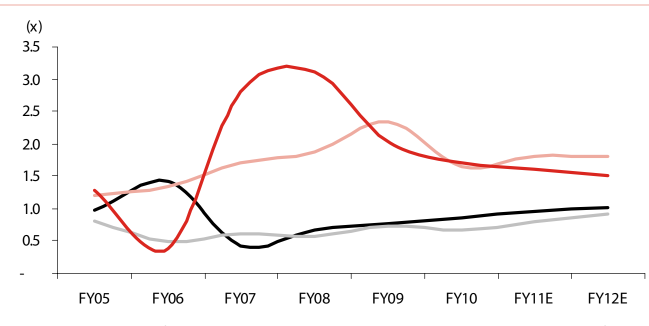
For the current level of operation, CCCL does not require exceptional capex funds. Its current debt-equity ratio is a comfortable 0.6x, which suugets that debt funding would be the first option in case the company needs finance. This reduces the risk of equity dilution.

Exhibit 11: D/E ratio – CCCL vs ACIL



Source: Company, Centrum Research Estimates

Exhibit 12: D/E profile of major construction players

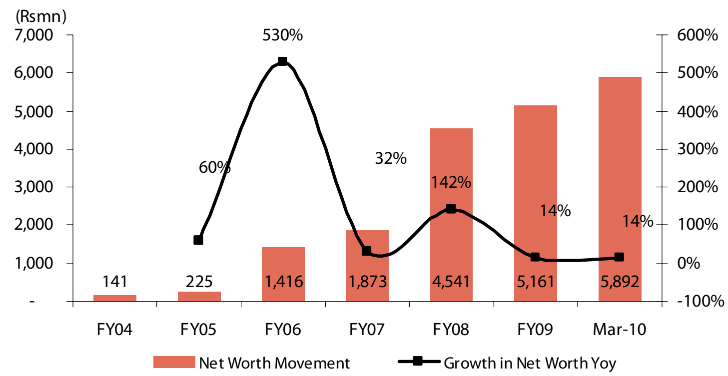


Source: Company, Centrum Research Estimates

CCCL's net worth would back growth plans

Until 2006, though CCCL had technical capability to undertake infrastructure projects, it was unable to bid for larger projects due to its low net worth. Infusion of private equity funds in 2006 enabled the company to bag first airport order of ~Rs12bn. We believe the increase in the company's net worth would further improve its chances when bidding for big-ticket projects in future.

Exhibit 13: CCCL's net worth

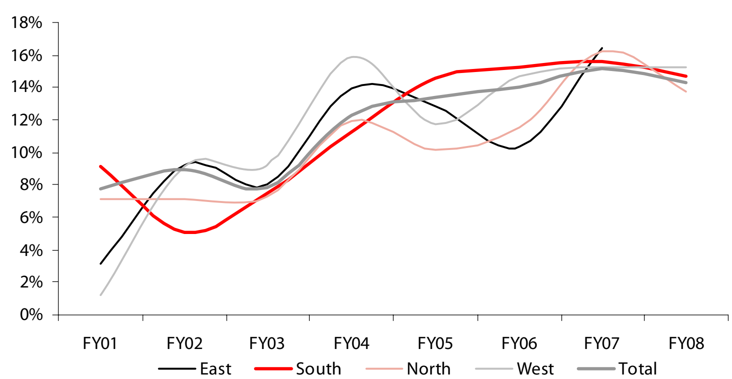


Source: Company, Centrum Research

Key Risks

- **Heavy exposure to south Indian:** Though CCCL's exposure to north India region is growing (currently 21% of order book), it is still highly exposed to south Indian (73% of order-book). The company's growth would be impacted if the expected growth from industrial and commercial spends in south-Indian regions doesn't materialize.
- **Increasing competition for construction projects in south India:** We analyzed state-level GDPs to gauge correlation with total Indian GDP. The purpose was to understand the opportunity for companies like CCCL which has high exposure to the southern region. We observe that correlation of the southern states' growth to India's growth is the highest. However, since Tamil Nadu (home state of CCCL), is more developed vs other states, small- to large-size players have had a presence for a long time, increasing competition risks.

Exhibit 14: Growth of the four regions vs all-India (FY01-08)



Source: Government, Centrum Research

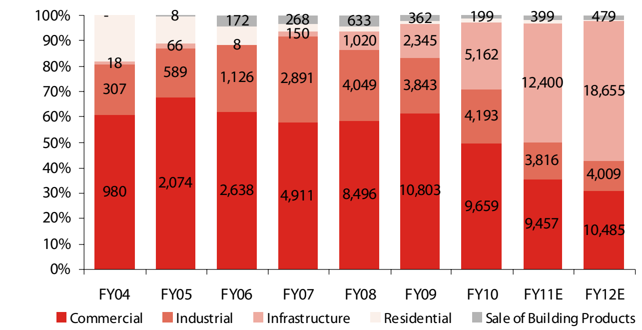
- **Lower-than-expected order-intake and execution:** One of the most important upside risks in the case of CCCL is lower-than-expected order-intake and execution.
- **BOT projects (road and other infra) could stress profitability:** CCCL intends to participate in annuity road BOT projects and integrated city parking facilities. We believe these will require large funding and could stress the company's profitability.
- **Relying on organic route to grow:** CCCL is mainly predicating its future growth on organic growth through hiring experienced talent from the market rather than through the inorganic route (like venturing into the power BoP segment, water treatment, etc). Hence there is a risk that these may not materialize, thereby impacting growth.

Financial Analysis

31% revenue CAGR over FY10-12E

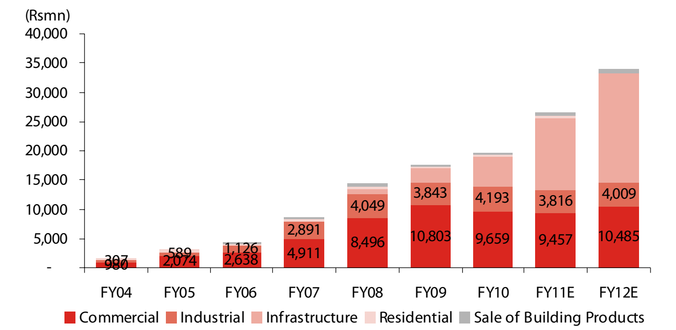
CCCL's registered robust 45% top-line CAGR over FY05-10, mainly on account of the fast growth trajectory and low-base. We expect company to maintain above-industry growth, going forward. We estimate 31% revenue CAGR over FY10-12E. We believe this robust growth would be on account of its order-book strength in buildings and infrastructure segments.

Exhibit 15: Revenue mix (Rsmn)



Source: Company, Centrum Research Estimates

Exhibit 16: Revenue growth trend



Source: Company, Centrum Research Estimates

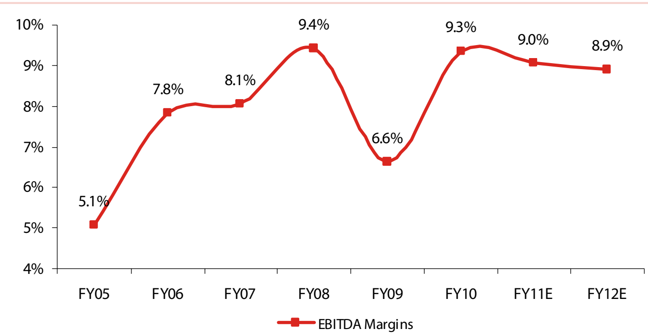
EBITDA margins to sustain at ~9%; PAT Margins at ~4.6% over FY11-12E

CCCL has undertaken cost-cutting measures and is trimming overheads. The management believes that in the longer term, sustainable margins would be in the range of 9-10% for core operations. We estimate EBIDTA margin of 9% for FY11 and 8.9% FY12, factoring in the company's increasing exposure to competitive infrastructure orders.

In FY09, margins were impacted by ~300bp due to reasons that were beyond the control of the company like contract cancellation cost provisions (Rs79mn), service tax paid under dispute for employee retrenchment (Rs27mn) and a change in Tamil Nadu's sales tax regulations, affecting income by Rs235mn. According to the management, excluding these items, EBITDA margin would have been higher by 100-150 bps.

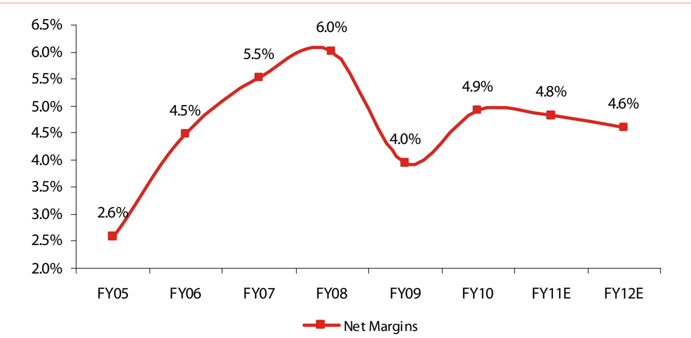
We expect PAT margin to expand from 4.8% (historical margins) in FY11E and decline to 4.6% in FY12E on account of its increasing infrastructure project execution.

Exhibit 17: EBITDA margin trend



Source: Company, Centrum Research Estimates

Exhibit 18: PAT margin trend



Source: Company, Centrum Research Estimates

Valuation

19% upside; but we advice switch to ACIL

We believe CCCL is a good long-term investment given its integrated business model, increasing exposure to infrastructure projects and diversifying geographical exposure. Factoring in the Chennai airport order, Delhi's multi-level car parking and other urban infra projects, we estimate 31% earnings CAGR over FY10-12E. We value the stock at 12x FY12E EPS of Rs8.4, translating into a target price of Rs101 (an upside of 19%). We initiate coverage on the stock with a Buy rating.

However, given better risk-reward from Ahluwalia Contracts, we advice investors switch from CCCL.

Exhibit 19: Sensitivity analysis of our core business valuation

		Revenue Growth								
	(Rs) per share	19.5%	21.5%	23.5%	25.5%	27.5%	29.5%	31.5%	33.5%	35.5%
FY12E EBITDA Margin	8.1%	81.9	83.7	85.6	87.4	89.3	91.1	92.9	94.8	96.6
	8.3%	84.6	86.5	88.4	90.3	92.2	94.0	95.9	97.8	99.7
	8.5%	87.3	89.3	91.2	93.1	95.1	97.0	98.9	100.8	102.8
	8.7%	90.0	92.0	94.0	96.0	98.0	99.9	101.9	103.9	105.9
	8.9%	92.8	94.8	96.8	98.8	**100.8**	102.9	104.9	106.9	108.9
	9.3%	98.2	100.3	102.4	104.5	106.6	108.8	110.9	113.0	115.1
	9.7%	103.6	105.8	108.0	110.2	112.4	114.6	116.8	119.0	121.3
	10.1%	109.1	111.4	113.6	115.9	118.2	120.5	122.8	125.1	127.4
	10.5%	114.5	116.9	119.3	121.6	124.0	126.4	128.8	131.2	133.6

Source: Company, Centrum Research Estimates

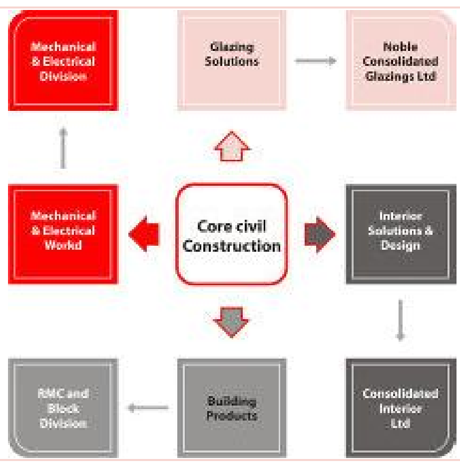
Company Background

CCCL is a Chennai-based civil contracting company with operations mainly in South-India (though it has a pan-India presence). It has also opened an office in the Middle East to cater to the UAE and Saudi Arabia markets. CCCL was established by a group of ex-L&T (a reputed engineering conglomerate in India) in year 1997. The company's first project was a temple in Tamil Nadu in 1998. CCCL provided services through a concentric integration model by executing projects from design and conceptualization to completion, using a combination of third party suppliers or service providers and in-house resources. CCCL developed in-house software-based design capability through Ugasoft division, developed the ability to provide M&E, HVAC and plumbing services through the M&E division, developed ability to provide interior fit-out services through its subsidiary Consolidated Interiors Limited, developed the infrastructure to produce RMC and building blocks through its Building Products division, and the capability to provide glazing and aluminum fabrication services through Noble Consolidated Glazings Ltd.

Amongst the few players to offer an integrated business model

CCCL, the parent company, is in the contracting business, whereas its subsidiaries Noble Consolidated Glazing and Consolidated Interiors are complementary to each other. Besides offering services to internal projects, these subsidiaries serve external clients as well. We observe that the integrated business model of CCCL is followed by very few companies. CCCL developed the ERP system internally and is able to provide real-time status updates on various company projects. This helps control costs and resources.

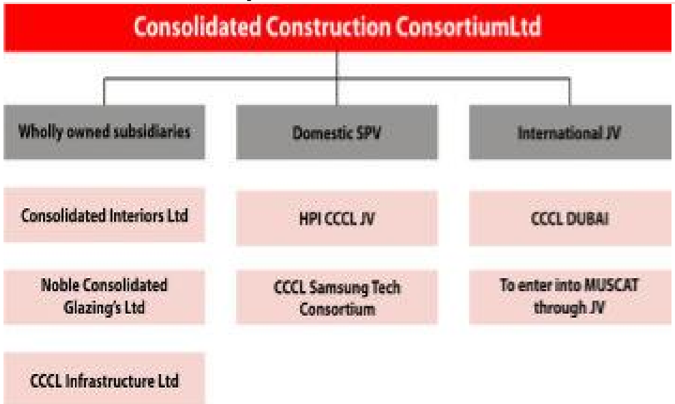
Exhibit 20: CCCL's EPC Integrated Offerings



Source: Company

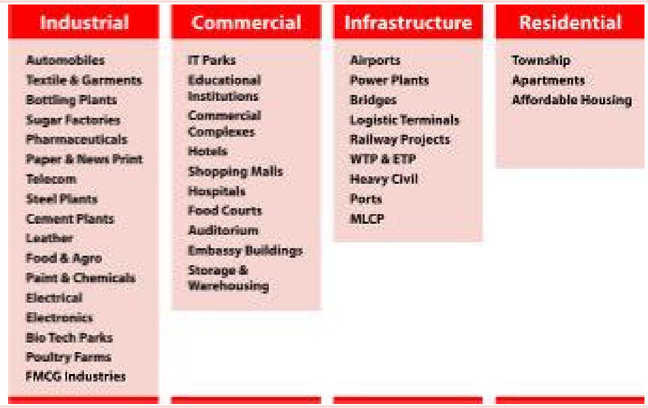
CCCL's focus is to execute large turnkey projects where the scope of work includes providing integrated construction services like interiors fit-out services, M&E services and glazing services apart from civil construction. This offers higher profit margins and added control over project costs.

Exhibit 21: CCCL Group Profile



Source: Company, Centrum Research

Exhibit 22: CCCL Core Business Segment Presence



Source: Company, Centrum Research

Important subsidiaries / JVs of CCCL

Exhibit 23: Group Overview

Name of the Subs, JV, etc	Business Operation Overview	Type	Stake	Revenue	PAT
Core Operations					
CCCL Ltd	**Core contracting business in India**	**Core**	**100.0%**	**9,500.4**	**990.0**
CCCL Interiors	Interior fit-outs	Subsidiary	100.0%	217.1	1.2
Noble Consolidated Glazing	Glazing & aluminium solutions to internal projects & external clients	Subsidiary	100.0%	583.4	21.9
CCCL Infrastructure	Food SEZ in Tuticorin	Subsidiary	100.0%	-	(26.4)
HPI - CCCL	SPV for contracting work of Chennai Airport	Joint Venture	NA	NA	NA
Innotech Constructions LLC (Dubai)	For Dubai venture, profit sharing ratio 2:1	Joint Venture	40.0%	NA	NA
Yuga Builders	With Yuga Homes (promoter entity), Padi Village, Chennai - Group Housing Project	Joint Venture	50.0%	0.1	NA
Yuga Developers	With Ambattur Constructions (50%) and Yuga Homes Ltd. (25%) for group housing project in Chennai	Joint Venture	25.0%	NA	NA
Consolidated CCCL - Reported				**19,759.5**	**970.3**

Source: Company, Centrum Research

Exhibit 24: Subsidiaries financials

Particulars (Rsmn)	CIL		NCGL	
	FY09	FY10	FY09	FY10
Breif Financial Summary				
Order Booked	169.9	411.3	396.5	396.9
- CCCL Jobs	-	338.2	313.1	255.0
- Other Jobs	169.9	73.1	83.4	141.8
Operating Income	**602.2**	**217.1**	**260.3**	**583.4**
- CCCL Jobs	20.6	132.9	123.1	382.2
- Other Jobs	581.6	84.2	137.2	201.2
Growth (%)	*NA*	*(64.0)*	*NA*	*124.1*
EBITDA	**48.8**	**17.7**	**28.0**	**42.3**
EBITDA Margin (%)	*8.1*	*8.2*	*10.8*	*7.2*
Growth (%)	*NA*	*(63.6)*	*NA*	*51.0*
PBT	**37.4**	**2.2**	**24.6**	**34.0**
PBT Margin (%)	*6.2*	*1.0*	*9.4*	*5.8*
Growth (%)	*NA*	*(94.1)*	*NA*	*38.4*
PAT	**24.4**	**1.2**	**15.9**	**21.9**
PAT Margin (%)	*4.1*	*0.5*	*6.1*	*3.7*
Growth (%)	*NA*	*(95.2)*	*NA*	*37.6*

Source: Company, Centrum Research

Financials (Consolidated)

Exhibit 25: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**18,413**	**19,759**	**26,501**	**33,800**	**42,056**
Growth in revenue (%)	*24.8*	*7.3*	*34.1*	*27.5*	*24.4*
Cost of Raw Material	14,983	15,394	20,699	26,417	32,912
% of Revenue	*81.4*	*77.9*	*78.1*	*78.2*	*78.3*
Employee cost	*1,059.6*	*1,141.4*	*1,557.3*	*2,020.1*	*2,513.4*
% of Sales	*5.8*	*5.8*	*5.9*	*6.0*	*6.0*
O&M expenses	1,146.9	1,377.1	1,847.0	2,355.7	2,910.0
% of Sales	*6.2*	*7.0*	*7.0*	*7.0*	*6.9*
EBITDA	**1,223**	**1,847**	**2,397**	**3,007**	**3,720**
EBITDA Margin	*6.6*	*9.3*	*9.0*	*8.9*	*8.8*
Depreciation	89	110	153	201	257
PBIT	**1,134**	**1,737**	**2,244**	**2,806**	**3,463**
Interst expenses	55	265	311	457	543
PBIT from operations	**1,078**	**1,471**	**1,933**	**2,349**	**2,920**
Other non operating income	31	3	3	4	4
PBT before ext.od items	**1,110**	**1,474**	**1,937**	**2,353**	**2,924**
Extra-ordinary income/ (exp)		54.4			
PBT	**1,110**	**1,420**	**1,937**	**2,353**	**2,924**
Provision for tax	382	504	659	800	994
Effective tax rate (%)	*34.4*	*35.5*	*34.0*	*34.0*	*34.0*
Minority interest	-	-	-	-	-
PAT	**728**	**916**	**1,278**	**1,553**	**1,930**
Adjustment for Ext.Od items	-	-	-	-	-
Adjusted PAT	**728**	**916**	**1,278**	**1,553**	**1,930**
Growth in PAT (%)	*(18.1)*	*25.8*	*39.6*	*21.5*	*24.3*
PAT margin (%)	*4.0*	*4.6*	*4.8*	*4.6*	*4.6*

Source: Company, Centrum Research Estimates

Exhibit 26: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	370	370	370	370	370
Stock Options / Warrants	-	-	-	-	-
Reserves	4,791	5,523	6,650	8,020	9,722
Shareholders' fund	**5,161**	**5,892**	**7,020**	**8,389**	**10,092**
Debt	1,975	3,388	4,888	6,588	8,288
Deferred Tax Liability	442	595	595	595	595
Minority Interest	-	-	-	-	-
Total Capital Employed	**7,578**	**9,876**	**12,503**	**15,573**	**18,975**
Gross Block	**1,605**	**1,897**	**2,488**	**3,254**	**4,095**
Accumulated dep.	221	331	485	686	943
Net Block	**1,384**	**1,566**	**2,003**	**2,568**	**3,152**
Capital WIP	64	155	93	119	147
Total Fixed Assets	**1,449**	**1,721**	**2,096**	**2,688**	**3,299**
Investments	**569**	**94**	**194**	**294**	**394**
Inventories	8,070	10,201	13,587	17,190	21,213
Debtors	88	120	161	205	255
Cash & bank balances	1,299	1,701	1,676	1,692	1,791
Loans and Advances	1,437	1,562	2,103	2,775	3,477
Other Current Assets	-	-	-	-	-
Total current assets	**10,894**	**13,584**	**17,527**	**21,861**	**26,735**
Current lia & provisions	5,457	5,538	7,330	9,286	11,469
Net current assets	**5,437**	**8,046**	**10,197**	**12,575**	**15,267**
Misc. Expenditure	123	14	15	15	15
Total Assets	**7,578**	**9,876**	**12,503**	**15,573**	**18,975**

Source: Company, Centrum Research Estimates

Exhibit 27: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
PAT till FY09 / PbT after	**728**	**916**	**1,278**	**1,553**	**1,930**
Depreciation	89	110	153	201	257
Interest expenses	118	326	383	529	607
OP profit before WC change	**1,241**	**1,851**	**2,474**	**3,083**	**3,789**
Working capital adjustment	(888)	(2,206)	(2,177)	(2,362)	(2,592)
Gross cash from operations	**354**	**(355)**	**297**	**720**	**1,197**
Direct taxes paid	**(235)**	**(377)**	**(659)**	**(800)**	**(994)**
Cash from operations	**118**	**(732)**	**(362)**	**(80)**	**203**
CF from investing					
Capex	(708)	(382)	(530)	(793)	(868)
Investment	422	475	(100)	(100)	(100)
Others	-	64	-	-	-
Cash from investment	**(286)**	**156**	**(630)**	**(893)**	**(968)**
CF from financing					
Borrowings/ (Repayments)	721	1,412	1,500	1,700	1,700
Interest paid	(118)	(326)	(383)	(529)	(607)
Dividend paid	(108)	(108)	(151)	(183)	(228)
Others	94	-	-	-	-
Cash from financing	**589**	**978**	**966**	**988**	**865**
Net cash increase/ (dec)	**422**	**403**	**(25)**	**16**	**99**

Source: Company, Centrum Research Estimates

Exhibit 28: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	6.6	9.3	9.0	8.9	8.8
PBIT Margin	6.2	8.8	8.5	8.3	8.2
PBT Margin	6.0	7.2	7.3	7.0	7.0
PAT Margin	4.0	4.6	4.8	4.6	4.6
Growth Ratios (%)					
Revenues	24.8	7.3	34.1	27.5	24.4
EBITDA	(12.1)	51.0	29.8	25.4	23.7
Net Profit	(18.1)	25.8	39.6	21.5	24.3
Return Ratios (%)					
ROCE	17.5	21.2	21.2	20.9	20.8
ROIC	12.3	13.7	13.4	13.4	13.5
ROE	15.0	17.6	19.8	20.2	20.9
Turnover Ratios					
Asset turnover ratio (x)	16.8	13.4	14.9	14.8	14.7
Working Capital Turnover (x)	3.9	2.9	2.9	3.0	3.0
Avg collection period (days)	1.7	2.2	2.2	2.2	2.2
Avg payment period (days)	121.7	119.9	117.9	116.9	115.9
Per share (Rs)					
Fully diluted EPS	3.9	5.0	6.9	8.4	10.4
CEPS	4.4	5.6	7.7	9.5	11.8
Book Value	27.9	31.9	38.0	45.4	54.6
Solvency ratios (x)					
Debt/ Equity	0.4	0.6	0.7	0.8	0.8
Interest coverage ratio	10.4	5.7	6.3	5.7	6.1
Valuation parameters (x)					
P/E	5.9	16.7	12.3	10.1	8.1
P/BV	0.8	2.6	2.2	1.9	1.6
EV/ EBITDA	5.3	10.2	9.2	7.9	6.3
EV/ Sales	0.4	1.0	0.8	0.6	0.5
M-Cap/ Sales	0.2	0.8	0.6	0.5	0.4

Source: Company, Centrum Research Estimates

INDIA

Construction

Ahluwalia Contracts

Initiation **30 August 2010**

Buy

Target Price: Rs276

CMP: Rs210*

Upside: 31%

**as on 27 August 2010*

Most favourable risk-reward

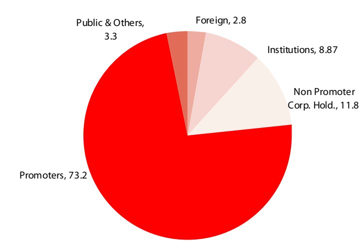
Ahluwalia Contracts India (ACIL), a major player in the building construction segment (commercial, hotels, hospitals and residential), is well-positioned to benefit from increased investment spends in urban infrastructure and from the revival in industry capex. The company is also on a firm footing financially, with robust ROE of over 30%. We expect ACIL to register 32% revenue and 38% bottomline CAGR over FY10-12E. We initiate coverage with a Buy rating and a target price of Rs276 (31% upside potential).

- **Operating and financial metrics among the best in the industry:** ACIL's operating metrics – working capital turnover is amongst the best in the industry at 9x vs 2-4x for front-line construction players with improving fixed-asset turnover ratio. Further, its debt-equity ratio of 0.5x is also one of the lowest (vs ~1x for peers).
- **Well-placed to benefit from the renewed spurt in building construction:** ACIL has strong brand recall value among big league clients like Reliance Infra, Indiabulls and ITC in projects such as power, metro, high-rises and complex residential and commercial buildings (hotels, hospitals, etc). We believe ACIL is well-placed to benefit from the increased capex and infra spends.
- **Strong position in urban infrastructure:** Increasing investment in urban infrastructure is expected to enable ACIL deliver strong growth, going forward. Urban infrastructure is likely to be the major contributor to topline growth, estimated at 32% over FY10-12E. ACIL's future entry into water treatment is another positive.
- **Highest growth expectation amongst coverage companies:** ACIL's top-line grew by a robust 39% between FY05-10 and we expect it to grow by 32% over FY10-12E. Though EBITDA margin in FY10 was lower at 10.8% due to issues regarding the Commonwealth Games, it is expected to expand to 11.3% in FY11E and 11.5% in FY12E (our estimate is on the conservative side, as plant orders generate better margins than traditional building projects).
- **Current market price doesn't reflect fair value:** ACIL is our Top Buy. We categorize the company as a low-risk investment as its risk-reward ratio is better than that of its peers. We value the stock at 11x (~20% lower than NCC, HCC, ERIE) to FY12E EPS of Rs24.8, translating into a target price of Rs276 (upside of 31%).
- **Key risks: Upside** – Higher-than-expected order intake and execution, and better margins. **Downside** – Downturn in overall economy, slow pick-up in urban infra investments.

Key Data

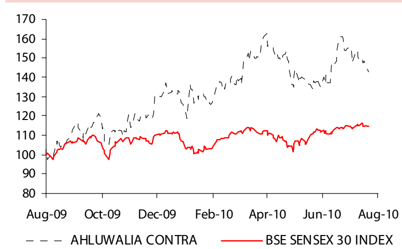
Bloomberg Code	AHLU.IN
Reuters Code	AHLU.BO
Current Shares O/S (mn)	62.8
Diluted Shares O/S (mn)	62.8
Mkt Cap (Rsbn/USDmn)	13.2/280.5
52 Wk H / L (Rs)	246/139
Daily Vol. (3M NSE Avg.)	105,456
Face Value (Rs)	2
USD = Rs46.9	

Shareholding Pattern (%)



As on 30 June 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Ahluwalia Contracts India	(7.9)	10.3	45.2
NIFTY	0.7	9.5	13.0

Source: Bloomberg, Centrum Research
**as on 27 August 2010*

Manish Kayal
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91 22 4215 9313

Financial Summary (standalone)

Y/E Mar (Rsmn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	Fully DEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY09	11,641	*32.3*	1,411	*12.1*	577	*11.8*	9.2	*38.2*	*47.1*	22.8	9.9
FY10E	15,677	*34.7*	1,688	*10.8*	818	*41.7*	13.0	*38.1*	*42.7*	16.1	8.7
FY11E	20,427	*30.3*	2,298	*11.3*	1,142	*39.6*	18.2	*37.5*	*39.2*	11.5	6.8
FY12E	27,290	*33.6*	3,130	*11.5*	1,558	*36.5*	24.8	*36.5*	*37.6*	8.5	5.3
FY13E	34,756	*27.4*	4,055	*11.7*	1,965	*26.1*	31.3	*33.4*	*34.5*	6.7	4.5

Source: Company, Centrum Research Estimates

Company Background

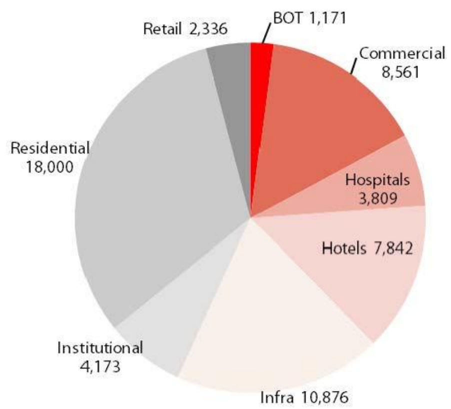
Established more than four decades ago, ACIL undertakes contracting projects, primarily catering to large institutional buildings, industrial complexes, multi-storied housing complexes and 5-star hotels. ACIL is amongst a select group of three to four contractors pre-qualified to bid for most of the mega building projects in the country. The company, along with its subsidiaries, provides complete solutions. Its subsidiaries provide HVAC, plumbing and other services. One unit provides ready mix concrete (RMX) for internal use and external clients.

Shareholding pattern (%)

Y/E March	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	58.1	58.1	57.9	59.8	58.9
Institutions	6.7	5.1	8.7	10.8	11.4
FII	*3.2*	*3.6*	*3.3*	*3.0*	*3.8*
DII	*3.6*	*1.5*	*5.5*	*7.8*	*7.6*
Public & Others	35.2	36.8	33.4	29.4	29.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE India

Order-book mix as on Q1FY11



Source: Company, Centrum Research

Key events/timeline

Year	Particulars
1979	Incorporated as a private limited company
1990	Converted as a public limited company
1992	Completed the chancery building for the Indian Consulate in Dubai
1996	IPO of 800,000 equity shares; Listed on Delhi Stock Exchange, CSE and JSE
1998	Completed the Goa legislative assembly building project
1999	Completed Signature Tower Complex, Gurgaon, & phase-I of Apollo Hospital project, Kolkata
2000	Completed Apollo Tyres' corporate house, Gurgaon
2001	Turnover for FY01 crossed Rs 840mn
2002	Completed office building for Asian Development Bank, New Delhi, Five-star hotel Sonar Bangala for ITC Hotels and factory building of Moser Baer Limited, Noida
2003	Turnover for FY03 crossed Rs1,750mn. Developed in-house plumbing division and executed ITC Grand Central Hotel, Mumbai, DPS, New Delhi, etc
2004	Turnover for FY04 crossed Rs2,600mn. Ventured into the RMC business by establishing a plant in Loni in May 2004
2005	Turnover for FY05 crossed Rs3,000mn. Completed construction of Pitampura, Rohini East and Rohini West stations for DMRC

Source: Company, Centrum Research

Key management personnel

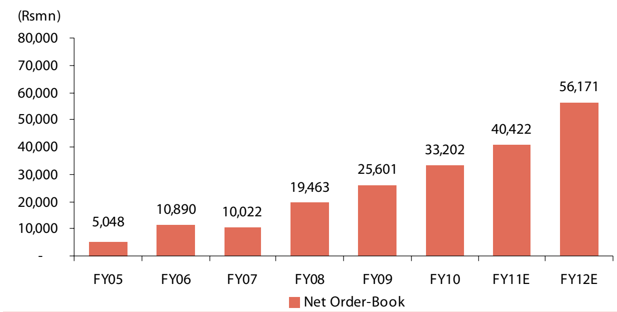
Name of the Person	Designation	Particulars
Bikramjit Ahluwalia	Chairman & managing director	Founder Chairman and MD. He has a diploma in Civil Engineering from Meharchand, Jalandhar. Mr.Ahluwalia has more than four decades of experience in civil construction and oversees major functions of the company. He is directly involved in major projects.
Shobhit Uppal	Deputy managing director	Graduated with a Bachelor of Engineering degree from Regional Engineering College, Kurukshetra. Has over 19 years of experience in the construction industry. He is involved in activities such as project implementation, specifically with high-technical requirements.
Vikas Ahluwalia	Whole time director	Holds a Bachelor's degree in Civil Engineering from R.V. College of Engineering, Bangalore. He has been with the company since 1996. He has worked on various projects involving high quality finishing for 10 years. Presently he is actively involved in ready mix concrete projects all across the country and other corporate affairs of the company.
SK Sachdeva	CFO	Banking experience in managerial cadre, spanning Bareilly Corpn. Bank Ltd.; Union Bank of India; Allahabad Bank; four years as management consultant to reputed corporate / international trade houses, financial institutions, banks and capital market intermediaries.

Source: Company, Centrum Research

Investment Rationale

- ACIL's working capital turnover is amongst the best in the industry at 9x (vs 2-4x for peers). Debt-equity ratio at 0.5x is also one of the lowest amongst peers at 1x. This supports our low risk assessment of the company.
- The company has strong recall value with high-potential clients in various types of projects such as power, metro, high-rises and complex residential and commercial buildings (hotels, hospitals, etc).
- Increasing spend on urban infrastructure is expected to enable ACIL to deliver strong growth, going forward.

Net order-book trend (Rsmn)



Source: Company, Centrum Research Estimates

Summary Financial

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Income Statement Data					
Revenue	**11,641**	**15,677**	**20,427**	**27,290**	**34,756**
YoY growth (%)	*32.3*	*34.7*	*30.3*	*33.6*	*27.4*
Operating profit	1,411	1,688	2,298	3,130	4,055
YoY growth (%)	*36.9*	*19.6*	*36.2*	*36.2*	*29.6*
Operating margin	12.1	10.8	11.3	11.5	11.7
Depreciation	464	331	393	471	628
Interest expenses	146	163	234	359	517
Other non operating income	79	57	56	61	68
PBT	880	1,252	1,727	2,361	2,977
Provision for tax	302	434	585	803	1,012
PAT (adjusted)	**577**	**818**	**1,142**	**1,558**	**1,965**
YoY growth (%)	*11.8*	*41.7*	*39.6*	*36.5*	*26.1*
PAT margin (%)	*5.0*	*5.2*	*5.6*	*5.7*	*5.7*
Cash Flow Statement Data					
Cash generated from operations	97	332	476	177	558
Cash flow from investing activities	(375)	(579)	(817)	(996)	(1,170)
Cash flow from financing activities	10	565	464	702	708
Net cash increase/decrease	**(268)**	**317**	**124**	**(117)**	**96**
Balance Sheet Data					
Shareholders' fund	8,789	14,571	17,320	20,997	25,665
Debt	762	1,562	2,362	3,562	4,962
Minority Interest	0	0	0	0	0
Deferred Tax Liability	(125)	(125)	(125)	(125)	(125)
Total Capital Employed	**2,412**	**3,957**	**5,797**	**8,417**	**11,607**
Fixed Assets	1,210	1,359	1,568	1,870	2,188
Goodwill	0	0	0	0	0
Investments	15	15	215	415	615
Net current assets	1,187	2,483	3,899	5,994	8,642
Total Assets	**2,412**	**3,957**	**5,797**	**8,417**	**11,607**
Ratios (%)					
ROCE	*47.1*	*42.7*	*39.2*	*37.6*	*34.5*
ROIC	*43.6*	*41.0*	*38.1*	*36.8*	*33.8*
ROE	*38.2*	*38.1*	*37.5*	*36.5*	*33.4*
Per share Ratios (Rs)					
Fully diluted EPS	9.2	13.0	18.2	24.8	31.3
Solvency Ratio (x)					
Debt-equity	0.4	0.6	0.7	0.7	0.7
Interest coverage ratio	5.0	6.0	5.9	5.3	4.8
Valuation parameters (x)					
P/E (Fully Diluted)	22.8	16.1	11.5	8.5	6.7
P/BV	7.4	5.2	3.7	2.6	1.9
EV/EBITDA	9.9	8.7	6.8	5.3	4.5
EV/Sales	1.2	0.9	0.8	0.6	0.5

Source: Company, Centrum Research

Revenue CAGR of 32% b/w FY10-12E is expected due to ACIL's strong position in commercial construction and its increasing presence in infrastructure

Operating profit (EBITDA) to grow at 36% on account of ACIL's improving margin profile

Investment Argument

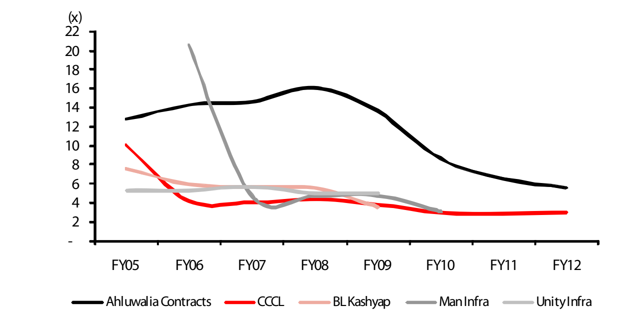
Strong operational metrics

ACIL's working capital management is superior to that of peers and front-line construction companies. Given its good execution capabilities, the company is able to command a better bargain, impacting margins positively. ACIL also benefits from the fact that most of its order-book is from the private sector, where the competitive bidding system is not as prevalent as it is in public sector projects.

Superior working capital turnover, improving fixed-asset turnover

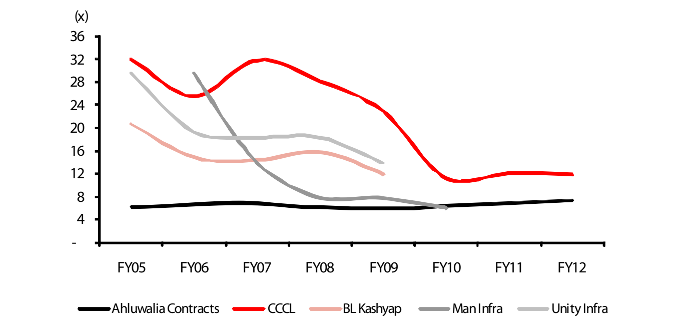
ACIL's working capital turnover at 9.3x in FY10 is much better than that of its peers (2.1x-4x). We believe the internal risk management regarding operations is strong. Hence, we assign a lower risk to the company with regard to issues such as a client defaulting on payments, etc. On the other hand, the fixed-asset turnover is improving, implying better utilisation of assets. Fixed asset turnover was 6.2x in FY10 vs 6x-11.3x for peers.

Exhibit 1: WC turnover (FY05-12E)



Source: Company, Bloomberg, Centrum Research Estimates

Exhibit 2: FA turnover (FY05-12E)

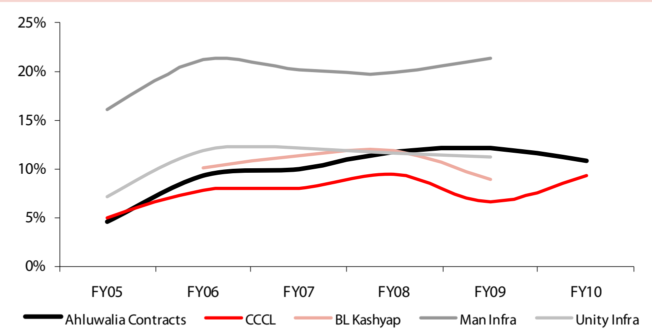


Source: Company, Bloomberg, Centrum Research Estimates

Healthy operating margins

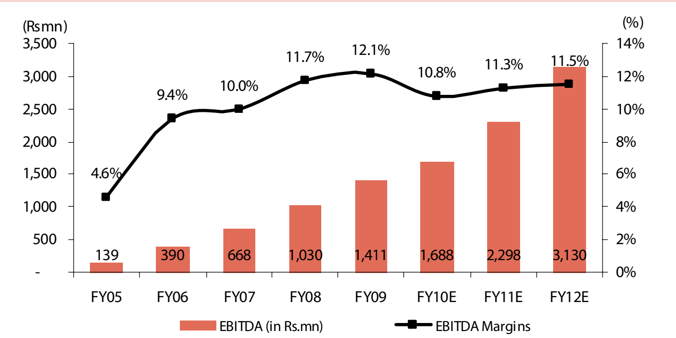
ACIL's operating margins have been healthy. Going forward, there is likely to be pressure on margins as the share of public sector orders in the overall order-book increases. However, we expect overall margins to remain robust at 11.3% in FY11E and 11.5% in FY12E (vs 10.8% in FY10). We believe our margin estimates have an upside since the new power segment orders carry higher margins than the traditional building contracting business.

Exhibit 3: ACIL's EBITDA margins vs peers



Source: Company, Bloomberg, Centrum Research

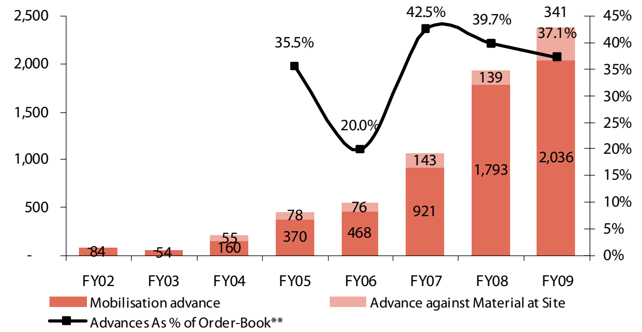
Exhibit 4: EBIDTA margin trend



Source: Company, Centrum Research Estimates

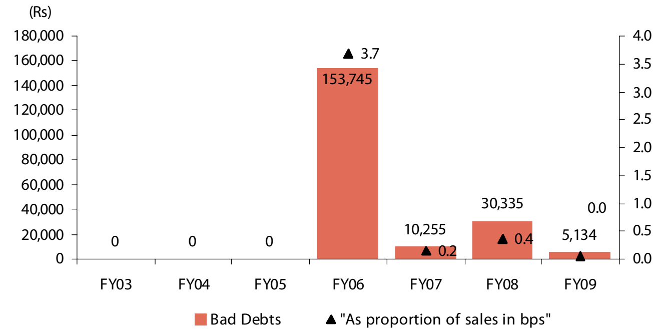
The company has demonstrated strong project management skills with mobilisation advance and advance against materials at site forming around 37% of the total outstanding order-book as on FY09 (FY10 numbers on advances not available). Except during FY06, ACIL's customer advance has always been in the range of 35-40%. In addition, bad debts have been minimal, except FY06.

Exhibit 5: Advance received from customers (Rsmn)



Source: Company, Centrum Research

Exhibit 6: Low bad debt indicates good industry standing



Source: Company, Centrum Research

Exhibit 7: Analysis of ACIL's industry position

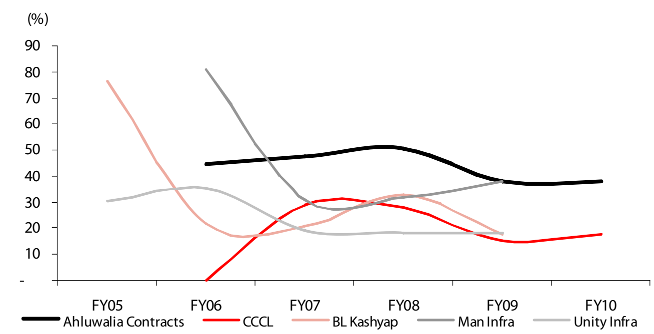
Porter's Forces	Rank	Where industry stands	Where Ahluwalia Contracts stands
Entry barrier	2	Easy entry for small projects, additional capability required for large projects.	ACIL has accumulated capabilities through experience over the years and competes in large-size building contracts
Buyer's power	1	Strong	ACIL commands respect from buyers. Hence this force is less applicable to ACIL. However, in a downturn, ACIL would have no control over buyers/clients action.
Competitive Rivalry	1	Strong	Ahluwalia is a leading player within the core construction business, where three to four contractors compete
Substitute Products	5	Rare	Clients can substitute. The most the client can do is remove the contractor and appoint another.
Supplier Power	4	Medium	Since, agreements are made for supplies, either party can dominate the other between the contract period.

Source: Company, Centrum Research

RoCE and RoE: profitability levels among the highest

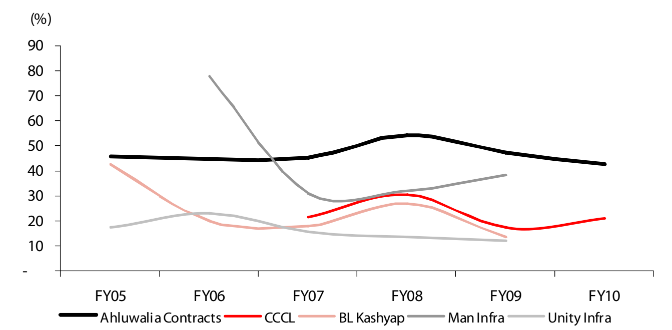
ACIL's return ratios are also among the highest (RoE above 30%), on account of its better internal risk management practices and robust track record of timely projects execution.

Exhibit 8: RoE best among peers…..



Source: Company, Centrum Research

Exhibit 9: ……and RoCE too

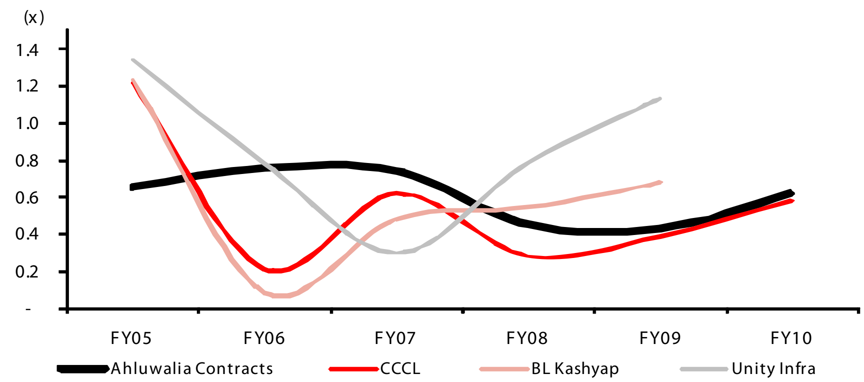


Source: Company, Centrum Research

Low probability of equity dilution

ACIL has raised money from the market only once, and that was with an IPO in 1995 that raised Rs23.6mn. The company's low debt-equity ratio of 0.5x for FY10 (vs 0.6x – 1x for peers) and high working capital turnover do not necessitate equity dilution to fund growth. ACIL has increased its borrowings to accelerate the completion of certain projects for the 2010 New Delhi Commonwealth Games (consolidated debt increased to Rs762mn in FY09 from Rs565mn in FY08). We expect the company's debt-equity ratio to jump slightly to 0.7x for FY11E and FY12E. We believe, debt-equity ratio would increase further only if the company goes in for inorganic acquisitions in segments such as water treatment and super high-rise structure capability.

Exhibit 10: ACIL's debt-equity ratio vs that of peers



Source: Company, Centrum Research

Huge opportunity in urban infrastructure

ACIL is well placed to bag urban infrastructure orders, given the increased investments in this segment. The company has a strong presence in Mumbai, where it has executed projects for clients like Reliance Metro. We believe, with its strong execution record, ACIL's is likely to win more orders and boost its order-book. This, in turn would drive revenue visibility.

Exhibit 11: Opportunity for ACIL in its targeted segments

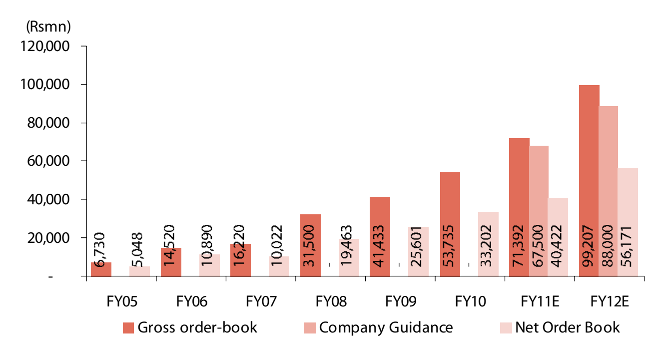
Main Segment	Sub-segment	Opportunity	Competition	Aggressive	Strengths	Market Share	Strategy
Real Estate	**Total**						
	Residential	Good	High	Yes	High-rises	Good	Repeated clients business, focus on margins, maintain leadership through complex projects.
	Commercial	Good	High	Yes	Complex	Good	
	Retail	Average	Severe	OK	Average	Average	
	Hospitality	Good	High	Yes	Experience	Average	
	Others	Good	High	OK	Experience	Average	
Infrastructure	**Total**						
	Metro Projects	Huge	OK	Yes	Experience	Leading	Aggressive, some segments already working and for others plan to enter in to JV or through Inorganic route.
	Airport	Huge	OK	Yes	Experience	Average	
	Multi-level car parking	Huge	OK	Yes	Experience	Leading	
	JNNURM	Huge	High	Yes	Experience	Average	
	Others	Huge	High	Yes	Experience	Average	
Overall	**Total**	**Huge**	**Good**	**Aggressive**		**Leading**	**Focus on Infra**

Source: Centrum Research

Strong order-book; increasing share of infrastructure projects

ACIL historically has a strong presence in the buildings construction space and is diversifying its presence into infrastructure, particularly urban infrastructure projects. We believe that ACIL possesses capabilities required for urban infrastructure, as it has executed projects such as Mumbai metro's train depot. We expect ACIL's net order-book to reach Rs40bn and Rs56bn by FY11E and FY12E, respectively, from Rs33bn at the end of FY10. ACIL's current order-book of Rs32bn gives us reasonable comfort over the next ~2years. While this is lower than that of peers, ACIL is conservative in its order pitches, with a strong focus on profitability and working capital requirement for the project. We believe strong order inflow in the next couple of years on account of economic revival and increasing infrastructure spends will increase the company's book-to-bill ratio.

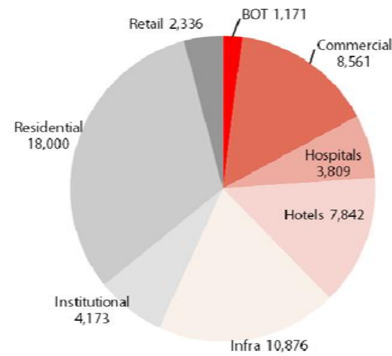
Exhibit 12: Order-book trend



Source: Company, Centrum Research

P.S: Note that ACIL discloses Gross order-book including executed orders.

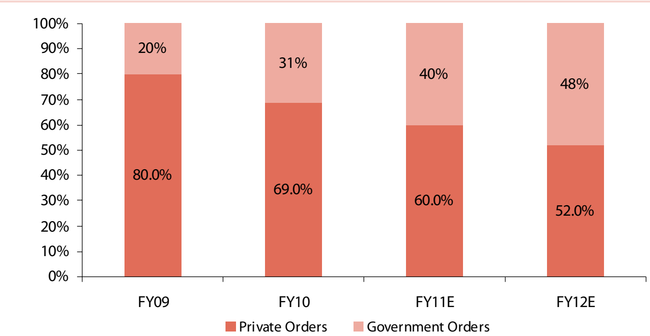
Exhibit 13: Order-book mix



Source: Company, Centrum Research

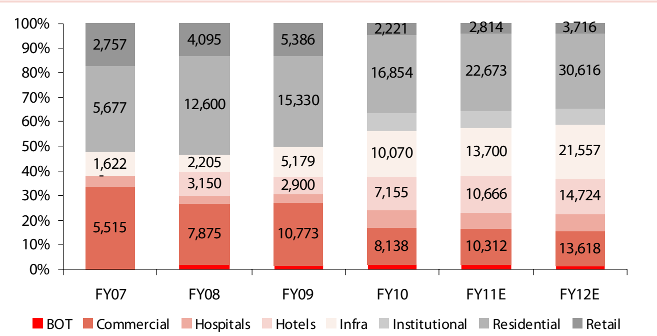
As the number of infrastructure projects increases, so has the percentage of public sector clients – up from 20% in FY09 to 31% in FY10. ACIL is getting more aggressive in the infrastructure space. The company targets the share of government share to rise to 40-45% of the total order-book by FY12E. However, we expect profitability from these projects to affect overall margins, since urban infrastructure projects entail slightly higher competitive intensity than traditional projects. However, power sector projects such as Reliance Infrastructure's power plant at Sasan are generating better margins than traditional building projects, which would compensate for the expected decrease in urban infrastructure margins.

Exhibit 14: Client-wise mix of order-book



Source: Company, Centrum Research

Exhibit 15: ACIL's order-book mix



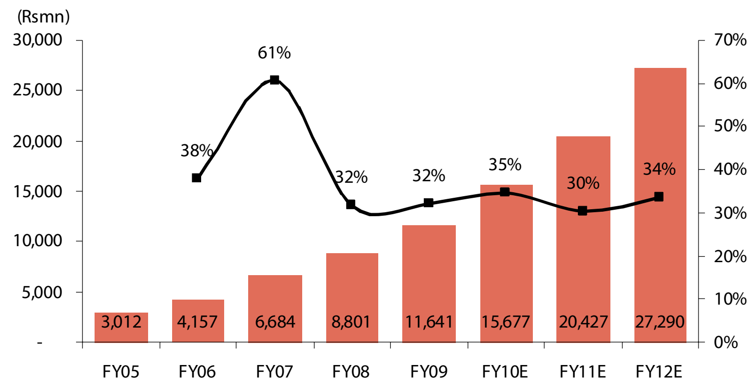
Source: Company, Centrum Research

Financial Analysis

32% topline CAGR over FY10-12E

ACIL registered 39% topline CAGR over FY05-10 on account of its strong execution profile and industry position. The company's revenue grew 32% in FY09, when most construction companies were hit by the global slowdown. We expect ACIL to register 32% revenue CAGR over FY10-12E on the basis of its strong order-book, execution record and ramping up of the urban infrastructure segment.

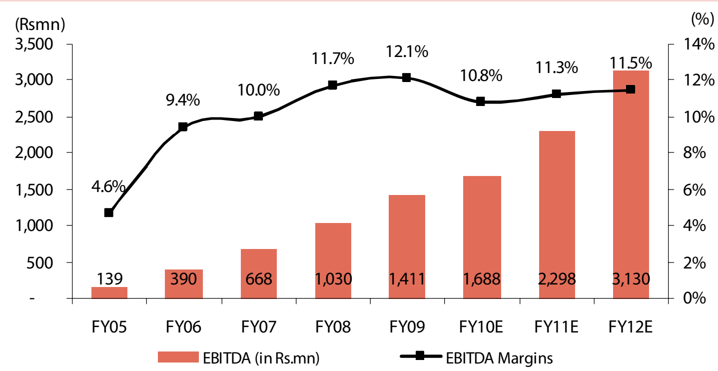
Exhibit 16: ACIL's revenue history and projection



Source: Company, Centrum Research Estimates

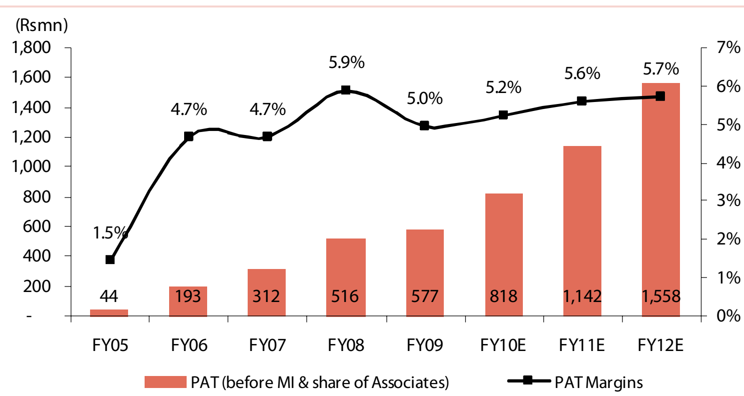
Margins to improve slightly on diversifying segment exposure

Exhibit 17: EBITDA margin trend



Source: Company, Centrum Research Estimates

Exhibit 18: ACIL's net profit margins



Source: Company, Centrum Research Estimates

Valuation Analysis

ACIL is a strong growth story on account of reviving economic conditions and its foray into new segments of urban infrastructure. We believe ACIL is the best play in our sector coverage universe for an investor looking for stable and high returns. Our positive stance is based on the company's strong business model, repeat clients, low funding requirement for growth and strong management. We initiate coverage on ACIL with a Buy rating. We assign the stock a target price of Rs276 by valuing its core business at Rs273, 11x (~20% discount to NCC, HCC, ERIE adjusted for limited industry segments exposure) to FY12E EPS of Rs24.8 and the RMC business at a P/E of 10 for EPS of Rs0.3, arriving at the nominal value of Rs2.6.

Exhibit 19: ACIL's valuation

Valuation of ACIL (Rs)	Method	P/E Multiple (x)	EPS Rs (FY12)	Value / Share (Rs)
StandAlone business	P/E	11.0	24.8	273.1
RMC Business	P/E	10.0	0.3	2.6
Total Fair Value				**275.7**
Current Price				210.0
Upside / Downside				**31.3%**

Source: Centrum Research Estimates

Exhibit 20: FY12E EBITDA margins: impact on valuation

Sensitivity on EBITDA Margins

		Revenue Growth						
	(Rs)	27.6%	29.6%	31.6%	33.6%	35.6%	37.6%	39.6%
EBITDA Margins	10.3%	223.2	228.1	232.9	237.8	242.6	247.5	252.3
	10.7%	235.3	240.3	245.4	250.4	255.5	260.5	265.5
	11.1%	247.3	252.6	257.8	263.0	268.3	273.5	278.7
	11.5%	259.4	264.8	270.2	**275.7**	281.1	286.5	291.9
	11.7%	265.4	270.9	276.5	282.0	287.5	293.0	298.5
	11.9%	271.5	277.1	282.7	288.3	293.9	299.5	305.1
	12.1%	277.5	283.2	288.9	294.6	300.3	306.0	311.7

Source: Centrum Research Estimates

Key risks

- **Economic environment:** A major portion of the order-book is exposed to building construction in real estate, commercial, and retail. Future visibility of the order-book would be hit if the overall economic environment were to fare badly.
- **Increasing competition:** Competition in this industry will remain intense. Though ACIL is one of the leading players in the industry, the opportunity is so large that existing and new players will continue to be a source of competition that can impact operating profits from projects.
- **Aspirations to foray into BOT projects:** Till date, ACIL has stayed away from committing capital to BOT projects, on account of its focus on corporate opportunity and also the high competition and low returns in public infrastructure development. However, with the increasing commitment of the Indian government towards improving road infrastructure and the resulting improvement in returns and processes, we could see ACIL participating in BOT parking bids directly or through joint ventures. Participation in BOT projects would require equity and this could lead to equity dilution by the company to fund asset development ambitions.
- **High exposure in northern India**: Though Ahluwalia operates in 16 states, north India still contributes half of the order-book. Post completion of Commonwealth Games, we believe exposure to north India will reduce to one-third of the total order-book.

Company Overview - Core Business

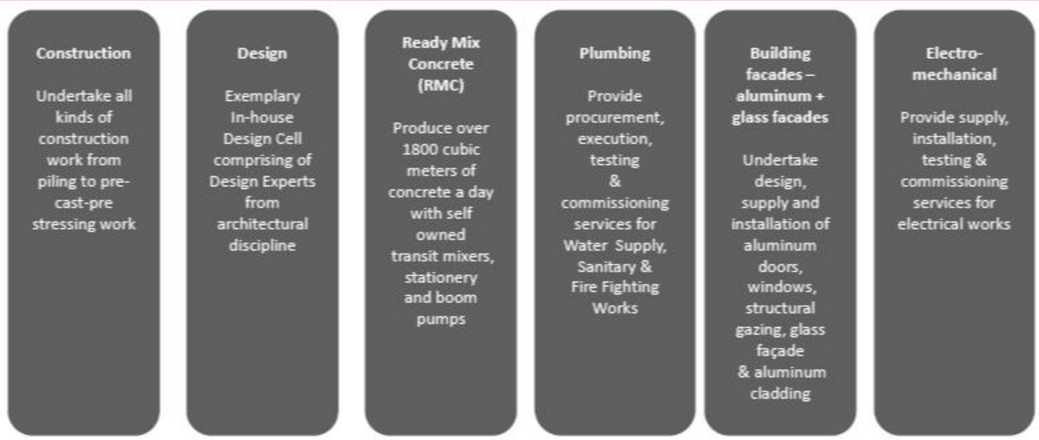
Company history

Mr.Bikramjit Ahluwalia, Chairman of ACIL, started with the business of construction through a wall project in Haryana in 1965. He then began constructing high-rise buildings, high-end commercial offices, and institutional offices. Business commenced as a proprietorship firm in 1965 promoted by Mr. Bikramjit Ahluwalia. This was converted into a private limited company in 1975. The company offers the entire gamut of services within the construction space — design, civil, electro-mechanical and plumbing.

ACIL has four decades of experience in offering single-window engineering and design turnkey solutions. It caters to sectors such as hospitality, healthcare, education, commercial headquarters and IT parks/SEZ, residential, retail, industrial, automobile, institutional, transportation and urban infrastructure. At present, ACIL is executing projects worth Rs33bn which are to be completed in the next two years. The company currently employs more than 3,000 employees on payroll and a total of 30,000 employees, including contract labour.

Ahluwalia Contracts has a strong presence in the segments that it operates in, and commands repeat orders due to a reputation for reliability and quality of work done. Within the Group businesses are construction services, design, RMC (backward integration for internal businesses in addition to external clients), plumbing, building surface materials like facades and aluminum glass facades and lastly electro-mechanical services.

Exhibit 21: Integrated business offerings in the building construction segment



Source: Company

Ready mix concrete – a backward integration

ACIL provides Ready Mix Concrete (RMC) through its 100% subsidiary, Ahlcon Ready Mix Concrete. The company states it has one of the largest installed capacities in the country, producing over 1800 cubic meters of concrete a day, with self-owned transit mixers, stationery and boom pumps. Ahlcon RMC, established in 2003, has six plants for RMC, strategically located in order to deliver concrete to its projects. The company also claims to have the largest transit mixer fleet in northern India. RMC has become critical to the construction industry as it results in higher quality, as well as speeds-up construction, though margins are not as high as in the core construction business.

Equipment infrastructure within the company is a growth supportive factor

- ACIL possesses the latest construction equipment (mostly imported) for the services it provides. We believe it is the most mechanized construction company in India, by virtue of the following equipment in its portfolio: 1) 75+ tower cranes 2) 35+ batching plants, 45+ transit mixers (probably the largest in northern India).

Financials (Standalone)

Exhibit 22: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**11,641**	**15,677**	**20,427**	**27,290**	**34,756**
Growth in revenue (%)	*32.3*	*34.7*	*30.3*	*33.6*	*27.4*
Cost of Raw Material	7,740	10,759	14,030	19,080	24,231
% of Revenue	*66.5*	*68.6*	*68.7*	*69.9*	*69.7*
Employee cost	*1,685*	*2,118*	*2,565*	*2,946*	*3,752*
% of Sales	*14.5*	*13.5*	*12.6*	*10.8*	*10.8*
O&M expenses	805	1112	1534	2134	2717
% of Sales	*6.9*	*7.1*	*7.5*	*7.8*	*7.8*
EBITDA	**1,411**	**1,688**	**2,298**	**3,130**	**4,055**
EBITDA Margin	*12.1*	*10.8*	*11.3*	*11.5*	*11.7*
Depreciation	464	331	393	471	628
PBIT	**947**	**1,357**	**1,905**	**2,659**	**3,427**
Interest expenses	146	163	234	359	517
PBIT from operations	**801**	**1,195**	**1,671**	**2,299**	**2,909**
Other non operating income	79	57	56	61	68
PBT before ext.od items	**880**	**1,252**	**1,727**	**2,361**	**2,977**
Extra-ordinary income/ (exp)	-	-	-	-	-
PBT	**880**	**1,252**	**1,727**	**2,361**	**2,977**
Provision for tax	302	434	585	803	1,012
Effective tax rate (%)	*34.4*	*34.7*	*33.9*	*34.0*	*34.0*
Minority interest					
PAT	**577**	**818**	**1,142**	**1,558**	**1,965**
Adjustment for Ext.Od items					
Adjusted PAT	**577**	**818**	**1,142**	**1,558**	**1,965**
Growth in PAT (%)	*11.8*	*41.7*	*39.6*	*36.5*	*26.1*
PAT margin (%)	*5.0*	*5.2*	*5.6*	*5.7*	*5.7*

Source: Company, Centrum Research Estimates

Exhibit 23: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	126	126	126	126	126
Stock Options / Warrants					
Reserves	1,650	2,395	3,435	4,854	6,644
Shareholders' fund	**1,776**	**2,521**	**3,561**	**4,980**	**6,770**
Debt	762	1,562	2,362	3,562	4,962
Deferred Tax Liability	(125)	(125)	(125)	(125)	(125)
Total Capital Employed	**2,412**	**3,957**	**5,797**	**8,417**	**11,607**
Gross Block	**2,329**	**2,809**	**3,410**	**4,184**	**5,130**
Accumulated dep.	1,119	1,450	1,843	2,314	2,942
Net Block	**1,210**	**1,359**	**1,568**	**1,870**	**2,188**
Capital WIP	1	100	115	138	161
Total Fixed Assets	**1,211**	**1,459**	**1,683**	**2,008**	**2,349**
Investments	**15**	**15**	**215**	**415**	**615**
Deferred Tax Asset					
Inventories	1,347	1,983	2,717	4,016	6,109
Debtors	3,089	4,204	5,610	7,838	10,773
Cash & bank balances	897	1,214	1,338	1,221	1,317
Loans and Advances	396	518	748	1,045	1,544
Other Current Assets	62	79	104	149	190
Total current assets	**5,792**	**7,998**	**10,517**	**14,269**	**19,933**
Current lia & provisions	4,605	5,515	6,618	8,275	11,291
Net current assets	**1,187**	**2,483**	**3,899**	**5,994**	**8,642**
Misc. Expenditure	0	0	0	0	0
Total Assets	**2,412**	**3,957**	**5,797**	**8,417**	**11,607**

Source: Company, Centrum Research Estimates

Exhibit 24: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	**880**	**1,252**	**1,727**	**2,361**	**2,977**
Depreciation	464	331	393	471	628
Interest expenses	135	163	234	359	517
OP profit before WC change	**1,415**	**1,745**	**2,354**	**3,191**	**4,123**
Working capital adjustment	(942)	(979)	(1,293)	(2,211)	(2,552)
Gross cash from operations	**473**	**766**	**1,061**	**979**	**1,570**
Direct taxes paid	**(376)**	**(434)**	**(585)**	**(803)**	**(1,012)**
Cash from operations	**97**	**332**	**476**	**177**	**558**
CF from investing					
Capex	(470)	(579)	(617)	(796)	(970)
Investment	41	-	(200)	(200)	(200)
Others	54	-	-	-	-
Cash from investment	**(375)**	**(579)**	**(817)**	**(996)**	**(1,170)**
CF from financing					
Proceeds from sh cap & prem.	-	-	-	-	-
Borrowings/ (Repayments)	197	800	800	1,200	1,400
Interest paid	(135)	(163)	(234)	(359)	(517)
Dividend paid	(51)	(73)	(102)	(139)	(175)
Others	-	-	-	-	-
Cash from financing	**10**	**565**	**464**	**702**	**708**
Net cash increase/ (dec)	**(268)**	**317**	**124**	**(117)**	**96**

Source: Company, Centrum Research Estimates

Exhibit 25: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios					
EBITDA Margin	12.1	10.8	11.3	11.5	11.7
PBIT Margin	6.9	7.6	8.2	8.4	8.4
PBT Margin	7.6	8.0	8.5	8.7	8.6
PAT Margin	5.0	5.2	5.6	5.7	5.7
Growth Ratios (%)					
Revenues	32.3	34.7	30.3	33.6	27.4
EBITDA	36.9	19.6	36.2	36.2	29.6
Net Profit	11.8	41.7	39.6	36.5	26.1
Return Ratios (%)					
ROCE	47.1	42.7	39.2	37.6	34.5
ROIC	43.6	41.0	38.1	36.8	33.8
ROE	38.2	38.1	37.5	36.5	33.4
Turnover Ratios					
Asset turnover ratio (x)	10.1	12.2	14.0	15.9	17.1
Working Capital Turnover (x)	13.6	8.5	6.4	5.5	4.7
Avg collection period (days)	96.9	97.9	100.2	104.8	113.8
Avg payment period (days)	173.0	151.6	141.1	133.0	112.0
Per share (Rs)					
Fully diluted EPS	9.2	13.0	18.2	24.8	31.3
CEPS	16.6	18.3	24.5	32.3	41.3
Book Value	28.3	40.2	56.7	79.3	107.9
Solvency ratios (x)					
Debt/ Equity	0.4	0.6	0.7	0.7	0.7
Interest coverage ratio	5.0	6.0	5.9	5.3	4.8
Valuation parameters (x)					
P/E	22.8	16.1	11.5	8.5	6.7
P/BV	7.4	5.2	3.7	2.6	1.9
EV/ EBITDA	9.9	8.7	6.8	5.3	4.5
EV/ Sales	1.2	0.9	0.8	0.6	0.5
M-Cap/ Sales	1.1	0.8	0.6	0.5	0.4

Source: Company, Centrum Research Estimates

Appendices

Order Analysis

Analysis of source of orders: Centre vs private vs states

We have analyzed the order-books of our coverage companies on the basis of historical source of orders (Central government, state governments and private sector). On this basis, we have tried to estimate which company is better placed to benefit from the increased investments in infrastructure and also from the reviving private capex. We assign a higher weight to Central government orders and believe HCC and Era Infra are best placed. We assign medium weight to companies like IVRCL, ACIL and CCCL, which have predominantly private sector orders, and lower weight to NCC as it has more orders from state governments.

Negative: We came to the conclusion that NCC is not among the best placed in terms of order source. Most of its existing orders come from local state governments, and some states such as Andhra Pradesh are under financial stress. NCC is increasing its pan-India presence, which will help it reduce this concern.

Neutral: We view the order source for IVRCL, ACIL and CCCL as neutral since these companies have bagged more orders from the private sector. The private sector is prone to economic vagaries. However, with economic sentiments improving, we believe a neutral weight is appropriate for the private sector as an order source.

Positive: HCC and Era Infra are in much better shape, as their order sources are diversified. The two companies have the best mix, as most of their orders are from the Central government, relieving concerns on opportunities and funding.

Note: Our analysis is based on the last three years' orders that the companies have received and includes only orders announced on the BSE website.

Exhibit 1: Categorization of orders bagged

Name of the company	Category	Orders bagged in past 4 years TD (Rsmn)				Orders bagged in past 4 years TD (% Share)			
		FY08	FY09	FY10	FY11TD	FY08	FY09	FY10	FY11TD
IVRCL	State	33,689	57,117	32,655	4,555	76.4	74.7	28.6	8.6
	Centre	-	-	30,350	31,000	0.0	0.0	26.6	58.2
	Private	10,414	19,294	51,247	17,672	23.6	25.3	44.9	33.2
	Others	-	-	-	-	0.0	0.0	0.0	0.0
	Total	**44,103**	**76,411**	**114,252**	**53,227**	**100.0**	**100.0**	**100.0**	**100.0**
NCC	State	12,038	25,093	30,849	2,110	42.5	49.3	49.6	26.7
	Centre	2,850	3,082	5,770	3,090	10.1	6.1	9.3	39.1
	Private	7,760	22,696	25,581	2,710	27.4	44.6	41.1	34.3
	Others	5,700	-	-	-	20.1	0.0	0.0	0.0
	Total	**28,348**	**50,871**	**62,200**	**7,910**	**100.0**	**100.0**	**100.0**	**100.0**
HCC	State	21,540	26,436	7,144	4,310	79.9	37.0	12.3	22.4
	Centre	3,754	8,636	32,347	-	13.9	12.1	55.5	0.0
	Private	1,678	36,319	18,783	14,963	6.2	50.9	32.2	77.6
	Others	-	-	-	-	0.0	0.0	0.0	0.0
	Total	**26,971**	**71,391**	**58,274**	**19,273**	**100.0**	**100.0**	**100.0**	**100.0**
Era Infra	State	3,159	2,895	-	-	12.4	13.1	0.0	0.0
	Centre	779	5,916	18,378	17,230	3.1	26.7	68.4	100.0
	Private	21,594	13,306	8,481	-	84.6	60.2	31.6	0.0
	Others	-	-	-	-	0.0	0.0	0.0	0.0
	Total	**25,532**	**22,117**	**26,859**	**17,230**	**100.0**	**100.0**	**100.0**	**100.0**
Ahluwalia Contracts	State	1,120	-	2,476	551	7.7	0.0	12.7	10.9
	Centre	2,297	1,099	1,347	-	15.8	5.8	6.9	0.0
	Private	11,133	17,756	15,726	4,492	76.5	94.2	80.4	89.1
	Others	-	-	-	-	0.0	0.0	0.0	0.0
	Total	**14,550**	**18,856**	**19,549**	**5,043**	**100.0**	**100.0**	**100.0**	**100.0**
CCCL	State	-	-	1,935	2,345	0.0	0.0	10.7	53.4
	Centre	-	13,210	1,860	2,047	0.0	61.2	10.3	46.6
	Private	16,182	8,371	14,231	-	100.0	38.8	78.9	0.0
	Others	-	-	-	-	0.0	0.0	0.0	0.0
	Total	**16,182**	**21,581**	**18,026**	**4,393**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, BSE Notifications, Centrum Research

Details of state-level opportunity

Assuming infrastructure spend of 10% (to total GDP) of various states, we analyze the opportunity presented to coverage companies by home states as well as neighbouring states and the impact on the order-book. We find that IVRCL, NCC, and HCC are exposed to around one-third of the total opportunity provided by the states. In comparison, ACIL, Era Infra and CCCL have exposure to around one-fourth of the total opportunity provided by the various states in India.

Exhibit 2: Opportunity in various states (based on FY09 GDP)

Company	IVRCL	NCC	HCC	Era Infra	CCCL	Ahluwalia Contracts
Local state	Andhra Pradesh	Andhra Pradesh	Maharashtra	Delhi	Tamil Nadu	Delhi
1st neighbour state	Tamil Nadu	Tamil Nadu	Andhra Pradesh	Haryana	Karnataka	Haryana
2nd neighbour state	Maharashtra	Maharashtra	Madhya Pradesh	Uttar Pradesh	Andhra Pradesh	Uttar Pradesh
3rd neighbour state	Madhya Pradesh	Madhya Pradesh	J&K	Rajasthan		Rajasthan
Company's share in total state level opportunity (%)						
Local state	9.5	9.5	15.1	3.7	8.7	3.7
1st neighbour state	8.7	8.7	9.5	4.6	7.0	4.6
2nd neighbour state	15.1	15.1	3.6	10.2	9.5	10.2
3rd neighbour state	3.6	3.6	0.8	5.2	0.0	5.2
Total of All states	**36.9**	**36.9**	**29.1**	**23.7**	**25.1**	**23.7**

Source: Company, Centrum Research

In terms of the presence of coverage companies in various states, we came to the conclusion that IVRCL and NCC have the most diversified presence, and operate in 18 and 20 states, respectively. HCC, Era Infra and ACIL have moderate presence, operating in 15, 13 and 14 states, respectively. CCCL has the least diversified presence, with operations in 8 states. However, CCCL is diversifying its presence in various states (the latest addition was Goa, with an order for an airport up-gradation).

- **IVRCL and NCC are the most diversified:** We believe companies spread across states, such as IVRCL and NCC, have better opportunity mix and less risk with regard to a state's fiscal stress.
- **HCC and Era Infra are more dependent on Centre-level opportunity:** HCC and Era Infra have limited impact from state-level stress, as they have a substantial share of projects from Central government agencies (PSUs, road ministry, etc).
- **CCCL is least diversified, but its presence in Karnataka and increase in Central orders are positives:** CCCL has a dominant presence in Tamil Nadu and Karnataka and is least diversified, with a presence in just eight states. However, CCCL's increasing presence across states, with more projects from Central agencies, reduces state level risks, to some extent.

Exhibit 3: States in which the coverage companies operate

States	IVRCL	NCC	HCC	ERIE	CCCL	ACIL	GDP	YoY Fy09	Infra % of GDP	Infra Spend	Comments on State status
Andhra Pradesh	✔	✔	✔	✔		✓	371,229	13.0%	10%	37,123	Financial Health - Not good
Arunachal Pradesh			✓				4,536	16.7%	10%	454	Limited Opportunities
Assam	✔	✔	✔				79,277	10.7%	10%	7,928	Limited Opportunities
Bihar	✔	✔	✔				131,873	15.0%	10%	13,187	Increasing Infra spends
Chattisgarh	✔	✔		✓	✔		95,204	19.9%	10%	9,520	Activity less on Infrastructure
Delhi	✔	✔	✔	✔	✔	✔	143,911	14.9%	10%	14,391	After CWG, lower visibility
Gujarat	✔		✓	✔			306,813	16.8%	10%	30,681	Higher in Infrastructure Index
Haryana	✔	✔		✓		✓	180,494	17.9%	10%	18,049	Limited Opportunities
Himachal Pradesh			✓				32,220	12.6%	10%	3,222	Limited Opportunities
J&K			✓				31,793	9.5%	10%	3,179	HCC is only one present
Karnataka	✔	✔	✔	✔	✔	✔	271,902	14.1%	10%	27,190	Increasing Infra spends
Madhya Pradesh	✔	✔		✓		✓	142,500	9.1%	10%	14,250	Increasing Infra spends
Maharashtra	✔	✔	✔	✔	✔	✔	590,995	16.1%	10%	59,100	Opportunity Present
Orissa		✓	✔	✔	✔	✔	122,165	14.7%	10%	12,217	Infra plans not definite
Punjab	✔			✓		✓	158,972	14.8%	10%	15,897	Limited Opportunities
Rajasthan	✔	✔	✔	✔	✔	✔	203,248	15.6%	10%	20,325	Increasing Infra spends
Sikkim			✓				2,612	13.7%	10%	261	Limited Opportunities
Tamil Nadu	✔	✔	✔		✓	✔	339,212	11.2%	10%	33,921	Higher in Infrastructure Index
Uttar Pradesh	✔	✔	✔	✔	✔	✔	398,732	15.8%	10%	39,873	Increasing Infra spends
West Bengal	✔	✔	✔			✓	303,705	14.0%	10%	30,371	Limited Opportunities
State Presence Count	**18**	**20**	**20**	**15**	**9**	**14**				**391,139**	
										78Bn Oppty	

Note: Individual companies' presence in each state is calculated by considering a minimum order of Rs500mn bagged in the past three years. Source: Company, Centrum Research

Basic Data of Coverage Companies

Players' profile

The Indian construction sector is highly fragmented. However, a few strong companies have emerged that are capable of handling complex areas of construction. L&T is the largest construction player, with Punj Lloyd, IVRCL Infra and Nagarjuna Construction increasingly making their presence felt.

Exhibit 4: Construction sector: players' profile

Players Profile	Power		Roads		Railways	Water & irrigation	Ports		Airports		Buildings		Industrial
	EPC	Asset	EPC	Asset	EPC	EPC	EPC	Asset	EPC	Asset	EPC	Asset	EPC
Covered Companies													
IVRCL Infra	√		√	√	√	√					√	√	√
NCC	√	√	√	√	√	√	√			√	√	√	√
HCC	√		√	√	√	√					√	√	√
Era Infra	√		√	√	√	√			√		√	√	√
CCCL	√				√	√			√		√	√	√
Ahluwalia Contracts	√				√	√					√		√
Others													
L&T	√	√	√	√	√	√	√	√	√	√	√	√	√
Punj Lloyd	√		√	√	√			√	√		√	√	√
Simplex Infra	√		√	√	√	√					√	√	√
Gammon India	√	√	√	√	√	√	√	√			√	√	√
Maytas Infra	√	√	√	√	√	√	√	√		√	√	√	√
BL Kashyap	√				√				√		√	√	√

** EPC = Engineering, Procurement and Construction*

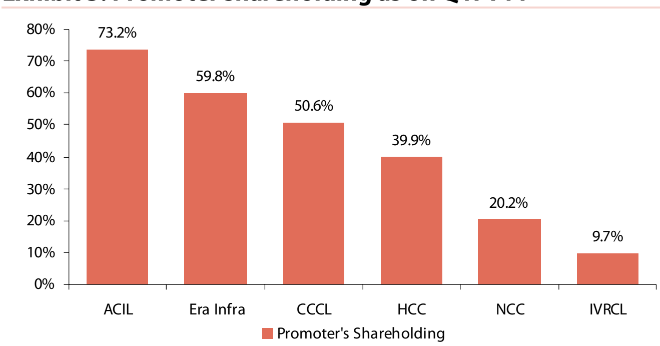
Source: Company, Centrum Research

Promoters' shareholding and funds raised by the coverage universe

Promoter stake – Lowest in IVRCL, highest in ACIL and Era Infra

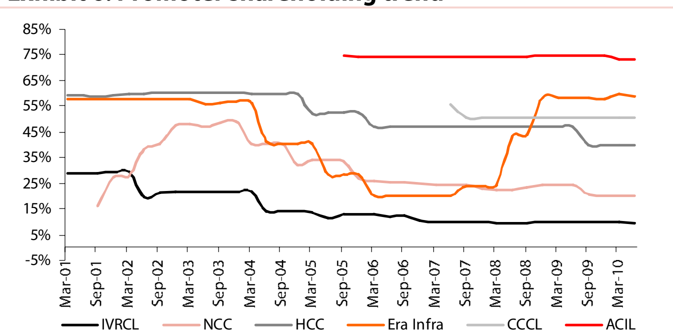
In the case of IVRCL, doubts remain regarding the low promoter stake limiting company growth. However, IVRCL has transferred its infrastructure assets to a separate listed company, IVRCL Asset & Holding. Following the restructuring, we believe the fund requirement from IVRCL would be limited. Hence, low promoter stake holding is not likely to be a concern for the company's growth prospects.

Exhibit 5: Promoter shareholding as on Q1FY11



Source: CapitalLine, Centrum Research

Exhibit 6: Promoter shareholding trend

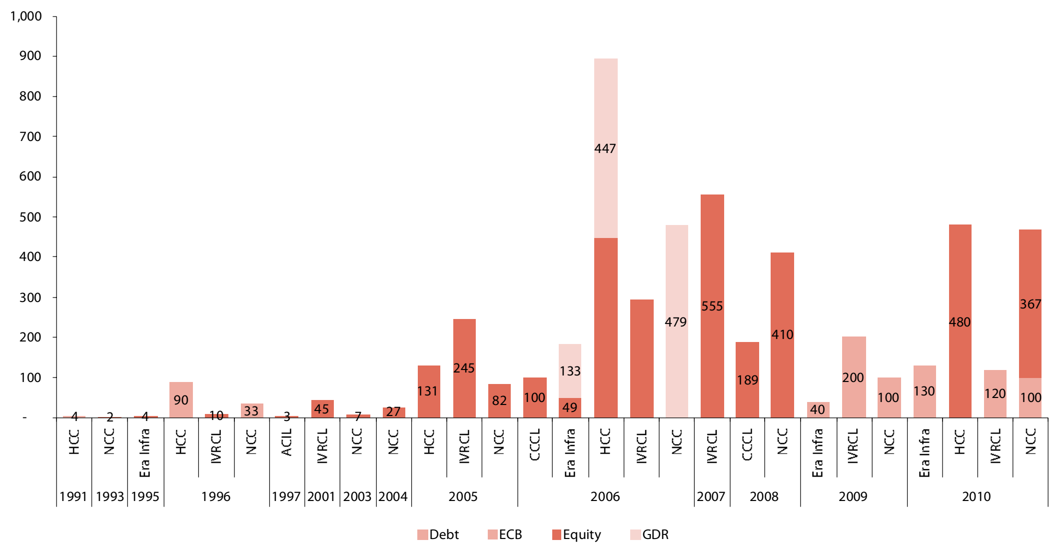


Source: CapitalLine, Centrum Research

Funds raised by coverage companies

With the exception of ACIL, all other coverage construction companies have raised funds (equity and debt) in the past. Going forward, HCC has the option of listing Lavasa Corporation and infrastructure asset holding company, HCC Infra, to reduce its high debt-equity ratio.

Exhibit 7: Funds raised by coverage companies



Source: Prowess, Centrum Research

Sector Opportunity in Detail

Power sector – biggest opportunity in construction

The power sector in India has attracted huge investments by private sector players over the past five years. The need for investment remains critical, with the government planning to add around 100GW during the 12th Plan period (about 67% higher than the 11th Plan's revised target of 60GW).

The power sector contributes the major share of the total construction opportunity in India (estimated at US$148bn, it comprises almost one-third share). Within power, hydro power involves more construction (on account of building dams) compared to thermal power and nuclear power.

Exhibit 8: Construction potential from the power sector

Construction potential in the 12th Plan	MW Add	Cost / MW (Rsmn)	EPC	XII Plan oppty (USD bn)
Thermal Power	70,160	60	40.0%	37.4
Hydro Power	19,840	75	70.0%	23.1
Nuclear Power	15,000	85	40.0%	11.3
Total	**105,000**		**50.2%**	**71.9**

Source: Centrum Research

Huge hydro power potential

India's hydro power potential is estimated at 148,701MW. Around 98,631MW remains to be exploited and this translates into a construction opportunity worth US$164.4bn in the long-term (opportunity during the 12th Plan is estimated at US$23bn). In India, competition is healthy, with players like L&T, Gammon India, HCC, Patel Engg, Soma Enterprises, and JP Associates present in the civil works segment. Average execution period of a hydro power project is 5-6 years, vis-à-vis two to three years for nuclear and thermal power projects.

Exhibit 9: Total hydro-power capability in India and the related construction opportunity

Region	Potential Assessed	Potential Developed	Under Development	Balance	*Balance (%)*	Civil Cost/MW	Civil Oppty (Rsbn)	Civil Oppty (USD bn)
North Eastern	58,971	1,116	2,724	55,131	*55.9*	75.0	4,134.8	91.9
Northern	53,395	13,310	7,064	33,021	*33.5*	75.0	2,476.6	55.0
Eastern	10,949	3,904	2,211	4,834	*4.9*	75.0	362.6	8.1
Western	8,928	7,448	400	1,080	*1.1*	75.0	81.0	1.8
Southern	16,458	11,107	786	4,565	*4.6*	75.0	342.4	7.6
Total	**148,701**	**36,885**	**13,185**	**98,631**	***100.0***	**75.0**	**7,397.3**	**164.4**

Source: NHPC, Centrum Research

Nuclear power expected to pick up

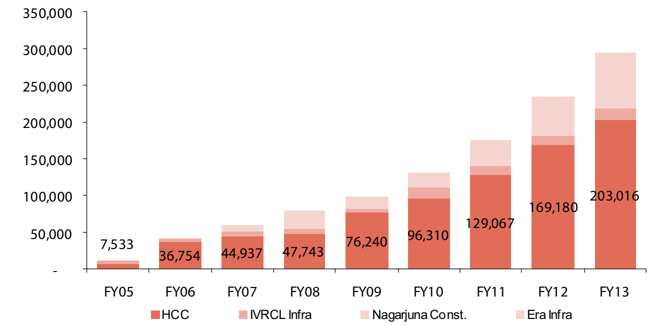
We believe the nuclear power segment, especially after the Nuclear Supply Group (NSG) agreement with US and agreement for fuel supplies with other countries, would see increased action. International players are interested in setting-up power plants. Construction opportunity in the segment will eventually see a new market, though not large as thermal and hydro. HCC, L&T and Gammon have a substantial share of the segment. The current capacity of nuclear power in India is 4,560MW. The government's projected capacity enhancement is 20,000MW by 2020.

Exhibit 10: Nuclear power plant under construction

Nuclear Power Station	Unit No	Reactor Type	MW	Exp. COD	Comments
Rajasthan Atomic Power Project	7	Pressurised Heavy Water Reactor(PHWR)	700	Jun-16	HCC won bid in May
Rajasthan Atomic Power Project	8	Pressurised Heavy Water Reactor(PHWR)	700	Dec-16	HCC won bid in May
Kudankulam Atomic Power Project	1	V V E R -1000 (PWR)	1,000	Dec-10	95.5 % as on Apr-2010
Kudankulam Atomic Power Project	2	V V E R -1000 (PWR)	1,000	11-Jun	89.3 % as on Apr-2010
Kaiga Atomic Power Project	4	Pressurised Heavy Water Reactor(PHWR)	220	10-Jun	97.07 % as on Mar-2010

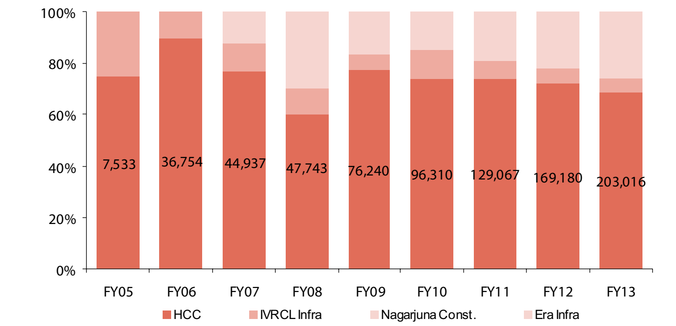
Source: NPCIL Website, Centrum Research

Exhibit 11: Power order-book of companies initiated



Source: Company, Centrum Research Estimates

Exhibit 12: Power order-book mix of company composites



Source: Company, Centrum Research Estimates

Roads and highways

Roads form the second biggest opportunity for the construction sector after power. India remains the most important destination for road development, as the deficiency in road quality in India impacts all sectors. We believe the road sector would be in the forefront on account of investments that will be made in the sector. Our view is based on changes made to reduce hurdles for existing players and to draw new players to the industry.

Exhibit 13: NHAI work plan up to FY14

Table 1: Work plan up to 2013-14	FY10	FY11	FY12	FY13	FY14	Total
BOT (Toll)						
4 lane – Phase III	4,373	-	-	-	-	**4,373**
4 lane - Phase II	55	-	-	-	-	**55**
6 lane – Phase V	2,403	1,200	-	-	1,477	**5,080**
Expressways – Phase VI	-	-	436	604	**-**	**1,040**
2 lane with paved shoulders – Phase III	1,977	-	-	**-**	-	**1,977**
2 lane – Phase IV	-	4,086	3,075	339	-	**7,500**
4 lane – Phase VII	-	-	681	-	-	**681**
BOT (Annuity)						
4 lane – Phase III	524	-	-	-	-	**524**
4 lane – Phase II	380	-	-	-	-	**380**
J&K – Phase II	239	-	-	-	-	**239**
2 lane with paved shoulders – Phase III	1,477	-	-	-	-	**1,477**
2 lane – Phase IV -	-	4645	4000	1355	**-**	**10,000**
4 lane – SARDP-NE	394	-	-	-	-	**394**
EPC						
4 lane – SARDP-NE	330	-	-	-	-	**330**
2 lane - Phase IV	-	1,161	1,000	339	**-**	**2,500**
2 lane with paved shoulders - Phase III	500	-	-	-	-	**500**
Total	**12,652**	**11,092**	**9,192**	**2,637**	**1,477**	**37,050**

Source: Ministry of Roads (BK Chaturvedi Committee Report), Centrum Research

Exhibit 14: NHDP work-plan up to FY2014

Phases	Description	Length Planned	Length Completed	Length completed as % of planned	Est. Cost (INR bn)	Est. Cost (USD bn)	Structure	Est. Comp. Date
Phase 1	GQ, EW-NS corridors, Port connectivity & others	7,498	7,188	95.9%	420.0	10.5	EPC	NA
Phase 2	4/6-laning North South-East West Corridor, Others	6,647	2,828	42.5%				Dec-09
Phase 3		12,109	787	6.5%	550.0	13.8	BOT-Toll	Dec-13
Phase 3A	Upgradation, 4/6-laning	4,815	787	16.3%			BOT-Toll	Dec-13
Phase 3B	4 Laning of 6000Km roads	7,294		0.0%			BOT-Toll	Dec-13
Phase 4	2- laning with paved shoulders	20,000	-	0.0%	250.0	6.3	BOT-Toll /Annuity	Dec-15
Phase 5	6-laning of GQ and High density corridor	6,500	106	1.6%	175.0	4.4	BOT-Toll	Dec-12
Phase 6	Expressways	1,000	-	0.0%	150.0	3.8	BOT-Toll	Dec-15
Phase 7	Ring-Roads, Bypasses, flyovers & other structures	700	-	0.0%	150.0	3.8	NA	Dec-14
Total		**66,563**	**11,696**		**1,695**	**42.4**	**Various**	**Dec-15**

Source: Ministry of Roads, Centrum Research

Improving regulatory scenario for the sector

Since the rollout of the BK Chaturvedi Committee (BKC) recommendations (the committee set up to advice changes for the roads sector) and other initiatives taken by Minister Kamal Nath, we expect the road sector to grow substantially. We believe clauses such as reducing constraints on developer's divestment from the road project (exit policy), easing conflict of interest (from 5% to 25% currently), prequalification exercises (from project level to annual exercise) and modifications in the termination clause on road capacity expansion would substantially boost investments in the sector.

The change in the environment, as per news reports, can be gauged from the reduction in grant demand from private players from about 40% of the project cost to 17%-18%, which is a positive. Though the targets set by the ministry are debatable, we believe the spurt in activity has already begun, with a large number road projects awarded. We expect more players will attempt to gain exposure to the roads sector, going forward, making the field more competitive.

Exhibit 15: Recommendations by BK Chaturvedi Committee and its impact on the road sector

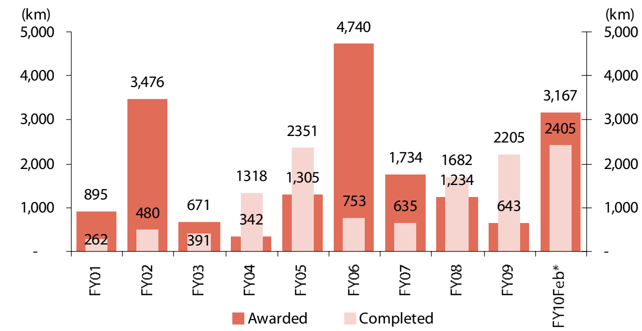
Sr.No	Clause	Earlier Regulation	New Regulation	Centrum's View
1	Exit	Players to maintain 26% stake in the project until the end of the concession period.	Players would be required to maintain a 26% stake only for two years after construction, post which they would be free to liquidate their holdings	We believe this is a huge positive for the sector, given the fact that many players would not have entered earlier, on the basis of being tied-up with a project for longer haul.
2	Termination	Players to expand road capacity if traffic exceeds the designed capacity for a stretch of four years, otherwise, the contract would be terminated.	Government to take up a Detailed Project Report (DPR) if the traffic exceeds the design capacity for any year. If expansion is needed, the developer would be given an opportunity to expand at an IRR of 16% and extend the concession by 5 years.	We believe this has reduced investor concerns on prior termination from the project. This was also a major loophole in terms of getting funds organized for the project.
3	Conflict of Interest	Conflict of interest if there is a common investor holding of 5% and above.	Raised the limit for common investor to 25% and above.	This will further ease-out the funding limitation for projects that have a common investor in the bidding consortium.
4	Threshold Technical Capacity	The policies were framed to entertain players who have completed projects worth double the amount of the project bid for in the last 5 years.	The limit has been relaxed with the requirement of 100% projects completed in the last five years of the project bid for.	This is likely to increase competition in the industry.
5	Viability Gap Funding	VGF funding was limited to 10% of the project cost (overall limit of 5% for Phase-V)	VGF funding has been raised to 20% of the project cost (overall limit of 10% for Phase-V)	This will make the project much more attractive for players and act as a boost for low-traffic stretches.
6	Single-Bid clearance	No awards for projects where only 1 bid has been received.	Powers have been conferred on NHAI to award single-bid projects (after examining the reasonableness).	This will further accelerate the development of roads where regional players are interested.
7	Pre-qualification exercise	Pre-qualification was done on project basis which ultimately increased the time for awarding of projects.	Pre-qualification will be an annual exercise with developers being assigned a score based on the operational and financial strength of the company on the application date.	This will further speed up the process of awarding projects and lower litigations, that were based on various prequalification criteria.
8	Waterfall mechanism	Projects were first tried on build-operate-transfer (BOT) toll basis, then BOT Annuity and finally, if not successful, were tried on engineering procurement and construction (EPC) basis. This was irrespective of the traffic analysis.	Projects would be directly awarded on BOT annuity or EPC basis if the traffic analysis suggests that the project is not suitable for BOT toll.	This would reduce the overall time in awarding the project and increase efficiency in the system.
9	Banking issues	A project was considered intangible based on its incapability to have a charge for banks, which entailed higher interest rates for the developer.	The lenders can have a charge on the escrow account of the project and thereby a tangible backing for the money lent.	This will likely lower the cost of borrowing for the developer, as banks can now show a backing for the money lent to the sector and have lower provisioning charge. This would effectively reduce the cost of borrowing for the developer.

Source: BK Chaturvedi Report, Centrum Research

Progress in the road sector

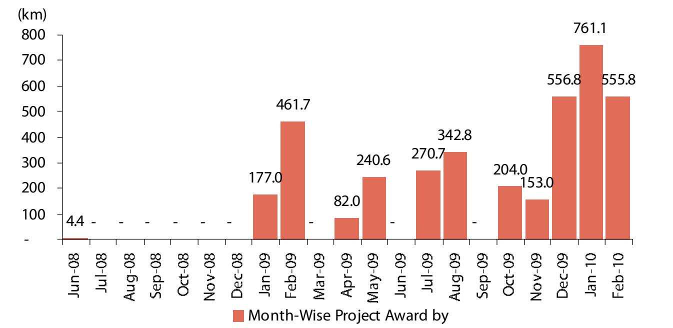
The awarding of road projects has gained traction in the past one year, after a change in guard in the Road Ministry. The government is also visibly intent on streamlining policies to provide a level playing field to investors. Hence, we have seen higher award activity this year and we expect it to gather more momentum over the next couple of years.

Exhibit 16: NHAI award activity



Source: NHAI, Centrum Research

Exhibit 17: Month-wise road project award



Source: NHAI, Centrum Research

Ports

As per the NMDP (National Marine Development Programme), 276 projects were envisaged in the port sector (details in Exhibit 60 below). The port sector, although a high potential segment for the construction segment, is plagued with regulatory and environmental issues. Projects worth Rs103bn are under construction and projects worth Rs182bn are to be awarded on a PPP basis in the major ports category. Despite the below-par performance over the past five years, we expect activity to pick up over the next couple of years, as we expect projects worth Rs182bn to be awarded over this time frame.

Exhibit 18: National Marine Development Program

Project Head	No. of Projects	Budgetary Support	Internal Resources	Private Investment	Others	Total	*Private as % of Total*
Deepening of channels/ berths, etc.	25	27.3	33.4	1.9	0.5	63.0	*2.9%*
Construction/reconstruction of berths/ jetties, etc.	76	5.6	38.7	280.8	0.5	325.6	*86.2%*
Procurement of Equipments, etc.	52	-	14.3	10.8	1.3	26.3	*40.8%*
Rail and Road connectivity works	45	0.9	22.3	-	36.3	59.6	*0.0%*
Others	78	2.3	29.0	51.6	0.6	83.5	*61.8%*
Total	**276**	**36.1**	**137.7**	**345.1**	**39.2**	**558.0**	***61.8%***

Source: Ministry of Port, Centrum Research

Exhibit 19: Ports to be awarded as on 31st March 2010

Port To be awarded	Investment Rsbn	Capacity
Ennore	14.1	15.0
Tuticorin	7.1	16.8
Kandla	25.3	27.0
Paradip	3.9	5.0
Visakhapatnam	11.8	27.0
NMPT	2.8	4.2
Chennai	31.3	48.0
JNPT	73.0	67.2
Mumbai	0.8	1.2
Kolkata	1.5	4.0
Cochin	2.4	4.5
Mormugao	8.4	17.0
Total	**182.2**	**236.9**

Source: Indian Infrastructure, Centrum Research

Exhibit 20: Ports under construction as on 31st March 2010

Port Under Construction	Investment Rsbn	Capacity
Cochin Port Trust	53.1	38.5
Ennore Port Limited	8.8	20.0
Mumbai Port Trust	14.6	9.6
New Mangalore Port Trust	5.1	9.6
Tuticorin Port Trust	0.5	6.3
Kandla Port Trust	1.9	2.0
Paradip Port Trust	11.1	24.0
Mormugao Port Trust	2.5	7.0
Vizag	1.7	3.9
Visakhapatnam Port Trust	4.4	10.2
Total	**103.7**	**131.1**

Source: Indian Infrastructure, Centrum Research

Water and irrigation

Incremental investments are being made in the water segment (irrigation, water treatment, etc) as India faces a deficit with regard to water for irrigation, industrial and household purposes. Several government initiatives have been taken to ensure adequate water supply for various purposes, such as AIBP (Accelerated Irrigation Benefit Program) which was introduced in 1996-97.

Exhibit 21: 11th Plan: Irrigation spend structure

Year (Rsbn)	Major & Medium	Minor	Command Area Development	Flood Control	Watershed development	Total
FY08	170.7	39.4	14.9	12.6	37.4	**275.0**
FY09	233.5	49.8	17.6	14.2	44.0	**359.2**
FY10	319.6	63.1	20.9	16.1	52.2	**471.9**
FY11	437.4	79.9	24.8	18.3	62.2	**622.7**
FY12	578.3	101.3	29.5	20.9	74.3	**804.3**
Total	**1,739.6**	**333.6**	**107.6**	**82.2**	**270.1**	**2,533.0**

Source: Planning Commission, Centrum Research

Urban infrastructure

Allocation in the 11th Five Year Plan focuses on rural water supply and sanitation (WSS) development. On the other hand, urban infrastructure is swamped by an ever-increasing population, creating an urgent need to upgrade/expand infrastructure facilities. The 11th Plan allocation for WSS is Rs1,437bn, whereas the urban infrastructure initiative has been allocated a further Rs1,292bn amounting to a total of Rs2,729bn. The Jawaharlal Nehru National Urban Redevelopment Mission (JNNURM) (part of the urban infrastructure improvement scheme) overlaps on projects worth Rs150bn.

Exhibit 22: Urban Infrastructure: 11th Plan spend structure

Sub-Sector	Rsbn	*Share (%)*
Urban water supply	537	*41.5*
Urban sewerage & sewage treatment	532	*41.1*
Urban drainage	202	*15.6*
Solid Waste Management	22	*1.7*
MIS	0	*0.0*
R&D and PHE training	0	*0.0*
Total	**1,292**	***100.0***

Source: Planning Commission, Centrum Research

Railways

As the 2010 Railway Budget indicated, projects would be taken up on a PPP basis. Historically, private participation has been low. We believe the railways sector is likely to open up a huge addressable market for construction companies, as the construction intensity of the sector is 78%. A few coverage companies like NCC, Era Infra and Ahluwalia cater to the segment. However, many players are contemplating entry as soon as the PPP- related policies are streamlined.

Exhibit 23: 11th Plan: railway expenditure structure

Particulars (Amount in Rsbn)	FY08	FY09	FY10	FY11	FY12	Total	USD bn
Rolling stock	68	78	90	103	119	**457**	**11.0**
Capacity augmentation & development	66	85	110	143	185	**589**	**14.2**
Safety and other works	139	161	186	216	250	**951**	**22.9**
Investment in PSUs	16	17	19	20	22	**94**	**2.3**
DFC	11	20	37	63	123	**255**	**6.1**
Metro Rail Projects	43	48	54	59	68	**272**	**6.5**
Total	**342**	**410**	**495**	**604**	**767**	**2,618**	**62.9**

Source: Planning Commission, Centrum Research

Airports

Upgrading of existing airports forms the major share of the 11th Five Year plan Allocation (of 42%) to the airports sector. These are primarily for metro airport expansion. The development of new Greenfield airports is also a big opportunity, as it forms the second biggest chunk of airport allocation (34%). Upgradation/expansion of airports should be visible for at least a decade, in our view. The requirement with regard to upgradation/expansion of airports is huge, considering that the general economic development of the country is linked to it.

Exhibit 24: Airport sector: 11th Plan spend details

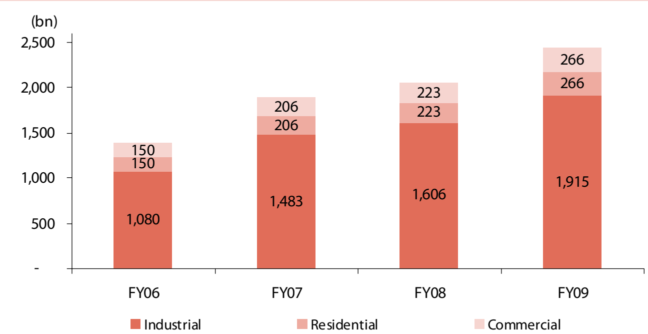
Particulars (Amount in Rsbn)	FY08	FY09	FY10	FY11	FY12	Total XI Plan	*Share*
Metro Airports	28	28	27	25	24	**131**	***42.3***
Non-Metro Airports	7.01	7.36	8.3	9.15	10	**42**	***13.6***
Greenfield Airports	14	15	18	25	33	**106**	***34.1***
NE Airports	0.85	0.94	1.03	1.13	1.24	**5**	***1.7***
Others	2.98	4	4.87	5.91	7.85	**26**	***8.3***
Total	**52**	**55**	**59**	**66**	**77**	**310**	***100.0***
Public	12	14	19	22	27	**93**	***30.2***
Private	40	42	40	44	50	**216**	***69.8***
Total	**52**	**55**	**59**	**66**	**77**	**310**	***100.0***

Source: Planning Commission, Centrum Research

Industrial, commercial & residential: 46% of construction pie in FY09

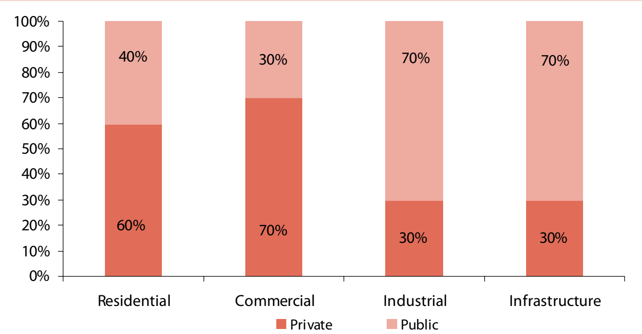
The industrial, commercial and residential segments formed 46% of the total construction spend in India and grew 21% CAGR over FY06-09. Going forward, we believe the residential and commercial segments will have benign performance terms. Hence, slow growth will be compensated partially by the industrial segment and major share gains will be made by the infrastructure construction segment.

Exhibit 25: Spending trend in construction sector (Rsbn)



Source: Indian Infrastructure, Centrum Research

Exhibit 26: Expenditure: client-mix

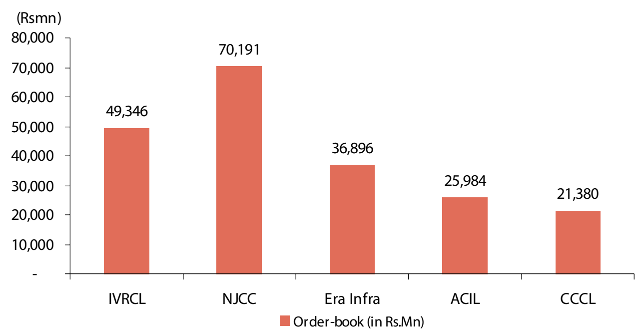


Source: Indian Infrastructure, Centrum Research

Order-book of companies' exposure in this segment

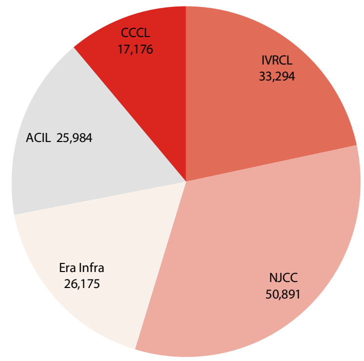
All of the companies under coverage, (except for HCC) have exposure to commercial, residential and industrial construction. The total order-book in the segment amounts to Rs171bn for all the companies under coverage. NCC has the largest exposure to this segment, amounting to Rs50bn of its order-book, followed by IVRCL at Rs40bn and Era Infra at Rs30.1bn. Commercial, residential and industrial construction comprise the main segments for CCCL and ACIL and, hence, form the major share of their total order-book.

Exhibit 27: Order-book in I&CR segment



Source: Company, Centrum Research

Exhibit 28: Buildings order-book (Rsmn)



Source: Company, Centrum Research

Construction Sector Overview

Structure of the Indian construction sector

The Indian construction sector is a highly fragmented industry, with over 120,000 companies vying for projects. As per the BSE Sensex norms for market capitalization, most of the companies are in the mid-to-small cap range.

Exhibit 29: Structure of the Indian construction industry

Indian Construction Industry						
Domestic Players					International Players (Listed & Unlisted)	
Public Sector Contractors		Private Sector Contractors				
		Unlisted		Listed		
1	IRCON	1	Shapoorji & Pallonji		1	S Sang Yong - Korea
2	Bridge & Roof	2	B.E.Billimoria		2	CIDB
3	Engineers India	3	SEW Constructions		3	LG Engg
4	HUDCO	4	Soma Enterprises		4	Hyundai E&C
5	Central PWD & State's PWD					

Infra Construction		Bldg Construction	
1	L&T	1	Ahluwalia Cont
2	Gammon India	2	CCCL
3	IVRCL	3	C&C Const.
4	NCC	4	BL Kashyap
5	HCC	5	Vascon Engg
7	JP Associates	7	Valecha Engg
8	Punj Lloyd	8	Unity Infra
9	Era Infra	9	Man InfraCon
10	Patel Engg		

Source: Centrum Research

Construction sector - Porter's analysis

Due to its fragmented nature, the competition in the construction sector industry is huge. The entry barrier of the sector is low, resulting in higher competition in smaller size contracts. However, at larger project sizes, the competition is healthy.

Exhibit 30: Porter's analysis of the construction sector

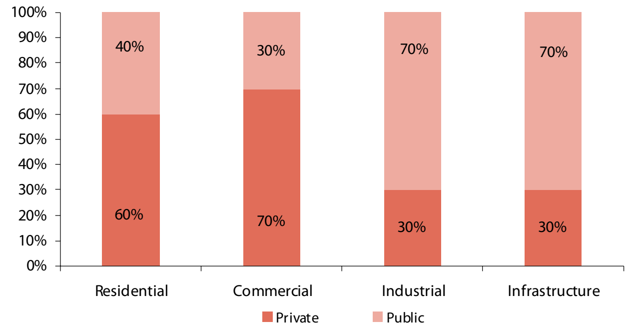
Entry barriers are quite **low**, as construction industry is relatively less capital intensive. Hence making it easier entry for new contractors. However, for larger project size, credentials are required which is possible after a long history of experience.	**Supplier Power** - Suppliers have little bargaining power, as raw material and equipment are easily avaliable. Most project contracts are fixed-price with cost escalation clauses.
Porter's Analysis for Construction Sector	
Buyer Power - Bargaining power of clients is quite high, as contracts are awarded after competitive price bidding. However, after the project is awarded there is little that the client can influence.	**Competition** - High fragmentation makes for intense competition at smaller size project level. However, at larger projects size competition is reasonable. Increasing presence of international contractors has made the business all the more competitive.

Source: Centrum Research

Construction sector's spend-mix by clients

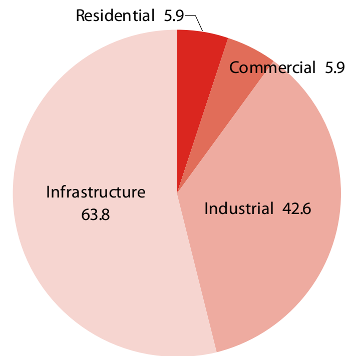
Indian construction industry is divided into four sub-segments – commercial, residential, industrial and infrastructure. Government spend as compared to private spend is in the ratio of 3:1. The commercial segment attracts the most private sector investment in construction, followed by residential. Industrial and infrastructure construction is mostly driven by the public sector, with the private sector's participation at just 30% in each segment. Going forward, the public: private spending ratio will change as the PPP model takes centre stage.

Exhibit 31: Private spending in construction sub-segments



Source: CIDC (through Indian Infrastructure), Centrum Research

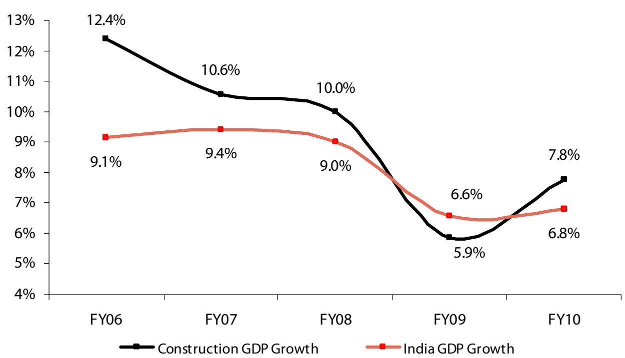
Exhibit 32: Construction turnover components



Source: CIDC (through Indian Infrastructure), Centrum Research

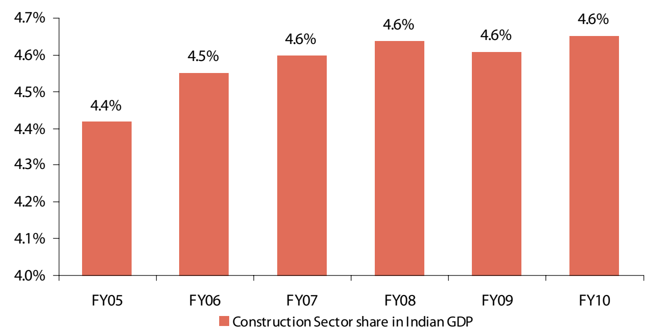
The share of construction business to GDP has steadily increased over the past decade and has grown faster than India's overall GDP growth. As a result, the share of construction in India's GDP has increased from 4.4% in FY05 to an estimated 4.8% in FY10. According to the CMIE, construction GDP is expected to increase by at least 10% in the next 4-5 years.

Exhibit 33: Construction GDP & total GDP growth



Source: RBI, Centrum Research

Exhibit 34: Rising share of construction sector in total GDP



Source: RBI, Centrum Research

Appendix A

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