

IPO Note: Consolidated Construction Consortium Ltd
PRICE BAND: Rs 460 – Rs 510
SUBSCRIBE
Issue Details

Issue Size to public	Rs. 170.2 - 188.7 Cr
Face Value (Rs)	10
Bid opens	18-Sep
Bid closes	21-Sep
Issue band (Rs)	Rs. 460 - 510
Issue Type	100% BB
Lead Managers	
Enam Securities Private Ltd	
Kotak Mahindra Capital Company Ltd	
Spark Capital Advisors Private Ltd	
Registrar	
Karvy Computershare Private Ltd	

Issue Structure	Equity Shares
Net Issue Size	3,700,000
QIB Portion	2,220,000
<i>MFs</i>	111,000
Non Institutional Portion	370,000
Retail Portion	1,110,000

No of Issued, subscribed and paid up shares before the issue	33,255,445
No of Issued, subscribed and paid up shares after the issue	36,955,445

Promoter and Promoter Group holding (Pre Issue)	55.81%
Promoter and Promoter Group holding (Post Issue)	50.20%

Company Snapshot

Consolidated Construction Company was established in 1997 Chennai, which has completed 334 projects in total – a major chunk of which was in commercial and industrial projects. The company provides design, EPC and project management services. Along with that, it also provides associated services like mechanical and electrical work, plumbing, fire fighting, heating, ventilation and air conditioning, interior fit-out services and glazing solutions. As of July 31 2007, CCC has 146 projects across India and it requires construction of 4.57 mfs of industrial space, 17.96 msf of commercial space and 0.55 msf of residential space. The current order book of the company stands at Rs. 2049.56 Cr.

Services	Rs in Million	Percentage (%)
Construction	17,032.69	83.10
M&E	2,230.49	10.88
Interiors	692.64	3.38
Glazing	539.86	2.63
Total	20,495.68	100.00

Objects of the Issue

CCC intends to utilize the raised funds for the following purposes.

- Finance and Acquisition of construction infrastructure: In order to qualify for large contracts and complete projects in a timely manner, the company feels it crucial to own suitable construction infrastructure. This will also enable the company to undertake large-scale construction projects in future. Out of the total proceeds, Rs 137.44 Cr will be utilized towards this by 2010.
- Investments in subsidiaries: Rs. 6.8 Cr from the net proceeds is planned to be invested in the subsidiaries i.e. in Consolidated Interiors Ltd and Noble Consolidated Glazings Ltd.
- Expenditure towards skill and management development Centre: CCC opened up a skill development centre in April 2007 at the outskirts of chennai to train workers. Company plans to expand this facility and a total of Rs. 4.85 Cr from the net issue will be spent for the expansion of this training centre.

- Repayment of loans: Company intends to repay up to Rs 1.6 Cr of the outstanding debt from the net proceeds and the entire amount would be deployed during FY08.
- Fund expenditures for general corporate purposes: The company will have the flexibility to apply the remaining funds towards general corporate purposes towards construction and project implementation, strategic initiatives and acquisition, brand building exercise.

Strengths

Providing integrated turnkey construction services to diversified sectors

The company provides construction services to clients operating in the industrial, commercial, residential and infrastructure segments. It builds structures like office buildings, hospitals, malls and multiplexes. Presence in all the major construction industry verticals would facilitate future growth.

Ownership of critical construction infrastructure

CCC owns many important construction infrastructures like scaffolding, batching plants, concrete pumps, tower cranes and rotary rigs that enable it to execute large and complex projects in a timely manner. The existing infrastructure coupled with the planned expansions of these facilities would have significant impact on operating margins going forward.

Scheme of concentric Integration

Company's scheme of concentric integration includes allied services like software-based design and detailing, interiors contracting services, mechanical, electrical, plumbing and air conditioning design, glazing and aluminium fabrication services and building products division. This facility reduces the dependence on third party and helps maintain quality standards of the products and services required for the construction.

Concerns

Pre-qualification may restrict ability to bid for large projects

Being a comparatively smaller player, CCC's ability to bid for large, high value projects is restricted and may not be able to compete with industry leaders like HCC, Nagarjuna and IVRCL.

Exposure to liabilities under construction contracts

CCC enters in to contracts with the clients in order to provide the construction services. These contracts specify a period during which, the company would have to rectify any defects from EPC services provided at its cost. Significant liabilities may arise from loss of life, personal injury, damage to property, damage to equipment and facilities, pollution, inefficient operating processes etc.

Financials

CAGR of 76% over last 3 years

CCC enjoyed a compounded annual growth rate of 76% in the turnover over last 3 years. Looking at the strong order book of Rs 2049.5 Cr and its execution capabilities, revenues are expected to increase significantly in the coming years.

Significant operating margin improvements in recent years

CCC's operating margins improved sharply over FY06 – FY07 from 4.85% to 7.94% - an increase of 309 bps. In FY07, operating margins improved by another 13bps taking OPM to 8.07%.

Valuations

Valuations Compare to Peers

	CMP	RONW	EPS	P/E	Mcap/Sales
CCC					
(Higher Band)	510.0	14.0	12.5	40.8	2.2
(Lower Band)	460.0	14.0	12.5	36.8	2.0
B.L Kashyap	1941.8	10.3	54.2	35.9	2.5
JMC Projects	343.5	9.9	8.8	39.2	1.2
Gayatri Projects	292.0	9.9	23.4	12.5	0.6
Patel Engineering	461.6	53.9	18.1	25.4	5.5

CCC has posted YoY growth of 103% and 151% in the top and bottom line respectively. Company's operating margins have also improved by 20bps in FY07. Margins are expected to improve further due to planned investment in construction infrastructure facilities. Considering this together with company's focus on commercial segment (58% of FY07 revenues) which is likely to provide significant growth opportunity driven by demand from IT/ITES sector, we recommend SUBSCRIBE rating to the issue.

Financial Snapshot

	Rs Crore		
	FY07	FY06	YoY (%)
Net Sales	863.3	425.2	103.0
Total Expenditure	793.7	391.5	102.8
Operating Profit	69.6	33.8	106.3
Other Income	5.0	1.2	
EBITDA	74.7	35.0	113.4
Depreciation	3.6	1.9	
PBIT	71.0	33.1	21.9
Interest	6.9	4.1	69.5
PBT	64.2	29.0	120.9
Tax	16.5	10.1	
PAT	47.7	19.0	151.1
Equity*	37.0	37.0	
EPS	12.9	5.1	
Margins (%)			
OPM	8.1	7.9	
NPM	5.5	4.5	

* Diluted Equity

Anagram Research is also available on Bloomberg < Code ANGM > and ISI Emerging Markets.

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