Era Constructions

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,314	ERC IN
	REUTERS CODE
S&P CNX: 2,829	ERCI.BO

Equity Shares (m)	13.4
52-Week H/L (Rs)	193/51
1,6,12 Rel. Perf. (%)	25/85/176
M.Cap. (Rs b)	2.5
Avg. Daily Vol. ('000)	413.5

17 January 2006

Buy

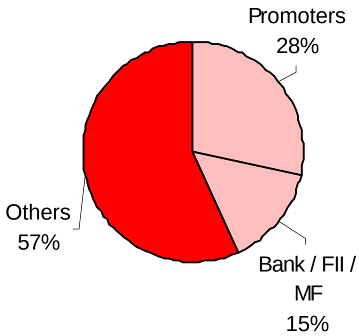
Rs184

YEAR END	NET SALES (Rs M)	PAT (Rs M)	EPS (RS)	EPS GROWTH (%)	P/E (x)	P/BV (x)	RoE (%)	RoCE (%)	EV/ SALES (x)	EV/ EBITDA (x)
3/05A	1,562	54	8.3	25.5	22.1	4.1	16.8	17.1	1.0	10.7
3/06E	2,900	174	13.0	56.2	14.2	2.7	18.7	22.6	0.9	7.8
3/07E	5,750	367	27.5	111.2	6.7	2.0	29.2	32.1	0.5	4.0

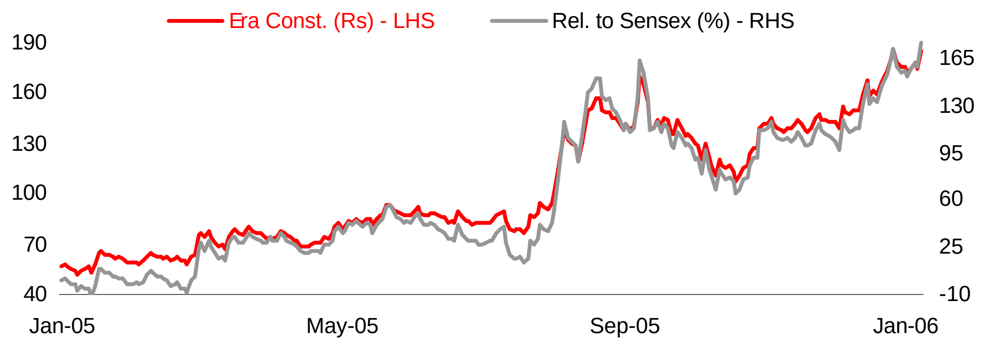
Dawn of a new Era

- Infrastructure, the segment in which Era Constructions (I) Ltd (ECIL) operates, is booming. Industry estimates have placed a possible infrastructure spend of about Rs.6,195b in India over the next five years.
- ECIL, a mid-sized company is promoted by a technocrat and nicely positioned to take part in the ensuing growth story. It is on its way towards becoming big. Its margins (EBITDA at c.11-12% and PAT c.6%) are amongst the best in the industry.
- Current order book of Rs.8b is approximately 2.6x FY06E sales ensuring growth for the next two years. Outstanding orders are likely to cross Rs.12b by the end of FY06 and its current net worth allows it to carry an order book of Rs.30b.
- We believe ECIL will post net sales of Rs5.7b and PAT of Rs367m in FY07. Between FY05-07 its net sales are likely to post a CAGR of 92% and PAT a CAGR of 160%. At CMP the stock discounts FY06E EPS of Rs13 by 14.2x and FY07E EPS of Rs27.5 by 6.7x. We recommend a **BUY** with a price target of Rs275 which discounts FY07E EPS by 10x.

SHAREHOLDING PATTERN



STOCK PERFORMANCE (1 YEAR)



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Industry Opportunity - A pie for all

In the past few years Indian government, at the center as well as those of states, have taken initiatives towards improving infrastructure of the country. Last one year has seen many new projects being allotted and policies formulated for increasing infrastructure spend.

Infrastructure spending according to industry estimates in the next five years is likely to be as under:

Areas	Rs in b	%
Roads	1735	28.0
Power	1717	27.7
Sagar Mala	1090	17.6
Urban Infrastructure	430	6.9
Pipelines	400	6.5
Railways	324	5.2
Ports	170	2.7
Airports	135	2.2
Special Economic Zones	116	1.9
Water	69	1.1
Bus Terminals	9	0.1
Total	**6195**	**100.0**

Source: NCC Annual Report

Roads

NHAI's scope earlier was limited to Phase I and II. This has now been enhanced to Phase VII, in turn enlarging the investment base to Rs1.90t from Rs646b. This investment has to be done till FY12 with Rs1.4t worth of contracts yet to be awarded.

Ports

In its recently released draft policy report government wants to invest Rs610b in the National Maritime Development Program. This program, scheduled for completion by FY14, is the first comprehensive policy formulated for the port sectors.

Railways

The government plans to spend Rs150b under a program called National Rail Vikas Yojna. Under this scheme ports are to be connected with the golden quadrilateral. The government also plans to construct an independent, high-speed railway freight corridor which will connect all the metros. This will entail an investment of Rs660b.

Airports

Overall Rs135b is likely to be spent on building airports in the country by FY10. While a lot of indecisiveness and dilly-dallying continues to mark the overall policy regarding building/renovation of airports in the country, Rs28.11b is planned to be spent on two new airports in Bangalore and Hyderabad. The government also plans to invest Rs40b on non-metro airports and plans to develop Nagpur as a global air-cargo hub. This proposed Multi-Modal international hub airport is likely to entail an investment of Rs30b to be implemented on a BOT basis, i.e. with private sector participation.

Capital Investment

No serious capex has happened in the Indian industry since the 1990. However, with fortunes of Indian industry looking better going forward, Indian companies are likely to invest heavily in capex. An estimated $344b ($86b in metal units alone) is likely to be invested into projects for which companies and the government have indicated their investment interest.

Hydropower

According to estimates of the current and next two forthcoming five year plans a minimum of ~40,000 MW of hydroelectric power is likely to get added in the next 12 years entailing an investment of Rs2,000b.

Background

Era Constructions (India) Ltd, (ECIL), which commenced operations in September 1990, is promoted by HS Bharana, a civil engineer. From its relatively humble beginning, the company has today grown into a mid-sized civil construction entity. ISO 9001/2000 certified ECIL undertakes diversified construction activities such as building runways and integrated cargo complexes for airports, power projects, railways, drainage, sewerage & roads, institutional & industrial complexes, multiplexes, residential buildings catering to PSUs, private sector, CPWD and Asian Development Bank aided projects among others.

Urban infrastructure

There will be hardly anyone who will disagree that Indian cities need massive investments in order to improve the general living conditions of the common man. This will also go a long way in improving productivity of Indian companies. Estimates show that a minimum of Rs430b will be required for urban infrastructure for setting up facilities like metro railway systems and Integrated Rail-Cum-Bus-Transport (IRBT). This includes cities like Delhi (including NCR), Mumbai, Hyderabad, Bangalore, Chennai, Kochi and Kolkatta.

Water supply & sanitation

Urban as well as rural water supply and sanitation facilities are grossly inadequate and urgent attention is required to put these facilities in order. The tenth plan (FY02 to FY07) had envisaged 100% coverage of urban population with water facilities and 75% coverage for sewage & sanitation entailing an investment of Rs530b. There is a massive shortfall, reportedly of over Rs300b, leaving enough scope for further projects to come up, going forward.

State governments have joined the fray

So far only the central government was spending money on infrastructure projects. However, now even state governments have begun taking initiatives on their own. The Andhra Pradesh government has earmarked a budgetary support of Rs490b for funding irrigation projects in the period between FY05 and FY09. The Tamil Nadu government has already initiated a water desalination project in Chennai to overcome acute shortage of potable water.

Introduction

ERA Construction (India) Limited has had a long innings in construction industry. It has undertaken projects in various segments such as infrastructure projects, power, airports, pharmaceuticals, textiles, hospitals, chemical plants, residential complexes, multiplexes and engineering industry among others. The company has completed more than 55 projects in a span of 15 years valued at more than Rs5b.

Its clients include NTPC, Indian Railway, National Buildings Construction Corporation Ltd, PWD, CPWD, NDDB, NHPC, Ircon International, Unichem Laboratories, Rajasthan Spinning & Weaving Mills, BHEL etc.

The company has a strong management team with a focus on employing engineers. Currently, its engineering professionals number 300 in all. Its employees on role currently are c.600 and estimated to increase to 1500 in the next 2-3 years.

Outstanding order book

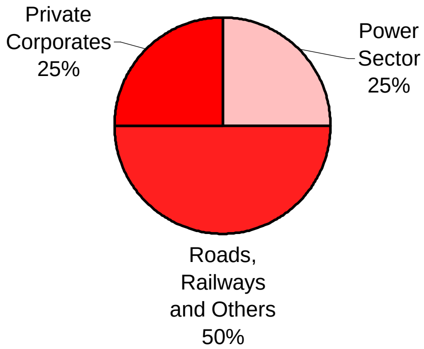
As of now, ECIL's outstanding order book stands at Rs.8b. This comprises orders worth Rs.2b from the power sector and Rs.4b from the roads, railway, airports, cables and sewerage industry. Hospitals, housing and industrial undertakings would account for another Rs.2b. This apart, ECIL has further participated in orders worth Rs.40b. Its current net worth, which is c.Rs0.9b entitles it to take orders upto Rs30b.

Some recent orders bid for or acquired

- Rs.259m contract from Hindustan National Glass Ltd. for factory building at Bahadurgarh.
- Rs.435m, road project for widening of roads from Masana to Bhanpura via Rampura at Neemuch & Mandasur districts in Madhya Pradesh from MPRDC.
- Rs637m project from RVNL for all civil works related to conversion of meter gauge line to broad gauge line between Rewari to Ajmer (in a 50:50 join venture with Rani Constructions)
- Rs.237m university building contract from Sri Mata Devi Vaisnav University at Udampur.

The margins in private sector projects like industrial projects are c.20% at operating level and 10% at the net profit level. However, these margins are lower in mass projects like roads, railways at c.10-12% (operating level) and 5.6% (net profit level).

CURRENT ORDER BOOK BREAKUP



Source: Company / Motilal Oswal Securities

IPO/Fund Raising

The company had tapped the capital market for the first time in FY95. It issued shares at Rs25 each including a premium of Rs15 collecting Rs37.5m. In order to take advantage of the growing opportunities in various segments of infrastructure and to augment its long term financial needs ECIL tapped the capital market again in June 2005 to collect Rs.490m issuing shares at a premium of Rs62 each. This raised its equity capital to current level of Rs133.5m. The company has also allotted 4.49m warrants on a preferential basis at Rs135/warrant to promoters and each warrant carries a right to subscribe to an equal number of equity shares of Rs10 each in the company on conversion within a period of 18 months from the date of allotment. This effectively increases company's equity to Rs.178.4m. While these warrants have not yet been converted, the same are expected to do so in June 2007.

Pre engineered building materials

ECIL is setting up facilities to manufacture Pre Engineered Building (PEB) materials plant at Pant Nagar (Uttaranchal) through a separate entity being promoted by it. ECIL will hold 51% of the equity and the remaining 49% will be held by promoters and associates. The project will enjoy tax benefits like excise, sales tax and income tax exemptions under the benefits given by the state government for the development of the state. Outlay for the first phase is estimated at Rs850m (approx.). Pre-engineered steel building materials, widely known as PEBs, are very popular worldwide for their versatility, energy efficiency, speed of construction, economy & ease of design / manufacturing. PEBs are tailor-made solutions to meet customer specific requirements and demand for PEBs is growing at a very fast pace. PEBs are used extensively by construction companies in India. ECIL will use pre engineered building materials for engineering design, procurement and construction (EPC) contracts. According to estimates, PEB material industry is expected grow from Rs4,500m to Rs25,000m by 2011 as all kinds of non residential buildings like airports, railways stations, factories, power plants, and petrol pumps are increasingly using pre-engineered building structures. In our financial estimates we have not taken into account any savings that may accrue to ECIL from this venture.

Real estate venture:

ECIL is entering the lucrative real estate business through an SPV, ERA Construction Infrastructure Limited. This SPV, through various investment companies, plans to buy land and develop real estate on it. The equity of this company is current small at Rs60m and ERA Construction holds 40% stake in this. The balance is held by promoters and associates. This SPV will let out the entire construction work to ECIL at cost plus basis and ensure it a minimum margin of 10%. This arrangement would ensure regular work for ERA at a decent margin. Moreover, the company would also get dividend income when the SPV makes profits. The SPV has already acquired land worth of Rs1.5b in states like UP, Bengal and Haryana.

Financials

In the 1HFY06 ECIL posted net sales of Rs1225.9m, up 90.6%, EBITDA of Rs140.4m, up 134.4% and PAT of Rs.60.8m, up 215%. Margins too have improved YoY. EBITDA margin increased to 11.45% (9.31%), EBTDA margin to 8.06% (5.74%) and PAT margin to 4.96% (3.00%). Margins have improved due to bigger sized projects, lower steel and cement costs and due to low competition in the face of growing demand.

Investment Concern:

Although there are huge growth opportunities going forward and large number of orders expected to flow in, implementation of these orders on time would remain a challenge as the company grows from mid to large size.

The ability of the company to mobilize adequate fund to facilitate growth too could turn out to be a challenge

Valuations

The strong order book and humungous opportunities going forward will together result in huge growth in topline as well as bottom line for the company. We believe ECIL will post net sales of Rs5.7b and PAT of Rs367m in FY07. Between FY05-07 its net sales are like to post a CAGR of 92% and PAT a CAGR of 160%.

For FY08, we believe ECIL will post sales of Rs8b and PAT of Rs500m. At CMP the stock discounts FY06E EPS of Rs13 by 14.2x and FY07E EPS of Rs27.5 by 6.7x. We recommend a **BUY** with a price target of Rs275 which discounts FY07E EPS by 10x and FY08E EPS by 7.5x.

INCOME STATEMENT					(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net sales	**1,095**	**1,562**	**2,900**	**5,750**	**8,000**
Change (%)	*7.9*	*42.7*	*85.6*	*98.3*	*39.1*
EBITDA	**84**	**140**	**336**	**673**	**960**
Change (%)	*14.6*	*67.4*	*139.7*	*100.3*	*42.6*
Depreciation	18	22	27	46	80
EBIT	**65**	**119**	**309**	**627**	**880**
Interest	32	57	83	130	200
Other income	9	12	10	10	10
PBT	**43**	**74**	**236**	**507**	**690**
Tax	14	20	62	140	190
Rate (%)	*31.9*	*26.7*	*26.3*	*27.6*	*27.5*
REPORTED PAT	**29**	**54**	**174**	**367**	**500**
Adjusted PAT	**29**	**54**	**174**	**367**	**500**
Change (%)	*23.4*	*88.3*	*220.0*	*111.2*	*36.2*
EBITDA margin (%)	*7.6*	*9.0*	*11.6*	*11.7*	*12.0*
PAT margin (%)	*2.6*	*3.5*	*6.0*	*6.4*	*6.3*

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	**6.6**	**8.3**	**13.0**	**27.5**	**28.0**
Growth (%)	*23.4*	*25.5*	*56.2*	*111.2*	*2.0*
Cash EPS	10.8	11.6	15.0	30.9	32.5
Book value	56.4	44.5	69.5	94.2	129.7
DPS	1.0	1.0	2.0	2.5	2.5
Payout (incl. Div. Tax.) (%)	14.9	13.5	17.3	10.3	10.1
Valuation (x)					
P/E	27.8	22.1	14.2	6.7	6.6
Cash P/E	17.0	15.8	12.3	6.0	5.7
Price/Book value	3.3	4.1	2.7	2.0	1.4
EV/Sales	0.8	1.0	0.9	0.5	0.4
EV/EBITDA	10.7	10.7	7.8	4.0	3.7
Dividend yield (%)	0.5	0.5	1.1	1.4	1.4
Profitability ratios (%)					
RoE	11.8	16.8	18.7	29.2	21.6
RoCE	15.2	17.1	22.6	32.1	27.1
Turnover ratios					
Debtors (days)	83	95	94	83	82
Inventory (days)	40	45	44	39	56
Creditor (days)	95	95	90	91	91
Asset turnover (x)	2.2	2.0	2.1	2.9	2.4
Leverage ratio					
Debt/Equity (x)	0.7	1.1	0.4	0.5	0.3

BALANCE SHEET					(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity share capital	43	65	134	134	178
Share Application	0	32	0	0	0
Reserves	202	227	794	1,124	2,135
Networth	**245**	**324**	**928**	**1,257**	**2,313**
Loans	179	373	400	600	800
Net deffered tax liability	64	69	86	126	166
Capital employed	**488**	**766**	**1,414**	**1,983**	**3,279**
Gross fixed assets	371	476	650	900	1,250
Less: Depreciation	97	103	130	176	256
Net fixed assets	**275**	**373**	**520**	**724**	**994**
Capital WIP	0	0	0	0	0
Investments	5	5	5	155	155
Curr. assets	**514**	**810**	**1,585**	**2,467**	**3,984**
Inventory	121	192	350	620	1,225
Debtors	250	405	750	1,300	1,800
Cash & bank balance	78	103	235	241	359
Loans & advances	64	111	250	306	600
Current liab. & prov.	**306**	**424**	**696**	**1,363**	**1,854**
Creditors	243	341	600	1,225	1,700
Other Liabilities	46	57	60	72	74
Provisions	17	26	36	66	80
Net current assets	**208**	**386**	**889**	**1,104**	**2,130**
Misc. exp. (not written off)	0	2	0	0	0
Application of funds	**488**	**766**	**1,414**	**1,983**	**3,279**

E: Estimates

CASH FLOW STATEMENT					(Rs M)
Y/E MARCH	2004	2005	2006E	2007E	2008E
PBT before EO items	**42**	**74**	**236**	**507**	**690**
Add : Depreciation	18	22	27	46	80
Interest	32	57	83	130	200
Less : Direct taxes paid	14	20	62	140	190
(Inc)/Dec in WC	-21	-153	-371	-209	-908
CF from operations	**58**	**-20**	**-87**	**334**	**-128**
EO, misc. & other items	0	0	0	0	0
CF from oper. incl. EO items	**58**	**-20**	**-87**	**334**	**-128**
(Inc)/Dec in FA	-36	-120	-174	-250	-350
(Pur)/Sale of investments	-2	0	0	-150	0
CF from investments	**-37**	**-120**	**-174**	**-400**	**-350**
Inc/(Dec) in networth	5	35	479	40	646
Inc/(Dec) in debt	47	194	27	200	200
Less : Interest paid	-32	-57	-83	-130	-200
Dividend paid	-4	-7	-30	-38	-50
CF from fin. activity	**16**	**165**	**393**	**72**	**596**
Inc/Dec in cash	**37**	**25**	**132**	**6**	**118**
Add: Beginning balance	40	78	103	235	241
Closing balance	**78**	**103**	**235**	**241**	**359**

NOTES

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Disclosure of Interest Statement	**Era Constructions**
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.