

IPO NOTE

Consolidated Construction Consortium Ltd.

Subscribe

IPO Details

Face Value	Rs. 10
Price Band (Rs)	Rs. 460-510
Issue Opens	18-Sep-07
Issue Closes	21-Sep-07
Bloomberg	CCCL IN
BRLM	Enam Securities/ Kotak Mahindra Capital
Registrar to issue	Karvy Computershare Pvt. Ltd.
Shares on offer for sale	3.7 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	55.8
Investors	44.2

Post issue shareholding pattern

Shareholders	% Stake
Promoters	50.2
Investors	39.8
Other Public Category	10.0

Segmented Allocation

QIBs	2,220,000
Non-Institutional	370,000
Retail	1,110,000

IPO Details	Lower End	Upper End
Price Band	Rs. 460.0	Rs. 510.0
Shares prior to issue (mn)	33.3	33.3
Fresh Issue of shares (mn)	3.7	3.7
Total Equity Shares (mn)	37.0	37.0
Share Capital (mn)	Rs. 369.6	Rs. 369.6
Implied market cap (mn)	Rs. 16,999.5	Rs. 18,847.3
Debt (mn) (as on 31/03/2007)	Rs. 1,154.3	Rs. 1,154.3
Cash (mn) (as on 31/03/2007)	Rs. 889.2	Rs. 889.2
Implied EV (mn)	Rs. 17,264.6	Rs. 19,112.4

Consolidated Construction Consortium Limited (CCCL) provides various turn key construction services in infrastructure, industrial, commercial and residential sector in 17 states and territories. Its present business is concentrated in southern India from which it derives 92.2% of its revenue. As on 31 July, it had an order book of Rs. 20,495.6 mn. The Company has a short construction cycle of 12-18 months that helps it to recognize revenues rapidly. By venturing into SEZ development it has moved up the construction value chain. Given the positive construction environment, modest order book, repeat orders from clients and increased government spending in infrastructure, CCCL expects the revenue to grow at 40-50% for FY08.

CCCL plans to raise Rs. 1,702-1,887 mn by offering 3.7 mn shares at a price band of Rs. 460-510 for Rs. 10 face value share. The proceeds will primarily be used to expand the existing construction equipment and increase investment in subsidiaries.

Valuation and Recommendation

The Company at the current PE of 32.1x and 35.6x is at a discount of 5.3% and a premium of 5% to its immediate peer BL Kashyap, on the lower and upper price band, respectively. Considering the forward PE for FY08, CCCL is valued at a substantial discount to its closest peer. However, a comparison vis-à-vis the industry average suggests that the stock is valued in line with the industry. We expect the Company to leverage its expertise in executing larger contracts and thus improve operating efficiency. CCCL has recorded strong revenue growth in the past and currently maintains a healthy order book. Based on our analysis, we believe that the stock can provide modest listing gains at the lower price band and is a good investment over a medium to long term period. Hence, we recommend the investors to **Subscribe** to the issue at the lower price band.

Peer comparison

Valuation	Market Cap.	EV	PE	
			2007	2008E
Pratibha industries	3,556	4,488	17.4x	14.0x
BL Kashyap	19,815	20,361	33.9x	27.6x
JMC Projects	6,150	6,363	27.2x	24.0x
Simplex Infra	16,120	22,572	30.8x	19.4x
Industry average			27.3x	21.3x
CCCL				
Higher Band			35.6x	23.1x
Lower Band			32.1x	20.8x

IPO

Issue details

CCCL will raise Rs. 1,702 mn to Rs. 1,887 mn through an IPO of 3.7 mn equity shares. The promoters held 55.8% of the issued and paid-up share capital of the Company. After the issue, the promoters will own 50.2% of the post-issue paid-up equity share capital. The Company has allocated 2.2 mn shares of the net issue for QIBs, 0.4 mn shares for non-institutional buyers and 1.1 mn shares for retailers. The net issue to the public would constitute 10% of the fully diluted post-issue paid up capital of the Company.

Issue objective

The IPO is being carried out to raise funds for the following purposes:

- Acquisition of equipment used for construction like concreting equipment, material handling, piling, and reinforcement equipment
- Investment in subsidiaries; Consolidated Interiors Ltd. and Noble Consolidated Glazings Ltd.
- To meet the expenditure on skill and management development center
- Repayment of loans and general corporate expenses

Promoters

Mr. R. Sarabeswar is the promoter and CEO of CCCL and has more than 30 years of experience in the construction sector. He has previously worked with Larsen and Toubro Ltd, SPIC, SMO division and the Shobhakshi Group, Saudi Arabia. Mr. S. Sivaramakrishnan is also the promoter and MD of the Company with more than 30 years of experience and is responsible for the administration of the Company. Mr. V.G. Janarthanam, another promoter of CCCL has 15 years experience and is responsible for the operations.

Investment Rationale

Modest order book with small construction cycle

The Company has an order book of Rs. 20,495.6 mn as on July 31, 2007 and expects a growth of 40-50% for FY08. This provides good earnings visibility. Moreover, a shorter gestation period of 12-18 months provides faster revenue recognition and healthy growth in operating cash flows.

Emphasis on securing large contracts to improve operating efficiency

CCCL emphasizes on securing turnkey projects in construction services where they can exercise greater control over project costs which offer higher margins. Post issue, the Company will qualify to apply for larger contracts. This is expected to provide better operating efficiency and improved margins.

Strong client base

CCCL caters to various clienteles in different sectors of the economy such as IT/ITeS, public utilities, pharmaceutical, hospitality, retail, malls, education and multiplexes. The Company has reputed clients like AAI, Infosys, Ascendas, Manipal and many others from which it has received repeated orders.

Extensive experience of the promoters

The promoters have more than 30 years of experience in the construction sector and have the capability and know-how to execute projects in various segments of the economy. The construction sector is presently facing a scarcity

of contractors and also lacks in-house capability to execute large contracts. CCCL is in a strong position to capitalize on the current scenario under the effective guidance of its management.

Moving up the value chain

The Company has been adding value to its contract portfolio and currently has 7 SEZ projects planned for development. CCCL also has the approval for the development of its own SEZ in Tuticoin spread over 360 acres which is expected to add considerable revenue given its strategic location near the port.

Key Risks

Escalation in input costs

CCCL has reported EBITDA margin of 8.5% in FY07 which will be difficult to maintain/ improve in case of escalation in raw material prices and other input costs. Also, a portion of the Company's contracts are on a fixed price basis and costs overruns will considerably affect earnings.

Delay in implementation of projects

CCCL has the benefit of having a short construction cycle of 12-18 months. Delay in implementation of its projects is likely to affect future credibility and new contract wins.

Sluggish demand

The Company's growth prospects are dependent upon the construction industry's performance. Any unfavorable downturn is likely to have an adverse effect on the earnings of the Company.

Outlook

CCCL's topline grew at CAGR of 61.9% over the last five years. EBITDA margins have improved continuously from 4.6% to 8.1% during the same period. On a pre-issue basis (post bonus issue), the Company is valued at a PE of 32.1x and 35.6x for FY07, on the lower and upper price band, respectively. Post issue, it is expected that CCCL will be able to leverage its expertise to execute larger contracts and improve operating efficiency. The stock seems to be a good investment in the medium to long term based on steady growth in order book, timely execution of projects and expected improvement in margins along with movement towards higher value added projects. Considering the above, we expect the Company to record a forward PE of 20.8x and 23.1x for FY08E, at the lower and upper price band, respectively. Based on the valuation, we recommend the investors to **Subscribe** to the issue at the lower price band.

Company Background

Consolidated Construction Consortium Ltd. was incorporated in 1997 in Chennai and has provided integrated turn key solution in construction services such as construction design, engineering, procurement, construction and project management and, construction allied services such as mechanical and electrical, plumbing, fire-fighting, heating, ventilation and air conditioning, interior fit-out services and glazing solutions. It primarily operates in southern India but has recently expanded its geographical horizon in both India and abroad. The promoters have more than 30 years of experience in the construction field and have executed 334 projects in various sectors in industrial, infrastructure, commercial and residential sectors. The Company has a prestigious client list such as Airport authority of India, Hi-Tech Carbon, Infosys, and Ascendas. The company has also entered into a JV with Tradeline LLC in Dubai to capture the recent upsurge in construction activities in the Middle East. With the construction sector in India expected to grow at a CAGR of 13.5% over the next 5 years, CCCL is poised to benefit from this opportunity.

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