

Construction Sector

Q2FY11 Results Preview

14 October 2010

Positive View

Challenging quarter on good monsoon

We remain positive on the Construction sector, due to its potential and current valuation. A good monsoon would impact Q2FY11E revenue numbers for companies like IVRCL Infra HCC and Era Infra which possess substantial road projects under execution. We believe Ahluwalia Contracts, Nagarjuna Constructions and CCCL will be relatively less impacted. FY12 revenue is likely to witness limited risk. Hence we maintain our positive stance on the sector and retain Ahluwalia Contracts as our top pick in the construction sector coverage universe.

- **Sector seasonality bad for 2Q revenue:** 2Q revenue for construction companies is low because of the monsoon impact. We factor in YoY growth of 25% for our coverage construction companies composite v/s 32%, 28% and 35% growth for second, third, and fourth year seasonality growth, respectively.
- **Companies likely to disappoint:** Companies with substantial exposure to road projects are expected to disappoint more than players with substantial exposure to other segments. Hence, we believe IVRCL Infra, HCC and Era Infra will be more impacted.
- **Companies less likely to disappoint:** We believe companies like Nagarjuna Construction, CCCL and Ahluwalia Contracts, that have diversified segmental presence, are less likely to disappoint on this year's better monsoons.
- **Order-inflow strong during the quarter:** Order-inflow of Rs58bn for construction companies under our coverage (includes only disclosed order on BSE) since July-to-date. However, we believe, that the order-book for coverage companies is less of an issue, since most have decent book-to-bill ratio.
- **We maintain a positive view on the construction sector:** Construction stocks have underperformed the Sensex since our sector initiation. Hence, we believe that post-Q2FY11 results would be a good entry point for investors looking for an entry in stocks like IVRCL Infra, HCC and Era Infra (based on the disappointment regarding good monsoons impacting revenue). We retain Ahluwalia Contracts as our top buy in our construction universe.

Price Performance (%)

	1M	6M	1Yr
IVRCL Infra	3.3	(6.3)	(19.7)
Nagarjuna Const.	(5.1)	(15.6)	(13.9)
Hindustan Const.	5.7	(2.1)	(7.1)
Era Infra	5.7	(2.1)	(7.1)
CCCL	(4.6)	(6.7)	30.4
Ahluwalia Cont.	1.8	(2.7)	26.2
NIFTY	4.7	9.8	74.6

Source: Bloomberg, Centrum Research
*as on 13 October 2010

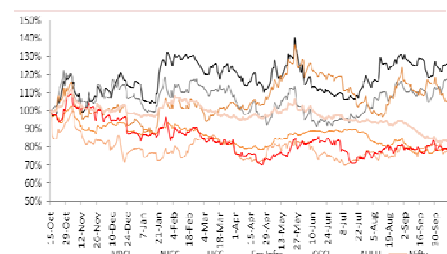
Stock Recommendation

Company	Rating	Target Price (Rs)	Upside/Downside (%)
IVRCL Ltd	Buy	230	41
NCC Ltd	Buy	215	45
HCC Ltd	Buy	88	32
Era Infra	Buy	289	27
CCCL	Buy	101	20
Ahluwalia Contracts	Buy	276	28

Source: Bloomberg, Centrum Research

* as on 13 October '2010

Stock Price Performance



Source: Bloomberg, Centrum Research

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Q2FY11 Expectation

Y/E March	Net Sales (Rsmn)					EBITDA (Rsmn)					EBITDA Margins (%)		Adj.PAT (Rsmn)				
	(Rsmn)	Q2FY11E	YoY(%)	QoQ(%)	% Year	FY11E	Q2FY11E	YoY(%)	QoQ(%)	% Year	FY11E	Q2FY11E	Q2FY10	Q2FY11E	YoY(%)	QoQ(%)	% Year
IVRCL Infra	15,904	30.8	44.0	23.3	68,372	1,534	34.0	52.3	23.1	6,644	9.6	9.4	607	24.4	116.1	22.2	2,729
Nagarjuna Const.	12,361	15.8	13.8	21.7	57,043	1,244	14.2	17.6	21.3	5,830	10.1	10.2	512	7.0	23.7	19.9	2,576
Hindustan Const.	9,797	25.2	(1.3)	21.7	45,159	1,212	35.5	(1.3)	21.7	5,589	12.4	11.4	270	24.3	(16.3)	18.1	1,486
Era Infra	10,100	20.9	24.1	23.6	42,790	1,898	17.9	9.5	23.3	8,139	18.8	19.3	621	(2.3)	5.2	22.1	2,817
CCCL	6,054	34.2	19.2	23.1	26,197	501	24.9	19.2	23.1	2,167	8.3	8.9	250	18.7	27.2	22.5	1,112
Ahluwalia Cont.	4,641	33.8	17.9	22.7	20,427	516	12.1	11.7	22.5	2,298	11.1	13.3	248	4.2	1.8	21.3	1,163

Note: CCCL numbers are standalone, Source: Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

IVRCL Infra (Rating – Buy, Target Price – Rs230)

- We expect IVRCL Infra to deliver revenue of Rs15.9bn (growth of 31% YoY and 44% QoQ), contributing 23% of our FY11 expectation. Our revenue expectation is higher than that of the street by 7%.
- We expect EBITDA margins of IVRCL to be 9.6% higher than 9.4% in Q2FY10 and net profit to be Rs607mn (net margin of 3.8%, YoY growth of 24%), contributing 22% of the year's profit.
- Key things to watch out for:
 - Status on Hindustan Dorr Oliver stake sale as reported in newspapers
 - IVRCL Asset & Holdings QIP update
 - Updates on various BOT projects (financial closure, projects in pipeline, etc)
 - Working capital changes
 - Trend of margins, going forward
 - Any major project execution challenges (consistent in the past two to three quarters)

Company news during the period

- Bagged one of the most dense road projects of Sion-Panvel in Maharashtra from MSRDC, worth Rs15bn
- Bagged Karanji - Wani - Ghuggus - Chandrapur Road Project, worth Rs7.5bn

Nagarjuna Const. (Rating – Buy, Target Price – Rs215)

- We expect NCC to deliver revenue of Rs12.4bn (growth of 16% YoY and 14% QoQ), contributing to 22% of our FY11 expectation. Our expectation is lower than the street by 9.7%.
- We expect EBITDA margins of NCC to be 10.1% lower than 10.2% in Q2FY10 and net profit to be Rs512mn (margin of 4.1%, YoY growth of 7%) contributing 20% of the year's profitability.
- Key things to watch out for:
 - Thermal power plant update at Sompetta
 - Completion schedule of various road projects and strategy for bidding new projects

Company news during the period

- A recent income tax raid has compounded the negative news flow for the company. However, the company's comments are still awaited on the matter.

Hindustan Const. (Rating – Buy, Target Price – Rs88)

- We expect HCC to deliver revenue of Rs9.8bn (growth of 25% YoY and flat QoQ) contributing to 22% of our FY11 expectation. Our expectation is higher than the street by 3%.
- We expect EBITDA margins of HCC to be 12.4%, higher than 11.4% in Q2FY10 and net profit to be Rs270mn (YoY growth of 24%, contributing 18% of the year's profitability).
- Key things to look out for during the quarter:
 - Revenue guidance for the year
 - Badapur flyover details such as toll collection, etc
 - Lavasa issues raised by Maharashtra government (payments to clear irregularities)
 - Which airports are being evaluated currently to enter this segment
 - Update on Raigad R&D centre, which is being evaluated by HCC to develop (investment requirement, delivery, etc.)
 - International acquisition plans – HCC trying to acquire companies to further its presence in segments like designing, fabrication, transmission towers, oil & gas, etc

Company news during the period

- Lavasa's DRHP filed with the regulator to raise Rs20bn during December 2010

Era Infra Engg (ERIE) (Rating – Buy, Target Price – Rs281)

- We expect NCC to deliver revenue of Rs10bn (growth of 21% YoY and 24% QoQ) contributing to 24% of our FY11 expectation.
- We expect EBITDA margins of ERIE to be 18.8% lower than 19.3% in Q2Fy10 and net profit to be Rs621mn (YoY flat growth and 5% QoQ growth) contributing 22% of yearly profit estimate.
- Key things to look out for:
 - QIP update (has an enabling resolution of Rs10bn to raise equity)
 - Era T&D's transmission power facility in Nagpur, which is set to be completed in November 2010 (capex of Rs.4bn). T&D orders contribute Rs140cr of the total order-book of Rs100bn
 - Era Building systems pre-fab facility update and further details like revenue generation capability, profit margins, market, etc (capex of Rs1.9bn)

Company news during the period

- Achieved financial closure of a Rs11bn road project (Muzaffarnagar to Haridwar) through term-loan of Rs6.91bn from banks, positive grant of Rs2.1bn from NHAI and the rest as equity.

CCCL (Rating – Buy, Target Price – Rs101)

- We expect NCC to deliver revenue of Rs6bn (growth of 34% YoY and 19% QoQ), contributing to 23% of our FY11 expectation.
- We expect EBITDA margins of CCCL to be 8.3% lower than 8.9% in Q2FY10 and net profit to be Rs250mn (margin of 4.1%, YoY growth of 19%), contributing to 23% of FY11 profitability.
- Key things to look out for:
 - Major projects in bidding pipeline
 - Working capital status of the company
 - Status of Food SEZ at Tuticorin port
 - Competitive intensity in bidding projects. In the case of the airport segment: how many players bid at the same time.

Ahluwalia Contracts (Rating – Buy, Target Price – Rs276)

- We expect ACIL to deliver revenue of Rs4.6bn (growth of 34% YoY and 18% QoQ) contributing to 23% of our FY11 expectation.
- We expect EBITDA margins of ACIL to be 11.1% lower than 13.3% in Q2Fy10 and net profit to be Rs248mn (margin of 5.3%, YoY growth of 4%) contributing 21% to the year's profitability.
- Key things to look out for:
 - Commonwealth games projects – receivables from Emaar MGF, any dispute between client and the company, etc
 - Update on service tax liability amount of Rs1bn as of FY10 (Rs0.5bn as on FY09)

Company news during the period

- Bagged orders worth Rs476cr during the quarter.

Exhibit 1: Q2FY11 Expectation

Y/E March (Rsmn)	Net Sales (Rsmn)					EBITDA (Rsmn)					EBITDA Margins (%)		Adj.PAT (Rsmn)				
	Q2FY11E	YoY(%)	QoQ(%)	% Year	FY11E	Q2FY11E	YoY(%)	QoQ(%)	% Year	FY11E	Q2FY11E	Q2FY10	Q2FY11E	YoY(%)	QoQ(%)	% Year	FY11E
IVRCL Infra	15,904	30.8	44.0	23.3	68,372	1,534	34.0	52.3	23.1	6,644	9.6	9.4	607	24.4	116.1	22.2	2,729
Nagarjuna Const.	12,361	15.8	13.8	21.7	57,043	1,244	14.2	17.6	21.3	5,830	10.1	10.2	512	7.0	23.7	19.9	2,576
Hindustan Const.	9,797	25.2	(1.3)	21.7	45,159	1,212	35.5	(1.3)	21.7	5,589	12.4	11.4	270	24.3	(16.3)	18.1	1,486
Era Infra	10,100	20.9	24.1	23.6	42,790	1,898	17.9	9.5	23.3	8,139	18.8	19.3	621	(2.3)	5.2	22.1	2,817
CCCL	6,054	34.2	19.2	23.1	26,197	501	24.9	19.2	23.1	2,167	8.3	8.9	250	18.7	27.2	22.5	1,112
Ahluwalia Cont.	4,641	33.8	17.9	22.7	20,427	516	12.1	11.7	22.5	2,298	11.1	13.3	248	4.2	1.8	21.3	1,163

Note: CCCL numbers are standalone, Source: Centrum Research Estimates

Exhibit 2: Q2FY11 Financials – Centrum v/s Consensus

Y/E March (Rsmn)	Net Sales (Rsmn)			EBITDA (Rsmn)			EBITDA Margins (%)			Adj.PAT (Rsmn)		
	Centrum	Consensus	Var (%)	Centrum	Consensus	Var (%)	Centrum	Consensus	Diff (bps)	Centrum	Consensus	Var (%)
IVRCL Infra	15,904	14,885	6.8	1,534	1,414	8.5	9.6	9.5	14.8bps	607	639	(5.1)
Nagarjuna Const.	12,361	13,690	(9.7)	1,244	1,398	(11.0)	10.1	10.2	-15.bps	512	580	(11.8)
Hindustan Const.	9,797	9,528	2.8	1,212	1,259	(3.7)	12.4	13.2	-83.bps	270	335	(19.4)
Era Infra	10,100	NA	NA	1,898	NA	NA	18.8	NA	NA	621	NA	NA
CCCL	6,054	NA	NA	501	NA	NA	8.3	NA	NA	250	NA	NA
Ahluwalia Cont.	4,641	NA	NA	516	NA	NA	11.1	NA	NA	248	NA	NA

Source: Bloomberg, Centrum Research Estimates

Exhibit 3: FY11 Financials – Centrum v/s Consensus

Y/E March (Rsmn)	Net Sales (Rsmn)			EBITDA (Rsmn)			EBITDA Margins (%)			Adj.PAT (Rsmn)		
	Centrum	Consensus	Var (%)	Centrum	Consensus	Var (%)	Centrum	Consensus	Diff (bps)	Centrum	Consensus	Var (%)
IVRCL Infra	68,372	67,747	0.9	6,644	6,531	1.7	9.7	9.6	7.71bps	2,729	2,726	0.1
Nagarjuna Const.	57,043	58,418	(2.4)	5,830	5,839	(0.1)	10.2	10.0	22.5bps	2,576	2,395	7.6
Hindustan Const.	45,159	45,175	(0.0)	5,589	5,649	(1.1)	12.4	12.5	-12.bps	1,486	1,346	10.3
Era Infra	42,790	45,099	(5.1)	8,139	7,747	5.1	19.0	17.2	184.bps	2,817	3,146	(10.4)
CCCL	26,197	24,759	5.8	2,167	2,397	(9.6)	8.3	9.7	-141bps	1,112	1,163	(4.4)
Ahluwalia Cont.	20,427	19,377	5.4	2,298	2,265	1.5	11.3	11.7	-43.bps	1,163	1,101	5.6

Note: Bloomberg, CCCL numbers are standalone, Source: Centrum Research Estimates

Exhibit 4: Construction companies trading at enticing core P/E valuation

Company (Rsmn)	Rating	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 Infra	Buy	267.0	43,429	17,989	25,440	3,342	7.6	12.5	13.0	163	230	41.4
Nagarjuna Const.	Buy	256.6	38,103	11,633	26,470	3,102	8.5	12.1	13.0	149	215	44.5
HCC	Buy	626.0	41,751	24,187	17,564	2,212	7.9	3.5	14.0	67	88	32.1
Era Infra	Buy	195.9	44,603	3,898	40,705	3,768	10.8	19.2	14.0	228	289	27.0
CCCL	Buy	184.8	15,558	-	15,558	1,553	10.0	8.4	12.0	84	101	19.8
Ahluwalia Cont.	Buy	62.8	13,557	-	13,557	1,584	8.6	25.2	11.0	216	276	27.8
Average / Total			197,001	57,707	139,294	15,561						

Source: Bloomberg, Centrum Research Estimates

Construction Coverage Universe - Valuation Summary

Company	Rating	M.Cap		CMP (Rs)	Target Price	Fair P/E Multiple	Up/Down (%)	EPS (Rs)			P/E (x)			RoE (%)		
		Rsmn	US\$ mn					FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
IVRCL Ltd	Buy	43,429	944	163	230	13.0	41	10.2	12.5	15.1	15.9	13.0	10.8	12.9	14.0	14.8
NCC Ltd	Buy	38,103	828	149	215	13.0	45	10.0	12.1	14.0	14.8	12.3	10.6	11.0	12.1	12.7
HCC Ltd	Buy	41,751	908	67	88	14.0	32	2.4	3.5	4.9	28.1	18.9	13.6	9.4	12.8	15.7
Era Infra	Buy	44,603	970	228	289	14.0	27	14.4	19.2	24.4	15.8	11.8	9.3	17.7	19.7	20.5
CCCL	Buy	15,558	338	84	101	12.0	20	6.9	8.4	10.4	12.2	10.0	8.1	19.8	20.2	20.9
Ahluwalia Cont.	Buy	13,557	295	216	276	11.0	28	18.5	25.2	31.7	11.7	8.6	6.8	37.9	36.7	33.5

Source: Company, Bloomberg, Centrum Research Estimates

Appendices

Companies under coverage bagged orders worth Rs58bn b/w July'10-TillDate. Though this is not a complete list of projects bagged by the companies, we believe, order inflow trend for companies have been robust with more than 2-year revenue visibility.

Exhibit 5: Orders Bagged by Coverage companies during the quarter & Q2Fy11E-Till Date

Company	Qtr	Date	State	Client	Rsmn	Order Description
IVRCL	Q22011	16-Sep-10	Maharashtra	Maharashtra State Road Development Corporation Ltd	15,000	Improvement of Sion-Panvel Special state highway from BARC Junction to Kalamboli Junction
	Q32011	4-Oct-10	Andhra Pradesh	Transmission Corporation Of Andhira Pradesh Ltd.	-	"400KW DC line from Yeddumailam (Shankarapally) to Gajwel(400/2210/132K~ Sub-Staffon (105Km on Turnkey Basis")
		4-Oct-10	Gujarat	Saroar Narmada Nlgam Ltd, Surendranagar	Sarovar	965
	4-Oct-10	Maharashtra	Maharashtra State Road Development Corporation Ltd		7,500	Karanji-Wani-Ghuggus-Chandrapur Road Maharashtra State Highway 6&7 in Yavaimal and Chandapur District
	4-Oct-10	Maharashtra	POSCO Maharashtra Steel Ltd		920	"Supply, Erection, Testing & Cornmissioning Package for 220 KV Over load Line from Kandalgaon Kharghar existing line fo Posco Maharashtra Steel Pvt Ltd.
	4-Oct-10	Rajasthan	Office Of The Urban Improvement Trust, Bikaner		397	RCC sewer systern (Lateral, Branch & main sewers) and all ancillary works, upvc pipe:\$ in MD Vyas Zone includi~gC onstruction of Property Connections and restoration Cf rdads etc. in different areas of Bikaner"
	4-Oct-10	Tamilnadu	Tamilnadu Water Supply And Drainage Board		3,150	Hogenakkal Water Supp/y and Fluorosis Mitigation Project - Package II
	4-Oct-10	Tamilnadu	Rail Vikas Nigam Ltd		650	"Provision of 4" line between Tirovallur and Avakkonam
	4-Oct-10	Orissa	Government of Orissa		715	Improvmsenf io Govindapalli - Balimela -Chitrakonda-Sileru ro\$d OSH-47) from Krn,O/OO to 50/00 in Malkanagiri Djstricf under LWE Scheme"
	4-Oct-10	Various	Varios		4,400	Various Building Division orders
IVRCL Total					33,698	
NCC	Q22011	12-Aug-10	Gujarat	Commissionerate of Health	2,540	Construction of Hospitals
		12-Aug-10	Karnataka	Bangalore Development Authority	870	Two level Grade Separators at Bangalore
		12-Aug-10	Delhi	Indian Oil Corporation Limited	1,940	Civil, Structure and Associated Piping works at Orissa
		12-Aug-10	Delhi	Government of National Capital. Territory of Delhi	730	Renovation of ISBT, Rashmere Gate, Delhi
		12-Aug-10	Agartala	Medical College division, Government of Tripura, Agartala	650	Hostel Buildings at. Agartala
NCC Total					6,730	
HCC	Q22011	25-Jul-10	Orissa	Aditya Birla Group	1,262	Potline Structural Steel fabrication work in a greenfield smelter project at Sambalpur in Orissa
		10-Aug-10	Orissa	Hindalco Industries Ltd	1,212	Area Grading Works, Water Reservoir Work and Temporary Roads & Drains for Aditya Aluminium Project at Sambalpur, Orissa.
		9-Sep-10	Imphal	North Front Railways	1,877	Railway tunnel between Khongsang and tupul in Imphal
		24-Sep-10	Uttarakhand	GMR	6,600	Alaknanda Hydroelectric Power Project
	Q32011	11-Oct-10	Orissa	Aditya Birla Group	514	Potline Structural Steel Erection works for Aditya Aluminium Project at Sambalpur, Orissa
HCC Total					11,465	
Ahluwalia Contracts	Q22011	30-Sep-10	Maharashtra	Sheth Developers Pvt Ltd	600	Construction of Commercial Building E-Zone I.T.Park at Thane
		30-Sep-10	Maharashtra	Ultra Space Developers Pvt. Ltd, Kalina, Santacruz (E),	552	Civil & Finishing Works for residential Project "Insignia" at CST Road
		30-Sep-10	Maharashtra	GuruAshish Developers, Goregaon, Mumbai	268	Construction of Civil, Structural works for Residential Towers in Sec-R9, Redevelopment project at Siddarth Nagar
		30-Sep-10	Maharashtra	Starlight Hospitality Pvt Ltd, Khar(W),Mumbai	101	Civil & Finishing Work for Residential Tower "Constellation" at 15th Road
		30-Sep-10	Maharashtra	Sheth Developers Pvt Ltd	90	Construction of Two Residential Tower's Block y0.2& 8 at Vasant Lawns, Thane
		30-Sep-10	Maharashtra	Starlight Hospitality Pvt Ltd	88	Civil & Finishing Works for Residential Tower "Zephyr" at 16th Road Khar
		30-Sep-10	Maharashtra	Samundra Developers Pvt Ltd	77	Civil & Finishing Works for Residential Tower "The Address" at Bandstand, Bandra (W),
		30-Sep-10	Uttar Pradesh	Logix Infratech Pvt Ltd	2,350	Civil & structural works for Logix- Blossom Green residential Project at Sec-143 Noida, U.P
		30-Sep-10	West Bengal	Infinity BNKe Infocity Pvt Ltd	113	Civil Construction Works in Sub & Super Structure in Proposed IT Park at Plot E2- 211 ,Sec-V,Salt lake, Kolkata-700091
30-Sep-10	Delhi	NBCC, New Delhi	519	Construction of National Press Centre at Raisina Road		
Ahluwalia Contracts Total					4,759	
CCCL	Q22011	31-Jul-10	Various	Various	1,601	Various
					CCCL Sum	
Grand Total					58,253	

Source: BSE Notifications, Company, Centrum Research

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