

Q3FY11/ Estimate change

8 February 2011

Buy

Target Price: Rs66

CMP: Rs54*

Upside: 21%

*as on 7th February 2011**Q3 disappoints; CMP factors all –ves**

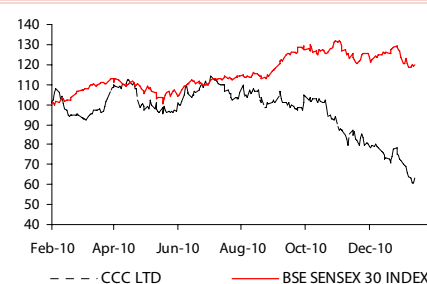
Consolidated Construction Consortium's (CCCL) Q3FY11 numbers were disappointing. Revenue at Rs5bn was 17% below our estimate of Rs6bn. EBITDA and PAT also came 8% and 28% below estimates. However, EBITDA margin at 9.7% was higher than our estimate of 8.8%. Order-book intake during Q3FY11 was Rs2.5bn (Q4FY11TD it is Rs8.3bn). Current OB is at Rs52bn. Execution has been ramped-up at the Chennai airport project worth Rs12bn (expected to be completed by Dec 2011). At CMP of Rs54, all negatives have been factored-in. However, valuation of 9.9x FY12E P/E is on a higher side. We recommend Ahluwalia Contracts (6.3x FY12E P/E) among small caps. We have cut our FY12 earnings estimates by 27%, but maintain Buy with a target price of Rs66 (21% upside).

- **Order-book:** CCCL bagged orders worth Rs2.5bn in Q3 with additional Rs8.3bn in Q4TD. Management expects Rs10bn worth of orders to come in remaining 4Q. Current OB is Rs52bn.
- **EBITDA margin guidance raised:** Management said that 8.5%-9.5% margins would be maintained, whereas 4.5% PAT margin is the long-term target.
- **Estimates reduced sharply, Maintain Buy:** We have sharply lowered our FY11 and FY12 estimates considering the performance in the past 2quarters and outlook for the construction industry. We reduce revenue estimate by 18% and PAT estimate by 27% for FY12. We maintain Buy on valuations playing for 21% upside on conservative assumption of growth (trading at 10x FY12E P/E). We believe CCCL presents a decent risk-reward. However, for better risk-reward, we prefer Ahluwalia Contracts in the small caps.

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)	9.9/218.2
52 Wk H / L (Rs)	105/46
Daily Vol. (3M NSE Avg.)	110,816
Face Value (Rs)	2

USD = Rs45.4

One Year Indexed Stock Performance**Price Performance (%)**

	1M	6M	1Yr
CCCL	(9.5)	(38.5)	(35.7)
NIFTY	(8.8)	(1.0)	12.7

Source: Bloomberg, Centrum Research
*as on 7 February 2011

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Y/E March (Rsmn) (Standalone)	Q3FY11A	Q3FY10A	YoY (%)	Q2FY11A	QoQ (%)	Q3FY11E	Variance (%)
Net sales	4,962	4,509	10.0	4,895	1.4	5,971	(16.9)
Consumption of RM	3,789	3,590	5.5	3,828	(1.0)	4,610	(17.8)
% of sales	76.4	79.6	(326)bps	78.2	(183)bps	77.2	(83)bps
Employee costs & SG&A	689	515	33.8	685	0.6	836	(17.5)
% of sales	13.9	11.4	247bps	14.0	(10)bps	14.0	(10)bps
EBITDA	483	404	19.8	382	26.5	526	(8.1)
EBITDA Margin (%) / bps	9.7	9.0	79bps	7.8	193bps	8.8	93
Dep and amortization	34	26	29.5	31	7.4	43	(20.8)
Interest	126	67	87.1	121	4.2	115	9.8
EBT	323	310	4.3	230	40.8	368	(12.2)
Other income	14	11	27.3	13	7.8	17	(13.2)
PBT	338	322	5.1	243	39.0	385	(12.2)
Provision for tax	116	109	6.0	85	35.7	131	(11.8)
Effective Tax Rate %/bps	34.3	34.0	30bps	35.1	(83)bps	34.1	16
JV partner's share in profit	(55)	-	NM	(27)	100.9	(22)	151
PAT (reported)	167	212	(21.4)	158	5.8	232	(27.9)
PAT (adjusted)	167	212	(21.4)	158	5.8	232	(27.9)
NPM (%) / bps	3.4	4.7	(134)bps	3.2	14bps	3.9	(52)bps
EPS (adjusted)	0.9	1.15	(21.4)	0.74	21.5	1.3	(27.9)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	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	22,646	14.6	2,069	9.1	851	(7.0)	4.6	15.7	18.6	11.8	6.7
FY12E	26,402	16.6	2,468	9.3	1,011	18.8	5.5	15.0	17.6	9.9	6.1
FY13E	30,431	15.3	2,811	9.2	1,191	17.8	6.4	14.4	16.0	8.4	5.4

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Q3FY11 – Topline disappoints, Surprise on Operating Margins

CCCL's Q3 revenue at Rs5bn was much below our expectation of Rs6bn and that of the street of Rs5.5bn. Execution of various projects were slower than the company's expectation. Surprisingly, EBITDA margin was 9.7%, higher than our (and street expectation) of 8.8%. It should be noted that CCCL's margins are higher in H2 vs H1.

Net profit was impacted the most by higher provision for "JV's share of the profit" for the Adyar River Bridge project. We had expected the amount to be Rs22mn, but it was much higher at Rs55mn. Depreciation came 21% below our expectation, while interest expenses and other income were 10% above and 13% below expectations, respectively. PAT was Rs167mn vs our expectation of Rs232mn and the street's of Rs194mn.

Exhibit 1: CCCL Q3FY11 Result Analysis

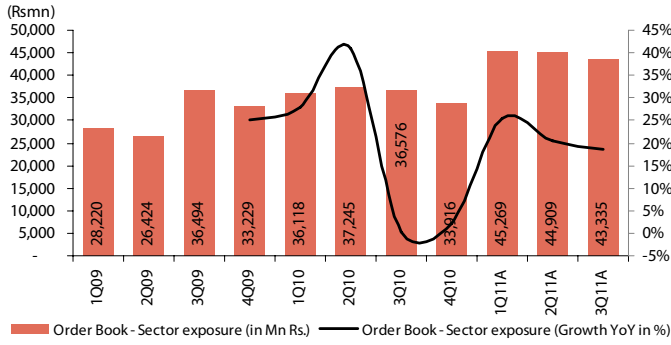
Particulars	Q3FY11A	Q3FY10A	YoY%	Q2FY11A	QoQ%	Q3FY11E	Variance %	Street	Var %	Comments
Net sales	4,962	4,509	10.0	4,895	1.4	5,971	(16.9)	5,461	(9.1)	<i>Much below our expectation. We believe issues which were expected to improve on execution still persist for the company.</i>
Consumption of RM	3,789	3,590	5.5	3,828	(1.0)	4,610	(17.8)			
% of sales	76.4	79.6	(326)bps	78.2	(183)bps	77.2	(83)bps			
Employee costs & SG&A	689	515	33.8	685	0.6	836	(17.5)			
% of sales	13.9	11.4	247bps	14.0	(10)bps	14.0	(10)bps			
EBITDA	483	404	19.8	382	26.5	526	(8.1)	480	0.7	<i>Margins surprised on the upside. The management cited 8.5%-9.5% as the operating margins, going forward</i>
EBITDA Margin (%)	9.7	9.0	79bps	7.8	193bps	8.8	93	8.8	95bps	
Dep and amortisation	34	26	29.5	31	7.4	43	(20.8)			
Interest	126	67	87.1	121	4.2	115	9.8			
EBT	323	310	4.3	230	40.8	368	(12.2)			
Other income	14	11	27.3	13	7.8	17	(13.2)			
PBT	338	322	5.1	243	39.0	385	(12.2)			
Exceptional item (reported)	-	-	-	-	-	0				
Provision for tax	116	109	6.0	85	35.7	131	(11.8)			
Effective Tax Rate %/bps	34.3	34.0	30bps	35.1	(83)bps	34.1	16			
JV partner's share in profit	(55)	-	NM	(27)	100.9	(22)	151			<i>JV partner's share for Adyar River Bridge Project affected the overall PAT expectation for the quarter.</i>
PAT (reported)	167	212	(21.4)	158	5.8	232	(27.9)			
PAT (adjusted)	167	212	(21.4)	158	5.8	232	(27.9)	194	(13.8)	
NPM (%)	3.4	4.7	(134)bps	3.2	14bps	3.9	(52)bps	3.5	(18)bps	
EPS (adjusted)	0.9	1.15	(21.4)	0.74	21.5	1.3	(27.9)			

Source: Company, Centrum Research Estimates

Conference call – key takeaways

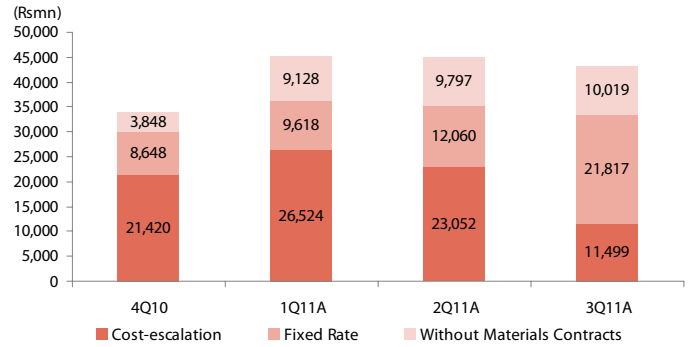
- **Guidance** is Rs21bn-21.5bn for FY11 and Rs23.5bn-Rs24bn for FY12 standalone revenue. Target is to maintain EBITDA margin in the range of 8.5%-9.5% and PAT at 4.5% long-term.
- **Order inflows** worth Rs8.3bn were bagged in Jan 11 (OB as on date is Rs52bn, 2.3x FY11) and negotiations are ongoing for orders worth Rs10bn which is expected to be part of the order-book by Q4FY11. It expects order-backlog position by FY11-end to be Rs53bn. Going forward CCCL expects power & hydrocarbon segments to constitute a decent portion of order-book.
- **Chennai Airport Update** – CCCL has completed the up-gradation work of Chennai Airport to the extent of Rs5.4bn (Rs2.7bn in Q3FY11) out of total Rs12bn project size. Remaining Rs6bn worth of works is expected to get completed by Dec'11. After execution issues in Q2FY11 extending to initial couple of months in Q3FY11, the project execution is in full swing and the domestic terminal is expected to be complete by October'11. Also, the Adyar River Bridge has been completed to the extent of Rs1.9bn till date (Rs1.4bn in Q3FY11).
- **Capex** for the company will be higher in FY12 on account of investments required for Oil & Gas segment entry. The company is also trying to get an international player for segment exposure (currently working on hydrocarbon project of client Nagarjuna Oil).
- **Solar power venture** – CCCL entered in to an agreement with NTPC Vidyut Vyapar Nigam Ltd for power from 5MW solar power installations to be set up in Tuticorin area (land already with CCCL Infrastructure Ltd). The execution of the project is expected to take around 11months and be completed by Jan 12. The cost of the project is Rs500mn with debt component of Rs450mn. Financial closure is expected soon with the company getting in-principle sanctions. IRR is expected to be 15% on the project. Tariff decided is Rs13/Kw.

Exhibit 2: CCCL's order-book trend



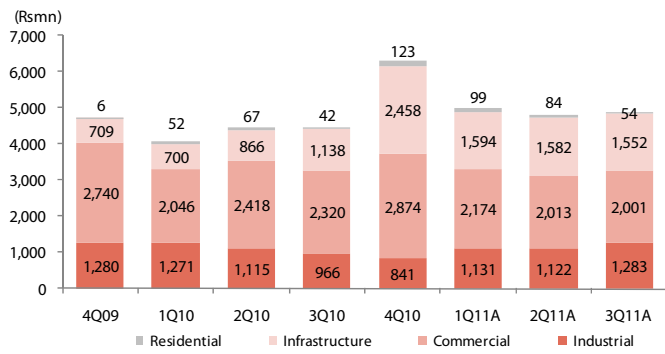
Source: Company, Centrum Research

Exhibit 2: Order-book type mix



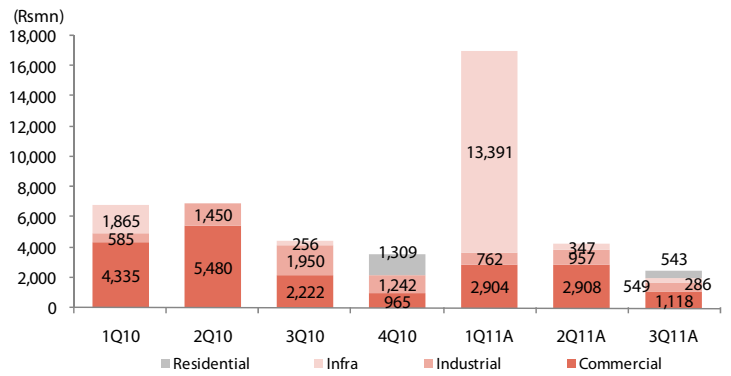
Source: Company, Centrum Research

Exhibit 4: CCCL's quarterly revenue mix



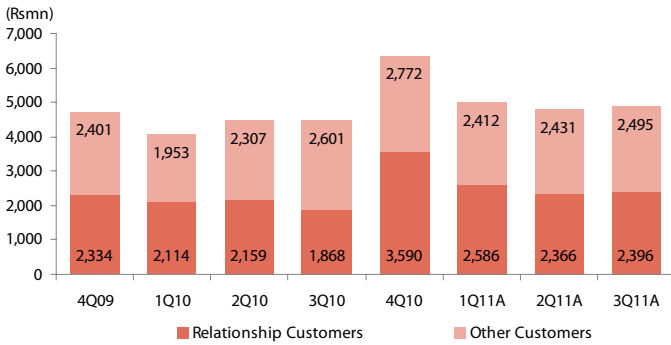
Source: Company, Centrum Research

Exhibit 5: CCCL's order-intake trend



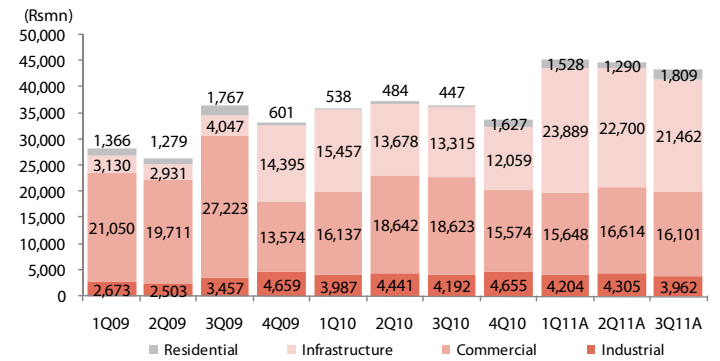
Source: Company, Centrum Research

Exhibit 6: CCCL's revenue customer mix in



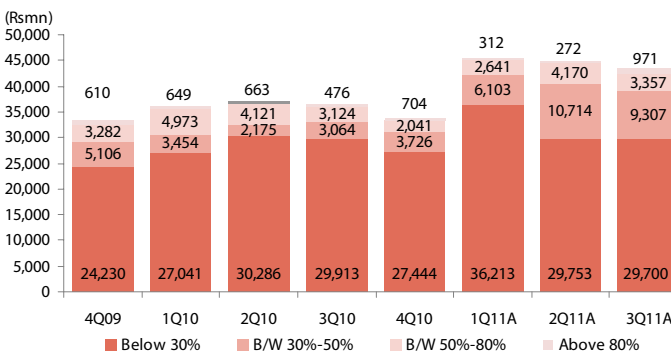
Source: Company, Centrum Research

Exhibit 7: CCCL's order-book mix



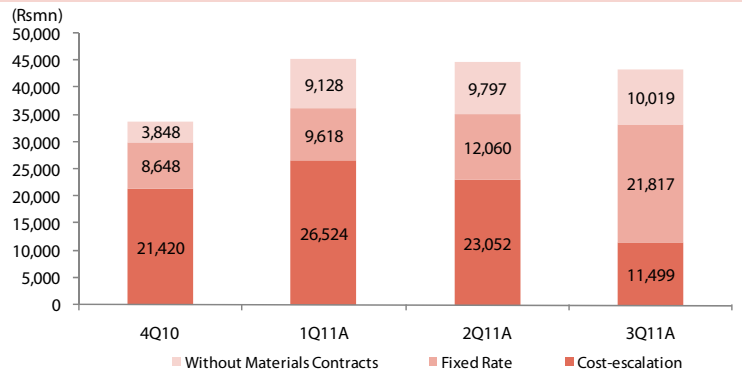
Source: Company, Centrum Research

Exhibit 8: Order-book stage



Source: Company, Centrum Research

Exhibit 9: Order-book mix by type



Source: Company, Centrum Research

Downward revision in revenue growth and margin estimates

We have adjusted our numbers and sharply reduced our FY11 and FY12 estimates. We have lowered consolidated revenue estimate for FY11 by 10% and for FY12 by 18%. We believe the revised estimates are on the lower side and have upside risks. We have increased our EBITDA margin estimates by 30bp for FY11 and 70bp for FY12 considering the comments from the management. Interest expenses are revised upwards by 46% and 41%, respectively, on increasing leverage and higher cost of debt. Net impact of all the above changes lowers net profit assumption by 27% for FY12 at Rs1bn.

We have reduced our standalone revenue estimate for Q4FY11 by 19% taking in to consideration the management's revised guidance. However, we believe that due to inconsistency in management remarks regarding EBITDA margins, 10.8% is a reasonable assumption for Q4FY11 vs our earlier estimate of 9.8%. Note that Q4 is usually a better quarter for CCCL in terms of operating margins due to leverage with Q4 revenue contributing the major share.

Exhibit 10: Revised estimates

Particulars (Rsmn)	Old Estimates			New Estimates			Variance (%)		
	4QFY11E	FY11E	FY12E	4QFY11E	FY11E	FY12E	4QFY11E	FY11E	FY12E
Type	Parent	Consol	Consol	Parent	Consol	Consol	Parent	Consol	Consol
Revenue	8,957	25,206	32,315	7,267	22,646	26,402	(18.9)	(10.2)	(18.3)
EBITDA	879	2,217	2,794	784	2,069	2,468	(10.8)	(6.7)	(11.7)
EBITDA Margin	9.8%	8.8%	8.6%	10.8%	9.1%	9.3%			
Interest (Net)	121	294	455	132	429	642	8.9	46.2	41.0
Depreciation	43	154	201	41	143	187	(4.2)	(7.1)	(7.1)
Other Income	29	16	21	19	15	18	(34.4)	(6.6)	(11.8)
PBT	744	1,786	2,159	630	1,513	1,657	(15.3)	(15.3)	(23.2)
Tax	254	607	734	216	514	564	(15.0)	(15.3)	(23.2)
Tax Rate (%)	34.1	34.0	34.0	34.3	34.0	34.0			
PAT	490	1,179	1,425	414	998	1,094	(15.5)	(15.3)	(23.2)
JV's Share	(21.94)	(80.49)	(32.91)	(55)	(147)	(83)	151.1	82.4	151.1
Adj. PAT	468	1,098	1,392	359	851	1,011	(23.4)	(22.5)	(27.3)

Source: Company, Centrum Research Estimates

Valuation

The stock price has corrected by 30% in the past 3 months. We believe at the CMP, the stock presents a safe bet considering estimates which are fairly conservative. CCCL is also one of the few stocks which deliver better ROE vs frontline construction companies like IVRCL Infra, NJCC, HCC, etc. We value CCCL at Rs66, presenting an upside of 21% from the current level. However, we prefer Ahluwalia Contracts (trading at FY12 P/E of 6.3X) for better risk-reward compared to CCCL (trading at 9.9x FY12E P/E) in the small-cap construction segment.

Financials (Consolidated)

Exhibit 11: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	18,413	19,759	22,646	26,402	30,431
<i>Growth in revenue (%)</i>	24.8	7.3	14.6	16.6	15.3
Cost of Raw Material	14,983	15,394	17,779	20,751	23,967
<i>% of Revenue</i>	81.4	77.9	78.5	78.6	78.8
Employee cost	1,059.6	1,141.4	1,281.0	1,453.8	1,675.7
<i>% of Sales</i>	5.8	5.8	5.7	5.5	5.5
O&M expenses	1,146.9	1,377.1	1,517.2	1,729.2	1,977.9
<i>% of Sales</i>	6.2	7.0	6.7	6.5	6.5
EBITDA	1,223	1,847	2,069	2,468	2,811
<i>EBITDA Margin</i>	6.6	9.3	9.1	9.3	9.2
Depreciation	89	110	143	187	240
PBIT	1,134	1,737	1,926	2,281	2,570
Interest expenses	55	265	429	642	788
PBIT from operations	1,078	1,471	1,497	1,639	1,783
Other non operating income	31	3	15	18	22
PBT before ext.od items	1,110	1,474	1,513	1,657	1,805
Extra-ordinary income/ (exp)					
PBT	1,110	1,474	1,513	1,657	1,805
Provision for tax	382	504	514	564	614
<i>Effective tax rate (%)</i>	34.4	34.2	34.0	34.0	34.0
<i>Minority interest</i>					
PAT	728	970	998	1,094	1,191
Adjustment for Ext.Od items	-	(54)	(147)	(83)	-
Adjusted PAT	728	916	851	1,011	1,191
<i>Growth in PAT (%)</i>	(18.1)	25.8	(7.0)	18.8	17.8
<i>PAT margin (%)</i>	4.0	4.6	3.8	3.8	3.9

Source: Company, Centrum Research Estimates

Exhibit 12: 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	6,420	7,395	8,446
Shareholders' fund	5,161	5,892	6,790	7,765	8,815
Debt	1,975	3,388	4,588	6,788	8,788
Deferred Tax Liability	442	595	595	595	595
Minority Interest	-	-	-	-	-
Total Capital Employed	7,578	9,876	11,973	15,148	18,199
Gross Block	1,605	1,897	2,497	3,247	4,147
Accumulated dep.	221	331	474	661	901
Net Block	1,384	1,566	2,022	2,586	3,245
Capital WIP	64	155	94	120	151
Total Fixed Assets	1,449	1,721	2,116	2,706	3,396
Investments	569	94	394	1,194	1,694
Inventories	-	-	-	-	-
Debtors	8,070	10,201	11,611	13,433	15,356
Cash & bank balances	88	120	137	160	185
Loans and Advances	1,299	1,701	1,110	1,012	1,086
Other Current Assets	-	-	-	-	-
Total current assets	10,894	13,584	14,872	17,304	19,961
Current lia & provisions	5,457	5,538	5,425	6,072	6,869
Net current assets	5,437	8,046	9,447	11,232	13,093
Misc. Expenditure	123	14	15	15	15
Total Assets	7,578	9,876	11,973	15,148	18,199

Source: Company, Centrum Research Estimates

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
PAT till FY09 / PbT after	728	916	998	1,094	1,191
Depreciation	89	110	143	187	240
Interest expenses	118	326	519	701	836
OP profit before WC change	1,241	1,851	2,174	2,545	2,881
Working capital adjustment	(888)	(2,206)	(1,993)	(1,883)	(1,786)
Gross cash from operations	354	(355)	181	661	1,096
Direct taxes paid	(235)	(377)	(514)	(564)	(614)
Cash from operations	118	(732)	(333)	98	482
CF from investing					
Capex	(708)	(382)	(539)	(776)	(931)
Investment	422	475	(300)	(800)	(500)
Others	-	64	-	-	-
Cash from investment	(286)	156	(839)	(1,576)	(1,431)
CF from financing					
Borrowings/ (Repayments)	721	1,412	1,200	2,200	2,000
Interest paid	(118)	(326)	(519)	(701)	(836)
Dividend paid	(108)	(108)	(100)	(119)	(141)
Others	94	-	-	-	-
Cash from financing	589	978	581	1,380	1,023
Net cash increase/ (dec)	422	403	(592)	(98)	75

Source: Company, Centrum Research Estimates

Exhibit 14: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios (%)					
EBITDA Margin	6.6	9.3	9.1	9.3	9.2
PBIT Margin	6.2	8.8	8.5	8.6	8.4
PBT Margin	6.0	7.5	6.7	6.3	5.9
PAT Margin	4.0	4.6	3.8	3.8	3.9
Growth Ratios (%)					
Revenues	24.8	7.3	14.6	16.6	15.3
EBITDA	(0.1)	0.5	0.1	0.2	0.1
Net Profit	(0.2)	0.3	(0.1)	0.2	0.2
Return Ratios (%)					
ROCE	17.5	21.2	18.6	17.6	16.0
ROIC	12.3	13.7	11.9	11.8	11.1
ROE	15.0	17.6	15.7	15.0	14.4
Turnover Ratios					
Asset turnover ratio (x)	2.7	2.3	2.1	1.9	1.8
Working Capital Turnover (x)	3.9	2.9	2.6	2.6	2.5
Avg collection period (days)	1.7	2.2	2.2	2.2	2.2
Avg payment period (days)	121.7	119.9	101.9	97.9	95.9
Per share (Rs)					
Fully diluted EPS	3.9	5.0	4.6	5.5	6.4
CEPS	4.4	5.6	5.4	6.5	7.7
Book Value	27.9	31.9	36.7	42.0	47.7
Solvency ratios (x)					
Debt/ Equity	0.4	0.6	0.7	0.9	1.0
Interest coverage ratio	10.4	5.7	4.0	3.5	3.4
Valuation parameters (x)					
P/E	5.9	16.7	11.8	9.9	8.4
P/BV	0.8	2.6	1.5	1.3	1.1
EV/ EBITDA	5.3	10.2	6.7	6.1	5.4
EV/ Sales	0.4	1.0	0.6	0.6	0.5
M-Cap/ Sales	0.2	0.8	0.5	0.4	0.3

Source: Company, Centrum Research Estimates

Appendix A

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