

Q4FY11/ Estimate & Rating change 3 May 2011

Sell

Earlier Rating - Buy

Target Price: Rs36

From earlier Rs66

CMP: Rs47*

Downside: 23%

*as on 29 April 2011

Sell; order-book quality & new capital intensive strategy less comforting

Though the Q4FY11 profit numbers were way below expectations, the real shock came from management commentary on their order-book status & capital intensive strategic initiatives of building a 350MW power plant (capex of Rs17bn) in Tuticorin to create shareholder value. We rated CCCL Buy earlier based on the comfort of its L&T lineage (its promoters being ex-L&T), its increasing infrastructure orders, expanding presence, and its efficient resource management (FA & WC). However, the shift from a construction company to a developer reduces comfort along with new revelation of slow moving & low margin orders which would contribute almost 50% to FY12 revenue. We reduce our numbers drastically and revise rating from Buy to Sell; as we believe CCCL does not present a good value opportunity either by itself or relative to peers.

- **Slow moving & low margin orders in pending order-book:** Out of the total OB of Rs64bn as on date, Rs8bn (13%) are slow moving. Apart from that Rs11bn (17%) are low margin orders bagged in 2008 period of economic downturn (will be completed in FY12).
- **Revenue growth & PAT margin guidance reduced:** FY12 revenue YoY have been cut to 10%-15% from 15%-18% earlier and PAT margin to 3% from 4.5%.
- **Downgrade to Sell:** The slow moving and low margin orders in FY12 and new capital intensive strategic initiatives for growth, etc give us little comfort. **Risks are more & reward less at the CMP. Sell, Target Price Rs36 (downside 23%).**

Manish Kayal

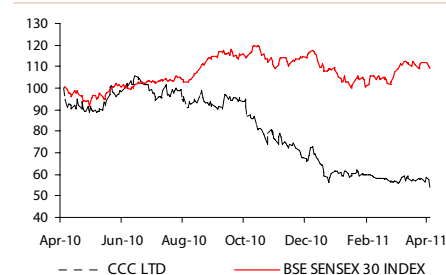
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Key Data

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)	8.8/198
52 Wk H / L (Rs)	105/43
Daily Vol. (3M NSE Avg.)	88,798
Face Value (Rs)	2

1 USD = Rs44.3

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
CCCL	(8.7)	(37.8)	(43.5)
NIFTY	(2.2)	(6.6)	8.2

Source: Bloomberg, Centrum Research
*as on 29 April 2011

Y/E March (Rsmn) (Standalone)	Q4FY11A	Q4FY10A	YoY%	Q3FY11A	QoQ%	Q4FY11E	Variance %	FY11	FY10	Variance %
Net sales	6,429	6,363	1.0	4,962	29.6	7,267	(11.5)	21,366	19,500.4	9.6
Consumption of RM	5,455	4,839	12.7	3,789	43.9	5,474	(0.4)	17,101	15,336.4	11.5
% of sales	84.8	76.1	879bps	76.4	848	75.3	952	80.0	79	139
Employee costs & SG&A	750	800	(6.3)	689	8.8	1,010	(25.7)	2,755	2,334.0	18.1
% of sales	11.7	12.6	(91)bps	13.9	(223)bps	13.9	(223)bps	12.9	12	93
EBITDA	224	723	(69.0)	483	(53.6)	784	(71.4)	1,510	1,830.0	(17.5)
EBITDA Margin (%) / bps	3.5	11.4	(788)bps	9.7	(625)bps	10.8	(729)	7.1	9	(232)
Dep and amortisation	35	29	19.8	34	3.3	41	(14.6)	129	99.8	28.8
Interest	120	146	(17.5)	126	(4.8)	132	(9.0)	473	312.8	51.2
EBT	69	549	(87.3)	323	(78.5)	611	(88.6)	909	1,417.4	(35.9)
Other income	9	24	(62.9)	14	(38.6)	19	(54.2)	50	63.4	(20.4)
PBT	78	572	(86.3)	338	(76.8)	630	(87.6)	959	1,480.8	(35.2)
Exceptional item (reported)	-	-	-	-	-	0	-	(7)	0.0%	-
Provision for tax	33	182	(81.6)	116	(71.2)	216	(84.5)	338	490.8	(31.2)
Effective Tax Rate %/bps	42.7	31.8	1093bps	34.3	841	34.3	841	34.9	33	180
JV partner's share in profit	(30)	-	NM	(55)	(45.9)	(55)	(46)	(122)	-	NM
PAT (reported)	15	391	(96.2)	222	(93.2)	359	(95.8)	507	990.0	(48.8)
PAT (adjusted)	15	391	(96.2)	222	(93.2)	359	(95.8)	503	990.0	(49.2)
NPM (%) / bps	0.2	6.1	(590)bps	4.5	(424)bps	4.9	(470)bps	2.4	5	(273)bps
EPS (adjusted)	0.1	1.82	(95.5)	0.90	(91.0)	1.9	(95.8)	2.7	5.1	(45.8)

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	12.0	9.2
FY10	19,759	7.3	1,847	9.3	916	25.8	5.0	17.6	21.2	9.5	6.5
FY11E	21,957	11.1	1,501	6.8	439	(52.1)	2.4	9.2	13.7	19.9	8.5
FY12E	24,450	11.4	1,568	6.4	445	1.2	2.4	7.5	11.4	19.7	9.1
FY13E	28,031	14.6	2,361	8.4	840	88.8	4.5	11.8	13.7	10.4	6.1

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Q4FY11 Results a “Can of Worms”

Revenue at Rs6.4bn was lower than our expectation of Rs7.3bn by 12%. However, EBITDA margins were much lower by 729bps v/s our expectation. We factored in higher margins on industry operating leverage kicking in during the 4Q of the year.

The company cited multiple reasons for reduced margins, they are

- “...increase in the procurement cost of materials especially bulk materials where the benefit of pass through is minimal”,
- “.....low margin jobs which were booked during the economic downturn in 2008-09 and 2009-10. These Jobs were in the final stages in the current quarter where the tendered margins were lower. Such jobs contributed almost 36% to the turnover in the current quarter”
- “In certain fixed price contracts, the increase in the cost of procurement of steel and cement coupled with execution bottlenecks also contributed to the drop in margins in the current quarter” and
- “Overall increase in power & fuel , hire charges , employee cost and Interest on year on year basis impacted the overall margins by almost 3% for the full year”

Exhibit 1: CCCL Q4FY11 Result Analysis

Particulars	Q4FY11A	Q4FY10A	YoY%	Q3FY11A	QoQ%	Q4FY11E	Var %	Street	Var %	Comments
Net sales	6,429	6,363	1.0	4,962	29.6	7,267	(11.5)	6,915	(7.0)	<i>Dissapointment on margins as low margins orders bagged in 2008 Economic downturn contributed 36% of Q4FY11 revenue.</i>
Consumption of RM	5,455	4,839	12.7	3,789	43.9	5,474	(0.4)			
% of sales	84.8	76.1	879bps	76.4	848	75.3	952			
Employee costs & SG&A	750	800	(6.3)	689	8.8	1,010	(25.7)			Within range of expectation
% of sales	11.7	12.6	(91)bps	13.9	(223)bps	13.9	(223)bps			
EBITDA	224	723	(69.0)	483	(53.6)	784	(71.4)	681	(67.0)	
EBITDA Margin (%)	3.5	11.4	(788)bps	9.7	(625)bps	10.8	(729)	9.8	(636)bps	
Dep and amortisation	35	29	19.8	34	3.3	41	(14.6)			
Interest	120	146	(17.5)	126	(4.8)	132	(9.0)			
EBT	69	549	(87.3)	323	(78.5)	611	(88.6)			
Other income	9	24	(62.9)	14	(38.6)	19	(54.2)			
PBT	78	572	(86.3)	338	(76.8)	630	(87.6)			
Exceptional item (reported)	-	-	-	-	-	0				
Provision for tax	33	182	(81.6)	116	(71.2)	216	(84.5)			
Effective Tax Rate %/bps	42.7	31.8	1093bps	34.3	841	34.3	841			
JV partner's share in profit	(30)	-	NM	(55)	(45.9)	(55)	(46)			
PAT (reported)	15	391	(96.2)	222	(93.2)	359	(95.8)			
PAT (adjusted)	15	391	(96.2)	222	(93.2)	359	(95.8)	288	(94.8)	
NPM (%)	0.2	6.1	(590)bps	4.5	(424)bps	4.9	(470)bps	4.2	(393)bps	
EPS (adjusted)	0.1	1.82	(95.5)	0.90	(91.0)	1.9	(95.8)			

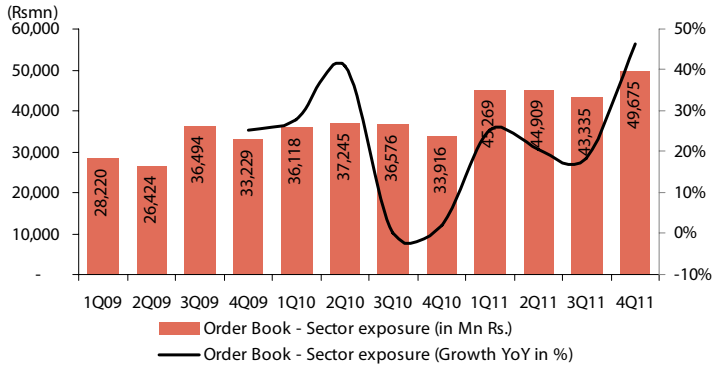
Source: Company, Centrum Research Estimates

Conference call – key takeaways

- Lower margins as seen in Q4FY11 will continue for the next 3 quarters due to orders booked during the economic downturn in 2008. Fixed price contracts form 22% of the pending order-book.
- Guidance of 10%-15% revenue growth in FY12. Management says it is conservative, but we see this as reasonable. PAT margins after factoring in low margin orders of Rs11.5bn & slow moving orders of Rs8bn would be in the range of 3%-3.2%.
- Order inflow worth Rs11.6bn bagged in Q4FY11 & Rs14bn post Q4Fy11. (Current Book-to-bill at 3 times FY11 revenue).

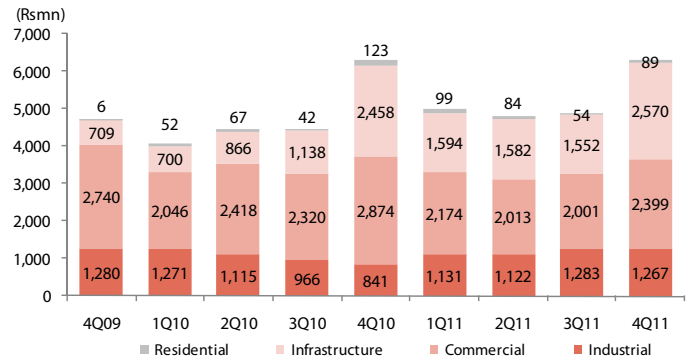
- The company enter the Pre-fab business (major player in India is Sintex Industries) in Q1FY11 and it has already bagged one order. It is expected to have around Rs1.3bn capex in FY12 for this segment & long-term strategy is that the segment to contribute Rs6bn of revenue by FY15.
- **CCCL plans to develop a 350MW power plant in the 381acre of land which is non-SEZ at Tuticorin. The investment would be Rs50mn per MW totaling to Rs17bn. State government clearances would be required as it is a 350MW plant. However, it is yet to be decided if it would be a coal based or gas based plant.**

Exhibit 2: CCCL's order-book trend



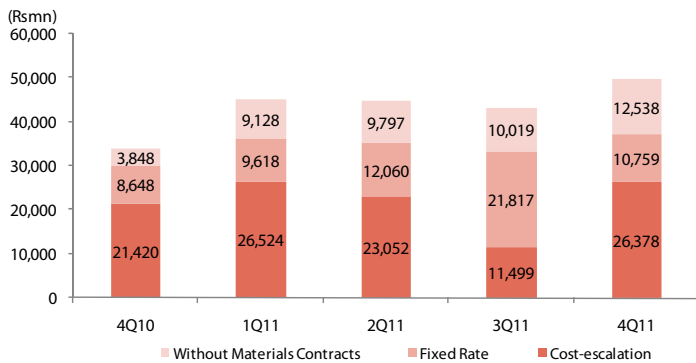
Source: Company, Centrum Research

Exhibit 3: CCCL's quarterly revenue mix



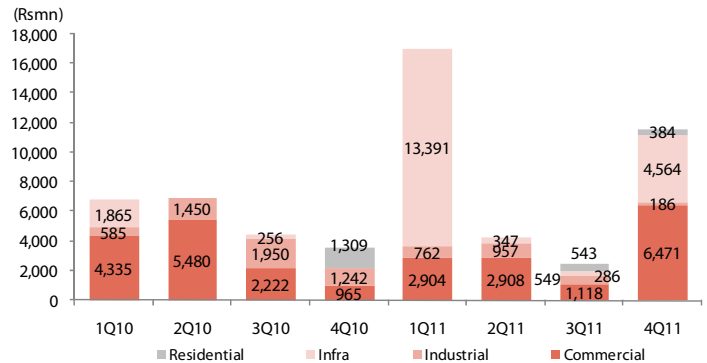
Source: Company, Centrum Research

Exhibit 4: Order-book type mix



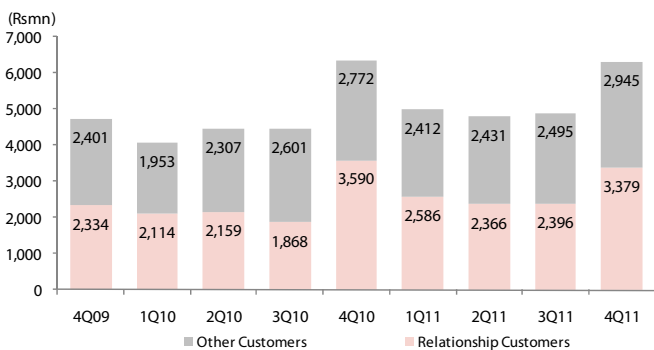
Source: Company, Centrum Research

Exhibit 5: CCCL's order-intake trend



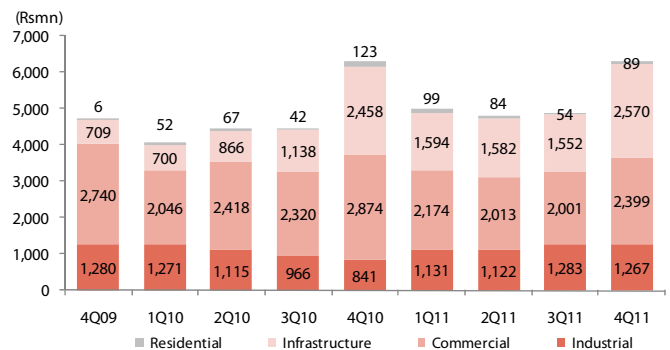
Source: Company, Centrum Research

Exhibit 6: CCCL's revenue customer mix



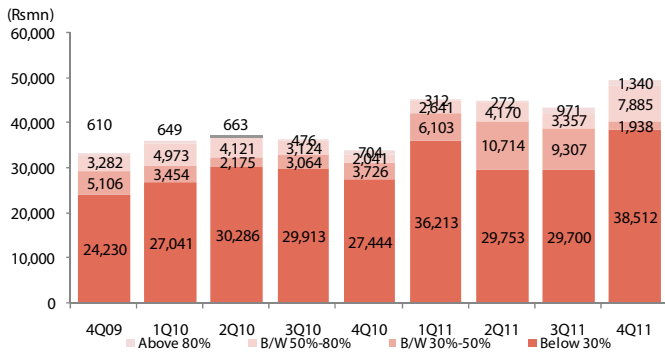
Source: Company, Centrum Research

Exhibit 7: CCCL's order-book mix



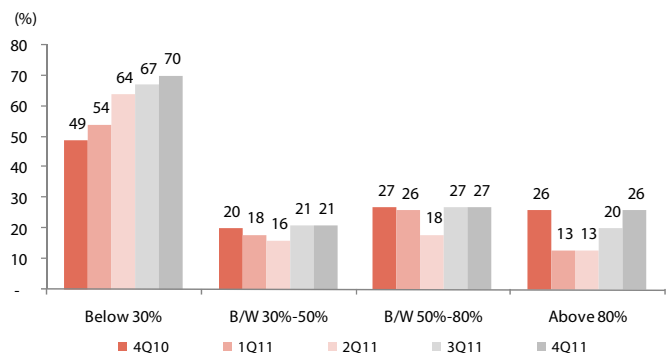
Source: Company, Centrum Research

Exhibit 8: Value of Order-book stage



Source: Company, Centrum Research

Exhibit 9: No. of Order-book Stage-wise



Source: Company, Centrum Research

Sharp revision in margins estimates reduces PAT estimates by 55% & 30% for FY12 & FY13 respectively

We downgrade our estimates for FY12 & FY13 on the basis of updates received from the management. We reduce our FY12 & FY13 revenue by 7.4% & 7.9%, however the reduction is more severe on margins which is now factored in at 6.4% & 8.4% for FY12 & FY13. Effectively, the PAT reduces from Rs1bn & 1.2bn earlier to Rs445mn & Rs840mn, a drop of 55% and 30% respectively.

Exhibit 10: CCCL’s revised estimates for FY12 & FY13

Particulars (Rsmn)	Old Estimates		New Estimates		Variance	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Type	Cons	Cons	Cons	Cons	Cons	Cons
Revenue	26,402	30,431	24,450	28,031	(7.4)	(7.9)
EBITDA	2,468	2,811	1,568	2,361	(36.5)	(16.0)
EBITDA Margin	9.3	9.2	6.4	8.4		
Interest (Net)	642	788	622	786	(3.1)	(0.3)
Depreciation	187	240	213	319	14.3	32.6
Other Income	18	22	20	35	8.7	56.9
PBT	1,657	1,805	753	1,292	(54.6)	(28.4)
Tax	564	614	263	452	(53.2)	(26.3)
<i>Tax Rate</i>	<i>34.0</i>	<i>34.0</i>	<i>35.0</i>	<i>35.0</i>		
PAT	1,094	1,191	489	840	(55.3)	(29.5)
JV’s Share	(83)	-	(45)	-	(45.9)	
Adj. PAT	1,011	1,191	445	840	(56.0)	(29.5)

Source: Company, Centrum Research Estimates

RISKS MORE – less rewards

Downgrade CCCL to Sell (Target Rs36, CMP Rs47, Downside 23%)

We downgrade the stock from Buy earlier to Sell. We believe, that the stock does not present value on its construction business which is facing margin pressure in FY11 due to the orders bagged two years earlier in the economic downturn. We are not sure how many worms are still in the can and hence would be conservative on the growth assumption. We reiterate that the working capital requirement of the company would increase as its infrastructure segment grows and expands into other regions of India.

We value the stock at Rs36 over reduced profitability of the company. ROE of the company drops from 20% levels to high-single digits. Hence, we reduce the P/E multiple ascribed to the company from 10X to 8X.

We believe that the CCCL stock would not be appropriate to have in investor portfolio on the basis of its risk-reward which is more tilted towards risk and hence, we see limited triggers in the next one-year. Though the situation is expected to improve in FY13, we believe there are other stocks available at better risk-reward ratio.

Financials (Consolidated)

Exhibit 11: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	18,413	19,759	21,957	24,450	28,031
Growth in revenue (%)	24.8	7.3	11.1	11.4	14.6
Cost of Raw Material	14,983	15,394	17,442	19,866	22,226
% of Revenue	81.4	77.9	79.4	81.2	79.3
Employee cost	1,059.6	1,141.4	1,430.9	1,410.9	1,617.5
% of Sales	5.8	5.8	6.5	5.8	5.8
O&M expenses	1,146.9	1,377.1	1,583.3	1,605.8	1,827.0
% of Sales	6.2	7.0	7.2	6.6	6.5
EBITDA	1,223	1,847	1,501	1,568	2,361
EBITDA Margin	6.6	9.3	6.8	6.4	8.4
Depreciation	89	110	140	213	319
PBIT	1,134	1,737	1,361	1,355	2,042
Interest expenses	55	265	495	622	786
PBIT from operations	1,078	1,471	866	733	1,257
Other non operating income	31	3	52	20	35
PBT before ext.od items	1,110	1,474	918	753	1,292
Extra-ordinary income/ (exp)					
PBT	1,110	1,474	918	753	1,292
Provision for tax	382	504	357	263	452
Effective tax rate (%)	34.4	34.2	38.9	35.0	35.0
Minority interest					
PAT	728	970	561	489	840
Adjustment for Ext.Od items	-	(54)	(122)	(45)	-
Adjusted PAT	728	916	439	445	840
Growth in PAT (%)	(18.1)	25.8	(52.1)	1.2	88.8
PAT margin (%)	4.0	4.6	2.0	1.8	3.0

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	5,914	6,351	7,091
Shareholders' fund	5,161	5,892	6,284	6,720	7,461
Debt	1,975	3,388	4,314	6,514	9,014
Deferred Tax Liability	442	595	612	612	612
Minority Interest	-	-	-	-	-
Total Capital Employed	7,578	9,876	11,210	13,847	17,087
Gross Block	1,605	1,897	2,470	3,597	4,897
Accumulated dep.	221	331	474	688	1,006
Net Block	1,384	1,566	1,996	2,909	3,891
Capital WIP	64	155	94	135	181
Total Fixed Assets	1,449	1,721	2,090	3,044	4,071
Investments	569	94	31	831	1,831
Inventories	8,070	10,201	12,043	13,606	16,079
Debtors	88	120	76	148	170
Cash & bank balances	1,299	1,701	852	349	(565)
Loans and Advances	1,437	1,562	2,166	2,745	3,472
Other Current Assets	-	-	-	-	-
Total current assets	10,894	13,584	15,137	16,847	19,156
Current lia & provisions	5,457	5,538	6,049	6,877	7,972
Net current assets	5,437	8,046	9,088	9,971	11,184
Misc. Expenditure	123	14	1	1	1
Total Assets	7,578	9,876	11,210	13,847	17,087

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	561	489	840
Depreciation	89	110	140	213	319
Interest expenses	118	326	495	667	802
OP profit before WC change	1,241	1,851	1,553	1,633	2,412
Working capital adjustment	(888)	(2,206)	(1,892)	(1,385)	(2,127)
Gross cash from operations	354	(355)	(339)	247	285
Direct taxes paid	(235)	(377)	(357)	(263)	(452)
Cash from operations	118	(732)	(696)	(16)	(167)
CF from investing					
Capex	(708)	(382)	(513)	(1,168)	(1,346)
Investment	422	475	64	(800)	(1,000)
Others	-	64	-	-	-
Cash from investment	(286)	156	(449)	(1,968)	(2,346)
CF from financing					
Borrowings/ (Repayments)	721	1,412	1,200	2,200	2,500
Interest paid	(118)	(326)	(495)	(667)	(802)
Dividend paid	(108)	(108)	(52)	(52)	(99)
Others	94	-	-	-	-
Cash from financing	589	978	653	1,481	1,599
Net cash increase/ (dec)	422	403	(492)	(503)	(914)

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	6.8	6.4	8.4
PBIT Margin	6.2	8.8	6.2	5.5	7.3
PBT Margin	6.0	7.5	4.2	3.1	4.6
PAT Margin	4.0	4.6	2.0	1.8	3.0
Growth Ratios (%)					
Revenues	24.8	7.3	11.1	11.4	14.6
EBITDA	(0.1)	0.5	(0.2)	0.0	0.5
Net Profit	(0.2)	0.3	(0.5)	0.0	0.9
Return Ratios (%)					
ROCE	17.5	21.2	13.7	11.4	13.7
ROIC	12.3	12.6	8.4	7.3	9.4
ROE	15.0	17.6	9.2	7.5	11.8
Turnover Ratios					
Asset turnover ratio (x)	2.7	2.3	2.1	2.0	1.8
Working Capital Turnover (x)	3.9	2.9	2.6	2.6	2.7
Avg collection period (days)	1.7	2.2	2.2	2.2	2.2
Avg payment period (days)	122	120	102	116	120
Per share (Rs)					
Fully diluted EPS	3.9	5.0	2.4	2.4	4.5
CEPS	4.4	5.6	3.1	3.6	6.3
Book Value	27.9	31.9	34.0	36.4	40.4
Solvency ratios (x)					
Debt/ Equity	0.1	0.3	0.6	0.9	1.3
Interest coverage ratio	10.4	5.7	3.0	2.4	2.9
Valuation parameters (x)					
P/E	12.0	9.5	19.9	19.7	10.4
P/BV	1.7	1.5	1.4	1.3	1.2
EV/ EBITDA	9.2	6.5	8.5	9.1	6.1
EV/ Sales	0.6	0.6	0.6	0.6	0.5
M-Cap/ Sales	0.5	0.4	0.4	0.4	0.3

Source: Company, Centrum Research Estimates

Appendix A

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