

Q1FY12/ Estimate change

2 August 2011

## Sell

Target Price: Rs20

Earlier Target was Rs36

CMP: Rs28\*

Downside: 28%

\*as on 29 July 2011

## Disappointing Trend Continues; Sell

Even though our Q1FY12 PAT estimate of Rs34mn was 70% below consensus, CCCL delivered just Rs6mn on revenue of Rs5bn. And if that was not enough, the management has extended its lower operating margin guidance to 8 quarters from 2 quarters earlier. Also, working capital is not expected to improve on account of deteriorating client profile, which would eventually impact the D/E ratio (currently at 0.7x). Overall, lower margins which the management expects on EBITDA margin of 5.5% and rising interest costs would definitely not help the company achieve a PAT margin of 2.7%-3%. Hence, we conclude CCCL is getting on a trend of zero operating cash flows and mid-to-high single-digit ROE company from 18% in FY10. The stock has declined by 41% since we downgraded it after the Q4FY11 results. We maintain Sell as we believe the deteriorating operating parameters would reduce earnings visibility for the next 2years. Target Rs20, downside of 28%. Advice investors to stay away from CCCL at CMP.

- **Revenue guidance intact, but operating margin guidance reduced drastically:** CCCL hopes to achieve net margins of 2.7%-3%, which we believe is not attainable even till FY14 based on current order-book and new orders intake at operating margins of 5.5%..
- **Maintain Sell:** Only Risks and No Rewards would be our investment thesis for CCCL. **Sell, Target Price Rs20 (downside 28%).** Better avoid exposure to this stock even after substantial correction (41% post our downgrade in Q4FY11). We would be buyers at Rs15.

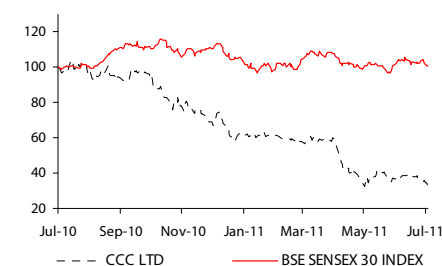
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## Key Data

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)	5.1/116.2
52 Wk H / L (Rs)	93/27
Daily Vol. (3M NSE Avg.)	52,064
Face Value (Rs)	2

1 USD = Rs44.1

## One Year Indexed Stock Performance



## Price Performance (%)

	1M	6M	1Yr
CCCL	(13.4)	(47.2)	(66.9)
NIFTY	(2.3)	1.7	2.5

Source: Bloomberg, Centrum Research  
\*as on 29 July 2011

Y/E March (Rsmn) (Standalone)	Q1FY12A	Q1FY11A	YoY%	Q4FY11A	QoQ%	Q1FY12E	Var %
<b>Net sales</b>	<b>5,069</b>	<b>5,080</b>	<b>(0.2)</b>	<b>6,429</b>	<b>(21.2)</b>	<b>5,278</b>	<b>(4.0)</b>
Consumption of RM	4,201	4,028	4.3	5,455	(23.0)	4,346	(3.3)
% of sales	82.9	79.3	358bps	84.8	(196)bps	82.3	54
Employee costs & SG&A	622	631	(1.4)	750	(17.1)	647	(3.9)
% of sales	12.3	12.4	(15) bps	11.7	60	12.3	0
<b>EBITDA</b>	<b>246</b>	<b>420</b>	<b>(41.5)</b>	<b>224</b>	<b>9.5</b>	<b>285</b>	<b>(13.6)</b>
<b>EBITDA Margin (%) / bps</b>	<b>4.8</b>	<b>8.3</b>	<b>(342) bps</b>	<b>3.5</b>	<b>136 bps</b>	<b>5.4</b>	<b>(54)</b>
Dep and amortisation	32	29	12.9	35	(7.0)	49	(34.3)
Interest	155	105	46.6	120	28.6	147	5.2
<b>EBT</b>	<b>59</b>	<b>286</b>	<b>(79.5)</b>	<b>69</b>	<b>(15.4)</b>	<b>88</b>	<b>(33.5)</b>
Other income	12	14	(15.6)	9	31.5	9	35.5
<b>PBT</b>	<b>70</b>	<b>300</b>	<b>(76.5)</b>	<b>78</b>	<b>(10.1)</b>	<b>97</b>	<b>(27.4)</b>
Exceptional item (reported)	-	-	-	-	-	0	-
Provision for tax	41	103	(60.1)	33	22.7	33	23.4
<b>Effective Tax Rate %/bps</b>	<b>58.3</b>	<b>34.3</b>	<b>2,401bps</b>	<b>42.7</b>	<b>1,558</b>	<b>34.3</b>	<b>2,398</b>
JV partner's share in profit	(24)	(9)	NM	(30)	(20.2)	(30)	(20)
<b>PAT (reported)</b>	<b>6</b>	<b>188</b>	<b>(97.0)</b>	<b>15</b>	<b>(63.0)</b>	<b>34</b>	<b>(83.5)</b>
PAT (adjusted)	6	188	(97.0)	15	(63.0)	34	(83.5)
<b>NPM (%) / bps</b>	<b>0.1</b>	<b>3.7</b>	<b>(359) bps</b>	<b>0.2</b>	<b>(12) bps</b>	<b>0.6</b>	<b>(53)bps</b>
EPS (adjusted)	0.03	1.0	(97.0)	0.1	(63.0)	0.2	(83.5)

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)
FY10	19,759	7.3	1,847	9.3	916	25.8	5.0	17.6	21.2	5.6	4.6
FY11	21,987	11.3	1,531	7.0	469	(48.8)	2.5	9.7	14.0	10.9	6.1
FY12E	24,416	11.0	1,316	5.4	193	(58.8)	1.0	4.1	9.8	26.5	8.7
FY13E	27,958	14.5	1,619	5.8	462	138.9	2.5	6.8	10.1	11.1	7.3
FY14E	32,216	15.2	2,091	6.5	647	40.0	3.5	8.8	11.1	7.9	6.0

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

## Q1FY12 Results – Our PAT Estimate Being 70% Below Consensus Didn't Help

- Overall, the results were very disappointing. Our Q1FY12 PAT estimate was Rs34mn, 64% below consensus's Rs94mn. Even then CCCL came below expectations reporting a meager Rs6mn.
- Revenue at Rs5.1bn (flat YoY, down 21% QoQ) was 4% below our estimate and 5% below from consensus expectations of Rs5.4bn
- EBITDA margin was the biggest surprise. At the Q4FY11 conference call, the management had guided that margins would remain depressed at 6%-6.5% and we had modeled in 5.4% for Q1FY12 (vs consensus of 6%). Q1FY12 reported margin was lower at 4.8%.
- Tax expense for the quarter was higher than the usual rate of 34%. Management said that the Chennai Airport project, which is being executed under a JV with a foreign partner, is based on an agreement where the foreign partner gets percentage of revenue and it can't be remitted unless tax is paid which is booked in CCCL. The impact, the company said, is of around Rs20mn.

### Exhibit 1: CCCL's Q1FY12 Result Analysis

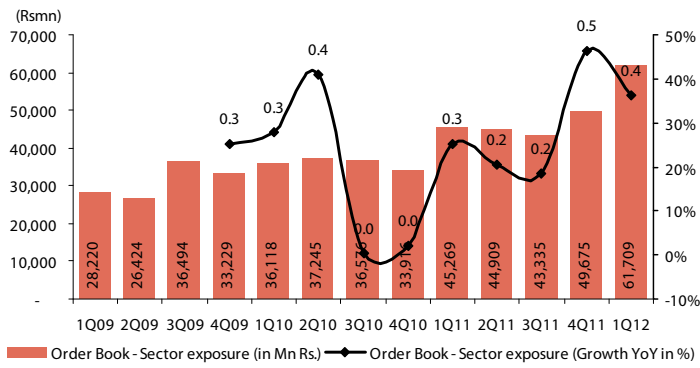
Particulars	Q1FY12	Q1FY11	YoY%	Q4FY11	QoQ%	Q1FY12E	Var %	Consensus	Var %
<b>Net sales</b>	<b>5,069</b>	<b>5,080</b>	<b>(0.2)</b>	<b>6,429</b>	<b>(21.2)</b>	<b>5,278</b>	<b>(4.0)</b>	<b>5,357</b>	<b>(5.4)</b>
Consumption of RM	4,201	4,028	4.3	5,455	(23.0)	4,346	(3.3)		
% of sales	82.9	79.3	358bps	84.8	(196)bps	82.3	54bps		
Employee costs & SG&A	622	631	(1.4)	750	(17.1)	647	(3.9)		
% of sales	12.3	12.4	(15)bps	11.7	60	12.3			
<b>EBITDA</b>	<b>246</b>	<b>420</b>	<b>(41.5)</b>	<b>224</b>	<b>9.5</b>	<b>285</b>	<b>(13.6)</b>	<b>320</b>	<b>(23.2)</b>
<b>EBITDA Margin (%)</b>	<b>4.8</b>	<b>8.3</b>	<b>(342)bps</b>	<b>3.5</b>	<b>136bps</b>	<b>5.4</b>	<b>(54)bps</b>	<b>6.0</b>	<b>(113)bps</b>
Depn/Amort.	32	29	12.9	35	(7.0)	49	(34.3)		
Interest	155	105	46.6	120	28.6	147	5.2		
<b>EBT</b>	<b>59</b>	<b>286</b>	<b>(79.5)</b>	<b>69</b>	<b>(15.4)</b>	<b>88</b>	<b>(33.5)</b>		
Other income	12	14	(15.6)	9	31.5	9	35.5		
<b>PBT</b>	<b>70</b>	<b>300</b>	<b>(76.5)</b>	<b>78</b>	<b>(10.1)</b>	<b>97</b>	<b>(27.4)</b>		
Exceptional item (reported)	-	-		-		0			
Provision for tax	41	103	(60.1)	33	22.7	33	23.4		
Effective Tax Rate %/bps	<b>58.3</b>	<b>34.3</b>	<b>2401bps</b>	<b>42.7</b>	<b>1558</b>	<b>34.3</b>	<b>2,398bps</b>		
JV partner's share in profit	(24)	(9)	NM	(30)	(20.2)	(30)	(20)		
<b>PAT (reported)</b>	<b>6</b>	<b>188</b>	<b>(97.0)</b>	<b>15</b>	<b>(63.0)</b>	<b>34</b>	<b>(83.5)</b>		
PAT (adjusted)	6	188	(97.0)	15	(63.0)	34	(83.5)	94	(94.1)
NPM (%)	0.1	3.7	(359)bps	0.2	(12)bps	0.6	(53)bps	1.8	(164)bps
EPS (adjusted)	0.03	1.0	(97.0)	0.1	(63.0)	0.2	(83.5)		

Source: Company, Centrum Research Estimates

### Conference call – Key Takeaways

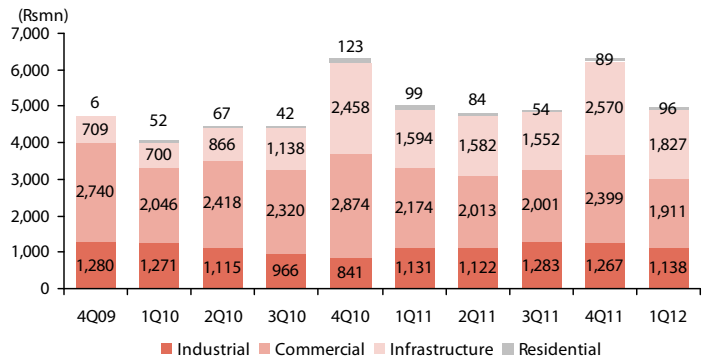
- Careful in order-intake and only taking orders where there is escalation clause build in to it. Industrial orders are not coming as expected. CCCL used to have better margins in this segment compared to other segments.
- Chennai airport project will be completed by Jan 2012 (Domestic by Oct 2011 and International by Jan 2012). Revenue of Rs1.2bn was recognized in Q1FY12 from this project and there is another Rs4bn work worth remaining.
- Revenue target of Rs30bn for FY13, provided order-intake is smooth from Q3FY12 onwards. Management hopes to attain net margins of 2.7-3% by FY13 and operating margins of 5.5%-6%.
- Working capital situation not going to improve as (1) vendors are asking for advance payment; and (2) mobilization advance from clients are not coming in cheap (at interest rate higher than what the company can borrow at).
- Employee costs have increased since the company has hired huge chunk of them in the expectation of increased activity which eventually didn't materialize as expected.
- Of the total order-book, operating margin for orders worth Rs14bn is ~8%-9% and around 5% for the rest.

**Exhibit 2: CCCL's order-book trend**



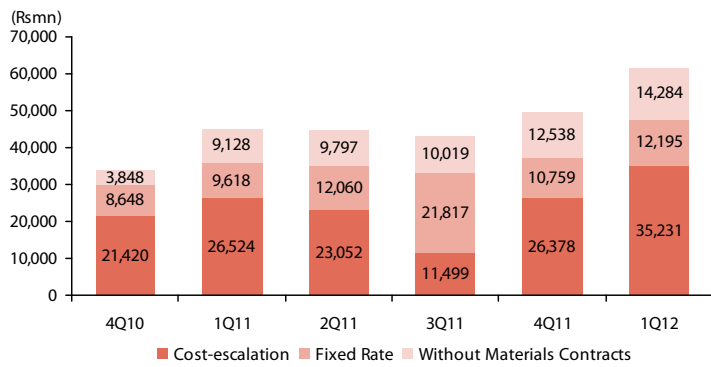
Source: Company Presentation, Centrum Research

**Exhibit 3: CCCL's quarterly revenue mix**



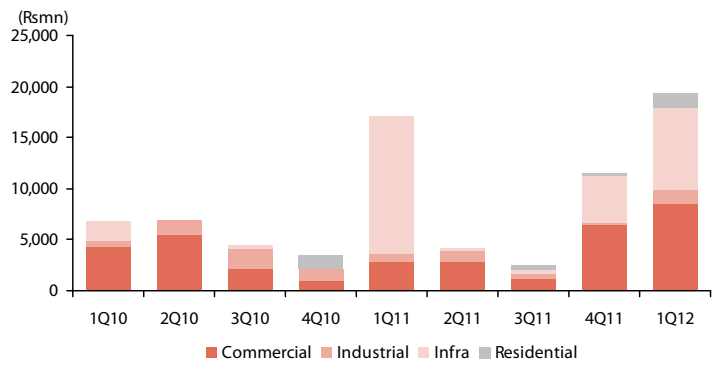
Source: Company Presentation, Centrum Research

**Exhibit 4: Order-book type mix**



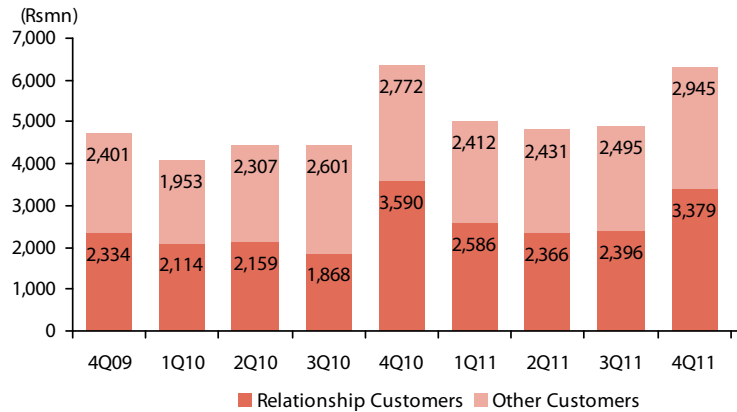
Source: Company Presentation, Centrum Research

**Exhibit 5: CCCL's order-intake trend**



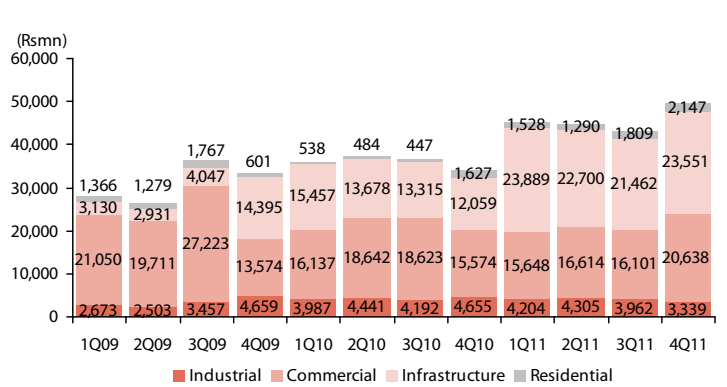
Source: Company Presentation, Centrum Research

**Exhibit 6: CCCL's revenue customer mix in**



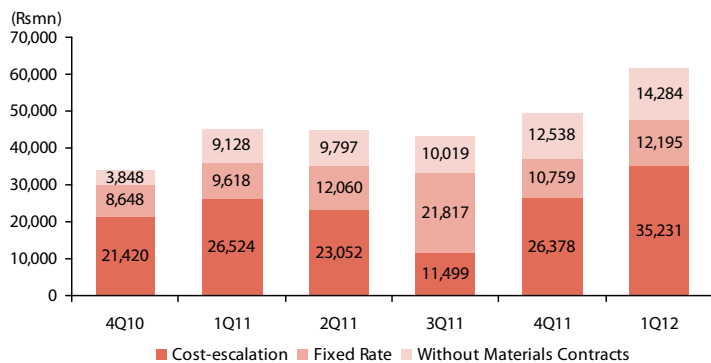
Source: Company Presentation, Centrum Research

**Exhibit 7: CCCL's order-book mix**



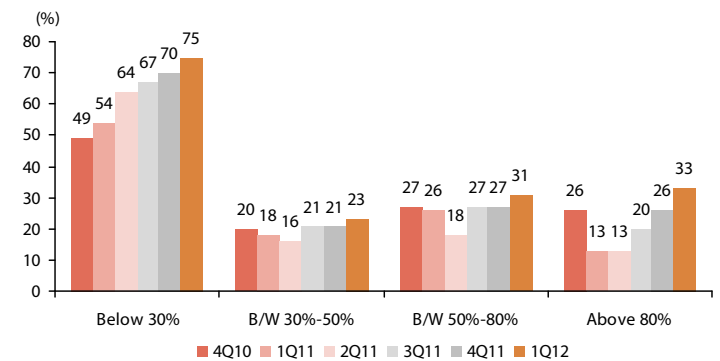
Source: Company Presentation, Centrum Research

**Exhibit 8: Value of Order-book stage**



Source: Company Presentation, Centrum Research

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



Source: Company Presentation, Centrum Research

## Sharp downgrade in margins estimates reduces PAT estimates by 57% and 45% for FY12 and FY13, respectively

We have downgraded our estimates for FY12 and FY13 on the basis of updates received from the management during the conference call. We have cut our revenue estimates marginally as we believe revenue booking would be strong based on robust order-book. However, downgrades in operating margins are more severe which are now estimated at 5.4% and 5.8% against 6.4% and 8.4% for FY12 and FY13, respectively. Effectively, our PAT estimates are reduced to Rs445mn and Rs840mn to Rs193mn and Rs462mn, a drop of 57% and 45%, 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	24,450	28,031	24,416	27,958	(0.1)	(0.3)
EBITDA	1,568	2,361	1,316	1,619	(16.1)	(31.4)
<b>EBITDA Margin (%)</b>	<b>6.4</b>	<b>8.4</b>	<b>5.4</b>	<b>5.8</b>	<b>(102)bps</b>	<b>(263)bps</b>
Interest (Net)	622	786	612	741		
Depreciation	213	319	168	188		
Other Income	20	35	8	10		
<b>PBT</b>	<b>753</b>	<b>1,292</b>	<b>544</b>	<b>700</b>	<b>(27.7)</b>	<b>(45.8)</b>
Tax	263	452	280	238		
<i>Tax Rate(%)</i>	<i>35.0</i>	<i>35.0</i>	<i>51.4</i>	<i>34.0</i>		
<b>PAT</b>	<b>489</b>	<b>840</b>	<b>265</b>	<b>462</b>	<b>(45.9)</b>	<b>(45.0)</b>
<b>JVs share</b>	<b>(45)</b>	<b>-</b>	<b>(71)</b>	<b>-</b>		
<b>Adj. PAT</b>	<b>445</b>	<b>840</b>	<b>193</b>	<b>462</b>	<b>(56.5)</b>	<b>(45.0)</b>

Source: Company, Centrum Research Estimates

### Only Risks – No Reward (From our earlier stance of More Risks & Less Rewards)

We downgraded the stock post the Q4FY11 results on low margin order disclosures and new capital intensive value creation through setting up a 350MW super-critical power plant. The stock has fallen by 41% since then. [Read our Q4FY11 Result Review for further detail on our stance](#) That would have prompted us to upgrade it. However, the new disclosures about the low operating margins phase extending from earlier 2-3 quarters to now 8 quarters leaves nothing but only downsides. Though, there may be surprises, going forward, in terms of better margin booking against guidance of 5.5%, we would like to stay conservative in regards to CCCL as it has been marred with various issues every year post FY08.

We maintain Sell based on the sharp downward revision in estimates. We maintain our stance that there is no benefit of L&T lineage available in the company. With new orders bagged at low margins of sub-6%, we believe the finances would be strained. That would bring the ROE of the company down to 6.8% in FY13 from 9.7% in FY11. At 11x FY13 P/E and 0.7x FY13 P/B, we believe the stock is expensive. We would advise investors to instead shift to IVRCL, Ahluwalia Contracts and Hindustan Constructions (all Buys in our coverage universe).

## Financials (Consolidated)

### Exhibit 11: Income Statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
<b>Revenues</b>	<b>19,759</b>	<b>21,987</b>	<b>24,416</b>	<b>27,958</b>	<b>32,216</b>
Growth in revenue (%)	7.3	11.3	11.0	14.5	15.2
Cost of Raw Material	15,394	17,442	20,139	22,921	26,185
% of Revenue	77.9	79.3	82.5	82.0	81.3%
Employee cost	1,141.4	1,430.9	1,491.8	1,736.2	2,000.6
% of Sales	5.8	6.5	6.1	6.2	6.2%
O&M expenses	1,377.1	1,583.3	1,469.6	1,682.7	1,939.0
% of Sales	7.0	7.2	6.0	6.0	6.0%
<b>EBITDA</b>	<b>1,847</b>	<b>1,531</b>	<b>1,316</b>	<b>1,619</b>	<b>2,091</b>
EBITDA Margin	9.3	7.0	5.4	5.8	6.5
Depreciation	110	140	168	188	212
<b>PBIT</b>	<b>1,737</b>	<b>1,391</b>	<b>1,148</b>	<b>1,430</b>	<b>1,879</b>
Interest expenses	265	445	612	741	910
<b>PBIT from operations</b>	<b>1,471</b>	<b>946</b>	<b>537</b>	<b>689</b>	<b>969</b>
Other non operating income	3	2	8	10	11
<b>PBT before ext.od items</b>	<b>1,474</b>	<b>948</b>	<b>544</b>	<b>700</b>	<b>980</b>
Extra-ordinary income/ (exp)					
<b>PBT</b>	<b>1,474</b>	<b>948</b>	<b>544</b>	<b>700</b>	<b>980</b>
Provision for tax	504	357	280	238	333
Effective tax rate (%)	34.2	37.7	51.4	34.0	34.0%
Minority interest					
<b>PAT</b>	<b>970</b>	<b>591</b>	<b>265</b>	<b>462</b>	<b>647</b>
Adjustment for Ext.Od items	(54)	(122)	(71)	-	-
<b>Adjusted PAT</b>	<b>916</b>	<b>469</b>	<b>193</b>	<b>462</b>	<b>647</b>
Growth in PAT (%)	25.8	(48.8)	(58.8)	138.9	40.0
PAT margin (%)	4.6	2.1	0.8	1.7	2.0

Source: Company, Centrum Research Estimates

### Exhibit 12: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	370	370	370	370	370
Stock Options / Warrants					
Reserves	5,523	5,914	6,179	6,640	7,287
<b>Shareholders' fund</b>	<b>5,892</b>	<b>6,284</b>	<b>6,548</b>	<b>7,010</b>	<b>7,657</b>
Debt	3,388	4,314	6,314	8,314	10,914
Deferred Tax Liability	595	612	612	612	612
Minority Interest	-	-	-	-	-
<b>Total Capital Employed</b>	<b>9,876</b>	<b>11,210</b>	<b>13,474</b>	<b>15,936</b>	<b>19,183</b>
<b>Gross Block</b>	<b>1,897</b>	<b>2,195</b>	<b>2,595</b>	<b>3,195</b>	<b>3,870</b>
Accumulated dep.	331	467	635	823	1,035
<b>Net Block</b>	<b>1,566</b>	<b>1,728</b>	<b>1,960</b>	<b>2,372</b>	<b>2,835</b>
Capital WIP	155	362	91	110	132
<b>Total Fixed Assets</b>	<b>1,721</b>	<b>2,090</b>	<b>2,051</b>	<b>2,482</b>	<b>2,967</b>
<b>Investments</b>	<b>94</b>	<b>31</b>	<b>381</b>	<b>831</b>	<b>1,381</b>
Inventories	10,201	12,043	14,605	16,815	19,433
Debtors	120	76	85	97	112
Cash & bank balances	1,701	852	844	781	825
Loans and Advances	1,562	2,166	2,199	2,282	2,555
Other Current Assets	-	-	-	-	-
<b>Total current assets</b>	<b>13,584</b>	<b>15,137</b>	<b>17,733</b>	<b>19,975</b>	<b>22,925</b>
Current lia & provisions	5,538	6,049	6,691	7,352	8,090
<b>Net current assets</b>	<b>8,046</b>	<b>9,088</b>	<b>11,042</b>	<b>12,622</b>	<b>14,834</b>
Misc. Expenditure	14	1	1	1	1
<b>Total Assets</b>	<b>9,876</b>	<b>11,210</b>	<b>13,474</b>	<b>15,936</b>	<b>19,183</b>

Source: Company, Centrum Research Estimates

### Exhibit 13: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
<b>CF from operating</b>					
<b>PAT till FY09 / PbT after</b>	<b>916</b>	<b>469</b>	<b>265</b>	<b>462</b>	<b>647</b>
Depreciation	110	140	168	188	212
Interest expenses	326	495	656	780	944
<b>OP profit before WC change</b>	<b>1,851</b>	<b>1,345</b>	<b>1,369</b>	<b>1,668</b>	<b>2,136</b>
Working capital adjustment	(2,206)	(1,892)	(1,961)	(1,644)	(2,168)
<b>Gross cash from operations</b>	<b>(355)</b>	<b>(546)</b>	<b>(593)</b>	<b>24</b>	<b>(33)</b>
Direct taxes paid	(377)	(341)	(280)	(238)	(333)
<b>Cash from operations</b>	<b>(732)</b>	<b>(887)</b>	<b>(873)</b>	<b>(214)</b>	<b>(366)</b>
<b>CF from investing</b>					
Capex	(382)	(506)	(129)	(619)	(697)
Investment	475	64	(350)	(450)	(550)
Others	64	49	-	-	-
<b>Cash from investment</b>	<b>156</b>	<b>(394)</b>	<b>(479)</b>	<b>(1,069)</b>	<b>(1,247)</b>
<b>CF from financing</b>					
Borrowings/ (Repayments)	1,412	926	2,000	2,000	2,600
Interest paid	(326)	(495)	(656)	(780)	(944)
Dividend paid	(108)	-	-	-	-
Others	-	-	-	-	-
<b>Cash from financing</b>	<b>978</b>	<b>431</b>	<b>1,344</b>	<b>1,220</b>	<b>1,656</b>
<b>Net cash increase/ (dec)</b>	<b>403</b>	<b>(849)</b>	<b>(8)</b>	<b>(63)</b>	<b>44</b>

Source: Company, Centrum Research Estimates

### Exhibit 14: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
<b>Margin Ratios (%)</b>					
EBITDA Margin	9.3	7.0	5.4	5.8	6.5
PBIT Margin	8.8	6.3	4.7	5.1	5.8
PBT Margin	7.5	4.3	2.2	2.5	3.0
PAT Margin	4.6	2.1	0.8	1.7	2.0
<b>Growth Ratios (%)</b>					
Revenues	7.3	11.3	11.0	14.5	15.2
EBITDA	51.0	(17.1)	(14.0)	23.0	29.2
Net Profit	25.8	(48.8)	(58.8)	138.9	40.0
<b>Return Ratios (%)</b>					
ROCE	21.2	14.0	9.8	10.1	11.1
ROIC	12.9	6.5	6.2	6.7	7.5
ROE	17.6	9.7	4.1	6.8	8.8
<b>Turnover Ratios</b>					
Asset turnover ratio (x)	2.3	2.1	2.0	1.9	1.8
Working Capital Turnover (x)	2.9	2.6	2.4	2.4	2.3
Avg collection period (days)	2.2	1.3	1.3	1.3	1.3
Avg payment period (days)	120	115	111	107	103
<b>Per share (Rs)</b>					
Fully diluted EPS	5.0	2.5	1.0	2.5	3.5
CEPS	5.6	3.3	2.0	3.5	4.6
Book Value	32	34	35	38	41
<b>Solvency ratios (x)</b>					
Debt/ Equity	0.3	0.6	0.8	1.1	1.3
Interest coverage ratio	5.7	3.1	2.0	2.1	2.2
<b>Valuation parameters (x)</b>					
P/E	5.6	10.9	26.5	11.1	7.9
P/BV	0.9	0.8	0.8	0.7	0.7
EV/ EBITDA	4.6	6.1	8.7	7.3	6.0
EV/ Sales	0.4	0.4	0.4	0.4	0.3
M-Cap/ Sales	0.3	0.2	0.2	0.2	0.2

Source: Company, Centrum Research Estimates

## Appendix A

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