

Era Infra Engineering

Q2FY11/ Target price change 16 November 2010

Buy

Target Price: Rs274

(Previous Target Rs289)

CMP: Rs227*

Upside: 20%

*as on 15 November 2010

Tepid Revenue, Net Profit Inline

Era Infra's Q2FY11 topline at Rs8.1bn was below expectations. However, better operating margin offset the disappointment with PAT inline at Rs618mn. Order-intake during the quarter was low, but the management is confident of bagging significant orders in H2FY11. We maintain our Buy rating with marginal cut in estimates factoring in H1FY11 performance. With infrastructure (power, railways, roads, etc) accounting for a significant share of the Rs110bn order-book, we see limited risk on our numbers. Our revised target price of Rs274 (earlier Rs289) offers 20% upside from current levels.

- **Q2FY11 revenue below expectations:** Revenue was 16% lower than street estimates on account of monsoon effect. The management has guided a comfortable growth of 30% for contracts segment, which we believe is reasonable.
- **But operating margin surprises:** The company reported robust EBITDA margin of 22% vs our estimate of 18.8% (street estimate was 18.2%). Margin was high on account of equipment hiring sales having margins of around 80% (6% of sales in Q2FY11) and power orders (20% of order-book) where cement and steel contributing 50% of sales are supplied by client.
- **Order-book at Rs110bn:** Infrastructure accounts for 53% of the order-book, power 20%, industrial 7% and 21% by social.
- **Maintain Buy with marginal changes in estimates:** This quarter's revenue disappointment doesn't change our earnings estimate significantly as robust EBITDA margins offset the shortfall. We maintain our Buy rating with a revised target price of Rs274 (Previous Rs289).

Manish Kayal

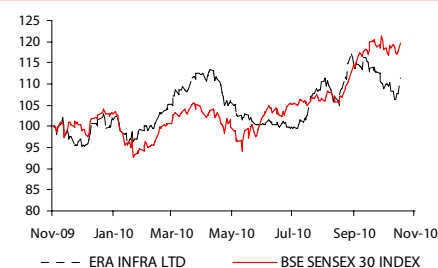
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Key Data

Bloomberg Code	ERIE IN
Reuters Code	ERIC.BO
Current Shares O/S (mn)	181.8
Diluted Shares O/S(mn)	181.8
Mkt Cap (Rsbn/USDmn)	41.4/913
52 Wk H / L (Rs)	244/195
Daily Vol. (3M NSE Avg.)	242,541
Face Value (Rs)	2

USD = Rs44.3

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Era Infra	1.2	4.4	10.3
NIFTY	(1.1)	17.1	16.9

Source: Bloomberg, Centrum Research
*as on 15 November 2010

Y/E March (Rsmn) (Standalone)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	Q2FY11E	Variance (%)
Net sales	8,102	8,354	(3.0)	8,142	(0.5)	10,100	(19.8)
Consumption of RM	5,806	6,418	(9.5)	5,971	(2.8)	7,700	(24.6)
% of sales	71.7	76.8	(517)	73.3	(168)	76.2	(457.7)
Employee costs & SG&A	500	326	53.2	438	14.2	502	(0.5)
% of sales	6.2	3.9	226	5.4	79	5.0	119.5
EBITDA	1,796	1,610	11.6	1,733	3.6	1,898	(5.3)
EBITDA Margin (%) / bps	22.2	19.3	290	21.3	88	18.8	338.2
Dep and amortisation	211	175	20.7	203	4.0	239	(11.8)
Interest	736	607	21.3	692	6.4	777	(5.3)
EBT	849	828	2.6	839	1.3	882	(3.7)
Other income	49	57	(14.1)	48	3.0	60	(17.4)
PBT	899	886	1.5	887	1.3	941	(4.5)
Provision for tax	281	297	(5.3)	296	(5.2)	320	(12.3)
Effective Tax Rate %/bps	31.2	33.5	(225)	33.4	(215)	34.0	(275.5)
PAT (reported)	618	589	4.9	591	4.6	621	(0.5)
PAT (adjusted)	618	589	4.9	591	4.6	621	(0.5)
NPM (%) / bps	7.6	7.1	58	7.3	37	6.2	14,753.7
EPS (adjusted)	3.2	3.7	(14.5)	3.02	4.6	3.2	(0.5)

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)
FY09	23,769	62.3	4,136	17.4	1,613	32.9	11.0	24.0	15.9	20.6	12.4
FY10	34,155	43.7	6,525	19.1	2,475	53.5	12.8	21.2	17.6	17.7	10.5
FY11E	41,109	20.4	8,093	19.7	2,890	16.7	14.8	17.8	16.5	15.4	9.1
FY12E	53,016	29.0	9,860	18.6	3,553	22.9	18.1	18.2	16.9	12.5	7.9
FY13E	63,084	19.0	11,354	18.0	4,222	18.8	21.6	18.1	17.0	10.6	7.1

Source: Company, Centrum Research Estimates

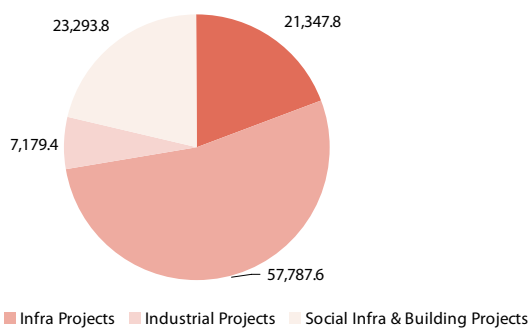
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Exhibit 1: Financial Estimate Changes

Particulars	Actual		Old Estimates		New Estimates				Old Estimates		New Estimates			
	Q1FY11	Q2FY11	Q3FY11E	Q4FY11E	Q3FY11E	Var %	Q4FY11E	Var %	FY11E	FY12E	FY11E	Var %	FY12E	Var %
Total Income from Operations	8,142	8,102	10,915	13,633	10,315	(5.5)	14,551	6.7	42,790	55,617	41,109	(3.9)	53,016	(4.7)
Growth YoY (in %)	15.0	(3.0)	22.5	39.0	27.3	NA	41.1	NA	25.3	30.0	20.4	NA	29.0	NA
EBITDA (Rsmn)	1,733	1,796	2,029	2,480	1,917	(5.5)	2,647	6.7	8,139	10,346	8,093	(0.6)	9,860	(4.7)
EBITDA Margins (in %)	21.3	22.2	18.6	18.2	18.6	NA	18.2	NA	19.0	18.6	19.7	NA	18.6	NA
Profit After Tax (Rsmn)	591	618	679	926	633	(6.8)	1,049	13.2	2,817	3,768	2,890	2.6	3,553	(5.7)
Net Profit Margin (in %)	7.3	7.6	6.2	6.8	6.1	NA	7.2	NA	6.6	6.8	7.0	NA	6.7	NA

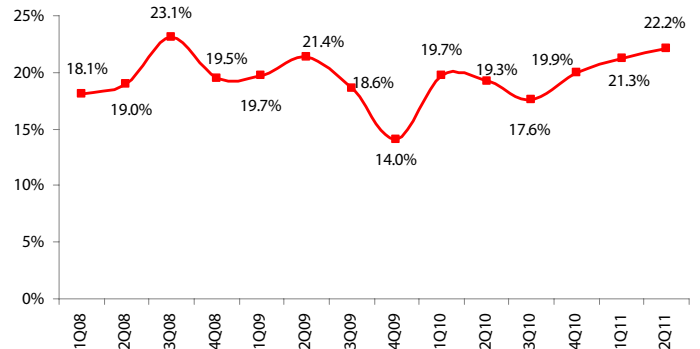
Source: Company, Centrum Research Estimates

Exhibit 2: Q2FY11 order-book mix (Rsmn)



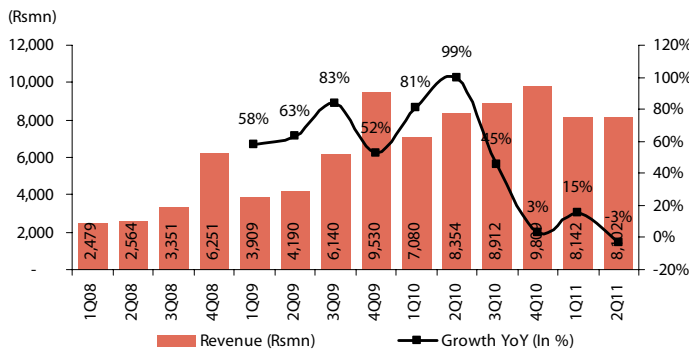
Source: Company

Exhibit 3: EBITDA margin trend over last 4 years



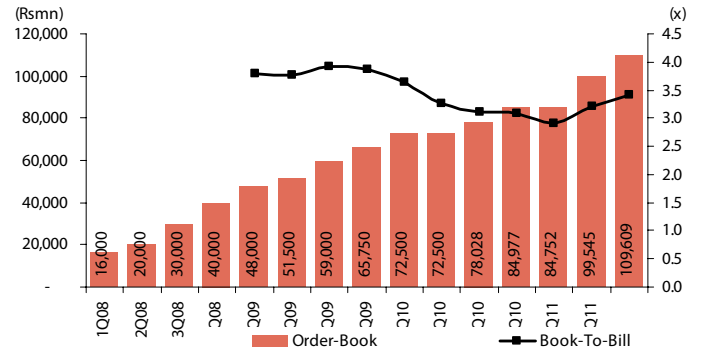
Source: Company

Exhibit 4: Revenue trend over the last 4 years



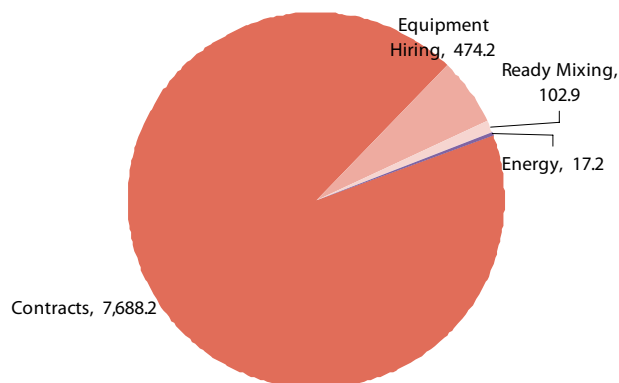
Source: Company

Exhibit 5: Order-book trend and Book-To-Bill Ratio (TTM)



Source: Company

Exhibit 6: 2QFY11 Revenue break-up (Rsmn)



Source: Company

Financials (Standalone)

Exhibit 7: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	23,769	34,155	41,109	53,016	63,084
Growth in revenue (%)	62.3	43.7	20.4	29.0	19.0
Cost of Raw Material	18,634	26,222	30,892	40,583	48,669
% of Revenue	78.4	76.8	75.1	76.5	77.1
Employee cost	666.0	1,004.2	1,466.0	1,843.7	2,193.9
% of Sales	2.8	2.9	3.6	3.5	3.5
O&M expenses	332.7	403.1	658.2	729.1	867.5
% of Sales	1.4	1.2	1.6	1.4	1.4
EBITDA	4,136	6,525	8,093	9,860	11,354
EBITDA Margin (%)	17.4	19.1	19.7	18.6	18.0
Depreciation	459	715	984	1,322	1,573
PBIT	3,677	5,810	7,109	8,538	9,781
Interest expenses	1,484	2,474	3,002	3,394	3,612
PBIT from operations	2,193	3,336	4,107	5,144	6,169
Other Non-Op.Income	378	160	226	239	227
PBT before ext.od items	2,571	3,496	4,332	5,382	6,396
Extra-ordinary income/ (exp)	625.5	482.6	-	-	-
PBT	3,196	3,978	4,332	5,382	6,396
Provision for tax	545	1,184	1,442	1,829	2,174
Effective tax rate	17.0	29.8	33.3	34.0	34.0
Minority interest					
PAT	2,652	2,794	2,890	3,553	4,222
Adjustment for Ext.Od items	(1,039)	(319)	-	0	-
Adjusted PAT	1,613	2,475	2,890	3,553	4,222
Growth in PAT (%)	32.9	53.5	16.7	22.9	18.8
PAT margin (%)	6.8	7.2	7.0	6.7	6.7

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	287	358	364	364	364
Stock Options / Warrants	-	-	-	-	-
Reserves	8,502	14,212	17,449	20,917	25,037
Shareholders' fund	8,789	14,571	17,813	21,280	25,401
Debt	17,963	24,820	29,057	33,057	35,557
Deferred Tax Liability	910	1,584	1,702	1,702	1,702
Minority Interest					
Total Capital Employed	27,663	40,975	48,572	56,039	62,659
Gross Block	11,773	15,270	17,548	20,875	24,535
Accumulated dep.	797	1,469	2,454	3,776	5,349
Net Block	10,976	13,800	15,094	17,100	19,187
Capital WIP	1,034	985	1,422	1,611	1,808
Total Fixed Assets	12,010	14,786	16,516	18,711	20,994
Investments	1,761	2,853	4,843	6,043	7,443
Deferred Tax Asset					
Inventories	6,722	9,083	12,816	14,871	17,416
Debtors	7,241	9,337	13,427	15,388	17,273
Cash & bank balances	1,791	4,661	2,581	2,980	2,969
Loans and Advances	3,498	5,741	6,217	6,972	7,307
Other Current Assets	28	49	68	78	92
Total current assets	19,280	28,871	35,108	40,288	45,058
Current lia & provisions	5,498	5,540	7,896	9,002	10,836
Net current assets	13,781	23,331	27,212	31,285	34,222
Misc. Expenditure	110	5.76	-	-	-
Total Assets	27,663	40,975	48,572	56,039	62,659

Source: Company, Centrum Research Estimates

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	2,571	3,496	4,332	5,382	6,396
Depreciation	459	715	984	1,322	1,573
Interest expenses	1,559	2,242	3,002	3,394	3,612
OP profit before WC change	4,043	6,285	8,319	10,099	11,581
Working capital adjustment	(5,470)	(6,694)	(5,961)	(3,674)	(2,948)
Gross cash from operations	(1,427)	(409)	2,357	6,425	8,633
Direct taxes paid	(302)	(513)	(1,442)	(1,829)	(2,174)
Cash from operations	(1,729)	(922)	915	4,595	6,459
CF from investing					
Capex	(5,599)	(3,693)	(2,715)	(3,516)	(3,857)
Investment	693	(1,087)	(1,990)	(1,200)	(1,400)
Others	944	154	-	-	-
Cash from investment	(3,962)	(4,626)	(4,705)	(4,716)	(5,257)
CF from financing					
Proceeds from sh cap & prem.	2,104	2,975	5	-	-
Borrowings/ (Repayments)	2,729	7,299	4,777	4,000	2,500
Interest paid	(1,559)	(2,242)	(3,002)	(3,394)	(3,612)
Dividend paid	(54)	(67)	(70)	(86)	(102)
Others	-	454	-	-	-
Cash from financing	3,219	8,419	1,710	520	(1,214)
Net cash increase/ (dec)	(2,472)	2,870	(2,080)	399	(11)

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios					
EBITDA Margin	17.4	19.1	19.7	18.6	18.0
PBIT Margin	15.5	17.0	17.3	16.1	15.5
PBT Margin	13.4	11.6	10.5	10.2	10.1
PAT Margin	6.8	7.2	7.0	6.7	6.7
Growth Ratios (%)					
Revenues	62.3	43.7	20.4	29.0	19.0
EBITDA	41.1	57.8	24.0	21.8	15.2
Net Profit	32.9	53.5	16.7	22.9	18.8
Return Ratios (%)					
ROCE	15.9	17.6	16.5	16.9	17.0
ROIC	11.1	12.0	11.5	12.0	12.3
ROE	24.0	21.2	17.8	18.2	18.1
Turnover Ratios					
Asset turnover ratio (x)	0.9	0.8	0.8	0.9	1.0
Working Capital Turnover (x)	1.7	1.5	1.5	1.7	1.8
Avg collection period (days)	111.2	99.8	119.2	105.9	99.9
Avg payment period (days)	100.4	71.5	85.1	74.2	79.2
Per share (Rs)					
Fully diluted EPS	11.0	12.8	14.8	18.1	21.6
CEPS	14.7	16.8	20.2	25.4	30.2
Book Value	69.9	81.4	98.0	117.0	139.7
Solvency ratios					
Debt/ Equity	2.0	1.7	1.6	1.6	1.4
Interest coverage ratio	2.4	2.5	2.7	2.9	3.1
Valuation parameters (x)					
P/E	20.6	17.7	15.4	12.5	10.6
P/BV	3.3	2.8	2.3	1.9	1.6
EV/ EBITDA	12.4	10.5	9.1	7.9	7.1
EV/ Sales	2.2	2.0	1.8	1.5	1.3
M-Cap/ Sales	1.4	1.3	1.1	0.8	0.7

Source: Company, Centrum Research Estimates

Appendix A

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