INDIA

Infrastructure

CENTRUM

Era Infra Engineering

Q3FY11/ Rating Change **16 February 2011**

Hold

From Buy Earlier

Target Price: Rs192

From Rs274 earlier

CMP: Rs194

Downside: 1%

**as on 15 February 2011*

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Inline Q3, But Risk on Order Intake High

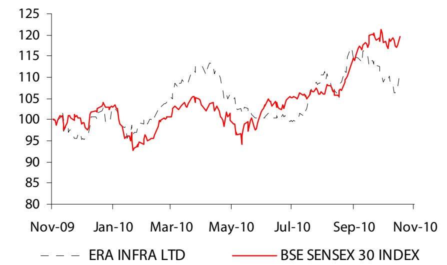
Era Infra's Q3FY11 was inline with our expectations. We however, believe that the outlook for the company was muted on the con-call. Order-intake of just Rs25bn in FY11TD is a huge NEGATIVE for FY12 revenue. Gross order-book at Rs110cr looks good (~3X FY10), but net OB at Rs75bn raises concerns on visibility. Margins would also be hit for FY12 given that new orders would entails high competitive intensity. The only saving grace for the company is internal order-book of Rs40bn of in-house BOT's EPC work. We downgrade the stock to hold, awaiting clarity on order-intake in the next 3-6m and reduce FY12 revenue & earnings estimates by 12% and 19% respectively. Our new SOTP target price is Rs192 and provides little movement from CMP of Rs194.

- **Q3FY11 numbers was inline:** Revenue at Rs10bn was inline whereas lower operating margins by 55bps and 12% higher interest cost v/s expectations hit net profit by 8% at Rs582mn v/s our expectation of Rs633mn.
- **Gross order-book at Rs110bn (~3X FY10), Net OB at Rs75bn (~2X Fy10) gives little comfort on visibility:** Company has not bagged major orders in past 6months and intensifying competition in segments like power, road, etc provides little comfort for FY12 sales.
- **Downgrade to Hold:** We downgrade Era Infra to hold from Buy earlier on 1) downward revision in FY12 earnings by 21% on order-intake issues 2) Revision of P/E multiple from 14X earlier to 12X now. Note that stock has outperformed peers like IVRCL Infra, NCC, etc (see Exhibit 8). Our new target price through SOTP method is Rs192 considering above factors, and at CMP of Rs194 presents little movement as per our analysis.

Key Data

Bloomberg Code	ERIE IN
Reuters Code	ERCI.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)	Q3FY11A	Q3FY10A	YoY%	Q2FY11A	QoQ%	Q3FY11E	Variance %
Net sales	**10,146**	**8,912**	***13.8***	**8,102**	***25.2***	**10,315**	***(1.6)***
Consumption of RM	7,831	6,955	*12.6*	5,806	*34.9*	7,905	*(0.9)*
% of sales	*77.2*	*78.0*	*(86)bps*	*71.7*	*552bps*	*76.6*	*55bps*
Employee costs & SG&A	*464*	*389*	*19.3*	*500*	*(7.2)*	*492*	*(5.8)*
% of sales	*4.6*	*4.4*	*21bps*	*6.2*	*(160)bps*	*4.8*	*(20)bps*
EBITDA	**1,851**	**1,568**	***18.1***	**1,796**	***3.1***	**1,917**	***(3.4)***
EBITDA Margin (%)/ bps	*18.2*	*17.6*	*66bps*	*22.2*	*(392)bps*	*18.6*	*(34)bps*
Dep and amortisation	212	185	*14.1*	211	*0.2*	236	*(10.5)*
Interest	*873*	*676*	*29.1*	*736*	*18.6*	*777*	*12.3*
EBT	**767**	**706**	***8.6***	**849**	***(9.7)***	**904**	***(15.2)***
Other income	132	50	*163.6*	49	*167.4*	55	*140.8*
PBT	**898**	**756**	***18.8***	**899**	***(0.0)***	**958**	***(6.3)***
Provision for tax	316	184	72.3	281	12.8	326	(2.8)
Effective Tax Rate %/bps	*35.2*	*24.3*		*31.2*	*399bps*	*34.0*	*124bps*
PAT (reported)	***582***	***572***	***1.7***	***618***	***(5.8)***	***633***	***(8.0)***
PAT (adjusted)	***582***	***572***	***1.7***	***618***	***(5.8)***	***633***	***(8.0)***
NPM (%)/ bps	*5.7*	*6.4*	*(69)bps*	*7.6*	*(189)bps*	*6.1*	*(40)bps*
EPS (adjusted)	**3.0**	**3.0**	***0.0***	**3.15**	***(5.8)***	**3.2**	***(8.0)***

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%	1,596	31.5%	10.9	23.7	15.9	17.8	11.2
FY10	34,155	43.7%	6,525	19.1%	2,462	54.3%	12.8	21.1	17.6	15.2	9.5
FY11E	39,320	15.1%	7,843	19.9%	2,726	10.7%	13.9	16.9	16.0	13.9	8.6
FY12E	46,851	19.2%	8,591	18.3%	2,804	2.8%	14.3	14.7	15.0	13.6	8.2
FY13E	54,695	16.7%	9,701	17.7%	3,189	13.8%	16.3	14.5	15.1	11.9	7.5

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Q3FY11 Result Review

Era Infra's Q3FY11 results were broadly inline with our expectations.

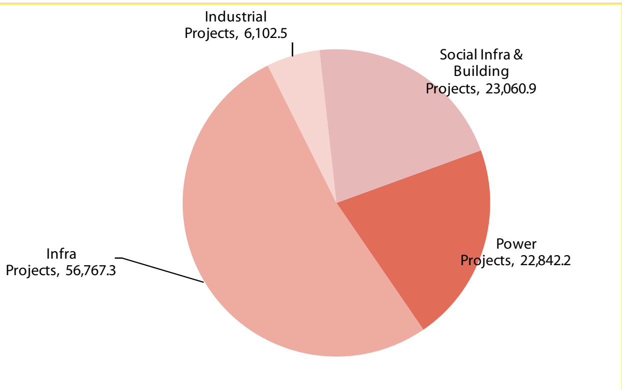
- **Revenue at Rs10.1bn was inline with our expectation of Rs10.3bn. However, it was 5% off from consensus estimate of Rs10.7bn.**
- **EBITDA margins came in below by 34bps at 18.2% from our expectation of 18.6% and 29bps below street expectation of 18.5%.**
- **With lower operating margin and 12% higher interest outgo v/s our expectation took net profit away by 8% at Rs582mn from our expectation of Rs633mn.**

Exhibit 1: Q3FY11 Result Analysis

Particulars	Q3FY11A	Q3FY10A	YoY%	Q2FY11A	QoQ%	Q3FY11E	Variance %	Q3FY11E Street	Var %	Comments
Net sales	**10,146**	**8,912**	***13.8***	**8,102**	***25.2***	**10,315**	***(1.6)***	**10,709**	***(5.3)***	***Inline with our expectation***
Consumption of RM	7,831	6,955	*12.6*	5,806	*34.9*	7,905	*(0.9)*			
% of sales	**77.2**	**78.0**	***(86)bps***	**71.7**	***552bps***	**76.6**	***55bps***			
Employee costs & SG&A	*464*	*389*	*19.3*	*500*	*(7.2)*	*492*	*(5.8)*			
% of sales	**4.6**	**4.4**	***21bps***	**6.2**	***(160)bps***	**4.8**	***(20)bps***			
EBITDA	**1,851**	**1,568**	***18.1***	**1,796**	***3.1***	**1,917**	***(3.4)***	**1,985**	***(6.8)***	***Inline with our expectation***
EBITDA Margin (%)	**18.2**	**17.6**	***66bps***	**22.2**	***(392)bps***	**18.6**	***(34)bps***	**18.5**	***(29)bps***	
Dep and amortisation	212	185	*14.1*	211	*0.2*	236	*(10.5)*			
Interest	*873*	*676*	*29.1*	*736*	*18.6*	*777*	*12.3*			*Interest expenses were higher*
EBT	**767**	**706**	***8.6***	**849**	***(9.7)***	**904**	***(15.2)***			
Other income	132	50	*163.6*	49	*167.4*	55	*140.8*			*Other Income came higher too.*
PBT	**898**	**756**	***18.8***	**899**	***(0.0)***	**958**	***(6.3)***			
Exceptional item (reported)										
Provision for tax	316	184	72.3	281	12.8	326	(2.8)			
Effective Tax Rate %	35.2	24.3		31.2	*399bps*	34.0	*124bps*			
JV partner's share in profit										
PAT (reported)	***582***	***572***	***1.7***	***618***	***(5.8)***	***633***	***(8.0)***			
PAT (adjusted)	***582***	***572***	***1.7***	***618***	***(5.8)***	***633***	***(8.0)***	***680***	***(14.4)***	***Broadly Inline with expectation***
NPM (%)	**5.7**	**6.4**	***(69)bps***	**7.6**	***(189)bps***	**6.1**	***(40)bps***	**6.3**	***(61)bps***	
EPS (adjusted)	**3.0**	**3.0**	***0.0***	**3.15**	***(5.8)***	**3.2**	***(8.0)***			

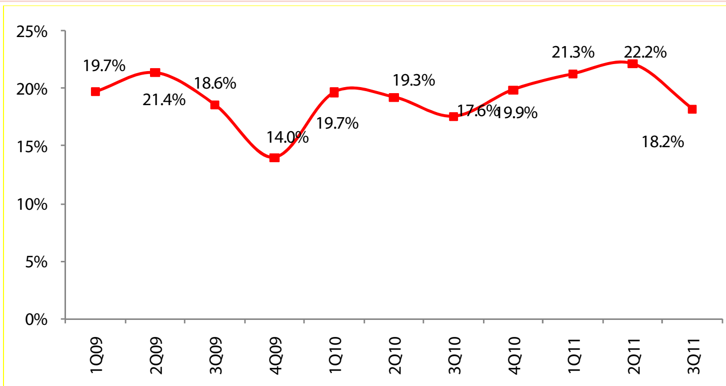
Source: Company, Centrum Research Estimate

Exhibit 2: Q2FY11 order-book mix (Rsmn)



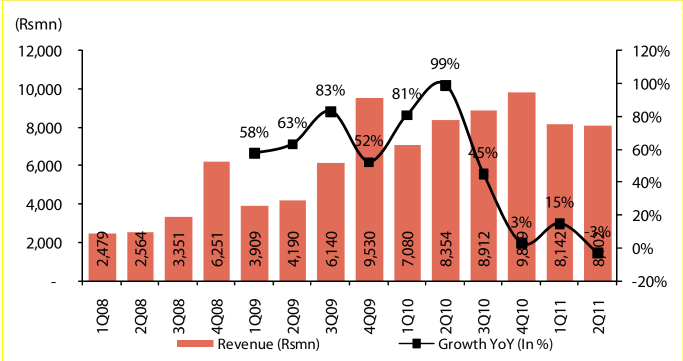
Source: Company

Exhibit 3: EBITDA margin trend over last 4 years



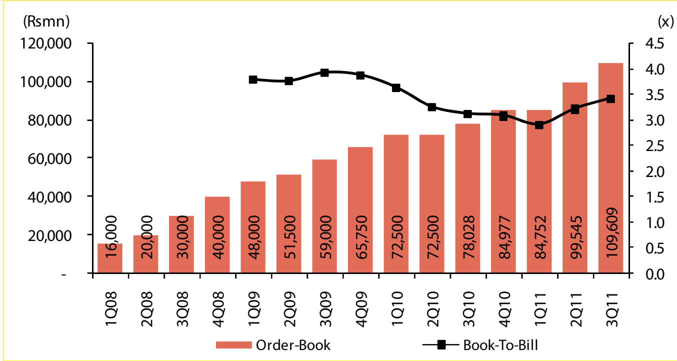
Source: Company

Exhibit 4: Revenue trend over the last 4 years



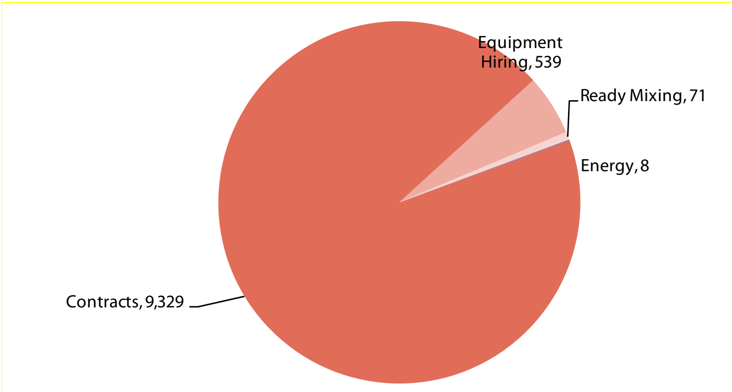
Source: Company

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



Source: Company

Exhibit 6: 3QFY11 Revenue break-up (Rsmn)



Source: Company

Changes in estimates for Q4FY11 & FY12

We revise our estimates for Q4FY11 & FY12 given that order-intake of the company has been was disappointing in FY11TD at just Rs25bn. Though the company expects order-intake of Rs50bn in the next 6months, we build in conservative assumption of around Rs30bn.

We revise revenue for FY11 & FY12 downwards by 4% & 12% respectively. This is due to dull order-intake in 9MFY11 contributing lesser growth in the year FY12.

Since, many players vying for orders, we also reduce our operating margin assumption from 18.6% earlier to 18.3% now (note that operating margins for Era Infra are high only because of equipment hiring business which would contribute around 5% of total sales in FY12 and generates operating margins in the range of ~70%. EPC business generates margins are around 13% and comparable with peers range. We factor similar growth for EPC and equipment hiring business and hence the reduction in margins is mainly on account of EPC business. Net profit of FY12 gets impacted by 19% to Rs2.8bn from our earlier estimate of Rs3.5bn.

Exhibit 7: Estimate Changes for Era Infra

Particulars	Actual			Old Est.	New Estimates		Old Estimate		New Estimate			
	Q1FY11	Q2FY11	Q3FY11	Q4FY11E	Q4FY11E	Variance	FY11E	FY12E	FY11E	Variance	FY12E	Variance
Total Income from Operations	**8,142**	**8,102**	**10,146**	**14,551**	**12,930**	**-11.1%**	**41,109**	**53,016**	**39,320**	**-4.4%**	**46,851**	**-11.6%**
Growth YoY (in %) / bps	15.0%	-3.0%	13.8%	48.3%	31.8%		20.4%	29.0%	15.1%		19.2%	
EBITDA (Rsmn)	**1,733**	**1,796**	**1,796**	**2,647**	**2,463**	**-6.9%**	**8,093**	**9,860**	**7,843**	**-3.1%**	**8,591**	**-12.9%**
EBITDA Margins (in %) / bps	21.3%	22.2%	17.7%	18.2%	19.0%		19.7%	18.6%	19.9%		18.3%	
Profit After Tax (Rsmn)	**591**	**618**	**582**	**1,049**	**936**	**-10.8%**	**2,890**	**3,471**	**2,726**	**-5.7%**	**2,804**	**-19.2%**
Net Profit Margin (in %) / bps	*7.3%*	*7.6%*	*5.7%*	*7.2%*	*7.2%*		*7.0%*	*6.5%*	*6.9%*		*6.0%*	

Source: Company, Centrum Research Estimates

Downgrade Era Infra from Buy to Hold

We downgrade the stock from Buy to Hold basically on the following reasons

- Downward revision in FY12 earnings by 19%
- De-rating of sector's P/E multiple by around 25%. We revise our P/E multiple from earlier 14X to 12X on account of dullness in order-intake scenario.
- Outperformance of the stock vis-à-vis peers

Exhibit 8: Stock Price Performance of Era Infra's Peers relative to BSE 200

Name of the Company	BBG Ticker	M.Cap USD Mn	M.Cap Rs mn	Current Price	Benchmark	Price Performance Relative to Benchmark (in%) -CAGR for more than 1 year													
						1M	3M	6M	YTD	1Yr	2Yr	3Yr	4Yr	5Yr	6Yr	7Yr	8Yr	9Yr	10Yr
IVRCL INFRASTRUCTURES & PROJ	IVRC IN Equity	428	19,465	73	BSE 200	-28%	-34%	-52%	-61%	-63%	-34%	-32%	-29%	-17%	-4%	6%	18%	NA	NA
HINDUSTAN CONSTRUCTION CO	HCC IN Equity	470	21,380	35	BSE 200	-12%	-27%	-45%	-55%	-57%	-15%	-25%	-21%	-26%	-8%	12%	10%	15%	17%
NAGARJUNA CONSTRUCTION CO	NJCC IN Equity	574	26,133	102	BSE 200	-7%	-15%	-35%	-41%	-45%	-3%	-28%	-24%	-20%	-3%	14%	28%	30%	30%
PATEL ENGINEERING LTD	PEC IN Equity	278	12,670	181	BSE 200	-25%	-40%	-52%	-64%	-67%	-31%	-38%	-27%	-28%	NA	14%	13%	7%	11%
GAMMON INDIA LTD	GMON IN Equity	334	15,203	119	BSE 200	-17%	-24%	-38%	-50%	-57%	-14%	-39%	-31%	-38%	-23%	-11%	1%	6%	6%
SIMPLEX INFRASTRUCTURES LTD	SINF IN Equity	358	16,313	330	BSE 200	-7%	-18%	-32%	-43%	-31%	4%	-19%	-9%	-12%	13%	39%	45%	42%	NA
ERA INFRA ENGINEERING LTD	**ERIE IN Equity**	**776**	**35,320**	**194**	**BSE 200**	**-4%**	**-3%**	**-13%**	**-10%**	**-15%**	**28%**	**10%**	**15%**	**NA**	**NA**	**71%**	**82%**	**NA**	**68%**
CONSOLIDATED CONSTRUCTION CO	CCCL IN Equity	219	9,987	54	BSE 500	8%	-9%	-34%	-37%	-44%	-3%	-32%	NA	NA	NA	NA	NA	NA	NA
AHLUWALIA CONTRACTS LTD	AHLU IN Equity	179	8,169	130	BSE 500	-11%	-13%	-35%	-36%	-41%	55%	-17%	NA	NA	NA	NA	NA	NA	NA

Source: Bloomberg, Centrum Research Estimates

Based on above factors, we derive at an SOTP value of Rs192 for the company given little opportunity to either long or short. We downgrade the stock to Hold from our earlier stance of Buy and wait for order intake momentum to get steam in the sector.

Exhibit 9: Era Infra Valuation Table

Valuation of	Method	Market Cap	BOT - Eq. Invested	Multiple	EPS**	Value / Share
Core Construction business	P/E	34,735.7	NA	12.0	14.3	172
BOT Projects	P/BV		2,700.0	1.5	NA	20
Value per share						**192**
Current Price						**194**
Upside / Downside						**-1%**

Source: Company, Centrum Research Estimate

Financials (Stand-alone)

Exhibit 7: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**23,769**	**34,155**	**39,320**	**46,851**	**54,695**
Growth in revenue (%)	*62.3%*	*43.7%*	*15.1%*	*19.2%*	*16.7%*
Cost of Raw Material	18,634	26,222	29,537	36,148	42,528
% of Revenue	*78.4%*	*76.8%*	*75.1%*	*77.2%*	*77.8%*
Employee cost	666.0	1,004.2	1,291.8	1,437.8	1,678.5
% of Sales	*2.8%*	*2.9%*	*3.3%*	*3.1%*	*3.1%*
O&M expenses	332.7	403.1	648.4	674.4	787.3
% of Sales	*1.4%*	*1.2%*	*1.6%*	*1.4%*	*1.4%*
EBITDA	**4,136**	**6,525**	**7,843**	**8,591**	**9,701**
EBITDA Margin (%)	*17.4%*	*19.1%*	*19.9%*	*18.3%*	*17.7%*
Depreciation	459	715	941	1,168	1,364
PBIT	**3,677**	**5,810**	**6,902**	**7,423**	**8,337**
Interst expenses	1,484	2,474	3,098	3,462	3,773
PBIT from operations	**2,193**	**3,336**	**3,804**	**3,961**	**4,564**
Other Non-Op.Income	378	160	297	287	268
PBT before ext.od items	**2,571**	**3,496**	**4,101**	**4,248**	**4,832**
Extra-ordinary income/ (exp)	625.5	482.6	-	-	-
PBT	**3,196**	**3,978**	**4,101**	**4,248**	**4,832**
Provision for tax	545	1,184	1,375	1,444	1,642
Effective tax rate	*17.0%*	*29.8%*	*33.5%*	*34.0%*	*34.0%*
Minority interest					
PAT	**2,652**	**2,794**	**2,726**	**2,804**	**3,189**
Adjustment for Ext.Od items	(1,056)	(332)	-	-	-
Adjusted PAT	**1,596**	**2,462**	**2,726**	**2,804**	**3,189**
Growth in PAT (%)	*31.5%*	*54.3%*	*10.7%*	*2.8%*	*13.8%*
PAT margin (%)	6.7%	7.2%	6.9%	6.0%	5.8%

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	17,290	20,026	23,139
Shareholders' fund	**8,789**	**14,571**	**17,653**	**20,390**	**23,502**
Debt	17,963	24,820	29,057	32,057	34,557
Deferred Tax Liability	910	1,584	1,702	1,702	1,702
Minority Interest					
Total Capital Employed	**27,663**	**40,975**	**48,412**	**54,148**	**59,761**
Gross Block	**11,773**	**15,270**	**16,507**	**18,116**	**19,886**
Accumulated dep.	797	1,469	2,411	3,579	4,943
Net Block	**10,976**	**13,800**	**14,097**	**14,537**	**14,943**
Capital WIP	1,034	985	1,328	1,370	1,408
Total Fixed Assets	**12,010**	**14,786**	**15,425**	**15,907**	**16,350**
Investments	**1,761**	**2,853**	**4,843**	**6,043**	**7,443**
Deferred Tax Asset					
Inventories	6,722	9,083	11,636	14,102	17,163
Debtors	7,241	9,337	13,348	15,982	18,209
Cash & bank balances	1,791	4,661	608	348	68
Loans and Advances	3,498	5,741	9,251	10,917	11,891
Other Current Assets	28	49	60	72	84
Total current assets	**19,280**	**28,871**	**34,904**	**41,421**	**47,414**
Current lia & provisions	5,498	5,540	6,760	9,223	11,447
Net current assets	**13,781**	**23,331**	**28,144**	**32,199**	**35,967**
Misc. Expenditure	110	5.76	-	-	-
Total Assets	**27,663**	**40,975**	**48,412**	**54,148**	**59,761**

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**	**4,101**	**4,248**	**4,832**
Depreciation	459	715	941	1,168	1,364
Interest expenses	1,559	2,242	3,098	3,462	3,773
OP profit before WC change	**4,043**	**6,285**	**8,141**	**8,878**	**9,969**
Working capital adjustment	(5,470)	(6,694)	(8,866)	(4,315)	(4,050)
Gross cash from operations	**(1,427)**	**(409)**	**(725)**	**4,563**	**5,920**
Direct taxes paid	**(302)**	**(513)**	**(1,375)**	**(1,444)**	**(1,642)**
Cash from operations	**(1,729)**	**(922)**	**(2,100)**	**3,119**	**4,277**
CF from investing					
Capex	(5,599)	(3,693)	(1,580)	(1,650)	(1,808)
Investment	693	(1,087)	(1,990)	(1,200)	(1,400)
Others	944	154	-	-	-
Cash from investment	**(3,962)**	**(4,626)**	**(3,571)**	**(2,850)**	**(3,208)**
CF from financing					
Proceeds from sh cap & prem.	2,104	2,975	5	-	-
Borrowings/ (Repayments)	2,729	7,299	4,777	3,000	2,500
Interest paid	(1,559)	(2,242)	(3,098)	(3,462)	(3,773)
Dividend paid	(54)	(67)	(66)	(67)	(77)
Others	-	454	-	-	-
Cash from financing	**3,219**	**8,419**	**1,618**	**(529)**	**(1,350)**
Net cash increase/ (dec)	**(2,472)**	**2,870**	**(4,053)**	**(260)**	**(281)**

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%	19.9%	18.3%	17.7%
PBIT Margin	15.5%	17.0%	17.6%	15.8%	15.2%
PBT Margin	13.4%	11.6%	10.4%	9.1%	8.8%
PAT Margin	6.7%	7.2%	6.9%	6.0%	5.8%
Growth Ratios (%)					
Revenues	62.3%	43.7%	15.1%	19.2%	16.7%
EBITDA	41.1%	57.8%	20.2%	9.5%	12.9%
Net Profit	31.5%	54.3%	10.7%	2.8%	13.8%
Return Ratios (%)					
ROCE	15.9	17.6	16.0	15.0	15.1
ROIC	11.1	12.0	11.2	10.7	11.0
ROE	23.7	21.1	16.9	14.7	14.5
Turnover Ratios					
Asset turnover ratio (x)	0.9	0.8	0.8	0.9	0.9
Working Capital Turnover (x)	1.7	1.5	1.4	1.5	1.5
Avg collection period (days)	111.2	99.8	123.9	124.5	121.5
Avg payment period (days)	100.4	71.5	76.4	85.8	95.8
Per share (Rs)					
Fully diluted EPS	10.9	12.8	13.9	14.3	16.3
CEPS	14.6	16.7	19.1	20.7	23.8
Book Value	69.9	81.4	97.1	112.1	129.3
Solvency ratios					
Debt/ Equity	2.0	1.7	1.6	1.6	1.5
Interest coverage ratio	2.4	2.5	2.5	2.5	2.6
Valuation parameters (x)					
P/E	17.8	15.2	13.9	13.6	11.9
P/BV	2.8	2.4	2.0	1.7	1.5
EV/ EBITDA	11.2	9.5	8.6	8.2	7.5
EV/ Sales	1.9	1.8	1.7	1.5	1.3
M-Cap/ Sales	1.2	1.1	1.0	0.8	0.7

Source: Company, Centrum Research Estimates

Appendix A

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