CMP: Rs. 357 Weight: 8%

25-09-2017

STOCK DATA

Market Cap(Rs. cr)	2420
Debt	122
Cash	452
Enterprise Value	2090
Promoters Holding	43.79%
52 week high/low	399/335.65
Shares outstanding	6.78 Cr.

KEY FINANCIALS **(Rs. in Cr)**

Y/E March	2014	2015	2016	2017
Revenue	217	562	860	1166
Operating exp	200	492	737	999
EBITDA	17	70	123	167
Depreciation	2	9	16	18
Interest Expense	4	15	32	42
PBT	11	46	75	107
Taxes	7	14	26	37
PAT	**4**	**32**	**49**	**70**

VALUATION - We believe that Capacite will do a profit of 100 Crores in FY2018, EBITDA of 210 Crores & revenues of 1500 Crores in FY2018. Since the Company is debt free the company trades 10x FY2018 EV/EBITDA compared to Industry average of 12-18x, we believe the company deserves higher valuation as it has superior client quality compared to its peers, superb execution skills, the growth rate is expected to be faster than its peer, High ROE, a niche industry (not just a normal subcontractor).

CAPACITE INFRAPROJECTS

Thesis –

At Stallion Asset we have a consistent Philosophy of buying companies that can:

1) **Grow at more than 25%**
2) **Huge Opportunity Size**
3) **High Return on Equity**
4) **Smart and Ethical Management**

Capacite is a Mumbai Based EPC company who works as a sub-contractor and specializes in construction of high rise and super high rise buildings. Company has got a strong order book of 4600 Cr as on 31st May 2017 with zero exposure to Government Projects. In a short span of 5 years they have managed to have all top real estate builders as their clients like Lodha, Oberoi, Rustomjee, Wadhwa, Godrej, Brigade and Prestige.

Why Capacite?

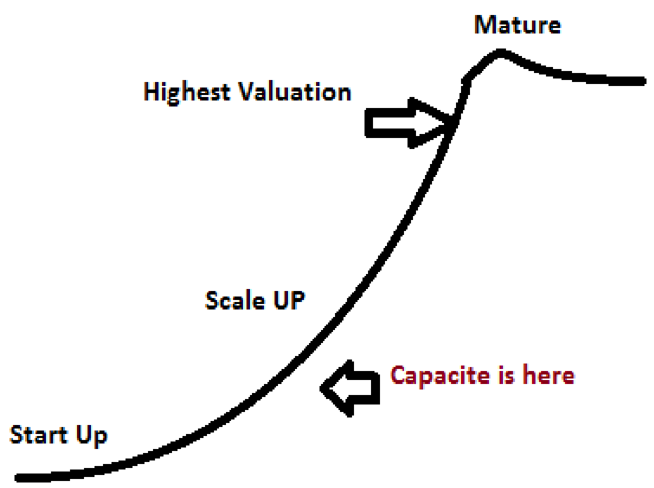
- Excellent Execution Capabilities
- Shift from Unorganized to organized
- 100% Fresh Issue – No investors have exited via IPO
- 25%+ grower company
- Biggest Beneficiary of up move in Branded Real Estate EPC Player post RERA
- Best ROE in the Industry
- Number of Affluent Class Increasing

Their best in class execution capabilities is evident after the company won order worth 300 Cr in August 2017 for constructing 90 storeys "Trump Tower" from Lodha Group in Mumbai. This is considered to be one of the most prestigious projects in the country.

A four year old company like Capacite winning orders from the guys who are best in the Business shows that large builders trust this company and we believe that we have caught them young. During the IPO, no private equity sold its stake, clearly suggesting that they too are very bullish on it.

While most of the real estate builders are still struggling to come out of the crippling debt, high unsold inventory and less liquidity post RERA and Demonetization, Capacite has shown an impressive 3 year Cagr sales and profit growth of 75% and 157% respectively. We believe that high growth rates will be sustainable as the company is a sub-contractor for only the high quality large builders whose share is 18% currently in top 10 cities whereas unorganized market is 80% & we expect this share to grow.

Our Strategy in Capacite



We love to catch Growth Companies when they are young. Capacite has a huge opportunity size ahead of itself & can easily scale revenues to 2,500-3,000 Crores in next 3 years from 1,100 crores in FY2017. They have an order book of 4,600 Crores which has to be executed in 3 years, which itself gives a visibility of 1500 crores of Revenue per year. The Company has won projects worth 1500 crores even after demonetization clearly suggesting that the company is well ahead of its peers & getting fresh orders.

Understanding the business

A Real Estate builder has to look at many things like construction, legal formalities, paper work, working capital needs, labour management, marketing and sales, hence it absolutely makes sense to outsource construction work to a reliable company whose specialized in construction. Capacite concentrates only on construction of the building which ensures timely execution, quality work and gets its business from repeat orders & high client referrals. The cost of construction is just about 10-20% of total selling price of the Real Estate & it makes a lot of sense to outsource it to the experts.

The Super high rise is a 3 player Industry where incumbent players are L&T & Shapoorji Pallonji (Affiliate to Tata Group) & Capacite is the New Player. Till today the builders would depend on these two incumbent companies for more than 20 storey buildings as they had the working capital and Execution capability. There is also a large unorganized market of Small Subcontractor but big builders don't normally trust these small subcontractors as they lack execution capability on time (Especially more than 100 crore project).

Private Sector construction works different in the sense that unlike Government Projects the L1 Bidder doesn't win i.e. price isn't the only criteria.

Company takes three types of contracts i.e.

- **Lock and Key –** Where the company makes the entire building including Air Conditioner fittings, doors, flooring**. Lock and Key is the key focus area for the company and a high margin business.**

- **Shell and Core** – Where the company just has to make the structure of the building and hand it over to the builder
- **Engineering capital** – where the company is involved in the engineering of the building structure.

Why Capacite?

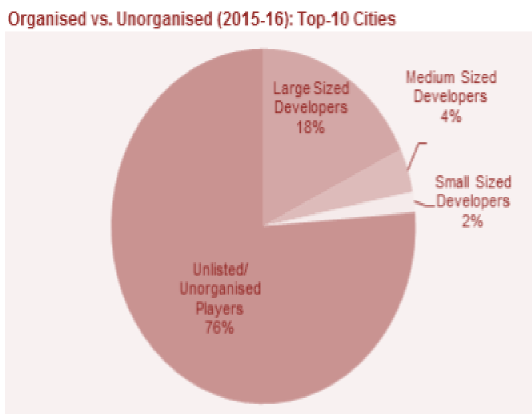
1) Shift from Unorganized to organized
2) Number of Affluent Class Increasing
3) Strong Order Book shows revenue visibility
4) Niche player in high rise buildings
5) PE Investors didn't exit
6) High ROE
7) Strong Operating Metrics
8) Receivable Days

1) **Shift from Unorganized to Organized** – We at Stallion Asset have been very bullish on the prospects of Organized Real Estate. The Current Market Share of Large Organized Player is 18%, whereas unorganized players are 76%. We believe there will be a shift of Market share from small & unorganized builders to large organized companies.

The most important factor that determines the Return on Equity of a Real Estate Project is **PREBOOKING OF FLATS.**

Why is Prebooking so Important?

The cost of construction for the builder is funded by cash inflow from customers who have pre-booked flats. A builder gets paid by pre-booking customers on completion of slabs(tranche).



The unorganized real estate players are not able to sell their flats via pre-booking easily as consumers have lost faith in them to pre-book before project completion. For a common person, his biggest investment of his life is his house (7-15x annual earnings). The builder community has defaulted on their obligation of giving projects on time for last many years hence this distrust. The Home buyers are ready to buy the flat only when the possession is ready but selling ready to possession flat business model becomes unviable for the unorganized builder as the ROE is less than 10%. Unorganized builders usually take funding at 24%+, which again makes them uncompetitive.

2) **Affluent class increasing**

While we were studying about capacite, we analysed the demand side of the market really well. We did a comparison of High Net worth Wealthy Individuals in Emerging Nations and found There were some unique similarities which indicated that as soon as the GDP crosses dollar 2 Trillion market, there is significant rise in the no of high net worth people as per the world wealth report, infact the growth of millionaires is 16-20%. The Growth of number of people becoming millionaire increases exponentially which leads to rise in spending power in buying high end houses.

3) Strong Order Book

(Rs in Cr.)	Order Book	Order book/Sales
Ahluwalia	3553	2.10
PSP Projects	930	2.03
Capacite	**4600**	**4.00**
Simplex Infra	16518	2.90
NCC	18000	2.00
JMC Projects	7000	2.81

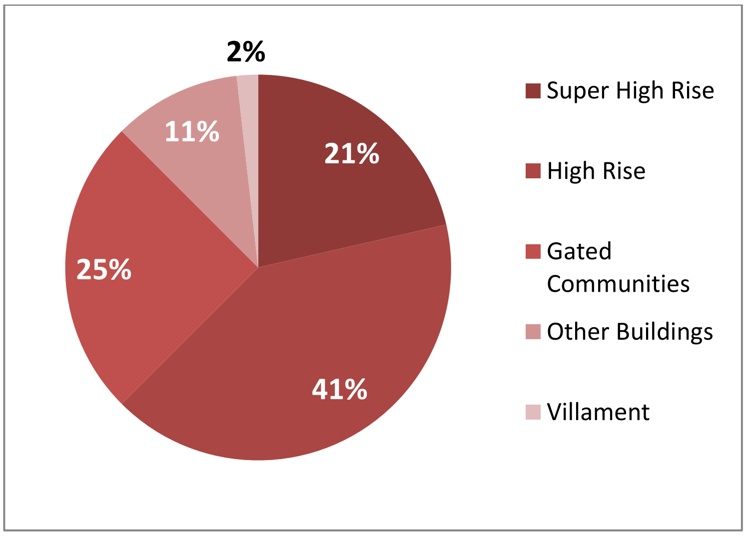
It is remarkable for four year old Company to have a strong order book of Rs 4600 Cr as on 31st May 2017. Company has highest order book/ Sales of 4 times as compared to Industry average of 2-3 times which shows visibility of earnings. The company has been only accepting orders from top builders who can pay on time & rejecting small builder orders, indicating high Quality order book. We believe that they will be able to execute these orders in next 2.5 – 3 years.

Capacite uses latest Formwork technology to reduce the construction time by replicating floors in a high-rise construction. It owns most of its equipment such as form-work, tower cranes, concrete pumps instead of leasing them. 84% of these are core Assets and form part of net Block and this help them to have competitive cost advantage over others and execute projects on time.

Year	Projects Won
FY15	9
FY16	15
FY17	19
Total	**43**

Inspite of being a new company, they have being able to bag new orders consistently. We believe that it was the quality of work and timely execution which took them places. Every time they completed one project they got referred to someone else resulting in high order inflow.

4) Niche player in high rise buildings



Company's niche lies in building high rise (7+ floors) and super high rise (40+ floors).Opportunity size remains massive with 3 billion sq. ft. of planned housing supply in 7 major cities. Very few players have technical capabilities to execute these kinds of projects and hence high entry barriers.

Capacite's 66% projects come under high rise and super high rise category. **We strongly believe that Real Estate Market will witness major shift from Unbranded to Branded. Capacite will be the biggest beneficiary.**

5) PE Investors didn't exit

Paragon and New Quest Asia (PE Investors) have 12% and 10% stake respectively in the company post dilution. Usually we have seen the trend that most of the PE Investors exit as the company floats with an IPO, but in case of Capacite, neither PE Investors nor the promoters have sold via OFS (100% fresh issue). This means that they are extremely optimistic about the future business operations of the company.

Paragon is a PE firm floated by Siddharth Parekh, the younger son of HDFC bank chairman Deepak Parekh whereas infina (jointly owned by Kotak bank and family) is a limited partner in Paragon & Held 2%. Paragon has two Board Seats in Capacite which ensures high Corporate Governance Standards.

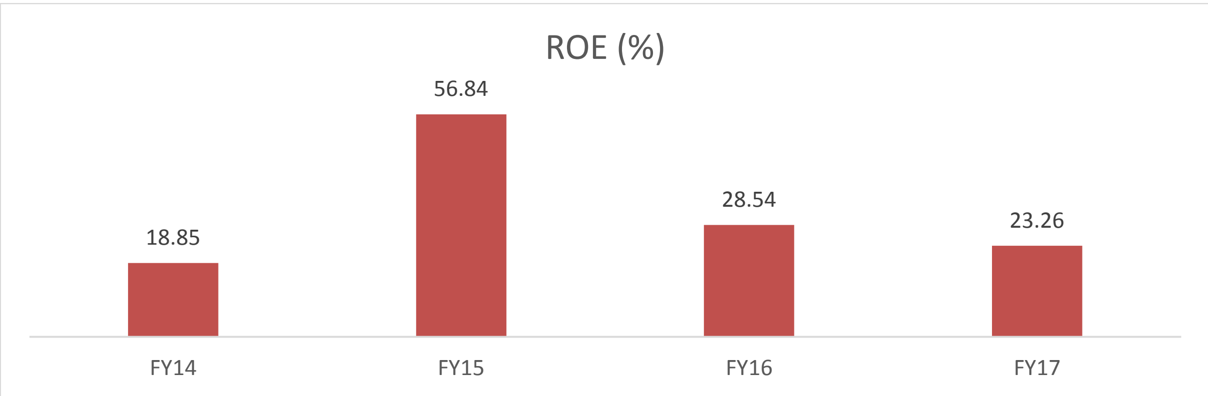
Most of the IPOs which have recently hit the market are coming at the stage where company has already passed the growth stage. The major share of valuation re-rating is enjoyed by the PE Investors leaving nothing on the table for the Secondary market investors. This is not the case with Capacite as it is just four year old company and in its growth stage with ample scope of growth as the opportunity is huge.

6) High ROE

Company Name	ROE
Ahluwalia	17%
PSP Projects	39%
Capacite	**29%**
Simplex Infra	9%
NCC	1%
JMC Projects	NA

Compared to its peers, Capacite' enjoys high return on equity. PSP Projects has got the highest ROE of 39% followed by Capacite at 29% for the year 2017. These numbers will go down this fiscal as both PSP & Capacite have diluted equity via IPO this year. JMC Projects is incurring losses at consolidated level and hence ROE is not comparable.

We believe that Company will maintain ROEs of 20% + going forward.



7) Strong Margin Metrics

Company Name	EBITDA Margins
Ahluwalia	12%
PSP Projects	14.61%
Capacite	**14%**
Simplex Infra	14%
NCC	6.55%
JMC Projects	12.70%

Operating Margins of PSP Projects are more comparable to Capacite as others have a lot of exposure to government projects. Capacite has improved their margins marginally over last year and we expect them to remain stable going forward.

Ahluwalia, Simplex have huge exposure to Govt. Projects and JMC Projects have loss making BOT Projects on Consolidated basis and hence not comparable on the blended basis.

8) Receivable Days

Company Name	Receivable days
Ahluwalia	131
PSP Projects	46
Capacite	**105**
Simplex Infra	98
NCC	163
JMC Projects	98

PSP is the leader in receivable cycle, which is very important indicator of quality of Clients. Capacite has receivables days at 105 which look stretched considering the quality of clients but these numbers are for March 2017, very close to the demonetization & working capital cycle of most builders were affected. We believe there is scope for improvement here. The Numbers look in line with the Industry peers.

Risks-

1) Slowdown in Real estate Sector An industry-wide softening of demand for property may result from a lack of consumer confidence, decreased affordability, decreased availability of mortgage financing, and large supplies of resale and new inventories.

2) Capacite depends on contract labourers. Any disruptions, Strikes, Changes in Government Policy can impact the growth prospects and can lead to cost overruns and delay in execution of the projects.

3) Working Capital days is the big risk for the company as they deal with real estate builders and they can default if the economic environment deteriorates. They have a diversified order book and are working on 56 projects currently and none of them are stuck up currently, the biggest being project Trump Tower which is 6.5% of order book.

4) We believe the payable cycle is very stretched at 144 days and the company is delaying payments to its vendors, although this increases ROE, but there may be a reputation risk.

Valuation and Peers

Financials	FY14	FY15	FY16	FY17
Sales (Cr)	217	563	860	1166
Sales (%)	-	159.45	52.75	35.58
EBITDA(Cr)	17	70	121	167
EBITDA %	7.83	12.43	14.07	14.32
PAT (Cr)	4.1	32	48.8	69.7
PAT %	1.89	5.68	5.67	5.98
Networth (Cr)	21.75	56.3	170.97	299.6
Debt	86.3	114	177	153.6
D/E (x)	3.97	2.02	1.04	0.51
ROE (%)	18.85	56.84	28.54	23.26

Company Name	EV	EV/EBITDA	Real Estate as % of Order Book	Government Exposure of the total order book	Promoters stake pledged	Asset Turnover	P/E	P/B
Ahluwalia	2096	12.19	88%	68%	23.69	12	25	5
PSP Projects	1189	17.75	61%	26%	0%	8	30	4.9
Capacite	**2090**	**12.51**	**100%**	**0%**	**0%**	**5**	**35**	**3.4**
Simplex Infra	5543	6.95	10%	62%	16.86%	5	17	1.48
NCC	7168	12.15	46%	52%	49.57%	10	NA	1.37
JMC Projects	2886	9.13	25%	NA	0%	7	NA	2.9

Post the IPO, Capacite becomes a debt free company; we believe that in FY2018 it will do revenues of 1500 Crores, and would sustain EBITDA margins of 14% and do an EBITDA of 210 Crores and Net Profit of 100 Crores. Since the Company is debt free the company trades 10x FY2018 EV/EBITDA compared of Industry average of 12-18x. The company deserves higher valuation as it has superior client quality compared to its peers, superb execution skills, the growth rate is expected to be faster than its peer, High ROE, a niche industry (not just a normal subcontractor).

Conclusion

The Real Estate Industry as a whole in India is struggling, but large organized builders were consistently growing at more than 15-20%. The best growth of a company happens in the first 10 years of business, capacite is a young company in 5th year of its operations. The have displayed that they have the ability to deliver high quality projects, which is reflected in their order book quality. We believe this company will grow very fast till it reaches its optimal revenue of 2,000-3000 Cr. in Revenue. We are buying an asset which is higher quality than peers at the price below that of peer.

Analyst Position- Amit Jeswani and Family Have no Positions.

Analyst Disclosures : No positions

Analyst Certification: The Analyst certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

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