

**C&C Constructions Ltd. - Concall Notes - Q2-FY08 Results**

February 7, 2008

Price: Rs220

52-wk High/Low: 350/150

MCap: Rs402Cr (\$102mn)

BSE Sensex: 17527

Rating: Not Rated

**Company Background**

C & C Constructions Ltd provides EPC for infrastructure projects in India and Afghanistan. Its expertise is primarily in transportation engineering projects including roads, bridges, flyovers and airport runways. It has executed infrastructure projects both independently and through joint ventures. Currently roads dominate the revenue mix of the company.

Last year it forayed into (i) Water and Sewage, (ii) Urban Infrastructure and (iii) Power transmission. However these segments are yet to take off. 90% of the order book is attributable to roads and the rest to water and sewage.

It secured a BOT toll based project from NHAI for Kurali - Kiratpur road project in Punjab with JV partner B Seenaiah & Co. (BSCPL) of Hyderabad. C & C has been granted a concession for the development, design, construction, maintenance and operations of a 44 Km stretch of the highway from Kurali - Kiratpur on NH-21. The concession period is 20 years including construction period of two and half years.

During February 2007, it went public raising Rs124Cr, at a valuation of Rs291 per share.

**Key Takeaways of the Con-call**

- The company attributes higher than the peer EBITDA margins to operations in (i) difficult terrains or inhospitable conditions (ii) Afghanistan. Margins in Afghanistan are in the range of 25-26%. Overall EBITDA margin was 21.7% and 20.2% in FY07 and 2QFY08 respectively.
- Decline in EBITDA margin is attributable to lower contribution from Afghanistan. It expects a further decline by around 100bps since only Rs30Cr of the Rs950Cr order book relates to Afghanistan.
- The order book of Rs9.5Bn is expected to be executed over the next 2.5 - 3 years. Of this 60% is from Bihar, Rs200Cr from the BOT toll-based project, Rs30Cr from Afghanistan and the rest from Delhi and Punjab. It is qualified as L1 for projects up to Rs330Cr but the orders are yet to be awarded.
- Capex lined up is to the tune of Rs60Cr and Rs35Cr for FY08 and FY09 respectively.

**Valuation**

On trailing four quarters basis, the stock trades at 10.8x.

**Key Points**

- C & C operates in a semi-seasonal kind of business cycle; larger share of revenues (70%) accrue during the 1<sup>st</sup> half of the calendar year (or 2<sup>nd</sup> half of its financial year ending June). It expects to book sales of around Rs400Cr during 2<sup>nd</sup> half of FY ending June 2008. This will translate into a revenue growth of 62% over FY07.
- After the completion of construction of BOT toll based project, the company expects cash flows attributable to its share in the JV, of around Rs150Cr p.a.
- The bid capacity of the company stands at Rs17Bn and has tripled in the last 3 years due to 420% in its Net worth during FY04-07 and the JVs formed.
- Equipment as % of gross block is about 90% reflecting strong asset base and less dependence on hiring. The fixed asset turnover was 2.1x and 2.2x for FY06 and FY07 respectively.

**Details of BOT project**

Particulars	(RsCr)
Project cost	400
Grants	44
Equity	104
Debt	252
Cost of Debt	11.25%
Equity IRR	18%
Project completion	2.5 years
Life of the project	20 years

## Sequential Half-yearly Performance (RsCr)

For period ending	1HFY07 31.12.06	2HFY07 30.06.07	FY07	1HFY08 31.12.07
<b>Net Sales</b>	95.09	235.33	330.42	135.41
<b>Expenditure</b>				
Raw Material	24.57	126.53	151.09	54.88
Employee Expenses	14.16	16.32	30.48	14.80
Other Expenses	33.23	43.97	77.22	37.66
<b>Total Expenditure</b>	<b>71.96</b>	<b>186.82</b>	<b>258.79</b>	<b>107.34</b>
<b>EBITDA</b>	<b>23.13</b>	<b>48.51</b>	<b>71.63</b>	<b>28.07</b>
Other Income	1.21	6.19	5.80	3.69
Interest	5.54	14.11	19.65	6.82
PBDT	18.80	40.59	57.78	24.94
Depreciation	6.82	9.20	16.02	9.00
Profit before Tax	11.98	31.39	41.76	15.94
Tax	2.33	8.77	11.10	4.54
FBT	0.06	0.12	0.18	0.10
Deferred Tax	0.48	-3.17	-2.69	-0.99
<b>Profit after tax</b>	<b>9.11</b>	<b>25.67</b>	<b>33.17</b>	<b>12.29</b>
<b>EBITDA margin</b>	<b>24.3%</b>	<b>20.6%</b>	<b>21.7%</b>	<b>20.7%</b>
<b>Net margin</b>	<b>9.6%</b>	<b>10.9%</b>	<b>10.0%</b>	<b>9.1%</b>
<b>EPS (Rs)</b>	<b>4.99</b>	<b>14.06</b>	<b>18.17</b>	<b>6.73</b>

1HFY07 contributed just 29% of FY07 sales reflecting seasonality in business. The company expects the trend to continue going forward, with 2<sup>nd</sup> half contributing around 70% of its sales.

## Profit &amp; Loss Statements

(RsCr)

For year ending	30.6.03	30.6.04	30.6.05	30.6.06	30.6.07
Net Sales	85.49	163.61	171.97	211.73	330.42
Raw Materials	27.23	62.08	63.33	52.51	110.91
Other Mfg. Exps	29.59	32.26	31.35	53.27	76.95
Selling and Admin Exps	6.64	17.29	18.99	26.87	36.25
Employee Cost	1.76	6.89	9.22	15.60	27.62
Misc. Exps	1.27	2.70	3.90	3.27	6.96
Power & Fuel Cost	0.05	0.06	0.07	0.08	0.09
<b>Total Expenditure</b>	<b>66.54</b>	<b>121.28</b>	<b>126.86</b>	<b>151.60</b>	<b>258.78</b>
EBITDA	18.95	42.33	45.11	60.13	71.64
Other Income	0.13	0.33	0.89	2.80	7.18
Interest	2.90	3.92	4.22	7.85	21.04
EBDT	16.18	38.74	41.78	55.08	57.78
Depreciation	1.73	7.16	8.95	14.88	16.02
<b>Profit Before Tax</b>	<b>14.45</b>	<b>31.58</b>	<b>32.83</b>	<b>40.20</b>	<b>41.76</b>
Tax	0.65	3.13	3.71	9.58	11.10
Fringe Benefit tax	0.00	0.00	0.00	0.11	0.18
Deferred Tax	0.71	0.21	0.30	-0.39	-2.69
Total Tax	1.36	3.34	4.01	9.30	8.59
<b>Profit after Tax</b>	<b>13.09</b>	<b>28.24</b>	<b>28.82</b>	<b>30.90</b>	<b>33.17</b>
Extraordinary Items	0.00	0.00	0.00	-1.12	-0.19
<b>PAT after EOI</b>	<b>13.09</b>	<b>28.24</b>	<b>28.82</b>	<b>32.02</b>	<b>33.36</b>
<b>EBIDTA margin</b>	<b>22.2%</b>	<b>25.9%</b>	<b>26.2%</b>	<b>28.4%</b>	<b>21.7%</b>
<b>Net margin</b>	<b>15.3%</b>	<b>17.3%</b>	<b>16.8%</b>	<b>14.6%</b>	<b>10.0%</b>
<b>EPS (Rs)</b>	<b>30.51</b>	<b>65.52</b>	<b>67.65</b>	<b>24.18</b>	<b>18.17</b>
<b>Book value (Rs)</b>	<b>58.69</b>	<b>121.18</b>	<b>186.67</b>	<b>82.60</b>	<b>148.74</b>
<b>ROE</b>	<b>52.0%</b>	<b>54.1%</b>	<b>36.2%</b>	<b>29.3%</b>	<b>12.2%</b>
<b>ROCE</b>	<b>44.7%</b>	<b>55.0%</b>	<b>33.1%</b>	<b>23.6%</b>	<b>13.5%</b>

## Quarterly results (RsCr)

Particulars	Q1FY08	Q2FY08
<b>Net Sales</b>	<b>49.23</b>	<b>86.18</b>
<b>Expenditure</b>		
Raw Material	20.87	34.02
Employee Exps	4.63	10.17
Other Exps	13.04	24.61
<b>Total Expenditure</b>	<b>38.54</b>	<b>68.80</b>
EBITDA	10.69	17.38
Other Income	1.21	2.48
Interest	2.34	4.48
PBDT	9.56	15.38
Depreciation	4.09	4.91
<b>Profit before Tax</b>	<b>5.47</b>	<b>10.47</b>
Tax	0.98	3.56
FBT	0.05	0.05
Deferred Tax	-0.49	-0.50
<b>Profit after Tax</b>	<b>4.93</b>	<b>7.36</b>
<b>EBIDTA margin</b>	<b>21.7%</b>	<b>20.2%</b>
<b>Net Margin</b>	<b>10.0%</b>	<b>8.5%</b>
<b>EPS (Rs)</b>	<b>2.70</b>	<b>4.03</b>

## Balance Sheets

(RsCr)

As at,	30.6.03	30.6.04	30.6.05	30.6.06	30.6.07
<b>Sources of Funds</b>					
Paid up equity capital	4.29	4.31	4.26	12.78	18.26
Reserves	20.89	47.92	75.26	92.78	253.34
<b>Total Shareholders Funds</b>	<b>25.18</b>	<b>52.23</b>	<b>79.52</b>	<b>105.56</b>	<b>271.60</b>
Secured Loans	13.60	12.26	32.52	98.20	193.15
Unsecured Loans	0.00	0.00	0.00	0.00	0.00
Total Debt	13.60	12.26	32.52	98.20	193.15
<b>Total Liabilities</b>	<b>38.78</b>	<b>64.49</b>	<b>112.04</b>	<b>203.76</b>	<b>464.75</b>
<b>Applications of Funds</b>					
Gross Block	21.51	45.19	65.34	100.76	144.68
(-) Accu. Depreciation	3.27	10.43	13.67	32.39	44.02
(-) Impairment of Assets	0.00	0.00	5.44	0.00	0.00
Net Block	18.24	34.76	46.23	68.37	100.66
CWIP	2.71	3.85	10.25	20.02	54.80
Investments	0.01	0.01	0.01	0.01	92.69
<b>Curr. Aseets</b>					
Inventories	7.15	13.77	19.81	47.06	76.47
Debtors	24.03	33.11	51.21	74.55	125.59
Cash and Bank	2.87	7.71	16.33	21.66	29.66
Loans and Advances	13.67	9.78	24.66	57.12	120.89
Total Current Assets	47.72	64.37	112.01	200.39	352.61
(-) Curr. Liabilities and Provisions					
Current Liabilities	26.97	35.28	50.16	79.78	124.24
Provisions	1.32	1.40	4.19	3.52	7.79
Total Current Liabilities	28.29	36.68	54.35	83.30	132.03
<b>Net Current Assets</b>	<b>19.43</b>	<b>27.69</b>	<b>57.66</b>	<b>117.09</b>	<b>220.58</b>
Net Deferred Tax	-1.61	-1.82	-2.11	-1.73	-3.98
<b>Total Assets</b>	<b>38.78</b>	<b>64.49</b>	<b>112.04</b>	<b>203.76</b>	<b>464.75</b>

**Expenditure Analysis**

Particulars	FY03	FY04	FY05	FY06	FY07
Raw Materials	31.9%	37.9%	36.8%	24.8%	33.6%
Other Mfg Exps	34.6%	19.7%	18.2%	25.2%	23.3%
Selling and Admin Exps	7.8%	10.6%	11.0%	12.7%	11.0%
Employee Cost	2.1%	4.2%	5.4%	7.4%	8.4%
Misc. Exps	1.5%	1.7%	2.3%	1.5%	2.1%
Power & Fuel Cost	0.1%	0.0%	0.0%	0.0%	0.0%
Tax/PBT	9.4%	10.6%	12.2%	23.1%	20.6%

**Shareholding pattern (as of 31-Dec-2007)**

Categories	No. of Shares	% of Holding
Promoters & Promoter Group	12,644,418	69.2%
Mutual Funds / UTI	592,378	3.2%
Foreign Institutional Investors	2,279,457	12.5%
Financial Institutions	325,657	1.8%
<b>Non Promoter (Institution)</b>	<b>3,197,492</b>	<b>17.5%</b>
Non Promoter (Non-Institution)	2,418,066	13.2%
Total Non Promoter	5,615,558	30.8%
<b>Total</b>	<b>18,259,976</b>	<b>100.0%</b>

**Keynote Capitals Ltd.**

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