



INDEPENDENT EQUITY RESEARCH

C&C Constructions Ltd

Q3FY11 First Cut

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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C&C Constructions Ltd

Q3FY11 first cut –Execution remain weak

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Construction & Engineering

C&C Construction Ltd's (C&C's) Q3FY11 revenue and earnings were below CRISIL Equities' estimates given execution delays in key projects due to various clearance related issues. EBITDA margins declined by 420 bps y-o-y to 21.6% due to higher operating cost. However, PAT margin improved by 149 bps y-o-y to 4.9% due to higher other income and lower tax outgo. We will revisit our estimates post our interaction with the management. We maintain our fundamental grade of 2/5.

Q3FY11 result analysis

- C&C's Q3 revenues declined by 16.3% y-o-y to Rs 2,654 mn as clearance-related issues have delayed the execution of some key projects
- EBITDA margin declined by 420 bps y-o-y to 21.6% and remained flat at 20% during 9MFY11
- PAT increased by 20% y-o-y to Rs 131 mn due to higher other income and lower tax outgo. However, during 9MFY11, PAT declined by 30% y-o-y due to higher interest charges
- C&C's current order book stood at ~Rs 38 bn which provide strong revenue visibility, however its timely execution will be a key challenge
- The company has pledged 10.8 mn shares (46% of the total outstanding share capital) during the quarter

Valuations: Current market price has strong upside

We continue to value C&C on sum-of-the-parts method. We have assigned a multiple of 4x to the FY12 contracting business EPS of Rs 38 and valued BOT business on DCF basis with Rs 55 per share, which gives a fair value of Rs 208 per share. Based on the current market price, our valuation grade is 5/5.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E*	FY12E
Operating income	5,356	7,537	11,696	13,836	18,431
EBITDA	957	1,562	2,379	2,591	3,511
Adj Net income	408	410	624	591	884
EPS-Rs	22.4	22.5	26.7	25.3	35.4
EPS growth (%)	75.9	0.5	12.4	0.0	39.9
PE (x)	4.3	5.4	4.6	4.8	3.4
P/BV (x)	0.6	0.6	0.5	0.5	0.4
RoCE(%)	16.3	17.1	16.6	12.8	13.4
RoE(%)	14.1	12.5	14.2	10.5	13.5
EV/EBITDA (x)	4.1	4.8	4.3	4.8	5.1

NM: Not meaningful; CMP: Current Market Price

* The company has June year ending

Source: Company, CRISIL Equities estimate

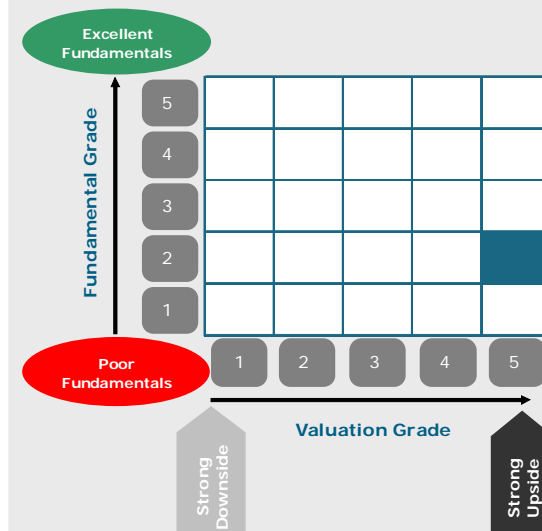


May 10, 2011

Fair Value Rs 208

CMP Rs 120

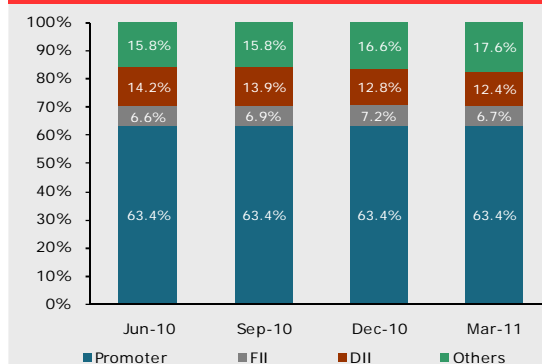
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5541/18153
NSE / BSE ticker	CANDC
Face value (Rs per share)	10
Shares outstanding (mn)	23
Market cap (Rs mn)/(US\$ mn)	2,794 / 63
Enterprise value (Rs mn) / (US\$ mn)	10,235/ 229
52-week range (Rs) (H/L)	286 / 120
Beta	1.08
Free float (%)	36.6%
Avg daily volumes (30-days)	19,789
Avg daily value (30-days) (Rs mn)	2.7

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
C&C	-12%	-24%	-53%	-48%
NIFTY	-6%	3%	-12%	9%

ANALYTICAL CONTACT

Sudhir Nair (Head)	snair@crisil.com
Sandeep Panchal	sapanchal@crisil.com
Bhaskar Bukrediwala	bsbukrediwala@crisil.com

Client servicing desk

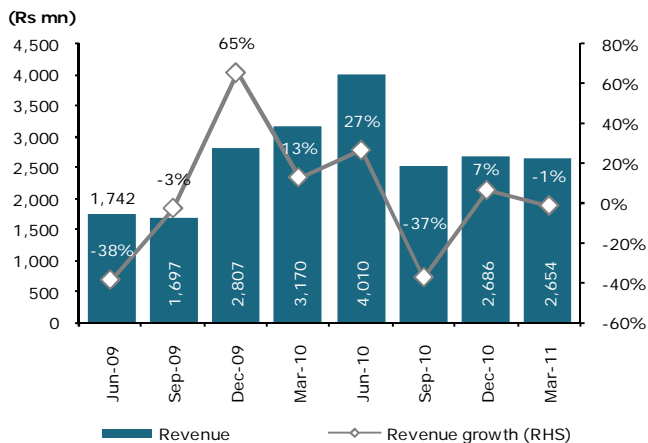
+91 22 3342 3561 clientservicing@crisil.com

Q3FY11 Result Summary

(Rs mn)	Q3FY11	Q2FY11	Q3FY10	q-o-q (%)	y-o-y (%)	9M FY11	9MFY10	y-o-y (%)
Net sales	2,654	2,686	3,170	(1.2)	(16.3)	7,862.2	7,674.1	2.5
Raw materials cost	1,634	1,627	1,921	0.4	(15.0)	4,761.4	4,801.0	(0.8)
Raw materials cost (% of net sales)	62%	61%	61%	99bps	95bps	61%	63%	-200bps
Employees cost	300	339	336	(11.5)	(10.7)	1,007.3	850.8	18.4
Other expenses	147	148	95	(0.8)	55.0	473.8	455.5	4.0
EBITDA	573	571	817	0.3	(29.9)	1,620	1,567	3.4
EBITDA margin	21.6%	21.3%	25.8%	31bps	-420bps	20.6%	20.4%	18bps
Depreciation	87	102	131	(14.4)	(33.4)	298.7	315.2	(5.2)
EBIT	485.8	469.6	686.7	3.4	(29.3)	1,321.0	1,251.6	5.5
Interest and finance charges	315	284	301	11.0	4.6	837.5	496.0	68.9
Operating PBT	171	186	386	(8.1)	(55.7)	483	756	(36.0)
Other Income	24	9	(4)	163.4	-	40.6	5.4	-
Extraordinary Income/(expense)	-	-	-	-	-	-	-	-
PBT	195	195	381	(0.2)	(48.9)	524	761	(31.1)
Tax	64	144	272	(55.6)	(76.5)	270.3	401.4	(32.7)
PAT	131	51	109	158.2	20.2	254	360	(29.4)
Adj PAT	131	51	109	158.2	20.2	254	360	(29.4)
Adj PAT margin	4.9%	1.9%	3.4%	304bps	149bps	3.2%	4.7%	-146bps
No of equity shares (Mn)	23.4	23.4	18.3	-	27.8	23.4	18.3	28.1
Adj EPS (Rs)	5.6	2.2	5.9	158.2	(5.9)	10.8	19.7	(44.9)

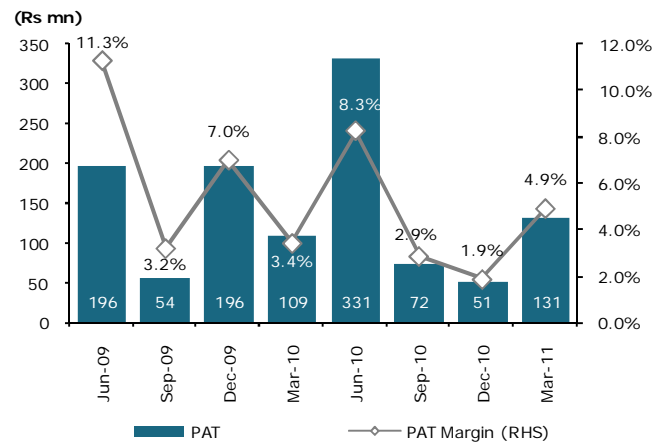
Source: Company, CRISIL Equities

Moderate revenue growth due to execution delays



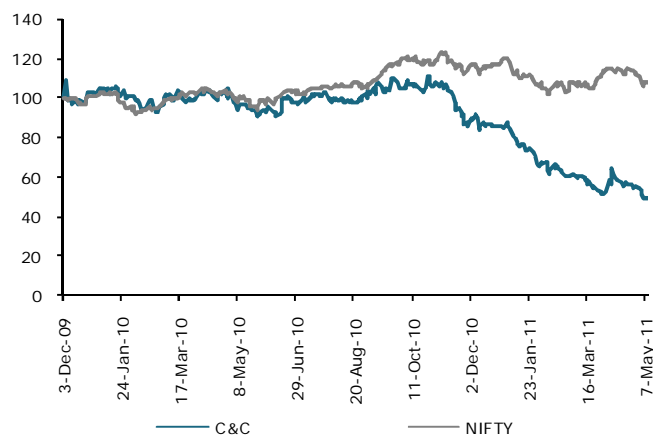
Source: Company, CRISIL Equities

Quarterly PAT and PAT margins



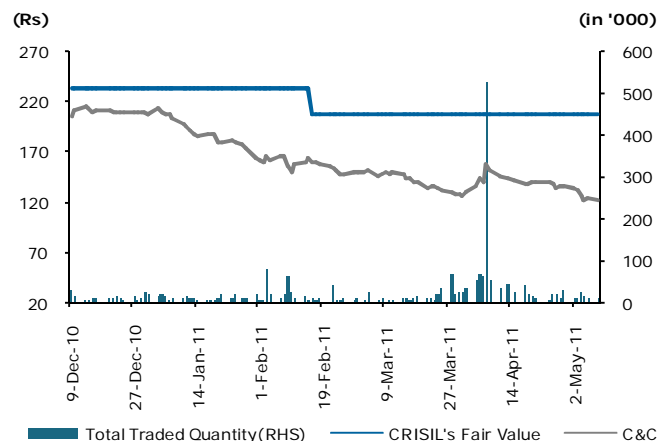
Source: Company, CRISIL Equities

C&C has underperformed Nifty



Source: Company, CRISIL Equities

Share price performance



Source: BSE, CRISIL Equities

FINANCIALS

Income statement						Balance Sheet					
(Rs mn)	FY08	FY09	FY10	FY11E	FY12E	(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	5,356	7,537	11,696	13,836	18,431	Liabilities					
EBITDA	957	1,562	2,379	2,591	3,511	Equity share capital	183	183	234	234	250
EBITDA margin	17.9%	20.7%	20.3%	18.7%	19.0%	Reserves	2,902	3,304	5,090	5,752	6,876
Depreciation	155	249	455	658	851	Minorities	-	-	-	-	-
EBIT	803	1,313	1,924	1,934	2,659	Net worth	3,085	3,487	5,324	5,986	7,126
Interest	321	800	951	1,071	1,344	Convertible debt	-	-	-	-	-
Operating PBT	481	512	973	863	1,316	Other debt	2,708	6,089	8,341	10,501	15,963
Other income	43	55	42	62	63	Total debt	2,708	6,089	8,341	10,501	15,963
Exceptional inc/(exp)	-	-	(33)	(0)	(0)	Deferred tax liability (net)	79	159	369	370	370
PBT	524	567	983	924	1,379	Total liabilities	5,871	9,735	14,034	16,857	23,459
Tax provision	116	157	392	333	494	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	1,934	3,161	3,772	6,160	7,566
PAT (Reported)	408	410	591	591	884	Capital WIP	293	795	2,566	1,807	3,799
Less: Exceptionals	-	-	(33)	(0)	(0)	Total fixed assets	2,227	3,957	6,339	7,967	11,365
Adjusted PAT	408	410	624	591	884	Investments	409	459	207	376	497
Ratios						Current assets					
	FY08	FY09	FY10	FY11E	FY12E	Inventory	2,060	3,408	8,721	9,426	12,938
Growth						Sundry debtors	1,484	4,383	1,803	2,662	3,384
Operating income (%)	61.7	40.7	55.2	18.3	33.2	Loans and advances	944	717	1,803	2,064	2,723
EBITDA (%)	26.0	63.2	52.3	8.9	35.5	Cash & bank balance	561	848	900	823	1,082
Adj PAT (%)	23.1	0.5	52.0	(5.2)	49.6	Marketable securities	-	-	15	15	15
Adj EPS (%)	23.1	0.5	18.7	(5.2)	39.9	Total current assets	5,049	9,357	13,242	14,990	20,143
Profitability						Total current liabilities	1,815	4,038	5,762	6,485	8,554
EBITDA margin (%)	17.9	20.7	20.3	18.7	19.0	Net current assets	3,234	5,319	7,480	8,505	11,589
Adj PAT Margin (%)	7.6	5.4	5.3	4.3	4.8	Intangibles/Misc. expenditure	-	-	9	9	9
RoE (%)	14.1	12.5	14.2	10.5	13.5	Total assets	5,871	9,735	14,034	16,857	23,459
RoCE (%)	16.3	17.1	16.6	12.8	13.4	Cash flow					
RoIC (%)	19.1	19.3	15.5	12.4	12.5	(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Valuations						Pre-tax profit	524	567	1,016	924	1,379
Price-earnings (x)	4.3	5.4	4.6	4.8	3.4	Total tax paid	(77)	(77)	(182)	(332)	(494)
Price-book (x)	0.6	0.6	0.5	0.5	0.4	Depreciation	155	249	455	658	851
EV/EBITDA (x)	4.1	4.8	4.3	4.8	5.1	Working capital changes	(1,322)	(1,797)	(2,094)	(1,103)	(2,824)
EV/Sales (x)	0.7	1.0	0.9	0.9	1.0	Net cash from operations	(720)	(1,058)	(805)	147	(1,088)
Dividend payout ratio (%)	14.4	14.3	12.7	13.1	13.0	Cash from investments					
Dividend yield (%)	3.3	2.7	2.6	2.7	3.8	Capital expenditure	(827)	(1,979)	(2,846)	(2,286)	(4,249)
B/S ratios						Investments and others	511	(50)	237	(169)	(121)
Inventory days	172	208	342	306	316	Net cash from investments	(316)	(2,029)	(2,608)	(2,455)	(4,370)
Creditors days	142	239	218	202	201	Cash from financing					
Debtor days	102	213	57	71	67	Equity raised/(repaid)	-	-	1,236	-	499
Working capital days	137	173	172	188	180	Debt raised/(repaid)	1,334	3,382	2,252	2,160	5,462
Gross asset turnover (x)	2.7	2.3	2.6	2.1	2.0	Dividend (incl. tax)	(59)	(59)	(75)	(78)	(115)
Net asset turnover (x)	3.6	3.0	3.4	2.8	2.7	Others (incl extraordinary)	24	51	53	147	(128)
Sales/operating assets (x)	2.8	2.4	2.3	1.9	1.9	Net cash from financing	1,299	3,374	3,466	2,230	5,718
Current ratio (x)	2.8	2.3	2.3	2.3	2.4	Change in cash position	263	287	52	(78)	260
Debt-equity (x)	0.9	1.7	1.6	1.8	2.2	Closing cash	561	848	900	823	1,082
Net debt/equity (x)	0.7	1.5	1.4	1.6	2.1	Quarterly financials					
Interest coverage	2.5	1.6	2.0	1.8	2.0	(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Per share						Net Sales	3,170	4,010	2,522	2,686	2,654
Adj EPS (Rs)	22.4	22.5	26.7	25.3	35.4	Change (q-o-q)	13%	27%	-37%	7%	-1%
CEPS	30.8	36.1	46.1	53.4	69.4	EBITDA	817	350	476	571	573
Book value	168.9	191.0	227.6	255.9	285.1	Change (q-o-q)	15%	-57%	36%	20%	0%
Dividend (Rs)	3.2	3.2	3.2	3.3	4.6	EBITDA margin	25.8%	8.7%	18.9%	21.3%	21.6%
Actual o/s shares (mn)	18.3	18.3	23.4	23.4	25.0	PAT	109	331	72	51	131
						Adj PAT	109	331	72	51	131
						Change (q-o-q)	-45%	205%	-78%	-30%	158%
						Adj PAT margin	3.4%	8.3%	2.9%	1.9%	4.9%
						Adj EPS	6.0	14.2	3.1	2.2	5.6

Source: Company, CRISIL Equities estimate

CRISIL Independent Equity Research Team

Mukesh Agarwal	Senior Director	+91 (22) 3342 3035	magarwal@crisil.com
Tarun Bhatia	Director, Capital Markets	+91 (22) 3342 3226	tbhatia@crisil.com
Chetan Majithia	Head, Equities	+91 (22) 3342 4148	chetanmajithia@crisil.com
Sudhir Nair	Head, Equities	+91 (22) 3342 3526	snair@crisil.com
Prasad Koparkar	Head, Research	+91 (22) 3342 3137	pkoparkar@crisil.com
Ajay D'Souza	Head, Research	+91 (22) 3342 3567	adsouza@crisil.com
Aparna Joshi	Head, Research	+91 (22) 3342 3540	apjoshi@crisil.com
Manoj Mohta	Head, Research	+91 (22) 3342 3554	mmohta@crisil.com
Sridhar C	Head, Research	+91 (22) 3342 3546	sridharc@crisil.com

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To know more about CRISIL IER, please contact our team members:

Vinaya Dongre – Head, Business Development
Email : vdongre@crisil.com | Phone : 9920225174

Ashish Sethi – Head, Business Development
Email : asethi@crisil.com | Phone : 9920807575

Sagar Sawarkar – Senior Manager, Business Development
Email : ssawarkar@crisil.com | Phone : 9821638322

Regional Contacts:

Ahmedabad / Mumbai / Pune

Vishal Shah - Manager, Business Development
Email : vishah@crisil.com | Phone : 9820598908

Kolkata

Priyanka Agarwal - Manager, Business Development
Email : priyagarwal@crisil.com | Phone : 9903060685

Bengaluru / Chennai

Anand Krishnamoorthy - Manager, Business Development
Email : ankrishnamoorthy@crisil.com | Phone : 9884704111

New Delhi

Vipin Saboo - Manager, Business Development
Email : vsaboo@crisil.com | Phone : 9820779873

Hyderabad

Kaliprasad Ponnuru - Manager, Business Development
Email : kponnuru@crisil.com | Phone : 9642004668



Head Office: CRISIL House, Central Avenue, Hiranandani Business Park,
Powai, Mumbai - 400 076
Phone : 91-22-3342 3000

Web: www.crisil.com
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