

# ITD Cementation

## Building a strong moat

<b>CMP</b> Rs174	<b>Target Price</b> Rs203 (▲)
<b>Rating</b> BUY (▲)	<b>Upside</b> 16.6 %

### Key highlights from CY16 Annual Report

- ITD Cementation India (ITCE) delivered a stable performance in CY16 with flat YoY revenue while EBITDA margin expanded by 60bps YoY to 6.8% and adjusted for cost overruns, ITCE's EBITDA margin was 8.6%.
- Net debt reduced further to Rs2.7bn (net D/E of 0.4x) as working capital reduced to 49 days from 67 days in CY15. Company is targeting fresh order inflow of Rs60bn in CY17. Recent Bengaluru Metro L1 orders wins of Rs23bn in Q1CY17 is a key positive.
- With shift to IND-AS from CY17E, many JV projects such as Mumbai Metro and MTHL will not be consolidated in revenue/EBITDA and will directly flow to consolidated profits.
- We introduce CY19E estimates and upgrade the stock to Buy with a revised TP of Rs203 based on 18x Jun-19 EPS of Rs11.3.

### CY16 a year of consolidation after a turnaround in CY15

ITCE delivered a stable performance in CY16 with flat YoY revenue primarily driven by the marine segment which contributed 56% of revenue while EBITDA grew by 10% YoY as EBITDA margin expanded by 60bps YoY to 6.8%. Adjusted for cost overruns in legacy projects (mainly Delhi Metro), ITCE's EBITDA margin was 8.6%. ITCE has further reduced net debt in CY16 to Rs2.7bn (net D/E of 0.4x) through prudent working capital management which reduced to 49 days from 67 days in CY15.

### Strong order book, focus now shifts to execution

As of Dec-16, ITCE had an order book of Rs66bn (2.1x CY16 revenue) including Rs11.3bn of Mumbai Metro 3 order and excluding L1 of Rs17bn from the Udangudi captive port project in Tamil Nadu. Recent L1 order wins in 4 packages of Bengaluru Metro in Q1CY17 worth Rs23bn should enable ITCE to comfortably achieve its CY17E order inflow target of Rs60bn with many projects such as the Mumbai Trans-Harbour Link (MTHL), Pune Metro also up for bidding in CY17. As ITCE shifts to IND-AS accounting from CY17E, many JV projects such as Mumbai Metro and MTHL will not be consolidated in revenue/EBITDA and will directly flow to consolidated profits.

### Upgrade to Buy with revised TP of Rs203

We model for 11% revenue CAGR over CY16-19E driven by annual order wins of Rs60bn over the same period and also expect EBITDA margins to trend in the 8.9-9.4% range as legacy projects are almost complete. We introduce CY19E estimates and upgrade the stock to Buy with a revised TP of Rs203 based on 18x Jun-19 EPS of Rs11.3.

### Financial Snapshot (Consolidated)

(Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Net Sales	30,687	30,886	33,133	37,371	42,366
EBITDA	1,916	2,099	2,949	3,507	3,976
EBITDA Margin (%)	6.2	6.8	8.9	9.4	9.4
APAT	647	481	1,132	1,620	1,877
EPS (Rs)	4.2	3.1	7.3	10.4	12.1
EPS (% chg)	0.0	(25.6)	135.3	43.1	15.9
ROE (%)	12.0	9.1	18.7	22.0	20.7
P/E (x)	41.8	56.1	23.9	16.7	14.4
EV/EBITDA (x)	16.5	14.2	9.7	8.2	7.0
P/BV (x)	5.3	4.9	4.1	3.3	2.7

Source: Company, Emkay Research

### Change in Estimates

EPS Chg CY17E/CY18E (%)	(13)/(7)
Target Price change (%)	21
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	CY17E	CY18E
Emkay	7.3	10.4
Consensus	7.8	10.3
Mean Consensus TP	Rs 146	

### Stock Details

Bloomberg Code	ITCE IN
Face Value (Rs)	1
Shares outstanding (mn)	155
52 Week H/L	181 / 118
M Cap (Rs bn/USD bn)	27 / 0.42
Daily Avg Volume (nos.)	241,190
Daily Avg Turnover (US\$ mn)	0.6

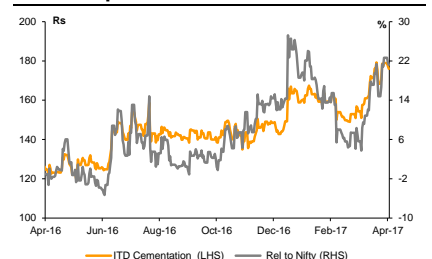
### Shareholding Pattern Dec '16

Promoters	51.6%
FIIs	2.7%
DIIIs	24.9%
Public and Others	20.8%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	13	10	26	41
<b>Rel. to Nifty</b>	14	2	20	24

### Relative price chart



Source: Bloomberg

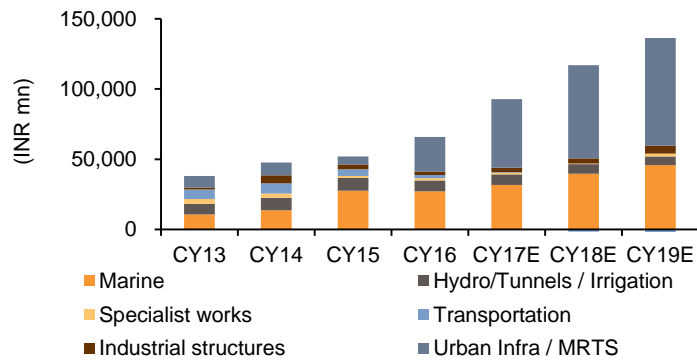
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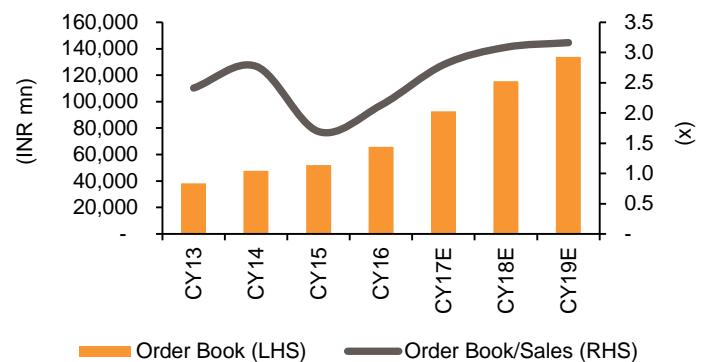
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**Exhibit 1: Order Book Break-up**



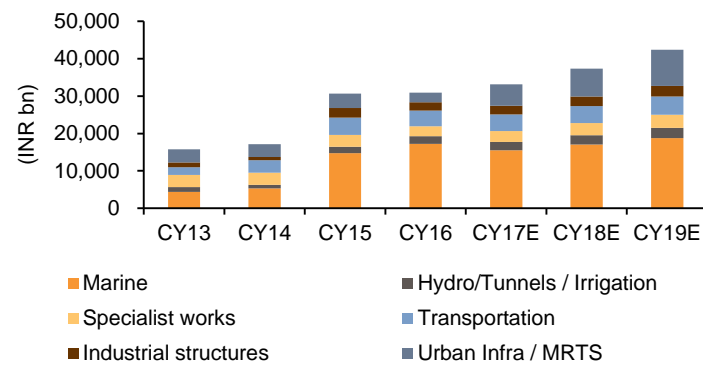
Source: Company, Emkay Research

**Exhibit 2: Healthy Order Book/Sales ratio**



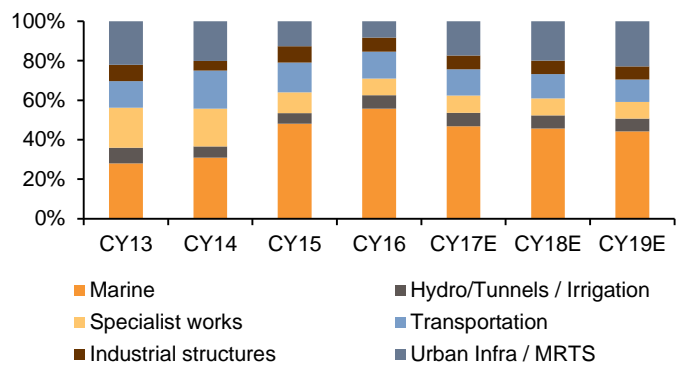
Source: Company, Emkay Research

**Exhibit 3: Growth continues to be led by marine segment**



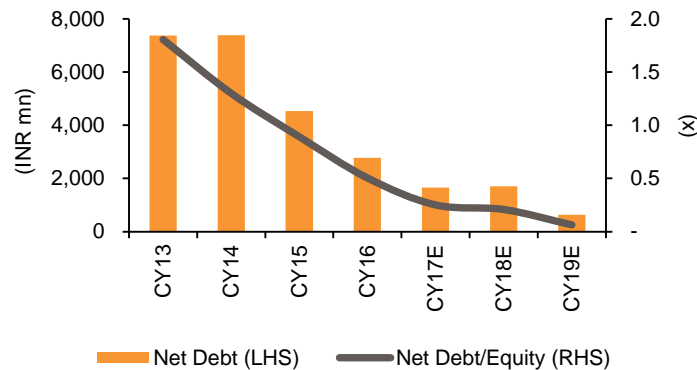
Source: Company, Emkay Research

**Exhibit 4: Marine to contribute major share of revenue**



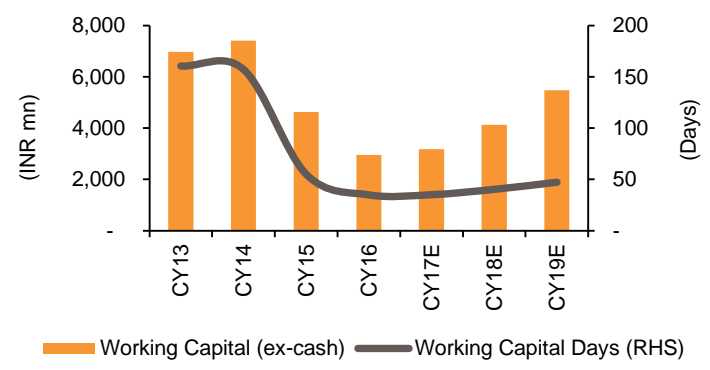
Source: Company, Emkay Research

**Exhibit 5: Debt levels to remain under control**



Source: Company, Emkay Research

**Exhibit 6: Working capital to remain stable**



Source: Company, Emkay Research

**Exhibit 7: Key Assumptions (Consolidated Basis)**

(INR mn)	CY13	CY14	CY15	CY16	CY17E	CY18E	CY19E
Closing Order Book (Rs mn)	38,212	47,630	52,044	65,836	92,703	115,331	133,965
New order inflow (Rs mn)	25,084	26,542	35,101	44,677	61,000	61,000	62,000
Revenue (RS mn)	15,784	17,124	30,687	30,885	33,133	37,371	42,366
Order Book/Bill Ratio (x)*	2.4	2.8	1.7	2.1	2.8	3.1	3.2
EBITDA Margin (%)	10.3	5.3	6.2	6.8	8.9	9.4	9.4

Note\*: Excludes any L1 orders at the end of the year; Source: Company, Emkay Research

**Exhibit 8: Change In Estimates**

Particulars	CY17E			CY18E			CY19E
	Old	New	% Change	Old	New	% Change	New
Revenue	34,862	33,133	-5.0	38,349	37,371	-2.5	42,366
EBITDA	3,095	2,949	-4.7	3,626	3,507	-3.3	3,976
EBITDA Margin %	8.9	8.9	2.3 bps	9.5	9.4	-7.2 bps	9.4
PAT	1,296	1,132	-12.7	1,743	1,620	-7.0	1,877
EPS	8.4	7.3	-13.1	11.2	10.4	-7.0	12.1

Source: Company, Emkay Research

**Exhibit 9: Consolidated Income Statement Analysis (all figures in Rs mn)**

Income Statement :	CY14	CY15	CY16	Comments
<b>Revenues :</b>				
Marine	5,302	14,740	17,230	Execution on JNPT order, Rehab and devp of Modular Fabrication Facility-TN,Mundra Container Terminal 4, Container terminal at Ennore Port were the major revenue contributors
Hydro/Tunnels / Irrigation	955	1,678	2,064	Major project won- Microtunneling project in Kolkata worth Rs987mn (ITD's 49% share Rs484mn)
Specialist works	3,283	3,203	2,640	3x660 MW thermal power plant project, Substructure and superstructure works at NCP Wadala, Piling work for IOC's pardadip refinery were key projects executed during the year.
Transportation	3,296	4,665	4,179	6 laning of Delhi- howrah track, PWD1 & PWD2 work in Delhi,
Industrial structures	839	2,538	2,228	Won Architectural Finishing of 6 Kolkata Metro Rail proj Rs900mn, Paradip project worth - Rs1,016mn
Urban Infra / MRTS	3,449	3,864	2,544	Won construction of 10 metro railway stations at Nagpur Metro- Rs4,457mn, 3 underground stations at Mumbai Metro Rs28,310mn (ITD's share Rs11,320mn)
<b>Total</b>	<b>17,124</b>	<b>30,687</b>	<b>30,885</b>	Driven by execution from marine projects
YoY Growth (%)	8.5%	79.2%	0.8%	
<b>EBITDA</b>				
	<b>911</b>	<b>1,916</b>	<b>2,099</b>	
YoY Growth (%)	-47.6%	110.2%	9.5%	
<i>EBITDA Margin (%)</i>	5.3%	6.2%	6.8%	<i>Adjusted for legacy project losses (mainly Delhi Metro), adjusted EBITDA margin was 8.6%</i>
Other Income	185	222	252	
<b>EBITDA incl. other income</b>	<b>1,096</b>	<b>2,138</b>	<b>2,351</b>	
Depreciation and Amortisation	427	367	449	
Interest Costs	1,355	1,377	1,165	
Exceptional Items	(955)	1,240	-	
<b>PBT</b>	<b>270</b>	<b>(847)</b>	<b>736</b>	
Taxes	75	(253)	255	
<i>Effective Tax Rate (%)</i>	27.7%	29.9%	34.6%	
<b>PAT</b>	<b>195</b>	<b>(594)</b>	<b>481</b>	
<i>PAT Margin (%)</i>	1.1%	-1.9%	1.6%	

Source: Company, Emkay Research

**Exhibit 10: Consolidated Balance Sheet Analysis**

<b>Working Capital Analysis :</b>	<b>CY14</b>	<b>CY15</b>	<b>CY16</b>	<b>Change in CY16 over CY15</b>	<b>Comments</b>
<b>Sources of Funds :</b>					
Equity Share Capital	155	155	155	-	
Reserves & Surplus	5,524	4,927	5,352	425	
Net Worth	<b>5,679</b>	<b>5,082</b>	<b>5,507</b>	425	
Total Debt	7,653	6,007	4,630	(1,378)	Fall in debt led by repayment in ST Borrowings
Deferred Taxes	(149)	(442)	(276)	167	
Total Sources of Funds	<b>13,184</b>	<b>10,647</b>	<b>9,861</b>	(786)	
<b>Application of Funds :</b>					
<b>Fixed Assets:</b>					
Gross Block	5,701	6,072	6,850	778	Increased majorly on account of investments of Rs618mn in Plant & Machinery.
Less: Accumulated depreciation	2,349	2,582	3,032		
Net Block	3,353	3,490	3,818		
Capital WIP	67	27	56	29	
Total Fixed Assets	<b>3,420</b>	<b>3,517</b>	<b>3,874</b>		
Investments	-	-	-		
Goodwill	-	-	-		
<b>Current Assets:</b>					
Inventories	11,313	11,754	8,457	(3,297)	Down mainly on 2 accounts a) reduction of Rs348mn in construction materials and b) reduction of Rs2,995mn in unbilled WIP.
Trade receivables/debtors	4,415	3,378	2,935	(443)	Reduced in the normal course of business
Loans & Advances/Others	2,411	3,881	4,186	305	
Cash & Bank Balances	272	1,476	1,851	375	
Total Current Assets	<b>18,410</b>	<b>20,489</b>	<b>17,428</b>	(3,061)	
<b>Less: Current Liabilities</b>					
Current Liabilities	4,928	7,543	6,397	(1,146)	Came down because of reduction in customer advances by ~Rs2bn mainly from JNPT project
Creditors	3,551	5,584	4,700	(884)	Reduced in the normal course of business
Provisions	167	232	345	113	
Total Current Liabilities & Provisions	<b>8,647</b>	<b>13,358</b>	<b>11,441</b>	(1,917)	
Net Current Assets	9,763	7,131	5,987		
Total Application of Funds	<b>13,183</b>	<b>10,647</b>	<b>9,861</b>		
Net Debt/Equity (x)	1.30	0.89	0.50		
<b>Working Capital Cycle (Days) :</b>					
Inventory	241	140	100		Overall working capital cycle seems to have improved. Reduction in Inventory and NHA1 claims has led to overall improvement in WC cycle over CY15-16
Receivables	94	40	35		
Loans & Advances	51	46	49		
Less: Creditors	76	66	56		
Less: Other Current Liabilities	109	92	80		
Net Working Capital Days	202	67	49		

Source: Company, Emkay Research

**Exhibit 11: Contingent Liabilities**

<b>Contingent Liabilities (INR mn) :</b>	<b>CY14</b>	<b>CY15</b>	<b>CY16</b>
<b>Details</b>			
Guarantees/LCs given by banks in respect of contracting commitments in the normal course of business	2,494	3,514	4,309
Co has a number of claims on customers for price escalation and/or variation in contract work. In certain cases where there is arbitration, the customers have raised counter claims. The Company has received legal advice that none of the counter-claims are legally tenable. Accordingly no provision is considered necessary in respect of these counter claims	1,202	1,202	2,174
Corporate Guarantee given to bank on behalf of JVs	5,100	4,865	4,865
Sales tax matters pending in appeal	374	390	631
Income tax matters pending in appeal	145	161	193
Excise matters pending in appeal	5	5	5
Entry tax matter pending in appeal	34	-	
<b>Total Contingent Liabilities</b>	<b>9,354</b>	<b>10,137</b>	<b>12,178</b>

Source: Company, Emkay Research

**Exhibit 12: Status of Contracts**

<b>Construction Contracts (INR mn) :</b>	<b>CY14</b>	<b>CY15</b>	<b>CY16</b>
Contract revenue recognized as revenue in the period	17,124	30,687	30,886
Aggregate amount of costs incurred and recognised profits up to the reporting date on Contract under Progress	60,009	97,409	73,563
Advance received on contract under progress	3,551	4,641	2,651
Retention amounts on contract under progress	928	1,564	1,499
Gross amount due from customers for contract work as an asset Clause 41 (a)	9,023	9,482	6,486
Gross amount due to customers for contract work as an asset Clause 41 (b)	95	229	1,340

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
<b>Net Sales</b>	<b>30,687</b>	<b>30,886</b>	<b>33,133</b>	<b>37,371</b>	<b>42,366</b>
<b>Expenditure</b>	<b>28,794</b>	<b>28,797</b>	<b>30,195</b>	<b>33,876</b>	<b>38,404</b>
<b>EBITDA</b>	<b>1,916</b>	<b>2,099</b>	<b>2,949</b>	<b>3,507</b>	<b>3,976</b>
Depreciation	367	449	498	531	591
<b>EBIT</b>	<b>1,549</b>	<b>1,649</b>	<b>2,451</b>	<b>2,976</b>	<b>3,385</b>
Other Income	222	252	331	374	381
Interest expenses	1,377	1,165	1,093	1,035	1,085
<b>PBT</b>	<b>394</b>	<b>736</b>	<b>1,690</b>	<b>2,315</b>	<b>2,682</b>
Tax	(253)	255	558	694	805
Extraordinary Items	(1,240)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(593)</b>	<b>481</b>	<b>1,132</b>	<b>1,620</b>	<b>1,877</b>
<b>Adjusted PAT</b>	<b>647</b>	<b>481</b>	<b>1,132</b>	<b>1,620</b>	<b>1,877</b>

**Balance Sheet**

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Equity share capital	155	155	155	155	155
Reserves & surplus	4,927	5,352	6,428	7,992	9,813
<b>Net worth</b>	<b>5,082</b>	<b>5,507</b>	<b>6,583</b>	<b>8,147</b>	<b>9,968</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>6,007</b>	<b>4,630</b>	<b>4,480</b>	<b>4,330</b>	<b>4,180</b>
Net deferred tax liability	(442)	(276)	(276)	(276)	(276)
<b>Total Liabilities</b>	<b>10,647</b>	<b>9,861</b>	<b>10,787</b>	<b>12,201</b>	<b>13,872</b>
<b>Net block</b>	<b>3,490</b>	<b>3,818</b>	<b>4,011</b>	<b>3,980</b>	<b>3,789</b>
<b>Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>20,489</b>	<b>17,428</b>	<b>19,074</b>	<b>20,948</b>	<b>24,272</b>
Cash & bank balance	1,476	1,851	2,824	2,572	3,480
Other Current Assets	14	4	4	4	4
<b>Current liabilities &amp; Provision</b>	<b>13,358</b>	<b>11,441</b>	<b>12,354</b>	<b>12,786</b>	<b>14,251</b>
<b>Net current assets</b>	<b>7,131</b>	<b>5,987</b>	<b>6,720</b>	<b>8,162</b>	<b>10,021</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>10,647</b>	<b>9,861</b>	<b>10,787</b>	<b>12,201</b>	<b>13,872</b>

**Cash Flow**

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(1,068)</b>	<b>484</b>	<b>1,358</b>	<b>1,941</b>	<b>2,300</b>
Other Non-Cash items	1,304	42	0	0	0
Chg in working cap	2,699	1,566	239	(1,693)	(951)
<b>Operating Cashflow</b>	<b>4,429</b>	<b>3,340</b>	<b>2,631</b>	<b>1,119</b>	<b>2,221</b>
Capital expenditure	(586)	(801)	(690)	(503)	(403)
<b>Free Cash Flow</b>	<b>3,843</b>	<b>2,539</b>	<b>1,941</b>	<b>616</b>	<b>1,818</b>
Investments	0	0	0	0	0
Other Investing Cash Flow	(455)	737	0	0	0
<b>Investing Cashflow</b>	<b>(819)</b>	<b>189</b>	<b>(359)</b>	<b>(129)</b>	<b>(22)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(1,646)	(1,378)	(150)	(150)	(150)
Dividend paid (incl tax)	0	0	(56)	(56)	(56)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(3,021)</b>	<b>(2,558)</b>	<b>(1,299)</b>	<b>(1,241)</b>	<b>(1,291)</b>
<b>Net chg in cash</b>	<b>589</b>	<b>971</b>	<b>973</b>	<b>(252)</b>	<b>908</b>
Opening cash position	887	880	1,851	2,824	2,572
<b>Closing cash position</b>	<b>1,476</b>	<b>1,851</b>	<b>2,824</b>	<b>2,572</b>	<b>3,480</b>

**Key Ratios**

<b>Profitability (%)</b>	<b>CY15</b>	<b>CY16</b>	<b>CY17E</b>	<b>CY18E</b>	<b>CY19E</b>
EBITDA Margin	6.2	6.8	8.9	9.4	9.4
EBIT Margin	5.0	5.3	7.4	8.0	8.0
Effective Tax Rate	(64.2)	34.6	33.0	30.0	30.0
Net Margin	2.1	1.6	3.4	4.3	4.4
ROCE	15.1	18.5	27.0	29.1	28.9
ROE	12.0	9.1	18.7	22.0	20.7
RoIC	14.4	19.3	30.9	34.1	34.0

<b>Per Share Data (Rs)</b>	<b>CY15</b>	<b>CY16</b>	<b>CY17E</b>	<b>CY18E</b>	<b>CY19E</b>
EPS	4.2	3.1	7.3	10.4	12.1
CEPS	6.5	6.0	10.5	13.9	15.9
BVPS	32.8	35.5	42.4	52.5	64.2
DPS	1.5	1.5	0.2	0.2	0.2

<b>Valuations (x)</b>	<b>CY15</b>	<b>CY16</b>	<b>CY17E</b>	<b>CY18E</b>	<b>CY19E</b>
PER	41.8	56.1	23.9	16.7	14.4
P/CEPS	26.9	29.3	16.8	12.7	11.1
P/BV	5.3	4.9	4.1	3.3	2.7
EV / Sales	1.0	1.0	0.9	0.8	0.7
EV / EBITDA	16.5	14.2	9.7	8.2	7.0
Dividend Yield (%)	0.9	0.9	0.1	0.1	0.1

<b>Gearing Ratio (x)</b>	<b>CY15</b>	<b>CY16</b>	<b>CY17E</b>	<b>CY18E</b>	<b>CY19E</b>
Net Debt/ Equity	0.9	0.5	0.3	0.2	0.1
Net Debt/EBIDTA	2.4	1.3	0.6	0.5	0.2
Working Cap Cycle (days)	67.2	48.9	42.9	54.6	56.3

<b>Growth (%)</b>	<b>CY15</b>	<b>CY16</b>	<b>CY17E</b>	<b>CY18E</b>	<b>CY19E</b>
Revenue	79.2	0.6	7.3	12.8	13.4
EBITDA	110.4	9.5	40.5	18.9	13.4
EBIT	220.3	6.4	48.6	21.4	13.8
PAT	(405.5)	0.0	135.3	43.1	15.9

<b>Quarterly (Rs mn)</b>	<b>Q4CY15</b>	<b>Q1CY16</b>	<b>Q2CY16</b>	<b>Q3CY16</b>	<b>Q4CY16</b>
Revenue	10,632	10,156	8,614	4,827	7,299
EBITDA	657	661	422	461	556
<b>EBITDA Margin (%)</b>	<b>6.2</b>	<b>6.5</b>	<b>4.9</b>	<b>9.5</b>	<b>7.6</b>
PAT	301	230	52	69	130
<b>EPS (Rs)</b>	<b>1.9</b>	<b>1.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.8</b>

<b>Shareholding Pattern (%)</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>
Promoters	51.6	51.6	51.6	51.6	51.6
FIIIs	3.8	3.2	3.1	2.9	2.7
DIIIs	24.2	24.6	24.5	24.8	24.9
Public and Others	20.4	20.5	20.7	20.7	20.8

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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