

## Sector Update

Infrastructure sector stocks have rocketed over the last few months, especially after the results of the 2014 general elections. Hope and optimism has made investors look at a beaten-down sector in a completely new light – its opportunity potential. While it is a given that FY15 numbers will be weak (already ‘priced in’), the potential beyond FY16 is the cynosure of all eyes now.

**The potential opportunity is HUGE.** The gap between infrastructure needs and the existing framework of the country is immense and it is present across sectors (airports, roads, ports, and power). **According to the Planning Commission, the country would spend close to US\$ 1tn in the 12<sup>th</sup> Five-Year Plan (2012-2017)** – and a large part of it will come from the private sector. *Our analysis of Mumbai’s project pipeline suggests Rs 1tn will be spent in the city itself (detailed report [here](#)).*

**However, not all sectors and companies will benefit** from this unprecedented opportunity. The project pipeline in the airports segment looks feeble, as the government is not planning many greenfield/brownfield airports. Delays in clearances and the indecision of various port trusts have marred the ports sector – it is plagued by severe under capacity and archaic infrastructure.

However, **surface transport appears to be the low-hanging fruit.** Not only does **NHAI have a healthy pipeline** of new projects that are yet to be awarded, a major portion of stuck projects given out over FY12-14 will also be up for re-bidding. **Many cities in India are planning to develop Mass Rapid Transit System (MRTS).** The Planning Commission estimates Rs 14tn to be spent over the 12<sup>th</sup> plan period in airports, ports, roads, and railways.

**Our bottom-up analysis of these sectors (airport, ports, roads and railway) indicates that Rs 9tn of investment opportunity is already on the anvil and can be awarded in the next two years.** While the investment in these projects is expected to be spread over next five years, major part of the awarding will take place in the next two years.

On similar note, **only companies with strong fundamentals and healthy balance sheets will be able to benefit** from the opportunity. GVK Power, for example, with its highly stretched balance sheet will miss capitalizing on the investment opportunity. Its archrival **GMR Infra** has significantly deleveraged its balance sheet by divesting multiple assets over the last 12 months and is very well placed to gain from increased orderflow. **IRB Infra** and **Adani Ports** have always been fundamentally superior stocks and leaders in their domains (roads and ports, respectively) and will continue to benefit at the expense of their peers.

The run up in last few months has already captured a large part of the upside potential for most stocks – for example, Ashoka Buildcon and Gujarat Pipavav Port appear fairly valued at current levels. However, **there is decent upside left in GMR Infra, IRB Infra, and Adani Ports, even after the recent run up.** We also note that the entire investment in the infrastructure space will translate into a **mammoth opportunity for EPC players of which Nagarjuna Construction (NCC) should be the biggest beneficiary.**

In this report, we initiate coverage on **Ashoka Buildcon (NEUTRAL)** and **NCC (BUY)**. We maintain **BUY on GMR Infra and IRB Infra**, and **upgrade Adani Ports to BUY**. We **downgrade GVK Power to SELL**.

## Companies Covered

### GMR Infrastructure

CMP	Rs26
Reco	BUY
Target Price	Rs38
Upside	46%

### GVK Power

CMP	Rs14
Reco	SELL
Target Price	Rs11
Downside	-21%

### IRB Infrastructure

CMP	Rs241
Reco	BUY
Target Price	Rs292
Upside	21%

### Ashoka Buildcon

CMP	Rs124
Reco	NEUTRAL
Target Price	Rs136
Upside	9%

### Adani Ports & SEZ

CMP	Rs263
Reco	BUY
Target Price	Rs312
Upside	19%

### Gujarat Pipavav Port

CMP	Rs147
Reco	NOT RATED

### Reliance Infrastructure

CMP	Rs755
Reco	NOT RATED

### Nagarjuna Construction

CMP	Rs69
Reco	BUY
Target Price	Rs100
Upside	45%

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## Infrastructure – A mammoth opportunity beckons

Over the last three years, the entire infrastructure space was bogged down due to lack of new orders and regulatory issues (land acquisition, environmental clearance), which led to a state of near-complete paralysis for most companies operating in the sector. While the gap between the existing and required infrastructure remained huge, there was no clarity about when it would translate into awards and investment.

However, with the new government at the helm, we expect the scenario to undergo a radical transformation over the next twelve months. In any case, the award pipeline in some sectors (esp. roads and ports) has swollen to such an extent that the regulatory body has no option but to expedite the award process.

Overall, we see the potent combination of a 'strong' government and a bursting award pipeline translating into an investment opportunity of an unprecedented magnitude for infrastructure companies. The Planning Commission estimates that about US\$ 1tn (Rs 60tn) would be spend on infrastructure over the 12<sup>th</sup> five-year plan (2012-2017); while a major part would be spent in the energy sector, a substantial Rs 14tn will be spent in transport (airports, roads, ports and railways).

### Investment in 'Transport' sector (Planning Commission estimates)

	Total (Rs bn)	Private (Rs bn)
Airports	500	400
Roads	5,503	2,142
Ports	1,990	1,700
Railways	5,192	1,000
MRTS	1,241	807
<b>Total</b>	<b>14,426</b>	<b>6,049</b>

Source: Planning Commission

To find out what part of this US\$ 1tn opportunity can be actually capitalized, we did a bottom-up analysis of the award pipeline for various sectors. We found that almost 2/3<sup>rd</sup> (Rs9.5tn) of the targeted opportunity is already on the anvil and is all set to be awarded over the next two years.

### Bottom-up analysis of the investments on the anvil

NHAI	km	Rs bn
Pipeline (excl Phase IV)	6,158	616
Phase IV pipeline	9,842	246
Backlog of FY12-14 awards	15,000	1,500
Border & Coastal Roads	22,500	1,125
<b>Total</b>	<b>53,500</b>	<b>3,487</b>
Ports	mn tonnes	Rs bn
Opps at Major Ports	199	111
PPP opps at Major Ports	116	83
Private port opps	389	353
<b>Total</b>	<b>704</b>	<b>548</b>
Railways	km	Rs bn
Railways PPP	NA	1,069
High Speed Rail	4,215	674
DFCC	3,338	750
<b>Total</b>	<b>7,553</b>	<b>2,493</b>
MRTS	km	Rs bn
Under construction Metros	489.9	1,362.4
Planned Metros	421.6	1,569.1
Planned Monorails	131.7	193.7
<b>Total</b>	<b>1,043</b>	<b>3,125</b>
<b>Grand Total</b>		<b>9,654</b>

Source: PhillipCapital India Research

An interesting part of this opportunity is the presence of a few key large projects that should transform the infrastructure landscape of the country. These projects are designed to fulfill long-standing demands of respective sectors and have the potential to transform the topline of the companies that are executing them. We expect ALL these projects to be awarded over the next two years and a large part to be executed in the 12<sup>th</sup> plan period.

### Major Projects on the anvil

Project	Specifics	Sector	Opportunity size (Rs bn)	Status
1 Elevated Rail Corridor	Virar – Churchgate (Mumbai)	Railways	250	All clearances received
2 Mumbai Metro Phase III	Colaba-Bandra-SEEPZ	MRTS	240	Bidding to start by Sep-14
3 Other MRTS projects	Jaipur, Lucknow, Kochi	MRTS	553km	In various stages of development
4 High Speed Rail Network	Delhi-Mumbai-Chennai-Kolkata	Railways	674	Mumbai-Ahmedabad in FY15
5 Border & Coastal Roads	Mentioned in the NDA manifesto	Roads	22,500km	Conceptual stage
6 National Waterway Grid	Rs42bn for NW-1 (Allahabad-Haldia)	Ports	250	Conceptual stage

Source: PhillipCapital India Research

We expect **only** companies with strong balance sheets and superior fundamentals to benefit from this opportunity. Highly leveraged companies and those with more projects in the execution stage (than in the operational stage) will lose out to their peers.

### Sectoral analysis of the opportunity and competition

Sector	Major Opportunities	Opp Size* (Rs bn)	Concerns	Competition	Domestic players	Foreign Players
Airports	Six airports on the anvil; more greenfield airports planned	500	Limited opportunity in India	<b>Low.</b> Foreign players in JV with domestic	GMR, GVK	Changi airport, Malaysian Airport Holdings, Fraport
Roads	13,000km of pending awards; Border & coastal roads; backlog of FY12-14 awards	5,503	Backlog of stuck projects, clearances, declining traffic, high interest rates	<b>High.</b> Plethora of domestic players; foreign players too waiting in the wings	IRB Infra, L&T, GMR, Ashoka Buildcon, NCC, IVRCL, Isolux-Soma	Vinci, Leighton Holdings, Balfour Beatty
Ports	Upgradation of major ports; non-major ports	1,990	Clearances, lack of policy framework, inferior supporting infrastructure	<b>Medium.</b> Major competition from foreign players	Adani Ports, Essar Ports, Welspun Corp	DP World, Port of Singapore Authority (PSA)
Railways	High speed rail network; Dedicated Freight Corridor	5,192	Low private investment, new to PPP model, regulatory uncertainty	<b>Medium.</b> Few large players have the technical capability	L&T, All EPC Players	
MRTS	Seven MRTS projects on the anvil. Mega plans in Mumbai	1,241	Inexperienced players and authorities, politicization of projects	<b>Low.</b> Most domestic companies inexperienced, in JVs with foreign players	Reliance Infra, L&T	Valio, Mitsubishi, Scomi

Source: PhillipCapital India Research (\*Planning Commission estimates)

We expect GMR Infra (airports), IRB Infra (roads), Adani Ports (ports), L&T (railways), Reliance Infra (MRTS) and Nagarjuna Construction (EPC) to be the key beneficiaries of the investment opportunity.

### Valuation Table

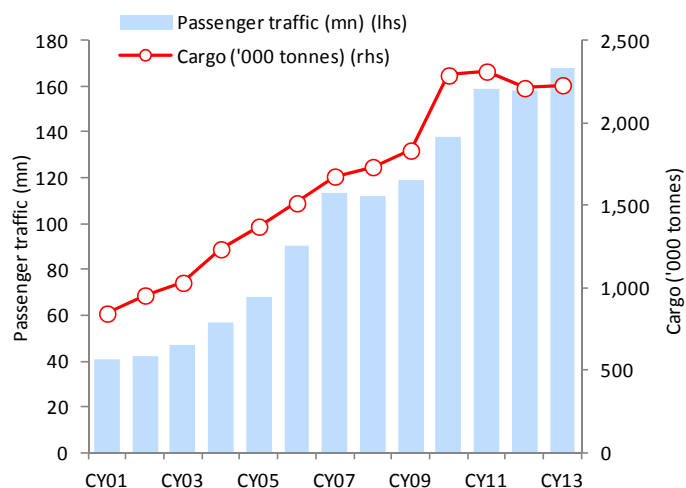
Company	Mkt Cap Rs bn	CMP Rs	P/E		EV/EBITDA		ROE		D/E		P/BV	
			FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
GMR Infra	101.2	26.0	(23.2)	(113.6)	12.4	11.8	(4.4)	(0.9)	4.5	4.3	1.0	1.0
GVK Power	22.1	14.0	(2.8)	(3.2)	17.9	9.4	(36.1)	(39.7)	10.6	13.2	1.0	1.3
IRB Infra	80.0	241.0	13.7	15.2	8.3	7.4	14.0	10.5	2.9	2.7	1.9	1.6
Ashoka Buildcon	19.7	125.0	15.6	17.3	12.7	9.6	9.3	7.9	3.3	3.5	1.5	1.4
Adani Ports	544.4	263.0	23.2	18.2	19.2	15.2	20.9	21.6	0.8	0.6	4.8	3.9
NCC	17.7	69.0	21.0	8.3	7.6	5.9	3.2	7.6	0.9	0.7	0.7	0.6

Source: PhillipCapital India Research

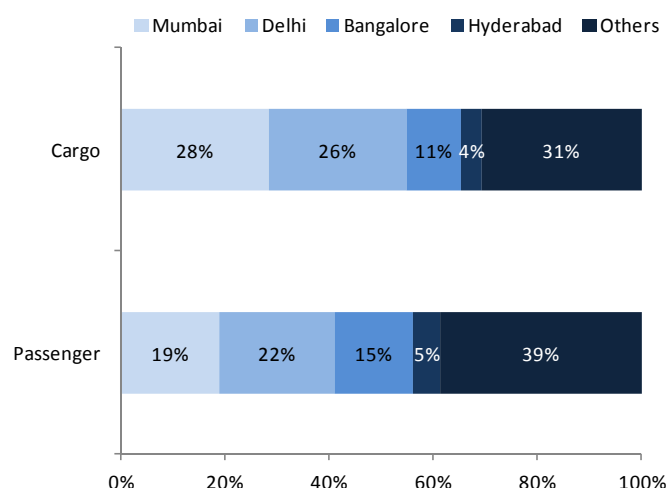
## Airports – Not yet cleared for take-off

The Indian aviation market is the 9<sup>th</sup> largest market in India with total passenger traffic of 168mn in CY13. The traffic CAGR over the last decade is 13%. However, there remains gross under-penetration of air services, with an average air travel of 0.014 trips per person per year as compared to 2.02 trips in the US and 0.1 in China. The major reason for this sluggish growth is poor infrastructure such as inadequate runways, unreliable power resources, and under capacity terminals.

Passenger and cargo traffic at all Indian airports



Share of traffic —Four 'metros' form the bulk



Source: AAI

Currently, there are 132 airports in India, including 17 international airports, 9 custom airports, 79 domestic airports, and 26 civil enclaves at defense airfields. The 17 international airports (12 administered by the Airport Authority of India (AAI) and 5 through JVs) account for 85% of passenger traffic and 97% of the cargo handled at all the airports.

In 2003, the Ministry of Aviation had set up the Naresh Chandra Committee to look into aviation sector reforms and the recommendations of the committee transformed the aviation landscape thereafter. Ever since, the government has awarded 4 airports development projects (2 brownfield, 2 greenfield) to the private sector on a PPP basis. In addition, the government has identified 35 small cities as candidates for potential modernization of the airports.

### Airports operated on a PPP basis

Airport	Awarded in	Type	CoD	Project cost (Rs bn)	Current shareholding structure
Delhi	Apr-06	Brownfield	Mar-10	127.6	GMR 54%, Malaysia Airports 10%, Fraport AG 10%, AAI 26%
Mumbai	Apr-06	Brownfield	May-13	120.7	GVK 50.5%, BSDM 23.5%, AAI 26%
Hyderabad	Dec-04	Greenfield	Mar-08	29.2	GMR 63%, Malaysia Airports 11%, AAI 13%, Government of AP 13%
Bangalore	Jul-04	Greenfield	May-08	21.2	GVK 43%, Siemens 26%, Zurich Airports 5%, KSIDC 13%, AAI 13%
Cochin	May-93	Brownfield	Jun-99	1.0	Over 10,000 NRIs and Private Companies

Source: AAI, PhillipCapital India Research

## The opportunity – relatively small in size

In 2006, AAI was mandated to modernize 35 non-metro airports entailing an investment outlay of Rs 61.6bn. Work on 25 of these airports is already complete while that on 10 others will be completed by the end of 2014. The AAI has undertaken modernization plans for 26 more non-metro airports across the country. It approved 15 greenfield airports translating into a sizeable opportunity for the private sector. The government also plans to award operations of six airports (Chennai, Kolkata, Ahmedabad, Jaipur, Lucknow, and Guwahati) on a PPP basis.

However, the overall opportunity in the segment is relatively small over the next three years. Navi-Mumbai airport remains the only opportunity of a significant size (Rs 62bn). Even the Planning Commission estimates that the airport sector would require an investment of only Rs 500bn in the 12<sup>th</sup> plan period of which 80% should come from the private sector.

## Regulatory uncertainty cleared

In June 2009, AERA (Airport Economic Regulatory Authority) was formed and the regulatory mantle of the five airports operating on a PPP basis was transferred to it. The prime objective of the regulatory body is to determine the tariff for the aeronautical services to be levied on the customers (airlines and passengers). This tariff is to be determined taking into consideration *“amongst other factors, economic and viable operation of airports, capital expenditure incurred by the developer, and other revenue streams, adhering to the concession offered by the central government in any agreement or MOU”*.

The revenue model that is followed globally at airports operating on a PPP basis is called the **shared-till-inflation or CPI-X model**. The model takes into account the regulatory asset base comprising of the capital expenditure incurred by the company and tries to provide the developer with an assured rate of return on the investment. Working backwards from the returns, the model determines the revenue that the developer should be making from aeronautical services, and hence, the increase/decrease in these charges. The model can be summarized as:

### CPI-X model

Particular	Description
Opening regulatory asset base	<b>A</b> Gross block, net of ADF
Depreciation	<b>D</b> On the above asset base
Capex	<b>C</b> For the year
Regulatory asset base for calculation	<b>RAB</b> A-D+C
Regulated return	<b>W</b> Based on wt avg cost of funds
Return on regulatory base	<b>R</b> RAB*W
OM-efficient operation & maintenance cost	<b>O</b> Operating expenditure
Depreciation	<b>D</b> Depreciation, as above
Corporate tax	<b>T</b> Corporate tax
Non-aero revenue	<b>N</b> Non-aero revenues
Cross subsidization	<b>X</b> % of non-aero revenue to be used to subsidize aero charges
<b>Target Revenue</b>	<b>R+O+D+T-(N*X)</b>

Source: AERA, PhillipCapital India Research

Under this CPI-X model, three different modes of operation are followed globally, depending on the level of cross-subsidization—single-till, hybrid-till, and dual-till. The OMDA (operation, management and development agreement) for the Delhi and Mumbai airports clearly states the use of a hybrid-till model using 30% cross subsidization. For Bangalore and Hyderabad airports, the SSA (state support agreement) mentions that the tariff policy must be in accordance with the ICAO (International Civil Aviation Organisation) guidelines, which do not specifically recommend any particular method. Hence, there has always been a high degree of uncertainty about the model that will be implemented.

### Modes under the CPI-X model

Model	Cross subsidization	Implication	Global airports using the model
Dual till	0%	The desired returns are to be recovered from aero revenues only	Australia (Adelaide, Perth, Sydney, Melbourne), Hamburg, Athens, Mexico
Hybrid till	20%-40%	20%-40% of the non-aero revenues subsidize the aero revenues to generate desired returns	Copenhagen, Budapest, Ferihegy (Hungary)
Single till	100%	Total aero and non-aero revenues are used to calculate the desired returns	UK (Heathrow, Gatwick, Stansted), Spain (Madrid, Barcelona), Stockholm, Oslo, Dublin, Vienna, Paris

Source: AERA, PhillipCapital India Research

### Delhi / Mumbai airports

After studying the airport models across the world, AERA pronounced the tariff orders for Delhi and Mumbai airports in January 2012 and January 2013, respectively. The regulatory body approved 345% tariff hike at Delhi and 154% tariff hike at Mumbai airport. While the tariff hike was significantly steep, it took into account the capex incurred by the developers and the fact that the tariffs had not been revised for over 10 years (except one tariff increase of 10% in January 2009).

The developers for the airport have appealed against the tariff order in the Appellate Tribunal. Their points of disagreement are:

- 1) AERA has accorded 0% returns on the Real Estate deposit (RSD) raised by the developers to fund the capex. The developers want a return equivalent to the RoE.
- 2) The RoE accorded in the order is 16% — the developers want 24%, which (according to them) is in line with global benchmarks and the risk they undertook when they invested in the projects.
- 3) Few other smaller issues related to hypothetical RAB (regulatory asset base), tax treatment, and classification of certain items in aero/non-aero category.

While the verdict from the tribunal is awaited, the tribunal/regulator is not likely to cede to the developers' demands and therefore we do not expect any revision in the tariff. The only change that might occur is the tribunal might award certain return on the RSD — equivalent to cost of debt or between cost of debt and equity. In either case, it will be positive for the airport developers and will help them to monetize the land parcels allocated with the airport quickly and effectively.

### Bangalore/Hyderabad airports

In February 2014, AERA passed the tariff order for Hyderabad airport implementing single-till model, reducing the passenger tariff by 35%, and abolishing the UDF (user development fee). Three months later, the order for the Bangalore airport was passed implementing a hybrid-till with 40% cross-subsidization.

The divergence in the nature of the order for the two airports was on the back of the variance in their respective profitability and existing tariffs. For example, the UDF for domestic passengers at Hyderabad was Rs430 per passenger and at Bangalore, it was Rs260 (*Rs1700 for International PAX at Hyderabad vs Rs 1060 at Bangalore*).

### Clears the way for monetization of airport assets

Overall, the tariff orders at all the four airports on a PPP basis pave the way for further privatization of airports in India. The developers and investors are now fully aware of the methodology used to determine the tariff and the risks and hazards during the development-operational timeframe.

This clarity significantly enhances the chances of foreign players investing in the portfolio of domestic companies (GMR and GVK). Changi airport, for example, has always depicted high level of interest in investing in airports and media reports say it is close to finalizing an investment in GVK's airport portfolio. That is a major positive for domestic airport developers, as they have been looking to divest stakes in their projects to repair their balance sheet.

## Navi Mumbai International Airport (NMIA)

The existing Mumbai International Airport will reach its peak passenger capacity (40mn) by FY16. The design (cross-runways) and the land available at the site necessitate the development of a greenfield airport at a different location in the city. There are lots of global precedents — cities such as London, Madrid, and New York have multiple airports.

### Total area available at various airports

Airport	Mumbai	Delhi	Bangalore	Hyderabad	Singapore	Bangkok	Kuala Lumpur
Area (acres)	1,700	5,107	4,000	5,000	3,212	10,000	12,000

Source: PhillipCapital India Research

NMIA will be one of the world's largest greenfield international airports. The airport site is located in an area of 1,160 hectares — which can accommodate two parallel runways for simultaneous and independent operations with full-length taxiways on either side of the runways. The airfield has been designed to accommodate the new large aircrafts compatible with ICAO Aerodrome Code 4F.

### Development plan of Navi Mumbai airport

Phase	Operational Year	Traffic(MPPA)	Project Cost (Rs bn)
1.	2017	10	62.15
2.	2020	25	36.99
3.	2025	45	31.62
4.	2030	60	14.98
<b>Total</b>		<b>60</b>	<b>145.74</b>

Source: CIDCO, PhillipCapital India Research

The Navi Mumbai Airport is proposed to be developed through public private participation (PPP). An SPV will be formed in which CIDCO and its nominees will hold 26% stake (including AAI) and the rest will be held by the private developer. MIAL, the current developer and operator of the existing airport in Mumbai, has the RoFR for the proposed project.

### Project details:

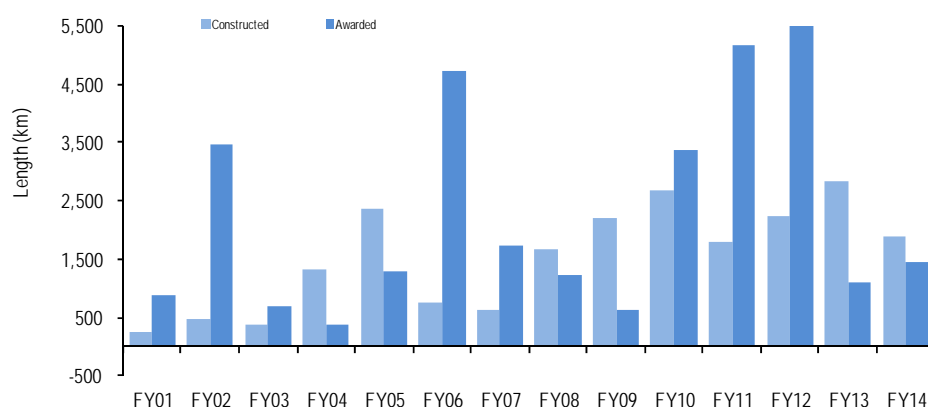
- Airport Area: 1,160 hectares (2,867 acres)
- Runways: Two (Spacing 1,550 meters for independent operations)
- Terminal Building: 5,23,000 square meters
- Ultimate Capacity: 60mn passengers per year
- Cargo Complex: 201,581 square meters
- Catering: 25,000 square meters
- Fuel Farm (Ultimate Phase): 151,000 square meters
- Baggage Claim Area: 13,290 square meters
- General Aviation Apron area: 32,000 square meters
- Automobile Parking : 5500 + 3500
- Accessibility :
- National Highways – NH4 and NH4B
- State Highways – SH54, Sion-Panvel Highway, Aamra Marg
- Suburban Rail, Water Transport, Metro & BRTS



## Roads – The low hanging fruit

FY13 and FY14 remained forgettable years for NHAI in terms of achieving their targeted length of awarded projects. The regulatory body awarded only 1,100 km and 1,400 km in FY13 and FY14 vs. their own target of 8,800 km and 6,500 km, respectively. The dismal performance was led by problems surrounding land acquisition and environmental clearance, because of which execution could not start on many projects awarded in FY12. NHAI now has a huge pipeline of new projects to be awarded as well as old projects awarded over the last three years that need to be revisited.

### NHAI annual progress



Source: NHAI

India has a total roads network of 4.23mn km, of which highways (national and state) form an abysmally low 6% — 32% or 71,000 km of highways is single lane. Over the last few years, 20,000 kms of highways were upgraded while 12,000 km are under various stages of upgradation. That leaves 40,000 km of primarily single-laned roads suffering from neglect.

The National Highway Development Programme (NHDP, formulated in late 1990s) consists of seven phases to upgrade the national highway network across the country. NHAI has already upgraded 22,600km of projects and another 12,500km are under implementation. Over 15,000km of the current NHDP are yet to be awarded.

### NHDP current status— May 2014 (length in km)

Phase	Description	Total length	Already 4-laned	Under Implementation	To be awarded
Phase I	Golden Quadrilateral	5,846	5,846	-	-
Phase II	NS - EW	7,300	6,300	470	372
Phase III	4-laning of intercity connections	12,109	6,182	4,242	1,685
Phase IV	2-laning of arterial road	14,799	550	5,043	9,016
Phase V	6-laning of various highways	6,500	1,861	2,240	2,419
Phase VI	Expressways	1,000	-	-	1,000
Phase VII	Ringroads, flyovers etc	700	22	19	659
<b>Total</b>		<b>48,254</b>	<b>20,761</b>	<b>12,014</b>	<b>15,151</b>
Others	Port Connectivity	380	379	3	-
Others	Others	1,778	1,467	410	276
<b>NHAI</b>		<b>50,412</b>	<b>22,607</b>	<b>12,427</b>	<b>15,427</b>

Source: NHAI

## The opportunity – of unprecedented magnitude!

Over the next three years, we see road sector as the low-hanging fruit among infrastructure segments — the new government will try to capitalize on it to break the deadlock and revive the development process. Today the road sector is in a much more mature stage than any other sector in the infrastructure space in terms of attracting private investment. Based on the recommendations of the B. K. Chaturvedi report in 2009, the NHAI made multiple changes to the Model Concession Agreement (MCA), effectively removing most of the lacunae in the award-development process. Along with this, a series of reforms by the RBI and the government of India have smoothed the entire process for the sector.

The pipeline for the sector also appears HUGE with a plethora of old and new projects on the anvil:

- 15,000 km of new road projects are to be awarded from the current NHDP.
- Close to 10,000 km of projects (awarded in FY11-14), but which never saw the light of day) will also be up for re-bidding.
- The NDA manifesto speaks of border and coastal road network. India has 15,000 kms of international border and 7,500 km of coastline. That can translate into a potential opportunity of 22,500 km.
- Over and above that, the roads that have been four-laned under the current NHDP will need to be six-laned as traffic increases. So we can expect ~20,000 km of six-laning projects to come up in the next NHDP.
- Lastly, there is a huge network of state roads and highways, which offers an even bigger opportunity.

According to the Planning Commission's estimates, the sector will need Rs 5tn of investments over the 12<sup>th</sup> five-year plan period. Our bottom-up analysis indicates that Rs 3.5tn of this opportunity could be awarded over the next three years.

For FY15, NHAI has set a target of awarding 8,500 km, which are to comprise of 5,000 km of EPC orders. The target is much higher than what NHAI achieved in FY13 and FY14 – so it remains to be seen if they are able to achieve the same. Notwithstanding the awards in FY15, we expect the activity to pick up significantly from FY16.

### On the anvil – BOT and EPC projects to be awarded

BOT			EPC				
	(kms)	Cost (Rs mn)		(kms)	Cost (Rs mn)		
1	Barwa Adda-Panagarh ( awarded to ITNL)	122.9	16,650	1	Ambedkarnagar-Raebareilly (2 lane)	155.9	4,960
2	Jabalpur-Lakhanadone	80.8	7,770	2	Raebareilly-Banda (2 lane)	133.3	3,510
3	Bhavnagar-Verawal (4 lane)	260.0	32,400	3	Ladnu Nimbi Jodhan-Degna-Merta City (2 lane)	139.0	3,680
4	Yadgiri-Warangal (4 lane)	99.0	9,570	4	Bhilwara-Ladpura (2 lane)	67.8	2,370
5	Hospet-Hubli (4 lane)	143.3	12,930	5	Padhi-Dahod (2 lane)	85.6	2,790
6	Numaligarh-Jorhat (4 lane)	51.2	5,850	6	Unaira-Gulabpura (2 lane)	214.0	5,710
7	Ghoshpukur-Salsabari (4 lane)	154.9	22,120	7	Sitarganj-Tanakpur (2 lane)	52.2	2,200
8	Karaikudi-Ramanathapuram (2 lane)	80.0	3,360	8	Karauli-Dholpur (2 lane)	100.9	2,890
9	Demoh-Dibrugarh (4 lane)	46.0	4,730	9	Biharsharif-Barbigha-Mokama (2 lane)	56.3	1,940
10	Jorhat-Demoh (4 lane)	81.8	8,750	10	Chhapra-Rewaghat-Muzzaffarpur (2 lane)	75.0	3,050
11	Chas-Ramgarh (2/4 lane)	78.3	2,980	11	Patna-Gaya-Dhobi (4 lane)	127.2	10,270
12	Aurangabad-Vedishi (4 lane)	189.1	18,710	12	Jalandhar-Amritsar (6 lane)	20.0	4,930
13	Chandikhole-Dubari-Bhuban (4 lane)	62.2	6,520	13	Thanjavur-Pudukkotai (2 lane)	55.2	1,700
14	Parwanoo-Shimla (4 lane)	89.6	22,930	14	Tirumayam-Mannamadurai (2 lane)	77.7	2,520
15	Chhutmalpur--Haryana/UP border	104.8	10,240	15	Bareilly-Sitarganj (2 lane)	74.5	2,970
16	Eastern Perpheral Expressway (6 lane)	135.0	26,990	16	Uncha Nagar-Khanuawa-Dholpur (4 lane)	75.0	-
17	Solapur-Vedishi (4 lane)	98.7	9,700	17	Bar-Bilara-Jodhpur (2 lane)	125.0	-
18	Hissar-Dabwali (4 lane)	145.8	13,320	18	Barmer-Sanchor-Gujarat Border (2 lane)	154.0	-
<b>Total</b>	<b>2023.4</b>	<b>232,520</b>	<b>Total</b>	<b>1788.6</b>	<b>55,490</b>		

Source: NHAI, PhillipCapital India Research

The key reasons that most of the projects that were awarded in FY12-14 did not start execution were land acquisition and environmental clearance issues. The newly formed PMO recently asked for a list of highway projects that are stuck due to environmental/forest clearance and NHAI has forwarded a list of 22 projects — a speedy resolution of the same is expected in the near future.

#### List of projects that have been stuck for environmental / forest clearance

Stretch	NH	Awaiting since	Awarded to	Length (km)	TPC (Rs mn)	Stretch	NH	Awaiting since	Awarded to	Length (km)	TPC (Rs mn)
<b>MOEF (Ministry of Environment and Forest)</b>						<b>NBWL (National Board for Wildlife)</b>					
Rampur - Kathgodam	NH87	2012	Era Infra	93	8,456	Mowgli Pench Tiger Reserve	NH7	2009	NA	NA	NA
Kishangarh - Udaipur	NH8	2012	GMR Infra	556	53,873	MP/Gujarat Border - Indore	NH59	2012	NA	NA	NA
Patna - Gaya - Dobhi	NH83	2011	NA	127	20,156	Gwalior - Shivpuri	NH3	2013	Essel Infra	125	10,550
Patna - Buxar	NH84	-	Gammon	125	11,291	Borail Wildlife sanctuary	NH54E	2013	NA	NA	NA
Obedulla Ganj - Betul	NH69	2012	Transstroy	125	9,120	Panvel - Indapur	NH17	2013	Supreme	85	11,500
Parwanoo - Simla - Solan	NH22	2014	NA	90	26,000	Solapur - Yedeshi	NH211	2014	IRB Infra	99	13,100
Belgaum - Khanapur - Gunji	NH4A	-	-	-	-	Solapur - Bijapur	NH13	2014	Sadbhav	100	9,500
Sultanpur - Varanasi	NH56	2013	NA	142	13,490						
Gwalior - Shivpuri	NH3	2012	Essel Infra	125	10,550						
South Seoni Forest Division	NH7	2006	NA	NA	NA						
Wainganga Bridge	NH69	2009	JMC	45	4,842						
Jalandhar - Amritsar	NH1	2013	IVRCL	49	4,102						
Ludhiana - Talwandi	NH95	2013	Essel Infra	78	7,500						

Source: NHAI, PhillipCapital India Research

### Washing old sins...

Another reason for the poor execution of NHAI's awarded projects over the last three years was high level of competition and aggressive bidding by the private players – which led to banks being reluctant to fund the projects. At the developers end, poor judgment, faulty estimates, and unrealistic traffic expectations were major errors, but NHAI was also partly responsible for creating the mess.

Over the last few years, the orderbook of most EPC players (like IVRCL, Gammon, HCC) saw little growth due to:

- 1) Irrigation orders from AP and other parts of the country dried up,
- 2) Real estate slowdown leading to fewer incremental orders from the sector,
- 3) Other government departments were also reporting dismal order award activity.

As a result, roads remained the only sector through which EPC players could grow their orderbooks. However, in roads, NHAI awarded over 90% of orders on a BOT basis in FY11-13. Most EPC players (whose core competency is EPC and not traffic estimation and forecasting) were forced to bid for BOT projects to increase their orderbook sizes.

This increased competition leading to highly aggressive bidding (especially in FY12), which in turn led to concerns of low IRR for these projects. High interest rates and declining traffic growth due to the overall weak macro-economic state further aggravated the situation. Because of all this, banks became highly selective and were reluctant to finance BOT projects. Eventually, only 8 out of the 48 projects awarded on BOT basis in FY12 could actually start construction.

NHAI is now trying to make the following amends:

- 1) The order award pipeline will now comprise of significant share of EPC orders, which will lead to both EPC and BOT players sticking to their core competencies and reducing competition in both segments thereby negating the chances of a similar situation again.

- 2) NHA is now trying all measures, in order to revive as many orders as it can, which have been stuck due to land acquisition and environmental clearance. (e.g delinking of environmental and forest clearance).
- 3) NHA has extended an unprecedented offer to the developers – premium rescheduling – in order to compensate the developers for the unanticipated traffic decline across various stretches.

NHA spent a good part of FY14 in implementing the premium-rescheduling proposal. Finally, it has approved a list of 32 projects – while 8 have already been granted the benefit, a decision for three others has been deferred (until they become unviable). Implementation for other projects is currently in progress.

#### Projects for which the premium-rescheduling proposal has been approved

S.No.	Name of Project	LENGTH	TPC (Rs mn)	Developer
<b>4 LANING PROJECTS</b>				
1	Indore-Gujarat/MP Border	155.0	11,750	IVRCL Infrastructure
2	Changapali-Walayar	55.0	8,520	IVRCL Infrastructure
3	Hyderabad-Yadgiri ##	36.0	3,880	Sadbhav Engineering
4	Rohtak-Panipat ##	81.0	8,070	Sadbhav Engineering
5	Gomti – Udaipur **	79.0	9,150	Sadbhav Engineering
6	Godhra-Gujrat/MP Border	87.0	7,860	BSPCL Ltd.
7	Chhatisgarh/Orissa Border- Aurang	150.0	12,320	BSCPL Ltd
8	Kandla -Mundra Port	71.0	9,540	Reliance Infra Projects Ltd.
9	Rohtak-Bawal	83.0	6,500	JMC-SREI Consortium
10	Deoli – Kota	83.0	5,930	GVK Development Projects
11	Ludhiana – Talwandi	78.0	4,790	Ecsel Infra -Pan India Network Limited
12	Panvel – Indapur	84.0	9,430	Supreme Infra -Mahaveer Road
13	Sambalpur-Chhattisgarh/Orrisa Border	88.0	9,090	Ashoka Buildcon
14	Belagaum-Khanpur (4-lane)	81.9	3,590	GVR-RML-Prathyucho Consortium
15	Jetpur-Somnath (4-lane)	123.5	8,280	IDFC+PLUS Expressway Berhad
16	Beawar- Pali-Pindwara ##	244.0	23,880	L&T
17	Nagpur- Wainganga Bridge	45.0	4,840	J.M.C Project India Ltd
18	Gwalior- Shivpuri	125.0	10,550	Essel Infra projects Ltd.
19	Muzaffarpur-Barauni	108.0	3,560	KNR Constructictons ltd.
20	Baleshwar-Khargpur	119.0	4,710	IL&FS Transportation Network Ltd.
21	Mulbagal-Karnataka/AP Border	22.0	1,410	JSR Consortium
22	Obdulgunj-Betul	121.0	9,120	Transstroy OJSC Consortium
<b>6 LANING PROJECTS</b>				
1	Pune-Satara **	140.0	17,250	Reliance Infrastrures
2	Hosur-Krishnagiri ##	60.0	5,350	Reliance Infrastructures
3	Belgaum-Dharwad	80.0	4,800	Ashoka Buildcon
4	Dhankuni-Kharagpur	111.0	13,960	Ashoka Buildcon
5	Chitradurga -Tumkur Bypass ##	114.0	8,390	IRB Infrastructure
6	Ahmedabad- Vadodara ##	102.0	21,250	IRB Infrastructure
7	Samakhiali-Gandhidham ##	56.0	8,050	L&T
8	Indore - Dewas ##	45.0	4,510	DLF-Gayatri
9	Etawah-Chakerj **	160.0	15,730	Oriental Structral Engineers
10	Walahajapet -Poonamallee	93.0	12,880	Essel Infra

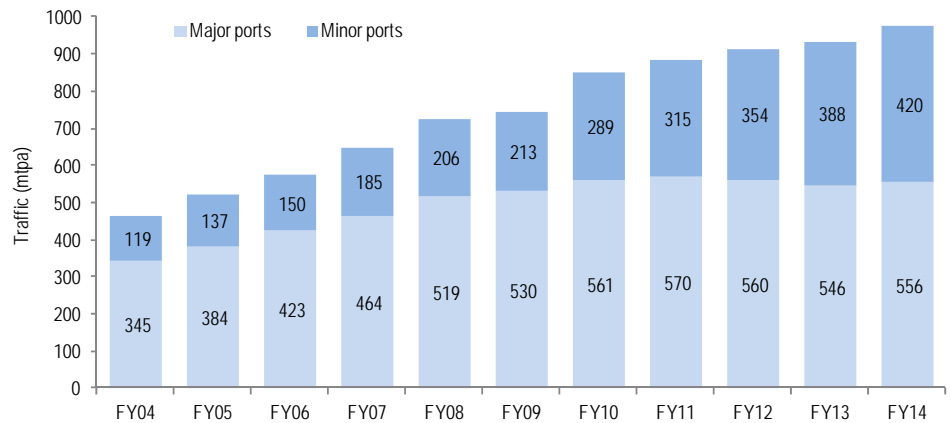
Source: NHA, PhillipCapital India Research (##: Premium rescheduling cleared; \*\*: Deferred due to projects not yet stressed)

NHA now intends to constantly monitor all BOT projects (making it an annual exercise) and extend the benefit of premium rescheduling to any new projects that come under stress due to an unexpected decline in traffic. This is a HUGE positive for the sector – not only does it restore bankers' confidence in lending to the sector, it also honors the spirit of PPP where the risks in project execution should be shared by the private and public enterprises together.

## Ports – Getting ready to lift anchor

The ports sector in India is in a sorry state. While the NMDP (National Maritime Development Programme) set forth a target of Rs 934bn for investment in ports under the 11<sup>th</sup> Five Year Plan, the Ministry of Shipping failed to achieve its target by a huge margin (~50%). Currently, heavy congestion and poor infrastructure plague the 13 government-owned major-ports. Cargo traffic at these major ports grew by 1.2% in FY14 (CAGR of 5.3% over FY03-14) and most of the traffic is now being captured by state-owned/private/captive minor ports.

### Traffic growth at Indian ports



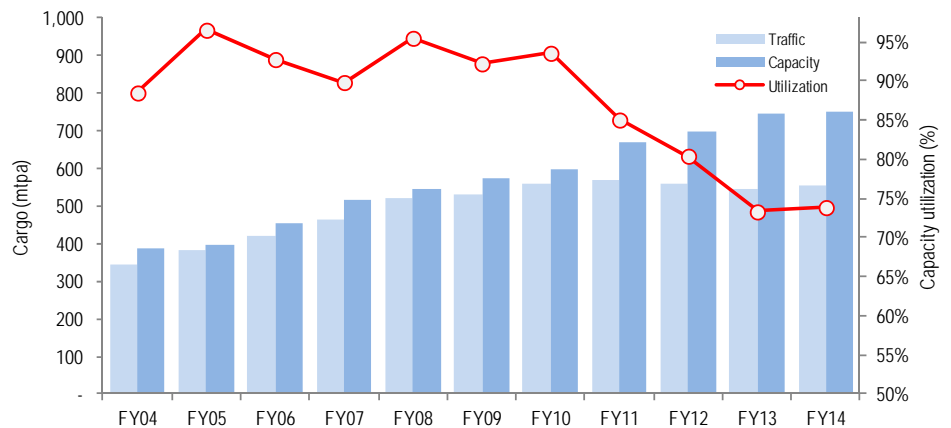
Source: Ministry of Shipping, IPA

Most major ports are currently operating at almost full capacity, which leads to higher turnaround time for the vessels fetching cargo to these ports, which becomes even more aggravated by poor infrastructure facilities such as extremely low levels of mechanization, inadequate storage space, and poor hinterland connectivity.

### Major ports

The government has envisaged a plan for expanding the capacity of major ports to 1,002mtpa by FY12 and 2,074mtpa by FY26. This includes the expansion of current capacities and setting up new berths/terminals at these ports.

### Major ports capacity utilization



Source: Ministry of Shipping, IPA

### Minor ports

India has over 400 minor ports, of which only 187 are operational —133 are on the West coast, with Maharashtra and Gujarat boasting of a high share (53% and 40%, respectively). Traffic at minor ports grew by 12% in FY14 and at a CAGR of 13.4% over FY03-14.

#### Some high profile private ports

Port	Operator/Developer	State	CoD	Main Cargo handled	Draft (mt)	capacity (mtpa)	Expansion plans
Mundra	Adani Ports (ADSEZ)	Gujarat	2003	Multi purpose	18.0	200.0	4 <sup>th</sup> container terminal to take capacity to 225 mtpa
Pipavav	Gujarat Pipavav Port	Gujarat	1996	Multi purpose	14.0	12.0	Expand to 1.35mn TEUs; Total capacity – 23 mtpa
Dhamra	ADSEZ (earlier L&T and Tata Steel)	Orissa		Multi purpose	14.0	25.0	ADSEZ plans to expand capacity to 100 mtpa, including building a new container terminal
Dahej	Petronet LNG	Gujarat	2004	LNG	NA	10.0	Solid cargo terminal being operated by ADSEZ
Hazira	Royal Dutch Shell & Total Group	Gujarat	2005	LNG	12.0	NA	Non-LNG terminal being developed by ADSEZ
Gangavaram	D.V.S. Raju	A.P.	2008	Multi purpose	21.0	30.0	Eventual capacity of 200 mtpa
Krishnapatnam	Navyuga Engg Ltd.	A.P.	2008	Dry bulk	15.0	23.0	Phase II and III to add 60mtpa and 3.5 mn TEUs
Karaikal	Marg Ltd	Pondicherry	2010	Multi purpose	12.0	5.0	Eventual capacity of 47 mtpa by 2016
Jaigarh	Jindal Group	Maharashtra	2009	Coal	NA	10.0	18 mtpa when fully operational

Source: Ministry of Shipping, PhillipCapital India Research

Gujarat handles 70-80% of the total cargo at minor ports. The presence of industrial zones, a favourable investment climate, and robust infrastructure (both at ports and interiors) has helped the state become the preferred destination for investment as well as EXIM trade.

The key differentiator between major and minor ports is the tariff regulation at the former. Tariffs at all major ports are governed by the Tariff Authority for Major Ports (TAMP), while those at the minor ports are regulated by the respective state governments (in the case of state-owned ports) or by private players (in the case of private or captive ports).

### The opportunity – of significant magnitude

According to the Planning Commission, the port sector will see investments of Rs 1.9tn in the 12<sup>th</sup> Plan of which the private sector's share is estimated to be Rs 1.7trn. This is a huge departure from the low level of investment the sector saw in the 11<sup>th</sup> plan (only Rs 700bn).

Our bottom-up analysis reveals that currently, as many as 37 expansion projects are being executed at major ports (to expand capacity by 218mtpa) entailing an investment of Rs 144bn. Over and above that, the ministry of shipping has listed 34 projects envisaging a total investment of Rs 206bn to expand the capacity further by 290mtpa. Simultaneously, investments worth Rs 353bn are under execution by private players at various greenfield ports across the country.

**Potential opportunity at major Ports**

Port	Development plan	Capacity (MTPA)	Estimated Cost (Rs mn)
Kandla	Development of 13th to 16th multipurpose cargo berth	8.0	7,550
	Creation of berthing and allied facilities of Tekkra near Tuna – <i>awarded to ADSEZ</i>	12.0	11,366
	Setting up of SPM and allied facilities	9.0	8,300
Paradip	Construction of Deep Draft Iron Ore Berth	10.0	5,910
	Construction of Deep Draft Coal Berth	10.0	4,790
	Multipurpose Berth – Project -1	5.0	3,873
New Mangalore	Mechanization of Iron Ore handling facilities at Berth – 14	6.6	2,772
	Development of Container Terminal	4.2	2,758
Mormugao	Development of Berth No. – 7 for Handling Berth Cargo	7.0	2,520
	Construction of two berths of Vasco Bay	5.0	1,200
	Development of Bulk Handling Terminal	12.0	7,210
Visakhapatnam	Development of Western quay (WQ-6) for Handling Dry Bulk Cargo	2.0	1,144
	Installation of Mechanized handling facilities for fertilizers at EQ-7 in the Inner Harbour	5.2	2,176
	Installation of Mechanized handling facilities at WQ-8	4.6	2,089
	Installation of Mechanized Handling Facilities at WQ -7	4.5	2,139
	Mechanized Coal Handling facilities at General cum Cargo Berth (GCB)	10.2	4,441
	Development of EQ-1 in East Dock	6.0	2,655
	Development of EQ-1 – A in East Dock at Vizag – <i>awarded to ADSEZ</i>	6.7	2,697
Ennore	Development of Container Terminal – <i>awarded to ADSEZ</i>	15.0	14,070
Tuticorin	Conversion of berth no. – 8 to Container Terminal	6.0	3,122
	Construction of North Cargo Berth No. – II	5.0	3,322
	Construction of shallow draught Berth ( 3 Nos)	0.8	500
	Mechanization of Construction of Berth 9	5.0	200
Chennai	Creation of Mega Container Terminal	48.0	31,250
JNPT	Standalone container handling facility (quay length of 330 m) North of NSICT Terminal	9.6	6,000
	4th Container Terminal – <i>recently awarded to PSA</i>	57.6	67,000
Mumbai	Development & operation of 2 berth at Indira Dock as dry dock terminal	0.6	450
	Development and operation of a Berth at Indira Dock – as conventional cargo terminal	0.6	300
Kolkata	Construction of 1 riverine jetty downstream of 2nd Oil Jetty	1.5	470
	Construction of 1 riverine jetty upstream of 3rd Oil Jetty	2.5	990
Cochin	Construction of multipurpose Liquid Terminal	4.5	1,842
	International Cruise Terminal / Public Plaza	-	550
<b>Total</b>		<b>284.7</b>	<b>205,656</b>

Source: Ministry of Shipping, PhillipCapital India Research

**Key port PPP projects at bidding stage at major ports**

Port	Project	Capacity (MT)	Cost (Rs bn)
Kandla	Container Terminal at Tuna-Tekra	NA	NA
	Upgradation of barge handling facilities at Bunder basin	3.3	1.1
	Setting up of single-point mooring and allied facilities off Veera in Gulf of Kutch	12.0	6.2
Kolkata	Construction of outer terminal 1 upstream of oil jetty with ancillary facilities	5.1	2.8
	Development of Diamond Harbour container terminal	13.2	15.3
	Development of Haldia Dock II (South)	23.4	8.9
	Development of Haldia Dock II (North)		8.2
Paradip	Mechanisation of EQ1 to EQ3 berths	22.0	10.0
Mormugao	Development of iron ore export bulk handling terminal west of breakwater	7.2	7.2
Mumbai	Development of offshore multi-purpose cargo berths	NA	5.0
Chennai	Dry port project	5.0	4.2
	Development of roll on, roll off-cum-multi-purpose berth and car parking at Bharathi Dock	1.0	1.0
Visakhapatnam	Development of WQ7 for handling import dry bulk cargo	6.4	3.9
	Development of WQ7 for handling break bulk cargo and export bulk cargo		
	Extension of container terminal	5.9	6.3
Cochin	Development of general cargo terminal at Q8-Q9 berths	9.0	2.5
VOC	Construction of 2 shallow draught berths for handling construction materials	2.0	0.6
<b>Total</b>		<b>115.5</b>	<b>83.2</b>

Source: Ministry of Shipping, PhillipCapital India Research

**Key private port projects under implementation or bidding/preliminary stage**

Port	Developer	Capacity MT	Cost (Rs bn)	Status
<b>Andhra Pradesh</b>				
Machilipatnam	NECL, NCCL and Associates/affiliates of NECL	15	16	New DPR to be prepared
VANPIC	Yet to be awarded	24	18.42	All clearances received.
<b>Gujarat</b>				
Chhara	Shapoorji Pallonji & Co Ltd	8	12	DPR Approved by GMB. EC in final stages
Dahej	Sterling Biotech Ltd	14	NA	EC received. Construction started. Land acquisition in progress
Kachchigarh	L&T IDPL	10	12	DPR under preparation
Nargol	Israel port Co and Cargo Motors Pvt Ltd	5mn TEUs	17.5	EC awaited. DPR underway
Positra	SKIL infrastructure Ltd	-	-	EC awaited.
Bedi	Yet to be awarded	8	8.3	Proposal under scrutiny of Gujarat Government and GMB
Modhawa	Yet to be awarded	0.5	6.5	State government deciding on the developer
Vansi-Borsi	Yet to be awarded	14	17.74	PFR under final stages
<b>Karnataka</b>				
Haldipur	Yet to be awarded	19	22	DPR under preparation
Tadadi	Yet to be awarded	17	34	Tendering stage
<b>Kerala</b>				
Ponnani	Malabar Port Pvt Ltd	6.1	7.63	DPR prepared. EC and financial closure under progress
Azhikkal	Yet to be awarded	4.05	1.17	DPR prepared. Construction started in Sep 2013
Kodungallur	Yet to be awarded	-	-	Consultant not appointed
Kollam	Yet to be awarded	2.7	0.4	DPR prepared. Developer finalised
Vizhinjam	Yet to be awarded	0.93mn TEUs	40.1	DPR prepared. EC awaited
<b>Maharashtra</b>				
Dighi	Balaji Infra Projects, IL&FS Maritime Infra	30	NA	Two berths operational in south bank
Rewas	Amma Lines Co, Reliance Logistics, Jai Corp	66	20	EC received. Construction not started.
Vijaydurg	HIPEPL	10.3	15	Projects on hold due to moratorium imposed by MoEF on account of ecological degradation caused
Redi	Earnest Shipping & Ship Builders Pvt Ltd	5.16	44	
<b>Odisha</b>				
Astaranga	NECL	25	35	Construction yet to start
Chudamani	Essel Mining & Industries Ltd	-	0.73	Concession agreement yet to be signed
Subarnrekha (Kirtania)	Creative Port Development Pvt Ltd	25	25	EC received
<b>Tamil Nadu</b>				
Nagapattinam	Yet to be awarded	-	-	I-Maritime Consultancy appointed as consultant
<b>Total</b>		<b>389.4</b>	<b>353.5</b>	

Source: Ministry of Shipping, PhillipCapital India Research

### Prime Concern – Lack of policy framework

Under the 11<sup>th</sup> Five Year Plan, the Planning Commission had envisaged:

- Investment of Rs 708bn for the ports sector leading to a capacity addition of 1002mtpa. However, only 690mtpa of capacity was added at major ports.
- Investment of Rs 360bn at minor ports leading to capacity addition of 345mtpa. The minor ports fared better than major, in adding 315mtpa of capacity.

While the government has been trying to increase private participation in the sector, issues such as security clearance, environmental clearance, and the lack of a proper framework (like MCA in the roads segment) plague the ports sector and deter private players from investing.



**Some high-profile port cancellations/delays**

Port	State	Developer	Investment (Rs bn)	Issue	Current Status
Vansi Borsi	Gujarat	Creative port development Pvt. Ltd	30.0	ONGC refused to shift pipeline, making the project unviable	To be relocated to a new place
Mahuva	Gujarat	Nirma Group	5.5	Cement plant by Nirma group faces a legal challenge	Stuck in litigation
Dholera	Gujarat	JK group & Adani group	30.0	Had to be relocated due to Kalpsar dam	Company waiting for alternate location
Sutrapada	Gujarat	L&T		Protests from environmental activists	Relocated to Shivrajpur, near Dwarka
Simar	Gujarat	Shapoorji Pallonji group	12.0	Seabed not conducive to construct ports	Relocated to Chhara
Positra	Gujarat	SKIL Infrastructure Ltd.	38.8	EC cancelled as the port falls in the National Maritime Park Sanctuary area	-
Rewas	Maharashtra	Reliance logistics, Amma Lines Ltd., Jai Corporation	60.0	Non-availability of land, delayed	No clarity
Vijaydurg	Maharashtra	Jupiter Capital, Privilege Hitech Pvt Ltd.	12.0	Jupiter's earlier Malaysia partner, Pembinaan Redzai Sdn Bhd, pulled out	Delayed
Kirtania	Orissa	Creative port development Pvt Ltd.	20.0	Legal issues; delayed	Stuck in litigation
Machilipatnam	A.P.	Navayuga Engg company Ltd.	15.9	Was earlier bagged by Maytas Infra, which was subsequently replaced by the A.P. government.	Delayed
Vijhinjam	Kerala	Yet to be awarded	53.5	Lack of investor interest due to the lack of clarity in the concession agreement drafted	Currently under the fourth attempt by the Kerala government. to seek bidders
Kulpi	West Bengal	DP World, Keventer	12.0	Clearance issues, delayed	Delayed

Source: Ministry of Shipping, PhillipCapital India Research

**Model concession agreement recommendations**

Provision	MCA proposal
<b>Determination of tariffs</b>	Tariffs to be determined according to the market, subject to a uniform tariff cap for all ports / group of ports
<b>Performance standard</b>	Performance standards to be clearly defined, Liquidated damages amount to 1% of gross revenue
<b>Management control</b>	Members of the consortium need to retain management control for the exclusivity period
<b>Minimum shareholding</b>	Members of the consortium to collectively hold 51% until three years from COD; 26% thereafter. The lead member to hold at least 50% in the equity capital of the concessionaire at all times
<b>Termination payments</b>	<b>Force majeure</b> —Book value or debt due (depending on the kind of force majeure)  <b>Concessionaire's default</b> —lowest of the book value, 90% of the debt due and the actual project cost

Source: Ministry of Shipping, IPA

## Railways – Changing tracks

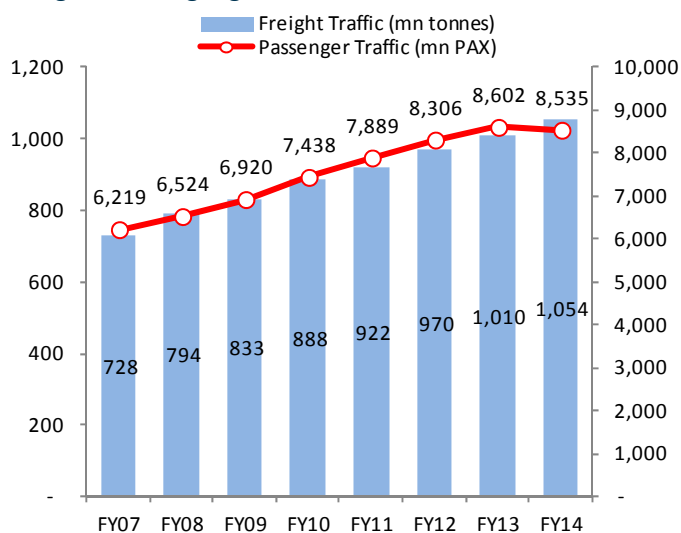
The Indian railway network is the fourth largest in the world (after US, Russia, and China). It operates over 19,000 trains every day and transports 3mn tonnes of cargo and 23mn passengers. With a route length of 65,187 kms, the network transports more than the equivalent of the world’s population every year. In FY13, it carried over 1bn tonnes of freight, becoming the fourth member of the 1bn club.

Over the last five years, freight traffic has grown at a CAGR of 4.4% and passenger traffic at 3.5%. Railways’ share in total freight traffic has been constantly declining and today stands at ~30% (vs. 90% in 1950). The major beneficiary has been roads, which accounts for ~60% of freight traffic today.

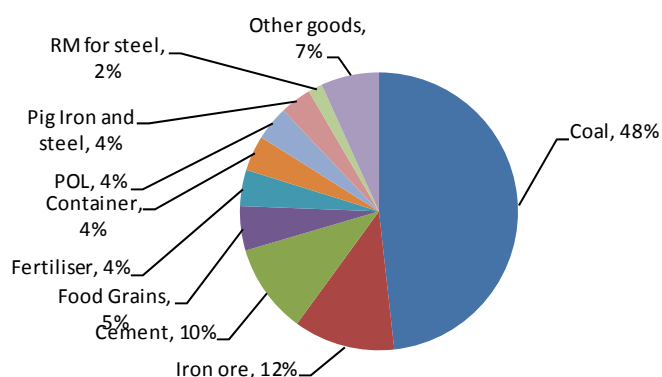
Few key reasons for the loss of market share:

- 1) The tendency of successive governments to hike freight fares (keeping passenger fares constant) leading to expensive freight.
- 2) Infrastructure and carrying capacity constraints force IR to focus on bulk cargo and forego the lucrative container and non-bulk cargo.
- 3) Passenger carrying capacity addition has always lagged behind demand
- 4) Lower track capacity forces the same tracks to be shared by both cargo and passenger trains.

Passenger and Freight growth



Share of commodities in cargo



Source: Ministry of Railways

### The opportunity – as big as it gets!

A high-level National Transport Development Policy Committee (NTDPC) chaired by Dr. Rakesh Mohan submitted its report to the PMO in March 2014. As per the report, the Indian Railways needs to increase its annual investment from Rs 300bn in FY12 to Rs 900bn in the 12th plan and further to Rs 4.6tn in the 15th plan period. This would translate into the share of investment in Railways as % of GDP increasing from the current 0.4% to 0.8% in 12th plan and eventually to 1.2% in the following three plan periods. Altogether, it recommends a total investment of Rs 35tn (over FY15-FY32) — majorly in capacity augmentation, rolling stock, and technology upgradation.

That translates into an investment opportunity of Rs 4.5tn over the 12th five-year plan period. The planning commission also pegs the investment needed by the sector over the 12th plan at Rs 5.34tn.

A large part of the investment envisaged by the Planning Commission will be in maintenance and upgradation of necessary infrastructure such as railway lines, bridges, stations, and warehouses:

- 1) **Railways lines:** Of the total length of 35,187 kms, only 31% is electrified. Large part of the planned investment over the 12th plan period will be spent on electrification of existing routes.
- 2) **Bridges:** Indian Railways operates through 136,286 bridges. Over the last five years, it has built 5,510 new bridges, upgraded 6,011, and has 1,665 under repair and construction. It also plans to build 4 mega bridges, entailing an investment of Rs 90bn.
- 3) **Stations:** Indian Railways has 8,500 stations, of which around 407 are major ones (annual earnings of over Rs 60mn each). Over the last five years, IR has upgraded 784 of these stations and another 268 are in progress. It also plans to develop 50 world-class stations across the country.
- 4) **Warehouses:** The Indian Railways owns 18 warehouses across the country, with a total capacity of 313,500 tonnes. It is planning to build 5 new warehouse complexes in Maharashtra, WB, Gujarat, Assam, and Kerala.

Our bottom-up analysis reveals that a large number of 'new' projects planned by Indian Railways are already on the anvil and can be awarded over the next two years. While Dedicated Freight Corridor (DFCC) would form a bulk of the investment need (Rs 750bn), high-speed rails (Rs 500bn) and capacity augmentation would also require huge investments.

#### Key PPP railway projects in the pipeline

Project	Investment (Rs bn)	Current Status
Elevated rail corridor in Mumbai (Churchgate - Virar)	225	Bidding
Electric locomotive factory at Madhepura	13	Bidding
Diesel locomotive factory at Marhowra	21	Bidding
Rail Coach Factory at Palakkad	6	Bidding
Rail electronic signal components factory at Cooch Behar	1	Bidding
Redevelopment of station at 5 locations - Anand Vihar, Bijwasan, Chandigarh, Habibganj and Shivajinagar	-	Master plans and feasibility reports under examination
Sonnagar - Dankuni section of the DFC	170	Land acquisition under way
Multimodal logistics parks	-	37 private freight terminals approved by zonal railways
Six packaged drinking water bottling plants	1	Developers/operators appointed for 2 plants, tenders floated for another 2
Mumbai-Ahmedabad Bullet Train	630	Pre-feasibility report accepted by the ministry; joint feasibility study undertaken
25MW wind energy plant in Rajasthan	3	Bids to be invited
<b>Total</b>	<b>1,069</b>	

Source: Ministry of Railways, PhillipCapital India Research



### High-Speed Rail Corridors on the anvil

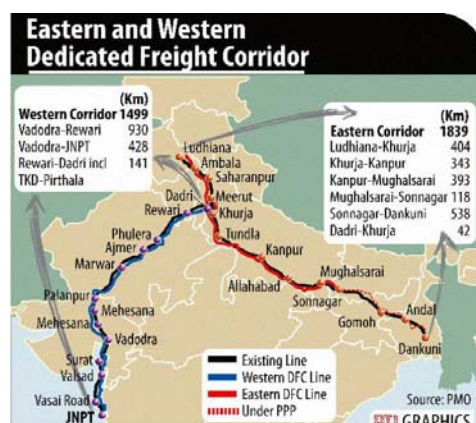
Corridor	Length (Km)	Consultant for pre-feasibility study	Current status
Delhi-Agra-Lucknow-Varanasi-Patna	991	UK-based Mott MacDonald	Pre-feasibility study completed
Chennai-Bangalore-Coimbatore-Ernakulam-Thiruvananthapuram	850	Consortium of Japan based Oriental Consultants Co Ltd and Japan Railway Technical Service	Pre-feasibility study in progress
Hyderabad-Dornakal-Vijayawada-Chennai	664	Japan External Trade Organisation, Japan based Oriental Consultants Co Ltd and US based Parsons Brinckerhoff	Pre-feasibility study in progress
Mumbai-Ahmedabad	534	Consortium of France-based Systra, Italy based Italferr and India based	Pre-feasibility study completed, final report accepted by MoR rites
Delhi-Jaipur-Ajmer-Jodhpur	591	Yet to be appointed	Tender to be finalized
Delhi-Chandigarh-Amritsar	450	Yet to be appointed	Financial bids to be finalized
Howrah-Haldia	135	Spain based Ingenieria y Economia del Transporte S.A, Spain based Prointec and Ayesha	Pre-feasibility study completed
<b>Total</b>	<b>4,215</b>	<b>Rs 674bn</b>	

Source: Ministry of Railways, PhillipCapital India Research

### Dedicated Freight Corridor

Dedicated Freight Corridor is probably the most talked about infrastructure project these days, given the magnitude of investment required, the benefit that can accrue to the companies, and the potential to change the landscape of freight movement in the country. The project is envisaged to help the Indian Railways reclaim lost market share and ease freight movement across the country.

Ever since the previous government made it a key PMO project in 2011, it has made rapid progress. Loan agreements for a major part of the western corridor have already been signed with JICA, and construction contracts for the Rewari-Vadodara leg have been awarded to the L&T consortium. Loan agreements for the eastern corridor are also in late stages of being signed.



### DFCC action plan

Section	Phase	Length (Km)	Funding Source	Funding Status	Completion Date
<b>Eastern Corridor</b>					
Bhaupur-Khurja	I	343	World Bank (APL-1)	Loan agreement signed on May 31, 2011	Mar-17
Bhaupur-Mughalsarai	II	393	World Bank (APL-2)	Loan awaiting approval; likely in June 2014	Mar-18
Dadri-Khurja-Ludhiana	III	447	World Bank (APL-3)	Loan awaiting approval	5.5 yrs
Mughalsarai-Sonnagar	IA	118	MoR	Being funded through budgetary support	Dec-16
Sonnagar-Dankuni	IV	538	PPP	To be funded via PPP	-NA-
<b>Total</b>		<b>1,839</b>	<b>Rs 370bn</b>		
<b>Western Corridor</b>					
Rewari-Vadodara	I	930	JICA	Loan agreement signed on Mar 31, 2010	Dec-17
Vadodara-JNPT	II	428	JICA	Loan agreement signed on Mar 31, 2013	Mar-18
Rewari-Dadri	III	141	JICA		Mar-18
<b>Total</b>		<b>1,499</b>	<b>Rs 380bn</b>		

Source: DFCCIL, PhillipCapital India Research

## MRTS – Set to grow rapidly

The Indian demographic has seen rapid urbanization over the last decade and its pace is expected to increase over the next few decades. Currently 377mn Indian (31% of the population) resides in urban centers (Census 2011) as compared to 45% in China, 54% in Indonesia and 87% in Brazil. The Planning Commission estimates, that this number will swell upto 600mn by 2031 – an increase of over 200mn in just 20 years.

Most Indian cities remain ill equipped to handle such a large population migration. With such migrations, not only do basic necessities such as water, power, and sanitation need to be provided, but also infrastructure facilities such as public transport and roads need to be upgraded. Since most cities in India are not planned, there is limited scope for intra-city road expansions, and this creates a pressing need for other forms of transport.

Currently, only 4 cities in India (with a population of over one million) have a metro network – Kolkata, Delhi, Bengaluru, and Mumbai. Three other cities – Hyderabad, Chennai, and Kochi will soon be joining the bandwagon. However, the metro network in all these cities (except Delhi) remains too small to be able to decongest the roads or provide a plausible alternative means of transport.

### Currently operational / under-construction metros

Operational Metro projects	Length (Km)	Operational Length (Km)	Operational stations (No)	Project Cost (Rs bn)	Implementing Agency	Current Status	Commencement of service (expected)
Delhi Metro	329.7	189.9	143	748	DMRC	Phases I (65.1km - 2006); Phase II (124.8km - 2011)	Phase III by 2016
Bengaluru Metro	114.4	6.7	6	380	BMRL	Reach 1 & Reach 3 operational	Phase I by 2014, Phase II by 2017
Kolkata Metro	124.8	25.1	23	183	IR & KMRCL	North-South Corridor operational	East-West Corridor -2016
Mumbai Metro	11.4	11.4	12	24	Reliance Infra	Phase I operational in June-2014	Multiple phases planned
Hyderabad Metro	72.0	-	65*	170	L&T	Phase wise COD to start from Aug-15	
Chennai Metro	45.1	-	34*	180	CMRL	Line II to be operational by Oct-14	Line I by July-15
Kochi Metro	25.6	-	22*	52	KMRL	Expected CoD by June-16	
<b>Total</b>	<b>823.0</b>	<b>233.1</b>		<b>1,736</b>			

Source: PhillipCapital India Research

## The opportunity – big, and getting bigger!

Planning Commission estimates that the country would need investment of Rs 1.2tn, over the 12<sup>th</sup> plan period on the MRTS network across the country. Our bottom-up analysis indicates that currently Metro projects in 10 cities are at various stages of planning and development, while the existing network in other cities is being expanded. Overall, 421 kms of metro network, entailing an investment of Rs 1.5tn, is on the anvil. Simultaneously, monorail networks spanning a length of 131kms and with an investment of Rs 192bn are also under consideration. Overall, projects entailing an investment of Rs 1.7tn could be awarded over the next three-five years in this segment.

### Planned Metro Projects

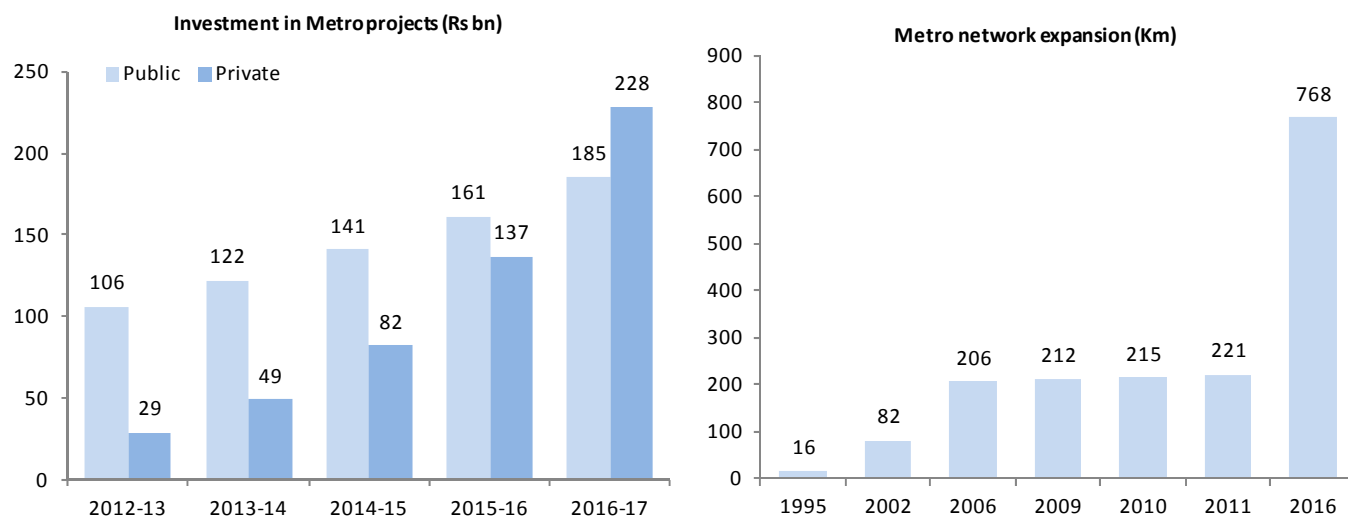
Planned Metro projects	Phase	Length (km)	Cost (Rs bn)
Chennai Metro	Phase II	63.0	360.0
Bengaluru Metro	Phase II	72.1	264.0
Gurgaon Metro	Phase II	7.0	21.4
Jaipur Metro	Phase II	23.1	65.8
Mumbai Metro	Phase III	33.5	244.0
Pune Metro	Phase I	31.5	101.8
Kochi Metro	Phase II	-	15.0
Ludhiana Metro	-	28.8	103.0
Chandigarh Metro	-	37.6	109.0
Lucknow Metro	-	22.9	70.0
Nagpur Metro	-	42.0	80.0
Bhopal Metro	-	28.0	60.0
Indore Metro	-	32.2	75.0
<b>Total</b>		<b>421.6</b>	<b>1,569.1</b>

Source: PhillipCapital India Research

### Planned Monorail Projects

Planned Monorail projects	Phase	Length (km)	Cost (Rs bn)
Mumbai	Line 2	11.2	15.1
Kozhikode	Phase I	14.2	19.2
Thiruvananthapuram	Phase I	22.5	27.0
Delhi	-	10.8	22.4
Bengaluru	Phase I	16.0	25.0
Chennai	-	57.0	85.0
<b>Total</b>		<b>131.7</b>	<b>193.7</b>

Source: PhillipCapital India Research

**Expected investment and expansion of the Metro network in the country (Planning Commission estimates)**


Source: Planning Commission

### The Mumbai Metro Master-plan

The Mumbai Metropolitan Region Development Authority (MMRDA) has laid out an extensive plan to develop the metro network in the city. It consists of 10 phases, spanning a length of 184km and entailing investment of Rs717bn.

- Phase-I (Versova-Andheri-Ghatkopar) was commissioned recently (June-2014),
- Phase-II was awarded to Reliance Infrastructure in 200x, but the contract was later terminated, following disagreement between the parties.
- Phase-III is in advanced stages, with clearances and land acquisition in place. RFPs for the same are expected to be invited by Aug-2014.
- Work on Phase-IV (Navi-Mumbai Metro) is already in progress – being financed by CIDCO.
- Other phases are in conceptualization stage.

#### Proposed metro networks for Mumbai

Name of Corridor	Length (km)	Estimated Cost (Rs bn)
1 Versova-Andheri-Ghatkopar ( <i>to be commissioned soo</i> )	11.4	24
2 Charkop-Bandra-Mankhurd ( <i>cancelled</i> )	32.0	77
3 Colaba-Bandra-SEEPZ ( <i>RFPs invited</i> )	33.5	244
4 Navi Mumbai Metro ( <i>under construction</i> )	23.4	41
5 Charkop-Dahisar	7.8	47
6 Wadala-Ghatkopar-Thane-Kasarvadavali	30.7	88
7 Wadala-Carnac Bunder ( <i>deferred due to less ridership</i> )	13.5	26
8 SEEPZ-Kanjurmarg	10.5	42
9 Andheri (E) – Dahisar (E)	18.0	108
10 Sewri-Prabhadevi	3.5	21
<b>Total</b>	<b>184.3</b>	<b>717</b>

Source: MMRDA, PhillipCapital India Research

# Companies Section

**BOT life cycle management:** In January 2014, GMR sold its 40% stake in Istanbul airport to Malaysia Airports for € 225mn (3.1x P/BV). Apart from the handsome returns, the deal marked the GMR management perfecting the art of managing the full life cycle of a BOT asset — winning a project, asset commencing operations, asset turning profitable, and finally, asset divestment.

**Asset sweating and divestment to enhance cash flow generation:** Over the last 12 months, GMR has commissioned new power and road projects (Rs 140bn), its entire airport portfolio has turned profitable (Rs 183bn), and it has divested stakes in multiple projects (Rs 99bn). The only project now under capex phase is the Chhattisgarh power plant (70% complete) and the recently won Mactan Cebu airport project in Philippines. Its capex phase is almost done and asset sweating should lead to significantly better cash flow generation.

Over the last 18 months, GMR has divested stakes in multiple projects leading to a gross debt reduction of Rs 60bn and cash accrual of Rs 52bn. Over the next 6 months, events such as divestment of stake in EMCO power plant, road assets, and Indonesian coal assets should lead to a potential cash accrual of Rs 33bn and debt reduction of Rs 27bn (net debt reduction of Rs 60bn).

**Fund raising plans:** GMR recently raised Rs 14.7bn in a QIP and will use the proceeds to fund the remaining capex for its Chhattisgarh power plant and reduce debt at the parent level. Thereafter, it is planning the IPO of its airport and energy division primarily to provide exit to PE investors. This will lead to significant value unlocking and help it further reduce debt at the parent level.

**Multiple triggers waiting:** GMR has signed MoU with Coal India for its Chhattisgarh power plant making it eligible for Case-1 bidding for PPAs with various SEBs. It is targeting monetization of 20 acres of real estate at the Delhi airport site in FY15. Its 1,391-MW gas-based capacity is sitting idle due to unavailability of natural gas from the KG-D6 basin. Any positive development in any of these projects can act as a potential stock trigger.

**To summarise:** 1) Asset divestment and fund raising should unlock value and deleverage the balance sheet, 2) New assets commencing operations and more assets becoming profitable will improve profitability, and 3) Multiple stock triggers should unravel over the next twelve months.

**Outlook and Valuation:** We remain positive on the company and expect it to be one of the biggest beneficiaries of the HUGE investment opportunity in the infrastructure space, expected to unveil over the next three years. Our price target of Rs 38 represents 46% upside from current levels.

We note that we have excluded few key projects from our valuation, awaiting regulatory clarity. While ramp-up in natural gas production can lead to revival of its **gas based portfolio (1391MW)**, we have been highly conservative in valuing its Indonesian coal assets (0.5x P/BV) and Delhi real estate (have assumed monetization of only 150 acres out of total 245 acres). These could potentially add an incremental Rs 10 per share to our SoTP, implying a bull-case price target of Rs 48, representing an 85% upside from current levels. We maintain BUY.

## BUY

GMRI IN | CMP RS 26

TARGET RS 38 (+46%)

### Company Data

O/S SHARES (MN) :	4361
MARKET CAP (RSBN) :	110
MARKET CAP (USDBN) :	1.9
52 - WK HI/LO (RS) :	38 / 11
LIQUIDITY 3M (USDMN) :	15.4
FACE VALUE (RS) :	1

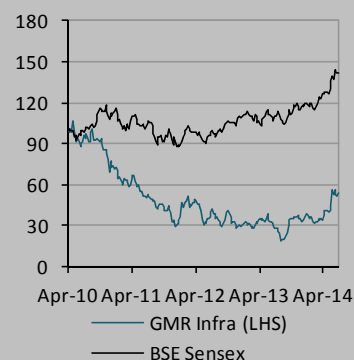
### Share Holding Pattern, %

PROMOTERS :	64.0
FII / NRI :	18.9
FI / MF :	8.5
NON PROMOTER CORP. HOLDINGS :	1.9
PUBLIC & OTHERS :	6.7

### Price Performance, %

	1mth	3mth	1yr
ABS	-24.2	-1.8	60.8
REL TO BSE	-27.4	-16.9	28.9

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	87,095	97,535	91,154
EBIDTA	25,654	37,581	38,778
Net Profit	-11,512	-4,364	-891
EPS, Rs	(3.0)	(1.0)	(0.2)
PER, x	(8.8)	(26.0)	(127.2)
EV/EBIDTA, x	20.1	12.1	11.1
P/BV, x	1.2	1.2	1.2
ROE, %	(13.1)	(4.4)	(0.9)
Debt/Equity, x	5.1	4.2	3.9

Source: PhillipCapital India Research Est.

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## Asset divestment over the last 18 months (Rs mn)

Project	Division	Divested to	Date	Stake divested / Total Stake	Project Cost	GMR Equity invested	Debt on GMR 's books	Cash proceeds	Debt reduction	Implied P/BV
Island Power	Energy	FPM Power Holdings	Feb-13	70/70	51,535	22,160	29,375	26,400	36,839	1.2
Farukhnagar-Jadcherla	Roads	SBI Macquarie	Feb-13	74/100	5,155	1,620	3,535	2,060	3,535	1.7
Homeland Energy	Energy	Tshedza Mining, Joe Singh Group	Mar-13	55/55	4,400	2,640	1,375	2,220	1,375	0.8
Ullundurpet	Roads	IDFC	Sep-13	74/100	10,730	3,440	5,930	2,220	5,930	0.9
Istanbul Airport	Airports	Malaysia Airports	Dec-13	40/40	27,000	6,104	13,050	19,181	13,050	3.1
<b>Total</b>					<b>98,820</b>	<b>35,964</b>	<b>53,265</b>	<b>52,081</b>	<b>60,729</b>	

## Potential divestment opportunities (Rs mn) – next 12 months

Project	Division	Status	Project Cost	GMR Equity invested	Debt on GMR's books	Assumed P/BV	Assumed stake divestment	Potential cash accrual	Potential Debt reduction
EMCO Power Plant	Energy	Already on the block	39,480	13,380	26,100	1.5	49%	9,834	-
Road Toll Projects	Roads	Recently commissioned toll projects	39,195	8,099	27,696	1.0	74%	5,993	27,696
Indonesian Coal Assets	Energy	Not yet - but a possibility	34,800	34,800	-	0.5	100%	17,400	-
<b>Total</b>			<b>269,675</b>	<b>72,160</b>	<b>127,656</b>			<b>33,227</b>	<b>27,696</b>

## Potential stock triggers (Rs mn) – next 12 months

Project	Division	Potential Trigger	Capacity	Project Cost	GMR Equity Invested	Debt on GMR's books
Gas based power plants	Energy	Resumption of gas supply	1391 MW	58,130	12,898	39,202
Chhattisgarh TPP	Energy	FSA, PPA – MoU already signed with Coal India	1320 MW	82,906	20,727	62,179
Delhi Airport Monetization	Airport	Targeted 20 acres of monetization in FY15	245 acres	-	-	-
Airport Division IPO	Airport	Appointed lead bankers	60mn PAX	156,200	15,881	73,860
<b>Total</b>				<b>297,236</b>	<b>49,506</b>	<b>175,241</b>

## SoTP valuation

Asset	Asset Equity Value (Rs Mn)	GMR Stake (%)	GMR Equity (Rs Mn)	Per Share (Rs)	Valuation methodology
<b>Airports</b>	<b>1,11,716</b>	<b>85</b>	<b>52,144</b>	<b>12.0</b>	
Delhi Airport	44,573	54	20,459	4.7	DCF @ 14% CoE
DIAL real estate	55,816	54	25,620	5.9	-do-
Hyderabad Airport	11,327	63	6,066	1.4	-do-
<b>Power projects</b>	<b>64,070</b>	<b>85</b>	<b>49,247</b>	<b>11.3</b>	
Kamalanga power	30,660	80	20,849	4.8	DCF @ 15% CoE
EMCO	12,683	100	10,780	2.5	DCF @ 15% CoE
Chattisgarh	20,727	100	17,618	4.0	1x BV
<b>Road Projects</b>	<b>15,194</b>		<b>8,248</b>	<b>1.9</b>	
Operational Annuity Projects	1,459	-	1,422	0.3	DCF @ 13% CoE
Farukhnagar-Jadcherla	3,616	26	940	0.2	-do-
Tindivanam-Ullundurpet	3,674	26	955	0.2	-do-
Ambala-Chandigarh	462	100	462	0.1	-do-
Hyderabad - Vijaywada	2,867	74	2,122	0.5	-do-
Hungund - Hospet	1,174	51	599	0.1	-do-
Chennai Outer ring	1,942	90	1,748	0.4	-do-
<b>Indonesian Assets</b>	<b>34,800</b>		<b>17,400</b>	<b>4.0</b>	
PT Barasentosa Lestari	4,800	100	2,400	0.6	0.5x BV
PT Golden Energy	30,000	30	15,000	3.4	0.5x BV
<b>Net cash with parent company</b>	<b>38,682</b>		<b>38,682</b>	<b>8.9</b>	
Debt at parent level (FY15E)	(35,261)		(35,261)	(8.1)	
Cash at parent level (FY15E)	73,943		73,943	17.0	
<b>Total Assets</b>	<b>2,64,463</b>		<b>1,65,722</b>	<b>38.0</b>	

Source: Company, PhillipCapital India Research

*We have assumed monetization of only 150 acres (out of total 245 acres) of real estate at Delhi airport.*

*We do not attribute any value to gas based power plants.*

*We have taken into account the cash infused and shares issued in the recent QIP (June-2014).*

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>83,054</b>	<b>87,095</b>	<b>97,535</b>	<b>91,154</b>
Growth, %	9	5	12	-7
Total income	83,054	87,095	97,535	91,154
Raw material expenses	-14,534	-10,913	-13,655	-12,762
Employee expenses	-6,119	-5,742	-5,852	-5,469
Other Operating expenses	-37,629	-44,786	-40,448	-34,145
<b>EBITDA (Core)</b>	<b>24,772</b>	<b>25,654</b>	<b>37,581</b>	<b>38,778</b>
Growth, %	36.3	3.6	46.5	3.2
Margin, %	29.8	29.5	38.5	42.5
Depreciation	-10,398	-14,550	-14,535	-14,341
<b>EBIT</b>	<b>14,374</b>	<b>11,104</b>	<b>23,046</b>	<b>24,437</b>
Growth, %	83.6	(22.7)	107.5	6.0
Margin, %	17.3	12.7	23.6	26.8
Interest paid	-20,990	-29,719	-28,177	-24,329
Other Non-Operating Income	2,772	3,159	3,481	3,856
Non-recurring Items	7,773	16,589	0	0
<b>Pre-tax profit</b>	<b>3,928</b>	<b>2,747</b>	<b>-1,651</b>	<b>3,964</b>
Tax provided	-2,574	-1,663	-2,413	-2,687
<b>Profit after tax</b>	<b>1,354</b>	<b>1,084</b>	<b>-4,064</b>	<b>1,276</b>
Others (Minorities, Associates)	-473	-984	-300	-2,168
<b>Net Profit</b>	<b>881</b>	<b>100</b>	<b>-4,364</b>	<b>-891</b>
Growth, %	(6.9)	152.5	(62.1)	(79.6)
<b>Net Profit (adjusted)</b>	<b>(4,560)</b>	<b>(11,512)</b>	<b>(4,364)</b>	<b>(891)</b>
Unadj. shares (m)	3,892	3,892	4,361	4,361
Wtd avg shares (m)	3,892	3,892	4,361	4,361

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	69,306	33,212	73,943	60,680
Debtors	18,690	17,719	20,042	18,730
Inventory	2,704	3,589	4,008	3,746
Loans & advances	43,576	29,342	26,722	24,974
Other current assets	35,349	64,584	37,888	37,888
Total current assets	169,625	148,446	162,603	146,017
Investments	2,828	8,796	8,796	8,796
Gross fixed assets	325,131	267,056	267,056	267,056
Less: Depreciation	-51,779	-66,329	-80,821	-95,118
Add: Capital WIP	191,783	293,004	305,440	305,440
Net fixed assets	465,135	493,731	491,674	477,378
<b>Total assets</b>	<b>638,170</b>	<b>651,419</b>	<b>663,518</b>	<b>632,637</b>
Current liabilities	104,430	80,569	105,160	95,046
Total current liabilities	104,430	80,569	105,160	95,046
Non-current liabilities	424,047	462,996	439,801	417,757
Total liabilities	528,477	543,565	544,961	512,803
Paid-up capital	23,603	26,815	27,284	27,284
Reserves & surplus	68,889	60,952	70,887	69,996
Shareholders' equity	109,693	107,854	118,558	119,834
<b>Total equity &amp; liabilities</b>	<b>638,170</b>	<b>651,419</b>	<b>663,518</b>	<b>632,637</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	3,928	2,747	-1,651	3,964
Depreciation	10,398	14,550	14,535	14,341
Chg in working capital	-11,721	-38,776	59,512	9,654
Total tax paid	-1,621	-1,347	-2,413	-2,687
<b>Cash flow from operating activities</b>	<b>984</b>	<b>-22,826</b>	<b>69,984</b>	<b>25,271</b>
Capital expenditure	-55,563	-43,146	-12,478	-45
Chg in investments	4,388	-5,968	0	0
<b>Cash flow from investing activities</b>	<b>-51,175</b>	<b>-49,114</b>	<b>-12,478</b>	<b>-45</b>
Free cash flow	-50,191	-71,940	57,505	25,226
Equity raised/(repaid)	-1,998	3,662	14,768	0
Debt raised/(repaid)	81,426	38,770	-31,542	-38,489
Other financing activities	-847	-8,032	0	0
<b>Cash flow from financing activities</b>	<b>76,935</b>	<b>35,846</b>	<b>-16,774</b>	<b>-38,489</b>
<b>Net chg in cash</b>	<b>26,744</b>	<b>-36,094</b>	<b>40,731</b>	<b>-13,263</b>

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	(1.2)	(3.0)	(1.0)	(0.2)
Growth, %	(6.9)	152.5	(66.2)	(79.6)
Book NAV/share (INR)	23.8	22.5	22.5	22.3
FDEPS (INR)	(1.2)	(3.0)	(1.0)	(0.2)
CEPS (INR)	(0.5)	(3.5)	2.3	3.1
CFPS (INR)	(0.5)	(7.1)	15.2	4.9
<b>Return ratios</b>				
Return on assets (%)	2.5	3.1	2.1	2.6
Return on equity (%)	(4.9)	(13.1)	(4.4)	(0.9)
Return on capital employed (%)	3.0	3.6	2.5	3.1
<b>Turnover ratios</b>				
Asset turnover (x)	0.2	0.2	0.2	0.2
Sales/Total assets (x)	0.1	0.1	0.1	0.1
Sales/Net FA (x)	0.2	0.2	0.2	0.2
Working capital days	(18.1)	145.3	(61.7)	(38.9)
<b>Liquidity ratios</b>				
Current ratio (x)	1.6	1.8	1.5	1.5
Quick ratio (x)	1.6	1.8	1.5	1.5
Interest cover (x)	0.7	0.4	0.8	1.0
Total debt/Equity (x)	4.4	5.1	4.2	3.9
Net debt/Equity (x)	3.7	4.7	3.5	3.3
<b>Valuation</b>				
PER (x)	(22.2)	(8.8)	(26.0)	(127.2)
PEG (x) - y-o-y growth	3.2	(0.1)	0.4	1.6
Price/Book (x)	1.1	1.2	1.2	1.2
EV/Net sales (x)	5.3	5.9	4.7	4.7
EV/EBITDA (x)	17.8	20.1	12.1	11.1
EV/EBIT (x)	30.6	46.4	19.7	17.6

## INFRASTRUCTURE: Company Update

**Multiple rounds of funding required:** Over the last two years, GVKPIL's balance sheet has deteriorated to such an extent that it now needs funding at multiple levels to repair it. However, even if all the proposed fund-raising plans of the company were to materialize, the raised money will only meet the equity requirement of its current portfolio and not leave any growth capital.

The company is actively scouting for PE investors at the airport-holdco level after the commissioning of the Mumbai airport and favorable tariff order at Bangalore. While there should be reasonable investor interest in its airport portfolio, the proceeds from the divestment might just be sufficient to repay the Rs 25bn debt acquired to increase stake in the two airports in 2011.

After completing its airport divestment, GVK Power would need to divest its stake in the Jaipur-Kishengarh expressway (which currently holds Rs 7bn of debt acquired for airport-acquisition financing) to fund the equity requirement of under-construction road/power projects. GVK would also need further funding to infuse equity into the under-construction Rattle HPP and Navi-Mumbai Airport (if it manages to win with its RoFR).

**Caught in a vicious cycle?** Both Bangalore and Mumbai airports have partners with significant shareholding who would look at exiting when the lock-in period ends in FY16. GVKPIL would then need external funding again to acquire their stake or will take on debt at various holding company/SPV levels — this will take it back to the same situation that it is currently trying to get out of.

**Throwing good money after bad:** Ironically, the company would be divesting its stake in highly lucrative projects (like Jaipur-Kishengarh expressway) to fund projects with much lower IRR potential (like Deoli-Kota and Bagodara-Vasad). Currently only three out of GVKPIL's portfolio of 11 assets are generating revenue. While non-availability of natural gas has rendered its three power plants redundant, consistent delays in commissioning of the Goindwal Sahib and Alaknanda power plants have only aggravated the balance sheet situation.

**Things can get worse:** Over the next 12 months, the earnings profile of the company could worsen. Till 3QFY14 it was capitalizing around Rs 140bn of debt (of Rs 225bn of gross debt) and would start incurring interest and depreciation hereafter. MIAL alone will incur additional expenses of Rs 8bn without any significant increase in revenues, leading to an additional net loss of Rs 2.8bn for GVKPIL. Overall, we estimate the interest expense will jump from Rs 9bn in FY14 to Rs 18bn in FY15 and Rs 23bn in FY16 thereby worsening losses at the consolidated level.

The contingent liability of Hancock coal mines (where GVKPIL has 10% equity stake but has provided debt guarantee of 49%; current debt of US\$ 1.6bn) will continue to create a huge overhang on the stock.

**Outlook and Valuation:** We remain negative on the stock on the back of its highly leveraged balance sheet and consistent delays in commissioning of assets. The overhang of the contingent liability of Hancock coal mines will remain on the stock. The stock has run-up significantly over last few months (6m, +52%). Our price target of Rs11 represents a 21% downside from current levels. We downgrade to SELL.

Please refer to Disclosures and Disclaimers at the end of the Research Report.

## SELL

GVK IN | CMP RS 14

TARGET RS 12 (-21%)

### Company Data

O/S SHARES (MN) :	1579
MARKET CAP (RSBN) :	23
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	21 / 6
LIQUIDITY 3M (USDMN) :	3.3
FACE VALUE (RS) :	1

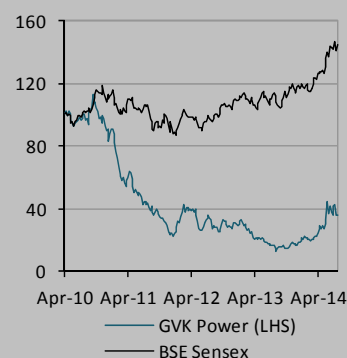
### Share Holding Pattern, %

PROMOTERS :	54.3
FII / NRI :	15.6
FI / MF :	2.5
NON PROMOTER CORP. HOLDINGS :	5.6
PUBLIC & OTHERS :	21.7

### Price Performance, %

	1mth	3mth	1yr
ABS	-15.6	13.2	114.6
REL TO BSE	-18.8	-2.0	82.7

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	28,209	23,865	37,580
EBIDTA	9,461	13,157	23,979
Net Profit	-3,687	-7,893	-6,874
EPS, Rs	(2.3)	(5.0)	(4.4)
PER, x	(6.0)	(2.8)	(3.2)
EV/EBIDTA, x	24.2	17.9	9.4
P/BV, x	0.8	1.0	1.3
ROE, %	(13.3)	(36.1)	(39.7)
Debt/Equity, x	8.1	10.6	13.2

Source: PhillipCapital India Research Est.

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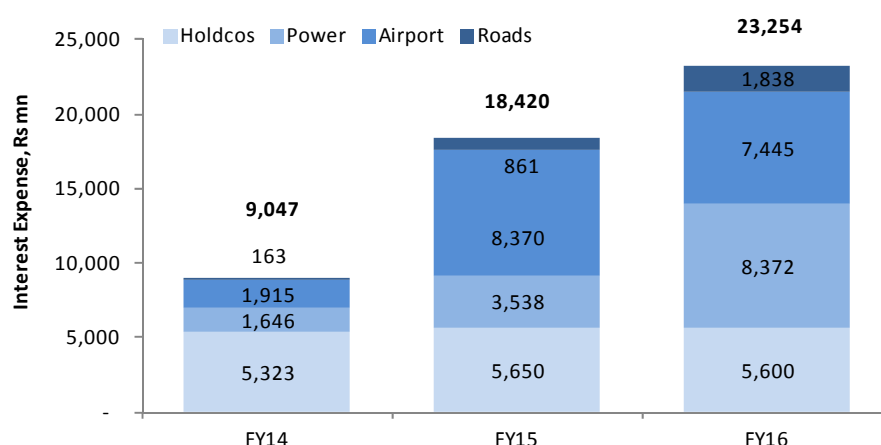
vsinghal@phillipcapital.in

### Multiple triggers – but none to have significant impact on profitability

Step	Monetization of Real estate at MIAL	Stake sale in Airport holding company	Stake sale in Jaipur-Kishengarh highway	IPO of energy division
Amount targeted	Rs10bn	Rs25bn	Rs5bn	NA
Intended Use of Cash proceeds	Reduce debt at MIAL level, which was taken because of delay in monetization process	Pay back debt taken to increase stake in airports	Infuse equity into under-construction road and power projects	Provide exit to PE investors (3i, Actis); infuse equity into under-construction projects
Benefit	Reduction in interest expense at MIAL, and hence consol level	Reduction in interest expense at parent level	Fund equity requirement for under construction projects	Fund equity requirement for under construction projects
Timeline	FY15	FY15	FY16	NA
Our comments	The proceeds will only reduce the interest expense - will not lead to any easing of pressure on balance sheet	Will lead to dilution of stake in airports; Also, the cash will be required to pay back debt - will still not lead to any growth capital	Amounts to company selling a high IRR project to invest in low IRR projects; Also, will still not provide company with any growth capital	Doesn't look probable in near future - unless gas supply to the power plants are resumed

### Interest expense to increase significantly over next two years

*Interest expenses will more than double in FY15, on the back of new assets commencing operations*



*We do not attribute any value to gas based power plants.*

*We have assumed Rs15bn of PE infusion in FY15, on the back of stake sale in airport/roads division. We have also assumed Rs5bn of cash proceeds from real estate monetization at MIAL, in FY15 and FY16 each.*

*We provide a further 25% discount to the fair value of the portfolio, primarily to account for dilutive projects like Hancock coal mines and Navi-Mumbai airport, and expected dilution on the back of PE investment.*

### SoTP Valuation

Asset	Equity value (Rs Mn)	GVK stake (%)	GVK equity Per share (Rs) (Rs Mn)	Valuation methodology
<b>Energy</b>	<b>16,391</b>	<b>70%</b>	<b>11,474</b>	<b>7.3</b>
Alaknanda	6,556	100%	4,589	2.9 DCF @ 15% CoE
Goindwal Sahib	7,591	100%	5,314	3.4 DCF @ 15% CoE
Tokisud	2,244	100%	1,571	1.0 DCF @ 15% CoE
<b>Airport</b>	<b>44,146</b>	<b>100%</b>	<b>20,905</b>	<b>13.2</b>
Mumbai International Airport	15,782	51%	7,970	5.0 DCF @ 14% CoE
MIAL Commercial Development	9,850	51%	4,974	3.1 Rs 100mn / acre
Bangalore International Airport	18,514	43%	7,961	5.0 DCF @ 14% CoE
<b>Roads</b>	<b>11,385</b>		<b>11,385</b>	<b>7.2</b>
Jaipur Kishengarh Expressway	8,406	100%	8,406	5.3 DCF @ 13% CoE
Deoli-Kota Expressway	154	100%	154	0.1 DCF @ 15% CoE
Bagodara - Vasad	2,826	100%	2,826	1.8 DCF @ 15% CoE
<b>Net cash</b>	<b>(19,695)</b>		<b>(19,695)</b>	<b>(12.5)</b>
Cash with Parent company	17,805		17,805	11.3
Debt at Parent Level	(37,500)		(37,500)	(23.7)
<b>Discount</b>				<b>25%</b>
<b>Total</b>	<b>52,227</b>		<b>18,052</b>	<b>11.00</b>

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>26,077</b>	<b>28,209</b>	<b>23,865</b>	<b>37,580</b>
Growth, %	5	8	-15	57
Total income	26,077	28,209	23,865	37,580
Employee expenses	-1,356	-1,709	-2,051	-2,461
Other Operating expenses	-18,269	-17,039	-8,658	-11,141
<b>EBITDA (Core)</b>	<b>6,451</b>	<b>9,461</b>	<b>13,157</b>	<b>23,979</b>
Growth, %	(5.7)	46.7	39.1	82.2
Margin, %	24.7	33.5	55.1	63.8
Depreciation	-3,512	-4,377	-7,423	-11,139
<b>EBIT</b>	<b>2,939</b>	<b>5,084</b>	<b>5,734</b>	<b>12,840</b>
Growth, %	(32.5)	73.0	12.8	123.9
Margin, %	11.3	18.0	24.0	34.2
Interest paid	-7,079	-9,047	-18,420	-23,254
Other Non-Operating Income	1,361	1,207	717	717
<b>Pre-tax profit</b>	<b>-2,270</b>	<b>-2,480</b>	<b>-11,537</b>	<b>-9,351</b>
Tax provided	-1,287	-1,446	740	56
<b>Profit after tax</b>	<b>-3,557</b>	<b>-3,926</b>	<b>-10,798</b>	<b>-9,294</b>
Others (Minorities, Associates)	197	239	2,905	2,420
<b>Net Profit</b>	<b>-3,360</b>	<b>-3,687</b>	<b>-7,893</b>	<b>-6,874</b>
Growth, %	(646.6)	9.7	114.1	(12.9)
<b>Net Profit (adjusted)</b>	<b>(3,360)</b>	<b>(3,687)</b>	<b>(7,893)</b>	<b>(6,874)</b>
Unadj. shares (m)	1,579	1,579	1,579	1,579
Wtd avg shares (m)	1,579	1,579	1,579	1,579

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	20,802	18,657	17,805	25,494
Debtors	4,233	5,799	6,691	9,581
Inventory	896	383	892	1,277
Loans & advances	16,535	18,573	22,302	25,549
Total current assets	45,854	74,697	78,976	93,187
Investments	22,545	21,942	21,942	21,942
Gross fixed assets	122,217	212,217	233,154	245,715
Less: Depreciation	-16,847	-21,224	-28,646	-39,785
Add: Capital WIP	105,091	32,671	30,241	17,679
Net fixed assets	210,462	223,664	234,748	223,610
<b>Total assets</b>	<b>278,865</b>	<b>320,305</b>	<b>335,668</b>	<b>338,741</b>
Current liabilities	6,209	32,138	35,581	48,325
Total current liabilities	6,209	32,138	35,581	48,325
Non-current liabilities	208,015	229,653	235,402	232,701
Total liabilities	214,224	261,791	270,984	281,026
Paid-up capital	1,579	1,579	1,579	1,579
Reserves & surplus	29,874	26,203	20,277	15,728
Shareholders' equity	64,642	58,514	64,684	57,714
<b>Total equity &amp; liabilities</b>	<b>278,865</b>	<b>320,305</b>	<b>335,668</b>	<b>338,741</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	-2,270	-2,480	-11,537	-9,351
Depreciation	3,512	4,377	7,423	11,139
Chg in working capital	-419	-5,058	-1,687	6,221
Total tax paid	-988	-592	740	56
<b>Cash flow from operating activities</b>	<b>-165</b>	<b>-3,752</b>	<b>-5,062</b>	<b>8,065</b>
Capital expenditure	-46,903	-17,579	-18,507	0
Chg in investments	-1,225	602	0	0
<b>Cash flow from investing activities</b>	<b>-48,128</b>	<b>-16,977</b>	<b>-18,507</b>	<b>0</b>
Free cash flow	-48,292	-20,729	-23,569	8,065
Equity raised/(repaid)	-1	16	1,967	2,324
Debt raised/(repaid)	49,615	20,786	5,750	-2,701
<b>Cash flow from financing activities</b>	<b>51,832</b>	<b>18,584</b>	<b>22,717</b>	<b>-377</b>
Net chg in cash	3,539	-2,145	-852	7,688

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	(2.1)	(2.3)	(5.0)	(4.4)
Growth, %	(646.6)	9.7	114.1	(12.9)
Book NAV/share (INR)	19.9	17.6	13.8	11.0
FDEPS (INR)	(2.1)	(2.3)	(5.0)	(4.4)
CEPS (INR)	0.1	0.4	(0.3)	2.7
CFPS (INR)	(1.3)	(3.3)	(3.9)	4.4
<b>Return ratios</b>				
Return on assets (%)	0.4	0.6	0.3	1.7
Return on equity (%)	(10.7)	(13.3)	(36.1)	(39.7)
Return on capital employed (%)	0.4	0.7	0.3	1.9
<b>Turnover ratios</b>				
Asset turnover (x)	0.1	0.1	0.1	0.1
Sales/Total assets (x)	0.1	0.1	0.1	0.1
Sales/Net FA (x)	0.1	0.1	0.1	0.2
Working capital/Sales (x)	0.7	0.8	1.1	0.5
Receivable days	59.3	75.0	102.3	93.1
Inventory days	12.5	5.0	13.6	12.4
Payable days	97.8	603.9	1,174.6	1,266.7
Working capital days	263.8	309.3	391.4	188.1
<b>Liquidity ratios</b>				
Current ratio (x)	7.4	2.3	2.2	1.9
Quick ratio (x)	7.2	2.3	2.2	1.9
Interest cover (x)	0.4	0.6	0.3	0.6
Total debt/Equity (x)	6.5	8.1	10.6	13.2
Net debt/Equity (x)	5.8	7.4	9.8	11.7
<b>Valuation</b>				
PER (x)	(6.6)	(6.0)	(2.8)	(3.2)
PEG (x) - y-o-y growth	0.0	(0.6)	(0.0)	0.2
Price/Book (x)	0.7	0.8	1.0	1.3
EV/Net sales (x)	7.9	8.1	9.9	6.0
EV/EBITDA (x)	31.9	24.2	17.9	9.4
EV/EBIT (x)	70.1	45.0	41.1	17.5

**Best beneficiary of opening up of road awards:** With its superior domain expertise and strong balance sheet, IRB looks well set to exploit an uptick in the highly lucrative roads sector, which is the first sector that the new government is likely to push in its drive to get infrastructure development back on track.

Over the next three years, NHAI is set to award 16,000 kms of new road projects under the NHDP; also, ~10,000 kms of projects that were awarded over FY12-14 and never took-off will be up for re-bids. Over and above that, the new government has announced its plans to build border and coastal highways throughout the country, which could potentially translate into 22,500 kms of incremental awards. Overall, this adds up to 40,000 kms of road projects to be awarded by NHAI, over the next three years.

IRB should be one of the largest beneficiaries of this pipeline. It is one of the few BOT developers with a relatively strong balance sheet and appetite for grabbing more projects. Large numbers of road developers are currently under CDR (Isolux-Soma, Gammon, IVRCL, HCC) or are divesting assets to deleverage their balance sheet (GMR, GVK, L&T IDPL). That reduces competition for IRB significantly.

A healthy mix of EPC and BOT projects in the award pipeline should ensure that both EPC and BOT players stick to their core competency and the competition in the bidding process is further reduced, thereby enhancing the return profile.

**Shored up EPC orderbook means stability:** IRB's orderbook got a big boost when it announced two big wins (Yedeshi-Aurangabad and Kaithal-Rajasthan) in May 2014. The two orders (worth Rs 57bn) took its total orderbook to Rs 120bn (Rs100bn adjusting for O&M contracts) – a handsome 4.5x book-to-sales. This also means that while the company might report a decline in EPC revenues in FY15, its FY16 EPC revenues should jump by over 20% YoY.

The EPC orderbook now imparts high visibility to its revenues and earnings – one of the primary concerns with the stock until now. The funding for the projects should not be a problem as the company can meet equity needs of all the new projects through internal accruals. Implementation of premium rescheduling for Vadodara-Ahmedabad and Tumkur-Chitradurga projects (already approved by NHAI) should also ease the financial burden on its cash reserves.

**Outlook and Valuation:** IRB's stock has run up significantly in the last month (+60%) and is currently trading at 10.5x FY16 P/E. However, we see further upside in the stock, on the back of the quality of its BOT portfolio, strong EPC revenue visibility, and potential to win future projects from NHAI's order pipeline. While the outcome of the RTI activist murder investigation remains a key risk, we believe that a large part of the potential negative impact has already been priced in.

At current levels, we see the risk-reward profile as highly favorable. We maintain BUY, with a price target of Rs 292 (BOT Rs 192 + EPC Rs 100), representing 21% upside from current levels.

## BUY

IRB IN | CMP RS 241

TARGET RS 292 (+21%)

### Company Data

O/S SHARES (MN) :	332
MARKET CAP (RSBN) :	83
MARKET CAP (USDBN) :	1.4
52 - WK HI/LO (RS) :	276 / 52
LIQUIDITY 3M (USDMN) :	28.1
FACE VALUE (RS) :	10

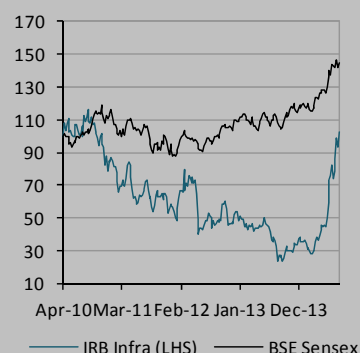
### Share Holding Pattern, %

PROMOTERS :	61.1
FII / NRI :	25.1
FI / MF :	4.4
NON PROMOTER CORP. HOLDINGS :	3.6
PUBLIC & OTHERS :	5.9

### Price Performance, %

	1mth	3mth	1yr
ABS	9.0	112.1	181.5
REL TO BSE	5.8	96.9	149.6

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	37,319	41,699	51,614
EBIDTA	17,537	23,604	28,721
Net Profit	4,591	5,831	5,268
EPS, Rs	13.8	17.5	15.9
PER, x	17.1	13.5	14.9
EV/EBIDTA, x	9.9	8.3	7.3
P/BV, x	2.2	1.9	1.6
ROE, %	12.9	14.0	10.5
Debt/Equity (x)	3.1	2.9	2.7

Source: PhillipCapital India Research Est.

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*Premium rescheduling for Tumkur-Chitradurga will lead to zero FCFE for these projects, instead of negative, had the proposal not been implemented.*

*Internal accruals and cash reserve should be sufficient to fund the equity requirement for the current portfolio, including the new wins.*

*We value the recently completed projects at 13% CoE (15% earlier) with the elimination of execution risk*

*We value the EPC business at 6x FY16 EV/EBITDA with its 5x book-to-sales orderbook providing high revenue visibility*

### Equity requirement and source for the new projects

Source of funds	FY15E	FY16E	Equity requirement	FY15E	FY16E
<b>BOT FCFE (Rs mn) #</b>			Vadodara Ahmedabad	7,110	474
Mature projects	3,118	3,660	Goa Kundapur	2,091	2,788
New 4-laning projects	449	467	Solapur Yedeshi *	587	1,564
Tumkur Chitradurga	0	0	Yedeshi Aurangabad *	-	2,030
Vadodara Ahmedabad	78	0	Kaithal - Rajasthan *	-	1,500
<b>Total FCFE</b>	<b>2,949</b>	<b>3,330</b>			

EPC (Rs mn)		
Topline	22,372	27,802
EBITDA	6,712	8,341
<b>Total FCF</b>	<b>4,453</b>	<b>6,082</b>

<b>Total FCFE</b>	<b>8,097</b>	<b>10,209</b>
<b>Cash at FY14</b>	<b>15,012</b>	

<b>Total</b>	<b>9,788</b>	<b>8,356</b>
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\* Assuming 70:30 Debt:Equity for new projects

# Includes debt repayment

### SOTP Valuation

DCF Valuation	Project Cost (Rs mn)	Length (kms)	Equity Value (Rs mn)	Per share (Rs)
<b>Operational BOT Projects</b>				<b>NPV @ 13% CoE</b>
NKT	368	60	270	0.8
MKMM	180	33	296	0.9
Thane Bhiwandi	1,040	23	1,642	4.9
Pune-Nashik	737	30	1,452	4.4
Pune-Solapur	630	26	657	2.0
Kharpada	320	15	28	0.1
Thane-GHB	2,469	15	1,743	5.2
Mumbai-Pune	13,017	95	8,125	24.4
Bharuch-Surat	14,700	65	5,571	16.8
Surat-Dahisar*	25,372	239	2,412	7.3
MVR	3,076	68	2,623	7.9
<b>Total Value</b>	<b>61,909</b>	<b>601</b>	<b>24,818</b>	<b>74.7</b>
<b>Recently commissioned projects</b>				<b>NPV @ 13% CoE</b>
Kolhapur	4,300	50	2,976	9.0
Talegaon -Amravati	8,880	67	4,128	12.4
Jaipur - Deoli	17,330	149	8,684	26.1
Amritsar - Pathankot	14,453	102	7,821	23.5
Tumkur - Chitradurga	11,420	114	5,898	17.7
Vadodara - Ahmedabad	48,800	196	5,385	16.2
<b>Total Value</b>	<b>1,05,183</b>	<b>678</b>	<b>34,893</b>	<b>105.0</b>
<b>New projects</b>				<b>NPV @ 15% CoE</b>
Goa - Kundapur	21,030	192	2,542	7.6
Solapur Yedeshi	13,110	99	956	2.9
Yedeshi Aurangabad	26,420	190	238	0.7
Kaithal - Rajasthan	20,660	166	234	0.7
<b>Total Value</b>	<b>81,220</b>	<b>647</b>	<b>3,970</b>	<b>11.9</b>
<b>E&amp;C Business</b>				<b>6x FY16E EV/EBITDA</b>
FY16E EBITDA			8,341	
Assumed EV/EBITDA			6.0	
<b>Value to IRB</b>			<b>50,043</b>	<b>150.6</b>
<b>Others (Net Cash)</b>			<b>(16,667)</b>	<b>(50.1)</b>
<b>DCF SoTP Fair Value</b>			<b>97,058</b>	<b>292.0</b>

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>36,872</b>	<b>37,319</b>	<b>41,699</b>	<b>51,614</b>
Growth, %	18	1	12	24
Total income	36,872	37,319	41,699	51,614
Raw material expenses	-17,760	-16,501	-14,971	-19,025
Employee expenses	-1,557	-1,799	-1,833	-2,268
Other Operating expenses	-1,223	-1,482	-1,292	-1,599
<b>EBITDA (Core)</b>	<b>16,333</b>	<b>17,537</b>	<b>23,604</b>	<b>28,721</b>
Growth, %	18.9	7.4	34.6	21.7
Margin, %	44.3	47.0	56.6	55.6
Depreciation	-4,415	-4,771	-7,443	-9,235
<b>EBIT</b>	<b>11,918</b>	<b>12,766</b>	<b>16,160</b>	<b>19,486</b>
Growth, %	10.7	7.1	26.6	20.6
Margin, %	32.3	34.2	38.8	37.8
Interest paid	-6,153	-7,562	-9,125	-12,275
<b>Pre-tax profit</b>	<b>7,066</b>	<b>6,419</b>	<b>8,060</b>	<b>8,186</b>
Tax provided	-1,530	-1,823	-2,224	-2,913
<b>Profit after tax</b>	<b>5,536</b>	<b>4,596</b>	<b>5,836</b>	<b>5,273</b>
Others (Minorities, Associates)	31	-5	-5	-5
<b>Net Profit</b>	<b>5,567</b>	<b>4,591</b>	<b>5,831</b>	<b>5,268</b>
Growth, %	12.2	(17.5)	27.0	(9.7)
Unadj. shares (m)	332	332	332	332
Wtd avg shares (m)	332	332	332	332

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	14,710	15,012	5,919	3,340
Debtors	80	55	63	78
Inventory	2,488	2,683	2,742	3,111
Loans & advances	9,696	8,519	9,139	11,313
Other current assets	230	212	212	212
Total current assets	27,205	26,481	18,075	18,053
Investments	620	145	145	145
Gross fixed assets	70,712	1,04,823	3,11,676	3,11,976
Less: Depreciation	-15,624	-20,395	-27,838	-37,073
Add: Capital WIP	49,160	45,983	78,110	1,09,880
Net fixed assets	1,04,248	1,30,411	3,61,948	3,84,783
<b>Total assets</b>	<b>1,32,143</b>	<b>1,57,119</b>	<b>3,80,249</b>	<b>4,03,062</b>
Current liabilities	10,406	10,487	11,091	13,313
Total current liabilities	10,406	10,487	11,091	13,313
Non-current liabilities	88,089	1,10,669	3,27,023	3,39,017
Total liabilities	98,495	1,21,156	3,38,114	3,52,330
Paid-up capital	3,324	3,324	3,324	3,324
Reserves & surplus	29,232	32,283	38,450	47,043
Shareholders' equity	33,648	35,963	42,135	50,732
<b>Total equity &amp; liabilities</b>	<b>1,32,143</b>	<b>1,57,119</b>	<b>3,80,249</b>	<b>4,03,062</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	7,066	6,419	8,060	8,186
Depreciation	4,415	4,771	7,443	9,235
Chg in working capital	239	1,106	2,04,328	-1,535
Total tax paid	-1,530	-1,938	-2,224	-2,913
<b>Cash flow from operating activities</b>	<b>10,190</b>	<b>10,358</b>	<b>2,17,607</b>	<b>12,973</b>
Capital expenditure	-28,668	-30,934	-2,38,980	-32,070
Chg in investments	-481	475	0	0
<b>Cash flow from investing activities</b>	<b>-29,149</b>	<b>-30,459</b>	<b>-2,38,980</b>	<b>-32,070</b>
Free cash flow	-18,959	-20,101	-21,373	-19,097
Equity raised/(repaid)	705	15	1,892	4,880
Debt raised/(repaid)	17,039	22,684	11,945	13,194
Dividend (incl. tax)	-1,555	-1,555	-1,555	-1,555
Other financing activities	-727	0	0	0
<b>Cash flow from financing activities</b>	<b>15,462</b>	<b>20,403</b>	<b>12,281</b>	<b>16,518</b>
Net chg in cash	-3,498	302	-9,093	-2,578

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	16.7	13.8	17.5	15.9
Growth, %	12.2	(17.5)	27.0	(9.7)
Book NAV/share (INR)	98.0	107.1	125.7	151.5
FDEPS (INR)	16.7	13.8	17.5	15.9
CEPS (INR)	30.0	28.2	39.9	43.6
CFPS (INR)	26.7	27.5	651.6	36.1
DPS (INR)	4.0	4.0	4.0	4.0
<b>Return ratios</b>				
Return on assets (%)	7.9	6.5	4.3	3.4
Return on equity (%)	17.1	12.9	14.0	10.5
Return on capital employed (%)	8.5	7.0	4.5	3.5
<b>Turnover ratios</b>				
Asset turnover (x)	0.4	0.3	0.3	0.3
Sales/Total assets (x)	0.3	0.3	0.2	0.1
Sales/Net FA (x)	0.4	0.3	0.2	0.1
Working capital/Sales (x)	0.1	0.0	0.0	0.0
Receivable days	0.8	0.5	0.6	0.6
Inventory days	24.6	26.2	24.0	22.0
Payable days	129.7	140.2	165.5	166.2
Working capital days	20.7	9.6	9.3	9.9
<b>Liquidity ratios</b>				
Current ratio (x)	2.6	2.5	1.6	1.4
Quick ratio (x)	2.4	2.3	1.4	1.1
Interest cover (x)	1.9	1.7	1.8	1.6
Dividend cover (x)	4.2	3.5	4.4	4.0
Total debt/Equity (x)	2.7	3.1	2.9	2.7
Net debt/Equity (x)	2.2	2.7	2.8	2.6
<b>Valuation</b>				
PER (x)	14.4	17.4	13.7	15.2
Price/Book (x)	2.5	2.2	1.9	1.6
EV/Net sales (x)	4.2	4.7	4.7	4.1
EV/EBITDA (x)	9.4	10.0	8.3	7.4
EV/EBIT (x)	12.9	13.7	12.2	10.9



# Adani Ports & SEZ

Beyond Mundra ...

## INFRASTRUCTURE: Company Update

**Diversification of portfolio:** After acquiring the Dhamra port and winning the container terminal project at Ennore, ADSEZ's project portfolio has now grown significantly beyond Mundra port — it now consists of 7 projects with total cargo handling capacity of 332mn tonnes (of which 200mn tonnes is at Mundra) and capex of Rs 200bn (Rs 100bn at Mundra). We expect the next leg of growth for ADSEZ to come from the 'other' ports, complementing Mundra port, which should continue its robust growth.

We expect the total cargo handled by ADSEZ to increase from 89mn tonnes in FY13 to 190mn tonnes in FY16 – a CAGR of 29% – driven by 44mn tonnes of incremental cargo at the Dahej, Hazira, Vizag, Mormugao, and Dhamra ports. Beyond FY16, Kandla and Ennore should start contributing.

**Mundra to remain the crown jewel:** ADSEZ's recent JV with France's CAM CGM group (world's third-largest shipping company) to set up a fourth container terminal at Mundra bears testimony to both the port and the company becoming a partner of choice for major global shipping lines. It also shows ADSEZ's confidence in the growth prospects of container cargo — it is expanding container capacity at Mundra, despite increased competition from neighboring ports of Hazira, Pipavav, and JNPT.

We expect Mundra port will continue reporting robust growth, driven by the 3Cs – coal, crude, and containers. The capex phase for the port is also complete (apart from the recently announced CT-4) with the commissioning of dry-cargo berths in FY12 and CT-3 in FY14. The port has now reached total cargo handling capacity of 200mn tonnes (handled 100mn tonnes in FY14).

**Extremely well placed to grab the opportunity:** Over the last few years, the IPA's project pipeline has swollen to Rs 200bn, due to delays in awarding projects on the back of delays in security and environmental clearance, among other reasons. Things should improve and many of these projects should be awarded over the next three years, starting with container terminals at Chennai (Rs 37bn) and Vizhinjam (Rs 40bn), which have already seen multiple rounds of bidding.

More importantly, we find ADSEZ extremely well placed (in terms of balance sheet strength and operational capability) to win multiple port projects that IPA will award. Over the last two quarters, its divestment of APCT and CT-3 and its IPP have led to cash accrual of ~Rs 33bn (currently invested in various ICDs and capital advances). There was never any doubt about the company's execution capability and with a fleet of 13 dredgers of its own (as many as DCI) it will remain a frontrunner in grabbing and executing new projects.

**Outlook and Valuation:** We remain positive on the stock with its high ROE (+22% over FY13-15) and cash-generating business at the helm. The divestment of APCT removes the cloud of ambiguity surrounding its consolidated earnings.

We believe ADSEZ's well-diversified portfolio now makes the company a going concern, and ends its dependence on the concession period of its various projects. We value the company on a P/E basis, giving it a multiple of 21x FY16, given its superior ROEs and dominant position in the sector. Our price target of Rs 312 offers 19% upside from current levels. We upgrade to BUY.

## BUY

ADSEZ IN | CMP RS 263

TARGET RS 312 (+19%)

### Company Data

O/S SHARES (MN) :	2070
MARKET CAP (RSBN) :	555
MARKET CAP (USDBN) :	9.2
52 - WK HI/LO (RS) :	294 / 118
LIQUIDITY 3M (USDMN) :	28.1
FACE VALUE (RS) :	2

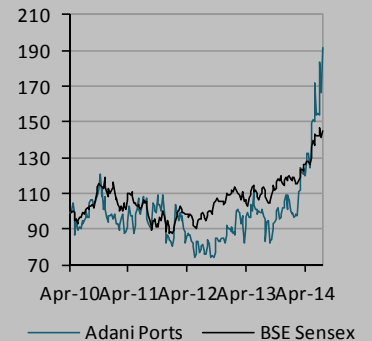
### Share Holding Pattern, %

PROMOTERS :	75.0
FII / NRI :	18.3
FI / MF :	2.5
NON PROMOTER CORP. HOLDINGS :	1.5
PUBLIC & OTHERS :	2.8

### Price Performance, %

	1mth	3mth	1yr
ABS	13.1	35.0	82.1
REL TO BSE	9.8	19.8	50.2

### Price Vs. Sensex (Rebased values)



Source: Bloomberg, Phillip Capital Research

### Key Ratios (Consol)

Rs mn	FY14	FY15E	FY16E
Net Sales	43,458	44,064	53,364
EBIDTA	28,006	31,525	38,433
Net Profit	22,527	23,455	29,960
EPS, Rs	10.9	11.3	14.5
PER, x	24.2	23.2	18.2
EV/EBIDTA, x	22.5	19.2	15.2
P/BV, x	5.8	4.8	3.9
ROE, %	24.1	20.9	21.6
Debt/Equity (%)	95.4	78.3	62.7

Source: Phillip Capital India Research Est.

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## Cargo profile to change significantly over few years

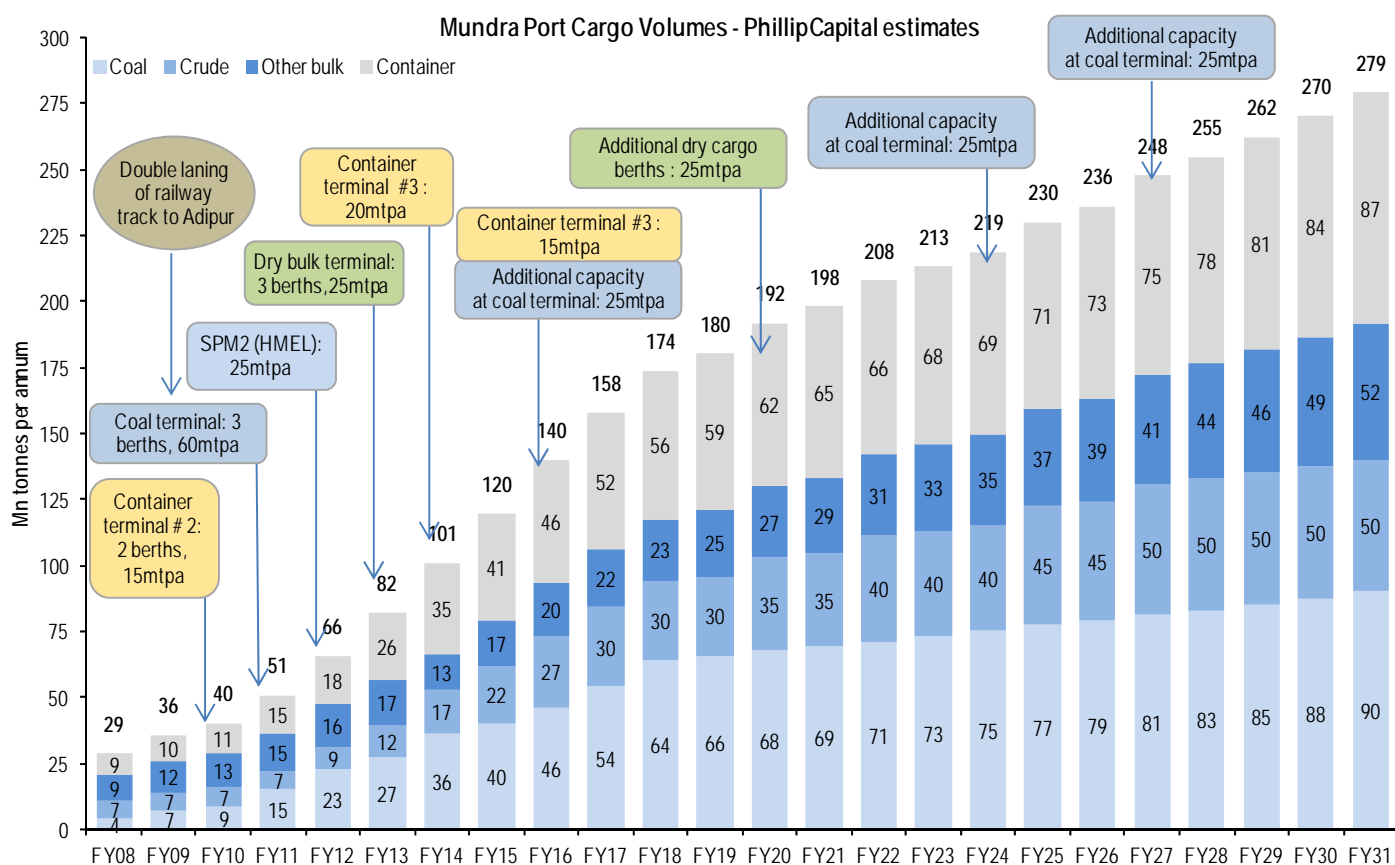
Considering the current projects in its portfolio, we expect the cargo profile to diversify significantly over the next few years. Share of cargo handled at 'other' ports is expected to increase to 30% in FY17 from 3% in FY12.

### ADSEZ cargo volume projections – diversifying well beyond Mundra port

Mn tonnes	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Mundra	51.0	65.7	82.1	101.1	119.7	139.8	157.8	173.8	180.2	191.9
Dahej	0.6	2.1	7.6	7.6	11.0	15.0	18.0	18.0	18.0	18.0
Hazira	-	-	-	3.7	6.0	9.0	10.0	15.0	20.0	25.0
Mormugao	-	-	-	-	2.0	5.0	7.0	9.0	9.0	9.0
Vizag	-	-	-	-	1.0	2.0	4.0	6.0	6.0	8.0
Kanlda	-	-	-	-	-	2.0	4.0	8.0	10.0	12.0
Dhamra*	-	5.0	13.0	14.3	18.0	18.0	20.0	20.0	20.0	25.0
Ennore	-	-	-	-	-	-	2.0	5.0	10.0	15.0
<b>Total</b>	<b>51.6</b>	<b>67.8</b>	<b>89.7</b>	<b>112.4</b>	<b>157.7</b>	<b>190.8</b>	<b>222.8</b>	<b>254.8</b>	<b>273.2</b>	<b>303.9</b>
Others' share	1.2%	3.2%	8.4%	10.1%	24.1%	26.7%	29.2%	31.8%	34.0%	36.9%

Source: Company, PhillipCapital India Research (\* Included from FY15 onwards)

### Cargo evolution at Port of Mundra



Source: Company, PhillipCapital India Research (\* Included from FY15 onwards)

## Financials (Standalone)

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>33,611</b>	<b>43,458</b>	<b>44,064</b>	<b>53,364</b>
Growth, %	35	29	1	21
Total income	33,611	43,458	44,064	53,364
Employee expenses	-1,044	-1,170	-1,322	-1,601
Other Operating expenses	-7,723	-14,282	-11,218	-13,330
<b>EBITDA (Core)</b>	<b>24,843</b>	<b>28,006</b>	<b>31,525</b>	<b>38,433</b>
Growth, %	45.1	12.7	12.6	21.9
Margin, %	73.9	64.4	71.5	72.0
Depreciation	-3,424	-4,557	-4,677	-4,796
<b>EBIT</b>	<b>21,420</b>	<b>23,449</b>	<b>26,848</b>	<b>33,637</b>
Growth, %	48.9	9.5	14.5	25.3
Margin, %	63.7	54.0	60.9	63.0
Interest paid	-4,419	-5,779	-6,324	-6,244
Other Non-Operating Income	2,032	6,798	5,052	5,431
Non-recurring Items	-141	-2,365	-2,000	-1,000
<b>Pre-tax profit</b>	<b>18,892</b>	<b>22,103</b>	<b>23,577</b>	<b>31,824</b>
Tax provided	-1,350	-1,941	-2,122	-2,864
<b>Profit after tax</b>	<b>17,542</b>	<b>20,162</b>	<b>21,455</b>	<b>28,960</b>
<b>Net Profit</b>	<b>17,542</b>	<b>20,162</b>	<b>21,455</b>	<b>28,960</b>
Growth, %	50.2	27.4	4.1	27.7
<b>Net Profit (adjusted)</b>	<b>17,683</b>	<b>22,527</b>	<b>23,455</b>	<b>29,960</b>
Unadj. shares (m)	2,003	2,070	2,070	2,070
Wtd avg shares (m)	2,003	2,070	2,070	2,070

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	5,936	3,998	28,622	46,884
Debtors	8,034	12,700	9,658	11,696
Inventory	873	1,430	1,087	1,316
Loans & advances	37,127	71,667	48,290	58,481
Other current assets	18,175	9,398	4,398	4,398
Total current assets	70,145	99,194	92,054	122,774
Investments	13,273	17,863	42,953	42,953
Gross fixed assets	95,347	95,347	100,347	100,347
Less: Depreciation	-17,663	-22,220	-26,896	-31,692
Add: Capital WIP	21,451	18,860	18,281	18,281
Net fixed assets	99,135	91,987	91,732	86,936
<b>Total assets</b>	<b>182,553</b>	<b>209,044</b>	<b>226,739</b>	<b>252,663</b>
Current liabilities	26,631	19,919	19,581	19,967
Total current liabilities	26,631	19,919	19,581	19,967
Non-current liabilities	88,882	95,766	94,766	93,766
Total liabilities	115,513	115,685	114,347	113,733
Paid-up capital	4,035	4,168	4,168	4,168
Reserves & surplus	63,005	89,191	108,223	134,762
Shareholders' equity	67,040	93,359	112,392	138,930
<b>Total equity &amp; liabilities</b>	<b>182,553</b>	<b>209,044</b>	<b>226,739</b>	<b>252,663</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	18,892	22,103	23,577	31,824
Depreciation	3,424	4,557	4,677	4,796
Chg in working capital	-25,595	-37,698	31,426	-12,073
Total tax paid	-118	-763	-2,122	-2,864
<b>Cash flow from operating activities</b>	<b>-3,397</b>	<b>-11,801</b>	<b>57,557</b>	<b>21,683</b>
Capital expenditure	-20,411	1,172	-4,421	0
Chg in investments	5,103	-4,590	-25,090	0
<b>Cash flow from investing activities</b>	<b>-15,308</b>	<b>-3,418</b>	<b>-29,511</b>	<b>0</b>
Free cash flow	-18,705	-15,219	28,046	21,683
Equity raised/(repaid)	2,447	9,999	0	0
Debt raised/(repaid)	21,625	5,705	-1,000	-1,000
Dividend (incl. tax)	-2,344	-2,422	-2,422	-2,422
Other financing activities	-2,446	0	0	0
<b>Cash flow from financing activities</b>	<b>19,282</b>	<b>13,282</b>	<b>-3,422</b>	<b>-3,422</b>
Net chg in cash	577	-1,937	24,624	18,261

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	8.8	10.9	11.3	14.5
Growth, %	50.2	23.3	4.1	27.7
Book NAV/share (INR)	33.5	45.1	54.3	67.1
FDEPS (INR)	8.8	10.9	11.3	14.5
CEPS (INR)	10.6	14.2	14.6	17.3
CFPS (INR)	(2.7)	(9.0)	25.4	7.9
DPS (INR)	1.0	1.0	1.0	1.0
<b>Return ratios</b>				
Return on assets (%)	13.0	12.2	11.7	13.7
Return on equity (%)	26.4	24.1	20.9	21.6
Return on capital employed (%)	14.9	13.8	12.9	15.0
<b>Turnover ratios</b>				
Asset turnover (x)	0.3	0.3	0.3	0.4
Sales/Total assets (x)	0.2	0.2	0.2	0.2
Sales/Net FA (x)	0.4	0.5	0.5	0.6
Working capital/Sales (x)	1.1	1.7	1.0	1.0
Receivable days	87.2	106.7	80.0	80.0
Inventory days	9.5	12.0	9.0	9.0
Payable days	964.9	332.3	399.6	345.1
Working capital days	408.1	632.2	363.2	382.5
<b>Liquidity ratios</b>				
Current ratio (x)	2.6	5.0	4.7	6.1
Quick ratio (x)	2.6	4.9	4.6	6.1
Interest cover (x)	4.8	4.1	4.2	5.4
Dividend cover (x)	8.8	10.9	11.3	14.5
Total debt/Equity (x)	1.2	0.9	0.8	0.6
Net debt/Equity (x)	1.2	0.9	0.5	0.3
<b>Valuation</b>				
PER (x)	29.8	24.2	23.2	18.2
Price/Book (x)	7.9	5.8	4.8	3.9
EV/Net sales (x)	18.0	14.5	13.7	11.0
EV/EBITDA (x)	24.3	22.5	19.2	15.2
EV/EBIT (x)	28.2	26.8	22.5	17.4

## Financials (Consolidated)

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>38,411</b>	<b>48,240</b>	<b>59,259</b>	<b>73,626</b>
Growth, %	40	26	23	24
Total income	38,411	48,240	59,259	73,626
Employee expenses	-1,308	-1,616	-2,074	-2,577
Other Operating expenses	-10,699	-16,846	-17,317	-20,017
<b>EBITDA (Core)</b>	<b>26,404</b>	<b>29,778</b>	<b>39,868</b>	<b>51,032</b>
Growth, %	46.8	12.8	33.9	28.0
Margin, %	68.7	61.7	67.3	69.3
Depreciation	-4,220	-6,495	-7,812	-8,531
<b>EBIT</b>	<b>22,185</b>	<b>23,283</b>	<b>32,057</b>	<b>42,501</b>
Growth, %	49.7	5.0	37.7	32.6
Margin, %	57.8	48.3	54.1	57.7
Interest paid	-5,418	-7,659	-11,842	-11,883
Other Non-Operating Income	0	6,836	3,052	4,431
Non-recurring Items	853	-2,684	0	0
<b>Pre-tax profit</b>	<b>17,619</b>	<b>19,777</b>	<b>23,267</b>	<b>35,050</b>
Tax provided	-1,231	-2,367	-2,348	-3,509
<b>Profit after tax</b>	<b>16,388</b>	<b>17,410</b>	<b>20,918</b>	<b>31,541</b>
<b>Net Profit</b>	<b>16,232</b>	<b>17,396</b>	<b>20,510</b>	<b>30,778</b>
Growth, %	40.5	23.3	6.4	50.1
<b>Net Profit (adjusted)</b>	<b>15,635</b>	<b>19,275</b>	<b>20,510</b>	<b>30,778</b>
Unadj. shares (m)	2,003	2,070	2,070	2,070
Wtd avg shares (m)	2,003	2,070	2,070	2,070

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	8,306	5,139	23,443	45,693
Debtors	8,023	14,276	12,177	15,129
Inventory	980	1,694	1,542	1,916
Loans & advances	28,982	63,327	40,588	50,429
Other current assets	18,510	9,822	4,822	4,822
Total current assets	64,799	94,258	82,573	117,989
Investments	2,216	634	634	634
Gross fixed assets	133,342	133,342	198,742	198,742
Less: Depreciation	-19,921	-26,416	-34,227	-42,758
Add: Capital WIP	29,916	44,952	47,552	47,552
Net fixed assets	143,337	151,878	212,067	203,535
<b>Total assets</b>	<b>210,596</b>	<b>246,849</b>	<b>295,274</b>	<b>322,159</b>
Current liabilities	23,822	27,580	27,194	27,742
Total current liabilities	23,822	27,580	27,194	27,742
Non-current liabilities	121,388	130,074	160,297	157,423
Total liabilities	145,210	157,654	187,491	185,165
Paid-up capital	4,035	4,168	4,168	4,168
Reserves & surplus	59,928	83,591	101,771	130,218
Shareholders' equity	65,386	89,195	107,784	136,995
<b>Total equity &amp; liabilities</b>	<b>210,596</b>	<b>246,849</b>	<b>295,274</b>	<b>322,159</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	17,619	19,777	23,267	35,050
Depreciation	4,220	6,495	7,812	8,531
Chg in working capital	-24,879	-28,868	29,604	-12,618
Total tax paid	-11,124	-910	-2,348	-3,509
<b>Cash flow from operating activities</b>	<b>-14,165</b>	<b>-3,505</b>	<b>58,334</b>	<b>27,454</b>
Capital expenditure	73,100	-16,305	-68,000	0
Chg in investments	-1,518	1,582	0	0
<b>Cash flow from investing activities</b>	<b>71,581</b>	<b>-14,723</b>	<b>-68,000</b>	<b>0</b>
Free cash flow	57,417	-18,229	-9,666	27,454
Equity raised/(repaid)	4,368	9,999	0	0
Debt raised/(repaid)	-59,792	7,472	30,223	-2,874
Dividend (incl. tax)	-2,330	-2,330	-2,330	-2,330
Other financing activities	-2,461	0	0	0
<b>Cash flow from financing activities</b>	<b>-60,296</b>	<b>15,140</b>	<b>27,893</b>	<b>-5,204</b>
Net chg in cash	-2,879	-3,089	18,226	22,249

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	7.8	9.3	9.9	14.9
Growth, %	40.5	19.3	6.4	50.1
Book NAV/share (INR)	31.9	42.4	51.2	64.9
FDEPS (INR)	7.8	9.3	9.9	14.9
CEPS (INR)	9.5	13.7	13.7	19.0
CFPS (INR)	(7.1)	(5.0)	26.7	11.1
DPS (INR)	1.0	1.0	1.0	1.0
<b>Return ratios</b>				
Return on assets (%)	8.5	9.8	10.5	12.7
Return on equity (%)	24.4	22.0	19.4	22.9
Return on capital employed (%)	9.3	11.0	11.7	13.9
<b>Turnover ratios</b>				
Asset turnover (x)	0.2	0.2	0.3	0.3
Sales/Total assets (x)	0.2	0.2	0.2	0.2
Sales/Net FA (x)	0.2	0.3	0.3	0.4
Working capital/Sales (x)	0.9	1.3	0.5	0.6
Working capital days	310.5	465.6	196.7	220.9
<b>Liquidity ratios</b>				
Current ratio (x)	2.7	3.4	3.0	4.3
Quick ratio (x)	2.7	3.4	3.0	4.2
Interest cover (x)	4.1	3.0	2.7	3.6
Dividend cover (x)	7.8	9.6	10.2	15.4
Total debt/Equity (x)	1.8	1.4	1.5	1.1
Net debt/Equity (x)	1.7	1.3	1.2	0.8
<b>Valuation</b>				
PER (x)	34.3	28.8	27.0	18.0
Price/Book (x)	8.4	6.3	5.2	4.1
EV/Net sales (x)	16.8	14.0	11.6	9.0
EV/EBIT (x)	29.1	28.9	21.4	15.5

**Coveted BOT portoflio:** Ashoka Buildcon is one of the few companies that has not seen significant traffic decline in most of its BOT projects. It has 9 projects on the NH-6 (Surat-Kolkata highway) where the traffic decline has been much lower than other prominent highways like NH-8 (Mumbai-Delhi) and NH-4 (Mumbai-Bengaluru). We view that a testimony to the quality of its BOT portfolio, which should ensure healthy returns over the life of its projects.

It recently completed the financial closure of Chennai Outer Ring and signed the concession agreement for KSHIP project. Its EPC orderbook now stands at Rs 35bn – a comfortable 2.3 book-to-sales (*inferior to IRB Infrastructure*). Its foray into power distribution has also led to diversification of the orderbook beyond the road segment.

**Funding no longer a concern:** Ashoka Buildcon has got itself into a unique position, where it should be comfortably able to manage the equity requirement for its current and future project wins, over the next four years. Its divestment of 34% stake in ACL to SBI-Macquarie has taken care of the equity requirements of its current portfolio. It also means that SBI-Macquarie will finance 34% of the equity needs of its future projects. Its ABL BOT portfolio generates Rs 1.3bn of free cash flow every year. That coupled with Rs 2.3bn of EBITDA from the EPC division means the company can comfortably finance projects up to Rs 30bn (~300km) without needing any external funding. This places it in a significantly superior position to exploit the huge opportunity in the roads segment.

**Well set to bite big into the low hanging fruit:** Over the next three years, NHAI is set to award 16,000 kms of new road projects under the NHDP; also, ~10,000 kms of projects that were awarded over FY12-14 and never took-off will be up for re-bids. The new government has announced its plans to build border and coastal highways throughout the country, which could potentially translate into 22,500 kms of incremental awards. This adds up to 40,000 kms of road projects. We expect Ashoka Buildcon to be one of the key beneficiaries of this pipeline.

It is one of the few BOT developers with a relatively strong balance sheet and appetite for grabbing more projects. Large numbers of road developers are currently under CDR (Isolux-Soma, Gammon, IVRCL, HCC) or are divesting assets to deleverage their balance sheet (GMR, GVK, L&T IDPL). That reduces competition for Ashoka Buildcon significantly.

Also, a healthy mix of EPC and BOT projects in the award pipeline should ensure that both EPC and BOT players stick to their core competency and the competition in the bidding process is further reduced, thereby enhancing the return profile. Furthermore, Ashoka Buildcon, unlike IRB Infra, will be able to bid for BOT as well as EPC projects.

**Outlook and Valuation:** We are positive on Ashoka Buildcon and view the company as having a fundamentally superior profile. However, the stock has run up significantly over the last few months (6m, +121%) and appears fairly valued at current levels. It is currently trading at 7.2 FY16 P/E. We initiate with a NEUTRAL rating and price target of Rs136, which offers 9% upside from current levels.

## Neutral

ASBL IN | CMP RS 124

TARGET RS 136 (+10%)

### Company Data

O/S SHARES (MN) :	263
MARKET CAP (RSBN) :	36
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	820 / 308
LIQUIDITY 3M (USDMN) :	40.9
FACE VALUE (RS) :	10

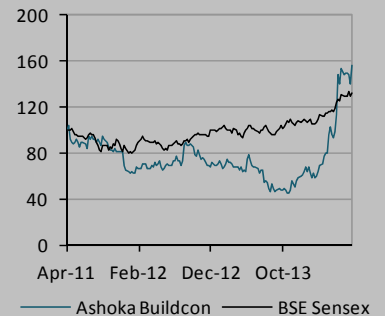
### Share Holding Pattern, %

PROMOTERS :	67.5
FII / NRI :	2.6
FI / MF :	14.6
NON PROMOTER CORP. HOLDINGS :	7.5
PUBLIC & OTHERS :	7.8

### Price Performance, %

	1mth	3mth	1yr
ABS	-1.0	40.2	93.8
REL TO BSE	-4.2	25.1	61.8

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

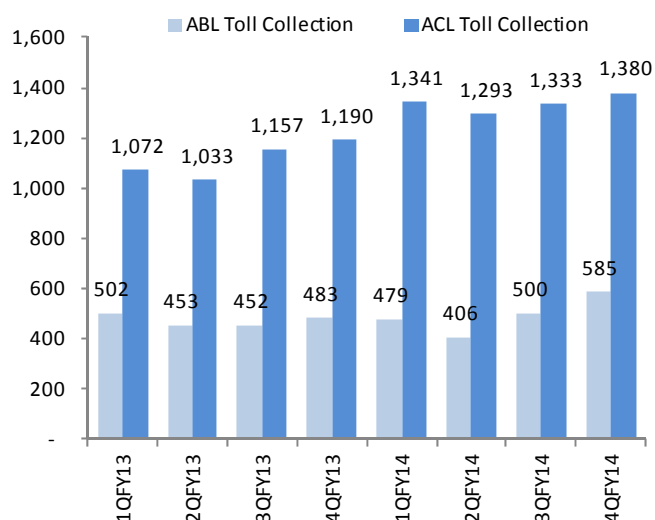
Rs mn	FY14	FY15E	FY16E
Net Sales	17,949	21,471	27,248
EBIDTA	3,945	5,038	7,212
Net Profit	1,084	1,262	1,138
EPS, Rs	6.9	8.0	7.2
PER, x	18.1	15.5	17.2
EV/EBIDTA, x	13.1	12.7	9.6
P/BV, x	1.6	1.5	1.4
ROE, %	8.7	9.3	7.9
Debt/Equity, x	2.6	3.3	3.5

Source: PhillipCapital India Research Est.

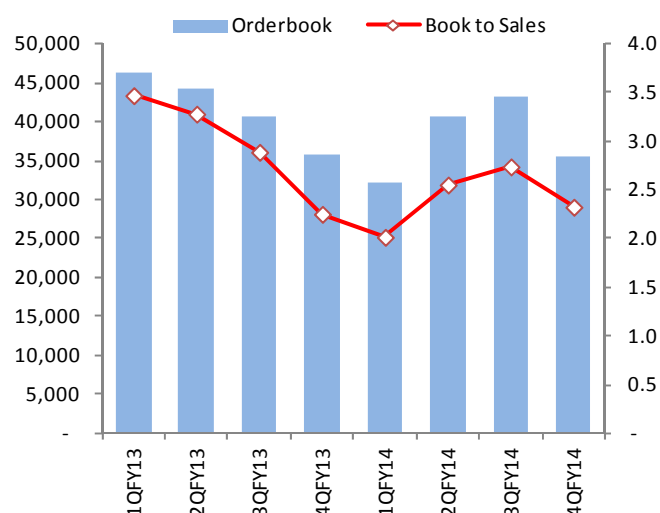
Vibhor Singhal (+ 9122 6667 9949)

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## Toll collections have been steady



## Orderbook growth has picked up off-late



## Project funding not a significant constraint anymore

Particulars	Rs mn	Assumption
Project length (km)	300	
Project cost	30,000	Rs 100mn per km
Debt	21,000	70:30 Debt:Equity
Equity required	9,000	
SBI McQuarie contribution	3,060	SBI-McQ stake of 34%
Ashoka Total Contribution	5,940	
Ashoka Annual Contribution	2,376	2.5 years of construction period
ABL Annual EBITDA	1,268	75% EBITDA Margins
EPC EBITDA	2,274	FY14 number
<b>Surplus</b>	<b>1,166</b>	

## SoTP Valuation

	Project Equity Value (Rs mn)	Ashoka Equity Stake (%)	Ashoka Equity Value (Rs mn)	Per Share (Rs)
<b>ABL BOT Projects</b>				<b>4x FCFE of 18 BOT Projects</b>
Cumulative OCF for 4 years	5,408		5,408	34.2
Gross debt	(1,133)		(1,133)	(7.2)
<b>Value to Ashoka Buildcon</b>	<b>4,275</b>		<b>4,275</b>	<b>27.1</b>
<b>EPC Division</b>				<b>5x FY16 EV/EBITDA</b>
EPC division	2,779	5.0	13,897	88.0
Net cash at parent level	(3,058)		(3,058)	(19.4)
<b>Value to Ashoka Buildcon</b>			<b>10,839</b>	<b>68.6</b>
<b>ACL BOT Projects</b>				<b>NPV @ 13% CoE</b>
Bhandara	1,405	51	716	4.5
Jarora Nayagaon	5,627	38	2,121	13.4
Belgaum Dharwad	1,761	100	1,761	11.2
Pimpalgaon Nasik Gonde	1,225	26	318	2.0
Durg bypass	2,177	51	1,110	7.0
Sambalpur baragarh	2,900	100	2,900	18.4
Dhankuni Kharagpur	2,579	100	2,579	16.3
Chennai ORR	1,401	50	701	4.4
<b>Total</b>	<b>19,075</b>		<b>12,208</b>	<b>77.3</b>
<b>Holding company discount</b>		<b>20%</b>	<b>9,766</b>	<b>61.8</b>
<b>Value to Ashoka Buildcon</b>		<b>66.0%</b>	<b>6,446</b>	<b>40.8</b>
<b>Total value of Ashoka Buildcon</b>			<b>21,559</b>	<b>136.0</b>

Source: Company, PhillipCapital India Research

We value ABL's BOT portfolio at 4x FY14 FCFE, with only 4 years of average useful life remaining for the projects, and expected increase in FCFE assumed to be equivalent to the discount rate

We value the EPC division at 5x FY16 EV/EBITDA, on the back of lower revenue visibility than IRB

We provide a 20% holding company discount to the valuation of ACL

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>18,527</b>	<b>17,949</b>	<b>21,471</b>	<b>27,248</b>
Growth, %	21	-3	20	27
Total income	18,527	17,949	21,471	27,248
Raw material expenses	0	0	0	0
Employee expenses	-502	-583	-697	-885
Other Operating expenses	-14,306	-13,421	-15,736	-19,151
<b>EBITDA (Core)</b>	<b>3,719</b>	<b>3,945</b>	<b>5,038</b>	<b>7,212</b>
Growth, %	3.2	6.1	27.7	43.2
Margin, %	20.1	22.0	23.5	26.5
Depreciation	-1,324	-1,389	-1,545	-1,992
<b>EBIT</b>	<b>2,395</b>	<b>2,556</b>	<b>3,493</b>	<b>5,220</b>
Growth, %	(13.1)	6.7	36.7	49.4
Margin, %	12.9	14.2	16.3	19.2
Interest paid	-1,395	-1,335	-2,461	-4,356
<b>Pre-tax profit</b>	<b>1,138</b>	<b>1,237</b>	<b>1,116</b>	<b>1,075</b>
Tax provided	-685	-688	0	0
<b>Profit after tax</b>	<b>453</b>	<b>549</b>	<b>1,116</b>	<b>1,075</b>
Others (Minorities, Associates)	389	425	146	63
<b>Net Profit</b>	<b>842</b>	<b>975</b>	<b>1,262</b>	<b>1,138</b>
Growth, %	(23.7)	13.9	16.4	(9.9)
Unadj. shares (m)	53	158	158	158
Wtd avg shares (m)	53	158	158	158

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	517	945	511	569
Debtors	862	1,305	1,561	1,981
Inventory	5,399	6,272	7,503	9,521
Loans & advances	2,893	3,087	3,693	4,686
Other current assets	785	835	835	835
Total current assets	10,457	12,444	14,103	17,593
Investments	2,824	2,847	2,847	2,847
Gross fixed assets	20,275	20,275	53,795	53,845
Less: Depreciation	-5,275	-6,664	-8,208	-10,200
Add: Capital WIP	96,100	106,260	85,871	92,063
Net fixed assets	111,100	119,871	131,457	135,707
<b>Total assets</b>	<b>124,387</b>	<b>135,183</b>	<b>148,428</b>	<b>156,168</b>
Current liabilities	86,558	85,077	84,559	85,954
Total current liabilities	86,558	85,077	84,559	85,954
Non-current liabilities	24,684	32,981	44,718	49,932
Total liabilities	111,242	118,058	129,278	135,886
Paid-up capital	527	790	790	790
Reserves & surplus	9,832	11,690	12,715	13,616
Shareholders' equity	13,145	17,125	19,150	20,282
<b>Total equity &amp; liabilities</b>	<b>124,387</b>	<b>135,183</b>	<b>148,428</b>	<b>156,168</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	1,138	1,237	1,116	1,075
Depreciation	1,324	1,389	1,545	1,992
Chg in working capital	59,078	-3,041	-2,610	-2,038
Total tax paid	-702	-702	0	0
<b>Cash flow from operating activities</b>	<b>60,837</b>	<b>-1,116</b>	<b>51</b>	<b>1,030</b>
Capital expenditure	-69,745	-10,161	-13,131	-6,242
Chg in investments	-772	-23	0	0
<b>Cash flow from investing activities</b>	<b>-70,517</b>	<b>-10,184</b>	<b>-13,131</b>	<b>-6,242</b>
Free cash flow	-9,680	-11,299	-13,080	-5,212
Equity raised/(repaid)	89	1,384	0	0
Debt raised/(repaid)	7,466	8,297	11,737	5,214
Other financing activities	-406	0	0	0
<b>Cash flow from financing activities</b>	<b>9,697</b>	<b>11,727</b>	<b>12,646</b>	<b>5,270</b>
Net chg in cash	17	428	-434	58

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	18.1	6.9	8.0	7.2
Growth, %	(23.7)	(62.0)	16.4	(9.9)
Book NAV/share (INR)	196.7	79.0	85.5	91.2
FDEPS (INR)	17.9	6.8	8.0	7.2
CEPS (INR)	46.2	16.7	17.8	19.8
CFPS (INR)	1,149.9	(8.2)	(0.2)	5.2
<b>Return ratios</b>				
Return on assets (%)	1.5	1.1	1.9	2.5
Return on equity (%)	9.2	8.7	9.3	7.9
Return on capital employed (%)	4.1	3.2	4.7	5.8
<b>Turnover ratios</b>				
Asset turnover (x)	0.6	0.4	0.4	0.4
Sales/Total assets (x)	0.2	0.1	0.2	0.2
Sales/Net FA (x)	0.2	0.2	0.2	0.2
Working capital days	(1,509.5)	(1,496.3)	(1,206.4)	(923.3)
<b>Liquidity ratios</b>				
Current ratio (x)	0.1	0.1	0.2	0.2
Quick ratio (x)	0.1	0.1	0.1	0.1
Interest cover (x)	1.7	1.9	1.4	1.2
Total debt/Equity (x)	2.4	2.6	3.3	3.5
Net debt/Equity (x)	2.3	2.6	3.3	3.4
<b>Valuation</b>				
PER (x)	6.9	18.1	15.5	17.2
Price/Book (x)	0.6	1.6	1.5	1.4
EV/Net sales (x)	1.7	2.9	3.0	2.5
EV/EBITDA (x)	8.3	13.1	12.7	9.6
EV/EBIT (x)	12.8	20.2	18.3	13.2

# Gujarat Pipavav Port Ltd

Challenging times ahead



PhillipCapital (India) Pvt. Ltd.

INFRASTRUCTURE: Company Update

31 July 2014

**Stiff competition:** GPPL, which once looked like another Mundra Port in the making, has paid the price of being a later entrant in the sector. The port saw robust cargo growth over CY10-13, boosted by growth in container cargo. However, commissioning of Hazira port (capacity 1.5mn TEUs), continuous expansion in container cargo capacity at Mundra (capacity 4mn TEUs), and the awarding of a fourth container terminal at JNPT (all in its neighborhood) have raised serious concerns about the future cargo growth prospects of the port.

In the wake of this increased competition, it decided to shelve its expansion plans. In June-2012 it had decided to expand its container handling capacity to 1.5mn TEUs (from 0.85mn TEUs) and bulk cargo capacity significantly to 20mn tonnes (from 2mn tonnes). However, in April 2014, the management decided to curtail its expansion plan to 1.35mn TEUs and 5mn tonnes for container and bulk cargo, respectively — its capex plan shrank to Rs 4.6bn from Rs 12bn.

GPPL's 1QCY12 results showed how vulnerable it is, to migration of any large client from its port to a neighboring one. It lost one of the biggest shipping lines owned by Maersk Shipping Corporation (ME-1) to Mundra port. This resulted in 25% drop in container cargo that quarter. It took four subsequent quarters and two large clients for it get back to the same level of volumes.

GPPL could have put up stiff competition to Mundra due to its superior location and connectivity. However, higher level of mechanization and lower turnaround time at Mundra, and overall sticky nature of shipping business ensured that **GPPL was not able to capture any major cargo from Mundra**. Now JNPT's huge 4<sup>th</sup> container terminal and Hazira's better location all pose a significant threat to its cargo growth potential. The rail connectivity to Hazira is also set to improve by CY16 and this will make things even more difficult for GPPL.

**Will remain Mundra's poor cousin:** GPPL's profile remains significantly inferior to Mundra port as well as Adani Ports as a company. The port is able to achieve EBITDA margins of only 50% vs. Mundra's 65%, primarily due to lower economies of scale. Its cargo mix, too, remains completely dependent on only container cargo (72% of total cargo in CY13) vs. Mundra's well-diversified cargo mix. At the company level, it has delivered average ROEs of 10% over the last three years, as compared to 23% by Adani Ports. In spite of all this, GPPL's stock trades at comparable valuations to Adani Ports (20x CY15 P/E vs. 18x FY16 P/E for ADSEZ; 3.5x CY15 P/BV vs. 4.5x FY16 P/BV for ADSEZ).

**Robust performance till date, future uncertain:** GPPL has delivered robust performance over the last three years, with revenue CAGR of 15% and earnings CAGR of 83.3%. Its margins too have expanded by 350bps over the same period. However, we remain skeptical of it being able to continue the same performance over the next three years, in the wake of the stiff competition.

## Not Rated

GPPV IN | CMP RS 146

### Company Data

O/S SHARES (MN) :	483
MARKET CAP (RSBN) :	69
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	147 / 42
LIQUIDITY 3M (USDMN) :	2.8
FACE VALUE (RS) :	10

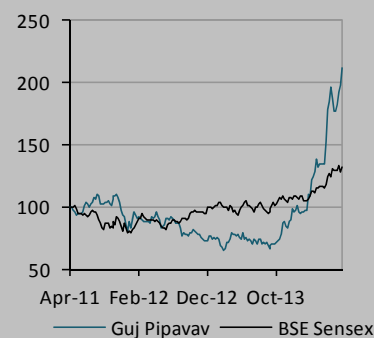
### Share Holding Pattern, %

PROMOTERS :	43.0
FII / NRI :	34.0
FI / MF :	13.8
NON PROMOTER CORP. HOLDINGS :	4.7
PUBLIC & OTHERS :	4.4

### Price Performance, %

	1mth	3mth	1yr
ABS	21.3	66.6	213.9
REL TO BSE	18.1	51.4	181.9

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

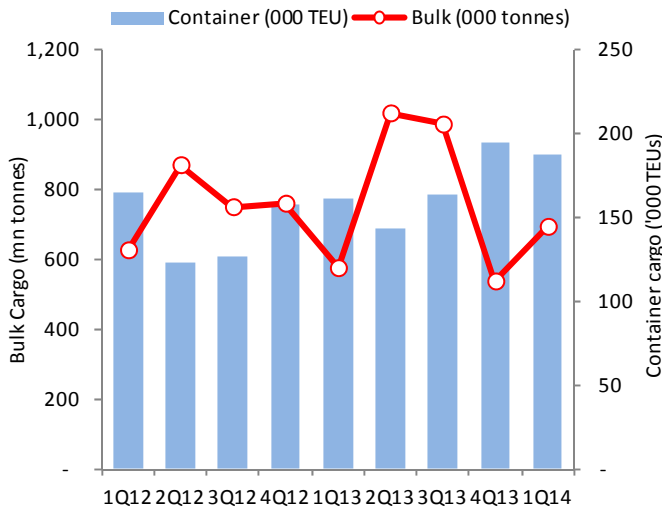
Rs mn	CY11	CY12	CY13
Net Sales	3,968	4,160	5,179
EBIDTA	1,828	1,819	2,568
Net Profit	571	740	1,918
EPS, Rs	1.3	1.6	4.0
PER, x	108.3	89.5	36.8
EV/EBIDTA, x	36.8	37.8	27.8
P/BV, x	7.8	5.5	5.0
ROE, %	7.5	7.4	14.7
Debt/Equity, x	0.9	0.3	0.2

Source: PhillipCapital India Research Est.

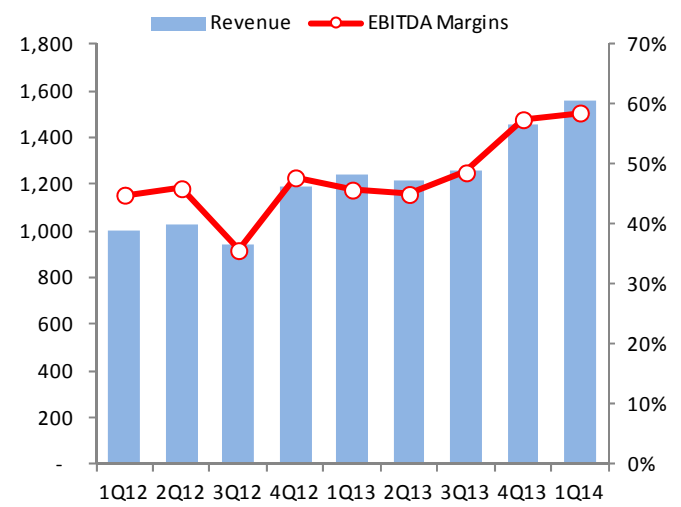
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**Cargo volumes have been volatile**



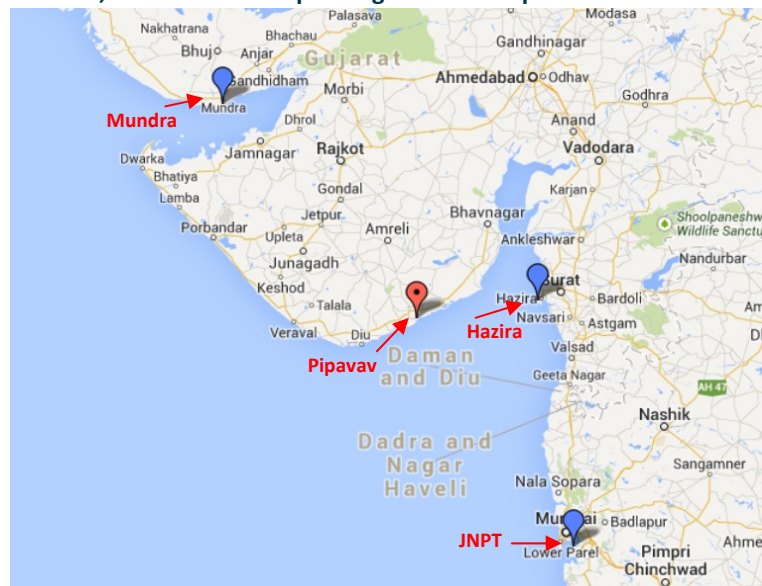
**Margins have steadily improved**



**Expansion plan – earlier and revised**

Earlier Approved Plan	Revised Plan
Container : ~ 1.5 Mn TEUs	Container : ~ 1.35 Mn TEUs
Bulk : ~ 20 MMT	Bulk : ~ 4-5 MMT
Liquid : ~ 2 MMT	Liquid : ~ 2 MMT
<b>SCOPE</b>	<b>SCOPE</b>
<ol style="list-style-type: none"> <li>3 Post Panamax cranes</li> <li>Container Yard development</li> <li>8 RTGs with Spreaders</li> <li>Internal roads &amp; gate complex</li> <li>Electrical &amp; other related works</li> </ol>	<ol style="list-style-type: none"> <li>3 Post Panamax cranes</li> <li>Container Yard - phased development</li> <li>Initially 4 RTGs with Spreaders</li> <li>Internal road &amp; gate complex</li> <li>Electrical &amp; other related works</li> </ol>
<ol style="list-style-type: none"> <li>Dredging (Channel &amp; Berth pockets)</li> <li>348 Meter new container berth # 5</li> <li>Relocation of Liquid Jetty</li> <li>Bulk related infrastructure development</li> </ol>	<ol style="list-style-type: none"> <li>Dredging at berth pockets</li> <li>Strengthening of existing berth # 3</li> <li>Relocating Liquid Jetty not required</li> <li>Remains on hold</li> </ol>
<b>Total Cost of Expansion: Rs12bn</b>	<b>Total Cost of Expansion: Rs4.6bn</b>
<i>Container: Rs9.3bn + Bulk: Rs2.6bn</i>	

**Mundra, Hazira and JNPT pose significant competition**



Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	CY10	CY11	CY12	CY13
<b>Net sales</b>	<b>2,839</b>	<b>3,968</b>	<b>4,160</b>	<b>5,179</b>
Growth, %	29	40	5	24
Total income	2,839	3,968	4,160	5,179
Raw material expenses	0	0	0	0
Employee expenses	-272	-341	-361	-421
Other Operating expenses	-1,423	-1,798	-1,981	-2,191
<b>EBITDA (Core)</b>	<b>1,144</b>	<b>1,828</b>	<b>1,819</b>	<b>2,568</b>
Growth, %	127.6	59.8	(0.5)	41.2
Margin, %	40.3	46.1	43.7	49.6
Depreciation	-493	-558	-549	-608
<b>EBIT</b>	<b>651</b>	<b>1,270</b>	<b>1,269</b>	<b>1,960</b>
Growth, %	1,344.2	95.0	(0.1)	54.5
Margin, %	22.9	32.0	30.5	37.9
Interest paid	-1,271	-852	-684	-374
<b>Pre-tax profit</b>	<b>-547</b>	<b>571</b>	<b>740</b>	<b>1,918</b>
Tax provided	0	0	0	0
<b>Profit after tax</b>	<b>-547</b>	<b>571</b>	<b>740</b>	<b>1,918</b>
Others (Minorities, Associates)	0	0	0	0
<b>Net Profit</b>	<b>-547</b>	<b>571</b>	<b>740</b>	<b>1,918</b>
Growth, %	(53.0)	(204.3)	29.5	159.3
Unadj. shares (m)	424	424	453	483
Wtd avg shares (m)	424	424	453	483

### Balance Sheet

Y/E Mar, Rs mn	CY10	CY11	CY12	CY13
Cash & bank	1,949	1,272	511	2,023
Debtors	295	295	386	344
Inventory	75	57	115	120
Loans & advances	530	560	582	658
Other current assets	0	0	3	41
Total current assets	2,848	2,184	1,596	3,186
Investments	830	830	830	830
Gross fixed assets	16,883	17,515	17,821	19,170
Less: Depreciation	-4,280	-4,817	-5,360	-5,592
Add: Capital WIP	304	121	1,577	1,061
Net fixed assets	12,907	12,819	14,039	14,639
<b>Total assets</b>	<b>16,585</b>	<b>15,833</b>	<b>16,634</b>	<b>18,666</b>
Current liabilities	1,253	1,144	1,478	1,812
Total current liabilities	1,253	1,144	1,478	1,812
Non-current liabilities	7,973	6,759	3,039	2,819
Total liabilities	9,226	7,903	4,517	4,631
Paid-up capital	4,236	4,236	4,834	4,834
Reserves & surplus	3,123	3,694	7,283	9,201
Shareholders' equity	7,359	7,930	12,117	14,035
<b>Total equity &amp; liabilities</b>	<b>16,585</b>	<b>15,833</b>	<b>16,634</b>	<b>18,666</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	CY10	CY11	CY12	CY13
Pre-tax profit	-547	571	740	1,918
Depreciation	493	558	549	608
Chg in working capital	-258	-122	-8	414
Total tax paid	0	0	0	0
<b>Cash flow from operating activities</b>	<b>-313</b>	<b>1,007</b>	<b>1,281</b>	<b>2,940</b>
Capital expenditure	-414	-469	-1,770	-1,208
Chg in investments	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-414</b>	<b>-469</b>	<b>-1,770</b>	<b>-1,208</b>
Free cash flow	-727	538	-489	1,732
Equity raised/(repaid)	4,795	0	3,448	0
Debt raised/(repaid)	-2,918	-1,215	-3,720	-219
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
<b>Cash flow from financing activities</b>	<b>1,877</b>	<b>-1,215</b>	<b>-272</b>	<b>-219</b>
Net chg in cash	1,151	-677	-761	1,512

### Valuation Ratios & Per Share Data

	CY10	CY11	CY12	CY13
<b>Per Share data</b>				
EPS (INR)	(1.3)	1.3	1.6	4.0
Growth, %	(65.1)	(204.3)	21.0	143.2
Book NAV/share (INR)	17.4	18.7	26.7	29.0
FDEPS (INR)	(1.3)	1.3	1.6	4.0
CEPS (INR)	(0.1)	2.7	2.8	5.2
CFPS (INR)	(0.9)	2.0	2.9	5.1
<b>Return ratios</b>				
Return on assets (%)	1.7	6.9	7.3	12.2
Return on equity (%)	(10.5)	7.5	7.4	14.7
Return on capital employed (%)	1.8	7.4	7.9	13.5
<b>Turnover ratios</b>				
Asset turnover (x)	0.2	0.3	0.3	0.4
Sales/Total assets (x)	0.2	0.2	0.3	0.3
Sales/Net FA (x)	0.2	0.3	0.3	0.4
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	37.9	27.2	33.8	24.2
Inventory days	9.6	5.2	10.0	8.5
Payable days	186.8	129.4	168.0	196.4
Working capital days	(45.5)	(21.3)	(34.5)	(45.7)
<b>Liquidity ratios</b>				
Current ratio (x)	2.3	1.9	1.1	1.8
Quick ratio (x)	2.2	1.9	1.0	1.7
Interest cover (x)	0.5	1.5	1.9	5.2
Total debt/Equity (x)	1.1	0.9	0.3	0.2
Net debt/Equity (x)	0.8	0.7	0.2	0.1
<b>Valuation</b>				
PER (x)	(113.0)	108.3	89.5	36.8
Price/Book (x)	8.4	7.8	5.5	5.0
EV/Net sales (x)	23.9	17.0	16.5	13.8
EV/EBITDA (x)	59.3	36.8	37.8	27.8
EV/EBIT (x)	104.2	53.0	54.2	36.4

# Reliance Infrastructure

Right act, wrong noise



PhillipCapital (India) Pvt. Ltd.

INFRASTRUCTURE: Company Update

31 July 2014

**Right act, wrong noise:** Over the last two years this company has been more in the news for negative reasons (Delhi Airport Metro, Mumbai Metro, Worli-Haji-Ali sealink). However, it has one of the strongest balance sheets in the infrastructure space (FY14 D/E 0.9x), a diversified portfolio across roads, power, and MRTS, and has a huge cash pile (Rs 162bn including ICDs and preference shares) that would serve it well to capitalize the HUGE investment opportunity on the anvil. Ironically, in spite of the various controversies on its metro projects, it remains the only company (apart from L&T), which has the distinction of executing two metro projects in the country.

**Well diversified portfolio:** The company owns a well-diversified portfolio of roads, metro, and power projects (generation, transmission, and distribution) apart from perpetual businesses of EPC and cement. It has a 42.2% stake in ADAG group's listed power company Reliance Power (*market cap: Rs 254bn*). As almost all of R-Infra's assets are nearing the end of their capex phase, the portfolio should generate robust cash flows thereafter - translating into superior ROEs.

**Strong balance sheet:** Its balance sheet appears to be in a relatively better state than most of its peers. With debt at Rs 148bn (standalone) and Rs247bn (consolidated), the leverage stands at 0.9x D/E (consolidated). More importantly, the company has Rs 155bn invested in ICDs and preference shares of various group companies, which provides a sizeable war chest to capitalize on the HUGE opportunity that will unveil in the infrastructure space over the next three years – especially in roads and MRTS.

**Set to capitalize the opportunity from multiple corners:** Over the next three years, NHAI is set to award 16,000 kms of new road projects under the NHDP; also, ~10,000 kms of projects that were awarded over FY12-14 and never took-off will be up for re-bids. The new government has announced its plans to build border and coastal highways throughout the country, which could potentially translate into 22,500 kms of incremental awards. This adds up to 40,000 kms of road projects.

A large number of metro/monorail projects should also be announced and awarded in various cities. With the rapid pace of urbanization and most cities in India growing in unplanned manner, there is limited scope for intra-city road expansions, thus creating a pressing need for other forms of transport. On the anvil are 13 metro and 6 monorail projects that could translate into investments of Rs 1.7tn over the next five years. With an existing execution track record in this relatively new domain for the Indian players, Reliance Infra should benefit from this in EPC and BOT formats.

**Few concerns remain:** However, its depleted EPC orderbook (Rs 66bn in FY14, a 35% YoY decline; 1.5x book-to-sales) remains a major concern primarily due to completion of Sasan TPP and its entire road portfolio. Also the status of the Rs155bn invested in ICDs and pref shares remains a concern. Lastly, the stock price will continue to be under the shadow of regulatory issues such as contract-termination penalty for Delhi Airport Metro and Mumbai Metro 2 and tariff determination at Mumbai Metro 1.

## Not Rated

RELI IN | CMP RS 755

### Company Data

O/S SHARES (MN) :	263
MARKET CAP (RSBN) :	193
MARKET CAP (USDBN) :	3.2
52 - WK HI/LO (RS) :	820 / 308
LIQUIDITY 3M (USDMN) :	40.9
FACE VALUE (RS) :	5

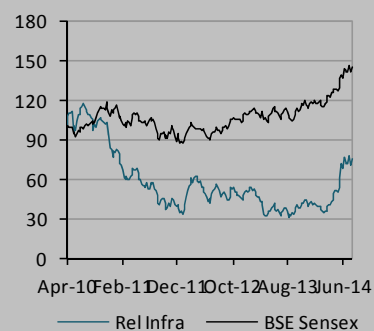
### Share Holding Pattern, %

PROMOTERS :	94.5
FII / NRI :	5.0
FI / MF :	0.0
NON PROMOTER CORP. HOLDINGS :	0.0
PUBLIC & OTHERS :	0.5

### Price Performance, %

	1mth	3mth	1yr
ABS	-1.0	40.2	93.8
REL TO BSE	-4.2	25.1	61.8

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY12	FY13	FY14
Net Sales	242,164	223,745	190,337
EBIDTA	27,195	29,586	28,309
Net Profit	15,868	22,468	19,137
EPS, Rs	60.3	85.4	72.9
PER, x	0.1	0.1	0.1
EV/EBIDTA, x	6.2	6.8	8.0
P/BV, x	0.0	0.0	0.0
ROE, %	6.6	8.8	7.1
Debt/Equity, x	0.7	0.8	0.8

Source: PhillipCapital India Research Est.

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### Reliance Infrastructure Project Portfolio

Projects						
MRTS	Length (km)	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant (Rs mn)	
Mumbai Metro I	12	40,000	20,400	14,100	5,500	
Power Generation		Capacity (MW)	Power Transmission		TPC (Rs mn)	
Dahanu	500		WRSS	17,000		
Samalkot	220		Mumbai Transmission	18,000		
Goa	48		Parbati Koldam	10,700		
Kerala	165					
Karnataka	8					
Power Distribution			Cement		mtpa	
Mumbai distribution			Operational Capacity	5.8		
Delhi distribution			Under development	10.0		
			EPC Orderbook		Rs66.2 bn	

### Reliance Infrastructure BOT Road Project Portfolio

Road Projects	Length km	TPC Rs mn	Debt Rs mn	Equity Rs mn	Grant Rs mn	CoD	Period yrs
Namakkal Karur	41.0	3,500	2,800	500	200	Aug-09	20
Dindigul Samayanallore	53.0	4,200	3,300	600	300	Sep-09	20
Trichy Dindigul	88.0	5,400	3,200	1,100	1,100	Jan-12	30
Salem Ulunderpet	136.0	10,600	6,400	2,100	2,100	Jul-12	25
Gurgaon Faridabad	66.0	7,800	5,800	2,000	(1,500)	Jul-12	17
Jaipur Reengus	52.0	5,600	3,900	700	1,000	Jul-13	18
Pune Satara	140.0	19,900	10,900	9,000	900*	Oct-10	24
Hosur Krishnagiri	60.0	9,200	5,600	3,600	700*	Jun-11	24
Delhi Agra	180.0	29,400	19,100	8,500	1,800	Oct-12	26
Trichy Karur	80.0	7,300	5,100	700	1,500	Feb-14	30
Kandla Mundra	71.0	11,300	7,900	3,400	400*	FY15	25
<b>Total</b>	<b>967.0</b>	<b>114,200</b>	<b>74,000</b>	<b>32,200</b>			

Source: Company, PhillipCapital India Research

### Some landmark projects won by the company have been cancelled

Projects terminated	Length km	TPC Rs mn	Debt Rs mn	Equity Rs mn	Grant Rs mn	Authority
Delhi Airport Metro	23	28,900	20,230	8,670	-	DMRC
Sea link	12	45,500	20,000	11,600	13,900	MSRDC
Mumbai Metro II	32	110,000	70,400	16,500	23,100	MMRDA

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY11	FY12	FY13	FY14
<b>Net sales</b>	<b>1,51,394</b>	<b>2,42,164</b>	<b>2,23,745</b>	<b>1,90,337</b>
Growth, %	3	60	-8	-15
Total income	1,51,394	2,42,164	2,23,745	1,90,337
Raw material expenses	-27,430	-97,189	-65,333	-39,262
Employee expenses	0	0	0	0
Other Operating expenses	-1,08,867	-1,17,780	-1,28,826	-1,22,766
<b>EBITDA (Core)</b>	<b>15,097</b>	<b>27,195</b>	<b>29,586</b>	<b>28,309</b>
Growth, %	23.1	80.1	8.8	(4.3)
Margin, %	10.0	11.2	13.2	14.9
Depreciation	-4,825	-3,936	-5,511	-5,341
<b>EBIT</b>	<b>10,273</b>	<b>23,259</b>	<b>24,075</b>	<b>22,968</b>
Growth, %	36.3	126.4	3.5	(4.6)
Margin, %	6.8	9.6	10.8	12.1
Interest paid	-6,350	-13,359	-16,874	-16,961
<b>Pre-tax profit</b>	<b>13,558</b>	<b>18,044</b>	<b>21,613</b>	<b>18,408</b>
Tax provided	-1,268	-5,442	-2,026	-2,743
<b>Profit after tax</b>	<b>12,290</b>	<b>12,603</b>	<b>19,587</b>	<b>15,664</b>
Others (Minorities, Associates)	-3	-55	-64	-59
<b>Net Profit</b>	<b>15,516</b>	<b>15,868</b>	<b>22,468</b>	<b>19,137</b>
Growth, %	2.1	2.3	17.5	2.7
Unadj. shares (m)	250	263	263	263
Wtd avg shares (m)	267	263	263	263

### Balance Sheet

Y/E Mar, Rs mn	FY11	FY12	FY13	FY14
Cash & bank	6,358	13,770	4,924	6,524
Debtors	73,000	48,941	37,579	50,197
Inventory	4,255	3,779	4,707	5,187
Loans & advances	79,885	138,054	156,427	129,685
Other current assets	18,653	16,878	23,852	28,292
Total current assets	182,150	221,421	227,490	219,883
Investments	137,939	123,015	129,682	182,804
Gross fixed assets	144,606	170,451	177,461	186,301
Less: Depreciation	-57,147	-58,249	-64,298	-69,638
Add: Capital WIP	100,301	74,840	99,407	99,407
Net fixed assets	187,761	187,041	212,571	216,070
<b>Total assets</b>	<b>507,849</b>	<b>559,188</b>	<b>630,269</b>	<b>664,734</b>
Current liabilities	145,857	129,014	154,952	153,328
Total current liabilities	145,857	129,014	154,952	153,328
Non-current liabilities	124,039	185,675	211,794	237,447
Total liabilities	269,897	314,689	366,747	390,775
Paid-up capital	2,675	2,630	2,630	2,626
Reserves & surplus	233,401	239,812	258,580	268,809
Shareholders' equity	237,953	244,499	263,522	273,959
<b>Total equity &amp; liabilities</b>	<b>507,849</b>	<b>559,188</b>	<b>630,269</b>	<b>664,734</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY11	FY12	FY13	FY14
Pre-tax profit	13,558	18,044	18,168	18,408
Depreciation	4,825	3,936	5,511	5,341
Chg in working capital	12,864	-76,412	-21,792	22,131
Total tax paid	-1,850	-1,919	-885	-3,328
<b>Cash flow from operating activities</b>	<b>29,397</b>	<b>-56,351</b>	<b>1,002</b>	<b>42,551</b>
Capital expenditure	-81,414	-2,990	-26,689	-18,236
Chg in investments	-1,348	14,924	-6,667	-53,122
<b>Cash flow from investing activities</b>	<b>-82,761</b>	<b>11,934</b>	<b>-33,357</b>	<b>-71,358</b>
Free cash flow	-53,364	-44,417	-32,355	-28,807
Equity raised/(repaid)	30,572	11,343	11,908	29,449
Debt raised/(repaid)	37,213	58,112	24,978	26,238
Dividend (incl. tax)	1,002	1,089	668	1,227
Other financing activities	-14,285	-18,840	-14,238	-26,661
<b>Cash flow from financing activities</b>	<b>55,227</b>	<b>51,830</b>	<b>23,509</b>	<b>30,406</b>
Net chg in cash	1,863	7,413	-8,846	1,599

### Valuation Ratios & Per Share Data

	FY11	FY12	FY13	FY14
<b>Per Share data</b>				
EPS (INR)	58.2	60.3	85.4	72.9
Growth, %	(12.4)	3.7	41.6	(14.7)
Book NAV/share (INR)	891.9	929.5	1,001.9	1,043.3
FDEPS (INR)	58.2	60.3	85.4	72.9
CEPS (INR)	76.2	75.3	106.4	93.2
CFPS (INR)	74.1	(139.9)	86.9	59.4
DPS (INR)	7.2	7.3	7.4	7.5
<b>Return ratios</b>				
Return on assets (%)	3.7	4.0	5.1	4.1
Return on equity (%)	7.0	6.6	8.8	7.1
Return on capital employed (%)	5.0	5.3	6.7	5.4
<b>Turnover ratios</b>				
Asset turnover (x)	0.8	1.0	0.8	0.7
Sales/Total assets (x)	0.3	0.5	0.4	0.3
Sales/Net FA (x)	1.0	1.3	1.1	0.9
Working capital/Sales (x)	0.2	0.3	0.3	0.3
Receivable days	176.0	73.8	61.3	96.3
Inventory days	10.3	5.7	7.7	9.9
Payable days	354.5	207.9	276.8	325.6
Working capital days	72.2	118.5	110.3	115.1
<b>Liquidity ratios</b>				
Current ratio (x)	1.2	1.7	1.5	1.4
Quick ratio (x)	1.2	1.7	1.4	1.4
Interest cover (x)	1.6	1.7	1.4	1.4
Dividend cover (x)	8.1	8.3	11.5	9.7
Total debt/Equity (x)	0.5	0.7	0.8	0.8
Net debt/Equity (x)	0.5	0.7	0.8	0.8
<b>Valuation</b>				
PER (x)	0.1	0.1	0.1	0.1
Price/Book (x)	0.0	0.0	0.0	0.0
EV/Net sales (x)	0.8	0.7	0.9	1.2
EV/EBITDA (x)	7.8	6.2	6.8	8.0
EV/EBIT (x)	11.5	7.3	8.4	9.9

## INFRASTRUCTURE: Initiating Coverage

**NCC has stood out and stood tall**, over the last two years among the many EPC companies that have filed for Corporate Debt restructuring (CDR) and are grappling with worsening working capital and highly leveraged balance sheets. Its working capital situation has improved, debt has remained steady, and it has reported a loss in only one of its last twelve quarters.

**Standout performer in the sector:** NCC has been one of the best-managed EPC companies in the last two years of economic slowdown. Its debtor days have come down from 105 days in FY11 to 80 days in FY14, which has led to the company's debt levels stabilising from FY12 (while they have ballooned humongously for peers). In this time, it has been able to maintain EBITDA margins in the 7-8% range, while most of its peers have reported highly volatile margins because of reduced operating leverage and write offs. It is also the **ONLY** company among its peers to never report a quarterly loss at the PAT level (except 3QFY14). It has managed all this with financial prudence and discipline.

**Financial prudence:** While most EPC companies invested indiscriminately in BOT projects over FY07-12, NCC maintained its hurdle rate and bid only for projects that made investment sense. As a result, the company did not win any road BOT projects in the last three years, ensuring that it did not lock-in significant capital. It also started the process of reducing its working capital early on, chasing various government agencies to clear payments.

**Clear management focus:** In an effort to deleverage its balance sheet, it has divested multiple land parcels over the last two years, leading to cash accrual of Rs 3.5bn (FY15 target at Rs 2bn). It has also put ALL its BOT projects on the block (already sold stake in two power projects). Management clarity is clearly evident — its board resolved NOT to bid for any BOT projects, focusing on its core competency, EPC.

**Robust and diversified orderbook:** Its orderbook (Rs225bn, 4x book-to-sales) provides high revenue visibility and is well diversified (building, roads, power, water and 9% outside India). Lastly, the sale of Nelcast Power to Sembelcorp removed a big overhang from the stock. The sale ensures NCC will get back the equity that it invested in the project, while keeping the Rs 45bn EPC order.

**Outlook and Valuation:** We believe that its superior position vs. EPC peers will enable it to capitalize the HUGE impending investment opportunity in infrastructure. We expect topline CAGR of 15% over the next two years and EBITDA margin expansion of 140bps (from 6.6% in FY14 to 8.0% in FY16), on legacy orders getting completed and low competition resulting in higher margins for new orders — this should result in 130% earning CAGR over FY14-16.

We value the standalone business at 9x FY16E P/E; investments in BOT Road projects at 0.7x BV and Power projects at 1.0x BV. We also provide a 10% discount to the total value, on account of loss making overseas subsidiaries, which gives us a price target of Rs 100, representing 45% upside from current levels. We initiate coverage on NCC with a BUY rating.

Please refer to Disclosures and Disclaimers at the end of the Research Report.

## BUY

**NJCC IN | CMP RS 69**  
**TARGET RS 100 (+45%)**

### Company Data

O/S SHARES (MN) :	257
MARKET CAP (RSBN) :	18
MARKET CAP (USDBN) :	0.3
52 - WK HI/LO (RS) :	89 / 17
LIQUIDITY 3M (USDMN) :	5.4
FACE VALUE (RS) :	2

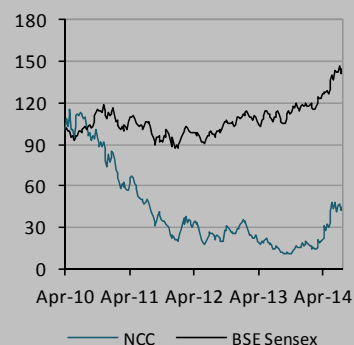
### Share Holding Pattern, %

PROMOTERS :	20.4
FII / NRI :	36.5
FI / MF :	8.8
NON PROMOTER CORP. HOLDINGS :	5.9
PUBLIC & OTHERS :	28.5

### Price Performance, %

	1mth	3mth	1yr
ABS	-10.8	28.1	187.6
REL TO BSE	-14.0	12.9	155.6

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

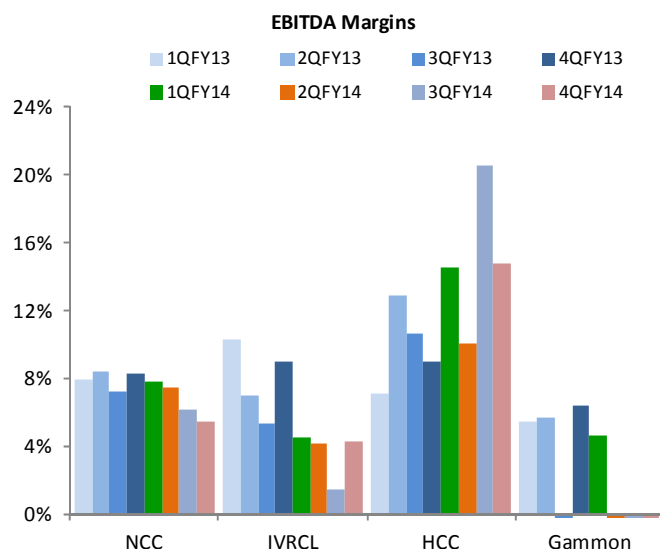
### Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	61,173	68,512	78,785
EBIDTA	4,049	5,138	6,303
Net Profit	405	841	2,143
EPS, Rs	1.6	3.3	8.4
PER, x	43.7	21.0	8.3
EV/EBIDTA, x	10.3	7.6	5.9
P/BV, x	0.7	0.7	0.6
ROE, %	1.6	3.2	7.6
Debt/Equity, x	98.2	85.4	71.8

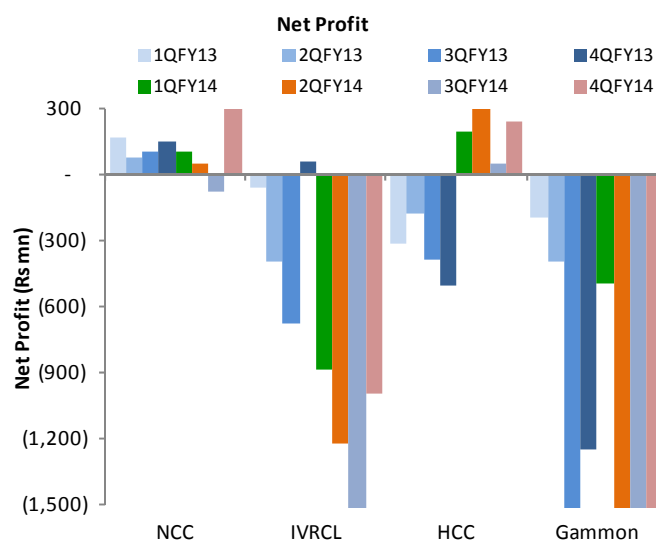
Source: PhillipCapital India Research Est.

**Vibhor Singhal** (+ 9122 6667 9949)  
vsinghal@phillipcapital.in

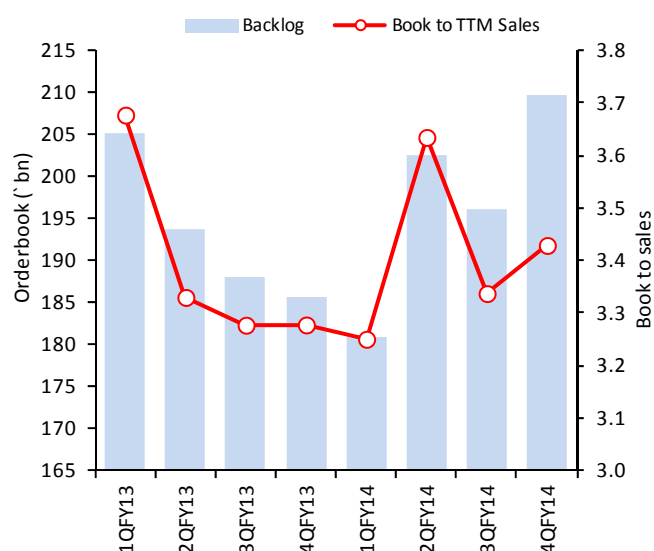
### NCC remains the only company to report stable margins



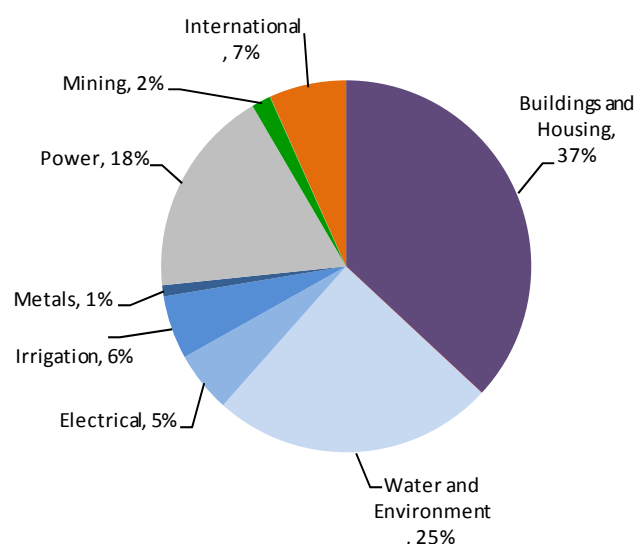
### ... And to not report loss at PAT level over last three years\*



### Orderbook has grown steadily ...



### .. and is well diversified across segments



### Nelcast Power project – Sembcorp deal removes a big overhang

Project Details	Rs mn	Sembcorp Deal	
Total project cost	70,470	Stake acquired	45%
Debt	52,850	Consideration (Rs mn)	8,500
Equity required	17,620	Implied P/BV	1.07
NCC Share (55%)	9,690	Stake Left	
Equity already infused	4,548	NCC	30%
Equity required	5,142	Gayathri	25%

### SoTP Valuation

Business division	EPC Business	BOT Road Projects	Power Projects	Overseas Subsidiaries	Total
FY16E EPS / Equity Invested	8.4	3,707	6,120		
Assumed Multiple (PE / PBV)	9.0x	0.7x	1.0x		
<b>Value to NCC (Rs mn)</b>	<b>19,283</b>	<b>2,595</b>	<b>6,120</b>	<b>10%</b>	<b>25,587</b>
<b>Value per share (Rs)</b>	<b>75.2</b>	<b>10.1</b>	<b>23.9</b>		<b>100.0</b>

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
<b>Net sales</b>	<b>57,249</b>	<b>61,173</b>	<b>68,512</b>	<b>78,785</b>
Growth, %	9	7	12	15
Total income	57,249	61,173	68,512	78,785
Employee expenses	-2,427	-2,404	-2,692	-3,096
Other Operating expenses	-29,316	-28,631	-32,985	-37,930
<b>EBITDA (Core)</b>	<b>4,709</b>	<b>4,049</b>	<b>5,138</b>	<b>6,303</b>
Growth, %	17.9	(14.0)	26.9	22.7
Margin, %	8.2	6.6	7.5	8.0
Depreciation	-920	-895	-922	-922
<b>EBIT</b>	<b>3,789</b>	<b>3,153</b>	<b>4,217</b>	<b>5,381</b>
Growth, %	19.8	(16.8)	33.7	27.6
Margin, %	6.6	5.2	6.2	6.8
Interest paid	-4,070	-4,660	-3,993	-3,186
Other Non-Operating Income	1,259	1,535	1,051	1,051
<b>Pre-tax profit</b>	<b>977</b>	<b>29</b>	<b>1,275</b>	<b>3,246</b>
Tax provided	-351	376	-433	-1,104
<b>Profit after tax</b>	<b>627</b>	<b>405</b>	<b>841</b>	<b>2,143</b>
Others (Minorities, Associates)	0	0	0	0
<b>Net Profit</b>	<b>627</b>	<b>405</b>	<b>841</b>	<b>2,143</b>
Growth, %	74.1	(35.3)	107.6	154.7
<b>Net Profit (adjusted)</b>	<b>627</b>	<b>405</b>	<b>841</b>	<b>2,143</b>
Unadj. shares (m)	257	257	257	257
Wtd avg shares (m)	257	257	257	257

### Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	800	688	1,112	700
Debtors	11,430	13,410	15,016	17,268
Inventory	14,264	15,987	17,832	19,427
Loans & advances	24,332	30,739	28,156	30,219
Total current assets	61,491	72,612	73,903	79,400
Investments	12,536	11,643	11,643	11,643
Gross fixed assets	11,035	11,704	11,704	11,704
Less: Depreciation	-3,850	-4,745	-5,667	-6,588
Add: Capital WIP	61	61	61	61
Net fixed assets	7,247	7,020	6,098	5,177
<b>Total assets</b>	<b>81,274</b>	<b>91,275</b>	<b>91,645</b>	<b>96,220</b>
Current liabilities	34,112	41,207	43,236	47,669
Total current liabilities	34,112	41,207	43,236	47,669
Non-current liabilities	22,481	24,865	22,365	20,365
Total liabilities	56,593	66,072	65,601	68,034
Paid-up capital	513	513	513	513
Reserves & surplus	24,167	24,690	25,531	27,673
Shareholders' equity	24,680	25,203	26,044	28,186
<b>Total equity &amp; liabilities</b>	<b>81,274</b>	<b>91,275</b>	<b>91,645</b>	<b>96,220</b>

Source: Company, PhillipCapital India Research Estimates

### Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	977	29	1,275	3,246
Depreciation	920	895	922	922
Chg in working capital	-530	-4,138	1,162	-1,477
Total tax paid	-374	270	-433	-1,104
<b>Cash flow from operating activities</b>	<b>993</b>	<b>-2,944</b>	<b>2,924</b>	<b>1,587</b>
Capital expenditure	-557	-551	0	0
Chg in investments	-134	893	0	0
<b>Cash flow from investing activities</b>	<b>-691</b>	<b>342</b>	<b>0</b>	<b>0</b>
Free cash flow	302	-2,602	2,924	1,587
Equity raised/(repaid)	-82	0	0	0
Debt raised/(repaid)	-91	2,490	-2,500	-2,000
<b>Cash flow from financing activities</b>	<b>-173</b>	<b>2,490</b>	<b>-2,500</b>	<b>-2,000</b>
Net chg in cash	129	-112	424	-413

### Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	2.4	1.6	3.3	8.4
Growth, %	74.1	(35.3)	107.6	154.7
Book NAV/share (INR)	96.2	98.2	101.5	109.9
FDEPS (INR)	2.4	1.6	3.3	8.4
CEPS (INR)	6.0	5.1	6.9	11.9
CFPS (INR)	(1.0)	(17.5)	7.3	2.1
<b>Return ratios</b>				
Return on assets (%)	4.0	3.9	3.7	4.4
Return on equity (%)	2.5	1.6	3.2	7.6
Return on capital employed (%)	6.9	7.0	6.9	8.6
<b>Turnover ratios</b>				
Asset turnover (x)	1.7	1.7	1.9	2.2
Sales/Total assets (x)	0.7	0.7	0.7	0.8
Sales/Net FA (x)	7.7	8.6	10.4	14.0
Working capital/Sales (x)	0.5	0.5	0.4	0.4
Receivable days	72.9	80.0	80.0	80.0
Inventory days	90.9	95.4	95.0	90.0
Payable days	233.0	261.2	247.2	238.4
Working capital days	169.5	183.3	157.5	143.8
<b>Liquidity ratios</b>				
Current ratio (x)	1.8	1.8	1.7	1.7
Quick ratio (x)	1.4	1.4	1.3	1.3
Interest cover (x)	0.9	0.7	1.1	1.7
Total debt/Equity (x)	0.9	0.9	0.8	0.7
Net debt/Equity (x)	0.8	0.9	0.8	0.7
<b>Valuation</b>				
PER (x)	28.3	43.7	21.0	8.3
PEG (x) - y-o-y growth	0.4	(1.2)	0.2	0.1
Price/Book (x)	0.7	0.7	0.7	0.6
EV/Net sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	8.3	10.3	7.6	5.9
EV/EBIT (x)	10.3	13.2	9.2	6.9



## Appendix – Project Portfolios

### GMR Infra – Capex phase nearing its end

Airport	Stake (%)	Capacity (PAX mn)	TPC	Equity	Debt	RE deposit	Others	CoD	Revenue share
Delhi (DIAL)	54%	60.0	1,27,000	25,000	52,660	14,715	34,625	Apr-06	46%
Hyderabad (GHIAL)	63%	12.0	29,200	3,780	21,200		4,220	Dec-04	4%
Turkey	40%	25.0	27,000	6,900	20,100			May-08	€ 2.17bn
<b>Total</b>			<b>1,83,200</b>	<b>35,680</b>	<b>93,960</b>	<b>14,715</b>	<b>8,845</b>		
Power	Stake (%)	Capacity (MW)	TPC	Equity	Debt	Fuel Type	Expected CoD	Tariff Structure	
GPCL (Chennai)	51%	200	8,700	2,475	6,225	LSHS	Feb-99	100% PPA	
GEL (Kakinada, Barge)**	100%	220	6,030			Gas	Jun-01	100% merchant	
VPGL**	100%	388	11,500	2,748	8,752	Gas	Dec-08	100% PPA	
VPGL expansion**	100%	768	40,600	10,150	30,450	Gas	FY12	100% merchant	
Kamalanga	80%	1050	63,070	29,020	34,050	Coal	Jul-12	90% PPA signed	
EMCO	100%	600	39,480	13,380	26,100	Coal	Jul-12	100% PPA signed	
Chhattisgarh**	100%	1370	82,906	20,727	62,179	Coal	FY15	MoU with CIL signed	
<b>Total</b>			<b>2,52,286</b>	<b>78,500</b>	<b>1,67,756</b>				
Roads	Stake (%)	Length (kms)	TPC	Equity	Debt	Grant	Expected CoD	Tariff Structure	Years
Tuni - Anakapalli	61	59	2,950	449	2,501		Oct-04	Annuity	17.5
Tambaram - Tindivanam	61	93	3,620	571	3,049		Oct-04	Annuity	17.5
Pochanpalli	100	103	7,043	1,523	5,520		Mar-09	Annuity	20.0
Ambala - Chandigarh	100	35	4,993	989	2,816	1,188	Nov-08	Toll	20.0
Faruknagar - Jadcherla	26	58	5,155	1,620	3,535		Feb-09	Toll	20.0
Tindivanam - Ullundurpet	26	73	10,730	1,990	7,410	1,330	Jul-09	Toll	20.0
Hyderabad - Vijaywada	74	181	22,686	5,790	16,896		Apr-12	Toll	25.0
Hungund - Hospet	51	99	16,509	2,309	10,800	3,400	Aug-12	Toll	19.0
Chennai Outer ring	90	29	11,668	1,500	7,168	3,000	FY14	Annuity	20.0
<b>Total</b>			<b>85,354</b>	<b>16,741</b>	<b>59,695</b>	<b>8,918</b>			

Source: Company, PhillipCapital India Research

### GVK Power – Large part of the portfolio remains non-operational

Asset	Stake	Capacity	Total Capex	Debt	Equity	Status
<b>Airport</b>						
Mumbai	50.50%	40 mn PAX	120,698	42,310	12,000	Operational; T2 to be commissioned in Feb-14
Bengaluru	43%	25 mn PAX	35,000	36,890	3,850	Operational
<b>Power</b>						
JP-I	100%	217 MW	10,250	7,175	3,075	Zero PLF due to non-availability of gas
JP-II	100%	220 MW	9,100	7,230	1,870	Zero PLF due to non-availability of gas
Gautami	64%	464 MW	19,350	13,545	5,805	Zero PLF due to non-availability of gas
Alaknanda	100%	330 MW	42,000	33,600	8,400	Execution delay; cost over-run; hit by floods in July-13
Goindwal Sahib	100%	540 MW	29,638	24,000	5,638	Execution delay; cost over-run
Tokisud	100%	2 mn tonnes	3,000	2,250	750	Execution delay
<b>Roads</b>						
Jaipur-Kishengarh	100%	90 km	6,220	3,020	1,090	Operational
Deoli-Kota	100%	83 km	8,230	6,587	1,647	Execution delays
Bagodara-Vasad	100%	102 km	11,890	8,918	2,973	Execution delays
<b>Total</b>			<b>295,376</b>	<b>185,525</b>	<b>47,098</b>	

Source: Company, PhillipCapital India Research

**IRB Infra – a coveted portfolio in the road segment**

	Length Kms	Project Cost Rs mn	Upfront		Total Debt Rs mn	End date
			Payment Rs mn	Total Equity Rs mn		
<b>Operational BOT Projects</b>						
NKT	60	368	-	150	218	Dec-15
MKMM	33	180	-	70	110	May-18
Thane Bhiwandi	23	1,040	-	340	700	Jun-17
Pune-Nashik	30	737	-	10	727	Sep-21
Pune-Solapur	26	630	-	20	610	Mar-19
Kharpada	15	320	-	100	220	Aug-15
Thane-GHB	15	2,469	1,404	403	2,066	Jun-22
Mumbai-Pune	95	13,017	9,180	1,202	11,814	Aug-19
Bharuch-Surat	65	14,700	5,040	1,981	12,719	Jan-22
Surat-Dahisar*	239	25,372	-	7,865	17,507	Feb-21
MVR	68	3,076	-	1,280	2,234	Aug-26
<b>Under construction projects</b>						
Kolhapur	50	4,300	270	1,720	2,580	Jan-39
Talegaon -Amravati	67	8,880	(2,160)	4,130	4,750	Dec-31
Jaipur - Deoli	149	17,330	(3,060)	8,330	9,000	Dec-34
Amritsar - Pathankot	102	14,453	(1,269)	5,213	9,240	Dec-29
Tumkur - Chitradurga	114	11,420	(1,404)*	3,110	8,310	Apr-37
Vadodara - Ahmedabad	196	48,800	(3,096)*	15,800	33,000	Apr-37
<b>New projects</b>						
Goa - Kundapur	192	21,030	(5,360)	6,970	14,060	
* Solapur Yedeshi	99	15,000	(1,890)	3,933	9,177	
* Yedeshi Aurangabad	190	32,000	(5,580)	7,926	18,494	
* Kaithal - Rajasthan	166	23,000	(2,340)	6,198	14,462	
<b>Total</b>	<b>1,733</b>	<b>258,122</b>		<b>76,751</b>	<b>171,998</b>	

Source: Company, PhillipCapital India Research

**Asoka Buildcon (ACL) Portfolio**

Rs mn	Length (km)	Stake (%)	TPC	Debt	Project Equity	Grant	Expected COD
Bhandara	94.2	51.0	5,350	3,750	1,500	100	Oct-10
Jarora Nayagaon	85.1	37.7	8,350	5,620	2,730	(153)	Sep-09
Belgaum Dharwad	75.7	100.0	6,940	4,790	1,850	(310)	May-11
Pimpalgaon Nasik Gonde	75.3	26.0	16,910	13,528	3,382	6.20%	Sep-12
Durg bypass	92.1	51.0	5,870	4,100	1,770	-	Feb-12
Sambalpur baragarh	101.9	100.0	11,420	8,100	3,320	13	Sep-15
Dhankuni Kharagpur	140.1	100.0	22,050	17,400	4,650	(1,261)	Apr-12
Chennai ORR	-	50.0	14,500	10,800	1,730	1,970	-
<b>Total</b>	<b>776.3</b>		<b>88,127</b>	<b>47,898</b>	<b>17,779</b>		

Source: Company, PhillipCapital India Research

**Adani Ports Portfolio – Moving beyond Mundra**

Portfolio	Cargo Type	Total Capacity (Mn Tonnes)	Container capacity (Mn TEUs)	Capex (Rs bn)	Tariff determination	Status
Mundra	Multi-purpose	200.0	4.0	95.0	Market driven	Operational
Dahej	Dry Bulk	20.0	-	11.5	Market driven	Operational
Hazira	Bulk+Container	35.0	1.3	25.0	Market driven	Operational
Mormugao	Coal	10.0	-	4.0	TAMP	FY15
Vizag	Coal	6.4	-	4.0	TAMP	Dec-13
Kandla	Bulk	20.0	-	12.0	TAMP	FY16
Ennore	Container	16.8	1.4	12.7	Market driven	FY17
Dhamra	Dry Bulk	25.0	-	36.0	Market driven	Operational
<b>Total</b>		<b>333.2</b>	<b>6.7</b>	<b>200.2</b>		

Source: PhillipCapital India Research (\*Greenfield project)

## Management

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

## Research

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### Banking, NBFCs

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### Cement

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### Economics

Anjali Verma	(9122) 6667 9969
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### Engineering, Capital Goods

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Hrshikesh Bhagat	(9122) 6667 9986

### Infrastructure & IT Services

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Varun Vijayan	(9122) 6667 9992

### Midcap

Vikram Suryavanshi	(9122) 6667 9951
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### Metals

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### Oil&Gas, Agri Inputs

Gauri Anand	(9122) 6667 9943
Deepak Pareek	(9122) 6667 9950

### Pharma

Surya Patra	(9122) 6667 9768
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### Retail, Real Estate

Abhishek Ranganathan, CFA	(9122) 6667 9952
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### Technicals

Subodh Gupta, CMT	(9122) 6667 9762
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### Production Manager

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### Database Manager

Vishal Randive	(9122) 6667 9944
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### Sr. Manager – Equities Support

Rosie Ferns	(9122) 6667 9971
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## Sales & Distribution

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Ashvin Patil	(9122) 6667 9991
Shubhangi Agrawal	(9122) 6667 9964
Kishor Binwal	(9122) 6667 9989
Sidharth Agrawal	(9122) 6667 9934
Dipesh Sohani	(9122) 6667 9756

### Sales Trader

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

### Execution

Mayur Shah	(9122) 6667 9945
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