



MBL Infrastructures

Near term visibility concerns

Key takeaways from the management meet

In our recent interaction with MBL, the management team reaffirmed its confidence to achieve INR10bn in revenues for FY11. Revenue visibility for FY12 though still remains hazy with no major order inflows in Q3&Q4 FY11, leading to a (worrying) backlog to FY11E revenues ratio of 1.4x. The company maintains its expectations of healthy inflows for FY12 with orders worth INR100bn (across 40 projects) under bidding, pre-qualification and final award stages, including the INR40bn NHAI BOT based projects. A marked pick up in project awarding is expected by Jun-Jul'11.

Backward integration enables better OPMs, return ratios

With a view to induce operational efficiency and cost control, MBL has forayed into the RMC, and quarrying and mining businesses ensuring adequate and timely supply of high quality raw materials. In addition, an ownership of the critical equipment base and a bunch of 625 technically qualified and skilled personnel have not only aided in rapid mobilization, serving multi-locational needs, but also imparted a competitive edge against peers. These factors have lent a support to deliver an enhanced business volume while maintaining a better operating profitability as demonstrated by MBL's five year average OPMs, RoCE and RoNW of 12.7%, 25.3% and 28% respectively.

Focus on selective bidding, risk sharing ensures asset light model

Despite being an early entrant, MBL has been quite selective in its bidding strategy across road BOTs. Two fold reason for the same have been its focus on scouting and bidding for strategic and highly lucrative projects while simultaneously adhering to an asset light business model. In line with this philosophy, the company bagged its second road BOT project in Apr'10 through a 51:49 JV with SREI Infrastructure Finance in the prime iron ore mining belt of Orissa.

Toning down FY12 earnings by ~7%, maintain Buy

We revise our FY12 revenue and earnings estimates downwards by ~5% and 6.7% respectively, factoring in lower than anticipated order inflows during FY11 (INR6.5bn vs expectations of INR9bn). We however, remain positive on MBL's ability to deliver ~24% revenue CAGR over the FY11-13 period backed by anticipated INR22.1bn worth fresh jobs in FY12 and sustenance of superior return ratios (20%+) vis-à-vis peers (despite ~9% earnings CAGR over FY11-13E). We are of a strong opinion that the presence of a proven integrated business model, a professionally qualified team of employees with a quality management at the helm should enable MBL to capture foreseeable opportunities. Maintain 'Buy' with a revised Mar'12 based price target of INR227.

Rating : Buy

Target Price : INR227

Upside : 26%

CMP : INR180 (as on 21 March 2011)

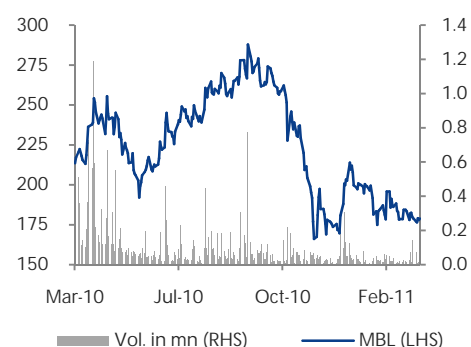
Key data*

Bloomberg /Reuters Code	MBL IN/MBLI.BO
Current /Dil. Shares O/S (mn)	17.5/17.5
Mkt Cap (INRbn/US\$mn)	3.2/69.5
Daily Vol. (3M NSE Avg.)	25,086
Face Value (INR)	10

1 US\$= INR45.3

Source: Bloomberg; * As on 21 March 2011

Price & volumes



Source: Bloomberg

Share holding (%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoter	57.3	57.3	57.3	57.3
Institutional Investors	16.3	17.9	18.7	16.9
Other Investors	19.5	18.3	17.2	18.2
General Public	6.9	6.5	6.8	7.7

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(10.0)	(8.8)	2.1
MBL Infra	3.1	(37.9)	(16.0)
Tantia Constructions	(17.6)	(19.5)	(44.6)
Valecha Engineering	(28.0)	(48.2)	(11.3)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	Adj. P/E (x)	EV/EBITDA (x)
FY09	5,058	73.3	670	13.1	274	73.4	15.6	34.5	29.2	8.9	5.1
FY10	6,289	24.3	842	13.3	342	24.7	19.5	21.3	22.5	7.1	5.6
FY11E	9,909	57.6	1,377	13.8	634	85.8	36.2	25.2	24.9	3.8	4.5
FY12E	11,880	19.9	1,618	13.5	662	4.3	37.8	21.2	21.2	3.7	4.6
FY13E	15,258	28.4	2,051	13.3	748	13.1	42.7	19.7	20.3	3.3	4.7

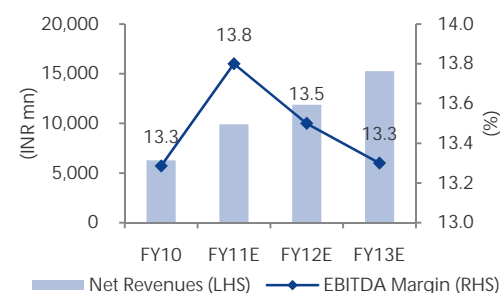
Source: Company, Elara Securities Estimate

Standalone Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Net Revenues	6,289	9,909	11,880	15,258
EBITDA	835	1,367	1,604	2,029
Add:- Non operating Income	7	10	14	22
OPBITDA	842	1,377	1,618	2,051
Less :- Depreciation & Amortization	43	68	97	130
EBIT	799	1,309	1,522	1,921
Less:- Interest Expenses	282	348	519	788
PBT	517	961	1,003	1,134
Less :- Taxes	175	327	341	385
Adjusted PAT	342	634	662	748
Add/Less: - Extra-ordinaries	-	-	-	-
Reported PAT	342	634	662	748
Balance Sheet (INR mn)	FY10	FY11E	FY12E	FY13E
Share Capital	175	175	175	175
Reserves	2,047	2,641	3,261	3,968
Borrowings	1,913	3,313	4,513	6,563
Deferred Tax (Net)	150	150	150	150
Total Liabilities	4,285	6,279	8,099	10,857
Gross Block	1,146	1,695	2,245	2,895
Less:- Accumulated Depreciation	321	389	486	616
Net Block	825	1,306	1,759	2,279
Add:- Capital work in progress	49	-	-	-
Investments	120	288	824	1,593
Net Working Capital	3,292	4,685	5,516	6,984
Other Assets	-	-	-	-
Total Assets	4,285	6,279	8,099	10,857
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	729	1,041	1,263	1,644
Add/Less : Working Capital Changes	(1,297)	(1,438)	(900)	(1,542)
Operating Cash Flow	(568)	(397)	363	102
Less:- Capex	(321)	(500)	(550)	(650)
Free Cash Flow	(889)	(897)	(187)	(548)
Financing Cash Flow	769	1,011	640	1,221
Investing Cash Flow	-	(159)	(521)	(747)
Net change in Cash	(120)	(45)	(69)	(74)
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	24.3	57.6	19.9	28.4
EBITDA Growth	25.7	63.5	17.5	26.8
PAT Growth	24.7	85.8	4.3	13.1
EBITDA Margin	13.3	13.8	13.5	13.3
Net Margin	5.4	6.4	5.6	4.9
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.7	1.1	1.3	1.5
ROE (%)	21.3	25.2	21.2	19.7
ROCE (%)	22.5	24.9	21.2	20.3
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	19.5	36.2	37.8	42.7
EPS Growth (%)	24.7	85.8	4.3	13.1
DPS (INR/Share)	2.0	2.0	2.0	2.0
Adj. P/E Ratio (x)	7.1	3.8	3.7	3.3
EV/EBITDA (x)	5.6	4.5	4.6	4.7
EV/Sales (x)	0.8	0.6	0.6	0.6
Price/Book (x)	1.4	1.1	0.9	0.8
Dividend Yield (%)	1.1	1.1	1.1	1.1

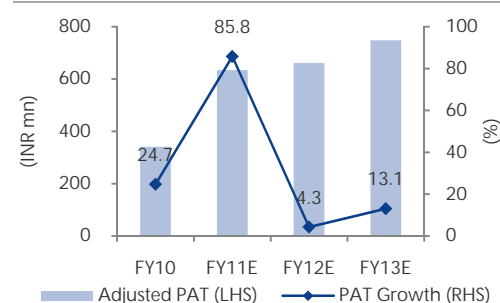
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



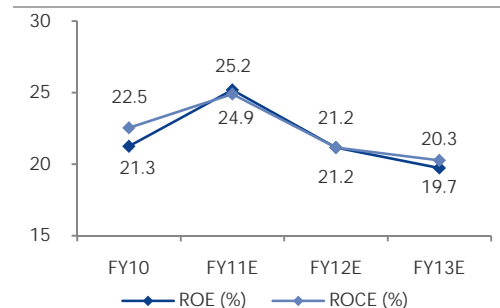
Source: Company, Elara Securities Estimates

Adjusted net profits growth trend



Source: Company, Elara Securities Estimates

Return ratios



Source: Company, Elara Securities Estimates

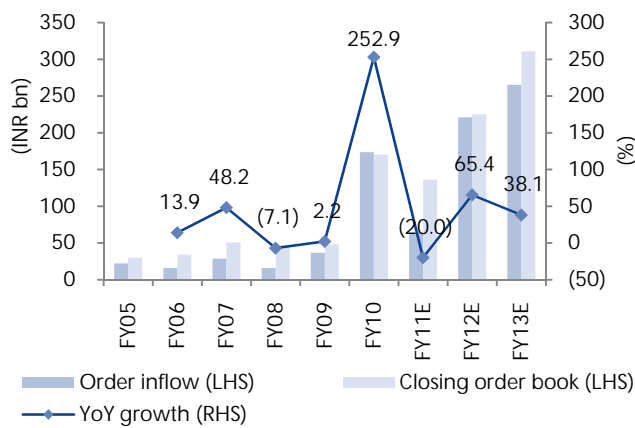
Rising net debt/equity led by debt infusion to fuel working capital, equity for new BOTs

Compelling valuations considering revenue growth and superior return ratios

Backlog to bill ratio at 1.4x, strong bidding pipeline worth INR100bn

MBL's order backlog has witnessed a steep CAGR of 49.3% over the past five years, enabling revenue CAGR of 41.2% during the same period. Though the present order book of INR13.7bn seems slightly suppressed at 1.4x FY11E revenues, the company has already participated or is in the process of bidding for orders worth INR100bn, clarity on which should emerge in subsequent quarters. While it has demonstrated >33% success rate in winning bids historically, going forward, we forecast the success ratio to decline to 22-25% owing to an enhanced competition. Nevertheless, MBL is expected to clock robust inflows and closing backlog CAGR of 102% and 51.1% respectively for FY11-13E.

Exhibit 1: Order inflow & order backlog trend



Source: Company, Elara Securities Estimates

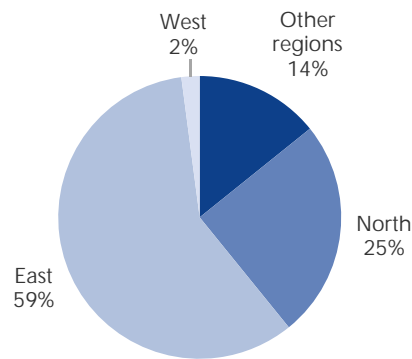
Exhibit 2: Historical strike rate

	FY07	FY08	FY09	FY10
Bids submitted (nos.)	10	5	9	18
Bids secured (nos.)	6	2	3	11
Bid-success (%)	60.0	40.0	33.3	61.1

Source: Company

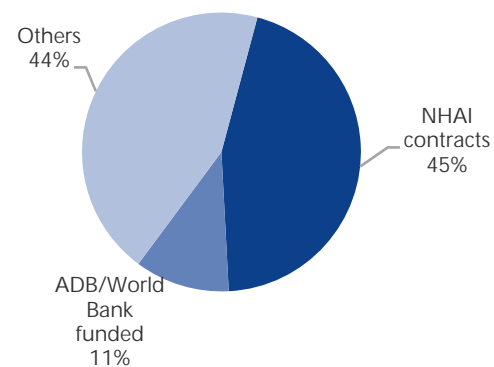
In terms of client wise segmentation, ~45% of contracts in the existing order backlog emanate from road works pertaining to NHAI. The remaining chunk is divided between projects funded by either institutions such as Asian Development Bank and the World Bank or even by various state PWDs. In terms of geography, while the Eastern region is a major contributor at ~59%, significant job volumes emanate from the Northern states (~25%) as well.

Exhibit 3: Jobs from Eastern states dominate the pie



Source: Company

Exhibit 4: Order book composition: Client-wise



Source: Company

Exhibit 5: Road BOT project portfolio

Project	Seoni-Balaghat-Rajegaon (MP)	Rimuli-Roxy-Rajmunda (Orissa)
Holding (%)	100.0	51.0
Concession period (yrs)	15	19
Status	Operational	Under Construction
Total project cost (INR mn)	730	8,150
Debt (INR mn)	435	4,530
Equity (INR mn)	120	1,321
Government grant (INR mn)	175	2,300

Source: Company, Elara Securities Estimates

Valuation & Recommendation

Revise earnings estimates: We revise our FY12 revenue and earnings estimates downwards by ~5% and 6.7% respectively, factoring in lower than anticipated order inflows during FY11 (Rs6.5bn Vs expectations of Rs9bn). We however, remain positive on MBL's ability to deliver ~24% revenue CAGR over the FY11-13 period backed by anticipated INR22.1bn worth fresh jobs in FY12 and sustenance of superior return ratios (20%+) vis-à-vis peers (despite ~9% earnings CAGR over FY11-13E).

Exhibit 6: Revised estimates

(INR mn)	FY12E		
	Old	New	% Change
Revenues	12,472	11,880	(4.7)
EBIDTA	1,699	1,604	(5.6)
EBIDTA Margins (%)	13.6	13.5	(12)bps
Adj. Net Profits	709	662	(6.7)
EPS (Rs)	40.5	37.8	(6.7)

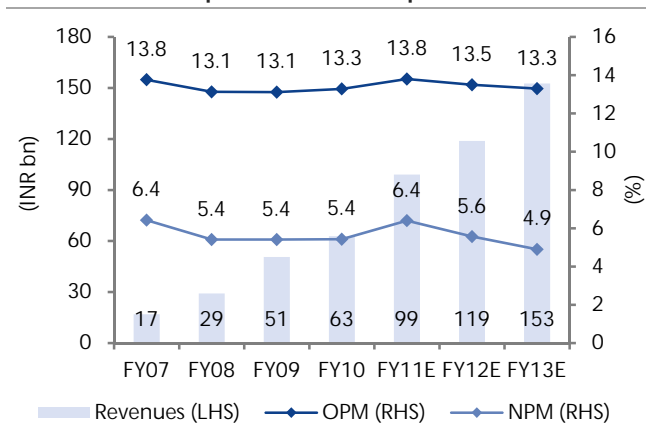
Source: Company, Elara Securities Estimates

Earnings record to temper, ~9% CAGR for FY11-13 seen

The revenue visibility, originating from the existing order backlog, coupled with the achievement of executing over INR2bn in quarterly run rate over the past three quarters give us confidence of MBL keeping pace (albeit in moderation owing to higher base) with its five year revenue CAGR of 41.2% going forward (estimate ~24% revenue CAGR over FY11-13E). The same should witness its revenues inflating from INR9.9bn in FY11 to INR15.3bn by FY13. Presence of an in-house RMC, quarrying and mining divisions and a state of the art equipment bank have lent a notable support to the company in registering three and five year average OPMs at 13.2% and 12.7% respectively - considerably better than peers.

Over the next couple of years, we do not foresee any significant threat to exhibited OPMs as ample jobs on offer would impart an opportunity to selectively pick and execute projects, presenting a better profitability. However, a rising net debt to equity (1.3x for FY12E) led by surmounting working capital (INR3.9bn for FY11-13E) and capex requirements (INR1.7bn for FY11-13E), are expected to contain net profits CAGR to ~9% over FY11-13. The same should percolate into a net profitability of INR748mn in FY13 from INR634mn in FY11.

Exhibit 7: MBL's performance snapshot



Source: Company

Valuations not reflecting true potential, maintain Buy

We have valued MBL's core contracting business using three different valuation methodologies namely the P/E multiple, P/BV and EV/EBIDTA. Valuing by the P/E and EV/EBIDTA basis, we assign a 5x FY12E earnings and 4x FY12E EV/EBIDTA multiple to the company. On a P/BV basis, we assign a 1.2x multiple to MBL's FY12E book value. However, this is despite offering higher return ratios than industry peers. We expect the company to deliver an average RoCE and RoNW of 22.1% and 22% respectively over the period FY11-13.

We have used the DCF model for valuing MBL's 114kms operational road BOT in Maharashtra, placed in its 100% subsidiary, AAP Infrastructure Ltd. We have assumed the cost of equity at 12% and the cost of long term debt at 11.5%. With regards to the Rimuli – Roxy - Rajamunda BOT project in Orissa (since the project has just achieved financial closure and has considerable risks involved during the construction phase), we prefer to value the same at 1x FY11 book value of investments made in the SPV by the company.

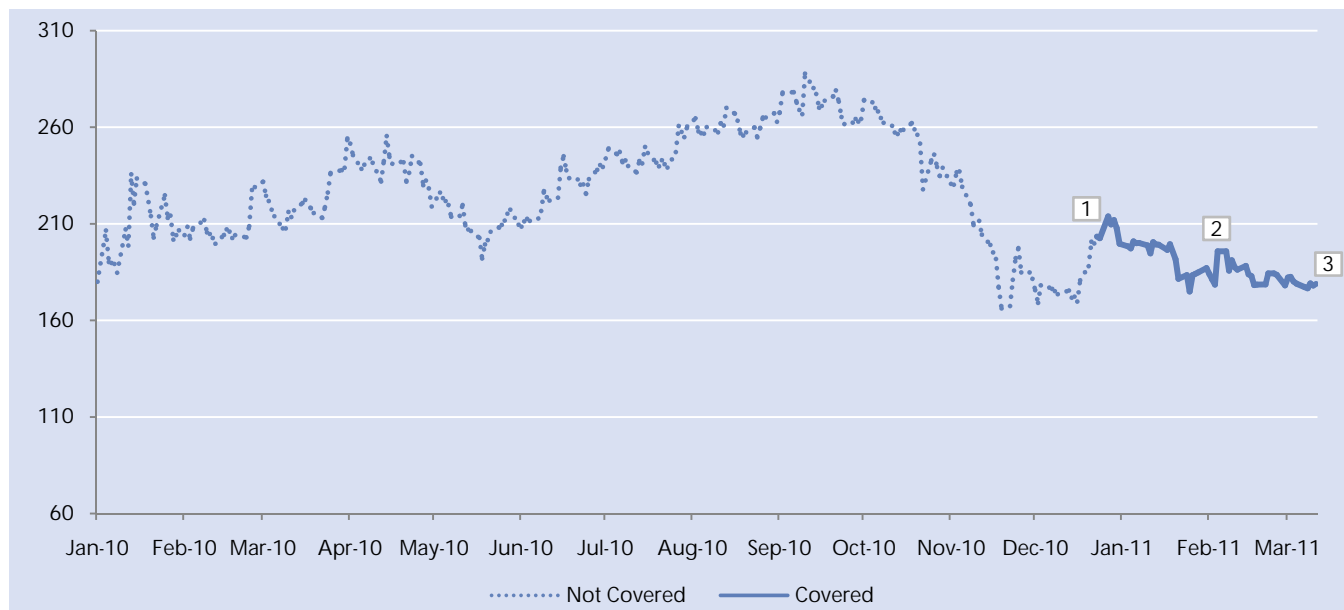
At the CMP of INR180, MBL trades at an adjusted P/E of 3.7x and EV/EBIDTA of 4.6x its FY12 earnings estimates. Our SOTP valuation yields INR227 as fair value per share, offering ~26% upside from the present levels. We remain positive on MBL's ability to deliver ~24% revenue CAGR over the FY11-13 period backed by anticipated INR22.1bn worth fresh jobs in FY12 and sustenance of superior return ratios (20%+) vis-à-vis peers (despite ~9% earnings CAGR over FY11-13E). We are of a strong opinion that presence of a proven integrated business model, a professionally qualified team of employees with a quality management at the helm should enable MBL to capture foreseeable opportunities. Maintain 'Buy' with a revised Mar'12 based price target of INR227.

Exhibit 8: Valuation summary

Methodology	Assumption	INR/share
Standalone (core business)		
P/E multiple	5x FY12E EPS	189
P/BV	1.2x FY12E BV	235
EV/EBIDTA	4x FY12E	121
Average – (A)		182
BOT projects		
AAP Infra	DCF valuation @ 12% CoE	35
Rimuli Roxy	Valued at 1x FY11E BV	10
Subtotal – (B)		45
Fair value per share - (A+B)		227
CMP		180
Potential upside (%)		25.9

Source: Elara Securities Estimates

Coverage History



Date	Rating	Target Price	Closing Price
1 30-Dec-2010	Buy	INR276	INR202
2 14-Feb-2011	Buy	INR254	INR195
3 21-Mar-2011	Buy	INR227	INR180

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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