



July 07, 2008

Gammon India Limited

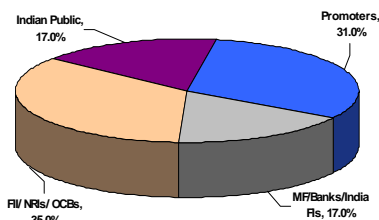
Neutral

CMP: Rs 227

Key Data

Market Cap (Rs bn)	19.7
Market Cap (US\$ mn)	457
52 WK High / Low	845/204
Avg Daily Volume	60853
Face Value (Rs)	2
BSE Sensex	13454
Nifty	4016
BSE Code	509550
NSE Code	GAMMONIND
Reuters Code	GAMM.BO
Bloomberg Code	GMON IN

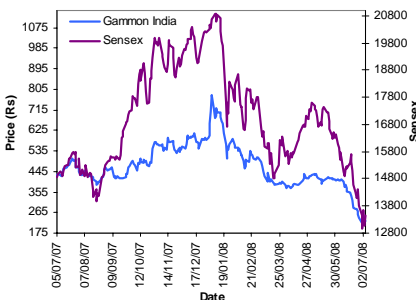
Shareholding Pattern (%)



Price Performance (%)

	Absolute	Relative
3 Months	(40.8)	(28.5)
6 Months	(71.0)	(36.0)
12 Months	(47.0)	(37.5)

GIL vs BSE



Rupa Shah

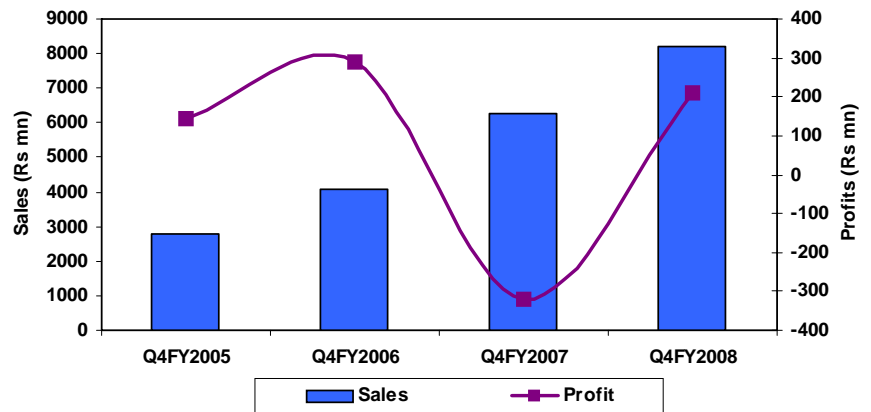
Tel: +91 22 4000 2666
email: rshah@finquestonline.com

FY2008 Result Update

The top line of Gammon India Limited (GIL) in FY2008 was above our expectations at Rs 23.5bn (FQ Est: Rs 22.1bn).

However loss in JV[Oman], and loss on forex (Rs 60mn) has suppressed the bottom-line at Rs 883mn (FQ Est: Rs 1bn) and was below our expectations. EBIDTA margins saw a de-growth of 35bps (YoY) on account of increase in commodity prices and lower margins in Q3FY08.

Exhibit 1: Fourth Quarter Showing improvement



Source: Company, FQ Research

For Q4FY08 the company reported revenues of Rs 8.2bn a 31% growth YoY and Rs 235mn as bottom-line as compared to a loss of Rs 319mn in Q4FY07. The EBIDTA margins (YoY) were maintained at 9.6%

Key Financials

Y/E March (Rs mn)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	18448	23449	31289	41459
% chg	26.8	27.1	33.4	32.5
Net Profit	984	883	1331	1836
% chg	(4.3)	(10.2)	50.7	38.0
EPS (Rs)	11.1	10.0	15.0	20.8
EBITDA Margin (%)	9.0	9.6	9.0	9.1
P/E (x)	20.4	22.7	15.1	10.9
P/CEPS (x)	15.0	14.9	10.8	8.1
EV/EBIDTA	14.2	10.4	8.9	7.1
Book Value(Rs)	132.7	112.9	156.1	175.6
P/BV(x)	1.7	2.0	1.5	1.3
RoE (%)	9.5	8.3	11.4	12.8

Source: Company, FQ Research

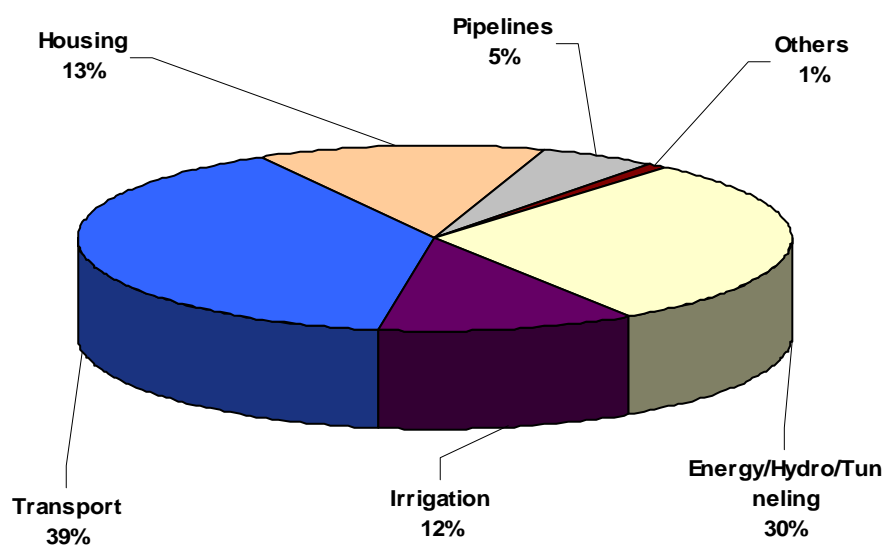
FY2008

For FY08 GIL reported revenues of Rs 23.5bn as against Rs 18.6bn posting 25.7% YoY growth and a 98% YoY growth in bottom line from Rs 445mn in FY07 to Rs 883mn in FY08. However, EBIDTA margins were affected negatively by 35bps on account of general increase in commodity prices (with fixed price contracts mainly for GIPL) and were reported at 9.6%. However the company has been able to pass through approx. 80% of the increased cost to clients.

There was also a loss on Oman JV (on account of re-working of some past receivables) which led to a relatively lower growth in PAT which stood at Rs 883mn for FY08.

The order book inflow in FY2008 was to the tune of Rs 45bn.

Exhibit 2: FY2008 revenue composition



Source: Company, FQ Research

FY08 revenues were dominated by transportation sector on account of orders from GIPL to GIL and other cash contacts in this field. The share of energy and tunneling was also substantial.

GILs subsidiaries ATSL for 9mts has reported a top-line of Rs 5.25bn and a bottom line of Rs 450mn with 16.1% EBIDTA margins. On annualized basis we expect ATSL to clock revenues of Rs 6.5bn with a bottom line of Rs 550mn. The order book of ATSL stands at Rs 17bn.

The actual figures being awaited from the management we had expected Gammon Billimoria to clock revenues to the tune of Rs 3.7bn with a bottom-line of Rs 129mn for FY08. The order book at this company stands at Rs 10bn.

Updates

Acquisition

To gain foothold in power sector GIL has acquired two Italian firms – steam turbine maker Franco Tosi Meccanica and power sector services firm Sadelmi Spa. GIL bought 75.1% stake in steam turbine maker Franco Tosi Meccanica Spa for 40mn euros and a 50% stake in power sector services firm Sadelmi Spa, for 7.5mn euros.

Sadelmi is engaged in balance of plant mainly for the power sector and Franco Tosi Meccanica is engaged in the manufacture of steam turbines for thermal and hydro-electric plants. The funding of acquisitions have been through debt @ 8%.

SPA :

Order book: Rs 26bn with a 30 months execution cycle.

CY07 Revenues : 120mn euros, loss making at EBIDTA

FTM :

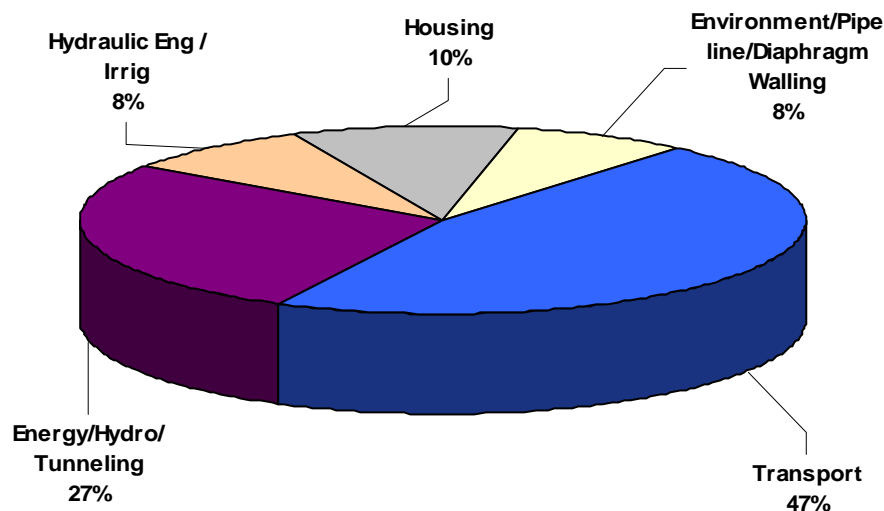
Order book: Rs 13bn with a 30 months execution cycle.

CY07 Revenues : 90mn euros, loss making at EBIDTA

Order book

The order book of GIL stands at Rs 95bn as on June 30th 2008. The company is L1 for projects of Rs 18bn and is pre-qualified for projects worth Rs 23bn. Out of the total order book 18% (mainly being fixed priced) of the orders are from internal projects. (GIPL)

Exhibit 3: Current order book composition



Source: Company, FQ Research

The order book continues to be dominated by transportation projects though the share has decreased from 50% in Q3FY08 to 47% in Q4FY08. Housing projects have increased from 5% in Q3FY08 to 10% in Q4FY08.

GIPL

GIPL has 14 projects (worth Rs 50bn approx) 4 projects under operation phase. For FY08 GIPL posted sales of Rs 1.5bn with and EBIDTA margin of 54%. The PAT was at Rs 207mn with 13% margin on account of higher interest cost for funding on projects under construction. The company has tied up debt for present projects in the range of 9-11.5%.

Revising Estimates.....

*Note: Earlier Estimated Revenues for FY09E and FY10E were at Rs 28bn and Rs 39bn.
Estimated PAT for FY09E and FY10E at Rs 1.4bn and Rs 2bn.
Estimated EPS for FY09E and FY10E at Rs 15.3 and Rs 23.6*

We have revised our **revenue estimates upwards** on back of decent performance in FY08, healthy order intake in first 3 months of the year and robust guidance given by the management. We now expect the company to post a top line of Rs 31bn (33% YoY growth) and Rs 41bn (33% YoY growth) in FY2009E and FY2010E respectively. GIL will also be a part of the pack, hit by rising commodity prices. This along with being a prime contractor for all the projects of GIPL (margins on these projects are relatively lower on account of fixed price contracts) we expect the margins to take a hit. We have down graded the EBIDTA marginally for FY2009E and FY2010E by 20bps and 54bps to 9% and 9.1% respectively.

We expect the company to post PAT to the tune of Rs 1.3bn (50% YoY growth) and Rs 1.8bn (37% YoY growth) in FY2009E and FY2010E. Revised EPS for FY09E and FY10E stand at Rs 15 and Rs 20.8.

Valuation

The earlier estimates of GIPL and various subsidiaries have changed on account of higher cost of capital for development and P/E re-rating respectively. **We now value GIL's 86% stake in 14 BOT/BOOT projects of GIPL on DCF basis [WACC 11-13%] at Rs 150 (Q3FY08 [WACC 10-11%]: Rs 200). We value ATSL, GBL, GRL and 8% stake in Sadbhav Eng. at Rs 30, Rs 8, Rs 9 and Rs 6 respectively. Revised core business EPS for FY09E and FY10E stand at Rs 15 and Rs 20.8. We would incorporate valuations of newly acquired companies at a latter stage.**

The cost-push inflation in raw material prices have hit infrastructure companies hard off late. It would take time until a policy evolves (from the government bodies) safeguarding the interest of the developers which will ultimately decide the future of these players. We would avoid to rate this stock in the present update (Q3FY08RU: BUY) but are positive on the prospects of the company. We would come back once the sector settles after a re-rating.

At the CMP 227, the scrip trades at 15.1x FY2009E EPS of Rs 15 & 10.9x its FY2010E EPS of Rs 20.8. We are Neutral on the stock.

Quarterly Financial Highlights

Y/E March (Rs mn)	Q4FY2008	Q4FY2007	%chg YoY	FY2008	FY2007	%chg YoY
Net Sales	8216	6268	31.1	23449	18647	25.7
Expenditure	7425	5666	31.0	21204	16795	26.2
EBIDTA	792	603	31.4	2246	1852	21.2
Margin (%)	9.63	9.61		9.58	9.93	
Interest	142	13	1020.5	264	136	94.6
EBDTA	649	590	10.1	1982	1717	15.4
Depreciation	126	91	39.7	462	352	31.2
PBT	523	499	4.7	1519	1364	11.4
Other Income	23	57	(59.8)	45	66	
Adj. for losses on JV & FOREX	(174)	0		(171)	0	
Tax	137	875	(84.4)	510	986	(48.2)
PAT	235	(319)	(173.6)	883	445	98.5
Margin (%)	2.9			3.8	2.4	
EPS	2.7			10.2	5.1	

FINQUEST Securities (P) Ltd.

602 Boston House, Next to Cinemax, Suren Road, Andheri (East) Mumbai 400 093
Tel.: 91-22-4000 2600 • Fax: 91-22-4000 2605 • Email: research@finquestonline.com
Website: www.finquestonline.com

Ratings (Returns)

Buy > 15%

Hold 0-15%

Sell > -10%

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, FINQUEST, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent FINQUEST and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

FINQUEST and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to companies mentioned herein or inconsistent with any recommendation and related information and opinions.

FINQUEST and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.