

IPO Note
IPO Details

Face Value	Rs. 10
Price Band (Rs)	320-370
Issue Opens	Sep 27, 2002
Issue Closes	Oct 4, 2007
Bloomberg	MAY IN
BRLM	DSP Merrill Lynch Ltd / JM Financial Consultants Pvt Ltd
Co-BRLM	Kotak Mahindra Capital Co Ltd
Registrar to issue	Karvy Computershare Pvt Ltd
Shares on offer for sale	8.85 mn

Pre issue shareholding pattern

Shareholders	% Stake
Promoters	43.1
Non-Promoter group	56.9

Post issue shareholding pattern

Shareholders	% Stake
Promoters	36.6
QIBs	9.0
Non-Institutional	49.8
Retail	4.5

Segmented Allocation

QIBs	5,310,000
Non-Institutional	885,000
Retail	2,655,000

IPO Details

	Lower End	Upper End
Price Band	Rs. 320	Rs. 370
Equity Shares prior to issue (mn)	50.0	50.0
Fresh Issue of shares (mn)	8.9	8.9
Total Equity Shares (mn)	58.9	58.9
Share Capital (mn)	Rs. 588.5	Rs. 588.5
Implied market cap (mn)	Rs. 18,832.0	Rs. 21,774.5
Debt (mn) (as on 31/03/2007)	Rs. 6,641.1	Rs. 6,641.1
Cash (mn) (as on 31/03/2007)	Rs. 1,172.3	Rs. 1,172.3
Implied EV (mn)	Rs. 24,300.8	Rs. 27,243.3

Maytas Infra Limited

Hyderabad-based Maytas Infra Limited (MIL) is engaged in construction and infrastructure development activities. With a historical focus on irrigation, roads and bridges, and building infrastructure sectors, MIL has lately diversified into power, industrial structures, oil & gas, and railway sectors. As an infrastructure developer, the Company identifies, sources, develops and operates projects in the infrastructure sector. As on 30th June 07, MIL had a diversified order book of Rs. 35,893.2 mn (inclusive of share in JVs).

Valuation and Recommendation

Maytas's FY07 P/E of 30.2x and 35x, at the lower and upper price band, is at a discount of 18.4% and 5.7% respectively to its peer group average of 37.1x. Further, on the basis of EV/EBITDA the issue is at a considerable discount to its peers.

Considering MIL's past performance, extensive experience in the construction sector, integrated business model, and a strong & diversified order book, we believe it will be able to successfully compete against major players. The shift of focus towards high margin power and oil & gas sector is likely to provide impetus to future growth. We recommend the investors to **Subscribe** at the lower price band with a long term investment horizon.

Valuation Analysis

	EV (Rs. mn)	P/E Ratio	EV/ EBITDA
Gammon India Ltd	49,196	38.8x	28.6x
Hindustan Construction Company Ltd	52,770	63.5x	23.4x
Patel Engineering Ltd	28,429	23.3x	17.6x
Simplex Infrastructures Ltd	24,621	33.8x	15.2x
Nagarjuna Construction Company Ltd	60,610	37.5x	20.7x
IVRCL Infrastructures & Projects Ltd	59,633	30.4x	20.8x
Consolidated Construction Consortium Ltd	19,112	32.2x	27.4x
Peer Group Average		37.1x	22.0x
Maytas Infra Limited			
Lower Price Band	24,301	30.2x	19.0x
Higher Price Band	27,243	35.0x	21.3x
Premium / (Discount) to Peer Group			
Lower Price Band		(18.4%)	(13.3%)
Higher Price Band		(5.7%)	(2.8%)

IPO

Issue details

MIL will mobilize Rs. 2,832 mn to Rs. 3,274.5 mn through an IPO of 8.9 mn equity shares. The promoters hold 43.1% of the issued and paid-up share capital of the Company. After the issue, the promoters will own 36.6% of the post-issue paid-up equity share capital. The Company has allocated 5.3 mn shares of the net issue for QIBs, 0.9 mn shares for non-institutional buyers and 2.7 mn shares for retailers. The issue will constitute 15% of the fully diluted post-issue paid up capital of the Company.

Issue objective

The objective of the issue is to raise funds for the following purposes:

- Investment in Associate companies:
 - Rs. 277.1 mn in Bangalore Elevated Tollway for the construction of elevated highway project of the Bangalore-Hosur section of NH-7
 - Rs. 1,274.4 mn in KVK Nilachal Power for developing, constructing and commissioning a 300 MW coal-based power plant in Orissa, and
 - Rs. 342.5 mn SV Power for setting up a 56 MW coal washery reject based power plant and a 2.5 mn metric tonne p.a. coal washery at Korba District, Chhattisgarh
- Purchase of construction equipment worth Rs. 332.9 mn
- Other project related investments and commitments
- General corporate purposes, and
- Issue expenses

Promoters

MIL was promoted by B. Teja Raju, SNR Investments Pvt Ltd, and Veeyes Investments Pvt Ltd.

B. Teja Raju, the Vice Chairman of the Company, holds a bachelor's degree in Computer Science and Engineering and a master's degree in Electronic Commerce. He joined the Company in 2001 with experience in the construction and infrastructure development industry.

The principal activity of SNR Investments and Veeyes Investments is to carry on the business of portfolio investments in all kinds of securities.

B. Teja Raju is the promoter of both these companies.

Investment Rationale

Robust order book

The order book of the Company inclusive of its share of JVs was Rs. 35,893.2 mn, as on 30th June 07. The order book would be executable in about 18-36 months and will provide revenue growth over the medium term. The Company's order book also includes higher margin construction contracts in the power, oil and gas infrastructure, and railways sector.

The Company is moving up the value chain and is bidding for construction work in these sectors that require greater level of technical expertise and thus this will improve and/or maintain margins.

Emphasis on BOT/BOOT projects

The Government has laid emphasis on encouraging participation in infrastructure development through public-private partnerships. BOT/BOOT projects as part of such initiatives offer opportunities for accelerated and sustainable growth for the Company. These projects are generally larger in scale and have fewer competitors qualified to bid. These projects offer better margins and hence improved returns.

MIL is participating as a consortium member in nine ongoing BOT/BOOT projects in the road, power, and port sectors and intends to actively pursue BOT/BOOT opportunities, both independently and in partnership with Indian and international partners.

Integrated execution capabilities with in-house construction

The construction sector presently faces a scarcity of contractors and lacks in-house capability to execute large contracts. The Company has the ability to provide construction services to third parties as well as to SPVs floated by it. These in-house construction capabilities distinguish it from pure project developers and hence enhance competitiveness.

Diversified portfolio across sectors and geographic locations

MIL undertakes construction contracts, spread across six sectors namely irrigation, roads and bridges, buildings and structures, power, oil & gas, and railways. Its infrastructure development projects are in road, power, and ports sectors. These projects are geographically distributed across 12 states in India, which help in mitigating risks associated with a particular sector or region.

Moreover, in December 2006, the Company established a JV in Dubai to explore construction opportunities outside India.

Key Risks

High debt component

With a debt-equity ratio of 2.5:1, the total debt of Maytas stands at Rs. 6,641.1 mn as on 31st Mar 07. The debt-equity mix for the proposed and existing projects varies between 3:1 and 4:1. Such a high component of debt in the balance sheet will increase financial burden and outside liability.

Substantial portion of revenue from fixed price contracts

MIL derives a substantial portion of revenue from fixed-price, lump-sum or item-rate contracts, which either contain limited or no price escalation clauses. The Company, as a result, may find it difficult to sustain its margin in a rising cost environment.

Long gestation period

Most of the infrastructure development projects undertaken by Maytas are either in the construction or development phase. The Company does not expect to earn any significant income from this business in the near future.

Moreover, KVK Nilachal Power and SV Power for which the funds are mobilized are not expected to commence operations earlier than CY10. Delay in starting commercial operation may adversely affect the performance of the Company.

Low margins on irrigation and road contracts

MIL earns 48.4% and 29.5% of the unconsolidated revenues from irrigation and road contracts, respectively for FY07. Margins on irrigation and road contracts are susceptible to decline, as contracts in these sectors are increasingly awarded by the government entities to the lowest bidder, causing the Company to accept lower margins in order to be awarded the contract. Further, the Company also expects lower margins in the future as certain aspects of construction work in the irrigation and roads sectors are commoditized.

Outlook

MIL, which has historically focused on irrigation, roads and bridges, and buildings infrastructure sectors, is planning to enlarge its ambit of operations to include water and waste water management, SEZs, urban infrastructure, ports, and airport sectors. The Company has a strong order book of Rs. 35,893.2 mn which provides sufficient earnings visibility over short to medium term.

With extensive experience in the construction business, integrated execution capabilities, diversified portfolio and geographical presence, MIL plans to bid for bigger projects, explore foreign shores and take on the likes of established players in the industry.

The Company's FY07 P/E of 30.2x and 35x, at the lower and upper price band, is at a discount of 18.4% and 5.7% respectively to its peer group average of 37.1x. We recommend the investors to **Subscribe** to the issue at the lower price band and with a long term investment horizon.

Company Background

Incorporated in 1988 and promoted by the founders of Satyam computer Services Ltd, Maytas Infra Limited undertakes construction activities on a contract basis and infrastructure development which involves identifying, sourcing, developing, and operating projects in infrastructure sectors.

MIL has historically focused on irrigation, roads & bridges, and buildings infrastructure sectors, across 12 states of India: Andhra Pradesh, Karnataka, Tamil Nadu, Orissa, Chhattisgarh, Madhya Pradesh, Maharashtra, Himachal Pradesh, Haryana, Gujarat, Uttar Pradesh, and Assam.

Of late, the Company has diversified its portfolio of construction projects and has also undertaken civil construction projects in the power, industrial structures, oil and gas infrastructure, and railways sectors.

As on 30th June 2007, the Company's order book inclusive of its share in joint ventures was Rs. 35,893.2 mn.

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