

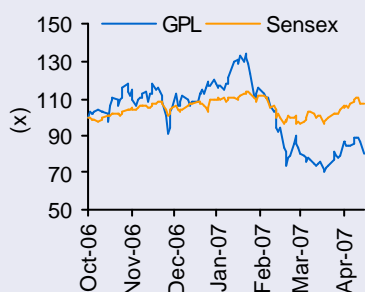
## Gayatri Projects Ltd (Q4 FY07) - Investment Update

<b>Recommendation</b>	<b>BUY</b>
CMP	Rs242
Target Price	Rs374
Upside	55%
Sensex	13,872
52 Week H/L	Rs423/208.5
Avg. Vol. (1week)	51,873
Market Cap	Rs2,418mn
Face Value	Rs10
BSE Code	532767
Reuters	GAPR.BO

### Share Holding Pattern

<b>Mar'07</b>	<b>(%)</b>
Promoters	55.8
Foreign & Institutions	19.1
Non Promoter Corporate	9.1
Public & Others	16.0

### Share Price Trend



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*We had recommended a BUY on Gayatri Projects Ltd (GPL) based on our belief that it was poised for high growth and trading at one of the most attractive valuations among construction peers. While growth momentum has picked in FY07, P/E expansion is yet to take place as sentiments turned negative for the sector with the withdrawal of section 80IA benefits in the recent budget (GPL had claimed section 80IA only during FY07). We reiterate a BUY with a price target of Rs374, an upside of 55% from current levels.*

- √ Net sales up 39% yoy during the quarter
- √ Present order book of Rs22.5bn, order book/sales 4.5x
- √ OPM decline as per expectation – on account of rising share of roads
- √ High tax provisioning due to withdrawal of section 80IA lowers PAT for quarter
- √ Net profit growth for FY07 healthy at 32.4% yoy

### Valuations

With a healthy order book of Rs22.5bn, translating into 4.5x FY07 turnover, we expect GPL to witness a CAGR of 45.2% in sales between FY07-09E to cross the Rs10bn turnover mark in FY09. During the same period, we expect the company to witness a CAGR of 57% in net profit.

The GPL stock trades at a P/E of 6.4x and 4.2x FY08E and FY09E earnings respectively. Adjusted for BOT value, it trades at 4.2x FY08E and 2.8x FY09E EPS and EV/EBIDTA of 4.9x FY08E and 3.8x FY09E, making it one of the most attractive construction counters. We believe that a market cap/sales multiple of 0.5x is not commensurate to the size of operations with a high EBIDTA margin of 15% and does not justify the growth potential.

Even at a discounted target multiple of 6x to FY09E earnings, the stock appears attractive on its core business alone. We take a haircut of Rs54 per share from our target price to factor in concerns on the IJM-Gayatri project under arbitration, where GPL's loss stands at Rs540mn. Our target price of Rs374, comprises core business valuation of Rs346, BOT valuation of Rs82, minus Rs54 haircut taken on IJM-Gayatri.

### Table: Financial highlights

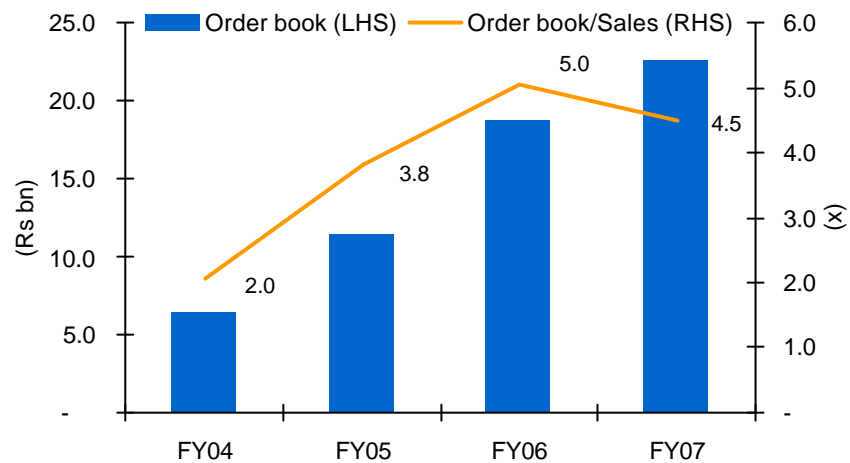
Period to (Rs mn)	03/07 (3)	03/06 (3)	Growth (%)	03/07 (12)	03/06 (12)	Growth (%)
Net sales	1,660	1,195	39.0	5,021	3,712	35.3
Expenditure	(1,420)	(993)	43.0	(4,267)	(3,061)	39.4
Operating profit	240	202	19.0	754	651	15.9
Other income	20	8	147.5	32	11	205.1
Interest	(100)	(81)	23.2	(301)	(286)	5.5
Depreciation	(33)	(28)	20.4	(126)	(104)	21.1
PBT	127	101	25.7	359	272	32.1
Tax	(95)	(35)	169.4	(125)	(95)	31.6
PAT	32	66	(51.7)	234	177	32.4
OPM (%)	14.5	16.9	-	15.0	17.5	-
Equity capital	100	90		100	90	
EPS (Rs) Annualized	12.7	29.2		23.4	19.7	

## Investment highlights

### Another good quarter – Poised to attain size in two years

GPL registered its second consecutive quarter of good growth since our initiating coverage report post Q2 FY07 results. Net sales grew 39% yoy during Q4 FY07 and 35.3% yoy for the year. Turnover during FY07 crossed the Rs5bn mark against our estimated Rs4,964mn. With a healthy order book of Rs22.5bn (order book/FY07 sales of 4.5x), we expect the company to witness a CAGR of 45.2% between FY07-09E to cross the Rs10bn turnover mark in FY09. 92.6% and 72.4% of our projected turnover in FY08 and FY09 respectively, factors in execution of current orders in hand. This comforts on GPL meeting our projected numbers for the next two years with potential upsides from new order intake.

### Chart: Order book trend



Source: India Infoline Research

### OPM decline expected, yet margins on the higher side compared to peers

OPM declined by 240bps yoy during Q4 FY07 and by 250bps yoy for the year ended FY07. This was in line with our expectations since contribution of road projects in the revenue mix increased during the year. However, on a qoq basis, OPM increased by 80bps. Even with the fall in FY07, GPL continues to enjoy one of the best OPMs in the business as it owns nearly 100% of its equipments, refrains from high level subcontracting and has high margin irrigation orders along with BOT construction in its revenue mix.

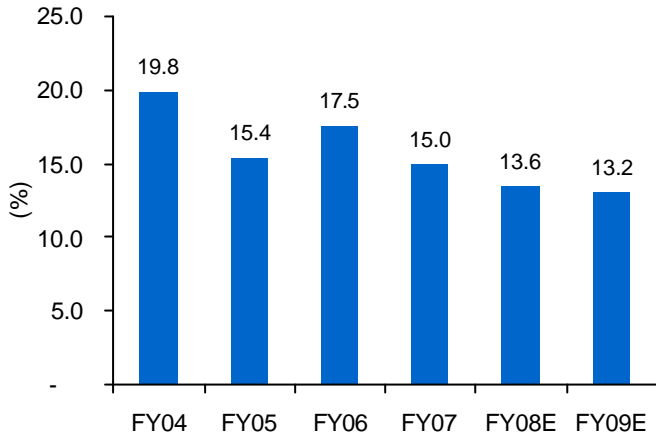
### Table: Cost analysis

Period	03/07	03/06	03/07	03/06
As % of sales	(3)	(3)	(12)	(12)
Raw Material	82.3	79.1	81.1	78.7
Staff Cost	1.7	1.6	1.8	1.7
Other expenditure	1.6	2.5	2.1	2.1
Total Expenditure	85.5	83.1	85.0	82.5

Source: India Infoline Research

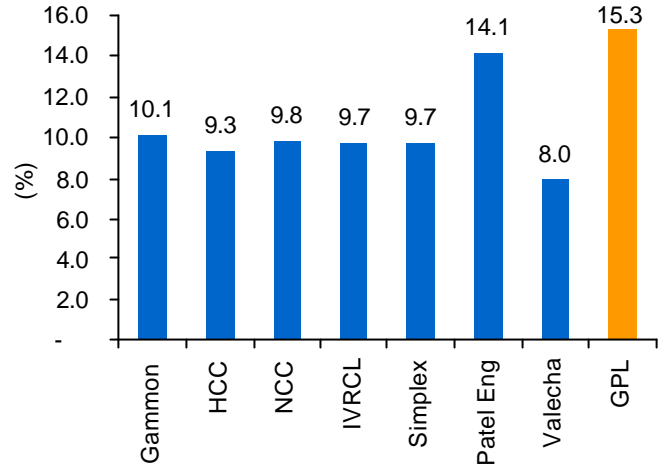
Our FY08E and FY09E projections factor in another 140bps yoy decline and 40bps yoy decline respectively in OPM as contribution of roads rises further, lower margins assumed on new orders and increased sub-contracting takes place. Even at our projected 13.2% OPM during FY09E, GPL is comfortably placed on the margin front as compared to most peers.

Chart: GPL's OPM trend



Source: Company data, India Infoline Research

Chart: OPM comparison for construction peers



Source: Company data, India Infoline Research  
9mts FY07 OPMs shown to facilitate comparison

### Subdued delivery on the PAT front – Section 80IA plays spoil sport

GPL generated a low net profit of Rs32mn in Q4 FY07 on account of high tax provisioning during the quarter due to the withdrawal of Section 80IA tax benefits for contractors. While GPL did avail of these benefits during the previous years, it started to do so during FY07. Growth at the PBT level stood at 25.7% yoy during the quarter. The board has recommended an equity dividend of 10% for the year.

We believe that a net profit growth of 32.4% yoy for the year ended FY07 is still a healthy one. Going forward, we expect GPL to witness a CAGR of 57% in net profit between FY07-09E. While OPMs are expected to contract, lower growth in depreciation and interest cost with boost NPMs.

### Three BOTs valued at Rs82 per share

GPL is partner in one toll based road (40% stake) and two annuity based road (51% stake) projects from NHAI. Meerut-Muzzafarnagar is the toll based project in partnership with Nagarjuna Construction and Maytas Infrastructure. Jhansi, UP and Lalitpur, UP are the two annuity based projects in partnership with IDFC. We value these three projects at Rs82 per share of GPL based on 1x P/BV of GPL's equity infused for the toll project and 0.8x and 0.9x for the two annuities assuming a 20% equity dilution in future.

**Table: Project details**

	Meerut Muzafarnagar Project	Gayatri-Jhansi Roadways Ltd	Gayatri-Lalitpur Roadways Ltd
GPL's share (%)	40	51	51
Segment	Roads	Roads	Roads
Description	79 kms	49.7 kms	50 kms
Project type	Toll	Annuity	Annuity
Other partners	Nagarjuna Construction, Maytas Infrastructure	IDFC	IDFC
Concession period	20 years including 2.5 years for construction	17.5 years including 2.5 years for construction	18 years including 3 years for construction
Project cost (Rs mn)	5,350	4210	3125.7
Equity (Rs mn)	940	800	600
Debt (Rs mn)	3,850	3410	2525.7
Grant (Rs mn)	560	-	-
GPL's equity (Rs mn)	376	408	306
Client	NHAI	NHAI	NHAI

Source: Company, India Infoline Research

#### Attractive valuations

The GPL stock trades at a P/E of 6.4x and 4.2x FY08E and FY09E EPS respectively. Adjusted for BOT value, the GPL stock trades at a P/E of 4.2x FY08E and 2.8x FY09E EPS and EV/EBIDTA of 4.9x FY08E and 3.8x FY09E, making it one of the most attractive construction counters.

We believe that a market cap/sales multiple of 0.5x is not commensurate to the size of operations with a high EBIDTA margin of 15% and does not justify the high growth potential on back of a healthy order position of Rs22.5bn.

Even at a discounted target multiple of 6x to FY09E earnings, the stock appears attractive on its core business alone. We take a haircut of Rs54 per share from our target price to factor in concerns expressed on the IJM-Gayatri project under arbitration, where GPL's loss stands at Rs540mn. Our target price of Rs374, comprises core business valuation of Rs346, BOT valuation of Rs82 and haircut taken on IJM-Gayatri of Rs54. We reiterate a BUY. Our target represents an upside of 55% from current levels.

**Table: Growth matrix**

yoy (%)	FY06	FY07	FY08E	FY09E
Net Sales	23.2	35.3	49.1	41.5
EBIDTA	40.2	15.9	34.5	37.2
Net profit	100.1	32.4	62.5	51.6
Net Worth	21.1	53.2	25.7	31.2
Gross Block	18.9	25.8	5.9	8.8
Net Working Capital	7.8	2.2	19.5	28.6
Capital employed	10.9	30.9	17.3	17.9

Source: India Infoline Research



## Financials

### Projected Income Statement

Period to (Rs mn)	FY05 (12)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Net Sales	3,013	3,712	5,021	7,484	10,589
Operating expenses	(2,548)	(3,061)	(4,267)	(6,469)	(9,196)
EBIDTA	464	651	754	1,015	1,393
Depreciation	(99)	(104)	(126)	(134)	(146)
EBIT	366	547	628	881	1,247
Interest	(259)	(286)	(301)	(322)	(384)
Other Income	21	11	32	18	12
Profit before tax (PBT)	127	272	359	577	874
Tax	(39)	(95)	(125)	(196)	(297)
Profit after tax (PAT)	88	177	234	381	577

### Projected Balance Sheet

Period to (Rs mn)	FY05 (12)	FY06 (12)	FY07E (12)	FY08E (12)	FY09E (12)
<b>Sources</b>					
Equity Capital	50	90	100	100	100
Reserves	715	837	1,320	1,686	2,243
Net Worth	765	927	1,420	1,786	2,343
Interest bearing loans	1,658	1,947	2,096	2,298	2,744
Advances from clients (non-interest bearing)	728	595	1,085	1,335	1,335
Total loan funds	2,386	2,542	3,180	3,633	4,079
Def Tax liability	141	183	178	187	188
<b>Total</b>	<b>3,293</b>	<b>3,652</b>	<b>4,779</b>	<b>5,606</b>	<b>6,610</b>
<b>Uses</b>					
Gross Block	1,382	1,643	2,068	2,189	2,382
Accd Depreciation	(565)	(660)	(786)	(920)	(1,067)
Net Block	817	983	1,282	1,269	1,316
Total Fixed Assets	817	983	1,282	1,269	1,316
Investments	29	32	803	1,117	1,151
Total Current Assets	2,877	3,156	3,320	4,154	5,475
Total Current Liabilities	(431)	(520)	(625)	(933)	(1,331)
Net Working Capital	2,447	2,636	2,695	3,221	4,143
<b>Total</b>	<b>3,293</b>	<b>3,652</b>	<b>4,779</b>	<b>5,606</b>	<b>6,610</b>

### Key ratios

	FY05 (12)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
<b>Per share ratios</b>					
EPS (Rs)	17.7	19.7	23.4	38.1	57.7
Cash EPS (Rs)	37.4	31.2	36.0	51.5	72.3
Div per share (Rs)	2.5	1.5	1.0	1.5	2.0
Book value per share (Rs)	153.1	103.0	142.0	178.6	234.3
FV per share (Rs)	10.0	10.0	10.0	10.0	10.0
<b>Valuation ratios</b>					
P/E (x)	13.7	12.3	10.3	6.4	4.2
P/CEPS (x)	6.5	7.7	6.7	4.7	3.3
P/BV (x)	1.6	2.3	1.7	1.4	1.0
EV/sales (x)	1.1	1.1	1.1	0.8	0.6
EV/ EBIT (x)	8.8	7.8	8.5	6.5	4.9
EV/EBIDTA (x)	7.0	6.5	7.0	5.7	4.3
M.cap/Sales (x)	0.4	0.6	0.5	0.3	0.2
Order book/Sales (x)	7.5	6.1	4.5	3.0	2.1
Order book/M.cap (x)	18.4	10.2	9.2	9.2	9.2
<b>Profitability ratios</b>					
OPM (%)	15.4	17.5	15.0	13.6	13.2
EBIT margin (%)	12.1	14.7	12.5	11.8	11.8
PBT margin (%)	4.2	7.3	7.2	7.7	8.3
Net profit margin (%)	2.9	4.8	4.7	5.1	5.4
Cash profit margin (%)	6.2	7.6	7.2	6.9	6.8
ROACE (%)	12.6	16.1	15.7	17.3	20.6
ROANW (%)	12.1	20.9	20.0	23.7	28.0
<b>Liquidity ratios</b>					
Current ratio (x)	6.7	6.1	5.3	4.5	4.1
Debtors days	106.7	99.1	85.1	77.8	80.7
Inventory days	21.8	20.7	15.4	12.6	13.6
Creditors days	48.1	46.7	41.6	38.0	39.0
<b>Turnover ratios</b>					
Asset turnover (x)	1.0	1.1	1.2	1.4	1.7
Fixed Asset turnover (x)	3.8	4.1	4.4	5.9	8.2
<b>Leverage ratios</b>					
Debt/Total equity (x) (incl client adv)	3.1	2.7	2.2	2.0	1.7
Net debt/Total equity (x)	2.7	2.2	2.0	1.9	1.6
<b>Component ratios</b>					
Construction expenses (%)	80.4	78.7	81.1	82.4	82.8
Staff cost (%)	1.7	1.7	1.8	1.9	1.9
Other expenditure (%)	2.4	2.1	2.1	2.2	2.2
<b>Payout ratios</b>					
Dividend Payout (%)	14.1	7.6	4.3	3.9	3.5
Tax payout (%)	30.6	35.0	34.8	34.0	34.0



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