

19 th February, 2007

**ACCUMULATE**

Price	Target Price
<b>Rs241</b>	<b>Rs277</b>

<b>Sensex</b>	<b>14,403</b>
---------------	---------------

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(6)	27	62	68
Rel. to Sensex	(7)	18	30	16

Source: Capitaline

**Stock Details**

Sector	Construction
Reuters	SUBH.BO
Bloomberg	SBPM@IN
Equity Capital (Rs mn)	62
Face Value (Rs)	2
52 Week H/L	Rs273/100
Market Cap (Rs bn)	7.4
Daily Avg Vol. (No of shares)	87487
Daily Avg Turnover (US\$mn)	0.4

**Shareholding Pattern (%)**

(31st Dec.'06)	
Promoters	74.7
FII/NRI	3.4
Institutions	5.1
Private Corp.	8.4
Public	8.4

**Subhash Projects****Strong growth continues**Company  
Update

Subhash Projects and Marketing Ltd has been consistently posting strong growth numbers for the past 4-5 quarters. With Rs28bn worth of orders under belt and around Rs4bn in L1 status, the company is having amongst the highest OB/Revenue ratio of 7.6x FY06 revenues and 4.2x TTM revenues after Madhucon projects (10.6x TTM revenues). The company is aggressively bidding for water related and T&D projects, which is one of the key focus areas from infrastructure spending. We expect the company to post faster CAGR in revenues, as its large order book has to be executed in next 30-36 months. The group has also bagged the Pondicherry Port and SEZ project, which implies further business for SPML and may be value unlocking once the equity structure is finalized. Given the faster growth in the construction contract business, investment in the port and SEZ project along with exposure to the hydro IPP, the company is looking to raise funds of around USD100mn. We expect the company to post 74% CAGR in revenues from FY06-08E higher than expected 71% and 84% CAGR in PAT to Rs433mn in FY07E and Rs721mn in FY08E. The stock is currently trading at 10.4x FY08E consolidated EPS of Rs23.1 (revised upward by 3%). We maintain our positive view on the stock and raise the price target to Rs277 (12x FY08E) and reduce the rating to Accumulate (factoring lower upside of 15%).

**Order book of Rs28bn – more aggression in store**

SPML currently has orders worth Rs28bn on hand split between water related projects (50%), Electricals T&D projects (35%) and 15% of offsite construction contract. The company is also declared L1 in projects worth Rs4bn. We believe that such high order book as compared to its size would imply faster growth in coming 6-8 quarters. The company is participating in various projects and is aggressively building up its order book, as it is hungry for faster growth.

**New business opportunities - impending dilution**

Subhash Group has bagged the Pondicherry port and SEZ projects with a combined investment of over Rs25bn. The group is also contemplating investments in hydro-based power projects on the IPP model. The participation from the listed entity SPML is yet to be finalized given the robust growth opportunities in the core construction business and rising capital requirement. We believe that the company would have minority participation in all new opportunities, which will call for raising fresh capital. The company is intending to raise up to USD 100mn through the equity route.

**Revenues & PAT revised for FY07E and FY08E and price target**

For the 9M FY07, the company has registered 140% rise in revenues to Rs5327mn and 189% rise in PAT to Rs237mn. We are revising revenues estimates upwards by 18% for FY07E and 3% for FY08E, while maintaining PAT for FY07E but revising FY08E PAT by 4%. EBIDTA margins have seen marginal improvement for FY07E and FY08E. We believe that the company will post faster growth as compared to the industry during next 2 years. The stock is trading at 17.3x FY07E consolidated EPS of Rs13.9 and 10.4x FY08E Cons. EPS of Rs23.1. The impending equity dilution would have its impact on the EPS estimates, but also bring new value unlocking opportunity on table.

**Financials (Rsmn)**

YE-Jun	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	RoCE (%)	EV/ EBITDA	P/BV (x)	Div Yld (%)	AEPS (Rs)	P/E (x)
FY05	2,299	134	5.8%	34	13.0	56.9	11.9	0.0	1.1	222.9
FY06	3,676	294	8.0%	214	15.9	29.1	9.2	0.3	6.9	35.2
FY07E	7,677	725	9.4%	433	22.6	13.4	5.9	0.4	13.9	17.4
FY08E	11,150	1,058	9.5%	721	22.7	9.8	3.8	0.6	23.1	10.4

Vikas Shah

Research Analyst-Mid-Caps, Construction

[vikas.shah@emkayshare.com](mailto:vikas.shah@emkayshare.com)

+91 22 6612 1254

**9M FY07 revenues up 140%, PAT up 289%**

SPML announced robust set of numbers for Q307 and 9MFY07. Revenues jumped 167% for Q307 to Rs2339mn. EBIDTA margins however declined by 50bps to 8%, lowest in past 5 quarters, on back of higher mobilization costs. PBT jumped 310% to Rs140mn for the quarter. However, higher tax provision of 30% as compared to 12-15% in the previous quarters, dent the growth in PAT and remained at 65% to Rs87mn.

*Strong growth registered in 9MFY07*

For the 9MFY07 revenues jumped 140% to Rs5327mn, while EBIDTA margins improved 240bps to 9.3%. PAT jumped in line by 189% to Rs237mn (excluding exceptional income of Rs65mn). EPS for the quarter was Rs2.8, while for 9M FY07 was Rs7.6.

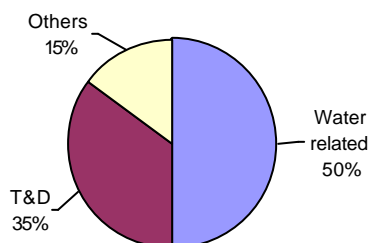
**Q3FY07 and 9MFY07 results**

(Rs mn)	Q3FY07	Q3FY06	% YoY	9MFY07	9MFY06	% YoY
Net Revenues	2339.1	874.7	167.4	5327.4	2216.3	140.4
Total Expenditure	2151.9	800.6	168.8	4832.1	2062.3	134.3
a) (Increase) / Decrease in Stocks	15.8	-97.2	(116.3)	204.6	-17.2	(1,289.5)
b) Consumption of Raw Material	1963.8	815.2	140.9	4233.0	1881.7	125.0
c) Staff Cost	51.9	27.5	88.7	126.6	67.2	88.4
d) Other Expenditure	120.4	55.1	118.5	267.9	130.6	105.1
Profit Before Interest, Depreciation & Tax	187.2	74.1	152.6	495.3	154.0	221.6
EBIDTA Margins (%)	8.0%	8.5%	-50bps	9.3%	6.9%	+240bps
Other Income	0.7	0.5	40.0	73.6	10.5	601.0
Interest	21.3	9.5	124.2	73.4	19.0	286.3
Depreciation	26.9	20.1	33.8	122.0	55.2	121.0
Profit Before Taxation	139.7	45.0	210.4	373.5	90.3	313.6
Provision for Taxation -(including deferred)	52.8	-7.6	(794.7)	71.1	8.1	777.8
Net Profit	86.9	52.6	65.2	302.4	82.2	267.9
E/O (income)/Exp	0.0			-65.0		
PAT after E/O items	86.9	52.6	65.2	237.4	82.2	188.8
NPM (%)	3.7%	6.0%	(38.2)	5.6%	3.7%	51.7
Equity Cap. (Rs mn)	62.3	62.3	-	62.3	62.3	-
EPS (Rs)	2.8	1.7	65.2	7.6	2.6	188.8
<b>Cost (% of sales)</b>						
RM	84.6%	82.1%		83.3%	84.1%	
Staff	2.2%	3.1%		2.4%	3.0%	
Others	5.1%	6.3%		5.0%	5.9%	

**Order book at Rs28bn – hunger for growth increasing**

SPML has large unexecuted order of Rs28bn and it is declared L1 in projects over Rs4bn. The company is aggressively perusing projects in the water, irrigation and power T&D projects.

The company has recently signed an MoU with the government of Gujarat to undertake large infrastructure projects comprise of water supply, sewage systems, irrigation, roads, solid waste management, real estate, malls and others to be developed on BOT or cash contract basis. The total project cost is envisaged at Rs50bn over a period of 7-8 years commencing from 2010-2011. This MoU is part of the Vibrant Gujarat Summit. We believe that the company is on strong growth path and this brings lot of visibility to the company's operations.

**Total order book break up**

### Revising estimates upwards for FY07E and FY08E

*Revising revenue estimates, while maintaining PAT estimates*

We are revising FY07E revenue estimates by 18% to Rs 7677mn factoring higher than expected growth in 9MFY07 and for FY08E by 3% to Rs11150mn factoring higher execution in the coming year. We have revised our EBIDTA margins marginally upwards, however, due to rising interest cost, PAT estimates for FY07E are maintained at consolidated level of Rs433mn. PAT estimates for FY08E is revised upwards by 4% to Rs721mn factoring in higher revenue growth. EPS estimates are thus maintained at Rs13.9 for FY07E and revised upwards to Rs23.1 for FY08E on consolidated basis.

#### Revised estimates

	FY07E	FY08E
Revenues (new) Rsmn	7677	11150
Revenues (previous) Rsmn	6502	10800
<i>Change (Rs mn)</i>	<i>1175</i>	<i>350</i>
EBIDTA margins,% (new)	9.4	9.5
EBIDTA margins, % (previous)	9.2	8.7
<i>Change bps</i>	<i>24</i>	<i>79</i>
PAT (consolidated - new) (Rsmn)	433	721
PAT (consolidated - previous) (Rsmn)	433	696
<i>Change (Rsmn)</i>	<i>0</i>	<i>25</i>
EPS, Rs (consolidated - new)	13.9	23.1
EPS, Rs (consolidated - previous)	13.9	22.3
<i>Change, Rs</i>	<i>0.0</i>	<i>0.8</i>

#### Fund raising – to capitalize new ownership projects and working capital

The company is looking at raising equity to fund the ongoing projects, building up the capabilities (financial and physical assets) for new projects. The company will participate in the equity of large port or SEZ project as well as the hydropower IPP projects. The total funds intending to raise around USD 100mn.

#### Outlook and valuations

We expect the company to post 74% CAGR in revenues from FY06-08E higher than expected 71% and 84% CAGR in PAT to Rs433mn in FY07E and Rs721mn in FY08E. The stock is currently trading at 10.4x FY08E consolidated EPS of Rs23.1 (revised upward by 3%). We maintain our positive view on the stock and raise the price target to Rs277 (12x FY08E), 25% discount to frontline construction companies like HCC, NCC, Patel Eng and IVRCL and in line with Madhucon Projects. We reduce the rating to Accumulate (factoring lower upside of 15%). The impending equity dilution would have its impact on the EPS estimates, but also bring new value unlocking opportunity on table.

*Upgrade price target to Rs277 (12x FY08E), 25% discount to frontline construction companies*

## Financial tables

## Income Statement

Y/E, Mar (Rs. m)	FY05	FY06	FY07E	FY08E
Net Sales	2299.3	3676.0	7677.4	11150.0
Growth (%)	90.7	59.9	108.9	45.2
Expenses	2165.6	3381.5	6952.6	10091.6
Growth (%)	90.2	56.1	105.6	45.1
PM/Exs	1973.4	3079.6	6368.1	9481.6
% of sales	85.8	83.8	82.9	85.0
Personnel exps	65.0	100.4	186.6	175.0
% of sales	2.8	2.7	2.4	1.6
Other Exp	127.4	163.4	397.9	435.0
% of sales	5.5	4.4	5.2	3.9
<b>EBIDTA</b>	<b>133.7</b>	<b>294.5</b>	<b>724.8</b>	<b>1058.4</b>
Growth (%)	100.4	120.3	146.1	46.0
EBIDTA %	5.8	8.0	9.4	9.5
Other income	17.1	22.3	78.6	20.0
Interest	25.8	32.5	97.4	145.0
Depreciation	67.5	70.9	150.0	140.0
PBT	57.5	213.4	556.0	793.4
Current tax	12.2	18.9	93.1	119.1
Deferred tax	11.6	-19.0	0.0	0.0
PAT	33.7	213.5	462.9	674.3
Growth (%)	638.5	534.1	116.8	45.7
E/O items (income)/exp	0.0	0.0	-65.0	0.0
<b>PAT (SA excl. E/O items)</b>	<b>33.7</b>	<b>213.5</b>	<b>397.9</b>	<b>674.3</b>
Growth (%)	638.5	534.1	86.4	69.5
Net Margin (%)	1.5	5.8	5.1	6.0
Add: Profit from assco.	0.0	0.0	34.8	46.5
1: Subhash Kabini	0.0	0.0	18.8	21.5
2: Waste Management	0.0	0.0	16.0	25.0
<b>PAT (Cons. before E/O)</b>	<b>33.7</b>	<b>213.5</b>	<b>432.7</b>	<b>720.8</b>
PAT (Consolidated)	33.7	213.5	497.7	720.8
Growth (%)	638.5	534.1	133.1	44.8

## Cash Flow

Y/E, Mar (Rs. m)	FY05	FY06E	FY07E	FY08E
Pre-tax profit	58.3	213.4	556.0	793.4
Depreciation	67.5	70.9	150.0	140.0
Interest Provided	25.8	32.5	97.4	145.0
Interest Paid	-25.8	-32.5	-97.4	-145.0
Others	-15.7	-11.6	-110.2	5.8
Chg in working cap	-196.6	-1068.3	-1508.1	-874.1
Tax paid	-5.0	-18.9	-93.1	-119.1
Operating cash Inflow	-91.5	-814.5	-1005.4	-54.0
Capital expenditure	-53.6	-75.0	-350.0	-600.0
Free Cash Flow	-145.1	-889.5	-1355.4	-654.0
Investments	2.5	0.0	0.0	0.0
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	204.6	1220.5	863.9	900.0
Dividend (incl tax)	7.0	0.0	28.4	35.5
<b>Net chg in cash</b>	<b>69.1</b>	<b>331.0</b>	<b>-463.1</b>	<b>281.5</b>
Opening cash position	176.8	245.8	576.8	113.7
<b>Closing cash position</b>	<b>245.8</b>	<b>576.8</b>	<b>113.7</b>	<b>395.2</b>

## Balance sheet

Y/E, Mar (Rs. m)	FY05	FY06E	FY07E	FY08E
Equity share capital	62.3	62.3	62.3	62.3
Reserves & surplus	567.5	749.5	1216.1	1890.1
Networth	629.8	811.8	1278.4	1952.4
Deferred tax liability	129.1	110.1	110.1	110.1
Secured Loans	309.8	529.0	800.0	1000.0
Unsecured Loans	205.8	1207.2	1800.0	2500.0
Loan Funds	515.6	1736.1	2600.0	3500.0
<b>Total Liabilities</b>	<b>1274.5</b>	<b>2658.1</b>	<b>3988.5</b>	<b>5562.5</b>
Gross Block	740.6	882.8	1232.8	1832.8
Less: Depreciation	342.6	376.5	526.5	666.5
Net block	398.0	506.4	706.4	1166.4
Capital work in progress	0.0	0.0	0.0	0.0
Investment	168.7	242.7	242.7	242.7
Inventories	376.8	746.2	1472.4	2138.4
Sundry debtors	807.1	1289.6	2629.2	3818.5
Cash & bank balance	245.8	422.7	113.7	395.2
Loans & advances	194.2	428.9	841.4	716.5
Other assets	0.0	0.0	0.0	0.0
Current liabilities	-904.6	-922.8	-1893.1	-2749.3
Provisions	-12.6	-55.5	-124.2	-165.9
Net current assets	706.7	1909.0	3039.4	4153.4
ME	1.1	0.0	0.0	0.0
<b>Total Assets</b>	<b>1274.5</b>	<b>2658.1</b>	<b>3988.5</b>	<b>5562.5</b>

## Key ratios

Y/E, Mar (Rs. m)	FY05	FY06E	FY07E	FY08E
Per Share Data (Rs)				
EPS (standalone)	1.1	6.9	12.8	21.6
EPS (Consolidated)	1.1	6.9	13.9	23.1
Cash EPS (x)	3.2	9.1	19.7	26.1
EBITDA / Share (x)	4.3	9.5	23.3	34.0
Book Value (x)	20.2	26.1	41.0	62.7

## Valuations

PER (x)	222.9	35.2	18.9	11.1
PER (x) (consolidated)	222.9	35.2	17.3	10.4
Price / CEPS (x)	74.2	26.4	12.2	9.2
Price / BV (x)	11.9	9.2	5.9	3.8
EV / Sales (x)	3.3	2.3	1.3	0.9
EV / EBITDA (x)	56.9	29.1	13.4	9.8
DPS (Rs)	0.1	0.8	1.0	1.5
Dividend Yield (%)	0.0	0.3	0.4	0.6
Dividend Payout (%)	9.3	11.7	7.8	6.9

## Returns (%)

RoCE	13.0	15.9	22.6	22.7
RoNW	5.4	29.6	44.3	41.7

## Margins (%)

Operating Margins	5.8	8.0	9.4	9.5
Net Margin	1.5	5.8	5.1	6.0
Effective Tax Rate	41.4	-0.1	16.7	15.0

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions 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. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

**Emkay Share and Stock Brokers Ltd.,**  
Paragon Center, Ground Floor, C-6  
Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299