



Indsec Securities & Finance Ltd.

HOLD "FAIRLY PRICED"

CMP : Rs. 424.55

Target : Rs. 453.59

BSE Sensex : 16781.07

Nifty : 5034.00

Sector : Construction

High / Low :Rs.502.60 /153.35

Year end : March

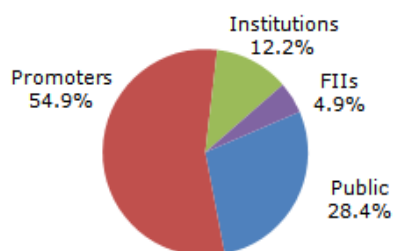
Listed on : BSE

Market Cap : Rs. 4,715 mn.

BSE Scrip Code: 532767

Shares in issue : 11.1 mn.

Share Holding Pattern: Mar 2010



Analyst:

Prachi Bane

prachib@indsec.co.in

+91 98197 93654

07th June 2010

Gayatri Projects Ltd. (GPL)

GPL is an Andhra-Pradesh based infrastructure company executing projects across various segments of infrastructure development viz; Roads, Irrigation, mass excavation, ports, airports and industrial civil works.

Q4FY10 Highlights:

- GPL has a **healthy order backlog** of Rs. 70.00 bn. (5.6 X FY2010 Sales) executable over an average 3-4 years, which gives strong revenue visibility. GPL is L1 in a road project on cash contract worth Rs. 300 cr. in Karnataka.
- As on date, GPL has to its kitty 5 BOT projects, which have been hived off into a holding company, Gayatri Infra Ventures Ltd. (GIVL). All the 5 projects have achieved financial closure and will start contributing to revenues from FY2011.
- In addition to this, GPL has secured 2 BOT projects on toll basis: viz; Six-laning of Indore-Dewas in the State of Madhya Pradesh with a total project cost of Rs. 602 cr. (EPC being Rs. 475 cr.) and the second project in the State of Andhra Pradesh with a total project cost of Rs. 2,200 cr. (EPC being Rs. 1700 cr., GPL's share in EPC worth Rs. 850 cr.). Both the projects are yet to achieve financial closure.
- The current order book comprises of Irrigation (40%), Roads (50%) and others (10%).

Q4FY10 Result update:

- GPL has posted a Y-o-Y revenue growth of 13.0% to Rs. 3772.18 mn. as compared to Rs. 3339.06 mn. in Q4FY09.
- EBITDA grew by 59.5% to Rs. 482.04 mn. from Rs. 302.14 mn. in Q4FY09. EBITDA margins improved to 12.8% from 9.0% in Q4FY09 on account of significant decline in work expenditure (raw material cost, sub-contracting etc.) as a % of sales, offset by a decrease in WIP & rise in staff cost & administrative expenses.
- Bottom line improved by 35.2% on Y-o-Y basis to Rs. 150.31 mn. from Rs. 111.17 mn, supported by increase in operating profits, offset by increase in the interest expenditure by 58.5% and increase in the effective tax rate to 42% from 33% in Q4FY09.

Valuation:

Based on 1 yr-forward (FY12) EPS, we arrive at a revised target of Rs. 453.59 on GPL. Factoring the increased MAT rate, we find no additional contribution from GPL's existing BOT projects. We have not considered the valuations on power project and newly added 2 BOT projects, as financial closure is awaited.

Earnings Table	Income (Rs mn.)	Op. Profit (Rs mn.)	PBT (Rs mn.)	PAT (Rs mn.)	EPS (Rs.)	CEPS (Rs.)	P/E (x)
FY 2009	10110	1136	634	413	40.9	60.4	10.4
FY 2010	12567	1523	810	491	44.2	62.3	9.6
FY 2011 (P)	15585	1872	919	607	49.9	68.6	8.5
FY 2012 (P)	20062	2412	1331	879	56.7	73.6	7.5

All currency in INR unless otherwise stated

Power plant update:

GEVL has signed a JV agreement with Sembcorp Utilities Pte Ltd. for setting up a 1,320 MW (2X660 MW) (Phase I) supercritical technology based thermal power plant at Krishnapatnam, Andhra Pradesh, through its step-down subsidiary, Thermal Powertech Corporation India Ltd; wholly owned subsidiary of Gayatri Energy Ventures (GEVL). GPL is planning to expand its capacity in the same location by a further 1320 MW in Phase II, thus taking the total capacity to 2640 MW. Sembcorp Utilities would be investing Rs. 1,100 cr. in Phase-I of the project for its 49% stake at a premium. The total outlay of Phase-I of the project is estimated to be Rs. 6869 cr., to be funded through a debt of Rs. 5151 cr. and equity of Rs. 1718 cr. (D/E: 3:1). The financial closure is expected by June end. Total land of 1,408 acres for both the phases is acquired. The company has also secured environmental clearance and water and coal linkages for the plant. It plans to import 30% of its coal requirements from Indonesia, while the balance 70% will be secured from Mahanadi Coal Fields, Orissa. GPL has also signed a Power Purchase Agreement (PPA) with Power Trading Corporation (PTC) for selling 70% of the power generated; the balance 30% will be sold on merchant basis. The construction is expected to be completed by March 2014 and the revenues will flow in by FY2015.

We believe the cost of Rs. 6,869 cr. for 1320 MW of power plant translating into Rs. 5.2 cr. /MW is high as compared to the industry average of Rs. 3.2-4 cr. /MW. Out of the total equity requirement, Rs. 1,100 cr. would be brought in by the JV partner, the balance will be contributed by GPL, which requires additional debt to be taken on GPL's books, thus overstretching its balance sheet. GPL has contributed Rs. 150 cr. till FY10 and plans to invest Rs. 200 cr. equity in FY11, with the balance to be spent over FY12-FY14. Further expanding the capacity by 1,320 MW entails further aggressive investments by GPL, thus overstretching its balance sheet.

We have analysed 2 scenarios for the Phase-I:

➤ **Interest during construction not included in the project cost of Rs. 6,869 cr.**

As per our calculations, at the SPV level, capitalizing the interest during construction, the overall debt at the SPV level stands enhanced to Rs. 6,785 cr. taking the total cost of the project to Rs. 8,503 cr. We believe, it would take an average 11-14 years to recover the initial investment, assuming contribution/unit at the SPV level to be Rs. 1.5/unit at the higher end and Rs. 1.2/unit at the lower end, thus indicating delayed payback period for the project.

➤ **Interest during construction included in the project cost of Rs. 6,869 cr.**

If the interest during construction is already included in the project cost of Rs. 6,869 cr., we believe it would take on an average 8-10 years to recover the initial investment, assuming contribution/unit at the SPV level to be Rs. 1.5/unit at the higher end and Rs. 1.2/unit at the lower end.

Q4FY10 Result Table:

Income Statement					
Rs. in Mn	Q4FY-10	Q4FY-09	Y-o-Y (%)	Q3FY-10	Q-o-Q (%)
Net Sales	3772.18	3339.06	13.0%	3339.26	13.0%
Cost Of Sales	3290.13	3036.92		2928.78	
EBIDTA	482.04	302.14	59.5%	410.49	17.4%
Other Income	6.86	26.08		5.09	
Depreciation	51.43	49.07		57.51	
Interest	180.43	113.83		135.09	
EBT	257.05	165.32	55.5%	222.98	15.3%
Tax	106.74	54.15	97.1%	69.46	
EAT	150.31	111.17	35.2%	153.52	
Exceptional Items	0.00	0.00		0.00	
Reported PAT	150.31	111.17	35.2%	153.52	-2.1%
Share Capital (FV Rs. 10)	111.05	101.05		111.05	
Operating Profit Margins	12.8%	9.0%		12.3%	
Net Profit Margins	4.0%	3.3%		4.6%	
EPS (Annualized)	54.14	44.01		55.30	
CEPS (Annualized)	72.67	63.43		76.01	
Effective tax rate (%)	42%	33%		31%	

Standalone Income Statement					Standalone Balance Sheet				
Rs. in Mn	FY 09 A	FY 10 A	FY 11 P	FY 12 P	Rs. in Mn	FY 09 A	FY 10 A	FY 11 P	FY 12 P
Net Sales	10046	12525	15543	20020	SOURCES OF FUNDS				
% Growth		25%	24%	29%	Equity Share Capital	101	111	122*	155*
Expenditure	8910	11002	13671	17608	Reserves and Surplus	2056	2657	3342	5058
EBIDTA	1136	1523	1872	2412	Total Shareholders funds	2158	2768	3463	5213
% Growth		34%	23%	29%	Total Debt	2630	5108	5608	6408
Other Income	64	42	42	42	FCCB	978	978	961	0
Depreciation	197	201	227	262	Warrants	0	36	0	0
Interest	369	554	768	861	Deferred Tax Liabilities	186	178	178	178
PBT	634	810	919	1331	Total Liabilities	5951	9068	10210	11798
% Growth		28%	13%	45%	APPLICATION OF FUNDS				
Provision for tax	218	277	312	453	Gross Block	2748	3003	3503	4003
PAT	416	533	607	879	Less. Depreciation	1141	1342	1568	1830
% Growth		28%	14%	45%	Net Block	1607	1661	1935	2173
Exceptional Items	-3	-43	0	0	Capital WIP	0	0	0	0
Reported PAT	413	491	607	879	Investments	1283	1283	3283	4283
% Growth		19%	24%	45%	Current Assets				
					Inventories	604	693	805	1036
					Sundry Debtors	2239	3149	3343	4306
					Cash & Bank Balances	588	2052	931	500
					Loans & Advances	2765	4043	4462	5320
					Current Liabilities & Provisions				
					Current Liabilities	3015	3738	4468	5730
					Provisions	120	77	80	90
					Net Current Assets	3061	6123	4992	5342
					Total Assets	5951	9068	10210	11798

*Enhanced equity base post warrants and FCCB conversion

Rs. in Mn	Cash Flow				Key Ratios				
	FY 09 A	FY 10 A	FY 11 P	FY 12 P	FY 09 A	FY 10 A	FY 11 P	FY 12 P	
Cash flow from operating activities:					Profitability Ratios				
PBT	634	810	919	1331	Operating Profit Margins (%)	11.3	12.2	12.0	12.0
					Gross Profit Margins (%)	8.3	8.1	7.4	8.0
Add: Non-cash items					Net Profit Margins (%)	4.1	3.9	3.9	4.4
Depreciation	197	201	227	262	ROCE (%)	17.0	17.6	17.1	19.5
Interest (Net)	369	554	768	861	ROE (%)	20.9	19.9	19.5	20.3
(Inc)/ Dec in Working capital	-1103	-1698	9	-781	Valuation ratios				
Tax paid	-219	-249	-312	-453	P/E	10.4	9.6	8.5	7.5
Others	-3	-42	0	0	P/BV	2.0	1.7	1.5	1.3
Operating Cashflow	-125	-424	1611	1221	EV/EBIDTA	5.6	5.1	5.3	5.2
					EV/Sales	0.6	0.6	0.6	0.6
Capital expenditure	-175	-255	-500	-500	Market cap / Sales	0.4	0.4	0.3	0.3
Free Cash Flow	-300	-680	1111	721	Liquidity ratios				
					Current Ratio	2.0	2.6	2.1	1.9
(Inc) / Dec in Investments	-5	0	-2000	-1000	Coverage ratios				
Issue of equity	0	221	107	0	Interest Coverage Ratio	2.5	2.4	2.1	2.5
Inc / (Dec) in Loans	506	2478	500	800	Leverage ratios				
Dividend paid (inc tax)	0	0	-71	-91	Debt-Equity Ratio	1.7	2.2	1.9	1.2
Interest (Net)	-369	-554	-768	-861	Turnover ratios				
Others	0	0	0	0	Asset turnover	1.7	1.4	1.5	1.7
Cash flow from financing activities	132	2144	-2232	-1152	Working Capital to Sales	0.3	0.5	0.3	0.3
Net Change - Cash & Cash equivalents	-168	1465	-1121	-431	Per share ratios				
					EPS	40.9	44.2	49.9	56.7
Opening balance	756	588	2052	931	Cash EPS	60.4	62.3	68.6	73.6
					Book value per share	213.5	249.3	284.8	336.3
Closing balance	588	2052	931	500	Face Value per share	10.0	10.0	10.0	10.0

INDSEC Rating Distribution

BUY	Expected total return of over 25% within the next 12 months.
ACCUMULATE	Expected total return between 10 to 25% within the next 12 months.
REDUCE	Expected total return below 10% within the next 12 months.
SELL	Expected total return is below the market return within the next 12 months.
NEUTRAL	No investment opinion on the stock under review.

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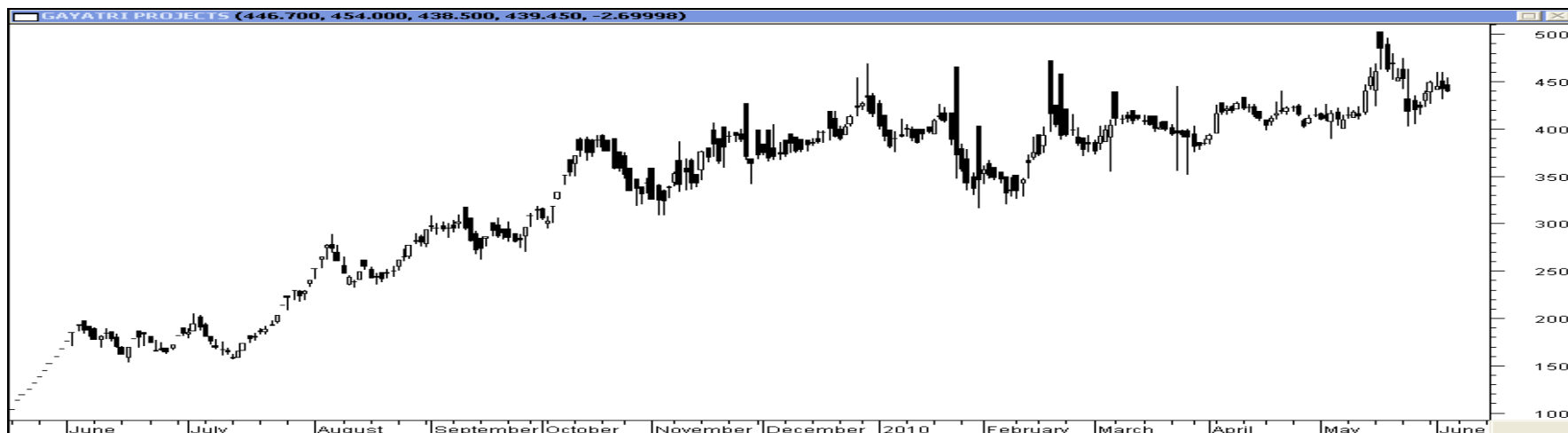
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Analyst's holding in the stocks mentioned in the Report: - NIL



For additional information please contact:

Research Team

Name	Sectors Covered	Contact Information	
Sunil Shah	Market Strategist	sunilshah@indsec.co.in	9833504037
Viral Malia	Logistics	virm@indsec.co.in	9821244313
Ravi Mehta	Auto & Ancillaries, Banking & Financial Services	ravim@indsec.co.in	9892065956
Hemang Tanna	I.T, Metals, Power	hemangt@indsec.co.in	9819803389
Prachi Bane	Cement, Real Estate, Infrastructure. & Engineering	prachib@indsec.co.in	9819793654
Anuja Shirodkar	Hotel & Tourism, Oil & Gas & Statistics	anujas@indsec.co.in	9890695438
Sahil Sheth	Research Associate	sahils@indsec.co.in	9820562547
Deepesh Panchawala	Technicals	deepeshp@indsec.co.in	9920911845

Sales Team

Institutional Sales	Contact Person	Contact Information	
Mumbai	Maya Gandhi	mayag@indsec.co.in	9820633316
Mumbai	Sailesh Mehta	smehta@indsec.co.in	9323735964
Mumbai	Viral Malia	virm@indsec.co.in	9821244313
Mumbai	Amit Shah	amitshah@indsec.co.in	9820633342

Branch Offices

Location	Contact Person	Contact Information	
Ahmedabad	Sujit Shah	sujits@indsec.co.in	079 - 26449363

For additional information please contact: research@indsec.co.in, or Visit us at www.indsec.co.in

Indsec Securities & Finance Ltd., 116, Free Press house, 215, Free Press Journal Marg, Nariman Point, Mumbai 400 021. (Phone No: 2204 6753, 2282 2362)