

## Company Flash

12 March 2008 | 6 pages

# Gammon India (GAMM.BO)

## Citi India Conference 2008: Day 1 Takeaways

- **Conference takeaways** — Gammon spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- **New PPP norms to favour larger players** — Gammon looks well placed to capitalize on this opportunity. Changed qualification norms require that only the top 5-6 players in the technical qualification round will be allowed to submit financial bids. Gammon has entered several tie-ups to gain technical qualifications, like Macquarie for airports and Nobel Group, HK for ports.
- **Revenue to grow faster in FY09E** — In FY08 Gammon's revenue growth is expected to be around ~25%. The company sees higher revenue growth of 35%+ in FY09. EBITDA margins are to stay at current 9% levels. Gammon's margins are lower than those of peers as it executes fixed-price projects of GIPL. Orders from GIPL form around 18% of the current order backlog (OB).
- **Order book outlook** — Current OB stands at Rs75bn. The company is L1 in ~Rs14bn-worth of projects. The order book to sales ratio stands at ~3x. Gammon does not consider slower growth in order book as a cause for concern as it is able to easily replace the executed part of its order book.
- **BOT projects** — The company's annuity projects are earning 20%+ equity IRRs. The company's internal threshold for BOT projects is equity IRR of 15-16%. Going forward all BOT projects will come under GIPL, and the company expects to continue receiving construction orders from GIPL.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (11 Mar 08)	Rs440.40
Target price	Rs642.00
Expected share price return	45.8%
Expected dividend yield	0.1%
<b>Expected total return</b>	<b>45.9%</b>
Market Cap	Rs9,744M US\$241M

### Price Performance (RIC: GAMM.BO, BB: GMON IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	1,028	11.86	na	37.1	4.4	na	0.1
2007A	984	11.34	-4.3	38.8	4.3	11.2	0.1
2008E	1,142	13.17	16.1	33.4	3.8	12.0	0.1
2009E	1,622	18.70	42.0	23.5	3.3	14.9	0.1
2010E	2,300	26.52	41.8	16.6	2.8	18.0	0.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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## Gammon India

### Company description

Gammon is an 86-year-old construction company with cash contracting and build-operate-transfer (BOT) skill-sets in sectors as varied as bridges, flyovers, roads, energy (hydroelectric, nuclear and thermal), tunnels, ports, pipelines (oil, gas and water), water supply and sewage, utilities, ports, harbors, and other marine structures. A presence across sub-sectors provides Gammon with an advantage, as it is in a position to bid, win and implement a wide range of projects in this very active space.

### Investment strategy

We rate Gammon shares as Buy / Low Risk (1L), with a target price of Rs642.

We expect the core construction business to grow EPS at a CAGR of 33% over FY07-10E driven by sales CAGR of 33% and stable EBITDA margins of 9.4%. Gammon has an order backlog of Rs73bn and expects to win orders worth Rs8-10bn by March 2008. Further, GIPL, the asset-holding company, has increased its portfolio of projects to 13 from seven over the past year and is bidding for many more projects. Gammon enjoys a strong competitive advantage in BOT/Public Private Partnership (PPP), as it, along with L&T, is the only company in the Indian construction universe having substantial experience in the dynamics of this business. Gammon has also forayed into the transmission towers business with a 28% stake in Associated Transrail and the real estate business with investments of Rs1bn in the business.

### Valuation

We value Gammon shares at a target price of Rs642 using a sum-of-the-parts comprising:

- (1) **Construction business:** At Rs384 valued at 17x Sep09E, in line with our target multiple for IVRCL.
- (2) **GIPL:** At Rs192 valued at the recent transaction value between Gammon Cooling Towers and AMIF I
- (3) **Associated Transrail (28% Stake):** At Rs45 valued at target P/E multiple of 17x FY09E.
- (4) **Gammon Realty:** At Rs12 value at book value of investments
- (5) **Sadbhav Engineering (8% Stake):** At Rs9 valued at 20% discount to market value.

### Risks

We rate Gammon shares as Low Risk. The rating differs from the Medium Risk rating assigned by our quantitative risk-rating, which tracks 260-day historical share price volatility, primarily because Gammon's current order book of

Rs73bn implies sales coverage for the next three years. Further, steady EBITDA margins imply good earnings visibility over the medium term. The key risk factors that could impede the stock from reaching our target price include: the construction business is subject to project risks; slower-than-expected order inflows and execution, and sudden increases in prices of steel, bitumen and cement.

# Appendix A-1

## Analyst Certification

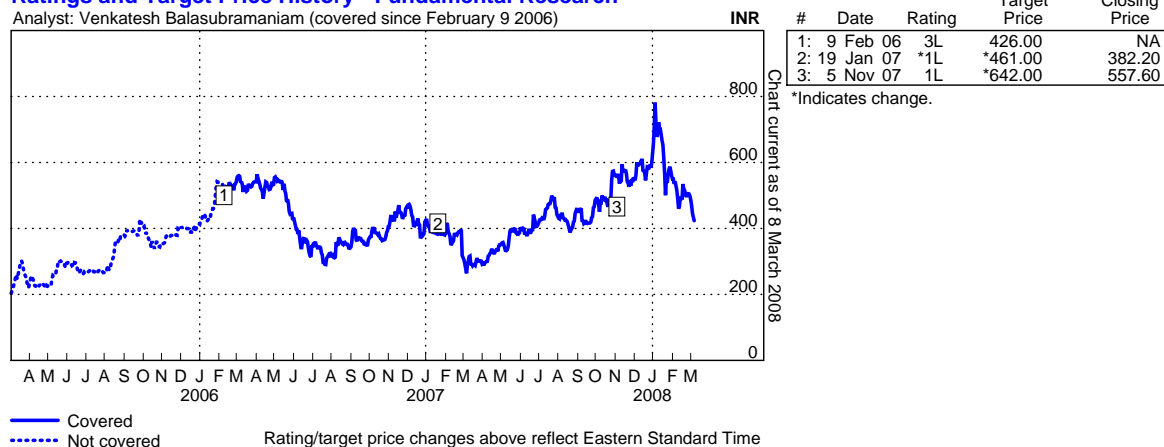
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Analyst: Venkatesh Balasubramaniam (covered since February 9 2006)



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