



Gammon India

STOCK INFO. BLOOMBERG
BSE Sensex: 14,868 GMON IN
REUTERS CODE
S&P CNX: 4,333 GAMM.BO

10 August 2007

Buy

Rs430

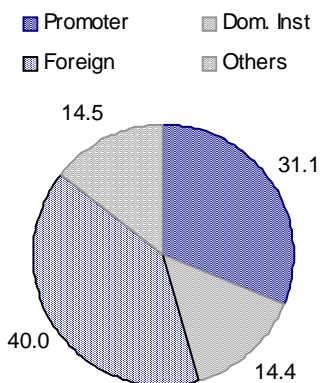
Equity Shares (m) 86.7
52-Week Range 504/258
1,6,12 Rel. Perf. (%) 0/20/-15
M.Cap. (Rs b) 37.3
M.Cap. (US\$ b) 0.9

Previous Recommendation: Buy

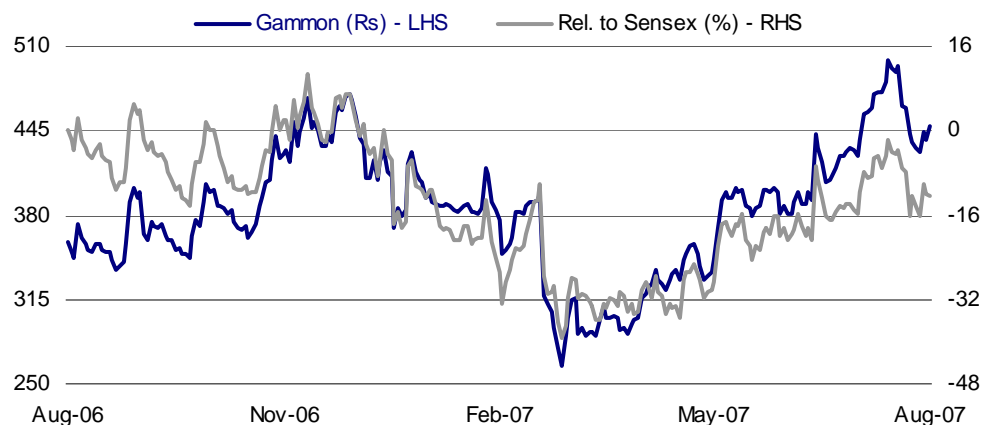
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	18,647	957	10.8	12.5	39.8	3.3	8.3	11.6	2.1	21.6
3/08E	24,235	1,216	13.7	27.1	31.3	3.0	9.6	12.3	1.6	16.4
3/09E	31,286	1,743	19.7	43.3	21.8	2.7	12.2	15.5	1.3	12.2

- Gammon Infra IPO to provide valuation benchmark:** Gammon Infrastructure Projects Ltd (GIPL) is in the process of coming out with its initial public offering. GIPL currently has a portfolio of 13 projects, of which four are already operational. We value the project portfolio of GIPL at Rs19.8b including 20% premium for future projects. Of this, roads account for 40.5% of the value (including O&M contracts), ports 22.3% and power 20.5%.
- Strong order book position at 3.6x FY07 revenues:** Gammon's order book as at Jun 07 stood at Rs75b, representing book to bill ratio of 3.6x FY07 revenues. The company has identified various segments like urban infrastructure, airports, railways, power transmission, agricultural infrastructure, property development, hydrocarbons, etc for future growth. Further, the company is also looking to consolidate its recent foray in Middle East, North Africa, etc.
- Real estate emerging as a key focus area:** Real estate currently accounts for 10-11% of order backlog of Rs75b for Gammon. Going forward, the company plans to enhance its role as project developer through recently incorporated a subsidiary, Gammon Realty Ltd. Gammon has invested the initial seed capital and is in the process of drawing on the detailed road map. As we understand, the company owns a sizeable land bank on the outskirts of Mumbai and Andheri, which is not part of our valuations.
- Valuation and view:** We arrive at target price of Rs481/sh based on SOTP valuation. We value Gammon's core business at Rs296/sh (15x FY09 PER), 82.5% stake in Gammon Infrastructure at Rs13.8b (Rs148/share), 50.9% stake in Gammon and Billimoria at Rs648m (Rs7/share), 28.9% stake in Associated Transrail at Rs2.2b (Rs25/share) and stake in Sadbhav engineering at Rs6/sh. At the CMP of Rs430, the stock trades at reported PER of 31.3x FY08E and 21.8x FY09E. Adjusting for the value of BOT and Investments, the stock trades at PER of 17.8x FY08E and 12.4x FY09E. We maintain **Buy**.

SHARE HOLDING PATTERN (% - FY07)



STOCK PERFORMANCE (1 YEAR)



Gammon Infrastructure IPO to provide valuation benchmark

Gammon India is in the process of coming out with an initial public offering for Gammon Infrastructure Projects (GIPL). GIPL currently has a portfolio of 13 projects (including Adityapur SEZ and Tidong HEP), of which four are already operational. We value the project portfolio of GIPL at Rs19.8b including a 20% premium for future projects. Of this, roads account for 40.5% of the value (including O&M contracts), ports 22.3% and power 20.5%. For Gammon, this contributes Rs13.1b (Rs148/sh) to the Sum of the Parts value, post factoring in 20% holding company discount. We do not assign any value to the Adityapur SEZ and Tidong Hydro Power (where the Letter of Intent has been received), as these projects are in early stages.

VALUATION OF GAMMON INFRASTRUCTURE

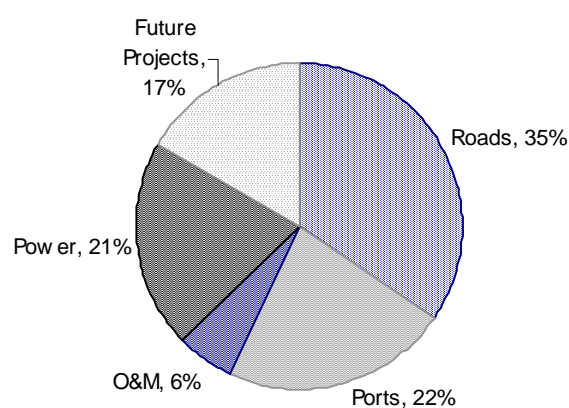
PROJECT	STAKE (%)	GIPL VALUE	WACC (%)
Roads		6,843	
Andhra Expressway (AEL)	94	1,197	8.5
Rajamundry Expressway (REL)	94	1,166	8.5
Mumbai Nasik Road Project (MNEL)	75	3,438	12.0
Kosi River Project	100	306	12.0
Gorakhpur Bypass	95	413	12.0
Cochin Bridge Infrastructure (CBICL)	98	322	8.5
Ports		4,421	
Mumbai Offshore Container Terminal	50	2,483	12.0
Vizag Sea Port (VSPL)	55	1,938	10.0
O&M		1,170	
O&M Expenses - AEL and REL	100	630	8.5
O&M Expenses - MNEL	100	393	9.0
O&M Expenses - Kosi	100	34	9.0
O&M Expenses - Gorakhpur	100	112	9.0
Power		4,067	
Sikkim Hydro Power Venture (SHPVL)	100	1,583	15.0
Haryana Biomass Power Project (HBPL)	50	1,039	12.0
Punjab Biomass Power Project (PBPL)	50	1,445	12.0
Total		16,499	
Add: Possible Future Projects		3,300	
Valuation		19,799	

Note: We do not assign any value to the Adityapur SEZ and Tidong Hydro Power (where Letter of Intent has been received), as these projects are in early stages; Source: Motilal Oswal Securities

Strong portfolio of projects in bidding stage: GIPL has a strong project bid portfolio, comprising of 5 projects for

which financial bids have been submitted totalling to Rs24b, and the company is pre-qualified for submitting financial bids for 10 more projects totalling to Rs162b. GIPL has further submitted pre-qualification request for 20 projects, totaling Rs400b+. These projects are across various segments including roads, ports, power transmission, hydro power projects, LRTs, etc.

GIPL: VALUE CONTRIBUTION (%)



Source: Motilal Oswal Securities Limited

Funding is not a constraint: The total project cost for GIPL stands at Rs55bn. Excluding the Adityapur SEZ (Rs1b), third berth at Mumbai port (Rs4b) and Tidong hydro power (Rs4b), as these projects are in early stages, the total project cost stands at Rs45b, with equity commitment of Rs8.2b. Of this, GIPL's share of equity investment stands at Rs5.7b, and the company has already invested ~Rs2.2b. Thus, additional equity investments towards existing projects stands at Rs3.5b, largely comprising of Rs1.4b for Sikkim Hydro Power, Rs750m towards Mumbai Offshore Container terminal project and Rs900m for Biomass projects. We understand that the investments in Sikkim Hydro Power project will be made over a 3-4 year period, and thus a large part of the current equity commitment can be met by the cash in the books (Rs1.2b in AEL / REL) of GIPL. As at Mar 07, GIPL is a debt free company (standalone) with a net worth of Rs2.8b, and thus funds can also be raised through leveraging.

GIPL FUNDING DETAILS (RS M)

PROJECT	% STAKE	TOTAL COST	DEBT	EQUITY	GRANT*	EQUITY INVESTED**
Roads						
Andhra Expressway	93.5	2,516	2,226	290	-	271
Rajamundry Expressway	93.5	2,574	2,284	290	-	271
Mumbai Nasik Road Project	75.0	7,500	6,470	520	510	390
Kosi River Project	100.0	4,300	3,870	430	-	215
Gorakhpur Bypass	100.0	6,400	5,760	640	-	304
Cochin Bridge Infrastructure	97.7	260	196	64	-	63
Ports						
Mumbai Offshore Container Terminal	50.0	7,500	6,000	1500	-	-
Vizag Sea Port	55.0	3,250	2,100	1150	-	633
Power						
Sikkim Hydro Power Venture	100.0	4,500	3,150	1350	-	-
Haryana Biomass Power Project	50.0	2,250	1,530	720	-	-
Punjab Biomass Power Project	50.0	4,050	2,835	1215	-	68
Total		45,100	36,421	8,169	510	2,214

* Grant during construction period, **As at Mar 07; # Excluding the Adityapur SEZ (Rs1b), Mumbai port expansion for third berth (Rs4b) and Tidon hydro power (Rs4b), as these projects are in early stages,

Source: Motilal Oswal Securities

Robust financials: We expect GIPL to report a consolidated net profit CAGR of 48% over FY07-09 driven by commissioning of Mumbai-Nashik expressway and ramp up in volumes at vizag port. During FY07, we expect Gammon Infrastructure to report consolidated net profit of Rs332m, vs Rs216m in FY06, up 54% YoY. This is largely due to improved profitability of Rajahmundry Expressway

(Rs175m in FY07, vs Rs145m in FY06), Andhra Expressway (Rs162m in FY07, vs Rs151m in FY06) and reduced losses on Vizag Seaports (loss of Rs99m in FY07 vs Rs111m in FY06). During FY08, we expect GIPL to report a net profit of Rs468m (up 41% YoY) and Rs737m in FY09 (up 57% YoY), driven by contributions from Vizag Sea port and Mumbai Nashik Expressway.

GIPL FINANCIALS SUMMARY (RS M)

	FY07	FY08E	FY09E
Revenues			
Roads	1,223	1,231	1,921
Ports	389	791	1,265
O&M	131	139	357
Total Revenues	1,742	2,161	3,543
Growth (%)	8.8	24.1	63.9
EBIDTA			
Roads	1,081	1,081	1,682
Ports	216	559	736
O&M	67	72	132
Total EBIDTA	1,364	1,712	2,550
Growth (%)	6.3	25.5	49.0
Net Profit			
Roads	340	299	441
Ports	-54	119	204
O&M	47	50	92
Total Net Profit After minority	332	468	737
Growth (%)	12.9	40.9	57.2

Source: Motilal Oswal Securities

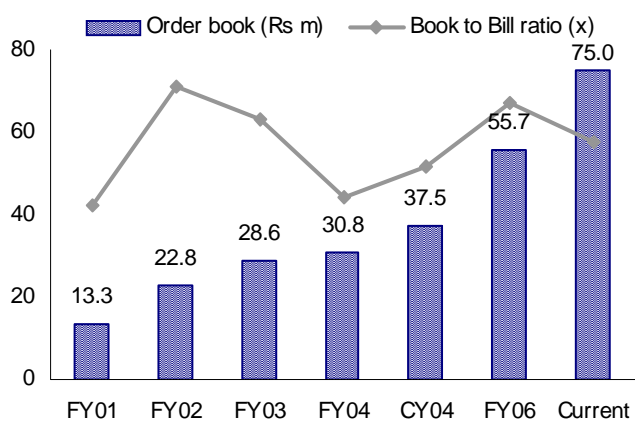
FY09 revenues and profitability driven by:

- **Roads:** Post commissioning (~50kms of 100kms) of Mumbai Nashik Expressway project from FY09
- **Ports:** Ramp up in volumes at Vizag port driven by increased volumes from SAIL.
- **O&M:** Periodic maintenance from REL/AEL in FY09 in addition to annual maintenance.

Strong order book position at 3.6x FY07 revenues

Gammon's order book as at Jun 07 stood at Rs75b, vs Rs74b in Jun 06, which represents book to bill ratio of 3.6x FY07 revenues. BOT project comprises 18-20% of the current order backlog. In terms of the order book composition, transport projects and power sector account for ~35% each of the order book, while the rest is accounted by other segments like Real estate construction (~10-11%), Irrigation, Pipelines, Transmission, Railways, etc.

TREND IN ORDER BACKLOG (RS B)



Source: Company

Focus on new business verticals: Gammon has identified the following sectors for future development and investment: urban infrastructure, airports, water and waste water management, railways, power transmission and agricultural infrastructure. Also, the management has indicated that property development and hydro carbon sector are showing exciting growth potential. Property development already accounts for ~10-11% of the outstanding order book for the company. Further, the company is also looking to consolidate its recent foray in the international markets like Middle East, North Africa, etc. The company also intends to focus on Hydro & Thermal power projects on BOOT basis.

Real Estate as a focused business activity

Realty development is emerging as a key focus area for the Gammon, though at nascent stages currently. As the initial forays in the segment, Gammon has entered into contracts with Godrej Properties (Rs605m) for construction of 7 towers of 14 storeys each, in Bangalore and with Neelkanth Realty (Rs887m) for construction of 7 towers of 14 storeys, in Mumbai. Going forward, the company also intends to enhance its role as project developer.

The company has recently formed a subsidiary, Gammon Realty, for the development of the real estate projects. Gammon has invested the initial seed capital and is in the process of drawing on the detailed road map. As we understand, the company owns a sizeable land bank on the outskirts of Mumbai and Andheri.

Associated Transrail (28.9% owned by Gammon) gaining traction

Associated Transrail Structures (ATSL) is engaged into setting up of power transmission networks. During FY07, the company reported revenues of Rs4.3b (up 126% YoY) and net profit of Rs465m (up 145% YoY). During FY07-09, we expect ATSL to witness revenue CAGR of 52% and net profit CAGR of 27%. As at June 07, the company has an order book position of Rs10.5b (2.3x FY07 revenues).

FINANCIAL PERFORMANCE (RS M)

	FY05*	FY06#	FY07E	FY08E	FY09E
Sales	1,289	1,880	4,250	6,975	9,765
Change (%)		94	126	64	40
EBIDTA	167	341	830	1,151	1,416
EBIDTA Margin (%)	13	18	20	17	14
Interest	67	66	150	226	311
Depreciation	0	-	1	2	5
Other Income	5	9	15	19	25
Profit before Tax	105	284	695	943	1,124
Tax	35	94	229	311	371
Net Profit	70	190	465	632	753
PAT Margin (%)	5.4	10.1	11.0	9.1	7.7

*Year ending June, # Year ending March Source: Company, MOSL

1QFY08 Performance above estimates

During 1QFY08, Gammon India reported revenues of Rs6.5b (up 17.3% YoY), EBIDTA Rs577m (up 82.1% YoY) and net profit of Rs285m (up 133.9% YoY). The reported numbers includes foreign exchange gain of Rs22.1m arising out of the restatement of foreign currency liabilities due to change in accounting policy. Adjusted for the same, the net profit stood at Rs27.1m, up 122% YoY. While revenue was lower than our estimates of Rs7.5b, EBIDTA and net profit was better than our estimate of Rs436m and Rs171m respectively.

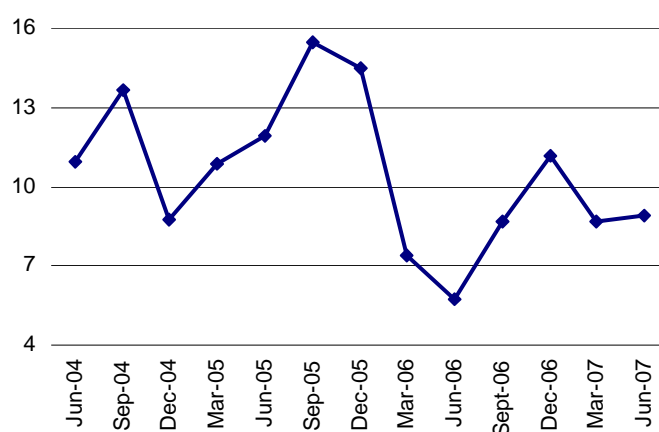
EBIDTA margin improvement is a positive surprise:

During 1QFY08, the company reported EBIDTA margins of 8.9% (vs our expectation of 5.8%) and 5.7% for 1QFY07, as several projects cross the margin recognition threshold. Ramp up in revenue growth during FY07 (during which EBIDTA margins declined on a YoY basis) had led to the company not being able to book margins on a sizable revenues during this period, thus impacting margins. This is because, as per the accounting methodology adopted,

Gammon accounts for margins on projects with size exceeding Rs2.5b, post 15% completion and for other projects, post 25% completion.

Also, the cost analysis indicates that material cost (including subcontracting cost) declined to 80.1% in 1QFY08 (vs 85% in 1QFY07). Staff cost in 1QFY08 increased to 8.2% of revenues (vs 5.9% in 1QFY07).

TREND IN EBIDTA MARGIN (%)



Source: Company

QUARTERLY PERFORMANCE

									(Rs Million)	
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	5,539	4,830	4,607	6,207	6,495	6,133	5,989	8,376	20,912	26,994
Change (%)	93.5	67.1	37.5	30.2	17.3	27.0	30.0	35.0	25.4	29.1
EBITDA	317	418	515	541	577	496	594	725	1,722	2,392
Change (%)	-6.9	-6.6	6.0	53.2	82.1	18.8	15.4	34.0	-10.9	38.9
As of % Sales	5.7	8.6	11.2	8.7	8.9	8.1	9.9	8.7	8.2	8.9
Depreciation	83	103	102	91	108	110	115	101	352	435
Interest	52	18	53	13	35	50	75	40	136	200
Other Income	3	1	7	118	11	3	2	2	197	18
Extra-ordinary income	27	0	0	0	0	0	0	0	27	0
PBT	211	297	366	556	444	339	406	586	1,458	1,775
Tax	25	36	50	875	159	115	138	148	1,030	559
Effective Tax Rate (%)	11.9	12.0	13.7	157.4	35.7	33.9	33.9	25.2	70.7	31.5
Reported PAT	186	262	316	-319	285	224	268	438	427	1,216
Adj PAT	122	197	242	367	271	224	268	438	946	1,202
Change (%)	-20.8	-20.6	15.5	34.1	122.2	14.1	11.0	19.2	-8.1	27.1

E: M0St Estimates

Muted FY07 consolidated performance

During FY07, Gammon India reported consolidated net profit of Rs919m, down 20.6% YoY (vs Rs1,447m during 15 month period ending Mar 06). The net addition to standalone numbers from subsidiaries and associate companies during FY07 stands negative at Rs38m. This compares with a contribution of Rs403m during FY06 (15 month period) and negative Rs115m in CY04 (9 month period).

GAMMON INDIA: STANDALONE AND CONSOLIDATED PERFORMANCE (RS M)

	CY04	FY06	FY07
Net Profit			
Standalone	381	1043	957
Consolidated	266	1446	919
Contribution from Subsidiaries/Assoc	-115	403	-38
EPS (Rs per share)			
Standalone	6.7	12.0	10.8
Consolidated	4.7	16.7	9.8

Note: CY04 is 9 month period; FY06 is 15 month period;

Source: Company/Motilal Oswal Securities

The key reason for negative contribution during FY07 is the elimination of the profits on construction business from GIPL (82.5% subsidiary), which currently forms part of standalone numbers. Of the current order book of Rs75b for Gammon, projects from GIPL accounts for 18%. This

indicates that even going forward, the consolidated numbers would continue to be impacted from an accounting perspective by the elimination of construction profits from projects of GIPL.

Valuation and view

Gammon India has strong order backlog of Rs75b as of June 2007, translating into 3.6x FY07 revenue of Rs21b. We expect Gammon India to report net revenues (net off JV's share) of Rs24.2b (up 30% YoY) in FY08 and Rs31.3b (up 29.1% YoY) in FY09, and net profit of Rs1.2b (up 27.1% YoY) in FY08 and Rs1.7b (up 43.3% YoY) in FY09.

We arrive at target price of Rs481/sh based on SOTP valuation. We value Gammon's core business at Rs296/sh (15x FY09 PER), 82.5% stake in Gammon Infrastructure at Rs13.8b (Rs148/share), 50.9% stake in Gammon and Billimoria at Rs648m (Rs7/share), 28.9% stake in Associated Transrail at Rs2.2b (Rs25/share) and stake in Sadbhav engineering at Rs6/sh. At the CMP of Rs430, the stock trades at reported PER of 31.3x FY08E and 21.8x FY09E. Adjusting for the value of BOT and Investments, the stock trades at PER of 17.8x FY08E and 12.4x FY09E. We maintain **Buy**.

GAMMON INDIA: SUM OF PART VALUATIONS

	BUSINESS SEG.	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Gammon Standalone	Construction	FY09E PER (x)	15	26,139	296	At par to industry average
Gammon Infrastructure	BOT	SOTP		13,068	148	20% holding company discount
Sadbhav Engineering	Construction	Market Price (Rs/sh)	450	495	6	Discount of 25% to CMP
Associated Transrail Structures	Power Trans-mission Towers	FY09E PER (x)	10	2,174	25	Discount to industry average
Gammon and Billimoria Ltd	Construction in Middle East	FY09E PER (x)	10	648	7	Discount to industry average
Total				42,524	481	

Note: Ignoring the value of Real Estate

Source: Motilal Oswal Securities

GIPL - Project Portfolio

Andhra Expressway (AEL): Andhra Expressway road project is part of the Chennai - Kolkata section. The project scope included expansion of two lane highway into four lane dual carriageway on a stretch of 47kms. The project enjoys concession period of 20 years, including 2.5 years for construction. The project was commissioned in Oct 04, 30 days ahead of schedule and the company was thus eligible for bonus of Rs46.5m from NHAI. The total cost of the project stood at Rs2.4b, funded through equity Rs290m and debt Rs2.2b. NHAI will pay semi annual annuity of Rs279m over the concession period of 17.5 years to AEL.

FINANCIAL SUMMARY (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Revenues (Annuity)	558	558	558	558	558
EBIDTA	498	495	491	487	309
Net Profit	151	162	137	146	9

Source: Motilal Oswal Securities

Rajahmundry Expressway (REL): Rajahmundry Expressway road project is also a part of the Chennai - Kolkata section. The scope of the project included expansion of two lane highway into four lane dual carriageway on a stretch of 53 kms. The project enjoys a concession period of 20 years, including 2.5 years for construction. The project was commissioned in Sept 04, 70days ahead of schedule and thus the company received bonus of Rs115m from NHAI. The total cost of the project stood at Rs2.5b, funded through equity Rs290m and debt Rs2.2b. NHAI will pay semi annual annuity of Rs296.2m over the concession period of 17.5 years to REL.

FINANCIAL SUMMARY (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Revenues (Annuity)	592	592	592	592	592
EBIDTA	529	525	521	516	320
Net Profit	145	175	147	157	3

Source: Motilal Oswal Securities

Mumbai Nasik Road Project (MNEL): The Mumbai-Nashik road project is one of the largest toll road BOT

projects in India, covering ~100km of stretch. This is the second busiest traffic corridor in India as it is the only entry gate for the vehicle coming from Central and Northern part of India. The road construction contract was awarded to Gammon India on fixed cost basis (Rs6.2b). The concession period is for 20 years (including 3 years for construction). As per the concession agreement, the scheduled completion date for the project is Mar 09. The total project cost stands at Rs7.5b, funded through equity Rs520m, debt of Rs6.5b and grant of Rs510m from the NHAI during the construction period. GIPL has 75% stake in the project, while 20% is held by Sadbhav Engineering and 5% by BE Billimoria & Co.

Initial revenues from the project would start flowing in from FY09 onwards, as the first 50kms stretch would be completed. The project will also receive a grant of Rs1080m during the operation, which would be returned at the end of the concession period.

FINANCIALS SUMMARY (RS M)

	FY10E	FY11E	FY12E	FY13E	FY14E
Passenger Car Units/Day	14,344	15,293	16,306	17,389	18,547
Growth (%)	-	-	6.6	6.6	6.7
Total Revenues	683	1,319	1,444	1,454	1,819
-Grant during operations	185	210	210	80	290
-Toll Based	498	1,109	1,234	1,374	1,529
EBIDTA	604	1,151	1,266	1,265	1,184
Net Profit	157	185	287	286	214

Note: FY10 is the first full year of the operations for the project.

Source: Motilal Oswal Securities

Kosi River Project: The project involves construction of 1.8kms of bridge and 8.2km road on the river Kosi. The project was awarded by NHAI in June 06 with a concession period of 20 years, including 3 years for construction. The project entails annual annuity payments of Rs640m by the NHAI. The total project cost is estimated at Rs4.3b, to be financed at DER of 89:11, with debt tied up at 11.25%.

FINANCIALS SUMMARY (RS M)

	FY10E	FY11E	FY12E	FY13E	FY14E
Revenues (Annuity)	320	640	640	640	640
EBIDTA	310	629	629	628	536
Net Profit	(19)	(30)	(31)	32	(55)

Source: Motilal Oswal Securities

Gorakhpur Bypass: The Gorakhpur Bypass is an integral part of the stretch between Lucknow and Muzaffarpur, awarded by NHAI in June 06, and involves a Greenfield development of 36kms of road stretch. The project has a concession period of 20 years, including 2.5 years for construction. The project entails an annual annuity of Rs980m p.a. during the concession period. The project cost stands at Rs6.4b, financed at DER of 89:11, with debt tied up at 11.25%.

FINANCIALS SUMMARY (RS M)

	FY10E	FY11E	FY12E	FY13E	FY14E
Revenues (Annuity)	980	980	980	980	980
EBIDTA	947	945	943	941	642
Net Profit	(56)	(58)	(60)	34	(261)

Source: Motilal Oswal Securities

Cochin Bridge Infrastructure (CBICL): The Cochin bridge project involves the construction of 2-lane 700 m long river bridge in the state of Kerala. GIPL owns 97.7% of the project while balance 2.3% is held by Cochin Port Trust. The project has a concession period of 19 years including 1.5 years for construction. The project was commissioned in Sept-01, and entails an annuity receipt of Rs15m payable p.a., plus rights for toll collection.

FINANCIALS SUMMARY (RS M)

	CY05	CY06	CY07E	CY08E	CY09E
Revenues	59	65	73	81	87
Toll Based	42	48	55	63	70
Annuity Based	15	15	15	15	15
Others *	2	2	2	2	2
EBIDTA	50	55	62	69	75
Net Profit	11	18	26	34	40

* including Advertising Revenue Source: Motilal Oswal Securities

Mumbai Offshore Container Terminal: Mumbai Offshore container terminal involves operations and management of the existing port container terminal for the

period of 5 years, and development and management of the new offshore container terminal, comprising of at least two berths. Further, subject to volumes reaching minimum specified levels, the company has the first right of refusal for construction of the third berth. The two offshore container terminals will have total capacity of 1.4m TEUs which can be increased up to 2m TEUs with commissioning of the 3rd terminal.

The project has concession period of 30 years, including 3 years of construction. Estimated project cost stands at Rs7.5b, and we assume DER at 80:20 (financial closure yet to be achieved). GIPL and Dragados SPL have equal stakes in the project. The project entails revenue sharing of 35.064%.

FINANCIAL SUMMARY (RS M)

	FY09E	FY10E	FY11E	FY12E	FY13E
Vol. (m tons)	0.10	0.15	0.19	0.71	0.88
Onshore	0.10	0.15	0.19	0.23	0.27
Offshore	-	-	-	0.48	0.61
Avg. Realization	3,510	3,236	3,629	4,012	3,805
Revenues	351	485	690	2,849	3,329
EBIDTA	52	121	241	995	1,163
Net Profit	47	108	214	131	281

Source: Motilal Oswal Securities

Vizag Sea Port (VSPL): Vizag Sea Port project entails a concession period of 30 years, including two years for construction. The project cost of Rs3.3b, was funded through debt of Rs2.1b and equity of Rs1.2b. The total capacity of the two berths stands at 7.5m ton. The company has signed firm take or pay contracts with SAIL for 3m ton per annum, during the concession period. The project entails revenue sharing of 17.11% of the wharfage and berth hire charges.

FINANCIALS SUMMARY (RS M)

	FY07	FY08E	FY09E	FY10E	FY11E
Vol. (m tons)	3.7	5.7	6.1	6.8	6.9
SAIL (Firmed up)	-	2.3	3.2	3.5	3.5
Non SAIL	3.7	3.5	2.9	3.3	3.4
Avg Realisation	105	138	150	143	143
Revenues	389	791	914	967	976
EBIDTA	216	559	683	710	714
Net Profit	(99)	217	328	352	355

Source: Motilal Oswal Securities

Sikkim Hydro Power Venture (SHPVL): SHPVL is a run of the river plant on the Rimbi river in West Sikkim and is being developed on a merchant basis, with a planned capacity of 66MW. The detailed project report has been completed. The project entails a concession period of 41 years, including 1 year for financial closure and 5 years for construction. The company will have to provide 12% free power for first 15 years and 15% of power thereafter to Government of Sikkim along with a royalty of 2% of the net profit. The estimated project cost is Rs4.3b, and we expect the project to be funded on DER of 70:30.

FINANCIAL SUMMARY (RS M)

	FY12E	FY13E	FY14E	FY15E
Capacity (MW)	66	66	66	66
Revenues	514	1,063	1,100	1,139
EBIDTA	479	991	1,026	1,062
Net Profit	236	501	532	564

Source: Motilal Oswal Securities

Biomass Power Project: GIPL is developing Biomass power projects at Punjab (9 nos of 12 MW each) and Haryana (6 nos of 10MW each), entailing total capacity of 168MW.

- For the Punjab project, GIPL has signed power purchase agreement with Punjab State Electricity Board (PSEB) for the concession period of 20 years at a tariff of Rs3.49/unit. GIPL has 50% in the project while the balance 50% is being held by Burmaco Energy Systems. The project cost is estimated to be Rs470m (for each unit of 12MW), and the company has already commenced construction for the first unit (in Jul 07), which is expected to be commissioned by Jan 09. Thereafter, each subsequent unit will be commissioned with a lag of 3-4 months.

FINANCIALS SUMMARY (RS M)

	FY10E	FY11E	FY12E	FY13E	FY14E
Capacity (MW)	24	60	96	108	108
Revenues	619	690	1,748	2,892	3,224
EBIDTA	382	427	1,080	1,787	1,931
Net Profit	57	112	651	1,239	1,366

Source: Motilal Oswal Securities

- GIPL is also developing 60MW Biomass power project in Haryana. Construction for the project is expected to begin in Sept 08. GIPL has 50% in the project while the balance 50% is being held by Burmaco Energy Systems. The company is in the process of signing up a Power Purchase Agreement (PPA) for this project too.

FINANCIALS SUMMARY (RS M)

	FY11E	FY12E	FY13E	FY14E	FY15E
Capacity (MW)	10	40	60	60	60
Revenues	310	367	1,411	2,053	2,053
EBIDTA	207	244	941	1,334	1,298
Net Profit	31	63	632	951	919

Source: Motilal Oswal Securities

O&M Contracts: GIPL has also taken up the operation and maintenance contracts for 1) Andhra Expressway, 2) Rajamundry Expressway, 3) Mumbai Nashik Expressway, 4) Kosi river project and 5) Gorakhpur Bypass project. The terms for the O&M contracts are defined in the concession agreements for each of the project, providing strong revenue visibility.

FINANCIALS SUMMARY (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Revenues	124	131	139	357	695
Annual Mainten.	124	131	139	237	357
Periodic Mainten.	-	-	-	120	338
EBITDA	62	67	72	132	197
Net Profit	43	47	50	92	138

Source: Motilal Oswal Securities

Adityapur SEZ: GIPL, in JV with TISCO has received Letter of Intent from the government, for setting up a auto / auto ancillary SEZ in Jharkhand on 100 hectares of land. The project cost is estimated at Rs1b. GIPL owns 38% stake in the project and JUSCO (100% subsidiary of Tata Steel) holds the 51% stake while balance 11% is held by Adityapur Industrial Authority. As the project is in nascent stages, we do not assign any value to the same.

Tidong Hydro power project: The Company has received Letter of Intent (LoI) from the Government of Himachal Pradesh and is currently working on the preliminary feasibility report. The estimated capacity for the project is 60-70MW at an estimated capex of Rs4b. Gammon Infrastructure owns 51% stake in the project.

INCOME STATEMENT						(Rs Million)					
Y/E MARCH	2004*	2006E#	2007	2008E	2009E						
Gross Revenues	8,666	16,592	20,843	26,994	34,742						
Net Sales	8,775	14,851	18,647	24,235	31,286						
Change (%)	4.1	15	57.0	30.0	29.1						
Construction Expenses	7,593	12,521	16,362	21,307	27,298						
Staff Cost	0	0	0	0	0						
Office and Site Est. Exps	223	397	434	536	761						
EBITDA	959	1,932	1,852	2,392	3,226						
% of Net Sales	10.9	11.5	8.8	8.8	9.2						
Depreciation	165	371	352	435	485						
Interest	282	471	136	200	217						
Other Income	3	21	66	18	20						
PBT	516	1,112	1,431	1,775	2,544						
Tax	134	69	447	559	801						
Rate (%)	26.1	6.2	31.2	31.5	31.5						
Reported PAT	381	1,043	984	1,216	1,743						
Extra-ordinary Income (net c)	0	0	27	0	0						
Adjusted PAT	381	1,043	957	1,216	1,743						
Change (%)	173.9	64.0	14.7	27.1	43.3						

E: Inquire Estimates

BALANCE SHEET						(Rs Million)					
Y/E MARCH	2004*	2006E#	2007E	2008E	2009E						
Share Capital	152	173	177	177	177						
Reserves	3,791	9,085	11,326	12,459	14,082						
Net Worth	3,943	9,258	11,503	12,636	14,259						
Loans	3,031	1,705	3,715	3,442	4,442						
Deferred Tax Liability	366	345	379	379	379						
Capital Employed	7,340	11,309	15,597	16,456	19,080						
Gross Fixed Assets	4,505	5,420	8,962	10,496	11,496						
Less: Depreciation	1,408	1,723	2,051	2,486	2,971						
Net Fixed Assets	3,097	3,697	6,911	8,010	8,525						
Capital WIP	128	73	104	70	70						
Investments	896	1,162	1,504	1,504	1,504						
Curr. Assets	8,258	11,469	14,804	18,011	22,986						
Inventory	3,494	4,706	5,290	8,135	10,470						
Debtors	2,335	2,380	3,034	4,807	6,187						
Cash & Bank Balance	728	1,343	960	1,505	2,264						
Loans & Advances	1,674	3,020	5,457	3,500	4,000						
Other Current Assets	26	21	64	64	64						
Current Liab. & Prov.	5,039	5,092	7,727	11,140	14,005						
Creditors	3,030	2,530	3,997	5,177	6,663						
Other Liabilities	1,918	2,440	2,574	4,807	6,187						
Provisions	92	122	1,156	1,156	1,156						
Net Current Assets	3,219	6,377	7,078	6,872	8,980						
Misc. Expenses	0	0	0	0	0						
Application of Funds	7,340	11,309	15,597	16,456	19,080						

#Fifteen months ended Mar 2006

RATIOS					
Y/E MARCH	2004*	2006E#	2007E	2008E	2009E
Basic (Rs)					
Adjusted EPS	6.7	9.6	10.8	13.7	19.7
Growth (%)	124.7	44.1	2.5	27.1	43.3
Cash EPS	20.6	24.0	28.1	35.9	50.7
Book Value	518	106.7	130.0	142.9	161.2
DPS	0.5	0.6	0.5	0.8	1.2
Payout (incl. Div. Tax.)	115	5.7	5.1	6.0	6.0
Valuation (x)					
P/E (standalone)		44.7	39.8	31.3	21.8
Cash P/E		17.9	15.3	12.0	8.5
EV/EBITDA		24.4	21.6	16.4	12.2
EV/Sales		3.2	2.1	1.6	1.3
Price/Book Value		4.0	3.3	3.0	2.7
Dividend Yield (%)		0.1	0.1	0.2	0.3
Profitability Ratios (%)					
RoE	12.9	9.0	8.3	9.6	12.2
RoCE	17.6	13.6	11.6	12.3	15.5
Turnover Ratios					
Debtors (Days)	73	65	65	65	65
Inventory (Days)	109	129	10	110	110
Creditors (Days)	108	70	70	70	70
Asset Turnover (x)	19	14	14	15	18
Leverage Ratio					
Debt/Equity (x)	0.8	0.2	0.3	0.3	0.3

CASH FLOW STATEMENT						(Rs Million)					
Y/E MARCH	2004*	2006E#	2007E	2008E	2009E						
PBT before Extraordinary It.	516	1,112	1,431	1,775	2,544						
Add : Depreciation	165	371	352	435	485						
Interest	282	471	136	200	217						
Less : Direct Taxes Paid	134	69	447	559	801						
(Inc)/Dec in WC	-1,804	-2,543	-1,084	751	-1,349						
CF from Operations	-977	-659	388	2,602	1,095						
(Inc)/Dec in FA	-436	-917	-3,597	-1,500	-1,000						
(Pur)/Sale of Investments	-91	-266	-343	0	0						
CF from Investments	-527	-1,182	-3,939	-1,500	-1,000						
(Inc)/Dec in Network	1,429	4,312	1,372	0	0						
(Inc)/Dec in Debt	849	-1,326	2,010	-273	1,000						
Less : Interest Paid	282	471	136	200	217						
Dividend Paid	44	60	50	83	119						
CF from Fin. Activity	1,953	2,455	3,196	-557	664						
Inc/Dec of Cash	448	615	-383	545	759						
Add: Beginning Balance	280	728	1,343	960	1,505						
Closing Balance	728	1,343	960	1,505	2,264						

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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