# Ramky Infrastructure RAMK.NS RMKY IN

ENGINEERING & CONSTRUCTION

NOMURA
EQUITY RESEARCH

Initiating with BUY

# Higher growth, stronger cash flow and balance sheet differentiate it from peers

August 9, 2011

| | |
|---|---|
| **Rating** Starts at | **Buy** |
| **Target price** Starts at | INR 450 |
| **Closing price** August 8, 2011 | INR 271 |
| **Potential upside** | +66.1% |

### Action: Initiating with BUY rating, INR450 TP; financial performance expected to be better than peers

We initiate coverage on Ramky Infrastructure with a BUY rating and a TP of INR450. We believe Ramky is one of the best mid-cap construction players in India, with revenue growth (20-25% vs 13-18%) and ROE (18-19% vs 7-10%) exceeding our forecasts for peers for FY12-13. Ramky has a robust and well-diversified order book (backlog ratio at 4x as of end-FY11), providing strong visibility for near- to medium-term revenue.

### Focus on execution and management of receivables; low capital intensity of developer business ensures better balance sheet

Ramky's focus on execution and management of receivables has helped control working capital. Ramky's BOT portfolio is a good balance of projects of low capital involvement with early cycle cash flows and those with higher capital investment. Equity component is only ~9% of BOT project cost. Equity invested to date is only 24% of net worth (29-42% for peers). We believe future equity investment can be met through internal accruals. Parent net debt/equity of 0.65x (vs. ~1.0x for peers), presents little equity dilution risk in the medium term, in our view.

### Valuation: Attractive considering lower risk than peers

Ramky is at an adjusted FY13F EV/EBITDA (adj for subs) of 4.38x vs 4.88x average for mid-cap peers, which we see as attractive considering lower risk. Ramky is our top pick in the mid-cap construction space.

### Catalyst: Strong, sustained financial performance as reflected in quarterly results; management delivering on its guidance

| 31 Mar | FY11 | FY12F | | FY13F | | FY14F | |
|---|---|---|---|---|---|---|---|
| Currency (INR) | Actual | Old | New | Old | New | Old | New |
| **Revenue (mn)** | 27,305 | | 34,111 | | 40,816 | | 48,446 |
| **Reported net profit (mn)** | 1,574 | | 1,744 | | 2,090 | | 2,521 |
| **Normalised net profit (mn)** | 1,574 | | 1,744 | | 2,090 | | 2,521 |
| **Normalised EPS** | 27.51 | | 30.49 | | 36.54 | | 44.07 |
| **Norm. EPS growth (%)** | 30.4 | | 10.8 | | 19.9 | | 20.6 |
| **Norm. P/E (x)** | 10.1 | | 9.1 | | 7.6 | | 6.3 |
| **EV/EBITDA** | 7.6 | | 6.2 | | 5.5 | | 4.8 |
| **Price/book (x)** | 1.8 | | 1.5 | | 1.3 | | 1.1 |
| **Dividend yield (%)** | 1.6 | | 1.6 | | 1.6 | | 1.6 |
| **ROE (%)** | 23.9 | | 18.1 | | 18.6 | | 19.0 |
| **Net debt/equity (%)** | 64.8 | | 71.6 | | 72.4 | | 69.2 |

Source: Nomura estimates

**Key company data:** *See page 2 for company data and detailed price/index chart.*
**Rating:** *See report end for details of Nomura's rating system.*

### Anchor themes

Ramky Infra offers exposure to the anticipated pickup in infrastructure investment in India. The company is active primarily in roads, buildings, water and power.

### Nomura vs consensus

We are 1% above consensus on FY13F adjusted profit. In our view, Ramky's developer business has greater value than consensus estimates.

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# Key data on Ramky Infrastructure

## Income statement (INRmn)

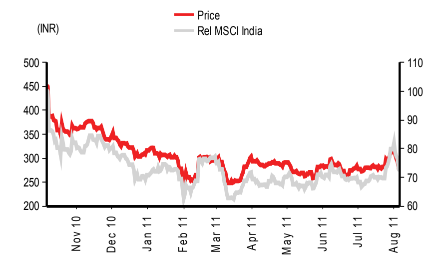
| Year-end 31 Mar | FY10 | FY11 | FY12F | FY13F | FY14F |
|---|---|---|---|---|---|
| **Revenue** | **20,023** | **27,305** | **34,111** | **40,816** | **48,446** |
| Cost of goods sold | -17,055 | -22,732 | -28,483 | -34,285 | -40,695 |
| **Gross profit** | **2,969** | **4,573** | **5,628** | **6,530** | **7,751** |
| SG&A | -1,127 | -1,906 | -2,196 | -2,404 | -2,828 |
| Employee share expense | | | | | |
| **Operating profit** | **1,842** | **2,666** | **3,432** | **4,127** | **4,923** |
| | | | | | |
| **EBITDA** | **1,947** | **2,859** | **3,752** | **4,490** | **5,329** |
| Depreciation | -105 | -193 | -320 | -363 | -406 |
| Amortisation | | | | | |
| EBIT | 1,842 | 2,666 | 3,432 | 4,127 | 4,923 |
| Net interest expense | -612 | -684 | -968 | -1,136 | -1,271 |
| Associates & JCEs | | | | | |
| Other income | 70 | 140 | 147 | 138 | 122 |
| **Earnings before tax** | **1,300** | **2,122** | **2,611** | **3,129** | **3,773** |
| Income tax | -257 | -548 | -867 | -1,039 | -1,253 |
| **Net profit after tax** | **1,042** | **1,574** | **1,744** | **2,090** | **2,521** |
| Minority interests | | | | | |
| Other items | | | | | |
| Preferred dividends | | | | | |
| **Normalised NPAT** | **1,042** | **1,574** | **1,744** | **2,090** | **2,521** |
| Extraordinary items | | | | | |
| **Reported NPAT** | **1,042** | **1,574** | **1,744** | **2,090** | **2,521** |
| Dividends | | -257 | -257 | -257 | -257 |
| **Transfer to reserves** | **1,042** | **1,316** | **1,486** | **1,833** | **2,263** |
| | | | | | |
| **Valuation and ratio analysis** | | | | | |
| FD normalised P/E (x) | 13.2 | 10.1 | 9.1 | 7.6 | 6.3 |
| FD normalised P/E at price target (x) | 21.3 | 16.4 | 14.8 | 12.3 | 10.2 |
| Reported P/E (x) | 13.2 | 10.1 | 9.1 | 7.6 | 6.3 |
| Dividend yield (%) | na | 1.6 | 1.6 | 1.6 | 1.6 |
| Price/cashflow (x) | 22.3 | na | 9.2 | 8.5 | 7.1 |
| Price/book (x) | 3.2 | 1.8 | 1.5 | 1.3 | 1.1 |
| EV/EBITDA (x) | 9.9 | 7.6 | 6.2 | 5.5 | 4.8 |
| EV/EBIT (x) | 10.4 | 8.1 | 6.8 | 6.0 | 5.2 |
| Gross margin (%) | 14.8 | 16.7 | 16.5 | 16.0 | 16.0 |
| EBITDA margin (%) | 9.7 | 10.5 | 11.0 | 11.0 | 11.0 |
| EBIT margin (%) | 9.2 | 9.8 | 10.1 | 10.1 | 10.2 |
| Net margin (%) | 5.2 | 5.8 | 5.1 | 5.1 | 5.2 |
| Effective tax rate (%) | 19.8 | 25.8 | 33.2 | 33.2 | 33.2 |
| Dividend payout (%) | 0.0 | 16.4 | 14.8 | 12.3 | 10.2 |
| Capex to sales (%) | 0.6 | 9.0 | 1.8 | 1.5 | 1.2 |
| Capex to depreciation (x) | 1.2 | 12.8 | 1.9 | 1.7 | 1.5 |
| ROE (%) | 27.9 | 23.9 | 18.1 | 18.6 | 19.0 |
| ROA (pretax %) | 12.4 | 11.4 | 10.4 | 10.6 | 10.7 |
| | | | | | |
| **Growth (%)** | | | | | |
| Revenue | 37.2 | 36.4 | 24.9 | 19.7 | 18.7 |
| EBITDA | 41.0 | 46.9 | 31.2 | 19.7 | 18.7 |
| EBIT | 43.0 | 44.8 | 28.7 | 20.2 | 19.3 |
| Normalised EPS | 53.3 | 30.4 | 10.8 | 19.9 | 20.6 |
| Normalised FDEPS | 53.3 | 30.4 | 10.8 | 19.9 | 20.6 |
| | | | | | |
| **Per share** | | | | | |
| Reported EPS (INR) | 21.09 | 27.51 | 30.49 | 36.54 | 44.07 |
| Norm EPS (INR) | 21.09 | 27.51 | 30.49 | 36.54 | 44.07 |
| Fully diluted norm EPS (INR) | 21.09 | 27.51 | 30.49 | 36.54 | 44.07 |
| Book value per share (INR) | 86.25 | 155.43 | 180.68 | 211.99 | 250.83 |
| DPS (INR) | 0.00 | 4.50 | 4.50 | 4.50 | 4.50 |

Source: Nomura estimates

**Notes**

Revenue growth of 20-25% pa in FY12-13F. EBITDA margin forecast to increase by 50bps in FY12-13F

**Price and price relative chart (one year)**




| (%) | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (INR) | 1.6 | 0.9 | |
| Absolute (USD) | 0.8 | 0.9 | |
| Relative to index | 7.8 | 4.1 | |
| Market cap (USDmn) | 354.9 | | |
| Estimated free float (%) | 21.9 | | |
| 52-week range (INR) | 471.55/241 | | |
| 3-mth avg daily turnover (USDmn) | 0.15 | | |
| Major shareholders (%) | | | |
| Promoter Group | 66.9 | | |
| SA1 Holding | 7.3 | | |

## Cashflow (INRmn)

| Year-end 31 Mar | FY10 | FY11 | FY12F | FY13F | FY14F |
|---|---|---|---|---|---|
| EBITDA | 1,947 | 2,859 | 3,752 | 4,490 | 5,329 |
| Change in working capital | -1,046 | -3,262 | -1,309 | -1,730 | -1,971 |
| Other operating cashflow | -286 | -693 | -720 | -901 | -1,131 |
| **Cashflow from operations** | **614** | **-1,096** | **1,723** | **1,859** | **2,227** |
| Capital expenditure | -128 | -2,466 | -600 | -600 | -600 |
| **Free cashflow** | **487** | **-3,561** | **1,123** | **1,259** | **1,627** |
| Reduction in investments | -74 | -1,672 | -1,500 | -1,200 | -1,200 |
| Net acquisitions | | | | | |
| Reduction in other LT assets | 1 | 2 | 0 | 0 | 0 |
| Addition in other LT liabilities | | | | | |
| Adjustments | 20 | 35 | 0 | 0 | 0 |
| **Cashflow after investing acts** | **434** | **-5,196** | **-377** | **59** | **427** |
| Cash dividends | | | 299 | 299 | 299 |
| Equity issue | 0 | 3,500 | 0 | 0 | 0 |
| Debt issue | 840 | 1,996 | 1,500 | 1,100 | 1,000 |
| Convertible debt issue | | | | | |
| Others | -508 | -686 | -1,567 | -1,734 | -1,870 |
| **Cashflow from financial acts** | **332** | **4,810** | **232** | **-335** | **-571** |
| **Net cashflow** | **765** | **-385** | **-144** | **-276** | **-144** |
| Beginning cash | 619 | 1,384 | 999 | 855 | 578 |
| Ending cash | 1,384 | 999 | 854 | 578 | 434 |
| Ending net debt | 3,355 | 5,758 | 7,402 | 8,778 | 9,922 |

Source: Nomura estimates

**Notes**

High capex in FY11 to build equipment base so as to reduce subcontracting

## Balance sheet (INRmn)

| As at 31 Mar | FY10 | FY11 | FY12F | FY13F | FY14F |
|---|---|---|---|---|---|
| Cash & equivalents | 1,384 | 999 | 855 | 578 | 434 |
| Marketable securities | | | | | |
| Accounts receivable | 7,566 | 13,839 | 15,711 | 18,799 | 22,313 |
| Inventories | 3,309 | 3,614 | 4,673 | 5,591 | 6,636 |
| Other current assets | 3,812 | 6,876 | 7,896 | 8,904 | 10,046 |
| **Total current assets** | **16,071** | **25,327** | **29,135** | **33,872** | **39,430** |
| LT investments | 601 | 2,141 | 3,641 | 4,841 | 6,041 |
| Fixed assets | 1,386 | 3,653 | 3,933 | 4,170 | 4,364 |
| Goodwill | | | | | |
| Other intangible assets | | | | | |
| Other LT assets | 7 | 0 | 0 | 0 | 0 |
| **Total assets** | **18,065** | **31,121** | **36,708** | **42,883** | **49,835** |
| Short-term debt | 726 | 1,415 | 1,729 | 1,960 | 2,169 |
| Accounts payable | 9,063 | 15,443 | 18,086 | 21,369 | 25,100 |
| Other current liabilities | | | | | |
| **Total current liabilities** | **9,789** | **16,858** | **19,815** | **23,329** | **27,269** |
| Long-term debt | 4,013 | 5,342 | 6,527 | 7,397 | 8,188 |
| Convertible debt | | | | | |
| Other LT liabilities | 0 | 31 | 31 | 31 | 31 |
| **Total liabilities** | **13,802** | **22,231** | **26,374** | **30,757** | **35,488** |
| Minority interest | | | | | |
| Preferred stock | 0 | 0 | 0 | 0 | 0 |
| Common stock | 494 | 572 | 572 | 572 | 572 |
| Retained earnings | 3,768 | 8,318 | 9,763 | 11,554 | 13,775 |
| Proposed dividends | | | | | |
| Other equity and reserves | | | | | |
| **Total shareholders' equity** | **4,263** | **8,890** | **10,335** | **12,126** | **14,347** |
| **Total equity & liabilities** | **18,065** | **31,121** | **36,708** | **42,883** | **49,835** |
| | | | | | |
| **Liquidity (x)** | | | | | |
| Current ratio | 1.64 | 1.50 | 1.47 | 1.45 | 1.45 |
| Interest cover | 3.0 | 3.9 | 3.5 | 3.6 | 3.9 |
| | | | | | |
| **Leverage** | | | | | |
| Net debt/EBITDA (x) | 1.72 | 2.01 | 1.97 | 1.96 | 1.86 |
| Net debt/equity (%) | 78.7 | 64.8 | 71.6 | 72.4 | 69.2 |
| | | | | | |
| **Activity (days)** | | | | | |
| Days receivable | 131.0 | 143.1 | 158.5 | 154.3 | 154.9 |
| Days inventory | 54.7 | 55.6 | 53.2 | 54.6 | 54.8 |
| Days payable | 167.4 | 196.7 | 215.4 | 210.0 | 208.4 |
| Cash cycle | 18.2 | 1.9 | -3.6 | -1.1 | 1.3 |

Source: Nomura estimates

**Notes**

Debtors increased in FY11 on account of BOT

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# Company profile

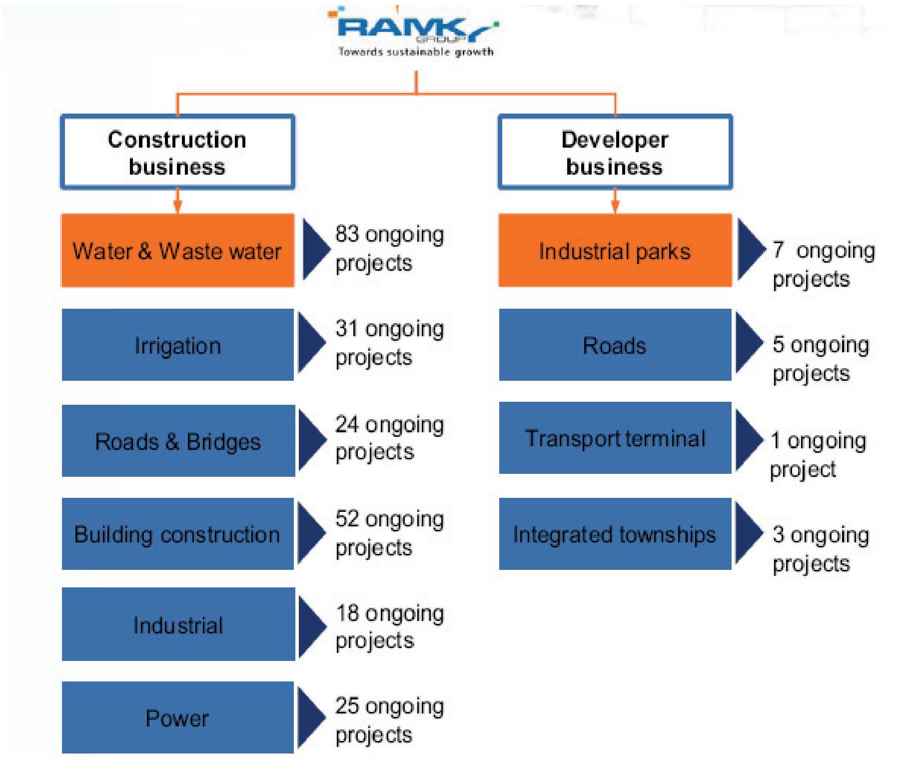
Ramky Infrastructure is an integrated construction and infrastructure development and management company in India. It is the flagship company of the Ramky Group, which is also engaged in other businesses such as waste management, environmental consulting, finance and accounting, data management, indirect procurement, real estate development, pharmaceuticals and emerging technologies.

Ramky Infrastructure was incorporated as Ramky Engineers in 1994 and since then, has serviced a diverse range of construction and infrastructure projects in sectors as varied as water and waste water, transportation, irrigation, industrial parks (including SEZs), power transmission and distribution, residential, commercial and retail property. The company is headquartered in Hyderabad, Andhra Pradesh, and has five zonal offices and three regional offices to manage its business operations throughout India and an overseas office in Sharjah, UAE.

Flagship company of Ramky group and involved in construction and infrastructure projects in diverse sectors

The company has two principal business segments: (i) a construction business operated by the parent and (ii) a developer business which is operated through its subsidiaries and associates.

**Fig. 1: Ramky Infra — corporate structure**




Source: Company data

**Promoter experience adds to strengths**

Ramky Infra's promoters, Mr. Alla Ayodhya Rama Reddy and Mr. Y.R. Nagaraja, are first-generation entrepreneurs who have strong experience in civil engineering and allied fields. In fact, Ramky started as a consultant for water/waste water projects and eventually moved into EPC. In our view, the strong technical background of the promoters has been one of the key strengths of Ramky. It has translated into a superior execution track record for Ramky, in our view.

Strong technical background of the promoters has translated into superior execution track record

Mr. Alla Ayodhya Rama has a Masters Degree in Civil Engineering. He has 25 years of experience in environmental services, civil works, bio-medical waste and hazardous waste management. He has worked on various water, waste water and engineering projects for different companies. He has several distinctions in his portfolio including being accredited with best 'Engineer of the Year Award' in 2005 from the government of Andhra Pradesh and the Institution of Engineers (India).

Mr. Y.R. Nagaraja has a Bachelor's Degree in Civil Engineering. He has 24 years of experience in the field of environment and solid waste management. His experience includes positions he has held with the Public Works Department of the State of Karnataka, as well as certain private companies. He has to his credit the successful implementation of a number of civil infrastructure and environmental projects.

## Financial profile better than peers

We prefer Ramky in the mid-cap construction space as it has better growth and return profile than peers, in our view. We list below some of the key parameters on which Ramky scores better than peers, on our estimates.

**Fig. 2: Comparison of key financial parameters**

| | Order backlog ratio | | Revenue growth | | EBITDA margin | | Reported ROE | | Adjusted ROE | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Key parameters** | **FY12F** | **FY13F** | **FY12F** | **FY13F** | **FY12F** | **FY13F** | **FY12F** | **FY13F** | **FY12F** | **FY13F** |
| Ramky Infra | 3.69 | 3.43 | 24.9 | 19.7 | 11.0 | 11.0 | 18.6 | 19.0 | 28.2 | 30.0 |
| IVRCL | 3.56 | 3.48 | 15.0 | 13.8 | 9.2 | 9.4 | 8.4 | 10.0 | 13.5 | 15.8 |
| NJCC | 3.54 | 3.45 | 14.5 | 18.2 | 9.7 | 9.8 | 6.9 | 7.1 | 13.9 | 14.1 |

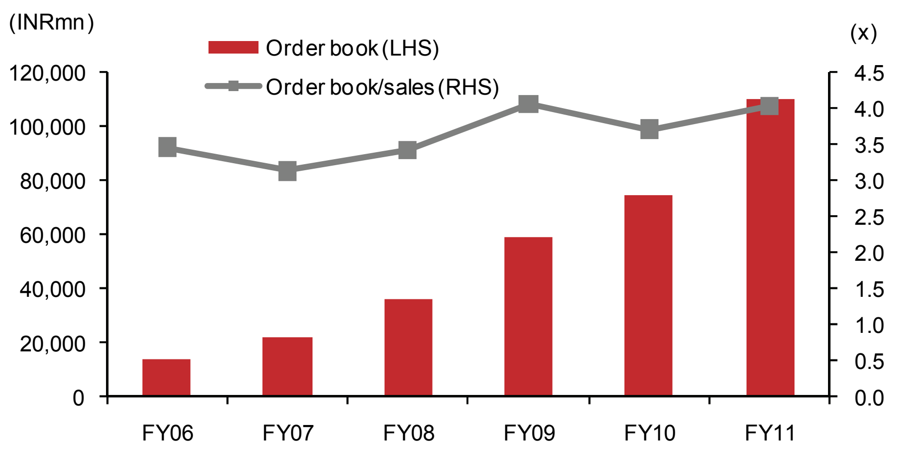
Source: Nomura estimates. Adjusted ROE is ROE adjusted for investment in subsidiaries

## Robust order book provides strong visibility

Ramky Infra has a robust order book, providing strong visibility for near- to medium-term revenue. At end-FY11, Ramky had an order book of ~INR110bn implying an order book to FY11 sales of 4.03x. The company has consistently expanded its order book over the past few years, implying a CAGR of ~50% over FY06-11.

Strong order book of ~INR110bn, implying an order book to FY11 sales of 4.03x, which provides strong visibility on near- to medium-term revenue

**Fig. 3: Robust order book**




Source: Company data, Nomura research

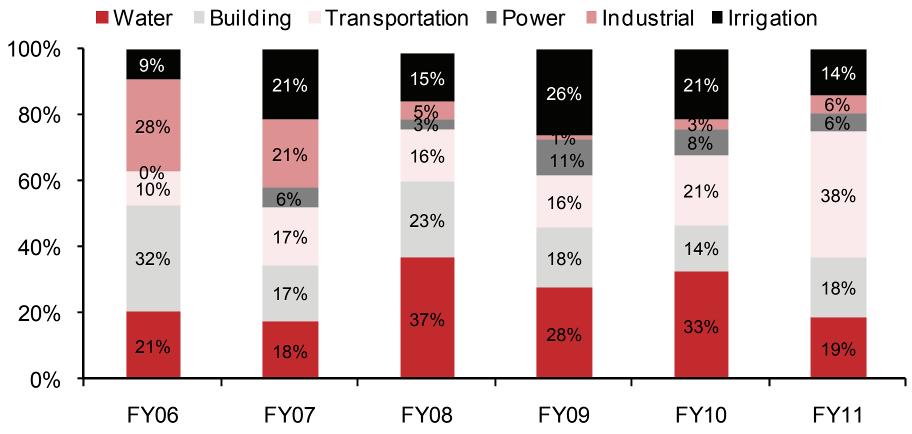
Internal orders from own development projects constituted ~25% (INR27bn) of the order book at end-FY11. These are mainly orders from road build-operate-transfer (BOT) projects.

**Well-diversified**

Ramky's order book is well-diversified, sectorally as well as geographically. The order book is spread across sectors such as water, buildings, transportation, industrial, power and irrigation. The transportation sector, which is the largest contributor to the order book, constituted ~38% of the order book as of end-FY11. The order inflow contribution from roads increased substantially in FY11, as the company won three big BOT road orders in FY11. The company also plans to foray into the hydropower and mining sectors, according to management.

Well diversified order book, sectorally as well as geographically, reduces concentration risk

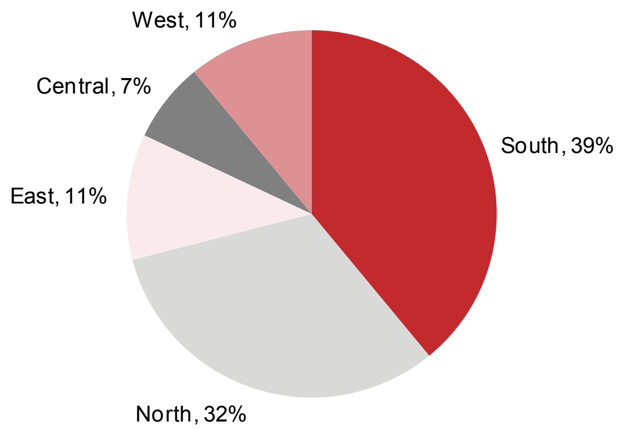
**Fig. 4: Sectoral breakup of order book**




Source: Company data, Nomura research

Ramky's order book is also well diversified geographically. Andhra Pradesh (AP) constituted ~ 31% of its order book as of December 2010, which included irrigation orders as well as road orders. AP irrigation constituted ~13% of total order book, on which execution has slowed down considerably, as per management. However, even adjusted for AP irrigation orders, the order book stood at INR96bn as of FY11, 3.52x FY11 sales.

**Fig. 5: Geographical breakup of order book (as of end-FY11)**




Source: Company data, Nomura research

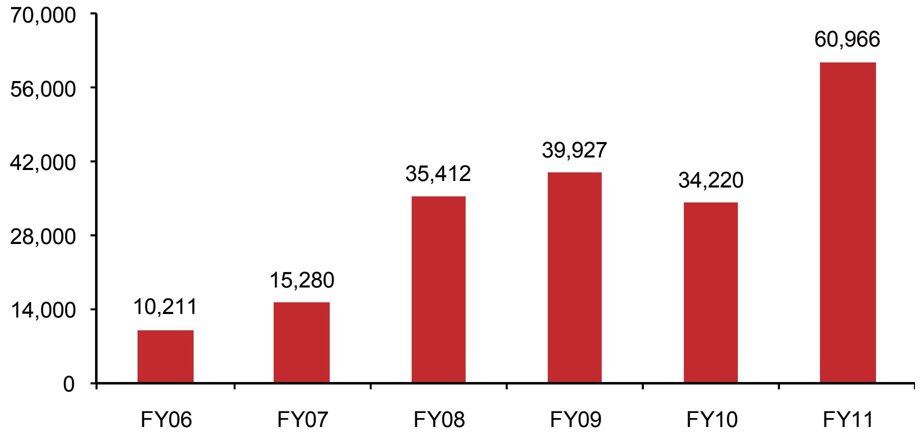
The company also plans to diversify internationally, according to management. It is already executing a project in Gabon through a subsidiary. It is also exploring opportunities in other geographies such as Vietnam, Peru and Egypt. We remain cautious on the company's plans for international diversification, as it entails higher risk than operating in the familiar Indian market, in our view.

## Base order inflows at INR30-35bn; upside from BOT orders

We expect INR50bn and INR55bn order inflows in FY12F and FY13F, respectively

Base order inflow for Ramky has been INR30-35bn annually in FY08-FY11. In addition, the company has booked BOT orders of INR3-5bn every year in FY08-FY10. In FY11, BOT order booking was much higher, driven mainly by orders from the road segment. In FY11 own subsidiary projects accounted for INR28bn of order inflows (46% of overall inflows for the year), in addition to base orders resulting in order inflow of INR61bn. Management expects to maintain strong order inflows in FY12 as well as it expects road project intake to pick up in 2Q and 3Q FY12 on the NHAI award schedule.

**Fig. 6: Order inflows (INRmn)**




Source: Company data, Nomura research

We build in order inflows of INR50bn in FY12F. We assume base inflows of INR35bn and BOT orders worth INR15bn in FY12. For FY13F, we expect an improvement in order inflows from FY12F levels to INR55bn, made up of INR40bn of base orders and INR15bn of BOT orders. To date, Ramky has won orders worth ~INR10bn in FY12, according to management.

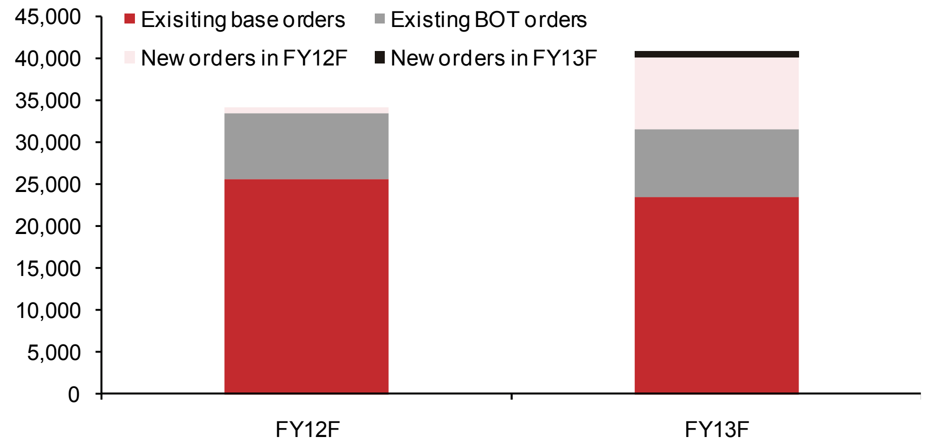
## Revenue growth better than peers; expected to continue

Revenue growth was ~ 36% in FY11, much better than the single-digit-growth rate reported by mid-cap companies such as IVRCL and NJCC

Ramky has been successful in consistently increasing its revenue over the past few years. Revenue has grown at a strong CAGR of ~46% over FY06-11. Revenue growth was ~36% in FY11, much better than the single-digit growth rate reported by other mid-cap companies such as IVRCL and NJCC.

In our view, the current order book provides strong visibility for revenue growth in the next few years. We expect revenue growth of ~25% in FY12F, above the mid-teen growth we expect for other mid-cap companies in our coverage universe. This is despite assuming a slowdown in Ramky's overall execution rate (execution rate is defined as revenue divided by start-of-year order book) due to a higher proportion of BOT orders in the order book. If BOT order execution continues without any impediments, we believe revenue growth in FY12F would be higher, at ~30%. The magnitude of revenue growth in FY13F revenue would depend on order inflows in FY12F to some extent, in our view. We estimate that FY13F revenue growth could range between 15% and 30%, based on FY12F order inflows. We build in ~20% growth in our base-case estimates in FY13F.

**Fig. 7: Revenue split in FY12F and FY13F**




Source: Nomura estimates

**Fig. 8: Revenue in FY13F — scenario analysis**

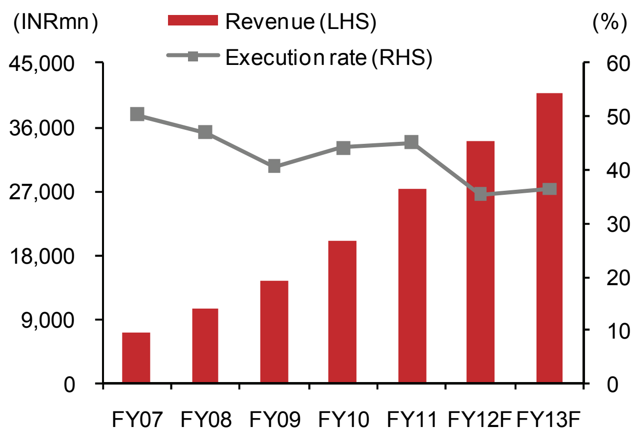
| FY12 assumptions (INR mn) | Base case | Bull case | Bear case |
|---|---|---|---|
| Base orders | 35,000 | 45,000 | 30,000 |
| BOT orders | 15,000 | 20,000 | 0 |
| **FY13 estimates (INR mn)** | | | |
| Revenues | 40,816 | 44,494 | 39,369 |
| Revenue growth | 19.7 | 30.4 | 15.4 |

Source: Nomura estimates

Management has guided that the company will maintain strong growth momentum, which will be better than industry average growth. This is in line with our expectation of 20-25% growth for Ramky for the next two years, above the mid-teen growth we expect for other mid-cap companies in our coverage universe. Our expectation of strong revenue growth is also supported by the sharp increase in employee strength. Ramky's number of employees has gone up 41% y-y to 2,429 at end-FY11 from 1,742 at end-FY10.

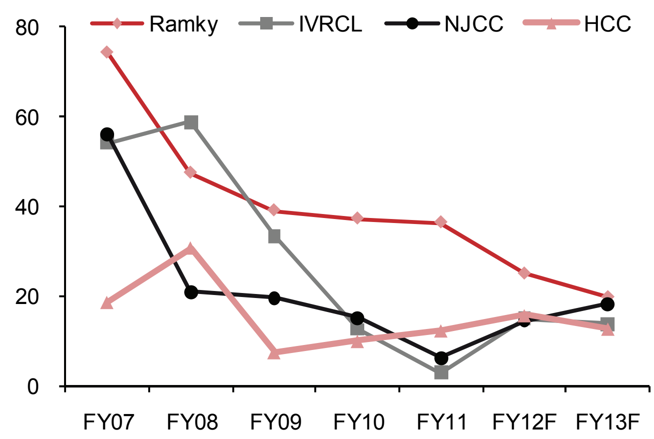
Revenue growth of ~25% in FY12 achievable; FY13 growth could be 15-30% depending on FY12 inflows

**Fig. 9: Revenue and order execution rate**




Source: Company data, Nomura estimates

**Fig. 10: Revenue growth rate vs. peers**



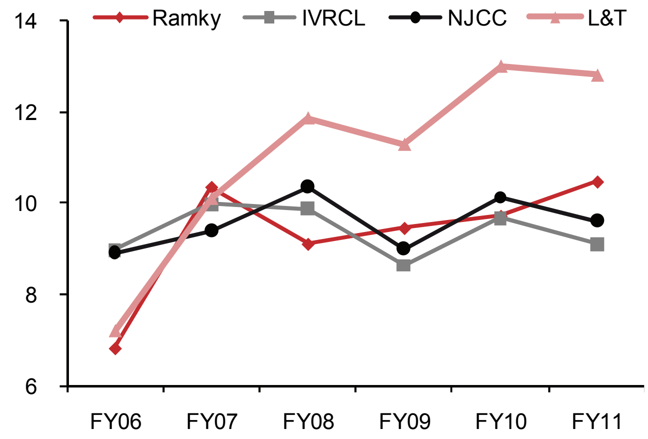

Source: Company data, Nomura estimates

## Margins better than peers; we expect it to improve

Ramky has been able to maintain strong EBITDA margins over the years. Since FY08, we have seen a consistent increase in EBITDA margins as the company has targeted larger and higher margin projects. We note that this increase is in spite of a higher subcontracting element than peers like IVRCL and NCC.

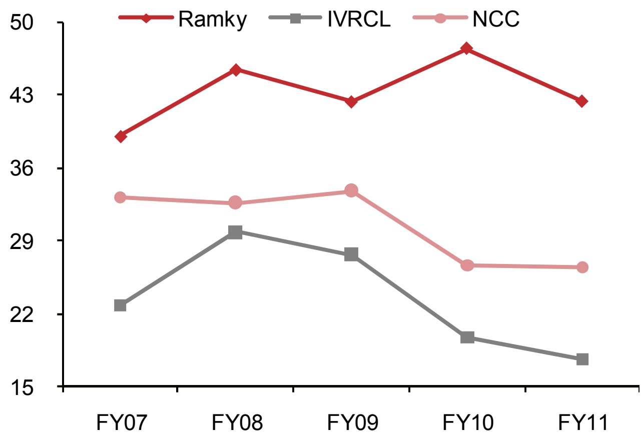
Ramky has undertaken substantial capex in FY11 to build equipment base to increase internal execution for margin improvement

**Fig. 11: EBITDA margin vs. peers**




Source: Company data, Nomura research

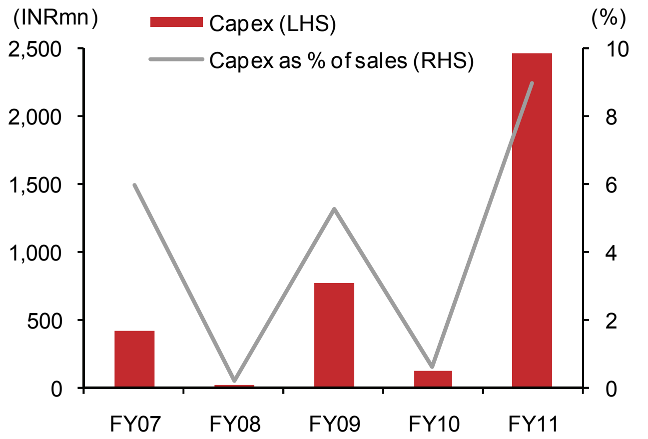
**Fig. 12: Subcontracting as percentage of sales**




Source: Company data, Nomura research

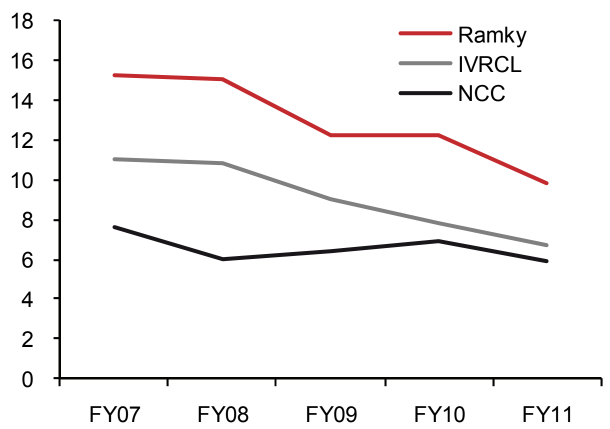
Ramky is trying to reduce its dependence on subcontractors in an effort to improve margins further. As a first step, the company has undertaken substantial capex in FY11 to increase its equipment base. Capex was incurred primarily for buying construction equipment to address requirements in the road sector. The company plans to utilise the equipment to increase internal execution and reduce subcontracting, which we expect will result in margin improvement going forward. The company has guided for an 11.5-12.5% EBITDA margin going forward vs 11% in FY11. PAT margin is expected to be flat y-y due to higher depreciation, according to management.

**Fig. 13: High capex in FY11**




Source: Company data, Nomura research

**Fig. 14: Sales/avg gross fixed assets (x)**




Source: Company data, Nomura research

Management has guided that capex will fall to INR0.6bn in FY12 and INR0.4bn in FY13. In spite of the higher capex this year, the company's gross fixed assets to sales remains below the levels of peers.

## Working capital management better than peers

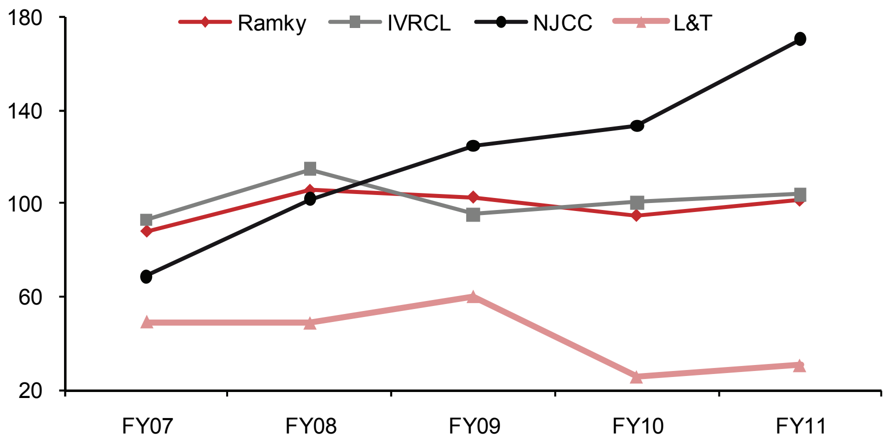
Better management of receivables and stronger focus on execution has led to better capital cycle than peers

We believe Ramky has demonstrated better working capital management than many other mid-cap peers. In our view, this is on account of better management of receivables and stronger focus on execution. The company has been able to keep working capital days in the 90-110 range.

At the end of FY11, working capital days stood at 101, an increase from 95 at the end of FY10. This was primarily due to increase in debtor days to 142, from 105 in FY10. As per the FY11 annual report, almost 45% of the increase (~INR2.2bn) was on account of receivables from own BOT road projects won last year. Project construction had commenced even before financial closure, which led to an increase in receivables. Adjusted for this, debtors days would have been 113, versus the historical range of 105-156 in FY08-FY10.

Since financial closure of these BOT projects has now been achieved, receivables are likely to reduce by end 1Q FY12 on debt drawdown. The company expects receivable days to come down to 110-120. As receivable days decrease, we expect working capital days to also come down to the 85-100 range.

**Fig. 15: Working capital cycle vs. peers**




Source: Company data, Nomura research

## Low capital intensity of developer business ensures little burden on parent's balance sheet

Good balance of projects between low capital investment and early cycle cash flows and high capital investment and late cycle cash flows would reduce stress on parent's balance sheet

Ramky has a diversified presence in the infrastructure development space with a portfolio of 16 projects — 5 roads, 7 industrial parks, 3 integrated townships and 1 bus terminal. In our view, the portfolio is a good balance of projects with low capital investment and higher early cycle cash flows (such as industrial parks and townships) as well as projects with higher capital investment and late cycle cash flows (such as roads). We believe the equity commitment can be met through internal accruals. This minimises the need for frequent equity dilution to support subsidiaries, in our view. Even in road projects, Ramky has minimised equity investment through other instruments such as subordinated debt. Total equity commitment from Ramky for its current portfolio is only around 9% of the project cost (adjusted for Ramky's stake).

**Fig. 16: Equity commitment to subsidiaries low**

| Fiures in INR mn | Stake | Project Cost | Ramky's equity | Equity invested | Equity to be invested |
|---|---|---|---|---|---|
| **Roads** | | | | | |
| Ramky Elsamex Hyderabad Ring road | 74% | 3,994 | 398 | 398 | 0 |
| Gwalior bypass | 51%* | 3,321 | 1 | 1 | 0 |
| Narketpally-Addanky | 50% | 17,605 | 1,168 | 1,168 | 0 |
| Jorbat-Shillong | 50% | 8,240 | 420 | 210 | 210 |
| Srinagar-Banihal | 74% | 16,000 | 1,184 | 5 | 1,179 |
| **Industrial Parks** | | | | | |
| Ramky Pharma City | 51% | 5,210 | 92 | 92 | 0 |
| Ramky MIDC Agro Processing | 100% | 500 | 104 | 66 | 38 |
| Ramky Herbal and Medicinal Park' | 100% | 964 | 257 | 14 | 243 |
| Ramky Food Park | 100% | 875 | 223 | 12 | 211 |
| Naya Raipur Gems SEZ | 100% | 1,834 | 143 | 24 | 119 |
| Ramky Food Park (Karnataka) Limited (74%) | 74% | 330 | 94 | 0 | 94 |
| Ramky Multi Product industrial Park, Chottupal (100%) | 100% | 8,000 | 600 | 0 | 600 |
| **Integrated townships** | | | | | |
| Ramky Towers | 51% | 4,000 | 2 | 2 | 0 |
| Ramkly Enclave | 89% | 2,164 | 0 | 0 | 0 |
| Ramky integrated township | 29% | 34,244 | 0 | 0 | 0 |
| **Transport terminal** | | | | | |
| MDDA IS Bus terminal | 100% | 514 | 150 | 142 | 8 |
| **Total** | | 107,795 | 4,836 | 2,135 | 2,702 |

Source: Company data, Nomura research. * Economic stake in the project is negligible

To date, Ramky has invested INR2.14bn (24% of net worth) in subs, of which INR1.5bn was invested in FY11. The company expects to invest INR1.5bn in FY12 and INR1.2bn in FY13 on current projects. The annual commitment is lower than its FY11 standalone profit. For FY12, equity investment has already been made in FY11 as working capital support. Therefore, there will be no cash outflow on account of subsidiary investment in FY12.

**Fig. 17: Investment in subsidiaries as percentage of net worth**

| As a percentage of net worth | FY08 | FY09 | FY10 | FY11 | FY12F | FY13F |
|---|---|---|---|---|---|---|
| Nagarjuna Construction | 24% | 31% | 33% | 42% | 63% | 70% |
| IVRCL Infra | 21% | 20% | 30% | 29% | 27% | 25% |
| HCC | 25% | 35% | 26% | 34% | 55% | 62% |
| Ramky Infra | 8% | 16% | 14% | 24% | 34% | 38% |

Source: Company data, Nomura estimates

Management has stated that it intends to maintain its focus on BOT projects, especially in roads and industrial parks. Among road projects, the company prefers annuity projects over toll projects due to lower risk. It is also looking at annuity projects in other areas such as water and buildings. According to management, the company is currently the lowest preferred bidder (L1) in a BOT-annuity building project in Uttaranchal worth ~INR5bn. Management expects 40% of consolidated net profit to come from the development business in five years. We look at key BOT subsidiaries in a later section.

## Low leverage a positive

Ramky's focus on working capital management, its relatively low equity support to BOT subsidiaries and its recent IPO have placed its balance sheet in a comfortable position compared to many mid-cap peers. Net debt/equity was comfortable at 0.65x at end-FY11. We believe the leverage position minimises the risk of equity dilution in the near-to-medium term, as shown in the exhibit below.

Net debt/equity was comfortable at 0.65x at end-FY11. This leverage position minimises the risk of equity dilution in the near-to-medium term

The company sees no risk of equity dilution at least for the next two years. Beyond that, any dilution would depend on capital requirements for subsidiary investment and working capital. According to management, promoters would not want to lower their stake in the company below 51%; promoter stake is currently at ~67%.

**Fig. 18: Cash inflow/outflow in FY11**

| Balance sheet (INR mn) | FY10 | FY11 | Cash inflow vs FY10 | |
|---|---|---|---|---|
| Share capital | 494 | 572 | | |
| Reserves and surplus | 3768 | 8318 | | |
| **Shareholders funds** | **4263** | **8890** | 4627 | On account of IPO |
| Loan funds | 4739 | 6757 | 2018 | For WC, capex, investments |
| Deferred tax liability/(asset) | -7 | 31 | 38 | |
| **Total liabilities** | **8995** | **15678** | | |
| | | | | |
| Fixed assets | 1386 | 3653 | -2267 | Capex for ramp up in roads |
| Investments | 601 | 2141 | -1540 | For BOT subs |
| **Current assets, loans and advances** | | | | |
| Inventory | 3309 | 3614 | -305 | |
| | | | | Includes unbilled w ork done for BOT road subs of INR 2bn. Will be set off against FY12 equity |
| Sundry debtors | 5744 | 10614 | -4870 | commitment of INR 1.5bn |
| Cash and bank balances | 1384 | 999 | | |
| Loans and advances incl retention money | 5634 | 10101 | -4467 | Increase of INR 900 mn to subs in FY11 |
| **Less: Current liabilities and provisions** | | | | |
| Liabilities | 9061 | 15098 | 6037 | |
| Provisions | 2 | 345 | 343 | |
| **Total assets** | **8995** | **15678** | | |

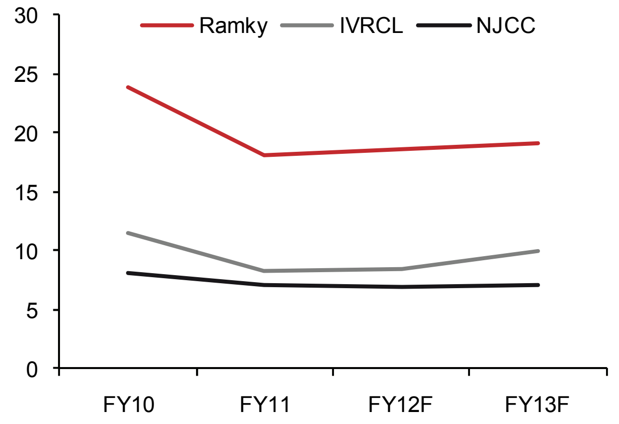
Source: Company data

## Better ROE despite low leverage

Ramky Infra has had a better return on equity than peers historically, in spite of lower leverage. We expect Ramky to continue posting better returns than peers due to its higher profit margins, lower working capital and lower gross block. We estimate Ramky's reported ROE to be ~18% in FY12-13F vs. 7-10% for peers.

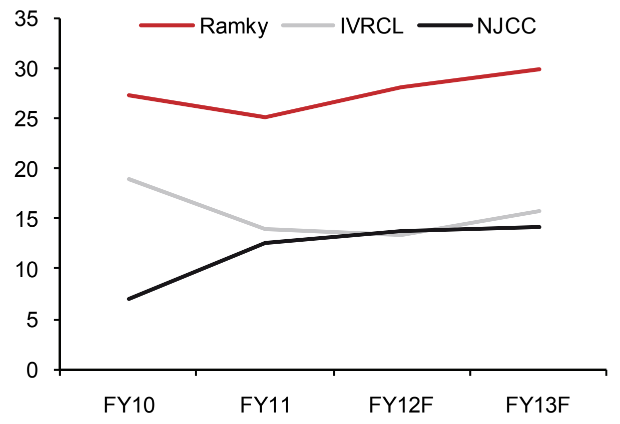
In our view, reported ROE is low for all construction companies on account of subsidiary investments, which currently have marginal returns but take up a significant amount of capital. Hence, apart from reported ROE, we also calculate ROE adjusting for subsidiary investments. We expect Ramky's adjusted ROE to be 25-30% vs. 12-16% for peers.

**Fig. 19: Reported ROE trend**
Ramky better than peers




Source: Company data, Nomura estimates

**Fig. 20: Adjusted ROE trend**
Ramky better than peers




Source: Company data, Nomura estimates

## Details of key BOT subsidiaries

We present below the details of Ramky's key BOT subsidiaries:

**Ramky Elsamex Hyderabad Ring road**

This project involved developing a 12.63km-long, eight-lane access controlled expressway as part of the Outer Ring Road to Hyderabad on DBFOT (annuity) basis. The project was awarded by the Hyderabad Urban Development Authority (HUDA). Its cost is ~INR4bn, including a grant of INR665mn from HUDA.

Equity IRR of the project is ~13%, according to our estimates.

Ramky Infrastructure has a 74% stake in this project, while the remaining is held by Elsamex, the Spanish subsidiary of ITNL. Construction of the road began in October 2007 and was completed in November 2009. The subsidiary receives a semi-annuity payment of INR315mn against the project. According to our estimates, the equity IRR of the project is ~13%.

**Narketpally-Addanky**

This is the only BOT road project in Ramky's portfolio which is on toll basis. This project involves four laning of the Narketpally–Addanki–Medarametla Road (SH-2), from km 0.0 to km 212.5 in AP under public private partnership (PPP) on a BOT basis. The project awarded by the Andhra Pradesh Road Development Corporation (APRDC) is on toll basis with a concession period of 24 years, including construction period of 910 days. The estimated cost of the project as per the company is INR17.6bn with a viability gap grant of INR4.67bn.

Equity IRR of the project is ~16%, according to our estimates.

Ramky had bid for the project in consortium with ITNL with 50% stake for each player. The concession agreement was signed with APRDC in July 2010. The project achieved financial closure in April 2011 and construction is in progress with July 2013 as completion date.

Based on the traffic figures shared by the company and its partners, we expect first year toll collection to be ~10% of the project cost (ex-grant). This translates into an equity IRR of 15.7%, according to our calculations.

**Jorbat-Shillong**

This project involves the four laning of the Jorabat-Shillong (Barapani) section of the NH-40, aggregating to 61.85km in the state of Assam and Meghalaya on a design, build, finance, operate and transfer (DBFOT) pattern under the Special Accelerated Road Development Programme — North East (SARDP — NE). The project awarded by NHAI is on an annuity basis with a concession period of 20 years including a construction period of three years. The estimated project cost according to the company is INR8.24bn. The semi-annual annuity for the project is INR725.1mn.

Equity IRR of the project is ~18%, according to our estimates.

Ramky Infrastructure has a 50% stake in the project while the remaining is held by ITNL. The concession agreement was signed with NHAI in July 2010. The project achieved financial closure in April 2011 and construction is in progress with June 2014 as completion date. According to our estimate, the equity IRR of the project is 17.6%.

**Srinagar-Banihal**

Equity IRR of the project is ~16%, according to our estimates.

This project involves four-laning of Srinagar-Banihal section of NH-1A, from km 187.000 to km 189.350 (Banihal Bypass) and km 220.700 to km 286.110 in Jammu and Kashmir on DBFOT basis. The project, awarded by NHAI, is on annuity basis with a concession period of 20 years including construction period of three years. The estimated project cost according to the company is INR16bn. The semi-annual annuity for the project is INR1,348mn.

Ramky Infrastructure has a 74% stake in the project while the remaining is held by Jiangsu Provincial Transportation Engineering Group Co. Ltd, China (JTEG). The concession agreement was signed with NHAI in October 2010. The project achieved financial closure in April 2011 and construction is in progress with June 2014 as completion date. According to our estimate, the equity IRR of the project is 16.3%.

**Ramky Pharma City**

High return with little equity investment; P/B of ~13x

Ramky Pharma City is currently developing the Jawaharlal Nehru Pharma City Industrial Park at Parawada, Visakhapatnam. This is an integrated industrial park aimed at bulk drug manufacturers, pharmaceutical companies and fine chemical manufacturers. When complete, the industrial park will be 2,143 acres, of which 611 acres has been notified as a pharmaceutical SEZ industrial park. The industrial park will have a saleable/leasable area of approximately 1,429 acres. The company estimates the total project cost to be INR5.2bn. The project has been developed on a Build-Own-Operate (BOO) basis. The project is 90% complete and a major part of it is already operational, according to management.

The features of the industrial park include power, water, a road network with street lighting, a common effluent treatment plant, a hazardous waste management facility, a marine outfall for the disposal of treated effluents, a dedicated telephone exchange with Internet connectivity, a central fire protection service, a logistics hub, container terminals and a common warehouse facility. Amenities include banking facilities, a primary health centre, food courts and a clubhouse.

Ramky Pharma City (India) Limited currently earns revenue from the sale of plots of land in the non-SEZ part of the park and long-term lease premiums for plots of land in the SEZ part of the park, common user fees for operation and maintenance of infrastructure facilities such as roads, street lights and security, and user charges for utilities like water and a common effluent treatment plant.

As of June 2011, the company had sold close to 1200 acres of land, of which 350 acres fall in the SEZ area. The current rate is INR12.5mn/acre in the SEZ area and INR8mn/acre in the non-SEZ area. Given the remaining area of 229 acres (of which 63 acres are in the SEZ area), we expect revenue of INR2.1bn from land sale in the next two years.

The company also earned O&M revenue of INR250mn in FY11. Management expects this to increase to INR2bn annually after FY15, once all units in the park are fully operational. The current O&M revenue is on an utilisation rate of close to 15%. We build in stable O&M revenue of INR1.7bn per annum from FY16.

In our view, this project is Ramky's most profitable BOT project. The low equity commitment along with good cash flows from the project suggest a P/B of ~13x, according to our estimates.

On the four other industrial parks the company is developing, land acquisition by the state government is complete and land is likely to be handed over in 2Q FY12, according to management.

**Ramky Towers**

Ramky Towers, in which Ramky Infra holds a 51% stake, is developing an integrated residential and commercial project on ~17 acres of land in Gachibowli, Hyderabad. The development will have a saleable area of 1.48mn sq. ft. The company estimates the project cost to be INR4bn. Construction of the development began in April 2007 and it is scheduled to be completed by April 2012.

According to the terms of the agreement with the Andhra Pradesh Housing Board, Ramky Towers paid INR10.2mn per acre of land. Ramky Towers Limited has the right to sell the properties constructed on the development but is required to pay 3.5% of the sale price for residential property and 4.0% of the sale price for commercial property to the housing board.

According to the company, it has already sold 0.9mn sq ft at an average rate of INR3,200-3,300/sq ft. The average cost (including payment to AP Housing Board) comes to INR2,600/sq ft, implying a margin of ~INR600/sq ft.

## We build in 20-25% annual rev growth over the next two years

We present below our key financial estimates:

- We build in order inflows of INR50bn in FY12 and INR55bn in FY13.
- We build in revenue growth of ~25% in FY12 and ~20% in FY13 based on our bottom-up analysis.
- We build in core EBITDA margin of 11.0% in FY12 and FY13, 50 bps higher than the FY11 level, in line with management guidance.
- We build in ~100bps increase in average interest cost in FY12 and FY13 from FY11 levels.
- We build in a full corporate tax rate of 33.2% going forward as against 26% in FY11F as we believe that the company will not be able to claim 80IA benefits in the future.
- Apart from reported profit, we also calculate adjusted net profit which is used for valuation purposes. We adjust the interest expense arising due to investments in subsidiaries to get core construction business profits, not considering any subsidiary support.
- We build in a reduction in receivable days to 125 from 142 in by end-FY12 as BOT projects have achieved financial closure. As a result, working capital days comes down to 95 in FY12-13 from 101 in FY11.
- We build in capex of INR600mn each in FY12 and FY13 in line with management guidance.

Adj net profit to grow at 20% CAGR in FY11-13F

We present our key numbers below:

**Fig. 21: Key financials**

| INR mn | FY10 | FY11 | FY12F | FY13F |
|---|---|---|---|---|
| Order inflows | 34,220 | 60,966 | 50,000 | 55,000 |
| Net revenues | 20,023 | 27,305 | 34,111 | 40,816 |
| Core EBITDA | 1,947 | 2,859 | 3,752 | 4,490 |
| Core EBITDA margin (%) | 9.7% | 10.5% | 11.0% | 11.0% |
| EBITDA | 2,017 | 2,999 | 3,899 | 4,628 |
| EBITDA margin (%) | 10.1% | 11.0% | 11.4% | 11.3% |
| PBT | 1,300 | 2,122 | 2,611 | 3,129 |
| Reported PAT | 1,042 | 1,574 | 1,744 | 2,090 |
| Adjusted PAT | 1,042 | 1,574 | 1,808 | 2,271 |
| Reported EPS (INR ) | 21.1 | 27.5 | 30.5 | 36.5 |
| Adjusted EPS (INR ) | 21.1 | 27.5 | 31.6 | 39.7 |

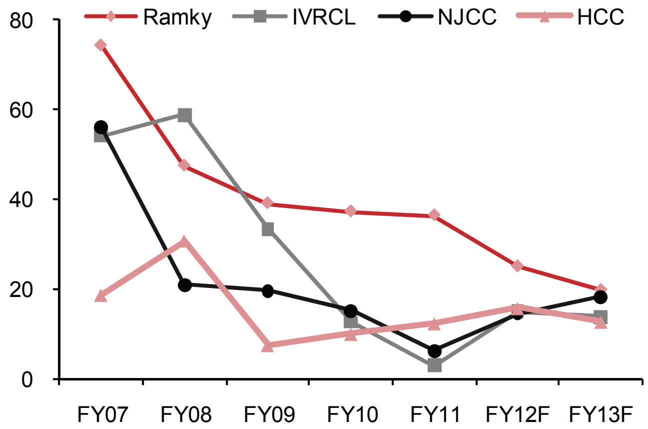
Source: Company data, Nomura estimates

## Initiating with BUY, TP of INR450; strong, sustained financial performance to be to be catalyst

We value Ramky Infra using a sum-of-the-parts methodology. We value the core construction business at 10x FY13F earnings as against 8x FY13F earnings for other mid-cap companies under our coverage. We believe Ramky should trade at a premium to peers due to its higher growth and ROE. The stock is trading at a one-year forward adjusted P/E of 7.5x.

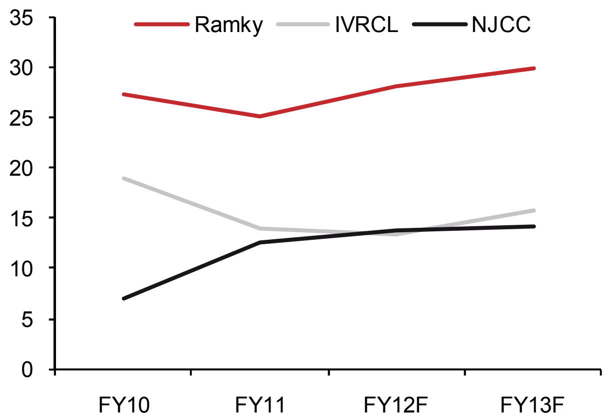
We assign a multiple of 10x for Ramky vs. 8x for peers on account of higher growth and ROE.

**Fig. 22: Revenue growth**




Source: Company data, Nomura estimates

**Fig. 23: Adjusted ROE**




Source: Company data, Nomura estimates

We value key BOT subsidiaries, ie, the four road subs, Ramky Pharma City and Ramky Towers using DCF. We do not value Gwalior bypass as Ramky's economic interest in it is negligible. We also do not value other industrial park subs as they are in the initial stage of development. Our valuation implies 1.4x equity invested till date, for the BOT assets.

**Fig. 24: Key assumptions in BOT valuation**

| | |
|---|---|
| **Roads** | |
| Interest rate | 11.0% |
| WPI Inflation | 5.0% |
| Traffic grow th p.a for toll roads | 5.0% |
| Cost of equity | 13.5% |
| **Other BOT projects** | |
| Ramky Pharmacity | Land sale price: SEZ INR 12.5mn/acre; non-SEZ INR 8mn/acre, O&M revenues: INR 1.7bn by FY16 |
| Ramky tow ers | Sale price: INR 3,200/sq.ft, Cost: INR 2,600/sq.ft |

Source: Nomura estimates

**Fig. 25: Valuation of BOT subs (INRmn)**

| Project | Value | Ramky stake | Ramky value | Value per share |
|---|---|---|---|---|
| Hyd ring road | 286 | 74% | 212 | 3.7 |
| Jorbat Shillong | 664 | 50% | 332 | 5.8 |
| Narketpally Addanki | 1345 | 50% | 672 | 11.8 |
| Srinagar Banihal | 456 | 74% | 337 | 5.9 |
| Ramky Pharmacity | 2435 | 51% | 1242 | 21.7 |
| Ramky Tow ers | 420 | 51% | 214 | 3.7 |
| **Total value** | | | **3,010** | **53** |

Source: Nomura estimates

Based on sum-of-the-parts valuation, our target price is INR450, which implies 66% potential upside from current levels. We initiate with a BUY rating. Ramky is our top pick in the mid-cap construction space in India as the risk-reward is more favourable than peers, in our view.

**Fig. 26: Sum-of-parts valuation gives a PT of INR450**

| Segment | Value | Value/share | Comment |
|---|---|---|---|
| Core construction business | 22,710 | 397 | 10x FY13F adjusted earnings |
| BOT subs | 3009 | 53 | On DCF. Implies 1.4x equity invested |
| **Total** | **25,719** | **450** | |

Source: Nomura estimates

The stock is trading at an adjusted FY13F EV/EBITDA (adj for subs) of 4.38x vs. average of 4.88x for mid-cap peers.

**Fig. 27: Valuation compared to peers**

| | P/E on adjusted profit | | | | P/E adj for sub valuation | | | | EV/EBITDA adj for sub valuation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY11 | FY12E | FY13E | | FY11 | FY12E | FY13E | | FY11 | FY12E | FY13E |
| IVRCL | 9.92 | 9.04 | 6.94 | | 6.13 | 5.59 | 4.29 | | 5.95 | 5.13 | 4.39 |
| NJCC | 10.67 | 9.60 | 7.80 | | 3.80 | 3.42 | 2.77 | | 6.37 | 5.52 | 4.63 |
| HCC | 25.63 | 32.70 | 19.40 | | 5.91 | 7.54 | 4.47 | | 7.21 | 6.32 | 5.61 |
| Ramky | 10.10 | 8.79 | 7.00 | | 8.19 | 7.13 | 5.68 | | 6.87 | 5.24 | 4.38 |

Source: Nomura estimates. *Based on pricing as of Aug 05, 2011

**We believe stock will re-rate; strong, sustained financial performance to be catalyst**

We believe the stock could re-rate on strong, sustained financial performance as reflected in the quarterly results. As reported numbers continue to exhibit better growth and ROE than peers, we believe the stock should trade at a higher multiple than peers. The stock has been listed only for ~10 months and as management delivers strong financial performance quarter after quarter, we believe the stock should trade closer to our target multiple of 10x. In our view, the near-term catalyst for the stock could be 1Q FY12 results on August 12, 2011. We expect revenue growth of 25% y-y for the quarter.

## Risks to our view

CBI investigation on certain investments made by the Ramky Group: The Central Bureau of Investigation (CBI), at the direction of the Andhra Pradesh High Court, is investigating certain investments made by some companies in firms owned by Y S Jaganmohan Reddy, Member of Parliament and son of ex-Chief Minister of Andhra Pradesh, Y S Rajasekhar Reddy. The Ramky group is one such investor being probed. (Source: Deccan Herald, 18th July 2011, ‘CBI to issue notices to investors in Jagan’s firms’)

Higher-than-expected slowdown in order inflows could adversely impact earnings: We build in order inflows of INR50bn in FY12 in line with the inflows in FY11. If order inflows are lower, it could adversely impact revenues and earnings in FY13F, in our view. Our analysis indicates a revenue growth range of 15-30% for FY13 for order inflows ranging from INR30-65bn in FY12 (Figure 7).

Execution delays would impact revenue growth: Execution delays due to issues such as land acquisition, environmental clearances and inadequate client preparedness could depress revenue growth.

Further rise in interest cost could depress earnings: We have built in an increase of 100bps in average interest costs in FY12 vs. FY11. Any increase beyond this could adversely impact earnings and valuation. We estimate that a 50bps increase in interest rates would reduce adjusted profit by ~1%.

Deterioration in working capital: A delay in payments from clients could result in deterioration of working capital, leading to higher debt and interest costs, resulting in lower profits.

Increase in risk premium could lead to lower valuations: Any increase in the risk premium for the company on account of macro or company-specific concerns could lead to lower valuations.

Overhang of sale of locked shares: Around 11% of Ramky’s outstanding shares have a lock-in period of one year from the IPO. The lock-in expires in Oct 2011. There is a possibility that investors would sell the shares after the lock-in period, which could put some pressure on stock price. On the positive side though, this would increase the trading liquidity on the stock.

# Appendix A-1

## Analyst Certification

We, Saion Mukherjee and Harish Venkateswaran, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Issuer Specific Regulatory Disclosures

**Mentioned companies**

| Issuer name | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|---|---|---|---|---|---|---|
| Ramky Infrastructure | RMKY IN | INR 271 | 08-Aug-2011 | Buy | Not rated | |

**Previous Rating**

| Issuer name | Previous Rating | Date of change |
|---|---|---|
| Ramky Infrastructure | Not rated | 08-Aug-2011 |

**Ramky Infrastructure (RMKY IN)** **INR 271 (08-Aug-2011)**

Chart Not Available

**Valuation Methodology** We value Ramky using a sum-of-the-parts methodology. We value the core construction business at 10x FY13F earnings at INR397/sh. We value the BOT subsidiaries using DCF at INR53/sh. Our PT is INR450/sh.

**Risks that may impede the achievement of the target price** 1) further slowdown in order inflows; 2) execution delays; 3) higher-than-expected increases in commodity prices and interest rates; 4) possibility of adverse finding of CBI investigations against the group; 5) deterioration in working capital; 6) increase in risk premium and 7) sale of locked shares.

# Important Disclosures

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As at 30 June 2011.
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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

#### STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
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A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

**STOCKS**

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A '**Buy'** recommendation indicates that potential upside is 15% or more.
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A '**Reduce'** recommendation indicates that potential downside is 5% or more.
A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
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A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
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## Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy**', indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
A rating of '2' or '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
A rating of '3' or '**Neutral**', indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
A rating of '4' or '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

**STOCKS**

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A '**Strong buy'** recommendation indicates that upside is more than 20%.
A '**Buy'** recommendation indicates that upside is between 10% and 20%.
A '**Neutral'** recommendation indicates that upside or downside is less than 10%.
A '**Reduce'** recommendation indicates that downside is between 10% and 20%.
A '**Sell'** recommendation indicates that downside is more than 20%.

**SECTORS**

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

## Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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