

CMP: Rs. 1310
BUY
TARGET PRICE: Rs. 1613
Sector: Construction

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| | |
|---------------------|-----------------|
| CMP | 1310.0 |
| Price Target | 1613.2 |
| Potential Upside | 23% |
| 52 week Range | Rs 620 - Rs1480 |
| No. Shares (Cr.) | 1.3 |
| Free Float (%) | 52.5 |
| Market Cap (Rs. Cr) | 1661.0 |
| Avg Daily Volume | 21385.0 |

Holding Structure

| | |
|--------------|-------|
| Promoters | 47.55 |
| FII | 23.43 |
| Corporate | 6.03 |
| Institutions | 18.17 |
| Govt | 0 |
| Public | 4.82 |

**ONE-YEAR PERFORMANCE:
(REL. TO SENSEX)**


Source: Capitaline

| (RsCr) | 2010 | 2011E | 2012E | 2013E |
|-----------------|--------------|--------------|--------------|--------------|
| Net Sales | 1256.9 | 1656.0 | 2051.7 | 2549.7 |
| Growth | 18.5% | 31.7% | 23.9% | 24.3% |
| EPS (Rs) | 43.1 | 55.6 | 69.8 | 87.8 |
| OPM (%) | 11.0% | 11.8% | 12.3% | 12.5% |
| NPM (%) | 4.3% | 5.0% | 5.1% | 5.2% |
| Debt/Equity | 1.08 | 0.99 | 1.16 | 1.15 |
| ROE (%) | 18.8% | 17.6% | 17.0% | 17.6% |
| ROCE (%) | 14.7% | 17.0% | 16.4% | 17.7% |
| P/E | 29.0 | 22.5 | 17.9 | 14.2 |

We initiate coverage on Sadbhav Engineering Ltd which is a leading Infrastructure company operating in the road construction and the BOT segment. Prospects for Sadbhav look promising as there is huge market opportunity in roads BOT over the next 5 years and also for the mining sector where demand is seen increasing from the power, metals and cement industries. With higher orders expected from the mining sector (submitted bids worth Rs6000 Cr, expected order book to be 32.8% from mining in FY13), the OPM is also expected to improve going forward. Given the huge growth potential of the company, we initiate coverage on the stock with a BUY rating and a price target of Rs 1613 (upside of 23%)

Solid Revenue Visibility; Thanks to healthy order book, pro-active Management & strong Execution track Record

SEL's current order book of Rs 7200 Cr is 5.7 times its FY10 sales compared to around 3 -3.5 times for other major construction companies. The order book is dominated by projects in roads and highways (74%) followed by 16% orders in mining and 10% in irrigation. After making an early entry in road BOT segment to capitalize on opportunities in roads & highways, management now looks ahead to other growth area i.e. mining. The strong order book position & superior execution track record should, in our view, result in top line CARG of 24% over the 3 year period FY10-FY13.

Operating Margins likely to Improve aided by higher share of mining projects

As per our interaction with the management, SEL sees mining as a major growth driver going forward. SEL has currently bid for mining projects worth Rs 6000 Cr and we expect share of mining projects in the order book to double from 16% currently to 32% by FY13. As the mining projects yield higher operating margins of round 20% compared to sub 12% for roads and irrigation, this move should result in margin expansion of around 154 bps between FY10-FY13.

BOT portfolio grossly under valued

SEL has 9 road related BOT projects in its kitty of which 3 are operations and 1 more project will be operational very soon. We have valued the discounted cash flows of all these projects at Rs 1002 per share of the company. SEL's road BOT portfolio is amongst the biggest in the industry. As per our workings the maximum value of Rs 550 a share (55% of the total BOT portfolio) is contributed by MBCPL. It has 22 interstate border check posts encircling Maharashtra border. The company also plans to add a further 2-3 BOT projects over the next 2 years.

Gargantuan Opportunity in Roads and Highways

Over the last year, the government has brought the plans for upgrading roads & highways on the front burner and it has now become its top priority. The NHAI has plans to award roads & highways projects worth around 33000 km over the next 4-5 years. We expect Sadbhav Engineering Ltd (SEL) to be a major beneficiary of this in the years to come.

Mining to spearhead future growth

Going forward we expect mining to be a major growth driver for SEL as there exist a huge opportunity in mining owing to increased demand for coal, iron and other minerals. According to the business monitor international, the overall mining industry is expected to grow at a CAGR of 9% during FY8-FY12 reaching Rs 1.9 trillion by 2012. It is expected to contribute 2.7% to the GDP in FY12 from currently around 2%.

Valuation

We are confident about SEL's execution capabilities. We believe that Sadbhav Engineering is going to be one of the major beneficiaries of the upcoming investment in the roads and highways. We reckon that the management has rightly identified mining as a next big opportunity and has already started working towards that. This will benefit the future revenue growth as well as operating margins as mining projects yield better operating margins.

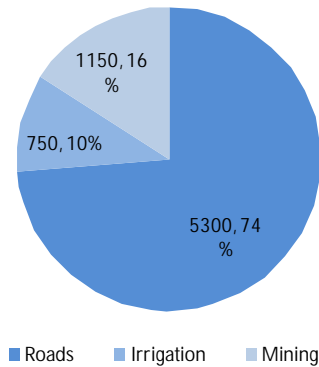
As per our valuations, the core construction business of the company contributes Rs 611 per share (11 times FY11E EPS compared to 15 times and 14 times for Nagarjuna Const and IVRCL Infra respectively). The BOT projects, as per our workings, contribute Rs 1002 per share taking 1 year forward stock price target to Rs 1613. We initiate coverage of SEL with a BUY rating.

Investment Rationale

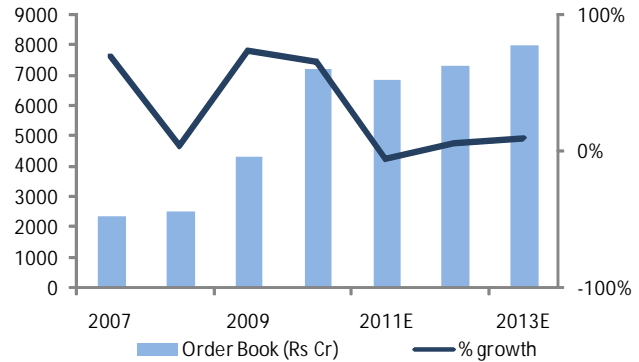
Solid Revenue Visibility; Thanks to healthy order book, proactive Management & strong Execution track Record

Over the last 4 years, SEL's order book has grown at a CAGR of 50% and currently stands at Rs 7200 Cr. The roads & highways segment accounts for around 74% of the total projects with the remaining contributed by projects in Mining and Irrigation.

Order Book (Rs Cr)



Order Book Growth



The current order book of the company is 5.7 times FY10 sales - far higher than around 3-3.5 times order book / sales for the industry. While road sector currently dominates the order book, the company has presence in other two verticals since long. The first irrigation project that the company was awarded was in 1989-90 and the first mining related project was bagged in 1992-93.

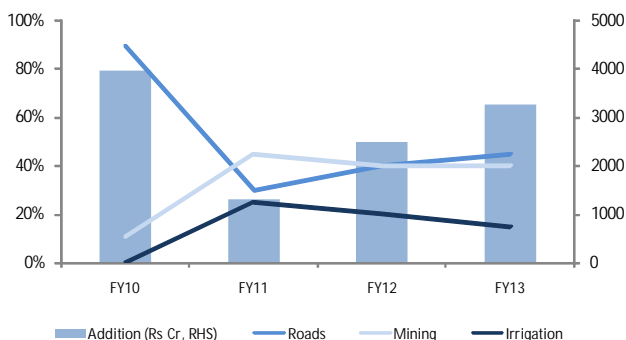
Since then the company has pro-actively changed its focus where there existed maximum potential. SEL successfully anticipated upcoming opportunities in roads (especially in BOT space) quite early in 2005-06 when it bagged its first BOT project. From having just 1 BOT project in 2005-06, the company currently has 9 road related BOT projects. While still actively bidding for opportunities in roads (management expects further 2-3 BOT projects in next 2 years), the company now places more emphasize on opportunities in mining for future growth.

We believe huge order backlog, strong execution track record, and ability to visualize changing trends in opportunities should help company register top line CAGR of 24% over FY10-FY13.

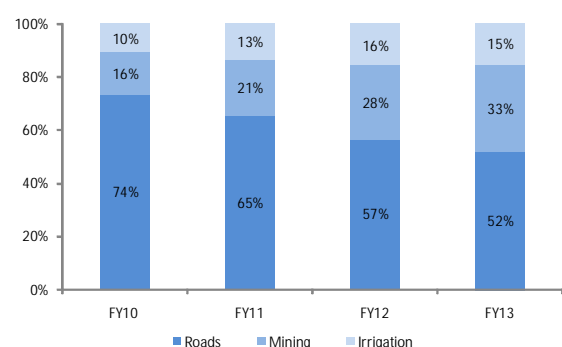
Margins likely to Improve aided by higher share of mining projects

SEL has already geared up to capitalize on upcoming opportunities in mining and has currently bid for mining projects worth Rs 6000 Cr. We expect a major change in company's order book composition in favor of mining projects over the next 3 years.

Addition in Order Book (Rs Cr)



Order Book Composition

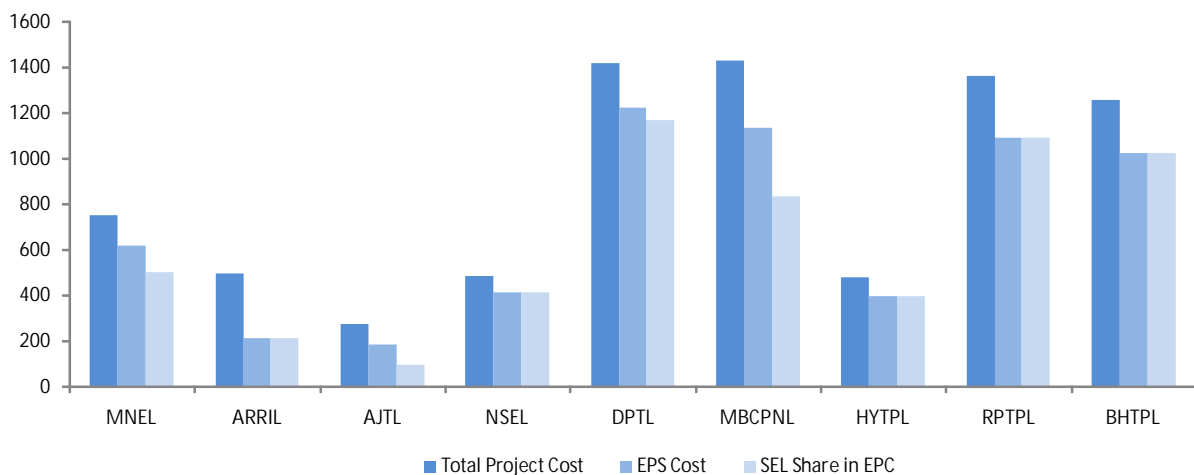


Since margins are higher in mining segment (more than 18%-20%) compared to roads (around 11%) and irrigation (around 10%), we expect this change in order book composition should help SEL increase overall margins at the company level. We expect operating margins to improve by 154 bps over FY10-FY13 to 12.5% from less than 11% currently.

SEL's EPC division benefitting from BOT projects

While the BOT projects are creating asset base for the company, they also contribute significantly to the SEL's EPC order book as the company executes portion of the total EPC work involved in the BOT project. In all the last three BOT projects bagged by the company in CY10, SEL is executing the entire EPC work for the project. Of the total BOT road portfolio of Rs 7968 Cr, SEL's share in the total EPC work of Rs 6310 Cr is 91%. Of the total order book of Rs 7200 Cr, EPC work resulting from the BOT project accounts for around 62%. Having in-house capability to cater the EPC portion of the BOT projects also adds to the company's comfort in terms of getting the execution done in a timely and efficient manner.

EPC Road Projects division benefiting immensely from BOT portfolio.



Stake sale in BOT Subsidiary remains an option to meet funding requirement

The SEL management has in the past repeatedly confirmed that the company was actually looking to dilute stake in the 100% owned BOT subsidiary. However, the adverse economic / market conditions during the financial crisis did not allow for the same. While during our interaction, the management did not clearly indicate whether they are still actively looking at that at present, they also did not completely ruled out the matter and indicated that if they have to dilute the stake now, they can raise the same amount of fund as couple of years back by selling much lower stake than what was under consideration previously. This is because the BOT projects portfolio has increased considerably since then.

Potential Stake sell in the 100% owned BOT subsidiary remains an option

In case if it materializes, the dilution in stake in the BOT subsidiary may provide a good indication of the valuation of the BOT subsidiary. Otherwise, this option will always provide the management with comfort in terms of raising money as and when required.

Gargantuan Opportunity in Roads and Highways

In the recent years, the government has recognized that road connectivity forms the very basis of economic and social development and the same has reflected in its investments in road sector. As shown in the table below, the current National and State Highways massively fall short to handle the current requirement.

| | Length in km | % | % of total Road Traffic |
|-----------------------|-------------------|-------|-------------------------|
| National Highways | 66754.00 | 2.01 | 40.00 |
| State Highways | 128000.00 | 3.86 | 40.00 |
| Major District Roads | 470000.00 | 14.18 | |
| Rural and Other Roads | 2650000.00 | 79.95 | 20.00 |
| Total | 3314754.00 | | 100.00 |

Besides the need to add to the total national and state highways, there is also a need to upgrade the quality of the existing network. Mere 14% of the total national highways and 1% of the total state highways are four lane and just 59% and 22% of them are double lane respectively. This together with poor surfacing of the roads results in lower average vehicle speed of 50 km an hour.

While in past, projects awarding, bidding and execution was hit by series of issues resulting in delays in all aspects of the project cycle, lately government has taken some productive steps towards ensuring smoother process. The NHAI now plans to award remaining 33000 km of roads in the next 4-5 years which presents a huge opportunity for established players like SEL.

| | Total Length (Km) | Completed | Implementation | Contracts Under Implementation (No.) | Balance length for awarding (Km) |
|-------------------|-------------------|--------------|----------------|--------------------------------------|----------------------------------|
| GQ | 5846 | 5786 | 60 | 13 | 0 |
| NS - EW | 7300 | 5067 | 1568 | 112 | 665 |
| NHDP Phase III | 12109 | 1649 | 4285 | 62 | 6175 |
| NHDP Phase IV | 20000 | 0 | 0 | 0 | 20000 |
| NHDP Phase V | 6500 | 243 | 1440 | 12 | 4817 |
| NHDP Phase VI | 1000 | 0 | 0 | 0 | 1000 |
| NHDP Phase VII | 700 | 0 | 41 | 2 | 659 |
| Port Connectivity | 380 | 286 | 88 | 6 | 6 |
| Others | 965 | 907 | 38 | 6 | 20 |
| NHAI Total | 54800 | 13938 | 7520 | 151 | 33342 |

Mining to spearhead future growth

The mining and minerals industry provides an important support to the economy and is of strategic importance to every country. The mining sector in India has reached a high level of development but it still has a lot of unrealized potential. The Indian mining sector is largely state-dominated, but the government is now seeking a phased withdrawal of its participation from the non-strategic metal sector in order to encourage private players to take the centre stage.

Until now, the mining industry in India could not realize its full potential due to various policy related issues and low thrust on exploration. However, the industry has potential for higher growth supported by low cost advantage, strategic location and untapped mineral base.

National Mineral Policy

As a part of the various reforms initiated by the government, a new National Mineral Policy was announced in 2008 and it is expected that it will take legislative form by the end of the current year. Some of the key changes which are likely to take effect are 1) granting powers to provincial governments to grant mineral concessions without reference to the central Government 2) seamless movement for reconnaissance license to prospecting license and mining lease at the end 3) stability of tenure of mining concessions with the minimum period of mining lease for 20 years and an option for extension and 4) fix time period prescribed for conveying a decision on applications for mineral concessions.

Domestizing mining industry has the potential to attract \$5billion foreign investment

Owing to these developments, India could draw strong response at the mining conference at Canada this month, where Ontario province signed an MoU to exploit India's mineral resources. Once the policy has been approved by the cabinet, according to some estimates, Indian domestic mining space can attract around \$5billion foreign investment as there are many countries interested in Investing in India in the sector.

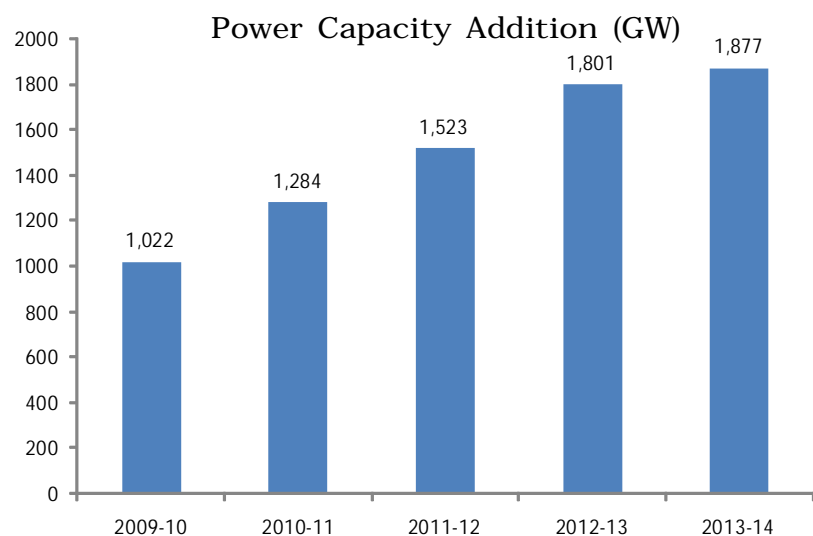
India: Mining Facts

India produces 86 minerals which include 4 fuel minerals, 10 metallic, 46 non-metallic, 3 atomic and 23 minor minerals. We are the largest producer of mica in the world, the third largest producer of coal, fourth largest producer of iron ore and the fifth largest producer of bauxite. There is also a huge potential for mining uranium, copper, gold, zinc, limestone, etc. The demand of coal is mainly driven by power, cement and steel industry.

In India so far only 75000 square km area has been explored in detail whereas the total mineral potential area is 5.75 lakh square km. This means there exist potential to explore a further 5 lakh square km area going forward.

Demand for coal and steel likely to remain strong

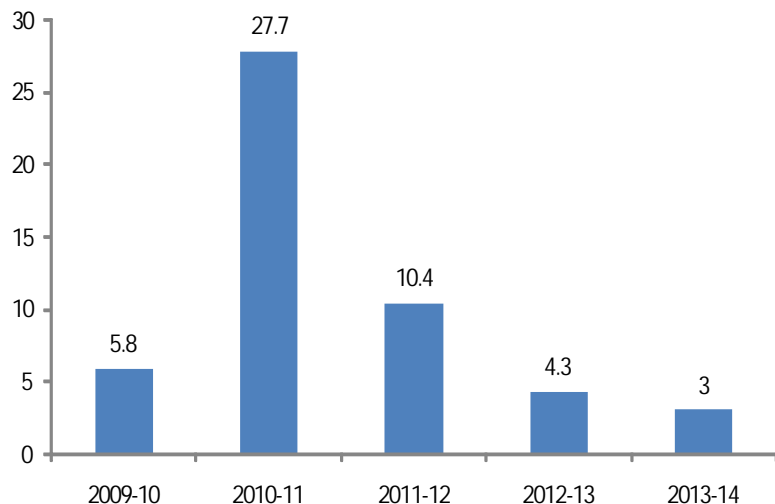
Thermal power plants will drive coal mining in India and if we look at the government's projections, we are going to almost double the power generation in the next decade. Crisil research estimated power capacity addition over the next 5 years (i.e. 2009/10 – 2013/14) to the tune of 75 GW. Of this more than 70% are likely to be coal based power capacities which should translate in huge demand for coal.



Another major potential area is iron ore for the production of steel. In India, the consumption of steel is extremely low, around 40 kg per capita, whereas in the developed world, it is in excess of 200 kg per capita. The current installed steel production capacity in India is around 62.2 million tonnes. A total steel capacity addition of 51.2 million tonnes (>80% of the current installed capacity) is announced by different companies during FY10-FY14. With each tonne of steel requiring almost 1.8 tonnes of iron ore, there exists a huge potential for iron ore mining. Also, apart from iron ore mining, steel making process is energy intensive and requires coal for steel production thus driving demand for coal.

Steel Production Capacity Addition (Million Tonne)

Capacity addition plans in steel cement & power industries to fuel demand of coal & iron ore along with other minerals



Cement which is also a power intensive industry is heavily dependent on coal for the production and is expected to see capacity addition of around 90 million tonnes (>40% of the existing capacity) over the next five years resulting in strong demand for coal.

Between 2008-2013, BMI forecasts that the sector will grow by a compound annual growth rate of 9.75% reaching a total value of US\$47.12bn.

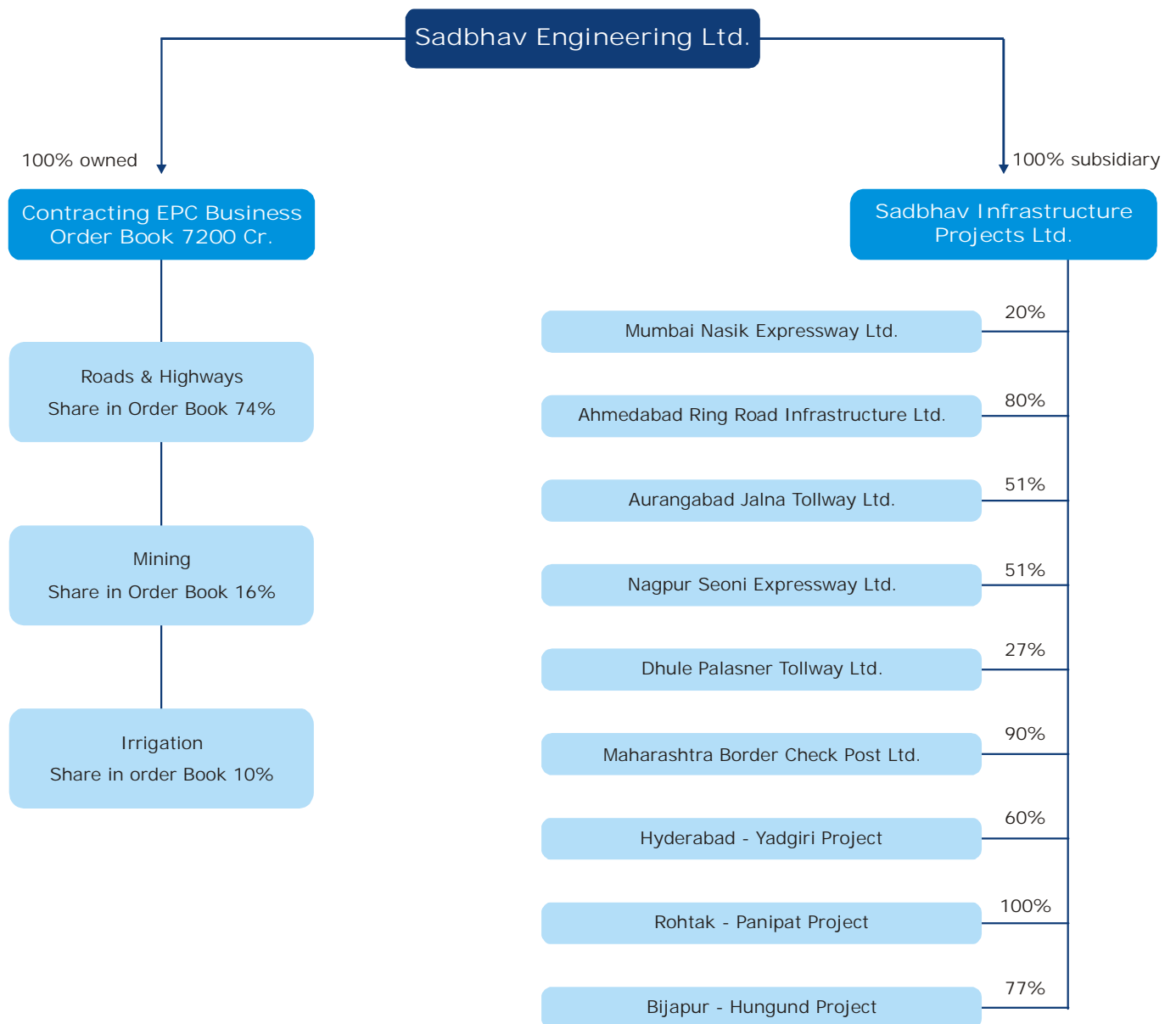
Irrigation

Agriculture accounts for around 17% of the GDP and is the largest employer in the country. However, it is proven beyond doubts that the true potential of agriculture in the country is not realized due to inadequate irrigation infrastructure in place.

In India, 70% of the gross sown area (i.e. 140 million hectares) is contemplated for irrigation and by the end of 11th five year plan only 52% of the gross sown area (i.e. 104 mh) will be brought under irrigation. This leaves a gap of 36 mh area to be brought under irrigation. The minister for water resources Mr Bansal projected a total investment requirement of around 7 lakh crore to get the remaining job done by the end of 13th five year plan in 2022.

According to the water resource minister Pawan Kumar Bansal, a massive investment of Rs 7 lakh crores would be needed to create full irrigation potential in the country by the end of 13th five year plan in 2022.

Sadbhav's Business Model



Roads

Sadbhav sees massive opportunity in the current scenario and has executed several projects for NHAI and various state governments. The company has worked with industry leaders like L&T, HCC, Punj Lloyd and Gammon. The company mainly engages in constructing, widening and strengthening of roads and highways.

Moving up the value chain by owning BOT projects

From simply carrying out EPC work in roads, irrigation and mining, Sadbhav anticipated huge upcoming investment in BOT road space and made an early entry in FY06 in the space by bagging Mumbai Nasik Expressway (MNEL) project. In matter of just 4 years, the company added further 8 road related BOT projects including one of its kind Maharashtra Border Check Post Ltd (MBCPL). The management expects to bag around 2-3 BOT projects in next 2 years.

| (Rs Cr) | Total Proj Cost | Length | Awarding Body | BOT Model | SEL's Stake | Duration (Years) |
|--------------------------------------------|--------------------|---------------|------------------|--------------|----------------|---------------------|
| Mumbai - Nashik Expressway (MNEL) | 753.00 | 99.50 | NHAI | Toll | 20.00% | 20 |
| Ahmedabad Ring Road Infrastructure (ARRIL) | 500.80 | 76.21 | AUDA | Toll | 80.00% | 20 |
| Aurangabad - Jalna Tollway (AJTL) | 277.00 | 65.80 | GOM | Toll | 51.00% | 23.5 |
| Nagpur Seoni Expressway (NSEL) | 489.70 | 56.48 | NHAI | Annuity | 51.00% | 20 |
| Dhule Palasner Tollway (DPTL) | 1420.00 | 89.00 | NHAI | Toll | 27.00% | 18 |
| Maharashtra Border Check Post (MBCPNL) | 1426.37 | NA | MSRDC | Toll | 90.00% | 24.5 |
| Hyderabad Yadagiri Tollway Pvt. Ltd. | 480.22 | 35.65 | NHAI | Toll | 60.00% | 23 |
| Rohtak Panipat Tollway Pvt.Ltd. | 1364.03 | 80.86 | NHAI | Toll | 100.00% | 25 |
| Bijapur Hungund Tollway Private Ltd. | 1257.10 | 97.22 | NHAI | Toll | 77.00% | 20 |
| Total Portfolio (SEL's Stake Only) | 5229.52 | 344.37 | | | | |

Mumbai Nasik Expressway

This was the first BOT project bagged by SEL. It involves four laning of the existing 100 km Vadape – Gonde section of the Mumbai Nasik Highway which was earlier 2 lanes. The project is in consortium with Gammon, SEL and B E Billimoria & Company in the ratio of 75%:20%:5%. SEL is supposed to execute 81% of the total project. The project has high freight traffic potential along with tourism related traffic due to Shirdi – a religious place.

Ahmedabad Ring Road Infrastructure

This project being located in Ahmedabad facilitates traffic around (as it forms a ring circling the city) and via the city and joins 5 national highways and 14 state highways. Its in JV with Patel Infrastructure with SEL holding a majority 80% stake. It involved four laning the two lane stretch of 76 km. The company finished the project in Rs 500 Cr vs bid price of Rs 515 Cr. Since the commercial traffic has been banned from passing through the city, it results in higher traffic for the project. SEL also has advertisement rights on the highway.

Aurangabad Jalna Tollway

Again this project involves four laning of existing 2 lane stretch of 66 km and is in consortium with PBA Infrastructure which has 49% stake. The proposed development of the industrial estate in Aurangabad will result in higher traffic for the road project. The project will also be benefitted from Ajanta-Ellora a famous tourist destination. This project too has advertisement rights.

Nagpur – Seoni Expressway

This is the only Annuity project (35.4 Cr Semi Annually) that the company has and is in JV with SREI Infra which has 49% stake. The project involves construction of a bridge and three bypasses. The company had raised money through ECB (USD 9.3 Cr) which results in interest cost of 8.85% and the FX risk is fully hedged. The project was delayed due to issues related to land acquisition.

Maharashtra Border Check Post

The unique BOT project of modernization and computerization of integrated border check post at 22 locations in Maharashtra was awarded to the company in March 09. The cost of the project is Rs 1426 Cr and concession period is of 24 years. All the vehicles passing through the check posts will be scanned in order to prevent revenue evasion. The project will generate revenues through all commercial vehicles entering the state. Other revenues will also be generated from leasing of commercial space, advertising rights, parking and warehousing at each of the 22 locations.

Dhule Palasner Tollway

Sadbhav bagged this project in Jan 09 on BOT basis for extending MP/ Maharashtra Border – Dhule section of NH3 from 168.5 to 265 km under NHDP phase 3A. The project will be executed jointly by HCC, John Laing Investment Ltd and Sadbhav Eng in the ratio of 37:36:27 respectively. The cost of the project is estimated at Rs 1420 Cr and an SPV Dhule Palasner Tollway Ltd has been established. The concession period is 18 years.

Hyderabad Yadgiri Project

This is one of the 3 BOT projects bagged by the company in CY2010 and SEL has 60% stake in it. It links Hyderabad with Yadagiri Gutta – a pilgrimage in AP. This stretch remains the only way to reach Yadagiri Gutta and hence expected to attract higher tourist traffic. Markedly, SEL has achieved the financial closure of the project in less than 3 months.

Rohtak Panipat Tollway

This is a 100% owned project worth Rs 1364 Cr and was won in CY2010. This project is expected to be benefitted from traffic western parts of the country heading towards HP, J & K and Punjab passing by Delhi. The financial closure of the project is expected in Sep 2010.

Bijapur Hungund Project

The most recent BOT project was won in Feb 2010 in which SEL holds 77% stake remaining being held by Monte Carlo. The financial closure is expected to be achieved by Sep 2010. The project is located in a way to benefit from more from commercial traffic.

Mining

Sadbhav initiated mining operations in 1992-93 by executing rock excavation of copper at Madhya Pradesh for L&T. This was followed by several other projects which largely involved work for GIPCL. SEL has carried out excavation work for companies like Gujarat Heavy Chemical Ltd, Gujarat Mineral Development Corporation, Gujarat Industrial Power Company Ltd and Northern and Western Coalfields Ltd.

The ongoing projects total about 105 million cubic meters and mostly involve excavation of over burden and removal of lignite and coal. The company has submitted bids worth Rs 6000 Cr mainly to Coal India and its subsidiary. Going forward we expect mining to be a consistent contributor to the SEL's revenue.

Irrigation

Over the last 19 years the company has successfully executed construction of earthen dams, canals, siphons, remodeling and improvement of canals. The company has participated in various phases in the execution of Narmada Main Canal (NMC) which is one of the world's largest concrete lined canal. SEL is the largest executers of the 458 km NMC. The company's bidding capacity for the Sardar Sarovar Narmada Nigam is more than Rs 5000 Cr.

Mining & irrigation operations at
Sadbhav dates back to early
1990s

Concerns

| Rights Issue | |
|-------------------------------|--------|
| Size of the Rights | |
| Issue Rs Cr | 45.313 |
| At Rs | 725 |
| No Shares to be issued (1:20) | 0.063 |
| Wararnts | |
| Warrants | |
| (3 per 1 share issued) | 0.1875 |
| At Rs | 425 |
| Amount Raised | 79.69 |
| Amount Raised | |
| Rights Issue | 45.313 |
| Warrants | 79.688 |
| Total Raised | 125 |
| Dilution | |
| New Shares (No, Cr) | |
| Rights Issue | 0.0625 |
| Warrants | 0.1875 |
| Total Shares to be Issued | 0.25 |
| Existing Shares | 1.25 |

Equity Dilution

The board of Sadbhav Engineering has recently approved the issue size of proposed rights issue to 453.13 million equity shares in the ratio of 1:20 at the price of Rs 725 a share.

Also, the board has set a ratio of 3:1 (Three detachable warrants for every one equity share allotted in the issue.) at the price of Rs 425. Each warrant will be converted into one equity share.

The warrant exercise period shall commence after 3 months from the date of allotment of the equity shares in the rights issue up to 18 months from the date of allotment of the equity shares in the issue.

While the issue will help SEL meet its short term funding requirements and ease the D/E of the company, it also results in 20% dilution on the current equity base.

BOT projects; Valuation highly leveraged to traffic growth

As the lower traffic growth significantly impact the BOT valuation due to lower revenue generation, BOT operator has to bear this risk in BOT toll projects. Out of the 9 BOT road related projects, SEL has 8 projects under toll mode of the BOT system and they all remain vulnerable to lower than estimated traffic growth.

Fulfillments of equity commitments in BOT projects

Owing to to the large BOT projects portfolio including the couple of recent BOT wins which are more than 1000 Cr in size, SEL's equity commitments have also zoomed and currently stand at around Rs 622 Cr. The company will need to infuse these funds by FY13. While the current economic environment looks conducive and it seems the company should not face any major challenges in achieving this, any adverse change in economic conditions may make it difficult for the company to meet its equity commitments.

| | Total Equity Commitment | Already Infused | Remaining Equity Investment | Exp Completion Date |
|--------------------------------------------|-------------------------------|--------------------|-----------------------------------|---------------------------|
| Mumbai - Nashik Expressway (MNEL) | 10.40 | 10.40 | 0.00 | 31st March 2010 |
| Ahmedabad Ring Road Infrastructure (ARRIL) | 41.68 | 41.68 | 0.00 | 30th June 2008 |
| Aurangabad - Jalna Tollway (AJTL) | 27.95 | 27.95 | 0.00 | 31st July 2009 |
| Nagpur Seoni Expressway (NSEL) | 29.47 | 29.47 | 0.00 | 31st May 2010 |
| Dhule Palasner Tollway (DPTL) | 19.17 | 6.46 | 12.71 | 17th June 2012 |
| Maharashtra Border Check Post (MBCPNL) | 256.74 | 85.59 | 171.15 | 31st Oct 2011 |
| Hyderabad Yadagiri Tollway Pvt. Ltd. | 60.00 | 0.01 | 59.99 | 3rd June 2012 |
| Rohtak Panipat Tollway Private Ltd. | 272.81 | 0.01 | 272.80 | 3rd March 2013 |
| Bijapur Hungund Tollway Private Ltd. | 105.49 | 0.02 | 105.47 | 3rd March 2013 |
| Total | 823.71 | 201.59 | 622.12 | |

Valuation

BOT Projects

We have valued the BOT projects based on DCF and value them at Rs 1002 Cr in total. We believe the Maharashtra Border Check Post project is quite attractive and yield maximum value owing to location benefits. However, for the BHTPL, based on our assumptions, the current value is Rs -45 per share.

| Beta Assumption | |
|------------------------------------------------------------------------------------|-----|
| Operational Projects | 1 |
| To be operational in less than 6 months | 1.1 |
| To be operational in more than 6 months | 1.2 |
| To be operational in more than 6 months + Financial closure yet to be completed | 1.5 |
| Annuity | 0.5 |

| Projects | Assumptions | | | | Project Data | | Valuation | | | | |
|----------------------------------|-------------|---------------|------|----------------|--------------|--------|-----------|-------------|-------------|-----------|-------------|
| | Risk Free | Market Return | Beta | Cost of Equity | Total Cost | Length | SEL stake | SEL's Total | SEL's Share | Per share | Per % total |
| ARRI | 7.00% | 14.00% | 1.00 | 14.00% | 500.80 | 76.21 | 80.00% | 231.12 | 184.90 | 123.3 | 12.30% |
| MNEL | 7.00% | 14.00% | 1.00 | 14.00% | 753.00 | 99.50 | 20.00% | 286.88 | 57.38 | 38.3 | 3.82% |
| AJTL | 7.00% | 14.00% | 1.00 | 14.00% | 277.00 | 65.80 | 51.00% | 48.05 | 24.50 | 16.3 | 1.63% |
| NSEL | 7.00% | 14.00% | 0.50 | 10.50% | 489.70 | 56.48 | 51.00% | 79.50 | 40.54 | 27.0 | 2.70% |
| DPTL | 7.00% | 14.00% | 1.20 | 15.40% | 1420.00 | 89.00 | 27.00% | 528.73 | 142.76 | 95.2 | 9.50% |
| MBPCL | 7.00% | 14.00% | 1.20 | 15.40% | 1426.37 | 0.00 | 90.00% | 917.39 | 825.66 | 550.4 | 54.93% |
| HYTPL | 7.00% | 14.00% | 1.20 | 15.40% | 480.22 | 35.65 | 60.00% | 149.75 | 89.85 | 59.9 | 5.98% |
| RPTPL | 7.00% | 14.00% | 1.50 | 17.50% | 1364.03 | 80.86 | 100.00% | 204.58 | 204.58 | 136.4 | 13.61% |
| BHTPL | 7.00% | 14.00% | 1.50 | 17.50% | 1257.10 | 97.22 | 77.00% | -87.20 | -67.15 | -44.8 | -4.47% |
| Total Value per share of SEL >>> | | | | | | | | | 1002.01 | 100% | |

We have taken equity beta of 1.5 for the projects which are yet to achieve financial closure and 0.5 for the NSEL project with Annuity model of BOT as it has almost completed execution (eliminating one of the major risks associated with BOT project) and is not dependent on future traffic growth.

Core Construction Business

We value the core construction business by assigning forward multiple of 11 to the FY11E Earnings. This is at a considerable discount to other industry leaders like NCC (15 times), IVRCL (14 times) etc and more than justifies comparatively smaller size of the business and expertise in limited verticals of the industry.

| | Basis for Valuation | Sadbhav Stake-INRCr | Per Share | % Total Value |
|-------------------------|---------------------|---------------------|-----------|---------------|
| EPC Business | 11 X FY11 Earnings | 916.80 | 611.20 | 37.89% |
| BOT Projects | | | | |
| ARRIL | DCF | 184.90 | 123.26 | 7.64% |
| MNEL | DCF | 57.38 | 38.25 | 2.37% |
| AJTL | DCF | 24.50 | 16.34 | 1.01% |
| NSEL | DCF | 40.54 | 27.03 | 1.68% |
| DPTL | DCF | 142.76 | 95.17 | 5.90% |
| MBCPNL | DCF | 825.66 | 550.44 | 34.12% |
| Hyd-Yadgiri | DCF | 89.85 | 59.90 | 3.71% |
| Rohtak - Panipat | DCF | 204.58 | 136.39 | 8.45% |
| Bijapur-Hungund | DCF | -67.15 | -44.76 | -2.77% |
| Total | | 1503.02 | 1002.01 | 62.11% |
| SOTP based Target Price | | | 1613.21 | 100.00% |

Thus as per our SOTP based estimations, the 1 years forward price for the stock comes at Rs 1613 which is around 23% higher than the CMP. We initiate with a BUY rating on the stock.

INCOME STATEMENT

| | 2010 | 2011E | 2012E | 2013E |
|------------------|---------|---------|---------|---------|
| Revenues | 1256.93 | 1656.00 | 2051.70 | 2549.68 |
| Growth % | 18.48% | 31.75% | 23.89% | 24.27% |
| COGS | 1053.54 | 1363.03 | 1676.41 | 2080.75 |
| Gross Profit | 203.39 | 292.97 | 375.29 | 468.93 |
| Growth % | 25.92% | 44.05% | 28.10% | 24.95% |
| SG&A Expenses | 65.73 | 96.88 | 122.08 | 150.43 |
| Core EBITDA | 137.66 | 196.09 | 253.21 | 318.50 |
| Growth % | 24.93% | 42.45% | 29.13% | 25.78% |
| Change in WIP | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Income | 16.65 | 8.51 | 8.97 | 9.29 |
| Other Exp. & Adj | 0.00 | 0.00 | 0.00 | 0.00 |
| EBITDA | 154.30 | 204.60 | 262.18 | 327.79 |
| Depreciation | 23.25 | 26.73 | 32.81 | 40.26 |
| EBIT | 131.05 | 177.87 | 229.37 | 287.53 |
| Growth % | 25.62% | 35.72% | 28.96% | 25.36% |
| Interest Exp | 33.09 | 52.61 | 71.98 | 89.69 |
| EBT | 97.96 | 125.25 | 157.39 | 197.84 |
| Tax | 32.78 | 41.90 | 52.66 | 66.19 |
| Prior Period Adj | -11.35 | 0.00 | 0.00 | 0.00 |
| Net Earnings | 53.84 | 83.35 | 104.73 | 131.65 |
| Growth % | -14.93% | 54.80% | 25.66% | 25.71% |

BALANCE SHEET

| | 2010 | 2011E | 2012E | 2013E |
|-----------------------|---------|---------|---------|---------|
| Cash and Equi. | 44.83 | 54.62 | 65.43 | 75.53 |
| Receivables | 440.78 | 435.84 | 543.70 | 669.29 |
| Inventories | 53.99 | 57.07 | 79.42 | 93.28 |
| Loans and Advances | 466.75 | 538.52 | 559.14 | 635.97 |
| Other Current Assets | 2.82 | 2.82 | 2.82 | 2.82 |
| Investments | 144.13 | 335.12 | 590.05 | 766.29 |
| Gross Fixed Assets | 339.45 | 424.62 | 512.93 | 637.42 |
| Net Fixed Assets | 210.09 | 268.53 | 324.02 | 408.26 |
| Other Assets | 0.00 | 0.00 | 0.00 | 0.00 |
| App. of Funds | 1363.40 | 1692.51 | 2164.58 | 2651.44 |
| Accounts Payable | 111.89 | 105.21 | 136.23 | 183.56 |
| Advances from Clients | 300.88 | 280.16 | 373.57 | 509.94 |
| Other Current Liab. | 114.55 | 102.74 | 138.91 | 184.74 |
| Provisions | 6.26 | 8.60 | 10.94 | 14.45 |
| Deferred Tax Liab. | 14.08 | 18.01 | 22.95 | 29.16 |
| Loan Funds | 424.23 | 586.11 | 796.11 | 926.11 |
| Reserves and Surplus | 379.01 | 576.67 | 670.87 | 788.48 |
| Warrant App. & Other | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity Capital | 12.50 | 15.00 | 15.00 | 15.00 |
| Sources of Funds | 1363.40 | 1692.51 | 2164.58 | 2651.44 |

CASH FLOW STATEMENT

| | 2010 | 2011E | 2012E | 2013E |
|------------------------|---------|---------|---------|---------|
| EBIT | 131.05 | 177.87 | 229.37 | 287.53 |
| Depreciation | 23.25 | 26.73 | 32.81 | 40.26 |
| Other Adjustments | -12.15 | -8.51 | -8.97 | -9.29 |
| Changes in WIC | -82.64 | -81.04 | 33.11 | 30.99 |
| Tax Paid | -36.66 | -66.03 | -71.07 | -77.73 |
| Cashflow from Operatn. | 22.85 | 49.02 | 215.25 | 271.76 |
| Capital Expenditure | -78.80 | -85.17 | -88.31 | -124.50 |
| Investments | -19.53 | -190.99 | -254.93 | -176.23 |
| Loans to Subsidiaries | -76.05 | 0.00 | 0.00 | 0.00 |
| Interest/Div. Received | 12.15 | 8.51 | 8.97 | 9.29 |
| Cashflow from Invest. | -162.23 | -267.65 | -334.27 | -291.44 |
| Proceeds from Borrow. | 213.12 | 161.88 | 210.00 | 130.00 |
| Issue of Shares, Warr. | 0.00 | 125.00 | 0.00 | 0.00 |
| Interest/Dividend paid | -38.94 | -58.46 | -80.17 | -100.22 |
| Cashflow from Fin. | 174.18 | 228.42 | 129.83 | 29.78 |
| Net Change in Cash | 34.80 | 9.79 | 10.81 | 10.10 |

Source: Anagram / Company

FINANCIAL RATIOS

| | 2010 | 2011E | 2012E | 2013E |
|-----------------------|--------|--------|--------|--------|
| Profitability | | | | |
| Core EBITDA margins | 10.95% | 11.84% | 12.34% | 12.49% |
| Net Profit Margins | 4.28% | 5.03% | 5.10% | 5.16% |
| Return | | | | |
| ROE | 14.65% | 16.95% | 16.40% | 17.68% |
| ROCE | 18.78% | 17.56% | 16.99% | 17.62% |
| Liquidity and Gearing | | | | |
| Cash Conversion Cycle | 94.38 | 87.55 | 80.51 | 79.08 |
| Current Ratio | 1.91 | 2.23 | 1.93 | 1.68 |
| Debt/Equity | 1.08 | 0.99 | 1.16 | 1.15 |
| Interest Cover | 3.96 | 3.38 | 3.19 | 3.21 |
| Per Share | | | | |
| EPS | 43.07 | 55.56 | 69.82 | 87.77 |
| Operating CashflowPS | 18.28 | 32.68 | 143.50 | 181.17 |
| BVPS | 313.21 | 394.45 | 457.25 | 535.65 |
| Valuation | | | | |
| Price/Earning | 30.41 | 23.58 | 18.76 | 14.93 |
| Price/BV | 4.18 | 3.32 | 2.86 | 2.45 |

For Further Details

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RATING INTERPRETATION :

| | |
|----------------|--------------------------------------------------------|
| BUY | Expected to appreciate more than 20% over a 12m period |
| ACCUMULATE | Expected to appreciate upto 20% over a 12m period |
| OUTPERFORMER | Expected to outperform Sensex/Sector by 5 to 15% |
| UNDERPERFORMER | Expected to underperform Sensex/Sector by 5 to 15% |
| SELL | Expected to depreciate more than 20% over a 12m period |
| NOT RATED | No specific call on the stock |

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