IPO Note

Maytas Infra Ltd (MIL) September 27, 2007

SUBSCRIBE – Investors comfortable with the infrastructure development sector and its high valuations can subscribe to this IPO for long-term gains.

Issue Snapshot:

Issue opens: September 27, 2007
Issue closes: October 04, 2007
Price band: Rs. 320 – Rs. 370 per share

Issue Size: 88.5 lac equity shares
Issue Size at lower price band: Rs. 283.2 crs
Issue size at upper price band: Rs. 327.5 crs
QIB: at least 60% of issue
Non-institutional: 10% of issue
Retail: 30% of issue

Face Value: Rs. 10
Book value 31/03/2007: Rs. 53.0
Bid size: 18 and in multiples thereof
100% book building process

Capital Structure:

Pre Issue Equity: Rs. 500 mn
Post issue Equity: Rs. 588.5 mn
Listing: BSE & NSE

Lead Managers: DSP Merrill Lynch Ltd & JM Financial Consultants Ltd

Co - Lead Managers: Kotak Mahindra Capital Co. Ltd

Registrar to the Issue: Karvy Computershare Pvt Ltd

Shareholding Pattern

Shareholding pattern	Pre Issue %	Post Issue%
Promoters	23.98	20.37
Promoter Group	19.15	16.27
Others	56.87	48.32
Public	0.00	15.04
Total	100.00	100.00

Company Background:

Maytas Infra Ltd (MIL) is a Hyderabad based construction company and infrastructure developer. The business is divided into two parts: Construction as a contractor on a contract basis and Infrastructure Development which involves identifying, sourcing, developing, and operating projects in infrastructure sectors. MIL was incorporated in 1988. It has approximately two decades of experience in the construction business. In the construction business, MIL has historically focused on the irrigation, roads and bridges, and buildings infrastructure sectors. They have completed, and continue to undertake, construction projects in these sectors across 12 states of India. More recently, MIL has diversified its portfolio of construction projects and is also undertaking civil construction projects in the power, industrial structures, oil and gas infrastructure, and railway sectors.

MIL's order book, inclusive of its share of the order book undertaken by its construction business joint ventures, is Rs. 35,893.2 million as of June 30, 2007. Out of this, the MIL's order book on a stand-alone basis and excluding its share of the order book undertaken by these joint ventures was Rs. 26,999.2 million as of June 30, 2007. The order book is executable over 18-36 months. MIL is also identifying suitable partners, and positioning itself for expected opportunities in the water and waste water management, special economic zones, urban infrastructure, ports, and airport sectors as and when viable opportunities arise. MIL plans to invest Rs. 1894 mn of the monies raised in the IPO in 3 infrastructure development projects.

Objects of the issue:

MIL plans to raise Rs. 283.2 cr to Rs. 327.5 cr from the capital markets. The intended use of the proceeds is given below.

(Rs. in mn)

S.No	Particulars	Estimated amount of MIL's contribution to be raised from the Issue
1	Investment in Associate companies	
a.	Bangalore Elevated Tollway for the construction of the elevated highway project of the Bangalore – Hosur section of NH-7	277.10
b	KVK Nilachal Power for developing, constructing and commissioning a 300 MW coal based power plant in Orissa	1274.40
c	SV Power for setting up a 56 MW coal washery reject based power plant and a 2.5 million metric tonne per annum coal washery at Korba District, Chhatisgargh	342.50
2	Purchase of Construction Equipment	332.90
3	Other project related investments and commitments	(*)
4	General corporate expenses	(*)
5	Issue Expenses	(*)
	Total	(*)

(Source: RHP)

Brief on the projects:

Bangalore Elevated Tollway

MIL is participating in the Bangalore Elevated Tollway along with NCC and Soma Enterprises Ltd (SEL) where in NCC and SEL hold 33.5% each MIL holds 33% participation interest (BOT basis). The project has been awarded for a 20-year concession period from July 25, 2006 until July 25, 2026, including a construction period of 24 months. At the end of the concession period the road project shall revert to the NHAI. MIL plans to meet its share of the project partly through internal accruals (Rs. 302.8 mn) and partly through the proceeds of the issue (Rs. 277.10 mn). The project has been proposed to be completed by the third quarter of 2008.

KVK Nilachal Power is a special purpose vehicle incorporated for developing, constructing and commissioning a 300 MW coal-based power plant in Orissa on a BOT basis. The project comprises construction of one generating unit with an installed capacity of 300 MW in Phase I, a transmission line from the switchyard of the project to the nearest sub-station/interconnection point of the Power Grid Corporation of India Limited, and all facilities and related assets required for the operation of the power station. Under the terms of the shareholders' agreement, each of KVK Energy and Infrastructure Ltd (KEIL) and Maytas Infra hold a 50.0% participation interest in KVK Nilachal Power. If MIL is not able to achieve financial closure of the project, it will lose its right under the agreement to subscribe for up to 50.00% of KVK Nilachal Power's share capital. The project is expected to be commissioned by the first quarter of the calendar year 2010. MIL proposes to invest Rs. 1274.40 mn of the net proceeds in its associate.

SV Power

MIL intends to invest approximately Rs. 342.5 million of the net proceeds in its associate, SV Power, as part of its equity contribution. SV Power is a special purpose vehicle incorporated for the setting up of a 2 x 50 MW coal washery reject based power plant in Chhattisgarh, India. In the first phase, the project involves the construction, erection, installation and commissioning of a 56 MW coal washery reject based power station based in the Korba District, Chhattisgarh, on a BOO basis. As of March 31, 2007, MIL had a 6.3% participation interest in SV Power; however, under the terms of the MoU, each of KV Kumar and MIL are required to own 50.0% in the equity capital of the company. Thus, MIL is required to make an aggregate equity contribution of approximately Rs. 345.0 million for its 50.0% participation interest in SV Power, of which MIL has already invested an amount of Rs. 2.5 million. The total project cost, as estimated by the management of SV Power, is approximately Rs. 2,770.0 million, which is expected to be financed by a combination of debt and equity. The project is expected to be completed by the third quarter of 2009.

Further, MIL plans to invest in **construction equipment**, which includes a 2-stage crushing plant track, 200 TPH, Hot mix plant – 160 TPH and concrete slip paver. MIL has already placed orders worth Rs. 176.7 mn and orders representing approx. 46.9% of the total cost of plant and machinery for this project are yet to be placed.

Schedule of Implementation and Utilization of Funds:

(Rs. In mn)

No.	Object	Amt invested as of March 30, 2007	Amt invested between April - August, 2007	Schedule of Deployment of funds as of March 31 2008	2009	2010	Total	Estimated amt to be raised from the issue	Estimated time of completion
1	Bangalore Elevated Tollway	270.2	32.6	277.1			579.9	277.1	Third Qtr of 2008
2	KVK Nilachal Power Project	45.6	30.0	472.1	325.4	476.9	1350.0	1274.4	Mar-10
3	SV Power Project	2.5		180.0	162.5		345.0	342.5	Third Qtr of 2009
4	Purchase of Construction Equipment			332.9			332.9	332.9	31-Mar-08
	Total	318.3	62.6	1262.1	487.9	476.9	2607.8	2226.9	

(Source: RHP)

Key Positive Aspects of MIL:

Extensive experience and strong track record in the construction business

MIL has extensive experience, an established track record and reputation for efficient project management, execution and timely completion of projects for nearly two decades in the construction sector. Their expertise in successful and timely implementation of projects provides MIL with significant competitive advantages. Further this enables MIL to better position itself to deal with construction or implementation risk. MIL has good working relationships with sub-contractors across various service regions. Such relationships facilitate the efficient execution of projects.

Integrated execution capabilities with in-house construction and management capabilities

MIL has the ability to provide construction services to third parties as well as to BOT/BOOT projects developed by them. In addition, their capabilities allow them to tender/bid for projects requiring unique expertise.

Diversified portfolio across various infrastructure sectors and geographic locations

MIL's construction contracts are diversified across six sectors namely irrigation, roads and bridges, buildings and structures, power, oil and gas, and railways. Their infrastructure development projects are in the road, power, and ports sectors. These projects are geographically dispersed across 12 states in India. Through this sectoral and geographic diversity, MIL is able to mitigate the risks associated with operations in specific sectors and specific states in India. Additionally, MIL has begun to explore opportunities outside India. In December 2006, the Company established a joint venture in Dubai to explore construction opportunities in the Middle East region.

Ability to meet pre-qualification credentials

MIL believes that they can meet the qualification requirements of the central and state governments for a large number of their infrastructure projects across sectors, in terms of having the requisite experience, technical know-how, and financial resources, either in their own right or as a partner in a joint venture. Their credentials enable them to enter into joint ventures and partnerships with reputable partners, which, in turn, enable them to bid for large and complex projects.

Professionally managed company with an experienced management and a qualified employee base

MIL is a professionally managed company with a qualified and trained workforce of approximately 1,400 employees as of June 30, 2007. Their management team is well qualified and experienced in the industry. In addition, its Board, with a strong combination of managerial acumen as well as entrepreneurial spirit, is equipped to handle both domestic and international business situations. MIL believes that a motivated and empowered employee base is essential to maintaining its competitive advantage. MIL is dedicated to the professional development of its employees and continues to invest in them to ensure that they have the necessary skills. Mil has launched Maytas Construction Skills Training Program with the objective of attracting, training and deploying skilled employees in its construction projects on an ongoing basis.

MIL's strategy: MIL plans to continue grow by investing in various infrastructure sectors, grow their infrastructure development base through public private partnerships, enhance execution capability, target BOT/BOOT projects and projects requiring specialized construction skills and they may also consider inorganic growth.

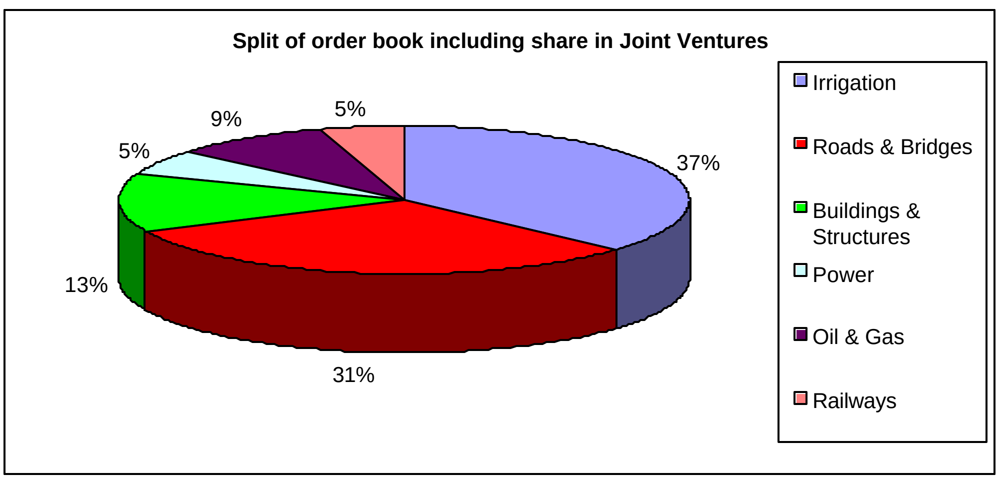
MIL's Operations:

Construction

MIL's construction business involves executing civil construction contracts. Their services include civil design and engineering, procurement of construction materials, fuel and equipment and construction of the project. Historically, most of MIL's construction contracts have been in the irrigation, roads and bridges, and buildings and structures infrastructure sectors. About 68% of the current order book is from the irrigation and transportation sector. Margins in each segment vary between 11% to 14% range. In accordance with its strategy to continue to diversify into other infrastructure sectors, MIL has identified other sectors for future expansion and has already begun developing projects in the power, oil and gas infrastructure, and railway sectors. MIL is also identifying suitable partners and positioning itself for expected opportunities in the water and waste water management, special economic zones, urban infrastructure, ports and airport sectors as and when viable opportunities arise.

Problems that arise in the construction space include escalation of raw material costs (MIL has an escalation clause in place for most of its contracts), shortage of skilled personnel (MIL retains employees by attractive pay packages and specialized training programs), increase in interest rates (MIL uses hedging as a tool to protect itself from fluctuating interest rates), project delays and margin pressure (MIL plans to further diversity its order book by entering into high margin construction contracts on the oil & gas and power segments).

Split of company's order book in different segments as of June 30, 2007.



(Source: RHP)

Infrastructure Development

MIL is relatively new to the business of infrastructure development. MIL has only completed one road project, and currently has six projects in the roads and power sectors either in the construction phase or in the pre-financial closure, development stage. Four additional infrastructure development projects are in the award stage. All of the company's revenue to date has been from the construction business. As most of its infrastructure development projects are either in the construction or development phase, revenue from these ventures is not expected to start kicking in until FY2010. A summary of MIL's Infrastructure Development projects has been provided below.

One of MIL's projects i.e. Gautami Power project has been delayed in starting operations for about 1 year. Gautami Power has recently been involved in litigation with the Government of Andhra Pradesh regarding the failure to supply the Gautami power station with natural gas, resulting in delays in the power station achieving commercial operation. As of March 31, 2007, the MIL has a 19.2% participation interest in Gautami Power. Although the first stage of the Gautami power station project has substantially been completed and was ready for commissioning in September 2006, commercial operation of the project has not commenced because, as a pre-condition to commercial operation, the mandatory performance acceptance tests under the power purchase agreement have not been carried out. Performance acceptance tests have not been carried out because Gautami Power has not been able to procure required levels of natural gas from the Gas Authority of India Limited, an entity controlled by the GoI. As long as the project does not achieve commercial operation, MIL and the co-sponsors of Gautami Power are responsible for all cost overruns. Cost overruns as of June 30, 2007 are approximately Rs. 570.0 million.

No.	Name of Project	Type	Equity Stake of MIL	Status	Commercial Operational Date	Project Expiry
1	Brindavan Infrastructure Co Ltd (Karnataka)	Road	33.30%	Complete	Started - Received first semi-annuity payment of Rs. 29.7 cr covering the period April 22, 2006 to Oct 21, 2006	Until April 2014
2	Western UP Tollway Ltd(Uttar Pradesh)	Road	30.00%	Under Construction	Q2 of CY2009	20 year concession period
3	Bangalore Elevated Tollway Ltd (Karnataka)	Road	33.00%	Under Construction	Q3 of CY2008	20 years including 2 years construction period
4	Pondicherry - Tindivanam Ltd (Tamil Nadu)	Road	50.00%	Under Award	NA	NA
5	Hyderabad Expressways Pvt Ltd (Andhra Pradesh)	Road	50.00%	Under Award	NA	NA
6	Cyberabad Expressways Pvt Ltd (Andhra Pradesh)	Road	50.00%	Under Award	NA	NA
7	Gautami Power Ltd (Andhra Pradesh)	Power	19.20%	Construction complete	Not known	15 yrs
8	Himachal Sorang Power Pvt Ltd (Himachal Pradesh)	Power	33%*	Under Construction	Q1 of CY2010	NA
9	KVK Nilachal Power Pvt Ltd (Orissa)	Power	50%	Under Development	Q1 of CY2010	25 years
10	SV Power Pvt Ltd (Chhattisgarh)	Power	50%	Under Development	Q3 of CY2009	10 years
11	Machillipatnam Port Project, Andhra Pradesh	Port	25.50%	Under Award	NA	NA

(Source: RHP)

Industry:

The Indian infrastructure industry is experiencing growth in expenditure. This growth is visible throughout the country in the form of new highways, roads, ports, railways, and airports; power systems; new townships, offices, houses and other buildings; urban/rural infrastructure, including water supply, sewerage, and drainage; irrigation and agriculture systems. The GoI and state governments have linked improved infrastructure in the transportation, energy, urban infrastructure, and industrial and commercial infrastructure sectors as the platform for promoting and sustaining economic growth. Government focus on, and sustained increases in budgetary allocation for, infrastructure, and the development of more structured and comprehensive infrastructure policies that encourage greater private sector participation as well as the greater availability of funding for infrastructure projects from international and multilateral development financial institutions, should result in further, large infrastructure projects in India.

According to CRIS INFAC, a brand of Credit Rating Information Services of India Limited ("CRISIL"), a ratings, research, risk and policy company, investment in construction is expected to grow to approximately Rs. 6,129 billion in 2007 – 2011 from Rs. 3,213 billion in 2002 – 2007, at a compound annual growth rate of 13.8%. MIL is well positioned to capitalize on this robust industry scenario.

Concerns:

- None of the projects for which net proceeds will be utilized have been financially appraised and the estimates of the costs of projects mentioned above are based on internal estimates of MIL.
- MIL relies on government entities for substantially all of its revenues. Policy changes may result in projects being restructured and political or financial pressures could cause government entities to force MIL to restructure projects or delay its payment to MIL on time.
- An inability to attract, recruit and retain skilled personnel could adversely affect MIL's business and results of operations.
- Delays in the completion of current and future construction contracts and BOT/BOOT projects could have adverse effects on the MIL's financial results; with one exception, all of MIL's BOT/BOOT projects are either in the construction or development or award phase.

- On fixed-price, lump sum or item-rate contracts, MIL is exposed to increases in the cost of construction materials, fuel, and equipment.

- Both the Gautami power station and the KVK Nilachal power station will rely on a single supplier of fuel as well as external operators for its operation and maintenance. The Gautami Power project has already been delayed by one year and MIL along with its partners has had to face the burden of cost over-runs.

- MIL has limited operating history as an infrastructure developer. Till date, i.e. for the fiscal ended March 31, 2007 MIL's revenues have been from the construction business. It is thus hard to predict the future performance of MIL from its historical financials as the toll / annuity from the infrastructure development business is not likely to start contributing to topline significantly until FY2010.

- In the case of the two toll way road projects currently under construction, MIL is assuming both the construction risk as the EPC contractor and indirectly, also the traffic volume risk if the actual revenues do not match the estimates and projections or expected traffic volumes.

Conclusion and Recommendation:

The Indian Infrastructure sector involves the construction of roads, airports, dams, canals, irrigation works etc on a contract basis or via the BOT / BOOT route. MIL has a good record for its construction activities but is relatively new to the infrastructure development space with only one completed project contributing to revenue in the form of annuity. MIL's contract revenues on a restated unconsolidated basis have grown from Rs. 2,037.03 million in fiscal 2004 to Rs. 7,876.71 million in fiscal 2007, at a CAGR of 57.0% and profit after tax has increased from Rs. 62.22 million in fiscal 2004 to Rs. 550.08 million in fiscal 2007, at a CAGR of 106.8%. This growth is mainly due to an increase in profits from MIL's participation in unincorporated joint ventures that are undertaking larger contracts. EPS for FY07 on a consolidated basis (undiluted equity) is Rs. 10.58 and on a fully diluted equity of Rs. 588.5 mn is Rs. 8.99. While the order book is well diversified and provides good revenue visibility for the next two years, MIL's revenues via the infrastructure development sector appears to be unclear.

Most of MIL's infrastructure development projects are either in the construction or development phase. MIL will probably not earn any significant revenue (which will primarily be in the form of dividends) from this business in the near future. The Gautami power station project has been completed and was ready for commissioning in September 2006, but has not commenced commercial operation due to the unavailability of natural gas. Construction of the first stage of the two road projects currently under construction are not expected to be operational until 2008 – 2009, the Himachal Sorang power station currently under construction is not expected to be operational until 2010, and the two power projects under development are not expected to be operational until 2009 – 2010. As result, there is no historical financial and operating information available to help evaluate MIL's past performance as an infrastructure developer. MIL works in consortium with companies like NCC (Nagarjuna Construction Co), which speaks volumes by itself. However, BOT projects have a higher risk (for instance the situation with the Gautami project) and thus while BOT projects provide visibility to a steady flow of income from FY2010, the risk associated with the time of completion, start of operation and receipt of revenue income and the fact that MIL is relatively new in this space adds an element of uncertainty.

MIL faces competition in bidding for projects from companies such as NCC, HCC, IVRCL, Gammon etc. However, considering the number of projects and the required infrastructure growth there is enough for everyone to get a share of the pie.

The following table gives the comparative analysis of companies that are in businesses similar to that of MIL and their financial status based on FY07 numbers.

Company Name	Equity	FV	NAV / share	Sales	OPM %	PAT	EPS	CMP (Rs)	P/E	RONW %	P/BV
Gammon India Ltd	17.7	2.0	102.6	1851.7	10.4%	44.5	5.1	432.7	84.3	3.7%	4.2
Hindustan Construction Co Ltd	25.6	1.0	35.3	2300.7	11.0%	32.9	2.6	143.7	56.4	3.8%	4.1
Nagarjuna Construction Co Ltd	41.7	2.0	49.6	2948.6	11.0%	132.6	4.7	244.5	52.4	13.1%	4.9
IVRCL Infrastructure & Projects Ltd	25.9	2.0	101.7	2518.5	11.0%	168.9	14.8	416.0	28.2	10.6%	4.1
Patel Engineering Ltd	6.0	1.0	117.8	1103.6	14.4%	108.1	18.1	452.8	25.0	15.4%	3.8
Simplex Infrastructure Ltd	9.6	2.0	64.4	1711.0	10.1%	53.7	12.5	407.6	32.7	19.5%	6.3
Maytas Infrastructure Ltd	50.0	10.0	53.0	826.6	15.4%	52.9	10.6	320 - 370	30.2 - 35.0	20.0%	6.0 - 7.0

***Source:** Capitaline – All figures are in Rs. cr unless stated otherwise. FV, NAV per share, EPS and CMP are in INR. All figures provided are on a consolidated basis except for Patel Engg and Simplex Infrastructure. MIL's equity is on an undiluted basis.

At the price band of Rs. 320 – Rs. 370, MIL is offering shares at 35.6 times to 41.2 times FY07 consolidated EPS on a fully diluted equity. This is almost the same rate at which its peers are available in the market despite the fact that in terms of sales it is the smallest of the companies listed above. Further, its P/BV multiple is on the higher side at 6 – 7. This leaves little margin of safety or scope for immediate appreciation for investors in the IPO. Given the importance of infrastructure and the planned spending over the next few years (investment in construction is expected to grow to approximately Rs. 6,129 billion in 2007 – 2011 from Rs. 3,213 billion in 2002 –

2007, at a compound annual growth rate of 13.8%), MIL is well positioned to capitalize on this robust industry scenario. Only long-term investors may apply in the IPO, as the stock price could remain volatile in the post-listing phase, in line with that of its peers.

Financials:

P&L Account (Rs. in mn)	FY07 Cons	FY07 SA	FY06 SA	Chg %	FY05 SA	Chg %
Contract Revenues	7540.57	7876.71	3883.73	102.8%	2886.71	34.5%
Less: Co's share of turnovr in integrated JVs	-	1866.65	1719.45	8.6%	818.63	110.0%
Annuity Income	186.57	-	-		-	
Other Income (OI)	41.05	39.01	10.46	272.9%	569.28	-98.2%
Accretion / (Decretion) to CWIP	497.39	357.67	57.97	517.0%	-11.92	-586.3%
Total	**8265.58**	**6406.74**	**2232.71**	**186.9%**	**2625.44**	**-15.0%**
Expenditure	**6948.20**	**5401.96**	**1858.75**	**190.6%**	**1865.79**	**-0.4%**
Material Consumed	2071.38	1658.69	352.35	370.8%	237.99	48.1%
Personnel Expenses	247.28	205.09	75.42	171.9%	38.69	94.9%
Contract, Administrative & Selling Expenses	4629.54	3538.18	1430.98	147.3%	1589.11	-10.0%
PBIDT	1317.38	1004.78	373.96	168.7%	759.65	-50.8%
Margins % (w/o OI)	**15.4%**	**15.1%**	**16.3%**		**7.3%**	
Financial Expenses	246.89	176.89	75.98	132.8%	26.97	181.7%
Depreciation	232.69	113.1	46.36	144.0%	28.5	62.7%
Preliminary Expenses written off	0.39	-	-		-	
PBT	837.41	714.79	251.62	184.1%	704.18	-64.3%
Add: Co's share in Profit / (Loss) in integrated JVs	-	80.07	103.6	-22.7%	-10.6	1077.4%
PBT (Restated)	**837.41**	**794.86**	**355.22**	**123.8%**	**693.58**	**48.8%**
Total Tax	308.38	244.78	93.03	163.1%	114.13	18.5%
PAT	529.03	550.08	262.19	109.8%	579.45	54.8%
Equity	500.00	500.00	100.00	400.0%	100.00	0.0%
EPS (Reported)	10.58	11.00	26.22	-58.0%	57.95	54.8%

Cons – Consolidated Financials, SA – Stand Alone Financials **Source: RHP**

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