

MBL Infrastructures Ltd.

IPO Note

Price Band (Rs): 165 - 180

MBL Infrastructures Ltd. is engaged in the construction and maintenance of Roads and Highways, industrial infrastructure projects and other civil engineering projects for various government bodies and other clients. The company have a fast growing business that provides integrated engineering, procurement and construction services for civil construction and infrastructure sector projects. They have a pan India presence and have executed and commenced upon a number of projects in 9 states of India.

The company is focused on the following sectors:

1. Highway Construction
2. Road Maintenance
3. Industrial Infrastructure Projects
4. Other Civil Engineering Projects
5. BOT Projects

The above development will help the company invest further in capital equipments and to bid for bigger projects in the future.

Key core strength:

Technical expertise and execution capabilities

The company has technical expertise and reputation for efficient and timely project management and execution. They believe that their expertise in project implementation provides them with a significant competitive advantage.

Further, their technical expertise and execution capabilities enable them to position themselves better to deal with construction or implementation risk. In addition, they have worked on projects where the timeframe requirements of their clients were more aggressive than is customary for similar types of projects.

Own fleet of construction equipments

The company owns most of the construction equipments including, hot mix plants, sensor pavers, tandem rollers, soil compactors, stone crushers, tippers, loaders, excavators, motorgraders, concrete batching plants, transit mixers, concrete pumps, reversible drum mixers, dozers, cranes etc and shuttering and centering plates. They believe that ownership of equipment will result in several advantages like lower cost and rapid mobilization. Further, as they own modern equipments they have a competitive advantage.

STOCK DATA

Date of Opening	27th November 2009
Date of Closing	1st December 2009
Method of Payment	Full bid amount on bidding
Issue Size @ Rs 165 : 180	Rs. 123.75 - Rs 135 crore
No. of Share Offered	57,00,000
Face Value	Rs. 10
BRLM	Motilal Oswal Investment Adv. Pvt. Ltd.
Registrar	Link Intime India Pvt. Ltd.
Maximum Retail Lot	555 shares (@ Rs.180 /share to Rs.99,900)
Post Issue Share Capital	Rs. 17.51 crore

OBJECTS OF ISSUE

Particulars	Amount (Rs Cr)
Investment in Capital Equipments	54.9
Part Funding for Working Capital Requirements	30.0
General Corporate Purposes	[•]
Issue Expenses	[•]
Total	[•]

Means of Finance

Particulars	Amount (Rs Cr)
Term Loan	10.0
Internal Accruals	[•]
Issue Proceeds	[•]
Total	[•]

SHAREHOLDING PATTERN

PRE ISSUE

	No. of Shares	%
Promoters & Promoter Group	10,038,102	84.97
Bodies Corporate	1,775,625	15.03
Public	-	-
Employees	-	-
Total	11,813,727	100.00

POST ISSUE

	No. of Shares	%
Promoters & Promoter Group	10,038,102	57.32
Bodies Corporate	1,775,625	10.14
Public	5,600,000	31.97
Employees	100,000	0.57
Total	17,513,727	100.00

Key core strength: (contd...)

Integrated business model

The company is able to undertake all the activities related to a BOT projects in-house- from tendering for the project to the collection of tolls. This helps to ensure the timely completion of projects, reduces their reliance on subcontractors and decreases their cost. The company prepares all tendering documents and has a dedicated in-house traffic study team.

They also have experienced team of engineers and skilled workmen and fleet of construction equipments to construct and maintain the project. Their RMC division manufactures and supplies the concrete. Their integrated structure enables them to bid for a BOT project with confidence and operate the project on a profitable basis.

Successfully completed BOT project

The company has successfully completed the execution of the BOT project of 114 kms. Seoni - Balaghat - Rajegaon state highway under the Public Private Partnership ("PPP") arrangements. Successful completion of the BOT project and their extensive experience in construction, operation and maintenance of highways and roads would enable them to capitalise on the opportunities available in this growing sector of the Indian economy.

~ Pan India Presence

Pan India Presence

The Company has a national presence and is currently executing projects in 9 states across India. They have developed the capability to simultaneously execute projects at geographically diversified locations, giving them the ability to access wider markets.

Availability of raw material at cheaper cost

The company takes up quarries on lease, does mining and installs crushers to produce stone aggregates at their project sites. Producing aggregates in-house enables them to control and ensure the quality and timely delivery required for the projects. Having captive capability ensures availability of this bulk raw material at a cheaper cost.

The company's long experience in steel trading enables them to identify right procurement opportunities at the right prices and also helps them in effective inventory management.

The Business Strategies

Target specific high potential projects

The company intends to concentrate on projects where they believe there is high potential growth and where they enjoy competitive advantage. They believe that their expertise and experience in development, operation, and maintenance of road infrastructure projects will provide them with an advantage in pursuing growth opportunities in this fast growing sector.

~ Availability of raw material at cheaper cost

The company intends to focus more on comprehensive maintenance of roads in metro cities where they have an early mover advantage and where the margins are comparatively high.

Consolidating the company's position in the infrastructure space

The company intends to consolidate its position in industrial infrastructure projects and foray into urban infrastructure projects such as multilevel car parking, flyovers, grade separator etc. and also other infrastructure projects such as airports, bridges, runways etc.

Continue to enhance project execution capabilities

The company has developed a reputation for undertaking challenging infrastructure and construction projects and completing such projects in timely manner. They intend to continue to focus on performance and project execution in order to maximize client satisfaction and margins. The company leverages technologies, designs and project management tools to increase productivity and maximize asset utilization in capital intensive activities.

~ Continue to enhance project execution capabilities

They continue to optimize operating and overhead costs to maximize operating margins. Ability to effectively manage projects will be crucial to continued success as a recognised infrastructure company.

Risk Factors

Construction business is a capital intensive business. Shortfall of funds may affect the company's ability to bid for further projects which in turn may adversely affect results of operations.

Construction business being inherently capital intensive in nature, requires infusion of funds at regular intervals to procure bids for award of new projects. The Company may not be able to procure the necessary funds in order to bid for further projects which may adversely affect their results of operations.

The company has high working capital requirements. If they experience insufficient cash flows to meet required payments on debt and working capital requirements, there may be an adverse effect on financial condition and results of operations.

The company's business requires a significant amount of working capital. In many cases, significant amounts of our working capital are required to finance the purchase of materials and the performance of engineering, construction and other work on projects before payment is received from clients. In certain cases, they are contractually obligated to their clients to fund working capital on their projects. Moreover, they may need to incur additional indebtedness in the future to satisfy their working capital needs.

Revenues are highly dependent on a few major clients. The loss of any of these clients may adversely impact revenues and profitability.

As the company is mainly into road construction and maintenance they generate major revenues from a few government funded entities such as MPRDC, NHAI, UPPWD, Delhi PWD, etc. The loss of any such client could have a material adverse effect on revenues and profitability, the exact quantum of which is not possible to ascertain.

Contracts awarded by governments or government-backed entities may be unilaterally terminated for convenience, which may affect operations adversely.

One of the standard conditions in contracts typically awarded by governments or government-backed entities is that the government or entity, as the client, has the right to terminate the contract for convenience, without any reason, at any time after providing the company with notice, the time period of which may vary from case to case, subject to appropriate compensation payable to the company for such termination. In the event that a contract is so terminated, results of operations may be adversely affected.

The company's growth strategy depends upon the award of contracts. If the company fails to win the contracts, business growth may be adversely effected.

The growth of the company's business depends on the company winning new contracts. Generally, it is very difficult to predict whether and when they will be awarded a new contract since many potential contracts involve a lengthy and complex bidding and selection process that may be affected by a number of factors, including changes in existing or assumed market conditions, financing arrangements, governmental approvals and environmental matters. Since the growth of their business will be derived primarily from these contracts, future results of operations and cash flows can fluctuate materially.

~ Shortfall of funds may affect the company's ability to bid for further projects which in turn may adversely affect results of operations

~ Revenues are highly dependent on a few major clients

~ Contracts awarded by governments or government-backed entities may be unilaterally terminated for convenience

Financials & Valuations Snap Shot:

Particulars	MBL Infrastructures Ltd (Rs. Cr.)			FY08 (Actuals)		FY09 (Actual)	
	Pre Issue			Post Issue		Post Issue	
	FY07	FY08	FY09	FY08 (Actuals)		FY09 (Actual)	
				Price Band		Price Band	
				165.00	180.00	165.00	180.00
Net Sales (Rs Cr)	170.6	294.0	513.6	294.0	294.0	513.6	513.6
Total Income (Rs Cr)	168.5	296.9	514.5	296.9	296.9	514.5	514.5
EBIDTA (Rs Cr)	26.8	38.1	73.7	38.1	38.1	73.7	73.7
PAT (Rs Cr)	10.1	15.6	27.4	15.6	15.6	27.4	27.4
Net Worth (Rs Cr)	71.1	58.5	98.2	58.5	58.5	98.2	98.2
Equity Share Capital (Rs Cr)	11.1	11.1	11.8	17.51	17.51	17.51	17.51
No of Equity shares (Nos. Cr.)	1.1	1.1	1.2	1.75	1.75	1.75	1.75
Face Value (Rs)	10.0	10.0	10.0	10.0	10.0	10.0	10.0
EPS (Rs)	9.2	14.1	23.2	8.9	8.9	15.6	15.6
BV (Rs)	64.3	52.9	83.1	33.4	33.4	56.1	56.1
CMP (Rs)	-	-	-	165.0	180.0	165.0	180.0
Debt (Rs Cr.)	77.3	104.6	194.2	104.6	104.6	194.2	194.2
Cash and Bank (Rs Cr)	23.1	27.2	45.0	27.2	27.2	45.0	45.0
Market Cap (Rs Cr)	-	-	-	289.0	315.2	289.0	315.2
Enterprise Value (Rs Cr)	54.2	77.4	149.1	366.4	392.6	438.1	464.4
P/E (x)	-	-	-	18.6	20.3	10.5	11.5
P/ BV (x)	-	-	-	4.9	5.4	2.9	3.2
Mcap/Sales (x)	-	-	-	1.0	1.1	0.6	0.6
EV/Sales (x)	0.3	0.3	0.3	1.2	1.3	0.9	0.9
EV/EBIDTA (x)	2.0	2.0	2.0	9.6	10.3	5.9	6.3
EBIDTA/Sales (%)	15.7	13.0	14.4	13.0	13.0	14.4	14.4
Net Profit / Sales (%)	5.9	5.3	5.3	5.3	5.3	5.3	5.3

Relative Valuations

Particulars.	KNR Construct.	MSK Projects	P B A Infra.	MBL Infrastructures	
CMP (Rs)	122.55	99.70	68.85	165.00	180.00
TTM Sales (Rs Cr)	604.32	396.54	385.50	513.64	513.64
M.cap (Rs Cr)	344.61	227.52	92.95	288.98	315.25
PE (x)	7.77	8.39	5.87	10.55	11.50
EV / Sales (x)	0.72	1.08	0.92	0.85	0.90
EV / EBIDTA (x)	4.49	4.97	5.87	5.94	6.30
M.cap / Sales (x)	0.57	0.57	0.24	0.56	0.61
P / BV (x)	1.31	0.82	1.03	2.94	3.21
OPM (%)	16.13	21.82	15.71	14.36	14.36
NPM (%)	7.34	6.84	4.11	5.34	5.34

Source: SBICAP Securities Research

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