CARE Research

CARE EQUI GRADE

Analytical Power for Investment Decisions

FUNDAMENTALS

VALUATION

ERA INFRA ENGINEERING LIMITED

27th January 2011

CONTACTS

ANALYTICAL CONTACT

Ms. Revati Kasture	+91-22-6754 3465	revati.kasture@careratings.com

BUSINESS DEVELOPMENT CONTACTS

MUMBAI

Mr. P. N. Satheeskumar	+91-22-6754 3555	sathees.kumar@careratings.com

KOLKATA

Mr. Sukanta Nag	+91-33- 2283 1800	sukanta.nag@careratings.com

CHENNAI

Mr. V Pradeep Kumar	+91-44-2849 7812	pradeep.kumar@careratings.com

AHMEDABAD

Mr. Mehul Pandya	+91-79-40265656	mehul.pandya@careratings.com

NEW DELHI

Ms. Swati Agrawal	+91- 11- 2331 8701	swati.agrawal@careratings.com

BANGALORE

Mr. G. Sundara Vathanan	+91-80-2211 7140	sundara.vathanan@careratings.com

HYDERABAD

Mr. Ashwini Kumar Jani	+91-40-40102030	ashwini.jani@careratings.com

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- Valuation of companies for Institutional Investors, Asset Managers and Corporates
- Sector Write-ups for Offer Documents of securities

ERA INFRA ENGINEERING LTD.

Infrastructure

CARE Research

Very Good Fundamentals; Considerable Upside Potential CMP : Rs. 211.05 / CIV : Rs. 285.00 [1] 27 January 2011

CARE EQUIGRADE GRID (CEG)

	1	2	3	4	5
Fundamentals					
Valuation					

CEG is explained on the last page

KEY EQUISTATS

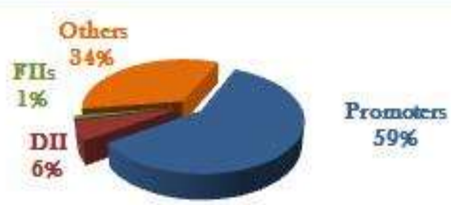
Market Capitalisation	Rs. Crore	3,837
Enterprise Value	Crore	5,861
52 Week High / Low	Rs.	243 / 195
Diluted EPS (consolidated - FY10)	Rs.	14.8
P/E (FY10)	times	14.3
Beta	times	0.6
Average Daily Volumes*	'000	368

* BSE + NSE for last 52 weeks

STOCK PERFORMANCE

Returns (%)	1M	3M	6M	1 Yr
Absolute	-1%	-4%	0%	4%
Rel. to Sensex	6%	3%	-3%	-9%

SHARE HOLDING PATTERN



ANALYTICAL CONTACTS

Revati Kasture	Head - Research	+91-22-6754 3465
Dhiraj Kothari	Senior Manager	+91-22-6754 3479

[1] CMP: Current market Price; CIV; Current Intrinsic Value

CARE Equity Research assigns 4/5 on fundamental grade to Era Infra Engineering Limited (EIEL)

CARE Equity Research assigns fundamental grade of 4/5 to EIEL indicating 'Very Good Fundamentals'. India's thrust on infrastructure investment augurs well for companies like EIEL with diversified presence across various sectors and clients. While the order book of Rs 107 billion provides revenue visibility for more than three years, strong pre-qualification performance would ensure healthy order pipeline. Furthermore, EIEL's good execution of existing road projects along with strategic tie-ups would open-up more opportunities in the road segment.

Nevertheless, any slowdown in infrastructure investments or capital expenditure of the corporate sector may dampen growth prospects of EIEL. Execution risks remain for the company, which may lead to delays and/or cost overruns. EIEL may also face some pressure on the margin going forward given its increased exposure to relatively lower margin road projects. Lastly, equity dilution is foreseen on the back of outstanding foreign currency convertible bonds issued to fund expansion activities.

Valuation

CARE Equity Research assigns valuation grade of 5/5 to EIEL based on the Current Intrinsic Value (CIV) of Rs. 285 per share as against Current market Price (CMP) of 212.95 per share. This indicates that the stock has 'Considerable Upside Potential'. CARE Equity Research has used Discounted Cash Flow (DCF) to the firm to value the stand-alone business of EIEL (Rs. 236 per share) and DCF to equity to value its road projects business (Rs. 49 per share).

Financial Information Snapshot

(Rs Crore)	FY09	FY10	FY11 P	FY12 P
Operating Income	2,401	3,448	4,540	6,101
EBITDA	419	685	809	1,082
PAT (After minority interest)	144	284	323	446
Fully Diluted EPS* (Rs.)	11.5	14.8	15.9	22.0
Dividend Per Share (Rs.)	6.7	8.5	9.7	13.3
P/E (times)		14.3	13.3	9.6
EV/EBITDA (times)		8.6	7.2	5.4

* Calculated on Current Face Value of Rs. 2/- per share

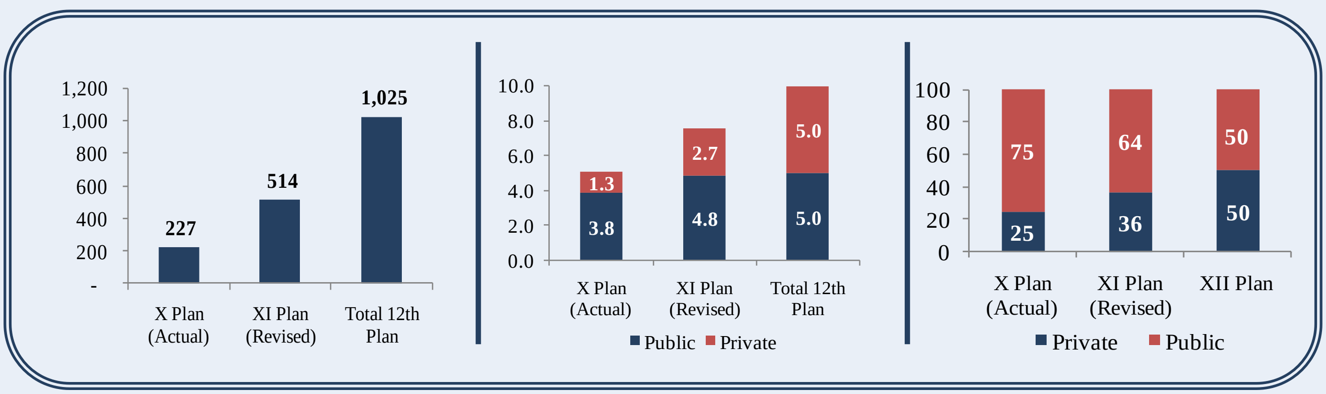
FUNDAMENTAL GRADE	Very Good Fundamentals	4/5

Increased infrastructure spending augurs well

Government of India (GoI) has rolled-out an aggressive investment plan of almost doubling its infrastructure spending from Rs.23 lac crore in Eleventh Five Year Plan (2007-12) to around Rs. 46 lac crore in the Twelfth Five Year Plan (2012-17). The planned investment would increase infrastructure spending as a percentage of GDP to 10% through XII Plan from 7.6% in XI Plan. Furthermore, the GoI is expecting to achieve GDP growth rate of nearly 9.0% through 2012-17. Additionally, private participation in the India's total infrastructure spending is also increasing, with its share in total investment growing from 25% in X Plan to 36% in XI Plan; and projected to increase to 50% in XII Plan.

CARE Equity Research takes note of the Government's impetus to the infrastructure development of India. The GoI has emphasized increased participation of private sector in the infrastructure spending. The above factors augur well for established infrastructure players, including EIEL.

Planned Infra. Spending ($ bn) | Investment as % of GDP (%) | Share of Public/Private Funding (%)

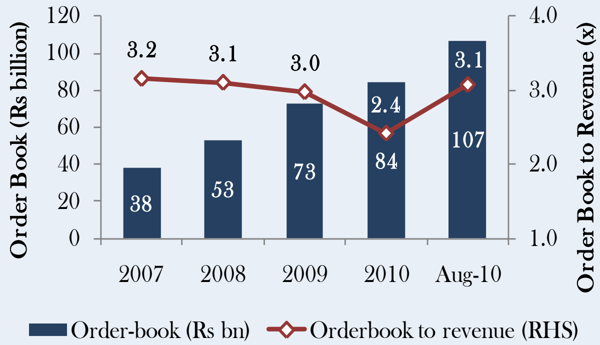


Source: CARE Equity Research

Strong order book to give revenue visibility; pre-qualification performance to ensure future orders

EIEL's order book has grown from Rs 38 billion in FY07 to the present level of Rs 107 billion, representing a CAGR of about 30%. Historically, the company has maintained sizable order book with revenue visibility of more than 3 years, debarring FY10. The current order book of Rs 107 billion provides strong revenue visibility for the next 3.1 years. Furthermore, EIEL is pre-qualified for orders worth Rs 350 billion. Given the company's historical strike-rate of 20-25% in securing contracts, CARE Equity Research expects EIEL to bag new orders worth at least Rs 70 billion by March-2011.

EIEL: Historical Order-book Trend



EIEL: Order-book Comparison with Peer Group

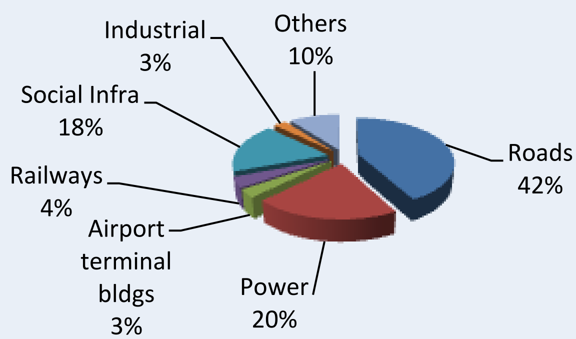
	Order-book (Rs billion)	Order-book to revenue (yrs)
IVRCL	234	4.0
HCC	197	4.9
Nagarjuna Const Co	161	2.7
Simplex Infra	123	2.7
Patel Engg	111	3.9
Era Infra	**107**	**3.1**

Source: CARE Equity Research

Well diversified presence across sectors de-risks revenue stream

Over the years, EIEL has diversified in to various sectors such as aviation (1995), social infra (2003), housing (2004), railway (2005), highways (2006), equipment management (2008) and sports facilities (2009). EIEL is also entering into transmission and distribution of power business. The company's order book is also well diversified into a wide gamut of sectors such as roads (42%), industrial & social infrastructure (28%) and power (21%). Furthermore, EIEL has a diversified customer base with the top-5 customers contributing 46% to the total order book. Going forward, EIEL is looking to diversify further into newer segments such as power transmission & distribution, refineries, hydroelectricity, irrigation and ports, multilevel car parking etc.

EIEL: Order-book break-up



Source: CARE Equity Research

CARE Equity Research believes that this diversified sector/client base would enables EIEL in weathering possible slowdowns in sector or public investment cycles. Furthermore, more than 80% of the order-book comprises of orders from Government bodies and public sector enterprises, which reduces the risks for the company.

Good execution in build-operate-transfer (BOT) segment along with strategic tie-ups to open-up doors for future opportunities in road segment

Realizing the importance of well developed road network for ensuring persistent, inclusive and healthy economic growth, the GoI has taken several policy initiatives to boost private sector investment in the segment (see box below). Correspondingly, the roads segment has witnessed a surge in ordering activities. NHAI is expected to announce awards of about 18 projects in the coming months with a total project cost of Rs. 13,886 crores (Rs.139 billion) and 1,576.61 kms, bidding for which concluded in July-2010. Furthermore, the GoI, with a target of building 20 kms road per day, is aiming to construct over 12,000 km in FY11 and FY12 each. As per government estimates, of the total road length of 50,405 km, a massive 26,191 km is still to be awarded.

Currently, EIEL has a portfolio of six BOT projects, three of which are near completion and are expected to be operational by March-2011. The remaining three projects were awarded post March-2010, two of which have already achieved financial closures. The company's initial plans of finishing the existing three BOT projects by end-2010 (two in mid-2010 and one by the end-2010) has met with delays primarily due to delays in obtaining land clearance and high rainfall.

EIEL: Details of BOT road projects

	Existing Projects			New Projects		
Project	Hyderabad Ring Road Project	Gwalior Bypass Project	West Haryana Project	Haridwar Highways Project	Dehradun Highways Project	Bareilly Highways Project
Type	Annuity	Annuity	Toll	Toll	Annuity	Toll
Era % share	49%	39%	49%	74%	74%	74%
Other JV partners	Induni-51%	Ramky- 51% Shriram-10%	KCT-51%	Sibmost-26%	Sibmost-26%	Sibmost-26%
Project Cost (Rs crore)	376	332	587	1,101	686	1,942
Concession Period (yrs)	15	20	25	25	20	20
Debt : Equity & Grant	65:35	72:28	75:25	63:37	77:23	72:28
<u>Financing</u>						
Govt. Grant	60	0	0	210	50	255
Equity	72	92	147	200	108	287
Debt	244	240	440	691	528	1,400
Financial Closure	Achieved	Achieved	Achieved	Achieved	Achieved	Next few weeks

Source: CARE Equity Research, Company

Status of NHDP projects (Status :31st October 2010)

		Total Length (Km.)	Already 4-Laned (Km.)	Under Implementation (Km.)	Contracts Under Implementation (No.)	Balance length for award (Km.)
NHDP	Golden Quadrilateral	5,846	5,806	40	10	-
	NS-EW (Ph. I & II)	7,300	5,324	1,391	109	427
	NHDP Phase III	12,109	1,884	5,245	73	4,980
	NHDP Phase V	6,500	363	1,937	17	4,200
	NHDP Phase VI	1,000	-	-	-	1,000
	NHDP Phase VII	700	-	41	2	659
	SARDP-NE	388	-	112	2	276
	NHDP Phase IV	14,799	-	176	1	14,623
	NHDP Total	48,642	13,212	9,107	217	26,165
Port Connectivity		380	291	83	6	6
Others		1,383	924	439	7	20
Total by NHAI		50,405	14,592	9,464	227	26,191

Source: CARE Equity Research and NHAI

Policy Initiative	Impact on BOT Projects
Government to ensure Right of way (ROW): The GoI to ensure land acquisition/utility removal. Site to be made free from all encumbrances.	Positive: Securing ROW is one of the most essential part in ensuring timely completion of road projects. A detailed plan is better be chalked out only by the government given its political sensitivity and plethora of utilities agencies involved.
NHAI / GOI to provide capital grant up to 40% of project cost to enhance viability on a case to case basis	Positive: Most of BOT projects suffer from lower credit rating amid higher upfront investment and back-ended cash flows; Capital grant from GoI would not only improve their credit profile but also increase its financial viability.
100% tax exemption for 5 years and 30% relief for next 5 years, which may be availed of in 20 years.	Positive: BOT projects are capital intensive industry with high upfront investments. During the initial years cash flow may be less. The tax holiday and flexibility in choosing tax relief period improves the risk-reward profile of infra companies.
Concession period allowed up to 30 years	Positive: Longer concession period ensures that the BOT operator recovers its initial investment and secures reasonable profitability. This is likely to attract incremental investment in the sector.

Increased focus on high margin Equipment Management Business a positive; but deployment of equipment a key

EIEL ventured into the equipment management segment in 2007 with an objective of establishing a high-end equipment bank to meet its captive requirements and to cater to external clients. The division enjoys highest operating profit margin of 72-80% as compared to contracts (14-16%) and RMC (maximum 1%). Equipment management division contributed 4.7% and 21.7% to the company's overall revenue and operating profits respectively. EIEL is strengthening its presence in the segment by investing Rs 350 crore in FY10 and planning for an additional investment of Rs 250 crore each in FY11/12.

CARE Equity Research remains upbeat about the prospects of Indian construction equipment segment and views EIEL's entry in a positive light due to following reasons.

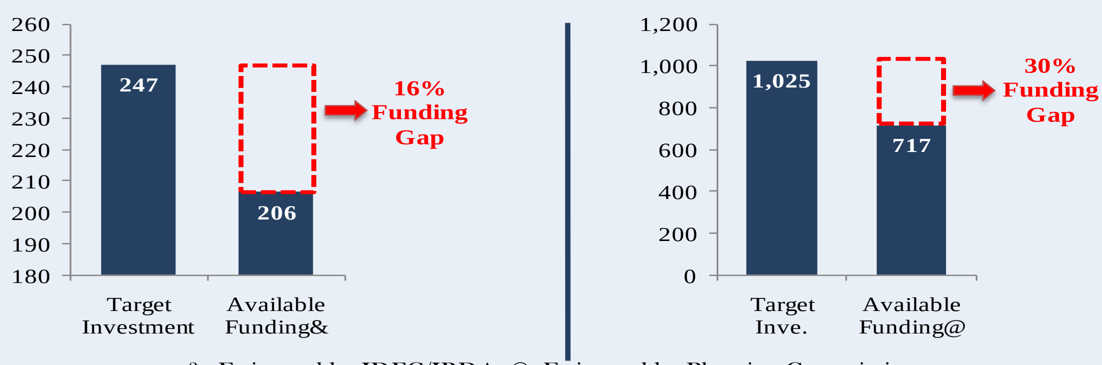
1) <u>The Indian infrastructure growth story</u>: Large investments in infrastructure projects would inevitably lead to huge demand for construction equipment market in India. As per the estimates by Indian Earthmoving and Construction Equipment Association (IECIAL), the Indian earth moving and construction equipment (ECE) industry can expand five-fold by 2015 from its 2007 levels, exhibiting a potential market size of $12-13 billion. While the existing business scenario (business-as-usual) would lead the industry to grow to $8.0 billion by 2015, various growth-enabling initiatives would be required to unlock the additional $4.0-5.0 billion demand.
2) <u>Grip on public sector institutions:</u> Large chunk of this demand will be driven by public sector institutions, which currently constitute about 71% of the sector. The demand from public sector institutions is characterized by strict pre-qualification norms and established track-record. EIEL, with 88% of its order book by public sector and established track record may be in advantageous position.
3) <u>Cost synergies:</u> EIEL is expected to use this equipment bank for its internal consumption as well. With cost of equipments contributing about 5-25% of the projects overall cost structure, significant cost synergies shall be achieved.
4) <u>High entry barriers to give rise to rental business:</u> The construction equipment segment is characterised by factors like higher upfront investment and strict pre-qualification norms by the government agencies. This has led to a handful of large players dominating the market, accounting for more than 90% of the industry's revenues. CARE Equity Research believes that this would give rise to the equipment rental business is likely to grow two-fold from its current size of about Rs 5,800 crore by 2015.

A possible slowdown in investment due to funding gap

The XIIth Plan (2012-17) has envisaged infrastructure investment in excess of $1.0 trillion in order to achieve a GDP growth rate of 9.0%. This is almost double the revised spending of $514 billion under the XIth Plan (2007-12). However, in the past, there has been significant gap between planned and actual investment in infrastructure space. For example, the XIth Plan has seen funding gap of $41 billion or 16% of its actual requirement in its debt component. The Finance Ministry has already envisaged a deficit of up to $307 billion or 30% of planned expenditure in the XIIth Plan.

CARE Equity Research believes that these funding gaps, by any standard, are huge and poses significant risks to pure-play infrastructure players like EIEL. The risk is amplified by the fact that public enterprises contribute 80% to the EIEL's overall revenue mix.

XI Plan Debt Funding Gap ($ bn)　　XII Plan Total Funding Gap($ bn)



&: Estimated by IDFC/IRDA; @: Estimated by Planning Commission

Source: CARE Equity Research

Execution risks inherent to the nature of the business; may lead to delays/cost overruns

Execution risk shall remain the biggest challenge to infrastructure projects which may lead to delays and/or cost overruns. The risk becomes more relevant incase of BOT projects, where land acquisition, utility removal and environmental clearances consumes major portion of time and effort. Furthermore, in a typical BOT project structure, the concession period also includes the construction period and hence, any delay in execution may affect future revenue and profitability.

EIEL has faced delays of 6 – 8 months in its three existing BOT projects due to delays in land clearance and adverse environmental conditions. CARE Equity Research notes that EIEL's risk of possible erosion in revenue stream due to shortfall in estimated traffic volumes for its BOT - toll contracts is minimal as the concession agreement typically incorporates the extension of the concession period.

Equity dilution imminent

EIEL's current order book of Rs 107 billion includes Rs 35 billion towards the new three BOT projects and about Rs 13 billion towards the BOT project won in FY07/08. EIEL management has indicated that execution of the three recently awarded BOT projects would require equity infusion in tune of Rs 700-750 crores over the next 2-3 years time. EIEL is evaluating three options – private equity at SPV level, private equity of all six BOT projects and QIP – to fund the equity requirement of Rs 700 – 750 crore.

CARE Equity Research assumes all the outstanding foreign currency convertible bonds (FCCBs) to be converted into equity in its projections, which would dilute the equity base by around 6% of current outstanding equity shares. Additionally, CARE Equity Research expects that the equity base will be further diluted at the EIEL (parent) level to the extent of 5.5% of current outstanding equity shares.

Large exposure in to road projects to dampen profitability in near-medium term

Around 42% of EIEL's current order book comprises of inherently low margin BOT projects, totaling worth Rs. 45 billion. Accordingly, CARE Equity Research expects the EBITDA margin of EIEL to shrink going forward from 19.9% in FY10 to 17.7% in FY12. This would lead to RoCE falling from 17.8% to 13.5% in the same period.

Reasonable corporate Governance practices

EIEL's board comprises of 7 directors, of which 4 are non-executive independent directors, 2 are executive director and 1 non-executive director. The board is chaired by Shri H. S. Bharana, one of the promoters of the company who is also the managing director. This suggests well diversified composition of board with adequate separation of ownership and management. EIEL is in compliance with the provisions of the Listing Agreement in respect of corporate governance, especially with respect to broad basing of the Board of Directors and constituting committees. There are three Board level committees in EIEL - (i) Audit Committee, (ii) Shareholders'/Investors' Grievances Committee and (iii) Remuneration Committee. All three committees are chaired by non-executive independent directors. Furthermore, all the four members of the Audit Committee possess sufficient knowledge and experience in the field of Finance and Accounts. The board is supported by well experienced senior level managerial personnel.

Management succession is not an immediate cause of concern

EIEL's board comprises of only one member from the promoter family - Shri H. S. Bharana, chairman and managing director (CMD) of the company. However, the company is managed by a team of well qualified professionals having vast experience. Furthermore, at the age of 48 years, the CMD has a long way to go.

VALUATION GRADE | Considerable Upside Potential | 5/5

CARE Equity Research values EIEL at Rs. 285 per share

According to CARE Equity Research, the Current Intrinsic Value (CIV) of EIEL stands at Rs. 285 per share. This translates into Enterprise Value (EV) of around Rs. 8,224 crore on higher equity base of 20.3 crore shares. Thus, the equity shares of EIEL have 'Considerable Upside Potential' from the current market price (CMP) of Rs 211 per share.

The CIV is calculated based on Discounted Cash Flow methodology

CARE Equity Research has used Discounted Cash Flow (DCF) to the firm to value the stand-alone business of EIEL (Rs. 237 per share) and DCF to equity to value its road projects business (Rs. 49 per share).

EIEL: Target Price Summary

Particulars	Rs. / share
Stand-alone company	236
Add: Value of 6 BOT projects	49
CIV	285

Source: CARE Equity Research

Discounted Cash Flow

- The overall firm Weighted Average Cost of Capital (WACC) is calculated based on our long term assumptions of cost of financing summarized in below table.
- CARE Equity Research has used Free Cash Flow (FCF) methodology to arrive at the firm value. The forecasted FCF is as per CARE Equity Research estimates.
- Terminal value is arrived at by using Gordon Growth Model.
- In case of road projects, CARE Equity Research has used Free Cash Flow (FCF) for equity methodology to arrive at the firm value.

EIEL: Valuation Based on Discounted Cash Flows

Item	Value	Basis
Risk Free Rate	8.25%	10 year G-sec yield expected at year end FY11
Equity Risk Premium	6.00%	
Beta	0.60	
Cost of Equity	11.85%	
Cost of Debt	12.00%	Long term cost of debt
Tax Rate	33.00%	Long term tax rate
D/E Ratio	1.50	Long term target D/E ratio
WACC	**9.56%**	
Terminal growth rate	3.00%	

(Rs crore except per share data)

	2010-11	2011-12	2012-13	2013-14	2014-15	Terminal Value
PAT	316	435	593	724	866	866
DTL	46	48	31	22	22	22
Depreciation	91	111	124	131	139	139
Interest (1-T)	201	230	250	236	215	215
Capex	-369	-352	-191	-116	-200	-200
Increase in WC	-865	-367	-567	-560	-407	-407
Free Cash Flow	**-580**	**103**	**239**	**436**	**635**	**635**
Discount Rate	0.98	0.89	0.81	0.74	0.68	0.68
PV of FCF	**-566**	**92**	**194**	**324**	**430**	
PV of Terminal Value						**6,751**

Total Discounted Value of Firm	7,226
Less: Net Debt (FY11 P)	2,436
Present Value of Equity	4,790
No. of Equity Shares (crore)	20
Outstanding as on Sep-10 (crore)	18
FCCBs to be converted (crore)	1
Further dilution expected (crore)	1
Fair Value of Equity Share	**236**
Add BOT	**49**
CIV	**285**

Source: CARE Equity Research

EIEL: Sensitivity Analysis – Share price

Terminal Year Growth Rate (%)	Weighted Average Cost of Capital (%) 8.5%	9.0%	9.6%	10.0%	10.5%
2.0%	252	245	238	233	226
2.5%	275	268	260	254	247
3.0%	301	293	**285**	279	271
3.5%	331	323	314	307	299
4.0%	367	358	349	341	332

Note: Road projects valued at Rs. 49 per share in all the above scenarios

Source: CARE Equity Research

The CIV implies EV/EBITDA of 11 times the consolidated EBITDA of FY11

The CIV of Rs. 285 per share translates into EV of around Rs. 8,800 crore for EIEL on higher equity base of 20.3 crore shares. This implies EV/EBITDA of 10.2 times the consolidated EBITDA projected for FY11. This looks reasonable, given the fact that:

- EIEL earns higher EBITDA margin than its peers
- Revenue visibility is comfortable, with order book being three times the revenue
- Diversified order-book and competencies

Peer comparison

	Order-book (Rs billion)	Order-book to revenue (yrs)	EBITDA margin	EV / EBITDA (FY10)
IVRCL	234	4.0	11.8%	9.3
HCC	197	4.9	14.3%	13.7
Nagarjuna Const Co	161	2.7	12.6%	8.5
Simplex Infra	123	2.7	9.0%	7.7
Patel Engg	111	3.9	18.4%	6.6
Era Infra	**107**	**3.1**	**19.9%**	**8.6**
Mean		3.5	14%	9.1

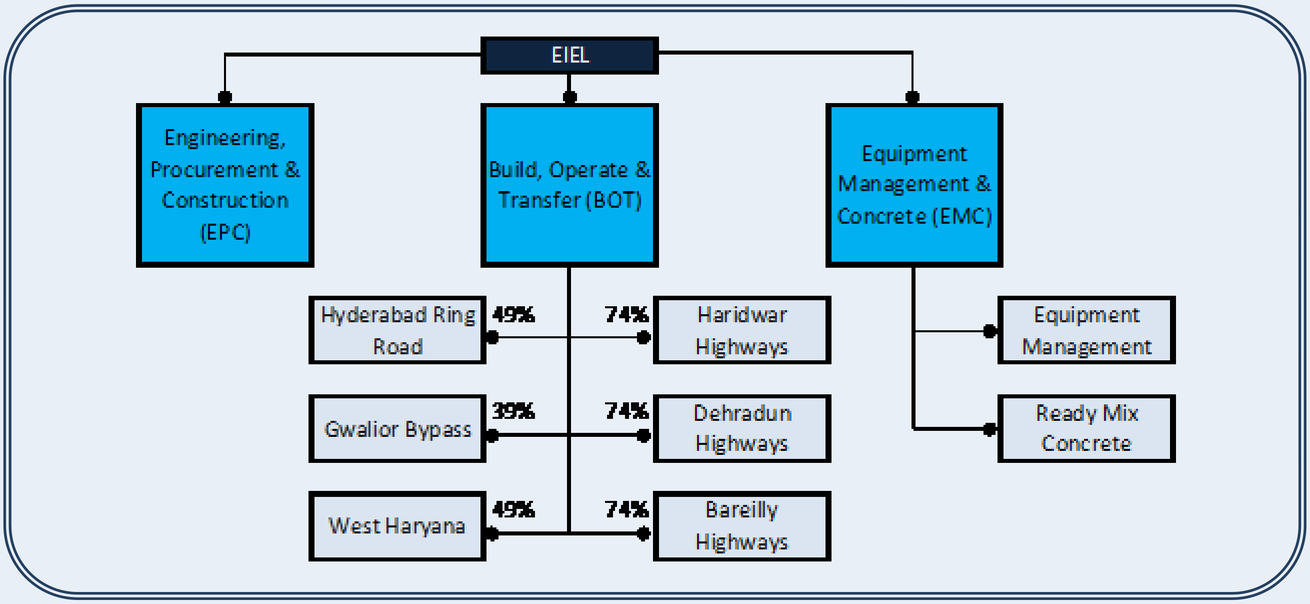
Source: CARE Equity Research

COMPANY BACKGROUND

Company Overview

Era Infra Engineering Limited (EIEL) was incorporated in 1990 and became a listed entity in 1995. It is the flagship company of Era Group and currently one of the few fully integrated infrastructure companies in India. EIEL has diverse presence across twenty states and various sectors/ industries. Till date, EIEL has successfully completed over 200 projects with over 90 projects in pipeline. The company operates in three business segments, namely EPC division (Engineering, Procurement & Construction), BOT (Build, Operate & Transfer) division and EMC (Equipment Management & Concrete) division.

Business Segments



Note: Only key segments included in above exhibit

Source: CARE Equity Research

Business Mix

Presently the company has three strategic divisions which help the company in maintaining its growth momentum.

<u>Engineering, Procurement and Construction (EPC) Division</u>: This is the main division of EIEL, which executes infrastructure development contracts across the spectrum for both external customers as well as for captive consumption. This division is well diversified into a wide gamut of sectors such as power, railways & metro, aviation, social infra, industrial etc. Furthermore, this division has contributed significantly to EIEL in maintaining its growth momentum with strong order book of more than Rs. 60 billion from prestigious clients like NTPC, Airport Authority of India, Delhi Metro Rail Corporation Limited, etc. This diversified sector/client base enables EIEL in weathering possible slowdowns in sector or public investment cycles.

BOT & EPC Division: This division is predominantly active in two verticals, namely, BOT and EPC. The BOT vertical is currently focusing on BOT/BOOT projects on annuity or revenue collection basis. The BOT vertical currently has six projects under its portfolio, three are currently under construction and three are under review. Financial closure for five of the above six projects have already been achieved. The EPC vertical focuses on Engineering (basic and detailed), procurement (of man, machinery and material) and construction of various infrastructure projects such as highways, railways, power, bus terminal, underground parking etc. Going forward, EIEL is planning to venture into new areas such as metro projects, automated parking lots, large scale housing projects, Railway Freight Corridor project, hydropower, regional airports, ports and passenger & bus terminals amongst others. In order to achieve strategic advantage during the bidding process, EIEL has partnered with foreign players with proven track record under these verticals.

Equipment Management and Concrete (EMC) Division: This division has two verticals: Ready Mix Concrete (RMC) Division and Equipment Management Division (EMD). The RMC division deals with delivering readymade concrete directly to the client site. The division was initially catering to the in-house concrete requirement for the Era Group. However, given the tremendous opportunity it posses, the company has started six RMC units and expects to establish additional 60 units across India in next 2-3 years, that would cater to external clients as well.

The EMD division has huge equipment bank that caters to not only EIEL's in-house requirement for specialized machines but also aims to capture the huge demand of construction equipment due to rapid infrastructure development. The extensive machine pool not only helps EIEL in achieving cost synergies but also enhances company's pre-qualification strength in undertaking large-size projects across sectors and states.

Client Base (selective)

Power	Rail & Metro	Industrial	Others
Bharat Heavy Electricals Ltd.	Mumbai Railway Vikas Corporation Ltd.	Steel Authority of India Ltd.	Airport Authority of India Ltd.
National Hydro Electric Power Corp Ltd.	Rail Vikas Nigam Ltd.	Adani Group	National Building Construction Corporation
National Thermal Power Corp Ltd.	Delhi Metro Rail Corporation Ltd.	Aditya Birla Group	Central Public Works Department
Power Grid Corporation of India		Tata Group	Indian Oil Corporation Ltd.

Source: Company Annual Report

Key company personnel (selective)

Name	Designation	Education	Experience (yrs)
Shri H. S. Bharana	CMD	B.E. (Civil)	30+
Shri J. L. Khushu	Whole Time Director	B.E. (Civil), M.E. (Structural)	45
Shri Joy Saxena	Chief Financial Officer	CA, ICWA, PGDBA	26
Shri Ajay Kumar Mishra	President	M.Sc., MBA	25
Shri Prabhash Singh	President	MBA, M Tech	42
Shri Alok Khanna	Chief Operating Officer	B.E. (Civil)	25
Shri Awadhesh Kumar	Chief Operating Officer	B.E. (Civil)	23
Shri Lalit Prakash	Chief Operating Officer	B.E. (Civil)	23
Shri Pradeep Kathuria	Chief Executive Officer	B.E. (Mechanical)	34
Shri Tulsi Das Arora	Chief Executive	Dip. Civil, AMIE, B Tech, MBA	22

Source: Company Annual Report

SNAPSHOT OF THE INDUSTRY

Infrastructure

Infrastructure is the backbone of any nation for its economic development and India is no exception. Infrastructural development has been the epicenter in India's progress towards being amongst the few big economies in the world. GoI is likely to spend Rs. 46 lac crore in the Twelfth Five Year Plan (2012-17) on infrastructure and is increasingly involving private participants in the same. The private participation in India's infrastructure spending is expected to grow from 36% in XI Plan to 50% in XII Plan. The investment is spread across sectors like airports, ports, roads, rail corridors, power supply, housing and other social infrastructure.

Industrial capex

Riding on the back of strong domestic consumption and revival of the economy, the corporate sector has lined up huge capital expenditure. According to CARE Research, the industrial capex for the next five years till FY16 is pegged upwards of Rs. 20 lac crore across power, telecom, oil refining, oil exploration, gas transmission and distribution, steel, aluminium, automobiles, cement, textiles, and fertilisers sectors.

Real Estate

Rising income levels has created humungous demand for housing. Furthermore, Government has been increasing its budgetary allocation for housing for economically weaker section. In Union Budget 2010-11, Rs.1,270 crore has been allocated for Rajiv Awas Yojana as compared to Rs.150 crore last year. Thus, the outlook remains bright for the residential real estate demand. Buoyant service and retail sector would drive demand for commercial real estate as well.

Construction

Healthy infrastructure spending, buoyant industrial capex and growth in real estate sector translates into immense opportunity for the construction sector, especially for the players in the EPC business. A total of around Rs. 25 lac crore worth orders are estimated to be in the pipeline for the private players in BOT and EPC busienss over the next five years till FY16. Players who have show-cased their execution capabilities and have good track record are likely to garner more share of this gigantic opportunity.

Equipment Management

Currently, there is tight supply of construction equipments, as the financial crisis in the past led slowdown in construction activities and companies postponed their plans to purchase equipments in the view of bleak outlook then. However, the economy revived sharply and construction activities picked up pace. With the industrial and infrastructure capital expenditure continuing to grow at a rapid pace, the tight supply situation for construction equipments will persist, enabling the companies with equipment bank to earn healthy rental incomes for the next 18 – 24 months. The tight supply situation is expected to ease thereafter.

Ready-mix concrete (RMC)

The demand for RMC remains buoyant on the back of healthy outlook for the construction sector. Nevertheless, RMC business would continue to remain a low margin business, with EBITDA margin pegged at high single-digit, as it is merely a conversion business with low value-addition.

Concerns and challenges

- Funding gap is the biggest concern for the companies in infrastructure space. The XIth Plan had seen funding gap of $41 billion or 16% of its actual requirement in its debt component and the Finance Ministry has already envisaged a deficit of up to $307 billion or 30% of planned expenditure in the XIIth Plan.
- BOT and EPC business is capital intensive in nature and with the current liquidity crunch situation in the banking system, which is not foreseen to ease soon, the interest rates are expected to inch up further, putting pressure on the net margin of the companies.
- Competition from the foreign players and stringent pre-qualification norms are another possible challenges for the industry.
- Slow-down in the economic activity can not only lead to fall in infrastructure and industry capex that could lead to weak order pipeline, but also lead to lower traffic movement that hurts the companies with toll-based road projects. However, CARE Equity Research notes that the risk of possible erosion in revenue stream for such companies due to shortfall in estimated traffic volumes for its BOT - toll contracts is minimal, as the concession agreements typically incorporate the extension of the concession period.

FINANCIAL STATISTICS

Consolidated Income Statement

(Rs Crore)	FY08	FY09	FY10	FY11 P	FY12 P
Operating Income	**1,717**	**2,401**	**3,448**	**4,540**	**6,101**
EBITDA	429	419	685	809	1,082
Depreciation and amortisation	26	46	72	91	111
EBIT	403	373	613	719	971
Interest	115	174	258	301	344
PBT	287	199	356	417	627
Ordinary PAT (After minority interest)	144	144	236	323	446
Reported PAT (After minority interest)	**144**	**144**	**284**	**323**	**446**
Fully Diluted Earnings Per Share* (Rs.)	**10.7**	**11.5**	**14.8**	**15.9**	**22.0**
Dividend	5	7	9	10	13

* Calculated based on ordinary PAT on Current Face Value of Rs. 2/- per share

Consolidated Balance Sheet

(Rs Crore)	FY08	FY09	FY10	FY11 P	FY12 P
Net worth (incl. Minority Interest)	554	874	1,468	1,990	3,037
Debt	1,734	1,805	2,493	3,736	5,121
Deferred Tax Liability / (Asset)	59	91	158	204	252
Capital Employed	**2,346**	**2,770**	**4,120**	**5,930**	**8,410**
Net Fixed Assets	712	1,203	1,485	2,328	4,284
Investments & Others	274	177	281	435	585
Loans and Advances	166	348	576	728	898
Inventory	662	684	920	1,163	1,434
Receivables	436	728	939	1,187	1,463
Cash and Cash Equivalents	428	180	469	728	553
Current Assets, Loans and Advances	1,694	1,943	2,909	3,811	4,356
Less: Current Liabilities and Provisions	334	553	555	645	816
Total Assets	**2,346**	**2,770**	**4,120**	**5,930**	**8,410**

Consolidated Financial Ratios

	FY08	FY09	FY10	FY11 P	FY12 P
Growth in Operating Income	42.6%	39.9%	43.6%	31.6%	34.4%
Growth in EBITDA	19.0%	-2.4%	63.5%	18.2%	33.6%
Growth in PAT	20.9%	-0.1%	96.9%	13.8%	37.9%
Growth in EPS	-5.9%	6.8%	28.8%	7.7%	37.9%
EBITDA Margin	25.0%	17.4%	19.9%	17.8%	17.7%
PAT Margin	8.4%	6.0%	8.2%	7.1%	7.3%
RoCE	21.1%	14.6%	17.8%	14.3%	13.5%
RoE	29.8%	20.2%	24.3%	18.7%	17.7%
Net Debt-Equity (times)	2.4	1.9	1.4	1.5	1.5
Interest Coverage (times)	3.7	2.4	2.7	2.7	3.1
Current Ratio (times)	5.1	3.5	5.2	5.9	5.3
Inventory Days	141	104	97	93	86
Receivable Days	93	111	99	95	88
Price / Earnings (P/E) Ratio			14.3	13.3	9.6
Price / Book Value(P/BV) Ratio			2.6	1.9	1.3
Enterprise Value (EV)/EBITDA			8.6	7.2	5.4

Source: Company, CARE Equity Research

EXPLANATION OF GRADES

CARE Equigrade Grid (CEG)

Through CEG, CARE Equity Research addresses two critical factors considered by an investor while investing in a particular company's equity shares:

1. **Fundamentals:** Whether the company is fundamentally sound with respect to its business, its financial position, its management and its prospects.
2. **Valuation:** What is the Current Intrinsic Value (CIV) of the stock and how it compares vis-a-vis its Current Market Price (CMP)

These factors are answered assigning quantitative grades to both these parameters. CEG is the snapshot of 'Fundamental Grade' and 'Valuation Grade' assigned by CARE Equity Research.

Fundamental Grade

This grade represents how sound the company is fundamentally, vis-à-vis other listed companies in India. This grade captures:

1. Business Fundamentals and Prospects
2. Financial Soundness
3. Management Quality
4. Corporate Governance Practices

The grade is assigned on a five-point scale as under:

CARE Fundamental Grade	Evaluation
5/5	Strong Fundamentals
4/5	Very Good Fundamentals
3/5	Good Fundamentals
2/5	Modest Fundamentals
1/5	Weak Fundamentals

Valuation Grade

This grade represents the potential value in the company's equity share for the investor over a 1 year period. The Current Intrinsic Value (CIV) or the price arrived by CARE Equity Research on fundamental basis is compared with the current market price (CMP) of the stock and the grade is assigned based on the gap between CIV and CMP of the stock.

The grade is assigned on a five-point scale as under:

CARE Valuation Grade	Evaluation
5/5	Considerable Upside Potential (>25% from CMP)
4/5	Moderate Upside Potential (10-25% from CMP)
3/5	Fairly Priced (+/- 10% from CMP)
2/5	Moderate Downside Potential (Negative 10-25 from CMP)
1/5	Considerable Downside Potential (<25% from CMP)

Grading determination is a matter of experienced and holistic judgment, based on relevant quantitative and qualitative factors of the company in relation to other listed companies.

DISCLOSURES

- Each member of the team involved in the preparation of this grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.
- This report has been sponsored by the company.

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CREDIT ANALYSIS & RESEARCH LTD

HEAD OFFICE |Mr. P. N. Satheeskumar | Cell: +91-9820416004 | Tel: +91-22-6754 3555 | E-mail: sathees.kumar@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 |

Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457

KOLKATA | Mr. Sukanta Nag | Cell: +91-98311 70075 | Tel: +91-33- 2283 1800/ 1803, 2280 8472 |

E- mail: sukanta.nag@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | Mr. V Pradeep Kumar | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 |

Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | Mr. Mehul Pandya | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 |

E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | Ms. Swati Agrawal | Cell: +91-98117 45677 | Tel: +91- 11- 2331 8701/ 2371 6199 |

E-mail: swati.agrawal@careratings.com | 710 Surya Kiran,19 K.G. Road, New Delhi - 110 001.

BANGALORE | Mr. G. Sundara Vathanan | Cell: +91 98860 24430 | Tel:+91-80-2211 7140 |

E-mail: sundara.vathanan@careratings.com | Unit No. 8, I floor, Commander's Place, No. 6, Raja Ram Mohan Roy Road,

(Opp. P F Office), Richmond Circle, Bangalore - 560 025.

HYDERABAD | Mr. Ashwini Kumar Jani | Cell: +91-91766 47599 | Tel: +91-40-40102030 |

E-mail: ashwini.jani@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029