Reliance Equities
Anil Dhirubhai Ambani Group

December 2008

India
Construction

Sell

Hindustan Construction Company
IVRCL Infrastructures & Projects
Nagarjuna Construction Company
Simplex Infrastructures

Naveen Jain
+91 22 3954 1579

A Reliance Capital company

Construction: No cash

- **Hindustan Construction Company** (HCC IN, Rs 43, Mkt cap: US$227m) **Sell – TP: Rs 42**
- **IVRCL Infrastructures & Projects** (IVRC IN, Rs 147, Mkt cap: US$403m) **Sell – TP: Rs 134**
- **Nagarjuna Construction Company** (NJCC IN, Rs 73, Mkt cap: US$343m) **Sell – TP: Rs 62**
- **Simplex Infrastructures** (SINF IN, Rs 130, Mkt cap: US$131m) **Sell – TP: Rs 146**

Note: Priced at close of business 10 December 2008.

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Investment thesis

No cash—working capital cycle deterioration alarming

- Between FY94 and FY08, revenues and PAT for the companies in our coverage universe taken together grew at a remarkably strong CAGR of 29.6% and 28.9%, respectively. However, aggregate operating cash generated during this period was negative Rs 8.5 billion, largely driven by negative operating cash flows during the peak of the cycle (i.e., the last four years, FY05–08)

- Although the construction business has always been highly working capital intensive, a rapid elongation of the working capital cycle during the last four years (which has more than doubled) has increased negative operating cash flows, leading to increased funding requirements

- We expect the working capital cycle to deteriorate further from here, which would lead to: (1) declining net margins (as more debt is raised to meet funding needs); (2) a slowdown in execution (as balance sheets are stretched); (3) risk of bad debts/write-offs; and (4) rising negative cash flows

Cashless growth to continue in FY10, but there are challenges

- Given the strong order backlog in hand, there is visibility for growth in FY10, but the cash flow situation is unlikely to improve

- On top of this, the industry faces several challenges:
  - Risk of a slowdown in order inflow
  - Funding constraints hurting execution
  - Increasing debt cost eating into net margins
  - Non-construction businesses depressing return ratios

Investment thesis *(cont'd)*

Low multiples are justified

- Valuations may appear cheap, but not reason enough to buy, as there is little room to the upside. Our estimates are well below the street, but risk of further downside remains
- Industry characteristics make it vulnerable in difficult times – low P/E multiples are justified
- We initiate coverage with a Sell rating on HCC, IVRCL, NCC and Simplex

When to buy?

- When working capital cycle starts improving, thus giving visibility of positive operating cash flows
- For companies with substantial exposure to the private sector (NCC and Simplex), when clarity emerges on the end of a slowdown in capital expenditure by the private sector

Valuations and ratings

	Rating	CMP	Construction business	Non-const. business	Target price	Upside
HCC	Sell	43	18	24	42	-2%
IVRCL	Sell	147	98	36	134	-9%
NCC	Sell	73	49	13	62	-15%
Simplex	Sell	130	143	3	146	12%

Source: Reliance Equities research.

Industry has seen remarkable growth…

- The construction sector has witnessed remarkable and consistent growth. From being extremely small and marginal in size about a decade back, construction companies have come a long way
- Between FY94 and FY08, revenues and PAT of the companies in our coverage universe taken together showed a strong CAGR of 29.6% and 28.9%, respectively
- During the last four years, growth was even faster, with a 41.7% CAGR for revenues and 50.8% for PAT

Strong growth over a long period (Rs million)

	Sales			PAT		
	FY94	**FY08**	**CAGR**	**FY94**	**FY08**	**CAGR**
HCC	1,429	30,828	25%	81	1,088	20%
IVRCL	99	36,981	53%	5	2,105	54%
NCC	400	34,729	38%	35	1,620	31%
Simplex	1,551	28,082	23%	42	901	25%
	3,480	**130,620**	***29.6%***	**163**	**5,713**	***28.9%***

Source: Capitaline, Companies, Reliance Equities research.

…accompanied by negative cash flows

- Growth has come on the back of increasing working capital requirements, thereby resulting in negative operating cash flows
- The companies in our coverage universe generated an aggregate negative operating cash of Rs 8.5 billion during FY94–08
- During the peak of the cycle i.e., in the last four years (FY05–08), the companies generated a negative operating cash flow of Rs 18.5 billion against PAT of Rs 14.9 billion

Negative operating cash flow (Rs million)

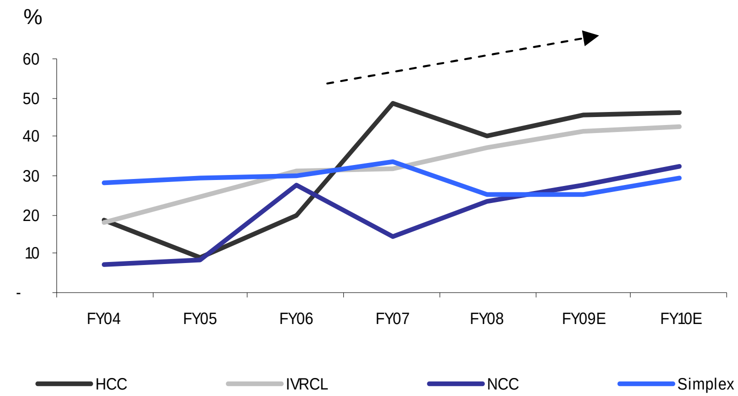
	FY95–08		FY05–08	
	Total PAT	Total operating cash	Total PAT	Total operating cash
HCC	5,584	1,423	3,443	-3,470
IVRCL	6,085	-5,920	5,016	-9,103
NCC	5,555	-4,259	4,385	-5,915
Simplex	2,781	281	2,129	-32
Total	**20,005**	**-8,474**	**14,973**	**-18,520**

Source: Capitaline, Companies, Reliance Equities research.

Working capital cycle deterioration is alarming

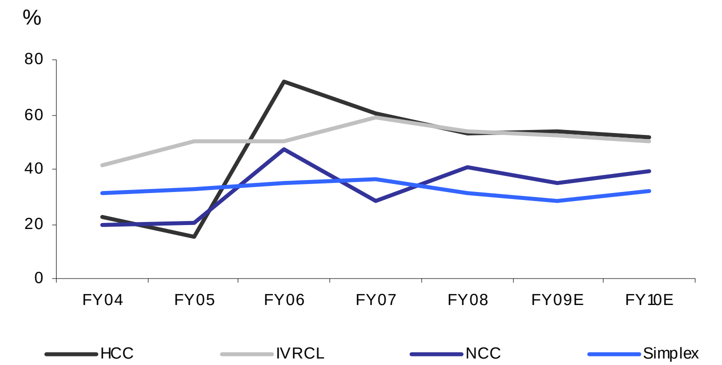
- The negative operating cash flow is on account of the working-capital-intensive nature of the business
- In the last four years, almost all the companies in our coverage universe witnessed a sharp deterioration in their working capital cycles. Between FY04 and FY08, working capital cycles almost doubled (Simplex being an exception)
- We expect the trend to continue, as the current liquidity crunch is likely to lead to a stretched receivables cycle. Also, lower order inflows will lead to lower customer advances
- Significant loans and advances given to various subsidiaries set up for new business initiatives such as real estate and infrastructure projects have further bloated the working capital

Adjusted working capital (as a percentage of sales)



Source: Companies, Reliance Equities estimates.
Note: Adjusted for cash & loans and advances to subsidiaries/JV, etc.

Working capital (as a percentage of sales)



Source: Companies, Reliance Equities estimates.

Working capital cycle deterioration is alarming *(cont'd)*

A further deterioration in the working capital cycle would lead to serious repercussions:

- A stretched balance sheet would eventually lead to a slowdown in execution as funding requirements become difficult to meet (refer slide 15)
- Declines in net margin as the companies raise more debt to meet their working capital requirements (refer slide 16)
- Rising working capital increases the risk of bad debts/write-offs
- As the working capital cycle elongates, the visibility of free cash flow at the operating level will be pushed further into the future

Impact of longer working capital cycle on operating cash flows (Rs m)

	FY10E	
	Base estimates	**Changed estimates***
HCC	359	-804
IVRCL	-1,346	-3,153
NCC	-1,002	-2,531
Simplex	41	-1,385

Source: Companies, Reliance Equities estimates.

***Operating cash flow, when working capital cycle is increased by 10 days.**

Increased funding needs have led to multiple equity dilutions

In order to fund the negative free cash flows, companies accessed the primary equity market often, leading to significant equity dilutions

Share premium (as a percentage of net worth), FY08 (Rs m)

	Share premium	Net worth	
HCC	5,734	10,041	*57%*
IVRCL	10,623	16,060	*66%*
NCC	11,098	15,724	*71%*
Simplex	4,942	7,531	*66%*

Source: Companies, Reliance Equities research.

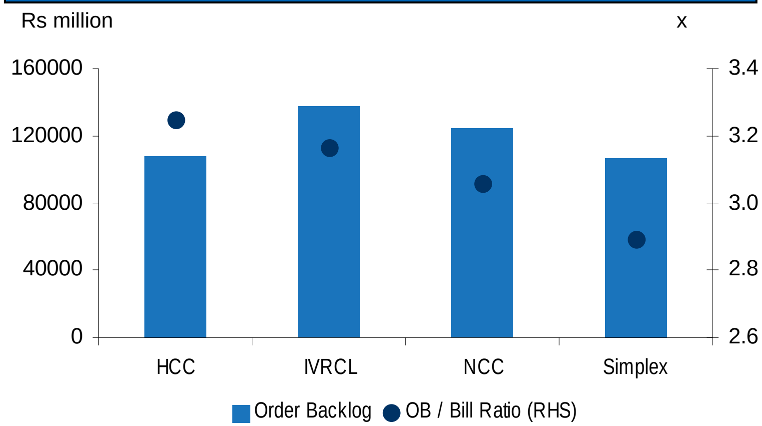
Major equity dilutions in the past five years

	Year	Mode	Adj. price (Rs)	Amount (Rs bn)	Dilution
HCC	FY05	Pref. issue	45	1.3	12.7%
	FY06	GDS	165	4.5	10.5%
IVRCL	FY05	Pref. issue	50	1.5	37.0%
	FY06	Public issue	77	1.5	20.0%
	FY07	QIP	370	5.5	17.5%
	FY07	FCCB	234	2.7	
NCC	FY04	Pref. issue	14	0.3	17.5%
	FY05	Pref. issue	28	1.0	28.0%
	FY06	GDR	117	5.5	23.0%
	FY08	Pref. issue	203	4.1	8.9%
Simplex	FY06	Pref. issue	163	1.1	15.0%
	FY08	QIP	625	4.1	13.3%

Source: Companies, Reliance Equities research.

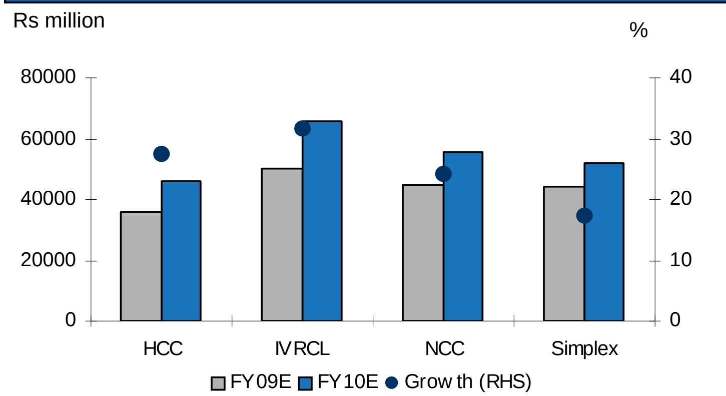
Cashless growth to continue in FY10…

Healthy order backlog (end of 2Q FY09)…



Source: Companies, Reliance Equities research.

…provides visibility to FY10E revenue growth



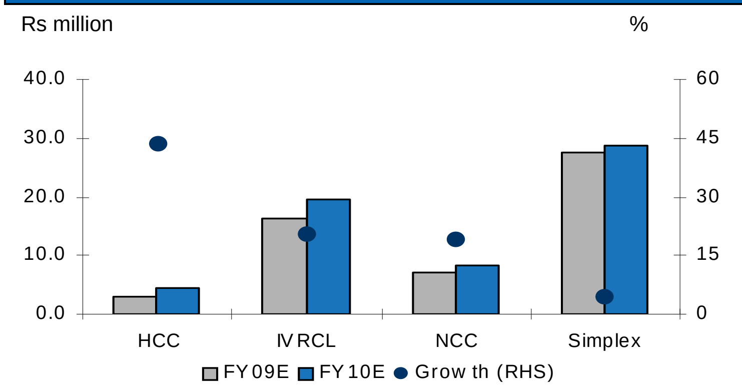
Source: Companies, Reliance Equities estimates.

Operating margins to improve slightly

	FY09E		FY10E	
	Margins	Change	Margins	Change
HCC	12.5	20 bps	12.5	Nil
IVRCL	9.7	10 bps	10.0	30 bps
NCC	9.7	-90 bps	10.2	50 bps
Simplex	10.3	10 bps	10.5	20 bps

Source: Companies, Reliance Equities estimates.

Decent EPS growth



Source: Companies, Reliance Equities estimates.

Cashless growth to continue in FY10… *(cont'd)*

- Execution has largely been on track – expect a slowdown but not drastic
  - Growth in revenues in the first half of the current fiscal has been encouraging and ahead of market expectations
  - We expect execution to slow down going forward, but revenues should grow at a healthy pace in FY10 owing to the current strong order backlog
  - Companies with exposure to Andhra Pradesh (AP) irrigation projects (namely IVRCL, HCC) will be relatively insulated from funding issues, as 79% of the projected investments there are expected to be funded from budgetary allocations (source: AP state budget)

- Operating margins to improve marginally
  - Margins are likely to improve marginally in FY10, helped partially by a fall in commodity prices and partially by operating leverage

- Companies with low debt levels can fund growth
  - Companies with low debt-to-equity (IVRCL, NCC and Simplex) will have room to raise debt (albeit at a costly rate) to meet their funding needs in the near term

….but there are challenges

- Order inflow may slowdown going ahead
- Funding constraints will hurt execution; high dependence on sub-contractors may also prove to be a hurdle
- Increasing debt cost eating into net margins
- Non-construction businesses also putting a strain on balance sheets

Order inflow has been distorted across sectors – risk of a slowdown

- Strong accretion to the order book during the first half of the current fiscal has been led by few segments such as water & irrigation and the international business (Middle East)
  - Share of orders from AP has been particularly high
  - There is a noticeable slowdown in segments such as roads, railways and hydro-power

- Possibility of a slowdown in order inflow
  - A considerable slowdown in orders in the industrial and building structures segment almost a cinch, hitting players with exposure to the private sector (namely Simplex, NCC)
  - Momentum in the irrigation segment likely to slow down as several states including the key states of AP, Maharashtra and the centre face elections
  - The National Highway Authority of India (NHAI) plans to award projects worth Rs 1 trillion in the next quarter or so, on the public-private participation (PPP) model. However, the response to these projects is likely to be lacklustre as the private players struggle to arrange funding
  - Other projects based on the PPP model will also face the heat

Current year order inflow (Rs m)

Company	YTD order inflow	FY08 order backlog	Accretion over FY08	Proportion of AP orders
HCC *	38,007	88,320	43	70%
IVRCL	55,099	115,000	48	61%
NCC	35,918	113,800	32	16%
Simplex	37,131	89,860	41	NA

Source: Companies, BSE announcements.
Note: *excluding an order worth Rs 19 billion from FY08 order backlog, as it is under litigation.

Funding constraints will hurt execution

- **Weakening balance sheet**
  - With balance sheets getting stretched by the day, the ability of the companies to service debt will come under significant strain as can be seen from declining interest coverage ratios
  - Also, in recent times, a significant proportion of customer advances has been received against levy of interest. These are classified as current liabilities, but can effectively be considered as debt
- **Coupled with the current tight liquidity in the capital markets**
  - Construction companies will find it difficult to raise resources (debt or equity) to meet their funding needs
  - Clients (especially in the private sector) may defer or cancel planned/ongoing projects
- **This will eventually lead to slowdowns in execution**
  - Reasonably low debt-equity ratios (except for HCC) provide room to fund growth in the immediate future but this may not be sustainable

Interest coverage ratio (EBITDA/net interest cost) (x)

	FY08	FY09E	FY10E
HCC	2.3	2.1	2.1
IVRCL	8.6	3.5	3.0
NCC	5.0	3.1	2.6
Simplex	2.8	3.1	2.7

Source: Companies, Reliance Equities estimates.

Funding constraints will hurt execution *(cont'd)*

High dependence on sub-contractors may also prove to be a hurdle

- In FY08, sub-contracting expenses accounted for at least 30% of the revenues for the companies in our coverage universe. The sub-contractors are generally small-size players and may face major funding issues in the current scenario

- As a result, construction companies will either have to fund these sub-contractors through higher advances or will have to face execution delays

Sub-contracting (as a percentage of sales)

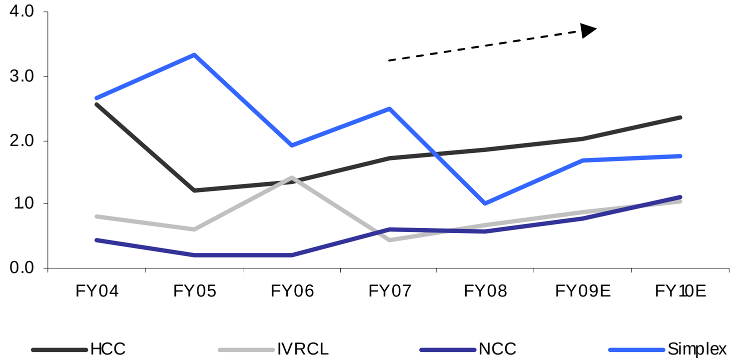
	FY04	FY05	FY06	FY07	FY08
HCC	38	36	33	41	37
IVRCL	12	23	22	23	30
NCC	32	27	35	34	34
Simplex	NA	NA	NA	NA	NA

Source: Companies, Reliance Equities research.

Increasing debt cost eating into net margins

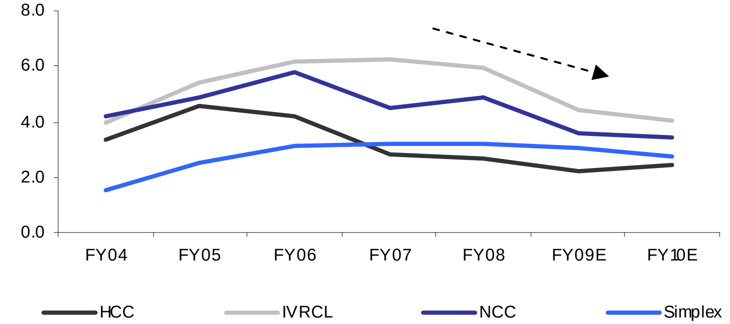
- As most of the funding needs in recent times were met through equity financing, the construction companies were able to maintain healthy debt-equity ratios, which in turn led to very low net interest expenses
- However, going forward, the companies will have to rely on debt financing to meet their capital needs, thus leading to sharp increases in interest expenses. To top that, they will also have to contend with high cost of debt
- As a result, we expect gains in EBITDA margins to be more than offset by rising debt cost, leading to declining net margins. This is already evident in the results of the first half of the current fiscal. We expect margins to remain under pressure for the next several quarters

Debt-equity ratios on the rise (x)



Source: Companies, Reliance Equities estimates.

Declining net margins (%)



Source: Companies, Reliance Equities estimates.

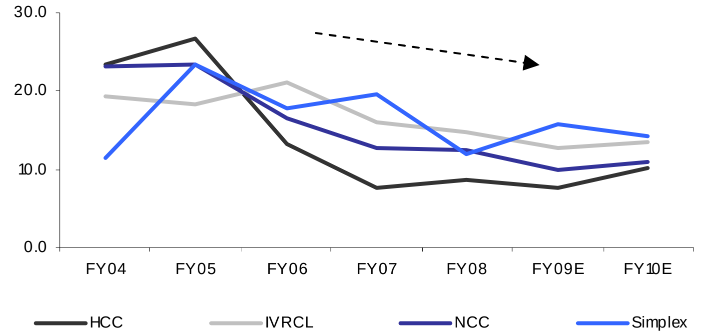
Non-construction businesses depressing financials further

Significant investments in non-construction businesses…

(Rs m)	Invested till FY08	Estimated investment	
		FY09E	FY10E
HCC	2,315	1,000	500
IVRCL	2,354	500	-
NCC	5,932	1,200	2,000
Simplex	420	-	-

Source: Companies, Reliance Equities estimates.
Note: Loans and advances given to subsidiaries not considered.

…depressing ROEs further (%)



Source: Companies, Reliance Equities estimates.

- Recently, almost all the companies invested heavily in various non-construction businesses, such as real estate and infrastructure development
- Diversification into infrastructure development was driven largely by the government's increasing thrust on private-sector investments in infrastructure, but investment in other businesses (mostly real estate) was driven by the lure of higher profitability
- Most of these businesses are still in the initial stage and yet to generate income, thereby putting immense pressure on the financials of the parent companies
- Many of these projects are due to start generating revenues/become operational over the next two years. However, given the current economic scenario, there is increased uncertainty over their profitability

Valuations and recommendations

- We are pessimistic about the sector. Valuations appear deceptively cheap but there is little room to the upside
- Given the basic industry characteristics (see the next slide), we believe the sector will continue to command a low P/E. We assign a multiple of 4–5x for the core construction businesses as a) most of the cash flows are back-ended and lie in the terminal period; b) although our estimates are well below the street, but risks of further downside remains and c) equity funded growth is unsustainable
- For the non-construction businesses, we assign a value based on either NPV (for infrastructure/real estate projects under construction) or a discount to the book values (for investments in land bank and/or any other businesses)
- We initiate coverage with Sell ratings on HCC, IVRCL, NCC and Simplex

Valuations and ratings

	Rating	CMP	Construction business	Non-const. business	Target price	Upside
HCC	Sell	43	18	24	42	-2%
IVRCL	Sell	147	98	36	134	-9%
NCC	Sell	73	49	13	62	-15%
Simplex	Sell	130	143	3	146	12%

Source: Reliance Equities research.

Industry characteristics make it vulnerable in bad times; low P/Es justified

- Operating cash flow negative
  - Even during the peak of the cycle, growth in earnings has been at the cost of negative cash flows at the operating level, as the companies invested continuously in working capital to fund growth. The trend is unlikely to reverse at least in the next few years
- No pricing power
  - **Margins continue to be low:** Despite strong revenue growth, there has been no substantial improvement in margins. This shows that even during the high-growth phase and a huge increase in order flows, the construction companies lacked pricing power. Any benefit on account of operating leverage may be negated because of aggressive pricing to get orders
  - **Working capital cycle elongates:** Even during the period of strong order inflows and revenue growth (as has been the case in the last four years), the working capital cycle has consistently elongated for most of the companies (Simplex being an exception). This also indicates the lack of bargaining power with the construction companies
- Rising dependence on sub-contractors
  - Sub-contracting expense accounts for more than 30% of revenues for the companies under our coverage. In the past, sub-contracting helped the companies to fuel their growth, but in the current scenario, the small sub-contractors are likely to face funding constraints, thus posing a risk of delays in execution

Key risks to our thesis

- A significant improvement in the working capital cycle
  - Improved terms of payments/advances to help contractors meet their funding needs. Several construction players have pleaded with various government agencies to relax/improve these norms

- Concrete steps by the government to boost infrastructure spend and financing
  - A stimulus package to boost the infrastructure spend and financing would boost sentiment in the near term. However, a package directed only towards PPP projects may fail to help the construction companies in their core contracting business

- Geographical diversification may help beat the blues back home
  - Companies such as NCC and Simplex will have a substantial proportion of their revenues coming from international divisions in the Middle East
  - We expect operating margins in these projects to be better

- Cash flow generation from non-construction businesses
  - Several infrastructure assets being developed by the construction companies are due to go on-stream in the next year or so. A stronger-than-expected cash flow from such projects would ease the pressure on the balance sheets
  - A turnaround in the real estate business can also provide a boost. For example, HCC's Lavasa project is due to start booking revenues from the current fiscal and has the potential to grow at a fast pace. IVRCL and NCC also have significant exposure to the real estate business

Companies

Hindustan Construction Company (HCC)

Bloomberg code	HCC IN
Reuters code	HCNS.BO
3m avg. traded value (Rs m)	225.8
52-wk H/L (Rs)	278.9/30.1
Sensex	9655
Mcap (US$ m/Rs bn)	226.6/11.1

Shareholding (%)

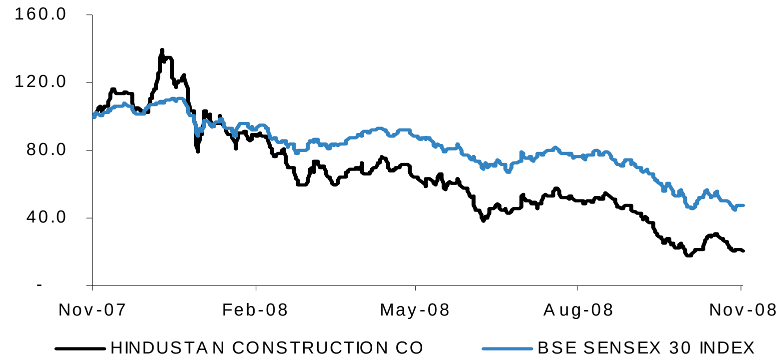
	09/08	06/08
Promoters	47.2	47.0
MFs, FIs, banks	19.9	19.5
FIIs	8.0	9.0
Others	25.0	24.5

Source: Bloomberg, Capitaline.

Sell, CMP: Rs 43, Target price: Rs 42

Share price performance

Base = 100



Source: Bloomberg, Capitaline.

Key financials

Year-end Mar	Net sales (Rs m)	EBITDA (Core, Rs m)	EBITDA (%)	Adj. PAT (Rs m)	Adj. EPS (Rs)	EV/EBITDA (x)	Adj. EV/EBITDA# (x)	P/E (x)	Adj. P/E# (x)
FY07	23,576	2,255	9.6	674	2.6	10.8	8.1	16.3	7.2
FY08	30,828	3,787	12.3	834	3.3	7.1	5.5	13.2	5.8
FY09E	36,038	4,505	12.5	790	3.1	7.0	5.6	13.9	6.2
FY10E	45,938	5,742	12.5	1,133	4.4	6.5	5.4	9.7	4.3

Source: Company, Reliance Equities estimates.
 # Price/EV adjusted for value assigned to businesses other than the contracting business.

HCC: Investment thesis

Key positives

- **Strong capabilities, high margin**
  - HCC's EBITDA margin, at ~12% in FY08, is among the highest in the industry, as the company executes large and complex projects in segments such as hydropower, MRTS and bridges

- **Lavasa has already achieved pre-sales of Rs 7 billion**
  - The Lavasa Township project was launched last year and has already achieved pre-sales of Rs 7 billion. HCC expects to start booking revenues for the project from the current fiscal itself and has already received a sum of Rs 1.5 billion as advances

Key concerns

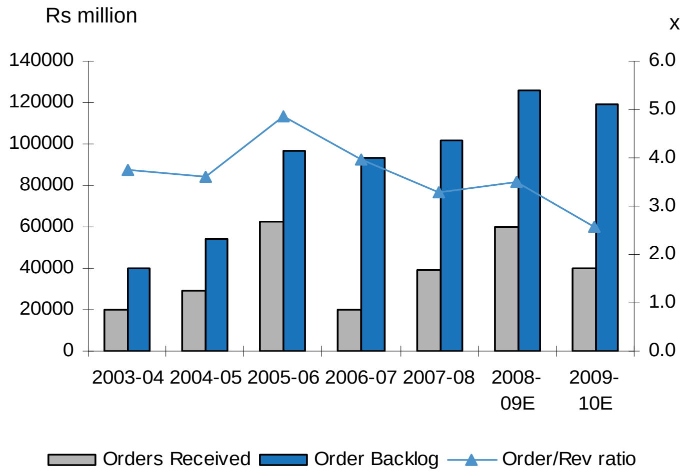
- **Huge burden of debt**
  - HCC has raised a huge amount of debt for its several businesses, with Rs 22 billion debt for the construction business at the end of 2Q FY09 (including Rs 4 billion in FCCBs), Rs 10 billion for Lavasa (including quasi equity raised from Axis Bank and Bank of India) and ~Rs 3 billion (at end-FY08) in other BOT and real estate subsidiaries. Thus, on a consolidated basis, HCC's debt-equity ratio is over 3x

- **Large exposure to the state of J&K**
  - The company has several projects in the state of Jammu & Kashmir across segments ranging from transportation to hydropower. Until now the company has not faced any major problem in these projects, but it might be impacted by law and order problems

- **Aggressive real estate plans**
  - HCC has been one of the most aggressive companies in the real estate space, embarking on ambitious projects such as Lavasa. The company's relative inexperience in the business could prove to be a hindrance in turbulent times

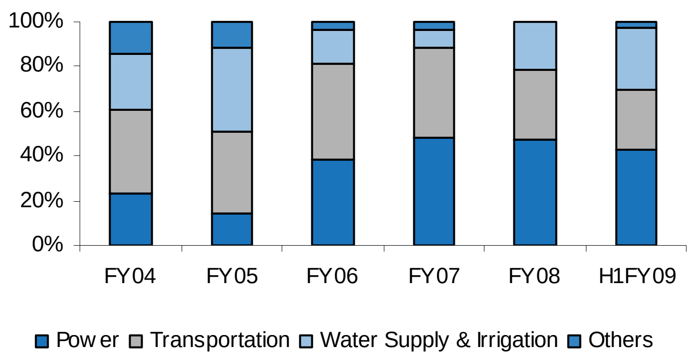
HCC: Business overview

Strong order book



Source: Company, Reliance Equities estimates.

Order mix



Source: Company, Reliance Equities research.

BOT portfolio—Roads

Projects	Type	Project cost (Rs m)	Equity (Rs m)	Co. stake	Expected completion
Pune Paud Toll	Toll	320	61	90%	Operational
Nirmal BOT	Annuity	3,056	550	100%	Dec-09
Badarpur BOT	Toll	5,500	1,650	100%	Oct-10
Total		**8,876**	**2,261**		

Source: Company, Reliance Equities research.

HCC: Business overview *(cont'd)*

Real estate portfolio

Projects	Type	Area (acres)	Area (m sq ft)	Co. stake	Expected completion
Lavasa					
Lavasa (Phase-I)	Township	12000	200	65%	NA
Lavasa (Other land bank)	Township				NA
Other ongoing projects					
Vikhroli IT park	Commercial	11	1.8	100%	Mar-09
Other projects (planned)					
Mumbai - SRS (Powai)	Residential-SRS	12	1.4	100%	NA
Mumbai - SRS (Vikhroli-E)	Residential-SRS	41	4.4	100%	NA
MMR (Thane/Bhiwandi)	Township	183	1.6	100%	NA
Nashik	SEZ/township	1,000	21.8	100%	NA
Pune	Township	230	5.0	100%	NA

Source: Company, Reliance Equities research.
Note: SRS = Slum Rehabilitation Scheme.

HCC: Valuation and recommendation

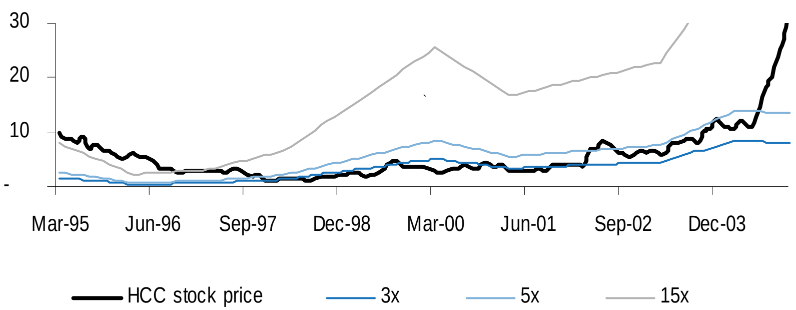
We initiate coverage with a Sell rating and an SOTP-based target price of Rs 42

SOTP valuation

Segment	Basis	Multiple (x)	Value (Rs m)	Value per share (Rs)
Construction business	FY10E, PE (x)	4.0	4,533	18
BOT Projects (Road)	NPV	0.8	269	1
Real Estate – Lavasa	NPV + land value	0.5	3,230	13
Real Estate – Others	NPV	0.5	2,643	10
Total fair value			**10,676**	**42**

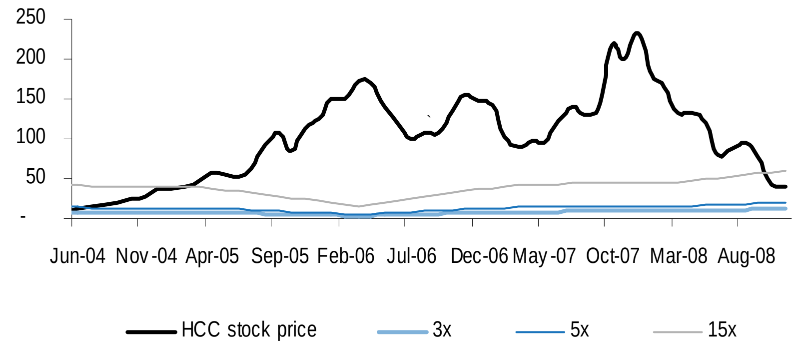
Source: Reliance Equities estimates.

One-year forward P/E bands (1995–2004)



Source: Capitaline, Reliance Equities research.

One-year forward P/E bands (2004–present)



Source: Capitaline, Reliance Equities research.

HCC: Summary financials

Income statement

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Net sales	**23,576**	**30,828**	**36,038**	**45,938**
Growth (%)	*18.7*	*30.8*	*16.9*	*27.5*
Expenditure	**21,322**	**27,041**	**31,533**	**40,196**
Construction exp	18,370	23,049	27,029	34,454
Personnel exp	2,087	2,972	3,243	4,134
Other exp	865	1,019	1,261	1,608
EBITDA	**2,255**	**3,787**	**4,505**	**5,742**
Growth (%)	*17.3*	*68.0*	*19.0*	*27.5*
EBITDA %	***9.6***	***12.3***	***12.5***	***12.5***
Depreciation	797	962	1,170	1,395
EBIT	**1,458**	**2,825**	**3,335**	**4,347**
EBIT %	***6.2***	***9.2***	***9.3***	***9.5***
Net interest exp.	722	1,644	2,192	2,702
Other income	23	23	36	46
(Profit)/loss from JVs	244	-8	0	0
PBT	**1,003**	**1,196**	**1,179**	**1,691**
Current tax (incl. FBT)	150	85	389	558
Deferred tax	178	278	0	0
Total tax	**328**	**362**	**389**	**558**
Effective tax rate (%)	*32.8*	*30.3*	*33.0*	*33.0*
Adjusted PAT	**674**	**834**	**790**	**1,133**
Growth (%)	*-18.7*	*23.7*	*-5.2*	*43.4*
Net margin (%)	***2.9***	***2.7***	***2.2***	***2.5***
E/O items (net of tax)	-307	254	277	0
Reported PAT	**368**	**1,088**	**1,067**	**1,133**

Source: Company, Reliance Equities estimates.

Balance sheet

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Equity share capital	256	256	256	256
Reserves and surplus	8,784	9,784	10,582	11,415
Net worth	**9,041**	**10,041**	**10,838**	**11,672**
Secured loans	4,825	5,208	8,708	14,208
Unsecured loans	10,686	13,241	13,241	1,3241
Loan funds	**15,511**	**18,449**	**21,949**	**27,449**
Deferred tax liability	855	1,133	1,133	1,133
Total liabilities	**25,407**	**29,622**	**33,920**	**40,253**
Gross block	11,012	14,097	15,597	18,597
Less: Depreciation	3,550	4,566	5,736	7,131
Net block	**7,462**	**9,531**	**9,861**	**11,466**
Capital WIP	1,513	675	675	675
Investment	**2,286**	**2,955**	**3,955**	**4,455**
Current assets	**25,082**	**29,613**	**34,274**	**41,784**
Inventories	17,708	22,576	26,658	33,352
Sundry debtors	5	45	99	126
Cash and bk balances	2,084	2,644	1,584	1,125
Loans and advances	5,174	4,328	5,913	7,161
Other current assets	111	20	20	20
Current liab. and prov.	**10,936**	**13,152**	**14,846**	**18,128**
Current liabilities	10,459	12,686	14,380	17,662
Provisions	477	466	466	466
Net current assets	**14,146**	**16,461**	**19,428**	**23,656**
Miscellaneous exp.	0	0	0	0
Total assets	**25,407**	**29,622**	**33,920**	**40,253**

Source: Company, Reliance Equities estimates.
Note: We have assumed non-conversion of share warrants as conversion price is much higher than the CMP.

HCC: Summary financials *(cont'd)*

Cash flow

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Pre-tax profit	1,179	1,560	1,456	1,691
Depreciation	797	962	1,170	1,395
Interest provided	610	1,524	2,048	2,518
Other non-cash items	-151	-304	0	0
Chg in working cap	-7,662	-1,580	-4,027	-4,687
Tax paid	-388	-329	-389	-558
Operating cash inflow	**-5,615**	**1,832**	**258**	**359**
Capital expenditure	-3,784	-2,323	-1,500	-3,000
Free cash flow	**-9,400**	**-491**	**-1,242**	**-2,641**
Investments	-1,023	-669	-1,000	-500
Equity capital raised	0	0	0	0
Share warrants	0	152	0	0
Loans taken/(repaid)	3,354	3,159	3,500	5,500
FCCBs	0	0	0	0
Interest paid	-739	-1,410	-2,048	-2,518
Dividend (incl. tax)	-179	-191	-270	-300
Income from investments	10	11	0	0
Others	0	0	0	0
Net chg in cash	**-7,976**	**560**	**-1,059**	**-459**
Opening cash position	10,060	2,084	2,643	1,584
Closing cash position	**2,084**	**2,643**	**1,584**	**1,125**

Source: Company, Reliance Equities estimates.

Key ratios

Year-end March	FY07	FY08	FY09E	FY10E
Per share data (Rs)				
FD EPS	2.6	3.3	3.1	4.4
Cash EPS	5.1	5.8	7.6	9.9
EBITDA/share	8.8	14.8	17.6	22.4
Book value	35.3	39.2	42.3	45.5
Valuations (x)				
P/E	16.3	13.2	13.9	9.7
Adj. P/E#	7.2	5.8	6.2	4.3
Price/CEPS	8.4	7.4	5.6	4.4
Price/BV	1.2	1.1	1.0	0.9
EV/sales	1.0	0.9	0.9	0.8
EV/EBITDA	10.8	7.1	7.0	6.5
Adj. EV/EBITDA #	8.1	5.5	5.6	5.4
Returns (%)				
ROCE	7.3	10.3	10.6	11.8
ROIC*	5.6	8.1	8.3	9.2
RONW	7.5	8.7	7.6	10.1
Gearing ratios (x)				
Net debt/equity	1.5	1.6	1.9	2.3
Total debt/equity	1.7	1.8	2.0	2.4

Source: Company, Reliance Equities estimates.
Note: # Price/EV adjusted for value assigned to non-construction businesses. *For calculating NOPAT, tax rate has been assumed at 33%.

IVRCL Infrastructures & Projects (IVRCL)

Bloomberg code	IVRC IN
Reuters code	IVRC.BO
3m avg. traded value (Rs m)	543.9
52-wk H/L (Rs)	575/56.5
Sensex	9655
Mcap (US$ m/Rs bn)	403.1/19.8

Shareholding (%)

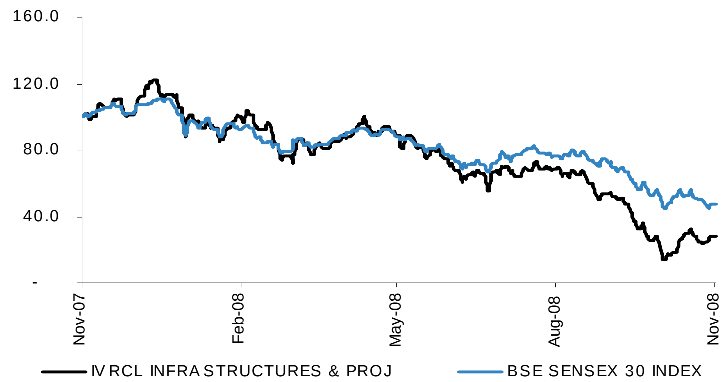
	09/08	06/08
Promoters	9.6	9.6
MFs, FIs, banks	18.3	17.7
FIIs	56.5	56.8
Others	15.7	16.0

Source: Bloomberg, Capitaline.

Sell, CMP: Rs 147, Target price: Rs 134

Share price performance

Base = 100



Source: Bloomberg, Capitaline.

Key financials

Year-end March	Net sales (Rs m)	EBITDA (Core, Rs m)	EBITDA (%)	Adj. PAT (Rs m)	Adj. EPS (Rs)	EV/EBITDA (x)	Adj. EV/EBITDA# (x)	P/E (x)	Adj. P/E# (x)
FY07	22,943	2,202	9.6	1,431	11.0	10.2	8.0	13.3	10.1
FY08	36,485	3,494	9.6	2,176	16.3	8.2	6.8	9.0	6.9
FY09E	50,095	4,859	9.7	2,207	16.3	7.1	6.1	9.0	6.8
FY10E	65,953	6,595	10.0	2,658	19.7	6.1	5.4	7.5	5.7

Source: Company, Reliance Equities estimates. Note: # Price/EV adjusted for value assigned to businesses other than the contracting business.

IVRCL: Investment thesis

Key positives

- **Strong growth**
  - IVRCL has been one of the fastest-growing companies in our coverage universe, with revenue and PAT showing a CAGR of more than 50% in the past 14 years

- **Limited future commitment to non-construction businesses**
  - IVRCL has a limited future investment commitment to the non-construction business as the company has recently gone slow on the business

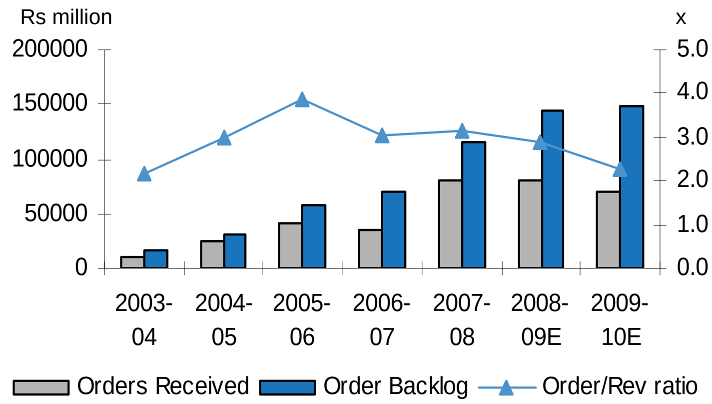
Key concerns

- **Debt repayable within one year**
  - As at the end of FY08, IVRCL had debt of Rs 10.4 billion on its balance sheet, of which Rs 4.9 billion was repayable within a year. The renewal of these loans coupled with additional debt to be raised to fund the business needs will lead to a huge increase in the company's debt cost

- **Limited diversification in order book**
  - 69% of the order backlog at the end of 2Q FY09 was from the water-related segment (irrigation, water supply, etc.). A substantial proportion of these orders are in the state of Andhra Pradesh (exact proportion unavailable)

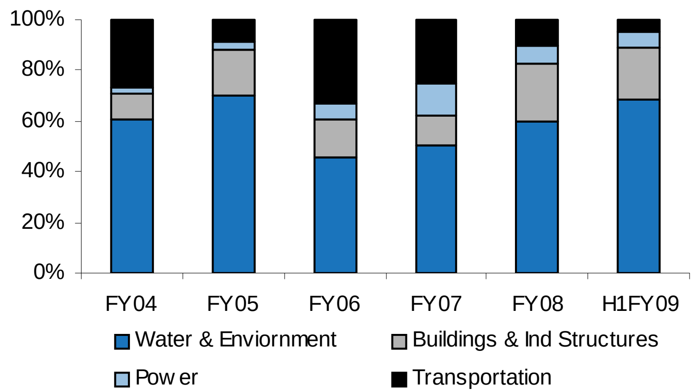
IVRCL: Business overview

Strong order book



Source: Company, Reliance Equities estimates.

Order mix



Source: Company, Reliance Equities research.

BOT portfolio

Project	Type	Project cost (Rs m)	Equity (Rs m)	Stake	Expected completion
Roads					
Jalandhar Amritsar Tollways	Toll	2,378	413	100%	Dec-08
Salem Tollways	Toll	5,011	801	100%	Jul-09
Kumarpalayam Tollways	Toll	4,214	651	100%	Jul-09
Water					
Chennai Water Desalination	BOOT	4,900	1,120	75%	Jan-09
Total		**16503**	**2985**		

Source: Company, Reliance Equities research.

IVRCL: Valuation and recommendation

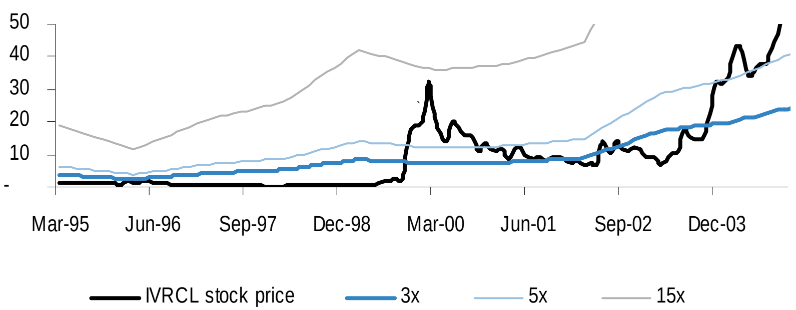
We initiate coverage with a Sell rating and an SOTP-based target price of Rs 134

SOTP valuation

Segment	Basis	Multiple (x)	Value (Rs m)	Value per share (Rs)
Construction business	FY10E, PE (x)	5.0	13,292	98
BOT projects (road)	NPV	0.9-1.0	1,688	13
BOT projects (water)	NPV	1.0	890	7
IVR Prime	FY09E P/BV	0.3	1,591	12
Hindustan Dorr Oliver	FY08A P/E	5.0	597	4
Total fair value			**18,059**	**134**

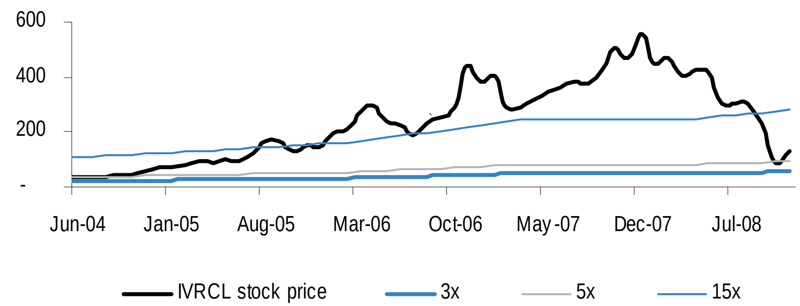
Source: Reliance Equities estimates.

One-year forward P/E bands (1995–2004)



Source: Capitaline, Reliance Equities research.

One-year forward P/E bands (2004–present)



Source: Capitaline, Reliance Equities research.

IVRCL: Summary financials

Income statement

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Net sales	**22,943**	**36,485**	**50,095**	**65,953**
Growth (%)	*53.8*	*59.0*	*37.3*	*31.7*
Expenditure	**20,741**	**32,992**	**45,236**	**59,358**
Construction exp	19,497	30,965	42,581	56,060
Employee cost	854	1,442	1,854	2,308
Other exp.	390	584	802	989
EBITDA	**2,202**	**3,494**	**4,859**	**6,595**
Growth (%)	*68.4*	*58.6*	*39.1*	*35.7*
EBITDA %	***9.6***	***9.6***	***9.7***	***10.0***
Depreciation	216	328	454	598
EBIT	**1,986**	**3,165**	**4,405**	**5,997**
EBIT %	***8.7***	***8.7***	***8.8***	***9.1***
Other income	74	45	125	165
Net Interest exp	308	407	1,378	2,194
(Profit)/loss from JVs	116	121	0	0
PBT	**1,867**	**2,924**	**3,152**	**3,968**
Current tax (incl. FBT)	422	698	946	1,309
Deferred tax	14	51	0	0
Total tax	**436**	**749**	**946**	**1,309**
Effective tax rate (%)	*23.4*	*25.6*	*30.0*	*33.0*
Adjusted PAT	**1,431**	**2176**	**2,207**	**2,658**
Growth (%)	*54.0*	*52.0*	*1.4*	*20.5*
Net margin (%)	***6.2***	***6.0***	***4.4***	***4.0***
E/O items	-16	-71	0	0
Reported PAT	**1,415**	**2,105**	**2,207**	**2,658**

Source: Company, Reliance Equities estimates.

Balance sheet

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Equity share capital	259	267	270	270
Reserves and surplus	12,958	15,793	18,124	20,545
Net worth	**13,217**	**16,060**	**18,394**	**20,815**
Secured loans	3,895	5,788	11,788	17,288
Unsecured loans	1,666	4,891	4,586	4,586
Loan funds	**5,561**	**10,678**	**16,374**	**21,874**
Deferred tax liability	56	103	103	103
Total liabilities	**18,834**	**26,841**	**34,870**	**42,792**
Gross block	2,593	4,176	5,676	7,476
Less: Depreciation	664	984	1,438	2,036
Net block	**1,929**	**3,192**	**4,238**	**5,440**
Capital work in progress	506	541	541	541
Investment	**2,829**	**3,409**	**3,909**	**3,909**
Current assets	**22,834**	**28,831**	**36,233**	**45,206**
Inventories	4,061	8,152	10,293	13,552
Sundry debtors	6,332	6,585	9,607	12,649
Cash and bank balances	2,238	1,772	1,616	1,900
Loans and advances	10,185	12,311	14,705	17,094
Other current assets	17	11	11	11
Current liab. and prov.	**9,264**	**9,132**	**10,050**	**12,304**
Current liabilities	9,092	8,893	9,812	12,065
Provisions	172	238	238	238
Net current assets	**13,570**	**19,699**	**26,183**	**32,902**
Misc. exp.	0	0	0	0
Total assets	**18,834**	**26,841**	**34,870**	**42,792**

Source: Company, Reliance Equities estimates.

IVRCL: Summary financials *(cont'd)*

Cash flow

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Pre-tax profit	1,867	2,924	3,152	3,968
Depreciation	216	328	454	598
Interest provided	308	407	1,378	2,194
Other non-cash items	26	78	0	0
Chg. in working cap.	-6,271	-6,286	-6,639	-6,435
Tax paid	-617	-1,229	-946	-1,309
Operating cash inflow	**-4,471**	**-3,777**	**-2,600**	**-984**
Capital expenditure	-1,283	-1,627	-1,500	-1,800
Free cash flow	**-5,753**	**-5,404**	**-4,100**	**-2,784**
Investments	-64	-580	-500	0
Equity capital raised	5,551	6	348	0
Share application money	0	0	0	0
Loans taken/(repaid)	550	5,930	6,000	5,500
FCCBs	0	0	-305	0
Interest paid	-286	-401	-1,378	-2,194
Dividend paid (incl. tax)	-109	-151	-221	-237
Income from investments	6	10	0	0
Others	-100	125	0	0
Net chg. in cash	**-205**	**-648**	**-156**	**284**
Opening cash position	2,443	2,238	1,772	1,616
Closing cash position	**2,238**	**1,590**	**1,616**	**1,900**

Source: Company, Reliance Equities estimates.

Key ratios

Year-end March	FY07	FY08	FY09E	FY10E
Per share data (Rs)				
EPS	11.0	16.3	16.3	19.7
Cash EPS	12.9	19.3	19.7	24.1
EBITDA/share	17.0	26.2	36.0	48.9
Book value	101.9	120.3	136.3	154.2
Valuations (x)				
P/E	13.3	9.0	9.0	7.5
Adj. P/E #	10.1	6.9	6.8	5.7
Price/CEPS	11.4	7.6	7.5	6.1
Price/BV	1.4	1.2	1.1	1.0
EV/sales	1.0	0.8	0.7	0.6
EV/EBITDA	10.2	8.2	7.1	6.1
Adj. EV/EBITDA #	8.0	6.8	6.1	5.4
Returns (%)				
ROCE	14.3	14.6	14.7	15.9
ROIC*	14.2	14.0	12.8	12.8
RONW	15.9	14.9	12.8	13.6
Gearing ratios (x)				
Net debt/equity	0.3	0.6	0.8	1.0
Total debt/equity	0.4	0.7	0.9	1.1

Source: Company, Reliance Equities estimates.
Note: # Price/EV adjusted for value assigned to non-construction businesses. *For calculating NOPAT, tax rate has been assumed at 33%.

Nagarjuna Construction Company (NCC)

Bloomberg code	NJCC IN
Reuters code	NGCN.BO
3m avg. traded value (Rs m)	154.5
52-wk H/L (Rs)	372.8/40.5
Sensex	9655
Mcap (US$ m/Rs bn)	343.2/16.8

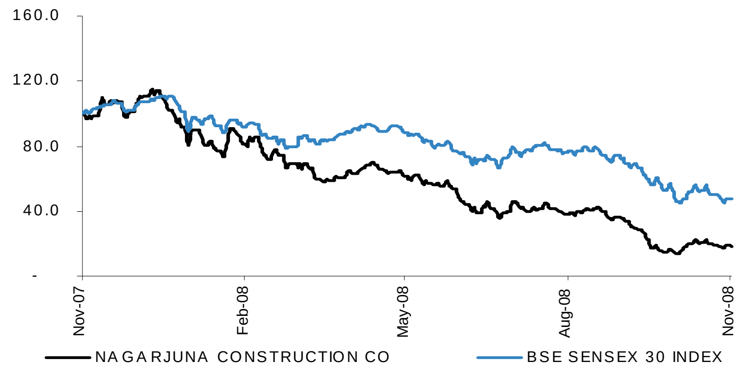
Shareholding (%)	09/08	06/08
Promoters	23.1	22.5
MFs, FIs, banks	23.4	24.0
FIIs	30.2	31.4
Others	23.4	22.2

Source: Bloomberg, Capitaline.

Sell, CMP: Rs 73, Target price: Rs 62

Share price performance

Base = 100



Source: Bloomberg, Capitaline.

Key financials

Year-end March	Net sales (Rs m)	EBITDA (Core, Rs m)	EBITDA (%)	Adj. PAT (Rs m)	Adj. EPS (Rs)	EV/EBITDA (x)	Adj. EV/EBITDA# (x)	P/E (x)	Adj. P/E# (x)#
FY07	27,924	2,698	9.7	1,256	6.0	7.1	5.9	12.1	9.9
FY08	33,836	3,598	10.6	1,641	7.2	6.5	5.6	10.2	8.3
FY09E	44,951	4,360	9.7	1,605	7.0	6.5	5.8	10.4	8.5
FY10E	55,797	5,691	10.2	1,913	8.4	6.3	5.7	8.7	7.1

Source: Company, Reliance Equities estimates.
Note: # Price/EV adjusted for value assigned to businesses other than the contracting business.

NCC: Investment thesis

Key positives

- **Diversified order book**
  - NCC is one of the most diversified players with its order book spread across various segments and geographical locations. Almost 22% of the order backlog at the end of 2Q FY09 was in its international division in the Middle East

- **Debt-to-equity among the lowest**
  - The company had a debt-to-equity of 0.6x at the end of FY08. Despite large funding requirements over the next two years, we expect the ratio to remain healthy at 1.0x at the end of FY10

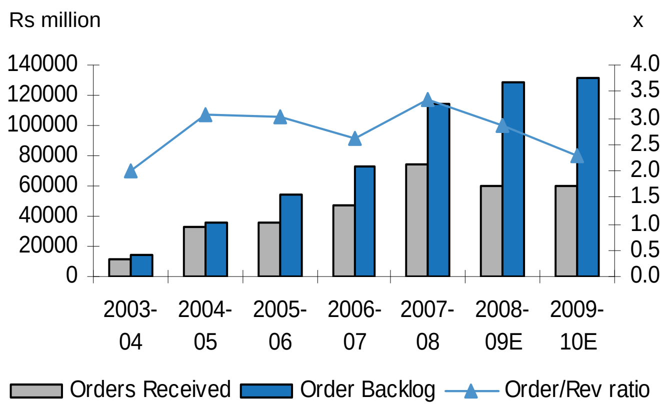
Key concerns

- **Large investment commitments towards various BOT and real estate projects**
  - NCC has been one of the most aggressive companies in terms of diversification into non-construction businesses such as real estate and infrastructure development. The company has already invested ~Rs 6 billion in these businesses and has a commitment of another Rs 7 billion over the next few years

- **30% of the order book comprises fixed-price contracts**
  - The first half of the current fiscal saw a decline of 150 bps compared with the first half of FY08, as rising commodity prices had an impact on its fixed-price contracts. However, since then commodity prices have cooled off significantly, but the high proportion of fixed-price contracts will continue to be a concern

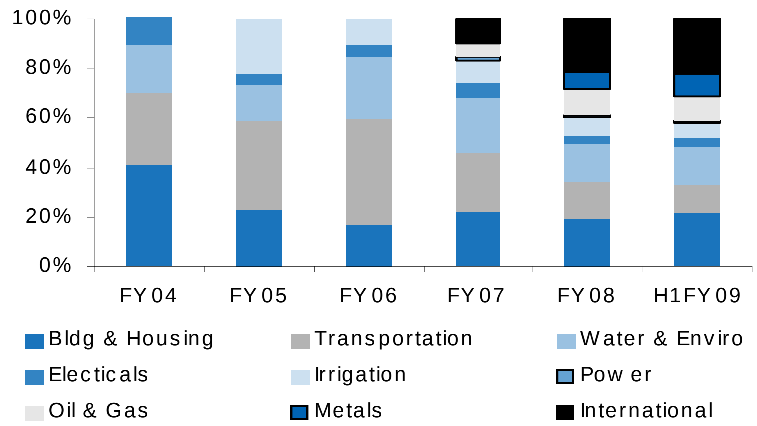
NCC: Business overview

Strong order book



Source: Company, Reliance Equities estimates.

Order mix



Source: Company, Reliance Equities research.

BOT portfolio – roads

Project	Type	Project cost (Rs m)	Equity (Rs m)	Co. stake	Expected completion
Brindavan Infra	Annuity	2,475	450	33%	Operational
Bangalore elevated	Toll	7,757	1,917	34%	Mar-09
Western UP Tollways	Toll	5,350	940	30%	Sep-09
Orai-Bhognipur Infra	Annuity	5,848	1,462	64%	Sep-09
Pondy-Tindivanam	Toll	3,600	900	50%	Jul-10
Total		**25,031**	**5,669**		

Source: Company, Reliance Equities research.

NCC: Business overview *(cont'd)*

Other BOT projects					
Projects	**Type**	**Project cost (Rs m)**	**Equity (Rs m)**	**Co. stake**	**Expected completion**
Power					
Gautami Power	Gas-based	18,480	5,544	8%	Dec-08
Himachal Sorang HP	BOOT	6,000	1,200	33%	Dec-10
Himalayan Green HP	BOOT	14,500	4,350	50%	NA
Ports					
Vajra Seaport, Machilipatnam	BOT	15,000	3,750	25%	NA
Airports					
Shimoga Airport	BOT	1,000	250	37%	NA
Gulbarga Airport	BOT	1,000	250	37%	NA
Total		**55,980**	**15,344**		

Source: Company, Reliance Equities research.

Real estate portfolio					
Project/subsidiary	**Type**	**Area (acres)**	**Area (m sq ft)**	**Stake**	**Expected completion**
NCC Urban (Under development)	Mix	202	10.0	80%	Mar-11
NCC Urban (land bank)	Mix	243	NA	80%	NA
NCC Vizag Urban	SEZ	98	8.7	95%	2011
Jubilee Hills	Mix	6	0.9	25%	Dec-11
Tellapur Township	Mix	400	30.0	26%	2011
Andhra Bhawan	BOT	20	0.6	100%	Mar-11
Total		**969**	**50**		

Source: Company, Reliance Equities research.

NCC: Valuation and recommendation

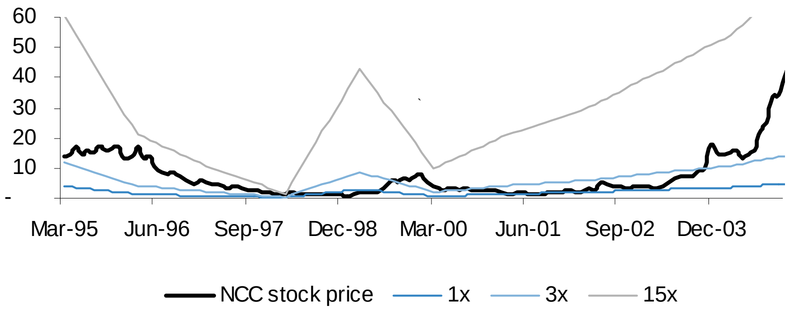
We initiate coverage with a Sell rating and an SOTP-based target price of Rs 62

SOTP valuation

Segment	Basis	Multiple (x)	Value (Rs m)	Value per share (Rs)
Construction business (standalone)	FY10E, PE (x)	5.0	9,565	42
Construction business (intl subsidiaries)	FY10E, PE (x)	5.0	1,580	7
Road BOTs	NPV	0.7–1.0	1,425	6
Other BOTs (port, power, airport)	FY09E P/BV	0.5	383	2
Real estate	FY09E P/BV	0.3	1,303	6
Total fair value			**14,256**	**62**

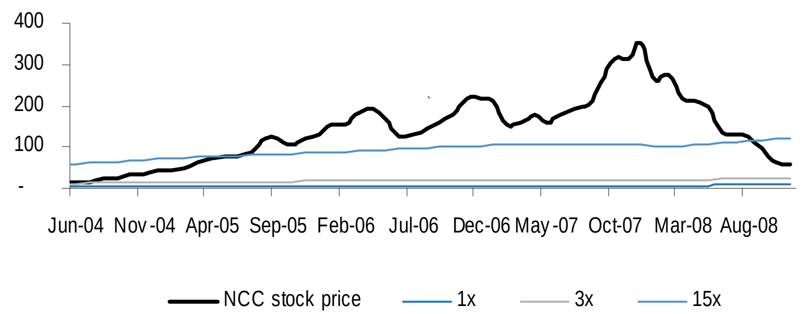
Source: Reliance Equities estimates.

One-year forward P/E bands (1995–2004)



Source: Capitaline, Reliance Equities research.

One-year forward P/E bands (2004–present)



Source: Capitaline, Reliance Equities research.

NCC: Summary financials

Income statement				
Year-end March (Rs m)	FY07	FY08	FY09E	FY10E
Net sales	**27,924**	**33,836**	**44,951**	**55,797**
Growth (%)	*55.0*	*21.2*	*32.8*	*24.1*
Expenditure	**25,227**	**30,238**	**40,591**	**50,106**
Construction exp.	23,786	28,059	37,894	46,869
Employee costs	844	1,402	1,573	1,897
Other expenditure	597	777	1,124	1,339
EBITDA	**2,698**	**3,598**	**4,360**	**5,691**
Growth (%)	*61.3*	*33.4*	*21.2*	*30.5*
EBITDA %	***9.7***	***10.6***	***9.7***	***10.2***
Depreciation	299	482	594	708
EBIT	**2,399**	**3,116**	**3,766**	**4,983**
EBIT %	***8.6***	***9.2***	***8.4***	***8.9***
Net interest exp.	504	719	1,415	2,184
Other income	29	56	45	56
(Profit)/loss from JVs	0	0	0	0
PBT	**1,923**	**2,452**	**2,396**	**2,855**
Current tax (incl. FBT)	603	759	791	942
Deferred tax	64	52	0	0
Total tax	**667**	**811**	**791**	**942**
Effective tax rate (%)	*34.7*	*33.1*	*33.0*	*33.0*
Adjusted PAT	**1,256**	**1,641**	**1,605**	**1,913**
Growth (%)	*20.5*	*30.6*	*-2.2*	*19.2*
Net margin (%)	***4.5***	***4.8***	***3.6***	***3.4***
E/O items	-99	-22	0	0
Reported PAT	**1,157**	**1,619**	**1,605**	**1,913**

Source: Company, Reliance Equities estimates.

Balance sheet				
Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Equity share capital	417	458	458	458
Reserves and surplus	9,973	15,266	16,390	17,767
Net worth	**10,390**	**15,724**	**16,847**	**18,225**
Secured loans	3,820	7,188	11,188	18,688
Unsecured loans	2,550	1,750	1,750	1,750
Loan funds	**6,370**	**8,938**	**12,938**	**20,438**
Deferred tax liability	115	167	167	167
Total liabilities	**16,875**	**24,829**	**2,9953**	**38,830**
Gross block	5,007	6,620	7,820	9,320
Less: Depreciation	963	1,423	2,018	2,726
Net block	**4,043**	**5,197**	**5,803**	**6,594**
Capital WIP	186	143	143	143
Investment	**4,768**	**5,648**	**8,197**	**10,197**
Current assets	**20,963**	**31,484**	**38,551**	**47,910**
Inventories	4,041	5,493	7,389	9,019
Sundry debtors	5,817	8,677	12,931	16,816
Cash and bank balances	2,434	2,330	1,094	1,372
Loans and advances	8,579	14,923	17,076	20,642
Other assets	93	61	61	61
Current liab. and prov.	**13,095**	**17,642**	**22,740**	**26,013**
Current liabilities	11,850	15,564	20,662	23,935
Provisions	1,244	2,078	2,078	2,078
Net current assets	**7,869**	**13,842**	**15,811**	**21,896**
Misc. exp.	10	0	0	0
Total assets	**16,875**	**24,829**	**29,953**	**38,830**

Source: Company, Reliance Equities estimates.
Note: We have assumed non-conversion of share warrants, as the conversion price is much higher than the CMP.

NCC: Summary financials *(cont'd)*

Cash flow

Year-end March, Rs m	FY07E	FY08E	FY09E	FY09E
Pre-tax profit	1,923	2,452	2,396	2,855
Depreciation	299	482	594	708
Interest provided	486	719	1,415	2,184
Others	145	42	0	0
Chg. in working cap.	-2,699	-4,693	-3,205	-5,807
Tax paid	-721	-1,121	-791	-942
Operating cash inflow	**-566**	**-2,118**	**409**	**-1,002**
Capital expenditure	-2,334	-1,588	-1,200	-1,500
Free cash flow	**-2,900**	**-3,706**	**-791**	**-2,502**
Investments	-3,483	-2,104	-2,549	-2,000
Equity capital raised	31	4,049	0	0
Share application money	0	0	0	0
Loans taken/(repaid)	6,774	2,569	4,000	7,500
Interest paid	-553	-684	-1,415	-2,184
Dividend paid (incl. tax)	-245	-228	-482	-535
Income from investments	1	0	0	0
Others	0	0	0	0
Net chg. in cash	**-375**	**-104**	**-1,236**	**279**
Opening cash position	2,809	2,434	2,330	1,094
Closing cash position	**2,434**	**2,330**	**1,094**	**1,372**

Source: Company, Reliance Equities estimates.

Key ratios

Year-end March	FY07	FY08	FY09E	FY10E
Per share data (Rs)				
FD EPS	6.0	7.2	7.0	8.4
Cash EPS	8.2	9.5	9.6	11.5
EBITDA/share	12.9	15.7	19.1	24.9
Book value	49.8	68.7	73.6	79.6
Valuations (x)				
P/E	12.1	10.2	10.4	8.7
Adj. P/E#	9.9	8.3	8.5	7.1
Price/CEPS	9.0	7.7	7.6	6.4
Price/BV	1.5	1.1	1.0	0.9
EV/Sales	0.7	0.7	0.6	0.6
EV/EBITDA	7.1	6.5	6.5	6.3
Adj. EV/EBITDA#	5.9	5.6	5.8	5.7
Returns (%)				
ROCE	17.2	15.2	13.9	14.7
ROIC*	15.7	15.9	14.4	14.6
RONW	12.7	12.6	9.9	10.9
Gearing ratios (x)				
Net debt/equity	0.4	0.4	0.7	1.0
Total debt/equity	0.6	0.6	0.8	1.1

Source: Company, Reliance Equities estimates.
 # Price/EV adjusted for value assigned to non-construction businesses. *For calculating NOPAT, the tax rate has been assumed at 33%.

Simplex Infrastructures (Simplex)

Bloomberg code	SINF IN
Reuters code	SINF.BO
3m avg. traded value (Rs m)	13.5
52-wk H/L (Rs)	774 / 108.1
Sensex	9655
Mcap (US$ m/Rs bn)	131/6.5

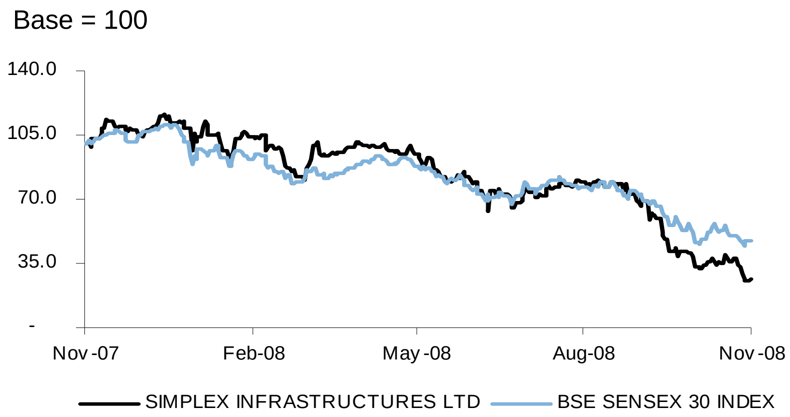
Shareholding (%)

	09/08	06/08
Promoters	49.4	49.4
MFs, FIs, banks	13.4	14.2
FIIs	16.7	16.3
Others	20.5	20.1

Source: Bloomberg, Capitaline.

Sell, CMP: Rs 130, Target price: Rs 146

Share price performance



Source: Bloomberg, Capitaline.

Key financials

Year-end March	Net sales (Rs m)	EBITDA (Core, Rs m)	EBITDA (%)	Adj. PAT (Rs m)	Adj. EPS (Rs)	EV/EBITDA (x)	Adj. EV/EBITDA# (x)	P/E (x)	Adj. P/E# (x)
FY07	16,929	1,678	9.9	537	12.5	7.2	7.1	10.4	10.2
FY08	27,907	2,842	10.2	901	18.2	4.5	4.4	7.1	7.0
FY09E	44,383	4,571	10.3	1,359	27.5	4.4	4.3	4.7	4.6
FY10E	52,060	5,466	10.5	1,417	28.6	4.2	4.2	4.5	4.5

Source: Company, Reliance Equities estimates.
 # Price/EV adjusted for value assigned to businesses other than the contracting business.

Simplex: Investment thesis

Key positives

- **In the midst of a great run**
  - For the past one-and-a-half years, the company has delivered beyond market expectations on almost all the important parameters viz. revenue growth, margins improvement and improvement in the working capital cycle. A key reason for the recent strong performance is that the company's international business is doing well

- **No investment commitment**
  - The company has refrained from diversifying into non-construction businesses in a major way, unlike its peers, thereby saving the balance sheet from any strain on this count

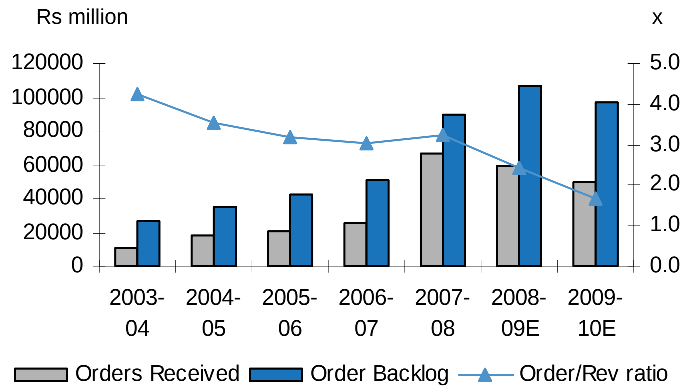
Key concerns

- **Risk of project cancellation/delays**
  - 79% of the company’s order book is from the private sector (including orders from the government in the international division). In the current scenario, Simplex may face payment delays or deferral of orders by clients, directly impacting execution. Also, a significant slowdown in order flow is likely

- **Aggressive capital expenditure**
  - The company is undertaking a huge capital expenditure programme (Rs 5 billion in FY09) to provide for future growth. This may prove to be risky strategy in case the order inflow slows down, which is a likelihood. This will also impact the profitability in the near term

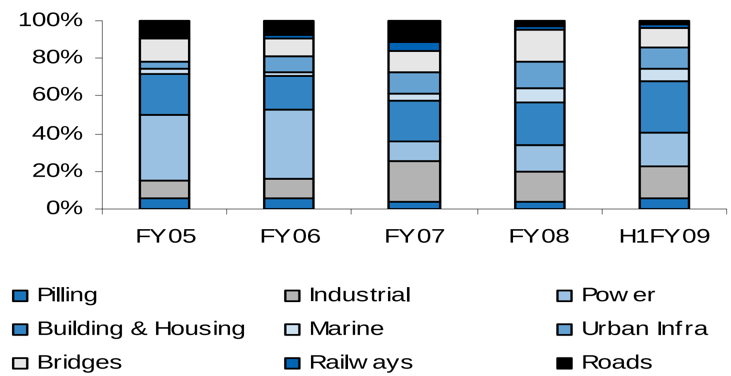
Simplex: Business overview

Strong order book



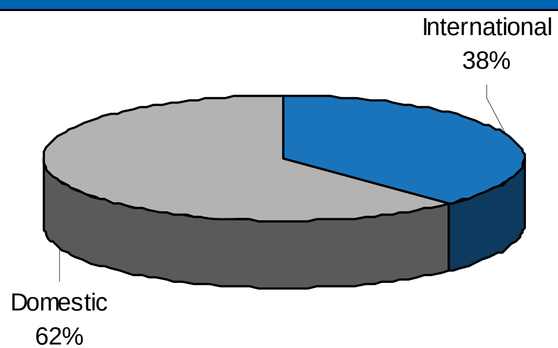
Source: Company, Reliance Equities estimates.

Order mix



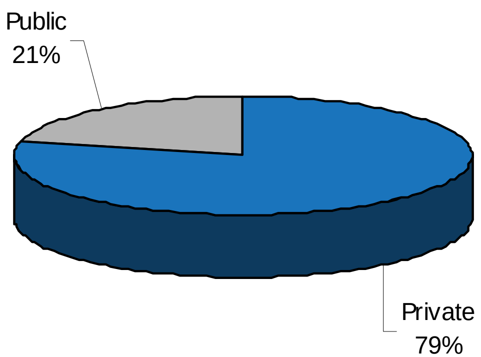
Source: Company, Reliance Equities research.

Geographical spread of order book, 2Q FY09



Source: Company, Reliance Equities research.

Public–private spread of order book, 2Q FY09



Source: Company, Reliance Equities research.

Simplex: Business overview *(cont'd)*

Top 15 orders constitutes 52% of the order book (at the end of 2Q FY09)

S. No.	Client	Project	Amount (Rs m)
1	Galadari Invest. Office	Const. of 56-storey building	6,300
2	Galadari Invest. Office	Const. of 56-storey building	6,179
3	Gulf Cement company, Qatar	Electro-mechanical erection, civil works and commissioning assistance of CIF contract items, and onshore supply items for 5,000 TPD cement plant	5,548
4	MMRDA	Flyovers from the Prince of Wales Museum to Anik Panjarapole in Mumbai	5,089
5	Oman	Building structure	4,696
6	Maithon Power Ltd	2 x 55 MW thermal power plant at Maithon	4,595
7	India Gateway Terminal P. Ltd	Civil work for ICTT Kochi, Phase-1A	4,264
8	Mumbai Metro One	Civil work for construction of Via Duct V A & VB (excluding bridges) - VAG corridor	3,531
9	Doosan Heavy Industries & Construction P. Ltd	Civil and building work for Qatalum power plant project	3,167
10	Muscat Municipality, Oman (Towell)	Six flyovers over Seab Chronic Road in Muscat	3,016
11	Al Tajir Real Estate LLC	Construction of three residential buildings with amenities	2,387
12	Chief Eng., HUDA	Construction of elevated expressway corridor in Hyderabad on an EPC basis	1,943
13	Keppel Magus Dev P. Ltd	Civil and structural work of Elita Gardens, Rajarhat, Kolkata	1,769
14	Indore Municipality	Sewerage and allied works in Indore under JNURM	1,753
15	Coastal Gujarat Power Ltd	Civil works for 4,000 MW UMPP at Mundra	1,729
	Total		**55,966**

Source: Company.

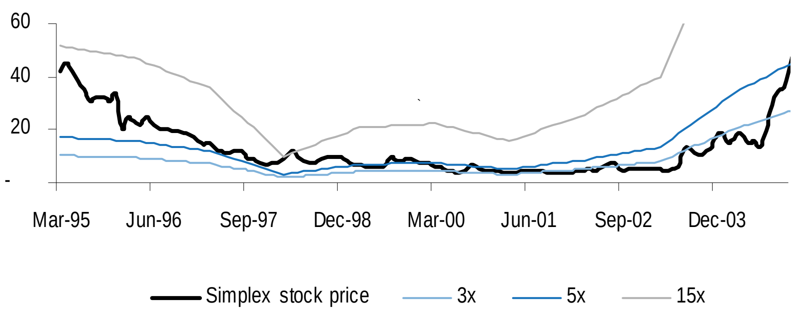
Simplex: Valuation and recommendation

We are initiating coverage with a Sell rating and an SOTP-based target price of Rs 146

SOTP valuation				
Segment	**Basis**	**Multiple (x)**	**Value (Rs m)**	**Value/share (Rs)**
Construction business	FY10E, PE (x)	5.0	7,083	143
Oil rig	P/BV	0.3	126	3
Total fair value			**7,209**	**146**

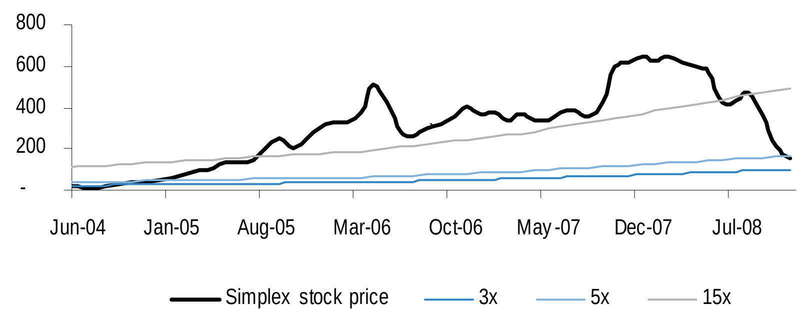
Source: Reliance Equities estimates.

One-year forward P/E bands (1995–2004)



Source: Capitaline, Reliance Equities research.

One-year forward P/E bands (2004–present)



Source: Capitaline, Reliance Equities research.

Simplex: Summary financials

Income statement

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Net sales	**16,929**	**27,907**	**44,383**	**52,060**
Growth (%)	*26.8*	*64.9*	*59.0*	*17.3*
Expenditure	**15,250**	**25,065**	**39,812**	**46,594**
Construction exp.	14,436	23,937	37,947	44,511
Personnel exp.	368	523	888	989
Other exp.	447	605	976	1,093
EBITDA	**1,678**	**2,842**	**4,571**	**5,466**
Growth (%)	*42.1*	*69.4*	*60.8*	*19.6*
EBITDA %	***9.9***	***10.2***	***10.3***	***10.5***
Depreciation	391	643	1,219	1,386
EBIT	**1,287**	**2,200**	**3,352**	**4,081**
EBIT %	***7.6***	***7.9***	***7.6***	***7.8***
Net interest exp	632	1,007	1,455	2,018
Other income	19	39	44	52
(Profit)/loss from JVs	28	40	0	0
PBT	**702**	**1,271**	**1,941**	**2,114**
Current tax (incl FBT)	106	276	582	698
Deferred tax	58	94	0	0
Total tax	**164**	**370**	**582**	**698**
Effective tax rate (%)	*23.4*	*29.1*	*30.0*	*33.0*
Adjusted PAT	**537**	**901**	**1,359**	**1,417**
Growth (%)	*29.0*	*67.7*	*50.9*	*4.2*
Net margin (%)	***3.2***	***3.2***	***3.1***	***2.7***
E/O items (net of tax)	0	0	-60	0
Reported PAT	**537**	**901**	**1,299**	**1,417**

Source: Company, Reliance Equities estimates.

Balance sheet

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Equity share capital	86	99	99	99
Reserves and surplus	2,673	7,432	8,588	9,846
Net worth	**2,759**	**7,531**	**8,688**	**9,945**
Secured loans	2,829	3,800	10,800	13,800
Unsecured loans	4,047	3,694	3,694	3,694
Loan funds	**6,877**	**7,493**	**14,493**	**17,493**
Deferred tax liability	181	371	371	371
Total liabilities	**9,816**	**15,396**	**23,553**	**27,810**
Gross block	4,305	7,567	12,567	13,567
Less: Depreciation	914	1,272	1,963	2,709
Net block	**3,391**	**6,295**	**10,604**	**10,857**
Capital WIP	228	243	243	243
Investment	**53**	**99**	**99**	**99**
Current assets	**14,112**	**21,329**	**31,601**	**38,086**
Inventories	3,009	4,927	6,931	8,130
Sundry debtors	7,249	9,490	15,200	19,255
Cash & bank balances	425	1,232	1018	882
Loans & advances	3,419	5,658	8,430	9,798
Other current assets	10	21	21	21
Current liab. & prov.	**7,967**	**12,569**	**18,993**	**21,475**
Current liabilities	7,886	12,453	18,877	21,359
Provisions	81	116	116	116
Net current assets	**6,145**	**8,760**	**12,608**	**16,611**
Miscellaneous exp	0	0	0	0
Total assets	**9,816**	**15,396**	**23,553**	**27,810**

Source: Company, Reliance Equities estimates.
Note: We have assumed non-conversion of share warrants, as the conversion price is much higher than the CMP

Simplex: Summary financials *(cont'd)*

Cash flow

Year-end March, Rs m	FY07	FY08	FY09E	FY10E
Pre-tax profit	702	1271	1,941	2,114
Depreciation	391	643	691	746
Interest provided	632	852	1,455	2,018
Other non-cash items	47	84	-60	0
Chg. in working cap.	-1,605	-2,034	-4,061	-4,140
Tax paid	-216	-228	-582	-698
Operating cash inflow	**-49**	**587**	**-616**	**41**
Capital expenditure	-1,790	-3,157	-5,000	-1,000
Free cash flow	**-1,839**	**-2,570**	**-5,616**	**-959**
Investments	-21	-40	0	0
Equity capital raised	0	4,072	0	0
Loans taken/(repaid)	2,479	622	7,000	3,000
Interest paid	-590	-825	-1,455	-2,018
Dividend (incl. tax)	-49	-80	-142	-159
Income from investments	0	0	0	0
Share warrants	0	221	0	0
Others	0	-593	0	0
Net chg. in cash	**-20**	**807**	**-214**	**-136**
Opening cash position	445	425	1,232	1,018
Closing cash position	**425**	**1,232**	**1,018**	**882**

Source: Company, Reliance Equities estimates.

Key ratios

Year-end March	FY07	FY08	FY09E	FY10E
Per share data (Rs)				
EPS	12.5	18.2	27.5	28.6
Cash EPS	22.7	32.9	40.2	43.7
EBITDA/share	39.1	57.5	92.4	110.5
Book value	64.3	152.2	175.6	201.0
Valuations (x)				
P/E	10.4	7.1	4.7	4.5
Adj. P/E#	10.2	7.0	4.6	4.5
Price/CEPS	5.7	4.0	3.2	3.0
Price/ BV	2.0	0.9	0.7	0.6
EV/sales	0.7	0.5	0.4	0.4
EV/EBITDA	7.2	4.5	4.4	4.2
Adj. EV/ EBITDA#	7.1	4.4	4.3	4.2
Returns (%)				
ROCE	16.0	18.1	17.4	16.1
ROIC*	10.3	11.8	11.6	10.7
RONW	19.5	12.0	15.6	14.2
Gearing ratios (x)				
Net debt/equity	2.3	0.8	1.6	1.7
Total debt/equity	2.5	1.0	1.7	1.8

Source: Company, Reliance Equities estimates.
 # Price/EV adjusted for value assigned to non-construction businesses. *For calculating NOPAT, tax rate has been assumed at 33%

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Reliance Equities International: Contact sheet

Name	Sector	Mobile	Direct No.	E-mail
Keshav Sanghi	CEO	+91 93219 25703	+91 22 3954 1515	keshav.sanghi@relianceada.com
Shirin Mehta	Head – CRM	+91 93243 12119	+91 22 3954 1575	shirin.mehta@relianceada.com
Nina Nariman	Head – Events & Marketing	+91 93219 25715	+91 22 3954 1565	nina.nariman@relianceada.com
Research				
Subhajit Gupta	Head – Research	+9193220 29768	+91 22 3954 1555	subhajit.gupta@relianceada.com
Amit Kasat	Transportation	+91 93209 81115	+91 22 3954 1566	amit.s.kasat@relianceada.com
Rohan Korde		+91 93243 12217	+91 22 3954 1567	rohan.korde@relianceada.com
Trilok Mahadevia		+91 93224 44671	+91 22 3954 1564	trilok.mahadevia@relianceada.com
Atsi Sheth	Economics	+91 93226 55261	+91 22 3954 1551	atsi.sheth@relianceada.com
Ketaki Sharma		+91 93224 44680	+91 22 3954 1572	ketaki.sharma@relianceada.com
Ajay Mathrani	Emerging Companies	+91 93239 57546	+91 22 3954 1571	ajay.mathrani@relianceada.com
Arun Baid		+91 93246 27929	+91 22 3954 1559	arun.baid@relianceada.com
Nilesh Parikh	Financial Services	+91 93246 27907	+91 22 3954 1552	nilesh.parikh@relianceada.com
Alok Kapadia		+91 93248 85163	+91 22 3954 1581	alok.kapadia@relianceada.com
Anand Mour	FMCG & Retail	+91 93243 12116	+91 22 3954 1553	anand.mour@relianceada.com
Mihir P. Shah		+91 93209 81116	+91 22 3954 1554	mihir.p.shah@relianceada.com
Urmik Chhaya	Infrastructure	+91 93249 15136	+91 22 3954 1558	urmik.chhaya@relianceada.com
Nirav Parikh	Real Estate	+91 93243 12156	+91 22 3954 1563	nirav.parikh@relianceada.com
Harish Bihani	Power Utilities & Capital Goods	+91 93224 43416	+91 22 3954 1578	harish.bihani@relianceada.com
Naveen Jain	Construction	+91 93242 67096	+91 22 3954 1579	naveen.h.jain@relianceada.com
Ganesh Duvvuri	IT & Media	+91 93243 12202	+91 22 3954 1557	ganesh.duvvuri@relianceada.com
Varatharajan Sivasankaran	Oil & Gas	+91 93246 27970	+91 22 3954 1561	varatharajan.sivasankaran@relianceada.com
Avishek Datta		+91 93246 27967	+91 22 3954 1562	avishek.datta@relianceada.com
Jai Bala	Technicals	+91 93243 12113	+91 22 3954 1502	jai.bala@relianceada.com
Gaurav Jaitly	Telecom	+91 93243 12086	+91 22 3954 1574	gaurav.jaitly@relianceada.com
Abhishek Gupta		+91 93228 35577	+91 22 3954 1556	abhishek.x.gupta@relianceada.com
Dharmendra Sahu	Database	+91 93224 44656	+91 22 3954 1569	dharmendra.sahu@relianceada.com
Mrinalini Bhosle	Co-ordinator	+91 93224 43382	+91 22 3954 1568	mrinalini.bhosle@relianceada.com
Sales				
Sudhanshu Bhuwalka	Co-head	+91 93219 51903	+91 22 3954 1511	sudhanshu.bhuwalka@relianceada.com
Varun Pardiwalla	Co-head	+91 93219 51902	+91 22 3954 1522	varun.pardiwalla@relianceada.com
Mitali Sanghi		+91 93246 65723	+91 22 3954 1504	mitali.sanghi@relianceada.com
Nirbhay Singh		+91 93224 44631	+91 22 3954 1507	nirbhay.singh@relianceada.com
Nityanand Singh		+91 93246 27932	+91 22 3954 1503	nityanand.singh@relianceada.com

Key to REIPL recommendations
Buy = Expected return more than +15%
Sell = Expected return +15% or less
All returns calculated over a 12-month period (including dividend).

DISCLOSURES