

Gammon Infrastructure

Bloomberg: GISP IN Equity

Reuters: GAIN.BO

Recommendation: **BUY**

RESULT UPDATE

Time for asset sweating

Gammon Infrastructure Projects Ltd (GIPL), Q4FY10 Revenue, EBITDA and Net Profit were better than our expectation. With the Mumbai-Nashik Road BOT project expected to start tolling by May-10 end, cash flow visibility would improve. We retain our **BUY** on GIPL with a target price of **Rs37**. Key highlights of the Q4FY10 earnings call of the Company are presented here.

Road BOT's ; Asset sweating to start: GIPL has achieved COD for MNEL with 64km of Nashik end expected to toll from 29th May 2010, balance 36km is estimated to be commissioned by Q3FY11e. For the first year expected revenue should be about Rs700mn and for FY12e revenue would ramp up to Rs1,200mn. EBITDA margins should be about 85%. Kosi Bridge project is expected to achieve COD by Mid-FY12e, Gorakpur Road BOT by early CY11e & Rajamundry Bridge Project by CY12e. During the year, GIPL incurred a first 5 year periodic maintenance in Andhra Expressway and Rajamundry Expressway, resulting in FY10 Revenue, EBITDA contribution of Rs840mn & Rs80mn respectively. EBITDA margins declined by 600bps adjusted for period maintenance on account of higher contribution from VSPL which clocked EBITDA margins of 45% during the year.

Rebound in Ports Container volume: During FY10 the Vizag port (VSPL) handled 6.5mn (4.7mn TPA during FY09) tonnes of cargo against capacity of 7mn TPA, GIPL is looking at increasing capacity of the terminal to 9mn TPA through a Capex of Rs500mn during 2HFY11e. VSPL recorded revenue of Rs1,140mn in FY10 versus Rs730mn in FY09, GIPL consolidated about Rs820mn in revenues from VSPL. Mumbai-Port progress is slow with COD expected around 2HCY12.

Strong development order book: GIPL has a development order book of Rs130bn of which the operational assets would be about Rs20bn by FY11e. Annual equity requirement is about Rs4bn which the company is looking to fund through a mix of Rs1.2bn of cash in hand and leveraging standalone BS which is debt free with a Networth of Rs5.4bn, also stake monetization in existing BOT's is being looked at.

Outlook and Valuations

We retain **BUY** on the stock with a SOTP-based target price of Rs37 (valuing Road BOTs at Rs17.7/share, Power Projects at Rs6.9/share, Ports at Rs8.3/share based on DCF, new projects at Rs4.1 on 0.3x P/BV). Near term trigger include financial closure of Patna-Muzaffarpur Annuity project, Financial closure of Sikkim Hydro Power project and Mumbai- Nashik traffic numbers.

Exhibit 1: Key financials

Yearly (Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	1,594	1,905	3,278	3,216	4,481
EBITDA	1,149	1,133	1,378	1,972	2,893
Net profit	183	326	256	136	155
EPS (Rs)	0.3	0.5	0.4	0.2	0.2
RoE (%)	4.6	5.7	4.0	2.1	2.3
RoCE (%)	4.1	4.5	3.2	2.2	2.7
P/E (x)	102.7	57.7	73.5	138.2	121.5

Source: Company, Ambit Capital research estimates

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Recommendation

CMP:	Rs26
Target Price (Period):	Rs37
Previous TP:	Rs37
Upside/Downside (%)	42
EPS (FY11):	Rs0.2

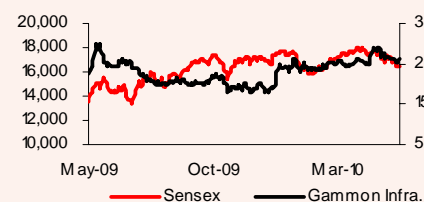
Stock Information

Mkt cap:	Rs18,778mn/US\$400mn
52-wk H/L:	31/17
3M Avg. daily vol. (mn):	3
Beta (x):	1.2
BSE Sensex:	16022
Nifty:	4807

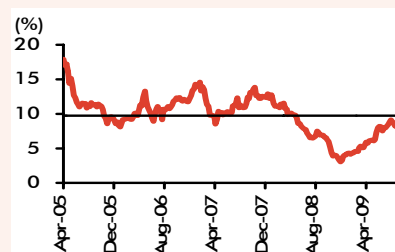
Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-10.8	5.7	22.2	10.7
Rel. to Sensex	-1.5	7.2	6.1	20.6

Performance (%)



2-year P/E or EV/EBITDA



Source: Bloomberg, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

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