

**IPO Note**
**Supreme Infrastructure India Limited**
**Subscribe**
**IPO Details**

Face Value	Rs. 10
Price Band (Rs)	Rs. 95-108
Issue Opens	21-Sep-07
Issue Closes	26-Sep-07
Bloomberg	SPII IN
BRLM	Karvy Investor Services Ltd.
Registrar to issue	Bigshare Services Pvt. Ltd.
Shares on offer for sale	3.5 mn

**Pre issue shareholding pattern**

Shareholders	% Stake
Promoters	80.1
Non-Promoter Group	19.9

**Post issue shareholding pattern**

Shareholders	% Stake
Promoters	60.0
Non-Promoter Group	14.9
Other Public Category	25.1

**Segmented Allocation**

QIBs	1,737,500
Non-Institutional	521,250
Retail	1,216,250

IPO Details	Lower End	Upper End
Price Band (Rs.)	95	108
Equity Shares prior to issue (mn)	10.4	10.4
Fresh Issue of shares (mn)	3.5	3.5
Total Equity Shares (mn)	13.9	13.9
Share Capital (mn)	Rs. 138.8	Rs. 138.8
Implied market cap (mn)	Rs. 1,318.1	Rs. 1,498.5
Debt (mn) (as on 30/06/2007)	Rs. 456.6	Rs. 456.6
Cash (mn) (as on 30/06/2007)	Rs. 19.4	Rs. 19.4
Implied EV (mn)	Rs. 1,755.3	Rs. 1,935.7

Supreme Infrastructure India Limited (SIIL) is a medium sized construction Company with its operations based in Mumbai. The Company holds expertise in construction and repair of roads & highways. It also manufactures Readymix concrete (RMC), Asphalt, Wet mix macadam, and crushed metal for both captive and sales purposes. The Company has shown robust performance with turnover of Rs. 816.6 mn in FY07 and Rs. 394.2 mn in the first quarter of FY08. It generates majority of revenues through contracts from government authorities and a small portion from private players. As on August 1, 2007, SIIL's order book stood at Rs. 2,998.4 mn and currently has two plants under expansion which shall increase the installed RMC capacity to 180 m<sup>3</sup> and help improve margins in the future.

**Valuation and Recommendations**

On a fully diluted basis, the Company is valued at a P/E of 10.3x and 11.7x, at the lower and upper price band, respectively. This is at a discount of 35.2% and 26.3% to the peer group's average P/E 15.9x. Considering the latest performance, the Company's ROE of 31.9% is way above that of its peers. The Company reported revenue CAGR of 91% over FY03-07 coupled with consistent high operating margins. An order book of Rs. 2,998.4 mn as on August 1, 2007 (3.7x current sales) provides good earnings visibility. All these factors make it an attractive investment for the short and long term.

We believe the issue is attractively priced and thus recommend the investors to **Subscribe** to the issue.

Valuation	Market cap	PE Ratio	EV/EBITDA	EV/Revenue
MSK Projects	1,831	17.0x	6.9x	1.3x
Tantia Construction	1,994	15.0x	10.9x	1.3x
PBA infra	1,310	12.0x	6.9x	0.7x
Valecha Eng.	2,416	19.8x	18.6x	1.3x
<b>Industry Average</b>		<b>15.9x</b>	<b>10.8x</b>	<b>1.2x</b>
<b>SIIL</b>				
Lower price band	1,318	10.3x	9.7x	2.1x
Upper price band	1,499	11.7x	10.7x	2.4x

**IPO***Issue details*

SILL plans to raise Rs. 330.1 to Rs. 375.3 mn through an IPO of 3.5 mn equity shares. The promoters held 80.1% of the issued and paid-up share capital of the Company. After the issue, the promoters will own 60% of the post-issue paid-up equity share capital. The Company has allocated 1.7 mn shares of the net issue for QIBs, 0.5 mn shares for non-institutional buyers and 1.2 mn shares for retailers. The issue constitutes 25.1% of the post issue paid-up capital of the Company.

*Issue objective*

The IPO is being carried out to raise funds for the following purposes:

- Purchase and/or upgradation of plant and machinery
- Long term working capital requirements
- Public issue expenses

**Promoters**

Mr. Bhawanishankar H. Sharma, aged 59 years, is the promoter and Executive Chairman of SILL. He was one of the first 100 Quarry Owners in Bombay. He has also worked for 20 years as President of Quarry Manufacturers Association, Bombay during the period from 1980 to 2000. Under his guidance and supervision, the Company has made substantial progress in a span of 16 years. Mr. Vikram B. Sharma, another promoter, is responsible for the procurement and execution of the projects. With the successful execution and completion of 51 contracts under his expertise, the Company has become eligible for the handling of new contracts like construction of bridge work, sewerage systems and large contract work of concretization. Mr. Vikas B. Sharma is responsible for the accounts and finance department.

### Investment Rationale

#### *Impressive growth in revenues*

SIIL has shown a spectacular rise in revenues which has grown at a CAGR of 91% from FY03-07. The Company has an order book of Rs. 2,998.4 mn as on August 1, 2007 which is 3.7x its current sales of Rs. 816.6 mn. The Company has reported a turnover of Rs. 394.2 mn in the first quarter of FY08, which indicates a strong growth momentum going forward.

#### *Consistent margins*

Supreme Infrastructure has maintained high EBITDA margin at 22.2% for FY07 which have been consistently improving over the past 5 years. Its net profit margin of 15.6% in FY07 is far above closest peers. The Company has reduced raw material expenses to a large extent by setting up captive manufacturing plants for RMC and Asphalt which are also sold to third parties. With successive capacity additions, SIIL is expected to further improve margins. Despite good margins, rapidly rising inventory level is a cause of concern.

#### *Foray in real estate development will diversify risk*

SIIL has forayed into the real estate business by undertaking development of an IT park, wherein, it will be the exclusive contractor for carrying out the entire construction and infrastructure work. SIIL can use its expertise to benefit from the current scarcity of contractors in the real estate sector. The Company plans to use a portion of the issue proceeds to invest in real estate construction machinery. This is likely to improve SIIL's contract portfolio and reduce the dependence on road building contracts.

#### *Positive industry outlook*

With increasing urbanisation and economic development, government expenditure on infrastructure development is on the rise which provides a huge opportunity for SIIL given its extensive expertise and capability to execute such projects. Moreover, the government provides several incentives such as tax exemptions, duty free import of road building equipments and machinery in order to encourage private sector participation in road development. All these factors provide a conducive environment for the Company's growth.

### Key Risks

#### *Inability to sustain earnings growth*

SILL's inability to maintain high margins and secure contracts in road and highway construction in the future is likely to have significant effect upon the earnings of the Company.

#### *Dependence on few customers*

SILL depends upon government contracts to derive a major portion of its revenue. Moreover, its business is heavily dependent on contracts in road and highway construction and repairs. Any unfavourable change in government's policy towards road development is likely to affect the Company's business.

#### *Litigation against the Company*

The manufacturing units which are setup in different parts of Mumbai may face litigation in the future, as in the recent past. The operation of RMC plants were suspended from October 12, 2006 to January 31, 2007 and consequently the financial results for the year FY06-07 were adversely affected. Such litigations in future could affect the smooth operations of the Company.

### Outlook

SILL has shown an impressive performance with strong order book and higher than industry operating margins. The Company holds extensive expertise in road construction and has set up captive manufacturing units of RMC and Asphalt to reduce its dependence on outside supplies.

SILL's reported net profit at Rs. 126.5 mn and margin at 15.6% which is higher than its closest peers. The Company has continuously improved its capacity utilization and maintained steady margins over the past 5 years. An order book of Rs. 2,998.4 mn as on August 1, 2007 (3.7x current sales) provides good earnings visibility. On a fully diluted basis, the Company is valued at a P/E of 10.3x and 11.7x, at the lower and upper price band, respectively. We believe that the issue is at a substantial discount and can be a rewarding investment in the long run. Hence, we recommend the investors to **Subscribe** to the issue.

### Company Background

Supreme Infrastructure India Limited was incorporated as Supreme Asphalts Private Limited and later on changed into a public Company on 10th April 2002. The Company started executing the orders of BMC and PWD at various sites. After establishing itself in this field, the Company further expanded its activities and procured contracts of MMRDA and MSRDC. Presently, the Company is registered with PWD and BMC and is so eligible to bid for their tenders without any restriction in terms of value. SIIL is into infrastructure development, primarily engaged in civil construction. Presently, it is engaged in construction of roads, highways, widening of highways and execution of contracts under National Highway Authority of India (NHAI), Mumbai Metropolitan Region Development Authority (MMRDA) and others. The Company is also executing a project of earthwork and civil construction for laying of railway tracks as a part of the Kurla-Thane expansion for World Bank aided Mumbai Urban Transport Project (MUTP).

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