Sector Note

DOLAT CAPITAL

Indian Construction: Growth is still not in vicinity

India Research

The construction space (Asset owners and EPC players), for Dec-11 quarter, has delivered improved performance as compared to the first two quarters of the current fiscal. This was primarily led by better performance of asset owners as compared to EPC players. However, the profitability on operating and net level continues to be under stress. We believe, it will take few more quarters for the sector to deliver accelerated performance, subject to improvement in the macro economic environment and clarity emerging on policy issues.

We have analyzed the results of 25 companies in the construction space (EPC and Asset owners). The key highlights of the Dec-11 quarter were— the highest order inflow of ₹ 391 bn —in any quarter of FY12, rising proportion of slow moving/stalled orders in the order book, deteriorating working capital coupled with margins erosion— on account of rise in commodity prices (primarily Cement)— and 42% YoY growth in the interest expenditure due to higher interest rate and stretched working capital..

The EBIDTA and PAT margins witnessed an erosion of 123 bps and 101 bps YoY respectively and stood at 14.8% (Asset Owners: 22.8%, EPC: 9.1%) and 3.8% (Asset Owners: 8.4%, EPC: 0.6%) respectively. The revenue registered a growth of 23% YoY (Asset Owners: 42%, EPC: 12%). The EBIDTA grew by 13% YoY (Asset Owners: 36%, EPC: -13%) and PAT declined by 3% YoY (Asset Owners: 41%, EPC: -75%) respectively. Deterioration in working capital has been largely responsible for rise in interest expenditure as companies have resorted to high cost borrowing to overcome liquidity paucity.

Q3FY12 Financial performance (A sample of 25 companies)

Particulars (₹ Mn)	Q3FY12	Q3FY11	Q2FY12	YoY (%)	QoQ (%)	9MFY12	9MFY11	YoY (%)
Net Sales	235699	192106	234370	22.7	0.6	704831	590284	19.4
EBITDA	34778	30716	36496	13.2	-4.7	117122	98650	18.7
Interest	17890	12617	20083	41.8	-10.9	66247	45034	47.1
PAT	9040	9317	7521	-3.0	20.2	27377	28902	-5.3
EBITDA (%)	14.8	16.0	15.6	-123.4*	-81.7*	16.6	16.7	-9.5*
Interest as a % of sales	7.6	6.6	8.6	102.2*	-97.9*	9.4	7.6	177.0*
PAT (%)	3.8	4.9	3.2	-101.5*	62.6*	3.9	4.9	-101.2*

** indicates change in basis points*

Source: Companies

However, we believe, comparison of performance for longer tenure of 9 months will give better picture. For 9MFY12, the aggregate sales have grown YoY by 19% (Asset Owners: 33%, EPC: 10%). The EBIDTA registered YoY growth of 19% (Asset Owners: 34%, EPC: -2%) however PAT decline YoY by 5% (Asset Owners: 19%, EPC: -40%). The order inflow for 9MFY12 declined 4% YoY to ₹ 987 bn as against ₹ 1029 bn of same period last fiscal. The order book grew by 17% YoY for 9MFY12 to c.₹ 3 trilion and order book to sales ratio was c.3xFY11 revenue. It signifies decent revenue visibility. However, rising proportion of slow moving orders, in the order book, poised question mark on the duration required for conversion into revenue.

The headwinds for the sector since past few quarters – benign capex cycle, policy logjam, higher interest rates, decline in order inflow and delay in execution, still exist. However, we believe that interest rates have peaked out; But, the impact of softened interest rates will be at least few quarters away, for the sector. Some positive news flow on related to power sector like solution to coal linkage issue, steps taken towards resolving State Electricity Boards issues may not be enough and we believe that green shoots are still at a distance.

Sr. Analyst: Sameer Panke
Tel : +9122 4096 9757
E-mail: sameer@dolatcapital.com

Associate : Rohit Natarajan
Tel : +9122 4096 9751
E-mail: rohit@dolatcapital.com

March 07, 2012

We continue to remain neutral-negative on the sector, in the light of proportionately high bad news or no strong good news in vicinity. On the current situation, we appreciate the enthusiasm shown by GOI to help the fuel starved power generators. Apart from the above issues mentioned, we believe, the other pockets of infrastructure needs more boost.

In this uncertain environment, we prefer the companies which offer impeccable execution record, revenue visibility based on executable order book, well capitalized balance sheet to exploit profitable growth opportunities, relatively lower cost of capital and upside from current price.**Thereby, we prefer IRB Infra and Sadbhav Engineering.**

Dolat Valuation Matrix

	Net Sales			EBIDTA			PAT			PE	
Name of company	**FY11**	**FY12E**	**FY13E**	**FY11**	**FY12E**	**FY13E**	**FY11**	**FY12E**	**FY13E**	**FY12E**	**FY13E**
VA Tech Wabag	12,330	14,231	16,596	1,122	1,353	1,654	526	770	942	14.2	11.7
IRB Infra	24,380	33,073	47,863	10,938	13,501	17,762	4,523	4,253	5,439	13.9	10.9
Sadbhav Engineering	22,092	26,739	27,867	2,258	2,801	2,909	1,196	1,494	1,669	13.5	12.0
Patel Eng	34,759	38,373	40,842	4,620	4,653	4,695	1,226	906	858	8.5	9.0
Ahluwalia Contracts	16,896	13,562	14,536	1,551	193	1,034	708	-280	264	NA	18.4
Man Infraconstruction	6,046	3,952	4,326	964	559	678	626	310	315	18.4	18.1
CCCL	21,987	22,711	24,925	1,531	861	1,307	469	-168	266	N.A	12.6
Engineers India	28,233	33,838	27,713	6,460	7,421	6,483	5,225	6,196	5,587	14.4	16.0

Figures in ₹mn

IRB Infrastructure Developers

DOLAT CAPITAL

CMP: ₹ 178 Target Price: ₹ 229 Buy

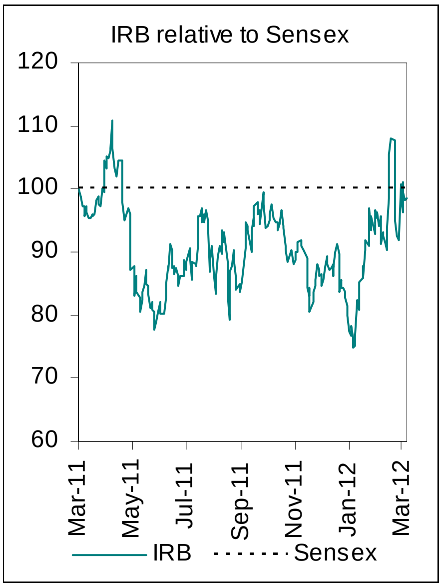
BSE Sensex	17,146
NSE Nifty	5,220

Scrip Details

Equity	₹ 3324mn
Face Value	₹ 10/-
Market Cap	₹ 592bn
	USD 12.1bn
52 week High / Low	₹ 229 / 121
Avg. Volume (no)	1,866,394
Bloomberg Code	IRB IN
Reuters Code	IRB.BO

Shareholding Pattern as on Dec'11(%)

Promoter	67.6
MF/Banks/FIs	6.5
FIIs	17.4
Public / Others	8.6



- Our preference for IRB is based on well capitalized balance sheet, and its current project generating cash flows to sustain earnings. Based on the current capitalisation, it has adequate cash to fund equity portion of current projects in hand, estimated at ₹ 27 bn and additional projects up to ₹ 40 bn. Notably, two thirds of its BOT assets lie in the high growth regions of Gujarat and Maharashtra.
- For 9MFY12, IRB clocked revenue growth of 37% with gross toll revenue grew by 27% YoY.
- Out of total Order book of ₹ 91 bn (5xFY11 revenue), as of Dec- 2011, ₹ 75 bn is executable over the period of next 3 years. This will ensure a strong traction in construction revenue. IRB has in-house construction and execution capabilities, which will translate into superior construction margins in excess of 20%.
- The company has successfully and on time concluded the financial closure of ultra mega project, Ahmedabad-Vadodara at very competitive interest rate in the current month, even in the difficult environment. The construction and toll revenue is expected to begin from April-12. With this, all the under construction projects of IRB have achieved financial closure. The construction on all the new road projects bagged in the last few quarters has started getting acceleration.
- IRB is well capitalized to undertake additional projects worth ₹ 40-50bn. The company refrained from bidding for projects less that ₹ 15 bn to avoid hit on IRR and margins due to competition. It has decided to bid for large projects primarily. We believe, IRB has demonstrated its ability to bag projects at decent IRRs in the past. It maintains the stance of adding fresh orders worth ₹ 40-50 bn each year. IRB is at RFP stage for projects worth ₹ 18 bn and at RFQ stage for projects worth ₹ 483 bn. Execution of all under construction projects is on schedule and operating margin in construction segment is expected to be around 20%.
- We have valued IRB on an SOTP basis to arrive at a fair price of ₹ 229 per share. We maintain a **Buy** on the stock.

Particulars	Basis	Per share Value (₹)
Operational BOT Toll Road Projects	DCF	124
Construction segment	PE (11x FY13 construction earnings)	105
Total		**229**

Financials *(Consolidated)*

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT	% Growth	EPS (₹)	PER (x)	EV/EBIDTA (x)	ROANW (%)	ROACE (%)
FY10	17,049	71.9	7,990	46.9	3,854	119.2	11.6	15.4	10.4	20.4	14.2
FY11	24,380	43.0	10,938	44.9	4,523	17.4	13.6	13.1	8.5	20.2	15.3
FY12E	33,073	35.7	13,501	40.8	4,253	(6.0)	12.8	13.9	8.0	15.2	12.7
FY13E	47,863	44.7	17,762	37.1	5,439	27.9	16.4	10.9	6.8	15.6	12.0

Figure in ₹ mn

Sadbhav Engineering

DOLAT CAPITAL

CMP: ₹ 134 Target Price: ₹ 187 Buy

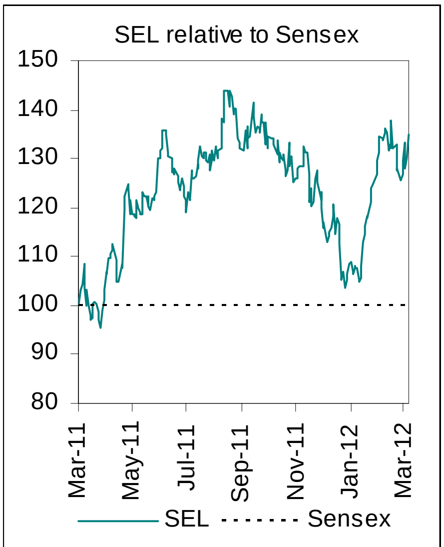
BSE Sensex	17,146
NSE Nifty	5,220

Scrip Details

Equity	₹ 150mn
Face Value	₹ 1/-
Market Cap	₹ 207bn
	USD 4.2bn
52 week High / Low	₹ 155 / 94
Avg. Volume (no)	144,220
Bloomberg Code	SADE IN
Reuters Code	SADE.BO

Shareholding Pattern as on Dec'11(%)

Promoter	47.5
MF/Banks/FIs	18.5
FIIs	20.5
Public / Others	13.6



- Sadbhav Engineering has displayed impeccable record of accomplishment of executing the project— on or well ahead— of schedule completion. It has been witnessed from the fact that few of its projects are ahead of schedule by 4 to10 months and SEL is expected to get early completion bonus, to the tune of ₹ 1 bn, over the next 15 months.
- For 9MFY12, SEL's revenue grew by 52% and PAT by 43% YoY. We expect SEL to clock a top line growth of 21%, in FY12, to ₹ 26.7 bn, however, meager order inflow in FY12 till date and lower order inflow in coming quarters will put serious challenge to current growth momentum and we estimate mere 4% YoY revenue growth in FY13E. However, better than estimated order inflow in the next couple of quarters, will provide an upside to the current estimates. The estimated EBIDTA margin expansion of 30 bps, in FY12, will be on account of more loading of unclaimed escalation in the road projects.
- The order book, as of Dec-11, stood at ₹ 59bn (2.7xFY11 revenue), ensures good revenue visibility. The road sector occupies a dominant share at 62%, followed by irrigation at 20% and mining at18%.The order inflow for 9MFY12 was lower at ₹ 5.5 bn. However, the company has bided for projects worth ₹ 44 bn and expects a large order before the end of FY12.
- SEL is well capitalised to sustain growth in the road BOT space as it has secured an investment of ₹ 4bn in Sadbhav Infra (SIPL) — its BOT subsidiary housing nine projects. The valuation for the 22% stake implied SIPL's value at ₹ 18bn. This infusion will augur well for growth, besides taking care of ongoing projects. The company can further take BOT road projects worth ₹ 33bn on a standalone basis as per NHAI's latest norms. It can bid for mega projects (of up to ₹ 50bn) via JVs.
- We have valued SEL on an SOTP basis to arrive at a fair value of ₹ 187 (SOTP: BOT — NPV — ₹ 87 and construction — 9x FY13E EPS — ₹ 100) and reiterate a **Buy**.

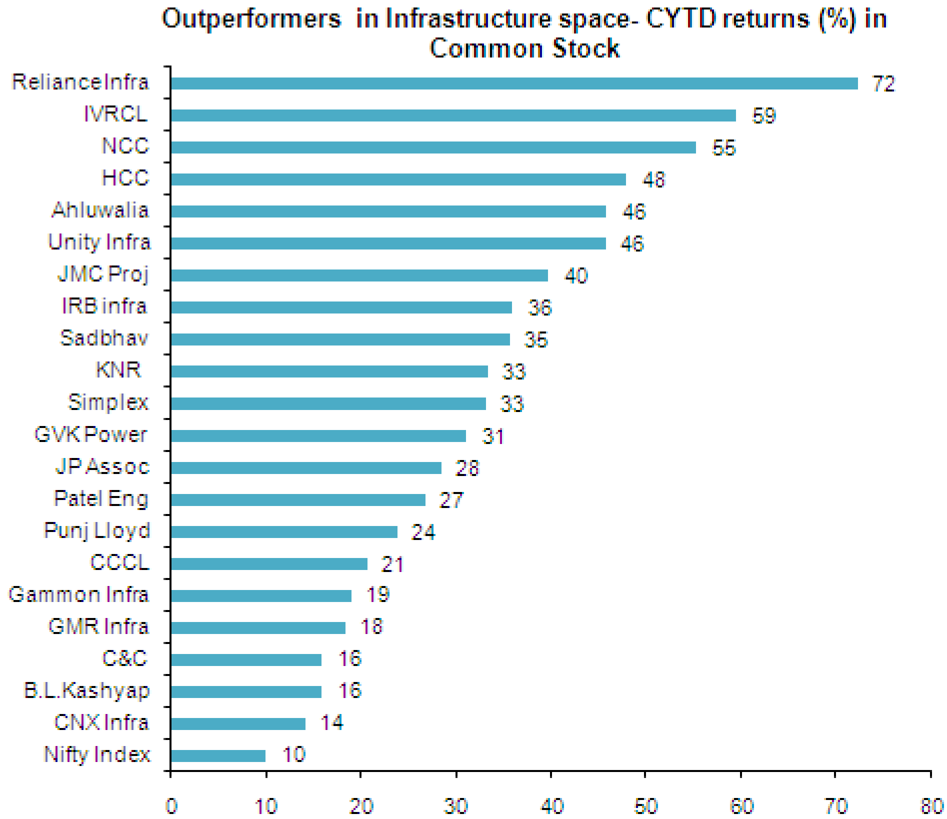
Business Segment	Methodology	Remarks	Total Value (₹ Mn)	Value Per Share (Re per share)
Core Construction	P/E	9xFY13E earnings	15023	100
BOT Road	DCF	FCFE @13.6% COE	13067	87
				187

Financials

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT	% Growth	EPS (₹)	PER (x)	EV/EBIDTA (x)	ROANW (%)	ROACE (%)
FY10	12,569	18.6	1,377	11.0	652	2.3	52.2	25.7	14.9	17.7	18.8
FY11	22,092	75.8	2,258	10.2	1,196	83.4	8.0	16.8	10.3	23.6	23.4
FY12 E	26,739	21.0	2,801	10.5	1,494	25.0	10.0	13.5	8.8	21.8	24.2
FY13 E	27,867	4.2	2,909	10.4	1,669	11.7	11.1	12.0	7.9	20.2	23.5

FY11, FY12E and FY13E EPS is based on expanded equity considering right issue and full conversion of warrants. Face Value Re 1. Figure in ₹ mn

The recent rally in Infrastructure scrips. Are all worries over?



Source: Bloomberg, Dolat Capital ; Closing Prices of 5th March, 2012

Outperformance is not reflecting the tone of fundamentals

We have observed in the last two months- Infrastructure stocks have outperformed the broad market relatively by 12%. Top performers include Reliance Infrastructure, IVRCL, NCC, HCC and Ahluwalia. Does this mean that all worries are over? Is this the beginning of new trend? Our note intends to highlight the latest status update on Indian infrastructure sector and we believe that the prices are not reflecting current fundamentals and sector continues to face strong headwinds.

Market is currently overlooking structural bottlenecks and finding reasons to cheer

The favourable news include – 1) Coal India to sign the first FSA with power generation companies after April-2009. This FSA will ensure 80% fuel requirements of power plants that are commissioned on or before March-2015. This will give breather to host of under implementation power generating projects. 2)The Supreme Court cleared the way for State run power generation utility NTPC to place orders worth ₹ 160 bn. 3) RBI has hinted that inflation and interest rate cycles have peaked and will wait for "further events" before the rate cuts. 4) Steps taken to resolve issues related to State Electricity Boards (SEB) like tariff hike, loan restructuring etc. 5) The Supreme Court orders river links project to proceed after the project has remained on paper for the last 10 years.

However, the unfavourable news includes-1) Poor performance of ruling parties in elections, in 5 states, could elongate SEB reforms in some states.2) The key bills (Land Acquisition bill, The Petroleum and Minerals Pipelines Amendment bill, The Mines and Minerals bill, The NHAI Amendment bill, The Coal Mines amendment bill etc.) addressing the infrastructure concerns are yet to be passed. 3) At ground level, the land acquisition is not matching with the ambitious plans in future across the infrastructure sphere including roads 4) Clearances from PPPAC/MOEF continue to be unenthusiastic.

5) Though the Road BOT projects bided in the last 4 quarters got overwhelming response, the competition has reduced the targeted IRR for these projects. The intensity of the competition can be reflected from the fact that 90% of the projects, awarded by NHAI, which were expected be bided for grant basis were allotted to winning bidders on a premium 6) Inflation and delays in projects have caused "cost overrun", which ranges from 12% in civil aviation to 100%+ in railways and water resources, may put economic viability of the project in threat. 6) The financial performance for 9MFY12 and our interaction with the company managements do not warrant enough confidence.

Performance for in the current fiscal till date is by and large subdued

Lower execution growth/ runrate, Subdued margins and higher interest rate expenses are the culprits

The under performance of this sector was due to two set of reasons. Across the construction sector, for FY12 till date, order inflow was muted and this questions the context of project planned and executed, as well as, revenue visibility. The companies like L&T has acknowledged that the rising percentage of slow moving orders, in the current order book, is a cause of worry. It has moved from 8%-9% to 12% of the order book, as of Q3FY12. In addition, though companies have express optimism about strong order inflow henceforth, for industry stalwarts, the reported order inflow has remained subdued and the future scenario looks highly volatile. The order inflow for 9MFY12 declined 4% YoY to ₹ 987 bn as against ₹ 1029 bn of same period last fiscal. Some of the orders/projects have witnessed cancellations/ stallments in companies like Ahluwalia Contracts, IVRCL, IRB and CCCL.

... However, the road segment is better placed in Infra space

The road and highways sector has outperformed in the infrastructure space on execution and new projects award status. However, the sectors like power, oil and gas, real estate and mining have declined due to various policy related issues and slow down in capex cycle. As per CMIE, the lowest YoY monthly growth of ~10%, has been reported in Dec-11, since Dec-06, in "*outstanding investment in projects and investments under implementation*".

The second set of reasons can be attributed to the stretched working capital cycle (rising debtors and depleting cash on hand) which leads to higher borrowing at elevated interest rate to fund. This, coupled with high commodity inflation, led into a perfect recipe for subdued profitability performance as witnessed. Few companies like Ahluwalia Contracts and HCC have reported operating loss for the Dec-11 quarter. The net earnings for many companies like HCC, CCCL and Ahluwalia Contracts have slipped in to negative territory as against profits in the same period last fiscal.

In our recent interactions with the companies, the managements continue to remain cautious on the execution front, profitability and the time frame required to see the impact of lower interest rates on bottom line. Unanimous opinion express across the managements was that there is still more to be done on policy reforms front and the pace needs to be increased.

So the structural green shoots should evolved in the above mentioned reasons—such as a) regulatory bottle necks/ Order book visibility b) high interest cost.

Key levers to watch out

We believe that the key levers to turn around the sector should evolve in a) regulatory bottle necks/order book visibility b) more fund flow towards infrastructure space c) softening of high interest cost.

Though, we believe that the current pace of the decision-making and execution is not enough for the infrastructure sector to bounce back in near future, there are certain mitigates which provide some stimulus to the sector. On Policy front, quick implementation of decisions taken (Coal allocation to power generation companies), impetus to pending policy reforms/bills ahead coupled with revival in industrial capex and real estate will allow sector to improve performance.

The 12th Five-year plan is estimated at USD1 trillion investment in infrastructure and half of which is expected to be from private sector. Policy reforms on making FDI more attractive in infra space, further clarity on setting up debt fund would provide relief to the resources impoverished sector. Decline in commodity prices will allow companies to improve current profile of operating margin even though execution could not gather required momentum.

A probable softening of interest rates might boost earnings for FY13 in the range of 23%-42%

Lowering of interest rates in quick successions in CY12 might allow backended growth in earnings in FY13. Softening of interest and its impact on profitability will depend on the speed at which monetary policy is eased. Considering the fact that inflation has peaked out, we did a sensitivity analysis and we estimate that for a range of 50 - 200 bps declines in the interest rate for FY13E, a potential increase in the earnings in the range of 23%-42%, for these companies. In case of Dolat Universe (8 companies, cumulative revenues and profits of ₹ 166 bn and ₹ 14 bn respectively as of FY11), we estimate potential up-tick in the range of 4%-15% in earnings. The same will be in the range of 37%-70%, for the companies, outside our coverage universe, based on Bloomberg estimates.

(For further details, please refer our strategy note: Analytical Note On Interest Rate Sensitivity dated 30th November, 2011)

Percentage impact on FY13E PAT for sample set of companies

Dolat Universe

Reduction in interest rate (bps)	Impact on PAT-FY13E (%)							
	Ahluwalia	Man Infra	CCCL	VA Tech Wabag	Patel Engineering	IRB Infra	Sadbhav Engineering	Engineers India
50	No impact	No impact	3	1	No impact	13	No impact	No impact
100	No impact	No impact	9	1	15	15	No impact	No impact
150	No impact	No impact	16	1	30	17	No impact	No impact
200	2	No impact	23	1	46	19	No impact	No impact

Companies outside Dolat Universe

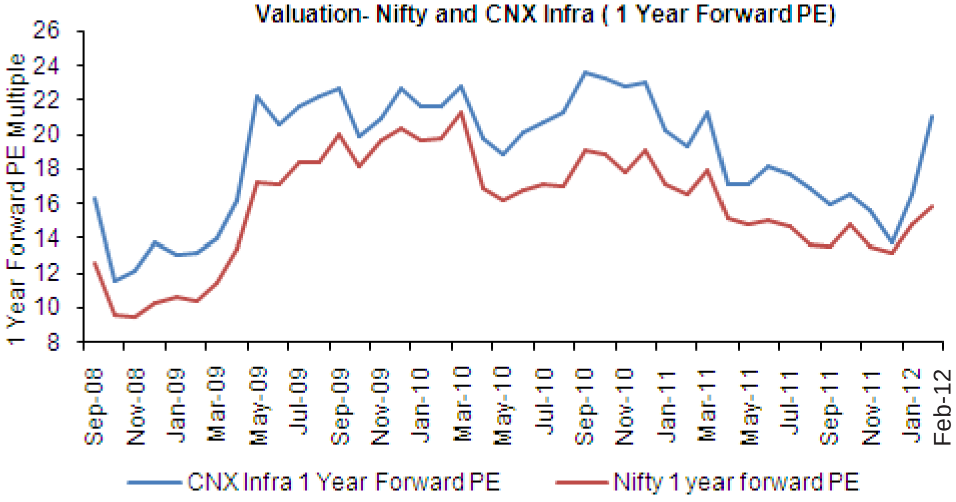
Reduction in interest rate (bps)	Impact on PAT-FY13E (%)					
	HCC	Gammon India	Reliance Infra	JP Infra	Nagarjuna	IVRCL
50	52	22	18	86	8	No impact
100	103	29	20	90	12	No impact
150	154	37	22	94	17	13
200	205	44	23	97	21	28

Source: Dolat Capital, Bloomberg

No impact- Reduction in effective interest rate is factored in the existing estimates

But, RBI has expressed it's concern over rising crude prices, which remains persistent over a period of time. This can delay the softening of interest rates and thereby leaving policy reforms as only catalyst for earnings growth in infrastructure sector.

Valuation



Source: Bloomberg

Over the last four years, CNX infra has traded at peak PE multiple of 23.6 x and trough PE mutliple of 11.6x. Currently, both Nifty and CNX infra are trading close to its medium term average PE multiples. We believe that if there are no key levers (policies actions/ order book visibility, improved funding to infrastructure and softening of interest rates), then earnings may be downgraded from the existing levels. We appreciate the government's efforts towards fuel linkage in power sector. However, more issues need to be addressed. The maximum delta in earnings can come from reforms/softening of interest rates. However, the risk is too high, now.

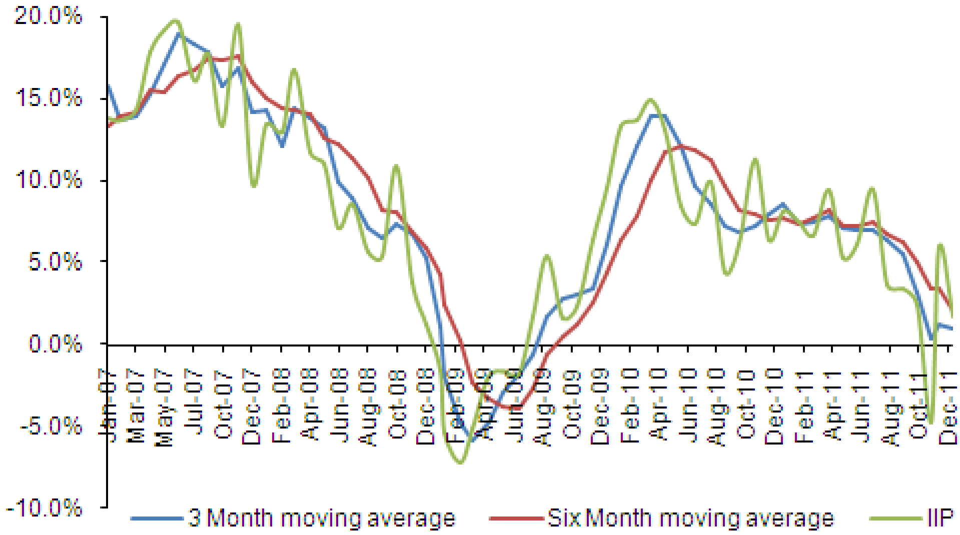
Exhibit: Valuation multiple for CNX Infra and Nifty over last four years

1 Year forward PE Mutliple	CNX Infra	Nifty	CNX Infra/ Nifty
Max	23.6	21.3	1.3
Min	11.6	9.5	1.0
Average	**18.8**	**15.9**	**1.2**
Current	20.0	15.9	1.3

Source: Bloomberg

With Macro concerns, Private sector investments are crowded out..

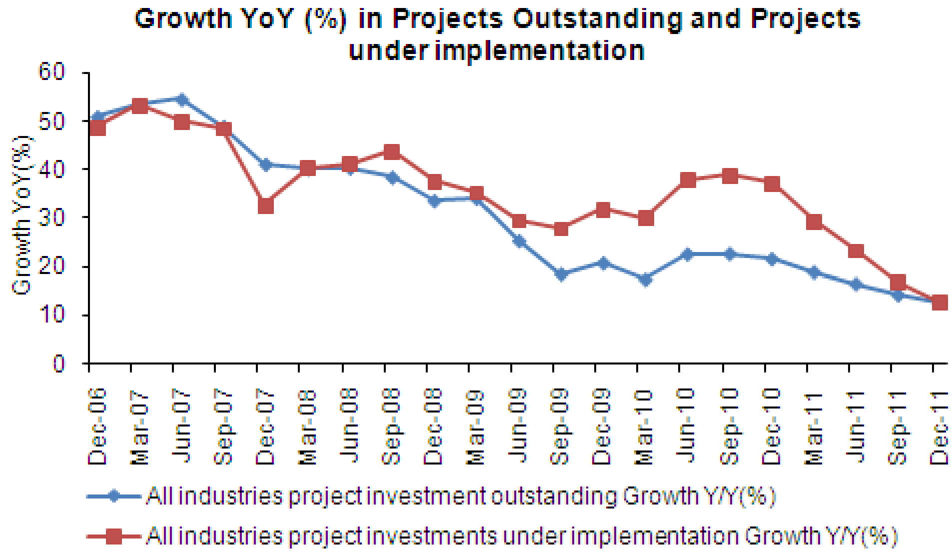
Exhibit: IIP trend line continue its slide



Source: RBI, Dolat Capital

...which is subsequently visible in decelerating YoY growth of projects.

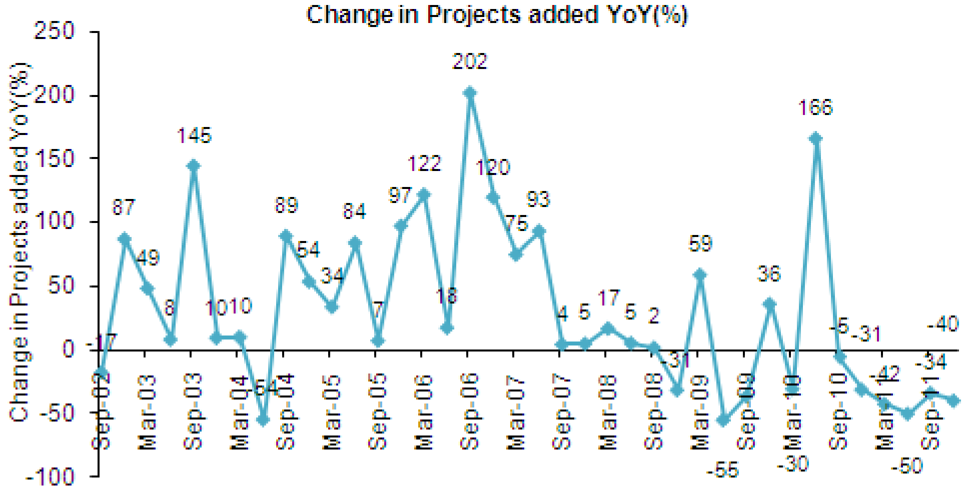
Exhibit: YoY Growth in Projects Outstanding and projects under implementation



Source: CMIE, Dolat Capital

..Resulting in declining trend od addition in new projects..

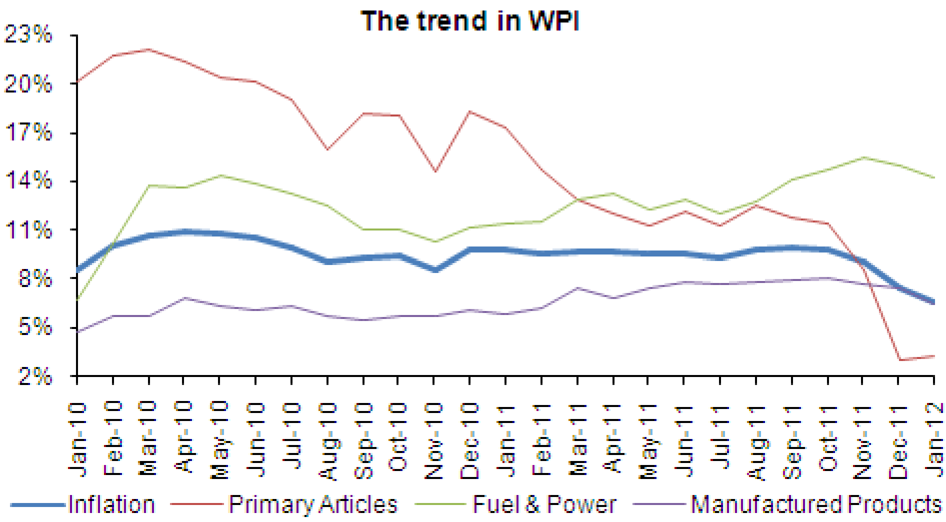
Exhibit: Declining trend in Projects added in the quarter



Source: CMIE, Dolat Capital

WPI Trend suggests likely convergence of current inflation with the targeted inflation rate of 7%..

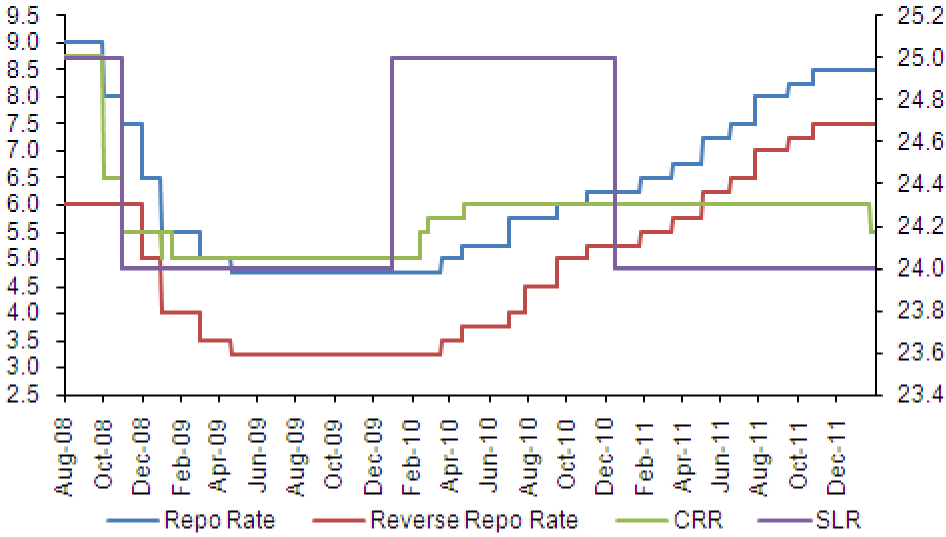
Exhibit: The Inflation has peaked out and showing –a softening trend—



Source: RBI, Dolat Capital

.. Hence, we believe moderation in interest rates are on cards..

Exhibit: The rates are peaked out and RBI has hinted for softer stance in monetary policy, post budget.



Source: RBI, Dolat Capital

View from corporate on Interest rates:

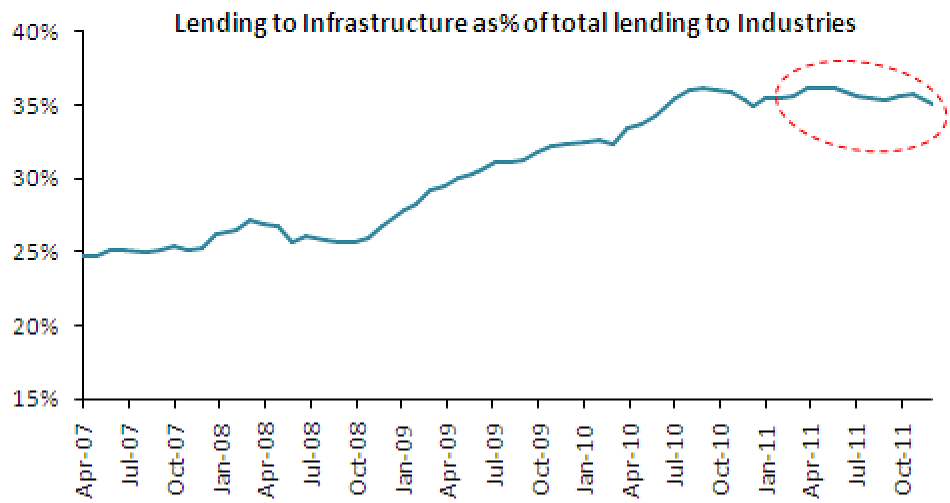
.. However, much depends on the behavior of crude price as pointed out by RBI

"*RBI has started addressing the issue of high interest rates, by reducing the CRR by 50 basis points. I'm hopeful that all these initiatives will revive the investment climate in the power sector."* – Mr. B Prasada Rao, BHEL in Q3FY12 Conference call

We believe that RBI will consider a further reduction in banks' reserve requirements to help in easing the liquidity in system. Though the softened inflation numbers could have eased the monetary policy, RBI has expressed its concern over rising crude prices. The persistence of higher crude prices could play spoilsport.

Exhibit: Lending to infrastructure/Construction, as a percentage to total lending to overall Industry was flat in FY12

...Lending to Infrastructure sector is stagnated in FY12..

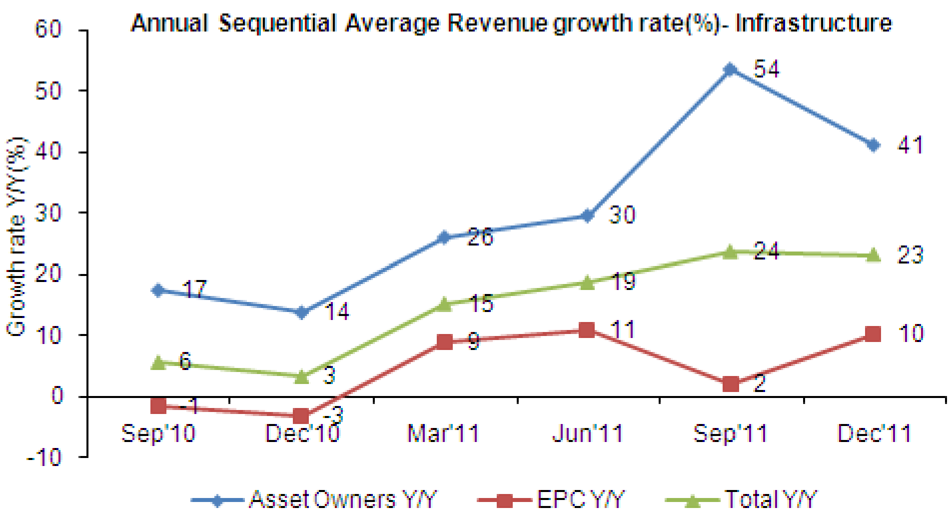


Source: RBI, Dolat Capital

The lending by Indian Banking industry to the infrastructure sector, as a percentage of total lending to the overall Industry remained subdued in FY12 till date. We have also observed that the proportion of projects, being added in every quarter, has declined. We attribute this— to delay in project up tick— due to structural issues like land acquisition, fuel linkages, environmental issues and slow down in capex cycle.

Exhibit: Declining growth trend in revenue across the sector, marginal improvement in EPC segment as compared to previous quarter.

Revenue Growth for the sector, in Dec-11 quarter, was subdued on account of lower base YoY..

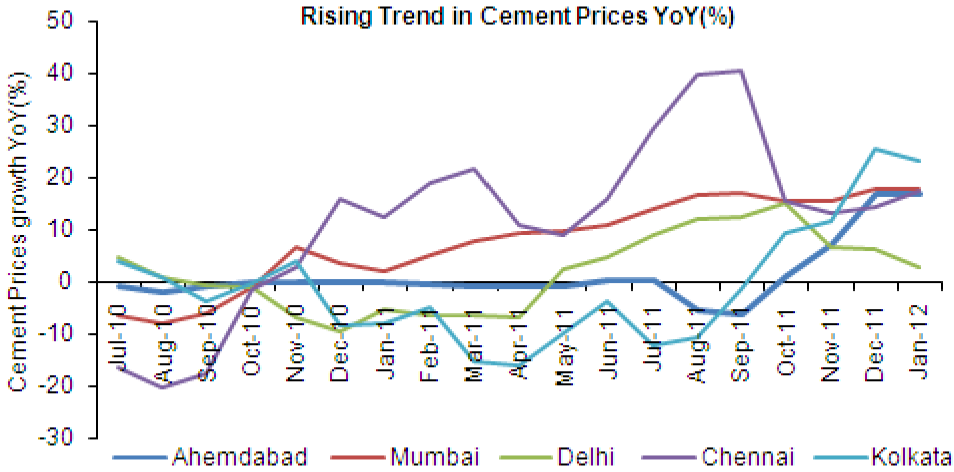


Source: Companies, Dolat Capital

The decline in projects uptick, due to the structural reasons, has moderated the sales growth rate. The key figure to look here is— EPC YoY growth rate—, which has remained flat over last four quarters.

Cement prices are on upward spiral...

Exhibit: Increasing trend in Cement Prices

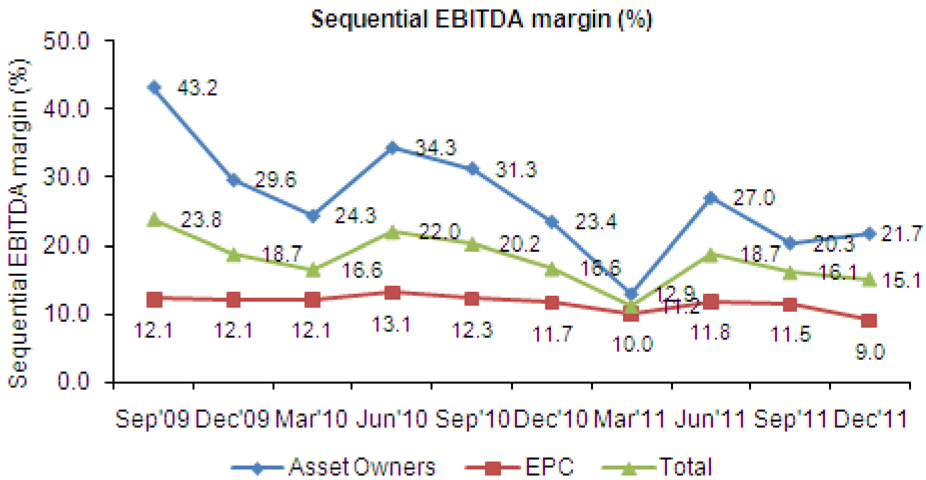


Source: CMIE, Dolat Capital

We have seen operating margin erosion for EPC companies, in Infrastructure space, in Dec-11 quarter, FY12, was led by commodity inflation (primarily-raw materials like cement) and their inability to pass it on. This has resulted in EBIDTA margin erosion of 123 bps YoY for Dec-11 quarter and 10 bps for 9MFY12 YoY.

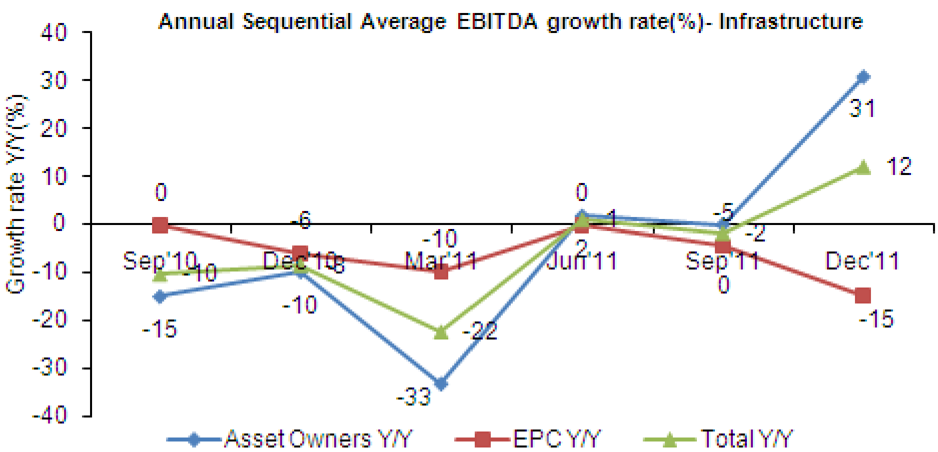
..Higher commodity prices dented operating margin...

Exhibit: EBIDTA margin eroded YoY



Source: Companies, Dolat Capital

Exhibit: De-growth in EBITDA for EPC companies YoY

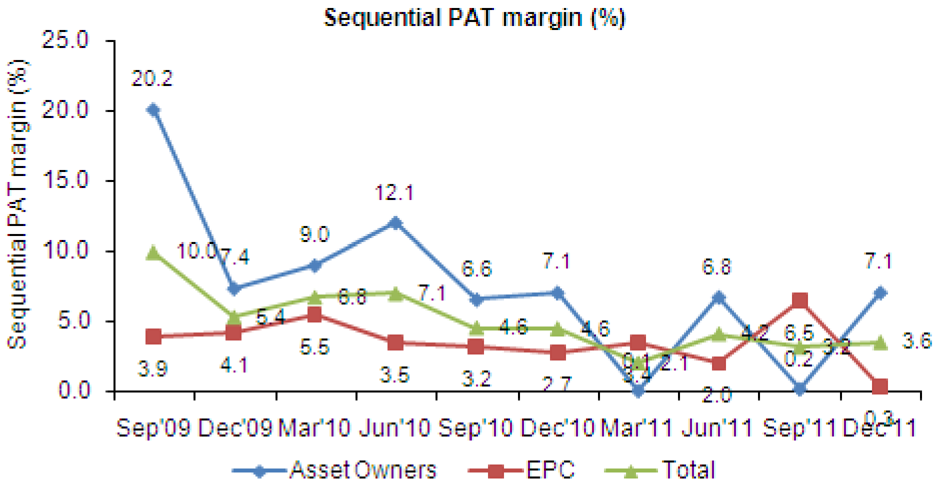


Source: Companies, Dolat Capital

A 42% YoY growth in the interest expenditure for Dec-11 quarter and 47% for 9MFY12, coupled with depletion in EBIDTA margin, have resulted in PAT margin erosion of 101 bps each for Dec-11 quarter and 9MFY12

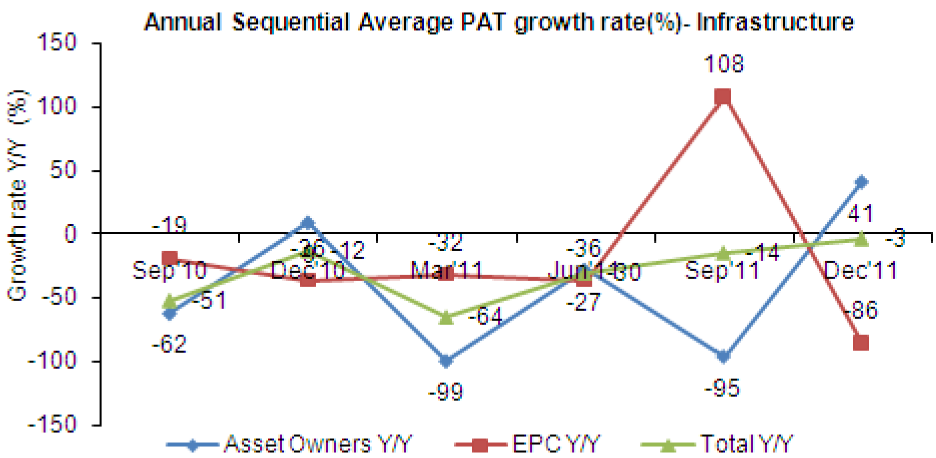
Decline in operating margin & 42% rise in interest expenses dented PAT margin

Exhibit: PAT margin erosion YoY



Source: Companies, Dolat Capital

Exhibit: Subsequent de-growth of PAT annual growth rate

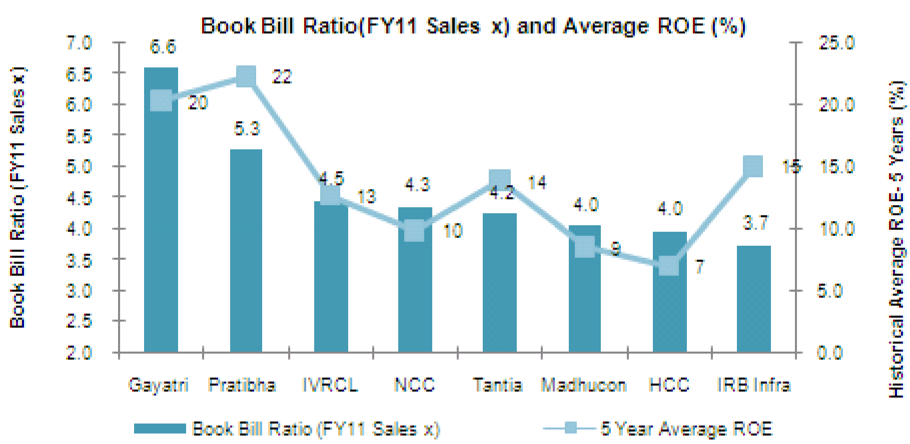


Source: Companies, Dolat Capital

***Note:** The sharp decline in PAT YoY growth rate for Dec-11 quarter was on account of total five companies reported loss in the quarter as against profit in same period last fiscal. (HCC, GVK Infra, CCCL, Ahluwalia Contracts and Gammon Infra).*

Though Book Bill ratio is strong, increasing proportion of slow moving projects could delay the conversion into revenue

Exhibit: Book Bill ratio & ROE



Source: Companies, Dolat Capital

Though, the sector book Bill ratio stands close to 3x (FY11 Revenue), thereby giving strong revenue visibility, We wait for further clarity on issues like Land Acquisition, Fuel Linkages, Environmental Clearances, moderation in inflation and softening of interest rates to asses the duration required to convert it into revenue. In our interaction with the managements, we have observed that order book related to power, oil and gas, real estate and mining are slow moving as compared to urban infrastructure and road sector.

The Government's step towards coal linkages are progressive indicators. We expect the government to take actions in all parameters, to bring the growth back on track.

Slow progress on key policy issues ,related to the sector, is a cause of worry...

Exhibit: The key bills, addressing the infrastructure concerns, are yet to be passed.

Bills pending and yet to be passed by the Parliament	Status
The Petroleum and Minerals Pipelines (Acquisition of Right of User in Land) Amendment Bill, 2010	Passed by Lower house on December 12, 2011
The Mines and Minerals (Development and Regulation) Bill, 2011	Introduced in Lower house
The National Highway Authority of India (Amendment) Bill, 2011	Introduced in Lower house
The Coal Mines Amendment Bill	Not yet introduced in Lower house

Source: Media reports, Dolat Capital

Land Acquisition is still a worry for NHAI

Exhibit: Land Acquisition at NHAI Level. At ground level, the land acquisition is not matching with the ambitious plans in future. We observed that the pending land to be acquired is still at the same level as compared to April-2010.

	Land Acquisition	*Total Area to be acquired (Area in Hect)*	*Area acquired (Area in Hect)*	*Pending as % total planned*
NSEW	Apr-10	19209	12941	33%
	Nov-11	19407	12766	34%

Source: NHAI, Dolat Capital

Exhibit: Awarding of road projects in the past by NHAI

Outstanding at the End of Fiscal (kms)	GQ	NSEW (Phase-I)	Ph-III (Phase -II)	Ph-IV	Ph-V	Ph-VI	Ph-VII	SARDNE	Port Conne-ctivity & Others	Total Balance	Actual Awarded
FY12E		421	4010	14034	3986	1000	659	276	20	24406	7300*

Source: NHAI, Dolat Capital, Annual Report not available on site *AAwarded data from other data reports*

*Estimated

Current project pace might slow down, if land acquisition does not get momentum, for NHAI

According to the media articles, NHAI is estimated to award lower than targeted kms of projects in FY12 due to non-approvals of projects by PPPAC. The revised estimate may be close to 6300 kms as compared to, earlier estimates of 7300 kms. In the current fiscal, NHAI has awarded 21 out of 33 projects on a premium. Many of these projects, to be bided originally for VGF from NHAI, will be getting premium from developers, on these projects. It reflects the intensity of competition in the space. Though, the premium translates into an income of ₹ 30 bn pa with an increase of 5% every year till the end of concession period, we fear this may dent asset developers' profitability.

We continue to remain neutral-negative on the sector, in the light of proportionately high bad news or no strong good news in vicinity. On the current situation, we appreciate the enthusiasm shown by Government to help the fuel starved power generators. Apart from the above issues mentioned, we believe, the other pockets of infrastructure needs more boost.

Annexure

Exhibit: Reported Financials in 9MFY12

	Revenue (₹mn)			EBITDA(₹mn)			Net Profit (₹mn)		
Company Name	**9MFY12**	**9MFY11**	*YoY (%)*	**9MFY12**	**9MFY11**	*YoY (%)*	**9MFY12**	**9MFY11**	*YoY (%)*
Va Tech Wabag	7670	7238	*6.0*	393	377	*4.3*	134	66	*102.6*
HCC	28355	28837	*-1.7*	1682	3631	*-53.7*	-160	484	
Punj Lloyd	40227	29872	*34.7*	2737	2728	*0.3*	396	-195	
JP Associates	94677	90612	*4.5*	23368	22879	*2.1*	4406	5397	*-18.4*
Reliance Infra	116182	71751	*61.9*	20576	9167	*124.5*	13421	5825	*130.4*
GMR Infra	56751	38118	*48.9*	14891	11148	*33.6*	-2372	773	
Patel Engineering	23242	19028	*22.1*	3403	3426	*-0.7*	660	925	*-28.6*
GVK Power & Infra	18342	14615	*25.5*	5481	4156	*31.9*	823	1201	*-31.4*
NCC	46068	43955	*4.8*	7234	5180	*39.7*	503	1718	*-70.7*
IVRCL Infra	33635	35653	*-5.7*	2742	3375	*-18.8*	191	937	*-79.6*
Gammon India	36765	38590	*-4.7*	3083	3155	*-2.3*	367	644	*-43.0*
Gammon Infra	2840	2404	*18.1*	1505	1419	*6.0*	-78	87	
Noida Toll Bridge	682	631	*8.1*	493	472	*4.5*	306	267	*14.9*
IRB Infrastructure	22827	16711	*36.6*	9926	7792	*27.4*	3756	3496	*7.4*
KNR Constructions	5881	5585	*5.3*	1115	802	*39.0*	483	349	*38.3*
J.Kumar Infra	6211	5984	*3.8*	1022	933	*9.4*	469	469	*0.0*
C & C Constructions *	7837	7636	*2.6*	1595	1534	*4.0*	186	321	*-42.2*
JMCProjects	13670	8877	*54.0*	1002	762	*31.6*	281	207	*35.7*
Sadbhav Engineering	17670	11625	*52.0*	1883	1350	*39.5*	937	657	*42.7*
Unity Infraprojects	12553	11312	*11.0*	1825	1487	*22.7*	648	635	*2.0*
Era Infra	29064	26390	*10.1*	5440	5381	*1.1*	1320	1791	*-26.3*
CCCL	14892	14937	*-0.3*	460	1194	*-61.5*	-214	488	
Simplex Infra	41772	33949	*23.0*	3776	3381	*11.7*	600	863	*-30.5*
Ahluwalia Contracts	9617	11107	*-13.4*	253	1200	*-78.9*	-129	586	
Man Infra	3042	4385	*-30.6*	564	885	*-36.3*	312	559	*-44.2*
B. L. Kashyap	14358	10482	*37.0*	674	837	*-19.5*	130	355	*-63.3*

**Reporting year varies Source: Dolat Capital*

Exhibit: Reported Financials- Q3FY12

	Revenue (₹mn)			EBITDA(₹mn)			Net Profit (₹mn)		
Company Name	**Q3FY12**	**Q3FY11**	*YoY (%)*	**Q3FY12**	**Q3FY11**	*YoY (%)*	**Q3FY12**	**Q3FY11**	*YoY (%)*
Va Tech Wabag	2931	3163	*-7.3*	208	285	*-27.1*	106	139	*-23.6*
HCC	9476	10025	*-5.5*	-457	1264		-1304	79	
Punj Lloyd	15325	9548	*60.5*	1914	1095	*74.8*	176	-23	
JP Associates	32579	28937	*12.6*	8160	8455	*-3.5*	2050	2327	*-11.9*
Reliance Infra	44761	25856	*73.1*	6518	2470	*163.9*	4158	1657	*150.9*
GMR Infra	3960	1421	*178.7*	1208	543	*122.7*	760	171	*344.1*
Patel Engineering	6193	4346	*42.5*	1113	1080	*3.1*	200	88	*127.3*
GVK Power & Infra	7446	4611	*61.5*	2107	1294	*62.9*	-189	194	
NCC	13341	12636	*5.6*	790	1299	*-39.2*	-95	404	
IVRCL Infra	11955	14091	*-15.2*	948	1405	*-32.6*	68	423	*-83.9*
Gammon India	11843	13720	*-13.7*	954	1085	*-12.0*	10	102	*-90.0*
Gammon Infra	1060	910	*16.5*	592	433	*36.6*	-37	35	
Noida Toll Bridge	248	208	*19.1*	182	156	*17.1*	110	95	*15.0*
IRB Infrastructure	7455	6688	*11.5*	3417	2936	*16.4*	1314	1330	*-1.2*
KNR Constructions	1899	1598	*18.9*	410	226	*81.2*	168	55	*205.5*
J.Kumar Infra	2450	2403	*2.0*	400	357	*12.2*	196	180	*9.0*
C & C Constructions *	3606	2686	*34.3*	602	571	*5.4*	83	51	*63.4*
JMCProjects	5688	3636	*56.4*	409	316	*29.4*	118	99	*18.9*
Sadbhav Engineering	7237	4762	*52.0*	752	529	*42.3*	417	264	*58.1*
Unity Infraprojects	4896	4453	*9.9*	709	552	*28.3*	247	225	*9.6*
Era Infra	11409	10146	*12.4*	2007	1851	*8.4*	395	582	*-32.2*
CCCL	4465	4962	*-10.0*	205	483	*-57.7*	-32	167	
Simplex Infra	15943	11667	*36.7*	1304	1106	*17.8*	180	232	*-22.3*
Ahluwalia Contracts	3569	3796	*-6.0*	-83	336		-168	141	
Man Infra	1072	1455	*-26.3*	211	243	*-13.2*	107	150	*-29.0*
B. L. Kashyap	4891	4383	*11.6*	198	347	*-42.9*	4	150	*-97.5*

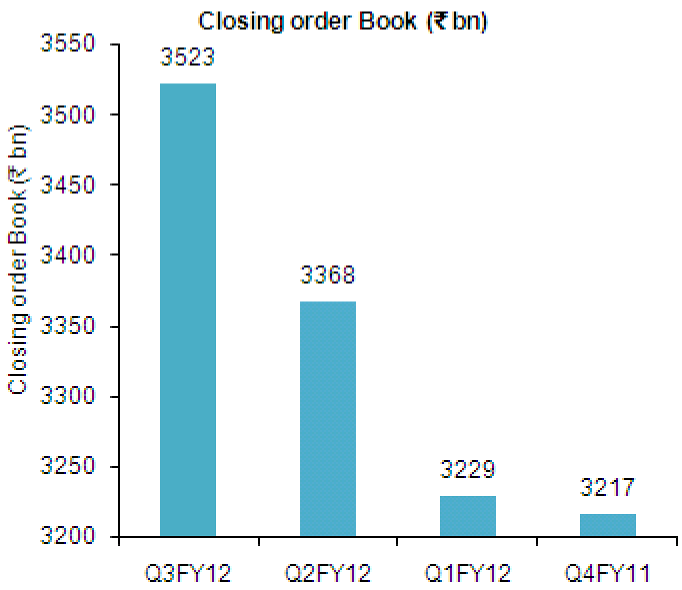
** Reporting Year varies*

Exhibit: Order Book at the end of Q3FY12

Company (₹bn)	Order Book-Q3FY11	Order Book-Q3FY12	Growth(%)
Larsen and Toubro	1,148	1,458	27.0
IVRCL	242	250	3.3
Punj Lloyd	206	283	37.5
HCC	185	162	(12.4)
NCC	173	220	27.1
Gammon India	147	156	5.8
Simplex Infra	130	144	11.4
Era Infra	104	105	0.7
Patel Engineering	100	80	(20.0)
IRB Infra	90	91	1.3
Gayatri Projects	80	95	18.8
Sadbhav Engineering	73	59	(18.6)
B L Kashyap	44	37	(16.1)
CCCL	43	59	36.3
Madhucorn Projects	42	69	62.4
JMC Projects	42	50	20.5
Pratibha Ind	40	62	54.0
Ahluwalia Contracts	32	34	5.6
Tantia Construction	29	29	0.0
C & C Construction	26	34	30.3
Man Infra	20	21	6.1
J. Kumar	13	25	101.1

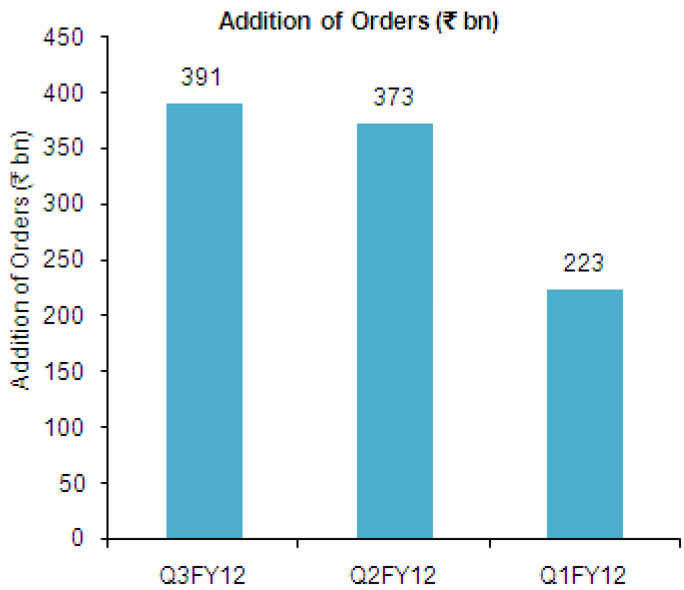
Source: Dolat Capital

Exhibit: Order Inflow in ₹ bn



Source: Dolat Capital

Exhibit: Closing order Book in ₹ bn



Source: Dolat Capital

Exhibit: Quarterly Results Preview –Q3 FY12

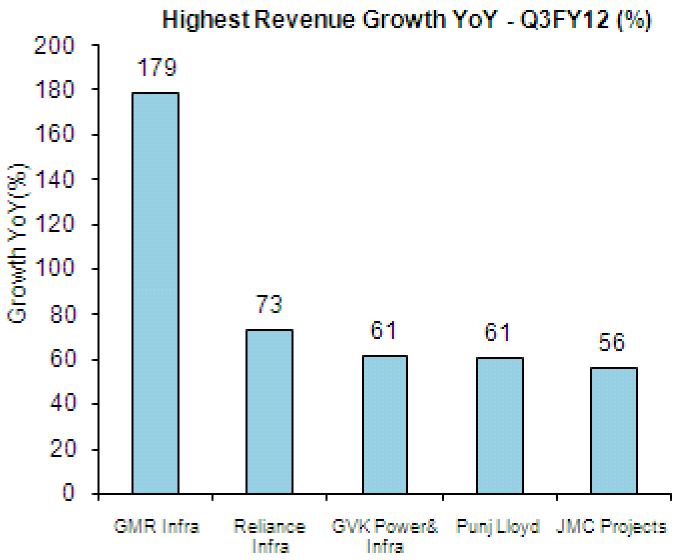
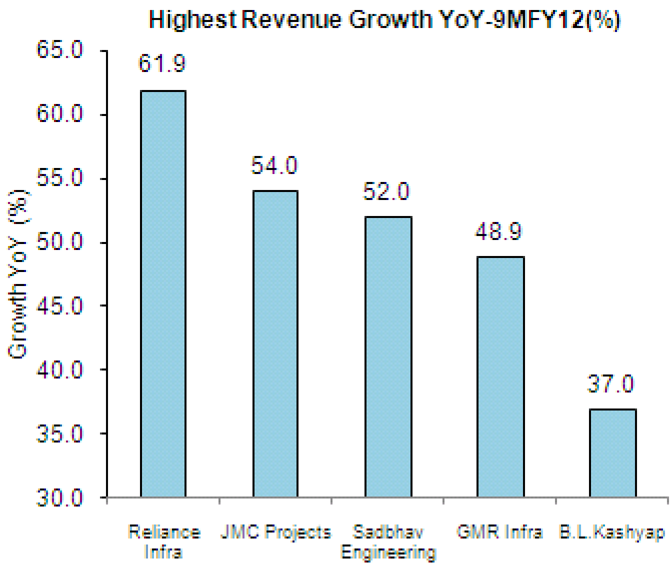
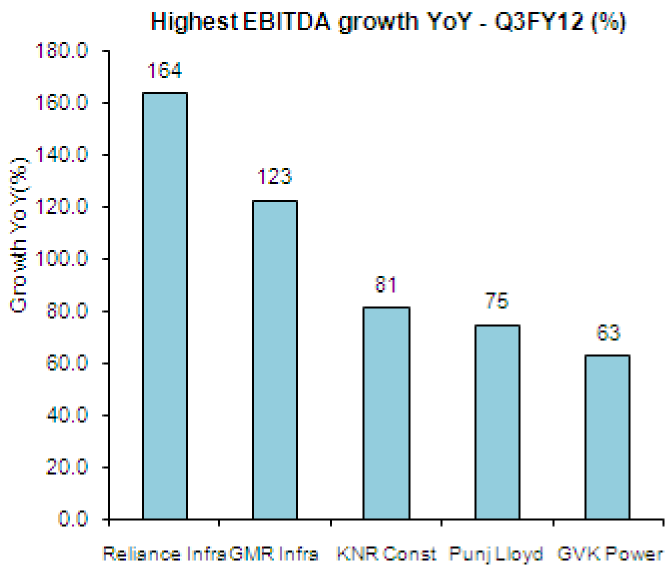
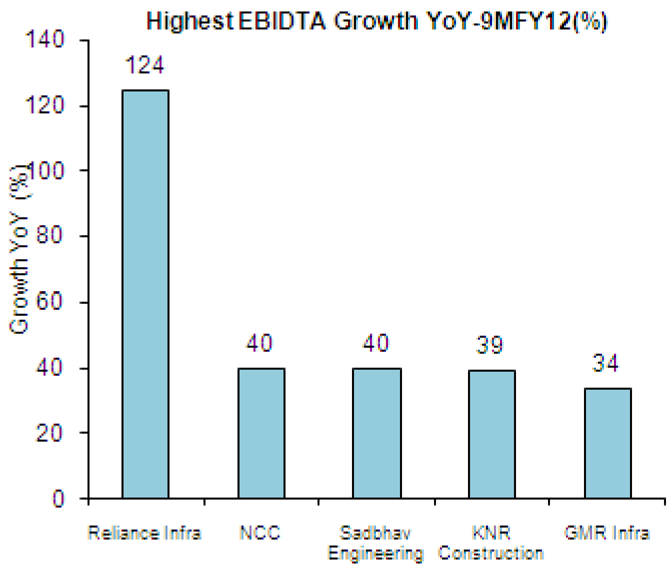
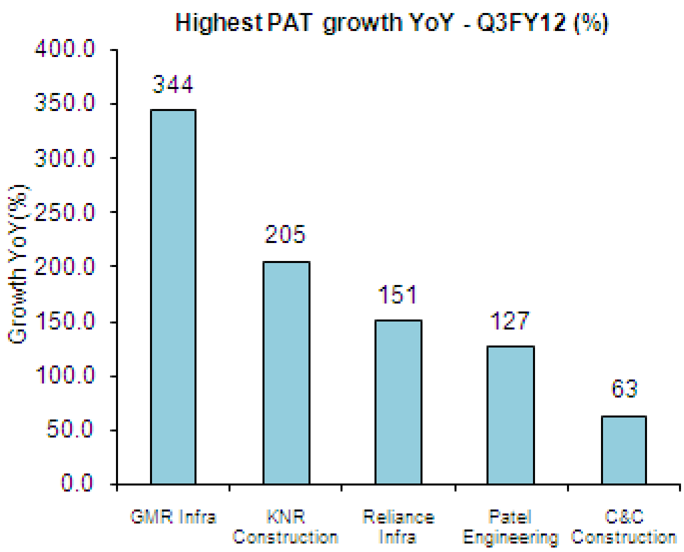


Exhibit: Quarterly Results Preview – 9MFY12









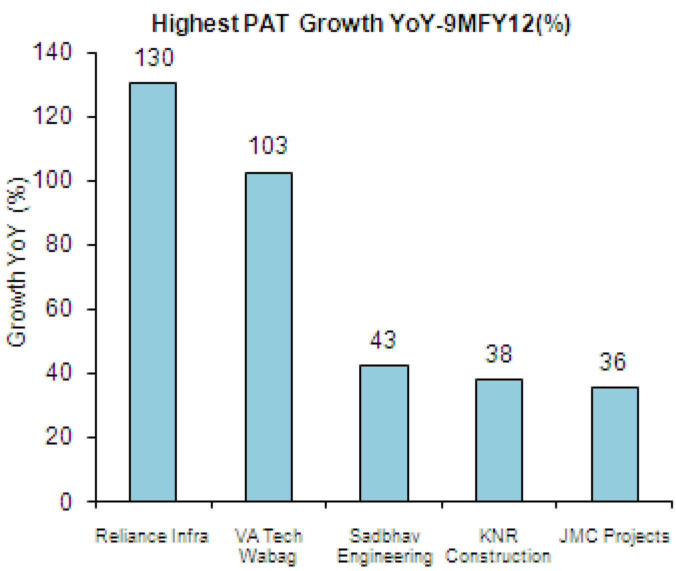


Exhibit: Quarterly Results Preview –Q3 FY12

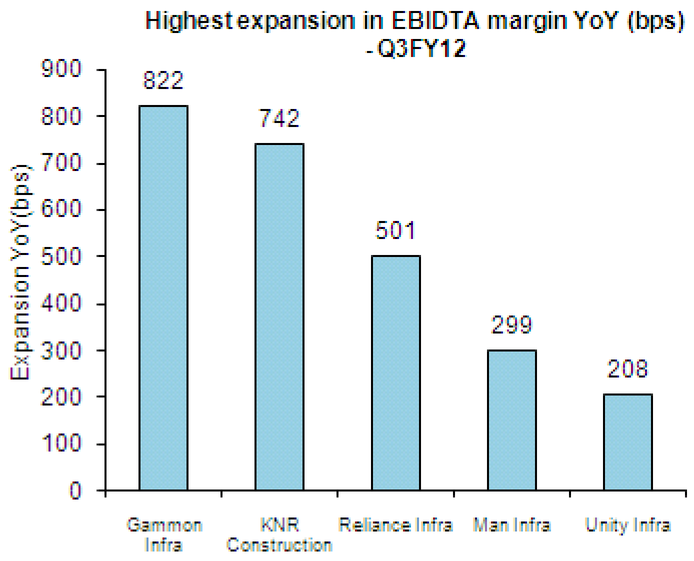
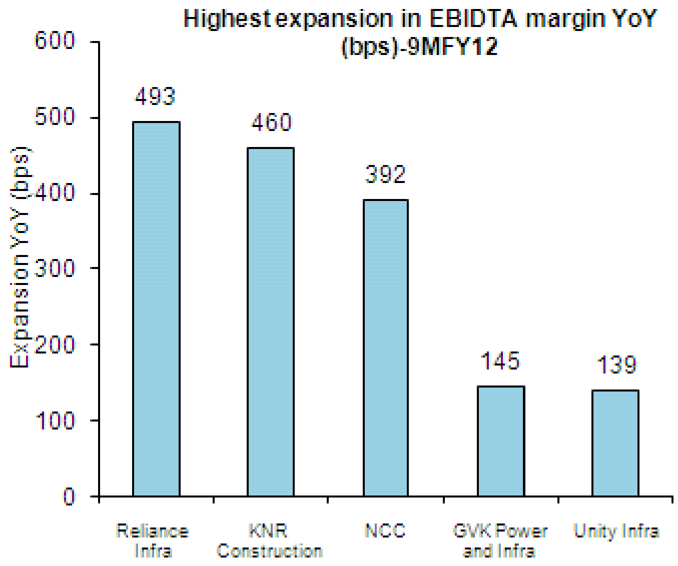
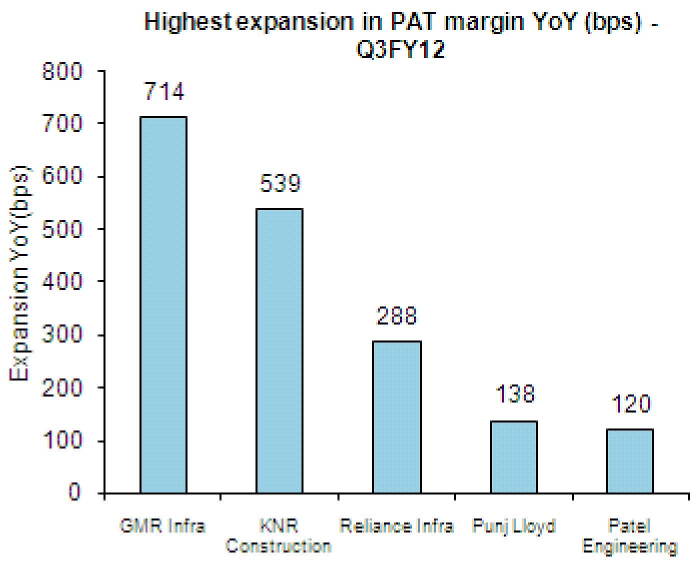
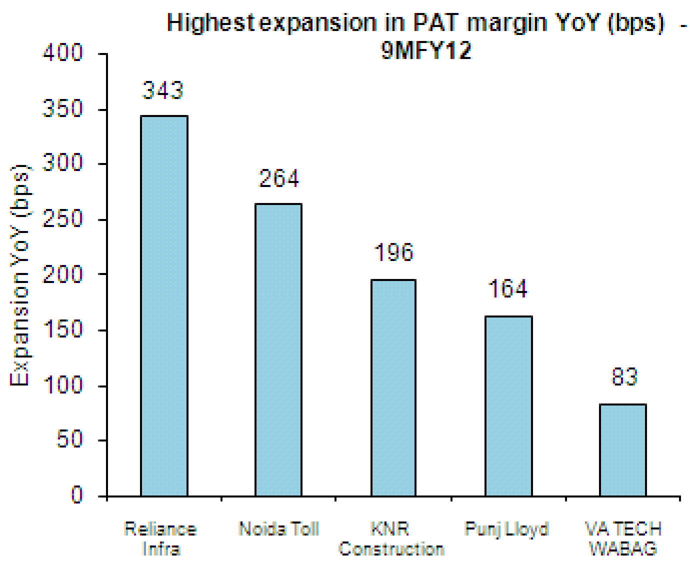


Exhibit: Quarterly Results Preview – 9MFY12





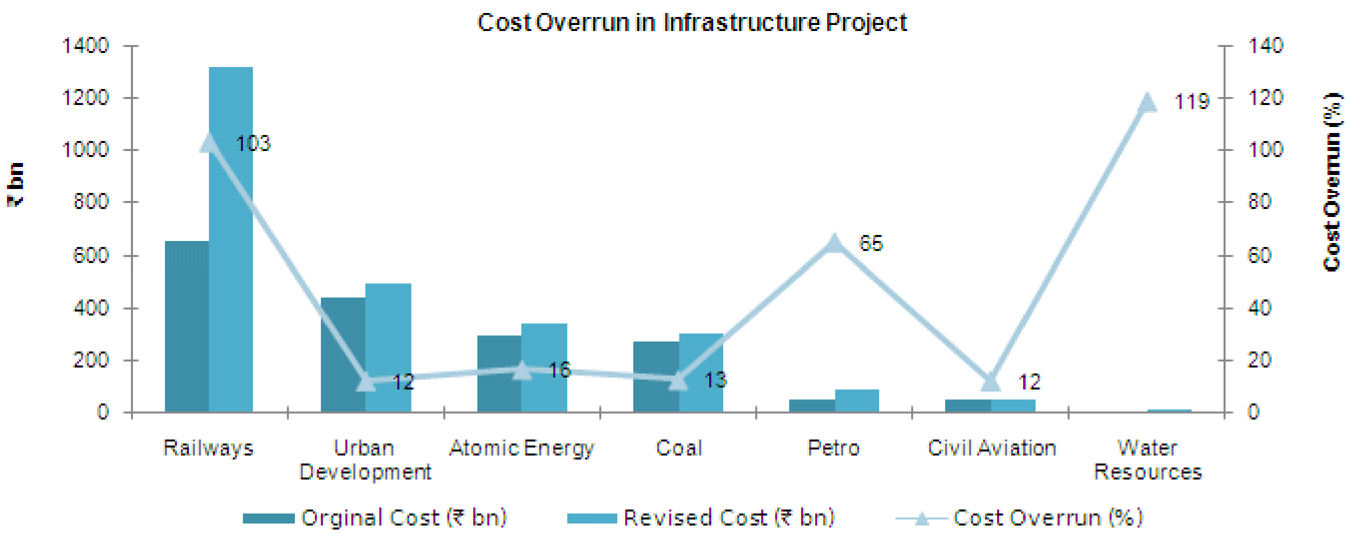


Source : Company, Dolat Research

Annexure – Cost Overrun in infrastructure projects

- As per the latest reports by Ministry of Statistics and Programme implementation implementation (MOSPI) the cost of projects has overshoot by ₹ 100 bn in 583 projects, costing ₹ 1.5 bn + individually, that are being implemented now by the central government across 15 major sectors of the economy. The timeframe in delay is in the range of few months to 17 years.
- The huge cost escalation is enough to fund more than two mega social sector schemes of the size of NREGA, which has an annual spend of ₹ 400 bn. The overall cost of implementation of the projects has gone up from ₹ 7.1 tn as originally envisaged, to ₹ 8.2 tn now, says the report. By November 2011, the government had spent ₹ 3.4 tn— 41 per cent of the revised cost — on these projects in railways, roads, power, petroleum, coal, telecom, shipping, steel, fertilisers, aviation, atomic energy, urban development, mines, water resources and petrochemicals.
- The worst performer is Indian Railways, which has seen more than 100 per cent cost overrun of ₹ 650 bn in projects. There has been cost escalation of ₹ 75 bn in petroleum projects, ₹ 61 bn in escalation in steel projects, ₹ 60 bn in power projects, ₹ 52 bn in urban development, ₹ 48 bn in atomic energy, ₹ 34 bn in petrochemicals and ₹ 33 bn in coal mining projects.
- Experts say that while a bulk of the cost escalation could be explained by inflationary pressure, the trend of increasing number of projects is worrying as stranded capacity creation in itself adds to inflation. The government has attributed the enormous cost escalation to inflation, fluctuation of exchange rates, higher tender value and change of scope of projects.

Source: MOSPI, Media articles



BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

Analyst	Sector/Industry/Coverage	E-mail	Tel.+91-2-4096 9700
Amit Khurana, CFA	Director - Research	amit@dolatcapital.com	91-22-40969745
Amit Purohit	FMCG & Media	amitp@dolatcapital.com	91-22-40969724
Bhavin Shah	Pharma & Agro Chem	bhavin@dolatcapital.com	91-22-40969731
Mayur Milak	Auto & Auto Ancillary	mayurm@dolatcapital.com	91-22-40969749
Priyank Chandra	Oil & Gas	priyank@dolatcapital.com	91-22-40969737
Rahul Jain	IT Services	rahul@dolatcapital.com	91-22-40969754
Rakesh Kumar	Financials	rakesh@dolatcapital.com	91-22-40969750
Ram Modi	Metals & Mining	ram@dolatcapital.com	91-22-40969756
Sameer Panke	Construction & Infrastructure	sameer@dolatcapital.com	91-22-40969757
Nehal Shah	Midcaps	nehals@dolatcapital.com	91-22-40969753
Prachi Save	Derivative Analyst	prachi@dolatcapital.com	91-22-40969733

Associates	Sector/Industry/Coverage	E-mail	Tel.+91-22-4096 9700
Dhaval S. Shah	Engineering & Capital Goods	dhaval@dolatcapital.com	91-22-40969726
Hardick Bora	Pharma & Agro Chem	hardickb@dolatcapital.com	91-22-40969748
Hetal Shah	Financials	hetals@dolatcapital.com	91-22-40969725
Mahvash Ariyanfar	Economy & Midcaps	mahvash@dolatcapital.com	91-22-40969736
Praveen Kumar	IT Services	praveen@dolatcapital.com	91-22-40969723
Pranav Joshi	Financials	pranavj@dolatcapital.com	91-22-40969706
Rohit Natarajan	Construction & Infrastructure	rohit@dolatcapital.com	91-22-40969751

Equity Sales/Dealing	Designation	E-mail	Tel.+91-22-4096 9797
Purvag Shah	Principal	purvag@dolatcapital.com	91-22-40969747
Janakiram Karra	Director - Institutional Sales	janakiram@dolatcapital.com	91-22-40969712
Vikram Babulkar	Director - Institutional Sales	vikram@dolatcapital.com	91-22-40969746
Kapil Yadav	AVP - Institutiona Sales	kapil@dolatcapital.com	91-22-40969735
Aadil R. Sethna	Head of Derivatives	aadil@dolatcapital.com	91-22-40969708
Chirag Makati	Asst. Vice President - Derivatives	chiragm@dolatcapital.com	91-22-40969702
P. Sridhar	Head Dealing - Equities	sridhar@dolatcapital.com	91-22-40969728
Parthiv Dalal	Senior Sales Trader	parthiv@dolatcapital.com	91-22-40969705
Mihir Thaker	Senior Sales Trader	mihir@dolatcapital.com	91-22-40969727

Dolat Capital Market Pvt. Ltd.

20, Rajabahadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

Our Research reports are also available on Reuters, Thomson Publishers and Bloomberg **(DCML <GO>)**