

30 May 2013

Supreme Infrastructure

*Consistent performance; Buy*Rating: **Buy**

Target Price: ₹360

Share Price: ₹206

Key takeaways

Revenue growth strong, margins dip. Supreme Infrastructure's revenue grew 28.7% yoy (19% qoq), beating our estimate. Its reported EBITDA margin, however, declined 175bps yoy to 12.7% (down 460bps qoq), lower than we estimated. The company has made a one-time ₹110m provision for a defunct liability, which led to the margin decline; adjusting for this, the margin stood at 14.3%. Over FY14-15 management expects to maintain the margin at 15-17%. As a result of the strong revenue growth and lower EBITDA margin, adjusted PAT grew 50.4%, and came higher than we expected. Debt has increased, taking net gearing to 1.8x.

Order book strong. The order book (incl. L1 projects of ₹11.2bn) of ₹60.4bn (3x TTM revenue) is dominated by roads & bridges (40%) and buildings (49%). Order inflows during FY13 stood at ₹31.3bn. The company surpassed its full-year target order inflow of ~₹25bn.

BOT projects update. For 10 BOT road projects, the company has an equity commitment over FY12-15 of ~₹8.1bn. Of this, it has infused ₹4.35bn through investment, advances and debt at the hold-co level; ~₹3.1bn is to be infused by 3i India Infra Fund (of which ₹2bn has already been received), the rest will be invested over FY12-15. The last tranche from 3i has not yet been received and is awaiting certain NHAI clearances. BOT projects comprise 25% of the order book and is reducing. The Manor-Wada road project has been operational since Jan'13. The company expects to raise ₹2bn-2.5bn by securitizing the cash flows of this project and to repay some of its debt.

Our take. The company continues to demonstrate consistent and strong revenue growth, with a stable operating performance. We expect it to post ~15%/19% revenue/PAT CAGRs in the next two years. We retain a Buy, with a target of ₹360. Our sum-of-parts-based target of ₹360 is based on 4x FY14e PE of the construction business (₹304, a 50% discount to midcap target multiples) and 1x Mar'12 P/BV (₹56). **Risk:** Rise in interest rates.

Key data	SPII IN / SIIL.BO
52-week high / low	₹347 / ₹174
Sensex / Nifty	20147 / 6104
3-m average volume	US\$0.12m
Market cap	₹3.4bn / US\$62m
Shares outstanding	16.7m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	57.4	56.6	56.6
- of which, Pledged	22.1	22.1	22.1
Free float	42.3	43.4	43.4
- Foreign institutions	12.6	14.6	14.6
- Domestic institutions	6.5	6.8	6.8
- Public	23.4	22.0	22.0

Year-end: Mar	FY14e	FY15e
Sales (₹m)	22,288	26,077
Net profit (₹m)	1,267	1,544
EPS (₹)	75.7	92.2
Growth (%)	5.0	21.9
PE core (x)	2.0	1.6
P/B(x)	0.6	0.5
RoE (%)	23.6	23.0
RoCE (%)	20.3	20.7
Dividend yield (%)	1.7	1.7
Net gearing (%)	154	139

Source: Anand Rathi Research

Year-end: Mar	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
Sales (₹m)	5,077	6,534	28.7	15,059	19,870	31.9
EBITDA (₹m)	731	937	28.2	2,435	3,195	31.2
EBITDA margin (%)	14.4	14.3	(5)bps	16.2	16.1	(9)bps
Interest (₹m)	302	352	16.7	915	1,192	30.2
Depreciation (₹m)	77	93	20.7	284	336	18.4
Other income(₹m)	13	14	4.5	28	41	44.6
PBT (₹m)	366	506	38.4	1,264	1,708	35.1
Tax (₹m)	103	111	7.8	346	501	53.8
Reported PAT (₹m)	262	285	8.5	918	1,096	19.4
Adj. PAT (₹m)	262	395	50.4	918	1,206	28.6

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	9,179	15,059	19,870	22,288	26,077
Revenue growth (%)	72.1	64.1	31.9	12.2	17.0
- Op. expenses	7,619	12,624	16,675	18,678	21,853
EBIDTA	1,559	2,435	3,195	3,611	4,225
EBITDA margins (%)	17.0	16.2	16.1	16.2	16.2
- Interest expenses	408	915	1,192	1,350	1,500
- Depreciation	246	284	336	400	450
+ Other income	55	28	41	30	30
- Tax	201	346	501	624	760
Effective tax rate (%)	20.9	27.4	33.0	33.0	33.0
Reported cons.PAT	760	918	1,096	1,267	1,544
+/- Extraordinary items	-	-	110	-	-
+/- Minority interest	-	-	-	-	-
Adjusted cons. PAT	760	918	1,206	1,267	1,544
Adj. FDEPS (₹/share)	45.4	54.8	72.1	75.7	92.2
Adj. FDEPS growth (%)	60.6	20.9	31.4	5.0	21.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	167	167	167	167	167
Reserves & Surplus	2,651	3,544	4,601	5,799	7,274
Networth	2,818	3,711	4,768	5,966	7,442
Minority interest					
Total Debt	5,383	7,489	9,787	10,887	11,987
Def. tax liab. (net)	88	108	104	124	144
Capital employed	8,288	11,308	14,660	16,978	19,573
Net Fixed assets	2,652	2,884	3,068	3,530	3,980
Investments	702	1,321	2,245	3,210	4,410
- of which liquid	142	48	-	-	-
Net Working capital	4,600	6,420	8,049	8,550	9,550
Cash and bank balance	335	683	1,298	1,688	1,634
Capital deployed	8,288	11,308	14,659	16,978	19,573
Net debt	4,906	6,759	8,489	9,199	10,353
WC (days)	137	134	133	136	127
Book value (Rs/sh)	168	222	285	356	445

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

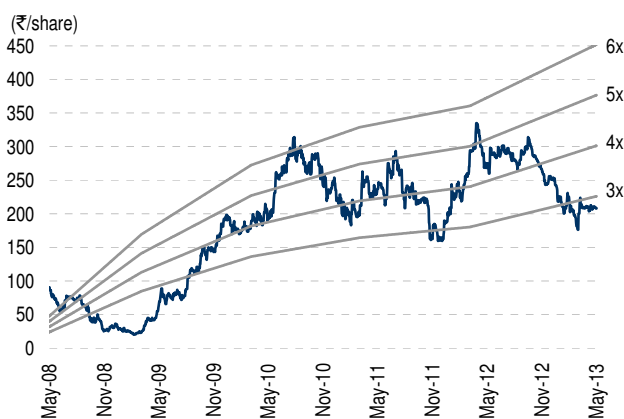
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	760	918	1,206	1,267	1,544
+Non-cash items	284	304	333	420	470
Cash profit	1,044	1,222	1,539	1,687	2,014
- Incr/(Decr) in WC	2,318	1,820	1,629	501	1,000
Operating cash flow	(1,274)	(599)	(90)	1,186	1,014
-Capex	452	516	519	862	900
Free cash flow	(1,726)	(1,115)	(609)	324	114
-Dividend	39	69	69	69	69
+ Equity raised	539	44	(81)	0	0
+ Debt raised	1,981	2,106	2,298	1,100	1,100
-Investments	580	619	924	965	1,200
-Misc. items	(6)	-	-	-	-
Net cash flow	180	348	615	390	(55)
+Opening cash	155	335	683	1,298	1,688
Closing cash	335	683	1,298	1,688	1,634

Source: Company, Anand Rathi Research

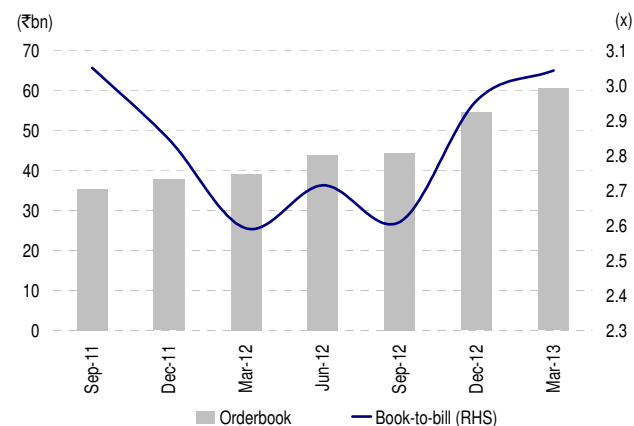
Fig 4 – Ratio analysis @ ₹206

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	4.5	3.7	2.8	2.7	2.2
P/E Core (x)	3.3	2.7	2.1	2.0	1.6
P/B (x)	1.2	0.9	0.7	0.6	0.5
EV/EBITDA (x)	5.0	3.7	3.0	2.6	2.2
RoE (%)	34.8	28.1	28.5	23.6	23.0
RoCE (%)	19.8	22.0	22.0	20.3	20.7
Fixed Asset turnover (x)	3.2	4.3	4.8	4.7	4.7
Dividend yield (%)	1.0	1.7	1.7	1.7	1.7
Dividend payout (%)	4.4	6.4	5.3	4.6	3.8
Interest exp./Sales	4.4	6.1	6.0	6.1	5.8
Debtors (days)	93	94	108	113	105
Revenue growth (%)	72.1	64.1	31.9	12.2	17.0
PAT growth (%)	93.8	20.9	31.4	5.0	21.9
EBITDA growth (%)	63.2	56.1	31.2	13.0	17.0
EPS growth (%)	60.6	20.9	31.4	5.0	21.9

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Orderbook vs book-to-bill


Source: Company

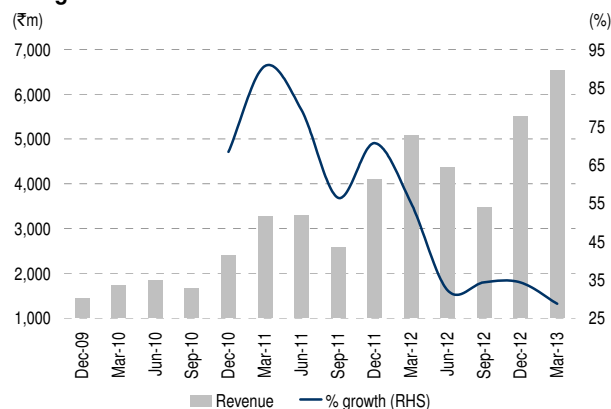
Result highlights

Fig 7 – 4QFY13 results vs expectations

Year-end: Mar	4Q13	4Q13e	% var	4Q12	% yoy	3Q13	% qoq
Sales (₹m)	6,534	5,714	14.3	5,077	28.7	5,503	18.7
EBITDA (₹m)	937	942	(0.6)	731	28.2	950	(1.4)
EBITDA margin (%)	14.3	16.5	(216)bps	14.4	(5)bps	17.3	(293)bps
Interest (₹m)	352	310	13.5	302	16.7	309	13.8
Depreciation (₹m)	93	97	(4.2)	77	20.7	90	3.5
Other income(₹m)	14	8	66.5	13	4.5	13	8.1
PBT (₹m)	506	544	(6.9)	366	38.4	564	(10.3)
Tax (₹m)	111	186	(32.9)	103	7.8	205	(45.6)
Reported PAT (₹m)	285	358	(20.4)	262	8.5	359	(20.7)
Adj. PAT (₹m)	395	358	10.3	262	50.4	359	9.9

Source: Company, Anand Rathi Research

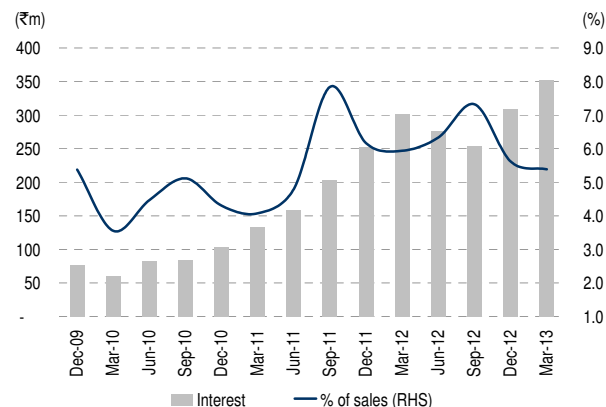
Fig 8 – Revenue growth trend



Source: Company, Anand Rathi Research

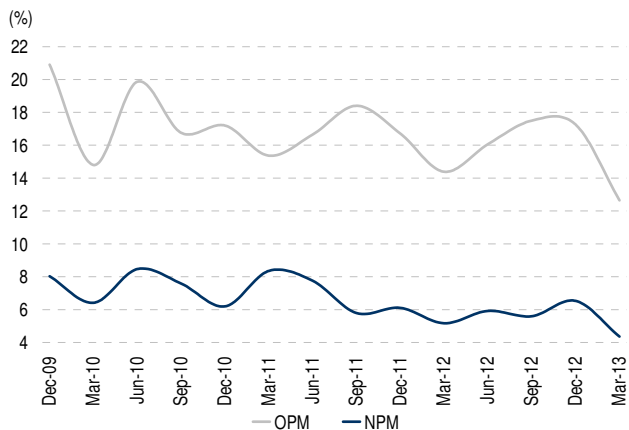
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Fig 9 – Interest-cost trend



Source: Company

Fig 10 – OPM and NPM trend

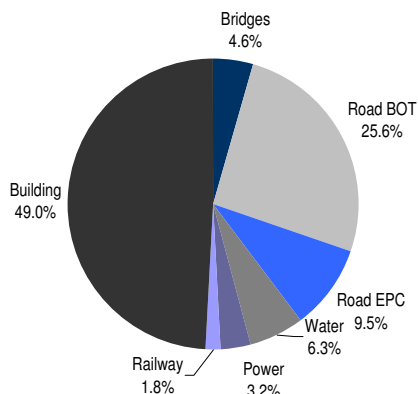


Source: Company

Impressive orderbook growth

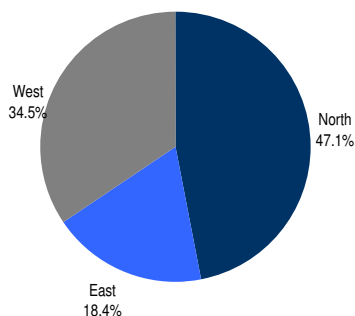
The order book (incl. L1 projects of ₹11.2bn) of ₹60.4bn (3x TTM revenue) is dominated by roads & bridges (40%) and buildings (49%). Order inflows during FY13 stood at ₹31.3bn. The company surpassed its full-year target order inflow of ~₹25bn.

Fig 11 – Orderbook break-down, by segment



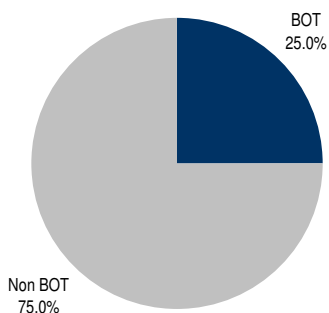
Source: Company

Fig 12 – Orderbook break-down, by region



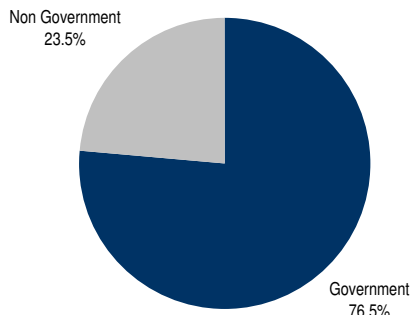
Source: Company

Fig 13 – Orderbook break-down, by type



Source: Company

Fig 14 – Orderbook break-down, by client



Source: Company

BOT projects updates

For 10 BOT road projects, the company has an equity commitment over FY12-15 of ~₹8.1bn. Of this, it has infused ₹4.35bn through investment, advances and debt at the hold-co level; ~₹3.1bn is to be infused by 3i India Infra Fund (of which ₹2bn has already been received), the rest will be invested over FY12-15. The last tranche from 3i has not yet been received and is awaiting certain NHAI clearances. BOT projects comprise 25% of the order book and is reducing. The Manor-Wada road project has been operational since Jan'13. The company expects to raise ₹2bn-2.5bn by securitizing the cash flows of this project and to repay some of its debt.

Fig 15 –Details of BOT projects (₹m)

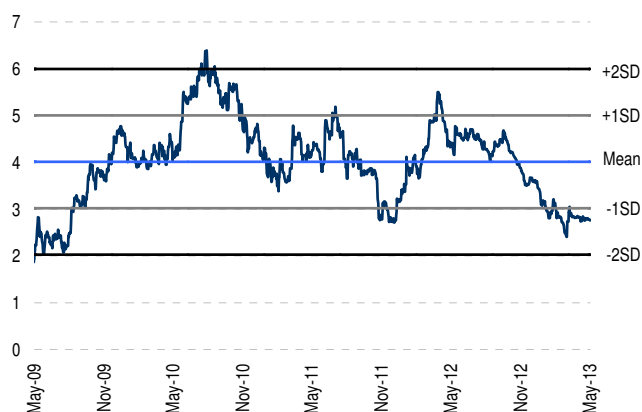
Project	Project Cost	Supreme Stake	Debt	Equity	Equity Invested till date
Manor Wada Bhiwandi	4,300	74%	3,225	1,075	1,075
Kasheli Bridge	3,014	10%	-	100	100
Haji Malang Ropeway	850	80%	500	300	150
Jaipur ring road	10,450	40%	7,900	1,045	760
Patiala-Malerkotla	930	100%	650	280	280
Ahmednagar Karnala Tembhorni	5,400	51%	4,055	1,350	1,350
Panvel Indapur	12,060	26%	9,000	2,290	1,230
Nagar Kopargaon	2,340	51%	1,750	590	590
Sangli Shirol	3,300	46%	2,475	825	825
Kotkapur Muktsar	1,080	74%	810	270	-

Source: Company, Anand Rathi Research

Valuations

The company continues to demonstrate consistent and strong revenue growth, with a stable operating performance. We expect it to post ~15%/19% revenue/PAT CAGRs in the next two years. We retain a Buy, with a target of ₹360. Our sum-of-parts-based target of ₹360 is based on 4x FY14e PE of the construction business (₹304, a 50% discount to midcap target multiples) and 1x Mar'12 P/BV (₹56).

Fig 16 – 12-month-forward PE: Mean and Standard deviation



Source: Bloomberg, Anand Rathi Research

Fig 17 – Sum-of-parts valuation

	Basis of Valuation	Driver Value (₹m)	Multiple (x)	Value (₹m)	Value/ share (₹)
Core Construction	P/E FY14	1,267	4	5,092	304
Supreme Infra BOT Pvt Ltd	P/BV FY12	990	0.8	792	47.3
Rudraanee Infra	P/BV FY12	180	0.8	144	8.6
Fair Value					360

Source: Anand Rathi Research

Risks

- A significant rise in interest rates.
- Slowdown in order inflows/execution.

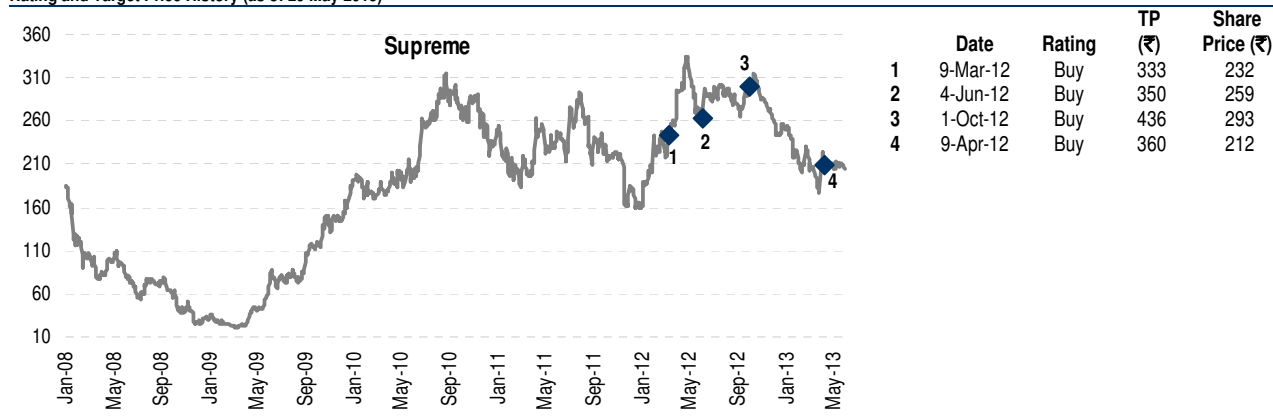
Appendix

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