March 5, 2012

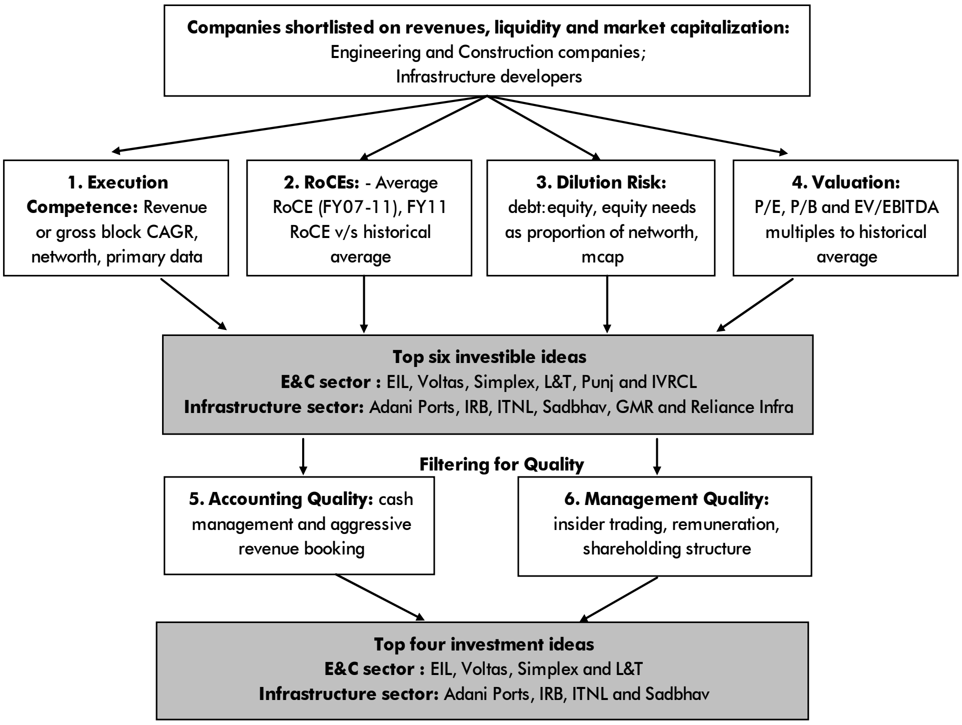
E&C and Infrastructure

THEMATIC

Gravy Train Approaching?

Expectations of declining interest rates and receding Governmental policy paralysis are raising hopes of an improved operating environment for the Engineering & Construction (E&C) and Infrastructure companies. Whilst we do expect a pick-up in GFCF growth and a decline in repo rates in FY13, (which can lead to better execution and higher profitability for companies in these sectors), we believe that only a small subset of companies will be able to capitalize this recovery. We highlight L&T, Voltas, Simplex and EIL as the key filter-based ideas in the E&C sector**. In the** Infra sector**, our filter-based ideas are Adani Ports, IRB, ITNL and Sadbhav.**

Exhibit 1: 6-filter based method for selecting investment ideas



Source: Ambit Capital research, Company

Recommendations E&C sector - L&T, Voltas, Simplex and EIL: In our screens for the sector, these companies have always appeared as the ones with not only better managed balance sheets and management quality but also the ones with strong competitive advantages in their businesses. We presently have BUY recommendations on EIL and Voltas.

Infrastructure developers – Adani Ports, IRB, ITNL and Sadbhav: IRB, ITNL and Sadbhav are the leading players with strong competitive advantages facing ample growth opportunities with limited equity needs. However, Adani Ports is a developer with a unique asset with strong competitive advantages and steady cash flows for funding future asset developments.

Conviction shorts/SELL: NCC, HCC, GVK and Gammon Infra.

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E&C: Filter-based ideas

Company	Mcap (US$mn)	FY13 P/B (X)	FY13 PE (X)
Well placed companies			
L&T	16,235	1.9	11.6
EIL	1,850	4.3	14.1
Voltas	785	2.3	12.4
Simplex	231	0.9	8.4
Poorly placed companies			
NCC	319	0.4	8.6
HCC	355	0.5	NA

Source: Ambit Capital research, Bloomberg Note P/E and P/B are adjusted for embedded value

Infra: Filter-based ideas

Company	Mcap (US$mn)	FY13 P/B (X)	FY13 EV/EBITDA (X)
Well placed companies			
Adani Ports	5,963	4.6	11.2
IRB	1,265	1.8	6.5
ITNL	746	1.2	6.3
Sadbhav	409	1.6	7.0
Poorly placed companies			
Gammon Infra	219	1.4	8.6
GVK	573	0.7	9.4

Source: Ambit Capital research, Bloomberg

Our Coverage Summary

Company	Reco	Mcap (US$mn)	FY13 P/E (X)
EIL	BUY	1,850	14.1
Voltas	BUY	785	12.4
Blue Star	SELL	334	18.4
NCC	SELL	319	8.6
IVRCL	SELL	300	9.7
VA Tech	BUY	230	13.3
KNR	BUY	77	4.4
CCCL	SELL	71	18.8

Source: Ambit Capital research, Bloomberg Note PE is adjusted for embedded value

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Summarizing the filtering exercise

Exhibit 1: Filters for selecting the best E&C and Infrastructure developer companies

Filters	Description
Primary filters: Assessing operational risk	
Execution competence	For E&C companies, we rank the companies on parameters like revenues of the project management or construction businesses, net worth, cost competence and industry experts' views on the execution capabilities of these companies. For infrastructure developers, we rank companies on gross block CAGR over FY08-FY11, operational competence and primary data comments on the execution capabilities of companies.
RoCE – high and ideally with limited decline	We rank the companies on their consolidated historical average RoCE (FY07-FY11) and on their current RoCE (FY11) compared to their 5-year historical average.
Dilution	We rank companies based on their debt:equity and equity needs over the next 2-3 years for their asset development projects. Equity needs are considered in the proportion of their net worth, market capitalization and CFO or EBITDA.
Valuation	For E&C companies, we compare their FY13 P/E and P/B valuation multiples with their 5-year historical average. For Infrastructure developers, we compare their FY13 EV/EBITDA and P/B valuation multiples with 5-yr historical average.
Secondary filters: Weeding the primary filter driven ideas using accounting and management quality	
Forensic analysis	In keeping with our house style, we analyze the companies on various ratios, expense management, cash generation and balance sheet management over FY08-FY11.
Management quality	Management quality is judged based on the parameters of intensity of insider trading, complexity of the shareholding pattern and shareholding being pledged, growth in managerial remuneration compared to growth in consolidated PBT and the companies' actual performance compared to its earlier guidance.

Source: Ambit Capital research, Company

Exhibit 2: Selecting the top 4 Engineering and Construction (E&C) companies based on our filters

Companies	Primary filters				Ranking-primary filters	Secondary filters		Ranking - secondary filters
	Execution competence	RoCE	Dilution	Valuation		Forensic analysis	Management quality	
Simplex	8	5	4	1	**1**	7	3	**4**
EIL	6	1	1	11	**2**	1	2	**1**
Voltas	9	3	2	6	**3**	4	1	**2**
L&T	1	7	7	7	**4**	5	4	**3**
Punj Lloyd	3	11	5	5	**5**	9	12	**12**
IVRCL	4	8	11	3	**6**	5	8	**7**
Gammon	2	12	11	1	**7**	9	10	**11**
Ramky	10	2	6	9	**8**	11	5	**8**
Blue Star	12	4	3	9	**9**	2	8	**4**
Era Infra	4	6	7	12	**10**	8	10	**9**
NCC	6	10	10	4	**11**	3	7	**4**
HCC	10	9	7	8	**12**	12	6	**9**

*Source: Ambit Capital research, Company, Capitaline. **Note: Rank 1 is the best and Rank 12 is the worst.** Data is sorted on primary filter ranking.*

Despite NCC and Blue Star standing out as relatively solid companies on accounting and management quality, they do not make it to the top four ideas because of their ranking lower on the primary filters. Whilst Punj Lloyd and IVRCL are relatively average players on primary filters, they rank poorly on accounting and management quality.

Exhibit 3: Selecting the top 4 Infrastructure developers on our filters

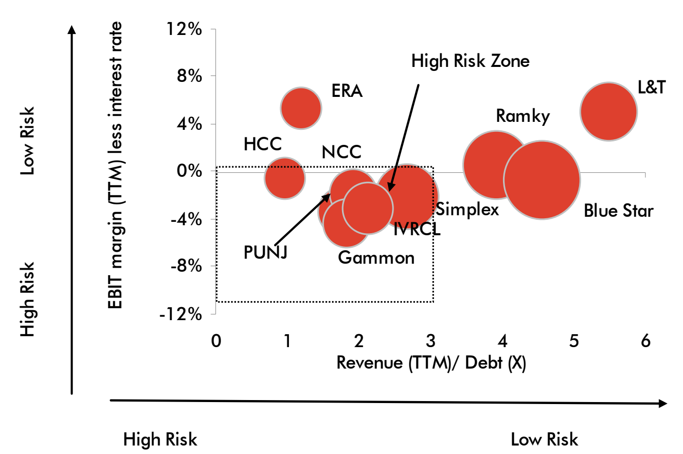
Companies	Primary filters				Ranking -primary filters	Secondary filters		Ranking - secondary filters
	Execution competence	RoCE	Dilution	Valuation		Forensic analysis	Management quality	
Sadbhav	1	5	3	1	**1**	5	5	**4**
GMR	1	10	1	1	**2**	6	9	**10**
Adani Ports	4	1	5	5	**3**	1	2	**1**
IRB	8	1	4	6	**4**	3	1	**2**
ITNL	3	1	7	8	**4**	7	5	**6**
Reliance Infra	10	7	1	4	**6**	10	2	**6**
Gujarat Pipavav	8	6	5	6	**7**	7	4	**5**
Ashoka Buildcon	6	4	8	10	**8**	7	7	**8**
GVK	6	8	10	3	**9**	1	8	**3**
Gammon Infra	4	8	9	8	**10**	4	10	**8**

Source: Ambit Capital research, Company, Capitaline. Note: Rank 1 is the best and Rank 10 is the worst. Data is sorted on primary filter ranking.

Despite GMR standing out as relatively solid company on the primary filters, it does not appear as a strong idea as it scores poorly on accounting and management quality filters.

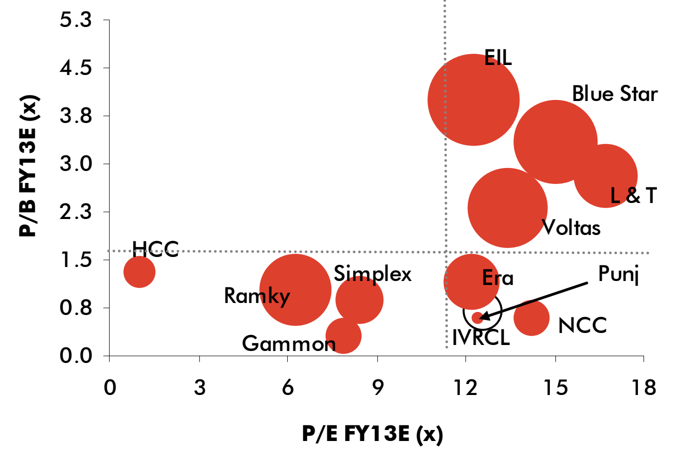
Mapping the business risk and valuation of E&C companies

Exhibit 4: L&T, Blue Star and Ramky are in the low operational risk zone



Source: Ambit Capital research, Company, Capitaline, BSE. Notes (a) We use standalone data for L&T, IVRCL, Era Infra, NCC, HCC, Ramky and Gammon, and consolidated data for others (b) Interest rate is calculated for each company using their net interest expense over the average debt that the company reported over last two financial years(c) Size of the bubble denotes the average capital employed turnover ratio (TTM), based on 1HFY12 financials

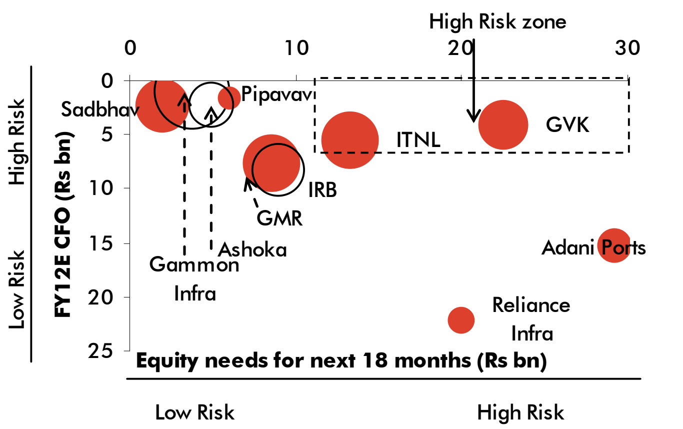
Exhibit 5: EIL and Blue Star appear expensive whilst HCC and Ramky appears cheap



Source: Ambit Capital research, Company, Bloomberg. Note: (a) Size of the bubble denotes FY11 RoE (b) FY13E P/B and P/E data is as March 2, 2012

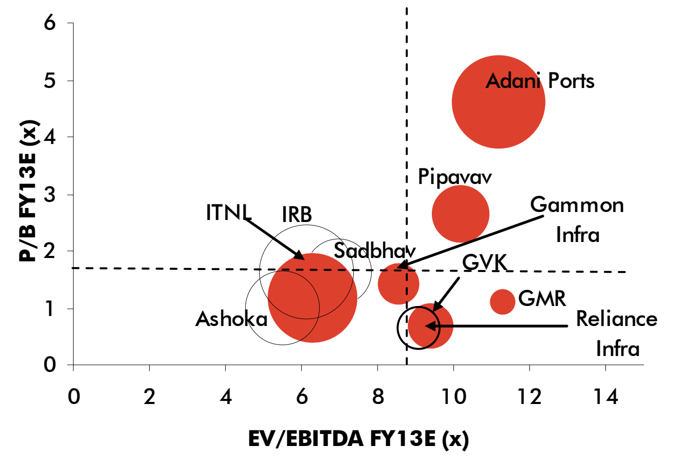
Mapping the necessary equity dilution and valuations of the infrastructure developers

Exhibit 6: GVK and ITNL have high equity needs whilst Sadbhav has low equity requirement



Source: Ambit Capital research, Company, Bloomberg. Notes: (a) We use consolidated data for companies; (b) FY12 CFO is calculated as consensus estimate for consolidated PAT + depreciation; (b) Size of the bubble denotes 1HFY12 consolidated debt:equity; (c) For Sadbhav consolidated debt:equity is not available for 1HFY12, therefore we have taken consolidated debt equity at end of FY11; and (d) Equity needs for 18 months are calculated as 50% of the total expected equity required to be invested over next 2-3 years (which are indicative numbers)

Exhibit 7: Adani Ports appears expensive whilst Ashoka appears cheap



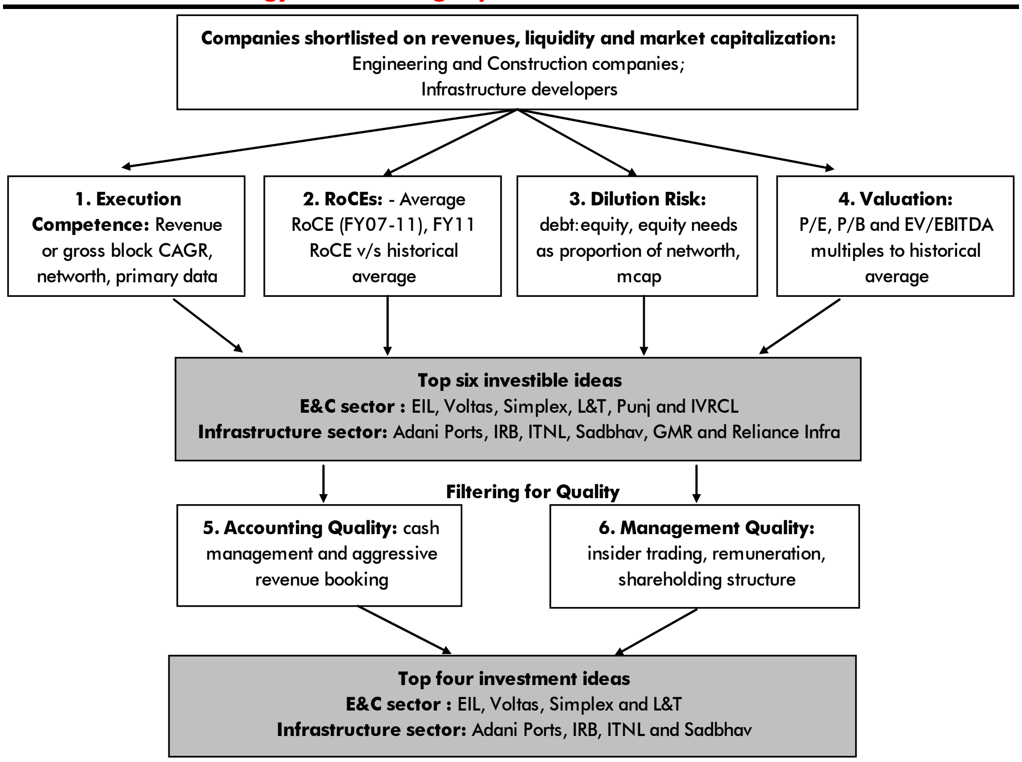
Source: Ambit Capital research, Company, Bloomberg. Note: (a) Size of the bubble denotes FY11 RoCE; (b) FY13E EV/EBITDA and P/E data is as March 2, 2012

Methodology

We select 12 engineering and construction (E&C) companies and 10 infrastructure companies (based on their revenues, market capitalization and liquidity) and assess them on four primary filters focused on operational/business efficiency. We select top six investible ideas in each sector (E&C and infrastructure) and assess them on our accounting and management quality screens.

After, filtering for quality, we finally choose the top four companies as our investment ideas in each sector (E&C and infrastructure). Even if a company is a strong player on primary filters, but ranks poorly on our accounting and management quality screens, we exclude the company from our set of top four investment ideas.

Exhibit 8: Methodology for selecting top four investment ideas in each sector



Source: Ambit Capital research, Company

Selection criteria for companies

Engineering and Construction (E&C)

From the large number of listed E&C companies, we select the top 12 companies for our analysis based on their: **(a)** size (determined by their FY11 consolidated revenues); **(b)** market capitalization; and **(c)** liquidity (determined by the average of the last three months' daily trading volume (ADV)).

Exhibit 9: Selection criteria for E&C companies (in US$mn unless mentioned)

Companies	Consolidated revenues FY11	Mcap	ADV (6 months)	ADV (3 months)
L&T	10,468	16,219	75.8	79.7
Gammon	1,790	137	0.3	0.5
Punj Lloyd	1,594	358	4.9	5.2
HCC	1,452	315	2.2	2.5
IVRCL	1,388	270	7.9	10.6
NCC	1,265	275	1.4	1.6
Voltas	1,051	704	5.1	7.4
Simplex	990	231	0.1	0.1
Era Infra	778	496	1.1	1.1
Ramky	639	260	0.1	0.1
Blue Star	599	335	0.2	0.2
EIL	578	1,738	1.5	1.9

Source: Ambit Capital research, Company, Bloomberg, Notes (a) We have taken consolidated revenue, (b) Mcap is as on March 2, 2012, (c) Data is sorted based on consolidated revenues.

Infrastructure developers

We have taken the top 10 listed infrastructure developers for our analysis. Whilst some companies have diversified operations, all of these companies are engaged in asset development in the transportation sector (roads, ports and airports). Reliance Infra, GMR and GVK have presence in the power generation sector as well.

Exhibit 10: Selection criteria for Infrastructure developers (US$mn, unless mentioned)

Companies	Consolidated revenues FY11	Mcap	ADV (6 months)	ADV (3 months)
Reliance Infra	2,438	2,897	20.6	25.8
GMR	1,109	2,052	3.5	4.2
ITNL	785	745	0.6	0.8
IRB	492	1,265	6.4	6.3
Sadbhav	474	409	0.4	0.5
Adani Ports	406	5,963	4.4	4.4
GVK	389	514	4.7	5.8
Ashoka Buildcon	264	496	0.0	0.1
Gammon Infra	64	224	0.1	0.1
Gujarat Pipavav	58	486	0.4	0.3

Source: Ambit Capital research, Company, Bloomberg. Notes: (a) Mcap as on March 2, 2012; (b) whilst Jaypee Infra is also a diversified player, we have excluded it from our analysis as most of the revenues are from real estate business; and (c) Data is sorted based on the consolidated revenues.

Primary filters: Assessing business risk

We assess the business/operational risk on four parameters: **(a)** execution competence; **(b)** returns generated (RoCEs); **(c)** dilution risk; and **(d)** valuation. Based on our analysis we find that:

- **Top six E&C companies are**: Simplex, EIL, Voltas, L&T, Punj Lloyd, IVRCL
- **Top six Infrastructure developers are**: Sadbhav, GMR, IRB, ITNL, Adani Ports and Reliance Infrastructure.

Filter I: Execution competence

When order flow momentum picks up in the construction and infrastructure sectors, companies with strong execution capabilities can grow faster and generate higher returns compared to peers. We use different parameters to assess the execution capabilities of the E&C companies and the infrastructure companies.

We rank the E&C players on their: **(a)** size and net worth (higher revenue and net worth enables a company to bid for large-sized projects); **(b)** revenue CAGR over FY08-FY11which shows how fast the company has grown compared to peers; **(c)** industry experts' discussions with us on the execution capabilities of these companies; and **(d)** standing on cost competence measured by ratios such as financial costs, fixed costs, working capital turnover, gross block turnover and debt:equity (based on FY11 financials). On our execution capabilities metric **L&T and Gammon are the strongest players whilst HCC and Blue Star appear to be the weakest players.**

Exhibit 11: E&C companies' ranking on execution capabilities

Company/Metric	FY11 revenues (₹ bn)	Revenue CAGR (FY08-FY11)	FY11 net worth (₹ bn)	Industry experts' view on execution capabilities	Standing on cost competence	Final ranking
L&T	435	21%	218	Strong	Strong	**1**
Gammon	56	34%	21	Moderate	Moderate	**2**
Punj Lloyd	78	-2%	30	Moderate	Weak	**3**
IVRCL	54	15%	20	Moderate	Moderate	**4**
Era Infra	36	42%	17	Weak	Weak	**4**
NCC	51	13%	24	Weak	Moderate	**6**
EIL	28	56%	14	Strong	Strong	**6**
Simplex	49	19%	11	Strong	Moderate	**8**
Voltas	30	20%	14	Strong	Strong	**9**
Ramky	27	38%	9	Moderate	Moderate	**10**
HCC	41	10%	15	Weak	Weak	**10**
Blue Star	20	8%	5	Moderate	Strong	**12**

Source: Ambit Capital research, Company, Capitaline, Bloomberg, Notes (a) We use revenues and net worth from either the project management services or the construction related business and therefore we have taken standalone data for L&T, IVRCL, NCC, HCC, Ramky and Gammon , consolidated for Simplex, EIL and Punj. (b) For Era Infra, Blue Star and Voltas FY11 revenues and revenue CAGR (FY08-FY11), we have only considered projects business (c) Rank 1 being the best and Rank 12 being the worst; Data is sorted on final ranking.

For the infrastructure developers, we rank the companies on their: **(a)** consolidated gross block CAGR over FY08-FY11 (given that most of the BOT assets of the infrastructure developers are under construction and given that gross block CAGR highlights the pace of execution of these BOT assets); **(b)** operational competence; and **(c)** industry experts' views on the execution capabilities of these companies. Overall, with regard to execution capabilities for infrastructure developers, **GMR and Sadbhav are the strongest players whilst Gujarat Pipavav and Reliance Infra appear to be poorly placed.**

Exhibit 12: Infrastructure companies' ranking on execution capabilities

Company/Metric	Gross block CAGR % (FY08-FY11)	Primary data comments on execution capabilities	Operational competence	Final ranking
GMR	54	Moderate	Moderate	**1**
Sadbhav	45	Strong	Moderate	**1**
ITNL	40	Moderate	Strong	**3**
Gammon Infra	35	Moderate	Moderate	**4**
Adani Ports	30	Strong	Strong	**4**
GVK	36	Weak	Weak	**6**
Ashoka Buildcon	31	Moderate	Moderate	**6**
IRB	23	Strong	Moderate	**8**
Gujarat Pipavav	25	Moderate	Moderate	**8**
Reliance Infra	2	Weak	Moderate	**10**

Source: Ambit Capital research, Company, Capitaline, Notes (a) We have taken consolidated data for our analysis (b) Gujarat Pipavav is Dec-ending and the data is on a standalone basis for CY07-CY10 (c) Operational competence is based on a number of years of experience,, operational assets and assets under construction(d) Rank 1 being the best and Rank 10 being the worst; Data is sorted on the final ranking.

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Filter II: Returns generated (RoCEs)

We rank the E&C companies and the infrastructure developer companies on their: **(a)** average consolidated RoCE over the last five years (the higher the better); **(b)** present RoCE (FY11) compared to the five-year historical average (to assess whether the current performance is improving/deteriorating compared to the historical average performance). We further analyze the consolidated EBIT margin, tax rate and capital employed turnover of the last five years (FY07-FY11), in order to understand the reasons for the change in the consolidated RoCEs of the respective companies over FY07-FY11(i.e. a DuPont-like analysis of RoCE).

Based on our analysis we find that

- **E&C companies**: **EIL, Ramky and Voltas are the best players and NCC, Punj and Gammon India are the worst players** when ranked **on the consolidated RoCE metric**. However, whilst Blue Star and Voltas have the highest average RoCEs, Gammon and Punj have the lowest average RoCEs over the last five years. Similarly, EIL and Ramky have consistently maintained their RoCEs over the last five years as the RoCE of FY11 is closer/higher than historical averages.

Exhibit 13: Ranking of E&C companies on consolidated RoCE

Companies	Average RoCE % (FY07-FY11)	FY11 RoCE less historical average % (FY07-FY11)	Ranking on average RoCE	Ranking on FY11 RoCE less historical average	Final ranking on RoCE
EIL	18.5	14.0	3	1	**1**
Ramky	14.3	-0.4	5	2	**2**
Voltas	27.5	-3.6	2	10	**3**
Blue Star	39.5	-14.7	1	12	**4**
Simplex	15.4	-5.7	4	11	**5**
Era Infra	12.7	-3.0	6	9	**6**
L&T	10.4	-2.5	7	7	**7**
IVRCL	7.1	-1.8	9	4	**8**
HCC	4.5	-0.7	10	3	**9**
NCC	8.3	-2.9	8	8	**10**
Punj Lloyd	3.6	-2.3	11	6	**11**
Gammon	3.4	-1.9	12	5	**12**

Source: Ambit Capital research, Company, Capitaline, Notes (a) We have taken consolidated data for calculating RoCE (b) For Blue Star, data is on a standalone basis for FY07-FY10 and for Simplex data is on standalone basis for FY07 and FY08, (c) Rank 1 being the best and Rank 12 being the worst; Data is sorted on the final ranking.

- **Infrastructure developers:** Adani Ports, IRB and ITNL are strongest players on the consolidated RoCE metric whilst GMR and GVK fair poorly on this metric.

Exhibit 14: Ranking of the Infrastructure companies on consolidated RoCE

Companies	Average RoCE % (FY07-FY11)	FY11 RoCE less historical average % (FY07-FY11)	Ranking on average RoCE	Ranking on FY11 RoCE less historical average	Final ranking on RoCE
Adani Ports	8.3	3	2	3	**1**
IRB	8.3	3	2	3	**1**
ITNL	6.8	5	4	1	**1**
Ashoka Buildcon	8.3	0	1	7	**4**
Sadbhav	6.6	0	5	6	**5**
Gujarat Pipavav	0.1	5	10	2	**6**
Reliance Infra	1.3	2	9	5	**7**
Gammon Infra	3.7	-1	6	9	**8**
GVK	3.5	0	7	8	**8**
GMR	3.2	-4	8	10	**10**

Source: Ambit Capital research, Company, Capitaline, Notes (a) We have taken consolidated data for calculating RoCE (b) Gujarat Pipavav is Dec-ending and the data is on a standalone basis for CY06-CY10. (c) Rank 1 being the best and Rank 10 being the worst. Data is sorted on the final ranking.

Filter III: Dilution risk

In spite of their high debt:equity, most of the construction and infrastructure companies have incremental investment requirements equivalent to more than 50% of their present net worth, as their share of the equity contribution in their BOT assets. Companies which need to invest significantly large amounts of funds in their BOT assets and have high leverage have higher risk of equity dilution compared to peers.

We rank the E&C companies and the infrastructure developers on the dilution risk metric using four sub-filters: **(a)** equity expected to be invested in current BOT projects as a percentage of net worth; **(b)** equity expected to be invested in current BOT projects as a percentage of EBITDA or CFO earned in FY11 and 9MFY12; **(c)** equity expected to be invested in current BOT projects as a percentage of market capitalization; and **(d)** 1HFY12 debt:equity. We prefer companies that have: **(a)** low equity commitment; and **(b)** low/nil leverage.

Based on our analysis, we find that amongst the E&C companies, project management companies such as **EIL, Voltas** and **Blue Star** have the lowest risk of equity dilution. Amongst the pure construction players, whilst Simplex and Punj have the lowest risk of equity dilution, companies such as **Gammon India and IVRCL** seem to have relatively high risk of equity dilution as their equity commitments as a percentage of net worth or market capitalization are very high.

Exhibit 15: Ranking of E&C companies on the risk of equity dilution metric

Companies	Additional investment needed in BOT projects in next 2-3 yrs (A) (₹ mn)	A as a %age of net worth	A as a % of market cap	A as % of EBITDA (FY11+ 9MFY12)	Debt:Equity 1HFY12 (x)	Final rank
EIL	Nil	Nil	Nil	Nil	-	1
Voltas	Nil	Nil	Nil	Nil	0.20	2
Blue Star	Nil	Nil	Nil	Nil	1.10	3
Simplex	900 till FY2013	8	8	10	1.60	4
Punj Lloyd	2,205 till FY2015	7	12	25	1.70	5
Ramky	2,700 till FY2014	30	21	38	0.80	6
L&T	125,000 till FY2015	57	16	110	0.40	7
HCC	3,735 till FY2015	25	22	38	2.80	7
Era Infra	5,000 till FY2014	29	20	39	1.80	7
NCC	11,000 till FY2015	46	69	109	1.10	10
Gammon	7,500 till FY2015	35	107	91	1.40	11
IVRCL	10,000 till FY2015	50	67	99	1.30	11

Source: Ambit Capital research, Company, Capitaline, Industry and news articles, Notes (a) Additional equity needs are only indicative numbers (b) We have taken standalone FY11 net worth for L&T, IVRCL, Era Infra, NCC, HCC, Ramky and Gammon, rest is consolidated. (c) 1HFY12 debt:equity is on a consolidated basis for Voltas and Punj Lloyd, rest is standalone (d) For companies like EIL, Simplex, Blue Star, 9MFY12 EBITDA is on standalone basis (e) Mcap is as March 2, 2012 (f) Rank 1 being the best and Rank 12 being the worst. Data is sorted on the final ranking.

Amongst the **infrastructure** developers, whilst **Sadbhav, GMR and Reliance Infra** have the lowest risk of equity dilution, **Gammon Infra** and **GVK** seem to have relatively high risk of equity dilution. Debt:equity is the highest for Gammon Infra and the lowest for Reliance Infra and Sadbhav.

Exhibit 16: Ranking of Infrastructure developers on the equity dilution metric

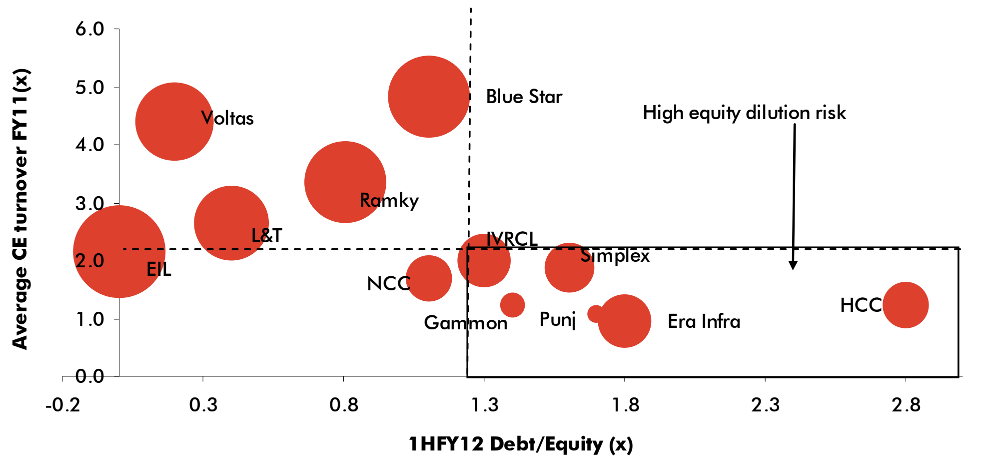
Companies	Additional investment needed in BOT projects in next 2-3 yrs (A) (₹ mn)	A as a %age of net worth	A as a % of market cap	A as a % of CFO (FY11 +9MFY12)	Debt:equity 1HFY12(x)	Final ranking
GMR	17,000 till FY2014	15	15	41	2.6	**1**
Reliance Infra	40,000 till FY2015	16	28	168	0.6	**1**
Sadbhav	2,000 till FY2013	29	10	55	2.3	**3**
IRB	18000 till FY2015	67	32	109	2.3	**4**
Gujarat Pipavav	12,000 till FY2014	77	51	658	0.5	**5**
Adani Ports	58,300 till FY2014	121	20	260	0.9	**5**
ITNL	26,500 till FY2014	101	73	230	2.6	**7**
Ashoka Buildcon	10,000 till FY2014	107	91	349	1.6	**7**
Gammon Infra	7,500 till FY2015	110	67	306%	4.5	**9**
GVK	45,000 till FY2015	129	178	680	2.0	**10**

Source: Ambit Capital research, Company, Capitaline, Industry and news articles, Notes (a) Additional equity needs are indicative numbers (b) We have taken consolidated data for our analysis (c) 9MFY12 CFO is calculated as PAT + deferred taxes + depreciation (d)For Sadbhav consolidated debt:equity is not available for 1HFY12, therefore we have taken consolidated debt equity at end of FY11 (e) Mcap is as March 2, 2012 (f) Rank 1 being the best and Rank 10 being the worst. Data is sorted on the final ranking.

The core business for some E&C companies is also not in the best shape and may need equity

Whilst exhibit 15 highlights the equity needs of E&C companies for their asset development ambitions, the exhibit 17 below highlights the business risk and the likely dilution risk for the construction businesses. For this analysis, we exclude the investments (either as loans or equity invested in subsidiaries) from capital employed.

Exhibit 17: Construction companies like HCC and Era Infra need equity even for their core construction business

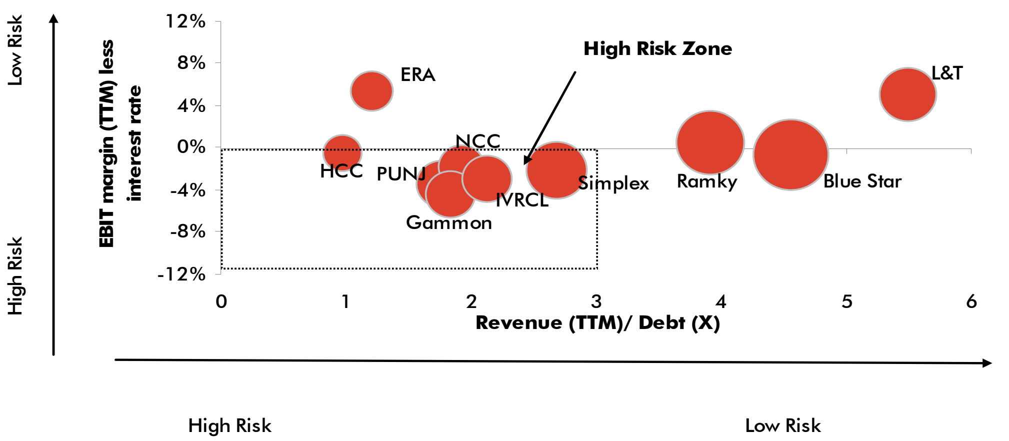


Source: Ambit Capital research, Company, Capitaline, BSE, Notes (a) We use standalone data for L&T, IVRCL, Era Infra, NCC, HCC, Ramky, Gammon and consolidated data for others (b) Bubble size denotes FY11 RoCE. (c) For IVRCL , L&T, HCC, Gammon India, NCC, Ramky and Era Infra, we have excluded investment and loans and advances to subsidiaries from the capital employed for calculation of RoCE and CE turnover.

Mapping the construction companies on business risk

We map the 12 E&C companies on our 'Boom-Bust' matrix for the reported 1HFY12 financials and find that **L&T, Blue Star** and **Ramky** are **not** in the high risk zone. We have excluded **Voltas** and **EIL** from the Boom-Bust matrix as these companies have little or no debt (resulting in significantly high revenue/debt ratio) implying that they too are not in the high risk zone.

Exhibit 18: E&C companies on our Boom–Bust matrix

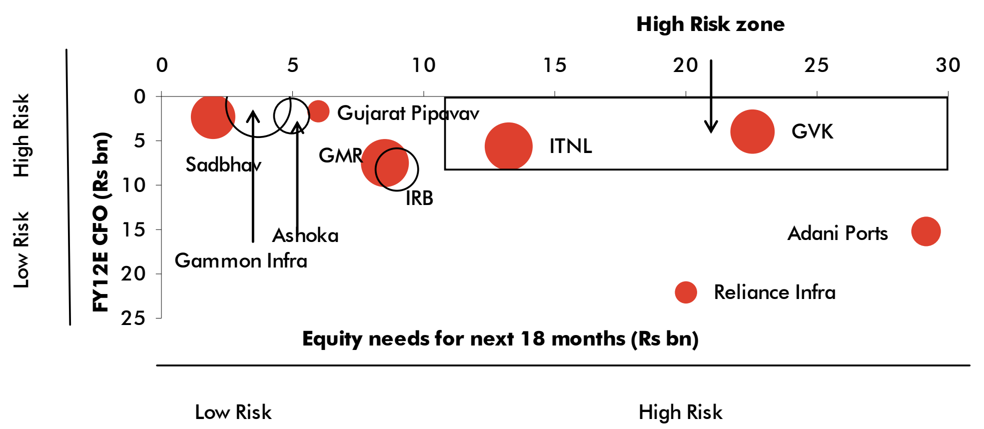


Source: Ambit Capital research, Company, Capitaline, BSE, Notes (a) We use standalone data for L&T, IVRCL, Era Infra, NCC, HCC, Ramky and Gammon, and consolidated data for others (b) Interest rate is calculated for each company using its net interest expense over the average debt that the company reported over last two financial years(c) Size of the bubble denotes the average capital employed turnover ratio (TTM), based on 1HFY12 financials

Mapping the infrastructure companies on dilution risk

We map the 10 infrastructure companies on our 'Boom-Bust Matrix and find that **GVK** and **ITNL** are in the high risk zone whilst **Sadbhav** has the lowest risk of dilution. Whilst **Adani Ports** and **Reliance Infra** have high equity needs in next 18 months, they generate high CFO (compared to others) and have the lowest consolidated debt:equity.

Exhibit 19: Infrastructure developers on dilution risk



Source: Ambit Capital research, Company, Bloomberg, Notes (a) We use consolidated data for companies (b) FY12 CFO is calculated as consensus estimate for consolidated PAT + depreciation (b) ***Size of the bubble denotes 1HFY12 consolidated debt:equity*** *(c) For Sadbhav consolidated debt:equity is not available for 1HFY12, therefore we have taken consolidated debt equity at end of FY11 (d) Equity needs for 18 months are calculated as 50% of the total expected equity required to be invested over next 2-3 years (which are indicative numbers) .(e)FY12E CFO is plotted in reverse order*

Capital-starved and debt-laden construction and infrastructure companies are looking to raise funds from external sources either by diluting their stake in their existing BOT assets (mainly roads) or by diluting a part of their stake in the parent company. We believe that even if these companies are successful in raising money from external sources, there will not be a material rerating in their stock prices as history suggests that whenever these companies have raised money from external sources, they have never utilized the funds judiciously for business purposes.

Filter IV: Valuation

Over the last 12-15 months, stock prices of most of the E&C and infrastructure companies have sharply declined and their stocks are trading at significantly low valuations. Whilst the stock prices of most of the E&C and Infra companies have rallied in the last two months (more than 100% stock price movement for companies like IVRCL, GVK etc. from their lowest levels in December 2011), these stocks are still trading significantly below their 5-year historical average valuations. We have compared the FY13 valuation multiples of the E&C companies and the infrastructure companies with their respective 5-year historical average multiples and ranked the companies with a higher deviation from the average as the more attractive v/s those with a lower deviation.

For E&C companies, we compare FY13 P/E and P/B multiples with their 5-year historical averages; for infrastructure companies we compare FY13 EV/EBITDA and PB multiples with their 5-year historical averages.

In the E&C space, companies like Simplex, Gammon and IVRCL are trading at a significant discount to their historical averages, hence, they appear attractive compared to others like Era Infra and EIL. **Amongst the Infrastructure companies, GVK and GMR are trading at a significant discount to their historical averages,** hence, seem to be more attractive compared to peers.

Exhibit 20: Ranking of E&C companies on the valuation metric

Companies	1-year forward PE (FY13) (x)	5-year average 1-yr forward PE (x)	(%) P/E discount /premium to 5-year average	1-year forward PB (FY13)(x)	5-year average 1-yr forward PB(x)	(%) P/B discount /premium to 5-year average	Final ranking
Simplex	8.4	20.0	-58%	0.9	5.7	-84%	1
Gammon	7.9	25.0	-68%	0.3	1.5	-79%	1
IVRCL	12.6	28.7	-56%	0.7	2.0	-65%	3
NCC	12.7	20.6	-38%	0.6	1.8	-66%	3
Punj Lloyd	12.4	13.4	-7%	0.6	2.8	-78%	5
Voltas	13.4	16.0	-16%	2.3	5.0	-54%	6
Blue Star	15.0	18.0	-17%	3.4	6.5	-48%	6
L&T	16.7	22.8	-27%	2.8	4.9	-43%	8
Ramky	6.3	7.0	-10%	1.0	2.3	-56%	8
HCC	NA	NA	NA	1.3	2.3	-44%	10
EIL	12.3	14.0	-12%	4.0	4.3	-7%	11
Era Infra	12.2	10.9	12%	1.2	1.8	-34%	12

Source: Ambit Capital research, Company, Bloomberg, Note (a) We have taken standalone multiples for L&T, IVRCL, Era Infra, NCC, HCC, Ramky and Gammon, and consolidated for others (b) For Ramky consensus data is available from October 2011, therefore for average P/E and P/B we have taken data from October 2011 onwards. (c)FY13 P/E and P/B is as on March 2. 2012.

Exhibit 21: Ranking of Infrastructure developers companies on valuation metrics

Companies	1-year forward EV/EBITDA (FY13) (x)	5-year average 1-yr forward EV/EBITDA (x)	(%) EV/EBITDA discount /premium to 5-year average	1-year forward PB (FY13)(x)	5-year average 1-yr forward PB(x)	(%) PB discount /premium to 5-year average	Final ranking
GMR	11.3	14.7	-23%	1.1	3.7	-70%	1
Sadbhav	7.0	12.5	-44%	1.6	3.0	-46%	1
GVK	9.4	13.1	-28%	0.7	1.6	-58%	3
Reliance Infra	9.1	10.4	-13%	0.6	1.4	-61%	4
Adani Ports	11.2	18.0	-38%	4.6	5.7	-19%	5
IRB	6.5	7.4	-12%	1.8	2.4	-24%	6
Gujarat Pipavav	10.2	12.0	-15%	2.6	3.2	-19%	6
Gammon Infra	8.6	9.7	-11%	1.4	1.8	-20%	8
ITNL	6.3	6.8	-7%	1.2	1.7	-31%	8
Ashoka Buildcon	5.5	6.2	-11%	1.0	1.0	-4%	10

Source: Ambit Capital research, Company, Bloomberg, Note (a) We have taken standalone multiples for Gammon and consolidated for others (b) For E&C companies, we have taken PE and for Infrastructure developers, we have taken EV/EBITDA (b) For some of the infrastructure developers, 5-year historical data is not available, therefore we have considered the time period for which consensus data is available. (c) FY13 EV/EBITDA and P/B is as on March 2. 2012.

Secondary filters: Weeding for accounting and management quality

We check our top six investment ideas in each sector (based on the earlier discussed primary filters) on our accounting and management quality screens, which we believe are the utmost importance parameters. We exclude the companies such as GMR and Punj from our list of top investment ideas, as they appear poor on our accounting and management quality screens.

In the E&C sector, we find EIL, Voltas, L&T and Simplex to be the strongest companies and in the infrastructure sector, we find Adani Ports, IRB, ITNL and Sadbhav to be the strongest players.

Filter I: Accounting quality

Indian E&C and infrastructure companies are blamed for using contentious accounting policies which raise questions about the extent to which the reported financials of these companies are a reflection of the companies' actual operating performance. In our January 20, 2012 Forensic Accounting Thematic, Bhargav Buddhadev had highlighted that whilst the infrastructure sector has average accounting quality, the construction sector ranks as one of the worst.

Given the above background, we performed accounting quality checks for both the E&C companies and the Infrastructure developers. We use various accounting ratios to evaluate these companies' revenue recognition and cash/expense mismanagement practices. We have analyzed the consolidated data for these companies for the last four years (FY08-FY11) as the consolidated financial analysis provides a true picture of the overall accounting quality including performance of the BOT and real estate subsidiaries for most of the companies

Based on our analysis we find that in the **E&C space, whilst EIL and Blue Star are the best companies** when it comes to overall accounting policies**, Ramky and HCC appear to be the worst placed companies.** Whilst EIL and Voltas stand out on revenue recognition checks, Blue Star and NCC stand out on expense manipulation and cash pilferage checks.

Exhibit 22: Ranking of E&C companies on our accounting metrics

Company/Metric	Ranking on revenue recognition checks	Ranking on expense manipulation and cash pilferage checks	Final ranking
EIL	1	3	**1**
Blue Star	4	1	**2**
NCC	5	1	**3**
Voltas	2	5	**4**
L&T	3	7	**5**
IVRCL	6	4	**5**
Simplex	9	5	**7**
Era Infra	8	8	**8**
Gammon	6	12	**9**
Punj Lloyd	10	8	**9**
Ramky	10	10	**11**
HCC	12	11	**12**

Source: Ambit Capital research, Company, Notes: (a) We have taken consolidated data for our analysis (b) Growth in audit fees to growth in revenues is on standalone basis (c) Rank 1 being the best and Rank 12 being the worst. Data is sorted on final ranking.

Amongst **infrastructure developers**, we find that **the best placed players** on overall accounting quality **are GVK and Adani Ports** whilst the **worst placed player is Reliance Infra.**

Exhibit 23: Ranking of Infrastructure developers on our accounting metrics

Company/Metric	Ranking on revenue recognition checks	Ranking on expense manipulation and cash pilferage checks	Final ranking
GVK	4	1	**1**
Adani Ports	3	2	**1**
IRB	1	6	**3**
Gammon Infra	6	3	**4**
Sadbhav	4	6	**5**
GMR	2	10	**6**
ITNL	8	5	**7**
Gujarat Pipavav	9	4	**7**
Ashoka Buildcon	4	9	**7**
Reliance Infra	6	8	**10**

Source: Ambit Capital research, Company, Capitaline, Notes: (a) We have taken consolidated data for our analysis (b) Growth in audit fees to growth in revenues is on standalone basis (c) Rank 1 being the best and Rank 10 being the worst. Data is sorted on final ranking.

Exhibit 24: Description of accounting ratios used for our analysis

Parameter	Ratio	Applicable to	Details
Revenue Recognition checks	CFO/EBITDA	E&C and Infrastructure	This ratio is a check on a company's ability to convert EBITDA (which can be relatively easily manipulated) into operating cash flow (which is more difficult to manipulate). We compare the sum of last four years CFO (FY08-FY11) to the sum of last four years EBITDA (FY08-FY11). Aggressive EBITDA growth alongside poor growth in CFO may imply revenue manipulation.
	Growth in audit fees to growth in revenues	E&C and Infrastructure	We calculate growth in audit fees/growth in revenues for the four years (FY08-FY11). The rationale is to penalize companies wherein the growth in audit fees exceeds the growth in revenues. This is because audit fees should NOT generally grow linearly with revenues.
	Debtor and inventory days	E&C	The companies which have higher average debtor and inventory days rank lower in our accounting screen due to concerns regarding: (a) their aggressive accounting policies; (b) credit quality of clients; and (c) company's bargaining power with clients.
	Asset turnover	Infrastructure	This ratio checks on the rate at which average gross block is converted into revenues. We rank companies based on four years' average assets turnover ratio and the higher the ratio, the better is the company.
Expense manipulation and cash pilferage checks	Miscellaneous expenditure as a percentage of revenues	E&C and Infrastructure	If this ratio is increasing consistently then it raises concerns over the authenticity of such expense (as a consistent increase in miscellaneous expenses as a percentage of revenues could imply cash pilferage by the promoter). We take the average of last four years (FY08-FY11) and prefer companies with a lower average.
	Unclassified loans and advances as % of net worth	E&C and Infrastructure	If this ratio is increasing consistently then it raises concerns over the veracity of loans given (as a consistent increase in loans could imply diversion of cash to seemingly unrelated companies). We take average of the last four years (FY08-FY11) and prefer companies with a lower average.
	Contingent liabilities as a percentage of net worth	E&C and Infrastructure	This is a check on the company's off-balance sheet liabilities. If this ratio is increasing consistently then it raises concerns regarding the strength of the company's balance sheet in the event the contingent liabilities materialize.
	Volatility in unclassified loans and advances as a percentage of revenues	E&C	We calculate standard deviation of unclassified loans and advances as a percentage of sales for the last four years, in order to check whether the companies have maintained consistency in the percentage of unclassified loans to revenues. If the deviation is high then it raises concerns that unclassified loans and advances could not be linked to revenues.
	Depreciation rate	Infrastructure	This ratio is a check on whether the company is changing its depreciation rate to report better profitability. We take the average change in depreciation rate over the last four years (FY08-FY11) and prefer companies with a lower deviation.
	Capital WIP as % of net worth	Infrastructure	For infrastructure companies, a large portion of their capital is in assets under construction. This ratio checks the percentage of net worth blocked in the capital WIP. We rank the companies on last four years' average and prefer companies with lower average.

Source: Ambit Capital research, Company

Filter II: Management quality

We map the E&C companies and the Infrastructure developers on management quality checks using four sub-filters: **(a)** intensity of insider trading; **(b)** complexity of shareholding pattern and percentage of promoter shareholding pledged; **(c)** managerial remuneration; and **(d)** actual performance of the company compared to its earlier guidance. We take the simple average of the above sub-filters to arrive at an overall average.

In the E&C space, **Voltas and EIL** appear to be the best players on management quality. **Blue Star and HCC** seem to be the worst placed on remuneration. Amongst the Infrastructure developer companies**, Adani Ports, ITNL and Reliance Infra** stand-out relatively better on management quality checks but **GMR and Gammon Infra** come out as poor on the management quality checks.

Exhibit 25: Ranking of E&C companies on management quality

Companies	Intensity of insider trading*	Promoter shareholding structure*	Ranking on managerial remuneration CAGR to PBT CAGR (FY08-FY11)	Actual performance v/s earlier guidance*	Final ranking
Voltas	Strong	Moderate	1	Strong	1
EIL	Strong	Strong	3	Strong	2
Simplex	Strong	Moderate	2	Moderate	3
L&T	Moderate	Strong	4	Moderate	4
Ramky	Strong	Strong	5	Weak	5
HCC	Strong	Strong	7	Weak	6
NCC	Moderate	Weak	6	Weak	7
IVRCL	Weak	Strong	8	Weak	8
Blue Star	Strong	Moderate	11	Strong	8
Era Infra	Moderate	Weak	9	Moderate	10
Gammon	Strong	Moderate	10	Weak	10
Punj Lloyd	Strong	Weak	12	Weak	12

*Source: Ambit Capital research, Company, Capitaline, Notes (a)*We define these parameters in exhibit 27 (b) We have taken consolidated managerial remuneration and PBT (c) For Blue Star, data is on a standalone basis for FY07-FY10 and for Simplex data is on standalone basis for FY07 and FY08, (d) Rank 1 being the best and Rank 12 being the worst; Data is sorted on final ranking.*

Exhibit 26: Ranking of Infrastructure companies on management quality

Companies	Intensity of insider trading*	Promoter shareholding structure*	Ranking on managerial remuneration CAGR to PBT CAGR (FY08-FY11)	Actual performance v/s earlier guidance*	Final ranking
Adani Ports	Moderate	Strong	1	Moderate	1
Reliance Infra	Strong	Strong	3	Moderate	2
ITNL	Strong	Moderate	2	Moderate	2
Ashoka Buildcon	Weak	Strong	3	Moderate	4
IRB	Moderate	Moderate	5	Moderate	5
GVK	Strong	Strong	7	Weak	6
Sadbhav	Strong	Strong	8	Moderate	6
Gujarat Pipavav	Strong	Moderate	9	Strong	8
GMR	Weak	Weak	6	Moderate	9
Gammon Infra	Moderate	Strong	10	Weak	10

*Source: Ambit Capital research, Company, Capitaline, Notes (a)*We define these parameters in exhibit 15 (b) We have taken consolidated managerial remuneration and PBT (c) Gujarat Pipavav is Dec-ending and the data for managerial remuneration and PBT is on a standalone basis for CY07-CY10. (d) Rank 1 being the best and Rank 10 being the worst; Data is sorted on final ranking.*

Exhibit 27: Explanation of parameters used for ranking companies on management quality

Parameter	Description
Intensity of Insider Trading	We divide companies into three buckets: ▪ **Strong**: Promoters and senior management are not actively involved in trading of company's shares ▪ **Moderate**: Promoters and senior management sometimes trade in the company's shares, but not very actively ▪ **Weak**: Promoters and senior management are actively involved in the trading of company's shares
Promoter Shareholding Structure	We divide companies into three categories: ▪ **Strong:** Companies with a simple shareholding structure do not have more than 1-2 investment companies included in the shareholding structure (highlighting limited cross holding). Also, no promoter shareholding has been pledged. ▪ **Moderate:** Companies with slightly complex shareholding structure and have more than 3-4 investment companies included in shareholding structure (highlighting moderate cross holding). Also, nil/low promoter shareholding has been pledged. ▪ **Weak:** Companies with complex shareholding structure and have more than 5 investment companies included in shareholding structure (highlighting high cross holding). Also, high promoter shareholding has been pledged.
Actual performance vs. earlier guidance	We divide companies into three categories: ▪ **Strong**: Performance is in line with guidance and the company regularly updates investors about the future expected performance ▪ **Moderate**: Performance is broadly in line with guidance; however, the company may miss on some parameters guided earlier. There are no significant surprises compared to the guidance. ▪ **Weak:** Performance is significantly lower than guidance and there are negative surprises during results etc.

Source: Ambit Capital research

Relative valuations

Exhibit 28: Relative valuation of E&C companies on a standalone basis

Company/ Metric	CMP	Mcap	Embedded value (Nov 2011)	Embedded value	P/E (x) including embedded value		P/E (x) excluding embedded value		P/B (x) including embedded value		P/B (x) excluding embedded value	
	(₹)	(₹ bn)	(₹/share)	(₹ bn)	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
L&T	1,300	796	398	244	18.6	16.7	12.9	11.6	3.2	2.8	3.2	1.9
Sadbhav	135	20	81	12	13.8	13.0	5.5	5.2	2.7	2.2	2.7	0.9
Punj Lloyd	57	19	0	0	18.9	12.4	18.9	12.4	0.6	0.6	0.6	0.6
HCC	29	17	18	11	NA	NA	NA	NA	1.3	1.3	1.3	0.5
NCC	61	16	18	5	27.7	12.2	19.5	8.6	0.6	0.6	0.6	0.4
Simplex	229	11	0	0	11.2	8.4	11.2	8.4	1.0	0.9	1.0	0.9
IVRCL	55	15	22	6	20.4	16.2	12.2	9.7	0.7	0.7	0.7	0.4
Gammon	50	7	25	3	10.0	7.9	5.0	4.0	0.3	0.3	0.3	0.2
Era Infra	138	25	39	7	13.1	12.2	9.4	8.8	1.3	1.2	0.9	0.9
Ramky	227	13	75	4	8.0	6.3	5.4	4.2	1.2	1.0	0.8	0.7
Patel	109	8	60	4	8.0	7.5	3.6	3.4	0.5	0.5	0.5	0.2
CCCL	19	3	0	0	NA	18.8	NA	18.8	0.6	0.5	0.6	0.5
KNR	135	4	20	1	5.7	5.1	4.9	4.4	0.9	0.8	0.9	0.7
EIL	269	91	0	0	13.9	14.1	13.9	14.1	5.0	4.3	5.0	4.3
VA Tech	427	11	0	0	17.9	13.3	17.9	13.3	1.9	1.7	1.9	1.7
Blue Star	182	16	2	0	NA	18.6	NA	18.4	3.7	3.4	3.7	3.4
Voltas	116	38	7	2	NA	13.2	NA	12.4	2.8	2.4	2.8	2.3
Average (excluding L&T and Punj)					**14.2**	**12.0**	**10.7**	**9.6**	**1.6**	**1.4**	**1.2**	**1.6**
Average					**14.9**	**12.3**	**11.4**	**9.9**	**1.7**	**1.5**	**1.3**	**1.1**

Company, Ambit Capital research, Industry, Bloomberg, Note: (a) Share prices and market cap data is as on March 2, 2012 (b) We have taken our estimates for IVRCL, NCC, CCCL, KNR, EIL, Voltas, Blue Star and VA Tec and consensus for others.

Exhibit 29: Relative valuation of Infrastructure developers

Company	CMP (₹.)	Mkt cap	EV/EBITDA (x)		P/B (x)	
		US$ mn	FY12E	FY13E	FY12E	FY13E
Diversified Developers						
Reliance Infra	615	3,268	11.7	9.1	0.7	0.6
GMR	29	2,245	18.3	11.3	1.2	1.1
GVK	18	573	13.6	9.4	0.7	0.7
Gammon Infra	15	219	17.8	8.6	1.4	1.4
Average			**15.3**	**9.6**	**1.0**	**1.0**
Road Developers						
Sadbhav	135	409	9.5	7.0	1.9	1.6
IRB	188	1,265	7.9	6.5	2.1	1.8
Ashoka Buildcon	204	217	7.2	5.5	1.1	1.0
ITNL	190	746	7.6	6.3	1.4	1.2
Average			**7.5**	**6.1**	**1.6**	**1.4**
Port Developers						
Adani Ports	147	5,963	15.6	11.2	5.8	4.6
Gujarat Pipavav	57	486	16.1	10.2	3.0	2.6
Essar Ports	69	571	9.1	7.1	1.2	1.0
Average			**13.6**	**9.5**	**3.3**	**2.7**

Source: Ambit Capital research, Company, Bloomberg Note: (a) Share prices and market cap data as on March 2, 2012 (d) EV/EBITDA and P/E is based on consolidated consensus estimates.

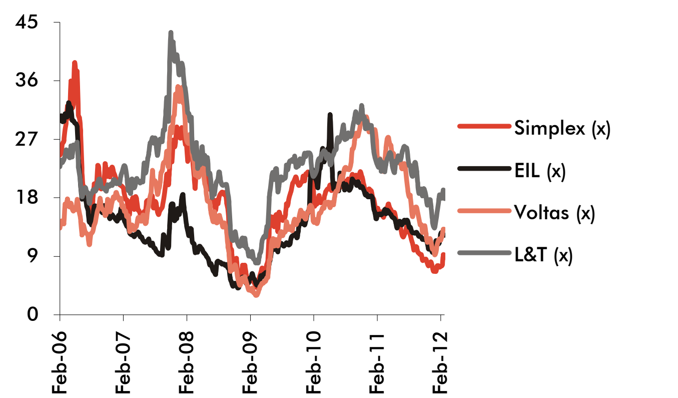
Filter-based recommendations

Exhibit 30: The four best placed E&C companies based on the above filters

E&C companies	Mcap (US$ mn)	Rev. FY11 (US$ mn)	FY13 P/B (x)	FY13P/E (x)	Comments
L&T	16,235	10,468	1.9	11.6	L&T is the market leader in the Indian construction industry having excellent execution capabilities, strong operational performance and strong balance sheet. In the current uncertain macro environment, any improvements in order flow growth can be a near-term catalyst to drive stock price. In the long term the key drivers for growth are strong execution momentum and impact on the cash generation and balance sheet from new investments (in BOT assets and new businesses).
EIL	1,850	578	4.0	12.3	EIL, with its strong balance sheet (no leverage), cash flow generation profile, large talent pool and Government relationships is strongly placed to bid competitively for contracts awarded on lowest-cost basis in the hydrocarbon sector. Whilst the near-term order inflow concerns and the expected low growth will weigh upon any material rerating in the near term, 5 to 10 year opportunity will be driven by the 5%-7% CAGR in petroleum products demand and 10%-11% CAGR in petchem demand.
Voltas	785	1,051	2.1	12.6	Voltas is an excellent project management company in the E&C space, which has a history of high RoCEs and superior cash generation profile. Despite expected near-term weakness in the operational performance, rerating in the stock is highly likely given pick-up in the EMP segment order flow, stable-to-strong UCP segment operating performance and stabilization in working capital/capital employed invested after witnessing 3-4 quarters of deterioration
Simplex	231	990	0.9	8.4	We highlight Simplex as one of the strong mid-sized construction companies with focus on fast moving industrial/building contracts, strong cost structure v/s peers and limited equity needs for BOT projects. Whilst high debt:equity (1.6x at end of Dec-11) and exposure to the MENA region raises concern in the near term, strong pick-up in the order flow momentum in the buildings and factories segment can drive the stock price.

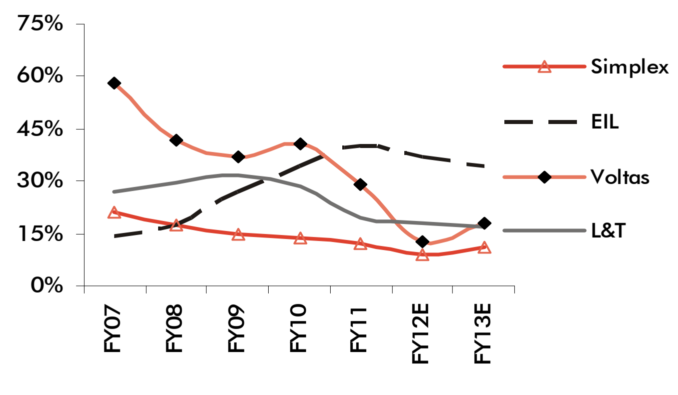
Source: Ambit Capital research, Company, Bloomberg, Note (a) Mcap, P/E and P/E data is as on March 2, 2012, data is sorted by mcap (b)P/E and P/E is excluding the embedded values.

Exhibit 31: 1-year forward P/E multiple of the four best placed E&C companies



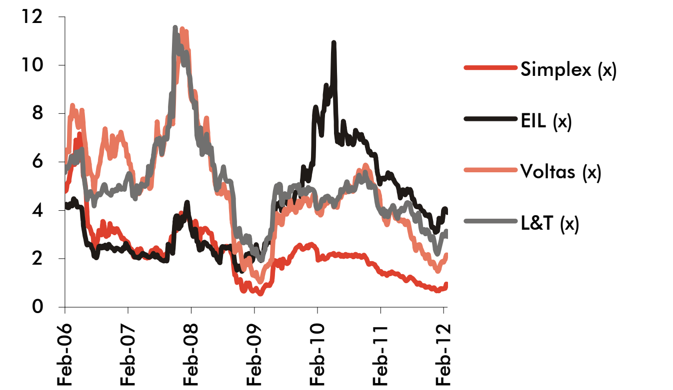
Source: Ambit Capital research, Company, Bloomberg. Note For L&T P/E multiple is on stand-alone EPS basis for others P/E is on consolidated EPS basis

Exhibit 32: RoEs of the four best placed E&C companies over FY07-FY13E



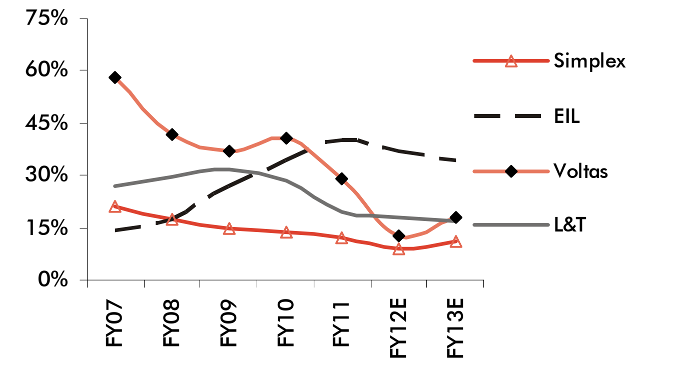
Source: Ambit Capital research, Company, Bloomberg. Note (a) We have taken consensus estimates for FY12 and FY13 RoEs. (b) L&T RoEs are on stand-alone basis, others are on consolidated basis

Exhibit 33: 1-year forward P/B multiple of the four best placed E&C companies



Source: Ambit Capital research, Company, Bloomberg. Note For L&T P/B multiple is on stand-alone BVPS basis for others P/B is on consolidated BVPS basis

Exhibit 34: RoEs of the four best placed E&C companies over FY07-FY11



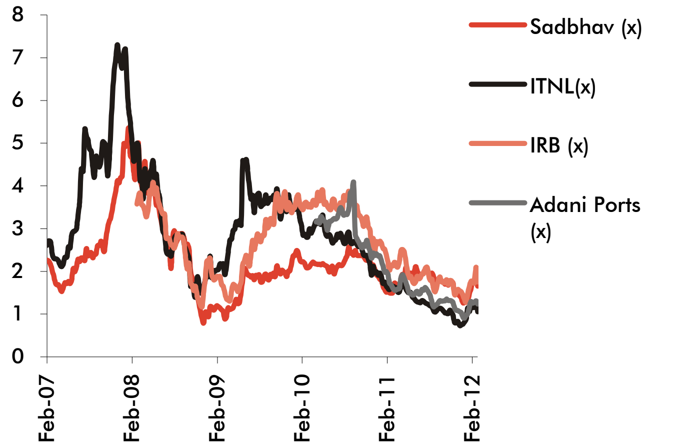
Source: Ambit Capital research, Company, Bloomberg. Note (a) We have taken consensus estimates for FY12 and FY13 RoEs. (b) L&T RoEs are on stand-alone basis, others are on consolidated basis

Exhibit 35: The four best placed Infrastructure developers based on the above filters

Infrastructure developers	Mcap (US$ mn)	Revenues FY11 (US$ mn)	FY13 P/B (x)	EV/EBITDA FY13(x)	Comments
Adani Ports	5,963	406	4.6	11.2	Primarily, a single port asset developer, Adani Ports over the last 3-4 years has emerged as the largest Indian port developer with focus on primarily bulk cargo and asset dominance in the Western coastline, which is witnessing continues growth. Unlike other developers which are continuously short of equity because of large number of smaller assets under development, Adani Ports primary asset (Mundra Ports and SEZ) is a growing cash generating asset, which will not only provide cash for re-investment in Mundra but also for equity investments in new assets. The near-term growth may be a concern given the global trade conditions, but the competitive advantages of its primary asset will make it one of the key beneficiaries of India's rising share in the global trade.
IRB	1,265	492	1.8	6.5	IRB is one of the largest road developers in India with 16 road projects of which 10 projects are operational. All the operational projects are on the attractive routes which are witnessing high traffic growth. Strong revenues and margin growth in the EPC business (from own BOT road projects) and increasing traffic volumes on the current operational projects are the key growth drivers. However, there are concerns regarding the aggressive bidding for the recently won Ahmedabad-Vadodara road project.
ITNL	746	789	1.2	6.3	ITNL is the only management-driven company in the road BOT space, has diversified geographical presence and balanced revenue mix with about 48% of revenue contribution of about ₹6.7bn from annuity projects, offering high visibility and stability to earnings. Strong in-house project management team, financial support from parent for funding BOT projects and strong cost structure place ITNL ahead of the other road developers.
Sadbhav	409	474	1.6	7.0	Sadbhav is a strong and sensible developer company with superior cash flow generation profile, no immediate equity dilution risks and a strong balance sheet for capturing growth when the Indian infrastructure and construction sector recovers. Consolidated returns (RoEs) are expected to improve with the rising cash flow generation and profitability of the BOT assets, which commenced operations over the last 12-18 months.

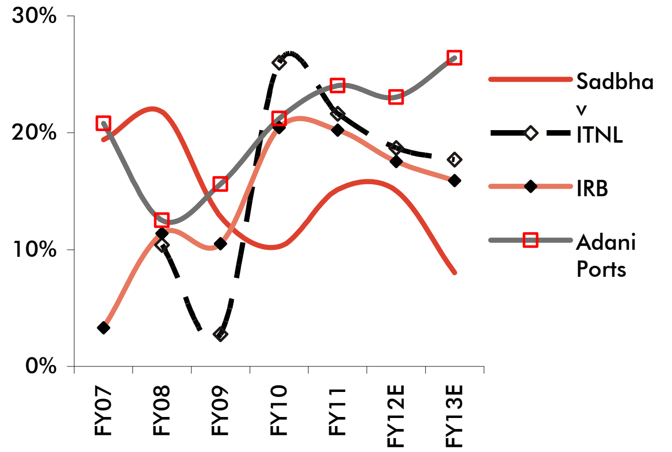
Source: Ambit Capital research, Company, Bloomberg, Note:) Mcap, EV/EBITDA and P/B data is as on March 2, 2012, data is sorted by mcap

Exhibit 36: 1-year forward P/B multiple of the 4 best placed Infrastructure companies



Source: Ambit Capital research, Company, Bloomberg.

Exhibit 37: RoEs of the 4 best placed Infrastructure companies over FY07-FY13E



Source: Ambit Capital research, Company, Bloomberg. . Note (a) We have taken consensus consolidated estimates for FY12 and FY13 RoEs

Key historical financials

Exhibit 38: Financial performance of E&C companies over FY10-FY11(standalone basis)

Company/Metric	Revenue (₹ mn)		EBITDA margin (%)		PAT margin (%)		RoE (%)		RoCE (%)		CFO (₹ mn)	
	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
L & T	370,097	438,417	13.1	12.9	11.8	9.0	28.4	19.7	28.7	22.4	54,851	38,613
IVRCL	54,929	56,515	9.7	9.1	3.8	2.8	3.8	8.2	7.8	20.6	1,797	2,010
Gammon India	45,206	55,091	8.3	4.7	2.8	2.2	7.0	5.8	11.2	11.0	(860)	(1,657)
Voltas	44,934	51,349	8.8	8.3	7.7	6.9	39.9	31.2	44.6	35.9	2,908	622
NCC	47,592	50,504	10.2	9.7	4.9	3.2	11.8	7.1	24.0	17.6	239	(2,341)
Simplex	44,428	47,510	8.3	8.2	2.8	2.6	13.1	12.0	13.6	14.4	1,076	108
Punj Lloyd	71,167	41,932	7.7	6.7	5.2	0.3	11.9	0.3	10.8	5.9	(12,709)	9,395
HCC	36,442	40,932	12.1	13.2	2.2	1.7	6.5	4.7	8.2	8.7	344	1,003
Era Infra	33,785	37,998	19.3	18.9	8.3	6.5	23.9	15.5	13.7	10.8	(922)	759
Blue Star	25,250	28,569	11.4	8.6	8.4	5.4	49.3	29.1	47.0	28.5	911	(749)
EIL	19,938	28,233	24.7	22.8	21.8	18.5	35.0	40.9	39.8	61.4	3,555	4,420
Ramky	18,613	27,305	10.5	10.5	5.5	5.8	27.5	23.9	34.3	32.0	841	(1,096)

Source: Ambit capital research, company, Bloomberg

Exhibit 39: Financial performance of E&C companies over FY10-FY11 (consolidated basis)

Company/Metric	Revenue (₹ mn)		EBITDA margin (%)		PAT margin (%)		RoE (%)		RoCE (%)		CFO (₹ mn)	
	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
L & T	438,334	518,198	15.4	15.7	12.4	8.6	31.2	19.4	31.9	19.3	21,178	(15,867)
Gammon India	69,942	87,539	9.6	5.6	0.7	1.3	2.1	5.1	3.3	4.7	2,077	(782)
Punj Lloyd	104,478	78,496	3.5	5.2	(1.0)	(0.7)	(3.9)	(2.0)	(26.2)	(38.5)	(15,360)	12,254
HCC	39,752	71,526	13.9	8.4	0.1	(0.9)	0.4	(5.2)	0.1	(21.9)	(753)	(2,623)
IVRCL	58,318	68,376	11.3	10.8	1.3	0.7	2.9	1.9	3.2	2.5	(540)	4,678
NCC	58,787	62,066	11.2	11.5	4.8	3.6	14.0	9.1	13.6	11.3	2,619	612
Voltas	47,575	51,768	9.4	8.5	8.0	6.9	40.6	29.2	42.3	30.8	3,065	392
Simplex	45,643	48,890	8.5	8.3	2.8	2.5	13.5	12.1	13.8	14.2	1,080	121
Era Infra	34,113	38,013	19.2	18.7	8.3	5.8	24.2	13.8	13.8	9.5	(923)	(2,021)
Ramky	20,416	31,470	11.8	11.8	6.2	6.6	26.0	25.5	42.3	40.6	(1,699)	(1,118)
Blue Star	19,938	29,511	24.7	7.8	21.8	5.5	35.0	32.1	39.8	26.9	3,555	(1,132)
EIL	20,140	28,482	25.0	23.1	21.9	18.7	34.3	40.2	38.8	59.3	3,589	4,471

Source: Ambit capital research, company, Bloomberg, Note Blue Star has started reporting consolidated financials in FY11 hence FY10 financials are standalone

Exhibit 40: Financial performance of Infrastructure developers over FY10-FY11 (consolidated basis)

Company/Metric	Revenue (₹ mn)		EBITDA margin (%)		PAT margin (%)		RoE (%)		RoCE (%)		CFO (₹ mn)	
	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11	FY10	FY11
Reliance Infra	145,639	151,278	8.4	9.9	10.4	10.3	8.1	7.0	13.6	10.8	1,684	6,452
GMR	45,665	57,738	29.9	10.7	3.5	(16.1)	2.4	(13.0)	4.0	0.6	12,511	30,382
ITNL	24,079	40,482	33.8	28.8	14.3	10.7	26.0	21.6	72.7	71.9	3,189	7,832
IRB	17,049	24,381	46.9	44.9	22.6	18.6	20.4	20.2	29.8	25.7	9,033	10,781
Sadbhav	13,340	23,294	18.6	15.0	2.7	4.0	10.3	15.1	8.2	11.5	674	2,464
Adani Ports	14,955	20,001	63.1	65.0	45.2	45.9	21.2	24.0	12.9	13.8	10,487	12,085
GVK	17,866	19,147	26.2	26.8	8.7	8.1	5.7	4.7	8.6	7.0	3,538	4,086
Ashoka Buildcon	7,956	13,020	20.5	19.4	10.1	16.0	20.2	31.2	15.8	26.0	1,553	1,340
Gammon Infra	3,278	3,359	41.5	60.1	7.8	5.1	4.0	2.5	3.2	4.8	1,157	2,016
Gujarat Pipavav	2,207	2,839	20.1	40.0	(52.7)	(19.3)	(33.7)	(10.5)	0.4	5.2	(232)	889

Source: Ambit Capital research, Company, Bloomberg, Note Gujarat Pipavav is a Dec-ending co hence FY11=CY10; Financials for Gujarat Pipavav are on standalone basis.

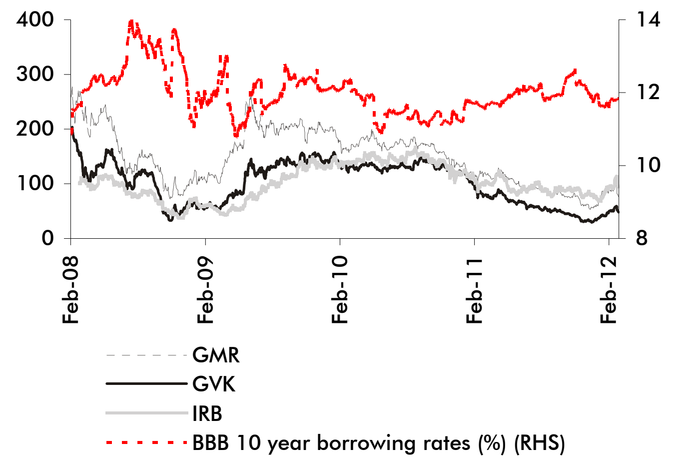
The imminent "interest rate" catalyst: Is it meaningful?

Our Economist, Ritika Mankar, believes that interest rates in India are set to decline in the near term unless global external shocks such as rising crude prices drive up inflation. Already, expectations of interest rate declines have driven the stock prices of E&C firms and Infrastructure developers, with the stock prices of the most leveraged companies rising the most. However, a sustained rally in the stock prices of these companies needs more than a small drop in interest rates.

Decline in interest rates can drive stock prices ...

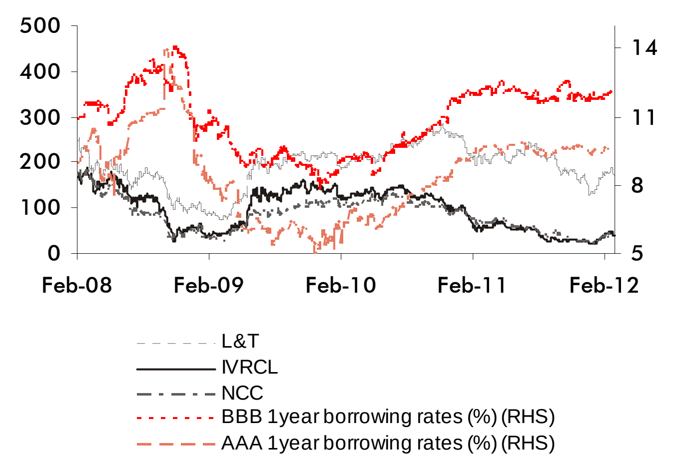
As highlighted in the chart below, stock price returns for E&C firms and Infrastructure developers are inversely related to interest rates. Given that interest rates have risen by ~350bps in the last 15-18 months, E&C firms and Infrastructure developers are facing the heat of the rising cost of borrowing, which is not only eating into present profits but also eroding project/equity IR₹. Against that background, and given the signals that the RBI has given regarding imminent repo rate cuts, the rally in these companies' share prices is understandable.

Exhibit 41: Stock prices of developers are inversely linked to interest rates



Source: Ambit Capital research, Company, Bloomberg, Notes: (a) Share prices have been indexed to 100, IRB share prices are available from 22 Feb 2008 (b) We have used BBB 10-year corporate bond rates because we find that most of the BOT asset are BBB-rated;(c) We have not used SBI PLR because we believe it is not a true indicator of the interest rates at which developers borrow funds for their BOT assets

Exhibit 42: Stock prices of E&C firms are inversely linked to interest rates

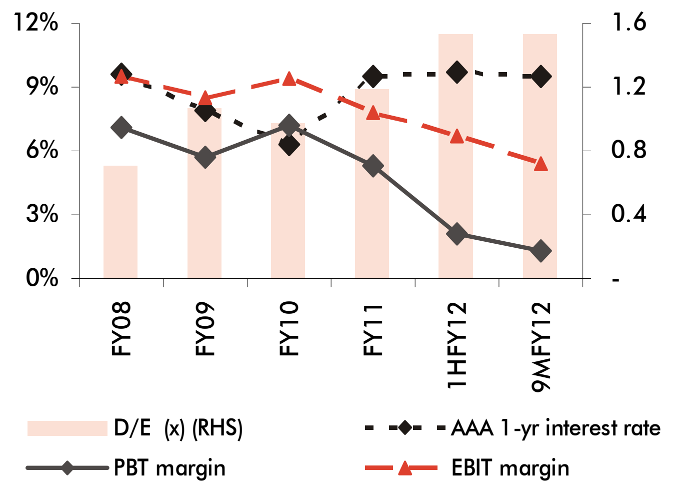


Source: Ambit Capital research, Company, Bloomberg, Notes: (a) Share prices have been indexed to 100 (b) We have not used SBI PLR because we believe it is not a true indicator of the interest rates at which construction companies borrow.

... but high leverage will inhibit this rally

However, we believe that a valuation uptick on account of a decline in interest rates will face resistance as E&C companies find themselves capital starved and have low PBT margins (kept low by high interest expenses). The positive impact of declining interest rates on the long-term PBT margins for construction companies is more a factor of debt:equity and absolute debt rather than interest rates. Exhibit 40 shows that despite declining interest rates in FY2010 (relative to FY2009), PBT margins barely inched up, as debt:equity was high at end-FY2009. The present high debt and high debt:equity for most of the companies will restrict their long-term growth and hence multiples (as most companies find themselves short of cash to infuse either in their core construction business or their BOT assets).

Exhibit 43: High debt:equity will restrict long-term growth in PBT margin



Source: Ambit Capital research, Company, Note: (a) We have taken standalone data of IVRCL, NCC, CCCL, Simplex, Punj, Gammon India, HCC for our analysis (b) For 9MFY12, we take debt:equity at the end of 1HFY12, as the debt:equity for 9MFY12 is not available

Exhibit 44: Debt:equity continue to increase in 1HFY12 thus limiting capacity for growth

Company	CE turnover (x) (TTM) 1HFY12	Debt:equity standalone (x) FY11	Debt:equity standalone (x)1HFY12
L&T	1.6	0.3	0.4
Era Infra	0.8	1.7	1.8
Punj	1.2	0.9	1.7
HCC	0.8	2.3	2.8
NCC	1.1	1.0	1.1
Simplex	1.9	1.5	1.6
Gammon	1.1	1.1	1.4
IVRCL	1.3	1.1	1.3
Voltas	3.1	0.2	0.2
EIL	2.1	0	0
Blue Star	2.6	0.8	1.1

Source: Ambit Capital research, Bloomberg, Note: CE is calculated as Debt + equity (b) CE turnover (TTM) is based on 1HFY12 financials (c) For 1HFY12 CE turnover and 1HFY12 debt:equity data is on consolidated basis for Voltas and Punj, rest is standalone (c) FY11debt:equity data is on consolidated basis for Voltas, Blue Star, Simplex, EIL and Punj, rest is standalone

Infra developers need more structural changes/improvements

Procedural/policy improvement: Resource (coal/fuel/land) availability delays/problems, environmental clearance problems and lengthy approval procedures have resulted in long execution cycles for infrastructure projects, especially in the power and the roads sectors. Over 65% of the NHAI's projects have been impacted by time and cost overruns. Nearly, 20gW (40% of under-construction) of the present power projects under development are facing issues regarding resource (fuel linkages), clearances and offtake risks by near-bankrupt State Electricity Boards.

Development of a long-term bond market for reducing dependence on banks: Creation of a long-term bond market can increase the availability of funds for the sector and reduce the dependence on banks. Given that infrastructure projects have long gestation periods of 25-30 years, the average debt tenure for the infrastructure sector should be ~15-20 years. However, Indian banks are reluctant to lend for such a long duration, thereby reducing the average loan tenure to 10-12 years. This then leads to the developers having to make aggressive repayment assumptions. Moreover, the recent heightened risk perception regarding Infrastructure projects could lead to structurally higher lending rates for the Infra and E&C companies, thus impacting the return potential of most of the infra assets.

Availability of equity capital: Our primary data checks have highlighted that more than the rising interest rates, the lack of availability of equity capital has resulted in execution slippages for infrastructure assets. Given the lack of sufficient cash flows from operations, asset developers have continued to depend on equity markets for funds. Indian Infra developers have been finding it difficult to get capital for their projects. Any improvement in the Government's policies related to infrastructure can positively impact the availability of equity capital for Infrastructure developers.

Our Coverage Summary

Exhibit 45: Summary of our recommendation and estimates in the Indian engineering and construction space

Company	Mcap (₹ bn)	Stance	CMP (₹)	TP (₹)	Core business value (₹)	% Upside/ (downside)	Core business implied P/E FY13 (x)	Comments
EIL	91	BUY	269	285	285	6%	14.9	Whilst the near-term order inflow concerns and the expected low growth will weigh upon any material rerating in the near term, lone-term growth and cash flows will be driven by the 5%-7% CAGR in petroleum products demand and 10%-11% CAGR in petchem demand.
Voltas	38	BUY	116	135	127	9%	12.4	We expect the core business valuations to recover with the improvement in the business environment and with a gradual recognition of Voltas' superior balance sheet strength versus the limitations of its fragmented competitors
Blue Star	16	SELL	182	165	163	-10%	18.4	We believe that in the near-term continuous deterioration in the operating performance will impact its competitiveness in the current scenario where the projects are being prolonged to longer durations, being more capital intensive and the clients being more stringent on the costs
NCC	16	SELL	61	55	37	-39%	19.1	Deteriorating working capital turnover and gross block turnover will lead to lower-than-expected free cash flow generation profile and returns
VA Tech	11	BUY	427	615	615	44%	19.2	Whilst we marginally reduce our FY12 and FY13 estimates, we expect VA Tech's valuations to re-rate due to the higher revenue growth which will drive not only EPS but more importantly RoICs to levels north of 18% (adjusted for 50% cash holding).
IVRCL	15	SELL	55	46	25	-54%	7.1	Execution slippages in the captive orders, deteriorating gross block and working capital turnover will continue to keep the value of construction business low.
CCCL	3	SELL	19	16	16	-15%	16.0	FCF will remain negative till FY14E due to low revenue growth in increasing working capital requirements
KNR	4	BUY	135	205	185	37%	7.0	Strong order flow in FY12 will lead to high revenue and cash flow growth from FY13 onwards. Also industry leading EBITDA margins and better working capital management to drive the stock

Source: Ambit Capital research, Company, Industry, Bloomberg (a) market cap and CMP data is as on March 2, 2012

Changes to our estimates

Accounting: AMBER
Predictability: GREEN
Earnings Momentum: AMBER

Blue Star

(BLSTR IN, mcap US$334mn, SELL, TP ₹165, 12% downside)

Exhibit 46: Revision in estimates (consolidated)(₹mn, unless mentioned)

Key assumptions	Old estimates		New Estimates		Change in estimates		Comments
	FY12E	FY13 E	FY12E	FY13 E	FY12E	FY13 E	
Order book	20,568	21,919	19,357	18,489	-5.9%	-15.6%	In 9MFY12, Blue Star has received orders worth ₹12.8bn (22% YoY decline) and we expect order flow to decline in 4QFY12 on a YoY basis. However, we expect order flow to pick up in FY13, therefore, maintain our moderate order flow growth estimate of 13%.
YoY growth (%)	4.5%	6.6%	-1.6%	-4.5%	(616)bps	(1,105)bps	
Order flow	18,716	20,962	16,514	18,496	-11.8%	-11.8%	
YoY growth (%)	-15.0%	12.0%	-25.0%	12.0%	(1,000)bps		
Revenues	29,352	32,805	28,677	32,937	-2.3%	0.4%	Whilst we further lower our FY12 revenue estimates for EIMP segment (19% YoY decline), we increase our estimate for FY13, as we expect order flow and revenue growth to improve from 2HFY13 onwards.
YoY growth (%)	-1%	12%	-4%	15%	(227)bps	309bps	
Electro Mechanical Projects Segment-EMP	*17,828*	*19,611*	*16,837*	*19,363*	-5.6%	-1.3%	
YoY growth (%)	*-10%*	*10%*	*-15%*	*15%*	(500)bps	500bps	
Cooling Products	*9,146*	*10,609*	*9,461*	*10,975*	3.4%	3.4%	In 9MFY12, Blue Star has posted revenue growth of 24 YoY in cooling products segment. We expect company to post moderate 13% growth in 4QFY12. For FY13, whilst we maintain our estimate, higher revenue base in marginally increases FY13 revenue estimates.
YoY growth (%)	*16%*	*16%*	*20%*	*16%*	400bps		
EBITDA (ex- forex loss)	1,035	2,036	569	1,635	-45.1%	-19.7%	We expect Blue Star to post a loss at EBITDA level in FY12 in the EMP segment, therefore we lower our EBITDA margin estimate. Low revenue growth and high cost pressures will continue in 1HFY13, therefore, we further lower EMP segment EBITDA margin estimates for FY13.
EBITDA margin	3.5%	6.2%	2.0%	5.0%	(154)bps	(124)bps	
EMP	*1.0%*	*5.2%*	*-1.3%*	*5.2%*	*(230)bps*		
Cooling Products	*9.3%*	*8.0%*	*9.1%*	*8.0%*	*(20)bps*		
Prof. Elect & Indl .Equipment	*24.4%*	*22.6%*	*23.8%*	*22.4%*	*(43)bps*	*17bps*	
PBT before EO	406	1,285	(184)	1,179	-145.3%	-8.2%	Despite a decline in interest costs estimates, sharp decline in EBITDA margin estimate result in a decline in PBT and PAT estimates in FY12 and FY13
PBT margin	1.4%	3.9%	-0.6%	3.6%	(205)bps	(39)bps	
Adjusted PAT	318	924	(157)	880	-149.5%	-4.8%	
Net margin	1.1%	2.8%	-0.5%	2.7%	(166)bps	(19)bps	
Working capital turnover	3.6	3.4	4.2	4.7			Efficient working capital management in 3QFY12 lowers the inventory and debtors, therefore we lower our debt estimates and working capital estimates which in turn increases our working capital turnover ratio
Gross block turnover	7.1	6.7	7.0	6.8			

Source: Ambit Capital research, Company

Exhibit 47: Our SOTP valuation

Business	Method	Value per share (₹)			Comments
		Old	New	Change	
Core Business	DCF	145	163	12%	We increase our value or core business as we expect order flow and revenue growth to marginally pick up from 2HFYY13 onwards. However, we continue to maintain sell on stock due to its high debt:equity which can impact its competitiveness and lead to lower growth and lower profitability vs peers.
30% stake in Blue Star Infotech	Mcap	2	2	0%	
Total		**147**	**165**	**12%**	

Source: Company, Ambit Capital research

Exhibit 48: Profit and loss (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	25,026	25,250	29,761	28,677	32,937
Total expenses	22,430	22,503	27,217	28,108	31,303
EBITDA adjusted	2,596	2,747	2,544	229	1,635
EBITDA margin	10.4%	10.9%	8.5%	0.8%	5.0%
Adjusted PBT	2,382	2,627	2,307	(184)	1,179
Adjusted PAT	1,803	1,975	1,578	(184)	849
Adjusted Consolidated PAT	1,803	1,975	1,605	(157)	880
PAT margin (%)	7.2%	7.8%	5.4%	-0.5%	2.7%
Reported Consolidated PAT	1,803	2,115	1,609	(490)	880
EPS (diluted) (₹.)	20.0	22.0	17.8	(1.8)	9.8

Source: Ambit Capital research, Company

Exhibit 49: Balance Sheet (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	180	180	180	180	180
Reserves and surplus	3,491	4,737	4,933	4,232	4,586
Total Networth	**3,671**	**4,917**	**5,113**	**4,412**	**4,766**
Loans	273	660	4,445	5,145	5,645
Sources of funds	**3,950**	**5,577**	**9,558**	**9,557**	**10,411**
Net Block	1,876	1,977	1,940	2,251	2,665
Cash and bank balances	92	204	524	457	613
Sundry debtors	6,086	6,282	8,206	6,914	7,851
Inventories	2,081	2,580	4,043	4,081	4,374
Loans and advances	1,255	1,314	1,465	1,467	1,501
Other Current Assets	865	3,609	5,331	4,557	5,144
Total Current Assets	**10,379**	**13,990**	**19,569**	**17,477**	**19,482**
Current liabilities and provisions	8,602	10,473	12,516	10,735	12,300
Net current assets	1,777	3,517	7,053	6,742	7,182
Application of funds	**3,950**	**5,577**	**9,558**	**9,557**	**10,411**

Source: Ambit Capital research, Company

Exhibit 50: Cash flow statement (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	1,896	1,155	(1,132)	1,019	1,082
Capex	(851)	(239)	(505)	(700)	(828)
Cash flow from investment	(841)	(112)	(1,267)	(647)	(783)
Cash flow from financing	(998)	(1,005)	2,677	(439)	(142)
Cash at the end	92	204	524	457	613
Free cash flow	1,045	915	(1,637)	319	254

Source: Ambit Capital research, Company

Exhibit 51: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	57.2%	46.0%	32.0%	NA	19.2%
ROCE	50.6%	38.5%	20.1%	2.3%	8.8%
Debt/Equity (x)	0.1	0.1	0.9	1.2	1.2
P/E (x) (Adj.)	9.1	8.3	10.2	NA	18.6
P/B (x)	4.5	3.3	3.2	3.7	3.4

Source: Ambit Capital research, Company

Accounting: AMBER
Predictability: AMBER
Earnings Momentum: RED

CCCL

(CCCL IN, mcap US$71mn, SELL, TP ₹16, 18% downside)

Exhibit 52: Revision in estimates (consolidated) (₹mn, unless mentioned)

Key assumptions	Old estimates		New estimates		% Change in estimates		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Closing order book	64,415	83,076	62,404	78,161	(3.1)	(5.9)	CCCL has received orders of ₹23bn in 9MFY12 (~73% of our estimates) and is required to receive another ₹10bn to meet our earlier estimate of ₹37bn for FY12. Therefore, we reduce our order flow estimate for FY12 to ₹34bn and expect company to receive orders worth ₹7bn in4QFY12. We also moderate our FY13 order flow estimates as we expect slowdown to continue in 1HFY13 and expect order flow to pick up only from 2HFY13.
YoY growth (%)	30%	29%	26%	25%	(405)bps	(372)bps	
Order addition	37,175	43,339	34,309	39,426	(7.7)	(9.0)	
YoY growth (%)	5%	17%	-3%	15%	(810)bps	(167)bps	
Total revenues	23,179	25,564	21,843	24,221	(5.8)	(5.3)	We reduce our FY12 revenue growth estimates further due to (a) poor revenue growth in 9MFY12 (flat revenues) and (b) continuous execution delays in the infrastructure projects (metros/airports) and the power projects.
Growth (%)	5%	10%	-1%	11%	(608)bps	60bps	
EBITDA	985	1,406	874	1,332	(11.3)	(5.3)	Due to lower-than-expected performance in 9MFY12(EBITDA margin of 3.8%) and continuous losses in the low margin projects as raw material costs are rising), we further reduce our EBITDA margin estimates for FY12. However, we maintain our FY13 EBITDA margin estimate.
EBITDA margin	4.3%	5.5%	4.0%	5.5%	(25)bps		
PBT	77	265	111	272	43.1	3.0	Revenue decline and higher taxes paid (on the profits made on JV project) will lead to a loss at PAT level.
PBT margin	0.3%	1.0%	0.5%	1.1%	17bps		
PAT	5	179	(109)	184	(2,467.5)	3.0	
PAT margin	0.0%	0.7%	-0.5%	0.8%	(50)bps		
Working capital turnover	2.3	2.2	2.2	2.2			Low revenue growth lowers the gross block turnover for FY13.
Gross block turnover	9.8	9.1	9.2	8.7			

Source: Company, Ambit Capital research

DCF valuation of ₹16/share

Exhibit 53: Terminal value forms 58% of the total value

PV of the forecasting period FY14-23 ₹mn)	**4,005**
Terminal value (₹ mn)	5,454
Enterprise value (₹ mn)	9,459
Less: Net debt at Mar-13 (₹ mn)	6,543
Implied equity value (₹ mn)	2,916
Implied equity value (₹ per share)	**16**

Source: Ambit Capital research, Company

Exhibit 54: Profit and loss (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	18,413	19,759	21,987	21,843	24,221
Total expenses	17,124	17,829	20,340	20,969	22,889
EBITDA	1,289	1,931	1,647	874	1,332
EBITDA margin	-10.1%	9.8%	7.5%	4.0%	5.5%
EBIT	1,200	1,820	1,508	714	1,130
PBT after EO	1,110	1,474	948	111	272
Adjusted PAT	728	916	469	(109)	184
% growth	-18.1%	4.6%	2.1%	-0.5%	0.8%
PAT	728	916	469	(109)	184
EPS (₹)	3.9	5.0	2.5	(0.6)	1.0

Source: Ambit Capital research, Company

Exhibit 55: Balance Sheet (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	370	370	370	370	370
Reserves and surplus	4,791	5,523	5,914	5,747	5,872
Total Networth	**5,161**	**5,892**	**6,284**	**6,116**	**6,241**
Loans	1,975	3,388	4,314	6,314	7,314
Sources of funds	**7,578**	**9,876**	**11,210**	**13,042**	**14,170**
Gross Block	1,605	1,897	2,195	2,545	3,045
Net block	1,384	1,566	1,728	1,918	2,216
Cash and bank balances	1,299	1,701	852	875	771
Sundry debtors	88	120	76	120	199
Inventories	8,070	10,201	12,043	12,065	13,169
Loans and advances	1,437	1,562	2,166	3,623	4,173
Current Assets	10,894	13,584	15,137	16,682	18,312
Current liabilities & provisions	5,457	5,538	6,049	5,951	6,751
Net current assets	5,545	8,154	9,196	10,789	11,620
Application of funds	**7,578**	**9,876**	**11,210**	**13,042**	**14,170**

Source: Ambit Capital research, Company

Exhibit 56: Cash flow statement (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	118	(732)	(887)	(856)	312
Capex	(708)	(382)	(506)	(350)	(500)
Cash flow from investment	(286)	156	(394)	(291)	(429)
Cash flow from financing	495	978	431	1,170	13
Cash at the end	1,204	1,701	852	875	771
Free cash flow	(170)	(1,063)	(1,393)	(1,206)	(188)

Source: Ambit Capital research, Company

Exhibit 57: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	15.0%	16.6%	7.7%	NA	3.0%
ROCE	13.1%	14.3%	9.0%	5.9%	5.6%
Debt/Equity (x)	0.4	0.6	0.7	1.0	1.2
P/E (x)	1.0	3.9	7.5	NA	18.8
P/B (x)	0.7	0.6	0.6	0.6	0.5

Source: Ambit Capital research, Company

Accounting: AMBER
Predictability: GREEN
Earnings Momentum: AMBER

Engineers India Limited (EIL)

(ENGR IN, mcap US$1,849mn, BUY, TP ₹285, 6% upside)

Exhibit 58: Revision in estimates (consolidated)

Key assumptions	Old estimates		New estimates		% change in estimates		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Order book	54,808	45,539	48,657	33,036	-11%	-27%	For 9MFY12, EIL has received orders worth ₹6.5bn, primarily in the consultancy segment. Therefore, we reduce our order flow estimates for FY12. For FY13, we marginally increase our order flow estimate for consultancy segment, we lower our estimate for LSTK segment, as we expect investment in the hydrocarbon sectors to remain low in 1HFY13 and marginally pick up from 2HFY13.
YoY growth (%)	-26.8%	-16.9%	-35.0%	-32.1%	(822)bps	(1,519)bps	
Order flow	17,500	36,500	10,000	18,000	-43%	-51%	
YoY growth (%)	-57.3%	108.6%	-75.6%	80.0%	(1,831)bps	(2,857)bps	
Consultancy Segment	7,500	6,500	8,000	8,000	7%	23%	
YoY growth (%)	-8.7%	-13.3%	-2.6%	0.0%	609bps	1,333bps	
LSTK segment	10,000	30,000	2,000	10,000	-80%	-67%	
YoY growth (%)	-69.5%	200.0%	-93.9%	400.0%			
Revenues	37,535	45,769	36,186	33,621	-4%	-27%	For FY12, whilst we marginally increase our revenue estimate for consultancy segment, we lower our estimate for the LSTK segment. We expect that low order booking in the LSTK segment in FY12 and FY13, will lead to sharp fall in revenues in FY13 on a YoY basis
YoY growth (%)	32%	22%	27%	-7%	(474)bps	(2,902)bps	
Consultancy Segment	*12,105*	*12,710*	*12,451*	*13,447*	*3%*	*6%*	
YoY growth (%)	*5%*	*5%*	*8%*	*8%*	*300bps*	*300bps*	
LSTK segment	*25,430*	*33,059*	*23,735*	*20,175*	*-7%*	*-39%*	
YoY growth (%)	*50%*	*30%*	*40%*	*-15%*	*(1,000) bps*	*(4,500)bps*	
EBITDA	7,988	8,809	7,945	7,755	-1%	-12%	For 9MFY12, EIL has posted EBITDA margin of ~21%, therefore we increase our FY12 EBITDA margin estimate. For FY13, as we increase revenue growth estimate for the high margin consultancy segment and lower revenues estimates for low margin LSTK segment, our overall EBITDA margin estimate increases.
EBITDA margin	21.3%	19.2%	22.0%	23.1%	67bps	382bps	
PBT before EO	9,750	11,001	9,684	9,605	-1%	-13%	As we lower our revenue estimate for FY12 and FY13, PBT and PAT estimates decline. However, the margins improve as the share of the consultancy segment increases in the revenue mix.
PBT margin	26.0%	24.0%	26.8%	28.6%	79bps	453bps	
Adjusted PAT	6,581	7,426	6,488	6,435	-1%	-13%	
Net margin	17.5%	16.2%	17.9%	19.1%	40bps	292bps	
Working capital turnover	10.7	8.6	10.4	6.3			Lower revenues results in a decline in the working capital and gross block turnover.
Gross block turnover	18.0	19.2	17.3	14.1			

Source: Ambit Capital research, Company

DCF valuation of ₹285/share

Exhibit 59: Terminal value forms 31% of the total value

PV of the forecasting period upto FY25 (₹ mn)	**49,956**
Terminal value (₹ mn)	22,660
Enterprise value (₹ mn)	72,616
Less: net debt at Mar-13 (₹ mn)	(23,298)
Implied equity value (₹ mn)	95,914
Implied equity value (₹ per share)	**285**

Source: Ambit Capital research, Company

Exhibit 60: Profit and loss (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenues	15,529	20,140	28,482	36,186	33,621
Total expenses	12,285	15,094	21,847	28,240	25,867
EBITDA	3,243	5,045	6,635	7,945	7,755
EBITDA margin	20.9%	25.1%	23.3%	22.0%	23.1%
EBIT	3,133	4,914	6,487	7,778	7,564
Adjusted PBT	5,327	6,709	8,043	9,684	9,605
Adjusted AT	3,497	4,444	5,339	6,488	6,435
PAT margin	22.5%	22.1%	18.7%	17.9%	19.1%
Reported PAT	3,512	4,405	5,314	6,488	6,435
EPS (adjusted) (₹.)	10.4	13.2	15.8	19.3	19.1

Source: Ambit Capital research, Company

Exhibit 61: Balance Sheet (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	562	562	1,685	1,685	1,685
Reserves and surplus	13,543	10,981	13,214	16,666	19,336
Total Networth	**14,105**	**11,542**	**14,899**	**18,350**	**21,021**
Loans	-	-	-	-	-
Sources of funds	**14,105**	**11,542**	**14,899**	**18,350**	**21,021**
Net block	582	634	632	711	846
Investments	1,515	975	5,128	5,128	5,128
Cash and bank balances	19,215	17,945	17,981	23,298	25,395
Sundry debtors	3,090	3,259	3,278	4,263	4,053
Inventories	334	432	2,137	1,248	1,216
Loans and advances	2,231	1,854	2,575	2,930	2,910
Total Current Assets	26,927	25,626	27,224	34,023	35,824
Current liabilities and provisions	**16,151**	**17,231**	20,067	23,493	22,758
Net current assets	10,776	8,395	7,157	10,530	13,066
Application of funds	**14,104**	**11,542**	**14,899**	**18,350**	**21,021**

Source: Ambit Capital research, Company

Exhibit 62: Cash flow statement (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	5,949	3,589	4,471	5,175	3,365
Capex	(220)	(217)	(253)	(250)	(325)
Cash flow from investment	1,320	2,070	(3,088)	1,709	1,768
Cash flow from financing	(757)	(6,930)	(1,347)	(1,566)	(3,036)
Cash at the end	19,215	17,945	17,981	23,298	25,395
Free cash flow	5,731	3,373	4,219	4,925	3,040

Source: Ambit Capital research, Company

Exhibit 63: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	27.0%	34.7%	40.4%	39.0%	32.7%
ROCE	15.9%	25.4%	32.5%	31.3%	25.7%
Debt/Equity (x)	Nil	Nil	Nil	Nil	Nil
P/E (x) (Adj.)	26.0	20.4	17.0	14.0	14.1
P/B (x)	6.4	7.9	6.1	4.9	4.3

Source: Ambit Capital research, Company

Accounting: RED
Predictability: AMBER
Earnings Momentum: RED

IVRCL Ltd

(IVRC IN, mcap US$300mn, SELL, Core business value ₹25, SOTP value ₹46, 16% downside)

Exhibit 64: Revision in estimates (stand-alone) (₹mn, unless mentioned)

Rsmn	Old estimates		Revised estimates		% Change in estimates		Comments
Assumptions	**FY12E**	**FY13E**	**FY12E**	**FY13E**	**FY12E**	**FY13E**	
Closing order book	269,586	330,016	272,851	336,938	1.2	2.1	We maintain our FY12 order flow estimates as IVRCL has already received order flow of ₹105bn which is 94% of our order flow estimates. However, as we lower our FY12 revenue estimates, closing order book marginally increases in FY12 and FY13 on a YoY basis
YoY growth (%)	25%	22%	26%	23%	129bps	149bps	
Order addition	111,764	125,646	111,764	125,646	-	-	
YoY growth (%)	10%	12%	10%	12%			
Total revenues	58,228	65,216	54,963	61,559	(5.6)	(5.6)	Considering the performance (6% revenue decline in 9MFY12), we further lower our FY12 revenue growth estimates. Whilst we maintain our moderate revenue growth for FY13, lower revenue base of FY12, lowers our FY13 revenue estimates
YoY growth (%)	7%	12%	1%	12%	(600) bps	-	
EBITDA	5,008	5,543	4,397	5,232	(12.2)	(5.6)	We reduce our FY12 EBITDA margin estimate to 8% in FY12, as in 9MFY12, IVRCL has reported an EBITDA margin of 8.1% and we expect company to post ~8% margin in 4QFY12 also. For FY13, we maintain our margin estimates at 8.5%.
EBITDA margin	8.6%	8.5%	8.0%	8.5%	(80)bps		
PBT	1,451	1,476	1,062	1,350	(26.8)	(8.5)	Whilst we lower our revenue growth and EBITDA margin estimates for FY12, we maintain our interest rate estimates, decline in revenue and EBITDA estimates leads to decline in our PBT and PAT estimates
PBT margin	2.5%	2.3%	1.9%	2.2%	(76)bps	(13)bps	
PAT	980	996	717	911	(26.8)	(8.5)	
Net margin	1.7%	1.5%	1.3%	1.5%	(52)bps	(4)bps	
Gross block turnover	5.8	5.5	5.4	5.1			As we lower our earlier revenue growth estimates, working capital and gross block turnovers will decline for FY12 and FY13
Working capital turnover	2.5	2.6	2.4	2.4			

Source: Company, Ambit Capital research

SOTP valuation — ₹46/share

Exhibit 65: Change in the SOTP valuation

Business	Methodology	Old (Rs)	New (Rs)	Change	Comments
Construction business	DCF	**26**	**25**	**-4%**	We take FCFF from FY14E onwards in order to calculate the value of core construction business. Deteriorating gross block and working capital turnover further marginally lowers our value of core construction business.
Subsidiaries		**17**	**22**	**27%**	
Hindustan Dorr Oliver	Mcap	5	5	0%	Given the lack of consensus we value HDO at current market value
IVRC Assets and Holdings	P/B	12	16	37%	Whilst we earlier valued IVRAH based on mcap, we now value the IVRCL's stake in IVRAH on P/B basis as IVRAH will be delisted after being merged with IVRCL. Considering that IVRCL's BOT assets have been delayed and are yet to commence operations, we value them at a multiple of 0.5x equity invested which is at a significant discount to the listed mid-sized road developers with operational assets.
Total		**43**	**46**	**8%**	

Source: Company, Ambit Capital research, Bloomberg

Exhibit 66: Profit and loss (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	48,819	53,078	54,419	54,963	61,559
Total expenses	44,601	47,760	49,273	50,566	56,326
EBITDA	4,218	5,318	5,146	4,397	5,232
EBITDA margin	8.6%	10.0%	9.5%	8.0%	8.5%
EBIT	3,745	4,776	4,388	3,459	4,079
PBT	2,738	3,294	2,326	1,062	1,350
Adjusted PAT	1,789	2,117	1,579	717	911
PAT margin	3.7%	4.0%	2.9%	1.3%	1.5%
Reported PAT	2,260	708	1,579	717	911
EPS diluted (₹) Adj	13.3	7.8	5.8	2.7	3.4

Source: Ambit Capital research, Company

Exhibit 67: Balance Sheet (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	267	534	534	534	534
Reserves and surplus	17,839	17,998	19,340	19,986	20,787
Total Networth	**18,106**	**18,532**	**19,874**	**20,520**	**21,321**
Loans	13,980	16,133	20,958	25,958	30,958
Sources of funds	**32,203**	**34,791**	**40,918**	**46,575**	**52,390**
Net block	5,207	5,664	6,918	7,880	8,727
Investments	3,892	6,138	6,347	6,347	6,347
Cash and bank balances	1,009	1,643	1,432	1,392	2,096
Sundry debtors	11,430	19,445	19,298	19,576	21,588
Inventories	2,093	2,447	2,732	2,909	3,395
Loans and advances	9,319	6,606	9,532	15,135	17,972
Total Current Assets	38,135	47,005	54,523	60,847	69,337
Current liabilities and provisions	15,226	24,369	27,130	28,759	32,281
Net current assets	22,909	22,635	27,393	32,088	37,056
Application of funds	**32,203**	**34,790**	**40,918**	**46,575**	**52,390**

Source: Ambit Capital research, Company

Exhibit 68: Cash flow statement (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	468	1,803	2,010	1,944	3,005
Capex	(2,188)	(1,209)	(1,996)	(1,900)	(2,000)
Cash flow from investment	(2,364)	(1,278)	(4,384)	(3,465)	(3,283)
Cash flow from financing	1,133	81	2,063	1,482	983
Cash at the end of the year	1,009	1,551	1,239	1,392	2,096
Free cash flow	(1,685)	607	62	44	1,005

Source: Ambit Capital research, Company

Exhibit 69: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	10.5%	11.6%	8.2%	3.6%	4.4%
ROCE	14.5%	12.4%	10.8%	7.6%	8.1%
Debt/Equity (x)	0.8	0.9	1.1	1.3	1.5
P/E (x)	4.1	7.0	9.4	20.4	16.2
P/B (x)	0.8	0.8	0.7	0.7	0.7

Source: Ambit Capital research, Company

Accounting: GREEN
Predictability: AMBER
Earnings Momentum: AMBER

KNR Constructions

(KNRC IN, mcap US$77mn, BUY, TP ₹205, 52% upside)

Exhibit 70: Revision in estimates (stand-alone) (₹mn, unless mentioned)

Key assumptions	Old estimates		New estimates		% Change in estimates		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Order book	17,575	22,974	31,764	36,187	80.7	57.5	KNR has won orders worth ₹26bn till Jan-12 compared to our earlier order flow estimate of ₹12bn in FY12. Therefore, we increase our order flow estimate for FY12 but maintain our order flow estimate of FY13 of ₹15bn.
YoY growth (%)	22%	31%	120%	14%	9,831bps	(1,680)bps	
Order addition	12,000	15,000	26,190	15,000	118.3	0.0	
YoY growth (%)	15%	25%	714%	-43%			
Total revenues	8,436	9,601	8,436	11,077	-	15.4	Whilst we maintain our revenue growth estimate for FY12, we increase our revenue growth estimate in FY13 as higher-than-expected order flow in FY12 will lead to higher revenue growth in FY13. Also, we include bonus revenues of ₹500mn on account of early completion of the Bijapur Hungund Tollway project (13 months ahead of schedule).
Growth (%)	6%	14%	6%	31%	-	1,750bps	
EBITDA	1,265	1,344	1,502	1,717	18.7	27.8	For 9MFY12, KNR has posted an EBITDA margin of 19%, therefore we increase our EBITDA margin estimate for FY12. In FY13, whilst increasing competition will reduce the EBITDA margin from historical high level of ~17%, we expect margin to be 15%.
EBITDA margin	15.0%	14.0%	17.8%	15.5%	281bps	150bps	
PBT	763	706	939	1,061	23.0	50.3	Due to low debt:equity (0.2x at end of Sept -11) and high EBITDA margin leads to an increase in PBT and PAT margin
PBT margin	9.0%	7.4%	11.1%	9.6%	208bps	222bps	
PAT	561	490	667	738	18.9	50.6	
PAT margin	6.6%	5.1%	7.9%	6.7%	123bps	156bps	
Working capital turnover	5.1	4.9	5.1	5.3			Whilst our FY12 working capital and gross block turnovers estimates remain constant, increase in FY13 revenues increases the turnovers for FY13 compared to our earlier estimates.
Gross block turnover	1.9	1.8	1.9	2.1			

Source: Company, Ambit Capital research

SOTP valuation — ₹205/share

Exhibit 71: Our SOTP valuation

Business	Method	Value per share (₹)			Comments
		Old	New	Change	
Construction business - Stand-alone	DCF	145	183	24%	Strong revenue growth in FY13-14 (due to sharp jump in order flow in FY12), and cash received due to early completion of Bijapur Tollway project will drive the returns and cash flow profile. Revenues from JV will significantly decline from FY13 onwards, therefore, we lower the value from the JV business
Construction Business- JV share	P/E	5	2	-60%	
BOT assets	DCF	20	20	0%	No Change in the value of BOT assets as the project is already complete
Total		**170**	**205**	**20%**	

Source: Company, Ambit Capital research

Exhibit 72: Profit and loss (stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Gross Revenues	7,687	8,992	10,513	9,644	11,621
Net Revenue (Ex-share of JV)	6,482	7,090	7,930	8,436	11,077
EBITDA	974	1,095	1,365	1,502	1,717
EBITDA margin	15.0%	15.4%	17.2%	17.8%	15.5%
EBIT	769	870	984	1,029	1,147
PBT after EO	648	791	897	939	1,061
Adjusted Consolidated PAT	450	566	838	667	738
PAT margin	6.9%	8.0%	10.6%	7.9%	6.7%
Reported Consolidated PAT	438	503	668	667	738
EPS (₹.)	16.0	20.1	29.8	23.7	26.2

Source: Ambit Capital research, Company

Exhibit 73: Balance Sheet (stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	281	281	281	281	281
Reserves and surplus	2,352	2,789	3,292	3,862	4,491
Total Networth	**2,633**	**3,070**	**3,573**	**4,143**	**4,773**
Loans	1,003	742	735	1,032	1,032
Sources of funds	**4,065**	**4,245**	**5,217**	**6,114**	**7,016**
Net block	2,067	2,100	2,812	3,154	3,446
Cash and bank balances	432	391	381	563	771
Inventories	185	137	221	285	462
Sundry debtors	1,284	1,901	1,405	1,734	2,337
Loans and advances	1,080	1,962	1,725	1,845	2,094
Other current assets	529	795	819	948	1,214
Current Assets	3,511	5,186	4,551	5,374	6,877
Current liabilities and provisions	2,715	3,859	2,991	3,261	4,153
Net current assets	796	1,327	1,559	2,113	2,725
Application of funds	**4,065**	**4,245**	**5,217**	**6,113**	**7,016**

Source: Ambit Capital research, Company

Exhibit 74: Cash flow statement (stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	1,151	296	865	919	1,253
Capex	(554)	(375)	(1,124)	(850)	(900)
Cash flow from investment	(467)	120	(1,151)	(821)	(805)
Cash flow from financing	(631)	(501)	337	84	(240)
Cash at the end	53	(76)	(10)	182	208
Free cash flow	432	391	381	563	771

Source: Ambit Capital research, Company

Exhibit 75: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	18.4%	19.9%	25.2%	17.3%	16.5%
ROCE	18.9%	17.6%	17.8%	15.2%	14.6%
Debt/Equity (x)	0.4	0.2	0.2	0.2	0.2
P/E (x)	8.4	6.7	4.5	5.7	5.1
P/B (x)	1.4	1.2	0.9	0.9	0.8

Source: Ambit Capital research, Company

Accounting: RED
Predictability: AMBER
Earnings Momentum: RED

NCC Ltd

(NJCC IN, mcap US$319mn, SELL, Core business value- ₹37, SOTP-based valuation of ₹55, 10% downside)

Exhibit 76: Revision in estimates (stand-alone) (₹mn, unless mentioned)

Particulars	Old estimates		New estimates		% change in estimates		Comments
₹ mn	FY12E	FY13 E	FY12E	FY13 E	FY12E	FY13 E	
Closing order book	175,534	198,072	220,799	247,571	25.8	25.0	For 9MFY12, NCC has received orders worth ₹99bn (including the captive power EPC order worth ~₹50bn) compared to our FY12E estimate of ₹77bn. Therefore, we increase our order flow estimate for FY12 to include captive power EPC order, we maintain our FY13 order flow estimate to ₹92bn (as there will be no captive order included).
YoY growth (%)	11%	15%	36%	12%	2,521bps	(326)bps	
Order addition - standalone	76,458	92,247	118,266	92,613	54.7	0.4	
YoY growth (%)	12%	20%	63%	-22%	5,064bps	(4,208)bps	
Revenues	53,451	60,934	50,397	57,452	(5.7)	(5.7)	Due to NCC's performance in 9MFY12 (4% revenue decline), we further reduce our revenue estimates for FY12. We expect revenues to marginally grow by 6% in 4QFY12. Whilst we maintain our FY13 revenue growth estimates, lower revenue base lowers our FY13 revenue estimate.
Growth	5%	14%	-1%	14%	(567)bps		
EBITDA	4,944	5,667	4,133	5,343	(16.4)	(5.7)	We reduce our FY13 EBITDA margin estimate, as we expect NCC to post low EBITDA margin of ~7.5% in 4QFY12 (similar to 3QFY12).
EBITDA margin	9.3%	9.3%	8.2%	9.3%	(110)bps		
PBT	1,421	1,694	605	1,496	(56.0)	(9.5)	Whilst we have reduced our interest cost estimates due to decline in debt in Dec-11, but lower revenue and EBITDA margin lowers our FY12 and FY13 PBT estimate compared to earlier estimate.
PBT margin	2.6%	2.8%	1.2%	2.6%	(122)bps	18bps	
Adjusted PAT	959	1,143	408	1,010	(56.0)	(9.5)	
Net margin	1.9%	2.0%	0.8%	1.8%	(94)bps	4bps	
Working capital turnover	2.1	2.1	2.1	2.2			Whilst we maintain the working capital turnover estimate for FY12, we expect marginal improvement in the working capital, therefore increase our working capital turnover ratio for FY13.
Gross block turnover	5.3	5.2	5.1	5.1			As we lower our revenues growth estimates, it pulls down the gross block turnover

Source: Company, Ambit Capital research

SOTP valuation — ₹55/share

Exhibit 77: Changes in the SOTP valuation

Particulars	Methodology	Old (₹)	New (₹)	Chg	Comments
Construction business - total		**42**	**37**	**-11%**	
Construction business – Stand-alone	DCF	35	31	-10%	We take the FCFF from FY14 onwards and arrive at a TP at end of FY13. Reduction in revenues and EBITDA from our earlier estimates further leads to poor free cash flow generation profile and lower returns.
Construction business - International	P/E	7	6	-18%	Continuous increase in competition from the international and regional players and poor order flow growth in MENA region will restrict any meaningful growth in the international business. International business is valued at 33% discount to the Indian construction business.
BOT assets and real estate		**18**	**18**	0%	
Total BOT	P/B	8	8	0%	Asset development companies such as GVK, GMR are trading at 1x FY11 book. Considering that NCC's BOT assets have been delayed and are yet to commence operations, we value them at a discount to listed peers with operational assets.
Total Real Estate	P/B	10	10	0%	We value the equity investments in real estate projects at 0.3x book or equity invested which is close to the ~0.5x FY13 P/B multiple of city-specific real estate companies such as HDIL, DB Realty (Maharashtra).
Total		**60**	**55**	**-9%**	

Source: Company, Ambit Capital research, Bloomberg

Exhibit 78: Profit and loss (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	41,514	48,316	50,737	50,397	57,452
Total expenses	37,777	42,938	45,861	46,264	52,109
EBITDA	3,737	5,378	4,876	4,133	5,343
EBITDA margin	9.0%	11.1%	9.6%	8.2%	9.3%
Net interest	964	1,322	1,682	2,807	3,026
PBT after EO	2,282	4,067	2,656	605	1,496
Adjusted PAT	1,539	2,368	1,784	408	1,010
PAT margin	3.7%	4.9%	3.5%	0.8%	1.8%
Reported PAT	1,539	2,863	1,634	408	1,010
EPS diluted (₹) Adj	6.7	9.2	7.0	1.6	3.9

Source: Ambit Capital research, Company

Exhibit 79: Balance Sheet (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	458	513	513	513	513
Reserves and surplus	16,398	21,943	23,274	23,611	24,445
Total Networth	**16,856**	**22,457**	**23,787**	**24,124**	**24,958**
Loans	12,439	15,302	24,841	27,341	32,841
Sources of funds	**29,482**	**38,013**	**48,935**	**51,784**	**58,148**
Net block	4,592	5,538	6,745	7,129	7,989
Cash and bank balances	1,345	1,997	1,397	1,350	2,004
Sundry debtors	10,260	12,995	14,536	14,912	16,685
Inventories	7,495	7,539	8,960	9,126	10,565
Loans and advances	14,484	18,520	24,469	24,514	28,585
Current Assets	33,615	41,083	49,455	49,995	57,931
Current liabilities and provisions	16,408	18,453	19,743	19,318	23,250
Net current assets	17,206	22,629	29,713	30,677	34,681
Application of funds	**29,482**	**38,013**	**48,935**	**51,784**	**58,148**

Source: Ambit Capital research, Company

Exhibit 80: Cash flow statement (Stand-alone) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	1,645	775	(2,340)	3,163	2,932
Capex	(75)	(1,628)	(1,904)	(1,200)	(1,800)
Cash flow from investment	(1,082)	(3,763)	(4,944)	(1,661)	(3,576)
Cash flow from financing	1,586	4,177	6,685	(1,548)	1,298
Cash at the end of the year	1,345	2,534	1,934	1,350	2,004
Free cash flow	(1,563)	(852)	(4,244)	1,963	1,132

Source: Ambit Capital research, Company

Exhibit 81: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	9.4%	12.0%	7.7%	1.7%	4.1%
ROCE	12.5%	14.7%	9.1%	7.0%	8.8%
Debt/Equity (x)	0.7	0.7	1.0	1.1	1.3
P/E (x)	8.0	5.4	6.3	27.2	12.2
P/B (x)	0.9	0.7	0.7	0.6	0.6

Source: Ambit Capital research, Company Note: We have taken both India and international business stand-alone EPS for calculation of P/E

Accounting: AMBER
Predictability: GREEN
Earnings Momentum: AMBER

VA Tech Wabag

(VATW IN, mcap US$219mn, BUY, TP ₹615, 42% upside)

Exhibit 82: Revision in estimates (consolidated) (₹mn, unless mentioned)

Key assumptions	Old estimates		New estimates		Change in estimates (%)		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Order Inflow - India	15,682	18,250	15,682	18,282	(0.0)	0.2	For 9MFY12, VA Tech has received orders worth ₹ 9.1bn (48% of our FY12 order flow estimate). As 4QFY12 is materially better than 9M and company receives ~50% of its annual orders in fourth quarter, we believe that VA Tech will achieve our order flow estimate for FY12. The company has ₹7.3bn worth of framework contracts (excluding Libya) which are expected to be received by March-12.
YoY growth (%)	12%	16%	12%	17%		20bps	
Order Inflow - International	3,967	4,562	3,967	4,562	0.0	-	
YoY growth (%)	-10%	15%	-10%	15%			
Order Inflow -Total	19,650	22,813	19,650	22,844	0.0	0.1	
YoY growth (%)	6.7%	16.1%	6.7%	16.3%		16bps	
Revenues	13,624	16,477	13,349	15,979	(2.0)	(3.0)	Whilst we lower our FY12 revenue estimate for the international business, we maintain our estimate for stand-alone entity. As 4Q accounts for ~50% of annual revenues and execution of large projects is on-track, VA Tech will meet our FY12 estimate. For 9MFY12, VA Tech has posted revenues of ₹4.9bn (29% YoY growth). No revenue booking from Libya projects in FY12 (~₹620mn in FY11) will lead to lower-than-expected revenue decline in FY12. However, we expect marginal improvement on a YoY basis in FY13, but lower revenue base pulls down our earlier FY13 estimates.
YoY growth (%)	9.7%	20.9%	7.5%	19.7%	(222)bps	(124)bps	
Stand-alone (India + Asia)	9,015	11,382	9,015	11,382	-	-	
YoY growth (%)	23%	26%	23%	26%			
Overseas (MENA+Europe)	4,507	4,978	4,257	4,712	(5.6)	(5.3)	
YoY growth (%)	-10%	10%	-15%	11%	(500)bps	26bps	
EBITDA	1,349	1,697	1,241	1,646	(8.0)	(3.0)	We lower our FY12 EBITDA margin estimate by 50bps for stand-alone entity as we believe that it will be difficult for VA Tech to post any improvement in EBITDA margin in FY12 compared to FY11. For overseas business, we expect margins to decline from our earlier estimates as lower revenues will lead to under absorption of fixed in FY12. However, we expect margins to improve YoY in FY13.
EBITDA margin	9.9%	10.3%	9.3%	10.3%	(60)bps		
EBITDA -standalone	1,127	1,423	1,082	1,423	(4.0)	-	
EBITDA Margin (%)	12.5%	12.5%	12.0%	12.5%	(50)bps		
Overseas	222	274	160	223	(28.1)	(18.7)	
EBITDA Margin (%)	4.9%	5.5%	3.7%	4.7%	(117)bps	(78)bps	
PBT before EO	1,105	1,371	1,001	1,327	(9.4)	(3.2)	PBT and PAT declined from our earlier estimates on account of expected decline in international revenues and EBITDA
PBT margin	8.1%	8.3%	7.5%	8.3%	(61)bps	(2)bps	
Adjusted PAT	693	872	629	844	(9.3)	(3.2)	
Net margin	5.1%	5.3%	4.7%	5.3%	(38)bps	(1)bps	
Working capital turnover	2.6	2.8	2.5	2.8			
Gross block turnover	13.7	12.7	13.4	12.3			As we reduce our earlier revenue growth estimates for FY12, gross block turnover will decline for FY12 and FY13

Source: Ambit Capital research, Company

DCF valuation of ₹615/share

Exhibit 83: Terminal value forms 52% of the total value

PV of the forecasting period upto FY23(₹ mn)	6,364
Terminal value (₹ mn)	7,020
Enterprise value (₹ mn)	13,385
Less: net debt at Mar-13 (₹ mn)	(2,879)
Implied equity value (₹ mn)	16,263
Implied equity value (₹ per share)	**615**

Source: Ambit Capital research, Company

Exhibit 84: Profit and loss (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	11,308	12,295	12,418	13,349	15,979
Total expenses	10,690	11,123	11,208	12,107	14,333
EBITDA	618	1,171	1,210	1,241	1,646
EBITDA margin	5.5%	9.5%	9.7%	9.3%	10.3%
EBIT	534	1,032	1,110	1,132	1,503
Adjusted PBT	397	774	963	1,001	1,327
Consolidated Adjusted PAT	367	478	654	629	844
PAT margin	3.2%	3.9%	5.3%	4.7%	5.3%
Consolidated Reported PAT	349	447	526	454	669
EPS (Diluted) ₹.)	21.4	20.1	26.1	23.8	32.0

Source: Ambit Capital research, Company

Exhibit 85: Balance Sheet (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	42	47	53	53	53
Reserves and surplus	3,738	3,969	5,657	5,957	6,457
Total Networth	**3,779**	**4,016**	**5,710**	**6,009**	**6,509**
Loans	459	391	427	927	927
Sources of funds	**4,253**	**4,407**	**6,136**	**6,936**	**7,436**
Gross Block	787	807	994	994	1,594
Net block	489	399	484	375	832
Investments	147	134	437	437	437
Cash and bank balances	3,145	2,185	3,245	3,687	3,805
Sundry debtors	5,712	6,353	7,413	8,704	10,331
Inventories	548	351	736	763	864
Loans and advances	1,367	1,283	1,419	1,393	1,649
Total Current Assets	10,774	10,174	12,816	14,550	16,653
Current Liabilities	6,162	5,379	6,427	7,472	9,216
Provisions	1,122	1,160	1,467	1,497	1,513

Source: Ambit Capital research, Company

Exhibit 86: Cash flow statement (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	(576)	(558)	271	446	749
Capex	(142)	(154)	(195)	(250)	(300)
Cash flow from investment	98	350	(130)	(165)	(236)
Cash flow from financing	(86)	(53)	1,218	142	(443)
Cash at the end	3,145	2,185	3,245	3,687	3,805
Free cash flow	(720)	(718)	75	196	449

Source: Ambit Capital research, Company

Exhibit 87: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	10.6%	12.3%	13.5%	10.7%	13.5%
ROCE	12.3%	14.1%	13.1%	10.7%	13.2%
Debt/Equity (x)	0.1	0.1	0.1	0.2	0.1
P/E (x)	20.0	21.3	16.4	17.9	13.3
P/B (x)	2.7	2.5	2.0	1.9	1.7

Source: Ambit Capital research, Company

Accounting: AMBER
Predictability: GREEN
Earnings Momentum: AMBER

Voltas

(VOLT IN, mcap US$768mn, BUY, TP ₹135, 16% upside)

Exhibit 88: Revision in estimates (consolidated) (₹ mn, unless mentioned)

Key assumptions	Old estimates		New Estimates		Change in estimates		Comments
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	
Order book	44,683	42,912	45,348	42,521	1.5%	-0.9%	In 9MFY12, Voltas has already received orders worth ~₹22bn. We expect company to receive another ₹7bn in 4QFY12, Therefore, we increase our FY12 order flow estimate. Whilst we maintain our FY13 order flow growth estimates, higher base of FY12, increases our earlier FY13 order flow estimate.
YoY growth (%)	-9%	-4%	-7%	-6%	136bps	(227)bps	
Order Addition-total	27,205	31,682	29,476	34,468	8.3%	8.8%	
YoY growth (%)	-17%	16%	-10%	17%	693bps	48bps	
India	17,883	20,029	18,289	20,484	2.3%	2.3%	
YoY growth (%)	-12%	12%	-10%	12%	200bps		
Overseas	9,323	11,653	11,187	13,984	20.0%	20.0%	
YoY growth (%)	-25%	25%	-10%	25%	1500bps		
Revenues	51,586	55,631	54,197	59,571	5.1%	7.1%	For FY12, we increase our revenue growth estimate both for the EMP business and the cooling products business, as in 9MFY12, revenues in both businesses grew ahead of our estimates. We increase our revenue growth estimate for FY13, as we believe that Sidar project will drive the revenue growth in the EMP segment and we expect a pick up in the room-air conditioners sales in CY12 (compared to CY11).
YoY growth (%)	-0.4%	7.8%	4.7%	9.9%	504bps	207bps	
Electro-Mechanical Projects	*31,393*	*33,452*	*32,998*	*37,294*	*5.1%*	*11.5%*	
growth	*3.2%*	*6.6%*	*8.5%*	*13.0%*	*528bps*	*646bps*	
Agency & Services	*5,239*	*6,025*	*5,211*	*4,690*	*-0.5%*	*-22.2%*	
growth	*-7.1%*	*15.0%*	*-7.6%*	*-10.0%*	*(50)bps*	*(2500) bps*	
Unitary Cooling Products	*14,827*	*16,013*	*15,608*	*17,168*	*5.3%*	*7.2%*	
growth	*-5%*	*8%*	*0%*	*10%*	*500bps*	*200bps*	
Reported EBITDA	2,137	3,412	2,681	4,123	25.4%	20.9%	We increase our EBITDA margin estimates for FY12, as for 9MFY12 Voltas posted an EBITDA margin of~6% compared to our estimate of 2%. We also marginally increase our estimate for FY13, as we expect margins to improve both in the EMP segment and the UCP segment.
EBITDA margin	4.1%	6.1%	4.9%	6.9%	80bps	79bps	
Electro-Mechanical Projects	*2.0%*	*5.0%*	*2.5%*	*6.3%*	50bps	125bps	
Agency & Services	*14.5%*	*15.5%*	*16.5%*	*16.5%*	200bps	100bps	
Unitary Cooling Products	*6.5%*	*7.0%*	*7.9%*	*7.5%*	135bps	50bps	
Adjusted EBITDA	2,137	3,412	(86)	4,123	-104.0%	20.9%	We calculate Adjusted EBITDA margin including the Sidra project as we believe that the losses of ₹2.8bn estimated by the compnay on that project are operational in nature.
EBITDA margin	4.1%	6.1%	-0.2%	6.9%	(430)bps	79bps	
Adjusted PAT	1,541	2,386	(381)	2,910	-124.7%	21.9%	Despite an increase in revenue estimate and EBITDA estimate, our PAT is lower than earlier estimate in FY12 as losses of ₹2.8bn (Sidar project) are included both in Adjusted PAT and reported PAT. However, reported PAT also includes exceptional income of ₹1.3bn which partially offset the impact of Sidar project.
Net margin	3.0%	4.3%	-0.7%	4.8%	370bps	53bps	
Reported PAT (including exceptional income)	1,541	2,386	856	2,910	-44.4%	21.9%	
Net margin	3.0%	4.3%	1.6%	4.9%	(140)bps	57bps	
Working capital turnover	3.7	3.4	3.9	3.8			Whilst we expect Gross block and working capital turnover improve due to increase in revenue estimates for FY12 and FY13
Gross block turnover	11.0	10.6	11.6	11.2			

Source: Ambit Capital research, Company

Exhibit 89: Our SOTP valuation

Business	Method	Value per share (₹) Old	New	Change	Comments
Core business	DCF	103	127	23%	Increase in our order flow, revenue growth and EBITDA margins estimates will drive the FCFF and returns. We calculate segmental FCFF in over FY14-25E for our DCF calculation.
Rental Income capitalized at 10% Yield		8	8	0%	
Total		**111**	**135**	**21%**	

Source: Company, Ambit Capital research

Exhibit 90: Profit and loss (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Revenue	43,259	47,574	51,768	54,197	59,571
Total expenses	40,428	42,979	47,360	51,516	55,447
Reported EBITDA	2,831	4,595	4,408	2,681	4,123
Reported EBITDA margin	6.5%	9.7%	8.5%	4.9%	6.9%
Adjusted EBITDA	2,831	4,595	4,408	(86)	4,123
Adjusted EBITDA margin	6.5%	9.7%	8.5%	-0.2%	6.9%
Adjusted PBT	3,456	5,068	4,843	22	4,268
Reported PBT	3,717	5,318	5,245	1,259	4,268
Adjusted PAT	2,284	3,595	3,114	(388)	2,881
Reported PAT	2,545	3,845	3,516	849	2,881
Adjusted Consolidated PAT	2,253	3,559	3,171	(381)	2,910
PAT margin	5.2%	7.5%	6.1%	-0.7%	4.9%
Reported Consolidated PAT	2,514	3,810	3,573	856	2,910
Adjusted EPS (diluted) ₹	6.8	10.8	9.6	(1.2)	8.8
Reported EPS (diluted) ₹	7.6	11.5	10.8	2.6	8.8

Source: Ambit Capital research, Company

Exhibit 91: Balance Sheet (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Share capital	331	331	331	331	331
Reserves and surplus	7,567	10,521	13,286	13,368	15,504
Total Networth	**7,897**	**10,852**	**13,617**	**13,699**	**15,835**
Loans	1,814	352	1,381	3,181	3,181
Sources of funds	**9,871**	**11,343**	**15,234**	**17,109**	**19,216**
Net block	2,148	2,069	2,422	2,619	2,916
Cash and bank balances	4,571	4,689	4,980	4,530	3,669
Sundry debtors	9,521	10,060	11,705	12,918	14,199
Inventories	11,194	6,579	8,224	11,715	12,153
Loans and advances	2,203	2,055	2,440	2,673	2,938
Total Current Assets	**27,489**	**28,249**	**35,310**	**39,409**	**41,282**
Current liabilities and provisions	22,360	22,475	26,232	28,652	28,716
Net current assets	5,129	5,774	9,077	10,756	12,566
Application of funds	**9,871**	**11,343**	**15,234**	**17,109**	**19,216**

Source: Ambit Capital research, Company

Exhibit 92: Cash flow statement (consolidated) (₹ mn, unless mentioned)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Cash flow from operations	983	3,065	392	(1,587)	699
Capex	(439)	(317)	(446)	(562)	(679)
Cash flow from investment	649	(764)	(288)	449	(420)
Cash flow from financing	(70)	(2,177)	96	689	(1,140)
Cash at the end	4,571	4,695	4,980	4,530	3,669
Free cash flow	616	3,098	389	(2,225)	19

Source: Ambit Capital research, Company

Exhibit 93: Key ratios

Particulars	FY09	FY10	FY11	FY12E	FY13E
ROE	33.0%	38.0%	25.9%	-2.8%	19.6%
ROCE	22.1%	30.3%	21.5%	10.9%	17.1%
Debt/Equity (x)	0.2	0.0	0.1	0.2	0.2
P/E (x) (Adj.)	17.0	10.8	12.1	NA	13.2
P/B (x)	4.9	3.5	2.8	2.8	2.4

Source: Ambit Capital research, Company

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
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