

Initiating Coverage
November 2, 2010

Madhucon Project Ltd.



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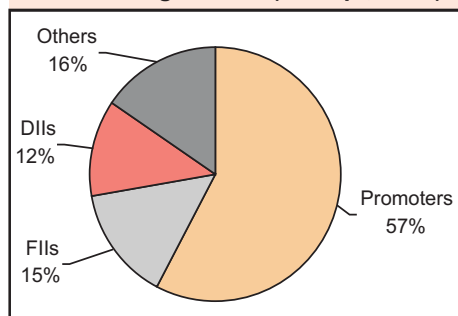
Building asset portfolio...

November 2, 2010

Key Stock Data	
Sector	Infra
CMP	₹143.4
52-wk High / Low	197.5 / 109.1
Market Cap	₹10.6bn (\$241mn)
Avg 12m daily vol.	115187
BSE Sensex	20355
Reco	Buy
TP	₹188

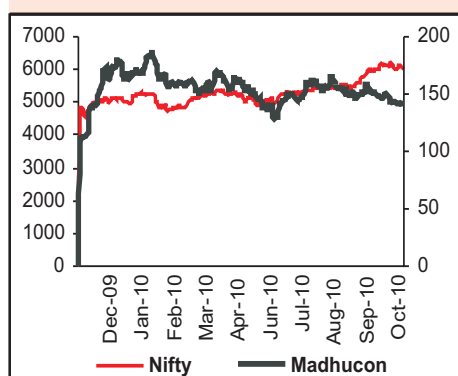
Stock Codes	
Bloomberg Code	MDHP IN
Reuters Code	MAPR.BO
BSE Code	531497
NSE Code	MADHUCON
Face Value	₹1per share

Shareholding Pattern (30 Sept, 2010)



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-4.0%	-6.7%	-13.6%	25.0%

Stock Price Performance



Madhucon Project Ltd. (MPL), a mid-sized domestic infrastructure construction company, engaged in execution of projects in roads and expressways, power, water & property development. With an order book of ₹4900Cr as on Q1FY11, MPL enjoys sustainable revenue visibility. Additionally, the company is aggressively expanding in road BOT projects, the power generation space and three coal mines in Indonesia, which would unlock value in the long-term.

Executive Summary

Infra vertical in FY11 - the threshold for project completion

Madhucon Projects Ltd's (MPL) Phase I power project provides a healthy business proposition with ROE of 24.7%. The coal mining business will start contributing to profits FY11 onwards on external sales, as MPL's power capacities go on stream FY13 onwards. Road toll revenue has also begun and would touch ₹170Cr by FY12. Hence, FY11 would be an inflection point where MPL builds threshold infrastructure vertical capacity that would be important for its re-rating.

Operational BOT projects clocked ₹13Cr revenue

The toll collection from two operational BOT projects touched ₹1.3Cr for the quarter, Agra-Jaipur Expressway has collected ₹0.7Cr whereas Dindigul-Karur has collected ₹0.6Cr. Madurai-Tuticorin is awaiting final notification for its commencement and is likely to be operational from end of October 2010, and Trichy-Thanjavur is likely to commence operation from November 2010.

Commencement of BOT projects in power & roads to boost revenue

Two BOT road projects and 300MW power project is expected to be operational by end of this fiscal year. Per day revenue on Trichy-Thavendur is expected to be ₹12.8 lakhs and in Madurai-Tuticorin would be around ₹20 lakhs. For the power project, the company has already tied up with PTC and Reliance Infra with annual turnover of around ₹40Cr in current fiscal year.

Valuation

We expect the company's revenues to grow at 25% and 47% for FY11E & FY12E respectively. Based on the SOTP valuation, we recommend 'buy' with the target price of ₹188/- per share.

Key Financials

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net Sales	738.0	1025.4	1434.7	1798.7	2656.7
Growth (%)	44.7%	38.9%	39.9%	25.4%	47.7%
EBITDA	119.9	143.1	175.3	295.9	617.8
Growth (%)	22.0%	19.3%	22.5%	68.8%	108.8%
PAT	47.3	46.9	32.4	59.9	74.1
Growth (%)	13.7%	-0.7%	-30.9%	84.7%	23.7%
Earnings Per Share (₹)	6.4	6.3	4.4	8.1	10.0
Book Value (₹)	66.6	72.4	112.0	119.5	135.8
Price Earnings (x)	23.3	23.5	34.0	18.4	8.8
Price to Book Value (x)	2.2	2.1	1.3	1.2	1.1
EBITDA Margin	16.3%	14.0%	12.2%	16.5%	23.3%
PAT Margin	6.4%	4.6%	2.3%	3.3%	4.7%
ROE	9.6%	8.8%	3.9%	6.8%	12.4%

E - Keynote Capitals Institutional Research Estimates

Investment Rationale

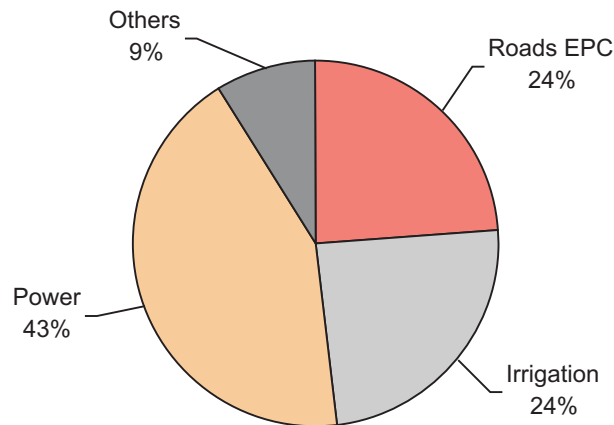
Robust Order Book of ₹4900Cr to provide revenue visibility

The order book of Madhucon Projects Ltd stands at ₹4900Cr as on 30 June, 2010 which is 4 times the FY10 revenue and provides the revenue visibility over the next 2.5 years. The current order book consists of: Irrigation (₹1170Cr), Power (₹2100Cr), Roads (₹1180Cr) and Others (₹450Cr). In-house order contributes 55% of the order book. With strong order book and expected future order inflow from phase II, there may be visibility in top line growth. The company also has prequalified bids of worth around ₹10000Cr.

Chart 1

Robust order provides sustainable revenue visibility for the next 2 to 3 years

Order Book Break Up



Restructuring of infrastructure business

In order to leverage its business efficiently, the company is in the process of restructuring business and transferred its assets (roads, mining and power) to the subsidiary company named Madhucon Infra Ltd.

Chart 2

Pre Restructuring

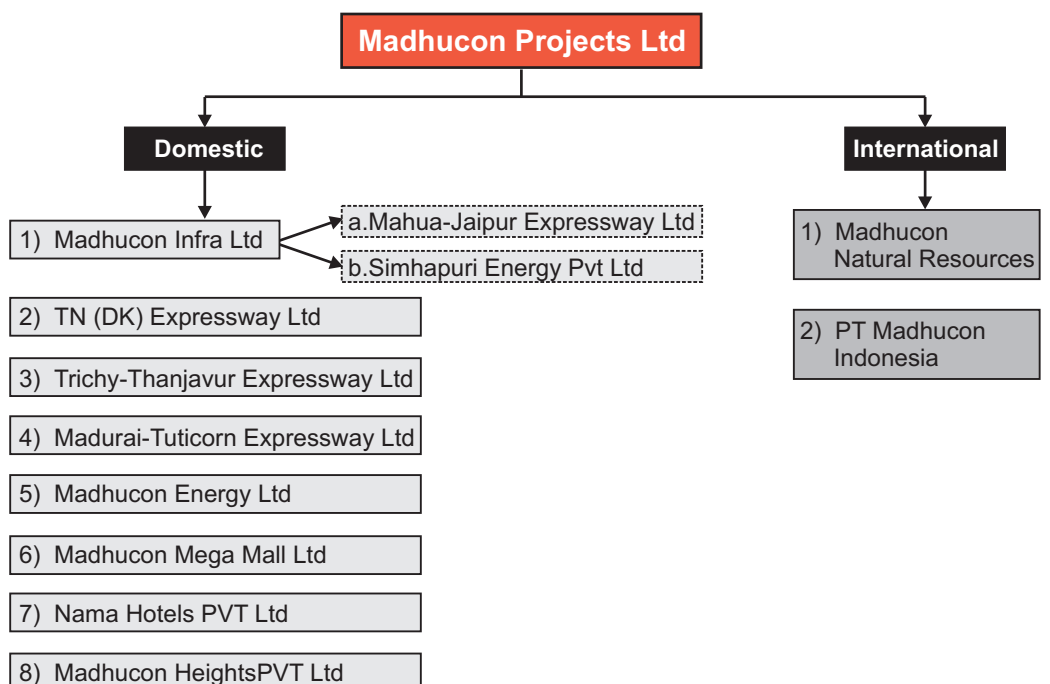
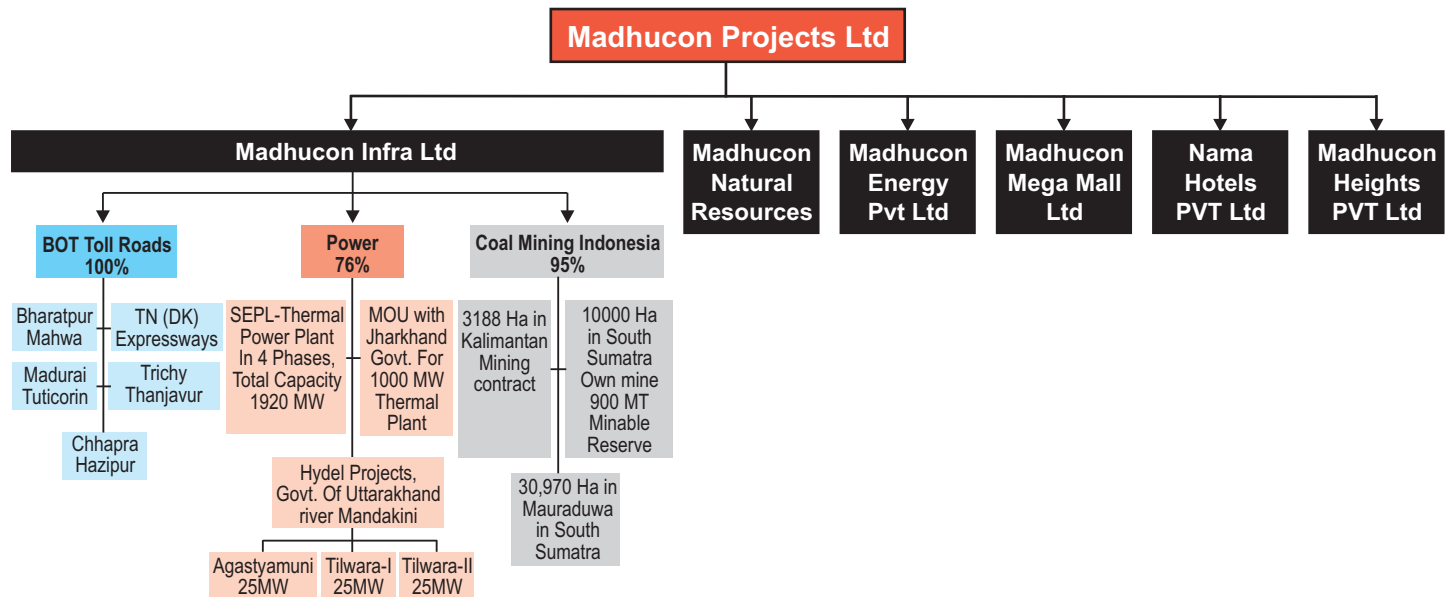


Chart 3

Post Restructuring



Revenue yield in road BOT projects

Commercial operation of two more BOT projects to act as key trigger to contribute the revenues significantly.

MPL has 5 BOT projects in its portfolio, of which two projects i.e. Bharatpur-Mahua and Karur-Dindigal, commenced operation from May 2009 and Nov 2009 respectively and have booked revenue of ₹34.4Cr in FY10 and ₹12.9Cr in Q1FY11. The other two projects are expected to commence operation within a couple of months. One of the road projects was recently secured (Chhapra Hazipur in Bihar); it is an annuity-based project and carries a semi annuity payment of ₹65.4Cr. Financial closure is expected in few weeks. Once 4 BOT toll based projects are operational, we expect the revenue of ₹0.5Cr per day which will generate cash flow in order to fund other projects as well.

Particulars	MAJEL	TNDK	MTEL	TTEL	Chhapra Hazipur
Length (km)	58	73	129	57	64
Project Cost (₹Cr)	338	373	920	390	820
Grant (₹Cr)	96	86	144	78	-
Type	Toll	Toll	Toll	Toll	Semi-Annuity of ₹65.4Cr
Concession Period	25	20	20	20	15
Debt : Equity	2.2:1	3.0:1	4.1:1	4.0:1	3.0:1
Madhucon's Stake	85	98	85	100	100
Status	Operational	Operational	Nov 10	Nov 10	Dec 12
Interest rate (%)	10.5	9.75	9.75	9.75	-
Value per Share	16.55	15.74	17.36	15.91	6.00

Commercialisation of 300MW (Phase I) power project by end of FY11

The company is developing ambitious 1920MW thermal power plant in four phases through its subsidiary Simhapuri Energy Pvt. Ltd. EPC for the 1st Phase of 300MW is being carried out and is expected to be completed by Q4FY11. It will sell 70% to PTC at conversion price of ₹1.25/unit as PTC would be supplying coal and balance 30% to Reliance Energy at ₹4.5/ Unit and coal requirement would be imported from the Indonesian subsidiary.

Revenues	2011E	2012E	2013E	2014E	2015E
PLF %	0.80	0.80	0.80	0.80	0.80
Total Sales (₹Cr)	38.98	467.78	491.17	515.73	541.52
Total Cost (₹Cr)	17.26	207.09	217.44	228.31	239.73
EBIDTA (₹Cr)	21.72	260.70	273.73	287.42	301.79

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Financial Closure of Phase II (300MW) being achieved

The company has achieved financial closure of Phase II worth ₹1204Cr with the consortium of 13 banks of which SBI being the lead bank. EPC work for the project would be done by MPL and it will go on-stream by August 2012. The company expects to sell 50% of Phase II power through PTC and balance through Reliance Infra or other. However agreements are not yet signed with any of the parties. The company had already infused equity to the tune of ₹200Cr and more ₹130Cr will be invested in the form of equity.

Completion of ongoing projects to drive margins

The company currently have five projects in the different stage of construction of which four projects are getting completed before the end of FY11 and remaining by FY13. Out of four projects, two are BOT toll based road projects where the margins are very high and revenue flow is on daily basis, one is power project where company has PPA with PTC and Reliance Infra where the margins are high as well, one is coal mine getting operational and would be producing coal of around 0.3MMT in FY11 where the PAT margins would be 14-15%.

Commencement of property development

MPL is developing a four star hotel with 360 rooms in Kukatpally, Hyderabad and also planning to develop service apartment. Land aggregating to 9.2 acres has been allotted by Andhra Pradesh Housing Board at a cost of ₹4.5Cr per acre. Total cost for both projects is estimated at ₹360Cr and MPL has already invested ₹29Cr as equity contribution. It is expected to be completed by Q3FY12. The company is also looking to develop a Mall and Office complex with additional funding.

Company Background

Madhucon Projects Ltd is the flagship company of Madhucon group, a Hyderabad based group engaged in execution of Infrastructure projects, such as Construction of National Highways, Flyovers, Dams, Tunnels, Aqueducts, Bridges, Coal Handling Plants, Workshops property Development Projects including High Rise structures, Hospitality and retail industry structures etc. & enjoying substantial non-fund based limits in the form of Bank Guarantees with Banks under Multiple Banking arrangements.

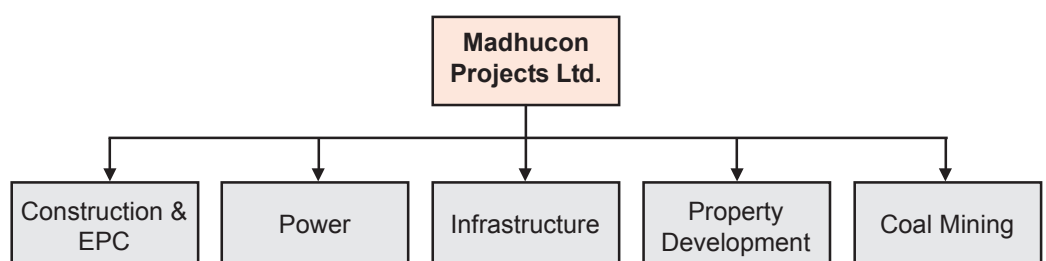
The company has a wide ranging experience in design & execution of huge Civil Engineering projects, both on item rate as well as EPC/BOT basis. MPL has an in house Design engineering cell manned by qualified, experienced Design engineers equipped with state of art software. MPL is a leader in construction of Highways and Expressways. It has built nearly 500 KM of Highways in the Golden Quadrilateral Road Network in India connecting Mumbai, Delhi, Calcutta and Chennai which works out to be 7% of the length of the golden quadrilateral. MPL won recognition from National Highway Authority of India for its Quality and Speed in execution.

To facilitate concentrated working and fast expansion, Madhucon has set up 7 Operating Divisions, such as BOT Projects, Highways & Airports, Irrigation, Hydel Power, Property Development, Water Resources and Overseas Projects. MPL had entered into the power sector in March of the year 2007 with 48% equity participation in Simhapuri energy private, a special purpose vehicle in partnership with Hyderabad based Malaxmi Group. Madhucon desires to participate in a big way in the Property Development sector as well. With the increasing impetus being given by the Government of India in its yearly budget for infrastructure development, Madhucon aspires to bag several prestigious projects. Madhucon is also studying the overseas markets and keenly watching the developments with a view to make an entry into the world markets at an appropriate time.

Major Subsidiaries and SPVs

Subsidiaries	Holding	Profile
Madhucon Infra Ltd	100%	Operation & Maintenance of roads, power plants & coal mines
MAJEL	85%	SPV which is into the operation and maintenance of BOT roads project of Mahua-Jaipur Expressway
TNDK Ltd	98%	SPV which is into the operation and maintenance of BOT roads project of Tarur-Dindigul Expressway
TTEL	100%	SPV which is into the operation and maintenance of BOT roads project of Trichy-Thanjavur Expressway
MTEL	85%	SPV which is into the operation and maintenance of BOT roads project of Madurai-Tuticorn Expressway
Simhapuri Energy Pvt. Ltd	90%	Involved in power generation on PPAs and merchant basis
Madhucon Mega Mall Pvt. Ltd	67%	Engaged in construction of mall with multiplex
Madhucon Heights Pvt. Ltd	67%	Construction of buildings
Nama Hotels Pvt. Ltd	100%	Construction & maintenance of hotel
Madhucon Energy Ltd	100%	Civil construction activity which is not power intensive
PT Madhucon Indonesia	95%	Engaged in coal mining with mines at Indonesia
Madhucon Natural Resources (Mauritius) Ltd	75%	Engaged in investment holdings and consultancy services

Major Areas of operations of MPL



Business Segments

Engineering Procurement & Construction

The company has an expertise in EPC business with the timely execution of the projects in the field of highways, bridges, tunnels, mining, irrigation and power, buildings, flyovers, industrials and railways. At the end of FY10, the contribution of revenue in the business was around 97%. The operating margins are expected to be in the range of 10.5% - 11.0% due to efficient cost control mechanism.

Standalone	(₹Cr)				
Particulars	FY08	FY09	FY10	FY11E	FY12E
Net Sales	738.0	1025.4	1388.3	1596.5	1836.0
Growth (%)	44.7%	39%	35%	15%	15%
Total Expenditure	630.7	901.5	1252.9	1436.8	1646.9
PBIDT (Excl OI)	107.3	124.0	135.4	159.6	189.1
% of Sales	14.5	12.1	9.8	10.0	10.3
Other Income	12.6	19.1	5.6	8.0	10.0
Operating Profit	119.9	143.1	141.0	167.6	199.1
% of Sales	16.3	14.0	10.2	10.5	10.8
Interest	16.5	26.6	25.1	31.9	35.1
PBDT	103.5	116.5	115.9	135.8	164.0
Depreciation	33.9	43.3	46.4	46.4	53.4
PBT	69.5	73.1	69.4	89.4	110.6
Tax	22.3	26.2	23.7	29.5	36.5
Profit After Tax	47.3	46.9	45.8	59.9	74.1
% of Sales	6.4	4.6	3.3	3.8	4.0

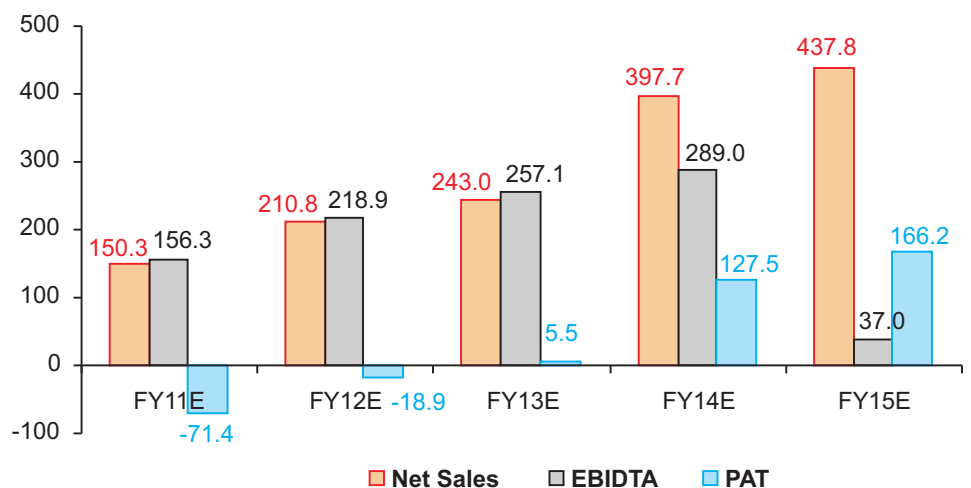
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Road & Highways

In road projects, the company has constructed more than 500km. The company has so far constructed 7% of the Golden Quadrilateral till date. It has five BOT orders under its kitty of which two are operational, two are expected to be operational by end of this fiscal year and one is the annuity based BOT where financial closure is expected before Q3FY11. Of the two projects of operation namely Bharatpur-Mahua and Karur-Dindigul, company is generating ₹7.73lac and ₹6.63lacs per day respectively. Management is expecting revenues of ₹0.5Cr per day when all four BOT toll based project are fully operational.

Chart 4

BOT Projects Revenues & Margins (₹Cr)



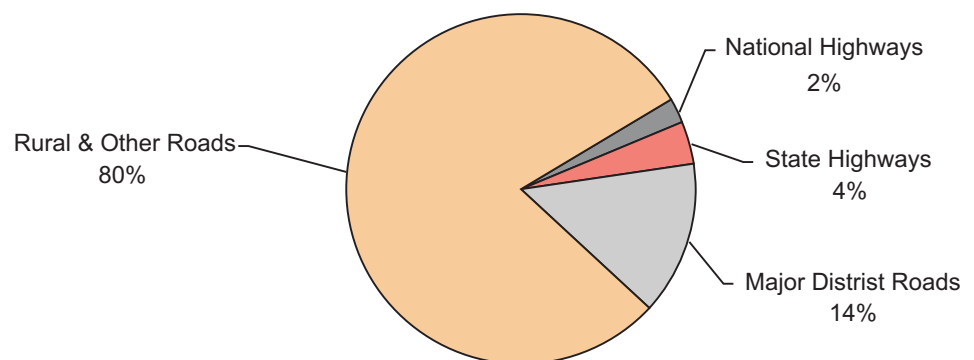
Source: Company, Keynote Capitals Institutional Research

Indian Road Sector

India is the second largest in the world in terms of road network with 3.3 million km of roads carrying about 61% of the freight and 85% of the passenger traffic. Out of the total network, National Highways constitutes only about 2% of the road network but carry about 40% of the total road traffic. The number of vehicles has been growing at an average pace of 10.16% per annum over the last five years. According to the Planning Commission, annual growth projected at 12-15% for passenger traffic, and 15-18% for cargo traffic. Besides this, 40% of India's villages do not have access to All Weather roads. To improve road infrastructure, in the Recent budget FY10-11, government has announced allocation of ₹175000Cr for infrastructure development.

Chart 4

Heading



Source: Company, Keynote Capitals Institutional Research

Investment budgeted in Five Year Plan

Particulars	FY08	FY09	FY10	FY11	FY12	Total XI Plan
Central	303	323	354	414	478	1872
-Public	183	194	207	226	263	1073
-Private	120	129	147	188	215	799
State	215	224	238	270	322	1270
-Public	175	182	189	206	248	1000
-Private	40	43	49	64	74	270
Total	518	548	592	684	800	3142
-Public	359	376	396	432	511	2074
-Private	160	172	196	251	289	1068

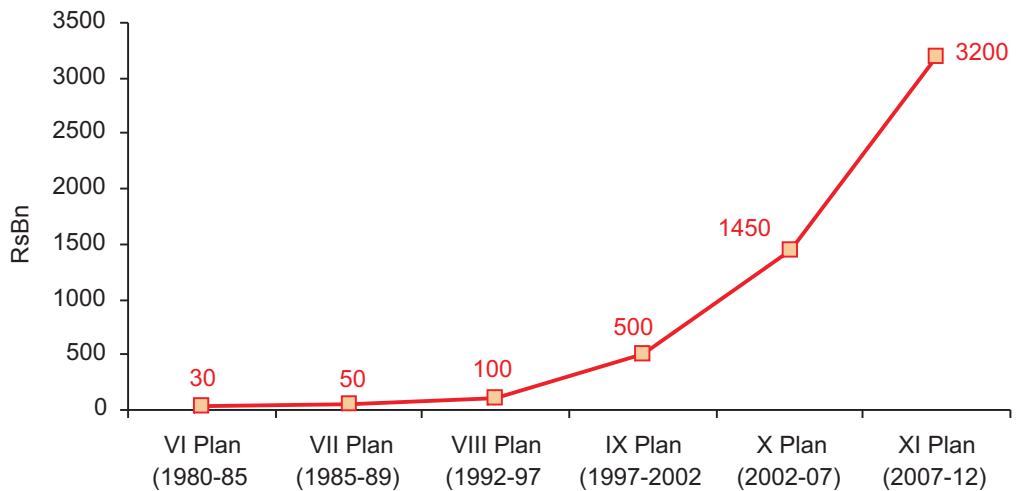
Source: NHAI

11th Five Year Plan for Roads

For the roads and bridges sector, the 11th Five Year Plan (FYP) envisages a total investment of approximately ₹314200Cr (US\$ 78.5 bn). The targeted investment is 116.8% higher than the 10th FYP. The private sector participation in investment in the current FYP is expected to be 34% which is much higher than 4.8% in 10th FYP. 50% of the investment would go to the development of national highways which includes 25.4% from private players participating in NHDP projects.

Chart 6

Proposed Investment



Source: Ministry of finance

Phases	Investments (₹bn)	Length (KM)	Objective
NHDP-I	300.0	7498	1) Golden Quadrilateral 5,846 km 2) NS-EW Corridor of 981 km 3) Port connectivity 356 km4) Others 315 km
NHDP-II	343.4	6647	1) NS-EW Corridor 6,161 km 2) Other National Highways of 486 km
NHDP-III	765.5	12109	Up gradation and 4 laning of National Highways
NHDP- IV	250.0	20000	Up gradation of highways into two-lane highways
NHDP-V	412.1	6500	Six laning of existing 4 lane highways including 5,700 km of GQ and other stretches
NHDP-VI	166.8	1000	Development of expressways
NHDP-VII	166.8	700	Building of Ring Roads, Bypasses and flyovers and selected stretches

Source: NHA, Keynote Institutional Research

Union Road Transport Ministry has awarded 3600Kms by March, 2010 against 52000Kms which reflect that there is huge gap where government needs to act upon. NHA is likely to award 50 Projects in 2010-2011. The government shall increase the target for infrastructure investment using PPP model. Given the opportunity in the road segment, MPL is poised to be benefited from the same.

The Eleventh Five Year Plan places high priority to the expeditious completion of works approved under the different phases of the NHDP. For the roads and bridges sector, the Eleventh Five Year Plan envisages a total investment of ₹314150Cr.

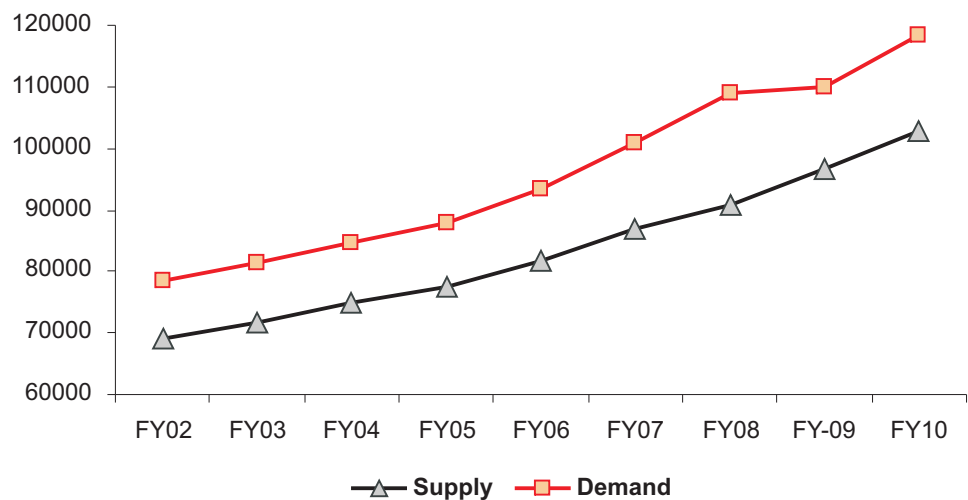
With a view to expediting the progress of the NHDP, the Ministry of Road Transport & Highways has set a target of completion of 20 km of NHs per day; NHA formulated Work Plans (Work Plan I & II) for awarding 12,000 km each during the years 2009-10 and 2010-11. Work Plan I (2009-10) covers balance stretches of NHDP Phases II, III & V. So far, 14 projects for a length of about 1,300 km have already been awarded, bids for 20 projects covering a length of about 2,000 km have been received and are under process and another 23 projects for a length of about 1,700 km are presently on offer.

Power

The company has an ambitious 1920MW project under construction in which is expected to develop in 4 phase. Of which Phase I (300MW) is expected to be operational by end of FY11 and Phase II by Q1FY13. Remaining phases are still in the initial stage of development. The company also has another project of 75MW in Uttarakhand.

Chart 7

Supply of power has always lagged behind....



Source: CEA

Over the last decade the supply of power has always lagged behind the demand with a gap of over 10% at any given point of time. According to Central Electricity Authority (CEA), during fiscal 2007 India's total energy shortage was 68,341 million units, or 9.9% of its total requirements, and peak shortage was 13,610 million units, or 13.5% of peak demand requirements. On a per capita basis, energy consumption in India is relatively low in comparison to much of the rest of the world. According to Ministry of Power data, in 2001, India's per capita electricity consumption was 408 units and is projected to increase to 932 units by fiscal 2012.

The National Electricity Policy (NEP), 2005 recognizes electricity as a "basic human need" and targets a rise in per capita availability to 1000 units per person by the end of 2012.

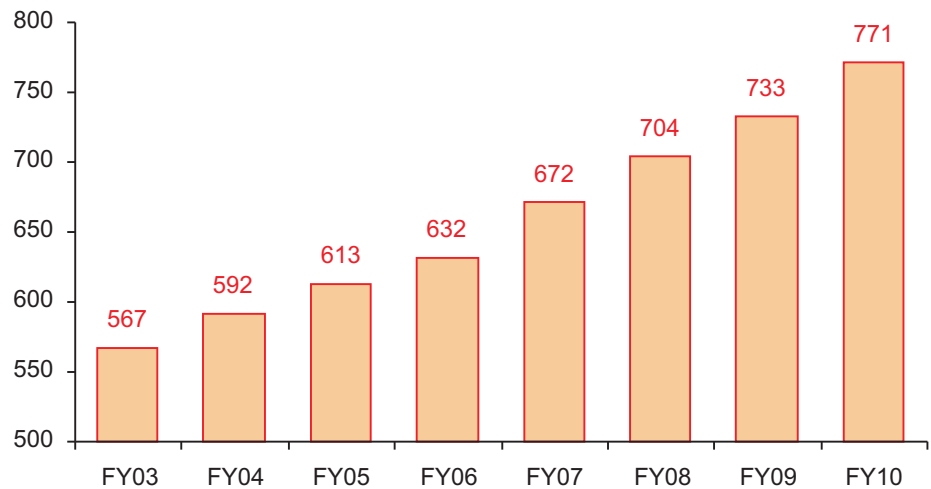
	Installed Capacity 2007	Addition during 11 th Plan	Capacity Addition Achieved (Mar 10)	Total Capacity anticipated by March, 2012
Hydro	34654	15627	3431	50281
Thermal	86015	59693	18211	145708
Nuclear	3900	3380	660	7280
Wind/ Renewable	7761	14000	-	21761
Total	132329	92700	22302	225030

Source: Planning Commission

Per Capita power consumption has gone up from 567 units in 2003 to 704 unit in 2008. To fulfil the objectives of the NEP, a capacity addition of 78,700 MW is envisaged during the Eleventh Five Year Plan. The power sector is expected to grow at 9.5 per cent per annum. In power sector, the year 2009-10 accounted for the highest capacity addition, i.e. 9,585 MW in a single year in the last 60 years. Altogether in the 11th five-year plan 62,302 MW capacities are likely to be added in the power sector, as against the target of 78,700 MW. The government is now planning to set the target of achieving additional 100000 MW capacity in the 12th Five Year Plan. With private investment & power trading, the sector is growing steadily and creating opportunities for private developer to sell power on merchant basis through short term contracts.

Chart 8

Per Capita Consumption (KWH)



Source: CEA, Company

With the Indian economy on a high growth trajectory, bridging demand-supply gap is going to be a serious challenge in coming years. The Electricity Act, 2003 stipulates long-term open access to private power producers for inter-state transmission of electricity. The sector has attracted private investment. Power trading market in the country is also growing fast. This offers scope for private developers to sell power in the merchant market through short-term contracts.

Investment in power sector as whole in 11th Five year plan (₹Cr at 2006-07 prices)

	Generation		Transmission		Distribution		Total XI Plan	
Centre	143976	38.2%	61637	43.9%	49703	33.4%	255316	38.3%
State	91525	24.2%	44825	31.9%	89347	60.1%	225697	33.9%
Private	141848	37.6%	33961	24.8%	9703	6.5%	185512	27.8%
Total	377349	56.6%	140423	21.1%	148753	22.3%	666525	100%

Source: CEA

The investment in the sector during 11th Five year plan is huge, considering 50% of the remaining 80% utilised for 3 years period.

The Mega Power Policy needs to be modified to encourage the further capacity addition. Coal Regulatory Authority needs to be created as a level playing field in coal sector to regulate the coal sector and also need to establish a National Clean Energy Fund to ensure renewable energy. MPL has an advantage in capitalising potential in power sector through its diversified business operations by focusing on this segment.

Real Estate

The company has acquired a land in hyderabad through a tender for development. The company is building 1mn Sqft of developed space comprising a 374 room Hotel, a mall space of 6-7 lakh Sqft and a commercial office space of 1-1.2 lakh sft. The company has got permission/ approvals for hotel and office building and for Mall the company is waiting for the approval. The company has already signed agreement with a leading hotel operator for operation and maintenance contract. The construction will be completed in 30 months. The company expects to invest about ₹49 crore in the equity of this project out of about ₹361 crore of project cost.

Mining

Madhucon Subsidiary PT Madhucon Indonesia has recently bagged second order for mining

30970 ha in Sumatra. Legal formalities and environmental licenses will take some time and commercial production is expected to commence in next 3-4 Yrs. This mine is expected to hold reserves around 250 million tons. The first mine at South Sumatra is spread across 10,000 ha and has capacity of 900-1,000mn tons of coal reserves. It is expected that company will be able to extract 1.5 million tonnes in FY11.and for the same company has installed a crusher with capacity of 1000 Ton per Hour. The expected cost to mine a million tonnes is around ₹110Cr.

BOT Valuation & Assumptions

Mahua - Jaipur Expressway

Agreement period	2005-2030
Concession period	25 Yrs
Total cost(₹Cr)	324
NHAI Grant	38.4
Debt	224.5
Equity	61.1
COD	May-09
Revenue Per Day (₹Cr)	0.0773
Growth in Toll	7.00%
Growth in Traffic	8.00%
Net Present Value	144.07
Madhucon Stake	85%
NPV/Share	16.55

Profit & Loss	FY11E	FY12E	FY13E	FY14E	FY15E...	FY30E
Net Sales	28.21	32.45	37.31	42.91	49.35	401.54
% growth	25.86%	15.00%	15.00%	15.00%	15.00%	15.00%
O&M Cost @8%	2.26	2.60	2.99	3.43	3.95	32.12
EBITDA	25.96	29.85	34.33	39.48	45.40	369.42
Less Depreciation @	19.42	18.45	17.52	16.65	15.81	7.33
EBIT	6.54	11.41	16.81	22.83	29.59	362.09
Less Interest @ 10.5	23.57	23.57	23.57	23.57	23.57	23.57
EBT	-17.02	-12.16	-6.76	-0.73	6.02	338.53
Less Tax @ !7%	-2.89	-2.07	-1.15	-0.12	1.02	57.55
EAT	-14.13	-10.09	-5.61	-0.61	5.00	280.98
Add Depreciation	19.42	18.45	17.52	16.65	15.81	7.33
Add/(less) Debt	0.00	0.00	0.00	0.00	0.00	0.00
FCFE	5.29	8.35	11.91	16.04	20.81	288.30

TN (DK) Expressway

Agreement period	2006-26
Concession period	20
Total cost(₹Cr)	373.3
NHAI Grant	67.2
Debt	231.5
Equity	74.6
COD	Nov-09
Revenue Per Day (₹Cr)	0.095
Growth in Toll	7.00%
Growth in Traffic	8.00%
Net Present Value	231.50
Madhucon Stake	98%
NPV/Share	15.74

Profit & Loss	FY11E	FY12E	FY13E	FY14E	FY15E	FY26E
Net Sales	34.68	39.88	45.86	52.74	60.65	282.15
% growth	-	15.00%	15.00%	15.00%	15.00%	15.00%
O&M Cost @8%	2.77	3.19	3.67	4.22	4.85	22.57
EBITDA	31.90	36.69	42.19	48.52	55.80	259.58
Less Depreciation @	16.30	15.65	15.02	14.42	13.84	8.84
EBIT	15.60	21.04	27.17	34.10	41.95	250.74
Less Interest @ 10.5	24.31	24.31	21.16	18.01	14.86	0.00
EBT	-8.71	-3.27	6.01	16.09	27.09	250.74
Less Tax @ !7%	-1.48	-0.56	1.02	2.74	4.61	42.63
EAT	-7.23	-2.71	4.99	13.35	22.49	208.12
Add Depreciation	16.30	15.65	15.02	14.42	13.84	8.84
Add/(less) Debt	0.00	0.00	-30.00	-30.00	-30.00	0.00
FCFE	9.07	12.93	-9.99	-2.23	6.33	216.95

Trichy - Thangavur Expressway

Agreement period	2006-2026
Concession period	20
Total cost(₹Cr)	390
NHAI Grant	60.1
Debt	247.4
Equity	82.5
COD	Nov-10
Revenue Per Day (₹Cr)	0.128
Growth in Toll	7.00%
Growth in Traffic	8.00%
Net Present Value	379.93
Madhucon Stake	85%
NPV/Share	17.36

Profit & Loss	FY11E	FY12E	FY13E	FY14E	FY15E	FY26E
Net Sales	15.36	46.72	53.73	61.79	71.06	330.58
% growth	-	204%	15.00%	15.00%	15.00%	15.00%
O&M Cost @10%	1.54	4.67	5.37	6.18	7.11	33.06
EBITDA	13.82	42.05	48.36	55.61	63.95	297.52
Less Depreciation @	12.77	12.13	11.52	10.95	10.40	0.00
EBIT	1.06	29.92	36.83	44.66	53.55	297.52
Less Interest @ 10.5	25.98	25.98	25.98	25.98	25.98	0.00
EBT	-24.92	3.94	10.86	18.68	27.57	297.52
Less Tax @ !7%	-4.24	0.67	1.85	3.18	4.69	50.58
EAT	-20.68	3.27	9.01	15.51	22.89	246.94
Add Depreciation	12.77	12.13	11.52	10.95	10.40	0.00
Add/(less) Debt	0.00	0.00	0.00	0.00	0.00	0.00
FCFE	-7.92	15.40	20.53	26.46	33.29	246.94

Madurai - Tuticorn Expressway

Agreement period	2006-2026
Concession period	20
Total cost(₹Cr)	920
NHAI Grant	88.3
Debt	623.8
Equity	207.9
COD	Oct-10
Revenue Per Day (₹Cr)	0.2
Growth in Toll	7.00%
Growth in Traffic	8.00%
Net Present Value	623.80
Madhucon Stake	85%
NPV/Share	15.91

Profit & Loss	FY11E	FY12E	FY13E	FY14E	FY15E	FY26E
Net Sales	72.00	82.80	95.22	109.50	125.93	585.87
% growth	140.0%	15.0%	15.0%	15.0%	15.0%	15.0%
O&M Cost @10%	5.76	6.62	7.62	8.76	10.07	46.87
EBITDA	66.24	76.18	87.60	100.74	115.85	539.00
Less Depreciation @	13.23	12.96	12.69	12.44	12.18	9.72
EBIT	53.01	63.22	74.91	88.31	103.67	529.28
Less Interest @ 10.5	32.75	32.75	32.75	32.75	32.75	32.75
EBT	20.26	30.47	42.16	55.56	70.92	496.53
Less Tax @ !7%	3.44	5.18	7.17	9.44	12.06	84.41
EAT	16.82	25.29	34.99	46.11	58.86	412.12
Add Depreciation	13.23	12.96	12.69	12.44	12.18	9.72
Add/(less) Debt	0.00	0.00	0.00	0.00	0.00	0.00
FCFE	30.05	38.25	47.69	58.55	71.05	421.84

Valuations

Considering all the projects separately in the valuation, except for the 75MW project in Uttarkhand, Phase III & IV of Simhapuri and Jharkhand 1000MW thermal power plant with given the expected growth in revenue & earnings at the rate of 25% & 47% for the year FY11E & FY12E respectively on the back of 2 BOT road projects and 300MW power project to be completed by end of FY11, based on the SOTP valuation, we recommend 'buy' with the target price of ₹188/- per share.

Segment	Basis	Multiple/ Discount	Value to LITL ₹Cr	Price/ share
EPC Construction	PE	10x	598.8	80.9
BOT Power Projects	DCF	13.3%	163.8	22.1
Contribution from all BOT Roads	NPV	12.5%	529.3	71.5
Real Estate	NAV	20%	38.6	5.2
Mining	BV	1x	58.5	7.9
Total				187.7

Peer Analysis

	GMR Infra	IVRCL Infra	IRB Infra	Punj Lloyd	Madhucon Projects
Share Price	53.5	153.4	259	122.5	143.4
Market Cap (₹Cr)	20824.3	4095.8	8163.0	4068.2	1047.2
Revenues (₹Cr)	4617.3	5419.8	1802	9086	1428.8
EBIDTA (₹Cr)	1616.5	541.7	931.3	403.06	144.8
PAT (₹Cr)	210.5	207.9	439.1	-258.1	43.2
EBIDTA %	35.0	10	51.7	4.44	10.1
PAT %	4.6	3.8	24.4	-2.8	3.0
EPS (₹/Share)	0.54	7.79	13.21	-7.77	5.84
Book Value	15.9	60.4	57	81.3	75.9
P/E (x)	98.9	19.7	19.6	-15.8	24.6
P/BV (x)	3.4	2.5	4.5	1.5	1.9
EV/EBIDTA (x)	26.4	11.9	11.6	12.3	10.6

Key Concerns

Unexpected delay in completion

There may be unexpected delay in the operation of phase I & II which will increase the operating cost affecting the margins.

Slow down in Traffic growth

The company has already witnessed slow down of traffic in one of the BOT, which affected the margins of the company. The reoccurrence in other projects will face difficulties to achieve targets.

Interest Rate Risk

The interest rate of most of the projects under the execution are linked to the benchmark rates & reset at periodic interval. Any abnormal changes in the rates can affect the costs impacting the overall margins.

Cess & MAT Hike

There has been hike in coal cess by ₹50 per metric ton & MAT by 3%. However, the hike in coal cess would get passed on to the customers under PPAs, while on the merchant power selling it would feel the impact.

Regulatory Risk

The Company's success depends on support from the authorities and the government; and any frequent changes in the regulations will slow down the project work.

Financials

Profit & Loss Account

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
Net Sales	510.0	738.0	1025.4	1434.7	1798.7	2656.7
Growth (%)		44.7%	38.9%	39.9%	25.4%	47.7%
Total Expenditure	433.5	630.7	901.5	1265.2	1507.7	2044.0
PBIDT (Excl OI)	76.6	107.3	124.0	169.5	290.9	612.8
% of Sales	15.0	14.5	12.1	0.1	0.2	0.2
Other Income	21.8	12.6	19.1	5.8	5.0	5.0
Operating Profit	98.3	119.9	143.1	175.3	295.9	617.8
% of Sales	19.3	16.3	14.0	0.1	0.2	0.2
Interest	14.0	16.5	26.6	51.6	111.8	240.8
PBDT	84.3	103.5	116.5	123.7	184.1	377.0
Depreciation	25.3	33.9	43.3	68.8	106.4	156.3
PBT	59.0	69.5	73.1	54.9	77.7	220.7
Tax	17.4	22.3	26.2	23.7	26.4	75.0
Profit After Tax	41.6	47.3	46.9	31.2	51.3	145.6
% of Sales	8.2%	6.4%	4.6%	2.3%	3.3%	4.7%

(E: Keynote Capitals Institutional Research Estimates)

Balance sheet

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
Share Capital	7.4	7.4	7.4	7.4	7.4	7.4
Total Reserves	440.5	485.2	528.6	821.4	877.0	997.8
Shareholder's Funds	447.9	492.6	536.0	828.8	884.4	1005.2
Minority Interest	0.0	0.0	0.0	112.8	81.4	147.0
Deferred Liabilities	7.6	12.2	12.4	10.5	12.0	18.0
Total Debts	201.2	196.2	319.9	2170.9	2848.6	3007.5
Total Liabilities	656.7	701.0	868.3	3122.9	3826.4	4177.7
Total Fixed Assets	195.6	248.0	288.4	2930.3	3503.3	3547.5
Investments	231.1	299.7	372.8	14.7	15.0	18.0
Inventories	71.9	113.9	52.0	127.2	159.5	235.5
Sundry Debtors	147.5	91.8	87.5	80.0	100.3	148.1
Cash and Bank	138.1	101.6	84.8	73.9	75.2	384.4
Loans and Advances	224.0	401.2	490.8	469.4	588.5	869.3
Total Current Assets	581.5	708.6	715.0	750.5	990.5	1537.3
Total Current Liabilities	351.6	555.3	507.8	572.7	682.4	925.2
Net Current Assets	229.9	153.3	207.2	177.9	308.1	612.2
Total Assets	656.6	701.0	868.3	3122.9	3826.4	4177.7

(E: Keynote Capitals Institutional Research Estimates)

Cash Flow

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
Profit Before Tax	59.0	69.5	73.1	54.9	77.7	220.7
Add: Depreciation	25.3	33.9	43.3	68.8	106.4	156.3
Add: Interest Expenses	1.4	7.2	7.4	20.8	111.8	240.8
Add: Others	-11.5	-7.7	-7.1	-0.9	0.0	0.0
Operating profit before WC changes	74.2	102.9	116.8	143.6	295.9	617.8
Changes in WC	20.3	40.1	-71.6	227.4	-61.9	-162.0
Cash Flow after changes in WC	94.5	143.0	45.2	371.1	234.0	455.8
Tax Paid	13.4	17.6	26.0	25.7	26.4	75.0
Cash From Operating Activities	81.1	125.4	19.2	345.4	207.6	380.8
Cash Flow from Investing Activities	-325.8	-147.2	-149.7	-959.9	-879.7	-226.2
Cash from Financing Activities	93.9	-14.7	113.7	509.1	673.4	154.6
Net Cash Inflow / Outflow	-150.8	-36.4	-16.8	-105.4	1.3	309.2
Opening Cash & Cash Equivalents	288.9	138.1	101.6	179.3	73.9	75.2
Closing Cash & Cash Equivalent	138.1	101.6	84.8	73.9	75.2	384.4

(E: Keynote Capitals Institutional Research Estimates)

Ratios

(₹Cr)

Current ratio	FY07	FY08	FY09	FY10	FY11E	FY12E
Total Assets Turnover	0.8	1.1	1.2	0.5	0.5	0.6
Fixed Assets Turnover	2.6	3.0	3.6	1.4	1.2	1.9
Net sales to net working capital	2.2	4.8	4.9	8.1	5.8	4.3
Net Working Capital Days	164.5	75.8	73.7	45.2	62.5	84.1
Inventory Turnover	7.1	6.5	19.7	11.3	11.3	11.3
Debtors Turnover	3.5	8.0	11.7	17.9	17.9	17.9

Valuation Ratios (x)	FY07	FY08	FY09	FY10	FY11E	FY12E
Market Price (₹)	143.4	143.4	143.4	143.4	143.4	143.4
PE	25.5	22.5	22.6	32.7	17.7	8.5
EPS	5.6	6.4	6.3	4.4	8.1	16.9
Book Value Per Share	60.5	66.6	72.4	112.0	119.5	135.8
P/BV	2.4	2.2	2.0	1.3	1.2	1.1
EV/EBIDTA	32.1	26.3	22.1	18.0	10.7	5.1

Return Ratios (%)	FY07	FY08	FY09	FY10	FY11E	FY12E
ROCE	23.9%	59.0%	27.7%	4.2%	6.0%	14.2%
ROE	9.3%	9.6%	8.8%	3.9%	6.8%	12.4%

Margins (%)	FY07	FY08	FY09	FY10	FY11E	FY12E
EBIDTA	19.3%	16.3%	14.0%	12.2%	16.5%	23.3%
EBT	11.6%	9.4%	7.1%	3.8%	4.3%	8.3%
PAT	8.2%	6.4%	4.6%	2.3%	3.3%	4.7%

Other Ratios (%)	FY07	FY08	FY09	FY10	FY11E	FY12E
Payout Ratio	5.3%	4.7%	6.3%	9.1%	6.2%	3.0%
Interest Cover (X)	5.2	5.2	3.8	2.1	1.7	1.9

(E: Keynote Capitals Institutional Research Estimates)

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