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Infrastructure

On the cusp of recovery

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

SECTOR REPORT

Infrastructure & Construction Sector

On the cusp of recovery

The infrastructure sector in India has gone through a rough patch between FY11-14 wherein policy logjam, delay in clearances and aggressive bidding by developers led to a collapse in the investment climate and stranded projects. This, along with reduced Government spending, stressed finances of private sector and tightened bank funding resulted in a decline in investments in the sector which was the backbone of economic growth. However, many initiatives taken by the Govt - 1) formation of dispute resolution committees, 2) faster clearances, 3) easing financial norms and 4) increased ordering under new viable models have created a robust financial and regulatory environment and improved investor sentiments.

With the recent marginal uptick in economic activity, we have seen utilization levels improve across sectors which has lead to 7-8% traffic growth in the roads sector. The government has also accelerated the fund allocation to various sectors in the Union Budget with allocation to roads and highways increased by 27% to INR550bn, to irrigation by 2x to INR170bn and to railways by 17% to INR1170bn. NHAI has also stepped up its target ordering in the roads segment to 10,000kms in FY17 from 5,500kms in FY16. The emphasis on low cost housing, irrigation and roads is likely to create construction opportunities worth over INR11trn in FY17e itself. With macros improving, and measures to revive the PPP sector being taken through new forms of awarding (hybrid annuity) and new forms of financing (REITs and InVITs), we believe there will be stranded projects revival easing cash flows while new project flows will provide growth visibility.

We initiate coverage on four companies - NCC, KNR Constructions, Sadbhav Engineering and Sadbhav Infrastructure with a BUY rating as we believe these companies will be major beneficiaries in the pickup in ordering in the roads and construction segments, healthy balance sheet and improvement in execution with regulatory and financial framework in place. In the companies under our coverage universe, four are asset owners/operators while three are predominantly into construction. For the road operators under coverage, we expect 12.5% revenue growth (6% traffic growth). While we expect construction companies under coverage to witness 10% revenue growth over FY16-18e with order inflows growth of 12% CAGR over FY16-18e.

Reforms in roads, construction and mining sector will have a lasting impact on the business environment, thereby kick-starting a new wave of capex cycle and we believe there are two themes to play in the sector - road asset owners/operators and pure construction plays. While the stocks have meaningfully corrected from their recent peaks, we remain positive and believe that correction provides good investment opportunity. In the asset operation and construction space, our top picks are Ashoka Buildcon, NCC and KNR Constructions respectively. However, we are also positive on companies like Sadbhav Engineering on the pickup in the mining activities with their presence in the MDO (Mine Development Operations) segment.

Valuation Table

	Mcap (INRmn)	CMP (INR)	TP (INR)	Upside (%)	P/BV (x)		PER (x)		RoE (%)	
					FY17e	FY18e	FY17e	FY18e	FY17e	FY18e
Asset Owners										
IRB Infrastructure	77,038	219	282	28	1.5	1.3	13.4	11.6	11.4	11.9
Ashoka Buildcon	42,360	145	226	56	1.3	1.3	16.5	17.7	8.5	7.3
Sadbhav Infrastructure	34,641	98	124	26	3.0	3.1	(17.2)	(27.5)	(17.4)	(11.1)
Construction players										
Sadbhav Engineering	60,893	276	355	29	3.0	2.7	32.5	27.5	9.5	10.2
NCC Ltd	59,069	72	106	48	1.1	1.0	14.8	10.8	7.6	9.6
KNR Construction	15,468	550	703	28	1.9	1.6	15.2	12.4	13.1	14.1

Source: Antique

Key Highlights

Ashoka Buildcon

Project Portfolio: 1300kms, 14 BOT projects

Traffic growth: FY15 : 0-3%, FY16 : 9-10%, FY17/FY18 : 6%

Revenue growth: 15% CAGR over FY16-18e

EBITDA margins: FY15/16 - 20.4%/29.5%, FY17e - 26.8%

Order book growth: 15% CAGR over FY16-18e

Valuations: 1.2x FY18e P/BV.

Target Price: INR226 per share.

IRB Infrastructure

Project Portfolio: 2,117kms, 19 BOT projects

Traffic growth: FY15 : 0-3%, FY16 : 7-8%, FY17/FY18 : 5%

Revenue growth: 13% CAGR over FY16-18e

EBITDA margins: FY15/16 - 57.5%/51.9%, FY17e - 26.8%

Order book growth: 12% CAGR over FY16-18e

Valuations: 1.3x FY18e P/BV.

Target Price: INR282 per share.

Sadbhav Infrastructure

Project Portfolio: 1250kms, 16 BOT projects

Traffic growth: FY15 : 0-3%, FY16 : 8-9%, FY17/FY18 : 6%

Revenue growth: 38% CAGR over FY16-18e

EBITDA margins: FY15/16 - 62.0%/64.3%, FY17e - 69.9%

Valuations: 3.1x FY18e P/BV.

Target price: INR124 per share.

Sadbhav Engineering

Order Backlog: FY16: INR75bn, FY17: INR92bn, FY18: INR114bn

Order Inflows: FY16: INR25bn, FY17: INR52bn, FY18: INR62bn

Revenue growth:12% CAGR over FY16-18e

EBITDA margins: FY15/16 - 10.1%/10.2%, FY17e - 10.5%

Valuations: 12x FY18e PER (ex-SIPL).

Target price: INR355 per share.

NCC Ltd

Order Backlog: FY16: INR177bn, FY17: INR183bn, FY18: INR195bn

Order Inflows: FY16: INR61bn, FY17: INR92bn, FY18: INR106bn

Revenue growth: 6% CAGR over FY16-18e

EBITDA margins: FY15/16 - 7.8%/8.9%, FY17e - 9.1%

Valuations: 11.8x FY18e PER.

Target price: INR106 per share.

KNR Constructions

Order Backlog: FY16: INR 35bn FY17: INR43bn, FY18: INR50bn

Order Inflows: FY16: INR31bn, FY17: INR21bn, FY18: INR23bn

Revenue growth: 30% CAGR over FY16-18e

EBITDA margins: FY15/16 - 14.4%/17.2%, FY17e - 14.0%

Valuations: 12x FY18e PER.

Target price: INR703 per share.

Company snapshot

(INRm)	FY17e	FY18e	FY17e	FY18e	FY17e	FY18e	FY17e	FY18e
Asset Players	**Traffic growth (%)**		**Revenue**		**EBITDA**		**PAT**	
IRB Infrastructure	5	5	58,228	65,458	30,828	35,668	5,751	6,654
Ashoka Buildcon	6	6	30,612	34,795	8,216	9,048	1,619	1,377
Sadbhav Infrastructure	6	6	11,338	14,231	7,923	10,570	(2,011)	(1,258)
Construction Plays	**Order Inflows**		**Revenue**		**EBITDA**		**PAT**	
NCC	92,025	105,829	85,573	94,268	7,801	8,573	2,693	3,681
Sadbhav Engineering	51,939	62,327	35,142	40,150	3,676	4,207	1,456	1,723
KNR Constructions	20,727	22,799	12,323	15,418	1,725	2,158	1,018	1,249

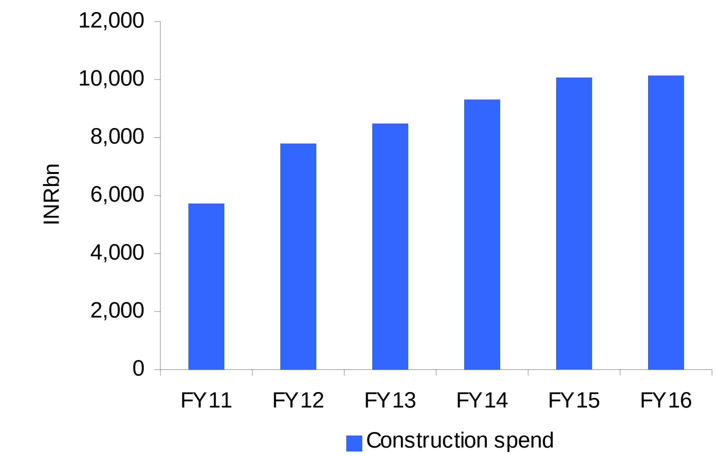
Source: Antique

Investment Thesis

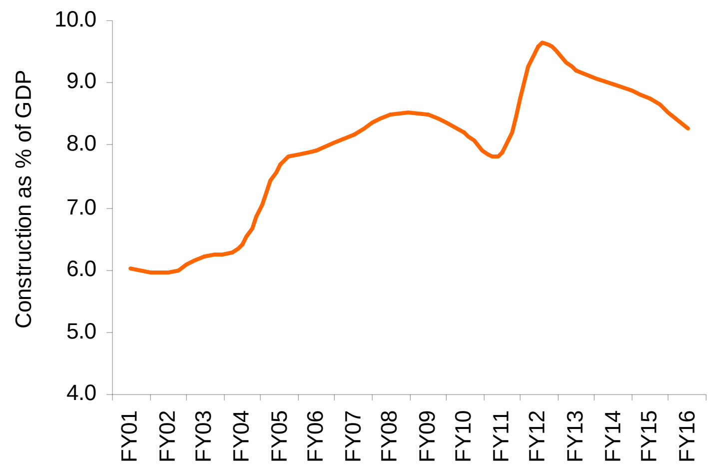
Infrastructure creation remains the focus of the Govt

The Government has laid a roadmap on infrastructure creation for a sustained growth in the country's economic activity. Spend on infrastructure has increased from INR7.7trn in FY12 to INR10.2trn in FY16. The target for spend on infrastructure has been at 9% of the GDP for the 12th plan period implying USD1trn (or INR68trn) of which INR38trn has been spent over FY13-16, which is encouraging. The investment in infrastructure for FY17e is expected at INR11.3trn. Assuming GDP growth at 8%, investment in infrastructure can be expected to increase to INR76trn over the next five years assuming an increase in construction spend to 9% of GDP which provides significant opportunity for industry players.

Construction spend - on a rise



Construction as % of GDP at 8.3%, expected to rise to 9%



Source: Bloomberg, CMIE

NHDP - Only 50% of national highways covered so far

Phase (Kms)	Total Length	Already 4/6 laned	Under Implementation	Balance to be awarded
Golden Quadrilateral	5,846	5,846	-	-
NSEW	7,142	6,464	421	257
Phase III	11,809	6,963	3,204	1,642
Phase IV	13,203	2,372	5,245	5,586
Phase V	6,500	2,414	722	3,364
Phase VI	1,000	-	165	835
Phase VII	700	22	98	580
Others	2,280	2,051	229	-
Total opportunities in NHDP				**12,264**

Source: NHAI, Antique

Over 12,264 kms of projects are yet to be awarded under the National Highways Development Programme (NHDP). These projects are expected to be awarded over the next two years. More projects are expected to be added as only ~50% of the national highways have been covered under the NHDP programme. Also, there is scope for new awards whenever the two and four lane projects come up for expansion to four and six lanes respectively. **However, even today, only ~24% of the national highway network currently is four lane or higher.** Increase in traffics would necessitate expansion of these projects to four-lane and above. This comes to highlight the ample opportunities likely to come up in the sector over the longer run.

There has been a shift from two lanes to four and six lanes and this trend is expected to continue

Break up of NH - Four lanning or more at only 24%

	2008-09		2012-13	
	Kms	%	Kms	%
Four/Six/Eight lane	12,053	17.1	19,128	24.2
Two lane	37,646	53.4	40,658	51.4
One lane	20,849	29.6	19,330	24.4
Total	**70,548**	**100.0**	**79,116**	**100**

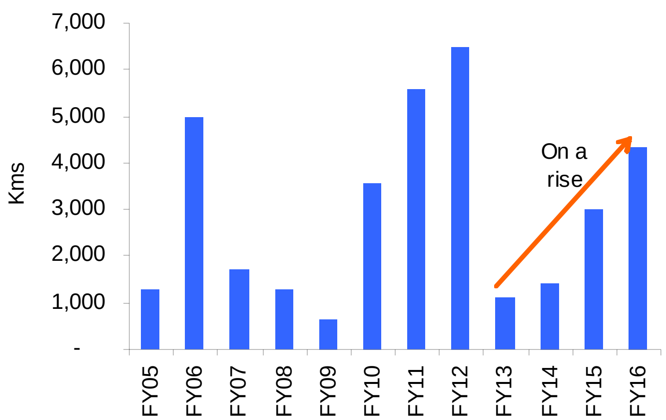
Source: NHAI, Antique

Increase in awarding to provide growth opportunity for developers

With the focus on infrastructure, awarding activity has also seen a rise over the last two years especially in sectors such as roads, railways and irrigation. The roads segment has seen awarding increase by the centre (NHAI + MoRTH) to over 9,000kms (4,300kms by NHAI and 5,000kms by MoRTH) in FY16 from 1,100kms in FY13. The target for award by the two has been increased by 2.5x for FY17e to 25,000kms (10,000kms by NHAI and 15,000kms by MoRTH). We expect project awards by NHAI to be at least 6,000kms in FY17e and another 6,000kms by MoRTH.

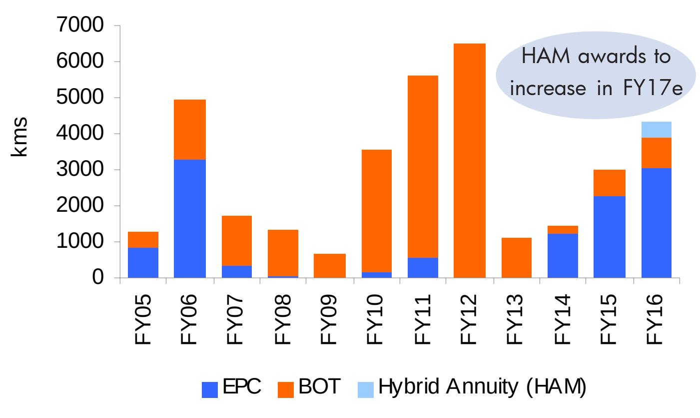
Similarly, for irrigation, the targeted spend has been increased over 2x to INR170bn for FY17e. A total of 81 stranded projects are to be revived in the irrigation sector and the total spend over the next five years to complete these projects is estimated at INR853bn. In railways, the targeted spend for FY17e has seen an increase of 17% from INR1,000bn in FY16 to INR1,170bn. Over the next three years, the total spend as per vision 2020 is INR6,933bn.

Road Awards - on a rise



Source: NHAI, Antique

NHAI award break-up

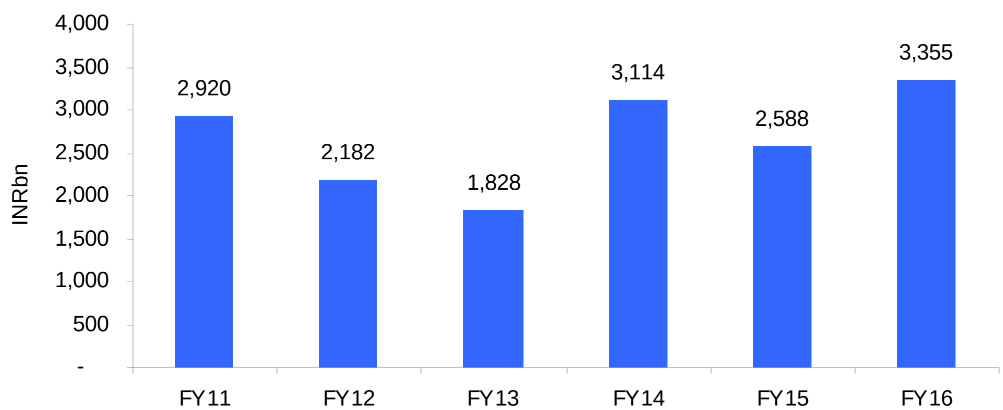


Source: NHAI, Antique

NHAI has ~2,186 kms of projects in the RFQ/RFP stage which are likely to come up for awarding in the near term. Of these, ~999 kms are to be awarded through the EPC model and the remaining ~1187 kms are to be awarded through the BOT model. Geographically, Bihar commands the highest share among the projects under the RFQ/RFP stage with 9 projects of the total 36 expected to come up for awarding.

FY16 has seen the highest projects awards over INR0.5bn

Projects awarded over INR0.5bn



Source: Projectstoday, Antique

Policy level changes to improve regulatory environment

Over the last three years, several measures have been taken by the central government to improve the regulatory environment for the infrastructure sector. **Formation of a dispute resolution committee to resolve the issues between developers and the awarding authority in a timely manner, faster clearances for projects, awarding of projects only once more than 80% land available, new forms of project awarding and easing exit norms are some of the effective measures taken.**

Key policy measures to improve regulatory environment

Year	Measure taken	Impact
FY13	Delinking forest and environement clearance	To fasten clearance process
FY14	Concessionaire substitution allowed	To start stuck projects
FY15	One time fund infusion by NHAI	To start stuck projects
FY16	Formation of dispute resolution committee on roads	To clear disputes between developers and authority
FY16	100% exit from projects allowed	To improve finances of developers
FY16	Hybrid annuity model formulated	To improve viability of PPP

Source: Company, Antique

Improving the funding environment

The central government along with the Reserve Bank of India (RBI) has taken measures to improve the funding environment for the infrastructure sector. T**he 5/25 scheme to increase the tenor of loans for the infrastructure projects, classifying loans given to roads sector as secured, easing of norms for refinancing of project loans** are among a few. Apart from these, measures like setting up of the National Infrastructure Investment Fund where the central government would infuse INR200bn as equity which will be leveraged to take the fund to over INR1000bn to be used for infrastructure investment are likely to increase the fund flows to the sector. Also, budget FY17 has seen an increase in allocation towards various sectors within the infrastructure space. The allocation for highways has been increased by 27% from INR430bn to INR550bn whereas the total allocation for roads has increased to INR2trn. Similarly, allocation for irrigation has increased to INR170bn (up over 2x), for railways to INR1170bn (up 17%). Funding remains the key for infrastructure creation and all the measures highlighted above are expected to ease the funding constraints for the players.

Key measures to improve funding environment

Year	Measure taken	Impact
FY14	Loan to road BOT projects classified secured	Improve funding to the roads sector
FY15	RBI allows banks to refinance project loans through full or partial take out financing	Improve liquidity for projects
FY15	RBI comes up with the 5/25 scheme	Availability of long term funds
FY15	InVITs & REITs - double taxation removed	To improve finances of developers
FY16	Setting up National Infrastructure Investment Fund	Provide funding for infrastructure project

Source: Company, Antique

Fund raising improves health; new avenues come up in the form of InVITs.

With easing liquidity constraints in the Indian financial system, we have seen many infrastructure players raising equity through either Qualified Institutional Placement (QIP) or rights issue or IPOs. With new funding avenues such as InVITs (Infrastructure Investment Trusts) and the issue of double taxation on it getting resolved, we expect many BOT players to use this avenue of further fund raising. Three developers viz. IRB Infrastructure, MEP Infrastructure and GMR Infrastructure have already filed applications for InVITs with Securities and Exchange Board of India (SEBI) for approval.

Equity raising since FY14

Date	Company	Amount (INRmn)	Mode
Apr-14	IL&FS TRANSPORTATION NETWORKS LTD.	5,245	Rights
Jul-14	GMR INFRASTRUCTURE LTD.	14,768	QIP
Jul-14	J.KUMAR INFRAPROJECTS LTD.	1,372	QIP
Aug-14	ITD CEMENTATION INDIA LTD.	1,440	QIP
Sep-14	GAMMON INFRASTRUCTURE PROJECTS LTD.	2,589	QIP
Sep-14	NCC LTD.	5,987	Rights
Oct-14	SADBHAV ENGINEERING LTD.	2,500	QIP
Dec-14	MBL INFRASTRUCTURES LTD.	1,174	QIP
Jan-15	SUPREME INFRASTRUCTURE INDIA LTD.	1,000	QIP
Mar-15	IRB INFRASTRUCTURE DEVELOPERS LTD.	4,400	QIP
Mar-15	GMR INFRASTRUCTURE LTD.	14,018	Rights
Apr-15	HINDUSTAN CONSTRUCTION CO.LTD.	4,000	QIP
Apr-15	ASHOKA BUILDCON LTD.	5,000	QIP
Apr-15	MEP INFRASTRUCTURE DEVELOPERS LTD.	3,240	IPO
May-15	PNC INFRATECH LTD.	4,884	IPO
Aug-15	SADBHAV INFRASTRUCTURE PROJECT LTD.	4,917	IPO
Oct-15	J.KUMAR INFRAPROJECTS LTD.	4,093	QIP
Oct-15	IL&FS TRANSPORTATION NETWORKS LTD.	7,402	Rights
Jan-16	JMC PROJECTS (INDIA) LTD.	1,500	Rights

Source: Bloomberg, Antique

Improving traffic on BOTs

Traffic growth improves to 8-9% in FY16

Freight traffic has a high correlation with the GDP having 1.2 elasticity and passenger traffic is at 1.9. Traffic growth had come down to as low as zero on a majority of road projects in FY13 when the GDP growth was on a declining trajectory. The growth again started picking up from 2HFY15 when growth in most projects reverted to 3-4%. The traffic growth has seen a healthy pick up to 8-9% in FY16 for most projects. We expect the traffic growth to remain strong at over 6% levels in FY17e and FY18e as economic activity improves. A healthy traffic growth along with WPI based toll rate hikes should aid in a 10% toll collection growth for projects.

Toll collection across key projects

(INRmn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	FY15	FY16	YoY (%)
Mumbai-Pune	1,352	1,361	1,474	1,485	1,598	1,446	1,621	1,649	5,672	6,314	11.3
Surat-Dahisar *	1,316	1,314	1,453	1,466	1,506	1,464	1,563	1,619	5,549	6,152	10.9
Bharuch-Surat	438	449	487	482	487	454	492	502	1,856	1,935	4.2
Ahmedabad-Vadodara*	360	350	423	434	435	368	527	856	1,567	2,186	39.5
Belgaum Dharwad	164	155	162	170	178	167	171	179	651	696	6.9
Dankuni-Kharagpur	533	520	532	570	585	562	597	669	2,155	2,413	12.0
Jaora - Nayagaon	316	324	341	354	381	411	440	406	1,335	1,638	22.7
Indore - Edalabad	281	259	258	267	325	300	302	311	1,066	1,238	16.2
Ahmedabad Ring Road	188	203	223	223	222	213	231	246	837	912	9.0
Bijapur - Hungund	255	260	255	274	284	282	280	302	1,043	1,148	10.0
Dhule - Palesnar	339	317	335	356	358	368	384	391	1,348	1,502	11.4
Total	**5,542**	**5,512**	**5,943**	**6,081**	**6,359**	**6,034**	**6,608**	**7,132**	**23,079**	**26,133**	**13.2**

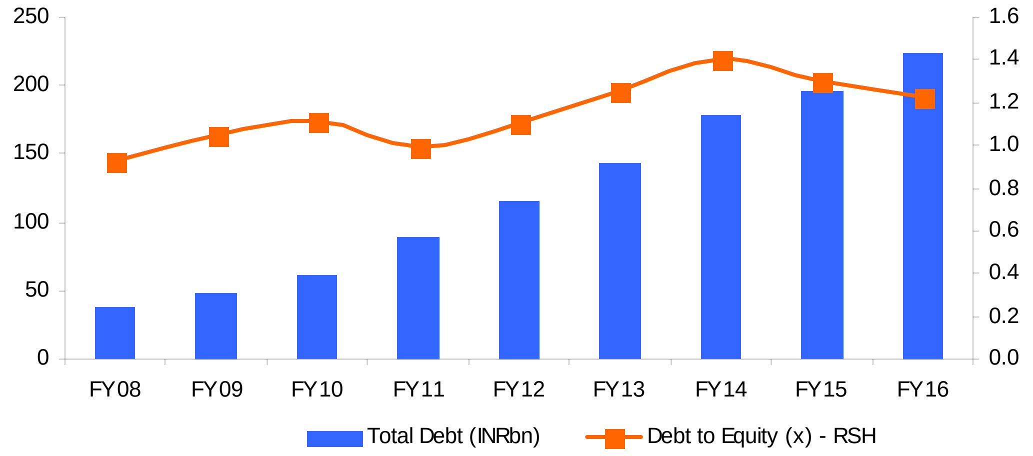
Source: Company, Antique

Leverage levels under check

Stringent funding requirements set by banks made most construction players turn their focus back to the EPC business. Focus on low capital intensive cash contracting business along with efforts to divest stake in BOT projects and improving working capital situation helped the construction companies reduce leverage levels. As can be seen in the chart below, debt to **equity ratio for the companies analyzed improved from 1.4x in FY14 to 1.2x in FY16.**

Debt to equity showing a gradual reduction

Debt and debt to equity



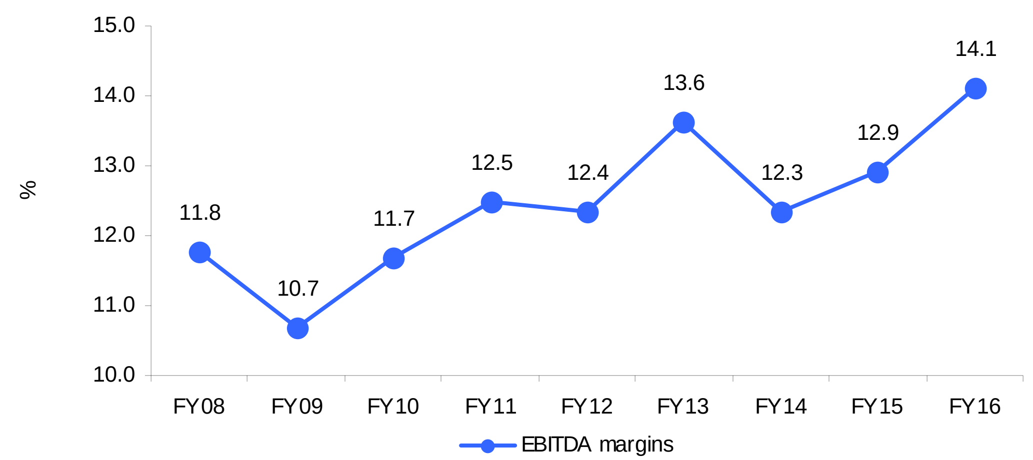
Source: Company, Antique

Lower commodity prices along with operating leverage help improve margin profile for players

Global factors led decline in commodity prices over FY13-16 has brought in some benefits to the infrastructure players towards lowering costs. Also, developers have taken efforts to complete work on legacy orders with lower margins over the same period of time. With legacy orders out of the books and healthy new inflows, pace of execution has also seen improvement. Lower commodity prices, higher fixed cost utilization led by improved execution and lower quantum of legacy orders being executed has helped improve the margin profile for the players. **We have analyzed the margin profile of five companies, chart is as given below.**

The EBITDA margins of the 5 companies analysed shows an upward trend

Construction margins on an uptrend



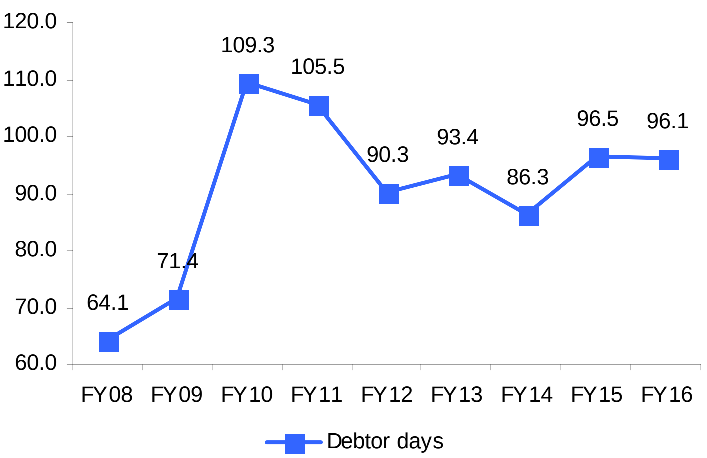
Source: Company, Antique

As can be seen in the chart, the blended margin for the 5 companies analysed has increased from 14.4% in FY12 to 15.9% in FY16. We expect the margin profile to remain stable at the current levels in FY17e.

Improving working capital scenario

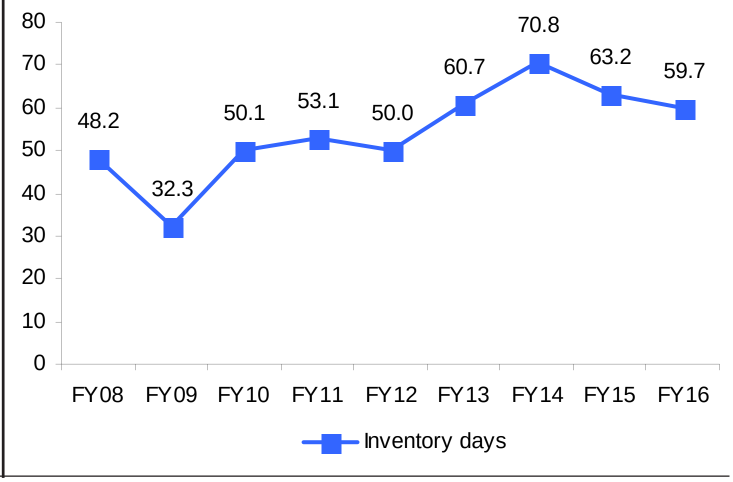
Delayed payment by authorities and stranded projects had led to stretched working capital cycles for most developers in the construction space. At its peak, the analyzed companies' debtor days and inventories days increased to 109 and 70 days respectively. Measures like formation of a dispute resolution committee and looking into delays in payments have started showing effects as **inventory and debtor days have reduced to 96 and 59 days in FY16**. We expect the working capital cycle to improve further by FY18e.

Debtor days off peak levels but still high



Source: Company, Antique

Inventory days starting to show some improvement



Source: Company, Antique

Roads

Opportunities ahead

India having the second largest road network in the world with ~4.8 mn kms of roads has immense potential to increase its network of national and state highways as it currently constitutes only 2% and 3% respectively whereas 40% of the passenger traffic uses the national highways.

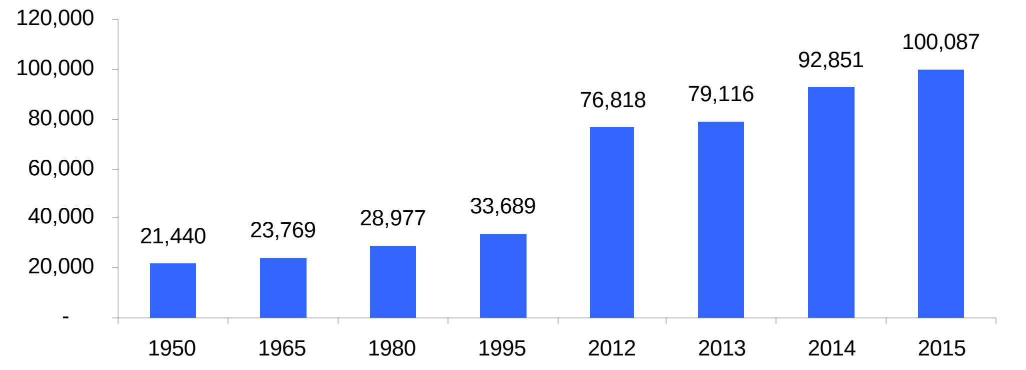
NH - 2% in length carrying 40% traffic

		Percentage of total	
Road Network	**Length (kms)**	**Length**	**Traffic**
National Highways	100,087	2	40
State Highways	147,800	3	60
Other roads	4,455,000	95	
Total	**4,702,887**	**100**	**100**

Source: MoRTH, NHAI, Antique

Given the importance of the national highways, it has grown at a CAGR of 10% from 76,818kms in 2012 to 100,087kms in 2015. With the expected increase in freight movement from 1,987 btkm in FY16 to 6,559 btkm in FY32 and passenger traffic from 17,272 bpkm in FY16 to 163,109 bpkm in FY32, as estimated by National Transport Development Policy Committee (NTDPC), a much wider network of national and state highways would be required in the future to meet the increasing demand.

National Highways network (Kms)

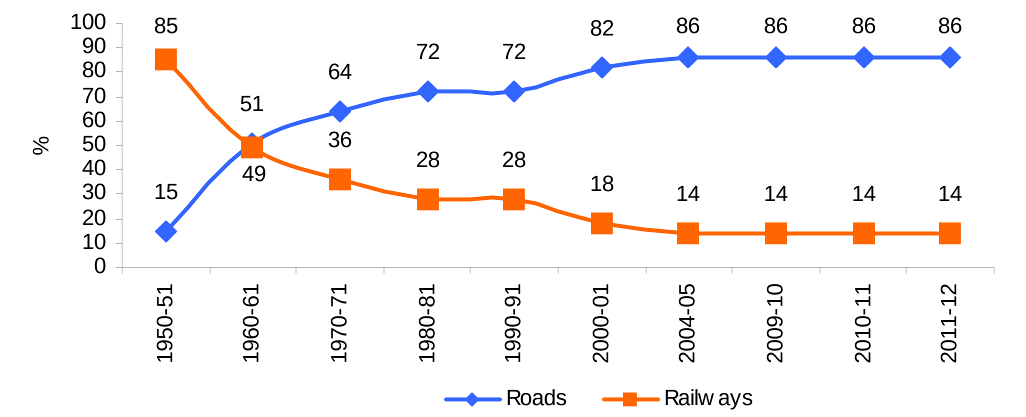


Source: MoRTH, NHAI, Antique

Share of road transport on a rise both for passenger and freight

Over the years, roads have consistently been gaining market share for both passenger as well as freight traffic in India. Passenger traffic has drifted significantly from railways which had ~85% share in 1950-51 towards roads which had passenger traffic share of ~86% in 2012.

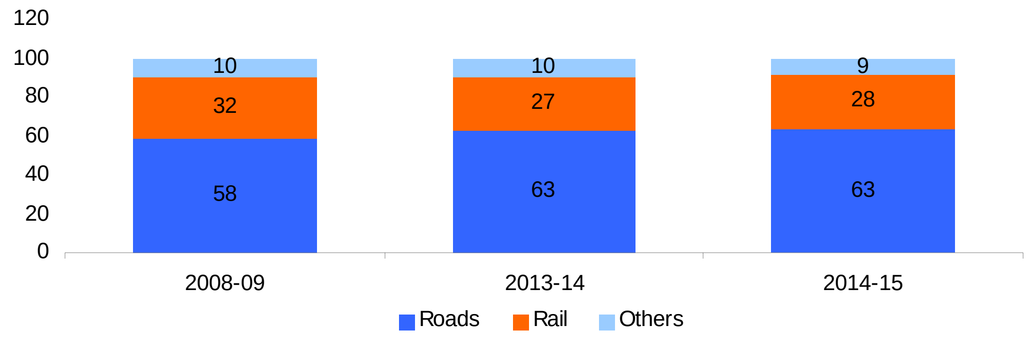
Passenger Traffic - Roads Vs Railways



Source: data.gov.in

Even for freight, roads remain the preferred mode of transport owing to flexibility and door to door movement which is not possible with railways and capacity expansion by fleet operators easing supply bottlenecks. The share of roads for freight has increased by 500bps to 63% over FY09-15. Due to Govt's focus to develop costal transport and policy measures such as rationalization of railway freight rates, we expect some shift away from roads; however, bulk of the movement will continue to be dominated by roads.

Roads continue to remain the preferred mode for freight



Source: MoRTH, Antique

Traffic growth - On a high growth trajectory

The NTDPC report of road development indicates a substantial increase in both passenger and freight traffic in the coming years. As per the report, NTDPC estimates passenger traffic to increase from 9,329 bpkm in FY12 to ~163,109 bpkm in FY32, a 17x increase. Similarly, freight traffic is expected to increase from ~1,385 btkm in FY12 to ~6,559 btkm in FY32. Even at a slower pace, there is a substantial increase in traffic expected over the years and would require large investments in the sector.

The NTDPC has estimated a total investment of ~Rs 44,700 bn for the development of roads network over twenty years.

NTDPC traffic estimates - substantial increase expected

	Traffic (BTKM)	
Year	**Freight**	**Passenger**
2011-12	1,385	9,329
2016-17	1,987	17,272
2021-22	2,949	35,043
2026-27	4,321	74,079
2031-32	6,559	163,109

Source: NTDPC

NTDPC - sets aggressive targets

(Rs bn)	2012-17		2017-22		2022-27		2027-32		2012-2032	
Scheme	**Total**	**Private**	**Total**	**Private**	**Total**	**Private**	**Total**	**Private**	**Total**	**Private**
Expressways	200	-	600	100	1,200	300	1,800	1,000	3,800	1,400
National Highways	2,150	600	3,150	800	4,200	1,150	5,700	1,450	15,200	4,000
Special Schemes - SARDP - NE + others	250	-	400	-	500	50	600	50	1,750	100
Other special schemes - centre	100	-	150	-	200	-	200	-	650	-
State Highways	2,100	150	2,700	250	3,200	350	3,600	400	11,600	1,150
Major district roads	1,000	-	1,300	-	1,600	-	2,100	-	6,000	-
Rural roads (inc PMGSY)	1,450	-	1,850	-	1,300	-	1,100	-	5,700	-
Total	**7,250**	**750**	**10,150**	**1,150**	**12,200**	**1,850**	**15,100**	**2,900**	**44,700**	**6,650**

Source: NTDPC

The sector in the recent past has gone through challenging times with awarding seeing lows of 1,100kms in FY13 and 1,300kms in FY14. However from FY16, ordering has picked up at 4,300 and we expect it to improve further going forward.

What went wrong?

Despite the utmost importance attached to creation of roads, the sector had been languishing since FY13 due to various regulatory issues and cost over runs. With increase in competition and developer preference, NHAI leaned towards higher awarding under the BOT model. This led to highest ever awards in FY12. However, most of these projects faced delays due to lack of clearances and land. Also, aggressive bidding along with lower than estimated traffic growth for FY13-15 led to a large number of projects becoming unviable. High capital intensity of these BOT projects resulted in many of the developers falling into a debt trap.

Key Issues faced by the sector

- **Liquidity constraints -** Aggressive bidding by developers and cost over-runs on projects along with delays from the authorities made a number of projects awarded in the past unviable. This led to an increase in the number of stressed projects. With stressed projects on a rise, banks became cautious in funding the sector. Not only did this lead to delays in completing financial closure for projects and higher cost of debt, banks required higher equity commitment from the developers.

  For instance, GMR had bid for the 555kms (largest project awarded till date) Kishangarh - Udaipur - Ahmadabad project considering a high traffic growth of 10% in the initial period which led them to bid for the project at a premium of INR6.8bn (to increase by 5% per annum). FY13-15 saw a low traffic growth of 0-2% which made the project unviable at the given premium. The project also faced delays owing to forest clearance and the project was finally terminated in FY15.

- **Deteriorating health of developers -** Aggressive bidding for projects led to a deterioration of health for developers with debt funding at the parent level to fund the equity requirement for projects. This lead to increased leverage straining the balance sheet of these developers.

- **Land acquisition and delay in clearances -** Higher awarding of BOT projects by NHAI at 6,500kms in FY12 without requisite land and clearances led to delays in project implementation and cost overruns on projects.

- **Political Issues -** Reluctance among users to pay toll have been a common issue in India leading to several agitations in the past which have become a political issue. The Maharashtra government has shut down 12 toll plazas and exempted passenger cars and state transport vehicles across another 44 toll plazas. Such populist measures being followed by other state governments are a concern for the sector.

- **Delays in payments:** Delays in payments for the EPC projects and on various claims filed both for BOT and EPC projects led to an increase in receivables position leading to a further strain in balance sheets for the developers.

The government and the awarding authorities took cognizance of the issues and a number of measures have been taken to address the same over the last two-three years. These measures have started seeing some impact and are likely to drive the sector back to its growth trajectory.

Measures taken

- **Infrastructure investment trust:** SEBI has cleared the guidelines for formation of Infrastructure Investment Trusts (InVITs) which would make available long term funding to the developers. The funds raised via this route can be used to take up new projects. A few players like IRB Infrastructure, MEP Infrastructure Developers and GMR Infrastructure have already started the process for raising capital through the InVITs route. *(The InVIT structure has been explained in greater detail later in the report).*

- **Relaxation of exit clause -** Exit clause has been relaxed to allow exit from projects post completion even for projects awarded before 2009. Earlier, the developers could not reduce their stake in the project to less than 26%. The clause has been removed and the developers have an option to completely exit the project after two years of CoD irrespective of the year of award. This allows financial institutions to invest in completed projects resulting in freeing up of capital for the developers which can be utilized for new projects. Even for under construction projects, concessionaire substitution has been allowed which enables developers in stress to exit from under construction projects. **We have seen five deals at project level post the relaxation of exit clause whereas another 50-60 projects are in the market looking to change hands.** As can be seen in the table below, recent deals have shifted from investment in HoldCo's to standalone project deals.

Major deals is the roads sector

Year	Project/ HoldCo	Company / Project	Buyer	Stake	Deal Value (INRbn)
FY16	Project	Western UP Tollway	Cube highways and Infrastructure	100%	5.6
FY16	Project	Dewas - Bhopal	IDFC Alternatives	37%	6.6
FY16	Project	Madhucon Agra Jaipur Expressway	Cube highways and Infrastructure	100%	3.2
FY16	Project	Gammon Infra 6 projects	Brookfields Asset Management and Core Infrastructure	100%	5.3
FY16	HoldCo	Transtroy India	China new era group	NA	NA
FY15	Project	Jaipur Mahua Tollway	I Squared capital	100%	5.7
FY15	Project	Nirmal BOT	IDFC Alternatives	100%	0.7
FY14	HoldCo	L&T IDPL	Canada Pension Plan Investment	NA	21.2
FY14	HoldCo	Navyuga road projects	Piramal Enterprises	NA	6.7
FY13	Project	GMR Jadcharela expressway	SBI Macquarie	74%	2.5
FY13	Project	IVRCL 3 road assets	TRIL	100%	NA
FY13	HoldCo	Ashoka Buildcon	SBI Macquarie	34%	8.0
FY12	HoldCo	HCC Concessions	Xander	14.50%	3.6
FY12	HoldCo	Supreme Infrastructure	3i India Infrastructure Fund	49%	4.0
FY11	HoldCo	TRIL Roads	Actis	35%	5.0
FY11	HoldCo	KMC Infratech	3i India Infrastructure Fund	37%	6.4
FY11	HoldCo	Soma Enterprises	JP Morgan	0%	7.3
FY11	HoldCo	Indus Concessions	Morgan Stanley	50%	13.2
FY10	HoldCo	Sadbhav Infrastructure Private Ltd	Norwest, Xander	22%	5.6

Source: Company, Antique

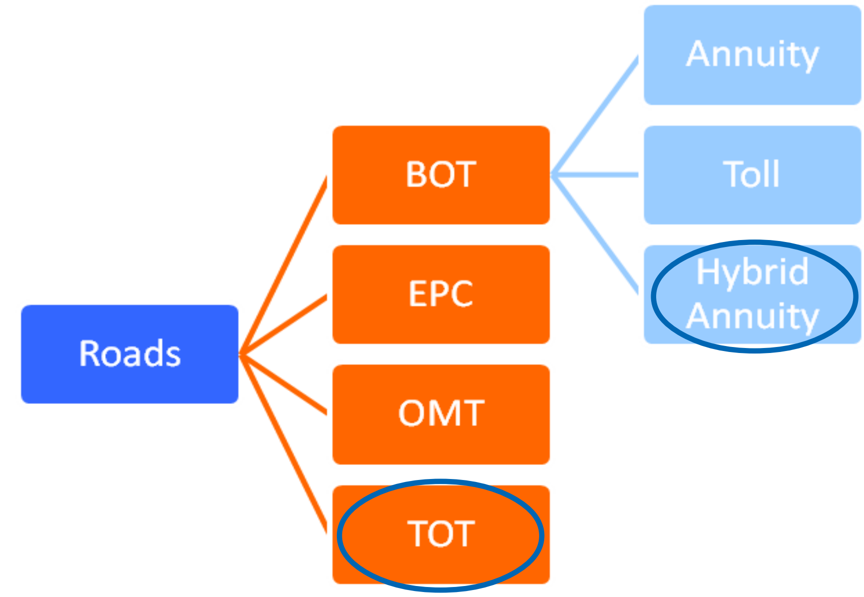
- **De-linking of forest and environmental clearance -** A key step taken to expedite the clearance process was the de-linking of forest and environmental clearance for all linear projects. With this, construction on the project where there was no forest overlap could commence even if the forest clearance is pending.

- **Increased awards on EPC -** Due to deterioration in the financial health of developers and limited capital availability, appetite for the BOT projects has reduced substantially. NHAI has taken cognizance of the same and started awarding higher number of projects through the EPC route. For FY17e, of the target of 10,000kms has been set for NHAI, ~50% are expected to be awarded through the EPC segment as against ~3,000kms awarded through EPC in FY16.

- **New modes of awarding -** NHAI and the MoRTH have also introduced new models of awarding viz. the hybrid annuity model (HAM) and the toll - operate - transfer (ToT) route. The former would reduce the capital intensity of projects and the latter would reduce the construction risk. *(The new models of awarding have been explained in greater detail later in the report)*

17 Hybrid annuity projects already awarded in the last six months

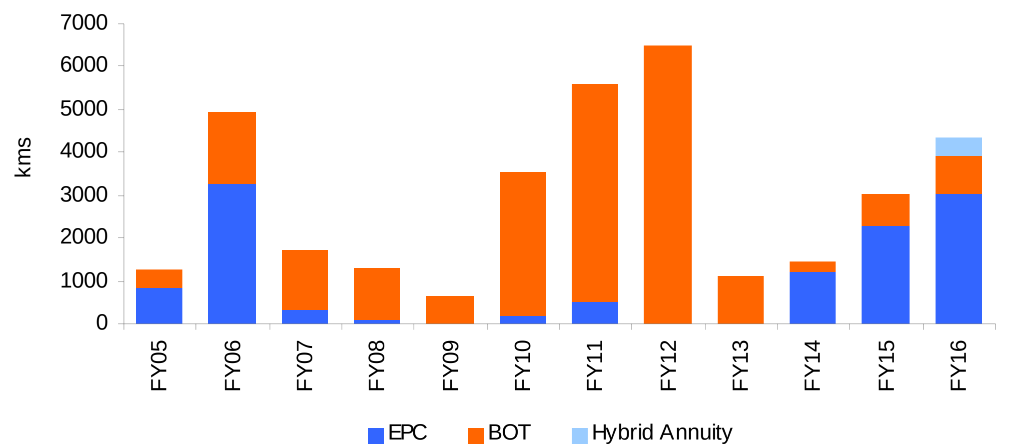
New form of awarding to attract private sector's interest



Source: NHAI, Antique

- **Hybrid annuity takes the lead -** Awarding of projects through the BOT model reached its peak in FY12 when 100% of the projects awarded were through this route. However, due to liquidity squeeze among the developers, banks tightened financing for BOT projects and a slowdown in traffic led to lower appetite for BOT projects. Hence, in many bids there was no participation by developers post which there was a shift towards EPC awards by NHAI. **The newly introduced concept of hybrid annuity model comes with an inherent benefit of lower capital requirement for the awarding authorities and has become popular with the developers as well. We expect FY17e to have a 40% share in awarding through the hybrid route. Of the 6,000kms expected in FY17e, ~3,000-3,500kms is expected to be awarded through the EPC route, ~2000-2500 through the hybrid route and the remaining through BOT toll and annuity.**

Award through hybrid annuity expected to increase to 40% of total in FY17e



Source: NHAI, Antique

- **Premium deferment -** Majority of the projects awarded in FY12 was at a premium from the developers. Many of these were stalled either due to delays by the authority for land and approvals or because of the health of developers. NHAI introduced a scheme for deferment of premium payable to NHAI with intent to improve the near term cash flows for the developers and avoid cancellation of projects.

List of projects where premium has been deferred

Project Name	Developer	Project Cost (INRbn)	Length (kms)
Godhra - Gujarat/Mp Border	BSCPL	8	87
Beawer - Pali - Pindwara	L&T IDPL	26	244
Rohtak - Panipat	Sadbhav Eng	12	81
Hyderabad - Yadgiri	Sadbhav Eng	5	35
Samakhiyali - Gandhidham	L&T IDPL	14	56
Ahmedabad - Vadodra	IRB Infrastructure	49	196
Tumkur - Chitradurg	IRB Infrastructure	11	114
Indore - Dewas	Gayatri Projects / DLF	8	45
Hosur - Krishangiri	Reliance Infrastructure	9	60
Belgaum - Dharwad	Ashoka Buildcon	7	82
Walajapet - Poonamallee	Essel Group	16	93

Source: NHAI, Antique

- **Fund infusion by NHAI in stalled projects -** NHAI has decided to infuse funds in projects that have achieved at least 50% physical completion and have been stalled owing to lack of funds with the developers. With the infusion of funds by NHAI, construction can be expected to commence on these projects. Overall, 12 such projects are delayed and would require a total infusion of INR32bn to put them back on track.

- **Fast track dispute resolution (three member committee) -** Resolution of disputes between the developers and the authority has traditionally been a time consuming process. A three member committee has now been set up to expedite claims by various developers. Resolution of disputes regarding claims and payment of the same will improve liquidity among the players to take up new projects. Disputes have been now reduced from ~USD2.3bn to ~USD0.2bn.

- **Easing of financing for projects -** Several steps have been taken by the government to ease the availability of finance to the sector. The key among these are as given below:

  — **Classification of debt as secured:** RBI has classified lending to toll road projects as "secured" to the extent assured by the authority. Classification of debt as "secured" eases provisioning norms and reduces the cost of debt for the developers.

  — **Asset Liability match:** Long term debt funding matching the concession period through refinancing provision (5/25 structure) has been allowed without classifying the exposure as "Restructured".

  — **Refinancing norms eased:** Lenders have been allowed to refinance existing exposure and change repayment schedules without classifying the exposure as "Restructured".

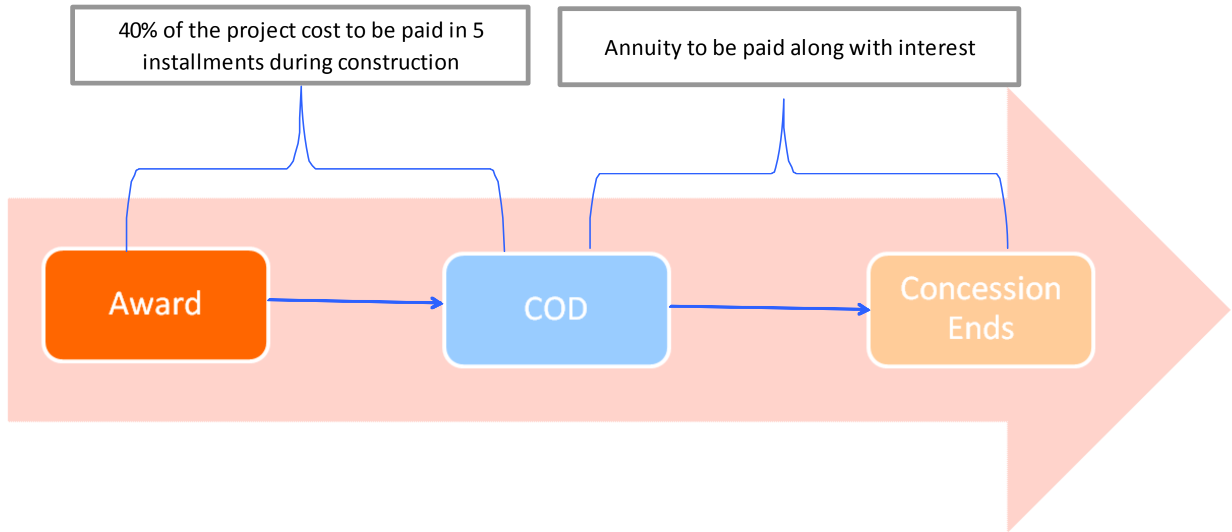
Apart from these, several other measures have also been taken viz. formulation of new model concession agreement, golden handshake with developers for 34 projects, awarding projects after minimum of 80% land and requisite clearances have been received and allowing the ministry to approve projects with size less than INR10bn directly.

Understanding the new models

Hybrid Annuity Model

The Hybrid Annuity Model (HAM) has been introduced due to declining interest among developers to take up projects awarded under the BOT toll and BOT annuity model. The reluctance from the developers was partly owing to the difficulty in funding the initial equity requirement. Hence, NHAI has formulated the HAM.

40% payment during construction; remaining in annuities over 15 years



Source: MORTH, Antique

Following are the key features of the HAM

- 40% of the project cost would be paid to the concessionaire during the construction period in five equal installments linked to project milestones.
- The balance 60% of the project cost to be borne by the concessionaire who also designs, builds and operates the highway for a period of 15 years after construction.
- Investment recovered by the concessionaire through annuity payments over 15 years along with interest thereon at bank rate + 3%.
- O&M responsibility will be with the concessionaire who would receive O&M payments bi-annually along with annuity payments.
- Authority to collect the toll and the tariff risk to remain with the authority
- Project payments to be inflation indexed

Key advantages and issues - Hybrid annuity model

	Remarks
Advantages	
Lower capital requirement	The key highlight of the model is the lower initial capital requirement for the develpers. The authority would infuse 40% of the capital during the construction stage. Considering a 1:3 debt to equity ratio, the equity requirement of the developer would reduce from 25% of project cost in BOT model to ~15% in the hybrid annuity model and to ~6-8% if construction is done in-house.
No traffic risk	The traffic risk in the hybrid annuity model (like the annuity model) is to be bourne by the authority thereby considerably reducing the risk associated with a project.
Lower initial outflow for the authority	Given the low appetite for the BOT projects, the NHAI has had to award a larger number of projects through the EPC mode which require higher outflow from the authority. The hybrid annuity model would reduce the outflow for the authority thereby enabling it to award higher number of projects.
Issues	
Dispute resolution	An issue could occour when there is a change in scope of work or delays on account of the authority. Here, it is important to define the mechanism to resolve disputes in a fast and efficient manner

Source: MORTH, Antique

List of projects awarded till date under HAM

Name of Project	Winners	NHAI Cost (INRm)	(km)
Delhi - Meerut Expressway (Pkg - III)	Apco Infratech & Chetak Enterprises	10,576	22
Delhi - Meerut Expressway (Pkg - I)	Welspun Enterprises	7,014	9
Meerut - Bulandshare	Apco Infratech & Chetak Enterprises	6,832	61
Rampur - Kathgodam	Sadbhav Infrastructure Projects Ltd.	6,150	43
Rampur - Kathgodam	Sadbhav Infrastructure Projects Ltd.	5,710	50
Nagpur City Bypass (Pkg-1)	MEP Infra & Sanjose India Infra JV	5,373	34
Arawali Kante	MEP Infra & Sanjose India Infra JV	5,986	40
Nagpur City Bypass (Pkg-2)	MEP Infra & Sanjose India Infra JV	6,458	28
Chutmalpur Ganeshpur & Roorkee - Chutmalpur - Gagalheri	MBL Infra	9,420	53
Gagalheri - Saharanpur - Yamunanagar	MBL Infra	11,840	87
Kante Waked	MEP Infra & Sanjose India Infra JV	8,056	51
Laddowal Bypass	Eagle Infra	3,702	17
Samarala chowk to Ludiana	Gawar	8,527	13
Bhavnagar – Talaja	Sadbhav Infrastructure Projects Ltd.	8,170	48
Una – Kodinar	Sadbhav Infrastructure Projects Ltd.	5,545	41
Talaja - Mahua	MEP Infra & Sanjose India Infra JV	6,130	45
Mahua – Kagavadar	MEP Infra & Sanjose India Infra JV	5,980	40

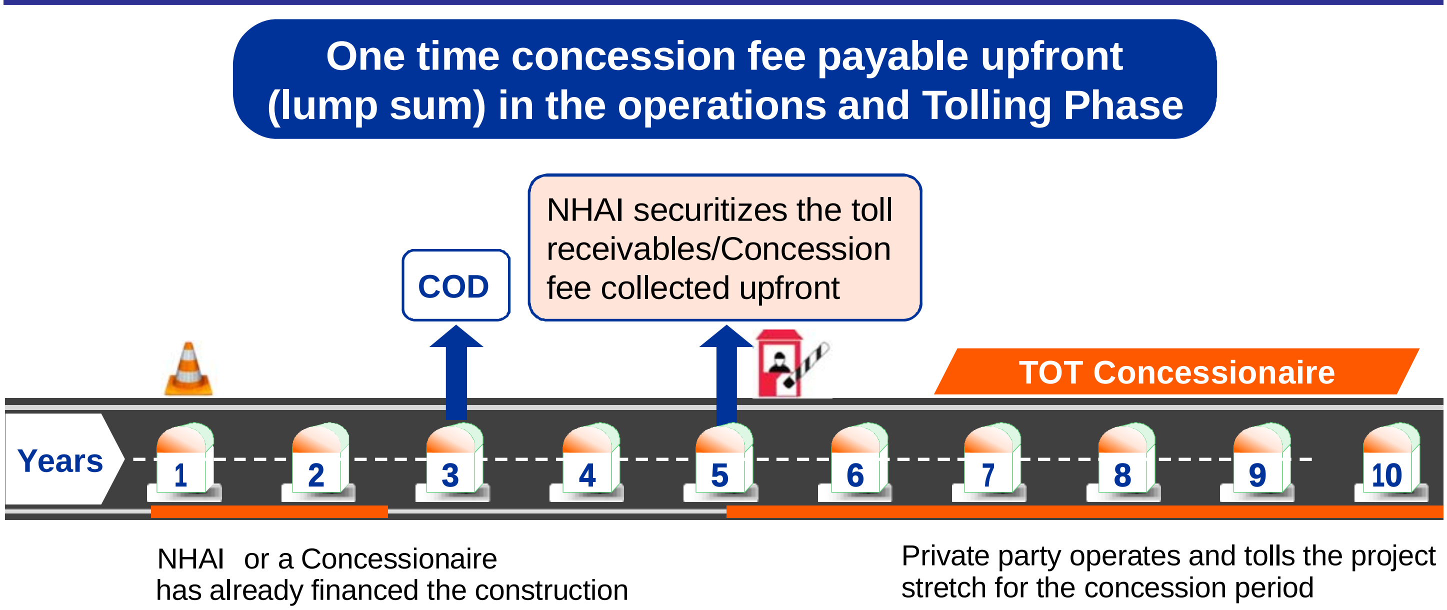
Source: NHAI, Antique

Competitive intensity - The hybrid annuity model started with only three players participating in the bidding process (first three projects saw only 3 bidders). The competitive intensity has increased since then with an average of 5 players bidding in the projects awarded in March/April'16. In some of the recent bids as many as 8 bidders have participated. Hence, we believe competition will continue to increase going ahead. Relatively low equity requirement along with a higher number of projects awarded through the hybrid annuity mode would lead to more and more players looking to enter this segment which should lead to an increase in competitive intensity.

Toll - Operate - Transfer model

NHAI has 100 toll roads for which it is currently collecting toll and is looking to award these to private players for operations and maintenance for a fixed period (long term - 25 years or more being proposed) for an upfront value. The difference in this model with respect to the OMT model would be the time period for award. While OMT is generally for a 3-9 years period, the toll - operate - transfer (TOT) model will be for a longer period.

Toll - Operate - Transfer model - snapshot



Source: MORTH, Antique

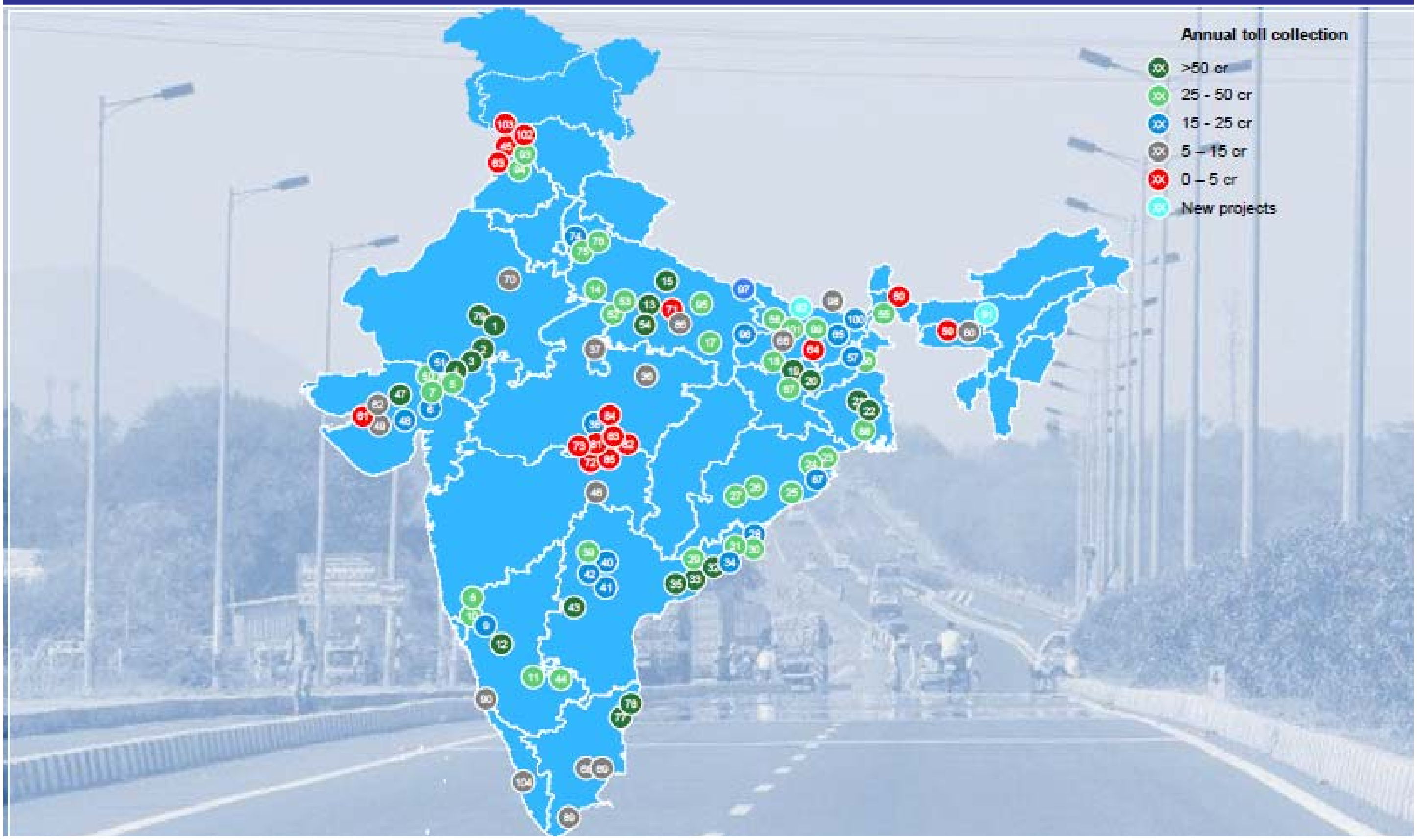
Key advantages and issues - Toll - Operate - Transfer model

Particulars	Remarks
Advantages	
Increase in efficiency	It is a widely accepted fact that efficiencies have improved (by ~20-30%) in terms of lower pilferage in toll when the toll booths have been operated and managed by private developers. Thus, the measure is likely to improve the efficiency of toll collection.
Capital inflows for the government	The private operator would have to bid for the project and pay the entire concession fee at the time of award. This would increase the capital inflows for the government who inturn could use the capital to award a greater number of projects on EPC basis.
Lower risk as compared to BOT	The project would be awarded post construction and hence the developer would not have to undertake any risk associated with construction.
Issues	
Capital intensive	This would require a high capital outflow initially as the entire concession fee would have to be paid at the time of award and the revenues would flow over the life of the project

Source: Antique

Given below is the graphical representation of the 104 projects that are being touted for award on the TOT model. As can be seen below, **there are a number of projects with annual toll collection potential of over ~INR 250m.** Awarding these projects through the TOT model could free up a substantial amount of capital which could be used for awarding of new projects.

104 projects that are likely to come up for award on a TOT model



Source: MORTH, Antique

List of projects which are touted to come up for award on the TOT model

NH	Name of project	State	km	NH	Name of project	State	km
79&79A	Kishangarh - Bhilwara	Rajasthan	101	25	Poonch - Orai	Uttar Pradesh	65
79	Bhilwara - Chittorgarh	Rajasthan	83	25	Orai-Bara	Uttar Pradesh	67
76	Rithola - Udaipur	Rajasthan	99	31	Sonapur-Ghoshpukur	West Bengal	44
8	Udaipur - Kherwara	Rajasthan	70	31	Purnea-Dalkhola	West Bengal	62
8	Kherwara - Ratanpur	Rajasthan	40	31	Purnea-Dalkhola	West Bengal	36
8	Ratanpur - Himatnagar	Gujarat	55	28	Kotwa-Mehsi-Muzaffarpur	Bihar	80
8	Himmatnagar - Chiloda	Gujarat	52	31	Rakhaldubi-Kohora	North East	51
4	Belgaum - Maharashtra border	Karnataka	55	31C	Salsalabari-Assam-West Bengal	West Bengal	27
4	Hirebagewadi - Hattargi	Karnataka	22	8B	Porbandar-Bhiladi-Jetpur	Gujarat	51
4	Gabbur - Devegiri	Karnataka	64	8B	Porbandar-Bhiladi-Jetpur	Gujarat	65
4	Doddasiddanahally - Hadadi	Karnataka	71	1	Amritsar-Wagah	Punjab	36
4	Hadadi - Devgiri	Karnataka	80	80	Mokama-Munger	Bihar	60
2	Tundala - Makhanpur	Uttar Pradesh	51	80	Khagaria-Purnea	Bihar	70
2	Shikohabad - Etawah	Uttar Pradesh	73	31	Khagaria-Purnea	Bihar	70
2	Chakeri - Usrania	Uttar Pradesh	81	33	Hazaribagh-Ranchi	Jharkhand	74
2	Fatehpur - Khokharaj	Uttar Pradesh	58	210	Trichy-Karaikudi	Tamil Nadu	37
2	Handia - Rajatalab	Uttar Pradesh	72	210	Trichy-Karaikudi	Tamil Nadu	34
2	Aurangabad - Barachatti	Bihar	60	11	Reengus-Sikar	Rajasthan	36
2	Barachatti - Gorahar	Jharkhand	80	24	Lucknow-Raibarelly	Uttar Pradesh	70
2	Gorhar - Barwa Adda	Jharkhand	79	69	Nagpur-Betul	Maharashtra	56
2	Budbud - Pulsit	West Bengal	68	69	Nagpur-Betul	Maharashtra	58
2	Palsit - Dankuni	West Bengal	64	24	Ghaziabad-Hapur	Uttar Pradesh	32
5	Bhadrak - Balasore	Orissa	63	24	Hapur-Garhmuketeshwar	Uttar Pradesh	35
5	Chetia - Bhadrak	Orissa	75	24	Garhmuketeshwar-Moradabad	Uttar Pradesh	56
5	Sunakhala - Bhubaneshwar	Orissa	77	45	Tambaram-Tindivaram	Tamil Nadu	47
5	Sunakhala - Puintola	Orissa	58	45	Tambaram-Tindivaram	Tamil Nadu	47
5	Icchapuram - Puintola	Andhra Pradesh	57	79&76	Chittorgarg Bypass	Rajasthan	30
5	Icchapuram - Srikakulam	Andhra Pradesh	66	40&44	Shilong Bypass	North East	47
5	Nadigama - Icchapuram	Andhra Pradesh	63	347	Multai-Chhindwara up to Chhindwara	Madhya Pradesh	76
5	Srikakulam - Chilakpalem	Andhra Pradesh	48	347	Chhindwara (from Ring Road) - Seoni	Madhya Pradesh	61
5	Visakhapatnam - Champawati	Andhra Pradesh	46	547	Chhindwara -Amarwara	Madhya Pradesh	76
5	Tuni - Ankapalli	Andhra Pradesh	89	547	Amarwara-Narsinghpur Section	Madhya Pradesh	70
5	Rajamundry - Tuni	Andhra Pradesh	84	547	Saoner-Chindwara section	Madhya Pradesh	75
5	Ankapalli - Vishakhapatnam	Andhra Pradesh	41	27	Cable stay bridge at Naini	Uttar Pradesh	5
5	Bommuru - Gondugolanu	Andhra Pradesh	108	5A	Chandikhol-Paradip	Orissa	77
25&26	Jhansi - Lalitpur (Annuity)	Madhya Pradesh	50	41	Kolaghat-Haldia	West Bengal	50
26	Jhansi - Lalitpur	Telangana	49	7A	Tirunelvelli-Tuticorin	Tamil Nadu	47
7	Lakhnadon - Mohagaon	Telangana	57	48	BC Road - Padit & Padil bypass	Karnataka	18
7	Adloor Yellareddy - Pochampally	Telangana	103	36&37	Guwhati bypass-Nagaon-Daboka-Udauli	Assam	74
7	Maharashtra/AP border - Islam nagar	Telangana	55	77	Muzzaffarpur-Sonbarsa2 lane with PS	Bihar	65
7	Islam nagar - Kadtal	Telangana	53	1A	Jalandhar-Pathankot	J&K	60
7	Kadtal - Armur	Telangana	31	1A	Jalandhar-Pathankot	Punjab	66
7	Kothakota bypass - Kurnool	Telangana	75	28	Gorakhpur bypass	Uttar Pradesh	32
7	AP/Karnataka Border - Devanhalli	Karnataka	71	28	UP/Bihar border-Kasia	Uttar Pradesh	46
1A	Jammu - Pathankot	J&K	49	28	Gorakhpur-Kasia	Uttar Pradesh	41
7	Deodhari - Kelapur	Maharashtra	30	57	Pulparas-Saraigarh	Bihar	55
8A	Garamore - Samkhiyali	Gujarat	52	57	Darbhanga-Kosi bund	Bihar	79
8A	Bambanbore - Garamore	Gujarat	71	57	Forbesganj-Purnea	Bihar	79
8A	Rajkot - Bambanbore	Gujarat	32	57	Muzzaffarpur-Darghabanga	Bihar	70
14	Palanpur/Khemana - Aburoad	Gujarat	45	1A	Samba-Kunjwani	J&K	46
14	Abu Road - Pindwara	Rajasthan	31	1A	Jammu bypass-Udhampur	J&K	45
25	Jahnsi - Pooch	Uttar Pradesh	64	47	Edeapalli-Vytilla-Aroor	Kerala	17

Source: Morth, Antique

It is also interesting to know that 44 of the 104 projects to come up for awards are generating annual toll revenues greater than 10% of the total project cost. This implies that NHAI would be able to collect a sufficiently greater amount as against the amount invested in these projects. Given below is the list of projects where NHAI is able to collect annual toll revenues greater than 10% of the project cost

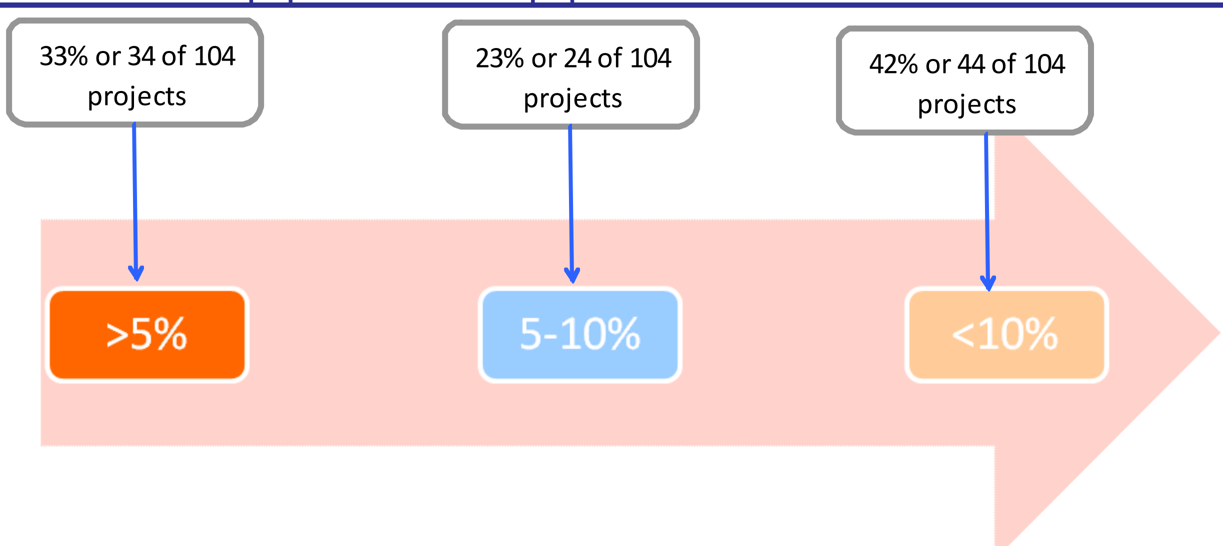
Projects with toll collection greater than 10% of TPC

Name of project	Length (kms)	Annual toll collection/ Project completion cost (%)	Name of project	Length (kms)	Annual toll collection/ Project completion cost (%)
Kishangarh - Bhilwara	101	43	Orai-Bara	67	13
Bhilwara - Chittorgarh	83	43	Ratanpur - Himatnagar	55	13
Kherwara - Ratanpur	40	35	Gorhar - Barwa Adda	79	13
Ankapalli - Vishakhapatnam	41	33	Bommuru - Gondugolanu	108	13
Tambaram-Tindivaram	47	30	Hapur-Garhmuketeshwar	35	13
Udaipur - Kherwara	70	28	Budbud - Pulsit	68	13
Tambaram-Tindivaram	47	25	Fatehpur - Khokharaj	58	12
Chittorgarg Bypass	30	24	Ghaziabad-Hapur	32	12
Rithola - Udaipur	99	23	Aurangabad - Barachatti	60	11
Himmatnagar - Chiloda	52	21	Chetia - Bhadrak	75	11
Garamore - Samakhiali	52	20	Gabbur - Devegiri	64	11
Purnea-Dalkhola	62	19	Palsit - Dankuni	64	11
Sunakhala - Puintola	58	17	Chakeri - Usrania	81	11
Srikakulam - Chilakpalem	48	16	Hadadi - Devgiri	80	10
Tundala - Makhanpur	51	16	Icchapuram - Srikakulam	66	10
Visakhapatnam - Champawati	46	15	Abu Road - Pindwara	31	10
Icchapuram - Puintola	57	15	Palanpur/Khemana - Aburoad	45	10
Rajamundry - Tuni	84	15	Sunakhala - Bhubaneshwar	77	10
Jalandhar-Pathankot	60	15	Barachatti - Gorahar	80	10
Handia - Rajatalab	72	15	Bhadrak - Balasore	63	10
Nadigama - Icchapuram	63	14	Doddasiddanahally - Hadadi	71	10
Garhmuketeshwar-Moradabad	56	14	Gorakhpur bypass	32	10

Source: Morth, Antique

Over and above these 44 projects with annual toll collection greater than 10% of the project cost, another 24 projects have an annual toll collection between 5-10% of the project cost. Given below is the segregation of the same.

Toll collection for 44 of the 104 projects exceeds 10% of project cost



Source: Morth, Antique

Infrastructure Investment Trust

Background

The SEBI issued draft regulations for InvITs in July'14 which was finalized in September'14. The key stakeholders for InVITs are as given below:

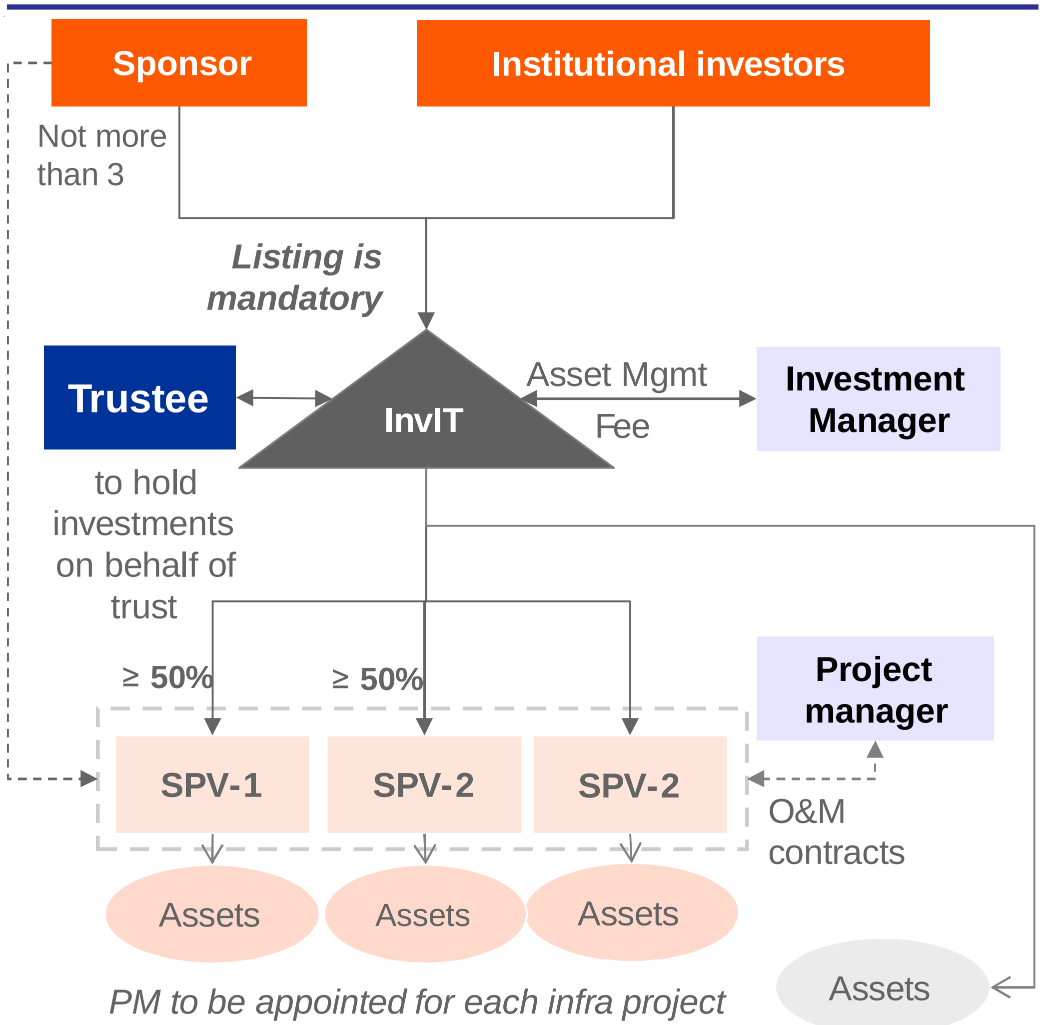
InvIT stakeholders

Sponsor	- Set up InvIT and appoint a trustee - Hold minimum required percentage of total units of InvIT
Trustee	- Hold InvITs assets in the name of InvIT for the benefit of the unit holders - Ensure investment manager makes timely payments of dividend to unit holders
Investment Manager	- Make investment decisions in relation to the underlying assets - Ensure assets have proper legal title and contracts entered are legal, valid and binding
Project Manager	- Undertake operations and management of InvIT assets
	- For under construction projects, ensure progress of developments, approval status and other necessary aspects

Source: SEBI, Antique

In InVITs, the sponsor can raise funds by transferring assets to the trust which would be managed by the trustees. As per the regulations, the sponsor would continue to hold at least 26% of the units in the trust. The remaining can be utilized to raise capital part of which would go into repayment of debt (debt to be reduced to a minimum of 50%) and balance to go to the sponsor. Once the InVIT is formed, 90% of the free cash flows have to be repaid in the form of dividends to the unit holders.

InVITs structure



Source: SEBI, Antique

InvITs - Final Regulations

Sponsor Qualification

- Net worth of at least INR1bn in case of body corporate or a company or net intangible assets of INR1bn in case of Limited Liability Partnership (LLP).
- Minimum experience of at least 5 years and should have completed at least two projects.

Investment Manager Qualifications

- Net worth of at least INR100m in case of body corporate or a company or net intangible assets of INR100m in case of LLP.
- Minimum experience of at least 5 years in fund management / advisory services / development in infrastructure sector.
- 2 or more key personal, having more than 5 years experience in fund management / advisory services / development in infrastructure sector.
- 1 or more employee who has at least 5 years experience in relevant sub - sector in which InVIT proposes to invest.
- Not less than half of its directors / members should be independent and they should not be directors / members of other InVITs.
- Should have an office in India from where operations pertaining to InVITs is to be conducted.

Trustee Qualifications

- Registered with SEBI and is not an associate of sponsor / investment manager; and

Borrowings

- Aggregate consolidated borrowings and deferred payments of the InvIT net of cash and cash equivalents shall never exceed 49% of the value of the InVIT assets.
- If aggregate consolidated borrowings and deferred payments of InVIT net of cash and cash equivalents exceed 25% of the value of InvIT assets, for any further borrowing following are required
  - Credit rating from a credit rating agency registered with SEBI
  - Approval of unit holders

Related Party Transactions

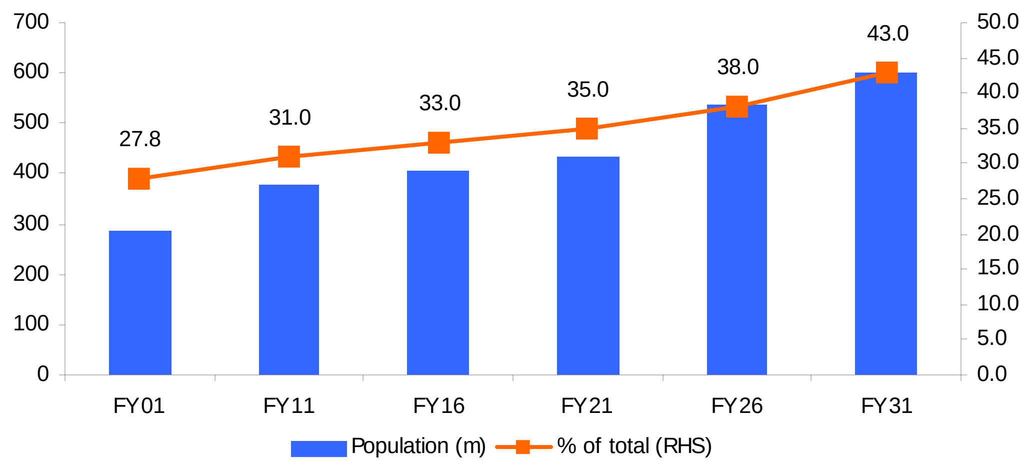
- Should be on arms length basis
- In case of publicly traded InVIT with respect to related party transactions entered into after initial offer, approval of unit holders is required if -
  - Total value of such transactions relating to sale / purchase of assets or investment in securities exceed 5% of the value of InVIT
  - Value of funds borrowed from related parties exceeds 5% of total consolidated borrowings.
  - Stringent conditions have been imposed including detailed disclosures, valuation requirements, approval of majority of investors etc.

The InVIT structure would aid in releasing much needed capital for the capital starved developers thereby aiding them to take up more projects. **Three BOT players viz. IRB Infrastructure, MEP Infrastructure and GMR Infrastructure have already applied for approvals with SEBI and L&T IDPL and IL&FS Transportation have shown interest in raising capital through this route.**

Real Estate

The real estate sector with forward and backward linkages to 250 ancillary industries has one of the highest multiplier effects in terms of contribution to GDP as per CREDAI. It contributed ~6.3% to the GDP in FY13 and this is likely to increase to 13% in FY25. As per the report, urbanization in India has been increasing at a rapid pace with over 71mn people added to the urban population between 2001 and 2011. At this rate, ~534mn people will live in cities by 2026. With higher urbanization, opportunities for the real estate sector look encouraging.

Number of people in cities to 2026



Source: CREDAI, Antique

As per Ministry of Statistics and Programme Implementation (MoSPI), 18.8mn people grapple with housing shortage in urban India. Even at the current levels, there remains a huge pent up demand for real estate development. We estimate this at ~INR9trn. With the announcement of "Housing for all by 2022" there has been a renewed impetus on low cost housing by the government. Apart from these, various new smart cities are being planned which would add further to the real estate demand.

Calculation of pent up demand table

Housing shortage in India (units)	18,800,000
Carpet Area (per unit)	400
Loading on carpet area	30%
Built-up area	520
Construction cost per sq ft (INR)	1200
Total project cost (INRbn)	**11,731**
Civil work as a % of total cost	80%
Total construction opportunities (INRbn)	**9,385**

Source: Antique

The above table shows the opportunities for construction sector in the real estate segment and with the Govt's focus on affordable housing and "Housing for all by 2022", we expect the growth to be significant.

Several measures have been taken towards "Housing for all":

Measures by RBI: In six metropolitan cities loans up to INR5m and in other cities upto INR4mn will be eligible for priority sector lending. The RBI has also exempted long term bonds raised for funding affordable housing from mandatory regulatory norms such as CRR and SLR. These measures would result in eased interest rates, reduced cost of funds and better liquidity.

Other measures:

- External commercial borrowing (ECB) has been allowed for low cost affordable housing.
- A 1% subsidy is being provided on loans up to INR1.5mn for purchase of houses costing less than INR2.5mn.
- Investment linked deduction of capital expenditure in affordable housing has been increased to 150%.

Railways - Provides large opportunities for EPC players

The railways sector has a high construction intensity of ~78% which provides ample opportunities for the EPC players. For FY17, the ministry is targeting a growth of 17% at INR1.17tn with major growth in outlay envisaged under new lines (+16%), doubling (+180%), rolling stock (+43%), DFC (+43%) and electrification (+50%). The total opportunities for the EPC players are envisaged at over INR1,000bn in FY17e.

Railways - Budgetary allocation up 17%

INR (bn)	FY13	FY14	FY15	FY16	FY17(BE)	Change over RE (%)
New lines (Construction)	59	58	90	135	156	15.6
Gauge conversion	25	31	34	43	43	1.4
Doubling	27	30	40	90	251	178.9
Rolling stock (Total)	181	175	174	191	273	42.9
Dedicated freight corridor	15	12	43	53	76	42.9
Track renewals	53	50	50	54	40	(26.3)
Bridge works	3	4	5	5	6	19.8
Signalling and telecommunication	11	9	10	9	10	12.3
Electrification projects	9	13	14	23	34	49.9
Passenger amenities	10	9	10	12	18	51.6
Inv in govt. PSU	7	6	6	93	26	(71.5)
Inv in non-govt incl JVs/SPV	14	29	36	7	8	9.7
Metro polition transport project				234	14	(94.0)
Others	97	97	115	52	214	25.3
Total	**511**	**523**	**627**	**1,000**	**1,170**	**59.5**

Source: Budget document, Antique

As can be seen in the table above, railways spend has increased in FY16 by 59% from INR627bn to INR1000bn. For FY17e, spending is expected to increase by 17% to INR1,170bn. The railways, in its vision 2020 have set a ambitious target for investment at INR8,560bn over FY15-19e. Of this, only about 1,627 has been spent in FY15/16 which leaves INR6,933bn to be spent over the next three years.

Ambitious capital outlay for railways

Proposed investment plan (2015-19)	Amount (INRbn)
Network decongestion (Including DFC, electrification, doubling including electrification and traffic facilities) 1,993	
Network expansion (including electrification)	1,930
National projects (North eastern & Kashmir connectivity)	390
Safety (Track renewal, bridge works, ROB, RUB, Signalling and Telecom	1,270
Information technology / Research	50
Rolling stock (Locomotive, coaches, wagons production and maintenance)	1,020
Passenger Amenities	125
High speed rail / Elevated corridor	650
Station redevelopment and logistics park	1,000
Others	132
Total	**8,560**

Source: Ministry of Railways, Antique

Irrigation

The central governments focus on irrigation is evident from the increased allocation in budget 2016-17. Intent to fast track 89 projects which have been stranded has been highlighted through the budget. INR170bn in FY17 and INR865bn over the next five years is expected to be spent on these projects. Moreover, states like Telangana are also looking to aggressively spend on improving irrigation in the state. Outlay for irrigation as outlined in the state budget for Telangana stands at INR250bn (a 3 fold increase over FY16RE outlay of INR85bn) for FY17e. Increasing focus on irrigation is expected to create large opportunities for the EPC players.

Telangana budget - outlay for irrigation up 3x

Planned expenditure segment wise	RE 2015-16	BE 2016-17	FY17BE/FY16RE YoY (%)
Agriculture and rural development	65	76	16.9
Irrigation	85	250	194.1
Housing, Transport and Urban Development	72	71	(1.4)
Education, Medical, Social Security and Welfare	172	260	51.2
Industry & Energy	16	11	(31.3)
Others	2	4	100.0

Source: Telangana State Budget, Antique

Industrial corridors

The government has envisaged few industrial corridors between major cities which would lead to the development of new industrial townships, smart cities and manufacturing hubs and in-turn lead to employment generation. The government had announced setting up of the National Industrial Corridor Development Authority (NICDA) with an initial corpus of INR1bn. The five industrial corridors are as given below:

Delhi Mumbai Industrial Corridor (DMIC) - The project spans the States of UP, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra along the Western Dedicated Freight Corridor. Initial six nodes/cities have already been taken up for development.

Chennai - Bengaluru Industrial Corridor (CBIC) - Master planning of three industrial nodes has been completed viz. Ponneri (TN), Tumkur (Karnataka) and Krishnapatnam (AP).

Bengaluru - Mumbai Economic Corridor (BMEC) - One city has been identified for master planning.

Vizag - Chennai Industrial Corridor (VCIC) - Two nodes have been identified for master planning.

Amritsar - Kolkata Industrial Corridor (AKIC) - Feasibility report has been completed.

The progress on the industrial corridors has been slower than what earlier envisaged. The industrial corridors are large scale long gestation projects and progress on the development of these corridors could result in huge opportunities for the EPC players both directly and indirectly in the form of housing.

Mass rapid transport system

The mass rapid transport system has seen increased impetus as more and more states undertake projects to improve the connectivity in key urban areas. Currently only seven cities have an operational metro network set up with an investment of INR2trn. Further, five more cities are expected to come up with their metro projects with an investment of INR1trn. Moreover, nine more cities have their metros in the planning stage with investment of INR870bn. All these provide tremendous opportunities for the construction players.

Metro projects - current status

Particulars	Length (km)	Operational length (kms)	Project cost (INRbn)	Implementing agency	Current Status
Operational Metro					
Delhi Metro	349.2	189.9	704	DMRC	Phase I & II operational
Kolkata Metro	41.9	27.2	67	IR & KMRCL	North - South corridor operational
Bengaluru Metro	114.4	25.5	409	BMRCL	Reach I,2,3 operational
Gurgaon Metro	12	5.1	34	HUDA, IL&FS	Phase I operational
Mumbai Metro I	11.4	11.4	24	Reliance Infra	Operational
Jaipur Metro	35.8	9.6	135	JMRC	Phase I operational
Chennai Metro	143	10	604	CMRL	Line I operational
Total	**708**	**279**	**1,977**		
Under-construction Metro					
Mumbai Metro II & III	195	-	651	MMRDA, CIDCO	EPC contractor shortlisted
Hyderabad Metro	71.2	-	160	L&T	Phase wise COD to start in FY17e
Nagpur Metro	38.2	-	87	NMRCL	Under construction
Lucknow Metro	35	-	118	LMRC	Phase I COD expected in Dec 2016
Ahmedabad Metro	37.9	-	117	MEGA	Under construction
Kochi Metro	25.6	-	52	KMRL	COD expected soon
Total	**403**		**1,185**		
Planned Metro					
Pune Metro	31.5	-	136	-	-
Kanpur Metro	36	-	105	-	-
Varanasi Metro	26	-	75	-	-
Meerut Metro	30	-	65	-	-
Agra Metro	25	-	65	-	-
Ludhiana Metro	28.8	-	87	-	-
Chandigarh Metro	37.6	-	136	-	-
Bhopal Metro	85	-	80	-	-
Indore Metro	107	-	120	-	-
Total	**406.9**		**869**		

Source: Company, Antique

Power - generation and transmission

The Indian power sector went through a cataclysmic environment in the past 4-5 years, with demand falling, leading to collapse in investment climate and hence adversely impacting the entire value chain. We see meaningful change in outlook due to the new government's resolve to find solutions to almost crisis like problems plaguing the industry. We believe that reforms in power and coal sector will have a lasting impact on the business environment, thereby kick-starting a new wave of capex cycle.

One of the biggest reforms ushering in a new dawn for the power sector is UDAY. UDAY scheme has been as is explained below:

In a move that can usher a new dawn in the power sector, the Union Cabinet has passed the discom revival plan 'UDAY' (Ujjwal Discoms Assurance Yojana), which also means 'rising' in Hindi. The move is aimed at re-energising ailing discoms and ensure that they break-even over the next two-to-three years by:

i) Improving operational efficiencies,

ii) Reduce power cost;

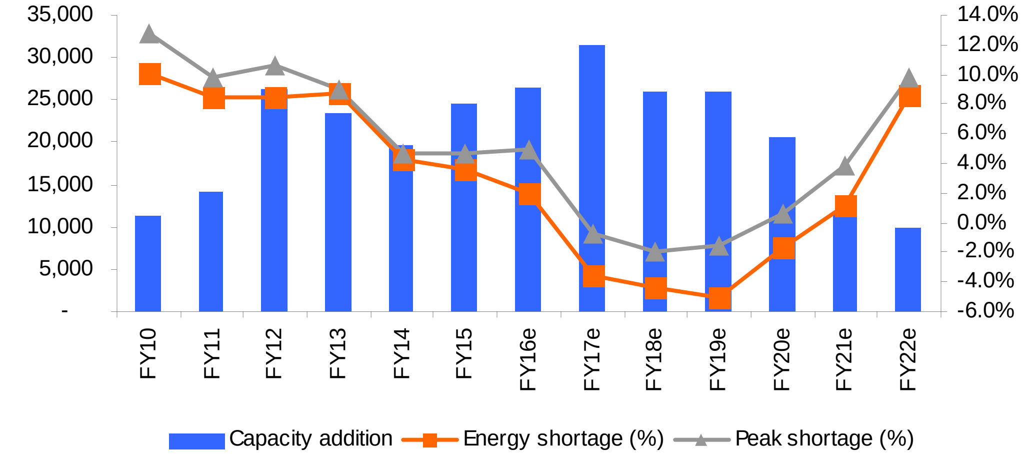
iii) Lower interest cost, and

iv) Enforce financial discipline through alignment with state finances.

Under this scheme, 75% of loans will be transferred to state governments' balance sheet over FY16/17, thereby reducing interest cost by over 400bps. The plan includes stringent operating parameters to be met in terms of reducing AT&C losses to 15% from 22% over the next three-to-four years, which includes improving T&D systems and 100% metering. The key takeaway is the monthly monitoring mechanism and appraisal of this scheme on the 10th of each month. Like we have seen in the case of Coal India, monitoring remains key to the success and removal of bottlenecks. This is a huge positive for the power sector as it will help reduce losses significantly. Also, the interest burden per year for discoms (INR386bn in FY14) will reduce considerably, freeing up significant fiscal space for them to buy additional power. The move is likely to benefit all power sector players as it improves the payment quality across the value chain and increase utilization levels, especially for generating companies, as the power offtake will rise. At present, we were facing an artificially curtailed demand due to ill finances of discoms, which will now get corrected.

As demand is expected to pick-up at 7-8% per annum and capacity addition likely to stagnate, power deficit is set to rise in the long-term. Hence, we believe increasingly there will be a spurt in capacity addition programme from FY18 onwards which will be needed for fresh and replacement demand (Govt has identified 36,000MW of generating plants which are more than 25 years old). The replacement is necessary as the old plants needed 2acre/MW of land whereas new plants need 0.3acre/MW. Also old capacities are not meeting the new environmental norms. Hence, the Govt of India is facilitating shutting down old and coal linkage will also be transferred. 36,000MW of generating plants if replaced would mean order size of INR2160bn for the players. Our analysis suggests, power deficit is expected to increase to over 8% in the 13th plan as there no new capacities have been announced in the recent past by the private sector. Increased deficit would again lead to a need for new capacities. We believe, the PSU sector would be taking a lead in setting up these capacities leading to continuous opportunities for the construction players.

Deficit set to increase in the 13th Plan



Source: CEA, Antique

Historically, India's T&D segment has remained under invested. In an ideal scenario, investment in the T&D and power generation segments should be in the 1:1 ratio. However, the long term average ratio between investments in power generation capacity addition and T&D segment over CY51-96 has remained 1:0.45 (Source: TERI). In the X and XI Five Year Plan also, the ratio of investments has remained in the same range. Moreover, uneven investment in power generation capacity across geographies, depending on resources and fuel, has resulted in irregular power availability across India. There is power surplus in some states in the Northern and Western India and a power shortage in the south. The government has now committed itself to fix these anomalies. If its power for all by FY19 is to be achieved, T&D investments have to come through. Total T&D investment planned in the 12th Five Year Plan is INR4,860bn which signifies an opportunity of INR972bn for FY17e.

Plan wise capex in T&D segment

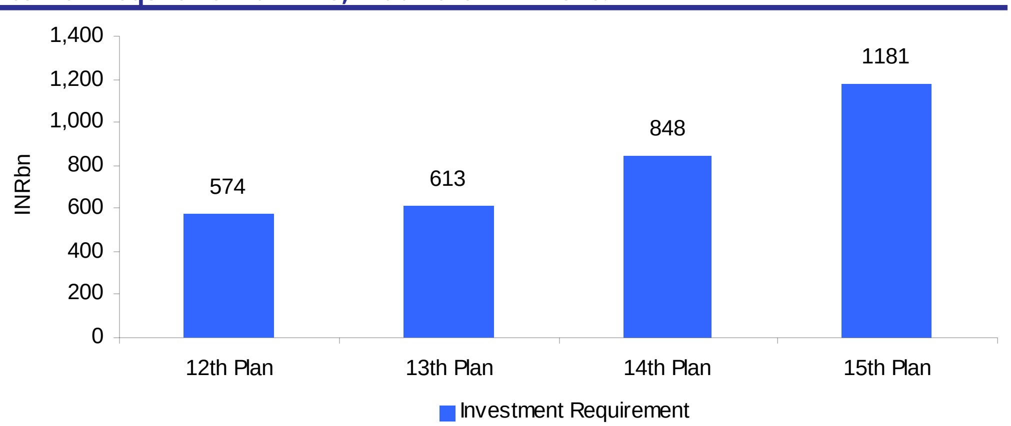
INRbn	10th Five Year Plan (A)	11th Five Year Plan (RE)	12th Five Year Plan (E)
Generation	**1,826**	**4,796**	**6,386**
T&D877	**2,230**	**4,860**	
Transmission	457	1,230	1,800
Distribution	420	1,000	3,060

Source: Report of Working Group on Power (11th and 12th Five Year Plan); A: Actual; RE: Revised estimates; E: Estimates

Ports

Ports in India account for 90% of India's overseas trade by volumes and 70% by value. The National Transport Development Policy Committee has estimated an increase in traffic at Indian port to 3,068MT in FY32 from ~1,300MT in FY16. To meet the traffic targets, an investment of ~INR3,220bn has been envisaged.

Investment requirement at INR3,220bn over FY17-32e.

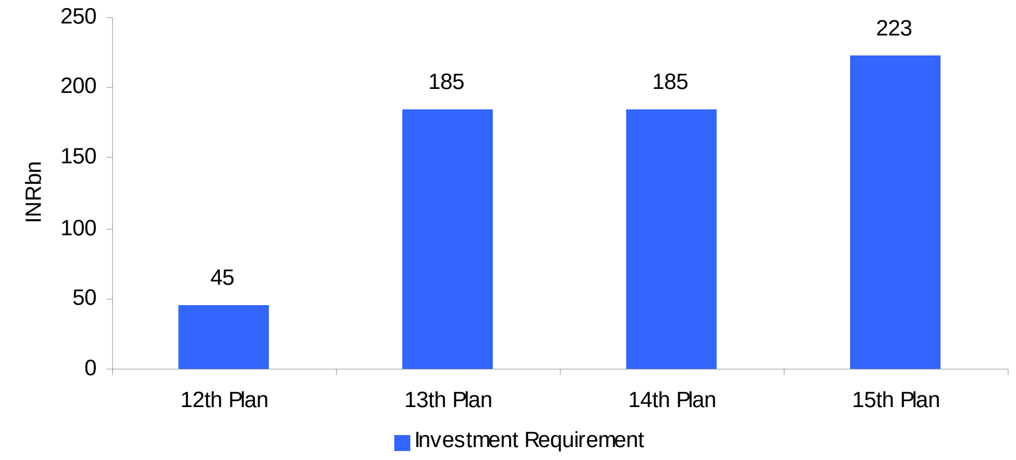


Source: NTDPC, Antique

As can be seen in the chart above, investment required to meet the target demand continues to grow from INR574bn in 12th plan to INR1181bn over the 15th plan.

In addition to this, investment for the development of inland water transport is projected at INR638bn over the same period.

Investment requirement in inland water transport at INR600bn over FY17-32e.

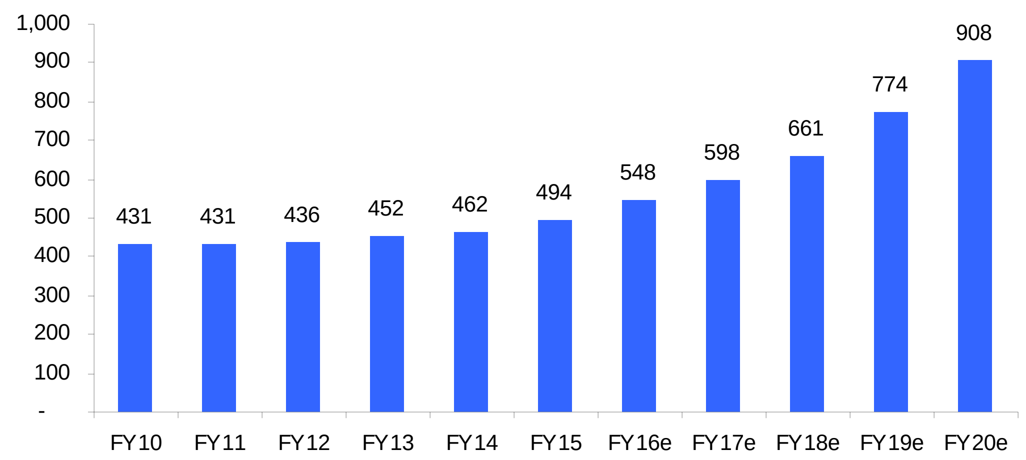


Source:NTDPC, Antique

Mining

Construction sector is expected to continue to benefit from an uptick in the mining sector too. India's coal production was 613MT in FY15, of which 76% was by CIL. The Centre is targeting a production of 1.5bn tonne, of which it expects CIL to produce 1bn tonne. To achieve this, the company has identified projects of 908MT and expects to achieve the balance on a best-effort basis. Increasing production by CIL along with the 204 coal blocks auctioned would ensure enough opportunities remain even in the mining sector.

CIL's targets (MT)



Source: Company, Antique

Apart from the opportunities from CIL in both over burden removal and Mine Development and Operations (MDO), there are various MDO opportunities likely to come up from PSUs as well.

MDO opportunities

Coal Mine	Allottee	State	Reserves
Pachwara North	West Bengal Power Development Corporation Limited	Jharkhand	126
Chatti Bariatu	National Thermal Power Corporation Limited	Jharkhand	193
Dulanga	National Thermal Power Corporation Limited	Orissa	260
Pachwara Central	Punjab State Power Corporation Limited	Jharkhand	562
Talaipali	National Thermal Power Corporation Limited	Chhattisgarh	1,267
Tadicherla I	Telangana State Power Generation Corporation Limited	Andhra Pradesh	77
Gare Pelma Sector I	Gujarat State Electricity Corporation Limited	Chhattisgarh	1,800
Gare Palma Sector II	Maharashtra State Power Generation Company Limited	Chhattisgarh	1,006
Parsa East and Kanta Basan	Rajasthan Rajya Vidyut Utpadan Nigam Limited	Chhattisgarh	360
Gidhmuri and Patoria	Chhattisgarh State Power Generation Company Limited	Chhattisgarh	350
Parsa Block	Rajasthan Rajya Vidyut Utpadan Nigam Limited	Chhattisgarh	256
Gare Pelma Sector III	Chhattisgarh State Power Generation Company Limited	Chhattisgarh	210
Banhardih	Jharkhand Urja Utpadan Nigam Limited	Jharkhand	920
Rajbar E and D	Tenughat Vidyut Nigam Limited	Jharkhand	807
Saharpur Jamarpani	Uttarpradesh Rajya Vidyut Utpadan Nigam Limited	Jharkhand	600
Chhati Bariatu South	National Thermal Power Corporation Limited	Jharkhand	354
Badam	Bihar State Power Generation Company Limited	Jharkhand	129
Sitanala	Steel Authority of India Limited	Jharkhand	108
Kerandari	National Thermal Power Corporation Limited	Jharkhand	189
Mahajanvadi	Maharashtra State Power Generation Corporation Limited, Gujarat State Electricity Corporation Limited	Maharashtra	340
Baranj I-IV Manora Deep and Kiloni	Karnataka Power Corporation Limited	Maharashtra	153
Naini Block	The Singareni Collieries Company Ltd	Orissa	500
Manoharpur	Odisha Coal and Power Limited (both the mines)	Orissa	182
Dipside Manoharpur	Odisha Coal and Power Limited (both the mines)	Orissa	350
Tara East and West	West Bengal Power Development Corporation Limited	West Bengal	210
Kagra Joydev	Damodar Valley Corporation	West Bengal	196
Kasta(East)	West Bengal Power Development Corporation Limited	West Bengal	105

Coal block under MDO bidding

Prospective coal blocks for future MDO bidding

Source: Company, Antique

As can be seen in the table above, there exist substantial opportunities in the MDO space for the players.

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR205
Target Price	:	INR282
Potential Return	:	38%

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Market data

Sensex	:	26,4.3
Sector	:	Infrastructure
Market Cap (INRbn)	:	72.0
Market Cap (USDbn)	:	1.059
O/S Shares (m)	:	351.5
52-wk HI/LO (INR)	:	272/195
Avg Daily Vol ('000)	:	802
Bloomberg	:	IRB IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	18.1	16.4	18.9
P/E(x)	11.3	12.5	10.8
P/BV(x)	1.5	1.4	1.2
EV/EBITDA(x)	7.8	7.3	6.5
Dividend Yield (%)	1.8	1.8	1.8

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(6)	(13)	(17)	(12)
Relative	(6)	(16)	(19)	(7)

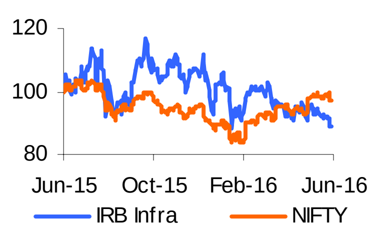
Source: Bloomberg

Shareholding pattern

Promoters	:	57%
Public	:	43%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

COMPANY UPDATE

IRB Infrastructure Developers Limited

Stable performer

Strong order backlog to aid growth in the construction segment

IRB has a strong order backlog of INR79bn (Ex-O&M) as on March 31, 2016, which is 2.6x TTM construction revenue. Given the order backlog, we expect the construction segment to grow at 12% CAGR over FY16-18e as work on the recently won projects commence. The company does EPC work for its own BOT projects and earns 30% margin, which eases the cash flow situation.

Stable portfolio of operational projects, traffic growth seeing an uptick

In IRB's portfolio, 14 of the 19 BOT projects (excluding projects returned to Maharashtra Govt) are operational and contribute 41% of revenue. These 14 projects include large projects like the Mumbai-Pune Expressway (206km) and Surat-Dahisar (239km), which have an annual toll collection of over ~INR5.5bn each. Stable operational portfolio helps generate cash flows to meet the equity requirement of new projects and reduce earnings volatility.

Traffic growth seeing an improvement

Traffic growth over FY13-15 was subdued. A visible improvement in traffic growth has been witnessed across projects, with growth ~9-10% in FY16. Moreover, a large part of IRB's portfolio is in the heavily industrialized western corridor - Gujarat, Maharashtra and Rajasthan - due to which IRB benefits from increase in economic activity. We expect, traffic growth to be excess of 6% over FY16-18 for most projects in IRB's portfolio as against our estimate of 5% which may lead to further upsides.

Investment Trust (InVIT) to be a game changer, to free up growth capital

With a debt-to-equity ratio of 2.8x in FY16 and order backlog of ~INR79bn, the equity requirement for IRB over the next three years is INR18bn. Although we expect the company to generate INR18bn (net of debt repayment) over the same period, further funds will be needed for new projects. To fund this, the company plans to raise capital through the Infrastructure Investment Trust (InVIT) route, wherein it will transfer some operational assets to a trust, which will have other investors as well. This will free up equity invested in mature operational projects, which can be used for new projects.

Despite lower awards on BOT; lower competition to help win projects

NHAI targets to award 10,000kms in FY17e of which, we expect 50% to be through the EPC mode and ~40% through the hybrid annuity mode. Even though awarding through BOT toll mode is likely to be lower in FY17e at ~800kms, lack of competition would help IRB remain the frontrunner in taking up these projects.

Valuation

We have a Buy rating on IRB with a target price of INR282 per share. At the current market price, the company trades at 1.3x FY18e P/BV, with ~11.9% RoE.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	37,319	38,475	51,302	58,228	65,458
EBITDA(INRm)	17,537	22,117	26,606	30,828	35,668
PAT(INRm)	4,591	5,430	6,358	5,751	6,654
EPS (INR)	13.8	15.4	18.1	16.4	18.9
P/E(x)	14.8	13.3	11.3	12.5	10.8
P/BV(x)	1.9	1.7	1.5	1.4	1.2
EV/EBITDA(x)	9.6	8.2	7.8	7.3	6.5
RoE (%)	13.47	13.71	13.84	11.35	11.93

Source: Company, Antique

Valuation

We have valued IRB using the sum-of-the-parts (SoTP) method of valuation, considering two segments: construction and road BOT. The construction/road BOT businesses have been valued using the comparative P/E valuation and discounted cash flow (DCF) method, respectively. **We have valued the company's road BOT business using the DCF method at INR78 per share.**

BOT Valuation

Particulars	IRB's stake (%)	INRm	Value per share (INR)
Mumbai Pune	100	5,764	16
Nagar- Karmala- Tembhurni	100	(357)	(1)
Pune- Solapur	100	128	0
Pune - Nashik	100	646	2
Thane Ghodbunder	100	(404)	(1)
Bharuch - Surat	100	6,501	18
Surat-Dahisar	100	3,030	9
Kolhapur	100	1,781	5
Jaipur Deoli	100	6,119	17
Amravati Talegaon	100	1,200	3
Amritsar Pathankot	100	1,745	5
Tumkur Chitradurga Project	100	(1,037)	(3)
Ahmedabad Vadodara	100	(13)	(0)
MVR	74	136	0
Goa-Kundapur	100	(3,019)	(9)
Solapur Yedeshi	100	2,114	6
Yedeshi - Aurangabad	100	3,046	9
Total	**1,674**	**24,333**	**78**

Source: Company, Antique

Construction business

IRB has a strong order backlog of INR79bn (Ex-O&M) as on March 31, 2016, which is 2.6x TTM construction revenue. This healthy order backlog provides high revenue growth visibility for the next two years. We have valued the construction business by assigning a P/E multiple of 15x FY18e EPS of INR13.3. **Value per share for the construction business is INR200. Based on the FY18e target P/E multiple of 15x for the construction business, value of INR78 per share for the BOT business and INR4 per share for real estate at 1x PBV, we arrive at a target price of INR282 per share.**

Break-up of target price

Particulars	Method	Per share value
BOT (A)	DCF	78
Construction (B)	PER of 15x FY18E	200
Real Estate (C)	1x PBV	4
Target Price (A+B+C)		**282**

Source: Company, Antique

Project portfolio

Particulars	No of lanes	Stake (%)	Length (Kms)	Concessin Period (Yrs)	Project Cost (Rs bn)	Premium/ (Grant)	Equity (Rs bn)	Debt (Rs bn)
Operational								
Surat - Dahisar	6	100	239	12	25.4	Rev Share	7.9	17.4
Bharuch - Surat	6	100	65	15	14.7	(5.0)	2.0	7.7
Tumkur - Chitradurg	6	100	114	26	11.4	1.4	3.7	7.7
MVR Project	4	74	69	20	3.1	1.0	1.3	1.8
Talegaon - Amravati	4	100	67	22	8.9	2.2	2.0	4.8
Jaipur - Deoli	4	100	146	25	17.3	(3.1)	5.0	9.3
Pathankot - Amritsar	4	100	102	20	14.5	(1.3)	3.9	9.2
Mumbai - Pune	NH/4 + Exp way	100	206	15	13.0	-	1.2	11.8
Thane - Ghodbunder	-	100	15	15	2.5	-	0.3	2.2
IRDP Kolhapur	Integrated	100	50	30	4.3	(0.3)	1.5	2.5
Thane - Bhwandi	4	100	24	19	1.0	-	0.3	0.7
Pune - Nashik	4	100	30	18	0.7	-	0.0	0.7
Pune - Solapur	4	100	26	16	0.6	-	0.2	0.5
Ahmedabad - Vadodra	6	100	196	25	48.8	3.1	14.6	34.2
Total			**1,153**		**117**		**29**	**76**
Under Construction								
Goa Kundapur - Karnataka Border	4	100	190	28	26.4	(5.4)	7.0	14.1
Solapur - Yedeshi	4	100	99	29	14.9	(1.9)	3.3	9.8
Yedeshi - Aurangabad	4	100	189	26	31.8	(5.6)	8.6	18
Kaithal - Rajasthan	4	100	166	27	22.9	(2.3)	6.2	14.5
Agra - Etawah	6	100	125	24	26.5	0.8	7.5	19.0
Total			**768**		**122**	**24.8**	**33**	**75**
Sum Total			**1,921**		**240**		**62**	**151**

Source: Company, Antique

Table for toll collection across projects

(INRmn)	Kms	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	FY15	FY16	YoY (%)
Surat-Dahisar *	239	1,316	1,314	1,453	1,466	1,506	1,464	1,563	1,619	5,549	6,152	10.9
Mumbai-Pune	206	1,352	1,361	1,474	1,485	1,598	1,446	1,621	1,649	5,672	6,314	11.3
Tumkar-Chitradurga *	114	447	450	467	477	519	488	514	514	1,841	2,035	10.6
Bharuch-Surat	65	438	449	487	482	487	454	492	502	1,856	1,935	4.2
Thane-Bhiwandi Bypass 4 lane	24	181	170	188	194	196	189	201	209	733	795	8.4
Ommalur-Salem-Namakkal *	69	170	186	207	192	186	184	166	213	755	749	-0.8
Thane-Ghodbunder	15	74	99	111	112	99	74	77	79	396	329	-16.9
Pune-Nashik	30	56	62	62	63	65	67	67	69	243	268	10.2
Pune-Solapur	26	55	51	55	55	60	54	59	60	216	233	7.7
Ahmedabad-Vadodara*	196	360	350	423	434	435	368	527	856	1,567	2,186	39.5
Talegaon-Amravati	67	129	105	110	117	121	102	120	129	461	472	2.3
Jaipur-Deoli	146	220	238	268	288	329	263	295	319	1,014	1,206	18.9
Total	**1196**	**4,798**	**4,835**	**5,305**	**5,367**	**5,601**	**5,153**	**5,702**	**6,218**	**20,305**	**22,674**	**11.7**

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**37,319**	**38,475**	**51,302**	**58,228**	**65,458**
Op. Expenses	(19,782)	(16,358)	(24,696)	(27,400)	(29,790)
EBITDA	**17,537**	**22,117**	**26,606**	**30,828**	**35,668**
Depreciation	(4,771)	(7,070)	(8,533)	(10,779)	(12,035)
EBIT	**12,766**	**15,047**	**18,073**	**20,050**	**23,633**
Other income	1,214	1,130	1,239	1,055	1,058
Interest Exp.	(7,562)	(9,312)	(10,633)	(11,993)	(13,816)
Reported PBT	**6,419**	**6,865**	**8,679**	**9,112**	**10,875**
Tax	(1,823)	(1,441)	(2,316)	(3,364)	(4,219)
Reported PAT	**4,596**	**5,424**	**6,363**	**5,748**	**6,656**
Minority Int./Profit (loss) From Asso.	(5)	6	(4)	3	(2)
Net Profit	**4,591**	**5,430**	**6,358**	**5,751**	**6,654**
Adjusted PAT	**4,591**	**5,430**	**6,358**	**5,751**	**6,654**
Adjusted EPS (INR)	**13.8**	**15.4**	**18.1**	**16.4**	**18.9**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	3,324	3,515	3,515	3,515	3,515
Reserves & Surplus	32,283	40,094	44,758	49,552	54,974
Networth	**35,607**	**43,609**	**48,272**	**53,066**	**58,488**
Debt	110,841	125,762	150,567	164,794	169,353
Minority Interest	356	351	355	352	354
Net deferred Tax liabilities	143	170	148	148	148
Capital Employed	**146,947**	**169,890**	**199,342**	**218,361**	**228,343**
Gross Fixed Assets	105,855	344,227	386,686	392,036	402,386
Accumulated Depreciation	20,311	26,589	36,314	50,065	65,418
Capital work in progress	44,867	48,353	40,198	71,206	87,673
Net Fixed Assets	130,411	365,991	390,571	413,178	424,641
Goodwill	-	-	1,116	1,116	1,116
Investments	145	88	68	68	68
Non Current Investments	14	8	8	8	8
Current Investments	132	80	60	60	60
Current Assets, Loans & Adv.	**26,481**	**27,827**	**29,989**	**27,440**	**25,101**
Inventory	2,683	2,599	3,088	4,148	4,663
Debtors	55	49	1,037	160	179
Cash & Bank balance	15,012	15,798	15,527	12,275	9,398
Loans & advances and others	8,731	9,381	10,337	10,857	10,861
Current Liabilities & Prov.	**10,090**	**224,015**	**222,401**	**223,440**	**222,582**
Liabilities	7,203	221,826	220,713	221,112	220,238
Provisions	2,888	2,189	1,688	2,328	2,344
Net Current Assets	**16,391**	**(196,188)**	**(192,412)**	**(196,000)**	**(197,481)**
Application of Funds	**146,947**	**169,890**	**199,342**	**218,361**	**228,343**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	332	351	351	351	351
Diluted no. of shares (m)	332	351	351	351	351
BVPS (INR)	107.13	124.08	137.35	150.99	166.42
CEPS (INR)	-0.52	-4.68	-6.18	-14.31	-15.31

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**6,419**	**6,865**	**8,679**	**9,112**	**10,875**
Depreciation & amortisation	4,771	7,070	8,533	10,779	12,035
Interest expense	7,562	9,312	10,633	11,993	13,816
(Inc)/Dec in working capital	30,130	243,389	27,549	31,391	23,154
Tax paid	(1,938)	(1,415)	(2,337)	(3,364)	(4,219)
Less: Interest/Div. Income Received	(1,214)	(1,130)	(1,239)	(1,055)	(1,058)
Other operating Cash Flow	-	-	-	-	-
CF from operating activities	**45,729**	**264,091**	**51,818**	**58,856**	**54,604**
Capital expenditure	(30,850)	(241,858)	(34,305)	(36,358)	(26,816)
Inc/(Dec) in investments	475	57	20	-	-
Add: Interest/Div. Income Received	1,214	1,130	1,239	1,055	1,058
CF from investing activities	**(29,161)**	**(240,671)**	**(33,045)**	**(35,303)**	**(25,759)**
Inc/(Dec) in share capital	-	191	-	-	-
Inc/(Dec) in debt	23,080	14,921	24,805	14,228	4,558
Dividend Paid	(1,555)	(1,621)	(1,634)	(1,634)	(1,634)
Others	(37,791)	(36,125)	(42,215)	(39,399)	(34,647)
CF from financing activities	**(16,266)**	**(22,634)**	**(19,044)**	**(26,805)**	**(31,722)**
Net cash flow	**302**	**787**	**(271)**	**(3,252)**	**(2,877)**
Opening balance	14,710	15,012	15,798	15,527	12,275
Closing balance	**15,012**	**15,798**	**15,527**	**12,275**	**9,398**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	1.21	3.10	33.34	13.50	12.42
EBITDA(%)	7.37	26.12	20.30	15.87	15.70
Adj PAT(%)	-17.52	18.27	17.09	-9.54	15.69
Adj EPS(%)	-17.52	11.84	17.09	-9.54	15.69

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	14.8	13.3	11.3	12.5	10.8
P/BV	1.9	1.7	1.5	1.4	1.2
EV/EBITDA	9.56	8.22	7.78	7.28	6.50
EV/Sales	4.49	4.73	4.03	3.85	3.54
Dividend Yield (%)	1.8	1.8	1.8	1.8	1.8

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	13.47	13.71	13.84	11.35	11.93
RoCE (%)	10.41	10.21	10.46	10.11	11.05
Asset/T.O (x)	0.28	0.24	0.28	0.28	0.29
Net Debt/Equity (x)	2.69	2.52	2.80	2.87	2.73
EBIT/Interest (x)	-1.85	-1.74	-1.82	-1.76	-1.79

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	47.0	57.5	51.9	52.9	54.5
EBIT Margin(%)	34.2	39.1	35.2	34.4	36.1
PAT Margin(%)	11.91	13.71	12.10	9.70	10.00

Source: Company Antique

Reco	:	BUY
CMP	:	INR276
Target Price	:	INR355
Potential Return	:	29%

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Market data

Sensex	:	26,403
Sector	:	Infrastructure
Market Cap (INRbn)	:	47.4
Market Cap (USDbn)	:	0.697
O/S Shares (m)	:	171.5
52-wk HI/LO (INR)	:	370/197
Avg Daily Vol ('000)	:	39
Bloomberg	:	SADE IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	8.9	8.5	10.0
P/E(x)	30.9	32.5	27.5
P/BV(x)	3.2	3.0	2.7
EV/EBITDA(x)	22.1	19.2	16.7
Dividend Yield (%)	0.3	0.3	0.3

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(0)	1	(20)	(6)
Relative	1	(3)	(21)	(1)

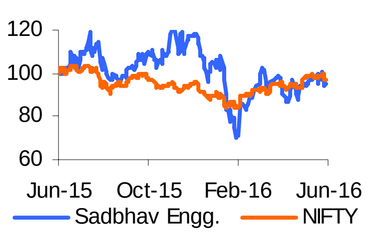
Source: Bloomberg

Shareholding pattern

Promoters	:	47%
Public	:	53%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

INITIATING COVERAGE

Sadbhav Engineering Limited

All engines set....ready to take off

With growth in the infrastructure sector being of utmost importance to the government, we have seen a recent pick-up in the awarding activity in road and irrigation segment which is evident from the increased FY17e budgetary allocation by 28% and 100% respectively. Sadbhav Engineering (SADE) being present in both these segments is likely to be one of the biggest beneficiaries. After three years of subdued awarding by NHAI, some pick-up in ordering has been seen in FY16 with 4,300kms (target 5,200kms) being awarded by NHAI and another ~5000kms was awarded by MoRTH which is encouraging. Awarding in expected to see a substantial jump in FY17e as an ambitious target for awarding has been set at 25,000kms (10,000kms by NHAI and 15,000kms by MoRTH). With the central govt increasing its budgetary allocation in irrigation to INR170bn and states like Telangana and Andhra Pradesh increasing focus on this segment, we expect ordering in this segment at INR1,000bn over the next three years. Also, the company is foraying into Mine Development and Operations (MDO) from just contract-based overburden removal it does currently for many mining companies. With limited competition in the MDO segment and bidding on 5-6 projects with a combined size of INR1100bn expected in FY17e, SADE is expected to be a beneficiary. Due to this, we expect the company's EPC order book to grow at 23.5% leading to revenue and profit to grow at a CAGR of 12% over FY16-18e. We initiate coverage with a Buy on the stock and a target price of INR355 per share.

Healthy order pipeline across segments

In the EPC business, SADE has a presence in three segments viz. roads, mining and irrigation with a total order backlog of INR83bn. Of this, roads comprise 55%, mining is 25% and 20% is irrigation. Of the roads segment, 87% are external orders and 13% are captive orders. After three years of subdued awarding over FY13-15, project awarding in roads is expected to improve in FY17e. In irrigation, the government has increased budgetary allocation to INR170bn for FY17e while orders from states are also expected to see an improvement. Telangana alone has increased its budgetary allocation by INR165bn to INR250bn. Even in the mining sector, increased production targets by Coal India Limited (CIL) from 539MT in FY16 to 1bn tonne by FY20 and another 400-500MT being produced by captive coal mines allocated/auctioned will lead to robust growth in mining order book.

Comfortable liquidity and strong execution; advantage over peers

In an industry known for delays and cost escalations, SADE has been a preferred EPC player due execution and timely completion of projects (Bijapur - Hungund completed 11 months ahead of schedule). This helps in keeping costs in check leading to higher returns.

With a debt-to-equity ratio of 0.7x in FY16, which is better than its peers, the company has more fiscal space to bag new projects. This is further expected to improve to 0.5x by FY18e as advances given to its subsidiary arm are repaid. We initiate coverage on the stock with a Buy rating and a target price of INR355 per share. At the current market price, the stock trades at 2.7x FY18e P/BV, with ~10.2% RoE.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	23,581	29,698	31,863	35,142	40,150
EBITDA(INRm)	2,489	3,002	3,257	3,676	4,207
PAT(INRm)	1,445	1,137	1,532	1,456	1,723
EPS (INR)	9.5	6.6	8.9	8.5	10.0
P/E(x)	29.0	41.6	30.9	32.5	27.5
P/BV(x)	4.4	3.5	3.2	3.0	2.7
EV/EBITDA(x)	28.2	23.7	22.1	19.2	16.7
RoE (%)	16.14	9.85	10.85	9.47	10.25

Source: Company, Antique

Valuations

The company's business can be broadly divided into two segments viz. EPC which forms a part of the standalone business and road BOTs which come under the listed subsidiary Sadbhav Infrastructure Limited (SIPL). We have valued the company using the Sum-of-the-parts method where we have valued the EPC arm using the PER method and the road BOTs have been valued using the discounted cash flow method of valuation.

EPC business

In the EPC business, SADE has a presence in three segments viz. roads, mining and irrigation. Of the order backlog of INR83bn, roads comprise 55%, mining comprises 25% and the remaining 20% is under irrigation. Of the 55% under the roads segment, 87% are external orders and the remaining 13% are captive BOT orders. We have valued the construction business by assigning a P/E multiple of 18x FY18e EPS of INR10.0 per share. Value per share of the construction business thus works out to INR185 per share.

Road BOT

SADE's road BOT business is held through a publically listed subsidiary Sadbhav Infrastructure Public Limited (SIPL). We have valued the BOT projects using the discounted cash flow method of valuation. We have valued SADE's 68% stake at INR170 per share.

BOT valuation table

Particulars	INRm	SEL's share (%)	Value per share (INR)
Bijapur - Hungund	6,984	68	28
Hyderabad - Yadgiri	3,200	68	13
Rohtak - Panipat	5,075	68	20
Aurangabad - Jalna	2,655	68	11
Ahmedabad Ring Road	3,586	68	14
Nagpur Seoni	501	68	2
Maharashtra Border Checkpost	14,042	68	56
Dhule Palesnar	6,588	68	26
Srinathji - Udaipur	4,785	68	19
Rajsmand - Bhilwada	2,920	68	12
Rohtak - Hisar	1,896	68	8
Mysore - Belari	453	68	2
Total ABL (A)	**52,684**		**209**
Less: Debt and other liabilities	(9,875)	68	(39)
Grand Total (A + B)	**42,808**		**170**

Source: Company, Antique

Break up of target price table

Particulars	Method	Per share value
Value of 66% stake in SIPL (A)	DCF	170
Construction (B)	PER of 18x FY18E	185
Target Price (A+B)		**355**

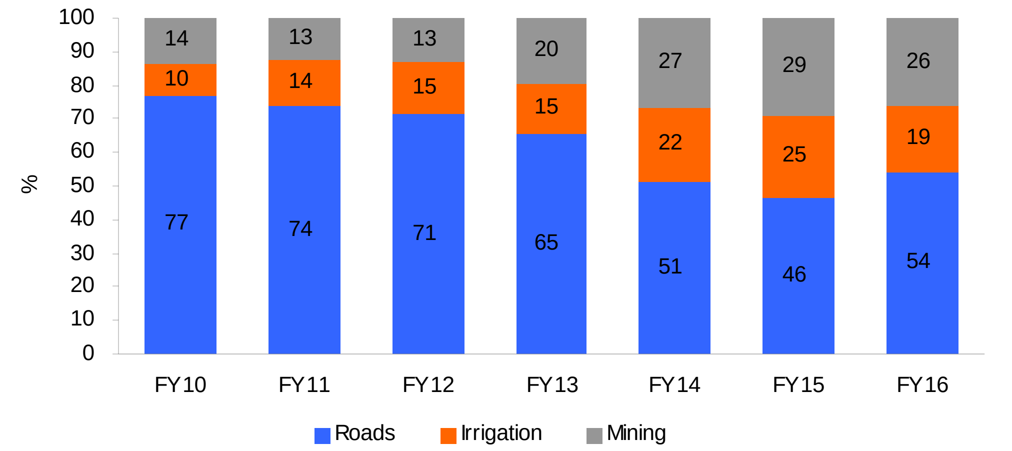
Source: Antique

Background

Established in 1988 by Mr. Vishnubhai Patel, SADE is today counted as one of the leading infrastructure companies in India. SADE currently focuses on construction of roads and highways, bridges, irrigation and mining. SADE has successfully constructed more than 4,200 lane km of roads and highways (both National and State Highways) while 3,500 Lane Km are under various stages of construction. SADE has done work for clients like NHAI, Sardar Sarovar Narmada Nigam, Coal India, GIPCL, GHCL, L&T, HCC, Punj Lloyd etc.

Roads have been the dominant segment for the company and its dominance continues as is visible from the current order backlog where roads constitute ~55%. Of this, 87% are road EPC contracts undertaken for external parties and the remaining are captive projects taken up for SIPL. The mining segment contributes ~25% to the order backlog and 20% is by irrigation. The company plans to foray into the MDO segment.

Break up of order backlog



Source: Company, Antique

SADE had incorporated SIPL, as a subsidiary, in 2007 as an asset holding company for road & other infrastructure BOT projects. SIPL currently has 12 BOT toll projects of which 8 are fully operational, 1 is partially operational and others are under various stages of construction. Over and above this, SIPL has recently been awarded four hybrid annuity projects

BOT projects in portfolio

Particulars	No of lanes	Stake (%)	Type	Length (Kms)	Concession Period (Yrs)	Project Cost (INRbn)	Appointed Date
Ahmedabad ring road (ARRIL) - Phase 2	4	100%	Toll	76	20	5.0	Jan-07
Aurangabad Jalna (AJTL)	4	100%	Toll	65	24	2.8	Feb-07
Nagpur Seoni (NSEL)	4	100%	Annuity	29	20	4.9	Nov-07
Bijapur Hungud (BHTPL)	4	77%	Toll	100	20	12.6	Sep-10
Dhule Palesner (DPTL)	6	100%	Toll	97	18	14.2	Dec-09
Hyderabad Yadegiri (HYTPL)	4	100%	Toll	35	23	4.8	Jul-10
Rohtak Panipat (RPTPL)	4	100%	Toll	81	25	12.1	Apr-11
22 Maharastra Border Checkpost (MBCPNL)	NA	100%	Toll	148	25	14.3	May-09
Sreenathji - Udaipur (SUTPL)	4	100%	Toll	83	27	11.5	Apr-13
Rajasmand Bhilwara (BRTPL)	4	100%	Toll	87	30	6.8	Oct-13
Mysore-Bellary (MBHPL)	4	74%	Annuity	193	10	8.1	Dec-14
Rohtak-Hissar (RHTPL)	4	100%	Toll	83	22	12.7	Dec-13
Rampur Kathgodam (Pkg-1)	4	100%	HAM	43	15	6.2	-
Rampur Kathgodam (Pkg-2)	4	100%	HAM	50	15	5.7	-
Bhavnagar - Talaja	4	100%	HAM	48	15	8.2	-
Una - Kodinar	4	100%	HAM	41	15	6.2	-
Total				**1259**		**136**	

Source: Company, Antique

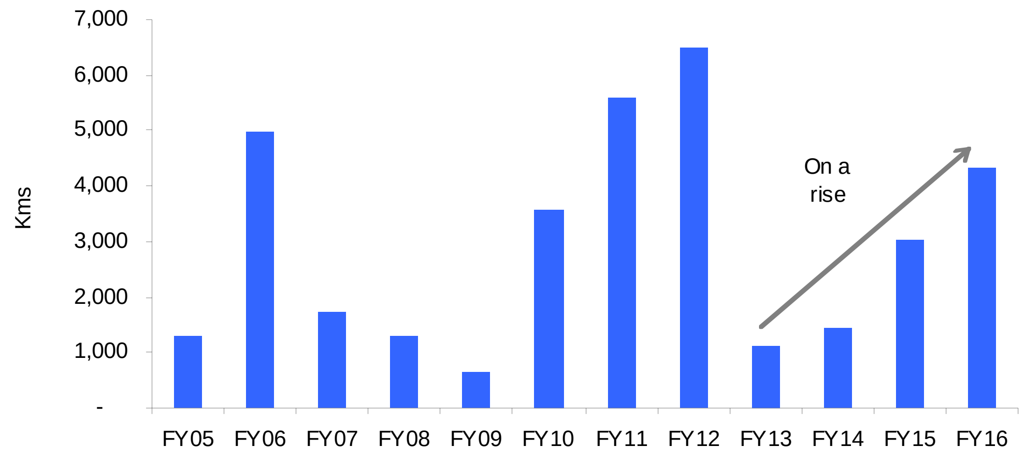
Investment Thesis

Roads sector to see a pickup in awarding

FY12 witnessed the highest road project awards (~6,500km) in any given year by NHAI, post which there was slowdown in FY13-14, with awarding at 1,100km in FY13 and ~1,400km in FY14. After almost three years of subdued awarding, the roads sector has seen a pick-up in FY16. As against the targeted 5,200 kms, NHAI has awarded 4,300kms in FY16. Over and above this, Ministry of Road Transport and Highways (MoRTH) has awarded another ~5,000kms in FY16. For FY17, the target for awards has been set at an ambitious 25,000kms of which NHAI is targeting awards of 10,000kms and another 15,000kms is expected to be awarded by MoRTH. We are of the view that the combined awards should improve to ~13,000 - 14,000 between NHAI and MoRTH in FY17e. We expect NHAI awards to stand at ~6,000kms.

The ordering by NHAI for FY16 has been skewed towards EPC with awards of ~3,000 kms of total 4,200kms (BOT awards at 800kms and Hybrid annuity at 351kms). We believe, FY17e will see a fairly large share of projects awarded through the hybrid route. Of the 6,000 expected, ~3,000-3,500kms is expected to be awarded through the EPC route, ~2000-2500 through the hybrid route and the remaining through BOT toll and annuity. SADE is expected to benefit from increased awarding from both as SADE would take up projects awarded through the EPC mode in its standalone capacity and through SIPL for hybrid annuity and BOT. The projects taken up through SIPL would also go to SADE for construction. We expect the company's order book to grow at a CAGR of 15% over FY15-18e.

NHAI awarding on a rise



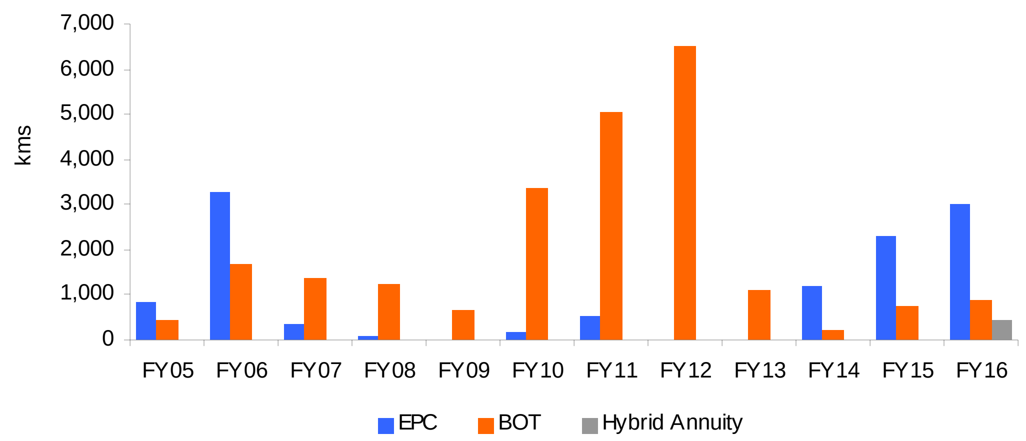
Source: Company, Antique

NHDP Progress

Phase (Kms)	Total Length	Already 4/6 laned	Under Implementation	Balance to be awarded
Golden Quadrilateral	5,846	5,846	-	-
NSEW	7,142	6,463	422	257
Phase III	11,809	6,923	3,244	1,642
Phase IV	13,203	2,234	5,207	5,762
Phase V	6,500	2,391	729	3,380
Phase VI	1,000	-	165	835
Phase VII	700	22	81	597
Others	2,280	2,030	250	-
Total opportunities in NHDP				**12,473**

Source: Company, Antique

SADE to benefit from award through any of the three modes



Source: Company, Antique

Increased focus on irrigation by centre and states

The Central government has increased its focus on irrigation by increasing allocation in budget 2016-17 with target spending of INR170bn in FY17 and INR865bn over the next five years. There is also focus to revive 89 projects which have been languishing. States like Telangana have also increased the irrigation spend to INR250bn (an increase of ~190%) for FY17. Irrigation segment accounts for 20% of SADE's order backlog and improvement in awarding will provide an opportunity to increase order back log. We expect the irrigation segment to continue to remain at ~20% of the order backlog and expect this segment's revenue to grow at 12% CAGR over FY16-18e.

Segmentwise planned expenditure

Planned expenditure segment wise	RE 2015-16	BE 2016-17	YoY (%)
Agriculture and rural development	65.00	76.00	16.9
Irrigation	85.00	250.00	194.1
Housing, Transport and Urban Development	72.00	71.00	(1.4)
Education, Medical, Social Security and Welfare	172.00	260.00	51.2
Industry & Energy	16.00	11.00	(31.3)
Others	2.00	4.00	100.0

Source: Antique

Moving into MDO - a single order can lead to substantial upside in earnings

Currently SADE is operating as an EPC contractor for over burden removal in coal mines, mostly owned by Coal India. As a move to grow in this segment, SADE is looking to enter the Mine Development Operator (MDO) segment which entails mining coal and other minerals. Currently, SADE is operating in coal mines in Mahanadi Coalfields of Coal India as an OB removal contractor and venturing into coal mining will auger well for its order book as Coal India looks to double its coal production from 534MT in FY16 to 1 billion tones by FY20e. MDO projects are long tenure projects for 20-25 years and the size for these projects ranges from INR100-300bn. Some of the upcoming bids for MDO include two bids from NTPC of INR250-300bn each in the state of Chhattisgarh and Orissa, one from Gujarat State Electricity Corporation of INR100bn, one from Karnataka Power Corporation Limited worth INR250bn and two small projects by Damodar Valley Corporation. Limited competition in this segment will help win more orders. A project win of INR250bn could increase the top-line by ~30%. Currently, we have not assumed any MDO projects in our estimates and even a single project win could increase our revenue estimates by 20-30%.

Execution remains at the core

SADE has over the years proven its superior execution capabilities time and again. The company is known for its consistent track record of timely execution. Even with a 15x increase in the company's scale of operations over the ten years, SADE's execution track record continues to remain one of the best in the industry. Timely / early execution ensures that problems like cost over runs and liquidated damages do not arise on projects and also helps the company qualify for bonus payments. Given the healthy order backlog along with proven execution capabilities, we expect revenues to grow at a CAGR of 12% over FY16-18e.

Focus on execution leading to early completion

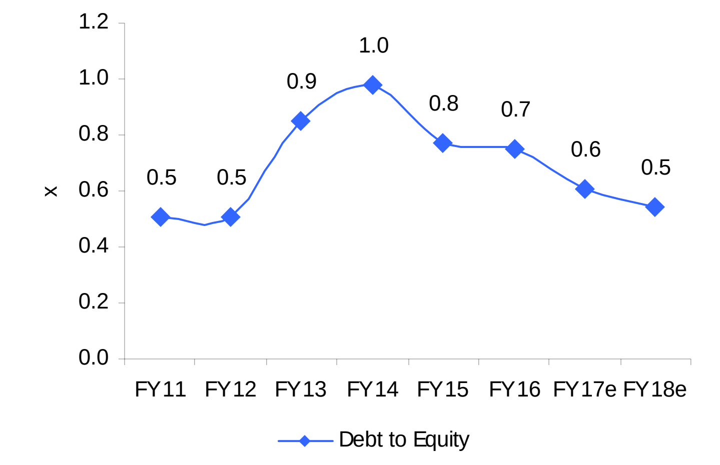
Project	Scheduled COD	Actual COD	Early by Months
Ahmedabad Ring Road	Nov-08	May-08	6
Aurangabad - Jalna	Nov-09	Jul-09	4
Bijapur - Hungund	Mar-13	Apr-12	11
Dhule - Palesnar	May-12	Feb-12	3

Source: Company, Antique

Comfortable leverage; No further infusion required for BOT

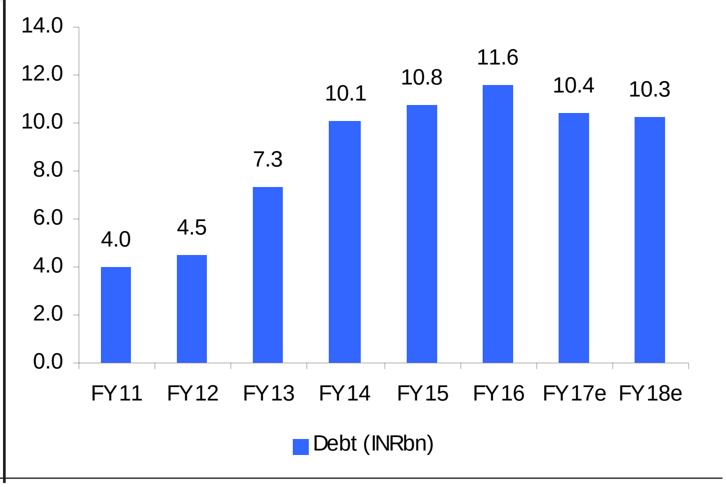
SADE's debt to equity ratio of 0.6x in FY16 is at comfortable levels as against its peers. With the listing of SIPL, no further infusion by SADE in the form of equity investments or loans and advances would be required for the BOT projects. Moreover, the loans and advances extended by SADE to SIPL to the tune of INR6bn is expected to be repaid in the coming quarters. These funds will partly be used for deleveraging and partly to meet working capital requirements considering the increase in order book. We expect net debt to equity to reduce for SADE to 0.5x in FY18e.

Debt to equity on a downtrend



Source: Company, Antique

Absolute debt to peak out in FY16

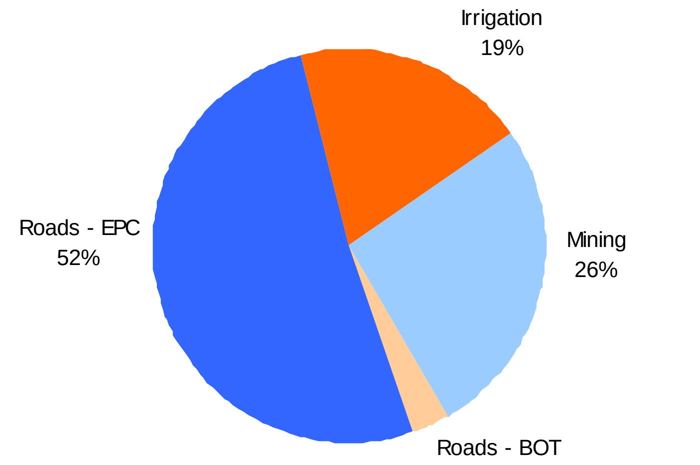


Source: Company, Antique

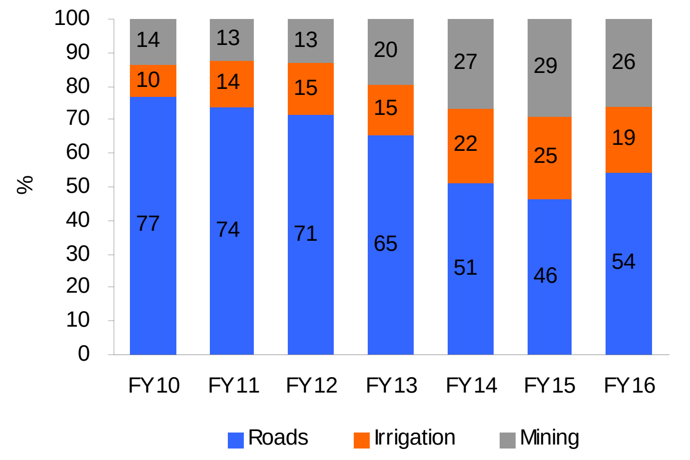
Diversified order backlog; present in all the right segments

SADE has a well diversified order backlog with roads constituting ~55%, mining ~25% and remaining under irrigation segment. Even in the roads segment, the company has ~87% from external orders and the remaining from captive BOT projects. Presence in multiple segments helps the company diversify its risks. We expect the order book in road, mining and irrigation to grow at a healthy rate 23.5% CAGR over FY16-18e.

Order backlog break-up - Roads to dominate; share of BOT to increase in FY17e



Source: Company, Antique



Source: Company, Antique

Value accruing in SIPL

The 68% stake held in SIPL contributed ~49% to the target price of INR342 per share. SIPL has been actively bidding for projects being awarded under the hybrid annuity mode and has already been successful in winning 4 hybrid annuity projects. Pending financial closure, we have not considered these four new wins in our valuations. The company is also looking at refinancing of debt on its 3 projects to improve the maturity profile and reduce the cost of debt. We have currently not built in any new projects or refinancing of debt.

Key Risks

Venturing into MDO for the first time

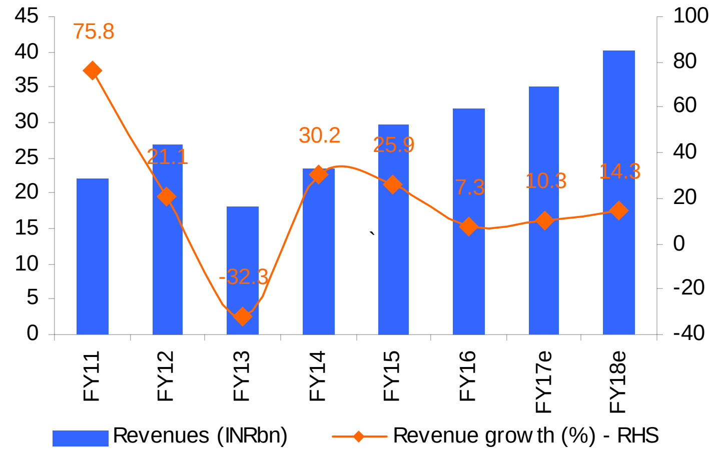
Even though SADE has taken up mining projects in the past, they have only been overburden removal projects. MDO projects are also typically capex heavy project and any delays will impact the return on investments for the company.

Delay in project awarding

Delay in project awarding remains one of the key risks for the company. The current order backlog of INR83bn is sufficient only to meet the current year revenue run-rate in FY17. For a growth, the company would require new order inflows in 1HFY17. Any delay in order inflows could lead to a downward revision to our numbers.

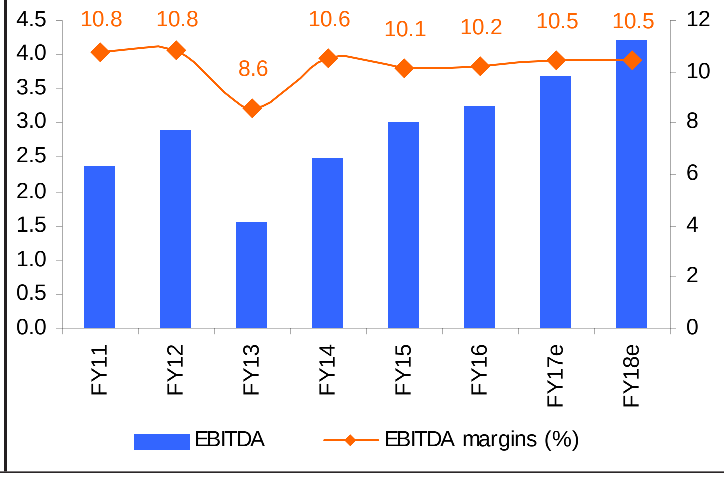
Financials charts

Revenue growth at ~12.5% CAGR over FY16-18e



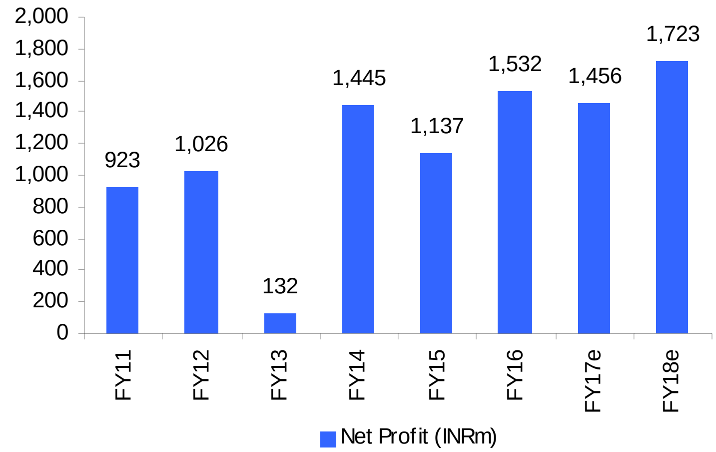
Source: Company, Antique

Stable margins



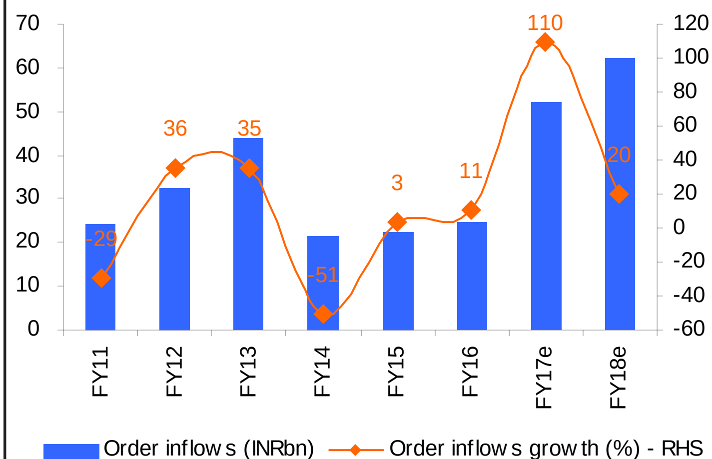
Source: Company, Antique

Net profit growth to pick-up from FY18e



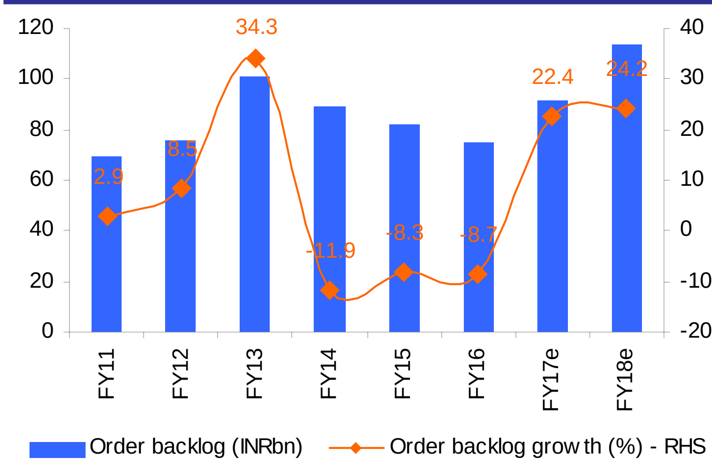
Source: Company, Antique

Order inflow to pickup in FY17e



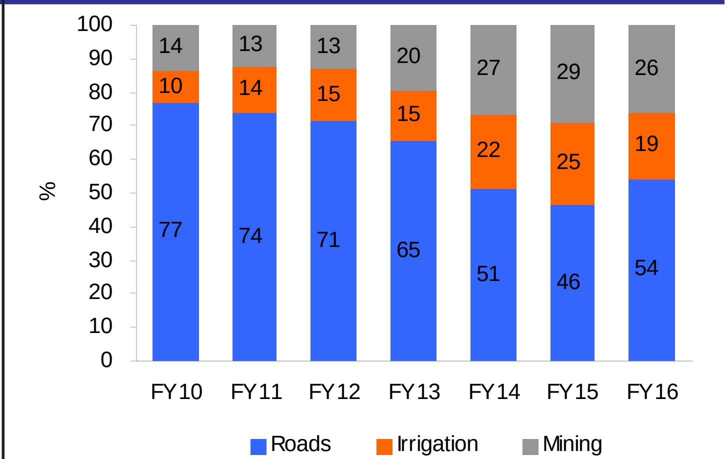
Source: Company, Antique

Order backlog to strengthen led by healthy inflows



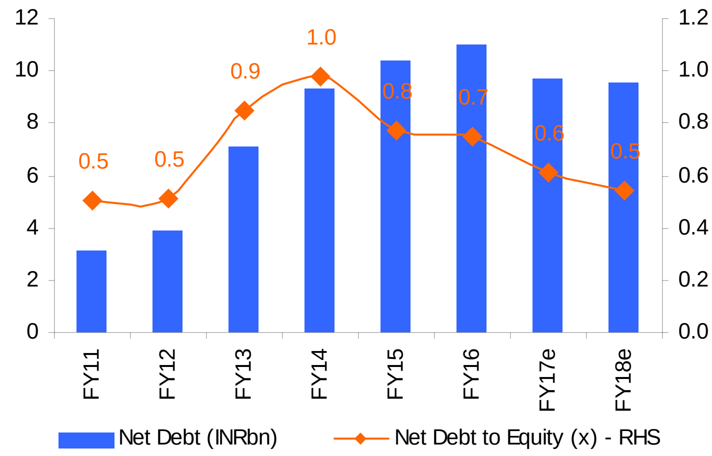
Source: Company, Antique

Order backlog to be dominated by roads



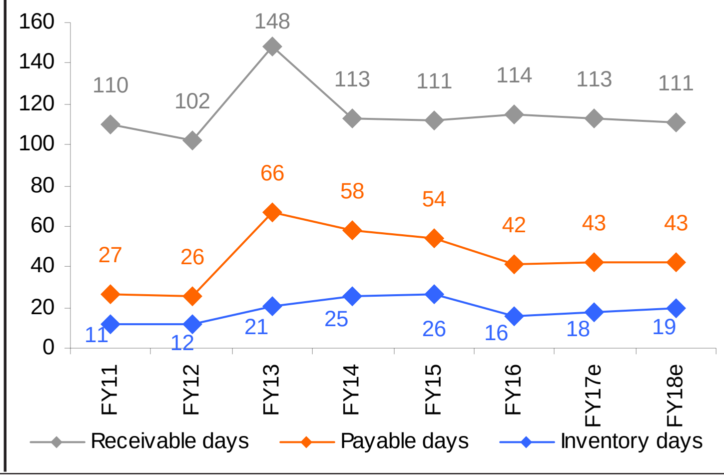
Source: Company, Antique

Net debt to equity on a down trend



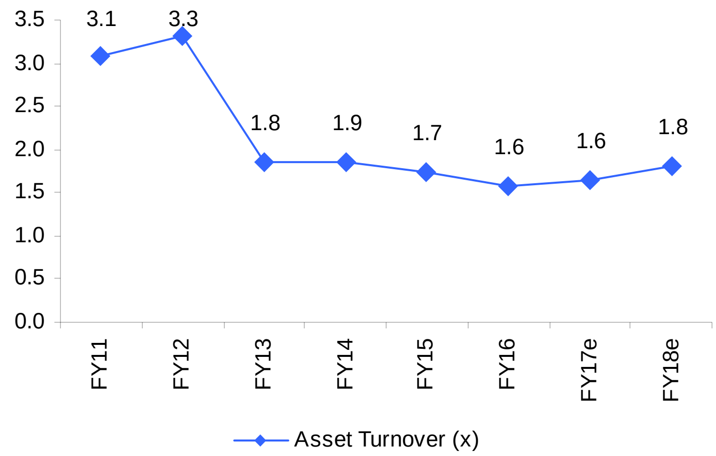
Source: Company, Antique

Efficiency ratios to remain stable



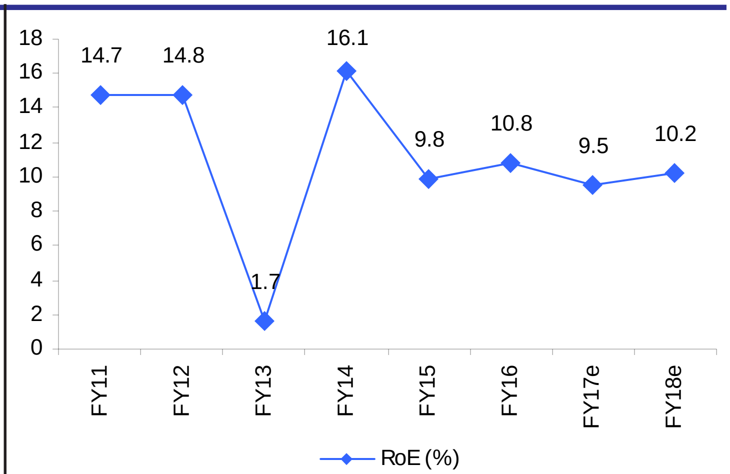
Source: Company, Antique

Asset turnover to see marginal improvement



Source: Company, Antique

RoE at ~10%



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**23,581**	**29,698**	**31,863**	**35,142**	**40,150**
Op. Expenses	(21,092)	(26,696)	(28,606)	(31,465)	(35,943)
EBITDA	**2,489**	**3,002**	**3,257**	**3,676**	**4,207**
Depreciation	(474)	(817)	(849)	(901)	(952)
EBIT	**2,015**	**2,185**	**2,407**	**2,775**	**3,255**
Other income	369	655	560	542	485
Interest Exp.	(1,181)	(1,382)	(1,178)	(1,249)	(1,262)
Extra Ordinary Items -gain/(loss)	(383)	-	(194)	-	-
Reported PBT	**819**	**1,459**	**1,596**	**2,068**	**2,478**
Tax	242	(321)	(259)	(612)	(755)
Reported PAT	**1,061**	**1,137**	**1,337**	**1,456**	**1,723**
Net Profit	**1,061**	**1,137**	**1,337**	**1,456**	**1,723**
Adjusted PAT	**1,445**	**1,137**	**1,532**	**1,456**	**1,723**
Adjusted EPS (INR)	**9.5**	**6.6**	**8.9**	**8.5**	**10.0**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	152	172	172	172	172
Reserves & Surplus	9,421	13,349	14,542	15,854	17,433
Networth	**9,572**	**13,521**	**14,714**	**16,026**	**17,605**
Debt	10,097	10,764	11,603	10,444	10,266
Net deferred Tax liabilities	357	244	232	232	232
Capital Employed	**20,026**	**24,528**	**26,548**	**26,701**	**28,102**
Gross Fixed Assets	7,263	8,511	9,554	10,754	12,254
Accumulated Depreciation	2,282	3,155	4,004	4,905	5,857
Net Fixed Assets	**4,982**	**5,356**	**5,550**	**5,849**	**6,397**
Investments	5,210	5,313	5,278	5,278	5,278
Non Current Investments	5,210	5,313	5,278	5,278	5,278
Current Assets, Loans & Adv	**20,062**	**24,581**	**25,579**	**26,925**	**29,237**
Inventory	1,638	2,134	1,406	1,740	2,121
Debtors	7,319	9,067	9,994	10,894	12,246
Cash & Bank balance	762	351	589	701	725
Loans & advances and others	10,344	13,029	13,591	13,589	14,145
Current Liabilities & Prov	**10,228**	**10,722**	**9,859**	**11,351**	**12,810**
Liabilities	9,009	9,102	8,559	9,694	11,002
Provisions	1,219	1,620	1,300	1,657	1,808
Net Current Assets	**9,834**	**13,859**	**15,720**	**15,574**	**16,427**
Application of Funds	**20,026**	**24,528**	**26,548**	**26,701**	**28,102**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	152	172	172	172	172
Diluted no. of shares (m)	152	172	172	172	172
BVPS (INR)	63.12	78.84	85.79	93.44	102.65
CEPS (INR)	3.87	1.87	2.85	3.23	4.50

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	10.6	10.1	10.2	10.5	10.5
EBIT Margin(%)	8.5	7.4	7.6	7.9	8.1
PAT Margin(%)	6.03	3.75	4.72	4.08	4.24

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Standalone tonnage					
Order Inflows (INRm)	21,551	22,264	24,733	51,939	62,327
Order backlog (INRm)	89,407	82,000	74,870	91,667	113,845
Execution rate	26	36	43	38	35

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**819**	**1,459**	**1,596**	**2,068**	**2,478**
Depreciation & amortisation	474	817	849	901	952
Interest expense	1,181	1,382	1,178	1,249	1,262
(Inc)/Dec in working capital	(1,596)	(2,912)	(921)	1,436	574
Tax paid	282	(434)	(271)	(612)	(755)
Less: Int/Dividend Income Received	(369)	(655)	(560)	(542)	(485)
Other operating Cash Flow	(383)	-	(194)	-	-
CF from operating activities	**408**	**(344)**	**1,676**	**4,500**	**4,026**
Capital expenditure	(2,115)	(1,248)	(1,043)	(1,200)	(1,500)
Inc/(Dec) in investments	174	(103)	35	0	0
Add: Int/Dividend Income Received	369	655	560	542	485
CF from investing activities	**(1,572)**	**(695)**	**(448)**	**(658)**	**(1,015)**
Inc/(Dec) in share capital	1	20	-	-	-
Inc/(Dec) in debt	2,793	666	839	(1,159)	(178)
Dividend Paid	(125)	(145)	(144)	(144)	(144)
Others	(961)	86	(1,685)	(2,427)	(2,665)
CF from financing activities	**1,708**	**628**	**(990)**	**(3,730)**	**(2,987)**
Net cash flow	**544**	**(411)**	**238**	**113**	**24**
Opening balance	218	762	351	589	701
Closing balance	**762**	**351**	**589**	**701**	**725**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	30.21	25.94	7.29	10.29	14.25
EBITDA(%)	59.77	20.63	8.47	12.89	14.43
Adj PAT(%)	996.84	-21.27	34.67	-4.94	18.36
Adj EPS(%)	991.66	-30.38	34.67	-4.94	18.36

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	29.0	41.6	30.9	32.5	27.5
P/BV	4.4	3.5	3.2	3.0	2.7
EV/EBITDA	28.22	23.75	22.08	19.21	16.74
EV/Sales	2.98	2.40	2.26	2.01	1.75
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	16.14	9.85	10.85	9.47	10.25
RoCE (%)	13.25	12.75	11.62	12.46	13.65
Asset/T.O (x)	1.86	1.75	1.57	1.65	1.81
Net Debt/Equity (x)	0.98	0.77	0.75	0.61	0.54
EBIT/Interest (x)	-2.02	-2.06	-2.52	-2.66	-2.96

Source: Company Antique

INITIATING COVERAGE

NCC Limited

Diversified play; deleveraging remain the key

Reco	:	BUY
CMP	:	INR72
Target Price	:	INR106
Potential Return	:	48%

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

With the increased focus of the Govt on infrastructure, the budgetary allocation for important segments like roads and highways, irrigation and railways have seen an increase of 27%, 100%, 17% respectively. NCC being one of the largest construction players with a presence across nine segments with the largest being buildings and water & environment which contribute 34% and 24% to revenues and 42% and 28% to the order book respectively. With higher order inflows expected at INR92bn in FY17e and INR 106bn in FY18e, we see NCC to be a key beneficiary due to its superior execution skills. We expect EBITDA to grow at 8% CAGR over FY16-18e. We initiate coverage on the stock with a Buy rating and target price of INR106 per share.

Market data

Sensex	:	26,403
Sector	:	Infrastructure
Market Cap (INRbn)	:	39.9
Market Cap (USDbn)	:	0.587
O/S Shares (m)	:	555.9
52-wk HI/LO (INR)	:	89/53
Avg Daily Vol ('000)	:	2,987
Bloomberg	:	NJCC IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	4.4	4.8	6.6
P/E(x)	16.4	14.8	10.8
P/BV(x)	1.2	1.1	1.0
EV/EBITDA(x)	10.3	9.4	8.5
Dividend Yield (%)	0.6	0.6	0.6

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(0)	(8)	(8)	(12)
Relative	0	(11)	(10)	(7)

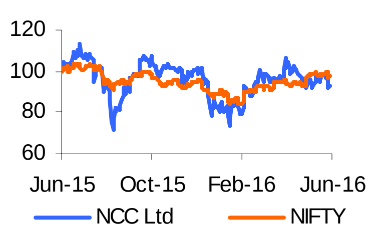
Source: Bloomberg

Shareholding pattern

Promoters	:	20%
Public	:	80%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

Presence in many segments helps in diversification

NCC has over the years diversified into nine segments viz. Buildings, Roads, Water and Environment, Electrical, Irrigation, Power, Metals, Mining and Railways which helps in reducing dependence on any one sector. It has also expanded its footprints outside India by taking up international projects (the latest being the INR23bn Batinah road project). The major segments for the company have been buildings and water & environment contributing 34% and 24% to the revenue. We expect the growth to come from roads and irrigation segments with its share increasing to 15% and 8% over the next 3 years. Although NCC has presence internationally, we expect the Indian revenue to grow at a higher rate due to increased govt spending.

Margins see an uptrend; divestment of assets to keep leverage in check

EBITDA margins have witnessed a continuous improvement from a low 6.6% in FY14 to 8.9% in FY16. Going forward, the EBITDA margins are expected to remain stable in the range of 8.5-9.5%.

NCC has been one of the few players successful in monetization of operational assets. The company has already divested its stake in two road BOT projects viz. Western UP and Bangalore elevated for which they received INR2bn as against the initial investment of INR2.6bn. These inflows will aid in reducing the leverage at INR17bn. As we do not expect any further increase in debt, net debt to equity to remain at 0.6x over FY16-18e.

Order inflows remain the key to future growth; initiate with a Buy

NCC has seen its order backlog decline from INR208bn in 3QFY16 to INR176bn (2.2x TTM net sales) as on 31 March 2015 as the pace of order inflows remains lower than execution. Given the expected increase in awarding, we expect order backlog to increase at a 5% CAGR between FY16-18e. At the current price of INR72, the stock is trading at 11x FY18e PER We initiate with a Buy rating on the stock.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	61,173	82,969	83,252	85,573	94,268
EBITDA(INRm)	4,049	6,493	7,372	7,801	8,573
PAT(INRm)	405	1,118	2,431	2,693	3,681
EPS (INR)	1.6	2.0	4.4	4.8	6.6
P/E(x)	45.4	35.7	16.4	14.8	10.8
P/BV(x)	0.7	1.2	1.2	1.1	1.0
EV/EBITDA(x)	20.5	12.0	10.3	9.4	8.5
RoE (%)	1.62	3.91	7.35	7.63	9.63

Source: Company, Antique

Valuations

We have used the sum of the parts method considering the company's presence in more than one business. We have valued the EPC business using comparative P/E valuations and the road BOT and real estate business based on equity invested. Given the losses in the international business, we have assigned a negative value to the international business.

Construction business

NCC has an order backlog of INR177bn (2.1x TTM net sales) as on 31 March 2015. We have assumed an uptick in new order inflows for FY17/18 at INR92bn and INR106bn respectively. We have valued the construction business by assigning a P/E multiple of 15x FY18e EPS of INR6.6 per share. Hence, value per share for the construction business comes to INR99 per share.

BOT Business

Of the four road projects, the company has already divested its stake in two road projects viz. Western UP and Bangalore Elevated. The company has also divested its stake in the two power plants. We have assigned a value of INR1 per share basis 0.5x equity invested for the remaining two road projects.

Real Estate

The company has also made investments in the real estate business through its 80% subsidiary NCC Urban Infrastructure. We have valued the investment in real estate at 0.5x equity invested to arrive at a value of INR6 per share.

Based on 15x FY18e EPS for EPC business, 0.5x equity invested for BOT business and investment for real estate business, we arrive at a target price of INR106 per share for the company.

Break up of target price

Particulars	Method	Per share value
Standalone EPC (A)	PER of 15x FY18E	99
International Biz (B)		(1)
Roads BOT (C)	0.5x Invetments	1
Real estate (D)	0.5x Invetments	7
Target Price (A+B+C+D)		**106**

Source: Company, Antique

Background

Incorporated over three decades back by Dr. AVS Raju, NCC has grown from a pure construction company to one of the biggest construction and infrastructure player in the country. Over the years, the company has diversified its presence into nine segments viz. buildings, roads, water & environment, railways, electrical, irrigation, metals, power and mining. Not only has the company diversified in different business segments, but also taken up international projects. The company has also forayed into road BOT projects and had also developed a 1,320MW thermal and a 280MW hydro power plant. NCC has also forayed into the real estate business through its subsidiary NCC Urban Infrastructure ltd.

EPC segment

NCC, one of the largest EPC players in the country, has a diversified presence in the infrastructure space. Of the EPC segment order backlog of INR176bn, buildings account for the largest chunk at ~40%, followed by water, environment and railways at ~26% and international operations at ~14%.

Road BOT

In the road BOT segment, the company has four roads under its portfolio. Of these, three are BOT toll projects and one is an annuity project. The company has recently divested its stake in two of the toll projects viz. Bangalore elevated and Western UP.

Road BOT

Projects	Partners	NCC stake (%)	Length (kms)	Project Cost (INRm)	Equity - NCC share (INRm)
OB Infra	KMC	64%	63	5,880	940
Western UP Tollway	IL&FS E&C / Gayatri	51%	79	7,545	1,715
Pondicherry - Tindivanam	IL&FS E&C / Terra	48%	36	3,619	556
Banglore Elev. Tollway	IL&FS E&C / Soma	38%	50	9,903	1,597

Source: Company, Antique

Power projects

The company had developed two power projects, a 1,320MW coal based project in Andhra Pradesh and a 100MW hydro project in Himachal Pradesh. The company had invested INR5bn and INR1.5bn for stake in the two projects which it has sold to SembCorp and TAQA at INR5.5bn and INR1.5bn respectively.

Real Estate

NCC undertakes its work in the real estate segment through its subsidiary, NCC Urban Infrastructure ltd. The company has 8 ongoing projects and a total of 17 projects in the planning stage. The company has a total of 245 acres under this subsidiary.

Investment thesis

Governments focus on infrastructure creation augers well

With the increased focus of the govt on infrastructure, the budgetary allocation for important segments like roads and highways, irrigation and railways have seen an increase of 27%, 100%, 17% respectively. NCC being one of the largest construction players with a presence across nine segments with the largest being buildings and water & environment which contribute 34% and 24% to revenues and 42% and 28% to the order book respectively. With higher ordering expected at INR92bn in FY17e and INR106bn in FY18e, we see NCC to be a key beneficiary due to its superior execution skills.

One of the largest players in EPC with an experience of over three decades

NCC is one of the largest players in the construction space with over three decades of experience. The company has in the past constructed landmark projects like Raipur cricket stadium with a seating capacity of 60,000 and 8 lane expressway as outer ring road in Hyderabad. The company has also executed large ticket size projects like the 1,320 MW NCC thermal power plant and is also currently executing the INR23bn Batinah expressway road project. Given their past experience, the company has a good chance of winning large size orders.

Key projects executed by NCC

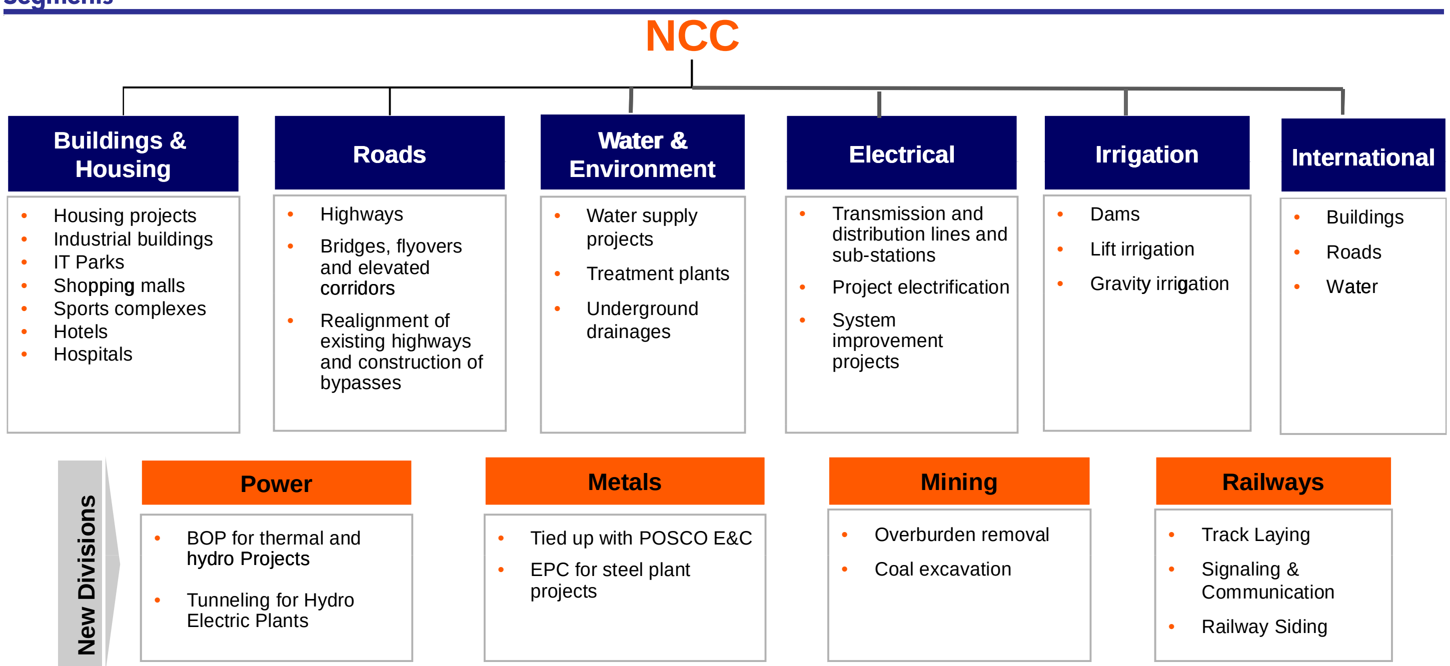
Awarding Authority / Projects	State	Amount (INRmn)
India		
UP Expressways	Uttar Pradesh	16,748
Bangalore Metro Rail Corp	Karnataka	5,089
UP Avas Vikas Parishad	Uttar Pradesh	5,253
Telangana Drinking Water Supply	Telangana	14,447
Hyderabad Metropolitan Water Supply	Hyderabad	5,329
International		
DEWA Water Pipeline	Dubai	7,054
718 Villas in Quriyat City	Muscat	8,944
Batinah expressway road project	Muscat	22,876

Source: Company, Antique

Diversified play....reduces dependence on any one sector

NCC has over the years diversified into nine segments viz. Buildings, Roads, Water and Environment, Electrical, Irrigation, Power, Metals, Mining and Railways which helps in reducing dependence on any one sector. It has also expanded its footprints outside India by taking up international projects (the latest being the INR23bn Batinah road project).

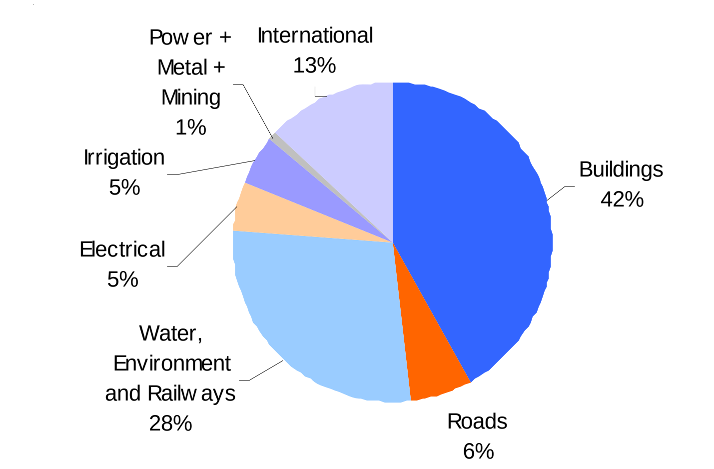
Segments



Source: Company, Antique

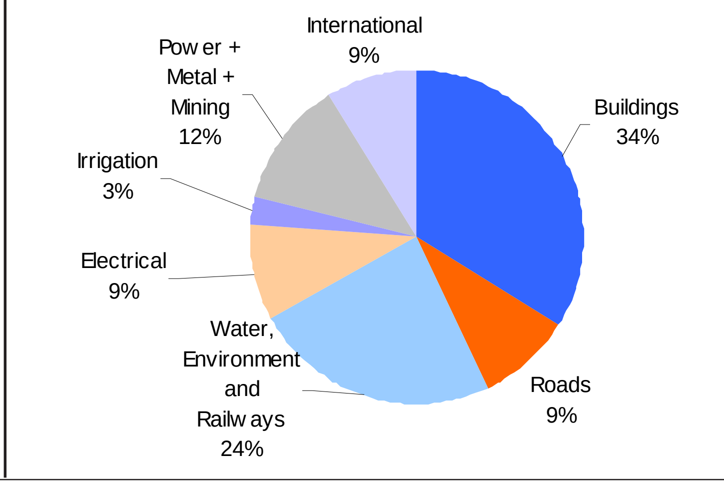
The major segments for the company have been buildings and water & environment contributing 34% and 24% to the revenue. We expect the growth to come from roads and irrigation segments with its share increasing to 15% and 8% over the next 3 years. Although NCC has presence internationally, we expect the Indian revenue to grow at a higher rate due to increased govt spending.

Order book break-up



Source: Company, Antique

Revenue break-up

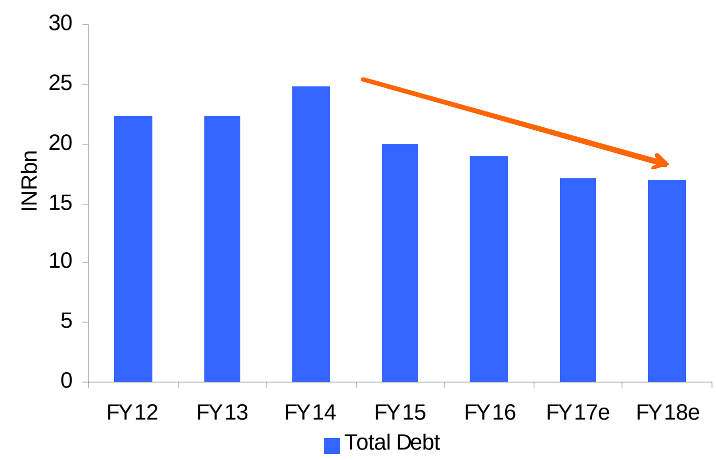


Source: Company, Antique

Divestment of assets to help reduce leverage

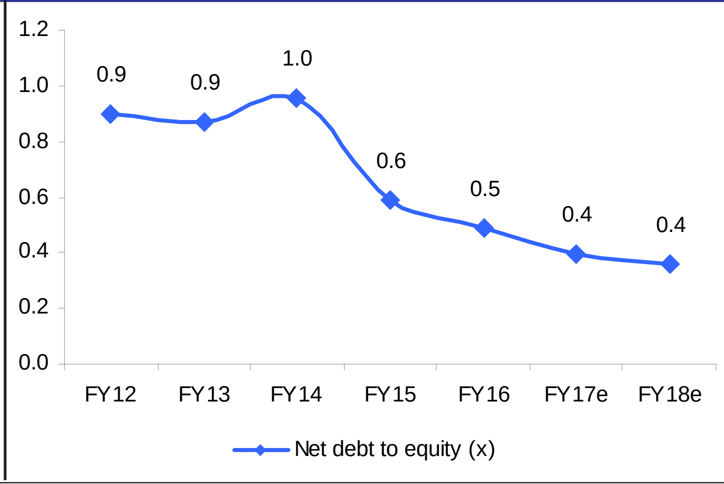
NCC has been one of the few players successful in monetization of operational assets. The company has already divested its stake in two road BOT projects viz. Western UP and Bangalore elevated for which they are to receive INR2bn as against the initial investment of INR2.6bn. The company has decided to bid for projects awarded through the hybrid annuity model. The proceeds from divestment of stake in the two road projects i.e. ~INR2bn would be utilized towards funding of equity requirement for the projects taken up through the hybrid annuity model. The proceeds from the stake sale in the 1,320MW power project would be utilized to reduce the standalone debt and towards working capital. Overall, these divestments would reduce the consolidated debt levels by ~INR19bn to INR17bn. With this the net debt to equity ratio is expected to stand at 0.4x FY18e.

Debt on a declining trajectory



Source: Company, Antique

Net debt to equity gradually reducing



Source: Company, Antique

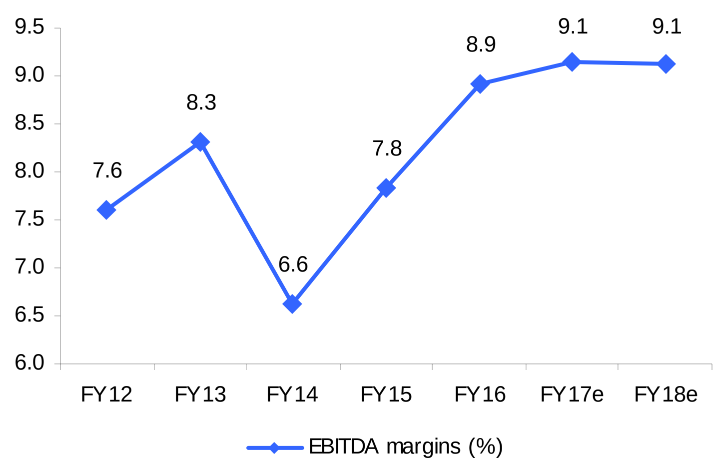
Claims realization to be a bonus

NCC has filed claims of INR10bn from various authorities for cost escalations owing to delays or change in scope of work. The company is aggressively pursuing these claims. Claims of INR4bn is on account of the recently divested Western UP project. As a part of the stake sale, any proceeds from claims would come to NCC. Receipt of claims augers well and would aid in the reduction of debt. We have not factored in any receipts against claims in our valuations owing to lack of clarity on the amount and timelines.

Margins witnessing an improvement

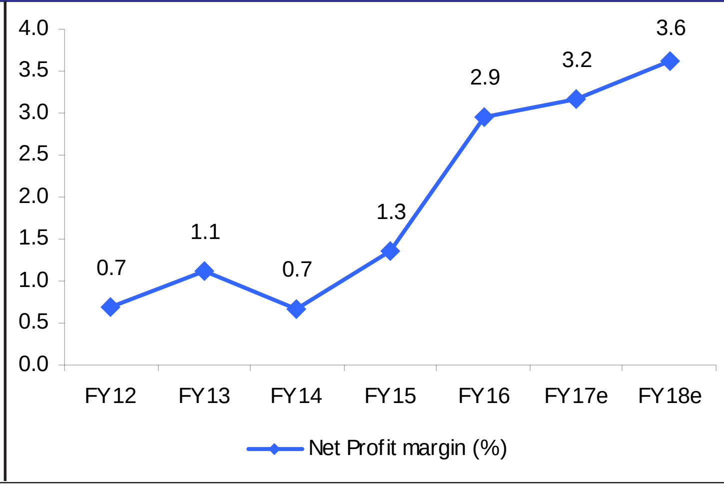
EBITDA margins have witnessed a continuous improvement from a low 6.6% in FY14 to 8.9% in FY16. Focus on speedy execution along with most legacy orders being already executed has led to improvement in margins. Going forward, the EBITDA margins are expected to remain stable in the range of 9.0-9.5%. Improving execution along with stable EBITDA margins and reducing interest payments to lead to a significant improvement in net profit margins from 0.7% in FY14 to 3.6% in FY18e.

EBITDA margins - stable at over 9.0% in FY17/18e



Source: Company, Antique

Net profit margin to surge to 3.6% in FY18e

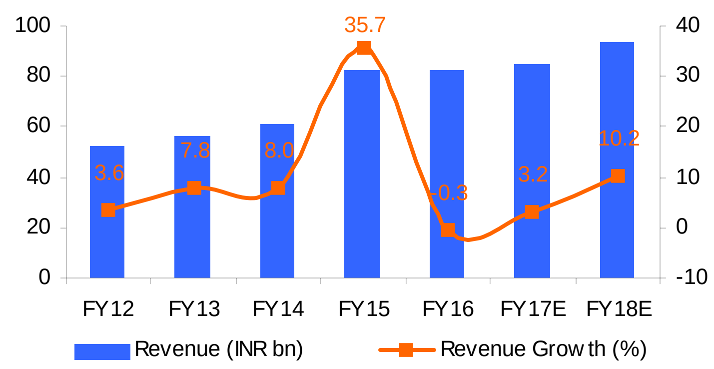


Source: Company, Antique

Inflows from real estate business

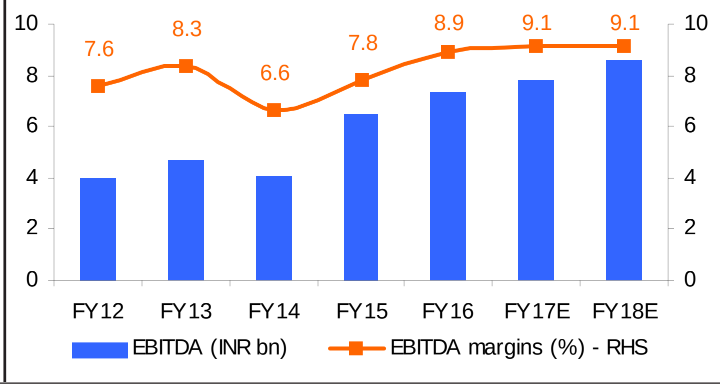
The company has invested INR1.2bn and has further extended loans and advances to the real estate arm taking the total investment in real estate arm to INR12bn. As projects launch, these loans and advances are expected to be repaid soon. Repayment of loans and advances from these subsidiaries would aid in further reduction in debt / improve cash flows for the standalone business.

Revenue growth to pick up



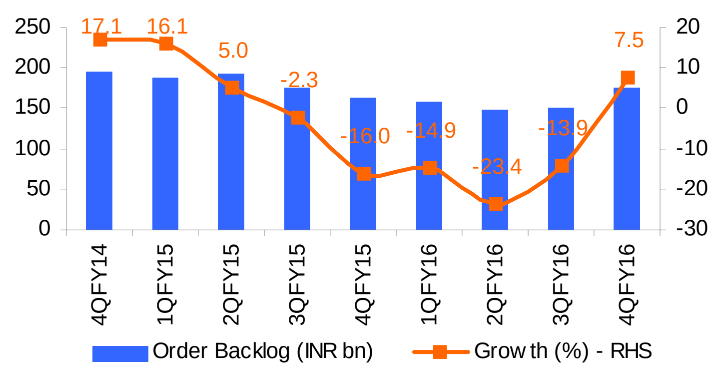
Source: Company, Antique

Margins improve from 6.6% to 9.1%



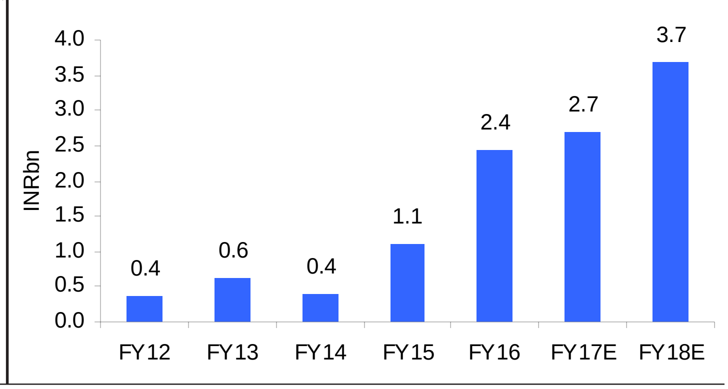
Source: Company, Antique

Order backlog sees a gradual improvement



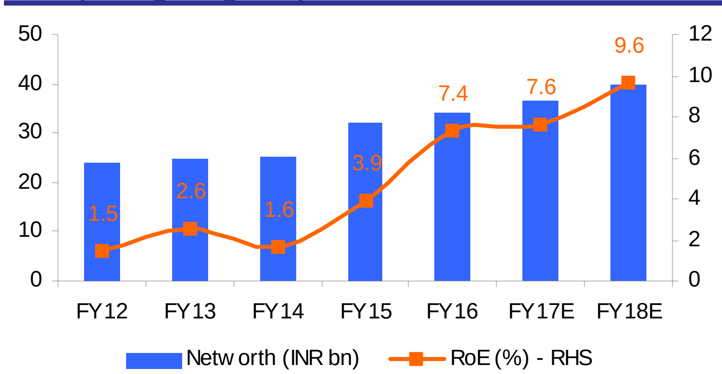
Source: Company, Antique

Significant improvement in profit performance



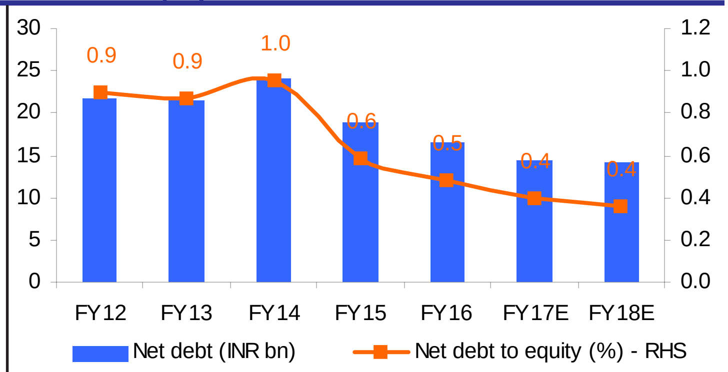
Source: Company, Antique

RoE improving along with profit



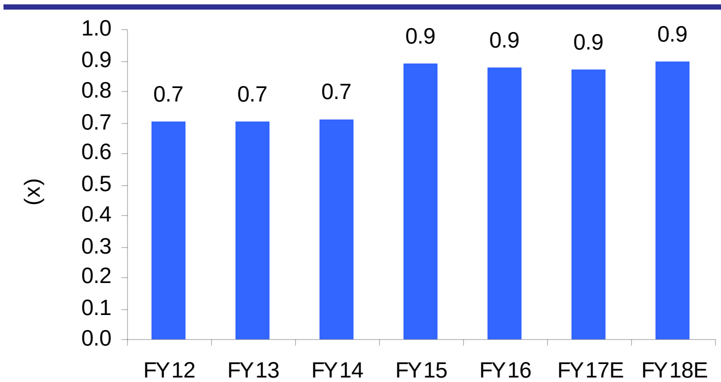
Source: Company, Antique

Net debt to equity on a downtrend



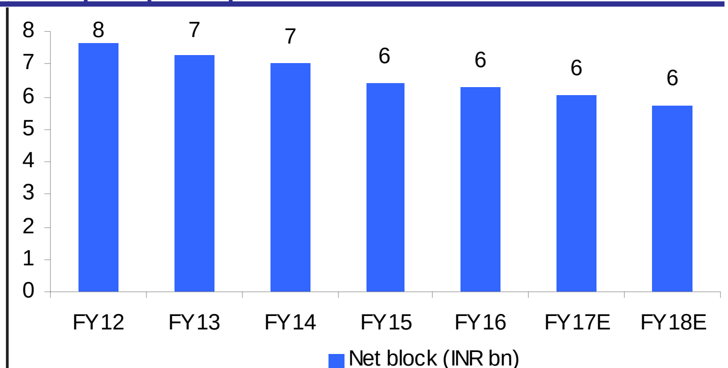
Source: Company, Antique

Asset turnover remains stable



Source: Company, Antique

No major capex requirement



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**61,173**	**82,969**	**83,252**	**85,573**	**94,268**
Op. Expenses	(57,124)	(76,476)	(75,879)	(77,771)	(85,694)
EBITDA	**4,049**	**6,493**	**7,372**	**7,801**	**8,573**
Depreciation	(895)	(1,118)	(1,100)	(1,170)	(1,235)
EBIT	**3,153**	**5,375**	**6,273**	**6,632**	**7,338**
Other income	1,535	1,951	1,965	1,885	1,885
Interest Exp.	(4,660)	(5,736)	(5,076)	(4,498)	(3,729)
Reported PBT	**29**	**1,590**	**3,162**	**4,019**	**5,494**
Tax	376	(472)	(731)	(1,326)	(1,813)
Reported PAT	**405**	**1,118**	**2,431**	**2,693**	**3,681**
Net Profit	**405**	**1,118**	**2,431**	**2,693**	**3,681**
Adjusted PAT	**405**	**1,118**	**2,431**	**2,693**	**3,681**
Adjusted EPS (INR)	**1.6**	**2.0**	**4.4**	**4.8**	**6.6**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	513	1,112	1,112	1,112	1,112
Reserves & Surplus	24,690	30,932	32,977	35,402	38,815
Networth	25,203	32,045	34,089	36,514	39,928
Debt	24,746	19,951	18,855	17,018	16,937
Net deferred Tax liabilities	125	142	(208)	(208)	(208)
Capital Employed	**50,074**	**52,138**	**52,736**	**53,324**	**56,657**
Capital work in progress	104	79	79	79	79
Net Fixed Assets	7,020	6,401	6,274	6,004	5,719
Investments	11,643	11,566	10,311	10,311	10,311
Non Current Investments	11,643	11,566	10,311	10,311	10,311
Current Assets, Loans & Adv.	**72,612**	**76,365**	**77,653**	**84,971**	**92,253**
Inventory	15,988	18,031	16,568	21,128	23,253
Debtors	13,410	13,632	13,245	14,536	16,787
Cash & Bank balance	688	1,129	2,271	2,577	2,757
Loans & advances and others	42,526	43,572	45,569	46,731	49,455
Current Liabilities & Prov.	**41,201**	**42,194**	**41,501**	**47,962**	**51,626**
Liabilities	40,937	41,911	41,192	47,611	51,239
Provisions	264	282	310	351	387
Net Current Assets	**31,411**	**34,171**	**36,152**	**37,009**	**40,627**
Application of Funds	**50,074**	**52,138**	**52,736**	**53,324**	**56,657**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	257	556	556	556	556
Diluted no. of shares (m)	257	556	556	556	556
BVPS (INR)	98.22	57.62	61.29	65.65	71.79
CEPS (INR)	5.07	4.02	6.35	6.94	8.84
DPS (INR)	0.20	0.40	0.40	0.40	0.40

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	6.6	7.8	8.9	9.1	9.1
EBIT Margin(%)	5.2	6.5	7.5	7.7	7.8
PAT Margin(%)	0.65	1.32	2.85	3.08	3.83

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**29**	**1,590**	**3,162**	**4,019**	**5,494**
Depreciation & amortisation	895	1,118	1,100	1,170	1,235
Interest expense	4,660	5,736	5,076	4,498	3,729
(Inc)/Dec in working capital	(2,544)	(943)	1,420	3,991	1,717
Tax paid	270	(455)	(1,082)	(1,326)	(1,813)
Less: Interest/Div. Income Received	(1,535)	(1,951)	(1,965)	(1,885)	(1,885)
CF from operating activities	**1,774**	**5,095**	**7,711**	**10,467**	**8,477**
Capital expenditure	(42)	25	-	-	-
Inc/(Dec) in investments	893	77	1,255	-	-
Add: Interest/Div. Income Received	1,535	1,951	1,965	1,885	1,885
CF from investing activities	**2,386**	**2,053**	**3,220**	**1,885**	**1,885**
Inc/(Dec) in share capital	-	599	-	-	-
Inc/(Dec) in debt	2,496	(4,795)	(1,096)	(1,837)	(81)
Dividend Paid	(60)	(268)	(268)	(268)	(268)
Others	(6,709)	(2,244)	(8,425)	(9,941)	(10,266)
CF from financing activities	**(4,273)**	**(6,707)**	**(9,789)**	**(12,046)**	**(10,614)**
Net cash flow	**(112)**	**442**	**1,142**	**306**	**(253)**
Opening balance	800	688	1,129	2,271	2,577
Closing balance	**688**	**1,129**	**2,271**	**2,577**	**2,324**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	6.85	35.63	0.34	2.79	10.16
EBITDA(%)	-14.02	60.39	13.53	5.82	9.89
Adj PAT(%)	-35.35	175.93	117.42	10.78	36.72
Adj EPS(%)	-35.35	27.29	117.42	10.78	36.72

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	45.4	35.7	16.4	14.8	10.8
P/BV	0.7	1.2	1.2	1.1	1.0
EV/EBITDA	20.53	12.00	10.26	9.42	8.54
EV/Sales	1.36	0.94	0.91	0.86	0.78
Dividend Yield (%)	0.3	0.6	0.6	0.6	0.6

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	1.62	3.91	7.35	7.63	9.63
RoCE (%)	9.64	14.33	15.71	16.06	16.77
Asset/T.O (x)	1.67	2.10	2.01	2.00	2.11
Net Debt/Equity (x)	0.95	0.59	0.49	0.40	0.36
EBIT/Interest (x)	1.01	1.28	1.62	1.89	2.47

Source: Company Antique

Reco	:	BUY
CMP	:	INR98
Target Price	:	INR124
Potential Return	:	26%

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Market data

Sensex	:	26,403
Sector	:	Infrastructure
Market Cap (INRbn)	:	34.5
Market Cap (USDbn)	:	0.508
O/S Shares (m)	:	352.2
52-wk HI/LO (INR)	:	112/66
Avg Daily Vol ('000)	:	15
Bloomberg	:	SINP IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	(9.2)	(5.7)	(3.6)
P/E(x)	(10.7)	(17.1)	(27.4)
P/BV(x)	3.0	2.9	3.1
EV/EBITDA(x)	23.4	14.3	10.4
Dividend Yield (%)	-	-	-

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(2)	11	1	-
Relative	(1)	6	(2)	-

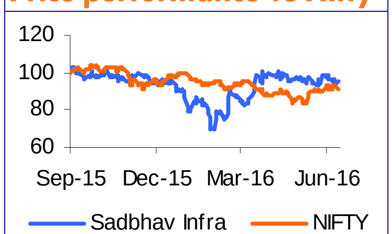
Source: Bloomberg

Shareholding pattern

Promoters	:	69%
Public	:	31%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

INITIATING COVERAGE

Sadbhav Infrastructure Project Limited

Turning cash positive in FY17e

With growth in the road sector being of utmost importance to the government, we have seen a recent pick-up in the awarding activity from NHAI and MoRTH. FY16 has seen awarding at encouraging levels of ~9,000kms, 4,300kms by NHAI and the remaining by MoRTH. FY17e is expected to see a further improvement in awarding with the target for awarding highway projects being set at 25,000kms (10,000kms by NHAI and 15,000kms by MoRTH) which is 2.5x FY16 target and awards. Of the awards by NHAI, we expect ~50% to be through the EPC mode and ~40% under the Hybrid annuity mode of awards. Sadbhav Infrastructure (SIPL) has a portfolio of 16 projects, 9 operational, 3 under construction and 4 recently bagged hybrid annuity projects where financial closure is pending. SIPL has a presence only in BOT segment. With the target for ordering at 25,000kms and 40% being under BOT route, we see SIPL to be a beneficiary due to its superior execution skills. We expect EBITDA to grow at 48% CAGR over FY16-18e. We initiate coverage on the stock with a Buy rating and target price of INR124 per share.

Healthy traffic growth across projects

Toll collection (excluding Sreenathji - Udaipur) has seen a healthy jump of 17.2% YoY. The growth has been led by an improvement in traffic across key projects along with COD for new check posts in the Maharashtra Border Check Post project. We have estimated a 6% traffic growth till FY19 and 5% thereon. Any improvement in traffic above our estimates would lead to an earning upgrade.

Refinancing of debt on projects to improve cash flows

SIPL has already refinanced debt on 5 of its projects and is looking at refinancing of debt on 3 more projects viz. Maharashtra Border Checkpost, Rohtak - Panipat, Aurangabad Ring Road. Debt cost is likely to reduce by ~100-150 bps for these projects. Moreover, the repayment tenure would also improve thereby improving the cash flows for SIPL. We expect cash outflow savings through refinancing of ~INR0.5-0.6bn post the refinancing on all the eight projects. These are expected to be utilized towards equity commitment for the new projects.

Valuations

We expect revenue to grow at a CAGR of 38% over FY16-18e. We have used the discounted cash flow method to value the BOT projects. We initiate coverage on the stock with a Buy rating and a target price of INR124 per share. At the current market price, the stock trades at 3.1x FY18e P/BV.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	3,098	4,977	7,422	11,338	14,231
EBITDA(INRm)	1,913	3,088	4,773	7,923	10,570
PAT(INRm)	(972)	(3,013)	(3,222)	(2,011)	(1,258)
EPS (INR)	(2.9)	(8.6)	(9.2)	(5.7)	(3.6)
P/E(x)	(33.5)	(11.4)	(10.7)	(17.1)	(27.4)
P/BV(x)	4.0	4.4	3.0	2.9	3.1
EV/EBITDA(x)	42.9	30.4	23.4	14.3	10.4
RoE (%)	(10.85)	(37.46)	(33.41)	(17.41)	(11.07)

Source: Company, Antique

Valuation

We have valued SIPL using the discounted cash flow model of valuation. The value of the BOT projects is as given below:

SoTP valuation

Particulars	INRm	Stake (%)	Value per share (INR)
Bijapur - Hungund	9,349	77	21
Hyderabad - Yadgiri	3,075	100	9
Rohtak - Panipat	5,038	100	14
Aurangabad - Jalna	2,000	100	6
Ahmedabad Ring Road	3,782	100	11
Nagpur Seoni	501	100	1
Maharashtra Border Checkpost	18,551	78	41
Dhule Palesnar	5,855	100	17
Srinathji - Udaipur	4,253	100	12
Rajsmand - Bhilwada	2,684	100	8
Rohtak - Hisar	2,033	100	6
Mysore - Belari	571	74	1
Total ABL (A)	**57,690**		**146**
Less: Debt and other liabilities	(7,719)	100	(22)
Grand Total (A + B)	**49,971**		**124**

Source: Company, Antique

Based on the DCF based target price for the projects, we arrive at a target price of INR 124 per share. We have not assumed the hybrid annuity projects recently awarded in our valuations as the financial closure on these projects is pending.

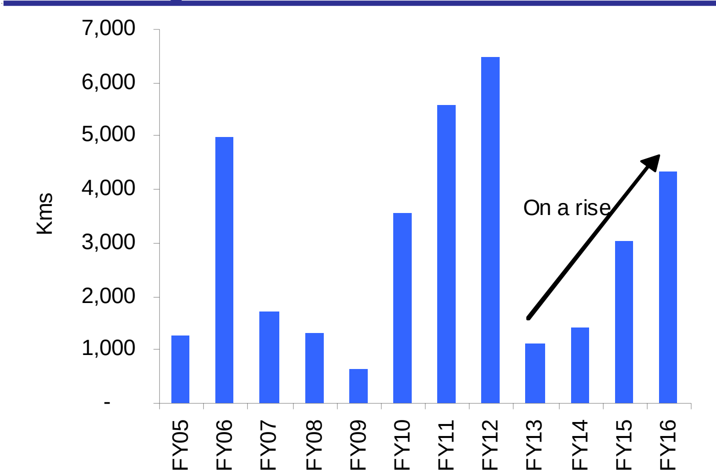
Investment thesis

Pick up in awarding to aid order book growth

FY12 witnessed the highest road project awards (~6,500km) in any given year by NHAI, post which there was slowdown in FY13-14, with awarding at 1,100km in FY13 and ~1,400km in FY14. After almost three years of subdued awarding, the roads sector has seen a pick-up in FY16. As against the targeted 5,200 kms, NHAI has awarded 4,300kms in FY16. Over and above this, Ministry of Road Transport and Highways (MoRTH) has awarded another ~5,000kms in FY16. For FY17e, the target for awards has been set at an ambitious 25,000kms of which NHAI is targeting awards of 10,000kms and another 15,000kms is expected to be awarded by MoRTH. We are of the view that the combined awards should improve to ~12,000 - 13,000 between NHAI and MoRTH in FY17e. We expect NHAI awards to stand at ~6,000kms.

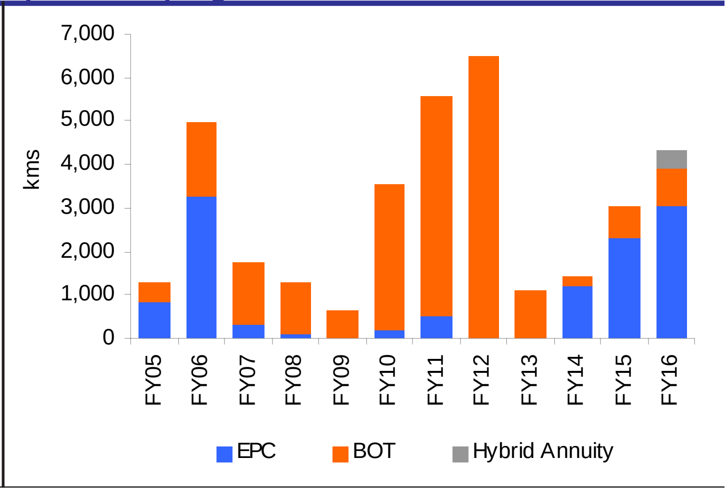
The ordering by NHAI for FY16 has been skewed towards EPC with awards of ~3,000 kms of total 4,200kms (BOT awards at 800kms and Hybrid annuity at 351kms). We believe, FY17e will see a fairly large share of projects awarded through the hybrid route. Of the 6,000 expected, ~3,000-3,500kms is expected to be awarded through the EPC route, ~2000-2500 through the hybrid route and the remaining through BOT toll and annuity. SIPL would stand to be one of the key beneficiaries of the projects awarded through the hybrid annuity mode.

NHAI awarding on a rise



Source: Company, Antique

Hybrid annuity to gain share in FY17e

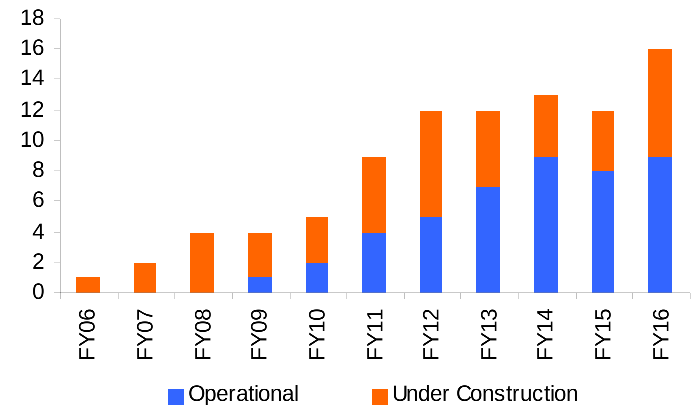


Source: Company, Antique

Healthy portfolio of operational revenue generating assets

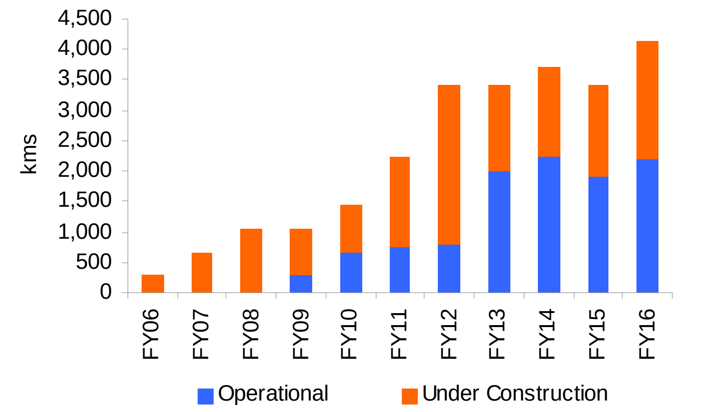
SIPL is one of the few pure BOT players in the country. Moreover, the company has created a portfolio of 16 projects in less than a decade implying most of the projects are in the early life cycle stage. The residual life of the 16 projects in SIPL's portfolio is 18 years which helps improve cash flows going ahead due to base effect. SIPL has a portfolio of 16 projects, 9 operational and 3 under construction and 4 hybrid annuity projects which are yet to achieve financial closure. The three under construction are all expected to achieve COD by September 2016. This would make all the projects (except the newly won hybrid annuity projects) under its portfolio operational and revenue generating thus reducing the cash outflow only to the extent of shortfall funding required in projects or on new project wins.

No of projects



Source: Company, Antique

2,207 lane kms operational



Source: Company, Antique

SIPL Portfolio - 16 projects, 9 operational, 3 U/C and 4 HAM

Particulars	No of lanes	Stake (%)	Type	Length (kms)	Concession period (yrs)	Project Cost (INRbn)	Equity (INRbn)	Debt (INRbn)
Ahmedabad ring road (ARRIL) - Phase 2	4	100%	Toll	76	20	5.0	1.1	4.1
Aurangabad Jalna (AJTL)	4	100%	Toll	65	23.5	2.8	0.8	1.9
Nagpur Seoni (NSEL)	4	100%	Annuity	29	20	4.9	1.0	2.0
Bijapur Hungud (BHTPL)	4	77%	Toll	100	20	12.6	1.5	8.4
Dhule Palesner (DPTL)	6	100%	Toll	97	18	14.2	3.3	10.9
Hyderabad Yadegiri (HYTPL)	4	100%	Toll	35	23	4.8	1.0	4.1
Rohtak Panipat (RPTPL)	4	100%	Toll	81	25	12.1	2.4	9.7
22 Maharastra Border Checkpost (MBCPNL)	NA	100%	Toll	148	25	14.3	3.3	11.0
Sreenathji - Udaipur (SUTPL)	4	100%	Toll	83	27	11.5	3.1	8.4
Rajasmand Bhilwara (BRTPL)	4	100%	Toll	87	30	6.8	1.3	2.8
Mysore-Bellary (MBHPL)	4	74%	Annuity	193	10	8.1	0.8	5
Rohtak-Hissar (RHTPL)	4	100%	Toll	83	22	12.7	1.1	9.5
Rampur Kathgodam (Pkg-1)	4	100%	HAM	43	15	6.2	1.1	2.6
Rampur Kathgodam (Pkg-2)	4	100%	HAM	50	15	5.7	1.0	2.4
Bhavnagar - Talaja	4	100%	HAM	48	15	8.2	1.5	3.4
Una - Kodinar	4	100%	HAM	41	15	6.2	1.1	2.6
Total				**1,259**		**136**	**25**	**89**

Source: Company, Antique

Refinancing of debt on projects to improve cash flows

SIPL has been aggressively looking at refinancing to reduce the cost of debt and increase the maturity profile of its projects. The company has already refinanced the debt on 5 projects. Further, SIPL is looking at refinancing of debt on 3 projects viz. Maharashtra Border Checkpost, Rohtak - Panipat and Aurangabad Ring Road. Debt cost is likely to reduce by ~100-150 bps for these projects. Moreover, the repayment tenure would also improve thereby improving the cash flows for SIPL. We expect cash outflow savings through refinancing of ~INR0.5-0.6bn. These are expected to be utilized towards equity commitment for the new projects.

Refinancing pending for the highlighted projects

Refinanced projects

Projects	Borrowing cost (%)	Refinance (%)	Debt (INRbn)
Dhule Palesner	11.7	9.9	10.3
Bijapur - Hungund	11.6	9.9	6
Nagpur - Seoni	8.9	8.9	1.9
Hyderabad - Yadgiri	11.4	9.9	2.4
Aurangabad - Jalna	11.3	10.2	1.7
Maharashtra Border Checkpost	12.7	N.A.	9.7
Rohtak Panipat	12.5	N.A.	9.7

Source: Company, Antique

Healthy traffic growth across projects

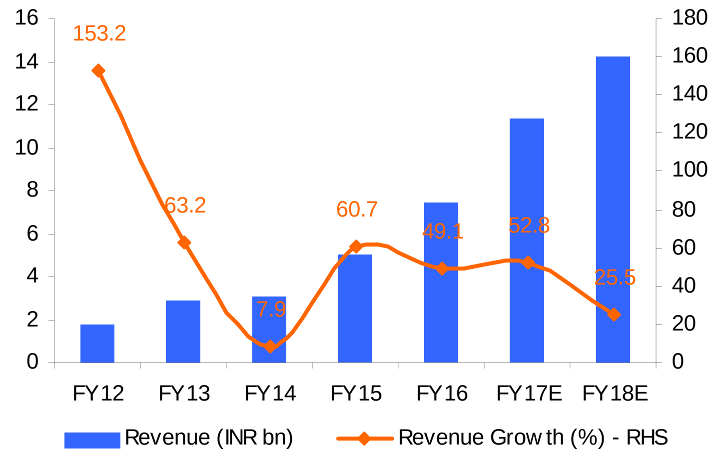
Toll collection (excluding Sreenathji - Udaipur) has seen a healthy jump of 17.2% YoY. The growth has been led by an improvement in traffic across key projects along with COD for new check posts in the Maharashtra Border Check Post project. We have estimated a 6% traffic growth till FY19 and 5% thereon.

Table for toll collection across projects

(INRmn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	FY15	FY16	YoY (%)
Ahmedabad Ring Road	188	203	223	223	222	213	231	246	837	912	9.0
Aurangabad-Jalna	85	79	93	96	92	54	80	88	353	314	(11.2)
Hyderabad-Yadgiri	111	106	113	118	134	119	142	153	448	547	22.1
Bijapur - Hungund	255	260	255	274	284	282	280	302	1,043	1,148	10.0
Rohtak - Panipat	217	199	210	225	219	199	220	181	852	818	(3.9)
Maharashtra - Border Chk post	196	222	238	261	341	367	416	432	916	1,555	69.6
Dhule - Palesnar	339	317	335	356	358	368	384	391	1,348	1,502	11.4
Total	**1,393**	**1,386**	**1,466**	**1,552**	**1,650**	**1,600**	**1,753**	**1,793**	**5,797**	**6,795**	**17.2**

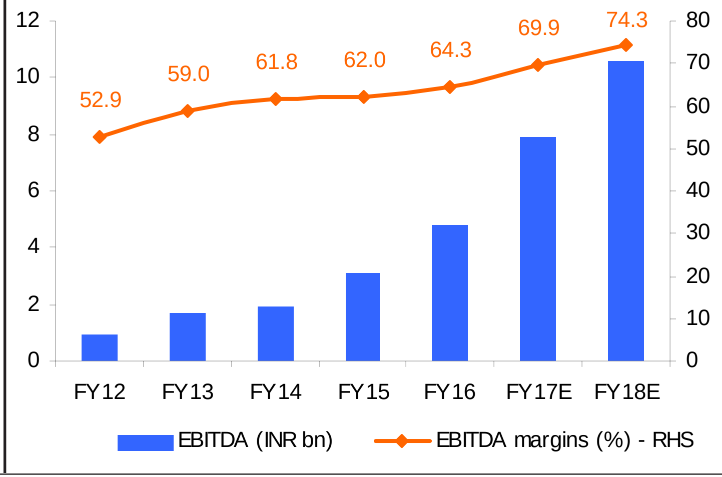
Source: Company, Antique

Revenues continue to surge



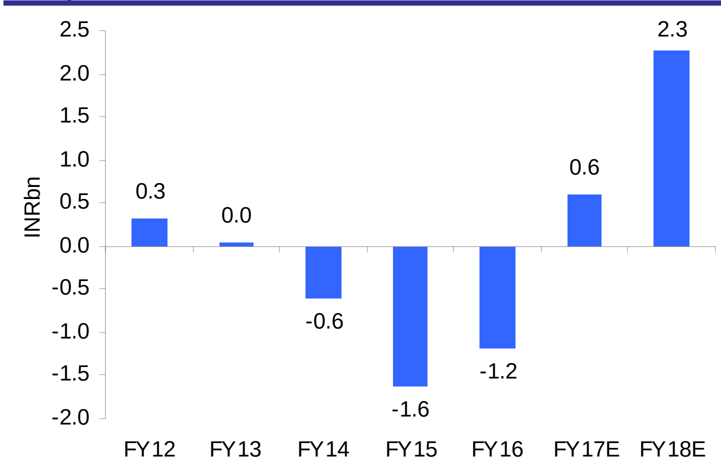
Source: Company, Antique

EBITDA margins improving



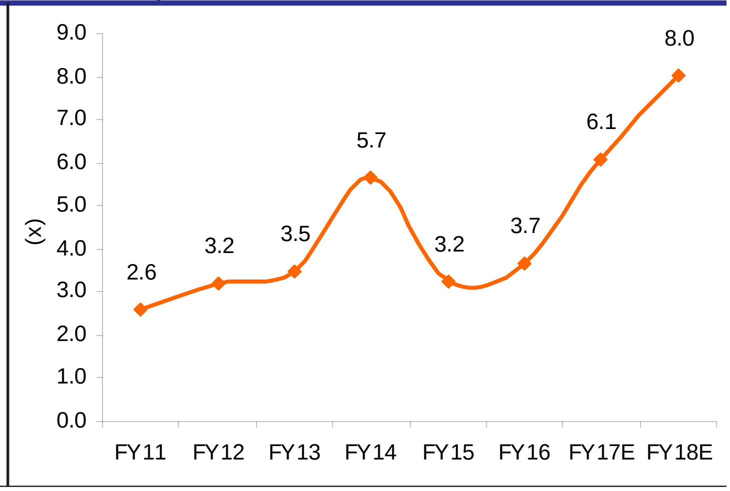
Source: Company, Antique

Cash positive in FY17e



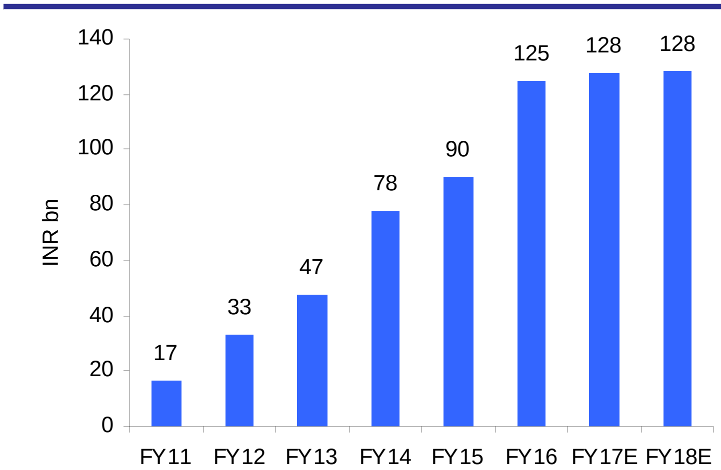
Source: Company, Antique

RoCE on an uptrend



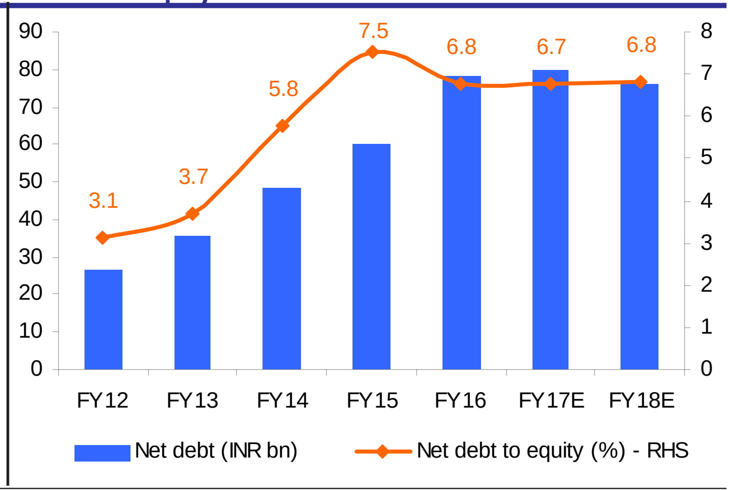
Source: Company, Antique

Net block increases as asset creation continues



Source: Company, Antique

Net debt to equity to stabilize at current levels



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**3,098**	**4,977**	**7,422**	**11,338**	**14,231**
Op. Expenses	(1,185)	(1,889)	(2,649)	(3,415)	(3,661)
EBITDA	**1,913**	**3,088**	**4,773**	**7,923**	**10,570**
Depreciation	(370)	(1,376)	(2,025)	(2,601)	(3,537)
EBIT	**1,543**	**1,712**	**2,748**	**5,322**	**7,032**
Other income	1,475	382	202	292	314
Interest Exp.	(3,657)	(5,452)	(6,398)	(7,145)	(7,857)
Extra Ordinary Items -gain/(loss)	(19)	-	616	-	-
Reported PBT	**(657)**	**(3,358)**	**(2,832)**	**(1,531)**	**(511)**
Tax	(101)	(22)	95	(309)	(548)
Reported PAT	**(759)**	**(3,379)**	**(2,737)**	**(1,840)**	**(1,059)**
Minority Int./Profit (loss) Fm Asso	(233)	367	131	(171)	(200)
Net Profit	**(991)**	**(3,013)**	**(2,606)**	**(2,011)**	**(1,258)**
Adjusted PAT	**(972)**	**(3,013)**	**(3,222)**	**(2,011)**	**(1,258)**
Adjusted EPS (INR)	**(2.9)**	**(8.6)**	**(9.2)**	**(5.7)**	**(3.6)**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	283	3,110	3,522	3,522	3,522
Reserves & Surplus	7,921	4,772	7,883	8,176	7,515
Networth	**8,204**	**7,882**	**11,406**	**11,698**	**11,038**
Debt	49,018	62,039	78,904	81,754	78,290
Minority Interest	1,865	569	438	59	268
Capital Employed	**59,086**	**70,490**	**90,748**	**93,511**	**89,595**
Capital work in progress	7,769	19,385	3	3	3
Net Fixed Assets	77,808	90,128	125,032	127,880	123,217
Goodwill	449	1,183	3,288	3,287	3,287
Investments	1,052	1,063	1,029	1,029	1,029
Non Current Investments	23	34	-	-	-
Current Investments	1,029	1,029	1,029	1,029	1,029
Current Assets, Loans & Adv.	**6,909**	**6,579**	**1,621**	**2,407**	**3,653**
Debtors	143	140	188	159	248
Cash & Bank balance	518	1,696	778	1,781	2,049
Loans & advances and others	6,248	4,743	655	467	1,356
Current Liabilities & Prov.	**27,132**	**28,463**	**40,221**	**41,093**	**41,591**
Liabilities	4,341	5,136	5,851	6,701	7,189
Provisions	22,791	23,326	34,370	34,392	34,402
Net Current Assets	**(20,223)**	**(21,883)**	**(38,600)**	**(38,685)**	**(37,938)**
Application of Funds	**59,086**	**70,490**	**90,748**	**93,511**	**89,595**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	332	351	351	351	351
Diluted no. of shares (m)	332	351	351	351	351
BVPS (INR)	24.68	22.43	32.45	33.29	31.41
CEPS (INR)	-3.40	-13.53	-13.55	-12.64	-13.08
DPS (INR)	-	-	-	-	-

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	61.8	62.0	64.3	69.9	74.3
EBIT Margin(%)	49.8	34.4	37.0	46.9	49.4
PAT Margin(%)	-21.25	-56.21	-42.26	-17.29	-8.65

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**(657)**	**(3,358)**	**(2,832)**	**(1,531)**	**(511)**
Depreciation & amortisation	370	1,376	2,025	2,601	3,537
Interest expense	3,657	5,452	6,398	7,145	7,857
(Inc)/Dec in working capital	20,976	3,875	19,191	2,644	3,083
Tax paid	(101)	(22)	95	(309)	(548)
Less: Interest/Div. Income Received	(1,475)	(382)	(202)	(292)	(314)
Other operating Cash Flow	(19)	-	616	-	-
CF from operating activities	**22,749**	**6,941**	**25,290**	**10,258**	**13,104**
Capital expenditure	8,893	(11,616)	19,382	-	-
Inc/(Dec) in investments	(958)	(11)	34	-	-
Add: Interest/Div. Income Received	1,475	382	202	292	314
CF from investing activities	**9,409**	**(11,244)**	**19,618**	**292**	**314**
Inc/(Dec) in share capital	(0)	2,827	413	-	-
Inc/(Dec) in debt	12,585	13,021	16,865	2,850	(3,464)
Dividend Paid	(1,555)	(1,621)	(1,634)	(1,634)	(1,634)
Others	(43,187)	(8,746)	(61,469)	(10,764)	(8,052)
CF from financing activities	**(32,157)**	**5,481**	**(45,825)**	**(9,548)**	**(13,150)**
Net cash flow	**2**	**1,177**	**(917)**	**1,002**	**268**
Opening balance	517	518	1,696	778	1,781
Closing balance	**518**	**1,696**	**778**	**1,781**	**2,049**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	7.86	60.66	49.12	52.76	25.52
EBITDA(%)	12.82	61.40	54.57	66.00	33.41
Adj PAT(%)	112.82	210.01	6.93	-37.58	-37.42
Adj EPS(%)	112.82	193.17	6.93	-37.58	-37.42

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	(33.5)	(11.4)	(10.7)	(17.1)	(27.4)
P/BV	4.0	4.4	3.0	2.9	3.1
EV/EBITDA	42.87	30.40	23.39	14.32	10.38
EV/Sales	26.48	18.86	15.04	10.01	7.71
Dividend Yield (%)	-	-	-	-	-

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	(10.85)	(37.46)	(33.41)	(17.41)	(11.07)
RoCE (%)	5.65	3.23	3.66	6.09	7.90
Asset/T.O (x)	0.06	0.08	0.10	0.13	0.16
Net Debt/Equity (x)	5.79	7.53	6.76	6.75	6.81
EBIT/Interest (x)	-0.83	-0.38	-0.46	-0.79	-0.94

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR145
Target Price	:	INR226
Potential Return	:	56%

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Market data

Sensex	:	26,403
Sector	:	Infrastructure
Market Cap (INRbn)	:	27.1
Market Cap (USDbn)	:	0.399
O/S Shares (m)	:	187.1
52-wk HI/LO (INR)	:	221/111
Avg Daily Vol ('000)	:	297
Bloomberg	:	ASBL IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	6.3	8.8	8.2
P/E(x)	23.1	16.5	17.7
P/BV(x)	1.4	1.3	1.3
EV/EBITDA(x)	10.7	10.6	9.6
Dividend Yield (%)	1.0	1.0	1.0

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	4	(21)	(28)	(18)
Relative	5	(24)	(29)	(14)

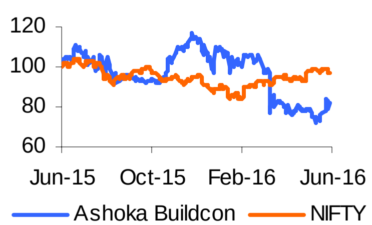
Source: Bloomberg

Shareholding pattern

Promoters	:	57%
Public	:	43%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

COMPANY UPDATE

Ashoka Buildcon Limited

Core remains intact

With growth in the road sector being the focus of the government, we have seen a pick-up in the awarding activity from NHAI and MoRTH. FY16 saw awarding by the two at ~9,000kms which is encouraging. For FY17e, the target for award of roads has been increased by 2.5x YoY to 25,000kms (10,000kms by NHAI and 15,000kms by MoRTH). On the BOT front, NHAI continues to focus on awarding a sizable amount of projects through the hybrid annuity route in FY17e. We expect ~2500-3000kms to be awarded through this route. Once the initial competition subsides, ASBL will have an advantage to win projects through this route at attractive IRRs. Due to a healthy balance sheet, we expect the company to take up new projects in the BOT and hybrid annuity segment; while a strong presence in EPC segment will aid FY16-18e order book to grow at a 15% CAGR, as per our estimates. We believe the recent correction in the stock price due to the Income Tax Department searches is overdone as ASBL does not face any disqualification and will continue to bid for the upcoming projects. Post this, the Co has successfully won the INR5bn Govindpur - West Bengal road EPC project. Despite these issues, which might take more than a year to conclude, we continue to remain positive on the company as the asset quality remains strong. We expect EBITDA to grow at 9% CAGR over FY16-18e. We reiterate our BUY a rating on the stock with a target price of INR226 per share.

Pick-up in awarding to aid project wins

As against the NHAI target of 10,000kms, we expect ~6,000kms to be awarded in FY17e with a healthy mix of EPC at ~50%, hybrid annuity at ~40% and the remaining on BOT. ASBL being one of the key players in both the EPC and hybrid annuity space is likely to be one of the key beneficiaries.

Strong order book to aid EPC segment growth

ASBL has an order backlog of ~INR41bn (~2.4x TTM EPC segment revenue) as on March 31, 2016. Given the order backlog and new orders of INR30bn expected yearly over FY16-18, we see construction segment revenue to grow at 19% CAGR during FY16-18e. The company's presence in the transmission and road segments, where it earns an EBITDA margin of 9-11% and 11-13%, respectively, will also aid growth.

Comfortable liquidity position and relatively lower leverage as compared to peers

Equity requirement stands ~INR0.5bn for the under construction projects, given the cash balance of INR0.5bn, cash flow generating operational projects in ASBL portfolio and low debt at the standalone level, the company will be able to meet its current equity requirements and take up another 250-300km of BOT projects or over 500-700km of hybrid projects. With a debt-to-equity ratio of 1.7x in FY16, the company has more fiscal space than its peers to bag new projects.

Compelling valuations

Despite the recent correction in the stock price due to the IT searches, it is business as usual for ASBL. At the current market price, the stock trades at 1.2x FY18e P/BV, with ~6.6% RoE.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	17,949	23,197	26,165	30,612	35,043
EBITDA(INRm)	3,822	4,730	7,721	8,216	9,075
PAT(INRm)	1,131	815	1,172	1,644	1,530
EPS (INR)	7.2	5.2	6.3	8.8	8.2
P/E(x)	20.2	28.1	23.1	16.5	17.7
P/BV(x)	1.8	1.7	1.4	1.3	1.3
EV/EBITDA(x)	19.0	17.0	10.7	10.6	9.6
RoE (%)	9.78	6.22	7.27	8.46	7.34

Source: Company, Antique

Valuation

We have valued ASBL with the sum-of-the-parts (SoTP) valuation methodology considering the two business segments: construction and road BOT. Construction/ road BOT/Real estate has been valued using comparative P/E valuations, discounted cash flow (DCF) method and invested equity, respectively. **We have valued ASBL's road BOT business using the DCF method at INR72 per share, assuming 61% stake.** Based on the target P/E multiple of 15x FY18e EPS for the construction business, INR72 per share for the BOT business and INR15 per share for real estate, we arrive at our target price of INR226 per share.

BOT Valuation

Particulars	ASBL's stake (%)	INRm	Value per share (INR)
Ahmednagar - Aurangabad	100	160	1
Indore - Edalabad	100	1,014	5
Wainganga	50	361	1
KSHIP	74	639	3
JN (PNC Stake purchase)	23	10,228	13
Total ABL (A)		**12,403**	**22**
Total			
ACL			
Belgaum - Dharwad	61	2,526	8
Sambhalpur	61	2,360	8
Dhankuni - Kharagpur	61	2,608	9
Durg	31	2,711	5
Bhandara	23	1,673	3
Jaora - Nayagaon	31	10,228	13
PNG	16	0	0
Chennai ORR	31	2,869	5
Total ACL (B)		**22,107**	**49**
Grand Total (A + B)		**34,510**	**72**

Source: Company, Antique

Construction business

The company has an order backlog of ~INR41bn, ~2.4x TTM EPC segment revenue, as on March 31, 2016. We expect order inflows to improve in FY17/18e, with further inflows of INR30bn each in FY17/18, on the back of an uptick in awarding activity by NHAI. We have valued the construction business by assigning a P/E multiple of 15x FY18e EPS of INR9.3 per share. **Value per share for the construction business thus works out to INR139.**

Real estate

ASBL has invested ~INR2.8bn in land parcels. At 1x investments, these would result in a price per share of ~INR15.

Break-up of target price

Particulars	Method	Per share value
BOT (A)	DCF	72
Construction (B)	PER of 15x FY18E	139
Real Estate (C)	1x PBV	15
Target Price (A+B+C)		**226**

Source: Company, Antique

Project portfolio

Particulars	State	Stake (%)	Mode	Length (Kms)	Concessin Period (Yrs)	Project Cost (Rs bn)	Equity (Rs bn)	Debt (Rs bn)	Grant / (Premium) (Rs bn)	COD
ABL Portfolio										
Ahmednagar - Aurangabad	Maharastra	100.00	Toll	42	10	1.0	0.4	0.7	-	May-08
Indore - Edalabad	MP	100.00	Toll	203	16	1.7	0.7	0.6	0.5	Nov-02
Katni Bypass	MP	100.00	Toll	35	16	0.7	0.3	0.4	-	Feb-08
Dewas Bypass	MP	100.00	Toll	18	13	0.6	0.3	0.4	-	May-04
Wainganga bridge	Maharastra	50.00	Toll	8	19	0.4	0.1	0.3	-	Mar-01
KSHIP WAP II	Karnataka	51.00	Annuity	108	10	4.5	0.6	2.6	1.4	U/C
Bagewadi - Saundatti	Karnataka	100.00	Annuity	64		3.3	1.2	5.0	-	U/C
Hungund - Muddebihal	Karnataka	100.00	Annuity	57		2.9			-	U/C
Total ABL				**535**		**15**	**3**	**10**		
ACL Portfolio										
Belgaum - Dharwad	Karnataka	100	Toll	82	32	6.9	2.2	4.8	(0.31)	Mar-13
Dhankuni - Kharagpur	West Bengal	100	Toll	111	28	22.1	7.8	14.3	(1.26)	Sep-14
Durg	Chattisgarh	51	Toll	83	20	6.3	1.8	4.6	-	Feb-12
Bhandara	Maharastra	51	Toll	80	20	5.1	0.8	4.2	0.10	Oct-10
Jaora - Nayagaon	MP	46	Toll	128	25	8.5	2.1	6.4	(0.15)	Mar-10
Pimpalgaon - Nashik - Gonde	Maharastra	26	Toll	128	20	16.9	3.7	13.2	-	Sep-12
Sambalpur Baragarh	Orissa	100	Toll	88	30	11.4	3.3	8.1	(0.01)	May-14
Chennai ORR	Tamil Nadu	50	Annuity	62	20	14.40	1.90	10.5	1.97	U/C
Total ACL				**762**		**92**	**23**	**66**		

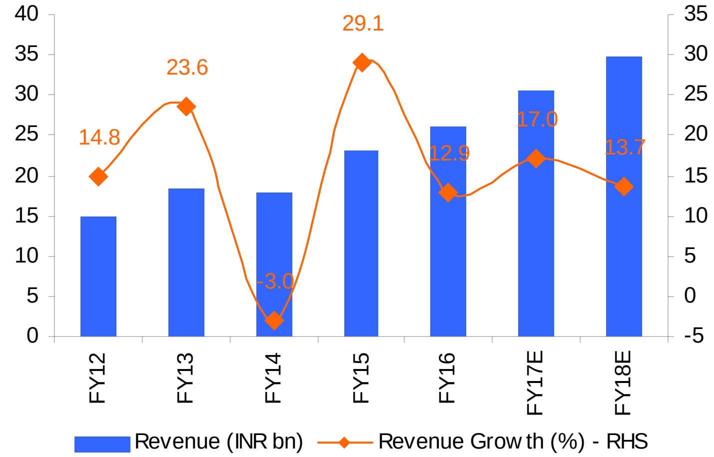
Source: Company, Antique

Table for toll collection across projects

(INRmn)	Kms	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	FY15	FY16	YoY (%)
Belgaum Dharwad	82	164	155	162	170	178	167	171	179	651	696	6.9
Dankuni-Kharagpur	111	533	520	532	570	585	562	597	669	2,155	2,413	12.0
Bhandara	80	126	120	136	142	142	134	154	162	524	592	13.0
Durg	82	160	152	170	180	179	169	189	197	662	734	10.9
Jaora - Nayagaon	128	316	324	341	354	381	411	440	406	1,335	1,638	22.7
PNG	128	170	219	231	240	202	232	246	258	859	938	9.1
Sambalpur	88	-	-	84	98	101	97	108	125	182	431	137.2
Ahmednagar - Aurangabad	42	48	47	52	50	49	37	68	53	197	206	4.9
Indore - Edalabad	203	281	259	258	267	325	300	302	311	1,066	1,238	16.2
Wainganga Bridge	8	62	57	66	70	69	65	75	80	255	289	13.1
Katni Bypass	35	50	47	43	46	50	44	49	53	186	196	5.1
Total	**987**	**1,910**	**1,901**	**2,075**	**2,185**	**2,261**	**2,217**	**2,398**	**2,494**	**8,071**	**9,370**	**16.1**

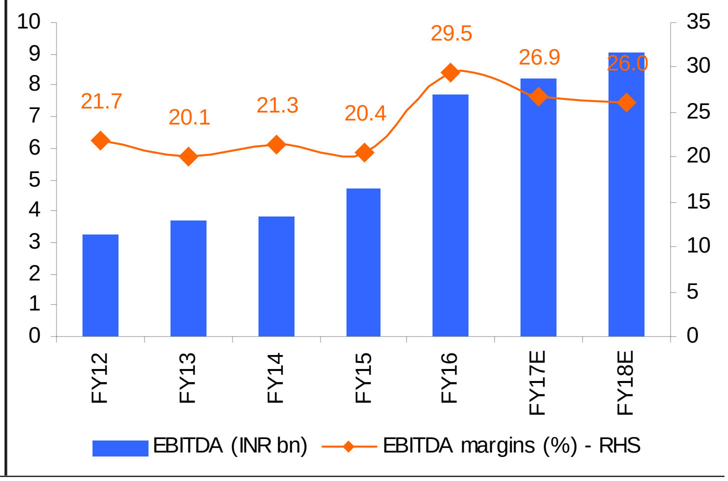
Source: Company, Antique

Healthy revenue growth expected



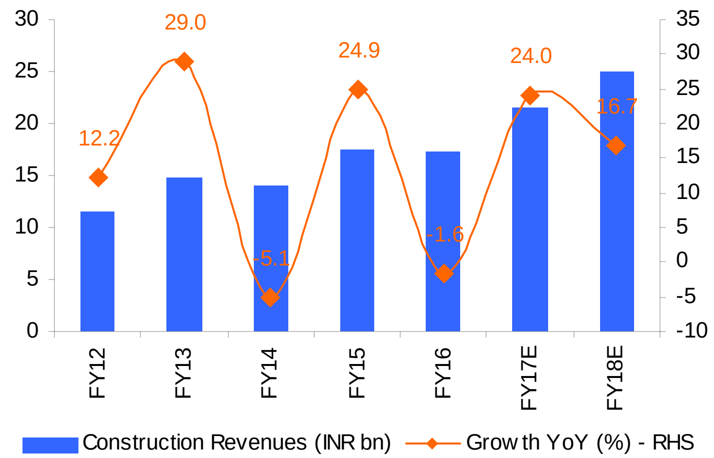
Source: Company, Antique

EBITDA margins to remain stable



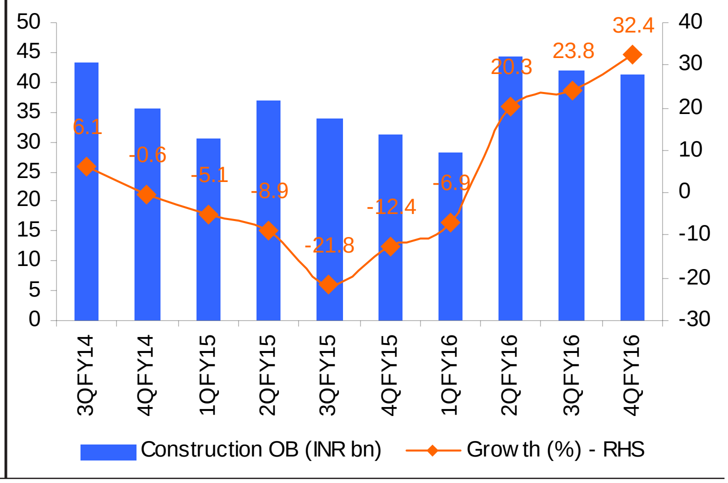
Source: Company, Antique

Strong order backlog to aid construction growth



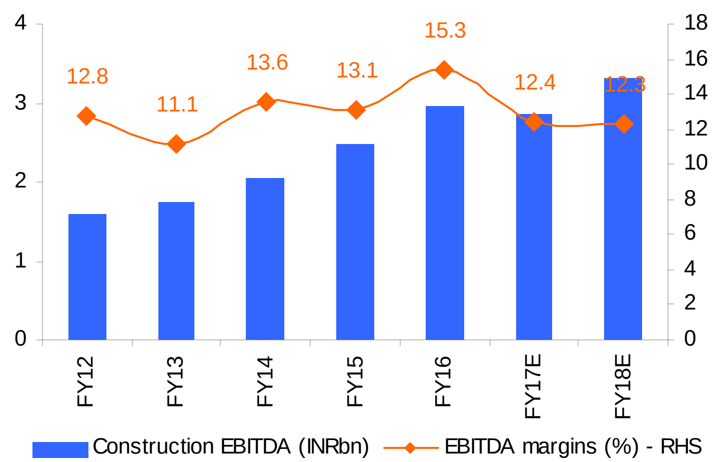
Source: Company, Antique

Order backlog on a rise



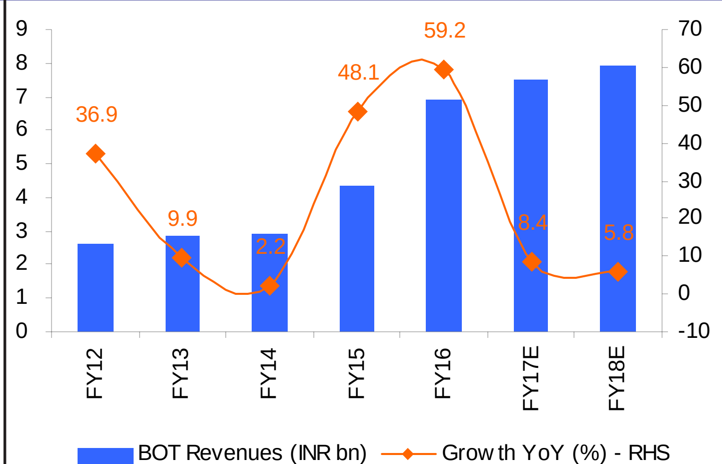
Source: Company, Antique

Construction margins expected at over 12%



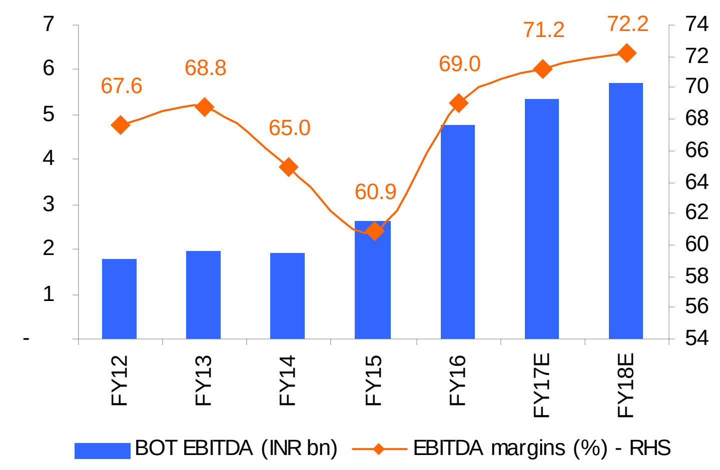
Source: Company, Antique

BOT growth led by growth in traffic



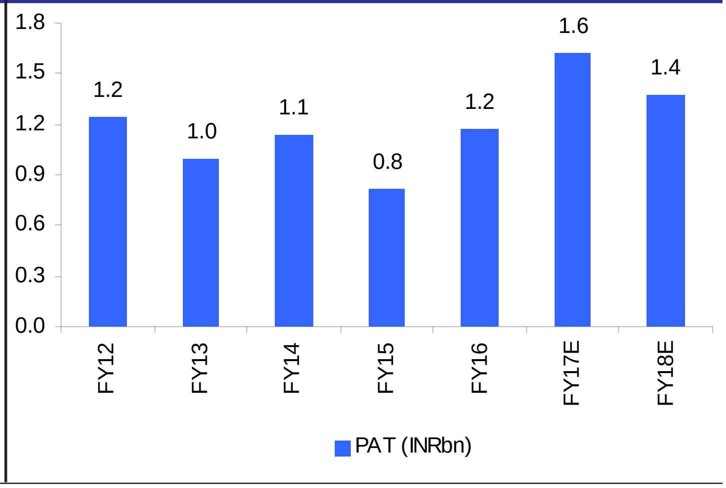
Source: Company, Antique

BOT margins to improve led by improving top-line



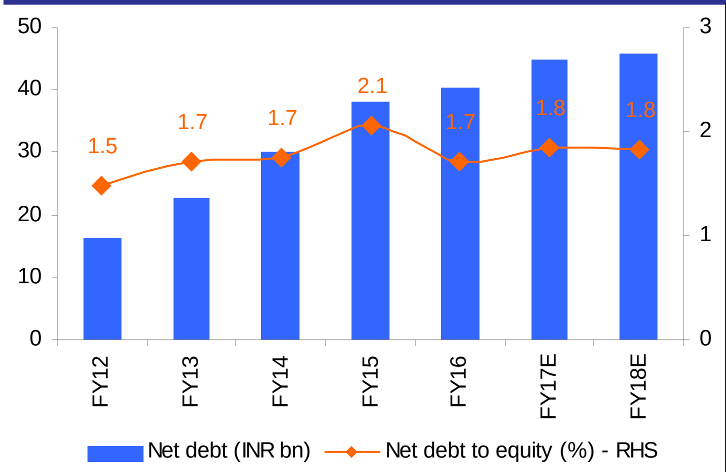
Source: Company, Antique

Profit performance to remain volatile



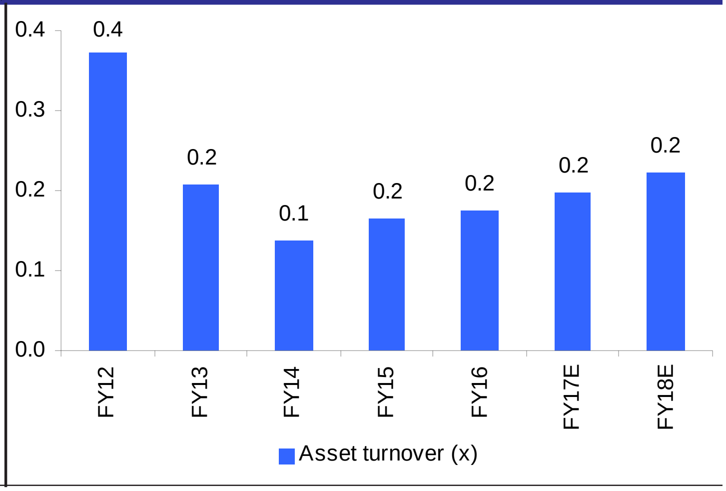
Source: Company, Antique

Net debt to equity to remain stable



Source: Company, Antique

Asset turnover improving gradually



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**17,949**	**23,197**	**26,165**	**30,612**	**35,043**
Op. Expenses	(14,127)	(18,467)	(18,445)	(22,396)	(25,968)
EBITDA	**3,822**	**4,730**	**7,721**	**8,216**	**9,075**
Depreciation	(1,389)	(1,517)	(2,488)	(2,633)	(3,162)
EBIT	**2,433**	**3,213**	**5,233**	**5,584**	**5,913**
Other income	297	290	521	427	433
Interest Exp.	(1,335)	(2,721)	(4,414)	(4,542)	(4,853)
Extra Ordinary Items -gain/(loss)	(157)	-	(570)	-	-
Reported PBT	**1,237**	**782**	**770**	**1,468**	**1,493**
Tax	(688)	(796)	(973)	(855)	(800)
Reported PAT	**549**	**(13)**	**(203)**	**613**	**693**
Minority Int./Profit (loss) From Asso.	425	828	805	1,031	836
Net Profit	**975**	**815**	**602**	**1,644**	**1,530**
Adjusted PAT	**1,131**	**815**	**1,172**	**1,644**	**1,530**
Adjusted EPS (INR)	**7.2**	**5.2**	**6.3**	**8.8**	**8.2**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	790	793	935	935	935
Reserves & Surplus	11,839	12,777	17,752	19,231	20,597
Networth	**12,628**	**13,570**	**18,687**	**20,167**	**21,532**
Debt	31,926	38,726	41,097	45,661	45,693
Minority Interest	4,645	5,047	4,995	4,223	3,705
Net deferred Tax liabilities	(21)	(99)	(221)	(221)	(221)
Capital Employed	**49,179**	**57,245**	**64,558**	**69,829**	**70,709**
Gross Fixed Assets	46,718	132,024	132,114	135,881	143,488
Accumulated Depreciation	6,467	6,311	6,420	8,505	11,066
Capital work in progress	79,621	1,505	3,595	7,488	3,010
Net Fixed Assets	119,872	127,218	129,289	134,864	135,432
Investments	2,847	2,345	3,377	3,377	3,377
Non Current Investments	1,951	2,198	3,111	3,111	3,111
Current Investments	896	147	266	266	266
Current Assets, Loans & Adv.	**12,443**	**16,946**	**19,854**	**20,660**	**23,061**
Inventory	6,272	7,286	10,869	11,274	12,184
Debtors	1,305	3,644	3,680	3,631	4,397
Cash & Bank balance	945	410	514	530	577
Loans & advances and others	3,922	5,606	4,790	5,224	5,904
Current Liabilities & Prov.	**85,983**	**89,265**	**87,962**	**89,071**	**91,162**
Liabilities	84,475	87,287	85,841	86,291	87,666
Provisions	1,508	1,978	2,121	2,780	3,496
Net Current Assets	**(73,540)**	**(72,319)**	**(68,109)**	**(68,412)**	**(68,101)**
Application of Funds	**49,179**	**57,244**	**64,558**	**69,829**	**70,709**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	158	158	187	187	187
Diluted no. of shares (m)	158	158	187	187	187
BVPS (INR)	79.95	85.92	99.89	107.80	115.10
CEPS (INR)	12.27	9.52	12.21	17.35	20.61
DPS (INR)	1.50	1.40	1.40	1.40	1.40

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**1,237**	**782**	**770**	**1,468**	**1,493**
Depreciation & amortisation	1,389	1,517	2,488	2,633	3,162
Interest expense	1,335	2,721	4,414	4,542	4,853
(Inc)/Dec in working capital	(1,100)	134	(3,286)	1,347	795
Tax paid	(702)	(874)	(1,094)	(855)	(800)
Less: Interest/Div. Income Received	(297)	(290)	(521)	(427)	(433)
Other operating Cash Flow	(157)	-	(570)	-	-
CF from operating activities	**1,706**	**3,990**	**2,200**	**8,709**	**9,071**
Capital expenditure	(9,964)	(7,190)	(2,180)	(7,659)	(3,129)
Inc/(Dec) in investments	(23)	502	(1,032)	-	-
Add: Interest/Div. Income Received	297	290	521	427	433
CF from investing activities	**(9,690)**	**(6,398)**	**(2,691)**	**(7,233)**	**(2,696)**
Inc/(Dec) in share capital	263	3	142	-	-
Inc/(Dec) in debt	7,391	6,800	2,371	4,564	32
Dividend Paid	(275)	(257)	(304)	(304)	(304)
Others	1,032	(4,674)	(1,613)	(5,721)	(6,206)
CF from financing activities	**8,412**	**1,873**	**596**	**(1,460)**	**(6,478)**
Net cash flow	**428**	**(535)**	**104**	**16**	**(103)**
Opening balance	517	945	410	514	530
Closing balance	**945**	**410**	**514**	**530**	**427**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	-3.12	29.24	12.79	17.00	14.48
EBITDA(%)	2.76	23.77	63.23	6.42	10.45
Adj PAT(%)	13.28	-27.98	43.89	40.21	-6.94
Adj EPS(%)	13.28	-27.98	21.49	40.21	-6.94

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	20.2	28.1	23.1	16.5	17.7
P/BV	1.8	1.7	1.4	1.3	1.3
EV/EBITDA	18.96	17.03	10.71	10.62	9.61
EV/Sales	4.04	3.47	3.16	2.85	2.49
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.0

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	9.78	6.22	7.27	8.46	7.34
RoCE (%)	6.28	6.58	9.45	8.94	9.03
Asset/T.O (x)	0.44	0.46	0.45	0.48	0.52
Net Debt/Equity (x)	2.38	2.81	2.16	2.22	2.08
EBIT/Interest (x)	2.04	1.29	1.30	1.32	1.31

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	21.3	20.4	29.5	26.8	25.9
EBIT Margin(%)	13.6	13.8	20.0	18.2	16.9
PAT Margin(%)	6.20	3.47	4.39	5.30	4.31

Source: Company Antique

Reco	:	BUY
CMP	:	INR537
Target Price	:	INR703
Potential Return	:	31%

Dhaval Patel
+91 22 4031 3316
dhaval.patel@antiquelimited.com

Rahul Modi
+91 22 4031 3418
rahul.modi@antiquelimited.com

Market data

Sensex	:	26,403
Sector	:	Infrastructure
Market Cap (INRbn)	:	15.1
Market Cap (USDbn)	:	0.222
O/S Shares (m)	:	28.1
52-wk HI/LO (INR)	:	653/408
Avg Daily Vol ('000)	:	7
Bloomberg	:	KNRC IN

Source: Bloomberg

Valuation

	FY16	FY17e	FY18e
EPS (INR)	57.3	36.2	44.4
P/E(x)	9.4	14.8	12.1
P/BV(x)	2.1	1.8	1.6
EV/EBITDA(x)	10.3	9.4	7.4
Dividend Yield (%)	0.2	0.2	0.2

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(1)	4	(8)	2
Relative	0	(0)	(10)	7

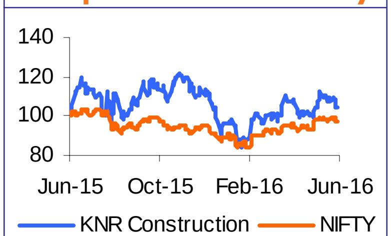
Source: Bloomberg

Shareholding pattern

Promoters	:	20%
Public	:	80%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

INITIATING COVERAGE

KNR Constructions Limited

Get set go

With growth in the road sector being of utmost importance to the government, we have seen a recent pick-up in the awarding activity from NHAI and MoRTH. FY16 has seen awarding at encouraging levels of ~9000kms, 4,300kms by NHAI and the remaining by MoRTH. FY17e is expected to see a further improvement in awarding with the target for awarding highway projects being set at 25,000kms (10,000kms by NHAI and 15,000kms by MoRTH) which is 2.5x FY16 target and awards. Of the awards by NHAI, we expect ~50% to be through the EPC mode ~40% on Hybrid annuity and the remaining on BOT mode of awards. KNR has a presence in both EPC and BOT segments (currently has 4 BOT projects), however, focus going forward will be on EPC orders. With higher ordering expected at 6,000kms by NHAI in FY17e and 50% being under EPC route, we see KNR Constructions (KNR) to be a key beneficiary due to its superior execution skills. We expect EBITDA to grow at 18% CAGR over FY16-18e. We initiate coverage on the stock with a Buy rating and target price of INR703 per share.

Pick up in awarding to aid order book growth

After almost three years of subdued awarding, the roads sector has seen a pick-up from FY16e with 4,300km being awarded against a target of 5500km. We expect NHAI to award at least 6,000km which is a 40% increase over FY16. Pick-up in awarding is expected for both EPC as well as hybrid annuity with greater focus on the former (expect 50% of EPC awarding) KNR being a strong player in the EPC segment is expected to be one of the key beneficiaries of an uptick in awarding. We expect KNR's order backlog to grow at a CAGR of 21% over FY16-18e. With new order wins of over INR29bn in FY16, KNR has improved its order backlog position to ~INR34bn as on 31Mar'15. Over and above this, KNR is L1 on orders worth INR11bn which would take the total order backlog to ~INR45bn. The order backlog position (Including L1) stands at ~4.5x TTM sales and provides a strong revenue growth visibility for the next three years. We expect ~INR44bn worth of order wins over the next 2 years leading to revenue CAGR of 30% over FY16-18e.

Strong execution track record

KNR has displayed a strong execution track record in the past with completion of 5,888 lane km of roads under the EPC segment and 4 operational BOT projects. Due to its strong execution skills it has pre-commissioned many projects including marquee projects like Bijapur - Hungund road project where construction was completed in 582 days, 328 days ahead of schedule. Timely execution of projects has helped the company become a preferred EPC player for many developers/authorities and helped the company bag an early completion bonus.

Comfortable liquidity position and relatively lower leverage as compared to peers

KNR has successfully managed its debt/equity ratio at very comfortable levels of 0.2x for FY16 and is the lowest amongst its peers. Given the lower leverage, we believe KNR will be able to bid aggressively for new projects leading to strong order book growth of 28% over the next two years. We believe with lower focus on BOT and higher on EPC segment, equity requirement will remain subdued. We initiate coverage on the stock with a Buy rating and a target price of INR 703 per share. At the current market price, the stock trades at 1.6xFY18e P/BV, with ~14.1% RoE.

Key financials

Year ended March (INRm)	2014	2015	2016	2017e	2018e
Revenues(INRm)	8,348	8,761	9,024	12,323	15,418
EBITDA(INRm)	1,258	1,261	1,553	1,725	2,158
PAT(INRm)	610	730	1,611	1,018	1,249
EPS (INR)	21.7	26.0	57.3	36.2	44.4
P/E(x)	24.8	20.7	9.4	14.8	12.1
P/BV(x)	2.9	2.7	2.1	1.8	1.6
EV/EBITDA(x)	12.5	12.5	10.3	9.4	7.4
RoE (%)	12.59	13.49	24.86	13.11	14.05

Source: Company, Antique

Valuations

We have valued KNR using the sum-of-the-parts (SoTP) method of valuation, considering the company's presence in two segments; construction and road BOT. The construction/road BOT businesses have been valued using the comparative P/E valuation and discounted cash flow (DCF) method respectively.

Construction business

KNR has a construction backlog of ~INR 34 bn as on 31 March 2015. Over and above this, KNR is L1 on orders worth INR11bn. Including the L1 orders, the order backlog stands at INR45bn, 4.5x TTM revenues. The healthy order backlog provides high revenue growth visibility for the next three years. **We have valued KNR's construction business by assigning a P/E multiple of 15x FY18e EPS of INR 44.4 per share.** Value per share of the construction business is INR 666 per share.

Road BOT business

KNR has four road BOT projects under its portfolio, two in JV with Patel Engineering where KNR has a 40% share. One 100% subsidiary, Kerala BOT and one in a JV with GVR where KNR has a 51% stake, Muzaffarpur Barauni. We have not assigned any value to the two BOT's in a JV with Patel as the same have been securitized with toll collection being utilized largely towards debt repayment. The other two projects have been valued at 0.5x equity invested or INR36 per share.

Break up of target price

Particulars	Method	Per share value
Construction (A)	PER of 15x FY18E	666
BOT (B)	0.5x Equity Invested	36
Target Price (A+B)		**703**

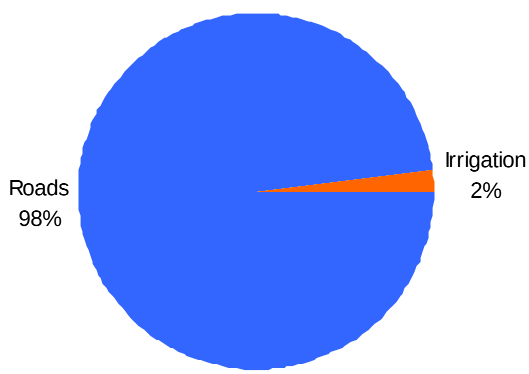
Source: Antique

Background

Incorporated in 1995 to undertake civil and mechanical works, KNR Constructions has over the period grown into a leading Engineering Procurement and Construction (EPC) player with experience in the roads and highways, irrigation and urban water infrastructure segment. Over the period, KNR has also progressed from being the pure EPC player to an asset owner by taking up four road BOT projects (two on annuity and two on toll).

EPC segment: The pure EPC segment remains the core segment of the company contributing over 90% to the consolidated revenues. Within the EPC segment, the company primarily undertakes projects in the roads and highways segment and the irrigation segment. Roads has typically accounted for over 90% of the EPC order backlog for the company. KNR is L1 on a irrigation order worth INR9bn, this should lead to an increase in the share of irrigation in the total order backlog to ~20% in 1QFY17e.

Order Backlog dominated by roads; share of irrigation to increase to ~20% in 1QFY17e



Source: Company, Antique

BOT segment: In the BOT segment, the company has taken up four projects till date, two annuity and two toll projects. The first two projects are in a JV with Patel engineering, one is in a JV with GVR and one is a 100% owned project in Kerala.

BOT project details (INRm)

Particulars	Stake (%)	Length (km)	Toll/ Annuity	Project cost	Debt	Equity	Grant
Patel KNR Heavy Infrastructures	40	53	Annuity	5,975	4434	1,541	-
Patel KNR Infrastructures	40	61	Annuity	4,718	3724	994	-
KNR Walayar	100	54	Toll	9,005	5,000	1,359	2,646
KNR Muzaffarpur - Barauni	51	107	Toll	4,050	2,820	1,230	-
Total		275		23,748	15,979	5,123	2,646

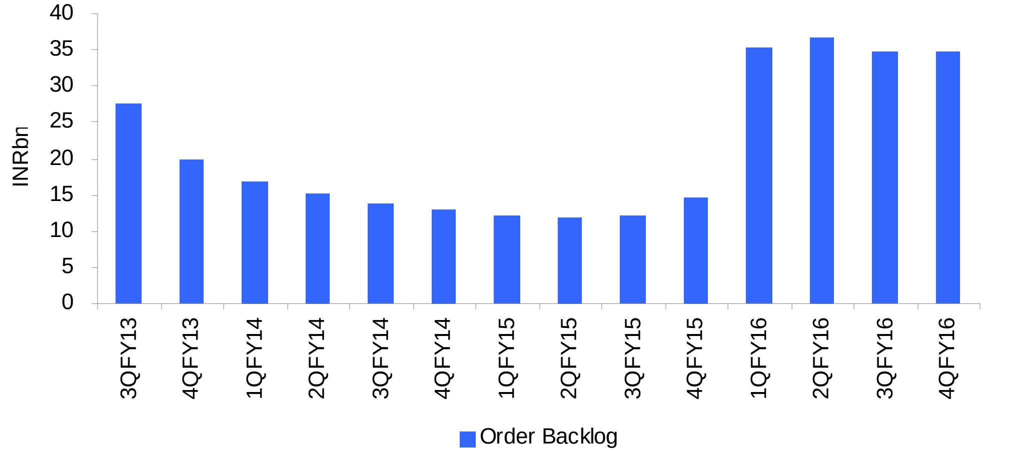
Source: Company, Antique

Investment Thesis

Strong order backlog; high growth visiblity

KNR being a strong player in the EPC segment is expected to be one of the key beneficiaries of an uptick in awarding. We expect KNR's order backlog to grow at a CAGR of 21% over FY16-18e. With new order wins of over INR29bn in FY16, KNR has improved its order backlog position to ~INR34bn as on 31Mar'15. Over and above this, KNR is L1 on orders worth INR11bn which would take the total order backlog to ~INR45bn. The order backlog position (Including L1) stands at ~4.5x TTM sales and provides a strong revenue growth visibility for the next three years. We expect ~INR43bn worth of order wins over the next 2 years leading to revenue CAGR of 30% over FY16-18e.

Order backlog of INR34bn + L1 of INR11bn provides strong visibility

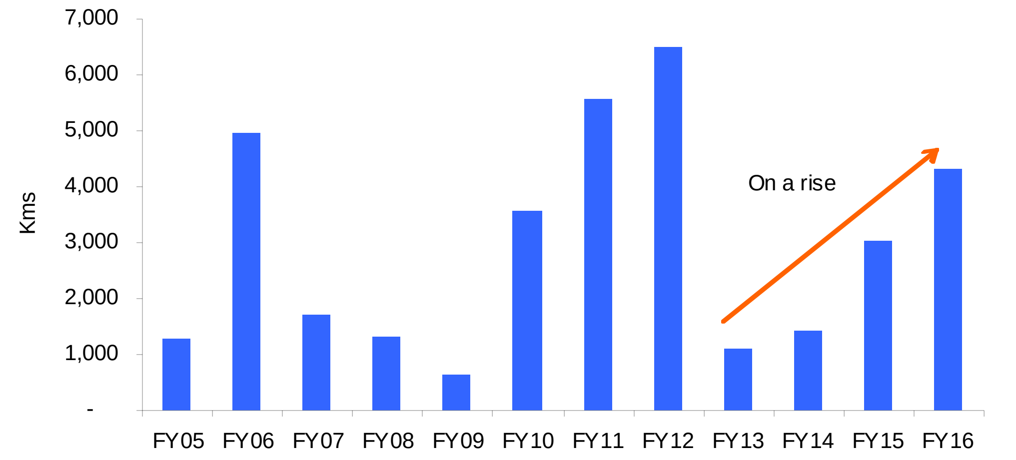


Source: Company, Antique

Roads sector to see a pickup in awarding

FY12 witnessed the highest road project awards (~6,500km) in any given year by NHAI, post which there was slowdown in FY13-14, with awarding at 1,100km in FY13 and ~1,400km in FY14. After almost three years of subdued awarding, the roads sector has seen a pick-up in FY16. As against the targeted 5,200 kms, NHAI has awarded 4,300kms in FY16. Over and above this, Ministry of Road Transport and Highways (MoRTH) has awarded another ~5,000kms in FY16. For FY17e, the target for awards has been set at an ambitious 25,000kms of which NHAI is targeting awards of 10,000kms and another 15,000kms is expected to be awarded by MoRTH. We are of the view that the combined awards should improve to ~13,000 - 14,000 between NHAI and MoRTH in FY17e. We expect NHAI awards to stand at ~6,000kms. The ordering by NHAI for FY16 has been skewed towards EPC with awards of ~3,000 kms of total 4,200kms (BOT awards at 800kms and Hybrid annuity at 351kms). We believe, FY17e will see a fairly large share of projects awarded through the hybrid route. Of the 6,000 expected, ~3,000-3,500kms is expected to be awarded through the EPC route, ~2000-2500 through the hybrid route and the remaining through BOT toll and annuity. KNR has a strong presence in the EPC mode and is also looking to start bidding for projects awarded on the hybrid mode. KNR is expected to benefit from an increased award through both these segments. We expect KNR's order backlog to grow at a CAGR of 21% over FY16-18e.

NHAI awarding on a rise



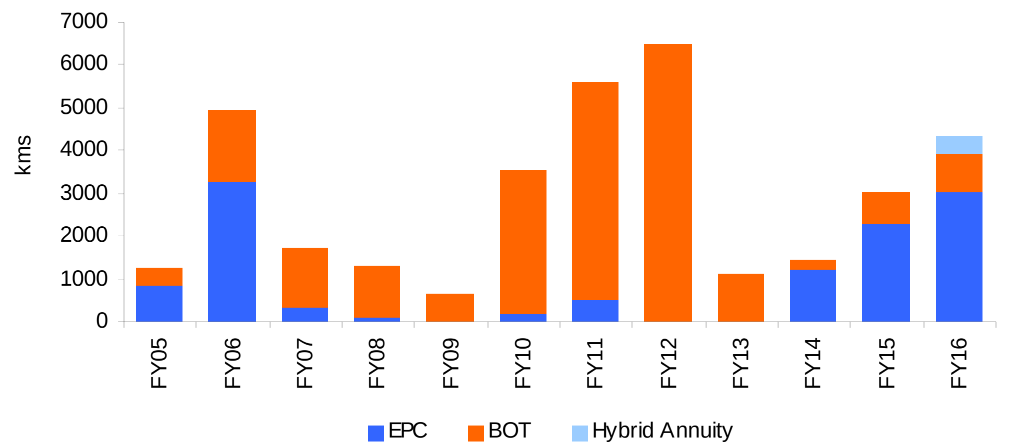
Source: Company, Antique

NHDP Progress

Phase (Kms)	Total Length	Already 4/6 laned	Under Implementation	Balance to be awarded
Golden Quadrilateral	5,846	5,846	-	-
NSEW	7,142	6,463	422	257
Phase III	11,809	6,923	3,244	1,642
Phase IV	13,203	2,234	5,207	5,762
Phase V	6,500	2,391	729	3,380
Phase VI	1,000	-	165	835
Phase VII	700	22	81	597
Others	2,280	2,030	250	-
Total opportunities in NHDP				**12,473**

Source: Company, Antique

EPC to remain the dominant form of awarding

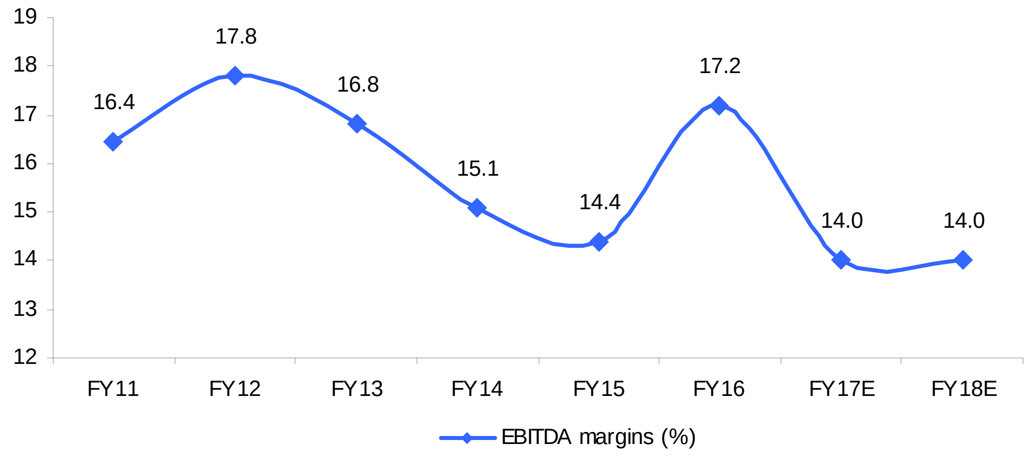


Source: Company, Antique

Stable margins....better than peers

KNR has consistently maintained EBITDA margins at over 14% from FY09 till date. This is higher than most of the peers like NCC, HCC, Simplex etc. Due to cost control measures (own equipment, having queries closer to site and focus on completion of projects in a timely manner/earlier), we expect the Co maintains its margins at over 14% in FY17/18e.

EBITDA margins at over 14% FY09 till date

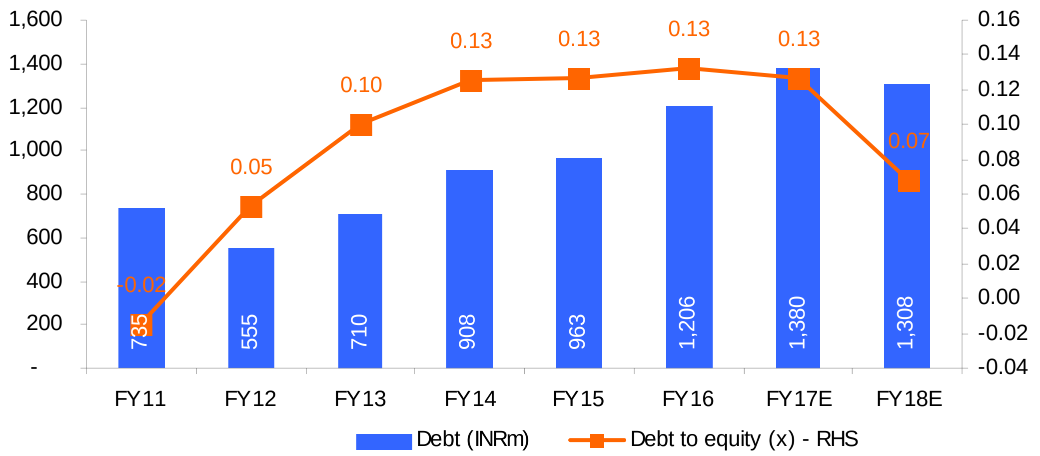


Source: Company, Antique

Comfortable liquidity position and relatively lower leverage as compared to peers

KNR has successfully managed its debt/equity ratio at very comfortable levels of 0.1x for FY16 and is the lowest amongst its peers. The EPC arm continues to generate strong FCF of ~INR0.8-1bn and the company has decided to stay away from capital intensive BOT toll business which should help keep leverage levels under check. Given the low leverage levels, we believe KNR will be able to bid aggressively for new projects both in the EPC segment and hybrid annuity leading to strong order book growth of 21% CAGR over the next two years.

Comfortable net debt to equity at 0.13x



Source: Company, Antique

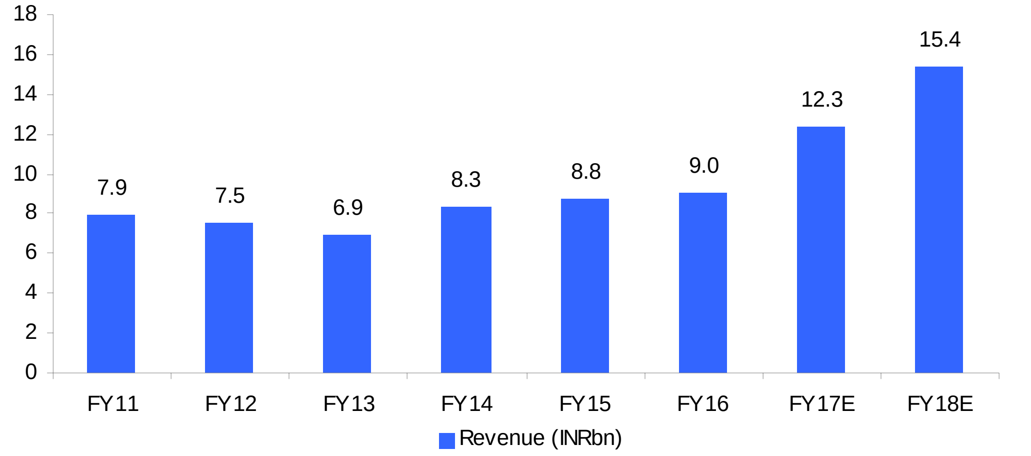
Focus on EPC segment; strong execution to maintain growth

KNR's experience in the BOT projects has not been very good especially in the case of Kerala BOT where the actual traffic has been below initial estimates. Performance of the other three BOT projects has not been very encouraging either. Hence, KNR has decided to focus on participating in EPC segment.

KNR has displayed a strong execution track record in the past with completion of 5,888 lane kms of roads under the EPC segment and 4 operational BOT projects. Due to its strong execution skills it has pre-commissioned many projects with latest being the construction of the Bijapur - Hungund road project in 582 days, 328 days ahead of schedule. Timely execution of projects has helped the company become a preferred EPC player for many developers/ authorities. Focus on execution along with a strong order backlog is expected to translate into a strong revenue growth CAGR of 30% over FY16-18e.

Strong order backlog to lead to revenue growth

Revenue on an uptrend

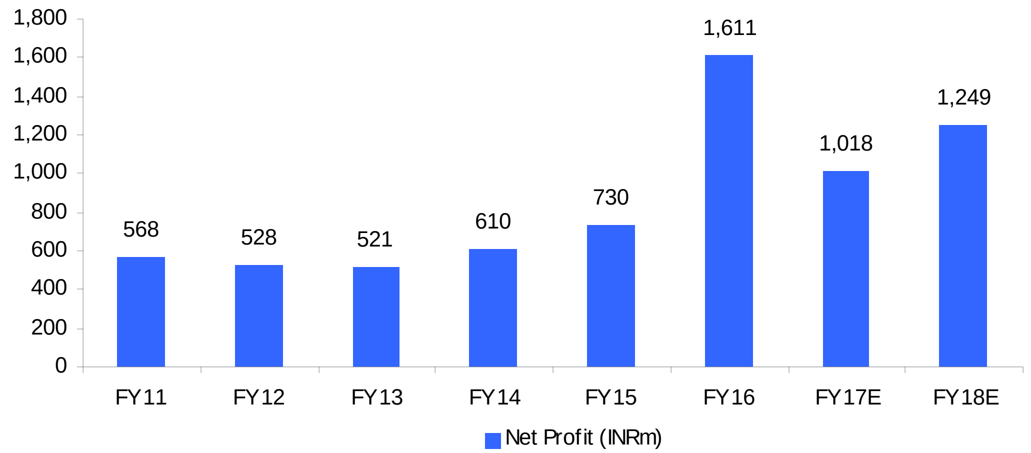


Source: Company, Antique

Profitability to remain strong

FY16 was an exceptional year with EBITDA margins touching 17% owing to write back of provisions. Apart from the EBITDA margins, tax write backs also helped the profit performance for FY16 to increase by 120% over FY15. We expect EBITDA to taper down to normal levels of 14% from FY17e and tax rate to increase to 21% which would lead to a decline in earnings. However, strong revenue growth along with stable margins are expected to help FY18e profit performance increase by 23% over FY17e

Net profit



Source: Company, Antique

Key Risks

Delay in completion of project

Delay in execution could lead to cost over runs and claims for liquidated damages from the clients. However, given the past track record of early/timely completion, we remain confident of KNR's ability to complete the projects in a timely manner.

High reliance on one segment

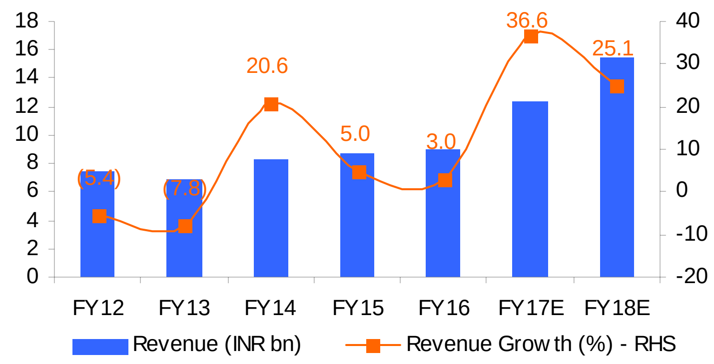
KNR's order backlog has historically been dominated by the roads segment. Even though it has a presence in the irrigation segment as well, focus has remained on the roads segment which constitutes over 90% of the order backlog. Dependence on one sector makes the company susceptible to any major changes in the sector dynamics.

Slowdown in awarding

The key variable to a sustained growth in revenues and in turn profitability is order inflows. If the ordering slows down from NHAI and MoRTH, it could come to adversely impact the company's performance. However, the company already has sufficient order backlog to ensure growth momentum for three years. Moreover, order awarding is expected to remain strong at least till FY18.

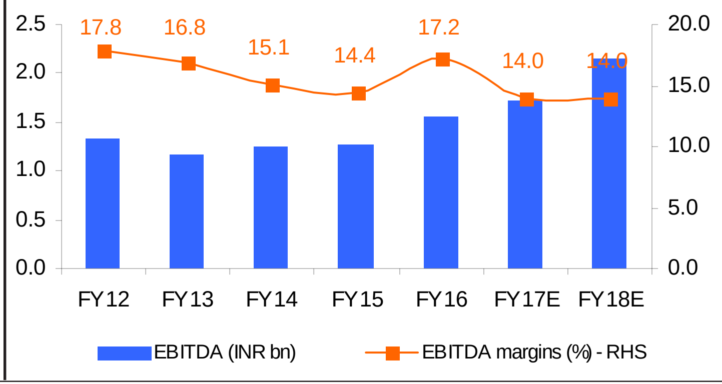
Financial Analysis

Revenue growth led by healthy order backlog



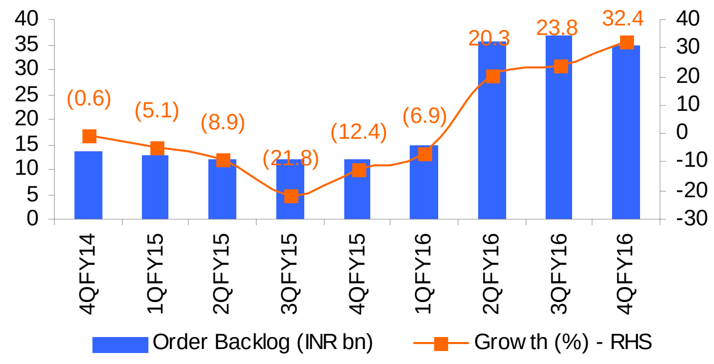
Source: Company, Antique

Industry leading EBITDA margins at over 14%



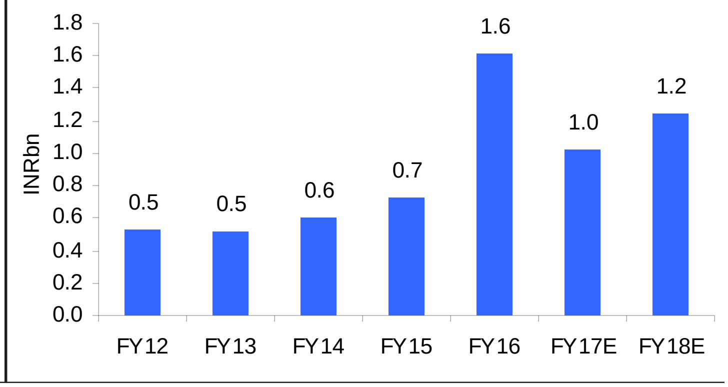
Source: Company, Antique

Order backlog robust after healthy order inflows



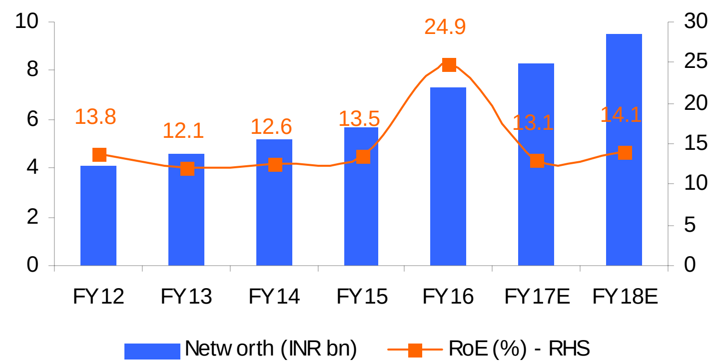
Source: Company, Antique

Net profit



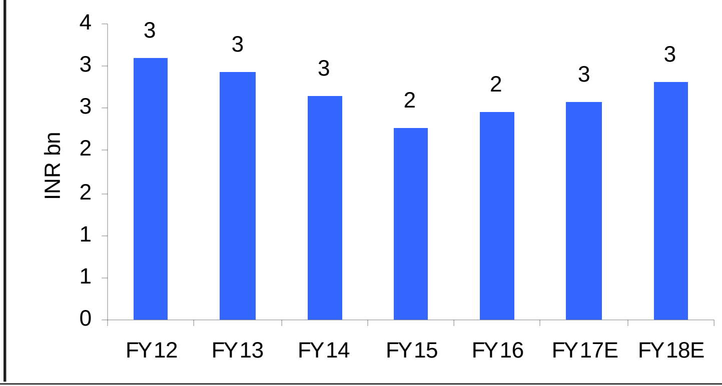
Source: Company, Antique

RoE at 14%, better than most peers



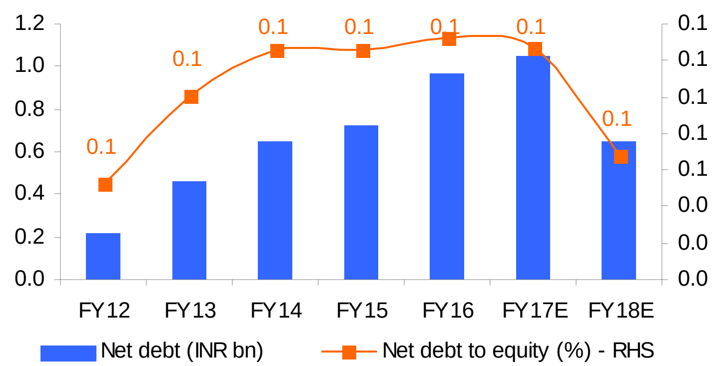
Source: Company, Antique

Net block - to increase slightly



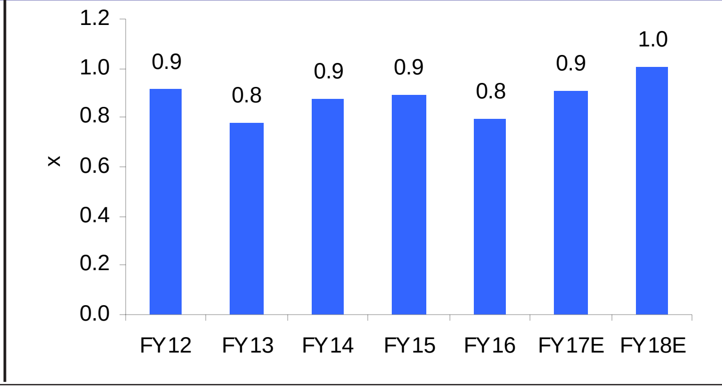
Source: Company, Antique

Net debt to equity at 0.1x, to reduce further



Source: Company, Antique

Asset turnover to see an improvement



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	**8,348**	**8,761**	**9,024**	**12,323**	**15,418**
Op. Expenses	(7,090)	(7,500)	(7,471)	(10,598)	(13,259)
EBITDA	**1,258**	**1,261**	**1,553**	**1,725**	**2,158**
Depreciation	(572)	(541)	(431)	(481)	(532)
EBIT	**686**	**721**	**1,122**	**1,244**	**1,627**
Other income	155	125	305	200	200
Interest Exp.	(172)	(122)	(126)	(155)	(161)
Reported PBT	**669**	**723**	**1,301**	**1,289**	**1,666**
Tax	(59)	7	310	(271)	(416)
Reported PAT	**610**	**730**	**1,611**	**1,018**	**1,249**
Net Profit	**610**	**730**	**1,611**	**1,018**	**1,249**
Adjusted PAT	**610**	**730**	**1,611**	**1,018**	**1,249**
Adjusted EPS (INR)	**21.7**	**26.0**	**57.3**	**36.2**	**44.4**

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	281	281	281	281	281
Reserves & Surplus	4,852	5,411	6,988	7,991	9,224
Networth	**5,133**	**5,692**	**7,270**	**8,272**	**9,505**
Debt	908	963	1,206	1,380	1,308
Net deferred Tax liabilities	(118)	(239)	(276)	(276)	(276)
Capital Employed	**5,923**	**6,416**	**8,200**	**9,376**	**10,537**
Gross Fixed Assets	5,252	5,482	6,112	6,712	7,462
Accumulated Depreciation	2,615	3,239	3,670	4,151	4,683
Capital work in progress	3	26	26	26	26
Net Fixed Assets	**2,640**	**2,269**	**2,468**	**2,587**	**2,806**
Investments	400	315	434	505	505
Non Current Investments	248	228	355	355	355
Current Investments	152	87	79	150	150
Current Assets, Loans & Adv	**6,387**	**7,211**	**9,603**	**10,945**	**12,653**
Inventory	341	359	353	506	634
Debtors	1,171	1,765	1,294	1,857	2,429
Cash & Bank balance	112	157	161	178	513
Loans & advances and others	4,764	4,930	7,794	8,404	9,077
Current Liabilities & Provs	**3,505**	**3,379**	**4,305**	**4,662**	**5,426**
Liabilities	3,068	3,070	3,772	3,858	4,477
Provisions	437	309	533	803	949
Net Current Assets	**2,882**	**3,832**	**5,298**	**6,284**	**7,226**
Application of Funds	**5,923**	**6,416**	**8,200**	**9,376**	**10,537**

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	28	28	28	28	28
Diluted no. of shares (m)	28	28	28	28	28
BVPS (INR)	182.52	202.40	258.49	294.13	337.99
CEPS (INR)	1.33	6.74	41.96	19.11	25.52
DPS (INR)	-	-	-	-	-

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	15.1	14.4	17.2	14.0	14.0
EBIT Margin(%)	8.2	8.2	12.4	10.1	10.6
PAT Margin(%)	7.17	8.22	17.27	8.13	8.00

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	**669**	**723**	**1,301**	**1,289**	**1,666**
Depreciation & amortisation	572	541	431	481	532
Interest expense	172	122	126	155	161
(Inc)/Dec in working capital	(891)	(681)	(1,147)	(647)	(252)
Tax paid	(141)	(114)	273	(271)	(416)
Less: Interest/Dividend Income Received	(155)	(125)	(305)	(200)	(200)
CF from operating activities	**226**	**467**	**679**	**808**	**1,490**
Capital expenditure	(134)	(253)	(630)	(600)	(750)
Inc/(Dec) in investments	83	85	(119)	(71)	-
Add: Interest/Dividend Income Received	155	125	305	200	200
CF from investing activities	**104**	**(43)**	**(444)**	**(471)**	**(550)**
Inc/(Dec) in debt	197	56	243	174	(72)
Dividend Paid	(33)	(33)	(34)	(34)	(34)
Others	(455)	(401)	(440)	(460)	(499)
CF from financing activities	**(291)**	**(378)**	**(231)**	**(320)**	**(605)**
Net cash flow	**40**	**45**	**4**	**17**	**335**
Opening balance	72	112	157	161	178
Closing balance	**112**	**157**	**161**	**178**	**513**

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	20.61	4.95	3.00	36.55	25.11
EBITDA(%)	8.03	0.28	23.11	11.09	25.11
Adj PAT(%)	16.98	19.73	120.67	-36.79	22.67
Adj EPS(%)	16.98	19.73	120.67	-36.79	22.67

Valuation (x)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
P/E	24.8	20.7	9.4	14.8	12.1
P/BV	2.9	2.7	2.1	1.8	1.6
EV/EBITDA	12.51	12.54	10.34	9.36	7.38
EV/Sales	1.89	1.81	1.78	1.31	1.03
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	12.59	13.49	24.86	13.11	14.05
RoCE (%)	15.08	13.70	19.53	16.43	18.35
Asset/T.O (x)	1.63	1.51	1.30	1.48	1.63
Net Debt/Equity (x)	0.13	0.13	0.13	0.13	0.07
EBIT/Interest (x)	-4.89	-6.91	-11.34	-9.31	-11.33

Source: Company Antique

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Antique Stock Broking Limited

20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013
Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445
www.antiquelimited.com