

# Gammon Infrastructure

Bloomberg: GISP IN Equity

Reuters: GAIN.BO

Recommendation: BUY

No Change



## EVENT UPDATE

## Tolling to Begin on Mumbai-Nashik Expressway

### Mumbai-Nashik toll notification

Gammon Infrastructure Project Ltd. (GIPL) has announced commencement of tolling on the Mumbai-Nashik Expressway for the first 50km from the Nashik end. The toll notification should be communicated through the media soon. We have assumed a toll rate of Re0.7/km while the expected toll rate would be about Re0.78/km. Taking into account the new toll rate would result in upgradation of our target price (TP) by 5% to Rs37.5.

The Mumbai-Nashik project COD was delayed earlier and with its start-up likely, near term cash flow visibility should improve, which would trigger a re-rating on the stock. We believe, in the next six months, the remaining 50km stretch should also be operational.

The company is considering monetising key assets and is also bidding for new BOT projects.

### Other developments

GIPL is qualified to bid for the Dhaka elevated expressway. It has tied up with Bouygus Travaux (consortium India-France) for this project, the project cost could be about US\$1.2bn Gammon Infra will have 75% stake in the JV. The project is expected to be finalised in the next 2-3 months.

We remain bullish on overall prospects of the company and maintain our positive stance with a SOTP of Rs37.5

### Key financials

YE March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Operating income	1,477.0	1,594	1,905	3,182	4,136
EBITDA	1,182.7	1,149	1,133	1,397	2,943
Net profit	269.5	183	326	257	592
EPS (Rs)	5.4	0.3	0.5	0.4	0.8
RoE (%)	12.9	4.6	5.7	4.0	8.7
RoCE (%)	12.3	4.1	4.5	2.7	4.5
P/E (x)	29.2	110.6	62.1	78.9	34.3
Operating income	1,477.0	1,594	1,905	3,182	4,136
EBITDA	1,182.7	1,149	1,133	1,397	2,943

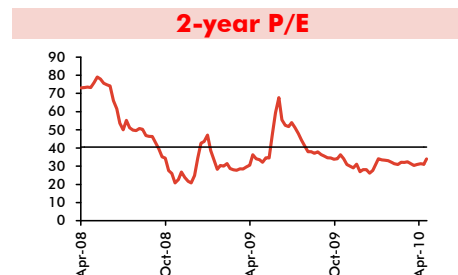
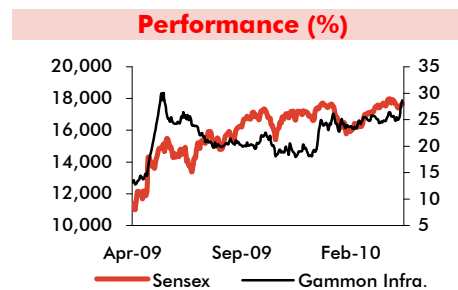
Source: Company, Ambit Capital research

Ambit Capital and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, investors should be aware that Ambit Capital may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Please refer to disclaimer section on the last page for further important disclaimer.

Recommendation	
CMP: Rs	29
Target Price (Period): Rs	37.5
Previous TP: Rs	36
Upside- (%)	30
EPS (FY10): Rs	0.4
% change from previous	0
Variance from consensus (%)	NA

Stock Performance (%)				
	1M	3M	12M	YTD
Absolute	17.6	18.6	116.9	22.4
Rel. to Sensex	16.2	13.2	36.7	21.0



Stock Information	
Mkt cap:	Rs20,768mn/USD466mn
52-wk H/L:	31 / 12
3M Avg. daily vol.(mn):	3
Beta(x):	1.2
BSE Sensex:	17,574
Nifty:	5,269

Source for all the above charts & tables: Bloomberg, Ambit Capital research

Analyst contact  
**Parikshit Kandpal**  
 Tel.: + 91-(022) 3043 3201  
 parikshikandpal@ambitcapital.com

**Dhirendra Tiwari**  
 Tel.: + (022) 3043 3241  
 dhirendratiwari@ambitcapital.com

**Exhibit 1: Balance sheet**

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
Gross Block	6,930	7,191	16,009	20,406
Accumulated depreciation	1,412	1,863	2,425	3,406
Fixed assets	5,518	5,328	13,585	17,000
Capital work in progress	6,302.9	12,004.7	15,684	21,467
Cash	2,703.4	2,314.0	714	1,918
Net current assets	348.0	165.7	249	373
Goodwill	10.9	38.1	38	38
Investments	989.2	64.8	65	65
Miscellaneous exp.	10.5	19.7	20	20
<b>Total assets</b>	<b>15,883</b>	<b>19,935</b>	<b>30,354</b>	<b>40,880</b>
Debt	10,336.9	13,360.2	23,488	33,263
Minority Interest	235.3	258.7	292	452
Deferred tax liability	85.0	34.9	35	35
<b>Total liabilities</b>	<b>10,657</b>	<b>13,654</b>	<b>23,815</b>	<b>33,750</b>
Shareholders' equity	1,420.7	1,444.13	1,444	1,444
Reserves & surpluses	3,793.6	4,811.2	5,068	5,660
Esops	11.4	25.8	26	26
<b>Total networth</b>	<b>5,226</b>	<b>6,281</b>	<b>6,538</b>	<b>7,130</b>
<b>Total liabilities &amp; equities</b>	<b>15,883</b>	<b>19,935</b>	<b>30,354</b>	<b>40,880</b>

Source: Company, Ambit Capital research

**Exhibit 2: Income statement**

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Operating income</b>	<b>1,593.8</b>	<b>1,904.9</b>	<b>3,182.0</b>	<b>4,135.5</b>
% growth	7.9%	19.5%	67.0%	30.0%
Operating expenditure	445.2	771.5	1,784.6	1,192.5
<b>EBITDA</b>	<b>1,148.6</b>	<b>1,133.4</b>	<b>1,397.4</b>	<b>2,943.1</b>
% growth	-2.9%	-1.3%	23.3%	110.6%
Depreciation	416.1	433.5	561.9	981.5
EBIT	732.5	699.9	835.5	1,961.6
Interest expenditure	512.8	512.0	541.4	1,091.9
Non-operational income/exp	107.2	210.4	100.3	102.1
<b>PBT</b>	<b>326.9</b>	<b>398.3</b>	<b>394.4</b>	<b>971.8</b>
Tax	122.5	48.7	104.0	220.0
Profit for the Year	204.4	349.6	290.4	751.8
% growth	-24.2%	71.1%	-16.9%	158.9%
Minority Interest	20.9	23.2	33.3	160.0
<b>Net profit</b>	<b>183.4</b>	<b>326.4</b>	<b>257.12</b>	<b>591.8</b>
% growth	-26.2%	77.9%	-21.2%	130.2%

Source: Company, Ambit Capital research

**Exhibit 3: Cash flow statement**

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
PAT	183	326	257	592
Depreciation	416	433	562	981
Net working capital	252	182	(83)	(124)
<b>Cash flow from operating activities</b>	<b>852</b>	<b>942</b>	<b>736</b>	<b>1,449</b>
Capital expenditure	(4,458)	(5,962)	(12,498)	(10,180)
Others	74	(46)	33	160
Investments	(935)	924	0	0
<b>Cash flow from investing activities</b>	<b>(5,319)</b>	<b>(5,084)</b>	<b>(12,465)</b>	<b>(10,019)</b>
Incr (decr) in borrowings	3,659	3,023	10,128	9,775
Issuance of equity	2,221	729	0	0
Net dividends	0	0	0	0
<b>Cash flow from financing activities</b>	<b>5,880</b>	<b>3,752</b>	<b>10,128</b>	<b>9,775</b>
Net change in cash	1,412	(390)	(1,600)	1,205
<b>Closing cash balance</b>	<b>2,703</b>	<b>2,314</b>	<b>714</b>	<b>1,918</b>

Source: Company, Ambit Capital research

**Exhibit 4: Ratio analysis**

Year to March (%)	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	72.1	59.5	43.9	71.2
EBIT margin	46.0	36.7	26.3	47.4
PAT Margin (%)	11.5	17.1	8.1	14.3
Return on capital employed	4.1	4.5	2.7	4.5
Return on equity	4.6	5.7	4.0	8.7

Source: Company, Ambit Capital research

**Exhibit 5: Valuation parameters**

Year to March	FY08	FY09	FY10E	FY11E
EPS (Rs)	0.3	0.5	0.4	0.8
Diluted EPS (Rs)	0.3	0.5	0.4	0.8
Book value per share (Rs)	7.2	8.7	9.0	9.8
P/E (x)	110.6	62.1	78.9	34.3
P/BV (x)	3.9	3.2	3.1	2.8
EV/EBITDA (x)	23.4	27.6	30.8	17.5
EV/Sales (x)	16.9	16.4	13.5	12.5

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

## Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

### Additional information on recommended securities is available on request.

#### DISCLAIMER

1. If you are dissatisfied with the contents of this complimentary Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the Report and AMBIT Capital Private Limited ("AMBIT Capital") shall not be responsible and/ or liable in any manner.
2. This Report has been issued by AMBIT Capital for the information of its clients/potential clients only.
3. If this Report is received by any client of an affiliate of AMBIT Capital, in addition to the provisions setout in this Disclaimer, its provision to the recipient is subject to the terms of business in place between the AMBIT Capital and such affiliate.
4. AMBIT Capital is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI.
5. This Report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. If 'Buy', 'Sell', or 'Hold' recommendation is made in this Report such recommendation or view or opinion expressed on investments in this Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Report are those of the analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
7. AMBIT Capital makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital or the analyst(s).
8. The information, opinions and views contained within this Report are based upon publicly available information and rates of taxation at the time of publication which are subject to change from time to time without any prior notice. Reports may be updated anytime without any prior notice to any and/ or all client(s).
9. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this Report.
10. Please note that past performance is not necessarily a guide to evaluate future performance.
11. AMBIT Capital and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).
12. Affiliate(s) of AMBIT Capital may from time to time render advisory and other services to companies being referred to in this Report and receive compensation for the same.
13. AMBIT Capital may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies.
14. AMBIT Capital may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report.
15. This Report should be read and relied upon at the sole discretion and risk of the client.
16. The value of any investment made at your discretion based on this Report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.
17. This Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
18. Neither AMBIT Capital nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this Report or inability to use or access our service or this Report.

© Copyright 2006 AMBIT Capital Private Limited. All rights reserved.

**Ambit Capital Pvt. Ltd.**  
 Ambit House, 3rd Floor  
 449, Senapati Bapat Marg, Lower  
 Parel, Mumbai 400 013, India.  
 Phone : +91-22-3043 3000  
 Fax : +91-22-3043 3100