



Maytas Infra Limited

Equity Research Desk

(MIL)

www.maytasinfra.com

September 26, 2007

IPO - ANALYSIS

SUBSCRIBE (at lower band)

Issue Open: September 27, 2007
Issue Close: October 04, 2007

Sector: Construction - Civil / Turnkey - Medium / Small

Price Band
Rs. 320 - Rs. 370

Issue Summary	(Shares in million)
Total Equity Share in Issue	8.85
Employee Reservation Portion	-
Net Issue To The Public	8.85
Of Which Reserved for:-	
QIB	5.31
Non - Institutional	0.88
Retail	2.66
Equity Share Outstanding	
Prior to the issue	50.00
After the issue	58.85

Financial Snapshot	(Rs. In Million)			
	FY 2007	FY 2006	FY 2005	FY 2004
Sales	7,727.14	3,883.73	2,886.71	2,037.03
Total Income	7,768.19	3,894.19	3,455.99	2,063.68
Optg Profit	1,276.33	467.10	179.77	100.86
Net Profit	529.03	262.19	579.45	62.22
EPS*	8.99	4.46	9.85	1.06
Share capital	500.00	100.00	100.00	100.00
Res&Surplus	2,105.61	2,061.06	1,810.27	1,242.12
Networth	2,605.61	2,161.06	1,910.27	1,342.12
Total Debt	6,641.10	1,065.67	549.52	301.50
Book Value*	44.28	36.72	32.46	22.81

*The no. of shares are of the post issue equity i.e. 58.85 mn shares.

Company Snapshot

- MIL has shown a CAGR of 56% in topline, 133% in EBITDA & 104% in bottomline in the last three years.
- Investment rationale: Strong order book in both the construction & infrastructure sectors; Experienced management; MIL is entering into higher margin construction contracts in the power, oil & gas infrastructure & railway sectors; Integrated execution with in-house construction & management capabilities; Diversified portfolio across various infrastructure sectors & geographic locations; Ability to meet pre-qualified credentials; Received an award for the fastest growing construction company; Increased ticket size of the contracts & shorter execution time.
- Concerns are: MIL faces a lot of government regulations due to which some project's completion has been delayed in the past; Do not own the Maytas trademark; Relies substantially on government entities for revenues; Faces margin pressure as many contracts & projects are awarded by Gol & state governments; Dependent on sub-contractors; High debt; Stiff competition; Dependency on a few customers in the future for a large portion of revenues.
- The stock is available at a **P/E of 36x & 41x at the lower & upper band of the issue price respectively.**

Shareholding Pattern	(In %)	
	Pre-Issue	Post-Issue
Promoters & PAC	43.13	36.64
Others:		
Corporate Bodies	31.50	26.76
Individuals (incl. HUF)	25.37	21.56
Public (Issue)	-	15.04
Total	100.00	100.00
Total no. of shares	50,000,000	58,850,000

Company Valuation

Multiple	MIL	Industry
Sales (Rs. in million)	7,727.14	340,527.80
Operating Profit (Rs. in million)	1,276.33	39,582.50
RONW (%)	20.30	7.90
OPM (%)	16.52	11.62
NPM (%)	6.85	5.07
P/E (320 & 370)	35.6&41.16	30.62
Price to Book Value (320 / 370)	7.25/8.38	

Objects of the issue:

1. Investment in associate companies.
2. Purchase of construction equipment.
3. Other project related investments & commitments.
4. General corporate purpose & meet the issue expenses.

Industry Scenario

- According to CRIS INFAC, investment in construction is expected to grow to approximately Rs. 6,129 bn in 2007-2011 from Rs. 3,213 bn in 2002-2007, at CAGR of 13.8%. The construction segment constitutes a significant part of infrastructure development.
- Total investments expected in the irrigation segment are Rs. 1,240 bn for 2007-2011. Investments in the irrigation segment are likely to lead to a construction demand of Rs. 744 bn over 2007-2011.
- According to CRISIL, investment in the roads segment is expected to grow by a CAGR of 15.0% over 2007 -2011.
- Over the next five years, real estate investment in India is expected to be twice as much as that made in the previous 5 years. Investments in real estate will be driven primarily by housing, which is expected to account for nearly 90% of the total real estate sector.
- Industrial investments to bolster construction demand by Rs. 1,817 bn over 2007 - 2011.
- The demand projections for power is over 100,000 MW additional generation capacity that must be added by 2012 to bridge the gap between demand & supply of power.
- Gol has a target of US\$150 bn for exports by the year 2008-09 taking India's share in world exports from nearly 0.8% to 1.5%.

Company Background:-

The company was incorporated on May 6, 1988. MIL is a construction company & infrastructure developer. The business is organised into two parts – Construction as a contractor on a contract basis & Infrastructure Development which involves identifying, sourcing, developing, & operating projects in infrastructure sectors. In the construction business, MIL has historically focused on the irrigation, roads and bridges & buildings infrastructure sectors. MIL has a national presence in their construction business i.e. across 12 states of India: Andhra Pradesh, Karnataka, Tamil Nadu, Orissa, Chhattisgarh, Madhya Pradesh, Maharashtra, Himachal Pradesh, Haryana, Gujarat, Uttar Pradesh & Assam. Of late, MIL has diversified their portfolio of construction projects & are now also undertaking civil construction projects in the power, industrial structures, oil & gas infrastructure & railway sectors. MIL are relatively new to the business of infrastructure development. In the infrastructure development business, MIL has completed one road project till now.

Company Snapshot:-

- MIL has shown a CAGR of 56% in topline, 133% in EBITDA & 104% in bottomline in the last three years. On a Y-o-Y basis, MIL has grown at a rate of 99% in topline, 173% in EBITDA & 102% in bottomline.

- Investment rationale: The orderbook of the construction business (along with joint ventures formed by MIL) stood at Rs.35,893.2 mn as of June 30, 2007. Out of this, MIL's orderbook on a stand-alone basis & excluding its share of the orderbook undertaken by these joint ventures, was Rs.26,999.2 mn. Currently MIL has six projects in the roads & power sectors either in the construction phase or in the pre-financial closure, development stage. Five additional infrastructure development projects are in the award stage; MIL is entering into higher margin construction contracts in the power, oil & gas infrastructure & railway sectors; MIL has the ability to provide construction services to third parties as well as to BOT/BOOT projects developed by them. These in-house construction capabilities will distinguish them from pure project developers & enhance their competitiveness; MIL's construction contracts are diversified across six sectors namely irrigation, roads & bridges, buildings & structures, power, oil & gas & railways. Their infrastructure development projects are in the road, power, & ports sectors. MIL has a PAN India presence in 12 states across the country; Ability to meet pre-qualified credentials; MIL has received an award, the "Fastest Growing Construction Company – 3rd Rank", for the year 2006 from "Construction World" magazine; Over the past two fiscal years, the value, or 'ticket size' of irrigation & road contracts awarded by government clients has increased. At the same time, government clients have demanded completion of construction projects in shorter time periods. Generally, contract execution time has fallen from three to four years to the current two to three years.

- Concerns are: MIL faces a lot of government regulations due to which some project's completion has been delayed in the past; Do not own the Maytas trademark; MIL's business is dependent on infrastructure projects undertaken by government entities & funded by governments or international & multi-lateral development finance institutions. Contracts awarded by the GoI & state government entities have historically accounted & is expected in the short- to medium-term will continue to account, for substantially all of the MIL's revenue; MIL's margins on irrigation & road contracts are susceptible to decline, as contracts in these sectors are increasingly awarded by government entities to the lowest bidder, causing MIL to accept lower margins in order to be awarded the contract. Further, MIL also expects lower margins in the future as certain aspects of construction work in the irrigation & roads sectors are commoditised. As a result, MIL's financial results & business prospects may be adversely affected by lower margins, particularly as 48.4% & 29.5% of its unconsolidated revenue was derived from irrigation & road contracts respectively for the fiscal year ended March 31, 2007; Dependent on sub-contractors; The debt of MIL has rose significantly from Rs.1,065.67 mn in FY 06 to Rs.6,641.1 mn in FY 07; Stiff competition in the sector & a lot is depended on the bidding capabilities of the companies with more numbers of unorganised players are entering the market; Dependency on a few customers in the future for a large portion of revenues.

- MIL is trying to identify suitable partners & positioning themselves for expected opportunities in the water & waste water management, special economic zones, urban infrastructure, ports & airport sectors as & when viable opportunities arise.

Industry Scenario:-

- + According to CRIS INFAC, investment in construction is expected to grow to approximately Rs. 6,129 bn in 2007–2011 from Rs. 3,213 bn in 2002–2007, at CAGR of 13.8%. The construction segment constitutes a significant part of infrastructure development.
- + Total investments expected in the irrigation segment are Rs. 1,240 bn for 2007–2011. Investments in the irrigation segment are likely to lead to a construction demand of Rs. 744 bn over 2007–2011.
- + According to CRISIL, investment in the roads segment is expected to grow by a CAGR of 15.0% over 2007 -2011.
- + Over the next five years, real estate investment in India is expected to be twice as much as that made in the previous 5 years. Investments in real estate will be driven primarily by housing, which is expected to account for nearly 90% of the total real estate sector.
- + Industrial investments to bolster construction demand by Rs. 1,817 bn over 2007 – 2011. Industrial investments are likely to be driven mainly by metals and oil and gas investments. Together, these sectors are expected to contribute around 72% of total investments anticipated in key industrial sectors.
- + The demand projections for power is over 100,000 MW additional generation capacity that must be added by 2012 to bridge the gap between demand & supply of power.
- + GoI has a target of US\$150 bn for exports by the year 2008-09 taking India's share in world exports from nearly 0.8% to 1.5%.
- + According to the Annual Report of the Ministry of Civil Aviation for 2006-2007, approximately Rs.141 bn will be invested in the development & modernisation of the Mumbai & Delhi airports over the next 20 years. Investment in airports segment is likely to be Rs.206 bn over 2007–2011 as against Rs.35 bn during 2002–2007. Additionally, the Ministry of Civil Aviation has proposed a modernisation plan of 35 non-metro airports in India over the next five years with an estimated investment of Rs.47 bn.

Valuation:

The stock is available at a P/E of 36x & 41x at the lower & upper band of the issue price respectively of it's FY 2007 EPS of Rs.8.99. The returns shown by MIL are better than it's peer group in terms of RONW, OPM & NPM. So far the revenue from the infrastructure business has not come into picture in any of the financial years, however MIL has certain projects in hand which intends to show good potential in the earning capacity of the business going forward. The order book in the construction business is 4.65 times the revenue earned by MIL in FY 2007 (on a consolidated basis). But the P/E multiple of MIL is slightly higher while comparing to the same (peer group). Therefore, we recommend "Subscribe" at lower band of the issue price.

Company*	Multiple (Times)				EPS	Share Price	Dividend/Share
	EV/EBITDA	P/E	MCAP/SALES	MTBV	(Rs.)	(Rs.)	(Rs.)
MIL at Rs.320 L BAND	19.96	35.60	2.44	7.23	8.99	320.00	0.00
MIL at Rs.370 U BAND	22.26	41.16	2.82	8.36	8.99	370.00	0.00
Gammon India	17.86	38.14	1.61	3.13	11.38	434.00	0.50
Hindustan	22.06	118.86	1.60	4.20	1.21	143.70	0.75
IVRCL Infrastructures	21.75	30.93	2.12	3.38	13.45	416.00	1.00
Simplex	17.26	32.54	6.33	6.33	12.53	407.60	1.60

*Source : Based on annualised figure of FY07 from RHP & Capitaline.

Income Statement*				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Revenues	7,727.14	3,883.73	2,886.71	2,037.03
Accretion / (Decretion) to Work in progress	497.39	57.97	(11.92)	(22.93)
Material consumed	2,071.38	352.35	237.99	137.06
Personnel expenses	247.28	75.42	38.69	33.90
Contract, administrative & selling expenses	4,629.54	1,430.98	1,589.11	1,221.35
Expenses incurred in Joint Ventures	-	1,615.85	829.23	520.93
Operating Expenditure	6,450.81	3,416.63	2,706.94	1,936.17
Operating Income	1,276.33	467.10	179.77	100.86
Other Income	41.05	10.46	569.28	26.65
Gross Profits	1,317.38	477.56	749.05	127.51
Preliminary expenses written off	0.39	-	-	0.02
Finance & Interest charges	246.89	75.98	26.97	18.95
Depreciation	232.69	46.36	28.50	30.54
Profit Before Tax	837.41	355.22	693.58	78.00
Tax	308.38	93.03	114.13	15.78
Profit After Tax	529.03	262.19	579.45	62.22
Extraordinary Items	-	-	-	-
Net Profit	529.03	262.19	579.45	62.22

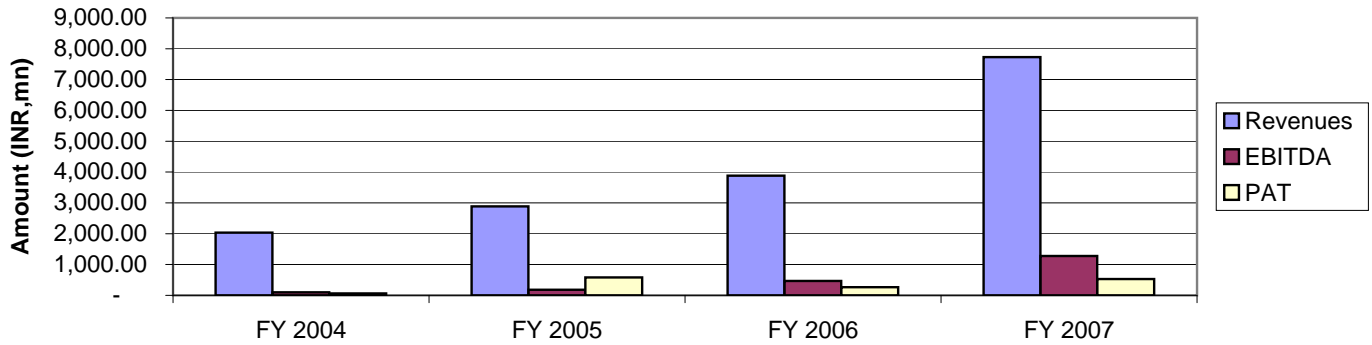
Cash Flow Statement*				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Cash flow from operations	1,245.22	345.28	189.44	100.58
Cash for working capital	(1,261.33)	(210.74)	(529.45)	143.61
Net Operating Cash Flow - A	(132.01)	121.41	(393.29)	203.19
Net (Purchase) / Sale of fixed assets	(2,601.93)	(291.81)	(48.13)	15.06
Net (Purchase) / Sale of investments	(138.57)	(262.26)	32.78	(0.43)
Interest & dividend received	18.41	4.74	7.30	13.79
Others	(165.39)	7.15	205.24	(156.40)
Net Cash Flow From Investing - B	(2,887.48)	(542.18)	197.19	(127.98)
Proceeds from equity	36.40	-	-	-
Proceeds / Repayment from borrowings	4,099.25	516.17	248.03	(18.91)
Dividend & interest paid	(291.33)	(60.86)	(22.29)	(18.89)
Net Cash Flow From Financing - C	3,850.32	455.31	225.74	(37.80)
Net Cash Flow (A+B+C)	830.83	34.54	29.64	37.41
Opening Cash	341.45	180.86	151.22	113.81
Closing Cash	1,172.28	215.40	180.86	151.22

Balance Sheet*				
Rs, mn	FY 2007	FY 2006	FY 2005	FY 2004
Sources of Funds				
Equity Share Capital	500.00	100.00	100.00	100.00
Reserves & Surplus	2,105.61	2,061.06	1,810.27	1,242.12
Share application money	43.99	-	-	-
Networth	2,649.60	2,161.06	1,910.27	1,342.12
Secured Loan	4,237.61	724.66	233.23	156.38
Unsecured Loan	2,403.49	341.01	316.29	145.12
Loan Funds	6,641.10	1,065.67	549.52	301.50
Deferred Tax Liability	56.38	26.10	30.54	27.67
Total Liability	9,347.08	3,252.83	2,490.33	1,671.29
Application of Funds				
Gross Block	2,799.75	560.22	310.95	264.03
Less: Depreciation	418.69	145.39	108.90	90.20
Net Block	2,381.06	414.83	202.05	173.83
Capital work in progress	1,702.84	27.14	-	-
Net Fixed Assets	4,083.90	441.97	202.05	173.83
Investments	780.71	957.64	581.62	49.86
Deferred Tax Asset	0.96	-	-	-
Current Assets				
Inventories	1,175.18	101.29	80.27	69.50
Sundry Debtors	2,877.97	858.60	642.02	436.96
Cash & Bank	1,172.28	215.40	180.86	151.22
Loans & Advances	2,372.42	1,533.12	1,438.98	1,374.50
Less: Current Liabilities & Provisions	3,116.34	855.19	635.47	584.58
Net Current Assets	4,481.51	1,853.22	1,706.66	1,447.60
Total Assets	9,347.08	3,252.83	2,490.33	1,671.29

* The figures shown are on a consolidated basis for FY 2007, 2006, 2005 & 2004.

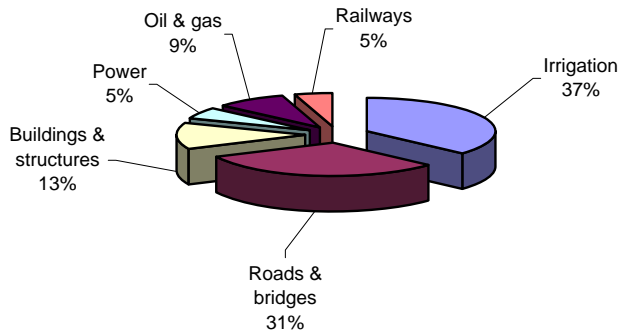
Particulars	FY 2007	FY 2006	FY 2005	FY 2004
RONW	20.30%	12.13%	30.33%	4.64%
OPM	16.52%	12.03%	6.23%	4.95%
NPM	6.85%	6.75%	20.07%	3.05%

Financial Performance

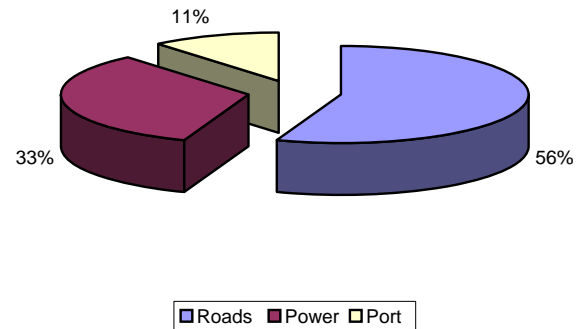


The financial performance is on a consolidated basis.

Construction business orderbook

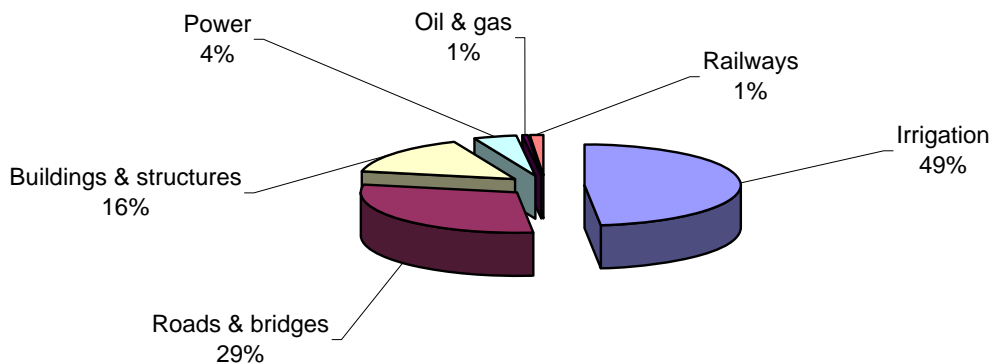


Infrastructure Project Details



The construction business orderbook is inclusive of orders awarded to joint ventures formed by MIL.

Revenue Break-up



Revenue break-up chart is on a standalone basis of revenues earned during FY 2007.



Maytas Infra Limited

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IPO - ANALYSIS

Objects of The Issue:-

Sl. No.	Particulars	Amount (INR,mn)
	Investment in Associate companies:	
1.	(i) Bangalore Elevated Tollway for the construction of the elevated highway project of the Bangalore-Hosur section of NH-7.	277.10
	(ii) KVK Nilachal Power for developing, constructing & commissioning a 300 MW coal-based power plant in Orissa.	1,274.40
	(iii) SV Power for setting up a 56 MW coal washery reject based power plant & a 2.5 million metric tonne p.a. coal washery at Korba District, Chhattisgarh.	342.50
2.	Purchase of construction equipment.	332.90
3.	Other project related investments & commitments.	[•]
4.	General corporate purposes & meet the issue expenses.	[•]
	Total	[•]

At the lower band & the upper band, MIL would be raising approximately Rs,2,832 mn & Rs.3,274.5 mn respectively. Post issue, the market cap based on the lower & upper band would be approximately Rs.18.83 bn & Rs.21.78 bn respectively. The objects of the issue has not been appraised by any bank or any financial institution or an independent organization.

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