

Supreme Infrastructure India Ltd (SIIL) a Mumbai-based company preliminarily focussed on road infrastructure projects, bridges and buildings, is well-poised to post exponential growth backed by robust book-bill position of over 2.8x of its FY'11 revenue. The company has healthy margins owing to its backward integration. In addition, SIIL possess a portfolio of ten BOT projects, the funding of which is largely tied-up, thereby ensuring sufficient revenue visibility over the medium term.

Investor's Rationale

Strong Book-bill position at 2.8x of its FY'11 revenue: SIIL is set to clock impressive growth owing to strong order book of ₹37,720 million executable over the next two years. We estimate the company to post a CAGR of 30.9% and 29.1% in Top-line and Bottom-line over FY'11-13E, respectively.

Backward integration to sustain Margins: The company clocked OPM of 16.5% in FY'11, which is reasonably higher compared to industry standards. This was largely due to savings derived from investments in construction equipment and captive quarries. Going ahead, rising inflationary pressures would put pressure on its 'cost of operations'. However, its backward integration initiatives will help in sustaining the margins.

BOT to ensure stable future cash flows: The burgeoning opportunity in the lucrative Build-Operate-Transfer (BOT) segment has encouraged SIIL to move up the value by foraying into this important segment of growth in an effort to capitalise on India's infrastructure growth story. The company has now 10 BOT projects under its kitty, of which 2 are operational. These projects offer attractive financing opportunities, coupled with high margins, which would propel growth for the Company over the next few years.

Increasing government focus on Infrastructure sector: Eleventh Plan envisages ₹8,000 billion worth of investments in the Infrastructure sector. Though GDP growth is expected to slow down to 7.1% levels, adequate infrastructure needs is in place as the government has shifted its emphasis on the Infra space. With the major drivers in Roads, Irrigation and Urban Infrastructure sphere. The GoI has chalked out a massive plan to add over 8,800km of road network during FY'13. We expect, SIIL to benefit from this huge infrastructural expenditure as it is present in all the three verticals.

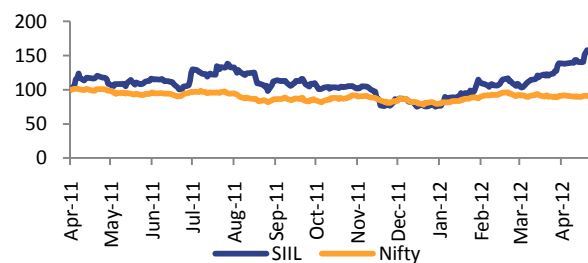
Market Data

Rating	BUY
CMP (₹)	315
Target (₹)	454
Potential Upside	~44%
Duration	Long Term
52 week H/L (₹)	359.9/150.35
All time High (₹)	359.9
Decline from 52WH (%)	12.8
Rise from 52WL (%)	109.5
Beta	0.50
Mkt. Cap (₹ mn)	5,273.1
Enterprise Val (₹ mn)	10,649.8

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	5,576.2	9,472.5	12,977.3	16,221.7
Net Profit(₹mn)	392.0	758.9	956.6	1,265.3
Share Capital	138.8	167.4	167.4	167.4
EPS (₹)	28.2	45.3	57.1	75.6
P/E (x)	11.2	6.9	5.5	4.2
P/BV (x)	2.8	1.9	1.4	1.0
EV/EBITDA (x)	8.2	6.8	5.7	4.7
ROE (%)	25.2	26.9	25.3	25.1
ROCE (%)	14.9	15.8	17.3	19.4

One year Price Chart



Shareholding Pattern

	Mar'12	Dec'11	Diff.
Promoters	56.61	56.84	(0.23)
FII	13.60	6.08	7.52
DII	5.48	6.49	(1.01)
Others	24.31	30.59	(6.28)

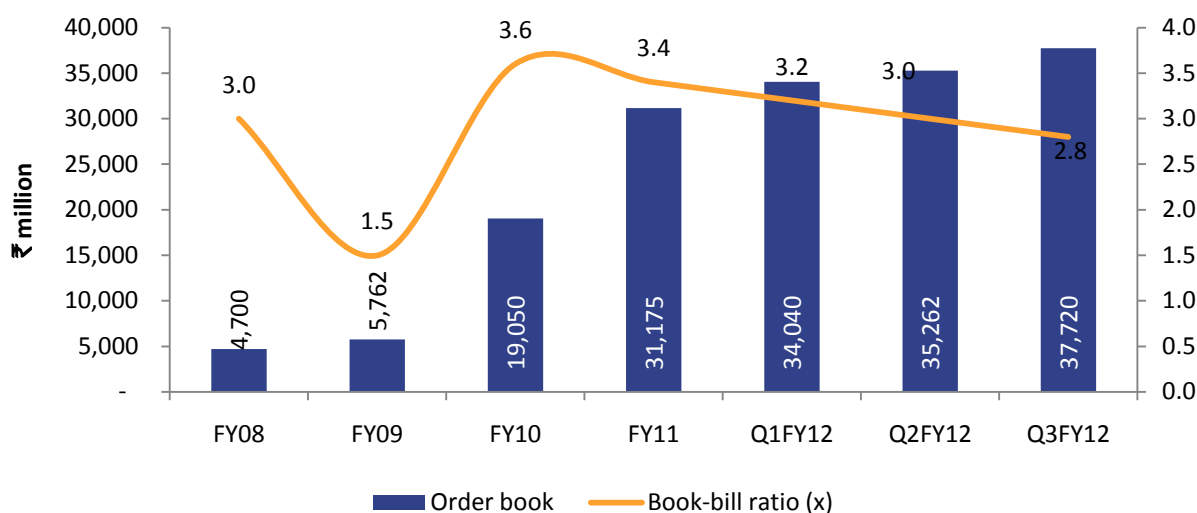


Stellar book-bill ratio of 2.8x of its FY'11 earnings would ensure revenue visibility for next 18-24 months.

Stellar book-bill ratio @ 2.8x provide earning visibility for next 18-24 months

SIIL's current order book stood over ₹37,720 million, which translates into robust book-to-bill ratio of over 2.8x of its FY'11 revenue and providing strong earning visibility in next 18-24 months. When the other player are struggling to bag orders, SIIL is able to grab large size orders and has added over ₹6,300 million of new projects during the last quarter. The order book has been filled by recent order worth ₹3,440 million for construction of houses and widening works, including from North India zone was for ₹1,730 million for construction of 4,560 EWS houses in Delhi as part of low cost housing for urban poor/slum rehabilitation. The order is expected to be completed by December 2013. From West India zone, the company secured orders aggregating ₹1,700 million. These include an order ₹947.9 million for widening and improvement of Shirsad-Ambadi road along with bridges in Maharashtra; ₹561.2 million order for strengthening and resurfacing of roads in Majiwada Mandapada, Thane, with a completion period of six months, and ₹200 million order for construction of Iskon temple at Kharghar, Mumbai.

Book-bill ratio ~ 2.8x of its FY'11 revenue



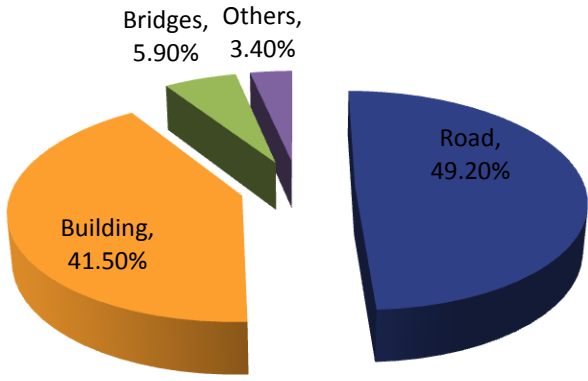
SIIL's order book comprises majority of projects from roads infra space contributing over ~49% of the order book (80% of the same is from the internal BOT orders) followed by the construction segment that accounts for over ~42% of the order book. While nearly half of these orders are internal orders, with shorter execution cycle. This helps it enjoy high book-to-bill conversion ratio. With the improvement in the company's execution capabilities combined with an enhanced Balance Sheet size, it has been able to secure larger ticket size orders.

Further, there is an improvement in order intake on sequential basis, the company has added fresh orders of worth ₹6,303 million during the year till date and in addition, the management is confident to grab at least one large ticket order going ahead. Additionally, the SIIL is L1 bidder in projects worth over ₹4,200 million and is targeting to close the FY'12 with an order book of over ₹42,000 million.



Order book mix

Road infra space contributes over 49% to SILL's order book



Plethora of opportunity in the road network space ~ National Highways

SILL in road infra space, is well poised to capitalize on the high demand for infrastructure in India, particularly in the road network space. Road network exhibited a 2.4% CAGR during FY'01-10 as against increase in passenger and commercial vehicles by 13.6% and 14% respectively during the same period. India has the second largest road network in the world spread across 3.3 million kms, handling more than 70% of freight and 85% of passenger traffic in the country. However, the country's network of Highways or Expressways, measured over 70,934 km comprises only of 2% of the length of total road network. Considering congested structure of the Indian road network and its growing traffic burden, the Government of India has launched major initiatives to upgrade and strengthen National Highways through various phases of the National Highways Development Project (NHDP). In addition, NHAI plans to add 24,406km over the next 5 years (Mar'17) at a total cost over ₹1.5 trillion. With augmented focus of Government of India on developing national highways, NHAI has targeted to award orders worth ~₹570 billion (~8,000kms) during FY'12 and another 1,000kms on Annuity/EPC basis projects are also expected to be awarded in FY'12. While the balance of 16,406km worth over ₹1 trillion is likely to be awarded by NHAI during FY'13E-15E respectively, to various road developers in order to achieve its target of constructing and delivering 24,406km of national highways by 2017. Given the focus and impetus on the road sector, the magnitude of opportunity for the players cannot be undermined from the escalation prospective available in Indian Road sector. Further, given the large number of projects that are still to be bid in the road sector, the magnitude of opportunity for the players cannot be undermined, considering the rich experience the SILL poses, the road ahead becomes easier for the company, as it is well-positioned to win other projects. Recently, the Cabinet Committee, on Infrastructure approved 15 projects totaling 1,184 km at an investment of ₹156.8 billion.

Opportunity canvas is getting bigger in Road infra space.

Order inflow in FY'11 remains dull as NHAI awarded ~ just 5000 km of road against an ambitious target of 12,000 km of roads. However, the traction so far in FY'12 has been good as NHAI awarded ~ over 5,000 km of road (including ~ 400 km of L1) against ~2300 km in full year of FY11. Also the traction of project awards from state government has picked up in the past six months.

We believe the government is taking concerted action to meet the target of building 20kms of highways per day. These include appropriate policy changes, increasing ordering activity and making adequate financing available for the sector.



India Road Network

Categories	Length (Km)
Expressways	332
National Highways	70,602
State Highways	1,54,522
District Highways	25,77,396
Rural & Other Roads	14,33,577
Total Length	4,236,429

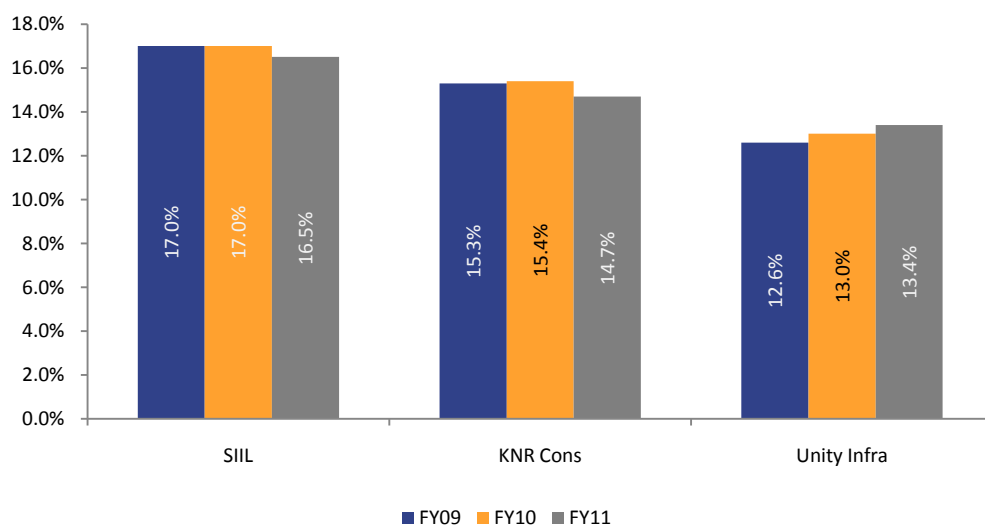
Superior margins on back of backward integration

SIIL is today an infrastructure company that builds roads, bridges, buildings and power distribution platforms. The business model that used to deliver the infrastructure is a minimal out-sourcing model with all inputs supplied internally. Earlier, the company was into quarry mining and asphalt supply. Later, it has forward integrated to the business of construction and now developer. The company has access to four quarry sites at Padga in Maharashtra, Kotputli in Rajasthan and Pathankot in Punjab. Further, SIIL has made substantial investments in fixed assets for crusher and RMC plants across various locations. It invested over ₹600 million for plant and land at Padga to setup In-House Quarrying, RMC, Asphalt and Crusher plants. The company has a quarrying license till 2017 at the Padga plant which not only ensures the resource availability, but also insulates it from any price fluctuations of aggregate supplies which are on the rise. This has made SIIL one of most competitive players in the Maharashtra infrastructure cluster as order from this cluster stands at ₹23.72 billion.

These investments are expected to help the company become self-sufficient in equipment apart from cushioning it against rising operating costs. The company's Operating Margins of 16.5% registered in FY'11, which is reasonably high compared to industry standards, is largely attributable to the savings it has been able to derive out of investing in construction equipment. The above business integration not only insulates margins but ensures timely execution and delivery of the project

Historically SIIL posted over 15% operating margin, above industry average.

Peer Operating Margin Comparison





Details of SIIL's BOT Project

Project	Stake (%)	Length (km)	Total Cost (₹ mn)	Private Equity Fund Stake	Company Stake post PE deal	Construction Period (Mnths)	Concession Period (Yrs)	COD
Kasheli Bridge	10%	8.9	3487	-	-	36	23.5	Sep'11
Nagar Kopergaon	100%	55	2340	49%	51%	0.5	6.5	Jan'12
Manor Wada Bhiwandi	74%	64.3	4300	-	-	24	23	Oct'12
Jaipur Ring Road	40%	23	10450	-	-	30	28	Jan'14
Panvel Indapur	64%	84	12500	31%	33%	30	23	Sep'13
Ahmednagar-Karmala-Tembhurni	100%	61.1	5400	49%	51%	36	22	Apr'14
Sangli Shirol	90%	55	3300	44%	46%	24	22	Feb'14
Patiala -Malerkotla	100%	55.7	930	-	-	4	13	May'12
Haji Malang	80%	1.2	850	-	-	24	22	-

Ventured into BOT, would ensure stable future cash flow. SIIL has a portfolio of 10 BOT projects.

BOT projects to cushion margins

SIIL forayed into the lucrative segment of BOT projects, after achieving expertise in executing more complex projects. BOT offers immense opportunity for private developers who can execute the projects in time. SIIL entered this space through its 100% subsidiary, Supreme Infrastructure BOT Pvt. Ltd. (Supreme BOT). Currently, it has a portfolio of ten BOT projects out of which two are operational. Recently, it has bagged the order of worth ₹1.17 billion from Punjab Works Department (B&R). The project is for Development and Operation & Maintenance of Kotkapura-Muksar Road (SH-16) in the State of Punjab, to be executed in joint venture with SPML Infra.

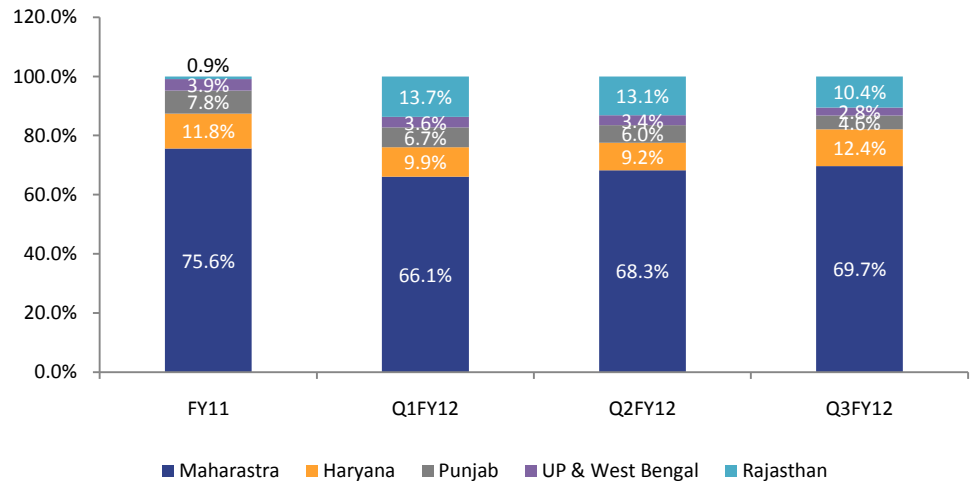
Earlier, SIIL has entered into private equity deal with 3i India Infrastructure Fund, for an investment of around USD61 million (₹3.06bn) for a minority stake in a portfolio of road BOT companies of SIIL. 3i Infrastructure has picked up a 49% stake in Supreme Infra BOT Holding Pvt Ltd. The deal helps the company in funding the BOT projects, reducing its debt and will ensure early financial closure of projects.



Geographically diversified order book

SIIL's project portfolio is geographically well diversified with projects in Maharashtra, Haryana, Punjab, UP, Rajasthan and West Bengal. Earlier, the company was predominantly focused on the western region of the country with Maharashtra comprising ~nearly 75.6% of the order backlog in FY11. The company, in order to expand its geographic foot print and to diversify its order book has made a strategically shift toward other regions, has started to bid for projects in other markets., In its endeavor to provide the geographical diversification, the company has already bagged projects in Haryana, Rajasthan, Punjab, UP and West Bengal. Now, Maharashtra, Haryana, Rajasthan, Punjab, UP & West Bengal accounts for 69.7%, 12.4%, 10.4%, 4.6% and 2.8% of the current order book. Moreover, the company is eyeing a huge opportunity in the East and North-East, as change in political leadership will open new avenues for infrastructure growth in the region.

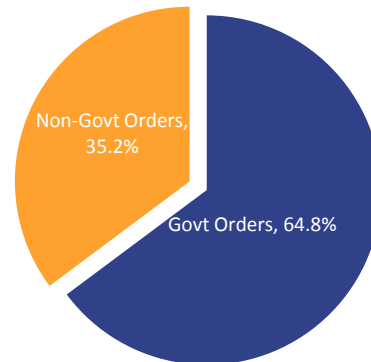
Region-wise order book



SIIL has geographically well diversified order book with major exposure to central and state-funded projects.

SIIL's order book is spread across multiple states and exposure is largely on Central and state-funded projects. The company's majority of the clients are governmental agencies like the NHAI and public works department under the State Governments of Maharashtra, Haryana, Punjab, Uttar Pradesh, Rajasthan and West Bengal, which have the ability to fund SIIL's projects. Going ahead, it proposes to capitalise on the proposed investments to be made by the government in the Infrastructure segment, the Road Construction segment in particular.

Client distribution (%)





Investment in Rudraanee Infrastructure Ltd added new verticals

SIIL buys 51% stake with an investment of ₹180 mn in Rudraanee, an Aurangabad based construction company with a strong presence in water and power transmission segments. Besides, the company has a rich experience in executing various infrastructure projects including roads & bridges, airports, industrial sheds and buildings.

The acquisition will add to the capabilities of the company to execute water pipeline laying and power distribution projects. SIIL would also be able to capitalise the expertise, experience and assets of the Rudraanee Infrastructure for expanding geographically and segment wise. Further, this will add to the profitability of the company as Rudraanee has an order book of ₹7.5 billion, sales of ₹1.25 billion, EBITDA margin of 14% and PAT margin of 6%.

COMPANY PROFILE

Supreme Infrastructure (SIIL) is Mumbai-based mid-sized construction company, primarily engaged in the operations of Infrastructure development, providing engineering, procurement and construction (EPC) services across various sectors namely across roads, bridges, railways, power, buildings, irrigation and sewerage segments. Established in 1983 as Supreme Asphalts Pvt Ltd, it was incorporated with the objective of commencing activities in the fields of construction and supplying of asphalt. The company has gradually moved to the EPC business and further entered the BOT segment where it is currently undertaking nine projects (including two projects, which are operational). Initially started as roads and buildings contractors, SIIL now has successfully diversified its service offering into power, irrigation, railways and sewerage. SIIL projects are scattered across states.

The company bought a strategic 51% stake in Rudraanee ~ thereby cementing its presence in water and power transmission space.

Segments wise details of ongoing projects

Roads	Buildings		Bridges	Power	Railway	Water Infrastructure
Construction of Racing Track, Manesar, Haryana	Construction of Complex at Gurgaon, Haryana. Project Cost: ₹2,363.1mn.	Construction of Residential Tower - OSWAL. Project Cost: ₹2,700.0mn	Flyover at Thane. Cost of Project: ₹1210.0mn.	Infrastructure Plan Phase – II A Project, Tender No.95	Extension of Platforms, Navi Mumbai	Sewerage/ Drainage System for Thane City.
4 Laning of Ahmednagar – Karmala – Tembhorni BOT Road Project in Maharashtra	Construction of Commercial Building, Andheri (East), Mumbai. Project Cost: ₹85.5mn	Construction of Residential Tower. Project Cost: ₹250.0mn		Infrastructure Plan Phase – II A Project, Tender No.74	Construction of Bridge no.33-5 and 33-4, Mumbai. Project Cost: ₹135.9mn.	
4 Laning of Panvel – Indapur Section of NH – 17 in Maharashtra	ESIC Hospital, MIDC, Andheri, Mumbai	Construction of Commercial Building at Goregaon, Mumbai. Project Cost: ₹110.7mn		Infrastructure Plan Phase – II A Project, Tender No.79	Project of Central Railway.	
4 Laning of Sangli – Shirol section in Maharashtra	Construction of commercial Building Rolta Tower- I at Andheri, Project Cost: ₹220.0mn	Construction of two hospital building projects at Navi Mumbai. Project Cost: ₹610.0mn.			Construction of Sanpada Carshed, Sanpada, Navi Mumbai	
6 laning of Jaipur Ring Road Project. Jaipur, Rajasthan	Construction of Residential Building at Juhu, Mumbai. Project Cost: ₹690.0mn	Construction of Judicial Court Complex – Kapurthala, Punjab. Project Cost: ₹442.0mn.			Extension of Platforms for 12 Car EMU Rakes, Thane - Vashi section	
Upgradation, operation and maintenance of Patiala – Nabha – Malerkotla road in Punjab	Construction of Helix Car Park. Client: Supreme Housing & Hospitality Pvt.Ltd. Project Cost: ₹91.1mn	Construction of Married Couple Accommodation, Hissar. Project Cost: ₹800.0mn			Extension of Vashi Platform - Vashi, Navi Mumbai	
Four Union of Nagar – Kopagaon (SH – 10) Phase – 02 in Maharashtra	Construction of Hotel. Project Cost: ₹136.6mn	Construction of Dwelling Units, Jhansi. Project Cost: ₹510.0mn.				
Four laning of road along Sidhwan canal with Flyovers, Underpass, Robs and Canal Lining (Dorha to Ludhiana - Firozpur	Construction of Residential Tower-Hexcity, Navi Mumbai. Project Cost: ₹1,374.7mn	Construction of Supreme Housing – High-end villas & service apartments, Powai, Mumbai				



Balance Sheet (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	138.8	138.8	167.4	167.4
Reserve and surplus	1,016.5	1384.1	2,400.5	4,622.4
Share Application money	-	-	250.0	250.0
Net Worth	1,155.3	1,552.9	2,817.9	5,039.8
Other Liability	-	398.4	834.3	1,140.0
Loan Funds	2,166.0	3,003.9	4,548.5	7,179.3
Net Deferred Tax Liability	27.2	49.6	87.5	88.0
Capital Employed	3,348.5	5,004.8	8,288.2	13,447.1
Gross fixed assets	2,290.7	2,514.7	3,268.2	4,447.6
Less: accumulated depreciation	254.9	455.2	690.1	1,247.2
Capital Work in Progress	-	386.0	73.6	74.0
Net Fixed assets	2,035.8	2,445.5	2,651.7	3,274.4
Investment	20.7	122.6	702.0	1,000.0
Net Current Assets	1,292.0	2,436.7	4,934.6	9,172.7
Capital Deployed	3,348.5	5,004.8	8,288.2	13,447.1

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	17.0	16.5	17.8	17.9
NPM (%)	7.0	8.0	7.4	7.8
ROCE (%)	14.9	15.8	17.3	19.4
ROE (%)	25.2	26.9	25.3	25.1
ROA (%)	12.2	14.1	14.3	15.6
EPS (₹)	28.2	45.3	57.1	75.6
P/E (x)	11.2	6.9	5.5	4.7
BVPS (₹)	111.9	168.3	225.5	301.1
P/BVPS (x)	2.8	1.9	1.4	1.0
EV/Operating Income(x)	1.4	1.1	1.0	0.8
EV/EBITDA (x)	8.2	6.8	5.7	4.7

Profit & Loss Account (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	5,576.2	9,472.5	12,977.3	16,221.7
Expenses	4,629.2	7,913.5	10,665.0	13,325.1
EBITDA	947.1	1,559.0	2,312.3	2,896.6
EBITDA Margin %	17.0	16.5	17.8	17.9
Depreciation	202.1	246.0	263.4	293.7
EBIT	744.9	1,313.0	2,048.9	2,602.9
Interest	220.2	408.0	740.3	830.4
Other Income	34.8	55.5	20.0	35.0
Profit Before Tax	559.5	960.5	1,328.6	1,807.5
Tax	167.5	200.9	372.0	542.3
Profit after Tax	392.0	758.9	956.6	1,265.3
NPM %	7.0	8.0	7.4	7.8

Valuation and view

With robust book-bill-ratio of 2.8x of its FY'11 revenue, SIIL has sound earning visibility over next 18-24 months, tied with RoE of 25% and RoCE of 19.4% in FY'13E, stock currently trades at 4.3x our earnings estimates for FY'13E, EV/Sales of 0.8x and EV/EBITDA of 4.7x. Given superior margins, a robust order book, revenue and net profit after tax are expected to grow at CAGR of 31% and 29% respectively over FY'13. We recommend to Buy the stock with a conservative price objective of ₹454 (exit PE of 6x its FY'13E earning per share of ₹75.6).



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