

India Construction Sector – Roads & Highways

Back on track to boost the economy



- India has an extensive road network of 4.9 mn kms which is the second largest in the world. More than 60% of freight and 90% of passenger traffic in the country is handled by road. The transport sector constitutes 6% of the country's GDP and 70% of the share of the roads sector. The government of India has launched major initiatives to upgrade and strengthen highways and expressways in the country. The private sector has emerged as a key player in the development of road infrastructure. The value of roadways and bridge infrastructure in India is expected to grow at a CAGR of 17.4% between 2012-17. We see a huge investment opportunity in the Engineering Procurement & Construction (EPC) (primarily in roads, bridges & highways), Build Operate & Transfer (BOT) and Operate Maintain & Transfer (OMT) space in next 3-4 years led by 1) increasing focus of government on development of infrastructure sector through Make in India campaign 2) interest from international investors in infrastructure sector and 3) developing smart cities in India. Recently (as on 27th July 2015, Source: Economic Times) government has set a target to award 273 road projects covering a length of ~12,900 km amounting to ~Rs.1,26,700 crore during FY16 under various schemes of the Ministry.
- We expect the rise in two-wheeler and four-wheeler vehicles, increasing freight traffic, strong trade and tourist flows between states will create more demand for roads, bridges and highways which augurs well for the growth of infrastructure sector. India's roads and bridges infrastructure, which was valued at USD 6.9 bn in 2009 is expected to touch USD 19.2 bn by 2017.
- We initiate coverage on MEP Infrastructure, KNR Construction with a BUY rating.

Exhibit 1: Valuation Matrix

	BB code	Rec	Mkt cap (Rs bn)	Price (Rs)	TP (Rs)	EPS (Rs)		PE (x)		EV/EBITDA (x)	
						FY16e	FY17e	FY16e	FY17e	FY16e	FY17e
KNR Constructions	KNRL.BO	BUY	15.7	553	823	27.3	36.8	20.3	15.0	10.1	7.5
MEP Infrastructure	MIDL.IN	BUY	7.9	48	73	5.1	7.5	9.5	6.4	5.2	4.7

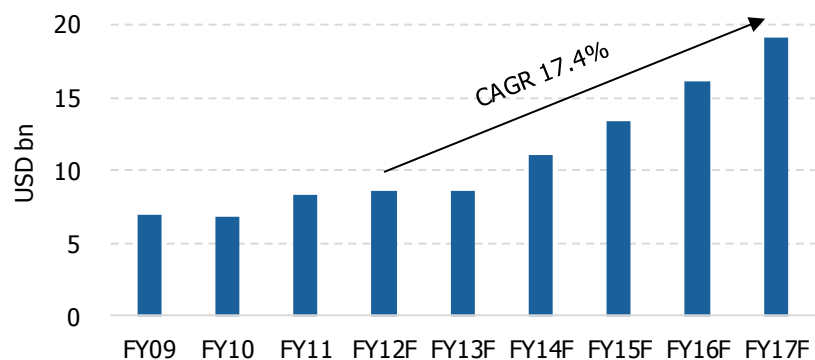
Source: BOBCAPSe

Investment argument and Industry outlook

Infrastructure, the major growth driver for uplifting the economy: Any country's development is dependent on the infrastructure of that country. Infrastructure development will help India to become a developed country. The government of India is emphasizing more infrastructure development which augurs well for all the infrastructure companies. In a vast country like India, road transport will remain a popular and effective mode of transport for reaching out across the country. Also, increase in passenger and freight traffic on roads necessitates the need for expansion, up - gradation and maintenance of roads and highways. We believe some of the well-established and multi-domain companies like KNR Construction, MEP Infrastructure, and IRB will benefit out of this by winning more awards in coming years.

Scenario of road network in India: The roads and bridge infrastructure industry is expected to be worth USD 19.2 billion by FY17. India has the second largest road network in the world, aggregating 4.7 mn km. Roads are the most common mode of transportation and account for ~ 85% of passenger traffic and ~ 60% of the freight traffic in the country. Rural and urban areas are coming closer due to enhancement in connectivity between cities, towns and villages in the country. This helps to increase the road activity, with growing industrial activities like automobiles and freight movements. Increasing number of two and four wheelers have supported the growth in the road transport infrastructure projects. The number of vehicles has been growing at a CAGR of 10.2% p.a. over the last five years. This requires an appropriate road network to carry the traffic.

Exhibit 2: Value of the roads and bridges infrastructure expected to grow at a CAGR of 17.4% over 2012-17E



Source: Industry, BOBCAPS

The private sector has played an important role in the development of road infrastructure in India. The Central Government, which is responsible for development and maintenance of NHs, implements the work on agency basis. The State Governments (State PWDs), Border Roads Organisation (BRO) and National Highways Authority of India (NHAI) are the implementing agencies for the development and maintenance works on NH.

Exhibit 3: Government authorities responsible for road network in India:

Category	Custodian
National Highways (NH)	Central Government
State Highways (SH)	State Government
Major District Roads (MDR)	State Government
Other District Roads & Rural Roads	Local Government

Source: Ministry of Road Transport and Highways – Road network of India, BOBCAPS

Exhibit 4: Road network of India

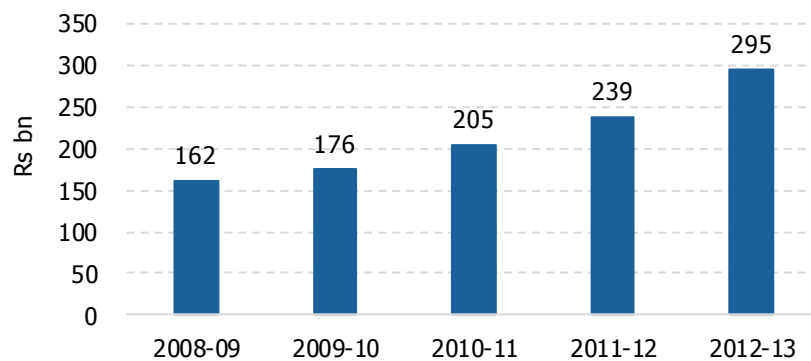
Category of road	Current length in km
National Highways	96,261
State Highways	1,31,899
Major Distt. Road, Rural road & Urban road	4,67,763
Expressways	200
Rural and Other Roads	26,50,000
Total road network	~33 Lakhs Kms

Source: NHAI, BOBCAPS

At present, National Highway (NH) network of about 96,261 km comprises only 1.7% of the total length of roads (expected to reach 100,000 kms by the end of the 2017), but carries over 40% of the total traffic across the length and breadth of the country. However, the Indian government plans to develop a total of 66,117 km of roads under different programmes such as National Highways Development Project (NHDP), Special Accelerated Road Development Programme in North East (SARDP-NE) and Left Wing Extremism (LWE), and has set an objective of building 30 km of road a day from 2016.

The country's roads and bridges infrastructure, which was valued at USD 6.9 billion in 2009 is expected to grow at a CAGR of 17.4% to touch USD 19.2 bn by 2017. The financial outlay for road transport and highways grew at a CAGR of 19.4% in the period FY09-14. For FY14, India's Planning Commission provided an outlay of USD 6.9 billion for the roads segment. According to the Department of Industrial Policy and Promotion (DIPP), Foreign direct investment (FDI) received in construction development sector from April 2000 to January 2015 stood at US\$ 24,028.19 mn,

Exhibit 5: Investments in National Highways



Source: Company presentations, BOBCAPS

The government has come up with innovative financing models that minimise developer risk and make debt servicing more manageable. Thus, minor as well structural changes in regulations should encourage investments in the roads sector. The Private Public Partnership (PPP) model has gained prominences as the GOI preferred means to undertake infrastructure development, facing significant debts and fiscal challenges that limit its ability to find the required investments, the GOI expects the private sector to partner it in bridging the Countries infrastructure deficit.

The Private Public Partnership (PPP) model is adopted for road development. Following are few models in operation:

- 1) BOT (Build-operate-transfer)
- 2) EPC (Engineering, Procurement and construction)
- 3) Toll collection
- 4) OMT (Operate, Maintain and Transfer)

- 5) Hybrid Annuity Model (New model is being considered for awarding road projects for implementation)

Exhibit 6: Operational models for road projects

Type of Project	Description	Risks			Net cash outflow for the government	Revenue for Private party	Concession period (in years)	Award Criteria
		Development	Financing	Traffic risk and accrual of toll fee collection				
BOT (Toll)	Private Party builds road, undertakes O&M and collects toll	Concessionaire	Concessionaire	Concessionaire	No	Toll	~20-25 years for NHAI	Highest revenue sharing bid
BOT (Annuity)	Private Party builds road, undertakes O&M and collects annuity from granting authority	Concessionaire	Concessionaire	Authority	Yes, net payment to be made is the difference between the toll collection and the annuity payable	Annuity payments	~20-25 years for NHAI	Lowest Annuity
EPC	Private Party builds the road, money is spent by the government	Concessionaire	Authority	Authority	Yes	Contract Amount	Not required	Lowest Tariff requester
OMT	Private Party collects toll and undertakes O&M	No development except in case of paved shoulders	Concessionaire	Concessionaire	No	Toll	Around 9 years for NHAI projects	Highest % of toll revenues or highest premium per year
Tolling	Private Party pays the estimated toll upfront to the authority and collects the toll during the concession period	No development	Concessionaire	Concessionaire	No	Toll	Around 1 year for NHAI projects	Highest revenue sharing bid

Hybrid Annuity Model: Under the Hybrid Annuity Model, 40% of project cost is being provided by the government to the concessionaire during the construction period in five equal instalments while remaining 60% is to be arranged in form of debt and equity to be compensated over 15 years as bi-annual annuities.

Source: BOBCAPS

Please note development risk refers to construction risk related to developing the road project

BOT

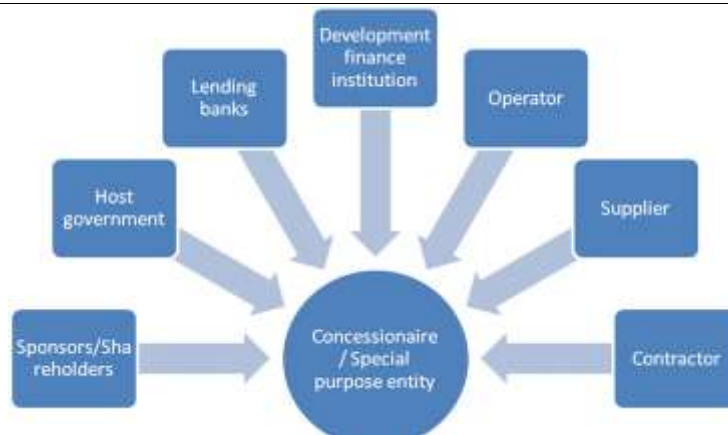
The BOT model the most common form of PPP model used in India accounting for almost two-thirds of the total PPP projects in the country. In the BOT model a third party, for example the public administration, delegates to a private sector entity to design and build infrastructure and to operate and maintain these facilities for a certain period. During this period the private party has the responsibility to raise the finance for the project and is entitled to retain all revenues generated by the project and is the owner of the regarded facility. The facility will be then transferred to the public administration at the end of the concession agreement, without any remuneration of the private entity involved. The two major forms of BOT models are:

- **User fee based BOT model:** Widely used in medium-to-large scale projects, especially in energy and transport (road, ports and airports). Although there are variations in approaches, over the years the PPP model has been turning towards competitively bid concessions where costs are recovered mainly through user charges (in some cases partly through Viability Gap Funding (VGF) from the government).
- **Annuity based BOT model:** In many cases, user charges cannot be levied due to socio-political-affordability considerations. In such cases, the government makes annual payments

to the developer. These annuity payments are supposed to provide a reasonable return and capital recovery for the developer.

- The government associates private sector efficiencies through contracts based on availability/performance payments.
- Implementing annuity model will require necessary framework conditions, such as payment guarantee mechanism by means of making available multi-year budgetary support, a dedicated fund, letter of credit etc.
- Government may consider setting-up a separate window of assistance for encouraging annuity-based PPP projects. A variant of this approach could be to make a larger upfront payment (say 40% of project cost) during the construction period.

Exhibit 7: BOT Model



Source: Industry BOBCAPS

EPC

The EPC model involves the contractor build the project by designing, installing and procuring necessary labour and land to construct the infrastructure, either directly or by subcontracting. However, the financing is done by the government and not by banks or private equity funds through issuing of sovereign bonds or taking financial guarantees for the project.

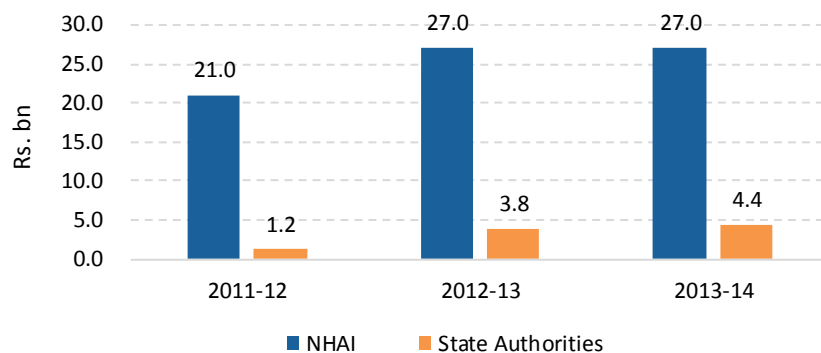
- In some cases, the contractor carries the project risk for schedule as well as budget in return for a fixed price, called lump sum turnkey (LSTK) depending on the agreed scope of work.
- Some EPC contracts terminate at Mechanical Completion but before Commissioning while LSTK contracts always include Commissioning. EPCs are increasingly common importance worldwide.

Toll collection: Huge potential ahead

- NHAI handed over the toll collection process to private players of toll management companies. The contracts awarded are usually a short term contracts (~3-24 months in case of NHAI projects and ~12-36 months in case of state authorities). The user fee is pre-determined by the contracting authority and the right to collect the fee during the concession period lies with the private player.
- As per industry experts, tolling market is expected to increase 1.4 times from the current 12,150km to ~16,900 km by 2017-18 and will primarily be driven by rising penetration of tolling stretches in state highways, (especially in Karnataka, Rajasthan and Haryana), increasing number of stretches being awarded by NHAI on tolling basis, Number of projects bid out by NHAI and state highway authorities on tolling basis are expected to increase from the current 120 and 102 projects respectively to 145-150 and 140-145 projects respectively in 2017-18.

- The NHAI along with MORTH plans to award fresh projects of ~ 15,000 km worth Rs 3 trillion during FY16 and FY17 through the BOT, Hybrid Annuity and EPC routes.
- Over 80% of the future projects are proposed to be as per the Hybrid Annuity routes
 - During FY16, the NHAI has identified 12 road projects having length of ~ 576km and requiring an investment of ~ Rs 159 bn across Delhi, Uttar Pradesh, Himachal Pradesh, Jharkhand and Maharashtra
 - For FY17, the NHAI has identified additional 15 road projects having length of ~ 1,105 km and requiring an investment ~ Rs 122 bn
- Further, to support the funding requirement of Rs 1,500 bn for investing into the road sector, the Government through the MORTH and NHAI are planning to monetise their existing road assets, through securitization of long term tolling contracts. The Government envisages to raise ~ Rs 500 –600 bn through this monetisation process
- Hence, this shall provide a significant opportunity for specialised OMT and Tolling operators

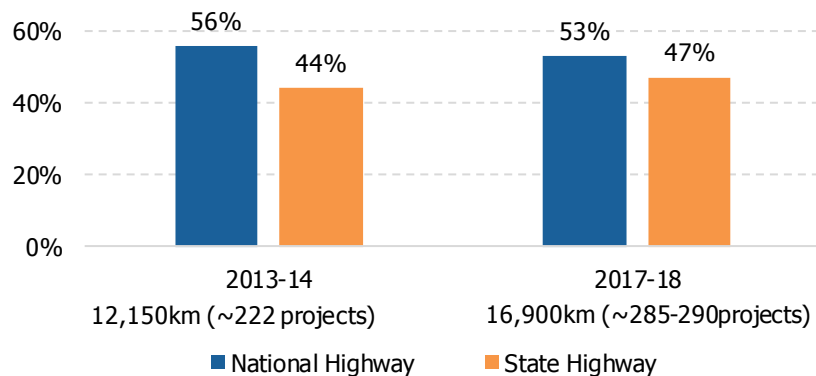
Exhibit 8: Increasing Annual Potential Collection



Source: Company presentations, BOBCAPS

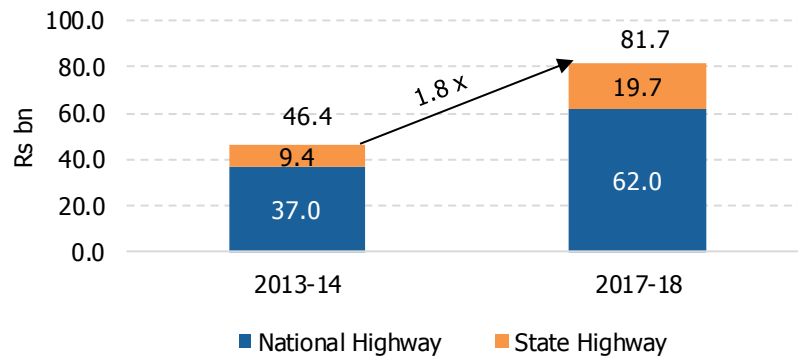
Outlook for the toll collection model

Exhibit 9: Market size (km) on bids invited basis



Source: Company presentations, BOBCAPS

Exhibit 10: Market opportunity (Rs. bn)



Source: Company presentations, BOBCAPS

OMT Model and market potential

- NHAI had introduced OMT Model in 2009 for existing and near completion four-lane National Highway. It is providing consistent revenues to NHAI and just-in-time maintenance of the project. The concession period for NHAI projects is 9 years after which the project stretch is transferred back to the government authority. As of 2013-14, ~ 5,150 km of road projects have been provided under the OMT model by NHAI and State Authorities.
- The OMT market will primarily be driven by a number of BOT players existing their current projects creating opportunity to contract the projects on OMT basis. Rising penetration of OMT stretches in state highways, especially in Karnataka, Bihar and Madhya Pradesh. Number of projects bid out by NHAI and state highway authorities on OMT mode are expected to increase from the current 14 and 34 projects respectively to 30-32 and 55-60 projects respectively in 2017-18.

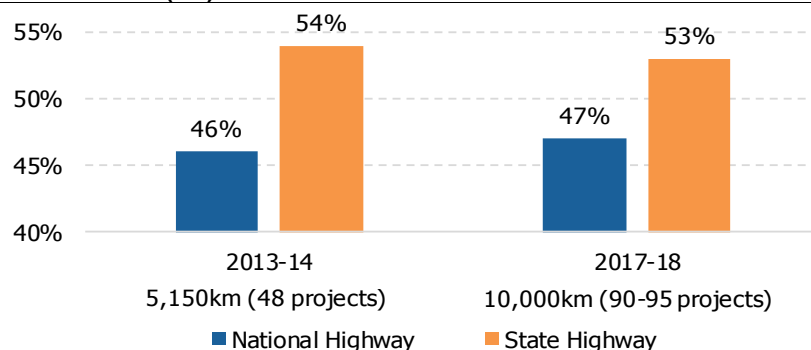
Exhibit 11: OMT Project activity

Authority	Total Projects	Length (km)	Project Cost
NHAI (2009-14)	14	2,360	Rs.11.1 bn
State Authorities (2012-14)	34	2,790	Rs.12.8 bn

Source: Company presentations, BOBCAPS

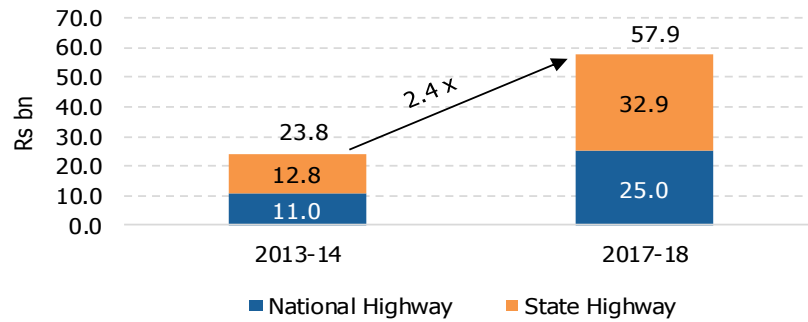
Outlook for the OMT model

Exhibit 12: Market size (km) on bids invited basis



Source: Company presentations, BOBCAPS

Exhibit 13: Market opportunity (Rs. bn)



Source: Company presentations, BOBCAPS

Hybrid Annuity Model (HAM)

The HAM is a mix of engineering, procurement and construction (EPC) and build-operate-transfer (BOT) formats, with the government and the private companies sharing the total project cost in the ratio of 40:60 respectively. This new model will reduce financial burden on the concessionaire during project implementation phase. Compared to EPC projects, the shift to HAM would also ease cash flow pressure on the NHAI. NHAI is set to introduce the hybrid annuity model (HAM) for award of highway projects by November 2015.

Exhibit 14: Targets and performance

Parameter	Target (2014-15)	Achievement (April – Oct. 2014)
Road length to be awarded (Km)	8500	3419
Completion of Construction (Km)	6300	1984
Highway length tolled (Km)	3730	435
Collection of Toll Revenue by NHAI (Rs. Crore)	6500	3584

Source: Ministry of Road Transport & Highway, BOBCAPS

Exhibit 15: Efficiency Parameters

Parameter	Target (2014-15)	Achievement (April – Oct. 2014)
Average construction of Road in km/day	11.67	17.26
Average award of works in km/day	8.68	23.28
% of Toll Plazas covered with ETC	<10%	100%
Reduction in number of fatalities on roads	686	2000

Source: Ministry of Road Transport & Highway, BOBCAPS

Recent key developments in Indian roads sector

India's construction sector to grow at 7-8% over the next decade due to facilities provided by new government like removal of barriers to foreign investment. We believe, the Public Private Partnership (PPP) model will continue to play an important role in executing the NHDP projects. Below are some of the key investments and developments in the Indian road sector as of 20th June 2015:

- The cabinet committee on economic affairs (CCEA) has approved six highway projects totaling 712 km with an investment of Rs 12,646 cr. These projects, to be awarded under the EPC model, are divided into 10 packages under the national highways development project in states such as Uttar Pradesh, Madhya Pradesh, Odisha, Himachal Pradesh and West Bengal. (Source: Live Mint: dated 5th March 2015)
- The Delhi-Panipat stretch of NH-1 would be expanded to an eight-laned dedicated highway in the next three years. To meet the increasing demand of traffic growth, NHAI is set to award this project on toll mode by the end of March.
- Chhattisgarh is planning to invest Rs 9,500 cr to upgrade 44 roads in the state.
- The government is set to offer the final batch of road projects for this financial year. A total of nine, with a cumulative length of 895 km and project cost of Rs 17,815 cr, are to be offered soon. Three are expected under a Build-Operate-Transfer (BOT) model. The other six are to be put out under Engineering-Procurement-Construction (EPC).

Government to award road projects worth Rs 1.26 lakh crore in FY16

The government has set a target to award 273 road projects covering a length of ~12,900 km worth of ~Rs.1,26700 cr. during FY16 under various schemes of the Ministry. National Highways Authority of India (NHAI) will spend the highest ~Rs 72,000 cr, followed by ~Rs 24,000 cr by National Highways Development Project (NHDP). The NHAI is implementing development projects on 48,648 km of National Highways under different phases of NHDP. Out of this, work on 33,351 km have already been awarded and balance 15,297 km is yet to be awarded. A new mode of delivery under PPP mode, namely Hybrid Annuity Model (HAM), is being considered for awarding road projects for implementation. (Source: The Economic Times dated 27th July 2015)

Make in India campaign to boost the infrastructure sector

The government of India has launched major initiatives to upgrade and strengthen highways and expressways in the country. During the next five years, investment through Public Private Partnerships are expected to be in the region of USD 31 bn for national highways. The National Highway Authority of India (NHAI) and the Ministry of Road Transport & Highways had sanctioned projects for 3,700 kms in 2013-14. The NHDP is focusing on the widening, upgradation and rehabilitation of 47,054 kms of National Highways, which is one of the largest in the world and a seven-phase programme (~USD 60 bn).

Financial support

INR 378.8 bn has been allocated towards the proposed investment in the National Highways Authority of India and state roads which includes INR 30 bn for the North-east. INR 143.89 bn has been allocated towards the Pradhan Mantri Gram Sadak Yojana. INR 5 bn has been allocated to set up an institution to provide support to mainstreaming Public Private Partnerships in India called 3P India.

The FII investment limit in infrastructure corporate bonds was raised from USD 5 bn to USD 25 bn. Companies enjoy 100% tax exemption in road projects for 5 years and 30% relief for the next

five years. Capital gains of up to 40% of the total project cost to enhance viability. Financial institutions have received government approval to issue tax-free bonds for a total value of USD 9.2 bn in FY15. The India Infrastructure Finance Company (IIFC) is to provide long-term funding for infrastructure projects. Interest payments on borrowings for infrastructure are now subject to a lower withholding tax of 5%. Infrastructure Debt Fund income is exempt from income tax.

Investment Prospects

The Public Private Partnership model will continue to be the preferred way of executing the NHDP projects.

Priority expressway project for implementation on the Public Private Partnership Mode are as follows:

Exhibit 16: Potential opportunities

Projects	Length	Total Project cost
Eastern Peripheral Expressway	135 km-long, 6 lane expressway	USD 750 mn
Delhi – Meerut Expressway	150 km long project	USD 1 bn
Vadodra-Mumbai Expressway	473 km expressway	USD 4.3 bn

Source: Industry

Government's new policy initiatives and strategy to award (at least) 10,000-12000km every year going forward would be a big positive for road sector

The Special Accelerated Road Development Programme for the North-eastern region (SARDP-NE) is aimed at developing road connectivity between remote areas in the North-eastern region with state capitals and district headquarters – a three phase project; facilitating connectivity of 88 district headquarters in the North – eastern state to the nearest national highways.

Robust NHAI projects ahead:

- NHAI's total target for the ministry of roads and surface transport is 9,000 km in FY15. It's road awards target for this fiscal year is 5,400km, out of which 4,600 km would be implemented through the state public works departments (PWDs) and the ministry itself. NHAI plans to award 2,100 km of BOT, 2,500 km for EPC and the remaining 800 km in the hybrid annuity model (HAM).
- NHAI has awarded three BOT projects and six EPC projects in this fiscal. It targets to award 20,000 km of projects within the next 2-3 years through the BOT, Hybrid Annuity and EPC routes. NHAI's investment spends were Rs210 bn in FY15 and are estimated at Rs450 bn for FY16.
- All this ensures road sector to become growth driver for Infrastructure sector. We think companies like KNR, IRB and MEP would some of the beneficiaries to grab the opportunities.

Policy initiatives taken by government:

Government is introducing new policy initiatives, like the rescheduling or deferment of premium payable to the government and the Cabinet Committee of Economic Affairs (CCEA) approving the new exit policy norms in the road sector according to which developers can now sell 100% stake in any project two years after completion. We believe, such initiatives would ease the liquidity position of developers encourage to bid for more projects.

Company Section

MEP Infrastructure Developers Ltd.

Sector: ROADS & HIGHWAYS

 3rd September, 2015

Getting into a growth trajectory ; initiate with BUY

We initiate coverage on MEP Infrastructure Developers Ltd. (MEP) with a BUY rating and a price target of Rs 73 implying 53% upside. We believe MEP to grow faster than industry led by: (1) Long term OMT projects to convert in cash surplus (2) asset light business model, (3) improving EBITDA margins by ~250 bps over FY15-FY18e, and (4) a well balanced mix of short term & long term project.

Long term OMT projects to convert into cash surplus: Currently MEP has five OMT projects, one of the largest OMT project is Mumbai Entry Points (MIPL) which entitles to collect tolls and maintenance of 27 flyovers and allied structures in the city of Mumbai for a period of 16 years till 2026. In this OMT project, initial gestation period is ~5 years and the upfront payment is made to government authorities. These projects have already started earning revenues. Hence we believe, MIPL will work as a cash surplus for MEP from Q1FY16. The management expects MIPL will generate a revenue of ~4000 mn per year and will grow at a CAGR of ~10-12%.

Attractive business model: MEP is one of the leading player in OMT and Toll Collection in India. It is into short term, long term toll collection projects and OMT projects. It has Asset Light Business Model which require minimum capital and no risk of development / construction as compare to BOT & EPC players. We believe, asset light business model will help MEP to grow its EBITDA at a CAGR of 19% over FY15-18e.

Constant traffic growth & tariff growth (in every three years) to add at topline: We expect MEP to grow in FY16 and onwards on account of traffic growth (~5-6%) and toll tariff growth (For state based projects like MIPL, in every three years ~18% toll hike till the end of project tenure as per Government's pre-notification). Further, for other NHAI projects, other than traffic growth, the company enjoys fixed Rate + % of WPI growth on YoY basis. This incremental tariff will benefit all the companies in toll collection industry especially MEP as it does not have burden of construction cost and hence, this will directly add to the topline in addition to the new projects awarded.

TOT (Toll Operate Transfer) model forthcoming opportunity: The Govt. intends to come up with a new concept of TOT for long term toll collection contracts for ~20-25 years (depending on the size of the project). The TOT policy and concession agreement is process. Government proposed to award ~ Rs.550-600bn for this forthcoming model which we believe, will create huge opportunity (more than 100 projects currently operated by national highways on one-year short-term tolling could be the prospective opportunity) for MEP.

Valuation: The stock is trading at a PE of 9.5x/6.4x/5.3x for FY16e/FY17e//FY18e respectively. We value the stock on SOTP methodology at FY18E EBITDA, Standalone business/OMT projects /BOT and Long term toll collection project at 5x FY18e. We believe, MEP will grow led by government's prospective opportunities, good visibility of earnings through long term OMT projects, and strong operational capacity through advance technology. We initiate coverage on MEP Infrastructure Developers Ltd. with BUY rating and target price of Rs. 73 (upside 53%).

Exhibit 17: Financial summary (Rs mn)

Year end: March	FY14	FY15e	FY16e	FY17e	FY18e
Net sales	11,979	19,843	23,027	23,422	24,544
Growth (%)	-6.4	65.6	16.0	1.7	4.8
Operating margin (%)	25.9	21.1	27.0	27.6	28.4
PAT	-1292	-1153	819	1164	1331
PAT Growth (%)	NA	NA	NA	45	18
EPS (Rs)	-12.9	-10.3	5.1	7.5	9.1
P/E(x)	0.0	0.0	9.5	6.4	5.3
ROE (%)	NA	NA	47	41	33
ROCE (%)	6.4	11.0	10.6	12.1	12.7
Debt/equity (x)	NA	NA	15.6	8.9	5.8
P/Bv (x)	NA	NA	4.5	2.6	1.8
EV/EBITDA	0.0	6.7	5.2	4.7	4.2

Source: Company, BOBCAPSe

Price	Price Target	Up/Down (%)
Rs. 48	Rs. 73	53%

*As on 2nd September 2015

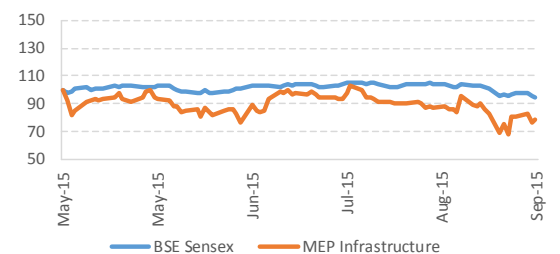
Bloomberg Code	Reuters Code
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Share Holding (%)	As on 30th June 2015
Promoters	66.64
FII	7.9
DII's	9.1

Stock Data	
Nifty	7,823
Sensex	25,764
52 week high/low	67/41
Market Cap (Rs. Cr)	913.6

Price performance (%)	1M	3M	6M	1Y
Absolute	-12.7	-10.9	NA	NA
Relative to Sensex	-3.2	-4.5	-	-

Relative Performance



Source:-Bloomberg

Investment rationale

MEP Infrastructure Developers Ltd has asset light business model which focuses on pure toll collection as well as OMT projects on operational roads constructed by third parties. The company has strong and experienced promoter with a track record of completion of ~84 projects with an aggregate of 143 toll plazas and 919 lanes over the last 13 years across 12 states in India.

We believe, its strong portfolio of awarded projects (like five Mumbai entry points & Rajiv Gandhi Sea Link, Madurai-Kanyakumari, and Hyderabad-Bangalore Project), Government's initiative for infrastructure development in India, increasing owned vehicles due to GDP/per capita income growth and rising traffic growth will help company to grow faster going forward.

Attractive business model

MEP is a leading player in OMT and Toll Collection in India. It is one of the first company focusing to operate on pure toll collection business model. It has Asset Light Business Model which focuses on pure toll collection as well as OMT projects on operational roads constructed by third parties. This gives us confidence on company's future growth.

Exhibit 18: Asset Light Business Model

Business Model	Capital Employed	Development / Construction Risk	Traffic Risk	Financing Risk	Concession Period	Maintenance Responsibility	Political Risk	Revenues
OMT	Minimal	No	Yes	Yes	~ 9+ years (Long-term)	Yes	Yes	Toll Revenues Traffic Growth - 5-8%YoY Toll Rate hike – Fixed Rate + % of WPI growth YoY MIPL -- 18% hike every 3 years
Toll Collection	Minimal	No	Yes	Yes	~ 1 year (Short-term) ~ 1-5 years (Long-term)	No maintenance, Only toll collection	Yes	Toll Revenues Traffic Growth - 5-8%YoY Toll Rate hike – Fixed Rate + % of WPI growth YoY

Source: Company, BOBCAPS

Exhibit 19: The capital intensity required for the Toll collection and OMT:

Business Model	Capital Intensity
Toll Collection – Short Term	<ul style="list-style-type: none"> - Equity Free portion of the Business. - No Initial Capex. - No Upfront Payment to Authority required. - Performance Security (funded / non-funded) needs to be provided. (Normally funded via working capital)
Toll Collection – Long Term	<ul style="list-style-type: none"> - No Initial Capex. - Upfront Payment to Authority (mainly non-NHAI). - Performance Security (funded / non-funded) needs to be provided
OMT – Long Term	<ul style="list-style-type: none"> - No Upfront Payment to Authority required for any OMT project under NHAI. - Upfront payment to authority required for certain State OMT projects. - Performance Security (non-funded) needs to be provided. - Payment to Authorities becomes an operational expense and needs to be paid from toll cash flows on a monthly instalment basis.

Source: Company, BOBCAPS

Synergies between short term & long term projects

The pure toll collection project is awarded initially on a short term basis when the newly constructed project is covered under the defect liability period (where the project contractor is responsible for the maintenance of the project for initial ~2-3 years). After the completion of this period the Company bids for OMT project on a long term basis. The short term projects are well managed by MEP therefore we believe that the chances of converting short term projects into

long terms are high. We expect, short term project will provide visibility for the MEP to bid for long term projects.

Exhibit 20: Conversion of short term projects into long term OMT projects

Well-balanced mix of short term & long term projects

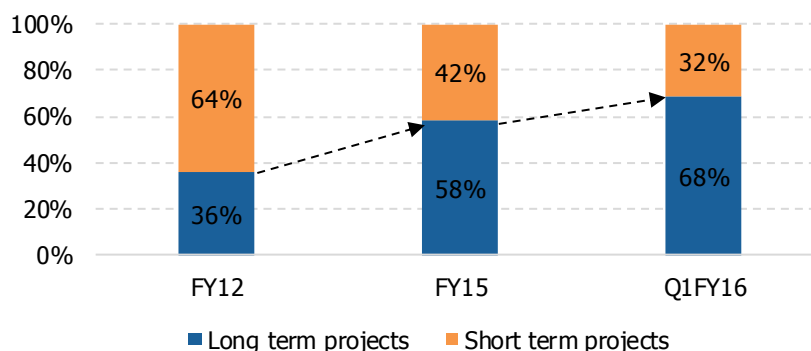


Exhibit 21: Short Term Toll Collection projects (1 year)

Toll Plaza	State	Authority	Term	Payment to Authority (Rs mn)
Surajbari	Gujarat	NHAI	September 21, 2014 to September 20, 2015	Rs 617.40 mn to be paid in Weekly Instalment of Rs.11.84 mn
Bankapur	Karnataka	NHAI	January 3, 2015 to January 2, 2016	Rs 441.00 mn to be paid in weekly instalments of Rs 8.46 mn
Manohrabad	Telangana	NHAI	February 17, 2015 to February 16, 2016	Rs 491.40 mn to be paid in weekly instalments of Rs 9.42 mn
Athur	Tamil Nadu	NHAI	March 26,2015 to March 25,2016	Rs 628 mn to be paid in weekly instalments of Rs 12.01 mn
Palsit	West Bengal	NHAI	March 26,2015 to March 25,2016	Rs 950.40 mn to be paid in weekly instalments of Rs 18.17 mn
Paduna	Rajasthan	NHAI	May 12,2015 to May 11,2016	Rs . 1000.8mn to be paid in weekly instalments of Rs 19.14 mn
Garau	Uttar Pradesh	NHAI	July 22,2015 to July 22,2016	Rs 594 mn to be paid in weekly instalments of Rs 11.36 mn

Source: Company, BOBCAPS

MEP's ability to manage multiple projects ensures growth and expansion

MEP is enjoying advantage of being one of the company focusing on pure toll collection and OMT projects. Its business model does not involve construction related risks. Its ability to manage multiple projects across different geographies gives reliance to the authorities. It has completed ~84 projects with an aggregate of 143 toll plazas and 919 lanes over the last 13 years across 12 states in India (As of June 2015). Currently its portfolio has 14 toll collection projects with an aggregate of 47 toll plazas, five OMT projects covering 2,530.04 lane kms with an aggregate of 15 toll plazas and one BOT project covering 42.02 lane kms with five toll plazas. MEP has undertaken the projects in major cities or on the road connecting major metropolitan cities of India.

Long term OMT projects to convert into cash surplus

For one of the State OMT projects, the company have to pay upfront payment to the government authorities. Also initial gestation period is of ~5 years. This is applicable only to non NHAI projects like Mumbai Entry Point Project (MIPL), it is at a breakeven now, and has started earning profits from this project. (Q1FY16 added cash profit of Rs.53mn from MIPL project). All other 3 OMT projects (Madurai – Kanyuakumari, Hyderabad – Bangalore, Rajiv Gandhi Sea Link) have also started earning profits in Q1FY16. Hence we believe all OMT projects have started working as a cash surplus for MEP and therefore we expect MEP's PAT to grow at a CAGR of 28% over FY16e-FY18e.

Five Mumbai Entry Points and maintenance of 27 flyovers and certain allied structures in Mumbai for a period of 16 years until 2026 ensures revenue growth

Exhibit 22: Long term project details

	Type of project	FY14		FY15		Q1FY16	
		Revenues (Rs. mn)	No. of Operational Months	Revenues (Rs. mn)	No. of Operational Months	Revenues (Rs. mn)	No. of Operational Months
MEPIPL	OMT	3,345	12	3,798	12	1,010	3
Chennai Bypass	OMT	933	11	1,041	12	259	3
Hyderabad –Bangalore	OMT	1,018	11	1,298	12	326	3
Rajiv Gandhi Sea link	OMT	132	2	897	12	270	3
Madurai –Kanyakumari	OMT	593	6	1,378	12	386	3
PhalodiRamji (RIDCOR)	Toll Collection	568	12	677	12	190	3
VidyasagarSetu	Toll Collection	366	7	647	12	157	3
IRDP Solapur	Toll Collection	92	12	103	12	28	3
KiniTasawade	Toll Collection	0	0	1,226	10	391	3

Source: Company, BOBCAPS

The major key projects awarded till August 2015 are as follows:

Exhibit 23: Long Term OMT Projects

Project	State / Authority/ SPV	Project details	No of toll plazas	Contract period	Tenure (Year)	Amt paid to authority (Rs mn)
Madurai-Kanyakumari	Tamil Nadu / NHAI/ RTRPL	Four lane carriage way located on NH-7	4	22.09.13	9	Rs.1,109mn for 1 st year with 10% escalation every year in 12 equal monthly instalments
Hyderabad-Bangalore Highway	Andhra Pradesh / NHAI	Four lane carriage way located on NH-7	3	16.05.13	9	Rs.1,059mn for 1 st year with 10% escalation every year in 12 equal monthly instalments
Chennai Bypass	Tamil Nadu / NHAI	Six lane carriageway that links NH-45, NH-4, NH-205, NH-5	2	14.05.13	9	Rs. 1,530mn for 1 st year with 10% escalation every year in 12 equal monthly instalments
Rajiv Gandhi Sea Link	Maharashtra / MSRDC	Links Bandra in the Western Suburbs of Mumbai with Worli in South Mumbai	1	06.02.14	156 weeks	Rs.690mn for 1 st year along with an additional one-time payment of Rs.5mn. The annual payment is subject to 10% escalation for second year & 20% for third year, to be paid in 12 equal monthly instalments
5 Mumbai Entry Points	Maharashtra / MSRDC / MIPL	Five entry points located on - Sion–Panvel Highway, - Western Express Highway - Eastern Express Highway, - LBS Marg and - Airoli Bridge corridor in Mumbai	5	20.11.10	16	Upfront payment: Rs 21,000mn
BOT Project						
Baramati Toll Plazas	Maharashtra / MSRDC	Construction of the four lane Sakhali bridge on Karha River in Baramati and maintenance of, and collection of toll for the Ring Road and the bridges in Baramati. Collection of toll at five toll plazas at Morgaon, Neergaon, Patas, Bhigawan and Indapur	4	25.10.10	19 Years & 4 months	Upfront payment of Rs. 650 mn paid in four unequal instalments

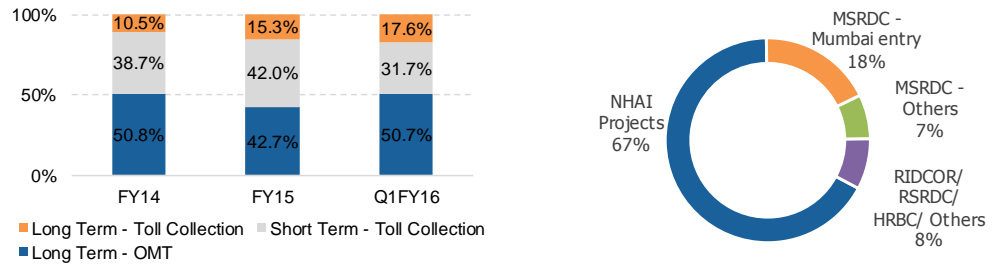
Source: Company, BOBCAPS

LBS - Lal Bahadur Shastri Marg, U.P – Uttar Pradesh, M.P – Madhya Pradesh, NH – National Highway

Focus on long term projects

MEP's 64% of the consolidated revenues are generated from long term contracts which provides healthy long term revenue visibility of the business operations and project cash flows. The aggregated tolling revenue during FY15 was ~Rs20bn. The Company is concentrating more on long term projects and aims to reduce dependence on short term contracts (one year or less).

Exhibit 24: Revenue contribution from project mix



Source: Company, BOBCAPS

Exhibit 25: Long Term Toll Collection projects

Project	State / Authority	Project details	No of toll plazas	Contract period	Tenure Year	Amt paid to authority/ *Amt received by Company (Rs mn)
Vidyasagar Setu	West Bengal / HRBC	18 lane toll plaza at Vidyasagar Setu, links Howrah to Kolkata	1	01.09.13	5	Rs 2,610 mn to be paid in five equal annual instalments consisting of upfront payment of Rs 522 mn and payment of remaining amount in four equal instalments in advance
Delhi Entry Points	Delhi / SDMC	Collection of Toll at border points from specified commercial vehicles entering Delhi	124	16.05.15	3	Rs.105.99 mn , to be paid on weekly Basis
IRDP Solapur	Maharashtra / MSRDC	Located in Solapur district	4	02.01.13	156 weeks	Rs 208 mn, to be paid in three equal upfront annual instalments
Phalodi-Ramji	Rajasthan / RIDCOR	Project is a 229 km long corridor that passes through Jodhpur and Barmer, connects to Kandla port	4	17.09.10	5	Rs 2,035.07 mn consisting of upfront payment of Rs 1,500 mn and payment of Rs 535.07 mn in 60 monthly instalments
Rajiv Gandhi Salai (IT Expressway)	Tamil Nadu / TNRDC	Located at Rajiv Gandhi Salai, Previously known as the IT corridor	5	08.03.14	3	*Rs14.62 mn for the first year with escalation of 5% per annum during each subsequent year for a period of two years
Kini - Tasawade Toll Plazas	Maharashtra / MSRDC	Located on Satara – Kolhapur section of NH-4, Near Kini and Tasawade on National Highway No. 4	2	29.05.14	104 weeks	Rs 2,270.7 mn, to be paid in upfront monthly instalments
Kalyan-Shilphata	Maharashtra / MSRDC	Located at Katai and Gove on the Bhiwandi – Kalyan – Shilphata section of the State Highway No. 4, Connecting Mumbai Pune Highway (NH-4) at Shilphata & Mumbai - Nashik Highway (NH-3) at Bhiwandi	2	27.09.13	156 weeks	Rs 633.6mn, to be paid in upfront monthly instalments

Source: Company, BOBCAPS

Constant traffic growth & tariff growth (in every three years) to add at topline

We expect MEP to grow over FY15-18e on account of traffic growth (~5-6%) and tariff growth which is based on the WPI basis (For state based projects like MIPL, in every three years ~18% toll hike till the end of project tenure as per Government's pre-notification). Further, for other NHAI projects, other than traffic, the company enjoys fixed Rate + % of WPI growth on YoY basis. This incremental tariff will benefit all the companies in toll collection industry especially MEP as it does

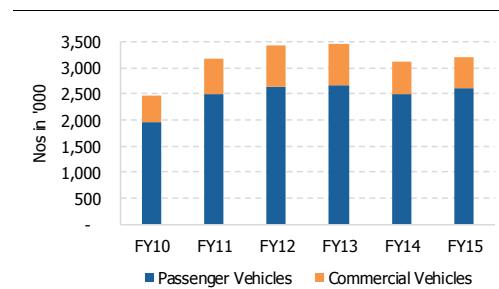
not have burden of construction cost and hence, this will directly add to the topline in addition to the new projects awarded.

Domestic auto sales growth to drive higher traffic growth

As per industry experts, India's car market has the potential to grow to more than 6 mn units annually by 2020. Passenger Vehicles sales grew by 4% whereas commercial vehicles segment registered de-growth of 3% in April-March 2015 over the same period last year. Medium & Heavy Commercial Vehicles (M&HCV) grew by 16% and Light Commercial Vehicles (LCV) declined by 12%. SIAM expects 6-8% growth in sales of passenger cars and utility vehicles in India in next two years. We believe Government's 'Make in India' initiative, moderate growth in GDP (estimated to be 7.95% during the current fiscal) is likely to push auto sales domestically.

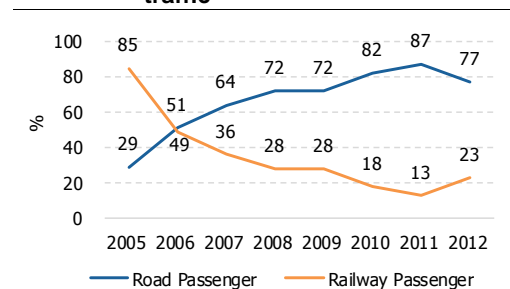
Growth in four-wheeler vehicles, increasing freight traffic, strong trade and tourist travels between states leads to enhance growth

Exhibit 26: Domestic sales trend



Source: Industry, BOBCAPS

Exhibit 27: Increasing road passenger traffic



Source: Company, BOBCAPS

Make in India concept could be a major reason to invest in road infrastructure

Government of India is giving priority for Road infrastructure sector by providing strong budgetary support over the years. Govt. is also taking initiatives to upgrade and strengthen highways and expressways in the country. As per Government's "Make in India" campaign, ~8,470 kms of National Highways are to be improved along with 10 bypasses during FY15. The NHAI aims to award 5,000 kms of projects in FY15 and another 400 kms will be awarded by MoRT&H directly.

The government of India aims to develop a total of 64,340 kms of National Highways

The government of India aims to develop a total of 64,340 kms of National Highways under various programmes such as The National Highway Development Project (NHDP), Special Accelerated Road Development Program for the North-east region and Left Wing Extremist (SARDP-NE), National Highways Interconnectivity Improvement Project (NHIP).

Strong experienced Promoter & Management Team develops confidence

MEP is getting advantage of its highly experienced promoters and management team. The Company is engaged in purely toll collection business and has an overall experience of over 13 years across 12 states in India. Its operations are diversified and not concentrated on any specific authorities, geographies or projects. The operations were diversified and have a sustainable platform for future growth.

- Due to its strong operative performance and capability to manage projects well, it has won repetitive projects like 1) Mumbai Entry Points Project got awarded for 16 years after completion of project tenure for collection of toll from Dec.2002 until Nov.2010. 2) Project for collection of toll at Chirle and Karanjade in Maharashtra. 3) Project for collection of toll at the toll plazas on Ahmedabad – Vadodara Expressway in Gujarat. 4) Awarded RGSL Project in 2014 on an OMT basis after having undertaken collection of toll at the RGSL since its opening in 2009. This gives assurance of continuous awards winning ability of the Company.

Integrated structure with dynamic adequacy: MEP has integrated structure with in-house capabilities for tendering, traffic survey and revenue forecasting, civil construction and maintenance, financial closure and tolling operation. Integrated structure facilitates efficient bidding process and completion of projects on a profitable basis.

- In-house business development team prepares tendering documents for all the bids. Company's ability to tender appropriately depends significantly on the assessment of the future traffic patterns and the amount of toll to be collected
- The in-house traffic study and revenue forecasting capacity and expertise strengthens the Company's ability to evaluate new projects and tender effectively for toll collection and OMT contracts. The final revenue model created is discussed and finalized by the senior management for bidding purpose. Dual responsibility of conducting pre-bidding traffic surveys as well as monitoring loss in revenue on account of non-paying vehicles for ongoing projects.
- In-house experts with significant experience for supporting and managing all EPC and maintenance related activities. In-house equipment and resources availability for implementing routine and major maintenance works. This helps to reduce the sub-contracting cost for OMT projects. Further, the company has team of experts who does the in-depth study with the help of third party engineering consultancy service providers of road condition, inventory survey, and inspection of major and minor structures on the project roads which involve maintenance expenditure however, for maintenance activities company uses sub-contractor services.
- The finance and operations team coordinates activities relating to achieving financial closure by obtaining fund and non-fund based loan facilities from banks / financial institutions.
- As of 30th June, 2015, ~ 3,300 employees in Tolling and maintenance activities. ~ 1,100 contract workforce at various toll plazas.

Specialized in-house capabilities: MEP has incorporated MEP Highway Solutions Pvt. Ltd. to focus on maintenance activities for roads. This in-house capacity helps MEP to reduce their dependency on subcontractors.

Advanced technology for toll collection improves the operational efficiency & transparency:

Advanced technology for toll collection leads to improved operational efficiency and transparency

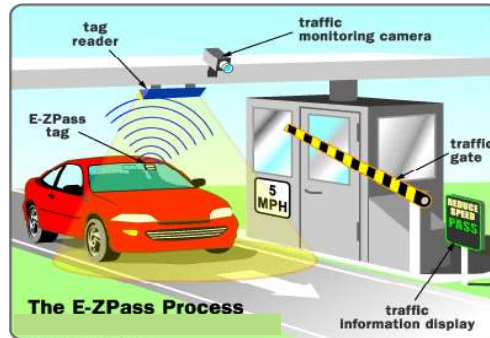
MEP has advanced technology for toll collection like Electronic Toll Collection (ETC) Systems which are based on prepaid mode of toll collection either through smart cards or Radio-frequency identification (RFID) technology based tags that are mounted on the Windshield. These tags are branded as 'FasTag' and dedicated Electronic Toll Collection (ETC) lanes are known as 'FasTag Lane'. This will improve the operational efficiency, ensures the transparency in toll collection process and will improve the average time of travel by reducing the clearing time for vehicles at toll plaza's. The company has automatic vehicle identification based in-road/infrared sensors to identify categories of vehicles and to charge an appropriate toll rate.

ETC helps to eliminate the waiting time of vehicles and save fuel

- ETC system is already in implementation at the Rajiv Gandhi Sea Link (RGSL) toll plaza in Mumbai, the Vidyasagar Setu Project and at Mumbai Entry Points Project.
- The smart card based ETC system enables the users to make payments through prepaid smart cards at some of the projects including, the Mumbai Entry Points Project, Chennai Bypass Project, Hyderabad-Bangalore Project, Madurai-Kanyakumari Project, RGSL Project, the Dankuni toll plaza in West Bengal, and the Kalyan-Shilphata Project.
- Axis Bank, India's third largest private sector bank is in partnership with MEP for ETC facility. It will bring in its expertise of managing an interoperable clearing system and an extensive network of its branches/agents. This interoperable clearing system will allow travelers to use the same FasTag at all 350 toll plazas on national highways. Users can either buy or recharge FasTags online or at Axis Bank's branches/ agents. The customers will be offered value added services and a dedicated 24x7 call center facility for convenient travel.

- **Weigh-in-motion technology:** MEP also has weigh-in-motion technology for projects where weight based toll collection is mandated. Weight based tolling systems are integrated with the fully automatic toll collection system for enhanced revenue controls.

Exhibit 28: E-Z Pass tag process



Source: Industry, BOBCAPS

Exhibit 29: KVM System



Source: Company, BOBCAPS

TOT (Toll Operate Transfer) model forthcoming opportunity

New concept of TOT for long term projects

The Government intends to come up with a new concept of Toll Operate Transfer (TOT) for long term toll collection contracts for ~20-25 years (depending on the size of the project). The TOT policy and concession agreement is in process. In TOT, the upfront payment would be made to the authority and the maintenance and tolling responsibilities would be offered to the specialized Toll collection players like MEP. The government proposed to award ~ Rs.550-600bn for this forthcoming model which we believe, will create huge opportunity (more than 100 projects currently operated by national highways on one-year short-term tolling could be the prospective opportunity) for the Company.

Future projects available for bidding

The company is expecting government authority to open a bid for ~20 projects (19 Toll collection and 1 OMT project) in coming quarters. The annual potential for toll collection is ~5.1bn

Exhibit 30: Future projects

Toll Collection Projects			
Name of Authority	Type	Annual Potential Toll Collection (Rs Mn)	Number of Projects Currently Available
NHAI	Short Term	4,410.8	16
MSRDC	Long Term	178	1
RIDCOR	Short Term	433.4	1
RSRDC	Short Term	71.8	1
Total		5,094	19
OMT Projects			
Name of Authority	Type	Tenor	Number of Projects Currently Available
NHAI	LongTerm	9 years	1

Source: Company, BOBCAPS

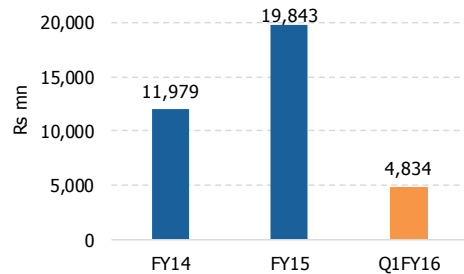
Key highlights of Q1FY16 result

- MEP posted strong 1QFY16 results with revenue of Rs. 4.8bn. MEP's EBITDA margin stood 32.2% vs 24% in FY15 an expansion of ~820 bps due to higher contribution from long term projects.

Repayment of Rs.3bn debt from the IPO proceeds will reduce the interest cost going forward which augurs well for MEP

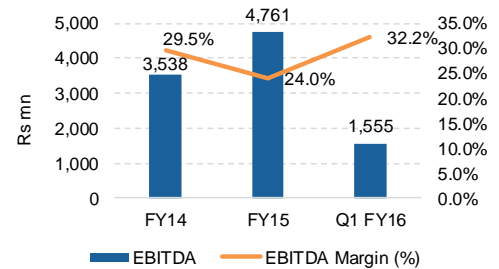
- SPV's SMYR (Delhi Entry Point Project) have started its commercial operations since May 2015 and expected to earn profits by end of FY16. MIPL has generated its first cash profit of Rs. 53 mn in Q1FY16 with 13% revenue growth YoY led by increase in toll rate (in October 2014) and reduction of debt. The management is expecting revenues from MIPL of ~4000mn by FY16.
- MEP utilized Rs. 3.0bn (gross ~92% of net IPO proceeds) for reducing its consolidated debt which will help to reduce interest cost going forward.

Exhibit 31: Revenue from operations



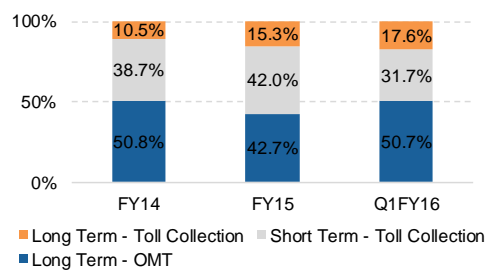
Source: Company, BOBCAPS

Exhibit 32: EBITDA & EBITDA margins



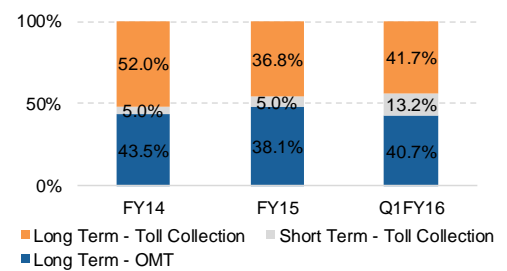
Source: Company, BOBCAPS

Exhibit 33: Revenue break up



Source: Company, BOBCAPS

Exhibit 34: EBITDA margins



Source: Company, BOBCAPS

Key risk

- **Traffic forecast risk:-** MEP is exclusively in OMT and toll collection business. The total revenue of the company is from toll collection which is entirely depends upon the traffic volume of vehicles as well as toll rate hike. Any substantial reduction in the traffic flow or falling short of projections may adversely affect company's financial condition.
- **Dependency on Government authorities:** MEP Infrastructure Developers Ltd. and its subsidiaries are highly dependent on government authorities for new projects. Any change in government or government regulation will affect the Company's earnings.
- **Change in government policy:** The Mumbai Entry Point projects contributes substantially to MEP's total consolidated revenues. Government policy regarding termination of or reduction in revenue from toll plaza's could adversely affect the company.
- **High debt and interest cost:-** Increase in debt and interest rate can adversely affect cash flow of the company.
- **Sectoral risk and lack of diversification:** MEP is operational only in Toll Management and Operate Maintain & transfer (OMT) projects and does not have presence in other industry or segment. Any downturn in the sector, changes in the government policy, reduction in the traffic growth will create threat to the company's existence.
- **Termination of projects:** MEP's substantial portion of consolidated revenue is derived from short term projects. As on March 19, 2015, out of the 18 ongoing toll collection projects operated by the company, 12 are Short Term Projects. All the short term projects are reportedly terminable by the authorities without assigning any reason. Also, there is no assurance that the company would receive any compensation on account of such early unilateral termination of these contracts or that the compensation received shall be sufficient to cover the cost incurred or to fulfill any debt obligation for such project. Any such early termination may badly affect the financials of the company. However there is no example of this type of issue till date.

Valuation:

At CMP of Rs. 48, the stock trades at PE of 9.5x and 6.4x respectively for FY16/FY17e. We believe that MEP is going into a growth trajectory led by good visibility of earnings (CAGR 27.5% over FY16e-FY18e), expected more projects in OMT, Toll Collection and upcoming TOT projects in FY16 & FY17. We value the Company on SOTP methodology to arrive at our price target of Rs. 73 (48% upside).

We initiate coverage with a BUY rating and an SOTP-based target price of Rs.73. We value individual projects (OMT, BOT, Long Term Toll Collection) at 5x EV/EBITDA. We have assumed that loss of revenue from Chennai Bypass Project in FY14 and FY15, would be adjusted against the outstanding concession fee payable to NHAI.

Lower capital investment and project cost, shorter gestation periods, quicker payoff, and improving operating margins

Exhibit 35: MEP SOTP Valuation

Projects	EBITDA (FY18E) (Rs. mn)	EV EBITDA (x)	EV (Rs. mn)
MEPIDL	864	5	4,319
MIPL (Mumbai Entry Points Project) (OMT)	4,421	5	22,104
Hyderabad Bangalore (OMT)	116	5	579
Madurai - Kanyakumari (OMT)	170	5	848
Chennai Bypass (OMT)	114	5	568
RTBPL (HRBC) (Vidyasagar Setu Project) (Long term toll collection project)	682	5	3,412
Mep Highway Solution	128	5	641
BTPL (Baramati Tollways Private Limited) (BOT)	202	5	1,008
Total (a)			33,479
Debt (b)			25,596
Cash (c)			4,031
Enterprise Value (a-b+c)			11,915
No of shares			163
Per share value			73

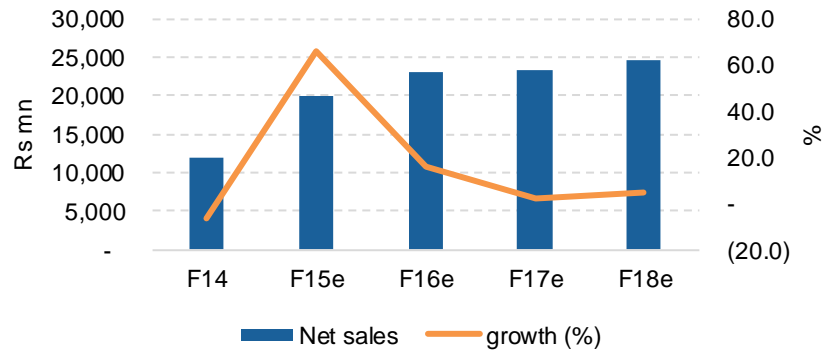
Source: BOBCAPSe

*Our estimates and valuation do not include short term toll collection projects.

Financial Summary

Existing order book to create revenue inflow in addition to new awards going ahead: A significant portion (~20% of the total revenues) of MEP's consolidated revenues are generated from the five Mumbai Entry Points (16 year contract from November 2010). For seven months ended October 31, 2014, FY2014, 2013 and 2012, the Mumbai Entry Points Project contributed 18.88%, 28.46%, 26.14% and 29.46%, respectively. We expect MEP's revenue to grow at 7% over FY15-FY18e on the back of its strong order book.

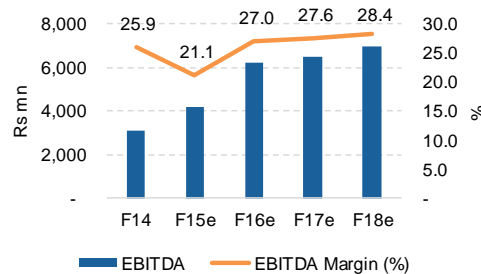
Exhibit 36: Stable revenues



Source: Company, BOBCAPSe

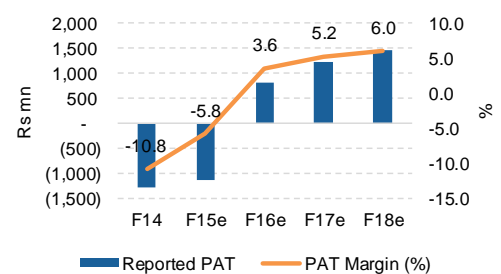
Exhibit 37: Margin trend

EBITDA



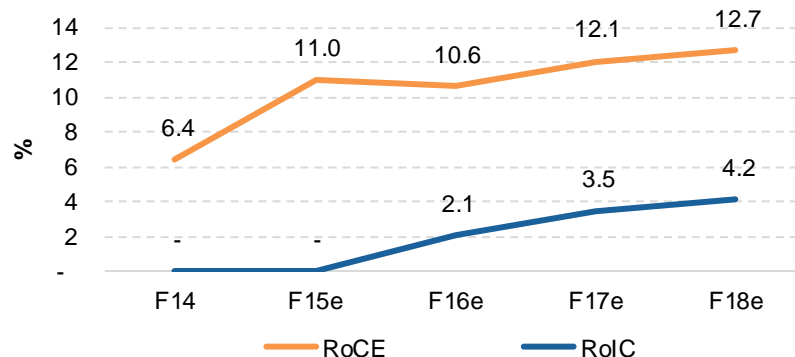
Source: Company, BOBCAPSe

PAT



Source: Company, BOBCAPSe

Exhibit 38: Return ratios



Source: Company, BOBCAPSe

Exhibit 39: Income statement (Rs mn)

Y/E Mar (Rsmn)	F14	F15e	F16e	F17e	F18e
Net sales	11,979	19,843	23,027	23,422	24,544
<i>growth (%)</i>	(6.4)	65.6	16.0	1.7	4.8
Total operating expenses	8,874	15,652	16,821	16,957	17,570
Direct expenses	499	716	1,491	1,410	1,450
Payment to authorities	8,015	14,570	14,659	14,834	15,412
Other expenses	360	366	434	444	459
EBITDA	3,105	4,191	6,207	6,465	6,974
<i>growth (%)</i>	(14.7)	35.0	48.1	4.2	7.9
Depreciation	1,303	1,799	1,799	1,906	2,213
EBIT	1,802	2,392	4,407	4,559	4,760
Other income	433	570	255	272	311
Interest paid	3,797	4,036	3,424	3,221	3,152
Extraordinary/Exceptional items	-	-	-	-	-
PBT	(1,562)	(1,074)	1,239	1,610	1,918
Tax	(236)	79	416	418	516
Minority interest	34	-	(3)	(28)	(71)
PAT	(1,292)	(1,153)	819	1,164	1,331
<i>growth (%)</i>	NA	NA	NA	45	18

Source: Company, BOBCAPSe

Exhibit 40: Balance sheet (Rs mn)

Y/E Mar (Rsmn)	F14	F15e	F16e	F17e	F18e
Cash & Bank balances	1,623	1,348	2,925	3,874	4,031
Sundry Debtors	287	258	316	322	337
Other Current assets	541	1,017	2,234	2,205	3,703
ST loans, Advances & Securities deposits	915	1,824	2,872	2,460	2,344
Net fixed assets	23,695	21,722	20,420	20,128	19,000
Share Application to others	-	-	9	9	9
Other non-current assets	8,281	10,198	6,639	6,629	6,613
Total assets	35,343	36,367	35,416	35,626	36,037
Current liabilities	5,969	7,987	5,375	5,859	6,077
Borrowings	28,663	29,568	27,227	26,284	25,596
Other non-current liabilities	1,589	1,067	1,058	537	15
Total liabilities	36,221	38,622	33,660	32,679	31,687
Share capital	1,000	1,115	1,626	1,626	1,626
Reserves & surplus	(1,878)	(3,379)	124	1,343	2,817
Pre acquisition adjustment	-	-	-	-	-
Shareholders' funds	(878)	(2,264)	1,749	2,969	4,443
Total liabilities	35,343	36,367	35,416	35,626	36,037

Source: Company, BOBCAPSe

Exhibit 41: Ratios

Y/E Mar	F14	F15e	F16e	F17e	F18e
Per share data (Rs)					
EPS	(12.9)	(10.3)	5.1	7.5	9.1
CEPS	0.1	5.8	16.1	19.2	22.7
BV	NA	NA	10.8	18.3	27.3
Profitability ratios (%)					
Gross margins	21.8	17.5	20.5	21.6	22.5
Operating margins	25.9	21.1	27.0	27.6	28.4
Net margins	(10.8)	(5.8)	3.6	5.0	5.4
Valuation ratios (x)					
PE	-	-	9.5	6.4	5.3
P/BV	NA	NA	4.5	2.6	1.8
EV/EBITDA	-	6.7	5.2	4.7	4.2
EV/Sales	-	1.4	1.4	1.3	1.2
RoNE	NA	NA	47.2	41.1	33.2
RoCE	6.4	11.0	10.6	12.1	12.7
RoIC	NA	NA	2.1	3.5	4.2

Source: Company, BOBCAPSe

Exhibit 42: Cash flow statement (Rs mn)

Y/E Mar (Rsmn)	F15e	F16e	F17e	F18e
Change in Reserves & Surplus	(1,501)	825	1,220	1,473
Depreciation	1,799	47	46	42
Amortization	-	1,753	1,859	2,171
Changes in Working Capital	645	(5,056)	849	(1,159)
Cash Flow from Operations	942	(2,432)	3,975	2,527
Investing Activity				
(Inc)/Dec in Fixed Assets	174	21,333	(38)	(18)
(Inc)/Dec in Intangible Asset	-	(21,830)	(1,575)	(1,068)
Investments	(316)	300	-	-
Loans & Advances	(1,583)	3,370	80	(3)
Cash Flow From Investing Activity	(1,725)	3,173	(1,534)	(1,089)
Financing Activity				
Equity investment	124	3,185	(28)	(71)
Debt	383	(2,350)	(1,465)	(1,210)
Cash flow from Financing	507	835	(1,492)	(1,281)
Net Change in Cash Flow	(275)	1,577	949	157

Source: Company, BOBCAPSe

Company Profile

MEP Infrastructure Developers Ltd. (MEP) was incorporated in the year 2002. It has a pan-India presence with 12 states in the country. It is an established and leading player in infrastructure sector in the country. The company focuses on pure Toll Management and Operate, Maintain & Transfer (OMT) operations in the roads including highways (constructed by third parties). MEP acquires only the right to collect toll in exchange for revenue share or payments to the authorities, on completed roads for a set number of years. The roads are constructed by the third party like NHAI or State highway authorities.

Expert in Project Management: MEP Group covers short, medium and long term contracts (pure tolling and OMT) with a tenure range from 1 year to over 18 years. ~64% of the consolidated revenues are generated from long term (More than 3 years) contracts.

- MEP initiated its operations by collection of toll at the five Mumbai Entry Points (MEP) for a period of 8 years (till Nov 2010). It has successfully acquired and managed 99 pure Tolling & OMT projects across India. As on August 2015, MEP claims to have completed and handed over 84 projects with an aggregate of more than ~143 toll plazas and ~919 lanes since inception across 12 states in India.
- As on 31st July 2015, it is operating 20 projects out of which 5 are Long Term OMT projects (covering 2,530 lane kms with 15 toll plazas), 13 long term & short term toll collection projects (with ~25 toll plazas) in 10 states, and 1 Long term BOT project (covering 42 lane kms with 5 toll plazas).
- In addition to these projects, MEP recently won 1 large long term projects, the 3 year Delhi Border tolling project at New Delhi (as a part of consortium) by SDMC for toll collection at 124 toll plazas/posts/barriers locations bordering Delhi. Out of 124 plazas company is operating 70 plazas. The operations for both these projects are expected to commence in second half of FY15.
- The MEP group deals with several various statutory corporations and government authorities across the country. Toll collection and OMT projects have been awarded by various central and state level companies like National Highways Authority of India (NHAI), Maharashtra State Road Development Corporation Limited (MSRDC), Rajasthan State Road Development & Construction Corporation Limited (RSRDC), Road Infrastructure Development Company of Rajasthan Limited (RIDCOR), South Delhi Municipal Corporation (SDMC), Indian Highways Management Company Limited (IHMCL), IT Expressway Limited (ITEL), and Hooghly River Bridge Commissioners (HRBC) etc.

Exhibit 43: Key Management

Name	Designation
Dattatray P. Mhaiskar	Chairman, Non Independent and Non-Executive Director
Jayant D. Mhaiskar	Vice Chairman & Managing Director
Anuya J. Mhaiskar	Non Independent and Non-Executive Director
Murzash Manekshana	Executive Director
M. Sankaranarayanan	Chief Financial Officer

Source: Company, BOBCAPS

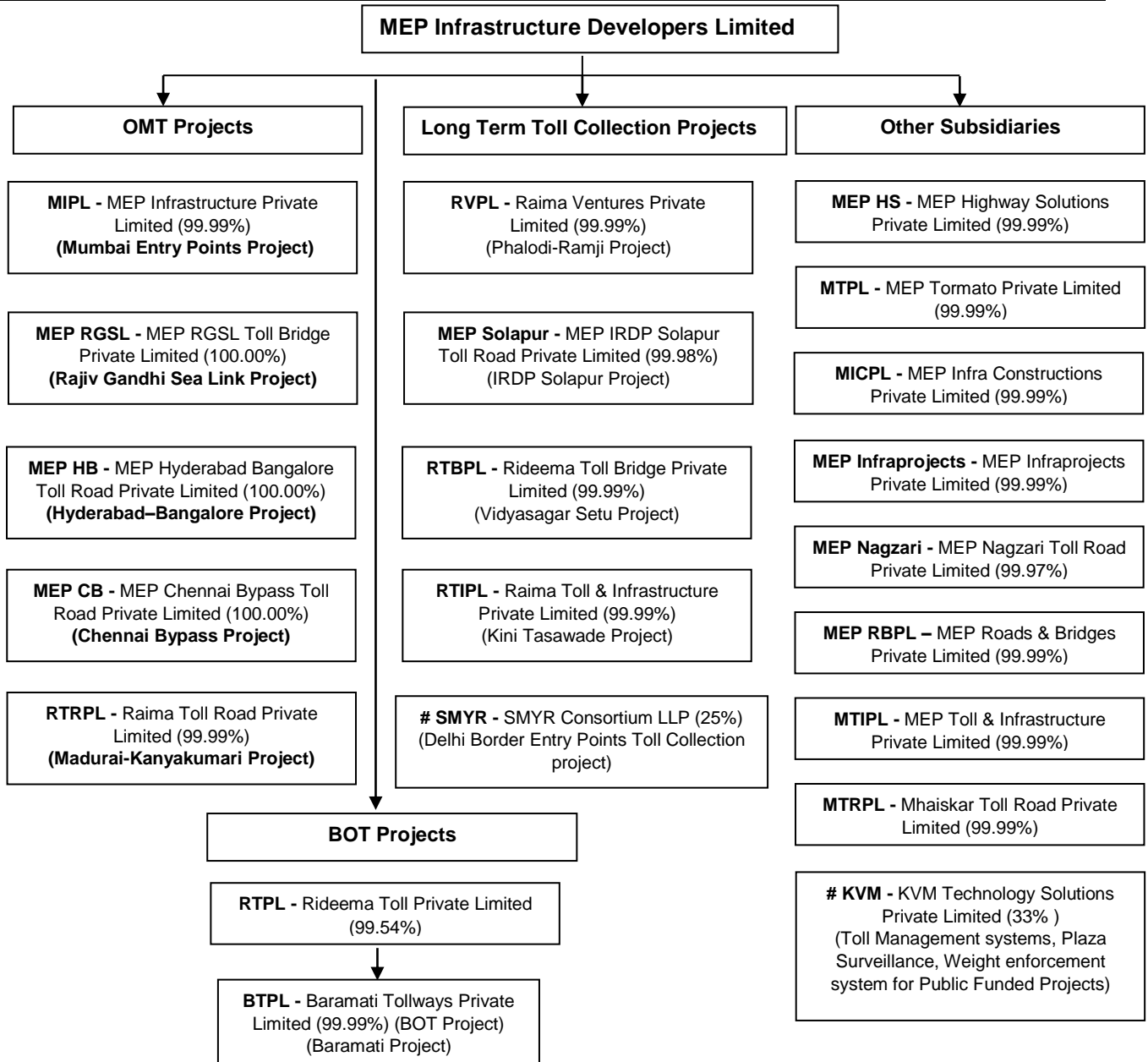
Exhibit 44: MEP's journey / Milestones

2002	Started collection of toll at the five Mumbai Entry Points for 8 years from December 2002.
2009	Started collection of toll at the Rajiv Gandhi Sea Link toll plaza from July 2009 until February 2014.
2010	<ul style="list-style-type: none"> - Awarded the Phalodi Ramji toll collection contract in Rajasthan by RIDCOR for a period of 5 years. - Started toll collection pursuant to contracts with NHAI across multiple states in India. - Awarded the Mumbai Entry Points Projects on OMT basis for 16 years with an upfront payment of Rs 21,000 mn.
2011	<p>Acquired BTPL BOT project in Maharashtra for Rs 10.1 mn.</p> <ul style="list-style-type: none"> - Crossed Rs 10,000 mn of revenue in a single financial year (FY12) for the first time. - Awarded Hyderabad-Bangalore OMT contract for 9 years and toll collection project in Rajasthan by NHAI.
2012	<ul style="list-style-type: none"> - Launched Electronic Toll Collection at the Rajiv Gandhi Sea Link. - First project by NHAI in Rajasthan for toll collection at the Paduna Toll Plaza. - Awarded a 9 year OMT contract by NHAI for Chennai Bypass and Madurai-Kanyakumari projects in Tamil Nadu.
2013	<ul style="list-style-type: none"> - Awarded the IRDP Solapur and Kalyan Shilphata projects by MSRDC, Mahua Hindaun Karauli project by RSRDC and Vidyasagar Setu project by HRBC. - Awarded a 3-year OMT contract by MSRDC for Rajiv Gandhi Sea Link in Mumbai.
2014	<ul style="list-style-type: none"> - Awarded the Rajiv Gandhi Salai project by ITEL, Kini Tasawade project by MSRDC and Surajbari Project by NHAI. - Listed on BSE and NSE on 6th May, 2015 with an IPO of Rs 3,240 mn.
2015	<ul style="list-style-type: none"> - A consortium formed by the Company, was awarded 2 projects by IHMCL for providing toll management services. - A consortium formed by the company was awarded project by SDMC for collection of Toll at border points of New Delhi.

Source: Company, BOBCAPS

MSRDC –Maharashtra State Road Development Corporation Limited, SDMC-South Delhi Municipal Corporation

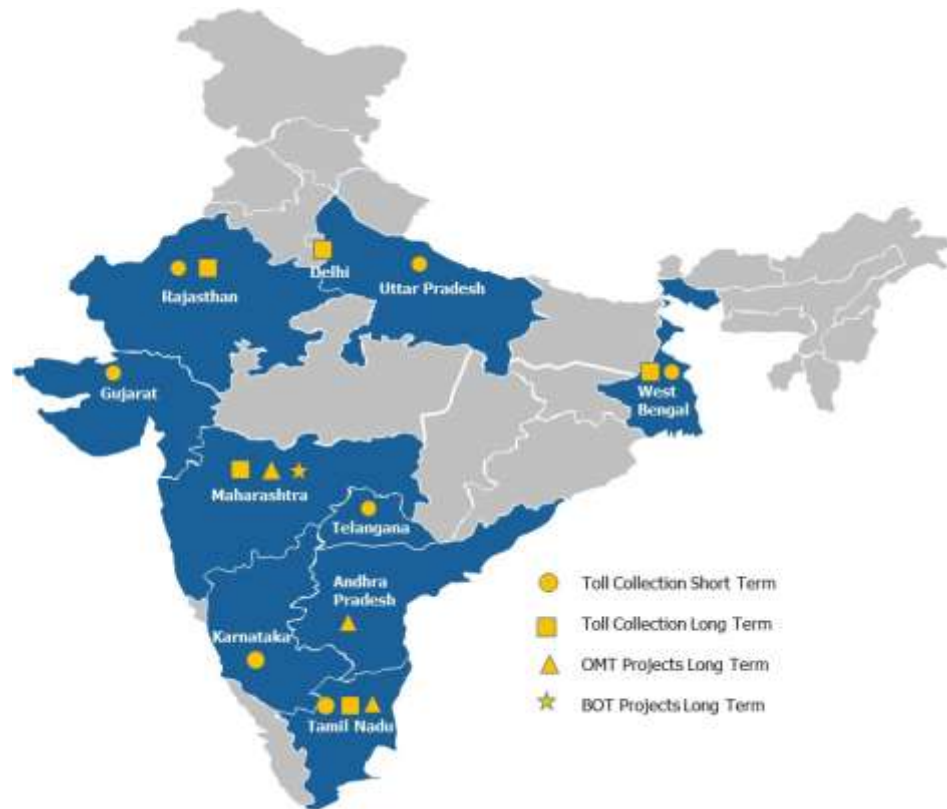
Exhibit 45: Corporate structure



Source: Company, BOBCAPS
Represents Associate

Exhibit 46: Diversified portfolio across geographies

MEP's ability to manage multiple projects across different geographies provides a significant advantage to efficiently manage its growth and expansion



Source: Company, BOBCAPS

Exhibit 47: Project Mix on 30th June 2015

Location	OMT	Long Term Toll	Short Term Toll	BOT	Total
Maharashtra	2	3	-	1	6
Tamil Nadu	2	1	1	-	4
Telangana	-	-	1	-	1
Karnataka	-	-	1	-	1
Rajasthan	-	1	1	-	2
Gujarat	-	-	1	-	1
Uttar Pradesh	-	-	1	-	1
West Bengal	-	1	1	-	2
Andhra Pradesh	1	-	-	-	1
Delhi	-	1	-	-	1
Total	5	7	7	1	20

Source: Company, BOBCAPS

Appendix

Exhibit 48: Key long term projects



Airoli toll plaza



Vashi toll plaza



Dahisar toll plaza



Sea Link



Mulund Eastern Express Highway



Mulund LBS (Lal Bahadur Shastri) Marg



Hyderabad-Bangalore Highway

KNR Construction Ltd. (KNRC)

Sector: Construction & Engineering

 3rd September, 2015

On a growth path; initiate with BUY

We initiate coverage on KNR Construction with a BUY rating and a price target of Rs. 823 implying 49% upside. We expect KNR to drive its revenue/ earnings CAGR at 59%/63% respectively over FY15-FY18e. We believe KNR will provide strong growth visibility led by strong order inflow, higher margins, low debt, consistent performance with completion of projects ahead of schedule, and backward integration.

Robust order inflows to boost earnings visibility: Growth momentum in roads and highway development sector is expected to pick up in next 2-3 years led by government's target to award 20,000 km of projects through the BOT, Hybrid Annuity and EPC routes. KNRC being in the EPC space, with its strong track record of completing projects in advanced will be highly beneficial from this opportunity. Currently the company has order book of ~ Rs.38bn which is to be executed in next two years. We expect KNRC's revenue to grow at a CAGR of 59% over FY15-FY18e.

Strong track record of early project completion: KNRC is a leading company providing Engineering, Procurement and Construction (EPC) services. It has strong existence in Roads & Highway projects and growing presence in irrigation and Urban Water Infrastructure Management. With a 20 years of experience in project execution, KNRC has successfully executed ~5,888 lane km Road Projects across 12 states in India. Being a specialist in Roads & Highway EPC projects, KNRC has a strong track record of completing projects ahead of schedule for which it has also received a bonus in past.

Strong balance sheet with low Debt/Equity ratio and low working capital cycle lends visibility to growth: High promoter holding and strong balance sheet gives comfort on future growth of the company. KNRC has lower debt/equity ratio of 0.1x due to the conservative approach of the company in terms of bidding cautiously and selectively for new projects. We believe, KNRC has potential to win the awards with a significant number of road projects over the next few years.

Valuation: Increasing order book, better margins, potential to win more projects due to comfortable balance sheet with low D/E (0.1x for FY15) and recent announcement of order wins gives us confidence that KNRC would continue to trade at rich valuations. The stock is trading at a PE of 20.3x/ 15.0x, FY16-FY17E. We initiate coverage with BUY rating and a target price of Rs. 823 based on SOTP method. We value standalone business at 20x FY17E earnings and BOT at 1x BV.

Exhibit 49: Financial summary (Rs mn)

Year end: March	FY14	FY15	FY16e	FY17e	FY18e
Net sales	8,348	8,761	10,405	13,946	19,392
Growth (%)	18.03	4.95	18.76	34.04	39.05
PAT	610	730	767	1,035	1,475
EPS (Rs)	21.7	26.0	27.3	36.8	52.5
Growth (%)	17.0	19.8	5.0	34.9	42.6
P/E(x)	24.0	21.3	20.3	15.0	10.5
ROE (%)	12.6	13.5	12.7	14.9	18.1
ROCE (%)	12.9	13.5	11.9	13.3	15.6
Net debt/equity (x)	0.16	0.13	0.03	0.04	0.13
P/Bv (x)	2.9	2.6	2.3	2.0	1.7
EV/EBITDA	12.3	12.9	10.1	7.5	5.9

Source: Company, BOBCAPSe

Price	Price Target	Up/Down (%)
Rs. 553	Rs. 823	49%

*As on 2nd September 2015

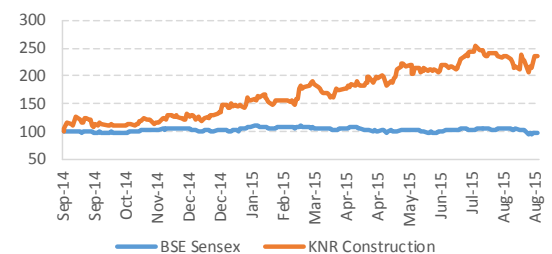
Bloomberg Code	Reuters Code
KNRL.BO	KNRC.IN

Share Holding (%)	As on 30th June 2015
Promoters	60.86
FII	1.4
DII's	25.1

Stock Data	
Nifty	7,717
Sensex	25,454
52 week high/low	625/238
Market Cap (Rs. bn)	15.5

Price performance (%)	1M	3M	6M	1Y
Absolute	-3.8	10.3	28.3	127.0
Relative to Sensex	5.7	16.7	41.9	132.8

Relative Performance



Source:-Bloomberg

Investment rationale

KNR Construction with the focus on road infrastructure projects can be a biggest beneficiary from the government's thrust for the road infrastructure development. We expect, KNRC with its strong order book of ~38bn and potential to win more projects can grow its revenue at a CAGR of 59% over FY15-FY18e. We like the company due to 1) higher margins 2) improving return ratios, 3) lower debt/equity ratio and 4) the ability of early completion of projects.

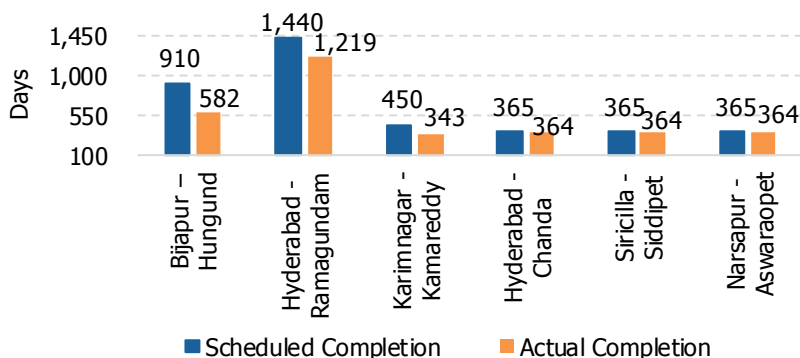
Indian government is giving special emphasis to infrastructure development, this augurs well for KNRC, a well-established multi-domain infrastructure development organization. In a vast country like India, road transport will remain a popular and effective mode of transport for reaching out across the country. Also, increase in passenger and freight traffic on roads necessitates the need for expansion, up - gradation and maintenance of roads and highways. KNRC's long standing knowledge, understanding and execution ability, successful track record in road development will enable it to make the most of these opportunities.

Capitalize on Opportunity of huge Infrastructure development in Country

Project execution capacity

The Company has proven its expertise in execution of projects in road segment and has successfully completed ~5,888 lane km projects. The company has a strong track record of successful and timely execution of projects which helps them to get repetitive orders from the clients. The Top management is actively involved at all stages of the project execution which makes possible fastest decision making. It has earned a bonus for completion of construction ahead of schedule.

Exhibit 50: Timely execution of projects



Strong track record of timely execution of projects ensures capability and helps to win repetitive orders from the clients

Source: Company, BOBCAPS

Backward integration helped to maintain healthy operating margin

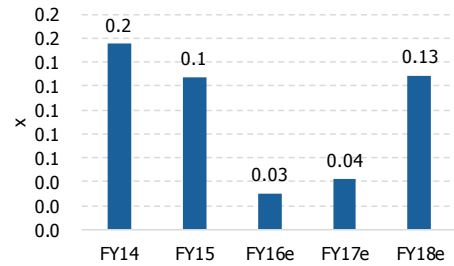
KNRC has backward integration business model of construction projects. It has captive quarrying mines and crusher units, and batching plants which help to reduce operating expenses. The Company has in-house construction equipment's and ~700 qualified and experienced employees to ensure the timely completion of project. As a result, KNRC has achieved margins of ~15% over FY09-14. We believe, KNRC has the potential to grab the opportunities in infrastructure sector going forward led by backward integration, strong in-house capacity and execution of projects ahead of schedule.

Strong balance sheet with low Debt/Equity ratio and low working capital cycle lends visibility to growth:

Strong balance sheet gives comfort on future growth of the company. KNRC has lower debt/equity ratio of 0.1x due to the conservative approach of the company in terms of bidding cautiously and selectively for new projects. We believe, KNRC has potential to win the awards with a significant number of road projects over the next few years.

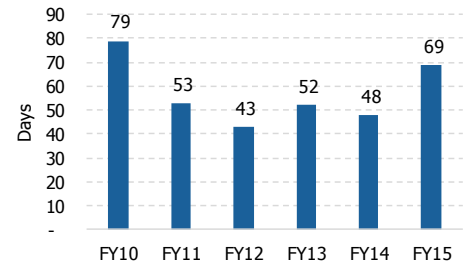
Low debt and strong execution skills make KNRC an attractive investment opportunity

Exhibit 51: Debt/equity



Source: Company, BOBCAPSe

Exhibit 52: Working capital cycle



* Government of people's Republic of Bangladesh

Healthy order inflows to boost earning visibility: KNRC's current portfolio includes 4 BOT projects (778 lane Kms Projects in the state of Telangana, Karnataka, Kerala & Bihar) out of which 2 Completed Annuity based Projects & 2 Toll based Projects under construction. It also has strong EPC order book of Rs. 35,409 mn as on 30th June, 2015 comprising of Rs. 34,786 mn in Roads sector and Rs. 623 mn in Irrigation. Recently it has received orders worth Rs. 2,556 mn post 30th June, 2015. We believe going forward KNRC's order book/sales to grow from 1.5x to 4.2x over FY15-FY18e.

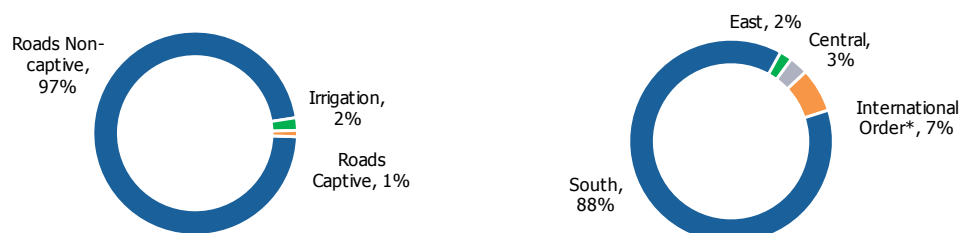
Exhibit 53: Key Projects as on 30th June 2015

Name of the Projects	Rs. mn
Madurai –Ramanathapuram Project	9,371
Thiruvananthapuram Bypass from Kazhakkootam (Thiruvananthapuram) to Mukkola Junction	6,691
Upgrading Arcot Villupuram Road, Tamil Nadu	3,200
Chittagong City outer Ring Road, Bangladesh	2,628
Upgrading Malliyakarai- Rasipuram - ThiruchengodeErode road	2,241
Top 5 Road Projects	24,130
Other Road Projects	10,656
Irrigation Projects	623
Total	35,409
Order Completion	38%
Recent Order wins	
Widening and reconstruction of Mohanpur Behat Mau (MDR 01-01) & Behat Mau (MDR 02-03), Maurar Chitore (MDR -02-08) & Gatha Amayan (MDR 02-06), Mohana Pohri (MDR 07-06) Roads, Paxkage -L under Madya Pradesh District	2,556
Total	37,965

Source: Company, BOBCAPS

*Note: Excluding project execution from 1st July 2015 upto 14th August 2015

Exhibit 54: Order book break up of Rs.35,409 mn

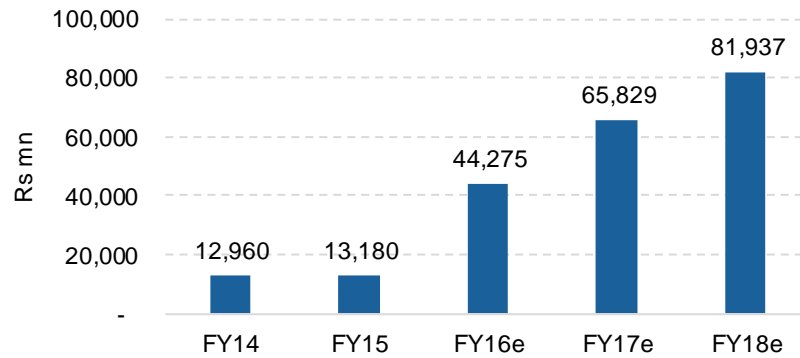


Source: Company, BOBCAPS

Source: Company, BOBCAPS

* Government of People's Republic Of Bangladesh

Exhibit 55: Order inflow to grow at 30% CAGR over FY15-18E



Source: Company, BOBCAPSe

We expect order intake to grow at 30% CAGR over FY15-FY18e led by opportunities available in the market and KNRC's strong track record of timely execution of project.

Government initiatives to provide big opportunity

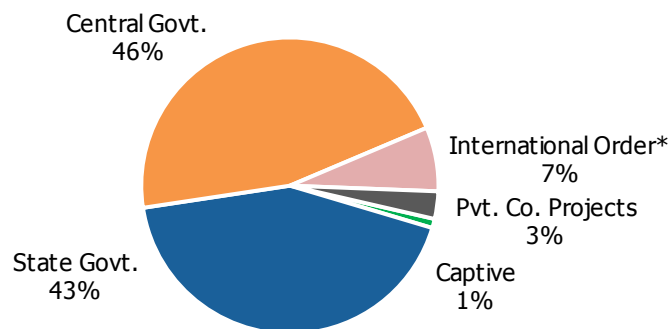
The NHAI has set a target of awarding 6000 km of road projects during the current financial year, of which 2300 km of road projects are to be awarded under the EPC mode. With EPC services being the Company's domain expertise, KNRC will be looking at leveraging this opportunity to the fullest.

Orders from different authorities reduces risk of revenue earnings:

KNRC has strong and reputed clientele which includes Government, Private and also international authorities. This reduces the dependence on one authority and risk of earnings.

Exhibit 56: Order book break up

Focus on securing EPC contracts from reputed concessionaires



Source: Company, BOBCAPs

* Government of People's Republic Of Bangladesh

Exhibit 57: BOT Portfolio – Completed Projects

Particulars	Patel KNR Infrastructures limited (PKIL)	Patel KNR Heavy Infrastructures Limited (PKHIL)
Stake	40%	40%
Project Type	Road-Annuity	Road-Annuity
State	Karnataka	Telangana
JV Partner	PEL	PEIL
Client	NHAI	NHAI
Length(KM)	60	53
Concession Start Date	26th March 2007	2nd March 2008
Concession Period	20 Years	20 Years
COD	21st December 2009	11th June 2010
Project Cost	Rs. 4,420.0 mn	Rs. 5,920.0 mn
Equity (30.06.2015)	Rs. 370.0 mn	Rs. 496.7 mn
Debt (30.06.2015)	Rs. 3,341.4 mn	Rs. 4,846.84 mn
Securitized	Yes*	Yes**
Semi-Annuitiy - 36 Instalments	Rs. 329.4 mn	Rs. 443.7 mn

Continuously explore growth opportunity by forming strategic Joint Venture (JVs) relationship

Source: Company, BOBCAPS

* PKIL securitized its project loan through issuance of non-convertible debentures to LIC of India & raised Rs. 4090 mn in April 2010. The said proceeds were used to retire the existing high cost project loan and unsecured loans of promoters and to meet the issue expenses.

**PKHIL securitized its project loan through issuance of non-convertible debentures to L&T Infrastructures Finance Company Limited and raised Rs 4000 mn in Sept. 2013. The said proceeds were used to retire the existing high cost project loans (Other than the ECB of USD 25 Millions availed from the Standard Chartered Bank , London) and unsecured loans of promoters and to meet the issue expenses.

Exhibit 58: BOT Portfolio – Under Construction

Particulars	KNR Walayar Tollways Private Limited	KNR Muzaffarpur Barauni Tollway Private Limited
Stake	100%	51%
Project Type	Road-Toll	Road-Toll
State	Kerala	Bihar
JV Partner	-	JKM Infra Project Ltd
Client	NHAI	NHAI
No of Lanes	Two to Four	Two
Length(KM)	54	108
Concession Start Date	18th May 2013	8th July 2012
Concession Period	20 Years	21 Years
Scheduled COD	15th Nov.2015	9th July 2014
Revised Scheduled COD	-	31st Dec 2015
Revenue Sharing	Grant	Premium
Project Cost	Rs. 9,005.1 mn	Rs. 3,596.8 mn
Equity (Including Grant) (30.06.2015)	Rs. 3,678.6 mn	Rs. 1,072.2 mn
Debt (30.06.2015)	Rs. 4,598.2 mn	Rs. 2,346.2,mn
Status (30.06.2015)	~96% of Work Completed	~87% of Work Completed
Toll Revenue Expected	Rs. 259.6 mn in 1st year and Rs. 783.3 mn in 2nd Year	Rs. 1.2 mn per day

Source: Company, BOBCAPS

Key risk

- **Increasing competition may have to bid at lower margins:** KNRC's more than 90% of projects comes from road segment. Its backward integration coupled with strong track record of early completion of projects enables company to maintain higher EBITDA margin. Increasing competition and lower than expected orders could decline operating margins.
- **Delay award allocation by government:** Any delays in award activity or EPC road construction projects due to issues in land acquisition, approvals, or unfavourable changes in the policy framework could affect the company.

Valuation:

At CMP of Rs. 553, the stock is trading at PE of 20.3x and 15.0x respectively for FY16/FY17e. We believe the current order book of Rs.38bn, scope for more orders to win through government (target of 20,000 km projects in next couple of years) and prospective infrastructure growth in India to drive KNRC's revenue/EBITDA at a CAGR of 59%/ 63% during FY15-FY18e respectively. Considering the stable past performance of company, we value the Company on SOTP methodology to arrive at our price target of Rs. 823 (49% upside).

Being a focused player in the segment with strong execution track record will likely to benefit.

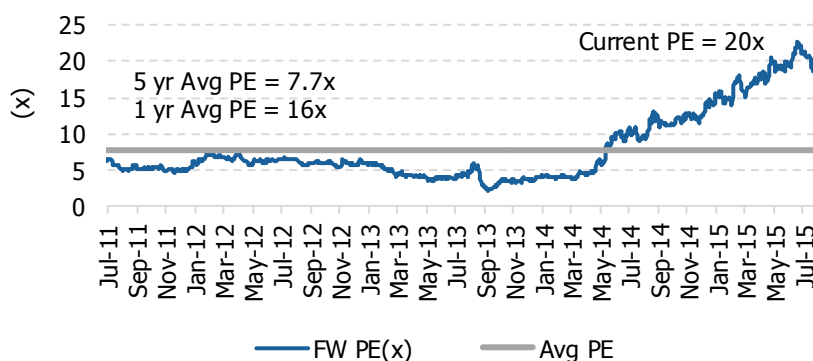
Exhibit 59: SOTP valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
KNRC Standalone	Core construction business	20,696	736	At 20x FY17E Earnings
Kerala - BOT		1,807	64	1x P/BV of equity invested as on date
Bihar - BOT (JV with JKM Infra Project Ltd. where KNRC's stake is 51%)		638	23	1x P/BV of equity invested as on date
Total		23,140	823	

Source: BOBCAPSe

KNRC trades at a 20x P/E, we expect Increasing order book, better margins, potential to win more projects due to comfortable balance sheet with low D/E (0.1x for FY15) and recent announcement of order wins gives us confidence that it would continue to trade at rich valuations.

Exhibit 60: One year forward PE



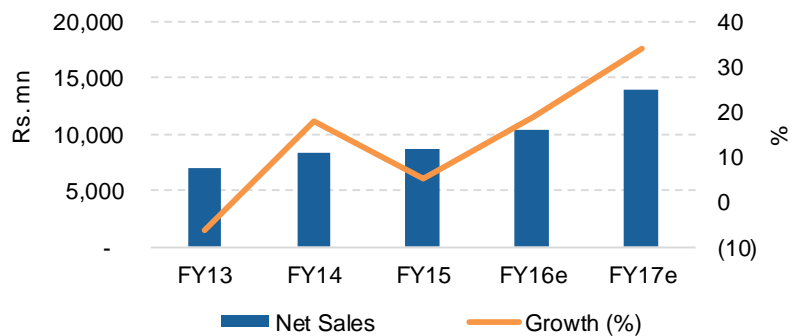
Source: BOBCAPS

Financial Summary

Robust growth in order book to support 59% revenue growth CAGR over FY15-FY18e: KNRC has ability to win repetitive orders from its existing clients as well as strong operational efficiency to win fresh orders. We expect KNRC's revenue to grow at 59% over FY15-FY18e to Rs.19,392 mn on the back of its robust order book and potential to win awards going forward.

Exhibit 61: Net sales to grow at a CAGR of ~59% over FY15-FY18e

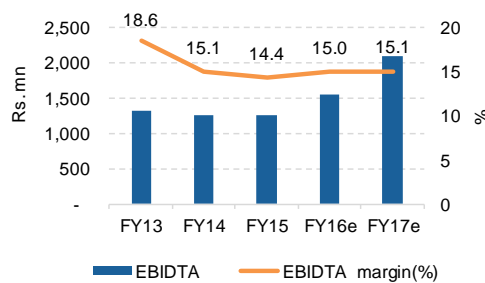
Consistently growing revenues give comfort for stability & future growth



Source: Company, BOBCAPSe

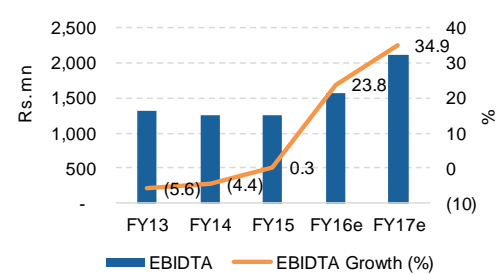
Exhibit 62: EBITDA trend

Margins



Source: Company, BOBCAPSe

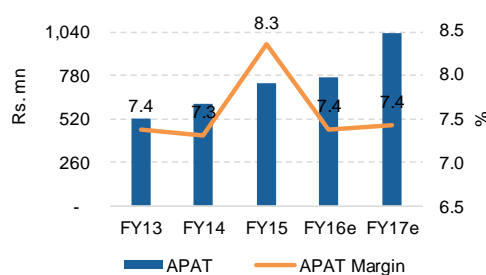
Growth



Source: Company, BOBCAPSe

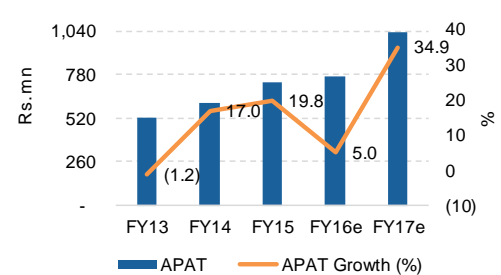
Exhibit 63: PAT trend

Margins



Source: Company, BOBCAPSe

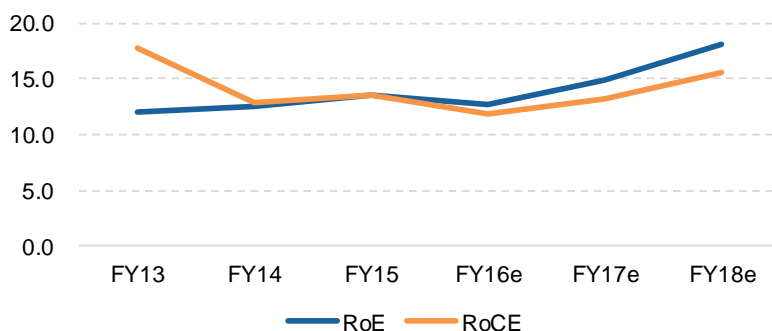
Growth



Source: Company, BOBCAPSe

Exhibit 64: Return ratios to improve over FY15-FY18e

Operational efficiency to improve its ROE & ROCE



Source: Company, BOBCAPSe

Exhibit 65: Income statement (Rs mn)

Year end: March	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	8,348	8,761	10,405	13,946	19,392
Growth (%)	18.0	5.0	18.8	34.0	39.0
Material Expenses	5,727	5,966	8,094	10,849	15,222
Employee Expenses	349	381	437	572	776
Other Operating Expenses	1,013	1,154	312	418	582
EBIDTA	1,258	1,262	1,562	2,107	2,813
EBIDTA margin(%)	15.1	14.4	15.0	15.1	14.5
EBIDTA Growth (%)	(4.4)	0.3	23.8	34.9	33.5
Other Income	155	125	131	137	144
Depreciation	572	541	603	688	777
EBIT	841	846	1,090	1,557	2,180
Interest	172	122	119	139	186
Exceptional items	-	-	-	-	-
PBT	669	723	971	1,418	1,994
Tax	59	7	204	383	518
PAT	610	730	767	1,035	1,475
PAT Growth (%)	17.0	19.8	5.0	34.9	42.6
EPS	21.7	26.0	27.3	36.8	52.5

Source: Company, BOBCAPSe

Exhibit 66: Balance sheet (Rs mn)

Year end: March	2014	2015	2016E	2017E	2018E
SOURCES OF FUNDS					
Share Capital	281	281	281	281	281
Reserves	4,852	5,411	6,145	7,147	8,590
Total Shareholders Funds	5,133	5,692	6,426	7,428	8,871
Minority Interest	-	-	-	-	-
Long Term Debt	908	882	1,032	1,382	1,732
Short Term Debt	0.2	-	-	-	-
Total Debt	908	882	1,032	1,382	1,732
Deferred Taxes	(118)	(239)	(239)	(239)	(239)
TOTAL SOURCES OF FUNDS	5,923	6,335	7,219	8,571	10,364
APPLICATION OF FUNDS					
Net Block	2,637	2,269	2,291	2,454	2,576
CWIP	3	-	-	-	-
Investments, LT Loans & Advances	400	315	473	709	1,063
Inventories	341	359	464	622	862
Debtors	1,171	1,765	1,596	2,140	2,975
Cash & Equivalents	112	157	836	1,067	587
ST Loans & Advances, Others	4,764	4,930	5,514	6,415	8,532
Total Current Assets	6,387	7,211	8,410	10,243	12,957
Creditors	786	705	855	1,146	1,594
Other Current Liabilities & Provns	2,719	2,755	3,100	3,688	4,639
Total Current Liabilities	3,505	3,460	3,955	4,835	6,233
Net Current Assets	2,882	3,751	4,455	5,409	6,724
Misc Expenses & Others	1	-	-	-	-
TOTAL APPLICATION OF FUNDS	5,923	6,335	7,219	8,571	10,364

Source: Company, BOBCAPSe

Exhibit 67: Ratios

	FY14	FY15	FY16E	FY17E	FY18E
PROFITABILITY (%)					
GPM	31.4	31.9	22.2	22.2	21.5
EBITDA Margin	15.1	14.4	15.0	15.1	14.5
EBIT Margin	10.1	9.7	10.5	11.2	11.2
APAT Margin	7.3	8.3	7.4	7.4	7.6
RoE	12.6	13.5	12.7	14.9	18.1
RoCE	12.9	13.5	11.9	13.3	15.6
EFFICIENCY					
Tax Rate (%)	8.8	(1.0)	21.0	27.0	26.0
Asset Turnover (x)	1.5	1.5	1.5	1.8	2.1
Inventory (days)	14	15	14	14	14
Debtors (days)	52	61	59	49	48
Payables (days)	40	31	27	26	26
Net D/E	0.2	0.1	0.03	0.04	0.13
PER SHARE DATA					
EPS (Rs/sh)	21.7	26.0	27.3	36.8	52.5
CEPS (Rs/sh)	42.0	45.2	48.7	61.2	80.1
DPS (Rs/sh)	1.0	1.0	1.0	1.0	1.0
BV (Rs/sh)	182.5	202.4	228.5	264.1	315.4
VALUATION					
P/E	24.0	21.3	20.3	15.0	10.5
P/BV	2.9	2.6	2.3	2.0	1.7
EV/EBITDA	12.3	12.9	10.1	7.5	5.9
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company, BOBCAPSe

Exhibit 68: Cash flow statement (Rs mn)

Year end: March	2014	2015	2016e	2017e	2018e
Reported PAT	610	730	767	1,035	1,475
Non-operating & EO items	0	0	0	0	0
PAT from Operations	610	730	767	1,035	1,475
Interest expenses	172	122	119	139	186
Depreciation	572	541	603	688	777
Working Capital Change	66	(823)	(26)	(723)	(1,794)
OPERATING CASH FLOW	1,420	570	1,463	1,139	644
Capex	(277)	(172)	(625)	(850)	(900)
Free cash flow (FCF)	1,143	398	838	289	(256)
Investments	(522)	85	(158)	(236)	(354)
INVESTING CASH FLOW	(799)	(87)	(783)	(1,086)	(1,254)
Share capital Issuance	-	-	-	-	-
Debt Issuance	197	(26)	150	350	350
Interest expenses	(172)	(122)	(119)	(139)	(186)
Dividend	(33)	(33)	(33)	(33)	(33)
FINANCING CASH FLOW	(8)	(181)	(2)	178	131
NET CASH FLOW	613	302	679	231	(479)
Non-operating and EO items	(502)	(145)	157	836	1,067
Closing Cash & Equivalents	112	157	836	1,067	587

Source: Company, BOBCAPSe

Company Profile

KNRC Constructions Ltd (KNRCL) is a project development company incorporated in 1995 providing engineering, procurement and construction (EPC) services across various sectors like roads & highways, irrigation and urban water infrastructure management. On large projects KNRC often work with Joint-Venture partners and share their expertise and resources. However, roads segment comprises the major part (~90%) of its order book. It's main focus is on National and State highway projects. In last 20 years it has successfully executed (independently as well as through joint ventures) ~5,888 lane km Road Projects across 12 states in India. It has significant and diversified geographical presence across 14 states. Its robust execution and construction skills and timely completion of projects enabled to create a niche position in Industry.

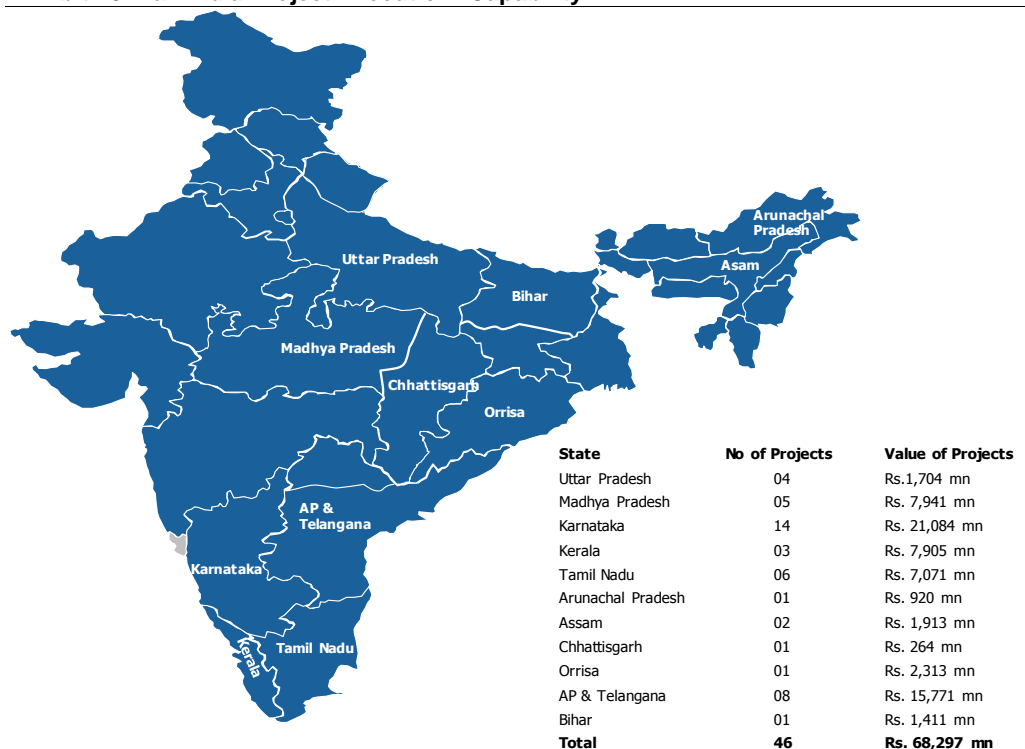
Currently KNRC has three BOT projects, 670 lane Kms Projects in the state of Telangana, Karnataka & Kerala. 2 Completed Annuity based Projects & 1 Toll based Project under construction and EPC order-book - Rs. 13,181 mn as on March 31st, 2015 comprising of Rs. 12,558 mn in Roads sector and Rs. 623 mn in Irrigation. Received orders worth Rs. 23,352 mn post March 31st, 2015.

Exhibit 69: KNRC's transformation

1995	Incorporated & Commenced EPC Business
2006	1st BOT Project in Karnataka worth Rs. 4,420 mn; Entry into Urban water Infrastructure with contract in Bangalore
2007	2nd BOT project worth Rs.5,920mn in Telangana
2008	IPO & Listed on BSE and NSE
2010	Received single biggest work order value of Rs. 8,250 mn from Sadbhav Engineering Ltd for construction of Bijapur Hungund Road project
2012	Early completion of Biggest Road Project – Bijapur Hungund Section of Rs. 8,250 mn - 11 months ahead of schedule
2013	3rd BOT Toll project worth Rs.9,005 mn in Kerala 2/4 laning of Madurai – Ramanathapuram Section of NH-49 in the State of Tamil Nadu under NHDP Phase-III on EPC mode
2015	worth Rs. 9,371 mn

Source: Company, BOBCAPS

Exhibit 70: Pan India Project Execution* Capability



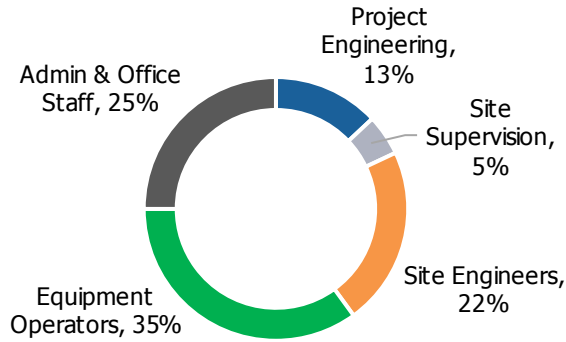
Source: Company, BOBCAPS

Map not to scale. Does not depict political boundaries

* Projects executed in last 5 years

Exhibit 71: Qualified and experienced in-house team of ~700 employees

Focus on Projects involving higher degree of engineering skills



Source:

Exhibit 72: KNRC's in-house equipment's and plant & machinery as at 30th June 2015

Sr. No.	Machinery	Quantity
1	Tippers	537
2	Excavators	135
3	Compactors	60
4	Concrete Mixers And Pumps	45
5	Loaders	38
6	Pavers	33
7	Crushers	14
8	Graders	31
9	Tractors	26
10	Cranes	33
11	Tankers	7
12	Transit Mixers	24
13	Rollers	18
14	Batching & Mixing	22
15	Breakers	13
16	Hot Mix Plant	11
17	Drillers	12
18	Dozers	9
19	Wet Mix Plant	9
20	Drum Mix Plant	7
21	Loaders Cum Excavators	6
22	Generators & Others	169
Gross Block of Plant & Machinery		Rs. 4,591mn



Source: Company, BOBCAPs

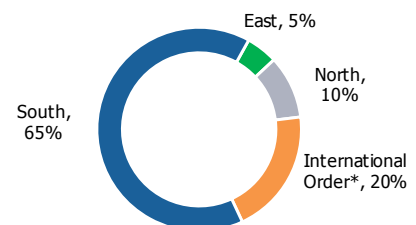
Exhibit 73: Order book description

Segment wise order book



Source: Company, BOBCAPSe

Order book as per geography



* Government of people's Republic of Bangladesh

Exhibit 74: Key Management

Name	Designation
Mr. K.Narasimha Reddy	Founder Promoter & Managing Director
Mr. K. Jalandhar Reddy	Promoter & Executive Director
Mr. K. Saravana Kumar	Senior Vice President
Mr. T.L. Verma	Vice President – Projects
Mr. G Sravana Kumar	GM - Finance & Accounts
Mr. M.V. Venkata Rao	Company Secretary

Source: Company, BOBCAPS

Sales and Dealing Team			
Purvash Shelatkar – Senior Vice President & Head Equity		+91-22-6138 9330	purvashshelatkar@bobcaps.in
Anil Pawar – Senior Manager – Dealing		+91-22-6138 9325	anil@bobcaps.in
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