ICRA ONLINE EQUITY RESEARCH

MARG LIMITED

May 9, 2011 Industry: Construction/Infrastructure Initiating Coverage

Fundamental and Valuation Grades

ICRA Online has assigned the Fundamental Grade **'3/5'** and the Valuation Grade **'A'** to Marg Limited (MARG). The Fundamental Grade **'3/5'** assigned to Marg implies that the company has **"good fundamentals"** relative to other listed securities in India. The Valuation Grade **'A'** implies that the company is **"significantly undervalued"** on a relative basis (as on the date of the grading assigned).

Chennai-based MARG Limited is a holding company for various infrastructure/real estate assets of the Group (that are being developed in separate subsidiaries) while also serving as engineering, procurement and construction (EPC) contractor for its various subsidiaries and external customers. The Group is currently concentrated in southern India with higher focus on the State of Tamil Nadu. It owns and operates the 5.2 MTPA port at Karaikal, Pondicherry (currently being expanded to 21 MTPA); and is also developing a 613 acre special economic zone (SEZ) at East Coast Road near Chennai; besides developing approx 5.4 million sq. ft. of commercial/residential space in Tamil Nadu/Andhra Pradesh. Henceforth MARG would refer to MARG Limited consolidated with its subsidiaries.

Grading Positives

The grading positives for MARG are its experienced management; its demonstrated execution track record; its diversified revenue streams; stabilisation of the first phase of port operations; and healthy bookings in launched real estate projects, particularly within the residential segment.

The potential upsides to our estimates are: (1) Margin improvement in the EPC segment. (2) Higher-than-expected capacity utilization in Phase 2A of Karaikal Port. (3) Higher-than-expected sales in the real estate segment and SEZ.

Grading Sensitivities

Key sensitivities to our estimates include: (1) Slowdown of orders in the EPC segment. (2) Time/Cost overruns in Phase 2A expansion of Karaikal port (3) Delay in commissioning of the upcoming power plants in the port hinterland resulting in lower capacity utilisation of the port (4) Moderation of prices/slowdown in demand in the real estate segment and SEZ.

Table 1: Key Financials (Consolidated)

	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
Operating Income (Rs. crore)	388.7	700.4	1083.9	2010.6	2301.1	2441.1
EBITDA Margin (%)	27.5%	20.0%	22.0%	24.3%	24.0%	23.8%
PAT Margin (%)	3.1%	3.1%	4.7%	4.7%	7.1%	8.4%
EPS (Rs.)	4.4	4.5	12.0	25.9	41.9	51.0
EPS Growth (%)	104%	4%	164%	116%	62%	22%
RoE (%)	4.1%	4.7%	8.4%	13.7%	20.1%	20.8%
RoCE (%)	8.7%	8.1%	7.9%	11.5%	13.6%	14.8%
P/E (x)	32.7	22.5	8.5	4.0	2.4	2.0
P/BV(x)	1.2	1.0	0.9	0.7	0.6	0.5
EV/EBITDA (x)	18.4	14.1	8.3	4.0	3.6	3.4

Source: MARG, ICRA Online Estimates

ICRA Online Grading Matrix

Fundamental Assessment	Valuation Assessment: A	B	C	D	E
5					
4					
3	3A				
2					
1					

- Fundamental Grading of '3/5' indicates "good fundamentals"
- Valuation Grading of 'A' indicates "significantly undervalued" on a relative basis

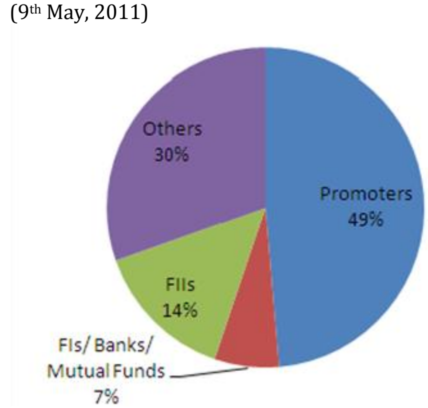
Key Stock Statistics

Current Market Price* (Rs.)	102.3
Shares Outstanding (crore)	3.8
Market Cap (Rs. crore)	389.8
52-Week High (Rs.)	243.9
52-Week Low (Rs.)	100.0
Free Float (%)	51.4%
Beta	1.6
P/E on 2011-12 EPS Estimate (x)	8.9
Bloomberg Stock Code	MRGC IN Equity

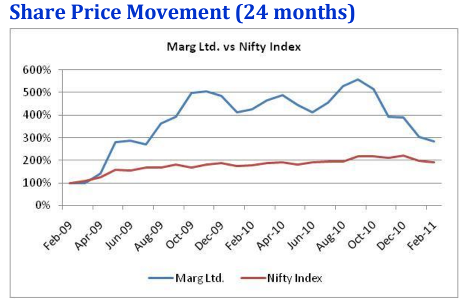
*As on 9th May, 2011

Shareholding Pattern

(9th May, 2011)



Share Price Movement (24 months)



MARG Limited: Snapshot

Incorporated in: 1994
Listed in: 1995 [BSE]
Headquarters: Chennai, TN
Promoter: Mr. G.R.K. Reddy
Other Listed Group entities: None
Business Segments: EPC, Ports, SEZ, Real Estate [Residential and Commercial]
Geographical Focus: Largely Southern India
Group Structure: EPC business in MARG Ltd with ports, SEZ and real estate projects being developed in separate subsidiaries. MARG Ltd is a holding company with revenues from the EPC business.

EPC: Key Facts/Figures

Sectoral Presence: Ports, Residential/Commercial buildings, industrial infrastructure among others
Largest ongoing order: EPC of the Karaikal Port
External Contracts: 21% of Order Book
Current Order Book: Rs. 4250 Crore
FY 10 Revenues: Rs. 745.4 Crore

Ports: Key Facts/Figures

Operational assets: 1 Port at Karaikal, Pondicherry held under a special project vehicle (SPV) – Karaikal Port Pvt. Ltd. (KPPL, 95.4% held)
Karaikal Port – Operational capacity: 5.2 MTPA [Phase 1]
Project Cost – Phase 1: Rs. 416 Crore [Equity of Rs. 114 Crore and Debt of Rs. 302 Crore]
Operational since: April 2009
Traffic handled in FY10: 1.6 MTPA
Traffic handled in 9MFY11: 3.72 MTPA [largely coal – 84%]
Capacity Expansion: Phase 2A – Enhancement in capacity to 21 MTPA from 5.2 MTPA
Expected commissioning of Phase 2A: October 2011
Project Cost – Phase 2A: Rs. 1569 crore [funded by equity of Rs. 424 Crore and debt of Rs. 1145 Crore]
FY 10 Revenue: Rs. 54.7 Crore

Investment Summary:

Modest sized player... In transition from an EPC model to integrated EPC-cum-asset-ownership model:

A modest player in the EPC segment, MARG has been progressively increasing its presence in infrastructure and real estate development; and successfully evolving into an integrated EPC-cum-asset-ownership model from a pure EPC model earlier. We expect EPC business to continue to support revenue growth and contribute in terms of steady cash flows. We also have a positive view of the potential returns from long-term infrastructure assets and real estate development. However, the shift to the asset-intensive model exposes the company to higher market, execution and funding risks than a pure EPC model. Although MARG has hitherto demonstrated its ability to scale up successfully, its ability to effectively manage the new set of challenges would have a direct impact on its valuation.

EPC Segment: Shift from internal to third-party projects

The EPC division of the company has witnessed healthy growth over the last five years, largely driven by in-house orders. With most of the planned asset development work of the company getting completed in the next one to two years, we expect the proportion of the external project works to increase progressively. The management has also increased its focus on external projects and has taken several initiatives to increase the division's external order book position. ICRA Online expects healthy growth in third-party order book on the back of the company's initiatives and its track record in the building and port construction segments. However, considering the ambitious growth plans, maintaining the operating margins at the existing level will remain a challenge for the company going forward.

Capacity addition at the Karaikal port to support maximisation of inherent locational advantages

Karaikal Port is the largest segment of the company in terms of capital employed. The port is owned and operated by Karaikal Port Pvt Ltd (KPPL), a subsidiary of MARG[1]. KPPL has successfully stabilised and ramped up operations at the Karaikal port to near-capacity levels (5.2 MTPA[2]). The port is currently undergoing a four-fold expansion in capacity to 21 MTPA from 5.2 MTPA at present. We expect KPPL to capitalise on the existing/potential demand within the immediate hinterland and also within the extended hinterland area, given its modern infrastructural facilities relative to competing ports. We see cost advantages to existing cement/power plants in the immediate hinterland from moving through Karaikal port versus the Chennai/ Ennore/ Tuticorin ports which, we expect, would translate into diversion of traffic from these ports. However, most of the additional demand, beyond the existing demand of 14 MTPA, is expected from future power plants aggregating to coal import potential of 60 MT. Therefore, we consider the expected additional demand through upcoming cement/power plants to be a key sensitivity.

SEZ: Significant investments made; near-to-medium term prospects challenging

MARG is currently developing a 613 acre, SEZ (called MARG Swarnabhoomi) under its wholly-owned subsidiary-New Chennai Township Pvt Ltd (NCTPL). The SEZ is located on the East Coast road, midway between Siruseri (which roughly marks the end of IT Corridor of Chennai along Old Mahabalipuram Road) and Pondicherry at a distance of 60 Km from each of the two locations. NCTPL has hitherto spent almost Rs. 647 Crore out of the planned investment of nearly Rs. 700 Crore for the phase-1 development of the project. Although the SEZ has adequate connectivity, it faces several challenges including sluggishness in industrial

[1] MARG stake in KPPL is expected to decrease to 81-86% post conversion of IDFC investment.
[2] MTPA = Million Tonnes Per Annum

SEZ: Key Facts/Figures

Operational SEZ: 1 Multi services SEZ and 1 Light Engineering Services SEZ [being developed in several phases] both held under an SPV – New Chennai Township Pvt Ltd [100% held]
Location: East Coast Road, TN [90 km from Chennai]
Area: 301 acres under Multiservices SEZ and 312 acres under Light Services SEZ [of the total area approx 194 acres would be the non-processing zone]
Total planned development: 7.38 million sqft under the processing zone and 14.4 million sq. ft. under the non-processing zone
Current Status: 36 acres of land sold and 0.2 million sq. ft. of built-up area leased out. 1.2 million sq. ft. of built-up residential space sold
Total cost of development – Phase 1: Rs. 706 Crore [funded by debt of Rs. 407 Crore and equity of Rs. 183 crore]
FY10 Revenues: Rs. 150 Crore

Commercial Real Estate: Key Facts/Figures

Major ongoing project: Mall-cum-hotel of 1.83 million sq. ft. under Riverside Infrastructure (India) Pvt Ltd [MARG has a 68.49% stake]
Project Cost: Rs. 488 Crore [funded by debt of Rs. 318.1 Crore and equity of Rs.143.38 Crore]
Area leased out to date: 0.35 million sq. ft. to 3 anchor tenants
FY10 Revenues: Nil

Residential Real Estate: Key Facts/Figures

Completed developments: <0.5 million sq. ft. in Chennai
Ongoing developments: 4 million sq. ft. across 7 projects [of this, approx 3.54 million sq. ft. is located in Chennai]
Project Cost: Rs. 877 Crore across 7 projects – to be largely funded through advances

capex investments, competition from other SEZs near Chennai and uncertainty over the taxation of SEZ units after the introduction of Direct Tax Code (DTC). Moreover, in the Union Budget for 2011-12, the Government of India has levied Minimum Alternate Tax (MAT) of 18.5% on the units operating in SEZ with effect from FY12. Considering the regulatory change and other existing issues, successful marketing of the SEZ would remain a challenge for the company going forward. MARG is also developing residential properties in the non-processing zone of the SEZ. Although the demand for the residential property has been relatively upbeat so far, we believe that sluggishness in the commercial property demand will have an adverse impact on residential demand. Overall, ICRA Online expects near-to-medium term prospects of the SEZ to be challenging. In the long term however, the SEZ is expected to generate positive return on investments.

Real Estate segment: Aggressive plans on the anvil

Based on the success of the MARG Group in various residential projects and the improved sentiment in the real estate segment, we expect the company to be able to progressively capture value from its substantial land bank. A recent entrant into the real estate segment, MARG Group is expected to develop 1.8 million sq. ft. of commercial space (mall-cum-hotel) and nearly 4 million sq. ft. of residential space over FY11-13. While MARG Group has made progress in marketing these ongoing developments, the recent macroeconomic trends including rising interest rates and inflationary pressures could impact demand. Nevertheless, we expect the MARG Group to be protected to some extent by its locational advantage; its low cost land bank and the Group's focus on the affordable/mid-premium housing segment.

Medium-term earning growth expected to be driven mainly by EPC, ports and real estate businesses

While we expect the port and the commercial/residential projects to start generating positive returns within a relatively short timeframe from inception, the gestation period for the SEZ project is expected to be relatively longer. Therefore, the profits of MARG Group in the medium term are expected to be driven by EPC, ports and commercial/residential projects.

No funding concern for the envisaged asset development work:

In order to complete the ongoing projects, the MARG group would require significant funds during the next one to two years. Nevertheless, we do not expect the requirement to cause any major concern, as the funds for the projects have been largely tied-up. The total additional equity requirement is Rs. 198 crore; out of which Rs. 158 Crore was infused during FY11 – from qualified institutional-investors proceeeds (QIP, Rs. 106.9 Crore) and by Infrastructure Development Finance Corporation (IDFC, Rs. 40 Crore). Further, Rs. 40 Crore of additional investment from IDFC was received during FY12. Additionally, a large part of the debt requirements has already been tied-up by the group. Therefore on an overall basis, funding is not a concern for the group and availbility of resouces would aid in smooth execution of the planned projects.

Valuation:

MARG has three different lines of businesses, namely, EPC, Real Estate (including SEZ) and Port. Therefore, besides comparing MARG with the relevant indices, we have also compared it against various EPC, real estate and port peers. Additionally as the company is significantly levered financially, we have given higher weightage to EV/EBITDA multiples as compared to PE multiples.

The company is trading at a discount against all the indices except BSE Realty Index. Additionally the company is discounted against its port peers. A certain level of discount is justified given the modest scale of MARG's port operations in FY10 and its significant investment in the SEZ project which may not yield commensurate returns in the medium term. However, ICRA Online observes that significant positives exist in the form of healthy order book position of EPC division: considerable ramp-up in port traffic in FY11; and healthy bookings in commercial/residential projects. As the port is the largest segment of the group in terms of capital employed, we expect the trading multiple for MARG to be somewhere in between the real estate peers and port peers. Currently, the forward trading multiples of MARG (on FY12 expected figures) are largely in line with its real estate peers and significantly lower than its port peers. Moreover as per intrinsic valuation carried out by ICRA online, which factors a discount on account of holding structure of MARG, the current market valuation is significantly lower. Thus, ICRA Online has assigned a valuation grade of '**A**' to MARG on a grading scale of '**A to E,**' which indicates that the company is **"significantly undervalued"** on a relative basis.

EPC: To Play a Critical Role in Growth Plans

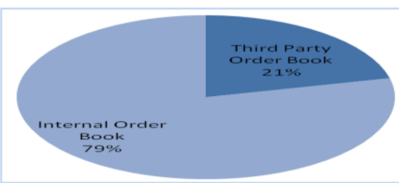
MARG commenced operations as a pure EPC company and has over the years gained significant experience in the construction business. MARG carries out both internal and third-party orders. The company has undertaken various types of projects including building construction, port and industrial infrastructure among others.

Healthy growth in revenues in first nine months

The revenues witnessed a healthy growth of 35% from Rs. 536 core in first nine months of FY10 to Rs. 724 crore in corresponding period of FY11. The revenue mix has also improved with revenue contribution from external orders showing an increase.

Internal orders constitutes a significant portion of the order book

Chart 1: Order-book break-up



Source: MARG, ICRA Online

The total order book position of MARG as on date is Rs. 4250 Crore, with an external order book of Rs. 718 Crore. As far as internal order position is concerned, it mainly comprised of Karaikal port, SEZ project and various residential and commercial projects.

Proportion of external projects expected to increase going forward

Going forward, much of the ongoing asset development activities of the company is expected to get completed during the next two years – the phase 2A expansion work of the port is scheduled to be completed in October 2011; phase 1 basic infrastructure work in SEZ is scheduled to be completed during FY12; and mall is scheduled to be completed by April 2012. Therefore, the management has increased its focus on third-party projects. The external order book has increased from Rs. 636 crore in Q2 FY11 to Rs. 718 crore currently. Further, MARG has submitted bids for projects worth Rs. 3838 crore, out of which it is L1 for projects worth Rs. 862 crore. The trend of shift to external orders is already visible in the quarterly results. In Q2 FY11, MARG posted a turnover of Rs. 208.6 crore in EPC division out of which Rs. 140 crore was from internal contracts and Rs. 68.6 crore was from external contracts; while in Q3 FY11, MARG posted a turnover of Rs. 300.2 crore out of which Rs. 165.5 crore was from internal contracts and Rs. 134.7 crore was from external contracts.

Moreover, MARG has registered with various bodies to participate in tenders and has entered into alliance with other established participants for segments in which it does not have any significant presence (namely, roads, airports, power, water and waste water management projects etc.). For instance, the company has tied up with Lagan Construction - an Irish company, which has expertise in construction of roads, airports and sewage treatment plant; and AECOM - an US company, has expertise in master planning. These measures coupled with the company's track record in buildings and port construction work should result in the healthy growth in the third party order book. However, considering the company's ambitious growth plans, ICRA Online expects the operating margins of the division to marginally decline from the current levels (nearly 12% during first nine months of FY11).

Table 2: Status of Approvals for Registration in Various Bodies

Particulars	Status
Hapur Pilkhuwa Development Authority (HPDA)	Received
National Building Construction Corporation	Received
Karnataka Housing Board	Received
Tamil Nadu, Highways	Received
Tamil Nadu, PWD	Received
Andhra Pradesh, PWD	Received
Puducherry, PWD	Received

Source: MARG

Table 3: Alliances with Partners

Partner	Sector
IVRCL	Highways
Valecha Engineering	Highways
NAPC Ltd.	Highways
SREI Infrastructure	Infrastructure
Surbana Singapore	Townships
Lagan Construction	Roads, Airports
AECOM	Airports

Source: MARG

Stable cash flows from EPC segment to support the Group in the growth phase

The EPC segment is expected to contribute to a significant portion of revenues and profits of the group in the near term, however the share would decline going forward as the other activities stabilise.

Karaikal Port: Full Steam Ahead

Karaikal Port is the largest segment of the company in terms of capital employed. The port is owned and operated by Karaikal Port Pvt Ltd (KPPL), a subsidiary of MARG[3]. The all-weather, multipurpose port is located between Chennai and Tuticorin ports and mainly targets Central Tamil Nadu for the cargo demand. MARG has successfully stabilised and ramped up operations at the Karaikal port to near-capacity levels (currently at 5.2 MTPA). The port is currently undergoing a four-fold expansion in capacity to 21 MTPA[4] from 5.2 MTPA at present.

Table 4: Karaikal Port – Details of Phase 1 & 2

	Phase 1	Phase 2A
Status	Operational	Under Construction
CoD [Expected/Actual]	April 2009 [A]	October 2011 [E]
Capacity	5.2 MTPA; Cargo handling capacity of 20000 MT/Berth/Day	Cumulative capacity of 21 MTPA; Cargo handling capacity of 40000 MT/Berth/Day
Depth	12.5 meters Suitable for Handymax vehicles	15-16.5 meters Suitable for Cape size vehicles
No of berths	2 berths: Multi/General Cargo	5 berths: 2 – General/Multi Cargo 2: Coal 1: OSV/PSV
Project Cost	Rs. 416 Crore	Rs. 1569 Crore
Project funding	Debt of Rs. 302 Crore Equity of Rs. 114 Crore Debt:Equity of 2.65:1	Debt of Rs. 1145 Crore Equity of Rs. 424 Crore Debt:Equity of 2.70:1
Location	140 km from Pondicherry 320 km from Chennai Port and 360 kms from Tuticorin Port	
Cargo traffic – FY10	1.6 MT [Coal Cargo of 74%]	
Cargo Traffic – [Apr-Dec10]	3.6 MT [Coal cargo of 84%]	
Concession Term	30 Years Extendable by mutual consent for a further 20-year period in two 10-year blocks	
Concession Fee	2.6% of Gross Income for Y1-Y30 Y31-Y40: 10% of Gross Income Y41-Y50: 11% in Y41 with an incremental 1% every year – capped at 20%	

Source: MARG

Fast-paced growth

Following its commissioning in April 2009, cargo traffic at the Karaikal Port has grown at a rapid pace. In the first nine months of FY11, MARG handled 3.6 million tonnes of cargo as compared with 1.04 million tonnes of cargo handled by the

[3] MARG stake in KPPL is expected to decrease to around 81-86% post conversion of IDFC investment.
[4] MTPA = Million Tonnes Per Annum

port in the corresponding period last year. The cargo handled during whole of FY11 is approx. 4.8 million tonnes. The revenues from port operations also grew significantly to Rs. 127 crore in first nine months of FY11, a growth of 307% over the corresponding period last year. With increase in cargo and amortisation of costs over larger volumes, the port posted a profit after tax of Rs. 12.6 crore in the first nine months of FY11 as compared to a loss in the corresponding period last year.

Driven by....

a) Favorable Location:

The port largely caters to the industrial belt in Central Tamil Nadu, which is within a 200 km radius of the port and between 280-350 km from Chennai/Tuticorin ports. Therefore the plants in Central Tamil Nadu benefit from significant cost savings through diversion of traffic to Karaikal port from Chennai/Tuticorin ports earlier. Demand within the port's hinterland area primarily comprises of imported coal for the region's cement/ power plants. Additionally there is potential for other cargo (including fertilizer, sugar, edible oil, agri-products, timber and project cargo among others) within the port's hinterland. Overall, we estimate the total demand within the hinterland to be at close to 14 MTPA out of which coal demand is estimated to be approx. 9 MTPA.

Figure 1: Indian Ports

Source: MARG; ICRA Online

Table 5: Karaikal Port – Cost Economics

Location	Distance (Kms)	Cost savings in Rs./MT [Road][5]
Ariyalur	127	263
Salem	306	71
Trichy	143	247
Karur	210	188
Dindigul	233	140
Cuddalore	115	377
Thanjavur	88	363

Source: MARG; ICRA Online

Table 6: Karaikal Port – Current Demand Estimate

Coal Cargo				Other Cargo		
Demand from Cement plants [including captive power plants]		**Demand from other power plants**				
Plant	**Demand in MTPA**	**Plant**	**Demand in MTPA**	**Plant**	**Demand in MTPA**	**Cargo type**
Madras Cements	1.13	**JSW Steel**	0.87	**T A Sugars, EID Parry, Shakti Sugars**	1.0	Sugar
Dalmia Cements	1.16	**MALCO**	0.5	**IFFCO**	1.0	Fertilizer
Chettinad Cements	0.87	**TNPL**	0.34	**Chennai Petroleum Corporation Ltd.**	1.0	POL
India Cements	0.41	**TA Sugars**	0.52	**Shreyas Shipping**	0.5	Container
Grasim	0.26	**EID Parry**	0.55	**Madras Cement & Chettinad Cement**	0.3	Cement
ACC Limited	0.24	**Other Sugar plants**	0.96	**BHEL**	0.3	Project Cargo

[5] Estimated at Rs. 1.50/Tonne-Kilometer

Coal Cargo				Other Cargo		
Demand from Cement plants [including captive power plants]		**Demand from other power plants**				
Plant	**Demand in MTPA**	**Plant**	**Demand in MTPA**	**Plant**	**Demand in MTPA**	**Cargo type**
Others	0.08	**Others**	1.1	**Others**	1.1	Edible Oil, Agri-products, Timber etc
Total	**4.15**	**Total**	**4.84**	**Total**	**5.2**	

Source: MARG; ICRA Online Estimates

b) Superior Infrastructure and Adequate Connectivity:

While industries within the immediate hinterland stand to benefit through considerably lower freight costs, we expect even those within the secondary hinterland to benefit from the superior facilities available at the Karaikal port, which would have a direct impact in terms of lower costs. Cost savings would largely be through lower turnaround time and larger size of vessels handled, given the higher depth available. The port also has good connectivity through rail and roads aiding in easy movement of cargo. The comparison with the main competing ports namely Chennai and Tuticorin is provided below:

Table 7: Karaikal as compared with Chennai/Tuticorin Ports

	Karaikal Port	Chennai Port	Tuticorin Port
Capacity	5.2 MTPA [21 MTPA by October 2011]	73.2 MTPA	24.7 MTPA
Cargo Traffic – FY10	1.6 MT	61 MT	23.8 MT
Cargo Traffic FY11E	4.8 MT	61.46 MT	25.73 MT
Depth	14.5 metres [to increase to 15.5-16.5 metres]	12-16 metres (Coal Cargo: 11 metres; General Cargo: 12 metres)	8.6-10.9 metres (Coal Cargo: 10.9 metres; General Cargo: 10.7 metres)
Level of mechanization	Higher	Lower	Lower
Average turnaround time	2.5 days	4.05 days (7.5 days for coal vessel)	3.97 days (4.2 days for coal vessel)

Source: MARG; IPA Website; ICRA Online

Favorable Concession Terms:

As per the concession terms, the government's share in the Karaikal port's revenue for the first thirty years of its operations is relatively low at 2.6%. This provides the port with flexibility to offer competitive rates. Besides the Karaikal port is not guided by TAMP[6] and therefore has higher pricing flexibility as compared to two adjacent major ports (namely, Tuticorin and Chennai ports) with which it directly competes for traffic. Overall, the concession terms of the port are favorable and positively contribute towards improving the marketability and competitiveness of the port.

Well-timed Capacity Expansion; Execution and Funding on track:

In the first 21 months since its commissioning, the Karaikal port has garnered substantial market share from the Chennai and Tuticorin ports and is already operating at near-capacity levels. Simultaneous with the commissioning of Phase 1, the Karaikal Port has also commenced development of Phase 2A (expansion from 5.2 MTPA to 21 MTPA), which is expected to be commissioned by October 2011. We view the timing of the capacity expansion positively and expect the port to be able to gain further market share over current levels post capacity enhancement. While we view the past track record of MARG in the development of Phase 1 to be a positive, we view the Phase 2A, wherein the scale/level of complexity is higher, to be exposed to the risk of time/cost overruns. External funding concerns are, however, largely addressed through the investment of Rs. 150 crore by IDFC and tie-up of the required amount of debt for the project.

[6] TAMP = Tariff Authority of Major Ports

Growth in future demand remains the main sensitivity:

While we expect MARG to gain significant market share from industries within Central Tamil Nadu, we expect traffic build up to happen gradually. We have modeled for a 28% CAGR in traffic over FY12-15, touching a capacity utilisation of 64% in FY15. Most of the additional demand, beyond the existing demand of 14 MTPA, is expected from future power plants aggregating to coal import potential of 60 MT. However, we have limited visibility on the demand expected from these plants, given that these are in very early stages of implementation.

Table 8: Details of Expected Power Plants

Plant	Location	Capacity
Patel Power	Nagapattinam	1000 MW
NSL Power	Nagapattinam	1320 MW
ETA Star Energy	Nagapattinam	1000 MW
Nagai Power II	Nagapattinam	1320 MW
Chettinad Power	Nagapattinam	1320 MW
Laksha Infratech	Nagapattinam	1600 MW
Empee Power	Nagapattinam	1320 MW
Sindya Power	Nagapattinam	1000 MW
Nagai Power	Nagapattinam	330 MW
Tridem Port & Power Co. Pvt. Ltd	Nagapattinam	150 MW
Cuddalore Powergen	Cuddalore	1320 MW
SRM Energy	Cuddalore	1800 MW
Infrastructure Leasing & Fin Ltd.	Cuddalore	1200 MW
Tannex Power	Cuddalore	110 MW

Source: MARG; ICRA Online Estimates

MARG Swarnabhoomi: Gestation period likely to be longer

MARG Swarnabhoomi is the second largest segment of the group in terms of investment and capital employed – planned investment of approx. Rs. 700 Crore in the first phase; almost Rs. 647 Crore of capex already incurred. The project is spread across 613 acres and comprises residential development and two SEZs, namely, Multi Services and Light Engineering. The project is being developed by NCTPL, a wholly-owned subsidiary of MARG. The company is marketing the SEZ as an integrated township, comprising housing, commercial development and knowledge centers, which is located in proximity to Chennai.

Table 9: MARG Swarnabhoomi: Key Details

	MARG Swarnabhoomi – Twin SEZs [Light Engineering and Multi Services]
Location	East Coast Road; approx. 90 km from Chennai and 60 km from Pondichery
Area	613 acres [including processing/non-processing zones]: Light Engineering SEZ of 312 acres and Multi-Services SEZ of 301 acres
Total Area Break-up [613 acres]	Processing area within Light Engineering Sevices SEZ: 135 acres Processing area within Multi Services SEZ: 118 acres Non-processing area within 613 acres: 194 acres Area consumed for basic infrastructure: 166 acres
Sale/Lease Model	Proposed to be partly through the lease of developed land [against upfront deposits] and partly through the lease of built-up space
Total Development proposed	2.88 million sq. ft. within the Light Engineering SEZ [processing zone] 4.4 million sq. ft. within the Multi Services SEZ [processing zone] 14.66 million sq. ft. of residential development [non-processing zone] Total of 22.04 million sq. ft.
Total Project Cost	Estimated at Rs. 4271 crore for 613 acres. The SEZ is planned to be developed in several phases based on the level of demand. Estimated cost for phase-1 development is Rs 706 Crore.
Project Cost & Funding - Phase 1	Cost of Rs. 706 Crore funded by debt of Rs. 407 Crore and equity of Rs. 183 Crore [towards initial infrastructure, residential development of 1.2 million sqft and commercial development of 0.7 million sq. ft.] Debt has been tied up and equity has been contributed
Total Area leased/sold	Light Engineering Services SEZ – processing area: 23 acres sold; 0.04 million sq ft leased

	MARG Swarnabhoomi – Twin SEZs [Light Engineering and Multi Services]
	out. Multi Services SEZ – processing area: 13 acres of land sold; MOU signed with Virginia Tech Park for sale of 30 acres of land; 0.03 million sq. ft. of built-up space sold; 0.15 million sq ft of built-up space leased out Non-processing area: 1177 residential units of 1900 launched (including 600 recently launched apartments) have been sold; 0.08 million sq. ft. of built-up space sold; 1.5 million sq. ft. of FSI sold; Dhyaan Dhaam planned in 7 acres under revenue sharing model

Source: MARG

Connectivity not a major concern

Figure 3: Swarnabhoomi: Location Details

MARG Swarnabhoomi is located midway between Siruseri (which roughly marks the end of IT Corridor of Chennai along Old Mahabalipuram Road) and Pondicherry at a distance of 60 Km from each of the two locations. It is well connected with both Chennai and Pondicherry through the East Coast Road (ECR). The nearest port from the SEZ is the Chennai port, which is at a distance of 90 Km. The alternative ports for the SEZ are Ennore and Karaikal ports, which are at a respective distance of 110 km and 173 km from the SEZ. Additionally, the MARG group has a medium-term plan of developing ship-repair-yard-cum-minor-port at Mugaiyur, which is located at a distance of 5 km from the SEZ. The Chennai airport is approx. at a distance of 90 km from the project. Overall, we rate the current connectivity of the SEZ with the main cities, ports and airports to be adequate.

Commercial segment sales status and challenges

The SEZ was formally launched in the year 2008; however the company started aggressively marketing it last year after the completion of the basic infrastructure work. The company has plans to develop nearly 7.4 million sq ft of space in Light Engineering and Multiservices SEZs. It has so far leased out nearly 0.19 million sq ft out of nearly 0.75 million square feet of space under construction. Additionally it has sold out approx. 36 acres of developed land in the two SEZs combined.

Although the SEZ has adequate connectivity, it faces several challenges including sluggishness in industrial capex investments, competition from other SEZs near Chennai and uncertainty over the taxation of SEZ units after the introduction of Direct Tax Code (DTC). Moreover, in the Union Budget for 2011-12, the Government of India has levied Minimum Alternate Tax (MAT) of 18.5% on the SEZ units with effect from FY12. This is expected to further reduce the attractiveness of the SEZs. Overall, ICRA Online expects the demand for the SEZ to be slow in the near-to-medium term. Accordingly we have modeled assuming only 20-25% of the planned development to happen by the end of FY15. In the longer term, however, the demand is expected to pick up.

Residential segment has seen better sales:

Table 10: MARG Swarnabhoomi – Details of Residential Projects launched so far

Residential projects	Total Area/No of units	Area/No of units sold till date	Average Realisation [Rs/Sq. ft.]	Total Project Cost [Rs. Crore]	Sales Realisation till date [Rs. Crore]
Navratna 1	0.3 million sq. ft./300 Units	0.26 million sq. ft./262 units	Rs. 1615/Sq. ft.	Rs. 34.5 Crore	Rs. 41.99 Crore
Navratna 2	0.37 million sq. ft./280 Units	0.31 million sq. ft./235 units	Rs. 1615/Sq. ft.	Rs. 42.55 Crore	Rs. 50.06 Crore

Residential projects	Total Area/No of units	Area/No of units sold till date	Average Realisation [Rs/Sq. ft.]	Total Project Cost [Rs. Crore]	Sales Realisation till date [Rs. Crore]
Utsav 1	0.34 million sq. ft./320 Units	0.62 million sq. ft./662 units	Rs. 1547/Sq. ft.	Rs 79.35 Crore	Rs. 95.94 Crore
Utsav 2	0.35 million sq. ft./400 Units				
Maha Utsav*	0.6 million sq. ft./ ~600 units	0.11 million sq. ft./ 84 units	Rs. 1818/Sq. ft.	Rs. 75 Crore	Rs. 19.45 Crore
Total	**1.96 million sq. ft./1900 Units**	**1.3 million sq. ft./1243 Units**	**Rs. 1595/Sq. ft.**	**Rs. 231.4 Crore**	**Rs. 207.44 Crore**

Source: MARG, ICRA Online Estimates
*Note: *: Recently launched*

Residential activity at MARG Swarnabhoomi is at a nascent stage – approx. 1.96 million sq. ft. of residential projects have been launched (includes 0.6 million sq ft of recently launched projects) against the 14 million sq. ft. planned (almost 14% of planned development). Bookings against these projects have been satisfactory so far, particularly when viewed in conjunction with the leasing/sale activity in the processing zone – demand has so far been largely driven by Chennai residents looking for a second home to invest in. Other customer segments include residents of the nearby Kalpakkam township and/or Pondicherry. However, given that less than 14% of the total planned residential space has been launched hitherto, the current healthy bookings may not be indicative of the future absorbtion rate of the planned development. We expect captive demand within the SEZ to be the main driver of residential demand. Therefore, the future sales of residential units is expected to be directly driven by the level of industrial demand within the SEZ. Accordingly, we have modeled assuming only 25% of the planned residential development and sales to happen by the end of FY15. The sales rate assumed are largely in line with the existing rates of booking (refer table 10).

Unique positioning has been attempted to mitigate market risk

Although the Swarnabhoomi project faces competition from other upcoming/ developed SEZs around Chennai, it has tried to differentiate by positioning itself as an integrated township with a right balance of residential, business and knowledge infrastructure. Swarnabhoomi is targeting light engineering and multiservices (mainly life scinece, bio informatics, and knowledge & innovation centres).

Swarnabhoomi Academy of Music is already functioning inside the Swarnabhoomi premises. Additionally, MARG Institute of design & Architectural Studies and MARG Navjyothi Vidyalaya (a day school) are expected to start operations from July 2011 onwards. The Group is also in talks with Virginia Tech to set up its India centre within the SEZ (however, there are regulatory issues currently related to the operations of foreign Institutes in India which could delay the plan). Besides, nearly 7 acres of land have been earmarked for setting up Dhyaan Dhaam (an Art of Living center). All of these initiatives should project Swarnbhoomi image as a knowledge hub. Moreover, the management is exercising caution to not allow any industry, which can disturb the ecosystem of the Swarnabhjoomi project (for example, hazardous chemical and heavy engineering industries are not encouraged inside the SEZ). The Multiservices SEZ has been able to attract three companies related to biotechnology (namely, Strand Genomics, Incogene and Biozeen). In the Light Engineering segment also, the company has been able sell nearly 23 acres of land to Virgo and Polyhose and lease out almost 40,000 sq. ft. of built-up space to Vanspall and Grundfos. Additionally reputed companies like Sumeet Research & Holdings Pvt Ltd and TVS Kwik Patch has evinced interest towards leasing out space in the Light Engineering Services segment. Once the aforementioned business units commence their operations, similar companies are expected to be gradually attracted to the SEZ.

Real Estate Development: Substantial plans

MARG's real estate initiatives until recently were relatively small standalone projects in the residential/commercial space. The Group has, however, been targeting the real estate segment in an organised manner over the last two years. The Group's real estate initiatives are organised under MARG ProperTies – the umbrella brand for residential projects and MARG Junction – the umbrella brand for the Group's commercial ventures. At present, the Group has 4 million sq. ft. of residential space and 1.8 million sq. ft. of commercial space (mall-cum-hotel) under development. While the older residential projects of the Group are continued within MARG Ltd., the new projects are hived off to a 100% subsidiary called MARG Properties Ltd. (MPL). The mall-cum-hotel is being developed by the company's subsidiary, Riverside Infrastructure (India) Private Limited (RIPL).

Table 11: Real Estate Projects

Commercial Projects		Residential Projects	
No of ongoing projects	One – Mall+Hotel+Office	**No. of ongoing projects**	Seven – Apartments/Villas
Location	Old Mahabalipuram Road [OMR], Chennai	**Location**	Tamil Nadu, Andhra Pradesh. Out of total 7 projects, 4 are in OMR, Chennai
Area under development	1.8 million sq. ft. – At present 1.2 million sq. ft. of mall space is under development under Phase 1. Leasable area of Mall is 0.66 million sq. ft.	**Area under development**	4 million sq. ft.
Status	Phase 1 - Under construction [50-60% complete]. Tenants are in place for approx 0.35 million sq. ft.	**Status**	2 projects [1.14 million sqft] are in advanced stages; 4 projects [2.92 million sqft] are in early stages and 1 project [0.1 million sq. ft.] is recently launched
Expected Completion	Phase 1 - March 2012	**Expected Completion**	Based on the booking status
Expected Cost	Rs. 488 Crore	**Expected Cost**	Rs. 880 Crore
Expected Funding	Rs. 318 Crore of debt and Rs. 170 Crore of Equity	**Expected Funding**	Largely funded through customer advances

Source: MARG

Substantial concentration of properties within OMR…

Figure 4: Real Estate projects in/ around Chennai

Source: ICRA Online

The residential activity of MARG is largely concentrated within Chennai (in the OMR region). We expect MARG's past track record of execution; its relatively low-cost land bank and the attractive pricing for most of its projects to be its key positives. However, as several other developers have significant development plans in this region, we would have liked to see more geographical diversity in the residential development of MARG. In the commercial segment, MARG owns a property called Digital Zone-1 or DZ-1 (0.2 million sq ft) located in the OMR region, which has been leased out to TCS. Additionally, MARG is currently developing a mall (MARG Junction) of 1.2 million sq. ft. in the OMR region. It also has plans to develop hotel and office space in the mall premises.

After a lull, demand is looking up in OMR

Four of the seven ongoing residential projects of MARG are located in the OMR region of the Chennai city. The region has evolved into an IT corridor, which houses many reputed national and international IT companies. After a lull in FY10, the absorption rates and property prices have picked up in this area.

Chart 2: Residential Property Price Trend in OMR

Source: ICRA Online Research

Considerable unsold residential area can provide fillip to earnings; though demand risk remains

In the last one year, MARG launched many projects (significantly higher than projects completed in the past). Although the initial response has been good, a substantial portion of the area is unsold which exposes the company to market risk. However, we expect the MARG Group to be protected to some extent by its locational advantage; its low cost land bank and the Group's focus on the affordable/mid-premium housing segment. We have modeled assuming nearly 3.5 million square feet of sales during the period Apr'11- Mar'15. The sales rates assumed are largely in line with existing realizations (refer table 12).

Table 12: Details of Ongoing Residential Projects

Residential Projects	Location	Total Area/No of units	% Sold	Average Realisation [Rs./Sq. ft.]	Total Project Cost [Rs. Crore]	Sales Realisation till date [Rs. Crore]
Pushpadruma	OMR, Chennai	0.47 million sq. ft./466 Units	~100%	2371.0	90.1	108.0
Vishwashakti	Tirupati, AP	0.68 million sq. ft./512 Units	~51%	1739.0	98.0	58.0
Tapovan	Pavanjur, Tamil Nadu	0.40 million sq. ft./124 Units	~6%	2298.7	82.0	9.0
Savitanjali	OMR, Chennai	0.87 million sq. ft./678 Units	~22%	3049.0	213.6	61.0
Lakshna	OMR, Chennai	0.05 million sq. ft./40 Units	~93%	4841.0	14.0	20.4
Kalpa Vriksha	OMR, Chennai	0.1 million sq. ft./76 Units	0%	2620.8	23.4	-
Brindavan	Sriperumbudur	1.65 million sq. ft./1848 Units	~20%	2365.0	368.9	75.0
Total		**4.54 Million sq. ft./3744 units**	**~35%**	**2411.3**	**877.0**	**331.4**

Source: MARG

Mall-cum-hotel planned in the OMR region - Locational advantage should translate into adequate footfalls and conversion rate

Figure 5: Existing Malls in Chennai (marked in blue); Upcoming Malls in OMR (marked in red)

Source: ICRA Online

MARG is developing a mall-cum-hotel (total built-up space of 1.83 million sq. ft under its 68.49% owned subsidiary (RIPL). The mall (leasable area of 0.66 million sq ft) is located in the OMR region and mainly targets the young IT crowd working and residing in or near the region. The mall does not face any significant competition in the near term as the existing malls in the city are located far from the OMR region. Although a few other malls are being planned in the OMR region, they will take longer to be completed. The mall is expected to start commercial operations by April 2012. RIPL has already leased out nearly 38% of the total leasable space. The anchor tenants (Shopper's Stop, Hypercity and PVR Cinema) have rented nearly 25% of the space under revenue sharing-cum-minimum guarantee rental model. Considering the favorable location of the mall and its tenant profile, we expect its tenancy build-up to be healthy. Accordingly, we have assumed the starting occupancy of mall to be at 70% in FY12 and increase to 90% by FY14. Initial average rental is assumed at Rs 60/ sq ft/ month. MARG also has subsequent plans to develop a hotel and office space in the mall premises. However, we have not factored this in our valuation, as we do not expect these to be completed in the medium term.

Long-Term Development plans

Apart from 70 acres of land in and around chennai and 613 acres for Swarnabhoomi SEZ project where the company has immediate development plans, MARG has around 875 acres of land in various places. This is to cater to long term development plans of the company.

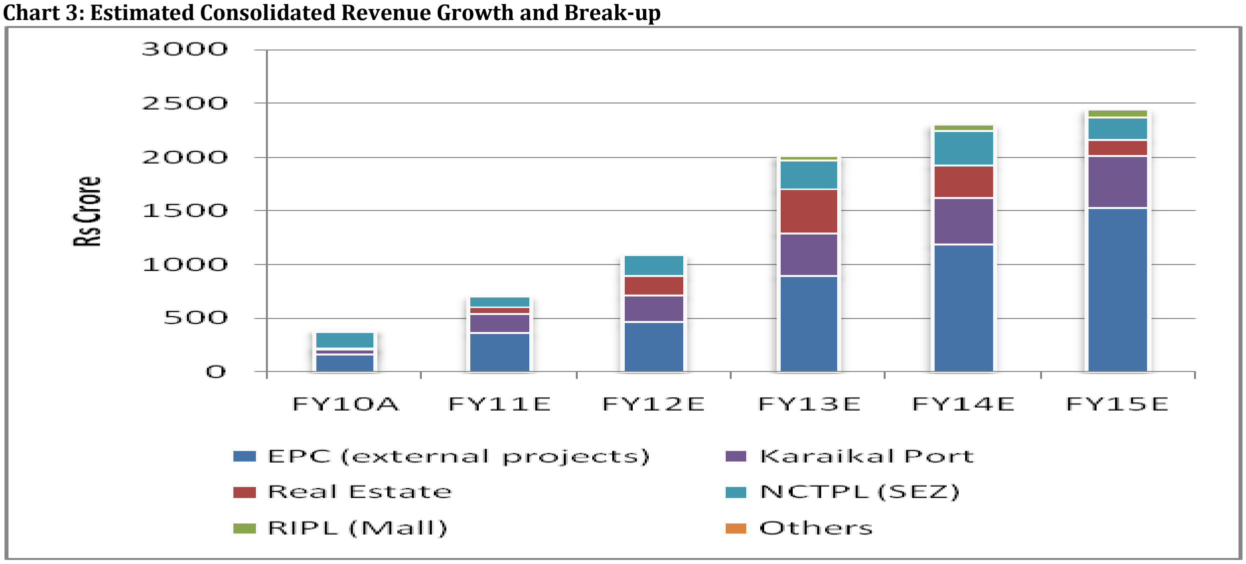
Other Businesses:

Other business plans of MARG include two greenfield airports at Karnataka, one multi-level car park and one ship repair-cum-minor port at Mugaiyur in Tamil Nadu. These projects are currently in their initial stages and we, therefore, do not expect any major movement on these projects in the medium term.

Financial Profile:

Healthy future revenue growth expected on the back of growth in EPC business and increased momentum in the company's asset-based business

Chart 3: Estimated Consolidated Revenue Growth and Break-up

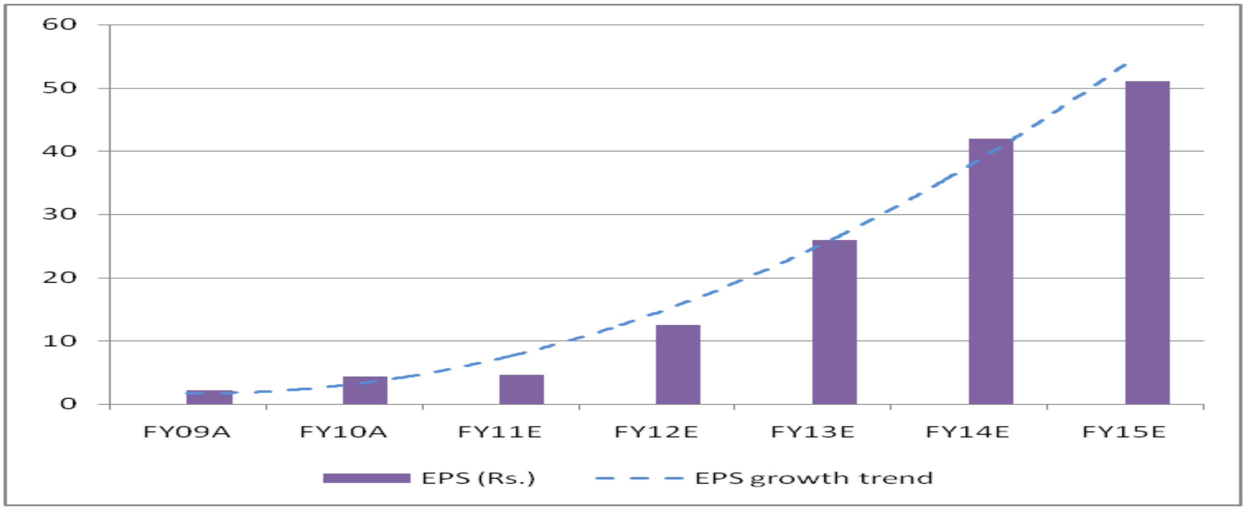


Source: MARG; ICRA Online Estimates

Until FY09, most of the revenues of MARG was derived from the EPC business and real estate projects. The revenue mix of the company, however, changed considerably since FY10 on account of the commencement of commercial operation of the first phase of the Karaikal port and activities in the SEZ business. The consolidated revenue of the company has largely shown a consistent growth trend in the past with FY09 being an aberration. The revenue dropped by almost 35% in FY09, despite the standalone EPC business growing by almost 90% during the year. This drop can be explained by the fact that MARG executed a much higher proportion of internal EPC contracts during the year, which got adjusted on consolidation. However, the company registered a strong growth of almost 266% in the subsequent year, mainly driven by the revenues from the SEZ busniess and the the Karaikal port (phase-1 of the port got operational in April 2009). Going forward, ICRA Online expects the revenue growth to be sustained on the back of third-party orders; ramping-up of port operations and sale and leasing of real estate assets.

Strong earnings growth expected in FY12 backed by earnings growth in EPC and Port segments

Chart 4: Expected EPS trend



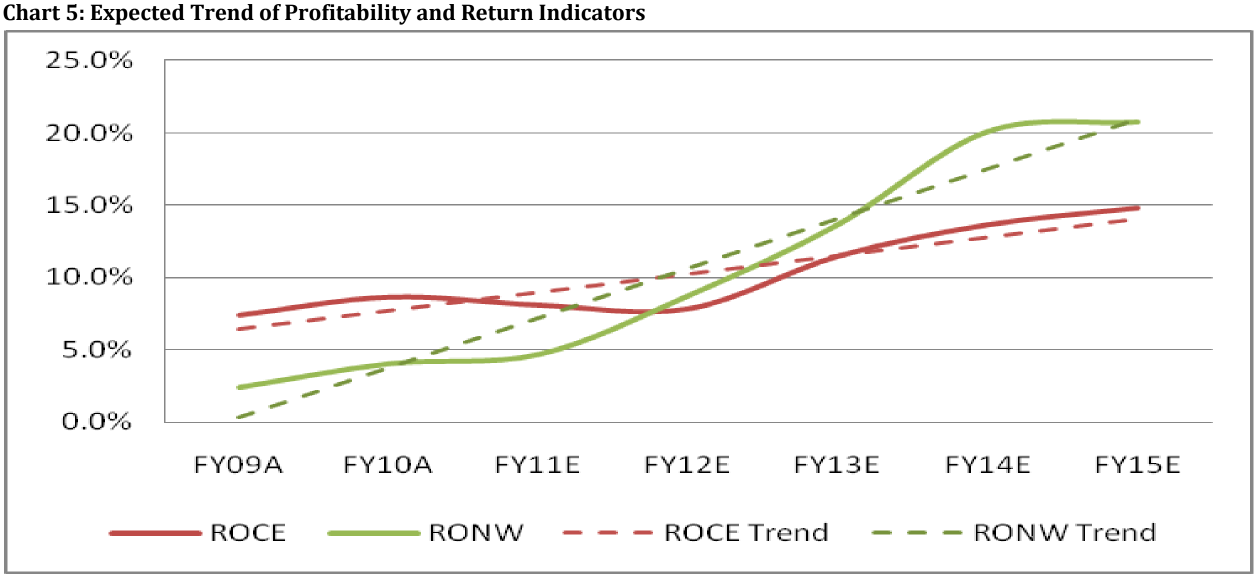
Source: MARG; ICRA Online Estimates

The average EPS of the company during the last five years has been low at nearly Rs 3.9/ share. The low EPS is mainly attributed to the fact that most of the assets being developed by the company have been under the development stage and therefore could not contribute to the company's earnings.

The company witnessed a decline in EPS during FY09, mainly on account of relatively higher proportion of internal contracts executed by it during the year; the earnings from the internal contracts got adjusted in the consolidated P&L account. In FY10, the EPS of the company grew by 51% mainly backed by profits from the sale of real estate assets under NCTPL. Going forward, ICRA Online expects a strong growth in EPS of the company on the back of the earnings growth in EPC, port and real estate divisions.

Steady improvement in return indicators expected on the back of growth in occupancy of long-term infrastructure/ real estate assets

Chart 5: Expected Trend of Profitability and Return Indicators



Source: MARG; ICRA Online Estimates

MARG has transitioned from pure EPC model to EPC-cum-assets ownership model. However, as the transition has happened recently, most of its assets are either not operational currently or are relatively new to generate adequate returns. This explains the relatively lower return indicators of the company in the recent past.

Going forward, the various assets of the company are lined up to commence their commercial operation during the next one to two years - the phase 2A expansion work of the port is scheduled to be completed in October 2011; phase 1 basic infrastructure work in SEZ is scheduled to be completed during FY12; and mall is scheduled to be completed by April 2012. These assets may not be able to generate positive returns from the first year of their operations, which in turn could result in minor fluctuations in profitability and return indicators. However, ICRA Online expects the profitability and return indicators of the company to move largely in the positive direction.

Significant capex and real estate development planned; however, no major funding concern

As the company is currently in the stage of buiding its asset-base, the cash outflow for the real-estate inventory build-up and real-estate/ port gross block addition is substantial. However, we do not view the same as any major concern because the funding for the expansion plan has been largely tied-up. The group has received equity investment of Rs. 158 Crore of equity during FY11 - including QIP of Rs. 106.9 Crore and second tranche investment by IDFC in KPPL of Rs. 40 Crore. Additionally, the third and last tranche invesment of Rs. 40 Crore from IDFC in KPPL was received during FY12. These investments should adequately provide for the equity required by the group for the planned capex. Moreover, a large part of the borrowings is already tied up under various project companies of the group. Therefore we do not see any significant funding pressure on MARG to complete the envisaged asset development work. This would facilitate the group to complete project execution within planned time limits.

Company Profile:

MARG was founded in the year 1994 by Mr. GRK Reddy. The company went public in the year 1995 and raised Rs 1.2 crore from the capital market. Initially, the company was mainly focused on EPC contract works and relatively small real estate projects. However during the year 2006, MARG signed a concession agreement with the Government of Pondicherry for the development of the Karaikal port which marked its entry into the infrastructure segment. The company also launched a 613 acre SEZ project, named Swarnabhoomi, in the year 2008. Besides, the company is developing several residential apartments and a mall in Chennai. The infrastructure/ real estate projects of the company are being developed in different subsidiaries with Marg Ltd. serving as a holding company and EPC contractor for internal and external projects.

Company Factsheet

Table 18: Factsheet

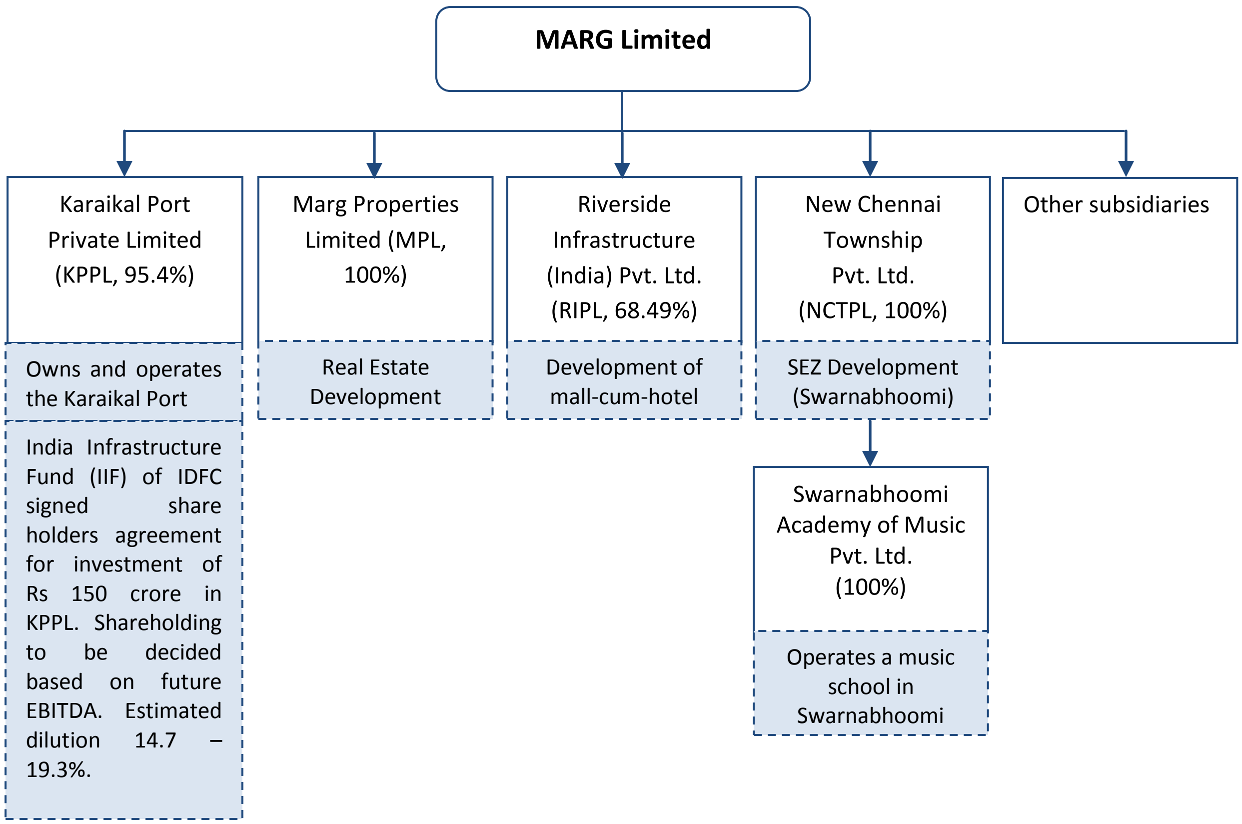
Company	**MARG Ltd.**	
Year of Incorporation	1994	
Year of Listing	1995	
Stock Exchanges	Bombay Stock Exchange, Madras Stock Exchange	
Registered Office	318, Rajiv Gandhi Salai, Kottivakkam, Chennai – 600 041, India Phone : +91-44-24541111	
Auditor	K Ramkumar & Co.	
Board of Directors	Mr. GRK Reddy	Promoter Director/ Managing Director
	Mr. G Raghava Reddy	Promoter Director/ Non Executive Director
	Mrs. V P Rajini Reddy	Promoter Director/ Non Executive Director
	Mr. Arun Kumar Gurtu	Independent Director/ Non Executive Director
	Mr. Karanjit Singh Jasuja	Independent Director/ Non Executive Director
	Mr. Saibaba Vutukuri	Independent Director/ Non Executive Director
Key Subsidiaries	**Company Name**	**MARG Shareholding**
	Karaikal Port Pvt. Ltd.	95.4%
	New Chennai Township Pvt. Ltd.	100%
	Riverside Infrastructure (India) Pvt. Ltd.	68.49%
	Marg Properties Ltd.	100%

Corporate Governance

The board structure of MARG is in compliance with the requirements of clause 49 of listing guidelines. The company's board has six directors, of which three are independent directors. The promoter, Mr. GRK Reddy, is the Chairman and Managing Director. In terms of the clause 49 of the listing agreement, the company has also constituted the following committees: (a) Audit Committee; (b) Investor Grievance Committee; and (c) Remuneration and Compensation Committee. The disclosures in the company's annual report are adequate and broadly in line with the industry standards. However, currently the company publishes only the standalone financials on quarterly basis. ICRA Online believes that quarterly reporting of consolidated financials should be practiced particularly considering the significant capital employed in the businesses other than EPC.

Group Structure

Figure 6: Group Structure



Valuation Grading:

In assessing a company's valuation, various parameters are considered including the company's earnings and growth prospects, its ability to generate free cash flows, and its capacity to generate returns from the capital invested. The valuation is also benchmarked against an appropriate peer set or index. The opinion on a company's relative valuation is expressed using the following five-point scale:

Table 19: ICRA Online Equity Research Service - Valuation Grades

Valuation Grade	Grade Implication
A	Significantly undervalued
B	Moderately undervalued
C	Fairly valued
D	Moderately overvalued
E	Significantly overvalued

While assessing a company's relative valuation, the historical price volatility exhibited by the stock, besides its liquidity, is also taken into account. The extent of overvaluation or undervaluation is adjusted for the relative volatility displayed by the stock.

Table 20: Relative Valuation – Comparison with Indices

ICRA Estimates	MARG Ltd.#		BSE Realty Index*	CNX Infrastructure Index*	NSE S&P CNX 500 Equity Index*	NSE S&P CNX Nifty Index*
	FY11E	FY12E	FY12E	FY12E	FY12E	FY12E
Price/Earnings	22.5	8.5	8.9	16.5	13.4	14.5
EV/EBITDA	14.1	8.3	8.1	9.7	9.8	10.5
Price /Sales	0.6	0.4	2.3	1.6	1.4	1.7
Price /Book Value	1.0	0.9	0.9	2.1	2.2	2.5
Price/Cash Flow	10.1	4.7	8.2	10.5	9.6	10.8

*Note: #: ICRA Online estimates are based on share price as on 9th May 2011; *: Bloomberg Consensus Estimates as on 9th May 2011*

Table 21: Relative Valuation – Comparison with Real Estate Peers

ICRA Estimates	MARG Ltd.#		Puravankara Projects Limited*		Brigade Enterprises Ltd.*		Shobha Developers Limited*		Peers Average
	FY11E	FY12E	FY11E	FY12E	FY11	FY12E	FY11E	FY12E	FY12E
Price/Earnings	22.5	8.5	14.1	11.5	8.7	7.7	14.4	11.8	10.3
EV/EBITDA	14.1	8.3	11.1	7.6	10.0	8.3	12.3	10.1	8.7
Price /Sales	0.6	0.4	3.4	2.4	1.8	1.5	1.8	1.6	1.8
Price /Book Value	1.0	0.9	1.2	1.1	0.9	0.8	1.5	1.3	1.1
Price/Cash Flow	10.1	4.7	11.9	11.2	14.0	14.3	10.8	10.5	12.0

*Note: #: ICRA Online estimates are based on the share price as on 9th May 2011; *: Bloomberg Consensus Estimates as on 9th May 2011*

Table 22: Relative Valuation – Comparison with EPC Peers

ICRA Estimates	MARG Ltd.#		Ahluwalia Contracts (India) Limited*		BL Kashyap & Sons Ltd.*		Cons. Const. Consortium Ltd. (CCCL)*		Peers Average
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11	FY12E	FY12E
Price/Earnings	22.5	8.5	8.1	7.0	8.9	7.3	7.8	9.9	8.0
EV/EBITDA	14.1	8.3	4.1	3.5	7.5	6.0	5.1	5.4	5.0
Price /Sales	0.6	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Price /Book Value	1.0	0.9	2.2	1.7	0.8	0.7	1.0	0.9	1.1
Price/Cash Flow	10.1	4.7			6.4	5.8	6.2	7.3	6.5

*Note: #: ICRA Online estimates are based on the share price as on 9th May 2011; *: Bloomberg Consensus Estimates as on 9th May 2011*

Table 23: Relative Valuation – Comparison with Port Peers

ICRA Estimates	MARG Ltd.#		Mundra SEZ & Ports Ltd.*		Gujarat Pipavav Port Limited*		Peers Average
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY12E
Price/Earnings	22.5	8.5	30.8	20.3	53.2	21.6	20.9
EV/EBITDA	14.1	8.3	23.4	15.5	17.4	12.2	13.9
Price /Sales	0.6	0.4	14.0	9.3	6.9	5.3	7.3
Price /Book Value	1.0	0.9	6.2	5.0	3.2	2.8	3.9
Price/Cash Flow	10.1	4.7	23.8	16.6	29.6	16.7	16.6

*Note: #: ICRA Online estimates are based on the share price as on 9th May 2011; *: Bloomberg Consensus Estimates as on 9th May 2011*

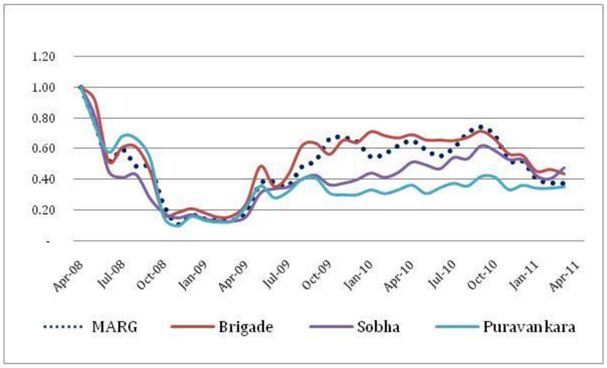
Comments:

MARG has three different lines of businesses, namely, EPC, Real Estate (including SEZ) and Port. Therefore, besides comparing MARG with the relevant indices, we have also compared it against various EPC, real estate and port peers. Additionally as the company is significantly levered financially, we have given higher weightage to EV/EBITDA multiples as compared to PE multiples.

As observed from the above tables, the company is trading at a discount against all the indices except BSE Realty Index. Additionally the company is discounted against its port peers. A certain level of discount is justified given the modest scale of MARG's port operations in FY10 and its significant investment in the SEZ project which may not yield commensurate returns in the medium term. However, ICRA Online observes that significant positives exist in the form of healthy order book position of EPC division; considerable ramp-up in port traffic in FY11; and healthy bookings in commercial/residential projects. As the port is the largest segment of the group in terms of capital employed, we expect the trading multiple for MARG to be somewhere in between the real estate peers and port peers. Currently, the forward trading multiples of MARG (on FY12 expected figures) are largely in line with its real estate peers and significantly lower than its port peers. Moreover as per intrinsic valuation carried out by ICRA online, which factors a discount on account of holding structure of MARG, the current market valuation is significantly lower. Thus, ICRA Online has assigned a valuation grade of '**A**' to MARG on a grading scale of '**A to E,**' which indicates that the company is **"significantly undervalued"** on a relative basis.

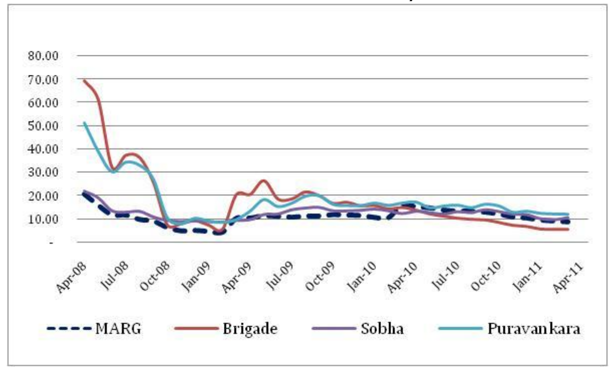
Annexure I: Relative Valuation

Chart 7: Real Estate Peers- Price movement



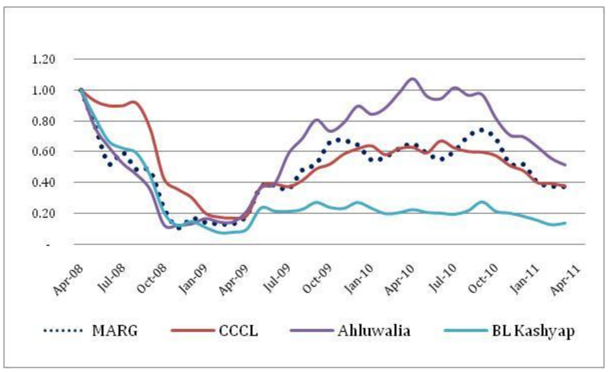
Source: ICRA Online Estimates; Bloomberg

Chart 8: Real Estate Peers - Forward EV/EBITDA ratio



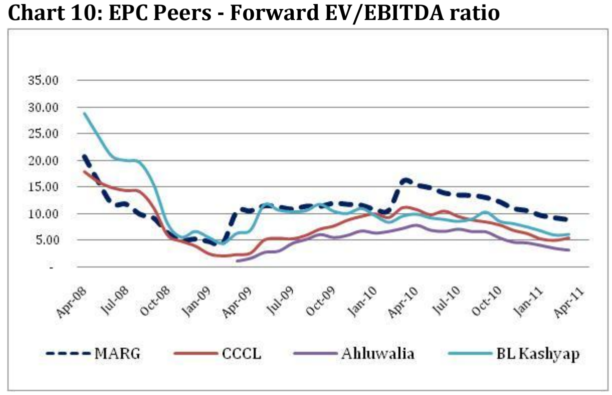
Source: ICRA Online Estimates; Bloomberg

Chart 9: EPC Peers- Price movement



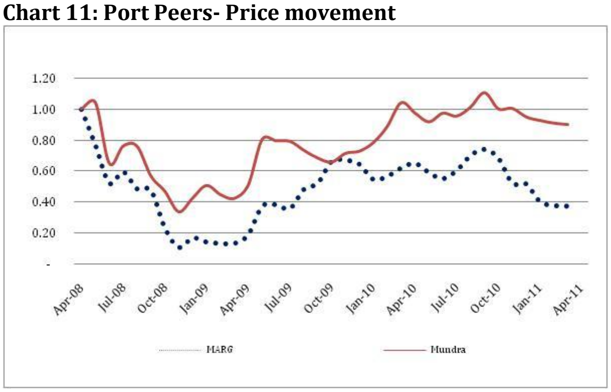
Source: ICRA Online Estimates; Bloomberg

Chart 10: EPC Peers - Forward EV/EBITDA ratio



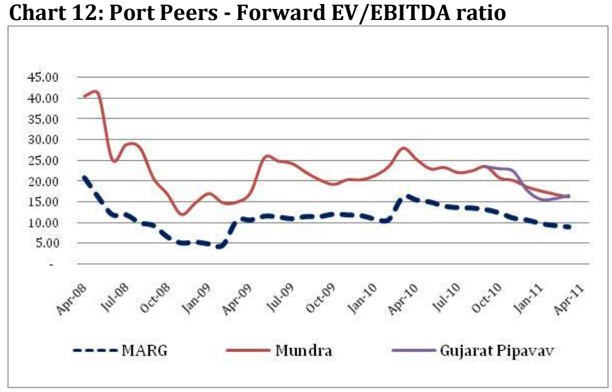
Source: ICRA Online Estimates; Bloomberg

Chart 11: Port Peers- Price movement



Source: ICRA Online Estimates; Bloomberg

Chart 12: Port Peers - Forward EV/EBITDA ratio



Source: ICRA Online Estimates; Bloomberg

Comments:

MARG share prices have moved largely in line with real estate/ EPC peers, thereby indicating its stronger correlation with them as compared to port peers. Similarly, the stock prices of MARG have been in the same forward EV/EBITDA band as real estate peers. Evidently, the market is categorizing MARG as a real estate player rather than an infrastructure player.

Annexure II: P&L Estimates

Particulars	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
Net Sales	70.1	364.4	700.4	1083.9	2010.6	2301.1	2441.1
Other Related Income	36.2	24.2	0.0	0.0	0.0	0.0	0.0
Operating Income	106.2	388.7	700.4	1083.9	2010.6	2301.1	2441.1
EBITDA	48.3	106.9	139.7	238.7	488.3	551.3	580.6
Depreciation	6.7	18.0	21.3	38.0	90.0	90.3	90.6
EBIT	41.6	88.9	118.7	200.7	398.2	461.0	490.0
Interest Expenses	13.8	44.5	56.2	102.7	252.0	233.0	207.9
Other Income	0.0	0.0	0.3	0.0	0.0	0.0	0.0
PBT	27.8	44.4	62.6	97.9	146.2	228.0	282.1
PAT	5.5	11.9	21.5	50.6	94.7	163.5	205.6
Minority Interest*	0.0	0.0	4.2	5.0	-3.6	4.3	11.7
PAT (Concern Share)	5.5	11.9	17.3	45.6	98.3	159.2	193.9
No of Shares (Cr)	2.6	2.7	3.8	3.8	3.8	3.8	3.8
DPS	2.3	3.1	2.0	2.0	2.0	2.0	2.0
EPS	2.1	4.4	4.5	12.0	25.9	41.9	51.0
CEPS	2.4	7.9	8.1	20.5	47.5	63.6	72.8

Source: ICRA Online Estimates

Note: Amounts are presented in Rs. Crore; EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; EBIT: Earnings Before Interest and Tax; PBT: Profit Before Tax; PAT: Profit After Tax; DPS: Dividend Per Share; EPS: Earnings Per Share; CEPS: Cash Earnings Per Share

**: Minority Interest till FY10 is based on reported financials of the company; Minority Interest for FY11 onwards is based on estimated dilution in KPPL and RIPL for investments received from the minority shareholders till the end of the respective fiscal year.*

Annexure III: Balance Sheet Estimates

Assets	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
Net Fixed Assets	249.6	600.7	667.9	2388.9	2301.5	2213.5	2134.4
Capital Work-in-Progress	556.4	734.6	1400.0	0.0	0.0	0.0	0.0
Total Net Fixed Assets	806.1	1335.3	2067.9	2388.9	2301.5	2213.5	2134.4
Other Long-Term Investments	2.6	2.6	11.1	8.5	8.5	8.5	8.5
Cash and Bank Balances	53.0	141.5	85.2	46.4	74.8	61.8	32.3
Receivables	140.3	419.1	450.2	548.1	584.2	733.3	882.4
Inventories	221.0	330.0	532.1	778.9	728.3	616.8	533.7
Loans & Advances	184.0	179.1	70.0	75.0	75.0	75.0	75.0
Other Current Assets	24.1	35.7	6.6	7.5	8.7	9.5	10.5
Total Assets	1431.0	2443.2	3223.0	3853.4	3781.1	3718.5	3676.9
Liabilities	**FY09A**	**FY10A**	**FY11E**	**FY12E**	**FY13E**	**FY14E**	**FY15E**
Net Worth	224.4	316.6	377.8	429.8	520.4	671.9	858.0
Minority Interest	0.0	42.6	173.0	218.0	214.4	218.7	230.4
Total Debt	1027.9	1724.8	2424.6	2876.7	2677.2	2457.1	2188.5
Deferred Tax Liability	6.2	-2.5	-18.8	-18.8	-18.8	-18.8	-18.8
Trade Creditors	84.4	130.2	41.5	140.3	152.0	169.8	191.0
Other Current Liabilities and Prov.	88.1	231.5	224.9	207.4	236.0	219.9	227.9
Total Liabilities	1431.0	2443.2	3223.0	3853.4	3781.1	3718.5	3676.9

Source: ICRA Online Estimates
Note: Assets and Liabilities are presented in Rs. Crore

Annexure IV: Cash Flow Estimates

Cash Flows	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
PBT	27.8	44.4	62.6	97.9	146.2	228.0	282.1
Taxes Paid	19.7	41.2	41.1	47.3	51.5	64.5	76.6
Depreciation	6.7	18.0	21.3	38.0	90.0	90.3	90.6
Change in net working capital	(273.7)	(207.1)	(189.4)	(269.4)	53.7	(36.8)	(37.8)
Cash flow from operating activities	(258.8)	(185.9)	(146.6)	(180.8)	238.4	217.0	258.4
Investments	2.1	(0.0)	(8.5)	2.5	0.0	(0.0)	0.0
Capital Expenditure	(397.8)	(547.2)	(754.0)	(359.1)	(2.7)	(2.3)	(11.5)
Cash flow from investing activities	(395.8)	(547.3)	(762.5)	(356.5)	(2.7)	(2.3)	(11.5)
Equity Raised / (Buyback)	0.0	131.8	161.6	54.1	0.0	0.0	0.0
Loans Raised / (Repaid)	660.6	696.9	699.8	452.1	(199.5)	(220.1)	(268.6)
Others (Including Extra-ordinaries)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	(5.3)	(6.7)	(8.6)	(7.7)	(7.7)	(7.7)	(7.7)
Cash Flow from Financing activities	655.3	822.0	852.8	498.5	(207.3)	(227.8)	(276.3)
Cumulative cash flow	0.6	88.9	(56.3)	(38.8)	28.5	(13.1)	(29.4)
Opening Cash Balance	53.7	53.0	141.5	85.2	46.4	74.8	61.8
Closing Cash Balance	54.4	141.9	85.2	46.4	74.8	61.8	32.3

Source: ICRA Online Estimates
Note: Cash flows are presented in Rs. Crore

Annexure V: Key Financial Ratios

Key Financial Ratios	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
Profitability Indicators							
Sales Growth	-55%	420%	92%	55%	85%	14%	6%
EBITDA Growth	-18%	121%	31%	71%	105%	13%	5%
EPS Growth	-78%	104%	4%	164%	116%	62%	22%
Cash EPS Growth	-72%	225%	4%	152%	132%	34%	14%
Profitability Indicators							
EBITDA Margin	45.5%	27.5%	20.0%	22.0%	24.3%	24.0%	23.8%
EBIT Margin	39.2%	22.9%	17.0%	18.5%	19.8%	20.0%	20.1%
PAT Margin	5.2%	3.1%	3.1%	4.7%	4.7%	7.1%	8.4%
RoE	2.4%	4.1%	4.7%	8.4%	13.7%	20.1%	20.8%
ROCE	7.4%	8.7%	8.1%	7.9%	11.5%	13.6%	14.8%
Liquidity Ratios							
Debtor Days	730	420	235	185	106	116	132
Inventory Days	2,568	480	372	353	181	133	109
Net Working Capital/ Sales	3.8	1.6	1.1	1.0	0.5	0.5	0.4
Capitalization Ratios							
Total Debt/ Equity	4.6	4.8	4.4	4.4	3.6	2.8	2.0
Interest Coverage	3.5	2.4	2.5	2.3	1.9	2.4	2.8
Total Debt/EBITDA	21.3	16.1	17.4	12.1	5.5	4.5	3.8
Valuation Ratios							
Price/Sales		1.00	0.56	0.36	0.19	0.17	0.16
Price/Earnings		32.7	22.5	8.5	4.0	2.4	2.0
Price/Book Value		1.2	1.0	0.9	0.7	0.6	0.5
EV/EBITDA		18.4	14.1	8.3	4.0	3.6	3.4

Source: ICRA Online Estimates

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