CRISIL RESEARCH

# Independent Equity Research

## Enhancing investment decisions


In-depth analysis of the fundamentals and valuation

# Marg Limited

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

### Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

| CRISIL Fundamental Grade | Assessment |
|---|---|
| 5/5 | Excellent fundamentals |
| 4/5 | Superior fundamentals |
| 3/5 | Good fundamentals |
| 2/5 | Moderate fundamentals |
| 1/5 | Poor fundamentals |

### Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

| CRISIL Valuation Grade | Assessment |
|---|---|
| 5/5 | Strong upside (>25% from CMP) |
| 4/5 | Upside (10-25% from CMP) |
| 3/5 | Align (+-10% from CMP) |
| 2/5 | Downside (negative 10-25% from CMP) |
| 1/5 | Strong downside (<-25% from CMP) |

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

### Disclaimer:

# Independent Research Report - Marg Limited

**Anchoring growth on diversified paths**

**Industry: Construction & Engineering**
**Date: November 16, 2010**

CRISIL RESEARCH

Chennai-based Marg Ltd (Marg) is a diversified infrastructure player present in ports, real estate and EPC works. Karaikal Port, in which Marg has ~80% stake, is the vanguard of the company's future growth given its strategic location, capacity constraints in neighboring ports and growth in the hinterland. This is propped by expansion plans in SEZ, residential and commercial real estate and EPC work from third parties. Although the company has been successful in completing projects on time, its future development plans are ambitious and exposed to execution challenges. We assign Marg a fundamental grade of '**3/5**', indicating that its fundamentals are 'good' relative to other listed securities in India.

### Karaikal Port well positioned to tap hinterland growth; upcoming power plants key

Karaikal Port is expected to register strong growth in the next four-five years given its a) strategic location between the heavily congested Chennai and Tuticorin ports, b) rich hinterland with upcoming power and cement plants and c) well-developed port facilities and logistics - good rail and road connectivity, deep draft, faster turnaround time and high level of mechanisation compared with nearby ports. However, any delay in the installation of the power plants (~11,000 MW) in the hinterland with a potential coal demand of ~22 mtpa might have an adverse impact on the future growth prospects.

### Real estate – significant value accretion in the offing; execution challenges remain

Of the total land bank of 1,800 acres mainly in Tamil Nadu, Marg is developing: (a) a SEZ on 612 acres with a saleable area of 446 acres in Cheyyur, 88 kms from Chennai; (b) ~1 mn sq.ft. of leasable area of mall and office blocks at OMR, the heart of Chennai's IT corridor and c) residential properties in OMR and other regions in Tamil Nadu. Although there were initial hiccups, sales have picked up in the recent past with recovery in the real estate industry. We believe these projects will lead to significant value creation given the low-cost land bank. However, there are execution challenges given Marg's limited track record and complexities in the upcoming projects.

### EPC is gaining momentum

Marg's external business is ramping up with robust growth in order intake. Its current third party EPC order book has increased substantially from Rs 880 mn in FY09 to Rs 5,150 mn currently and is likely to be executed in the next 18-24 months. We believe strong growth in order book is a testimony of Marg's increasing credentials and strength in EPC space, and has laid the foundation for capturing future growth in this space.

### Revenue and margins to grow; RoE to increase in next two years

Revenues are expected to grow at a two-year CAGR of 66% to Rs 10.1 bn in FY12 mainly driven by growth in the port and EPC businesses. EBITDA margins are expected to remain in the range of 21-22%. Consolidated PAT is expected to grow at a two-year CAGR of 148.4%, primarily on account of strong growth in top line and increasing profitability of the port project. RoE is expected to improve from 3.9% in FY10 to 10.1% in FY12.

### Valuation - the current market price has strong upside

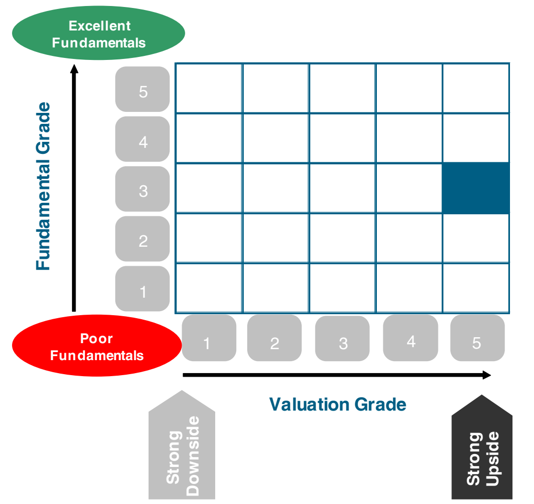
We have used the sum-of-the-parts (SOTP) method to value Marg. Karaikal Port is valued at Rs 171 based on the DCF, while the EPC business is valued at Rs 10 based on P/E of 6x. SEZ and real estate are valued at Rs 109 based on NAV, while the land bank, where there are no near-term development plans, is valued at a book value of Rs 53. Hence, we arrive at a fair value of Rs 353 and initiate coverage on Marg with a valuation grade of '5/5', indicating that the market price of Rs 189 has 'strong upside' from its current levels.

## Key forecast (consolidated)

| Rs (mn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---|---|---|---|---|
| Operating income | 1,578 | 706 | 3,664 | 6,768 | 10,099 |
| EBITDA | 537 | 128 | 849 | 1,469 | 2,226 |
| Adj Net income | 33 | 56 | 115 | 232 | 710 |
| EPS-Rs | 1.3 | 2.2 | 4.2 | 6.1 | 18.6 |
| EPS growth (%) | nm | 70.2 | 94.9 | 44.1 | 205.5 |
| P/E (x) | 93.9 | 69.1 | 52.8 | 30.9 | 10.1 |
| P/BV (x) | 1.4 | 1.7 | 1.7 | 1.1 | 0.9 |
| RoCE (%) | 11.0 | 0.7 | 4.0 | 4.7 | 5.9 |
| RoE (%) | 1.9 | 2.5 | 3.9 | 4.7 | 10.1 |
| EV/EBITDA (x) | 11.5 | 105.9 | 26.3 | 21.8 | 15.8 |

**Source: Company, CRISIL Equities estimate**

## CFV matrix



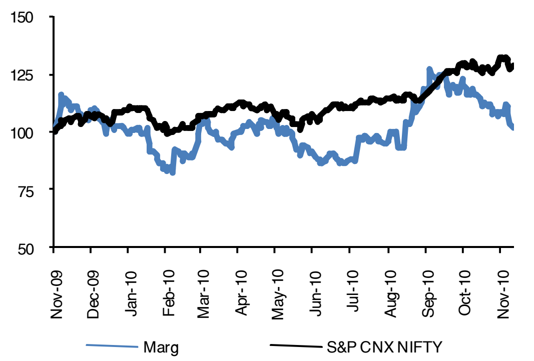

- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '5/5' indicates strong upside

## Key stock statistics

| | |
|---|---|
| BSE/NSE Ticker | MARG |
| Fair value (FV – Rs 10) | 353 |
| Current market price* | 189 |
| Shares outstanding (mn) | 27.2 |
| Market cap (Rs mn) | 5,129 |
| Enterprise value (Rs mn) | 20,960 |
| 52-week range (Rs) (H/L) | 243 / 145 |
| P/E on EPS estimate (FY12E) | 10.1 |
| Beta | 1.0 |
| Free float (%) | 57.2 |
| Average daily volumes | 57,165 |

*as on November 15, 2010

## Share price movement




-Indexed to 100

## Analytical contact

| | |
|---|---|
| Sudhir Nair (Head, Equities) | +91 22 3342 3526 |
| Ravi Dodhia | +91 22 3342 3508 |
| Bhaskar Bukrediwala | +91 22 3342 1983 |
| Email: clientservicing@crisil.com | +91 22 3342 3561 |

## Marg: Business environment

| | | Real estate | | |
|---|---|---|---|---|
| **Parameter** | **Ports** | **SEZ** | **Residential and commercial** | **EPC *** |
| **Revenue contribution (FY10)** | 13.3% | 41.2% | 28.0% | 17.5% |
| **Revenue contribution (FY12)** | 20.4% | 18.0% | 17.8% | 43.8% |
| **Product / service offering** | Operates and maintains Karaikal Port. Current capacity of 5.2 mtpa; plans to increase to 21 mtpa by FY12. Of the total capacity, more than 75% will be used to handle coal cargo | Developing 612 acres with 14 mn sq.ft. of residential units, 6.3 mn sq.ft. of leasable space and plot sales of 84 acres | Developing 2.4 mn sq.ft of residential and 1 mn sq.ft of retail space | Undertakes civil works for construction of buildings, roads and ports |
| **Geographic presence** | Karaikal, Puducherry | Chennai, Tamil Nadu | Tamil Nadu, Andhra Pradesh | The current projects are mainly in New Delhi and Tamil Nadu |
| **Market position** | Karaikal Port has current capacity of 5.2 mtpa compared to 69.5 mtpa for Chennai and 22.7 mtpa for Tuticorin. However, it is strategically located between these ports and likely to benefit from the upcoming power plants in the hinterland post phase II expansion | Real estate market in Chennai is localised and competitive. Marg is one of the emerging real estate developers | | The construction industry is highly fragmented with a large number of organised and unorganised players. Marg is currently a small construction player, but has shown good growth in the last couple of years |
| **Industry growth expectations** | Overall port traffic is expected to increase at a CAGR of 9%; non-major ports to witness higher growth at 16%. However, growth across ports will vary depending on the development of the hinterland | Capital values and lease rentals to remain stable in the near term | | 25-30% driven by the government's thrust on infrastructure |
| **Sales growth (FY07-FY10 – 3-yr CAGR)** | na# | na | na | na |
| **Sales forecast (FY10-FY12 – 2-yr CAGR) – (organic growth)** | 103.3% | 8.4% | 30.5% | 159.2% |
| **Demand drivers** | Karaikal is expected to be one of the major beneficiaries of the upcoming power and cement plants in that region given the capacity constraints at Chennai and Tuticorin ports. Also, its close proximity to these plants compared to Chennai and Tuticorin ports will be an additional advantage | Strong economic outlook driving demand for real estate; while residential demand is moving up, commercial and retail markets are yet to recover | | Increased government spending across segments |
| **Margin drivers** | Since majority of the costs involved are fixed, higher capacity utilisations to enhance margins going forward | Stable to improving outlook for residential capital values and lease rentals for commercial and retail space to improve margins | | Expect overall EPC margins to decline due to increase in contribution from the low-margin third party orders |
| **Key competitors** | Chennai, Tuticorin and Ennore ports | Localised players | | Since Marg is a small and a relatively new player, it faces high competition in the industry |

* The company does EPC work for both external clients as well as for in-house projects – port and real estate building. The revenue contribution that is being shown is only for external works as the internal EPC work is knocked off in the consolidated accounts

#Port became operational in FY10

**Source: Company, CRISIL Equities**

## Grading Rationale

### Marg: From a small EPC player to a diversified infrastructure play

*Marg is present across different segments*

Over the years, Marg has transformed from a small EPC and real estate player to a company with diversified presence across ports, SEZ, residential and commercial real estate and third-party contracting works. The company started as an EPC player and then ventured into real estate by leasing office space in the IT corridor of Chennai. Recently, the company has moved into other infrastructure verticals such as developing and operating ports and SEZs. Marg forayed into ports in FY06 by bagging a concession agreement from the Government of Puducherry to develop a port at Karaikal.

The company has a sizeable land bank of ~1,800 acres. Apart from residential projects (2.4 mn sq.ft. being currently developed), it plans to develop a SEZ covering 612 acres and a mall-cum-commercial space with saleable area of ~1 mn sq.ft. Since Marg's future outlook hinges on the success of its upcoming projects, we have analysed its prospects based on industry dynamics, and feasibility and strategic location of its projects.

**Table 1: Assessment of Marg's major businesses**

| Segment | Project | CRISIL's assessment of success rate | Basis of opinion |
|---|---|---|---|
| Ports | Karaikal Port | High | Strategically located between Chennai and Tuticorin ports in Tamil Nadu. The port has rich hinterland, well connected to NH 45A and NH 67 and has end-rail connectivity. Upcoming power plants of ~11,000 MW in the hinterland to increase demand for coal in the medium term. Capacity utilisations above 100% in both ports, high turnaround time (TAT) in Chennai and low capacities in Tuticorin are expected to witness a shift in the traffic towards the new port in Karaikal |
| SEZ | Marg Swarnabhoomi | Medium | Located in the Kancheepuram district, 80 kms from the Chennai airport and an hour drive from Siruseri and Puducherry. The company has a land bank of 612 acres, to be developed over the next five to six years. It plans to develop science and knowledge parks, light engineering and multi-service hubs along with residential units. Although it has seen early traction in plot sales with prominent names showing the intention to set up facilities, sold around 1,000 flats, we believe it has a long way to go for the overall development of the SEZ |
| Commercial | Riverside Mall | Medium-high | Located in south Chennai, OMR is a preferred destination for investments by global leaders in IT and ITeS. It is close to developed areas such as Adyar, GST Road and ECR. Although two other malls are scheduled to start operations in the next one to two years, considering its location and the mall-cum-multiplex offering, this will generate good demand as there are no malls in OMR at present |
| Residential | Three-four projects | Medium | Since most of the residential projects are in the OMR region, we expect stable demand going forward |
| EPC | Third-party | Medium-high | Most of the company's bandwidth will be released once Karaikal Port phase II will be operational in FY12-end. Marg has ramped up its EPC team to reap benefits of growing opportunities in the infrastructure segment |

**Source: Company, CRISIL Equities**

## Karaikal Port - perfectly positioned to tap growth in the hinterland

*Karaikal Port is well connected through rail and road network*

Karaikal Port is strategically located: 320 km south of the heavily crammed Chennai Port and 360 km north of Tuticorin Port in Tamil Nadu. The port is well connected by road to NH 45A through Cuddalore and NH 67 through Nagapattinam, and by rail network through Nagore.

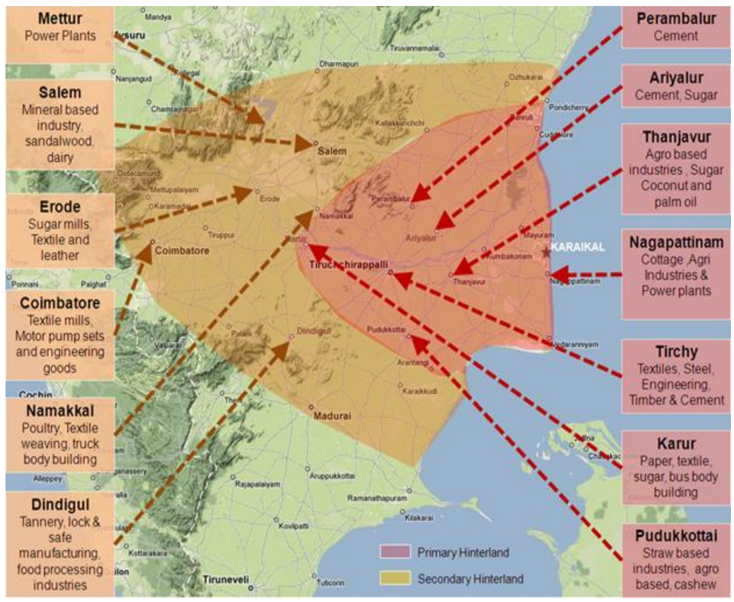
*Nearly 11,000 MW of thermal power plants are expected to come up in the port's vicinity*

Primary hinterland within a radius of 200 kms to the port is concentrated with cement and power industries. The Ariyalur region (127 km from Karaikal) is called the cement belt in Tamil Nadu with current capacities of 4.5 mtpa. Nearly 11,000 MW of thermal power plants are also expected to come up in the vicinity. We believe Marg is perfectly positioned for strong growth in traffic driven by the development in the hinterland on account of upcoming power projects and cement plants.

**Figure 1: Karaikal Port is strategically located**


Source: Company, CRISIL Equities

**Figure 2: Karaikal has rich hinterland**




Source: Company, CRISIL Equities

### Well placed to exploit the potential coal demand in the vicinity

*Karaikal is well placed to capitalise on the upcoming thermal power plants in the hinterland*

Karaikal currently has a capacity to handle 5.2 mtpa of cargos, which will be enhanced to 21 mtpa post phase II expansion (along with mechanised handling systems). Nearly 75% of the capacity is earmarked for coal cargo as it primarily aims to tap cement and power companies. Karaikal's hinterland area, which currently has a meagre 321 MW of installed power capacity, plans to add nearly 11,000 MW of thermal plants over the next four to five years. This could translate into total coal requirements of 44 mtpa; ~22 mtpa assuming 50% of the requirements are imported. Considering capacity constraints and higher TAT in the nearby ports, we believe Karaikal Port is well placed to tap the potential demand for coal in the near future.

**Table 2: Existing and upcoming cement plants in Tamil Nadu**

| Cement | Capacity (mtpa) | Coal requirement p.a* |
|---|---|---|
| **Existing** | | |
| Ariyalur | 4.50 | 0.87 |
| Trichy | 1.85 | 0.22 |
| Alathiyur | 3.12 | 0.55 |
| Karikalli | 1.20 | 0.22 |
| Karur | 0.60 | 0.15 |
| Dalmiapuram | 4.00 | 0.63 |
| Others | 2.96 | 0.49 |
| **Total** | **18.23** | **3.13** |
| **Upcoming/announced** | | |
| Ariyalur | 4.00 | 0.68 |
| Dindigul | 2.00 | 0.39 |
| Others | 0.44 | 0.04 |
| **Total** | **6.44** | **0.84** |

**Source: Company, CRISIL Equities**

*0.1 mtpa per 1 mtpa of cement plant

**Table 3: Existing and upcoming power plants in Tamil Nadu**

| Power | Capacity (MW) | Coal requirement p.a* |
|---|---|---|
| **Existing** | | |
| Mettur | 100 | 0.5 |
| Karur | 178 | 0.9 |
| Salem | 30 | 0.2 |
| Thanjavur | 104 | 0.5 |
| Trichy | 108 | 0.5 |
| Others | 72 | 0.4 |
| **Total** | **592** | **3.0** |
| **Upcoming/announced** | | |
| Nagapattinam | 5,650 | 22.6 |
| Cuddalore | 4,030 | 16.1 |
| Mettur | 1,050 | 4.2 |
| Others | 190 | 0.8 |
| **Total** | **10,920** | **43.7** |

**Source: Company**

# 4 mtpa for 1,000 MW power plant

### Distance advantage facilitates companies to save on freight costs

*Cement plants in Ariyalur can save Rs 80-300/tonne if they use Karaikal Port instead of Chennai*

Karaikal is strategically located between Chennai and Tuticorin ports with various industries, including cement and power plants, in the hinterland. The port has a distance advantage of ~150 kms on average compared to adjacent ports. Given this advantage over Chennai and Tuticorin ports, we expect companies to save freight cost and time. For instance, if cement plants located in Ariyalur — importing 1 mn tonne of coal annually through Chennai Port — start using Karaikal Port, they would save about Rs 300 per tonne and Rs 80 per tonne on an average, considering average road transportation cost of Rs 2/tonne/km and rail cost of Rs 1.2/tonne/km.

Given the cost-saving opportunities for companies located in the Karaikal hinterland, we estimate a significant traffic diversion. In addition, due to pollution issues there is a high possibility of diversion of coal traffic from Chennai Port to Karaikal.

**Table 4: Distance advantage through roads**

| Road connectivity (km) | Karaikal | Chennai | Tuticorin |
|---|---|---|---|
| Nagapattinam | 10 | 350 | 398 |
| Thiruvarur | 41 | 340 | 365 |
| Thanjavur | 88 | 342 | 318 |
| Cuddalore | 115 | 210 | 523 |
| Ariyalur / Perambalur | 127 | 281 | 323 |
| Pondicherry | 141 | 147 | 471 |
| Trichy | 143 | 340 | 275 |
| Karur | 210 | 390 | 280 |
| Dindigal | 233 | 421 | 231 |
| Erode | 286 | 401 | 339 |
| Mettur | 303 | 351 | 443 |
| Salem | 306 | 341 | 365 |
| Tirupur | 304 | 452 | 311 |

**Source: Company**

**Table 5: Distance advantage through railways**

| Rail connectivity (km) | Karaikal | Chennai | Tuticorin |
|---|---|---|---|
| Trichy | 135 | 340 | 319 |
| Kallakudi Palaganthan | 180 | 295 | 364 |
| Pudukottai | 188 | 393 | 305 |
| Veeraragiyam | 202 | 407 | 308 |
| Ariyalur | 205 | 271 | 389 |
| Karur | 211 | 416 | 299 |
| Karaikudi | 224 | 430 | 268 |
| Palayam | 240 | 446 | 269 |
| Erode | 276 | 397 | 364 |
| Salem | 339 | 335 | 427 |
| Mechery Road | 366 | 355 | 454 |
| Madukarai | 379 | 500 | 467 |
| Malco - Mettur | 379 | 368 | 467 |

**Source: Company**

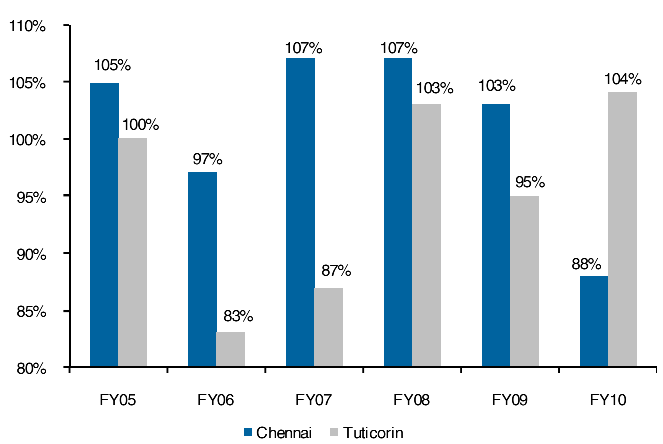
## Another key advantage for Karaikal - capacity constraints at nearby ports

***Existing major ports have capacity constraints and operate at optimum utilisation***

Chennai and Tuticorin ports are currently running at peak utilisations resulting in high pre-berthing and turnaround time. Since the capacity utilisation of Chennai and Tuticorin ports is more than 100%, we expect incremental shipments to be diverted to non-major ports such as Karaikal, which has comparatively low utilisations and higher TAT.

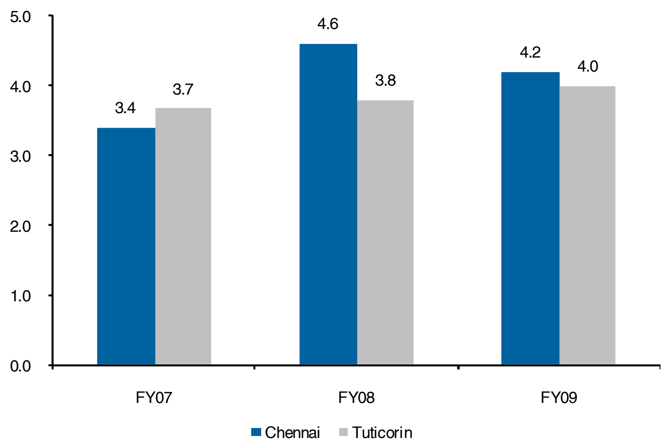
Also, Chennai and Tuticorin ports have low mechanised systems, which further deter faster turnaround of vessels. In line with the industry trend of high TAT in major ports, Chennai and Tuticorin ports have a TAT of 4.2 and 4 days, respectively. However, Karaikal Port has a TAT of 2.2 to 2.7 days before mechanised handling system becomes operational in FY13. Post mechanisation, its TAT is expected to reduce to less than two days.

**Figure 3: Capacity constraints at nearby ports**




**Source: Company, CRISIL Equities**

**Figure 4: Average TAT in nearby ports**




**Source: Company, CRISIL Equities**

Karaikal will also have the advantage of a higher draft. The current depth is 14.5 metres, which will be enhanced to ~16.5 metres by September 2012. This is significantly higher than ~11 metre coal berth at Chennai Port and 10.9 metres at Tuticorin Port.

## Karaikal Port – an important revenue driver for Marg

*Phase II of Karaikal Port will have a mechanised coal handling system*

In April 2009, Marg completed the phase I of Karaikal Port with a capacity of 5.2 mtpa and depth of 12.5 metres. With the expected commissioning of phase II by FY13 - having an additional capacity of 15.8 mtpa, depth of 16.5 metres and a mechanised coal handling system - the ports business is expected to be the major revenue driver for Marg. Being a non-major port, it does not come under the purview of Tariff Authority on Major Ports (TAMP) and, thus, can fix its own tariff.

**Table 6: Assumptions for ports business**

| | FY10 | FY11E | FY12E | FY13E | FY14E | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|---|---|---|
| Capacities (mtpa) | 5.2 | 5.2 | 6.0 | 21 | 21 | 21 | 21 | 21 |
| Capacity utilisation | 31.0% | 100.0% | 100.0% | 54.9% | 66.1% | 73.8% | 81.3% | 88.8% |
| Volumes (mn tonnes) | 1.6 | 5.2 | 6.0 | 11.5 | 13.9 | 15.5 | 17.1 | 18.7 |
| Realisations (per tonne) | 300 | 325 | 332 | 335 | 336 | 343 | 352 | 361 |
| **Revenue from operations** | **484** | **1,690** | **2,000** | **3,857** | **4,674** | **5,319** | **6,007** | **6,727** |
| Other revenues | 3 | 17 | 20 | 39 | 48 | 54 | 61 | 69 |
| **Total revenues** | **486** | **1,707** | **2,020** | **3,897** | **4,722** | **5,373** | **6,069** | **6,796** |
| EBITDA | 239 | 929 | 1,116 | 2,069 | 2,609 | 2,982 | 3,444 | 3,904 |
| EBITDA margin | 49.3% | 54.4% | 55.3% | 53.1% | 55.3% | 55.5% | 56.8% | 57.5% |
| **PAT** | **-80** | **340** | **454** | **11** | **394** | **758** | **1,217** | **1,704** |
| PAT margin | -16.6% | 20.1% | 22.7% | 0.3% | 8.4% | 14.2% | 20.3% | 25.3% |

**Source: CRISIL Equities estimate**

*The port's revenues are expected to grow at a two-year CAGR of 103.3% in FY12*

The company registered revenues of Rs 486 mn in FY10, with capacity utilisations at 31% in its first year of operation. Till September 2010, it has already done traffic of 2.5 mtpa. We expect total traffic at 5.2 mtpa in FY11. Revenues are expected to grow at a CAGR of 103.3% to Rs 2,020 mn in FY12, a contribution of 20% to the top line. EBITDA and PAT margins are expected at 55.3% and 22.7%, respectively, in FY12.

Post phase II expansion, blended utilisations are expected at 55% and 66% in FY13 and FY14, respectively. Revenues are expected at Rs 4,674 mn in FY14 with a contribution of 36% to the top line. Although we expect EBITDA margins at 53% and 55.3% in FY13 and FY14, respectively, interest and depreciation costs are expected to impact profitability. We, therefore, expect net profit margin of 0.3% and 8.4% in FY13 and FY14, respectively. However, profitability is expected to improve significantly as utilisation levels increase further and interest costs decline.

### Association with IDFC - trusting the vintage

*IDFC's investment in Karaikal gives the comfort of the Indian ports story*

IDFC has recently entered into an agreement with Marg to infuse equity of Rs 1,500 mn in Karaikal Port. The agreement is in the form of a structured deal, EBITDA-based structure, resulting in dilution ranging between 14.7% and 19.3%. The said investment will be used to fund phase II expansion having additional capacity of 15.2 mtpa with a capex of Rs 15,000 mn. Till March 2010, the company has incurred capex of ~Rs 6,890 mn with equity contribution of ~Rs 3,700 mn including IDFC's contribution of Rs 700 mn. IDFC invested Rs 400 mn in November 2010; balance Rs 400 mn is expected to be infused by FY11-end.

Indian ports have attracted investor interest with several private equity firms buying stake in partly developed ports to reap benefits from the growth in port traffic given capacity constraints at existing ports. IDFC's investments in Karaikal give comfort.

## Real estate - building success brick by brick

Marg has chalked out ambitious real estate development plans in the SEZ, residential and commercial space in the near future. The company currently has a low-cost (~Rs 50 per sq ft) land bank of ~1,800 acres mainly in Tami Nadu and Andhra Pradesh in areas like Karaikal, Kodad and Krishnapatnam. Of the 1,800 acres of land, it plans to develop ~750 acres of land including 612 acres in the SEZ at Cheyyur. The company also plans to develop residential properties in Chennai and Tirupati, and a retail-cum-commercial mall in the OMR region in Chennai.

**Table 7: Details of land bank**

| Area | Land Bank (acres) |
|---|---|
| SEZ | 612 |
| Riverside mall | 7 |
| Around Karaikal | 130 |
| Around Swarnabhoomi | 430 |
| Krishnapatnam | 50 |
| Kodad | 200 |
| Others | 373 |
| **Total** | **1,800** |

**Source: Company, CRISIL Equities**

### SEZ: Witnessing traction; MoU signed with some well-known names

*Marg plans to develop 612 acres of land over the next five-six years*

In FY08, Marg launched its 612-acre SEZ 'Marg Swarnabhoomi', an upcoming township, located 50 kms from the periphery of Chennai on East Coast Road that connects Chennai and Puducherry. The company intends to develop the SEZ over five to six years. Based on the client's requirements, the company intends to do plot sales, lease built-up space along with residential sales of 14 mn sq.ft.

*Marg is in advanced talks with prominent names for space in the SEZ*

The SEZ is targeted at light engineering and multi-service companies such as auto ancillary, education and healthcare. The project has seen early traction with interests from prominent names like Vanspall of the UK, Grundfos of Denmark and Virginia Tech University of the USA for land acquisition and setting up their research centres. The company also has potential clients in different industries like auto, dairy products, IT hardware for plot sales and leased built-up space. Bala Vidya Mandir (popular school in Chennai) and Swarnabhoomi Academy of Music, managed by renowned guitarist Prasanna, are already operational in the SEZ. The company is also in discussion with a leading hospital to set up multi-specialty services.

**Table 8: SEZ development details**

| Details | Acres | Expected plot sales (acres) | Expected leased space (mn sq.ft.) | Expected Sales (mn sq.ft.) |
|---|---|---|---|---|
| Light engineering | 135 | 48 | 2.1 | - |
| Multi-service | 118 | 27 | 4.2 | - |
| Residence | 186 | - | - | 14 |
| School/shopping/club | 8 | 8 | - | - |
| Roads | 90 | - | - | - |
| Open space/park/play area | 62 | - | - | - |
| Utilities | 13 | - | - | - |
| **Total** | **612** | **84** | **6.3** | **14** |

Source: Company

### Success centers around industrial activities; residential projects to follow suit

*Future residential sales depend on the upcoming industrial activities in the region*

Marg plans to tap the increasing demand for residential units expected to crop up with increased industrial activity in this area. It plans to develop 14 mn sq.ft. of residential real estate (14,000 units) over the next five to six years. The company has already sold 1,000 units (1,300 units launched in FY09) under two projects that were launched with a high-profile performance by musician A.R. Rehman. Although the initial response has been encouraging, we believe its future residential sales depend on the upcoming industrial activities in the region as it will attract the captive residents.

**Table 9: SEZ cost and funding details**

| Cost and financing | Rs mn |
|---|---|
| Project cost | 7,056 |
| Debt tied-up | 4,068 |
| Equity | 1,832 |
| Capex incurred till date | 4,806 |

Source: Company, CRISIL Equities

### Commercial: Riverside Mall has first-mover advantage in the OMR region

*Riverside Mall expected to be operational in March 2012*

Marg is developing a mall-cum-multiplex with a business class hotel and office space with a built-up area of 1.8 mn sq.ft. The mall and office space is expected to have a leasable area of 0.97 mn sq.ft. Given the pace of construction, we expect it to be operational by March 2012 against the company's target of October 2011. The hotel project, however, is excluded from our forecast due to lack of visibility. The total project cost for the mall-cum-office space is estimated at Rs 2.7 bn. Marg has already entered into MoU with some of the anchor tenants like PVR, Hypercity and Shoppers Stop. It has also entered into MoU with Shangri-La for its upcoming hotel project.

Given that IT companies are continuously looking to scale up in Chennai, demand for office space is expected to remain healthy. Also, the catchment area, comprising ~1.5 lakh IT professionals, is expected to translate into footfalls generating revenue for the retailing businesses.

**Table 10: Riverside Mall snapshot**

| Details of mall | Retail segment | Commercial segment |
|---|---|---|
| Area (mn sq.ft) | 0.70 | 0.27 |
| Demand driver | IT and ITeS industry in the OMR region | IT sector in Chennai to add significant employees in the near future |
| Completion date | Mar-12 | Dec-12 |
| Revenue model | Lease | Lease |

**Source: Company, CRISIL Equities**

**Table 11: Mall funding details**

| Funding details | Rs mn | Costs details | Rs mn |
|---|---|---|---|
| Debt | 1,763 | Construction costs | 2,540 |
| Equity | 923 | Land costs | 146 |
| **Total** | **2,686** | **Total** | **2,686** |

**Source: Company, CRISIL Equities**

### Competition may limit rentals and occupancy rates in the near term

*The fragmented retail real estate market likely to impact occupancy rates and lease rentals*

In the next two years, two more malls are proposed to come up in the OMR region with an area of 0.2 mn sq.ft. and 0.7 mn sq.ft., respectively. Combined with the fragmented retail real estate market, we expect competition to impact occupancy and lease rentals in the near term.

### Residential: 2.4 mn sq.ft. to be developed in OMR region in near future

Marg's on-going projects are expected to be completed over the two to three years. We anticipate revenues from residential sales at Rs 818 mn and Rs 1,738 mn in FY11 and FY12, respectively.

## Expertise gained via in-house infra projects to aid EPC business

*Marg plans to expand its third-party EPC offering from the expertise gained through in-house projects*

Marg is expanding its external EPC offering backed by the expertise gained through in-house infrastructure projects. Despite the lack of experience in executing port projects, it completed the phase I of Karaikal Port ahead of schedule. It is currently executing in-house EPC contracts related to phase II, construction of Riverside Mall and development of SEZ and residential units.

The company is now looking to ramp up its external EPC business significantly since it has built up the necessary expertise by executing in-house projects. Our interaction with the management revealed that the company is strengthening its EPC team to handle more third-party projects as most of its bandwidth will be released post phase II expansion of Karaikal Port.

### External EPC business is ramping up

Marg's external business is ramping up with robust growth in order intake. Its current third-party EPC order book has increased significantly from Rs 880 mn in FY09 to Rs 5,150 mn currently. This order book is to be executed over the next 18-24 months. These projects are mainly in segments such as buildings, roads and bridges, and include clients such as L&T, BHEL and ELCOT.

We believe strong growth in order book is a testimony of Marg's increasing credentials and strength in EPC space and has laid the foundation for capturing future growth in this space.

### Funding concerns ease; successful QIP and private equity funding

Given the company's ambitious plans in ports and real estate development and a geared balance sheet (consolidated net debt-equity of 4.4x in FY10), it was becoming necessary for Marg to raise equity funding to fund its future growth. The company has been successful in raising Rs 1,068 mn through qualified institutional placement (QIP) at an offer price of Rs 189.9. The company has also done private equity of Rs 1,500 mn (of which 1,100 mn has already been invested) through IDFC in Karaikal Port which takes away the pressure of funding the remaining equity in the project (Marg has earlier invested Rs 2,990 mn of the total 5,194 mn equity requirement in the project). In addition, 6.7 mn warrants at Rs 61 have been issued to the promoters, of which 1.5 mn has already been converted to equity shares; the balance is expected to be converted in FY11.

***With QIP and private equity in ports, net debt-to-equity to decline from 4.4x in FY10 to 3.5x in FY12***

With these infusions and the port business turning profitable, we expect consolidated net debt-to-equity to fall to 3.8x and 3.5x in FY11 and FY12, respectively. Since infrastructure projects are typically funded in the debt-to-equity ratio of 4:1 and the fact that nearly 50% of Marg's consolidated balance sheet comprises port business, gearing of 3.5x is reasonable.

## Key risks

### Delays in construction of phase II of Karaikal Port

*Any delays in construction of phase II of port could adversely impact valuations*

Infrastructure development projects are complex to execute and require various regulatory and other clearances. Since the concession period includes the construction period, any delay in construction activities would have a negative impact on revenues and profit growth, thereby affecting IRR of the project. Although phase II of Karaikal is currently on schedule and is expected to get completed on time, any delay could adversely affect our valuation.

### Lower traffic and utilisations in Karaikal Port may affect profitability

*Delay in commissioning of upcoming power and cement plants could have an impact on profitability and valuation*

Marg is expected to benefit from the upcoming power and cement plants in the hinterland around Karaikal Port. Any delay or abandonment of these plants would have an impact on the coal cargo expected to be handled at the port. This could have an adverse impact on the utilisation and, hence, profitability of the port.

### Regulatory hurdles in SEZ

The current SEZ policies framed by the Central government are being continuously reviewed. Any change in the current tax structure under the SEZ would significantly undermine the incentives for industries to set up units in the SEZ. This could hamper Marg's current plans and may have an impact on SEZ valuation.

### Slowdown in the new order intake

Although we expect the government's thrust on infrastructure spending to continue, any decline in spending might impact order intake for the company. In addition, if Marg faces slowdown in new order wins, it might affect CRISIL Equities' growth assumptions.

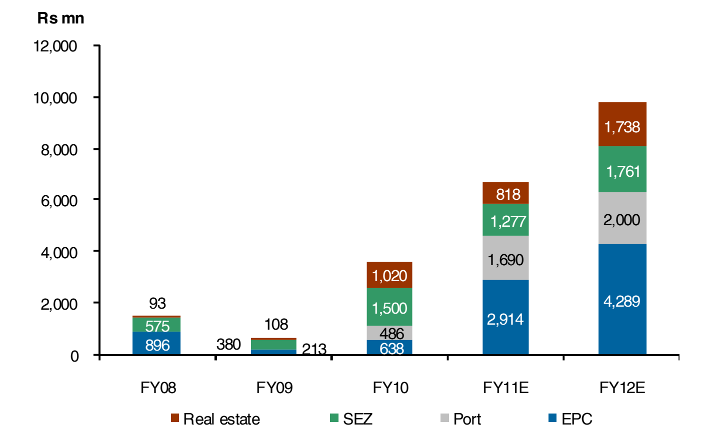
## Financial Outlook

### Revenues to grow at two-year CAGR of 66% to Rs 10 bn in FY12

*Revenues to grow at a two-year CAGR of 66% to Rs 10 bn in FY12*

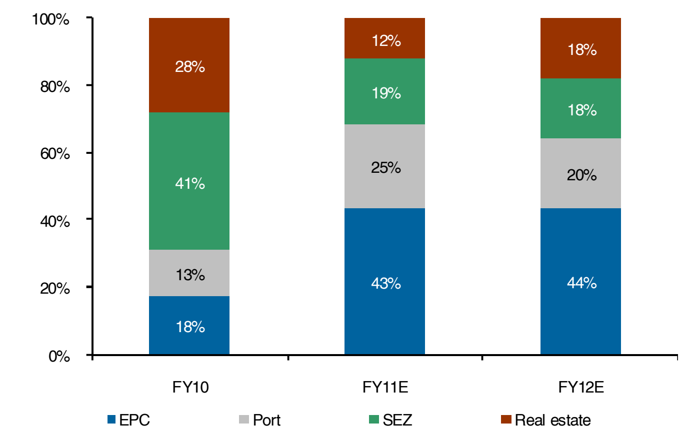
We expect total consolidated revenues to grow at a two-year CAGR of 66% to Rs 10 bn in FY12 from Rs 3.7 bn in FY10 driven by growth in port and EPC businesses. Revenues from the port are expected to grow at a two-year CAGR of 103.3% to Rs 2,020 mn driven by increasing capacity utilisation. The EPC business is expected to grow at 159.2% to Rs 4,289 mn driven by a healthy order book while the real estate and SEZ segments are expected to register a lower two-year CAGR of 30.5% and 8.4%, respectively, in FY12.

**Figure 5: Ports and EPC to be key revenue drivers**




Source: Company, CRISIL Equities estimate

**Figure 6: Segment-wise contribution to the top-line**



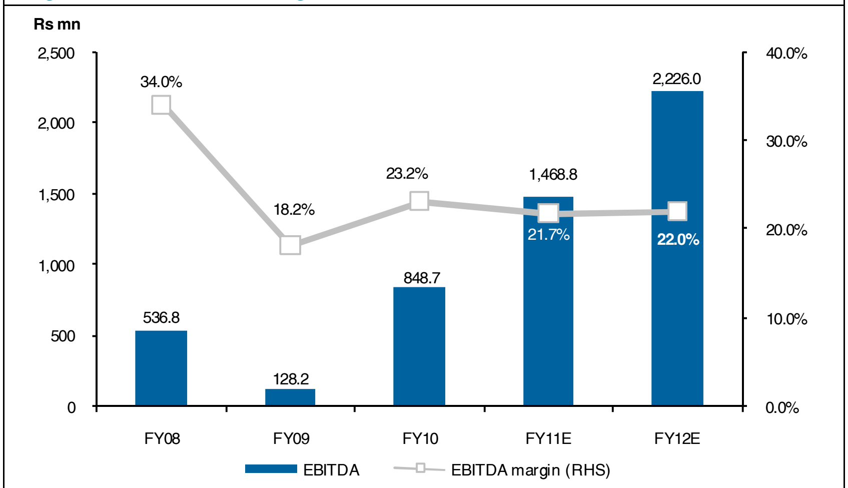

Source: Company, CRISIL Equities estimate

### EBITDA margins to remain stable at around 21-22%

*EBITDA margins expected at 22% in FY12*

The company's EBITDA margin increased 500 bps to 23.2% in FY10 as the port became operational, which had margin of 49%. We expect EBITDA margins to remain in the range of 21-22% going forward as higher margins in the port segment are expected to be offset by increasing contribution from the EPC segment, which has comparatively lower margins. We expect margins at 21.7% and 22% in FY11 and FY12, respectively.

**Figure 7: EBITDA margins to remain stable in the near future**



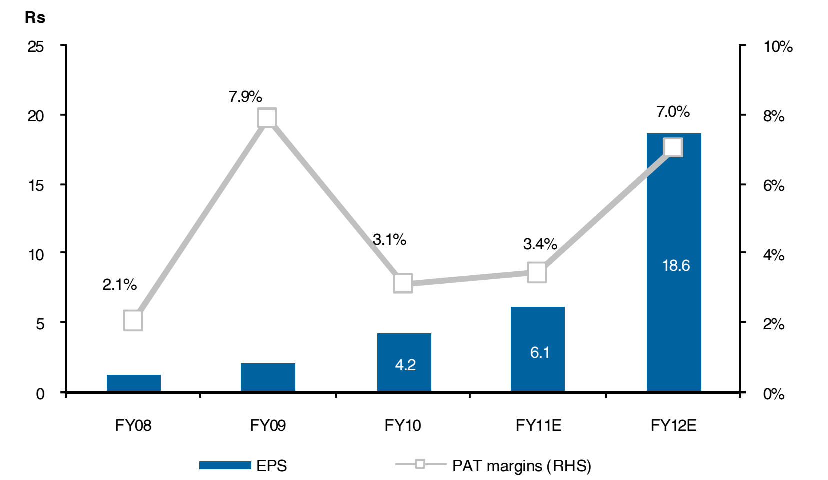

Source: Company, CRISIL Equities estimate

## PAT to grow at a two-year CAGR of 148.4%, EPS expected to increase from Rs 4.2 in FY10 to Rs 18.6 in FY12

*EPS to register lower growth than net profit due to equity dilution*

Marg's consolidated PAT is expected to grow at a two-year CAGR of 148.4% primarily on account of strong growth in top line and profitability of the port project. Net margin is expected to increase to 7.0% in FY12 from 3.1% in FY10. EPS is expected to register a lower growth of 109.9% to Rs 18.6 in FY12 as the QIP and warrant issue to promoters will result in equity dilution.

**Figure 8: PAT margins to improve in the near future**



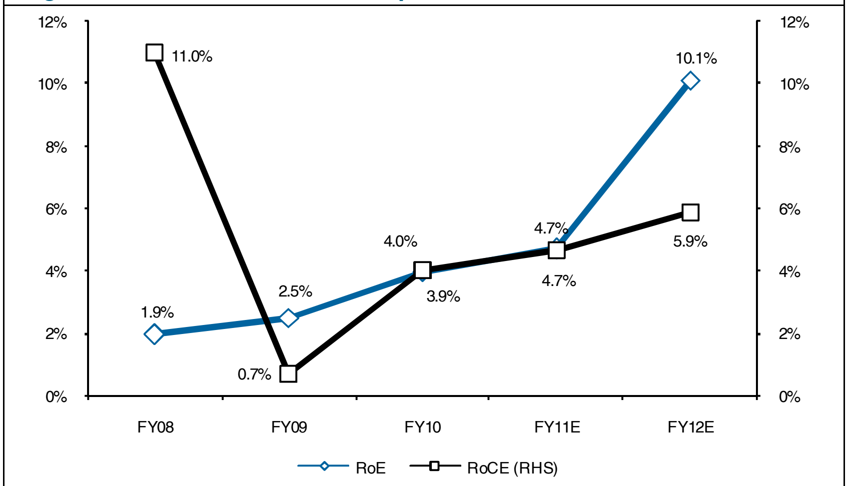

**Source: Company, CRISIL Equities estimate**

## RoE to increase to 10.1% in FY12 from 3.9% in FY10

*RoE to improve to 10.1% in FY12 from 3.9% in FY10*

We expect RoE to improve from 3.9% in FY10 to 10.1% in FY12 due to increase in profitability and in asset utilisation of the port. RoCE is also expected to improve from 4% to 5.9% during the same period.

**Figure 9: RoE and RoCE to improve from current levels**




**Source: Company, CRISIL Equities estimate**

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we feel that the management is good and will drive the company's growth in the near future.

### Promoter has close to 15 years of experience in construction industry

*Marg's management has close to 15 years of experience in the construction industry*

Marg has an experienced management team led by Mr GRK Reddy, chairman and managing director, who has a post graduate degree in Commerce and is an alumni of Kellogg School of Management, USA. He started his career as a merchant banker and ventured into infrastructure development in 1994. He has been instrumental in driving Marg ahead. He is an active member of CII and a Charter Member of TiE (The Indus Entrepreneurs), a global network fostering entrepreneurship.

### Successful completion of phase I of Karaikal Port ahead of schedule

Despite lacking experience in the port project, Marg's management was successful in completing phase I of Karaikal Port, with capacity of 5.2 mtpa, ahead of schedule. In addition, phase II expansion of additional 15.8 mtpa of capacity is also on schedule.

### Ambitious expansion plans - a key monitorable

Over the next three to four years, Marg is developing multiple projects under different segments. These include the phase II of Karaikal Port (additional capacity of 15.8 mtpa), a SEZ (612 acres), a mall-cum-multiplex with hotel and office space (1.8 mn sq.ft.) and four residential projects with a saleable area of 2.4 mn sq.ft. in and around Chennai.

Although Marg has a good track record of on-time completion of projects, we believe its plans to simultaneously execute multiple projects in the next three to four years is ambitious. We also note that future projects are more complex in nature compared with the ones handled previously and, hence, remain a key monitorable.

### Fairly experienced second line

Based on our interactions with heads of various verticals such as ports, SEZ, EPC and real estate, we believe there is a reasonably experienced second line of management—operational heads who report to the managing director—in place. Key managerial personnel have 17 to 35 years of experience in different industries like port conceptualisation and operations, real estate, finance, business development and strategic planning and HR. However, most business heads have been in the company for less than three years.

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Marg presents good practices supported by a strong and fairly independent board. Further, the current board has good and relevant experience in the industry. We feel that the company's corporate governance practices are adequate and meet the minimum required levels.

### Board composition

***Board comprises six members, of whom three are independent directors***

Marg has six board members, of whom three are independent directors. This composition meets the minimum requirements as per Clause 49 of the SEBI listing guidelines. GRK Reddy, one of the promoters, is the chairman and managing director.

### Board's processes

The company has various committees – audit, remuneration and investor grievance - in place to support corporate governance practices. The company's disclosures are sufficient to analyse various business aspects of the company. CRISIL Equities assesses from its interactions with independent directors of the company that the quality of agenda papers and the level of discussions at the board meetings are good.

Independent directors are well aware of the business of the company and are fairly engaged in all the major decisions, reflecting well on the company's corporate governance practices. The audit committee is chaired by an independent director, Mr Arun Kumar Gurtu, and it meets at timely and regular intervals.

### Standalone quarterly results may not depict true picture

Marg conducts its port business at Karaikal and the real estate business through its subsidiaries. However, it reports quarterly results on a standalone basis and not consolidated. We believe reporting on a consolidated basis would help investors evaluate its financial performance regularly since the port and real estate business will constitute a major portion of its revenues and profitability going forward.

## Valuation Grade: 5/5

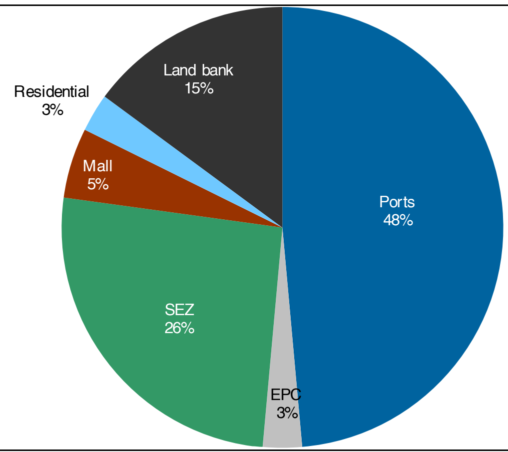
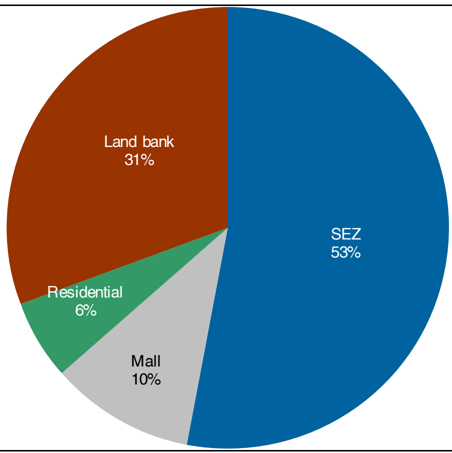
*We initiate coverage on Marg with a valuation grade of '5/5'*

We have valued Marg using the sum-of-the-parts (SOTP) approach. The port business has been valued using the discounted cash flow (DCF) method, the real estate business has been valued using NPV (net present value), while the EPC business has been valued using the price-to-earnings ratio (P/E) method. We have also valued Marg's balance land bank of ~1,000 acres at the book value. We initiate coverage on Marg with a fair value of Rs 353 per share and a valuation grade of '5/5'. At this value, the implied P/E multiples are 57.9x FY11E and 18.9x FY12E EPS. This grade indicates that the market price has 'strong upside' from the current levels.

**Table 12: Valuation**

| | | |
|---|---|---|
| **A. Ports** | | |
| DCF value of the project | Rs mn | 8,167 |
| Marg's Stake | % | 80% |
| Equity value | Rs mn | 6,534 |
| Per share | Rs | **171** |
| **B. Standalone - EPC** | | |
| PAT without interest from subsidiaries | Rs mn | 64 |
| Multiple assigned | Times | 6.0 |
| Total value | Rs mn | 386 |
| Value per share | Rs/share | **10** |
| **C. Real estate - SEZ and others** | | |
| ***SEZ - New Chennai Township Ltd*** | | |
| NAV of the projects | Rs mn | 7,286 |
| Marg's stake | % | 100% |
| Enterprise value to Marg | Rs mn | 7,286 |
| Less: net debt | Rs mn | 3,828 |
| Equity value | Rs mn | 3,458 |
| Per share | Rs | **91** |
| **D. Riverside Mall** | | |
| NAV of the project | Rs mn | 3,539 |
| Marg's stake | % | 59.1% |
| Enterprise value to Marg | Rs mn | 2,091 |
| Less: net debt | Rs mn | 1,400 |
| Equity value | Rs mn | 691 |
| Per share | Rs | **18** |
| **E. Residential projects** | | |
| NAV of the projects | Rs mn | 1,230 |
| Marg's stake | % | 100% |
| Enterprise value to Marg | Rs mn | 1,230 |
| Less: net debt | Rs mn | 841 |
| Equity value | Rs mn | 389 |
| Per Share | Rs | **10** |
| **F. Land bank value** | | |
| Land bank value (at cost) | Rs | 2,000 |
| Marg's Stake | % | 100% |
| Equity value | Rs mn | 2,000 |
| Per share | Rs | **53** |
| **Total fair value (A+B+C+D+E+F)** | **Rs** | **353** |

**Source: Company, CRISIL Equities estimate**

| **Figure 10: Ports and SEZ contribute 75% of the valuation** | **Figure 11: Real estate valuation break-up** |
|---|---|
|  |  |
| **Source: Company, CRISIL Equities estimate** | **Source: Company, CRISIL Equities estimate** |

## Valuation of port business

Based on the DCF method, we value the port business at Rs 171 per share. We have considered the following key factors in our valuation for ports:

- Free cash flows from FY11 to FY22
- Cost of equity at 15.0% and post tax cost of debt at 9.2% for explicit period. The explicit period WACC comes to 11.0%.
- Tax rate at 20% till FY21 due to benefit of infrastructure project. Tax rate of 34% post FY21
- Terminal growth rate of 3%

Following is the sensitivity of fundamental value of the port business to our assumptions.

**Table 13: SOTP valuation**

| | | Terminal growth rate | | | | |
|---|---|---|---|---|---|---|
| | | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% |
| Terminal WACC | 12.0% | 200 | 219 | 243 | 273 | 311 |
| | 13.0% | 170 | 185 | 203 | 225 | 252 |
| | 14.0% | 146 | 158 | **171** | 188 | 208 |
| | 15.0% | 127 | 136 | 147 | 159 | 174 |
| | 16.0% | 111 | 119 | 127 | 137 | 148 |

**Source: CRISIL Equities estimates**

## Valuation of EPC business

The EPC business consists of contracts executed in-house and third party orders. Although internal EPCs are hived off while consolidating, we expect the company to benefit from profits earned in these contracts from a cash flow perspective. Hence, we have assigned P/E of 6x to FY12E EPS after deducting interest income from subsidiaries. Based on this, we arrive at a fair value of Rs 10 per share for the EPC business.

### Valuation of SEZ business

The SEZ has been valued using the NPV of its five residential projects – Navratna phases I and II, Utsav, Maha Utsav, Sky Meadows and expected plot sales of ~84 acres using a cost of equity of 17.5%. We have also discounted lease rentals on the expected 6.3 mn sq.ft. of built-up space using a capitalisation rate of 10%. We arrive at a fair value of Rs 91 for the SEZ.

### Valuation of Riverside Mall

We have capitalised lease rentals in mall and office space of ~1 mn sq.ft. at 10% considering average lease rental of Rs 60/month per sq.ft. and peak utilisation of 85%. Based on these assumptions we arrive at a fair value of Rs 18 per share.

### Valuation of residential business

We have valued the planned residential projects using the NPV method and have discounted the same using a cost of equity of 17.5%. We arrive at a fair value of Rs 10 for its residential projects.

### Valuation of land bank

Marg, along with its wholly owned subsidiaries, has a current land bank of ~1,800 acres. Excluding current projects and future construction activities in ~800 acres of land, we valued the land bank (mostly at the outskirts of Chennai) of ~1,000 acres on its book value of Rs 2,000 mn, which translates into per sq.ft. cost of Rs 45. We arrive at a fair value of Rs 53 for the land bank. Although we remain cautious in our valuation assumptions, any major construction activities carried in the balance land bank in the future might lead to a significant upside in the valuation.

The company's performance is highly sensitive to timely completion of projects, capacity utilisation at the port and occupancy levels at its upcoming mall. Although we remain cautious in our assumptions, we feel any substantial change may significantly impact valuation.

## Company Overview

Marg was established as an infrastructure and realty development company in 1994. The company listed on the Bombay Stock Exchange in 1995 after raising Rs 120 lakh through an IPO. Its first project, the 8,000 sq.ft. Marg Centre, was developed in 1996. Post 1998, it ventured into new verticals in infrastructure, including wind power projects and IT parks. It also obtained the Puducherry government's concession for the development of a modern port at Karaikal on a build-operate-transfer (BOT) basis in 2006. The company pioneered IT parks along OMR by developing 0.7 mn sq.ft. of IT space in three years. This space is currently leased to Tata Consultancy Services, Scope International and Mahindra Satyam.

***Marg pioneered IT parks in OMR by developing 0.7 mn sq.ft.***

**Table 14: Marg's evolution**

| | |
|---|---|
| **1994** | Established as an infrastructure and realty development company |
| **1995** | Raised Rs 120 mn through an IPO and was listed on the BSE |
| **1996** | Developed an 8,000 sq.ft. commercial complex in A.P and launched 'Sai Subhodaya', 120 deluxe apartments with built-up area of 0.2 mn sq.ft. |
| **1998** | Completed 'Wescare Towers' with built-up area of 20,000 sq.ft. |
| **2002** | Completed software technology park with built-up area of 25,000 sq.ft. |
| **2004** | Developed Digital Zone-I, first IT park on the OMR spread across 1.85 acres |
| **2006** | Bagged concession agreement to develop Karaikal Port on BOT basis |
| **2006** | Mobilised FCCBs worth US$12.5 mn. Entered into JV with Housing and Urban Development Corporation Ltd |
| **2007** | Completed two IT parks in OMR spread across 3.56 acres |
| **2007** | Received in-principle approval for SEZ. Envisaged 'Riverside Mall' project |
| **2008** | Launched Marg Swarnabhoomi |
| **2009** | Launched Pushpadruma and Vishwashakthi |
| **2009** | Completed phase I of Karaikal Port ahead of schedule |
| **2010** | Raised Rs 1,068 mn through QIP of at a price of Rs 189.9 |
| **2010** | IDFC agreed to invest Rs 1,500 mn for a stake of 15-20% in Karaikal Port |

**Source: Company**

***Marg is present across four different verticals***

Marg is present across four verticals. Since 2006, it has bagged the prestigious Karaikal Port project, completed two business parks and launched a light-engineering and multi-services SEZ named Marg Swarnabhoomi.

### Karaikal Port

Marg diversified its business by entering into the port space and bagging the concession for Karaikal Port from the Puducherry government. Under its SPV, Karaikal Port Private Limited (KPPL), the company is developing a deep-water, all-weather port on a BOT basis. The land measuring 602 acres, located midway between Chennai and Tuticorin Ports, is leased from the Puducherry government for a yearly fee of Rs 1,000/acre. Phase I of the project, comprising two berths with a handling capacity of 5.2 mn tonnes of cargo and depth of 12.5 metres, was completed in April 2009 at a cost of Rs 4,160 mn. Phase II of the project—with a proposed capacity of 15.8 mn tonnes and depth of 16.5 metres at a capex of Rs 15,000 mn—achieved financial

***Phase II of Karaikal is expected to be operational by FY12***

closure in May 2009 and is expected to be completed by FY12-end. The port is well connected to NH 45A and NH 67 by road and has end-rail connectivity.

### SEZ - Marg Swarnabhoomi

*Swarnabhoomi is spread across 612 acres*

Marg—under its SPV, New Chennai Township Private Ltd—is developing two SEZs spread across 612 acres. Marg Swarnabhoomi comprises a processing zone for the fast-growing light engineering sector spread across 311 acres and a multi-services industrial hub on 301 acres of land. The proposed SEZs, to be built at a cost of Rs 7,060 mn, achieved financial closure with a debt funding component of Rs 4,070 mn.

### Real estate – residential and commercial

Marg plans to develop four residential projects, saleable area of 2.4 mn sq.ft. is being currently developed. These projects are in the OMR region of Chennai and Tirupathi in Andhra Pradesh.

*Riverside Mall includes a blend of shops, multiplex and commercial blocks*

Commercial vertical completed three projects on lease with a built-up area of more than 0.6 mn sq.ft. and an outright sale of 0.1 mn sq.ft. Following the successful development and commercialisation of IT space, Marg is now constructing the Riverside Mall. This mall, located on OMR covering 7.3 acres, includes a blend of shops, a multiplex and commercial blocks.

# Annexure: Financials

## Income Statement

| (Rs Mn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---|---|---|---|---|
| Net sales | 1,565 | 701 | 3,644 | 6,699 | 10,018 |
| **Operating Income** | **1,578** | **706** | **3,664** | **6,768** | **10,099** |
| **EBITDA** | **537** | **128** | **849** | **1,469** | **2,226** |
| Depreciation | 32 | 67 | 180 | 271 | 290 |
| Interest | 150 | 182 | 532 | 710 | 853 |
| Other Income | 58 | 400 | 307 | 82 | 137 |
| **PBT** | **413** | **279** | **444** | **569** | **1,220** |
| **PAT before minority interest** | **246** | **57** | **119** | **232** | **710** |
| **Adjusted PAT after minority interest** | **33** | **56** | **115** | **232** | **710** |
| No. of shares | 25.6 | 25.6 | 27.2 | 38.1 | 38.1 |
| Earnings per share (EPS) | 1.3 | 2.2 | 4.2 | 6.1 | 18.6 |

## Balance Sheet

| (Rs Mn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---|---|---|---|---|
| Equity capital (FV - Rs 10) | 256 | 256 | 272 | 381 | 381 |
| Reserves and surplus | 2,010 | 1,995 | 2,894 | 5,003 | 6,192 |
| Debt | 3,666 | 10,268 | 17,245 | 24,258 | 27,704 |
| Current Liabilities and Provisions | 1,657 | 1,729 | 3,620 | 5,491 | 6,727 |
| Deferred Tax Liability/(Asset) | 35 | 62 | (25) | 14 | 14 |
| Minority interest | 0 | 0 | 426 | 926 | 1,198 |
| **Capital Employed** | **7,625** | **14,310** | **24,432** | **36,072** | **42,216** |
| Net Fixed Assets | 2,217 | 2,489 | 5,979 | 5,671 | 8,635 |
| Capital WIP | 1,783 | 5,422 | 7,346 | 17,540 | 18,447 |
| Intangible assets | 150 | 150 | 28 | 162 | 157 |
| Investments | 46 | 26 | 26 | 49 | 49 |
| Loans and advances | 1,108 | 2,071 | 2,148 | 1,959 | 2,137 |
| Inventory | 1,061 | 2,210 | 3,300 | 4,597 | 4,794 |
| Receivables | 724 | 1,413 | 4,191 | 5,820 | 7,159 |
| Cash & Bank Balance | 537 | 530 | 1,415 | 274 | 838 |
| **Applications of Funds** | **7,625** | **14,310** | **24,432** | **36,072** | **42,216** |

**Source: Company, CRISIL Equities estimate**

## Cash Flow

| (Rs Mn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---|---|---|---|---|
| Pre-tax profit | 413 | 279 | 444 | 569 | 1,220 |
| Total tax paid | (151) | (195) | (412) | (297) | (510) |
| Depreciation | 32 | 67 | 180 | 271 | 290 |
| Change in working capital | (257) | (2,730) | (1,932) | (1,000) | (472) |
| **Cash flow from operating activities** | **36** | **(2,580)** | **(1,719)** | **(457)** | **528** |
| Capital expenditure | (2,279) | (3,978) | (5,594) | (10,158) | (4,161) |
| Investments and others | (2) | 21 | (0) | (23) | - |
| **Cash flow from investing activities** | **(2,282)** | **(3,958)** | **(5,594)** | **(10,181)** | **(4,161)** |
| Equity raised/(repaid) | 1,014 | 0 | 102 | 1,391 | - |
| Debt raised/(repaid) | 1,557 | 6,602 | 6,977 | 7,012 | 3,446 |
| Dividend (incl. tax) | (60) | (60) | (86) | (127) | (142) |
| Others (incl extra ordinaries) | (59) | (12) | 1,205 | 1,222 | 893 |
| **Cash flow from financing activities** | **2,451** | **6,530** | **8,198** | **9,498** | **4,197** |
| **Change in cash position** | **206** | **(7)** | **884** | **(1,140)** | **564** |
| Opening Cash | 332 | 537 | 530 | 1,415 | 274 |
| Closing Cash | 537 | 530 | 1,415 | 274 | 838 |

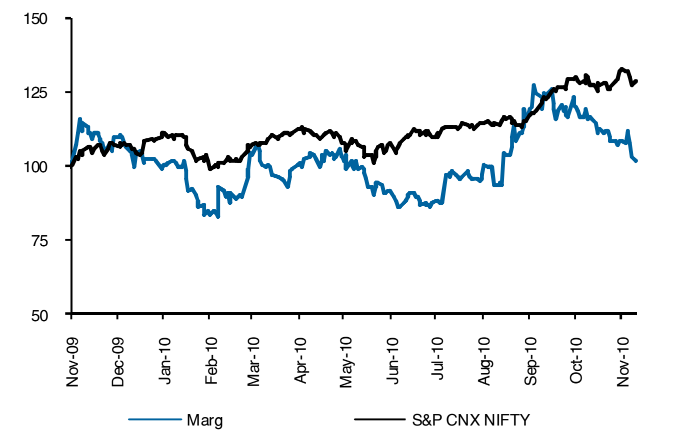
## Ratios

| | FY08 | FY09 | FY10 | FY11E | FY12E |
|---|---|---|---|---|---|
| **Growth ratios** | | | | | |
| Sales growth (%) | 111.5 | (55.3) | 419.1 | 84.7 | 49.2 |
| EBITDA growth (%) | 624.3 | (76.1) | 562.0 | 73.1 | 51.6 |
| EPS growth (%) | (104.2) | 70.2 | 94.9 | 44.1 | 205.5 |
| **Profitability Ratios** | | | | | |
| EBITDA Margin (%) | 34.0 | 18.2 | 23.2 | 21.7 | 22.0 |
| PAT Margin (%) | 2.1 | 7.9 | 3.1 | 3.4 | 7.0 |
| Return on Capital Employed (RoCE) (%) | 11.0 | 0.7 | 4.0 | 4.7 | 5.9 |
| Return on equity (RoE) (%) | 1.9 | 2.5 | 3.9 | 4.7 | 10.1 |
| **Dividend and Earnings** | | | | | |
| Dividend per share (Rs) | 2.3 | 2.3 | 3.1 | 2.8 | 3.2 |
| Dividend payout ratio (%) | 178.6 | 148.9 | 77.7 | 46.6 | 17.0 |
| Dividend yield (%) | 2.0 | 1.6 | 1.4 | 1.5 | 1.7 |
| Earnings Per Share (Rs) | 1.3 | 2.2 | 4.2 | 6.1 | 18.6 |
| **Efficiency ratios** | | | | | |
| Asset Turnover (Sales/GFA) | 0.8x | 0.3x | 0.8x | 1.1x | 1.3x |
| Asset Turnover (Sales/NFA) | 0.9x | 0.3x | 0.9x | 1.2x | 1.4x |
| Sales/Working Capital | 1.4x | 0.3x | 0.7x | 1.0x | 1.4x |
| **Financial stability** | | | | | |
| Net Debt-equity | 1.4 | 4.3 | 4.4 | 3.8 | 3.5 |
| Interest Coverage | 3.4 | 0.3 | 1.3 | 1.7 | 2.3 |
| Current Ratio | 2.1 | 3.6 | 3.1 | 2.3 | 2.2 |
| **Valuation Multiples** | | | | | |
| Price-earnings | 93.9x | 69.1x | 52.8x | 30.9x | 10.1x |
| Price-book | 1.4x | 1.7x | 1.7x | 1.1x | 0.9x |
| EV/EBITDA | 11.5x | 105.9x | 26.3x | 21.8x | 15.8x |

**Source: Company, CRISIL Equities estimate**

## Focus Charts

### Marg's performance has been in line with the market

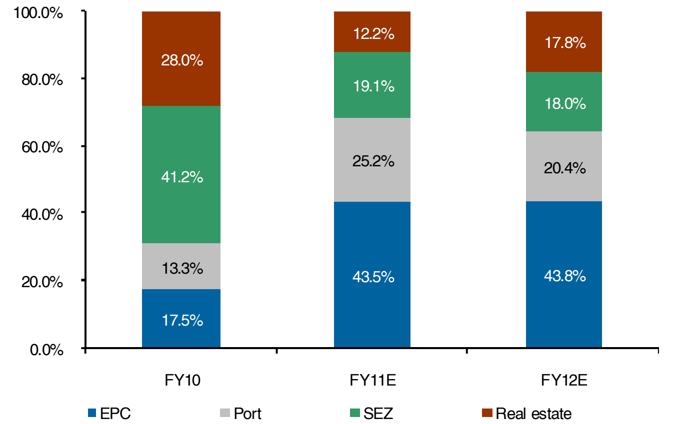



**Source: NSE, CRISIL Equities**

### Karaikal Port is strategically located

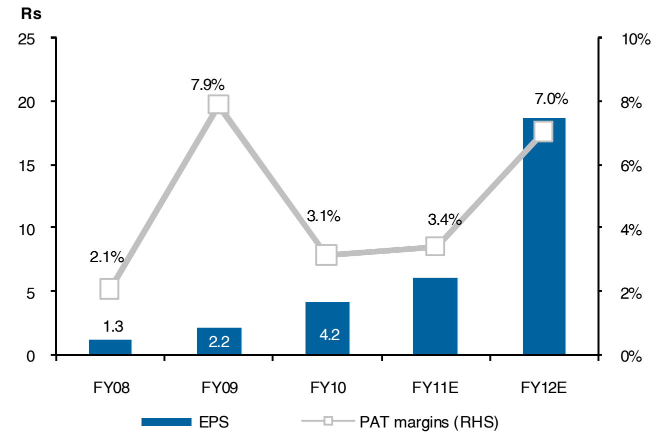

**Source: Company, CRISIL Equities**

### Segment-wise contribution to the consolidated topline



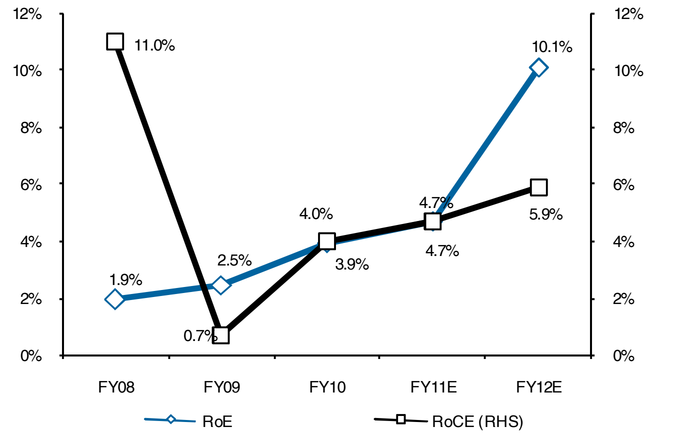

**Source: Company, CRISIL Equities estimate**

### PAT margins expected to improve in the near future



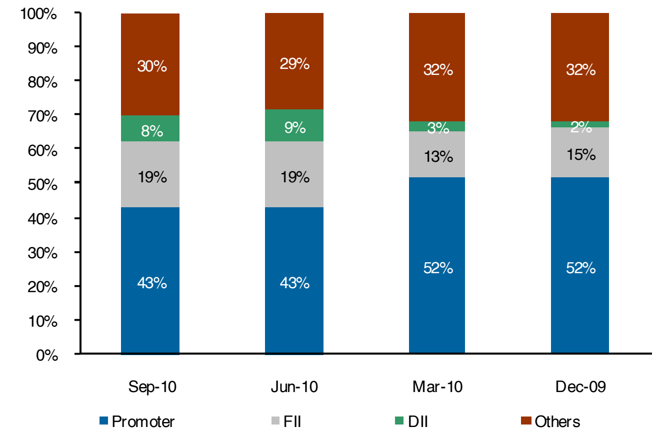

**Source: Company, CRISIL Equities estimate**

### RoE and RoCE to improve from current levels




**Source: Company, CRISIL Equities estimate**

### Shareholding pattern




**Source: NSE, CRISIL Equities**

## CRISIL Independent Equity Research Team


| | | |
|---|---|---|
| Mukesh Agarwal<br>**Director** | magarwal@crisil.com | +91 (22) 3342 3035 |
| Tarun Bhatia<br>**Director- Capital Markets** | tbhatia@crisil.com | +91 (22) 3342 3226 |

### Analytical Contacts

| | | |
|---|---|---|
| Chetan Majithia | chetanmajithia@crisil.com | +91 (22) 3342 4148 |
| Sudhir Nair | snair@crisil.com | +91 (22) 3342 3526 |

### Sector Contacts

| | | |
|---|---|---|
| Nagarajan Narasimhan | nnarasimhan@crisil.com | +91 (22) 3342 3536 |
| Ajay D'Souza | adsouza@crisil.com | +91 (22) 3342 3567 |
| Manoj Mohta | mmohta@crisil.com | +91 (22) 3342 3554 |
| Sachin Mathur | smathur@crisil.com | +91 (22) 3342 3541 |
| Sridhar C | sridharc@crisil.com | +91 (22) 3342 3546 |

### Business Development Contacts

| | | |
|---|---|---|
| Vinaya Dongre | vdongre@crisil.com | +91 99 202 25174 |
| Sagar Sawarkar | ssawarkar@crisil.com | +91 98 216 38322 |


## CRISIL's Equity Offerings

### The Equity Group at CRISIL Research provides a wide range of services including:

- Independent Equity Research
- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporate

### Other Services by the Research group include

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

## About CRISIL Limited

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company

## About CRISIL Research

CRISIL Research is India's largest independent, integrated research house. We leverage our unique, integrated research platform and capabilities spanning the entire economy-industry-company spectrum to deliver superior perspectives and insights to over 600 domestic and global clients, through a range of subscription products and customised solutions.


### Mumbai

CRISIL House
Central Avenue
Hiranandani Business Park
Powai, Mumbai - 400 076, India.
Phone +91 (22) 3342 8026/29/35
Fax +91 (22) 3342 8088

### New Delhi

The Mira
G-1 (FF),1st Floor, Plot No. 1&2
Ishwar Nagar, Near Okhla Crossing
New Delhi -110 065, India.
Phone +91 (11) 4250 5100, 2693 0117-21
Fax +91 (11) 2684 2212/ 13

### Bengaluru

W-101, Sunrise Chambers
22, Ulsoor Road
Bengaluru - 560 042, India.
Phone +91 (80) 4117 0622
Fax +91 (80) 2559 4801

### Kolkata

'Horizon', Block 'B', 4th floor
57 Chowringhee Road
Kolkata - 700 071, India.
Phone +91 (33) 2283 0595
Fax +91 (33) 2283 0597

### Chennai

Mezzanine Floor, Thappar House
43 / 44, Montieth Road
Egmore
Chennai - 600 008, India.
Phone +91 (44) 2854 6205/06, 2854 6093
Fax +91 (44) 2854 7531

### Hyderabad

3rd Floor, Uma Chambers
Plot No. 9&10, Nagarjuna Hills,
(Near Punjagutta Cross Road)
Hyderabad - 500 482
Phone : 91-40-2335 8103 - 05
Fax : 91-40-2335 7507

For further details
or more information, please contact:
Client Servicing
CRISIL Research
CRISIL House
Central Avenue
Hiranandani Business Park
Powai, Mumbai - 400 076, India.
Phone +91 (22) 3342 3561/ 62
Fax +91 (22) 3342 3501
E-mail: clientservicing@crisil.com
E-mail: research@crisil.com

www.ier.co.in