

Investors' Delight: "Gammon India Ltd.(GIL)"- Form is temporary, class is permanent...

9th February, 2012

NSE/BSE Code	GAMMONIND/509550
Promoter's holding	32.65%
FV	Rs. 2
Equity Capital (Rs. in mn)	271.5
Networth (Rs. in mn)	18,981
Market Capitalization (Rs in mn)	7,160
52 week high/low	Rs. 152 (28 th January, 2011)/Rs. 39.05 (19 th December, 2011)
EPS (TTM)	7.6
P/E(x)	7
Book Value	Rs. 137
CMP	Rs. 59.03
Recommendation	BUY
Target Price	Rs. 75
Horizon	6 months
Upside (%)	27

We believe the company on account of its strong brand, good past track record and experience of several decades in its domain, quality of construction ensuring good clientele and repeat orders, mouth watering valuations (P/BV – 0.43x), we recommend investors to "BUY" with a target price of Rs. 75 (P/BV – 0.55x). On a yoy basis, the stock has delivered negative returns of 62%. At CMP, we believe the stock has already priced in the following negatives: Slow order inflow and delayed execution, Depressed subsidiary performance, Real Estate investments yet to yield returns, Real Estate investments yet to yield returns, Cost overruns in a few fixed-price projects and poor topline & bottomline performance.

Recent orders won by its subsidiary "Gammon Infraprojects Ltd." to improve profitability: The company's subsidiary has received the letter of award for the 'Six Laning of the Vijayawada – Gundugolanu section of NH 5 (total length – 103.59 km) in the State of Andhra Pradesh from the National Highways Authority of India (NHAI) on BOT (Toll) mode on DBFOT (design, build, finance, operate and transfer) basis. The project cost, as estimated by NHAI is Rs. 1,684 crores. The company's subsidiary will pay a premium of Rs. 57.57 crores per annum (compounded every year by 5%) during the concession period. The concession period of the project is 30 years, including a construction period of 2.5 years.

At CMP, we believe the stock has already priced in the following negatives:

Slow order inflow and delayed execution: Order inflow during the year was slow, though this was the case with most infrastructure companies. The outstanding order book stood at around Rs 14,500 crore at end-September 2011, down from the Rs 15,600 crore at the start of the fiscal.

Depressed subsidiary performance: Gammon's Italian subsidiaries failed to build on promise. While the collective order book position was comfortable, execution slowed due to working capital constraints. The muggy near-term picture for Gammon's overseas ventures weighed on the stock.

Real Estate investments yet to yield returns: On the domestic front, the company's move into real estate required heavy investments which are yet to pay off.

Poor topline and bottomline performance: Revenues over the past several quarters have either been flat or have declined. For the six months ended September 2011, revenues were up just 0.2 per cent. With debt-equity shooting up to 1.5 times from one at end-March 2011 and a rising interest rate regime, interest costs rose 36 per cent for the first half of this fiscal. This, coupled with flat revenues, led to a 34 per cent fall in net profits.

About the company

Gammon Group is an 85-year old diversified business group with civil engineering and construction as its major business interests. GIL, the flagship company of the Gammon Group, is among the leading construction companies in India specializing in the design and construction in the areas of transportation engineering, industrial structures, energy projects, high rise structures, bulk storage facilities, foundation engineering, hydraulic works and irrigation projects, and controlled demolition techniques.

Its track record spans significant landmark projects built over several decades, with a prominent presence across all sectors of civil engineering, design and construction. It has a track record of building landmark structures, some of which have become iconic. This includes 'The Gateway of India', the piling and civil foundation work for which was successfully executed by Gammon as its maiden project way back in 1919.

Besides its large scale of operations in the Construction and Infrastructure domain, Gammon has a dominant presence in energy business in which it operates in the hydro, nuclear and thermal power sectors. In fact, Gammon's association with the construction of nuclear power projects dates back to 1959 when it completed the Pre-Stresses Concrete (PSC) Ball Tank of India's first Atomic Reactor Plant in Trombay. Gammon's projects cover businesses and projects involving highways, public utilities, environmental engineering and marine structures. Gammon's expertise also covers the design, financing, construction and operation of modern bridges, viaducts, and metro rail, both on a Built-Operate-Transfer (BOT) basis as well as contract execution.

Gammon is also active in the Social Infrastructure sector through its operations in the realty project segment. Examples include residential complexes such as Pebble Bay and Godrej WoodsMan Estate in Bangalore, Godrej Kalyan in Mumbai, RNA Exotica, Mumbai; Hotel complexes such as Hotel Leela Palace, Chennai and G Staad, Bangalore besides commercial complexes such as Galleria Mall(INXS) in Bangalore. Gammon is also currently undertaking a major project for ISKON at Sri Mayapur in West Bengal involving the construction of a temple complex and a modern cultural centre.

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