IPO ANALYSIS

ARSS Infrastructure projects Ltd

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IPO STATISTICS

Issue Open Date	08h Feb 2010
Issue Close Date	11th Feb 2010
Price Band	Rs 410-450 per Sh
Face Value	Rs 10 per Share
Bid Lot	15 Equity Shares
Issue Size	Rs 10300 Lacs
Pre Issue Equity Capital	Rs 125.54 Million
Post Issue Equity Capital At price of Rs 450/Share	Rs 148.40 Million
Post Issue Equity Capital At price of Rs 410/Share	Rs 150.70 Million

SHAREHOLDING PATTERN (%)

	Pre Issue	Post Issue
Promoter & Group	65.31	[.]
Others	34.68	[.]
Public	---	[.]

OTHER SPECIFICS

Lead Manager	IDBI Capital Market Services Ltd, SBI Capital Markets Ltd
Registrar	Bigshare Services Pvt Ltd

Company Snapshot

Company is engaged in construction activities in India. Company undertakes construction of railway infrastructure, roads, highways, bridges and irrigation projects. Company started as a construction company in the field of railway infrastructure development, mainly in the state of Orissa and subsequently expanded its business activities in the zonal jurisdictions of East Coast Railway, South Eastern Railway, South East Central Railway, Southern Railway and North Western Railway. Company have developed expertise in railway construction projects, which includes earthwork, major and minor bridges, supply of ballast, sleepers, laying of sleepers and rails, linking of tracks etc. Over the years company have diversified its field of activities into other construction segments such as development and construction of roads, highways, bridges, irrigation projects, EPC activities for railways

Objects of Issue

The company intends to use the issue proceeds for:

(a) Construction of company's EPC contracts and real estate development projects

(b) repayment of debt

(c) general corporate purposes and

(d) achieve the benefits of listing on the Stock Exchanges.

Fund Requirement

(Rs in Lacs)

Particulars	**Total Cost**
Investment in Joint Venture	500.00
Funding long term working capital requirement	8600.00
General Corporate Purpose	[.]
Public Issue Expenses	[.]
Total	10300.00

Business Details

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Industry Overview

India's infrastructure which had been expanding at an accelerated pace to support the economic growth rate of over 9 per cent slowed down as economic activity in India slowed down in 2008-09 on account of the global turmoil. The six core-infrastructure industries, which account for a combined weight of 26.68 per cent in the index of industrial production (IIP), registered a growth of 2.7% in 2008-09 compared to 5.9% in the previous fiscal. To counter this slow-down the government has undertaken a number of fiscal measures. The Government's emphasis on infrastructure development holds a lot of promise for the construction industry. Construction investments have been estimated by using the construction component in various infrastructure segments. Growth of construction activities is primarily driven by investments in the infrastructure and industrial sectors. The construction spending will continue to grow despite economic slowdown on the back of strong infrastructure spending by the government. Construction investments to grow from Rs 1,332 billion in 2007-08 to Rs 1,739 billion in 2009-10, recording a CAGR of 14 per cent.

Investment Rationale

Long term relationships with reputed clients

Majority of the contracts are received from Government, Public Sector Undertakings and other Government agencies, which reduces the risk of default and delayed payment. As on January 10, 2010, the percentage of work order from Government and Government entities was 87.50 %. As of January 10, 2010, 73.11 % of company's order book of Rs. 287,753.11 lacs comprises of the repeat order works from Government and Government authorities. Clients from whom company have received repeat orders include State Government of Orissa, Railways Department, Rail Vikas Nigam Limited and RITES.

Strong and diversified Order Book

Company's Order Book as on January 10, 2010, stands at Rs.287, 753.11 lacs. The composition of Order Book is well diversified over various segments such as railways, roads and highways and road over bridges (ROB). In 2007, company diversified into execution of irrigation and canal construction works. Diversification into new areas of construction projects is expected to mitigate the risk of slowdown in revenues from any segment due to unforeseen circumstances. The total value of the Order Book has been certified by the Auditors by their certificate dated January 12, 2010.

Concerns

Defaulted on payment of interest & loan

Company has defaulted in making payment of interest and repayment of loans amounting to Rs. 24.25 lacs, Rs. 11.78 lacs and Rs. 23.09 lacs during the Financial Year ended March 31, 2006, March 31, 2004 and March 31, 2003 respectively to various banks and/or financial institutions.

Power supply at one of units disconnected

The power supply at one of company's units has been disconnected by the Central Electricity Supply Company of Orissa Limited ("CESCO") due to default in payment of electricity bills and other related disputes and the complaint filed by company in respect thereto is pending before the concerned authority.

Financial Statement

(Rs Cr)

Particulars	FY05	FY06	FY07	FY08	FY09	9Months ended 31.12.09
Net sales	29.58	60.06	133.00	313.67	624.38	605.26
Growth%		103.06	121.44	135.84	99.05	
Expenditure	25.36	53.04	113.72	265.10	523.37	491.59
EBITDA	4.22	7.02	19.28	48.57	101.00	113.67
Growth%		66.40	174.61	152.01	107.93	
EBIDTA Margin	14.26	11.69	14.49	15.49	16.18	18.78
Other Income	0.09	0.58	0.84	1.75	3.85	4.66
Depreciation	0.77	1.16	1.75	3.95	7.35	7.48
EBIT	3.54	6.44	18.36	46.37	97.50	110.84
Interest	1.22	2.02	3.76	9.47	27.02	35.21
PBT	2.32	4.42	14.61	36.90	70.48	75.64
Tax	0.81	1.10	4.05	10.10	19.44	25.55
Adjusted PAT	1.51	3.32	10.56	26.80	51.04	50.09
Growth%		120.46	217.69	153.91	90.46	
NPM	5.10	5.53	7.94	8.54	8.18	8.28
E/O Items	0.00	0.00	0.00	0.00	0.00	0.00
Reported PAT	1.51	3.32	10.56	26.80	51.04	50.09
Equity Capital	1.00	2.60	10.80	12.55	12.55	12.55
Net Worth	5.47	13.20	39.49	111.28	160.87	210.97

Ratio Analysis

Particulars	FY05	FY06	FY07	FY08	FY09	9 Month ended 31.12.09
EPS	15.07	12.79	9.78	21.35	40.66	39.90
ROE	0.82	25.16	26.73	24.08	31.73	23.74
Book Value	54.69	50.84	36.58	88.64	128.14	168.05
ROCE	20.13	20.53	23.74	22.10	25.44	19.05
Interest Coverage ratio	2.90	3.19	4.89	4.90	3.61	3.15
Debt/Equity*	2.21	1.38	0.96	0.89	1.38	1.76

*Note: Equity refers here is Net Worth

Valuation

The company is bringing the issue at price band of Rs 410-450 per share which will turn into p/e multiple of 9.11-10.00 at post issue (at higher band of Rs 450/share) annualized eps of Rs 45 per share. The company has posted the robust financial growth from last few years as topline, EBIDTA and bottomline of company, all three has grown at a CAGR of more than 100% from FY05 to FY09. Even at the net profit margin front, company has outperformed by posting the NPM of more than 8% in FY09.

With the robust order book and strong growth plans, company seems to be reasonably priced at present level. Hence we recommend investor to **Subscribe** the issue.

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MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

SEBI REGISTERED CATEGORY I MERCHANT BANKER