

# THE HINDU Business Line

Business Daily from THE HINDU group of publications  
Sunday, Dec 12, 2010

Bangalore

## Ramky Infrastructure – Buy

Investors with a medium-term perspective can consider buying the stock of infrastructure constructor and developer Ramky Infrastructure, taking advantage of price declines post-listing. The company has a well-diversified order book of Rs 12,200 crore (5.6 times the consolidated FY-10 revenues). This will help tide over any sluggishness in near-term order inflow, a phenomenon witnessed by other construction contractors which have had to contend with limited order flows. An average execution period of 30 months for the company's orders also offers near-term earnings visibility. At Rs 329, the stock trades at a reasonable 10 times estimated consolidated per-share earnings for FY-12. Valuations are at a discount compared to peers such as CCCL and Madhucon Projects. Water and waste management and irrigation projects, where the company has a strong presence, offer superior margins and make up the bulk (41 per cent) of the company's order book. Urban development schemes of the Government offer vast scope for orders in this segment. Road projects account for 33 per cent of the order book followed by residential and commercial buildings at 16 per cent and industrial projects at 10 per cent. This diversified portfolio mitigates risks of segment concentration and allows flexibility to make the most of opportunities in various segments. Ramky undertakes projects on an engineering, procurement, construction and lump-sum basis, while also executing projects as a developer. It has completed road and residential projects as well as an SEZ and industrial parks, a few in partnership with other players. Its developer status offers better margins than a pure-play contractor and a platform to scale up order sizes. Average order size improved from Rs 31 crore in 2008 to about Rs 100 crore now. Geographically too, the company moved away from a focus on Andhra Pradesh to a more diversified presence. It recently secured a Rs 1,101-crore NHAI order with a Chinese company on a development basis in Jammu & Kashmir. It has also moved overseas, securing an order to construct an SEZ for Rs 380 crore in Gabon, West Africa. The six months ended September 2010 saw the company's consolidated revenues increase 35 per cent, while net profit expanded 50 per cent on controls over interest costs and depreciation. Margins have held at 17 per cent at the operating level and 7 per cent at the net level. However, current debt-equity ratio is at 1.2 times but with more development projects in its fold, the ratio is likely to go up, pressuring margins to some extent.

Bhavana Acharya

BL Research Bureau

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