



ICRA Limited

An Associate of Moody's Investors Service

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Date: October 20, 2009

Mr. A.K. Lakhotia
Chief Executive Officer
MBL Infrastructures Limited
SU - 2 & 3, Ground Floor
Bhikaji Cama Bhawan
Bhikaji Cama Place
New Delhi - 110 066

Dear Sir,

Re : ICRA Grading of Initial Public Offer of 57,00,000 nos. Equity Shares of Rs. 10 each to be issued by MBL Infrastructures Limited to the Public ("IPO")

This is with reference to the IPO grading of the proposed IPO of 57,00,000 equity shares of MBL Infrastructures Limited. Please find enclosed, the Grading Perspective for the IPO Grade 2 assigned by ICRA to the proposed issue.

With kind regards,

Yours sincerely,
for ICRA Limited

Vikas Aggarwal
(Senior Vice President)

Encl: IPO Grading Perspective

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MBL INFRASTRUCTURES LIMITED

Issue Details

MBL Infrastructures Limited proposes to come out with an Initial Public Offer (IPO) of 5.70 million equity shares of face value of Rs. 10 each through the book building route. Subsequent to employee reservation of 0.10 million equity shares, the net issue to public will be 5.60 million equity shares. Of the net issue, at least 50% would be reserved for Qualified Institutional Buyers (QIBs), not less than 15% of the net issue shall be reserved for non-institutional investors and not less than 35% of the net issue shall be reserved for retail investors. Post-IPO, the shares will be listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

Proposed Use of IPO Proceeds

The IPO proceeds are proposed to be used primarily for :-

- Investment in Capital equipments
- Fund working capital requirements
- Fund general corporate expenditure

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IPO Grading

ICRA has assigned an IPO Grade 2 to the proposed IPO of MBL Infrastructures Limited (MBL), indicating below average fundamentals. ICRA assigns IPO gradings on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include, *inter alia*, business and competitive position, financial position and prospects, management quality, corporate governance, and history of compliance and litigation.

Disclaimer: Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further, the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company, and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA are provided on an "as is" basis, without representations and warranties of any nature.

Website

www.icra.in

Strengths

- Demonstrated track record of successful completion of small to medium sized road projects
- Experienced promoters and management
- Healthy order book position to provide impetus to future growth in revenues and profits
- Buoyant outlook for the construction industry

Concerns

- Project concentration risks as top three orders account for 50% of the current order book
- Concentration risks on account of focus on road construction segment, which exposes the company to execution risks arising on account of delays in land acquisition in road projects and higher competitive pressures in the segment
- High revenue contribution from low margin waste management and trading business
- Ability to scale up its resources, both in term of machinery and manpower for meeting the increased scale of operations
- Investments in Build Operate Transfer (BOT) projects may result in moderation of return indicators in the medium term on account of capital intensive nature and long gestation period for such projects
- High funding requirements to augment equipment and working capital to support increased scale of operations

Grading Rationale

The IPO Grade assigned by ICRA takes into account MBL's experienced management team, its demonstrated track-record of having successfully executed small to medium size projects in the roads segment, and its healthy order book position, which along with the buoyant outlook for the construction industry, is expected to provide for growth in the company's revenues and profits. The grading is however constrained by MBL's significant project concentration risks, with the top three projects accounting for 50% of its current order book; the lack of sectoral diversification in the company's revenues, given its focus on road projects in the infrastructure business; high revenue contribution from its low margin waste management and trading business; and challenges involved in scaling up of resources to successfully execute large projects. While the road construction segment offers significant growth opportunities, it also remains exposed to execution risks that arise out of delays in land acquisition. Moreover, this segment is turning increasingly competitive following the entry of a large number of players into road construction. Given the significant concentration of road projects in MBL's current order book (98% of its current order book is accounted for by road projects), its ability to face competitive pressures in this segment or successfully diversify into other segments will remain crucial to maintain its future profitability. In 2007-08, MBL successfully completed road project on Build-Operate and Transfer (BOT) basis, and such BOT projects are expected to remain a focus area for the company in the future. However, BOT projects, being capital intensive and involving a longer gestation, may result in moderation of return indicators in the medium term. Going forward, ICRA expects the MBL's funding requirements to increase in line with its need to augment its equipment and working capital, which is required to support its increased scale of operations; and the funds from the proposed IPO would enable MBL to maintain a prudential capital structure while funding its growth. In addition to funding, the company's ability to retain and attract experienced personnel will also be crucial for its future growth.

Entity Profile

Incorporated as Maheshwari Brother Limited in 1995, the name of the company was changed to the current MBL Infrastructures Limited in July 2006. Initially, MBL was engaged in the business of recycling ferrous scrap and slag at steel plants and in steel trading, but subsequently diversified into infrastructure development (primarily road projects), serving Government clients like the Public Works Department and the National Highways Authority of India. In 2007-08, MBL successfully completed the execution of the 114 km Seoni-Balaghat-Rajegaon BOT project (for its 100% subsidiary AAP Infrastructures Limited). On a consolidated basis, MBL reported revenues of Rs. 5.14 billion and a Profit after Tax of Rs. 274.03 million in 2008-09. The company's current order book stands at Rs. 7.62 billion.

Promoters and Management

The company was promoted by Mr. R.G. Maheshwari and his brother Mr. A.K. Lakhotia and their families who along with other promoter group companies have 100% shareholding in the company. Post the IPO, the shareholding of the promoters and promoter group will come down to 67.55%.

Table 1: Shareholding Pattern of MBL

	Pre-IPO	Post IPO
Promoters & Promoter Group	84.97%	57.32%
Others	15.03%	10.13%
Public	-	32.55%

Source: DRHP

Mr. R.G. Maheshwari, the Chairman of the company, is a commerce graduate and has 20 years of experience in the construction business. Mr. A. K. Lakhotia, the whole time Director and Chief Operating Officer of the company is a commerce graduate and fellow member of Institute of Chartered Accountants of India and has more than 10 years experience in the construction business. While the promoters are involved in the management of the company and are the driving force of the company, experienced professionals have also been recruited for day to day operations.

Business and competitive position

Demonstrated track record in execution of small to medium size road projects

In the past, MBL has successfully executed small to medium size construction projects mainly in the road segment. Over the years, the company has moved from doing smaller projects involving short-term improvement and maintenance works to larger projects involving widening and strengthening of existing State and National highways. In FY 2007-08, the company successfully completed the construction of the 114 Kms Seoni-Balaghat-Rajegaon BOT project. The company has over the years, demonstrated its ability to execute projects without any significant time and cost overruns, which has resulted in the company building a favourable reputation among its clients. The company has executed projects for Government agencies and bodies like Madhya Pradesh Road Development Corporation (MPRDC), Mumbai Metropolitan Region Development Authority (MMRDA), National Highways Authority of India (NHAI) and Uttar Pradesh Public Works Department.

BOT Project completed in FY 2007-08

In 2002, MBL was awarded the project for reconstruction, strengthening, widening and rehabilitation of 114 Kms section of the Seoni-Balaghat road by MPRDC on a BOT basis. In accordance with the terms of the concession agreement, a special purpose vehicle (AAP Infrastructures Limited – 100% subsidiary of MBL) was formed for the execution of the project. As per the concession agreement, the company would receive a grant from MPRDC for funding part of the project cost and be allowed to collect toll from users of the road for a period of 15 years (the toll rated would be escalated by 7% every year). The company completed the construction of the toll road in February 2008 at a total cost of Rs. 1.08 billion which was funded by equity of Rs. 0.12 billion, grant from MPRDC of Rs. 0.35 billion, term loans of Rs. 0.22 billion and balance from MBL in the form of unsecured loans and creditors for project development. For FY 2008-09, AAP Infrastructures Limited (AAP) reported revenues of Rs. 78.02 million from toll collections and Profit After Tax of Rs. 0.19 million. Going forward, ICRA expects the revenues and profits of the company to increase on the back of the expected growth in traffic and escalation in toll rates.

Healthy growth in order book buoyed by growth in infrastructure sector

The order book of the company has witnessed healthy growth over the past two years buoyed by the overall growth in the infrastructure sector. The company's current order book stands at Rs. 7.62 billion which is around 2.14 times the turnover of the company from its construction business in FY 2009. Given the opportunities in the road segment and the buoyancy in the construction industry, ICRA expects MBL's order book to remain healthy in the medium term, which is expected to provide for growth in the company's revenues and profits.

Table 2: Movement in Order book position

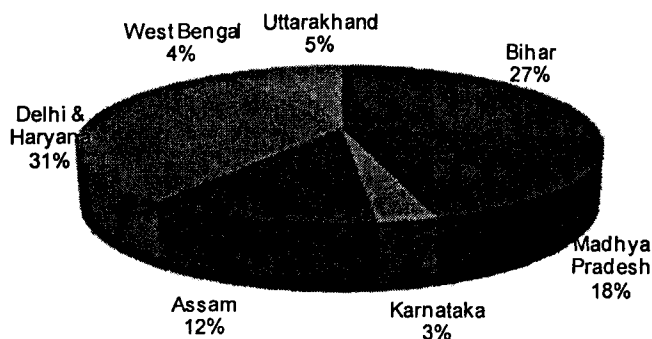
(Rs. Billion)	As on Date	31 March 2009	31 March 2008
Order Book	7.62	4.82	4.72

Source: Company

Geographically well diversified order book

The order book of the company is geographically diversified with 31% of orders in Delhi and Haryana, 27% in Bihar, 18% in Madhya Pradesh and 12% in Assam. Although presence in areas like Bihar, Madhya Pradesh and Assam increases the risk profile of MBL's operations, however, due to lower competitive intensity in these areas the company enjoys the benefits of higher margins from such projects.

Chart 1: Geographical Diversification of Order Book



Moreover, the company has consciously increased its focus on projects which are funded by strong entities like NHAI and Asian Development Bank (ADB) in order to reduce the financial risks associated with these projects.

The main clients of the company include Road Development Corporation (Bihar), NHAI, Haryana Urban Development Authority (HUDA), MPRDC, Municipal Corporation of Delhi (MCD).

Source: Company

High project concentration as top three orders account for 50% of the order book

The current order book of MBL stands at Rs. 7.62 billion. The top three orders constitute around 50% of the company's current order book which exposes the company to project concentration risks. The top three projects include – Improvement and up gradation of State Highway – 68 in Bihar for RCD Bihar with outstanding contract value of Rs. 1.69 billion; Widening of Faridabad Bypass in Faridabad for HUDA with outstanding contract value of Rs. 1.11 billion and Widening and strengthening of National Highway – 37 in Assam for NHAI with outstanding contract value of Rs. 1.07 billion. As these projects account for a significant portion of the company's order book, any delays in project execution in any of these projects can have a significant impact on the revenues and profits of the company going forward.

Order book concentrated in the road construction segment

The order book of the company is primarily concentrated on road projects, which constitutes nearly 98% of the company's current order book. High concentration on a single segment exposes the company to concentration risks. Although the road construction segment offers significant growth opportunities, however, as road projects are exposed to delays on account of issues relating to land acquisition, the execution risks are higher for such projects. Moreover, the road segment is also characterised by high competitive intensity on account of large number of players present in the segment. As MBL's current order book is highly concentrated in the road construction segment, its ability to face competitive pressures in this segment or successfully diversify into other segments will remain crucial to maintain its future profitability.

Order book execution will require scaling up of resources

MBL has witnessed significant growth in its order book over the past few years. Currently, the company has an outstanding order book of Rs. 7.62 billion which is 2.14 times the revenues of the company from its construction business in FY 2009. Successful execution of large order book will require significant scaling up of its manpower and equipment resources. Although the company has successfully scaled up both its manpower and equipment base in the past, however, the future scaling up could be more challenging given the buoyancy in the industry. The ability of the company to arrange requisite funds for investment in equipment and retain and attract experienced personnel will also be crucial for its future growth.

Financial position

High revenue contribution from low-margin waste management and trading business

The operating income of MBL comprises of revenues from construction business (which includes revenues from contracts executed and toll collections) and revenues from waste management and trading business. Over the past few years, the income from waste management and trading business has remained around 30% of the company's total income. Margins from the waste management and trading business (around 1-2% over the last three years) are much lower than margins in MBL's core construction business (around 20% over the last three years), thus, high revenue contribution from waste management and trading business has resulted in relatively lower margins for the company on an overall basis

Table 3: Segment wise revenues and profits

	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05
Income (Rs. million)					
Waste Management & Trading	1489.01	972.35	477.84	414.26	439.60
(as % of total income)	29%	33%	28%	26%	31%
Construction Segment	3653.76	1972.67	1229.18	1167.97	990.33
(as % of total income)	71%	67%	72%	74%	69%
PBDIT margins					
Waste Management & Trading	1.32%	1.73%	0.64%	1.76%	1.19%
Construction	19.65%	19.56%	19.75%	13.66%	12.35%

Note : PBDIT – Profit before Depreciation, Interest and Tax

Source: Company Annual Reports, DRHP

Growing revenues and stable margins has led to increase in profits

With an increase in the order book of the company, the Operating income has witnessed significant growth over the past few years. Moreover, with execution of large size and more complex projects, the operating margins of the company have improved from around 10% in FY 2005-06 to around 14% FY 2006-07 onwards. Further, despite high competitive intensity in the road construction segment, the company has been able to maintain PBDIT margins at around 19-20% over the last three years (for the construction segment). Healthy growth in revenues coupled with stable margins have resulted in increase in the net profits and earnings per share of the company.

With an increase in the scale of operations, higher economies of scale and increase in profits, the return indicators of the company have also improved over the last three years. ROCE has increased from 18.18% in FY 2006-07 to 25.09% in FY 2008-09 and RONW has increased from 22.59% to 27.90% over the same period. Given the buoyancy in the industry and healthy order book of the company, ICRA expects the revenues and operating profits to grow, however, investments in BOT projects which have a longer gestation period may result in moderation of return indicators in the medium term.

Table 4: Revenues and Profitability

(Rs. million)	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05
Operating Income	5142.77	2945.02	1707.02	1582.23	1429.93
OPBDIT	745.41	409.61	246.95	159.38	121.27
OPBDIT / OI (%)	14.49%	13.91%	14.47%	10.07%	8.48%
PAT	274.03	155.56	101.40	83.02	66.24
PAT / OI (%)	5.33%	5.28%	5.94%	5.25%	4.63%
ROCE (%)	25.09%	23.64%	18.18%	18.72%	18.71%
RONW (%)	27.90%	21.17%	22.59%	24.04%	24.11%
EPS (Rs.)	23.20	14.06	9.16	7.64	9.15

Note: OPBDIT – Operating Profit before Depreciation, Interest and Tax, PAT – Profit After Tax, ROCE – Return on Capital Employed, RONW – Return on Net Worth, EPS – Earnings per share

Source: Company Annual Reports

Increase in working capital intensity has resulted in increase in funding requirements

With an increase in the scale of operations and working capital intensity, the working capital requirements of the company have witnessed a significant increase over the past few years. The working capital intensity as reflected by Net Working Capital to Operating Income (NWC / OI) increased from 3.7% in FY 2007-08 to 18.4% in FY 2008-09, which also resulted in negative funds flow from operations in FY 2009 and consequently higher funding requirements. With the company focusing of larger value projects, going forward, ICRA expects the working capital requirements of the company to remain high.

Table 5: Working Capital Ratios

	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05
Debtor Days	85	107	66	44	50
Inventory Days	34	33	32	34	20
Creditor Days	50	77	76	48	57
NWC (Rs. million)	943.86	109.94	-57.52	-100.92	-41.20
NWC / OI (excluding cash)	18.4%	3.7%	-3.4%	-6.4%	-2.9%

Source: Company Annual Reports, DRHP

Negative free cash flows has resulted in increase in debt levels and gearing

The free cash flows of the company have remained negative in the past on account of capital expenditure for purchase of equipments, increased working capital requirements and interest expenses, entailing higher financing requirement, which has been largely funded by debt. This has resulted in relatively high gearing, which stood at 1.60 times as on March 31, 2009.

Going forward, ICRA expects the company's funding requirements to increase in line with its need to augment its equipment and working capital, which is required to support its increased scale of operations; further, investments in BOT projects is likely to further increase its funding requirements. Although the proceeds from the upcoming IPO will partially meet the above funding requirements and also enhance the financial flexibility of the company to raise additional funds; however, given the increased funding requirements in future, the company's ability to do so at competitive interest rates will have an impact on its liquidity, profitability and growth.

Table 6: Cash Flows

(Rs. million)	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06
Fund Flow from Operations (FFO)	(196.34)	183.77	186.99	214.71
Gross Cash Flows	(476.56)	39.73	96.34	162.89
Retained Cash Flows	(503.45)	20.32	83.40	150.50
Free Cash Flows	(699.58)	(188.82)	(286.76)	(96.79)

Source: Company Annual Reports, DRHP

Table 7: Capital Structure

(Rs. million)	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05
Equity	118.14	110.64	110.64	108.64	72.43
Net Worth	982.10	734.97	448.82	345.37	274.74
Total Debt	1570.37	726.26	665.04	364.64	229.38
Long Term Debt	356.85	319.91	376.31	271.11	158.48
Working Capital and short term debt	1213.52	406.35	288.73	93.53	70.90
Total Debt / Net Worth (times)	1.60	0.99	1.48	1.06	0.83

Source: Company Annual Reports, DRHP

Contingent Liabilities

(Rs. million)	31-Mar-09	31-Mar-08
Claims against the company / disputed liabilities not acknowledged as Debts	86.39	86.39
Disputed income tax	34.33	57.84
Stamp Duty demand under BOT Agreement	12.00	12.00
Outstanding Bank Guarantees	1357.09	1318.62
Total	1489.81	1474.85

Source: Company Annual Reports

Corporate Governance

MBL's Board of Directors comprises three whole time executive directors (part of the promoter family) and three independent directors who are qualified in diverse fields like banking, taxation and manufacturing industry. The company has constituted three committees to comply with corporate governance requirements which include Audit committee, Shareholders'/Investors' Grievance Committee and the Remuneration Committee all of which are chaired by Independent directors.

Compliance and Litigation History**Accounting quality**

The accounts of the company are in compliance with the accounting standards and the provisions of the Companies Act. The company has restated its past accounts retrospectively from FY 2005 after making the appropriate adjustments and re-groupings where necessary.

Litigation**Key Litigations against MBL and AAP Infrastructures Limited**

- There are two criminal proceedings against MBL for dishonour of cheques for an amount of Rs. 1.12 million and Rs. 0.55 million respectively.
- One proceeding has been instituted against MBL by NHAI for alleged under performance of the obligations under the contract for short term improvement and routine maintenance of Barwa Adda – Panagarh section of National Highway – 2. The matter was referred to Dispute Review Expert which passed a decision in favour of the company. However, NHAI has filed an application to the High Court of Calcutta and the matter is pending before the arbitrator appointed by the Court.
- There are three writ petitions pending against AAP Infrastructures Limited in relation to the construction of toll plaza, completion certificate granted by the Chief Engineer of MPRDC and fee collection for the Seoni-Balaghat-Rajegaon BOT road project executed by the company.

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