



## Man Infraconstruction Ltd

### CRISIL IPO Grade 3/5 (Average)

January 05, 2010

#### **IPO Grade**

**CRISIL IPO Grade '3/5':** The grade indicates that the fundamentals of the issue are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals.

#### **Issue details**

<b>Shares offered to public</b>	5.63 million (entire 5.63 million is fresh issue)
<b>As per cent of post-issue equity</b>	11.36%
<b>Object of the issue</b>	Purchase of capital equipments, general corporate purposes
<b>Amount proposed to be raised</b>	Rs 1,500 million (approximate)
<b>Price band</b>	Not available at the time of grading
<b>Lead managers</b>	IDFC-SSKI Limited & Edelweiss Capital Limited

#### **Company Background**

Man Infraconstruction Ltd was incorporated on August 16, 2002, as a private limited company and was converted into a public limited company on July 15, 2004. It is a construction company based in Mumbai providing construction services for port infrastructure, residential, industrial, commercial and road infrastructure projects. The company started as a contractor for port infrastructure, providing construction services which included construction of onshore terminals, container freight stations, operational buildings and workshops, and gradually entered into residential and commercial space in the Mumbai market.

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## Grading Highlights

### Business Prospects

- Man Infraconstruction Limited provides construction services for port infrastructure, residential, industrial, commercial and road infrastructure projects. Supply in the Mumbai real estate market is expected to remain strong as demand has picked up. The residential market in particular is expected to see favourable supply scenario driven by pick up in demand; massive spending on port infrastructure also to aid growth
- The company has a strong order book of ~ Rs 14.2 Bn, which provides sufficient revenue visibility.
- The company has a good track record of execution, especially in the port business, leading to repeat business from clients.
- High dependence on the real estate market, especially in the Mumbai region; any slowdown or downturn in the real estate market may have an impact on order accretion as well as delay or cancellation of projects.
- Currently, the company has high dependence on a few clients; However, the company has managed to get orders from other clients, thereby diversifying to some extent.
- There is intense competition in the real estate contracting business; there is no differentiating factor for any player, except track record of timely execution.

### Financial Performance

- Consolidated revenues of Man Infraconstruction grew at a CAGR of 159.66% during FY07-09. The growth was mainly driven by order flows in the port segment as well as company's foray into the real estate contracting market in Mumbai
- The company is un-leveraged with zero debt and a net worth of ~Rs. 2.9 Bn at the end of June 09; it also had a comfortable cash position of Rs 1.3 Bn at the end of June 09
- The company operates at high operating margins and also has a high return on capital. It posted an EBITDA margin of ~ 22% and 24% in FY08 and FY09; RoE for FY08 and FY09 stood at 50% and 44% respectively for FY08 and FY09

### Management Capabilities

- Promoter has a strong background and experience in the construction business. The current management has good experience in the industry
- Centralised decision-making; critical decisions are taken by the promoter

### Corporate Governance

- Man Infraconstruction has a fairly well-experienced board.
- The board is chaired by independent director Mr Pramod Chaudhari.
- Based on our interactions, it appears that the level of engagement of the independent directors with the company affairs is at acceptable levels

### **Detailed Grading Rationale**

#### **Overall Grading Summary (CRISIL IPO Grade 3/5)**

To arrive at the overall grade, CRISIL has considered the following parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

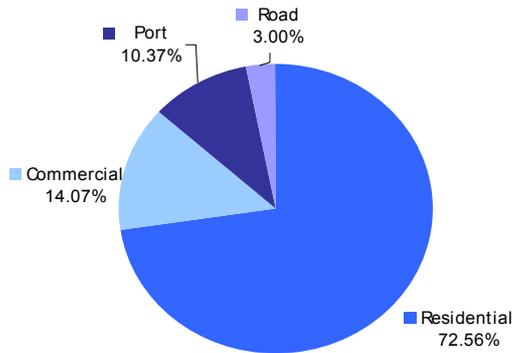
**CRISIL has assigned a CRISIL IPO Grade '3/5' (pronounced 'three on five') to the proposed initial public offer of Man Infraconstruction Ltd.** The grade indicates that the fundamentals of the issue are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to Man Infraconstruction reflects that the company is well positioned in the real estate contracting market in Mumbai and also well positioned in contracting services in port infrastructure. The grading takes into account that supply in the Mumbai residential market is expected to be buoyant, driven by pick-up in demand and also massive spending expected to happen in port infrastructure in India; The grading also factors in that the promoter of the company has a strong background and experience in the construction sector and also fairly experienced management. However, there is a high dependence on the real estate market, with more than 80% of its order book from real estate. Any slowdown in the real estate market may have an impact on order accretion as well as delay or cancellation of projects. Also, over the past few years, the company has been reliant on a few clients for its orders; however it has recently acquired new orders from varied set of clients thereby de-risking itself.

**Key facts**

As on June 30, 2009, the company had a total order book of Rs 10.86 Bn on a consolidated basis. Subsequently, post June 30, 2009, the company was awarded contracts worth Rs 3.35 Bn. Hence, the total order book of the company translates into ~ Rs 14.21 Bn

The break-up of order book, in terms of segments is given below:



**Key projects currently undertaken**

Key projects currently undertaken by the company are as follows:

Client	Details of the project
Neelkanth Mansion & Infrastructure Ltd	Construction of eight residential towers of 28 floors each of an aggregate area of 1.29 million square feet at Thane, Maharashtra
Dynamix Realty	Construction of a township of 5.16 million square feet under the Slum Rehabilitation Act, 1971 at Mahul, Mumbai, Maharashtra
Gokuldharm Real Estate Development Company Pvt Ltd	Construction of a residential complex, Orchid Woods, in the western suburbs of Mumbai, of an aggregate area of 1.95 million square feet
Flagship Infrastructure Pvt Ltd	Construction of twelve residential high-rise buildings of twenty-four upper floors each of an aggregate of 2.52 million square feet at Pune, Maharashtra
Kohinoor Planet Construction Pvt Ltd	Construction of residential complex consisting of eight residential buildings of eight floors each of an aggregate of 0.31 million square feet at Goregaon (East), Mumbai, Maharashtra
Pimpri Chinchwad Municipal Corporation	Construction of 5,166 tenements under a mass housing complex consisting of 123 building of seven floors each at Pune, Maharashtra
Neelkamal Realtors Suburban Private Limited	Construction of 33 residential buildings comprising stilts and 18 upper floors each at Dahisar (East), Mumbai
<b>Commercial</b>	
B Raheja Builders Pvt Ltd	Construction of an IT park consisting of three buildings at Navi Mumbai, Maharashtra
Kohinoor Hospitals Pvt Ltd	Construction of a 150-bed hospital building of an aggregate of 0.25 million square feet at Mumbai, Maharashtra
Kohinoor Education Trust	Construction of school building of an aggregate of 0.36 million square feet at Mumbai, Maharashtra
Adani Developers Pvt Ltd	Construction of a commercial complex of an aggregate of 1.47 million square feet at Mumbai, Maharashtra
<b>Ports</b>	

Simplex Infrastructure Ltd Reclamation, soil consolidation, paving and operational services at ICTT, Kochi

Gateway Terminals India Pvt Ltd Reclamation and soil improvement work at JNPT, Navi Mumbai

Source: DRHP

➤ **Good industry prospects**

Supply in the Mumbai real estate market is expected to remain strong as demand has picked up and is expected to sustain. The residential market, in particular, is expected to see favourable supply scenario, driven by pick-up in demand. CRISIL Research expects estimated supply during 2009-11 to be 144.7msft as against the demand of 119.3msft. The planned supply for residential housing is estimated to be 283.3msft. as per the plans of small and large real estate developers. The port sector is also likely to witness significant investments given the current high utilisation rates, expected increase in traffic and need to improve efficiency. As per CRISIL Research, investments to the tune of Rs 733 Bn are expected in the ports sector between 2009-10 and 2013-14. Of this, Rs 358 Bn are expected at major ports, while the remaining Rs 375 Bn are expected to happen at major ports.

➤ **Strong execution skills enabling the company to get repeat orders from clients**

The company started as a contractor for port infrastructure providing construction services which included construction of onshore terminals, container freight stations, operational buildings and workshops & self-contained township. The company displayed strong execution skills and ability to complete projects with the desired quality and within the desired time, enabling it to get repeat orders from some of the clients such as Nhava Sheva International Container Terminal Private Limited, Chennai Container Terminal Private Limited and Maersk India. After displaying good execution skills in ports and having built its credentials, it gradually moved into real estate contracting in the Mumbai market. In the real estate segment also, the company has been displaying good execution skills, enabling it to win large projects from DB Realty and also win projects from newer clients such as Neelkanth Group, Raheja Group, Kohinoor Group and Adani Developers.

➤ **Strong order book**

Man Infraconstruction has a strong order book of ~ Rs 14.2 Bn, which provides sufficient revenue visibility for the company. This order book comprises of 72.56% from residential segment, 14.07% from commercial, 10.37% from ports and 3% from roads.

➤ **Promoters have strong background and domain expertise**

Mr Parag Shah, who is the Managing Director and promoter of the company, has more than 17 years of experience in the construction industry and is well known in industry circles.

➤ **Dependence on real estate**

Man Infraconstruction primarily focuses on building construction (residential, commercial and industrial). ~ 86% of its order book is from the real estate segment. High focus on real estate projects exposes the company to business risk as the real estate activity may decline in a downturn, thereby affecting the order flows for building contractors. However, Man Infraconstruction is concentrated in the Mumbai residential segment, which is expected to be strong and observe much faster recovery than other markets. Government projects comprise of 25% of the Company's order book in the residential segment.

### Financial Profile

- During the period 2007-09, the company's revenues grew strongly from Rs. 0.88 Bn to Rs. 5.9 Bn at a CAGR of 159.66% This strong revenue growth was driven by order flows in the port segment as well as company's foray into the real estate contracting market in Mumbai
- The company had a strong operating margin of 22% and 24% in FY08 and FY09 respectively, which is higher compared to other players in the industry
- It also had a high RoE of 50% and 44% as on FY08 and FY09 respectively, driven by high margins and low capital intensity, as building projects are not very fixed assets-intensive
- The company had no gearing on its books as on March 31, 2009

### Financial performance snapshot (Consolidated)

		FY08	FY09
		Actual	Actual
Operating income	Rs. Mn.	2,317	5,877
Operating margins	Per cent	22.1	24.8
Net profits	Rs. Mn.	320	872
Net margins	Per cent	13.8	14.8
RoCE	Per cent	34.2	47.9
RoNW	Per cent	50.0	43.7
Basic EPS	Rs	12.3	28.3
Diluted EPS	Rs	12.3	28.3
No. of equity shares	Mn.	27.0	29.3
Net worth	Rs. Mn.	1,283	2,706
Book value (FV Rs 10)	Rs	47.6	92.5
Dividend per share	Rs	0.0	4.5
Gearing	Times	0.0	0.0
Net cash accruals to debt	Times	7.0	80.1
Interest coverage	Times	78.3	81.2
Current ratio	Times	1.2	2.1

Source: DRHP \*Note: Numbers have been reclassified as per CRISIL standards

**Business Profile**

Man Infraconstruction Limited is a construction company based in Mumbai. It provides construction services for port infrastructure, residential, industrial, commercial and road infrastructure projects. The company has undertaken projects mainly in Maharashtra, Gujarat and Tamil Nadu. In the residential sector, the company primarily works with real estate developers in Mumbai and Pune.

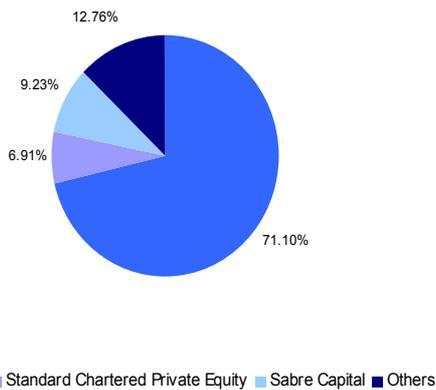
The company currently has an order book of ~INR 14.2 bn on a consolidated basis. 72.56% of the order book is from residential, 14.07% from commercial 10.37% from ports and 3% from roads.

The company started as a contractor for port infrastructure, providing construction services which included construction of onshore terminals, container freight stations, operational buildings and workshops, and self-contained township. It displayed good execution skills in ports, which enabled it to get repeat orders from some of the clients such as Nhava Sheva International Container Terminal Private Limited, Chennai Container Terminal Private Limited and Maersk India. After displaying good execution skills in ports and having built its credentials, it gradually moved into the residential and commercial space in the Mumbai market.

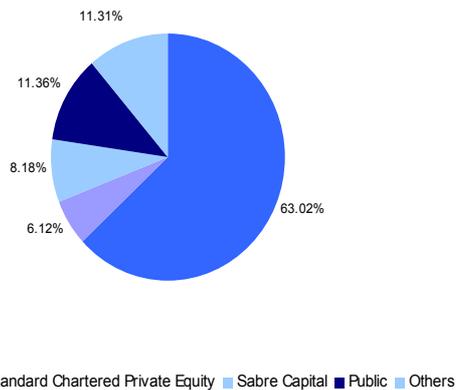
Promoters and promoter group currently own 71.10% of shares, which will go down to 63.02 % post the IPO. SA 1 Holding Infrastructure Company Private Ltd and Standard Chartered Private Equity invested in the company for a stake of 9.23% and 6.91% in October 2008 and March 2009 respectively, which will come down to 8.18% and 6.12% post the IPO.

**Man Infraconstruction: Shareholding Pattern**

**Pre-IPO**



**Post-IPO**



Source: DRHP

### Profile of Management and Board

Mr Parag Shah is the promoter and Managing Director of the company having more than 17 years of experience in the construction industry. He has been the driving force behind the successful growth of Man Infraconstruction. He is involved in all the important decision-making process and is involved in taking decisions to bid for projects; also, he keeps track of important projects that are under execution. Man Infraconstruction has a fairly strong and experienced second line of management in place. Most of them are with the group, on an average, for 6-7 years, and have strong experience in their relevant fields. The Board comprises eight directors, four of whom are independent directors, while two are investor directors. The chairman of the Board, Mr P Chaudhari is non-executive & independent, having more than 37 years of experience in the industry. Independent directors have a good degree of experience, are fairly involved in the company and have a good understanding of the company's businesses.

### Annexure: Profile of the directors

Name of directors	Designation	Age	Qualification	Experience (years)	Previous employment	Directorships / partnership in other entities
Mr Pramod Chaudhari	Non-Executive Chairman and Independent Director	58	Bachelor's degree in Mechanical Engineering from the Indian Institute of Technology, Bombay	37+	Established Praj Industries Limited in 1984	Nichrome India Limited P-Cube Enterprises Private Limited Praj Far East Co. Limited, Thailand Praj Industries Limited Praj Jaragua Bioenergia SA Brazil
Mr Parag K. Shah	Managing Director	40	Bachelor's degree in commerce from Osmania University 1989	17+	Worked with P.D. Construction	Dynamix-Man Prefab Limited Enigma Realtors Private Limited Fantasia Builders Private Limited Man Ajwani Infraconstruction Limited Man Nirmal Infraconstruction Limited Man Projects Limited Man Realtors and Holdings Private Limited Winsome Properties Limited
Mr Suketu R. Shah	Executive Director	38	Licentiate in Civil and Sanitary Engineering from Veermata Jijabai Technological Institute, Mumbai	18+	Worked with P.D. Construction and Pathare Real Estate and Developers Private Ltd	Enigma Realtors Private Limited Man Ajwani Infraconstruction Man Nirmal Infraconstruction Limited Man Projects Limited

Mr Rajiv Maliwal	Investor Director	48	Bachelor of engineering degree from BITS, Pilani and Post Graduate diploma in Business Administration from Indian Institute of Management, Bangalore	24	Nominated as a Director by SA 1 Holding Infrastructure Company Private Limited. Co-founder and Managing Director of Sabre Capital. Has 24 yrs of experience in managing large businesses in the financial services industry. Earlier worked with FinVentures, Standard Chartered Group, ANZ Grindlays Bank India, JP Morgan Goldman Sachs and Lotus India	ECI Engineering & Construction Company Limited Oyster & Pearl Hospitals Private Limited Praj Industries Limited Ramky Infrastructure Limited
Mr Rahul Raisurana	Investor Director	40	International Management from Thunderbird School of Global Management, USA and a masters degree in Business Administration from Graduate School of Management, Clark University, USA	18+	Nominated as a Director by Standard Chartered Private Equity (Mauritius) II Limited and Standard Chartered Private Equity (Mauritius) III Limited Has earlier worked with IDFC Project Equity Company Limited, Deutsche Bank, Moody's Investor Services, Citibank	Nil
Mr Sivaramakrishnan S. Iyer	Independent Director	41	B.Com from University of Mumbai, Chartered Accountant	18	Practicing Chartered Accountant. Also partner of Patel, Rajeev, Siva & Associates, which specializes in corporate finance and advises companies on debt/ equity fund raising, mergers/ amalgamations and capital structuring for new/ expansion projects	Edelweiss Trustee Services Limited IRB Infrastructure Developers Limited Praj Industries Limited Praj Jaragua Bioeneriga SA Brazil The Phoenix Mills Limited

Mr Dharmesh Shah	Independent Director	45	B E from University of Kashmir	24+	Works as a Chartered Engineer and Approved Valuer (Plant & Machineries) and is an Insurance Surveyor and Loss Assessor since October 1986	Nil
Mr Kamlesh S. Vikamsey	Independent Director	48	B.Com from University of Mumbai, Chartered Accountant	27+	Associated with M/s Khimji Kunverji & Co. as a senior partner since 1982	Aditya Birla Retail Limited Axis Mutual Fund Trustee Limited CheKam Properties Private Limited Fabmall (India) Private Limited General Insurance Corporation of India Limited H.A.S. Two Holdings Private Limited HLB Offices & Services Private Limited HLB Technologies (Mumbai) Private Limited Navneet Publications (India) Limited Neptune Developers Private Limited Ramky Infrastructure Limited Terraforma Agro Processing (India) Private Limited Trinethra Superretail Private Limited VarAsh Properties Private Limited

Source: DRHP

**Disclaimer**

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