

November 16, 2010
Mumbai

CRISIL Equities assigns fundamental grade 3/5 to Marg Limited

CRISIL Equities has assigned a CRISIL IER fundamental grade of **3/5** (pronounced three on five) to Marg Limited (Marg). The grade indicates that the company's fundamentals are **'good'** relative to other listed equity securities in India. CRISIL Equities has assigned a valuation grade of **5/5**, indicating that the market price has **'strong upside'** from the current levels of Rs 189 (as on November 15 2010). Our one-year fair value of the stock is Rs 353. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned grade reflects the diversified business profile of Marg and the strong growth opportunities across each of its segments. The company benefits from the strategic location of Karaikal Port, in which it has ~80% stake, between the congested Chennai and Tuticorin ports. The port boasts good road and rail connectivity, comparatively high mechanisation and low turnaround time, and is well positioned to tap the demand for coal from the upcoming power plants in the hinterland. The grade takes into account the expected value accretion in the real estate projects (SEZ, residential and commercial) given the low-cost land bank of ~1,800 acres. The grade is supported by Marg's ramp-up in the EPC segment, which will help it harvest emergent opportunities in the construction segment. Its external EPC order book increased significantly from Rs 880 mn in FY09 to Rs 5,150 mn as of September 2010.

Although the company has been successful in completing projects on time, its future development plans seem ambitious and are exposed to execution challenges given the limited track record and complexities in the upcoming projects. Also, delays in installation or cancellation of the proposed power plants in the hinterland might adversely impact Karaikal Port's growth prospects since 75% of the capacity is earmarked for coal cargo. The grade is also moderated by the inherent cyclicity in the real estate industry and risks pertaining to Marg's geographic concentration in Tamil Nadu.

Financial outlook

CRISIL Equities expects Marg's consolidated revenues to grow at a two-year CAGR of 66% to Rs 10 bn in FY12 mainly due to increasing contribution from the ports and EPC business. EBITDA margins are expected to remain stable at 21-22% in the next two years. Adjusted PAT is expected to grow at a two-year CAGR of 148.4% to Rs 0.7 bn in FY12. CRISIL Equities expects EPS to increase to Rs 18.6 in FY12 from Rs 4.2 in FY10 and RoE of 10.1% in FY12 vs. 3.9% in FY10.

Valuation grade (5/5 – current market price has strong upside)

CRISIL Equities has used the sum-of-the-parts method to value Marg. The ports business has been valued at Rs 171 per share using the discounted cash flow method, while a P/E of 6x is used to value its third-party EPC business at Rs 10 per share. SEZ and the real estate business are valued at Rs 91 and Rs 28 per share, respectively, based on the net present value. The land bank, where there are no near-term development plans, is valued at a book value of Rs 53. Consequently, we have arrived at a one-year fair value of Rs 353 per share. At this value, the implied P/E multiples are 57.9x FY11E EPS and 18.9x FY12E EPS.

About the company

Incorporated in 1994, Marg has metamorphosed from a small EPC and real estate player to a company present across diverse segments. It is currently developing the Karaikal Port (handling capacity of 21 mtpa), a SEZ (612 acres), residential projects (2.4 mn sq.ft.), a retail-cum-commercial mall (0.97 mn sq.ft.) and has EPC contracts worth Rs 5,150 mn.

About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision - analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation grade). CRISIL's fundamental grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's stock for an equity investor over a 12-month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP) to grade 1 (strong downside from the CMP). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

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About CRISIL Limited

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Last updated: 01 January, 2010

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