

# **PROJECT REPORT ON IPO**

## **Power Grid Corporation**

**SUBMISSION DATE: 8-7-07.**

**IIPM, NEW DELHI**

## **ACKNOWLEDGEMENT**

*It gives us great pleasure to extend our sincere thanks and gratitude to all those who have been instrumental in the completion of this project.*

*We express our sincere gratitude to our project guide **Mr. Amit Bagga**, for all his support and invaluable suggestions provided during the time of our project.*

*Finally, we want to take this opportunity to thank our parents, friends and all those who have helped us in getting this project in its present shape.*

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Red Herring Prospectus

Dated: June 1, 2007

Please read Section 60B of the Companies Act, 1956

100% Book Built Issue

## Roman Tarmat Limited

(Our Company was incorporated as Jerry Varghese Constructions Private Limited on 3<sup>rd</sup> January, 1986. The name of our Company was changed to Tarma Infrastructural & Engineering Private Limited with effect from 12<sup>th</sup> September 1994. The name of our Company was further changed to Roman Tarmat Private Limited with effect from 17<sup>th</sup> October 2005 and was converted into a Public Limited Company on 2<sup>nd</sup> December 2005)

**Registered Office:** Tank Road, Off. Gen Vaidya Marg, Goregaon (East), Mumbai – 400 063, India  
**Tel.:** +91-22-2840 2130 / 1180 **Fax.:** +91-22-2840 0322 **Website:** www.romantarmat.com

**Corporate Office:** Tarmat Chambers, Sector –24, Plot No. 19, Sanpada, Navi Mumbai –400 705, India.  
**Tel.:** 91-22-2783 1334 / 1328; **Fax:** 91-22-2783 3872 **E mail:** ipo@romantarmat.com

**Contact Person:** Mr. Neeraj Rai Company Secretary & Compliance Officer

**PUBLIC ISSUE OF 29,00,000 EQUITY SHARES OF RS 10/- EACH FOR CASH AT A PRICE OF RS [●] PER EQUITY SHARE, AGGREGATING RS [●] LAKHS (THE "ISSUE"). THE ISSUE COMPRISES A RESERVATION OF 1,00,000 EQUITY SHARES OF RS. 10/- EACH AGGREGATING RS. [●] LAKHS FOR ELIGIBLE EMPLOYEES (THE "EMPLOYEE RESERVATION PORTION"), AND NET ISSUE OF 28,00,000 EQUITY SHARES OF RS. 10/- EACH AGGREGATING RS. [●] LAKHS. THE ISSUE WOULD CONSTITUTE 26.46% OF THE FULLY DILUTED POST ISSUE PAID-UP CAPITAL OF THE COMPANY**

**PRICE BAND: RS 150 TO 175 PER EQUITY SHARE OF FACE VALUE OF RS 10/- EACH**

**THE ISSUE PRICE IS 15 TIMES THE FACE VALUE AT THE LOWER END OF THE PRICE BAND AND 17.50 TIMES THE FACE VALUE AT THE HIGHER END OF THE PRICE BAND**

This Issue is being made through a 100% Book Building Process wherein not more than 50% of the Net Issue to Public shall be available for allocation on a proportionate basis to Qualified Institutional Buyers ("QIBs"). 5% of the QIB Portion shall be available for allocation on a proportionate basis to Mutual Funds only and the remainder shall be available for allotment on a proportionate basis to QIBs and Mutual Funds, subject to valid bids being received from them at or above the Issue Price. Further, not less than 15% of the Net Issue to Public shall be available for allocation on a proportionate basis to Non Institutional Bidders and not less than 35% of the Net Issue to Public shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

In case of revision in the Price Band, the Bidding/Issue Period shall be extended for 3 additional working days after such revision, subject to the Bidding / Issue Period not exceeding 10 working days. Any revision in the Price Band, and the revised Bidding/Issue Period, if applicable, shall be widely disseminated by notification to the Bombay Stock Exchange Limited and National Stock Exchange, by issuing a press release and by indicating the change on the websites of the Book Running Lead Managers ("BRLMs") and the terminals of the member of the Syndicate.

### RISK IN RELATION TO THE FIRST ISSUE

This being the first issue of the Equity Shares of Roman Tarmat Limited ("the Company"), there has been no formal market for the Equity Shares of the Company. The face value of the Equity Shares of the Company is Rs. 10/- per share and the Issue Price of Rs. [●] per share is [●] times of the face value of the Equity Shares of the Company. The Issue Price (as has been determined and justified by the Book Running Lead Managers and the Company as stated herein under the paragraph 'Basis of Issue Price') should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and / or sustained trading in the Equity Shares of the Company or regarding the price at which the Equity Shares will be traded after listing.

### GENERAL RISKS

Investments in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Company and the Issue including the risks involved. The Equity Shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India (SEBI), nor does SEBI guarantee the accuracy or adequacy of this Red Herring Prospectus. Specific attention of the investors is invited to the section titled 'Risk Factors' beginning on page iii of this Red Herring Prospectus.

### ISSUER'S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for and confirms that this Red Herring Prospectus contains all information with regard to the Issuer and the Issue, which is material in the context of the Issue, that the information contained in this Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

### LISTING

The Equity Shares offered through this Red Herring Prospectus are proposed to be listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE). The in-principle approvals of NSE and BSE for listing of Equity Shares of the Company have been received pursuant to letters dated January 12, 2007 and January 12, 2007, respectively. NSE shall be the Designated Stock Exchange for the purpose of this Issue.

### IPO GRADING

**Our Company has not opted for grading of this Issue from any rating agency.**

BOOK RUNNING LEAD MANAGERS		REGISTRAR TO THE ISSUE
 <p><b>ALLIANZ SECURITIES LIMITED</b> 33, Vaswani Mansion, 6<sup>th</sup> Floor, Dinshaw Vachha Road, Churchgate, Mumbai-400020 <b>Phone:</b> +91-22-2287 0580 <b>Fax:</b> +91-22 2287 0581 <b>Email:</b> romantarmat@aslfincial.com <b>Investor Grievance Email Id:</b> complaint@almondz.com <b>Website:</b> www.aslfincial.com <b>Contact Person:</b> Mr. Sunit Shangle</p>	 <p><b>DARASHAW &amp; COMPANY PRIVATE LIMITED</b> 1204-05, Regent Chambers, 12<sup>th</sup> Floor, Nariman Point, Mumbai – 400 021 <b>Phone:</b> +91-22- 6630 8612 <b>Fax:</b> +91-22- 6747 0549 <b>Email:</b> romantarmat@darashaw.com <b>Investor Grievance Email Id:</b> romantarmat@darashaw.com <b>Website:</b> www.darashaw.com <b>Contact Person:</b> Ms.Manisha Lakhotiya</p>	 <p><b>BIGSHARE SERVICES PRIVATE LIMITED</b> E/2,Ansa Industrial Estate, Saki Vihar Road, Andheri (E), Mumbai-400 072. <b>Phone:</b> +91-22 2847 0652/0653 <b>Fax:</b> +91-22 2847 5207 <b>E-mail:</b> romantarmat@bigshareonline.com <b>Website:</b> www.bigshareonline.com <b>Contact Person:</b> Mr. Subodh M Adarkar</p>

### BID/ISSUE PROGRAM

**BID/ISSUE OPENS ON : June 12, 2007**

**BID/ISSUE CLOSES ON : June 19, 2007**

## **OBJECTS OF THE ISSUE**

The proceeds from the proposed issue of shares are intended to be deployed for:

1. Investment in capital equipment
2. Funding long term working capital requirements
3. General Corporate Purposes
4. Meeting the issue expenses

### **1. Investment in Capital Equipment**

Our business requires investment in capital equipments on a regular basis. Our company is presently executing project at various sites, located in different parts of the country where most of our existing capital equipments are being mobilised. In case we win a major project before the completion of our ongoing projects, we would require additional capital equipment to execute the work. Purchase of capital equipment would help in saving on lease rentals which we would have paid if we took such equipment on hire and it will also give us flexibility in the use of these equipments.

Our company has projected a capital expenditure plan of Rs. 2289.54 lakhs based on our order book as on April 30, 2007 and requirement of future projects as estimated by the management, which will be funded by the issue proceeds.

The details of equipment the Company intends to purchase and their estimated costs, including the estimated costs of associated spares, attachments and other accessories, are specified in the following capital expenditure plan

### **2. Funding Long Term Working Capital Requirements**

We have been presently sanctioned working capital limits of Rs. 9050 lakhs by our bankers consisting of fund-based limits of Rs. 1550 lakhs and non fund-based limits of Rs. 7500 lakhs.

### **3. General Corporate Purposes**

We intend to continue and strengthen our operations in the construction sector by exploring various options to invest in BOT / BOOT projects. Accordingly, we intend to use a part of the net proceeds from the issue towards such growth plans. We continue to evaluate various opportunities and may bid for new projects. We therefore intend to bid for projects taken on BOT / BOOT basis and investment in various JVs. We cannot assure you that any or all of our bids will be successful. Our management will have the flexibility in utilizing these proceeds under the overall guidance and policies laid down by our Board. We may have to revise our business plans from time to time and consequently our capital requirements may also change including revision of our capital expenditure programmes.

#### **4. Meeting the Issue Expenses**

The Issue expenses include fees payable to BRLMs to the Issue, Registrar to the Issue, Legal Advisors to the Issue, Auditors, Underwriting Commission, Selling Commission, Escrow Bankers' charges, Printing and Stationery, Advertising Expenses and all other incidental and miscellaneous expenses for listing of the Equity Shares on the Stock Exchanges.

# Power Grid Corp. Overview

## **Overview**

Power Grid Corp., established in the year 1986 by our Promoter Director Mr. Jerry Varghese is an infrastructure construction company engaged in the business of construction of Highways and Runways. Our Company is headquartered at Mumbai with operations spread across the states of Maharashtra, Tamil Nadu, Karnataka, Kerala, Mizoram, Gujarat and Delhi. Our Company started its operations by taking up road works for Government Departments like Public Works Department (PWD), Maharashtra Industrial Development Corporation (MIDC) and BrihanMumbai Municipal Corporation (BMC). In the year 1988, we bagged our first major contract for construction of roads/ bituminous flexible pavement for the entire Nhava Sheva port and construction of rigid concrete pavement base with RCC beams and columns in container yard and completed the project within the stipulated period of 24 months. In the year 1993, we ventured into construction of runways by taking up the work of bituminous overlay of the runway at Daman awarded by the Military Engineer Service (MES). In the years 1994 and 1996 we completed the following runway

## **Projects:**

Bituminous overlay of the runway at Vadodara Airport which was completed three months ahead of schedule. Upgrading the main runway 09/27 at the Mumbai International Airport, which was fitted with CAT-2 lighting system to enable landing of aircraft in foggy weather. In the year 2003, we ventured into bridge works by securing the project of up gradation of road from Sankeshwar to Yaragatti in Karnataka. We have also undertaken civil works like construction of container yard, compound wall, site levelling, casting of heavy RCC sleepers and laying of tank foundation. We have set up a Ready Mix Concrete (RMC) plant at Goregaon Mumbai with an installed capacity of 30 cubic meter / hour to cater to our captive requirements and four automatic stone crushing units to enhance our operational efficiency. Our Company has its own construction equipments like mechanical paver finishers, transit mixers, hydraulic excavators, concrete batching plants, mobile crusher and dumpers. Our Company has been accredited with "ISO 9001:2000" quality management system certificate for construction of Highways and Airports. We have mainly worked on projects sponsored by Government or Government agencies, including the Central Government, State Governments and Municipalities.

Some of our major clients include:

- Airports Authority of India (AAI)
- Karnataka State Highways Improvement Project

Public Works Department, Mizoram  
Military Engineer Service  
Roads & Buildings Department, Government of Gujarat  
Roads & Buildings Department, Government of Andhra Pradesh

## **Operating Strengths:**

### ***Experience and track record of Our Company***

Our Company has over two decades of experience in the construction industry and has executed many projects in the area of highways and runways. Due to our focus on quality, timely execution of projects and use of technology, we have received repeat orders from our clients like Airport Authority of India and Public Works Department. The experience that we have gained over the years and our understanding of the business, among other factors, enables us to pre-qualify for the bids we participate in.

### ***Track record of profitability***

Our Company has a track record of profitability for the last 15 years.

### ***Quality and timely completion of projects***

Our company has been completing the assignments within the stipulated time frame and has provided clients with satisfactory performance of our projects. Our ability to execute projects in a timely manner has won us accolades from our clients like Airports Authority of India, Military Engineer Service and National Building Construction Corporation Limited.

### ***Quality Certification***

We have received the ISO 9001:2000 quality management system certificate for construction of Highways and Airports, which is valid upto January 8, 2009.

### ***Owned fleet of construction equipment***

Our Company owns a fleet of construction equipment including mechanical paver finishers, transit mixers, poclain, concrete pumps, batching plants and dumpers. To cater to our captive requirement we have set up a ready mix concrete plant having an installed capacity of 30 cubic meter / hour at Goregaon, Mumbai. Our Company also owns crushing units stationed at Navi Mumbai as well as mobile crushing units which can be transported to our project sites across India. We also have two workshops situated at Goregaon, Mumbai and Panvel, Navi Mumbai for repairs and maintenance of equipment and machineries including heavy earth moving equipment. The equipments and machineries are regularly managed, maintained and operated by trained and

experienced personnel, thereby minimizing breakdowns and delay in project execution.

***Qualified employee base and experienced management team***

We have qualified and experienced manpower. Our skilled labour force with experience in the construction industry, gives us the flexibility to adapt to the changing needs of the client and the technical requirements of the projects that we undertake. We also focus to develop expertise and knowledge of our employees to ensure they possess all the requisite skills for the effective execution of the project. Our Management team is well experienced in the construction industry. Mr. Jerry Varghese, Managing Director has more than three decades of experience in the field of construction. In addition, we have three independent directors on our board having experience in the field of finance, banking, civil engineering, administration and infrastructure development.

# **Risk Factors**

## **RISK FACTORS**

*An investment in Equity Shares involves a high degree of risk. You should carefully consider all of the information in this Red Herring Prospectus, including the risk and uncertainties described below, before making an investment in our equity shares. If any of the following risk actually occurs, our business, results of our operations and financial condition could suffer, the trading price of our equity shares could decline, and you may lose all or part of your investment.*

*The Red Herring Prospectus also contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in the Red Herring prospectus.*

## **INTERNAL RISK FACTORS**

### **1. There are outstanding litigations against our Company.**

We are defendants in following legal proceedings incidental to our business and operations. These legal proceedings are pending at different levels of adjudication before various courts and tribunals. In the event of any rulings against us by courts or levy of penalties by any statutory authorities, we may need to make payment to others or book provisions for probable future payments, which could increase our expenses and our current liabilities.

### **2. Our Company is yet to place orders for capital equipments as specified in the “Objects of the issue” as such we are faced with a risk of delay in the implementation schedule or increase in the cost of capital equipments.**

We have yet to place orders for 100% of our total capital equipment requirement which aggregates to Rs. 2289.54 lakhs. There has already been an increase of Rs. 13.53 lakhs in cost of plant & machinery based on the revised quotations received by us and fluctuation in foreign exchange rates. Any further delay in placing the orders for procurement of plant and machinery may delay implementation schedule. Such delays also lead to increase in prices of these equipments and may affect the total cost and in turn adversely affect our financials.

**3. Our Company owns a crusher plant situated at survey no.387 at Village Turbhe in district Thane. We have taken the land on lease from CIDCO (The City and Industrial Development Corporation of Maharashtra Limited) for a period of 5 years starting from October 1, 2001. The lease had expired on September 30, 2006 and we have applied for renewal of the lease prior to the expiry period vide our letter no.TIPL/Renv-LIC/AMCP/09/06 dated September 20, 2006. As on date of filing the Red Herring Prospectus we have not received the renewal of the same. In case we do not receive renewal permission, we might have to relocate our crusher plant, which could affect our business operations and in turn financials.**

**4. We had negative cash flows in the past**

We had negative cash flow of Rs. 89.36 lakhs and Rs. 23.95 lakhs during FY 2004-05 and FY 2001-02 respectively.

**5. There were floods on July 26, 2005 in the area where the registered office of Our Company is situated in which some of the secretarial, administrative and financial related documents were destroyed. The documents which were destroyed in the natural calamity were share transfer deeds, ROC receipts, fixed assets register and some contract copies. An FIR was registered with Station in charge, Dindhoshi Police Station, Malad (East), Mumbai – 400 097 on July 28, 2005. The information in respect of those missing documents disclosed in this Red Herring Prospectus has been relied on the information provided by the Managing Director of the Company.**

**6. We have not entered into any definitive agreements to utilise the net proceeds of the Issue and the requirements of funds has not been appraised.**

We intend to use the net proceeds of the Issue for the purposes described in the section "Objects of the Issue". The objects of the issue have not been appraised by any bank or financial institution. We have not entered into any definitive agreements to utilise the net proceeds of the Issue. All the figures included under the section "Objects of the Issue" are based on our own estimates.

Further, we have not obtained any third party appraisals in connection with our capital investments or working capital requirements. These are based on current conditions and are subject to changes in external circumstances or costs, or in other financial condition. Our estimates for capital investments have been based on various quotations received by us from suppliers and our estimated long term working capital requirements may exceed which may require us to reschedule our project expenditure and may have an adverse impact on our business, financial condition and results of operations. We have also not formed any special purpose vehicles or joint ventures or identified any BOT / BOOT project(s). There can be no assurance that we will be able to identify special purpose vehicle or joint ventures in which we wish to or are able to invest.

**7. Our Company has never participated in competitive bidding process for BOT/BOOT projects and does not have prior experience of execution of BOT projects.**

Our company has primarily been executing projects on contract basis, either item rate or percentage rate contracts. We do not have prior experience of operating and maintaining a project over a pre-defined period (known as the 'Concession Period') as is required in a BOT/BOOT project. In future, we intend to participate in BOT/BOOT projects. However due to lack of prior experience of executing BOT/BOOT projects; we may not be able to demonstrate any relevant experience thus limiting our chances of winning large scale projects on BOT/BOOT basis. Further any inability to execute or handle BOT / BOOT project may adversely affect our business operations.

Further, BOT/BOOT projects would also expose our Company to the risk of incorrect forecasts at the bid stage concerning revenues to be derived from the use of the constructed facility and the risks of extended exposure to fluctuating economic conditions. Reduced profitability or losses from BOT projects that do not perform as per forecast could have a material adverse effect on results of our operations.

**8. Our Expansion plans are dependent on the Issue proceeds and any delay in obtaining the necessary funds would adversely affect our business plans.**

The proposed capital expenditure as specified under "Objects of the Issue" will be entirely funded through the proceeds of the Issue. Any delay / failure in public issue process may disrupt the implementation of these proposed plans which could have a material adverse effect on our financial condition and results of operations.

**9. Since substantial amount of our contracts executed are with the Government or Government owned entities, any change in related government policies or regulations may affect the business operations and financial performance**

Our Company mainly works on projects undertaken by government and other government owned entities. Contracts awarded by government and government owned entities accounted for approximately 58.17% of our Order Book as of April 30, 2007. Any change in the governments' focus or the policy framework regarding private sector participation in infrastructure development and/or changes in budgetary allocation may adversely affect the business and results of company's operations. Further in certain cases, the delay in implementation of budgetary allocations, changes in external budgetary allocation or insufficiency of funds may also result in delay in receipt of payment against running bills account.

**10. Our construction contracts are dependent on adequate and timely supply of key raw materials at competitive rates. Inability to procure the same in time and at competitive rates could adversely affect our business operations.**

In our business, the timely procurement of material such as cement, steel, diesel, furnace oil, aggregate and bitumen, the quality of material and the price at which it is procured, plays an important role in the successful execution of any project. We have not entered into any long-term supply contracts with our suppliers and for each project the supplier is finalized through the process of negotiation, considering the geographical location of the project and the lead-time in supply of the material. Transportation strikes by, for example, members of various Indian truckers' unions and various legal or regulatory restrictions placed on transportation providers have had in the past, and could have in the future, an adverse effect on our receipt of supplies. In case we are unable to procure the requisite quantities of raw materials well in time and at competitive prices, the performance of our business and results of operations may be adversely affected.

## **EXTERNAL RISK FACTORS**

**1. Our business could be adversely impacted by economic, political and social developments in India and particularly in the regional markets where we operate**

Our performance and growth are dependent on the health of the Indian economy and in particular the economies of the regional markets we serve. These economies could be adversely affected by various factors, such as political and regulatory action including adverse changes in liberalization policies, social disturbances, terrorist attacks and other acts of violence or war, natural calamities, interest rates, commodity and energy prices and various other factors. Any slowdown in these economies could adversely affect our prospective customers, which in turn would adversely impact our business and financial performance and the price of our Equity Shares.

**2. We are subject to risks arising from exchange rate fluctuation and interest rate fluctuations, which could adversely affect our business, financial condition and results of operations.**

Uncertainties in the global financial markets may have an adverse impact on the exchange rate between Rupee vis-à-vis other currencies. The exchange rate between Rupee and other currencies is variable and may continue to remain volatile in future depending upon the foreign exchange reserve position of India. Any depreciation of Rupee against other currencies may have an impact on our project cost as approximately 40% of total plant & machinery that we propose to acquire is in foreign exchange denomination. Further, our loans are denominated in Indian Rupees and we are exposed to fluctuations in domestic interest rates also. Therefore, any adverse fluctuation in exchange rate and interest rates may adversely affect our financial position and result of operations.

**3. After this Issue, the price of Equity Shares may be highly volatile, or an active trading market for the Equity Shares may not develop.**

The prices of the Equity Shares on the Indian stock exchanges may fluctuate after this Issue as a result of several factors, including: volatility in the Indian and global securities market; our operations and performance; performance of our competitors, and the perception in the market about investments in the construction sector; adverse media reports about us or the Indian construction sector; changes in the estimates of our performance or recommendations by financial analysts; significant developments in India's economic liberalisation and deregulation policies; and significant developments in India's fiscal regulations. There has been no public market for the Equity Shares of the company and the prices of the Equity Shares may fluctuate after this Issue. There can be no assurance that an active trading market for the Equity Shares will develop or be sustained after this issue, or that the prices at which the Equity Shares are initially traded will correspond to the prices at which the Equity Shares will trade in the market subsequent to this Issue.

**4. There is no existing market for the Equity Shares, and we do not know if one will develop to provide you with adequate liquidity. Our stock price may fluctuate after the Issue and as a result, you could lose a significant part or all of your investment.**

Prior to the Issue, there has been no public market for our Equity Shares, and an active trading market on the Indian Stock Exchanges may not develop or be sustained after the Issue. The Issue Price of the Equity Shares may bear no relationship to the market price of the Equity Shares after the Issue. The market price of the Equity Shares after the Issue may be subject to significant fluctuations in response to, among other factors, variations in our operating results, market conditions specific to the real estate sector in India, and volatility in the Indian Stock Exchanges and securities markets elsewhere in the world.

**5. You will not be able to sell immediately any of the Equity Shares you purchase in this Issue on an Indian stock Exchange**

The Equity Shares will be listed on NSE and the BSE. Pursuant to Indian regulations, certain actions must be completed before the Equity shares can be listed and trading may commence. Investors' book entry or demat accounts with depository participants in India are expected to be credited within two working days of the date on which the basis of allotment is approved by the Designated Stock Exchange. Thereafter, upon receipt of final approval of the stock exchanges, trading in the equity shares is expected to commence within seven working days of the date on which the basis of allotment is approved by the Designated Stock Exchange. There can be no assurance that the Equity Shares allocated earlier to investors will be credited to their demat accounts, or that trading will commence, within the time periods specified above.

## **6. Stability of policies and political situation in the country**

Any change in government policy towards infrastructure development or any global, political and economic factors that are outside the control of the company like interest rates, rates of economic growth, liberalization policies of governments, inflation, deflation etc may have an adverse effect on the operations and results of the company. Any political instability could delay the reform process and may diminish investor's confidence in the Indian markets, which in turn would adversely affect the market for our shares.

## **7. Our operations are sensitive to weather conditions**

We have business activities that could be materially and adversely affected by severe weather. Severe weather conditions may require us to evacuate personnel or curtail services and may result in damage to a portion of our equipments or to our facilities, resulting in the suspension of operations, and may further prevent us from delivering materials to our project sites in accordance with contract schedules or generally reduce our productivity.

Our operations are also adversely affected by difficult working conditions and extremely high temperatures during summer months and during monsoons, which restrict our ability to carry on construction activities and fully utilise our resources. We record contract revenues for those stages of a project that we complete, after we receive certification from the client that such stage has been successfully completed. Since revenues are not recognised until we make progress on a contract and receive such a certification from our clients, revenues recorded in the first half of our financial year between April and September are traditionally substantially lower compared to revenues recorded during the second half of our financial year. During periods of curtailed activity due to adverse weather conditions, we may continue to incur operating expenses, but our revenues from operations may be delayed or reduced.

## INDUSTRY KEY RATIOS

### Industry - Const-Civil/ M/S

		Valecha Eng.	P B A Infrastruc	Unity Infra	
YRC	Aggregate	200603	200603		200603
<b>Key Ratios</b>					
<b>Debt-Equity Ratio</b>	1.17	0.49	2.09		0.96
<b>Long Term Debt-Equity Ratio</b>	1.03	0.39	1.45		0.35
<b>Current Ratio</b>	1.25	1.92	1.44		1.4
<b>Turnover Ratios</b>					
<b>Fixed Assets</b>	2.36	2.58	2		14.19
<b>Inventory</b>	2.61	24.59	6.24		21.2
<b>Debtors</b>	3.88	4.74	4.38		2.89
<b>Interest Cover Ratio</b>	1.58	4.26	2.08		3.38
<b>PBIDTM (%)</b>	12.11	10.24	15.21		14.4
<b>PBITM (%)</b>	9.63	8.34	13.34		13.24
<b>PBDTM (%)</b>	6	8.28	8.8		10.48
<b>CPM (%)</b>	4.33	7.68	8		8.63
<b>APATM (%)</b>	1.86	5.77	6.13		7.47
<b>ROCE (%)</b>	6.9	11.23	17.04		31.8
<b>RONW (%)</b>	2.14	11.58	24.04		35.15

<http://www.capitaline.com>

## BASIS FOR ISSUE PRICE

The Issue Price will be determined by our Company in consultation with the BRLMs on the basis of assessment of market demand for the offered Equity Shares by the Book Building Process. The face value of the Equity Shares is Rs. 10 and Issue Price is Rs. [•] times the face value.

Investors should read the following summary with the risk factors beginning from page nos. iii and the details about our Company and its financial statements included in this Red Herring Prospectus. The trading price of the Equity Shares of the Company could decline due to these risk factors and you may lose all or part of your investments.

### Qualitative Factors:

Our Company has a track record of profitability for the last 15 years.

The Management Systems of our Company comply with the requirements of ISO 9001:2000 in respect of construction of highways and airports

We have over two decades of experience in the construction industry and our management team has experience in their respective fields, which guides us in implementing our growth plans.

We are currently executing projects amounting to Rs.33688.66 lakhs

Our company owns a fleet of construction equipment like excavators, dumpers, bulldozers, mechanical paver finishers, fully computerized concrete batching plants, stone crushing plants. We also own a ready mix concrete plant with an installed capacity of 30 cubic meter / hour

### Quantitative Factors:

#### 1. Adjusted Earning Per Equity Share

Period (Financial Year)	Earnings per Share (Rs.)	Weights Used
2003-04	2.60	1
2004-05	5.52	2
2005-06	12.78	3
<b>Weighted Average</b>	<b>8.66</b>	

#### 2. price earning ratio

a) Price / Earning Ratio (P/E) based on the higher end of the price band (Rs. 175 per Equity Share) and on the EPS for year ended March 31, 2006 (Rs. 12.78): 13.69

b) Price / Earning Ratio (P/E) based on the lower end of the price band (Rs. 150 per Equity Share) and on the EPS for year ended March 31, 2006 (Rs. 12.78): 11.74

Sr.No	Particulars	Industry P/E
(i)	Highest	174.0
(ii)	Lowest	2.1
(iii)	Average	88.05

3. Return on Network (RoNW)

Financial year	RONW (%)	Weights
2003-2004	10.97	1
2004-2005	18.86	2
2005-2006	29.49	3
Weighted Average RONW	22.86	

Return on network on expanded equity share capital pursuant to allotment of 3, 00,000 Equity Shares on August 25, 2006 is 16.11% (Un-annualised i.e. considering Profit after Tax for 9 months and present outstanding number of Equity Shares).

**4. Minimum return on total increased net worth required to maintain pre-issue EPS of Rs. 12.78 is 14.89% at the lower end of the price band and 14.23% at the upper end of the price band.**

5. Net Asset Value per share (NAV)

Particulars	(Rs.)
a. As on December 31, 2006	62.73
As on March 31, 2006	51.99
b. After Issue at the lower end of Price band of Rs. 150 per Equity Share	85.82
After Issue at the upper end of Price band of Rs. 175 per Equity Share	92.44
c. Issue price	[●]

NAV on Equity Share of face value of Rs. 10/-.

NAV per share = Paid up share capital + Reserves and surplus – Miscellaneous expenditure not yet written off / Number of Equity Shares of the Company outstanding.

**6. Comparison with Industry Peers**

The comparable ratios of companies, who are in similar line of business and similar size of operations in terms of total income, are given below:

Name of Company	Face Value (Rs.)	E.P.S. (Rs.) (TTM)	P/E	Book Value (Rs.)	RONW (%)
Valecha Engineering	10	16.9	12.9	171.5	11.6%
Unity Infrastructure	10	29.4	13.4	211.00	35.20%
Gayatri Projects	10	26.8	9.7	122.2	20.9%
Sadbhav Engineering	10	–	–	115.00	12.50%
PBA Infrastructure	10	8.9	9.9	45.70	24.00%
Roman Tarmat	10	12.78	[●]	51.73	29.64%

The face value of the shares of the Company is Rs. 10/- per share and the issue price of Rs. [ ] per share is [ ] times of the face value of the shares of the Company. The BRLMs believe that the issue price of Rs. [ ] is justified in view of the above qualitative and quantitative factors. See the section titled “Risk Factors” and “Financial Statements” beginning on page no. iii and 85 of this Red Herring Prospectus, including important profitability and return ratios, as set out in the Auditors Report beginning on page no. 85 for further information.

## **Factors that may affect results of the operation:-**

Except as otherwise stated in this red herring prospectus, the risk factors given in this red herring prospectus and the following important factors could cause actual results to differ materially from the expectation include , among others :

- a. The company will be affected by the general economic condition of the country particularly economic condition affecting the Indian infrastructure sector. India's GDP Growth, industrial growth and infrastructure demand has been and will cont. to be important factors in determining our operating results and future growth.
- b. Growth in infrastructure sector  
The govt. of India's focus on infrastructure & sustained increase in budgetary allocation & the development of a structured & comprehensive infra policy that encourages greater pvt. Sector & public pvt. participation as well as increased funding by national/ international and multi lateral development financial institutions for infra projects in this country. Our ability to benefit from the considerable investment proposed in the infra sector in the medium & long term will be crucial for our operation.
- c. Increasing competition in the infra industry  
We expect competition to intensify due to possible new entrants in the market, existing competitors for the expending their operations & our entry into new market where we may compete with well established infra companies.  
Our competition varies depending on the size, nature & complexity of the projects & on the geographical regions in which the project is executed.
- d. Geographically widespread operations  
Our nation wide operations may be exposed to uncertain political, legal, environment & govt. instability. Our ability to manage, evolve & improve our operational financial & internal controls across the org. & to integrate our wide spread operations & derive benefits from our national presence is key to our growth strategy & results of operations.
- e. Changes in fiscal, eco or political conditions in India  
Equipment rental business depends mainly on infra activities carried out in the country & these activities will depend on the general eco scenario of the country, funds allocation by the govt. of India. Infra spends is still depended to a large extent on the priority given by the govt. towards such projects. The govt. budgetary position also plays an imp role in determining healthy cash flows & timely completion of projects.

## Some other factors that may effect companies current business our as follows

- Companies ability to successfully implement its strategies & its growth & expansion plan;
- Increase in labor cost, prices of equipment to be purchased & insurance premium
- Manufactures defects or mechanical problems with companies plant & machineries or incidents caused by human errors
- Changes in law & regulations that apply to the construction industry
- Social or civil unrest or hostilities with neighboring countries or acts of international terrorism;
- Changes in the foreign exchange control regulations interest rates & tax loss in India
- Ability to train attracts & retain people
- Internal or external factors which may effect of the contractor taking our equipment
- Legal complexities which may hamper receipt of our rentals or redeployment of our equipment
- Inability to pay statutory dues which may be a state or central govt. subject
- Inability to procure the equipments owned by third party which is to be placed on rentals by the company

## INDUSTRY OVERVIEW

### Construction Industry in India

Construction activity is an integral part of a country's infrastructure and industrial development. It includes hospitals, schools, townships, offices, houses and other buildings, urban infrastructure (including water supply, sewerage, and drainage), highways, roads, ports, railways, airports, power systems, irrigation and agriculture systems, telecommunications etc.

Global construction spending was nearly \$4.4 trillion in 2005, an increase of 5.2 percent over 2004, with future growth expected at 4% annually over the next four years. (Source: World Construction Review Outlook 2005-2006)

A survey of international construction trends undertaken to predict the future development of construction activity worldwide ranks India and China among the top three countries based on three parameters: growth, profitability and openness. The following table summarises the result of the survey:

National and Metropolitan Construction Markets					
Sr. No	Country	Fastest Growing	Most Profitable	Most Open	Combined Score
1	China	18	5	4	27
2	UAE	4	7	5	16
3	India	3	2	4	9
4	USA	0	3	3	6
5	UK	0	2	3	5
6	Romania	0	0	1	1
7	Malaysia	0	0	1	1
8	Hungary	0	1	0	1
9	Denmark	0	1	0	1
10	Turkey	1	0	0	1

### The Road Sector in India

Roads occupy an eminent position in India's transportation as they carry nearly 65 per cent of freight and 85 per cent of passenger traffic in the country.

The total road length in India has increased significantly from 0.399 million kms in 1951 to 3.32 million kms at present, which makes it the largest road network in the world as per the Economic Survey 2005-2006

Types of Road	Length (Km)
Expressways	200
National Highways	66,590
State Highways	1,31,899
Major District Roads	4,67,763
Village and other Roads	2,650,000
<b>Total</b>	<b>3,314,790</b>

The road network though extensive remains inadequate in terms of spread, suffers from a number of deficiencies, has poor riding quality in some segments and is unable to handle high traffic density at many places.

Recognizing the present deficiencies in the road network, the Government of India has sought to address these issues through the Tenth Five Year Plan (2002-2007). The Tenth Plan has stressed the need for improving mobility and accessibility and has provided for an outlay of Rs.59, 490 crores for development of roads. The bulk of this outlay is meant for the development of National Highways and related programmes.

While the National Highways Development Project (NHDP) is expected to improve mobility, the Pradhan Mantri Gram Sadak

### **National Highways Development Programme (NHDP)**

The National Highways (NH), with a total length of 66,590 km, serves as the arterial network connecting metropolitan Yojana (PMGSY) is aimed at providing accessibility, especially to villages, centres and major cities. The development of NH has therefore been accorded high priority in the planning process and

The National Highway Development Programme (NHDP) has been taken up with the objective of improving the NH network in a phased manner.

National Highways Authority of India (NHAI) is the implementing agency for NHDP programme. The NHDP has the following components:

**a. NHDP Phase I: Golden Quadrilateral (GQ)** involves four-laning of 5,846 kms of national highways connecting the four major cities of New Delhi, Kolkata, Chennai and Mumbai

**b. NHDP Phase II: The North-South and East-West (NSEW) Corridors** involves upgrading the existing two lane highways and four-laning of 7,300 km of national highways, connecting Srinagar to Kanyakumari (North-South) including spur from Salem to Kochi, and Silchar to Porbandar (East-West)

**c. Port connectivity and other projects:** The port connectivity project envisages four laning of 356 km of National Highways connecting ten major ports.

### **New Initiatives**

**a. NHDP Phase III** envisages four laning of about 10,000 km of existing National Highways other than NHDP Phase I and II through the BOT mode. The programme consists of stretches of National Highways carrying high volume of traffic, connecting state capitals with the NHDP Phases I and II network and providing connectivity to places of economic, commercial and tourist importance.

**b. NHDP Phase IV** envisages upgradation of 20,000 kms of highways into two-lane highways, at an indicative cost of Rs.25, 000 crore. This will ensure that their capacity, speed and safety match minimum benchmarks for national highways.

**c. NHDP Phase V** involves six-laning of the four-lane highways comprising the Golden Quadrilateral (GQ) and certain other high density stretches, through PPPs on BOT basis. These corridors covering 6500 kms have been four-laned under the first phase of NHDP, and the programme for their six-laning will commence in 2006 to be completed by 2012.

**d. NHDP Phase VI** involves development of 1,000 km of expressways to be developed on BOT basis at an indicative cost of Rs. 15,000 crore. These expressways would be constructed on new alignments

**e. NHDP Phase VII** involves development of ring roads, bypasses, grade separators and service roads at an indicative cost of Rs. 15,000 crore.

**f. Special Accelerated Road Development Programme in the North Eastern Region (SARDP-NE)** also called as NHDP-NE is envisaged for improving connectivity in the north- eastern states. The programme involves widening of 3251 km of National Highways connecting state capitals of the North-East and improvement of 4388 km of state roads.

## **Financials Balance Sheet**

**STATEMENT OF RESTATED ASSETS AND LIABILITIES**

(Rs in Lakhs)

<b>Assets</b>	<b>As at 31.12.06</b>	<b>As at 31.03.06</b>	<b>As at 31.03.05</b>	<b>As at 31.03.04</b>	<b>As at 31.03.03</b>	<b>As at 31.03.02</b>
Fixed Assets						
Gross Block (excl revaluation)	3409.45	3,223.34	3,215.16	2,987.89	2,306.52	2,139.46
Less : Accumulated Depreciation	(1070.70)	(950.62)	(807.01)	(657.70)	(532.41)	(439.84)
	2338.75	2,272.72	2,408.15	2,330.19	1,774.11	1,699.62
Investment	542.70	470.58	333.80	30.60	1.94	1.94
Current Assets, Loans & Advances						
Inventories	1518.76	1,208.13	720.38	673.64	158.25	110.09
Debtors	550.49	432.84	906.68	716.95	362.45	1,194.45
Cash & Bank	1408.21	688.68	498.51	587.87	408.16	176.38
Loans & Advances	3891.18	1,710.86	1,062.30	827.20	724.46	553.52
<b>Total Assets</b>	<b>10250.09</b>	<b>6,783.81</b>	<b>5,929.82</b>	<b>5166.45</b>	<b>3429.37</b>	<b>3736.00</b>
<b>Liabilities</b>						
Secured Loans	1760.10	1,486.53	1,339.44	1,128.89	590.28	637.57
Unsecured Loans	5.00	14.68	41.33	51.58	58.27	91.02
Current Liabilities & Provisions	3116.92	2,068.60	2,270.73	2107.07	1152.76	1505.00
Deferred Tax Liabilities	312.42	332.94	333.70	302.14	241.18	214.69
<b>Total Liabilities</b>	<b>5194.44</b>	<b>3,902.75</b>	<b>3,985.20</b>	<b>3589.68</b>	<b>2042.49</b>	<b>2,448.28</b>
<b>Networth</b>	<b>5055.65</b>	<b>2,881.06</b>	<b>1944.62</b>	<b>1,576.77</b>	<b>1,386.88</b>	<b>1,287.72</b>
Represented by						
Share Capital	805.92	554.10	554.10	554.10	554.10	554.10
Reserves & Surplus (excl revaluation reserve)	4249.73	2,176.96	1,390.52	1,022.67	832.78	733.62
Share Application Money	-	150.00	-	-	-	-
<b>Total</b>	<b>5055.65</b>	<b>2,881.06</b>	<b>1944.62</b>	<b>1,576.77</b>	<b>1,386.88</b>	<b>1,287.72</b>

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## **Profit and Loss account**

**STATEMENT OF RESTATED PROFIT & LOSSES**

(Rs in Lakhs)

Assets	Year Ended 31.12.06	Year Ended 31.03.06	Year Ended 31.03.05	Year Ended 31.03.04	Year Ended 31.03.03	Year Ended 31.03.02
<b>Income</b>						
Contract Revenue	7845.12	8,283.90	7,527.04	4,501.23	4,105.00	9,111.22
Share of Profit from Joint Venture	72.11	195.97	-	-	-	-
Increase/(Decrease) in Work in progress	423.55	201.61	23.21	226.18	25.65	59.53
Total Operating Income	8340.78	8,681.48	7,550.25	4,727.41	4,130.65	9,170.75
Other Income	123.70	412.36	179.62	315.95	454.70	276.26
<b>Total</b>	<b>8464.48</b>	<b>9,093.84</b>	<b>7,729.87</b>	<b>5,043.36</b>	<b>4,585.35</b>	<b>9,447.01</b>
<b>Expenditure</b>						
Raw Material Consumed	1720.04	1,915.25	2276.67	805.58	810.51	4,368.91
Construction Expenses	4936.17	5258.81	4138.95	3151.37	2918.16	4092.35
Administrative & other Expenses	643.14	612.18	626.03	521.09	433.17	424.53
Interest & Finance Charges	201.56	266.25	176.56	202.89	123.71	132.36
Depreciation	120.08	143.61	149.31	125.29	92.57	83.17
<b>Total</b>	<b>7620.99</b>	<b>8196.10</b>	<b>7,367.52</b>	<b>4,806.22</b>	<b>4,378.12</b>	<b>9101.32</b>
<b>Profit before Tax</b>	<b>843.49</b>	<b>897.74</b>	<b>362.35</b>	<b>237.14</b>	<b>207.23</b>	<b>345.69</b>
Tax Expense						
Current Tax, FBT, WT	(89.86)	(82.66)	(77.97)	(24.72)	(43.82)	(96.86)
Deferred Tax	20.52	0.76	-	-	-	-
Tax credit u/s 115JAA	40.44	33.78	-	-	-	-
<b>Profit After Tax (As per Audited Accounts)</b>	<b>814.59</b>	<b>849.62</b>	<b>284.38</b>	<b>212.42</b>	<b>163.41</b>	<b>248.83</b>
<b>Adjustments :</b>						
<b>Prior period items and change in Accounting policy</b>						
Share of Profit from Joint Venture	-	-	113.96	21.53	-	-
Deferred Tax	-	-	(31.56)	(60.96)	(26.49)	(32.68)
Total of Adjustment	-	-	82.40	(39.43)	(26.49)	(32.68)
<b>Profit After Tax, restated</b>	<b>814.59</b>	<b>849.62</b>	<b>366.78</b>	<b>172.99</b>	<b>136.92</b>	<b>216.15</b>
Profit & Loss at the beginning of the year	1350.58	639.14	347.28	232.39	208.23	67.08
Balance available for appropriation	<b>2165.17</b>	<b>1,488.76</b>	<b>714.06</b>	<b>405.38</b>	<b>345.15</b>	<b>283.23</b>
Appropriation						
Income tax of earlier year	-	-	1.08	16.90	(37.77)	-
Transferred to General Reserve	-	(75.00)	(75.00)	(75.00)	(75.00)	(75.00)
Dividend & Dividend Tax	-	(63.18)	-	-	-	-
<b>Balance carried forward, restated</b>	<b>2165.17</b>	<b>1,350.58</b>	<b>640.14</b>	<b>347.28</b>	<b>232.39</b>	<b>208.23</b>

## Cash flow statement

**CASH FLOW STATEMENT (RESTATED)**

(Rs. In lakhs)

Particulars	31.12.06	31.03.06	31.03.05	31.03.04	31.03.03	31.03.02
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
Net Profit before Taxation & Extra-ordinary Items	843.49	897.74	476.31	258.67	207.23	345.69
Adjustments for :						
Depreciation	120.08	143.61	149.31	125.29	92.57	83.17
Interest,Hire Charges, Dividend and rent received	(107.96)	(341.57)	(156.38)	(308.24)	(433.10)	(254.71)
Interest & Finance charges paid	201.56	266.25	176.56	202.89	123.71	132.36
Profit/(Loss) on sale of assets	-					
Operating Profit before working capital changes	<b>1057.17</b>	<b>966.03</b>	<b>645.80</b>	<b>278.61</b>	<b>(9.59)</b>	<b>306.51</b>
Adjustment for changes in working capital :						
Inventories	(310.62)	(487.76)	(46.73)	(515.39)	(48.16)	(69.64)
Debtors	(117.65)	473.84	(189.73)	(354.50)	832.00	(781.23)
Other Current Assets & Loans & Advances	(2180.33)	(648.57)	(235.09)	(102.74)	(170.94)	82.82
Current Liabilities & Provisions	1048.30	(202.12)	163.62	954.32	(352.22)	617.07
Movement in working capital limits	436.01	403.04	362.80	0.08	64.11	77.14
Cash generated from operation	(67.12)	504.46	700.67	260.38	315.20	232.67
Less : Income Tax	(49.41)	(48.87)	(76.88)	(7.82)	(81.59)	(96.86)
Net Cash from/(used in) operating activities	<b>(116.53)</b>	<b>455.59</b>	<b>623.79</b>	<b>252.56</b>	<b>233.61</b>	<b>135.81</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Changes in Fixed Assets	(186.11)	(8.18)	(227.27)	(681.37)	(167.06)	(245.20)
Interest, Hire Charges, Dividend and rent received	107.96	341.57	156.38	308.24	433.10	254.71
Increase in Investment	(72.11)	(136.78)	(303.20)	(28.66)	-	-
Net Cash from/(used in) Investing Activities	<b>(150.92)</b>	<b>196.61</b>	<b>(374.09)</b>	<b>(401.79)</b>	<b>266.04</b>	<b>9.51</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>						

Increase/(Decrease in Borrowings)	(172.13)	(282.60)	(162.50)	531.83	(144.16)	(36.91)
Increase in Share Capital	141.00	–	–	–	–	–
Increase In share premium	1369.00	–	–	–	–	–
Increase/(Decrease) in Share Application money	(150.00)	150.00	–	–	–	–
Interest & Finance charges paid	(201.56)	(266.25)	(176.56)	(202.89)	(123.71)	(132.36)
Dividend & Dividend Tax paid	(63.18)					
Net Cash from.(used in) Financing Activities	<b>986.98</b>	<b>(462.03)</b>	<b>(339.06)</b>	<b>328.94</b>	<b>(267.87)</b>	<b>(169.27)</b>
Net Increase/(Decrease) in Cash & Cash Equivalent	719.53	190.17	(89.36)	179.71	231.78	(23.95)
Cash & Cash Equivalent at the beginning of the year	688.68	498.51	587.87	408.16	176.38	200.33
Cash & Cash Equivalent at the end of the year	<b>1408.21</b>	<b>688.68</b>	<b>498.51</b>	<b>587.87</b>	<b>408.16</b>	<b>176.38</b>

## Assumptions for Valuation:

The valuation is based on the following assumptions:

We are valuing the IPO of Power Grid Corp. using DCF-FCFF-3 stage model because of the following reasons:-

1. Since Power Grid Corp. is not a listed company, therefore we shall find out the value of the whole firm. That's why we are using FCFF model.
2. Also the leverage Ratio or the Debt ratio of Power Grid Corp. is unstable as it is taking a loan of RS.1450 currently. Also it may take a loan in future.
3. We usually use a 3 stage model for the valuation of IPO because...the funds from IPO will increase the growth rate of the firm, as result the firm shall enjoy a extraordinary growth period for a few years. After the extraordinary growth period the growth rate of the firm gradually declines and becomes stable after a few years. We can visualize the 3 stages and that's why we use a 3 stage growth model for firms coming up with an IPO or doing a heavy capital expenditure.
4. The revenues for the purpose of computation shall be taken excluding other incomes. we are considering the revenues generated by business only.

Extraordinary growth period

5. The period of extraordinary growth will be 3 years as the complete capital expenditure will be incurred during the 2 years but the returns will come in 3 years.

## ANNEXURE 1:

### Computation of growth rate in revenues for extra ordinary growth period

year	Expected Revenue	Expected EBITDA
2006-07	9277.968	1139.757793
2007-08	11381.49225	1398.166547
2008-09	13737.43941	1687.584353

	PARTICULARS (all figures in Rs.lakhs)	1 (2006-07)	2 (2007-08)	3 (2008-09)
A	Capex for industry growth (Annexure 2)	929.1956231	1241.389898	0
B=(C-A)	capex incremental	0	524.0750511	524.0750511
C	total incremental capex	186.11	1765.464949	524.0750511
D=B*0	working capital @ 0%	0	0	0
E	ROCE (100% utilization) (70% of .2321) (annexure 3)	0.16247	0.16247	0.16247
F=E*(B+D)	inc. EBITDA	0	85.14647355	85.14647355
G	revenue multiple (annexure 4)	8.140297927	8.140297927	8.140297927
H=G*F	inc. revenue due to capex	0	693.1176621	693.1176621
I	prev yrs revenue	8283.9	9277.968	11381.49225
J=I*1.12	rev growth on prev yr without capex	9277.968	10391.32416	12747.27132
K=J+H	expected revenue	9277.968	11084.44182	13440.38898
L=(K-I)/I	growth rate in revenue	0.12	0.194705761	0.180898663
M=K/G	expected EBITDA	1139.757793	1361.675202	1651.093007

**Schedule of implementation/ utilisation of issue proceeds**

Sr. No	Particulars	2006-07	2007-08	Total
1	Investment in capital equipment	-	2289.54	2289.54
2	General Corporate purposes	[●]	[●]	[●]
3	Funding long term working capital requirements	-	1800.00	1800.00
4	Meeting the issue expenses	[●]	Nil	[●]
	<b>Total</b>	[●]	[●]	[●]

**Deployment of funds**

As per certificate received from Statutory Auditors viz. M/s Hegde & Associates, Chartered Accountants, dated May 10, the total funds deployed upto April 30, 2007 is Rs.143.05 Lakhs. The details are as under:

Deployment of Funds	Amount (Rs. In Lakhs)
Public Issue Expenses	143.05
<b>Total</b>	143.05
<b>Sources of Fund</b>	
Internal Accruals	143.05
<b>Total</b>	143.05

## ANNEXURE 2:

year	gross block	revenue	GB/rev	weight	weighted GB/rev	assets to rev ratio
2003-04	2987.89	4501.23	0.663794118	1	0.663794118	0.447569513
2004-05	3215.16	7527.04	0.427147989	2	0.854295978	
2005-06	3223.34	8283.9	0.389108995	3	1.167326984	

year	ind grth (%)	exptcd incrsd sales	gb reqd	capex for ind grth	incr.capex	inc WC	exptd gb
2006-07	12	9277.968	4152.535623	929.1956231	-743.0856231	0	3409.45
2007-08	12	10391.32416	4650.839898	1241.389898	524.0750511	0	4988.804949
2008-09	12	11638.28306	5208.940686		524.0750511		

### Year 2007-08

Total capex done is rs.2289.54

The above includes capex for industry growth also, because for industry Growth of 12% also the company will have to incur some capex. That capex has been calculated using the relationship between gross block & revenue.

- So thus expected increased sales for 2007-08 without industry growth=  
 $8283.90 * 1.12 = 10391.32$
- Thus gross block requires for sales of rs.10391.32  
 $= 45% * 10391.32$   
 $= 4676.1$  lakhs

This means assets purchased for industry growth

$= 4676.1 - \text{expected gross block of } 2006-07 (3223.34 + 186.11)$

$= 4676.1 - 3409.45$

$= 1266.65$

- Thus incremental capex = total capex - capex for ind. growth  
 $= 2289.54 - 1266.65$   
 $= 1048.15$  lakhs

Thus for the purpose of revenues we are normalizing the capex in the ratio of 50%:50% i.e. we are assuming that we will get revenues only on 50% of Rs.1048.15 lakhs

Therefore Normalized Incremental capex(07-08) =  $50% * 1048.15 = 524.07$

Therefore Normalized Incremental capex(08-09) =  $50% * 1048.15 = 524.07$

### Year 2008-09

- Normalised Incremental capex(08-09) =  $50% * 1048.15 = 524.07$
- Inc. working capital required for capex =  $\text{inc. capex} * 0%$

Capacity utilization:-

<b>CAPACITY UTILIZATION</b>		
year	2007-08	2008-09
inc. EBITDA due to capex	121.6378194	121.6378194
total inc capex done	2289.54	2289.54
ROCE	0.2321	0.2321
increased rev without capex		10391.32416
revenue multiple		8.140297927

expected EBITDA w/o capex		1276.528728
expected EBITDA with capex		1687.584353
EBITDA on account of capex		411.0556244
EBITDA due to capex		289.4178051
capacity utilization	0.228899714	0.544630388

Computation of growth rate for Power Grid Corp.  
Extra ordinary growth period

**Assumptions**

- Growth rate in the firm will decline
- The firm shall not pay any dividend and retain all its profits
- The leveraged of the firm is unstable

In second stage growth period i.e. growth rate for the years 2009-10 to 2015-16 shall decline from 18.08% in year 2008-09 to 8% in 2015-16 Thus the growth rate for years 2009-16 will be completed by decreasing the growth rate by the CAGR of decrease  
CAGR of decrease =  $(8/18.08)^{(1/7)} - 1 = 10.80\%$

economy growth	co.s 'g'	no. of years	CAGR of decrease
8.13	0.180898663	7	0.108072217

YEAR	GROWTH RATE IN REV	EXPECTED REV	REV MULTIPLE	EXPECTED EBITDA
2008-09	0.180898663	13440.38898	8.140297927	1651.093007
2009-10	0.161348543	15608.97617	8.140297927	1917.494459
2010-11	0.143911249	17855.28342	8.140297927	2193.44348
2011-12	0.128358441	20147.15976	8.140297927	2474.990465
2012-13	0.11448646	22453.73675	8.140297927	2758.343361
2013-14	0.102113654	24746.56985	8.140297927	3040.007881
2014-15	0.091078005	27000.43806	8.140297927	3316.885734
2015-16	0.081235003	29193.81873	8.140297927	3586.332956

**ANNEXURE 3**

**Computation of weighted ROCE.**

**WEIGHTED ROCE (3)**

year	EBITDA	capt employed	ROCE	weights	weighted ROCE for 06-07	weighted ROCE
2003-04	565.32	3059.38	0.184782538	1	0.184782538	0.232150101
2004-05	688.22	3659.07	0.188086044	2	0.376172087	
2005-06	1307.6	4715.21	0.277315326	3	0.831945979	

assumption                      80% of wtd  
   ROCE                      0.185720081

## ANNEXURE4

### Computation of weighted EBITDA/Revenue multiple

<b>WIGHTED REV. MULTIPLE (4)</b>						
year	EBITDA	revenue	rev/EBITDA	weights	weighted rev multiple	
2003-04	565.32	4501.23	7.962269157	1	7.962269157	8.140297927
2004-05	688.22	7527.04	10.93696783	2	21.87393566	
2005-06	1307.6	8283.9	6.335194249	3	19.00558275	

## ANNEXURE5

### Computation of working capital as a % of revenue

year	Working Capital	Revenue	WC/Rev	Weights	weighted
2003-04	-716.48	4501.23	-0.15917427	1	-0.1591743
2004-05	-643.67	7527.04	-0.085514359	2	-0.1710287
2005-06	-427.63	8283.9	-0.051621821	3	-0.1548655
				<b>Total</b>	<b>-0.0808447</b>

weighted average,wc= $(-0.1591-0.1710-0.1548)/6 = -0.08 = -5\%$

This percentage of wc to revenue will be taken constant for future years.

## ANNEXURE6

### Computation of working capital as a % of gross block

year	GB	non cash WC	WC/GB	weight	weight*WC/GB	weighted % WC
2003-04	15632.7	-716.48	-4.583213392	1	-4.583213392	3.20980427
2004-05	16663.68	-643.67	-3.862712198	2	-7.725424396	
2005-06	18458.35	-427.63	-2.316729285	3	-6.950187855	

assumption                      weighted % WC = 0 since it is  
   negative

## ANNEXURE 7

### Capex schedule and growth rate in capex

year	Gross Block	Capex	Revenue	GB/Rev	FCFF of prev. yr	Gth Rate(Capex)
2003-04	2987.89		4501.23	0.663794118		
2004-05	3215.16		7527.04	0.427147989		
2005-06	3223.34	8.18	8283.9	0.389108995		
2006-07	3409.45	186.11	9277.968	0.367478094		21.75183374
2007-08	5698.99	2289.54	11084.44182	0.514143165		11.30207942
2008-09	5699.99	1	13440.38898	0.424094125		-0.99956323
2009-10	5699.99	0	15608.97617	0.365173855	0	-1
2010-11	5699.99	0	17855.28342	0.319232681	0	0
2011-12	5699.99	0	20147.15976	0.282917794	0	0
2012-13	6779.84348	1079.894348	22453.73675	0.301949044	1199.882609	0
2013-14	9038.623165	2258.738817	24746.56985	0.365247516	2509.709797	1.091629447
2014-15	12456.17292	3417.549753	27000.43806	0.461332253	3797.277503	0.513034498
2015-16	17001.43435	4545.261431	29193.81873	0.582364181	5050.290479	0.329976667

The capital expenditure for the future years(2010-11 and onwards) has been taken as 90% of the free cash flows ofv the previous years.

This has been done because the company will require capex for growth. But then the company can only spend what it has. That, s why we have taken capex for future a s90% of FCFF of previous years.

But then what if the company requires more capital expenditure to sustain growth in years after extraordinary growth

Well since 83% of the revenues of the company are coming from assets owned by 3<sup>rd</sup> parties, thus if the company requires more assets it can take them on rent. keeping this view in mind we have taken a high operating expense ratio of 85% to 86%

## ANNEXURE 8

### Computation of rate of depreciation(WDV method)

year	2003	2004	2005	2006
Gross Block	2306.52	2987.89	3215.16	3227.34
Accumltd Depreciation	532.41	657.7	807.01	950.62
Net Block	1774.11	2330.19	2408.15	2276.72
Depreciation	92.57	125.29	149.31	143.61

Assets purchased	167.06	681.37	227.27	8.18
Rate of Depreciation	0.049590717	0.0510246	0.048990014	0.056655106
Weights		1	2	3
		0.0510246	0.097980027	0.169965319
Wgtd Rate of Depreciation				0.053161665

## Depreciation schedule

year	Gross block	Capex	Total	Dep@5%	Net Block	Gth in depreciation
2005-06		8.18		143.61		
2006-07	2276.72	186.11	2462.83	123.1415	2339.6885	-0.142528375
2007-08	2339.6885	2289.54	4629.2285	231.461425	4397.767075	0.879637856
2008-09	4397.767075	1	4398.767075	219.9383538	4178.828721	-0.049783981
2009-10	4178.828721	0	4178.828721	208.9414361	3969.887285	-0.05
2010-11	4398.038874	0	4398.038874	219.9019437	4178.13693	0.052457319
2011-12	4565.331967	0	4565.331967	228.2665983	4337.065368	0.038038111
2012-13	4680.510649	1079.8943	5760.404997	288.0202498	5472.384747	0.261771332
2013-14	4745.915201	2258.7388	7004.654018	350.2327009	6654.421317	0.216000268
2014-15	4765.701542	3417.5498	8183.251294	409.1625647	7774.08873	0.168259171
2015-16	4745.154507	4545.2614	9290.415938	464.5207969	8825.895141	0.135296425

## ANNEXURE 9

### Operating expenses

Operating expense % revenue = 1 - (EBITDA/REVENUE)

year	Expected Revenue	Expected EBITDA	Operating Expense
2006-07	9277.968	1139.7578	0.877154373
2007-08	11084.44182	1361.6752	0.877154373
2008-09	13440.38898	1651.093	0.877154373
2009-10	15608.97617	1917.4945	0.877154373
2010-11	17855.28342	2193.4435	0.877154373
2011-12	20147.15976	2474.9905	0.877154373
2012-13	22453.73675	2758.3434	0.877154373
2013-14	24746.56985	3040.0079	0.877154373
2014-15	27000.43806	3316.8857	0.877154373
2015-16	29193.81873	3586.333	0.877154373

## ANNEXURE 10

### Computation of initial beta for Power Grid Corp.

Company Name	Market Cap	Weighted Market Cap	Market Beta	Weighted Beta	Debt-Equity Ratio	Wgtd D/E Ratio
Acrow india	12.92	0.002650768	0.717	0.0019006	0.19	0.000361114
Bhagheeratha	9.92	0.002035264	0.6564	0.001335947	0	0
C&C	437.24	0.089707554	1.6299	0.146214342	0.53	0.077493601
Jog engee	19.93	0.004088994	0.7916	0.003236847	0	0

Itd	272.56	0.055920526	0.5684	0.031785227	0.16	0.005085636
Subhas	830.93	0.170480052	0.8701	0.148334693	0.79	0.117184407
Prajay	642.26	0.131771049	0.8981	0.118343579	1.23	0.145562603
Madhucon	898.15	0.184271429	0.8786	0.161900877	0.02	0.003238018
MSK	111.74	0.022925446	1.1721	0.026870915	0.19	0.005105474
Sadbhav	652.47	0.133865812	0.9201	0.123169934	0.47	0.057889869
PBA	121.57	0.024942245	1.065	0.026563491	1.45	0.038517062
Unity	864.37	0.177340862	1.2347	0.218962762	0.35	0.076636967
<b>Total</b>	<b>4874.06</b>			<b>1.008619216</b>		<b>0.527074751</b>

## ANNEXURE11:

### Computation of Initial cost of equity and cost of capital(WACC)

Beta of the stock	1.123169501	
Risk Free Rate	7.75%	
Risk Premium	8.25%	
Cost of debt for cost of capital	0.177356932	17.73%
Cost of equity=Rf+Beta*Risk premium	17.01614838263%	
WACC		
Cost of debt	0.117018	11.70%

**ANNEXURE12:**  
**Optimum capital structure and cost of debt**  
**CRISIL'S Ratings on the basis of coverage Ratio**

<b>ICR</b>	<b>Rating</b>	<b>Typical default spread</b>	<b>Market intrst Rate</b>
>8.5	AAA	1.35%	9.45%
8.50-6.50	AA	2.50%	10.60%
5.50-6.50	A+	2.70%	10.80%
4.25-5.50	A	2.85%	10.95%
3.00-4.25	A-	3.00%	11.10%
2.50-3.00	BBB	3.50%	11.60%
2.00-2.50	BB	4.00%	12.10%
1.90-2.00	B+	4.50%	12.60%
1.75-1.90	B	5.25%	13.35%
1.50-1.75	B-	6.00%	14.10%
1.25-1.50	CCC	8.00%	16.10%
0.80-1.25	CC	11.00%	19.10%
0.65-0.80	C+	15.00%	23.10%
0.20-0.65	C	20.00%	28.10%
<0.20	C-	25.00%	33.10%

## Debt Ratio,Ke,Kd and WACC:-

Debt	Equity	D/E Ratio	Beta Ivrd	Ke	ICR	Kd	(Kd*0.66)	WACC
0%	100%	0	1.2605718	18.15%	#DIV/0!	0.00%	0	18.15000000000000%
1%	99%	0.01010101	1.2689756	18.21%	137.7955653	17.73%	0.117018	18.14491800000000%
2%	98%	0.020408163	1.2775509	18.28%	68.20184478	17.73%	0.117018	18.14843600000000%
3%	97%	0.030927835	1.2863031	18.36%	45.00393839	17.73%	0.117018	18.16025400000000%
4%	96%	0.041666667	1.2952375	18.43%	33.4049852	17.73%	0.117018	18.16087200000000%
5%	95%	0.052631579	1.3043601	18.51%	26.44561328	17.73%	0.117018	18.16959000000000%
6%	94%	0.063829787	1.3136767	18.58%	21.80603201	17.73%	0.117018	18.16730800000000%
7%	93%	0.075268817	1.3231938	18.66%	18.49204538	17.73%	0.117018	18.17292600000000%
8%	92%	0.086956522	1.3329177	18.74%	16.00655541	17.73%	0.117018	18.17694400000000%
9%	91%	0.098901099	1.3428553	18.82%	14.07339654	17.73%	0.117018	18.17936200000000%
10%	90%	0.111111111	1.3530137	18.91%	12.52686945	17.73%	0.117018	18.18918000000000%
11%	89%	0.123595506	1.3634005	18.99%	11.2615291	17.73%	0.117018	18.18829800000000%
12%	88%	0.136363636	1.3740233	19.08%	10.20707881	17.73%	0.117018	18.19461600000000%
13%	87%	0.149425287	1.3848903	19.17%	9.314851642	17.73%	0.117018	18.19913400000000%
14%	86%	0.162790698	1.39601	19.26%	8.550085497	17.73%	0.117018	18.20185200000000%
15%	85%	0.176470588	1.4073913	19.36%	7.887288172	18.85%	0.12441	18.32215000000000%
16%	84%	0.19047619	1.4190437	19.45%	7.307340512	18.85%	0.12441	18.32856000000000%
17%	83%	0.204819277	1.4309768	19.55%	6.795621989	18.85%	0.12441	18.34147000000000%
18%	82%	0.219512195	1.443201	19.66%	6.340761079	19.05%	0.12573	18.38434000000000%
19%	81%	0.234567901	1.455727	19.76%	5.933780266	19.05%	0.12573	18.39447000000000%
20%	80%	0.25	1.4685661	19.86%	5.567497533	19.05%	0.12573	18.40260000000000%
21%	79%	0.265822785	1.4817303	19.97%	5.236098871	19.20%	0.12672	18.43742000000000%
22%	78%	0.282051282	1.4952321	20.08%	4.934827359	19.20%	0.12672	18.45024000000000%
23%	77%	0.298701299	1.5090845	20.19%	4.65975337	19.20%	0.12672	18.46086000000000%
24%	76%	0.315789474	1.5233015	20.31%	4.407602214	19.20%	0.12672	18.47688000000000%
25%	75%	0.333333333	1.5378976	20.43%	4.17562315	19.35%	0.12771	18.51525000000000%
26%	74%	0.351351351	1.5528882	20.56%	3.961488629	19.35%	0.12771	18.53486000000000%
27%	73%	0.369863014	1.5682895	20.68%	3.763215925	19.35%	0.12771	18.54457000000000%
28%	72%	0.388888889	1.5841186	20.81%	3.579105557	19.35%	0.12771	18.55908000000000%
29%	71%	0.408450704	1.6003936	20.95%	3.407692456	19.35%	0.12771	18.57809000000000%
30%	70%	0.428571429	1.6171335	21.09%	3.247706894	19.35%	0.12771	18.59430000000000%
31%	69%	0.449275362	1.6343587	21.23%	3.098042982	19.35%	0.12771	18.60771000000000%
32%	68%	0.470588235	1.6520906	21.37%	2.957733065	19.85%	0.13101	18.72392000000000%
33%	67%	0.492537313	1.6703517	21.53%	2.825926778	19.85%	0.13101	18.74843000000000%
34%	66%	0.515151515	1.6891662	21.68%	2.701873803	19.85%	0.13101	18.76314000000000%
35%	65%	0.538461538	1.7085596	21.84%	2.584909569	19.85%	0.13101	18.78135000000000%
36%	64%	0.5625	1.7285591	22.01%	2.474443348	20.35%	0.13431	18.92156000000000%
37%	63%	0.587301587	1.7491934	22.18%	2.369948274	20.35%	0.13431	18.94287000000000%

38%	62%	0.612903226	1.7704934	22.35%	2.270952941	20.35%	0.13431	18.960780000000000%
39%	61%	0.639344262	1.7924918	22.53%	2.177034292	20.35%	0.13431	18.981390000000000%
40%	60%	0.666666667	1.8152234	22.72%	2.087811575	20.35%	0.13431	19.004400000000000%
41%	59%	0.694915254	1.8387256	22.91%	2.002941186	20.35%	0.13431	19.023610000000000%
42%	58%	0.724137931	1.8630382	23.13%	1.922112244	20.85%	0.13761	19.195020000000000%
43%	57%	0.754385965	1.8882039	23.32%	1.845042787	21.60%	0.14256	19.422480000000000%
44%	56%	0.785714286	1.9142683	23.54%	1.771476488	21.60%	0.14256	19.455040000000000%
45%	55%	0.818181818	1.9412806	23.76%	1.701179802	22.35%	0.14751	19.705950000000000%
46%	54%	0.851851852	1.9692933	23.99%	1.633939493	22.35%	0.14751	19.740060000000000%
47%	53%	0.886792453	1.9983631	24.23%	1.569560475	22.35%	0.14751	19.774870000000000%
48%	52%	0.899239544	2.0087188	24.32%	1.547834938	22.35%	0.14751	19.726880000000000%
49%	51%	0.923076923	2.0285509	24.48%	1.507863915	22.35%	0.14751	19.712790000000000%
50%	50%	0.960784314	2.0599226	24.74%	1.448685583	24.35%	0.16071	20.405500000000000%
51%	49%	1	2.0925492	25.01%	1.391874383	24.35%	0.16071	20.451110000000000%
52%	48%	1.040816327	2.1265074	25.29%	1.337291074	24.35%	0.16071	20.496120000000000%
53%	47%	1.083333333	2.1618806	25.58%	1.284807123	24.35%	0.16071	20.540230000000000%
54%	46%	1.127659574	2.1987591	25.88%	1.234303698	27.35%	0.18051	21.652340000000000%
55%	45%	1.173913043	2.2372409	26.20%	1.185670771	27.35%	0.18051	21.718050000000000%
56%	44%	1.222222222	2.2774331	26.53%	1.138806314	27.35%	0.18051	21.781760000000000%
57%	43%	1.272727273	2.3194521	26.88%	1.093615587	27.35%	0.18051	21.847470000000000%
58%	42%	1.325581395	2.3634255	27.24%	1.0500105	27.35%	0.18051	21.910380000000000%
59%	41%	1.380952381	2.409493	27.62%	1.007909036	27.35%	0.18051	21.974290000000000%
60%	40%	1.43902439	2.4578076	28.02%	0.967234741	27.35%	0.18051	22.038600000000000%
61%	39%	1.5	2.5085379	28.44%	0.927916256	27.35%	0.18051	22.102710000000000%
62%	38%	1.564102564	2.5618698	28.88%	0.889886901	27.35%	0.18051	22.166020000000000%
63%	37%	1.631578947	2.6180086	29.34%	0.853084299	27.35%	0.18051	22.227930000000000%
64%	36%	1.702702703	2.6771819	29.83%	0.817450035	27.35%	0.18051	22.291440000000000%
65%	35%	1.777777778	2.7396427	30.35%	0.782929341	31.35%	0.20691	24.071650000000000%
66%	34%	1.857142857	2.8056727	30.89%	0.749470822	31.35%	0.20691	24.158660000000000%
67%	33%	1.941176471	2.8755867	31.47%	0.717026197	31.35%	0.20691	24.248070000000000%
68%	32%	2.03030303	2.949738	32.08%	0.685550069	31.35%	0.20691	24.335480000000000%
69%	31%	2.125	3.0285237	32.73%	0.65499971	31.35%	0.20691	24.423090000000000%
70%	30%	2.225806452	3.1123924	33.42%	0.625334868	36.35%	0.23991	26.819700000000000%
71%	29%	2.333333333	3.2018524	34.16%	0.596517593	36.35%	0.23991	26.940010000000000%
72%	28%	2.448275862	3.297482	34.95%	0.568512072	36.35%	0.23991	27.059520000000000%
73%	27%	2.571428571	3.3999422	35.79%	0.541284482	36.35%	0.23991	27.176730000000000%
74%	26%	2.703703704	3.5099921	36.70%	0.514802854	36.35%	0.23991	27.295340000000000%
75%	25%	2.846153846	3.6285074	37.68%	0.489036945	36.35%	0.23991	27.413250000000000%
76%	24%	3	3.756504	38.74%	0.463958128	36.35%	0.23991	27.530760000000000%
77%	23%	3.166666667	3.8951669	39.88%	0.439539279	36.35%	0.23991	27.645470000000000%
78%	22%	3.347826087	4.0458874	41.21%	0.415754686	36.35%	0.23991	27.779180000000000%
79%	21%	3.545454545	4.2103098	42.48%	0.392579954	36.35%	0.23991	27.873690000000000%
80%	20%	3.761904762	4.3903915	43.97%	0.369991925	36.35%	0.23991	27.986800000000000%
81%	19%	4	4.5884814	45.60%	0.347968596	36.35%	0.23991	28.096710000000000%
82%	18%	4.263157895	4.8074228	47.41%	0.326489053	36.35%	0.23991	28.206420000000000%
83%	17%	4.555555556	5.050691	49.41%	0.305533401	36.35%	0.23991	28.312230000000000%
84%	16%	4.882352941	5.322579	51.66%	0.285082705	36.35%	0.23991	28.418040000000000%
85%	15%	5.25	5.6284531	54.18%	0.26511893	36.35%	0.23991	28.519350000000000%
86%	14%	5.666666667	5.9751103	57.04%	0.245624891	36.35%	0.23991	28.617860000000000%
87%	13%	6.142857143	6.37129	60.31%	0.226584202	36.35%	0.23991	28.712470000000000%
88%	12%	6.692307692	6.8284205	64.08%	0.20798123	36.35%	0.23991	28.801680000000000%
89%	11%	7.333333333	7.3617393	68.48%	0.189801052	41.35%	0.27291	31.821790000000000%
90%	10%	8.090909091	7.9920252	73.68%	0.172029418	41.35%	0.27291	31.929900000000000%
91%	9%	9	8.7483683	79.92%	0.154652709	41.35%	0.27291	32.027610000000000%
92%	8%	10.11111111	9.6727876	87.55%	0.137657906	41.35%	0.27291	32.111719999999900%
93%	7%	11.5	10.828312	97.08%	0.121032555	41.35%	0.27291	32.176229999999900%
94%	6%	13.28571429	12.313986	109.34%	0.104764739	41.35%	0.27291	32.213939999999900%

95%	5%	15.66666667	14.294884	125.68%	0.088843046	41.35%	0.27291	32.210449999999900%
96%	4%	19	17.068142	148.56%	0.073256546	41.35%	0.27291	32.141759999999900%
97%	3%	24	21.228029	182.88%	0.057994766	41.35%	0.27291	31.958669999999900%
98%	2%	32.33333333	28.161174	240.07%	0.043047661	41.35%	0.27291	31.546579999999800%
99%	1%	49	42.027464	354.47%	0.0284056	41.35%	0.27291	30.562789999999800%
100%	0%	99	83.626333	697.66%	0.014059337	41.35%	0.27291	27.290999999999500%

# Valuation Sheet

## Steps for computing free cash flows

1. compute the following inputs for valuation:
  - Growth rate in revenues
  - Operating expense as a % of revenue
  - Growth rate in capital spending
  - Growth rate in amount of depreciation
  - Working capital as a % of revenue

2. compute the free cash flows as follows:

Revenues

Less: Operating Expenses

=Operating Profit(EBITDA)

Less: Depreciation

=EBIT

Less: Tax on EBIT

= Earnings before interest but after Tax

Add: Depreciation

Less: Capital Expenditure during the year

Less: Incremental Working capital during the year

=Free cash flows during the year

3. The next step is to find the present value of free cash flows by discounting them with the cost of capital or WACC.

## Inputs for Valuation

Year	Growth Rate in Revenue	Operating Expense as % of Revenue	Growth Rate in Capital Spending	Growth Rate in Depreciation	Working Capital as % of Revenue
1	12.00%	88%	217%	-14%	-8%
2	19.00%	88%	113%	88%	-8%
3	18.00%	88%	-100%	-4%	-8%
4	16.00%	88%	-100%	-5%	-8%
5	14.00%	88%		5%	-8%
6	12.00%	88.00%		3%	-8%
7	11.00%	88.00%		26%	-8%
8	10.00%	88.00%	109%	21%	-8%
9	9.00%	88.00%	51%	16%	-8%
10	8.00%	88%	33%	13%	-8%

### Free cashflows for extraordinary growth phase(stage1)

	1	2	3	4
Revenues	\$9,277.20	\$11,039.86	\$13,027.04	\$15,111.36
- COGS	\$8,163.93	\$9,715.08	\$11,463.79	\$13,298.00
- Depreciation	\$123.50	\$232.19	\$222.90	\$211.76
EBIT	\$989.76	\$1,092.59	\$1,340.34	\$1,601.61
- EBIT*t	\$336.52	\$371.48	\$455.72	\$544.55
EBIT (1-t)	\$653.24	\$721.11	\$884.63	\$1,057.06
+ Depreciation	\$123.50	\$232.19	\$222.90	\$211.76
- Capital Spending	\$589.97	\$1,256.63		
- Chg. Working Capital				
Free CF to Firm	\$186.78	(\$303.33)	\$1,107.53	\$1,268.82
Present Value	\$160.84	(\$224.93)	\$707.20	\$697.67

	5	6	7	
Revenues				
- COGS	\$17,226.95	\$19,294.19	\$21,416.55	
- Depreciation	\$15,159.72	\$16,978.89	\$18,846.56	
EBIT	\$222.34	\$229.01	\$288.56	
- EBIT*t	\$1,844.89	\$2,086.29	\$2,281.43	
EBIT (1-t)	\$627.26	\$709.34	\$775.69	
+ Depreciation	\$1,217.63	\$1,376.95	\$1,505.74	
- Capital Spending	\$222.34	\$229.01	\$288.56	
- Chg. Working Capital				
Free CF to Firm				
Present Value	\$1,439.97	\$1,605.96	\$1,794.30	
	\$681.82	\$655.43	\$631.80	
	8	9	10	Terminal Year
Revenues	\$23,558.20	\$25,678.44	\$27,732.72	\$29,674.01
- COGS	\$20,731.22	\$22,597.03	\$24,404.79	\$26,113.13
- Depreciation	\$349.15	\$405.02	\$457.67	\$489.71
EBIT	\$2,477.83	\$2,676.39	\$2,870.25	\$3,071.17
- EBIT*t	\$842.46	\$909.97	\$975.89	\$1,044.20
EBIT (1-t)	\$1,635.37	\$1,766.42	\$1,894.37	\$2,026.97
+ Depreciation	\$349.15	\$405.02	\$457.67	\$489.71
- Capital Spending				\$489.71
- Chg. Working Capital				(\$155.30)
Free CF to Firm	\$1,984.52	\$2,171.44	\$2,352.04	\$2,182.28
Present Value	\$603.47	\$570.79	\$534.96	

## Cost of capital computation

Cost of capital=WACC=(We\*Ke)+(Wd\*Kd)

Cost of equity(Ke) has been computed using CAPM model.

Cost of Debt(Kd) is the after tax cost of debt.

### Extraordinary growth phase(stage1)

Tax Rate	34%	34%	34%
Beta	1.20	1.20	1.20
Cost of Equity	18.31%	18.31%	18.31%
Cost of Debt	7.92%	7.92%	7.92%
Debt Ratio	21.00%	21.00%	21.00%
Cost of Capital	16.13%	16.13%	16.13%
Cum. WACC	1.16128	1.34857	1.56607

Tax Rate	34%	34%	34%	34%
Beta	1.20	1.20	1.18	1.17
Cost of Equity	18.31%	18.31%	18.17%	18.03%
Cost of Debt	7.92%	7.92%	7.92%	7.92%
Debt Ratio	21.00%	21.00%	21.00%	21.00%
Cost of Capital	16.13%	16.13%	16.02%	15.91%
Cum. WACC	1.81865	2.11196	2.45024	2.83996

Tax Rate	34%	34%	34%	34%
Beta	1.15	1.14	1.12	1.12
Cost of Equity	17.89%	17.75%	17.61%	17.61%
Cost of Debt	7.92%	7.92%	7.92%	7.92%
Debt Ratio	21.00%	21.00%	21.00%	21.00%
Cost of Capital	15.79%	15.68%	15.57%	15.57%
Cum. WACC	3.28852	3.80426	4.39666	

## DCF-FCFF-3 Stage valuation

Value of the firm=present of free cash flows in extra-ordinary growth phase(stage1)

Add:present value of free cash flow in transition phase(stage2)

Add: present value of free cash flow in the terminal year(stage3)

Growth Rate in Stable Phase =	7.00%
FCFF in Stable Phase =	\$2,182.28
Cost of Equity in Stable Phase =	17.61%
Equity/ (Equity + Debt) =	79.00%
AT Cost of Debt in Stable Phase =	7.92%
Debt/ (Equity + Debt) =	21.00%
Cost of Capital in Stable Phase =	15.57%
Value at the end of growth phase =	\$25,458.37

<b>Present Value of FCFF in high growth phase =</b>	<b>\$5,019.06</b>
<b>Present Value of Terminal Value of Firm =</b>	<b>\$5,790.40</b>
<b>Value of the firm =</b>	<b>\$10,809.45</b>
<b>Market Value of Debt =</b>	<b>\$5,055.65</b>
<b>Market Value of Equity =</b>	<b>\$5,753.80</b>
<b>Value of Options Outstanding (See option worksheet) =</b>	
<b>Value of Equity in Common Stock =</b>	<b>\$5,753.80</b>
<b>Value of Equity per Share =</b>	<b>\$198.41</b>

## SENSITIVITY ANALYSIS

### DEBT-EQUITY RATIO SENSITIVITY

Debt	Equity	D/E Ratio	Beta lvr	Ke	Kd	(Kd*0.66)	WACC	Price
0%	100%	0	1.2605718	18.15%	0.00%	0	18.150000000000000%	
1%	99%	0.01010101	1.2689756	18.21%	17.73%	0.117018	18.144918000000000%	
2%	98%	0.020408163	1.2775509	18.28%	17.73%	0.117018	18.148436000000000%	
3%	97%	0.030927835	1.2863031	18.36%	17.73%	0.117018	18.160254000000000%	
4%	96%	0.041666667	1.2952375	18.43%	17.73%	0.117018	18.160872000000000%	
5%	95%	0.052631579	1.3043601	18.51%	17.73%	0.117018	18.169590000000000%	180.42
6%	94%	0.063829787	1.3136767	18.58%	17.73%	0.117018	18.167308000000000%	
7%	93%	0.075268817	1.3231938	18.66%	17.73%	0.117018	18.172926000000000%	
8%	92%	0.086956522	1.3329177	18.74%	17.73%	0.117018	18.176944000000000%	
9%	91%	0.098901099	1.3428553	18.82%	17.73%	0.117018	18.179362000000000%	
10%	90%	0.111111111	1.3530137	18.91%	17.73%	0.117018	18.189180000000000%	
11%	89%	0.123595506	1.3634005	18.99%	17.73%	0.117018	18.188298000000000%	
12%	88%	0.136363636	1.3740233	19.08%	17.73%	0.117018	18.194616000000000%	
13%	87%	0.149425287	1.3848903	19.17%	17.73%	0.117018	18.199134000000000%	
14%	86%	0.162790698	1.39601	19.26%	17.73%	0.117018	18.201852000000000%	
15%	85%	0.176470588	1.4073913	19.36%	18.85%	0.12441	18.322150000000000%	208.66
16%	84%	0.19047619	1.4190437	19.45%	18.85%	0.12441	18.328560000000000%	
17%	83%	0.204819277	1.4309768	19.55%	18.85%	0.12441	18.341470000000000%	
18%	82%	0.219512195	1.443201	19.66%	19.05%	0.12573	18.384340000000000%	
19%	81%	0.234567901	1.455727	19.76%	19.05%	0.12573	18.394470000000000%	
20%	80%	0.25	1.4685661	19.86%	19.05%	0.12573	18.402600000000000%	
21%	79%	0.265822785	1.4817303	19.97%	19.20%	0.12672	18.437420000000000%	
22%	78%	0.282051282	1.4952321	20.08%	19.20%	0.12672	18.450240000000000%	
23%	77%	0.298701299	1.5090845	20.19%	19.20%	0.12672	18.460860000000000%	
24%	76%	0.315789474	1.5233015	20.31%	19.20%	0.12672	18.476880000000000%	
25%	75%	0.333333333	1.5378976	20.43%	19.35%	0.12771	18.515250000000000%	244.43
26%	74%	0.351351351	1.5528882	20.56%	19.35%	0.12771	18.534860000000000%	
27%	73%	0.369863014	1.5682895	20.68%	19.35%	0.12771	18.544570000000000%	
28%	72%	0.388888889	1.5841186	20.81%	19.35%	0.12771	18.559080000000000%	
29%	71%	0.408450704	1.6003936	20.95%	19.35%	0.12771	18.578090000000000%	
30%	70%	0.428571429	1.6171335	21.09%	19.35%	0.12771	18.594300000000000%	266.16
31%	69%	0.449275362	1.6343587	21.23%	19.35%	0.12771	18.607710000000000%	
32%	68%	0.470588235	1.6520906	21.37%	19.85%	0.13101	18.723920000000000%	
33%	67%	0.492537313	1.6703517	21.53%	19.85%	0.13101	18.748430000000000%	
34%	66%	0.515151515	1.6891662	21.68%	19.85%	0.13101	18.763140000000000%	
35%	65%	0.538461538	1.7085596	21.84%	19.85%	0.13101	18.781350000000000%	
36%	64%	0.5625	1.7285591	22.01%	20.35%	0.13431	18.921560000000000%	
37%	63%	0.587301587	1.7491934	22.18%	20.35%	0.13431	18.942870000000000%	
38%	62%	0.612903226	1.7704934	22.35%	20.35%	0.13431	18.960780000000000%	
39%	61%	0.639344262	1.7924918	22.53%	20.35%	0.13431	18.981390000000000%	
40%	60%	0.666666667	1.8152234	22.72%	20.35%	0.13431	19.004400000000000%	320.53
41%	59%	0.694915254	1.8387256	22.91%	20.35%	0.13431	19.023610000000000%	
42%	58%	0.724137931	1.8630382	23.13%	20.85%	0.13761	19.195020000000000%	
43%	57%	0.754385965	1.8882039	23.32%	21.60%	0.14256	19.422480000000000%	
44%	56%	0.785714286	1.9142683	23.54%	21.60%	0.14256	19.455040000000000%	
45%	55%	0.818181818	1.9412806	23.76%	22.35%	0.14751	19.705950000000000%	355.2
46%	54%	0.851851852	1.9692933	23.99%	22.35%	0.14751	19.740060000000000%	
47%	53%	0.886792453	1.9983631	24.23%	22.35%	0.14751	19.774870000000000%	
48%	52%	0.899239544	2.0087188	24.32%	22.35%	0.14751	19.726880000000000%	
49%	51%	0.923076923	2.0285509	24.48%	22.35%	0.14751	19.712790000000000%	
50%	50%	0.960784314	2.0599226	24.74%	24.35%	0.16071	20.405500000000000%	

51%	49%	1	2.0925492	25.01%	24.35%	0.16071	20.451110000000000%	
52%	48%	1.040816327	2.1265074	25.29%	24.35%	0.16071	20.496120000000000%	
53%	47%	1.083333333	2.1618806	25.58%	24.35%	0.16071	20.540230000000000%	
54%	46%	1.127659574	2.1987591	25.88%	27.35%	0.18051	21.652340000000000%	
55%	45%	1.173913043	2.2372409	26.20%	27.35%	0.18051	21.718050000000000%	447.95
56%	44%	1.222222222	2.2774331	26.53%	27.35%	0.18051	21.781760000000000%	
57%	43%	1.272727273	2.3194521	26.88%	27.35%	0.18051	21.847470000000000%	
58%	42%	1.325581395	2.3634255	27.24%	27.35%	0.18051	21.910380000000000%	
59%	41%	1.380952381	2.409493	27.62%	27.35%	0.18051	21.974290000000000%	
60%	40%	1.43902439	2.4578076	28.02%	27.35%	0.18051	22.038600000000000%	
61%	39%	1.5	2.5085379	28.44%	27.35%	0.18051	22.102710000000000%	
62%	38%	1.564102564	2.5618698	28.88%	27.35%	0.18051	22.166020000000000%	
63%	37%	1.631578947	2.6180086	29.34%	27.35%	0.18051	22.227930000000000%	
64%	36%	1.702702703	2.6771819	29.83%	27.35%	0.18051	22.291440000000000%	
65%	35%	1.777777778	2.7396427	30.35%	31.35%	0.20691	24.071650000000000%	
66%	34%	1.857142857	2.8056727	30.89%	31.35%	0.20691	24.158660000000000%	
67%	33%	1.941176471	2.8755867	31.47%	31.35%	0.20691	24.248070000000000%	
68%	32%	2.03030303	2.949738	32.08%	31.35%	0.20691	24.335480000000000%	
69%	31%	2.125	3.0285237	32.73%	31.35%	0.20691	24.423090000000000%	
70%	30%	2.225806452	3.1123924	33.42%	36.35%	0.23991	26.819700000000000%	
71%	29%	2.333333333	3.2018524	34.16%	36.35%	0.23991	26.940010000000000%	
72%	28%	2.448275862	3.297482	34.95%	36.35%	0.23991	27.059520000000000%	
73%	27%	2.571428571	3.3999422	35.79%	36.35%	0.23991	27.176730000000000%	
74%	26%	2.703703704	3.5099921	36.70%	36.35%	0.23991	27.295340000000000%	
75%	25%	2.846153846	3.6285074	37.68%	36.35%	0.23991	27.413250000000000%	
76%	24%	3	3.756504	38.74%	36.35%	0.23991	27.530760000000000%	
77%	23%	3.166666667	3.8951669	39.88%	36.35%	0.23991	27.645470000000000%	
78%	22%	3.347826087	4.0458874	41.21%	36.35%	0.23991	27.779180000000000%	
79%	21%	3.545454545	4.2103098	42.48%	36.35%	0.23991	27.873690000000000%	
80%	20%	3.761904762	4.3903915	43.97%	36.35%	0.23991	27.986800000000000%	
81%	19%	4	4.5884814	45.60%	36.35%	0.23991	28.096710000000000%	
82%	18%	4.263157895	4.8074228	47.41%	36.35%	0.23991	28.206420000000000%	
83%	17%	4.555555556	5.050691	49.41%	36.35%	0.23991	28.312230000000000%	
84%	16%	4.882352941	5.322579	51.66%	36.35%	0.23991	28.418040000000000%	
85%	15%	5.25	5.6284531	54.18%	36.35%	0.23991	28.519350000000000%	
86%	14%	5.666666667	5.9751103	57.04%	36.35%	0.23991	28.617860000000000%	
87%	13%	6.142857143	6.37129	60.31%	36.35%	0.23991	28.712470000000000%	
88%	12%	6.692307692	6.8284205	64.08%	36.35%	0.23991	28.801680000000000%	
89%	11%	7.333333333	7.3617393	68.48%	41.35%	0.27291	31.821790000000000%	
90%	10%	8.090909091	7.9920252	73.68%	41.35%	0.27291	31.929900000000000%	
91%	9%	9	8.7483683	79.92%	41.35%	0.27291	32.027610000000000%	
92%	8%	10.11111111	9.6727876	87.55%	41.35%	0.27291	32.111719999999900%	
93%	7%	11.5	10.828312	97.08%	41.35%	0.27291	32.176229999999900%	
94%	6%	13.28571429	12.313986	109.34%	41.35%	0.27291	32.213939999999900%	
95%	5%	15.66666667	14.294884	125.68%	41.35%	0.27291	32.210449999999900%	
96%	4%	19	17.068142	148.56%	41.35%	0.27291	32.141759999999900%	
97%	3%	24	21.228029	182.88%	41.35%	0.27291	31.958669999999900%	
98%	2%	32.33333333	28.161174	240.07%	41.35%	0.27291	31.546579999999800%	
99%	1%	49	42.027464	354.47%	41.35%	0.27291	30.562789999999800%	
100%	0%	99	83.626333	697.66%	41.35%	0.27291	27.290999999999500%	

## WACC AND GROWTH RATE SENSITIVITY

Debt Ratio	5%	15%	25%	30%	35%	40%	45%	55%
WACC	18.170000000000000%	18.322	18.515	18.594	18.7813	19.004	19.705	21.718
Growth Rate								
0.05	127.33	143.46	162.6	173.58	185.69	199.12	214.11	250
0.06	141.84	160.91	183.94	197.34	212.31	229.12	248.16	294.97
0.07	159.22	182.18	210.49	227.28	246.3	268.04	293.11	356.97
0.08	180.42	208.66	244.43	266.16	291.24	320.53	355.2	447.95
0.09	206.83	242.55	289.35	318.67	353.41	395.22	446.52	594.42

## RELATIVE VALUATION

### Current Relative Valuation

<b>EV/Ebitda Valuation</b>	<b>Unity</b>	<b>Acrow India</b>
EV/Ebitda of unity	7.54	7.97
Ebitda of Power Grid Corp.	1307.6	1307.6
Value of Power Grid Corp.	9859.304	10421.572
Book value of debt	5055.64	5055.64
Value of Equity	4803.664	5365.932
Present no. of shares	29	29
Value of share of Power Grid Corp.	165.6435862	185.0321379
<b>Price/Earnings Valuation</b>		
Price/Earnings	15.37	7.56
EPS of Power Grid Corp.	15.32	15.32
Value of share of Power Grid Corp.	235.4684	115.8192
Weighted EPS	8.353333333	8.353333333
Value of share(weighted)	128.3907333	63.1512
<b>Market Cap/Revenue Valuation</b>		
Market Cap/Revenue	1.08	1.14
Revenue of Power Grid Corp.	8283.21	8283.21
Price/Revenue Multiple	8945.8668	9442.8594
Value of share	308.4781655	325.6158414

## Post IPO Relative Valuation

<b>Expected</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Expected Ebitda	1139.7577	1361.6752	1651.09
EV/Ebitda multiple	7.54	7.54	7.54
Expected EV	8593.773058	10267.03101	12449.2186
Book Value of Debt	5055.65	5055.65	5055.65
Cash	688.68	688.68	688.68
Market Value of Equity	4226.803058	5900.061008	8082.2486
No. of shares post IPO	109.59	109.59	109.59
Price	38.56924042	53.83758562	73.74987316
Present value@18%-price	32.64429998	45.4325617	62.23617988
<b>Market Cap/Revenue Multiple</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Expected	9277.96	12374.89	15182.26
Expected Revenue	1.08	1.08	1.08
Market Cap/Revenue Multiple	10020.1968	13364.8812	16396.8408
Expected Market Cap of Power Grid Corp.	109.59	109.59	109.59
No. of shares post ipo	91.43349576	121.9534739	149.6198631
Price	77.15906815	102.9143239	126.2614879
Present value @18%-price			