

## Shriram EPC Ltd.

|                                   |  |                         |
|-----------------------------------|--|-------------------------|
| <b>Price Band</b>                 | : Rs290 - 330 per share                        | <b>January 29, 2008</b> |
| <b>Issue open during</b>          | : January 29 - February 1, 2008                |                         |
| <b>Recommendation</b>             | : <b>Subscribe with a long term view</b>       |                         |
| <b>Book Running Lead Managers</b> | : Kotak, I-Sec, Motilal Oswal                  |                         |
| <b>Grading (Crisil)</b>           | : 3 / 5  |                         |
| <b>To list on</b>                 | : NSE & BSE                                    |                         |
| <b>Market Cap post-listing</b>    | : Rs14.14Bn \$358.1mn (based on the cap price) |                         |

IPO of 5mn equity shares of Rs10 each, aggregating to Rs165Cr or \$41.8mn (at the cap price)

### Shareholding Pattern

| Shareholder Categories      | Pre-issue         |               | Post-issue        |               |
|-----------------------------|-------------------|---------------|-------------------|---------------|
|                             | No. of shares     | % Holding     | No. of shares     | % Holding     |
| Promoters                   | 18,458,344        | 48.7%         | 18,458,344        | 43.1%         |
| Investors                   | 19,409,376        | 51.3%         | 19,409,376        | 45.3%         |
| QIBs excluding Mutual Funds | 0                 | 0.0%          | 2,850,000         | 6.6%          |
| Mutual Funds                | 0                 | 0.0%          | 150,000           | 0.3%          |
| Non Institutional Investors | 0                 | 0.0%          | 500,000           | 1.2%          |
| Public                      | 0                 | 0.0%          | 1,500,000         | 3.5%          |
| <b>Total</b>                | <b>37,867,720</b> | <b>100.0%</b> | <b>42,867,720</b> | <b>100.0%</b> |

### Recommendation - Subscribe with a long term view

- Shriram EPC Ltd. (SEPC) is a leading provider of integrated design, EPC and project management services for renewable energy projects, process and metallurgical plants and municipal services.
- The JVs with Leitwind BV, Netherlands for wind turbine generators (WTGs), Hamon BV, Netherlands for Cooling towers and Air pollution control systems and other JVs give access to technological know-how, project management skills and helps build strong client relationships.
- 41% of the IPO proceeds will be utilized for equity investments in the subsidiary and associate companies. While no fresh capex is being planned in SEPC, these investments will help consolidate and bring operations of these respective companies under SEPC's fold.
- The revenue and PAT grew @ CAGR 138% and 287% respectively during FY04-07 reflecting aggression on the part of the management, as also the base effect.
- We believe the healthy order book of Rs22.8Bn will translate into revenues and earnings growth over the next 3 years. We expect revenues and PAT to grow @ CAGR of 70.8% and 74.3% respectively during FY08-10, on the back of the healthy order book and higher revenues from Mega-watt and Kilo-watt class WTGs.
- The investment concerns include low pricing power resulting in poor EBITDA margins and high level of receivables and order execution risks.
- The IPO is priced at 49.1x FY08E, 25.1x FY09E and 16.2x FY10E earnings. We note the relatively small size and very short track record vis-à-vis peers. While we believe it is expensive vis-à-vis WTG/EPC peers like Gamesa, Suzlon Energy and Indowind Energy we are of the view that it can be a good play on combined potential of the EPC / WTG sectors, especially given the global institutional appetite for the renewable energy segment. We therefore recommend investing with a long term perspective.

### Company and Promoter Background

SEPC was incorporated in June, 2000 for carrying on the business of EPC. Shriram Engineering Construction Company Ltd. was merged with SEPC effective April 2004. It commenced the business of erection, testing and commissioning of wind electric generators in 2004.

Mr. T Shivaraman, MD, is a PG in chemical engineering and MSc. from IIT. He has 18 years of experience in plant operations and project engineering.

Mr. M Amjad Shariff, JMD, is a PG in chemical engineering from IIT. He has 23 years of experience in project execution, sales, marketing and corporate planning.

### Business overview

SEPC is one of the leading providers of integrated design, engineering, procurement, construction (EPC) and project management services for renewable energy projects, process and metallurgical plants and municipal services throughout India, and is one of India's leading 250KW wind turbine generator (WTG) manufacturers.

The EPC division focuses on providing integrated turnkey solutions for biomass-based power plants, bio-ethanol production plants, process and metallurgy plants (including thermal power plants), water and wastewater treatment plants, water and sewer infrastructure and pipe rehabilitation.

The WTG division focuses on developing, manufacturing, erecting and commissioning 250KW WTGs and is currently developing megawatt-class WTGs . Megawatt-class WTGs are gearless and incorporate Leitner Group's proprietary permanent magnet technology.

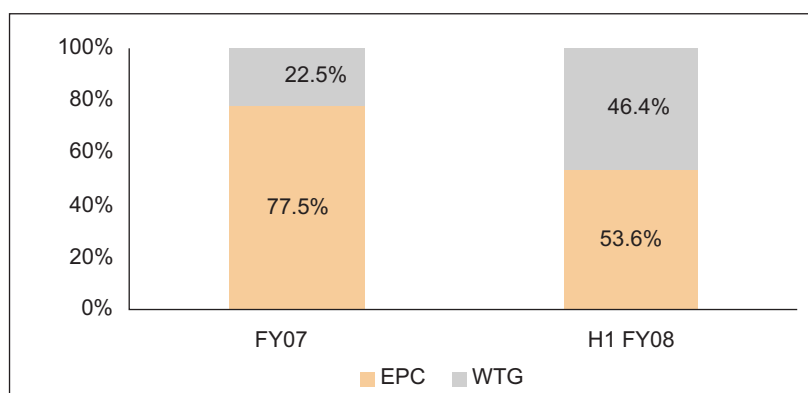
Higher efficiency due to permanent magnet technology, lower maintenance costs and less dependence on gearbox suppliers are the advantages of megawatt-class WTGs over Kilowatt- class WTGs.

It has executed wind energy projects in South India, and internationally in Zambia and France. As of December'07, SEPC had outstanding orders of 201 nos. of 250KW WTGs worth Rs176Cr.

It has made investments in associate companies viz., Leitner Shriram Manufacturing Ltd. (manufacture of WTGs), Orient Green Power Company Ltd. (renewable power generation) and Ennore Coke Ltd.( manufacture of metallurgical coke).

The order book on December' 07 was Rs22.8Bn.

### Revenue mix



## International partnerships

| Business relationship                          | Name of the Company                | Purpose  |
|--|------------------------------------|--|
| JV with Leitwind BV                            | Shriram Leitwind Ltd               | Marketing and sale of wind turbines and components.  |
| JV with Leitwind BV                            | Lietner Shriram Manufacturing Ltd. | Manufacturing Wind turbines and its components   |
| JV with Hamon Group                            | Hamon Thermopack Engineers P. Ltd. | Turnkey engineering, procurement and construction solutions for Cooling Towers and Air Pollution Control |
| Orient Green Power Ltd.                        | —                                  | Biomass energy, Hydropower   |
| MOU with Strategic Engineering Private Limited | The JV is yet to be set up         | Manufacture glass-fibre reinforced plastic pipes (GRP) for Municipal services business.                  |

## Major investors in the Company

- Shriram Industrial Holdings Pvt. Ltd. (Post-issue stake 31%)
- Bessemer Venture Partners Trust
- Uno Investments
- UTI-IAS

## Objects of the IPO

(RsCr)

|  | Estimated Investment | Amt Deployed (Dec'07) | IPO Proceeds |
|--|----------------------|-----------------------|--------------|
| <b>Equity Investments in:</b>              |                      |                       |              |
| <b>Associate Companies</b>                 |                      |                       |              |
| Orient Green Power Company Ltd.            | 40.0                 | -                     | 40.0         |
| Lietner Shriram Manufacturing Ltd.         | 25.0                 | 6.0                   | 19.0         |
| <b>Subsidiary Company</b>                  |                      |                       |              |
| Shriram Leitwind Ltd.                      | 15.3                 | 6.9                   | 8.4          |
| Machinery for Pipe rehabilitation projects | 7.7                  | -                     | 7.7          |

## Means of Finance

The objects of the IPO are proposed to be financed entirely out of the proceeds of the issue.

## Valuation

### Keynote Capitals Estimates

| Particulars   | FY08E  | FY09E    | FY10E    |
|---------------|--------|----------|----------|
| Sales         | 600.00 | 1,150.00 | 1,750.00 |
| Net Profit    | 28.80  | 56.35    | 87.50    |
| EBITDA margin | 8.8%   | 9.0%     | 9.2%     |
| EPS           | 6.72   | 13.14    | 20.41    |
| P/E (x)       | 49.1   | 25.1     | 16.2     |
| P/B (x)       | 3.8    | 3.3      | 2.7      |

## Peer comparison

|                 | Price |       | P/e   |       |
|-----------------|-------|-------|-------|-------|
|                 |       | FY08  | FY09  | FY10  |
| Suzlon          | 315   | 36.6  | 23.5  | 16.6  |
| Gamesa #        | 25    | 27.6  | 20.6  | 17.5  |
| Vestas ^        | 478   | 372.2 | 198.8 | 157.2 |
| SEPL            | 330   | 41.9  | 21.4  | 13.1  |
| Indowind energy | 95    | 18.6  | 13.7  | -     |
| Praj industries | 162   | 23.5  | 16.1  | -     |

Bloomberg consensus estimates for all except, Indowind energy and SEPL- Keynote Capitals Estimates.

# - price in Euros; ^ price in Danish kroner

## Investment Concerns

- The business is in early stages and is yet to achieve significant scalability.
- Order execution risks
- Top 10 clients contributed 85.2% of revenues in H1FY08.
- Dependence on JVs with international players Viz, Leitwind, Hamon Group, Orient Green Power, etc.

## Profit &amp; Loss Statements

(RsCr)

| For period ending            | 31.03.03     | 31.03.04     | 31.03.05     | 31.03.06      | 31.03.07      | 31.09.07      |
|------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>Sales:</b>                |              |              |              |               |               |               |
| EPC                          | 23.18        | 21.86        | 74.27        | 144.53        | 229.14        | 119.21        |
| WTG                          | 0.00         | 0.00         | 0.00         | 0.00          | 66.58         | 103.27        |
| <b>Net Sales</b>             | <b>23.18</b> | <b>21.86</b> | <b>74.27</b> | <b>144.53</b> | <b>295.72</b> | <b>222.48</b> |
| Raw Materials                | 0.00         | 0.00         | 0.00         | 0.00          | 46.20         | 72.17         |
| Operating expenses           | 21.29        | 19.07        | 57.16        | 118.27        | 205.69        | 115.78        |
| Employee costs               | 0.19         | 0.27         | 2.34         | 5.60          | 9.34          | 8.30          |
| Other Costs                  | 1.07         | 1.89         | 7.98         | 7.35          | 11.27         | 7.05          |
| <b>Total Expenditure</b>     | <b>22.55</b> | <b>21.24</b> | <b>67.47</b> | <b>131.21</b> | <b>272.50</b> | <b>203.29</b> |
| <b>EBIDTA</b>                | <b>0.64</b>  | <b>0.62</b>  | <b>6.80</b>  | <b>13.32</b>  | <b>23.22</b>  | <b>19.20</b>  |
| Other income                 | 0.01         | 0.03         | 0.30         | 0.97          | 4.86          | 2.64          |
| Interest                     | 0.02         | 0.02         | 3.55         | 3.84          | 4.12          | 4.18          |
| <b>EBDT</b>                  | <b>0.62</b>  | <b>0.63</b>  | <b>3.55</b>  | <b>10.45</b>  | <b>23.96</b>  | <b>17.65</b>  |
| Depreciation                 | 0.08         | 0.13         | 0.94         | 0.92          | 1.37          | 1.18          |
| EBT                          | 0.54         | 0.51         | 2.62         | 9.53          | 22.59         | 16.47         |
| Misc, exps written off       | 0.02         | 0.03         | 0.84         | 0.23          | 0.93          | 0.00          |
| <b>Net Profit before tax</b> | <b>0.53</b>  | <b>0.48</b>  | <b>1.77</b>  | <b>9.30</b>   | <b>21.66</b>  | <b>16.47</b>  |
| Total Tax                    | 0.18         | 0.25         | 0.93         | 1.85          | 8.53          | 6.03          |
| <b>Profit after Tax</b>      | <b>0.35</b>  | <b>0.23</b>  | <b>0.84</b>  | <b>7.45</b>   | <b>13.14</b>  | <b>10.44</b>  |
| <b>EBIDTA margin</b>         | <b>2.7%</b>  | <b>2.9%</b>  | <b>9.2%</b>  | <b>9.2%</b>   | <b>7.9%</b>   | <b>8.6%</b>   |
| <b>Net margin</b>            | <b>1.5%</b>  | <b>1.0%</b>  | <b>1.1%</b>  | <b>5.2%</b>   | <b>4.4%</b>   | <b>4.7%</b>   |
| <b>EPS (Rs)</b>              | <b>0.24</b>  | <b>0.11</b>  | <b>0.42</b>  | <b>1.97</b>   | <b>3.47</b>   | <b>2.76</b>   |
| <b>Book value (Rs)</b>       | <b>9.70</b>  | <b>9.74</b>  | <b>25.42</b> | <b>41.71</b>  | <b>45.01</b>  | <b>48.19</b>  |
| <b>ROE</b>                   | <b>2.4%</b>  | <b>1.2%</b>  | <b>1.6%</b>  | <b>4.7%</b>   | <b>7.7%</b>   | <b>5.7%</b>   |
| <b>ROCE</b>                  | <b>3.9%</b>  | <b>2.7%</b>  | <b>8.0%</b>  | <b>6.6%</b>   | <b>14.0%</b>  | <b>8.2%</b>   |

# KEYNOTE

## Balance Sheets

(RsCr)

| As at,                                  | 31.03.03     | 31.03.04     | 31.03.05     | 31.03.06      | 31.03.07      | 31.09.07      |
|---|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>Sources of Funds</b>                 |              |              |              |               |               |               |
| Paid up equity capital                  | 14.80        | 19.80        | 20.25        | 37.87         | 37.87         | 37.87         |
| ESOP                                    | 0.00         | 0.00         | 0.00         | 0.00          | 0.32          | 1.75          |
| Reserves & surplus                      | -0.45        | -0.51        | 1.22         | 120.09        | 132.23        | 142.89        |
| Share application money                 | 0.00         | 0.00         | 30.00        | 0.00          | 0.00          | 0.00          |
| <b>Total Shareholders funds</b>         | <b>14.35</b> | <b>19.29</b> | <b>51.46</b> | <b>157.96</b> | <b>170.43</b> | <b>182.50</b> |
| Minority Interest                       | 0.01         | 0.01         | 0.07         | 0.07          | 0.00          | 4.94          |
| Secured loans                           | 0.04         | 0.26         | 15.86        | 44.10         | 19.95         | 62.84         |
| Unsecured loans                         | 0.00         | 0.00         | 9.62         | 1.70          | 0.00          | 0.59          |
| <b>Total Debt</b>                       | <b>0.04</b>  | <b>0.26</b>  | <b>25.47</b> | <b>45.80</b>  | <b>19.95</b>  | <b>63.43</b>  |
| <b>Total Liabilities</b>                | <b>14.40</b> | <b>19.56</b> | <b>77.00</b> | <b>203.82</b> | <b>190.38</b> | <b>250.88</b> |
| <b>Applications of Funds</b>            |              |              |              |               |               |               |
| Fixed Assets-gross block                | 1.78         | 3.91         | 11.10        | 12.02         | 21.89         | 41.79         |
| - Depreciation                          | -0.24        | -0.44        | -2.00        | -2.92         | -4.28         | -7.03         |
| <b>Net Block</b>                        | <b>1.55</b>  | <b>3.47</b>  | <b>9.10</b>  | <b>9.10</b>   | <b>17.61</b>  | <b>34.77</b>  |
| Capital work in progress                | 0.00         | 0.00         | 0.00         | 0.00          | 0.00          | 0.12          |
| Goodwill on consolidation               | 0.00         | 0.00         | 0.00         | 0.00          | 0.00          | 1.37          |
| Investments                             | 4.00         | 6.59         | 2.66         | 2.69          | 17.06         | 16.35         |
| <b>Current assets, loans &amp; Adv.</b> |              |              |              |               |               |               |
| Inventories                             | 0.40         | 1.39         | 21.73        | 17.28         | 27.51         | 44.26         |
| Receivables                             | 6.77         | 5.32         | 18.70        | 62.46         | 135.64        | 217.22        |
| Cash & bank balances                    | 0.72         | 1.31         | 36.61        | 105.67        | 26.93         | 38.07         |
| Loans and advances                      | 8.16         | 5.82         | 14.42        | 43.26         | 71.37         | 90.91         |
| <b>Total current assets</b>             | <b>16.05</b> | <b>13.83</b> | <b>91.46</b> | <b>228.68</b> | <b>261.45</b> | <b>390.46</b> |
| Current Liabilities                     | 6.93         | 3.83         | 24.15        | 32.56         | 96.00         | 183.72        |
| Provisions                              | 0.07         | 0.11         | 1.26         | 3.87          | 8.84          | 5.57          |
| <b>Total current Liabilities</b>        | <b>7.00</b>  | <b>3.94</b>  | <b>25.41</b> | <b>36.43</b>  | <b>104.84</b> | <b>189.29</b> |
| <b>Net Curr. Assets</b>                 | <b>9.05</b>  | <b>9.90</b>  | <b>66.05</b> | <b>192.25</b> | <b>156.61</b> | <b>201.17</b> |
| Deferred Tax Liabilities                | 0.20         | 0.39         | 0.82         | 0.22          | 0.90          | 2.90          |
| - Misc. exps                            | 0.00         | 0.00         | -0.01        | -0.01         | 0.00          | 0.00          |
| <b>Total Assets</b>                     | <b>14.40</b> | <b>19.56</b> | <b>77.00</b> | <b>203.82</b> | <b>190.38</b> | <b>250.88</b> |

**Keynote Capitals Ltd.**

**Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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**Ratings structure**

|                                   |   |  |
|-----------------------------------|---|--|
| Subscribe & Hold                  | : | subscribe for listing gains, hold for further appreciation |
| Subscribe for listing gains       | : | expect decent appreciation on listing                      |
| Subscribe with a medium term view | : | stock can deliver only over 6-8 months after listing       |
| Subscribe with a long term view   | : | value can only be realised over 12-18 months               |
| Await listing                     | : | good fundamentals; consider valuations on listing          |

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