

**BUY**

Target Price: Rs 917

CMP : Rs 716  
 Potential Upside : 28%  
 Relative to Sector : Outperformer

**MARKET DATA**

No. of Shares : 38 mn  
 Market Cap : Rs 27 bn  
 Free Float : 34%  
 Avg. daily vol (6mth) : 224,585 shares  
 52-w High / Low : Rs 811 / Rs 118  
 Bloomberg : BFUT IB Equity  
 Promoter holding : 66%  
 FII / DII : 1% / 0%

# BF Utilities

REAL ESTATE

## A value play on Bangalore realty

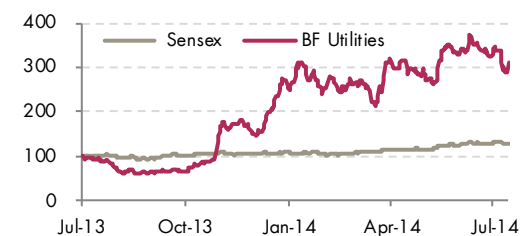
### Company financials (Consolidated)

Y/E	Revenue	EBITDA	Adj PAT	EPS	Net Debt	Networth	OPM	NPM	RoCE	EV/E (x)
Sep	(Rs mn)	(Rs mn)	(Rs mn)	(Rs)	(Rs mn)	(Rs mn)	(%)	(%)	(%)	
FY13	1,975	1,088.7	(484)	(12.9)	18,912	1,645	56.2	(25.0)	4.9	42.2
FY14E	2,387	1,453.1	(577)	(15.3)	18,844	1,068	61.9	(24.6)	5.9	31.5
FY15E	3,366	2,374.2	188	5.0	18,546	1,256	71.3	5.7	10.4	19.2
FY16E	6,098	4,798.9	2,502	66.4	16,196	3,759	79.2	41.3	20.7	9.0

Source: Company, Axis Capital

Note: Year ending is September; CMP as on July 15, 2014

### Price performance

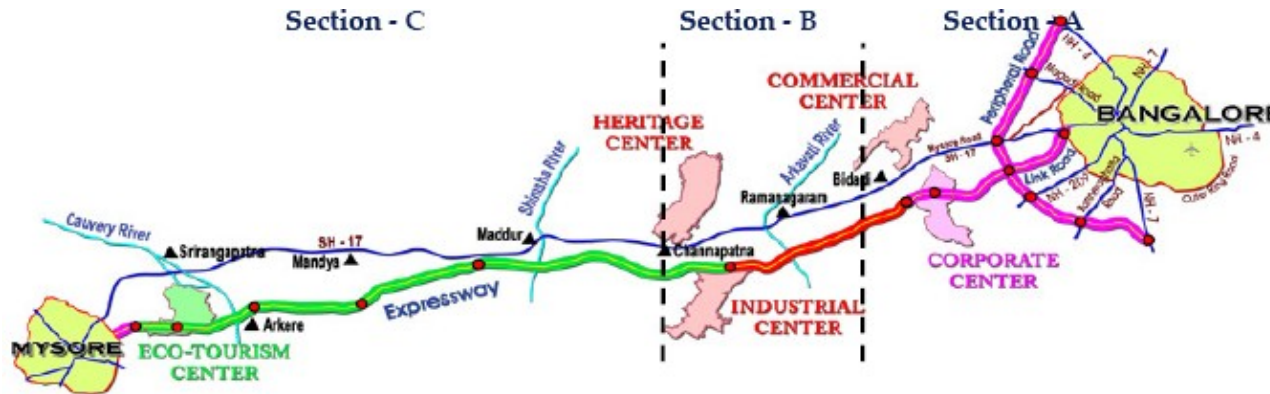


### Key drivers

(Acres)	Total	BFUL's share
Land in BMIC	20,193	8,157
Land in Sec A of BMIC	7,290	2,945
Land in possession/paid	3,418	2,945
Toll income (Rs bn)	2.0	0.9

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- ◆ BF Utilities (BFUL) is undertaking the development of the Bangalore- Mysore Infrastructure Corridor (BMIC) – one of the largest integrated infrastructure projects in India
  - BMIC project entails development of a 111 km expressway and 20,193 acres of land across various locations



Source: Company, other public sources

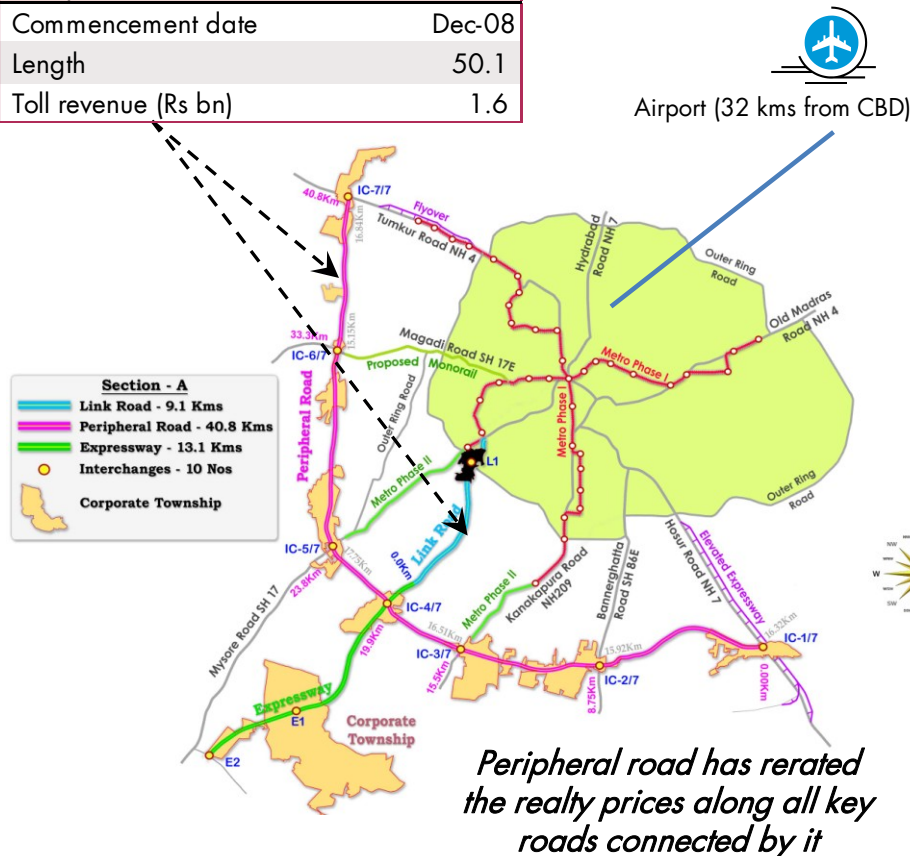
- ◆ BFUL is a play on high value land at strategic locations in Bangalore available at deep discount to market value
  - At CMP of Rs 716, BFUL offers ~1,200 acres (BFUL's share) of prime Bangalore land @ Rs 82 psf, a significant discount to prevailing market prices and valuation of other Bangalore peers. The above does not include access to an additional 476 acres (BFUL's share) of township land where acquisition is yet to be complete. If considered, implied value falls to Rs 59 psf
  - EV of annuity assets (Rs 20 bn) is equivalent to debt, with the land bank providing significant upside
- ◆ SoTP valuation of Rs 34.6 bn implies a TP of Rs 917/ share (upside of 28%)
  - Section A of BMIC project (executed by Nandi Economic Corridor Enterprises - NECE) accounts for ~95% of our TP with land valued at an implied rate of ~Rs 30 mn/ acre
  - Further upside (margin of safety) available from ~5,000 acres of land in Section A, B & C

- Currently BFUL is focused on developing only Section A of the project: Development of 63 kms toll road (completed) and 7,290 acres of land at 10 interchanges (prime locations) and 1 township (1,179 acres at Bidadi; outside of city)
  - Our valuation considers only part of Section A: 3,419 acres of prime interchange land (BFUL's share is 1,381 acres)

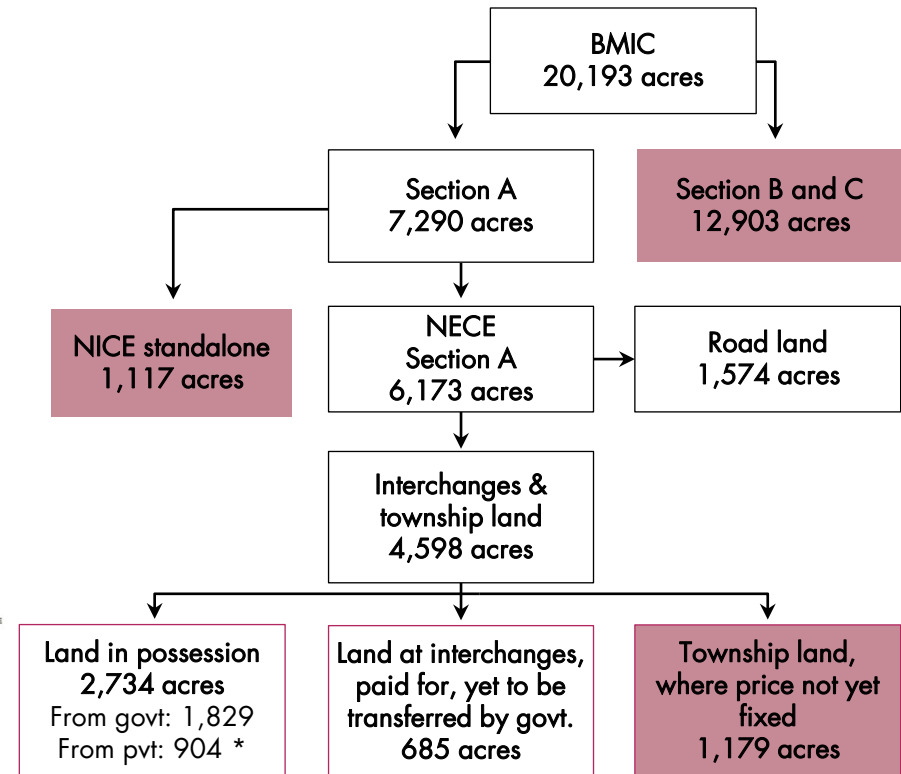
Section A of BMIC

Peripheral + Link road

Commencement date	Dec-08
Length	50.1
Toll revenue (Rs bn)	1.6



BMIC land details



Note: Not considered in our valuations

- ♦ Monetization of land bank already underway via Joint Development Agreements (JDAs) and plotted sales
  - BFUL has entered into JDAs with reputed developers for ~177 acres and also plans to develop and sell plots which involves nominal infrastructure development cost. We expect significant value unlocking as BFUL continues to enter similar JDAs
  - BFUL will not be incurring any cost in these projects with land being its only equity in these JDAs
  - Also, recently sold 6 acres of land at Rs 30 mn/ acre at Tumkur Road (~Rs 690 psf) - least attractive interchange in portfolio

**8 JDAs signed  
177 acres**

Location	Area (acres)	Est. revenues (Rs bn)
Hosur Rd	5	0.6
Link Rd	9	2.6
Link Rd	25	8.5
Mysore Rd	57	12.2
Mysore Rd	30	5.7
Tumkur Rd	31	5.7
Tumkur Rd	5	0.9
Bannerghatta Rd	15	2.6
<b>Total</b>	<b>177</b>	<b>38.7</b>

**Plotted developments  
assumed 20% of balance interchange  
land in possession i.e. 285 acres**

Location	Area (acres)	Est. revenues (Rs bn)
Hosur Rd (1/7)	27	1.4
Bannerghatta Rd (2/7)	73	4.3
Kanakapura Rd (3/7)	16	0.7
Clover Leaf (4/7)	37	1.1
Mysore Rd (5/7)	50	1.6
Magadi Rd (6/7)	29	0.6
Tumkur Rd (7/7)	38	1.1
Link Rd (L1)	14	1.7
<b>Total</b>	<b>285</b>	<b>12.5</b>

**Land bank  
~2,956 acres \***

Location	Area (acres)	Mkt value (Rs mn/ acre)	Mkt value (Rs bn)
Hosur Rd (1/7)	316	46.5	14.7
Bannerghatta Rd (2/7)	532	44.4	23.6
Kanakapura Rd (3/7)	103	37.8	3.9
Clover Leaf (4/7)	185	25.0	4.6
Mysore Rd (5/7)	413	29.4	12.2
Magadi Rd (6/7)	159	18.6	3.0
Tumkur Rd (7/7)	205	26.8	5.5
Link Rd (L1)	108	112.5	12.2
Township	936	8.0	7.5
<b>Total</b>	<b>2,956</b>		<b>87.1</b>

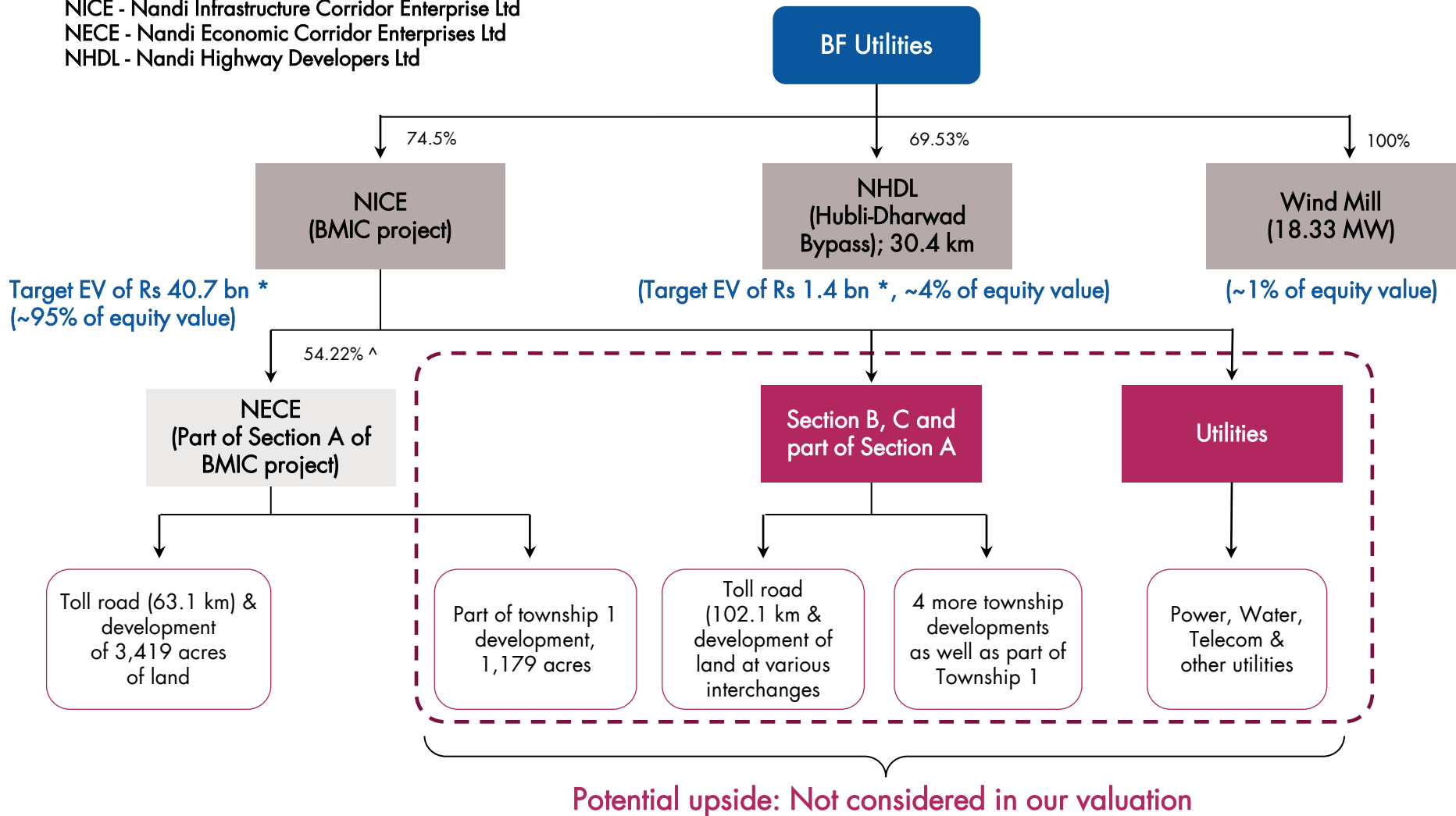
Source: Company, other public sources, Axis Capital

Development over next 12 years

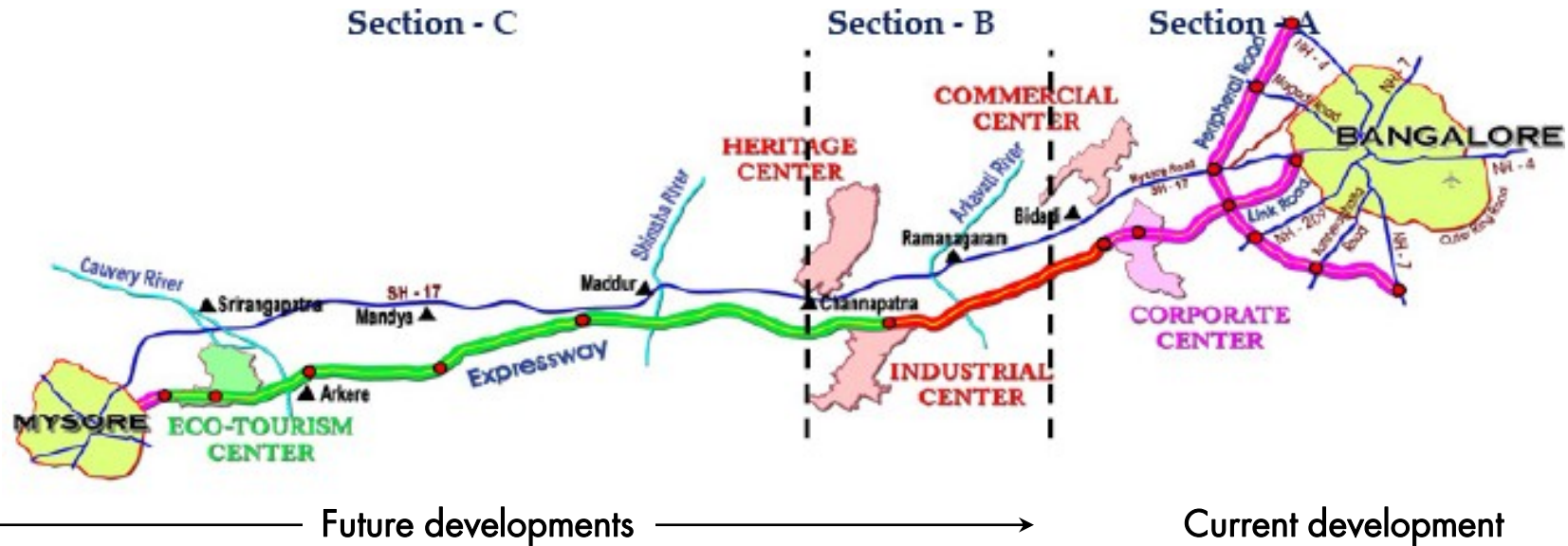
Implied value of land is  
~Rs 30 mn/ acre

EV of Rs 33 bn <sup>^</sup> = NPV of Rs 7 bn + Market value of land at Rs 26 bn

NICE - Nandi Infrastructure Corridor Enterprise Ltd  
 NECE - Nandi Economic Corridor Enterprises Ltd  
 NHDL - Nandi Highway Developers Ltd



Source: Company, other public sources, Axis Capital



**Section C**

- ◆ **Expressway:** 37 to 111 kms
- ◆ 5 Interchange developments
- ◆ **1 Township:** Eco Tourism Center
- ◆ 3.1 km of elevated section of the link road at the Bangalore side

**Section B**

- ◆ **Expressway:** 13 to 37 kms
- ◆ 1 Interchange development
- ◆ 3 townships (commercial center, heritage center and industrial center)

**Section A**

- ◆ **Link Rd:** 9.1 kms (operational)
- ◆ **Peripheral Rd:** 41 kms (operational)
- ◆ **Expressway:** 13 kms (partly complete)
- ◆ 10 Interchange developments
- ◆ 1 township (corporate center)
- ◆ **Land assets:** 7,290 acres
- ◆ Land executed by NECE: 6,173 acres

Source: Company, other public sources

**Executed by NECE - Nandi Economic Corridor Enterprises Ltd**

## Two toll roads generating ~Rs 2 bn of annual revenue

Peripheral Rd + Link Rd (Bangalore)		NHDL (Hubli – Dharwad Bypass Rd)	
BFUT's stake (%)	48%	BFUT's stake (%)	70%
Length (kms)	49.9	Length (kms)	30
Start of concession period	Dec-08	Start of concession period	May-98
End of concession period	NA	End of concession period	May-24
Annual toll revenue (Rs bn)	1.6	Annual toll revenue (Rs bn)	0.4

**EV (BFUL's share): Rs 9.5 bn**

## A wind mill (Satara district, Maharashtra)

Capacity (MW)	18.3
Tariff	Industrial
Annual revenue (Rs bn)	0.3

Power generated utilized by its group company Bharat Forge Ltd at its Pune plant

**EV (BFUL's share): ~Rs 484 mn**



	(Rs bn)
<b>Valuation of NECE</b>	
<b>JDA and Plotted developments</b>	
NPV of JDA projects & plotted developments in NECE	17.5
<i>Implied value of land (Rs mn/ acre)</i>	38
<b>Balance land bank</b>	
Balance land in possession in NECE(acres)	2956 *
Value of land bank at prevailing market values	65.3
Less: balance payments to acquire this land	0.1
<b>Net value of land bank</b>	<b>65.2</b>
<i>Implied value of land bank (Rs mn/ acre)</i>	22
<b>Peripheral + Link Rd</b>	
EV of Peripheral + Link Rd	20.1
Less: concretization cost	1.8
<b>Net value of Peripheral + Link Rd</b>	<b>18.2</b>
<b>EV of NECE (Rs mn)</b>	<b>100.9</b>
Less: Net debt on NECE	16.5
Equity value of NECE	84.4
BFUL's effective stake in NECE (%)^	40%
<b>Equity Value of BFUT's stake in NECE</b>	<b>34.1</b>
<b>Other assets</b>	
EV of NHDL (Hubli-Dharwad Bypass Rd)	2.0
Less: Net debt on NHDL	0.7
Equity value of NHDL	1.3
Equity value of BFUL's stake in NHDL	0.9
EV of Wind power business	0.5
Less: Standalone net debt on BFUL	0.9
<b>Total equity value of BFUL</b>	<b>34.6</b>
<b>Equity Value per share (Rs)</b>	<b>917</b>

Valuation methodology
◆ Of the 4,598 acres of land in NECE, 1,179 acres of land excluded (where price is yet to be fixed)
◆ DCF of JDA projects (177 acres)
◆ ~285 acres which is 20% of balance interchange area in possession assumed to be sold as plots (DCF)
◆ Balance land (~2,956) under possession or paid for in NECE valued at market value
◆ Peripheral + link road based on DCF with <b>nominal traffic and toll rate hike assumptions of 5% each</b>
◆ NHDL based on DCF
◆ Wind mill based on DCF

\* excluded 1,179 acres of land at township 1 where price is yet to be fixed

^ Stake is considering the CCPS held by JP Morgan in NECE, assumed on conversion will result into maximum of 16.3% holding in NECE (by Mar'16 or IPO, whichever is earlier) as per the management

Land bank comparison				
(Rs bn)	BFUL, excluding 1,179 acres of township land in Section A	BFUL, including 1,179 acres of township land in Section A	Sobha	Puravankara
CMP (Rs)	716	716	437	116
No. of shares (mn)	38	38	98	237
Mcap	27	27	43	27
Net debt	19	19	13	15
EV	46	46	56	42
Less: Value of ongoing portfolio (real estate)	7	7	15	24
Less: Value of annuity/ other business	9	9	3	2
<b>Implied value of balance land bank</b>	<b>29</b>	<b>29</b>	<b>38</b>	<b>16</b>
Balance land bank (msf)	355	496	227	71
<b>Implied value (Rs psf)</b>	<b>82</b>	<b>59</b>	<b>167</b>	<b>227</b>

Source: Axis Capital

Note: 1,179 acres of township land not considered in base case, as acquisition price is yet to be fixed

At CMP, BFUL's land (superior given its strategic location along interchanges) is available at a significant discount of other substantial land owning peers

## Part of township 1 Development in NECE\*

	(Rs bn)
Township + IC E1 & E2 (price is yet to be fixed) (acres)	1,179
Less: 9,600 sqft area per acre to be handed over to the land owner (acres)	260
Balance area expected to be possessed by NECE (acres)	919
Market value per acre (Rs mn/ acre)	8
Market value of land	7
Development cost of the 40% area to be handed over	1
Net value of land (Rs mn)	4
Equity Value of BFUT's stake in NECE (Rs mn)	2
<b>Equity value per share</b>	<b>45</b>

Source: Company, other public sources, Axis Capital

\* 1,179 acres of land in township 1, where price is yet to be fixed

## Part of Section A, B and C of BMIC project

	(acres)
<b>Section A (NICE portion)</b>	
Land in possession	57
Private land notified u/s 28(4) but not in possession	706
<b>Section B &amp; C</b>	
Govt. land in possession	3,101
Balance land to be acquired	10,156
<b>Total</b>	<b>14,020</b>

Once the notification under Section 28(4) of the Karnataka Industrial Areas Development Act, 1966 (KIAD Act) is issued, the landowner is only entitled to dispute the amount of compensation and not the title to the acquired land

## Utilities

- ◆ Power, Water, Telecom & other utilities
- ◆ To generate steady annuity income

- ◆ **Regulatory hurdles can result in significant delays in earnings and cash flows**
  - Development approvals from BMICPA
  - Release of land already paid for and under government control
  - Finalization of price for land acquisition at Bidadi
  
- ◆ **Significant upfront investments on infrastructure may lead to short term cash flow deficits**
  - The company's business model involves significant investments in infrastructure. If the pace of monetization of land does not pick up, the company may face cash deficit which could result in increase in debt
  
- ◆ **Conflict of interest with third party developers**
  - BFUL has entered into 8 JDAs with third party developers who are responsible for designing, approvals, marketing, sales, execution, etc. of the projects. These developers also have other projects in the vicinity, which could create a conflict of interest with JDA projects with BFUL

## Profit & loss (Rs mn)

Y/E September	FY13	FY14E	FY15E	FY16E
Net sales	1,937	2,349	3,328	6,061
Other operating income	38	38	38	38
<b>Total operating income</b>	<b>1,975</b>	<b>2,387</b>	<b>3,366</b>	<b>6,098</b>
Cost of goods sold	1	(67)	(82)	(344)
Gross profit	1,975	2,320	3,284	5,754
<i>Gross margin (%)</i>	<i>102.0</i>	<i>98.8</i>	<i>98.7</i>	<i>94.9</i>
Total operating expenses	(887)	(867)	(910)	(955)
<b>EBITDA</b>	<b>1,089</b>	<b>1,453</b>	<b>2,374</b>	<b>4,799</b>
<i>EBITDA margin (%)</i>	<i>56.2</i>	<i>61.9</i>	<i>71.3</i>	<i>79.2</i>
Depreciation	(205)	(220)	(222)	(229)
<b>EBIT</b>	<b>883</b>	<b>1,233</b>	<b>2,152</b>	<b>4,570</b>
Net interest	(2,030)	(2,022)	(1,910)	(1,804)
Other income	98	-	-	-
<b>Profit before tax</b>	<b>(1,049)</b>	<b>(789)</b>	<b>242</b>	<b>2,766</b>
Total taxation	(44)	(37)	(200)	(301)
<i>Tax rate (%)</i>	<i>(4.1)</i>	<i>(4.6)</i>	<i>82.8</i>	<i>10.9</i>
Profit after tax	(1,093)	(826)	42	2,465
Minorities	608	249	147	37
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	(484)	(577)	188	2,502
<i>Adj. PAT margin (%)</i>	<i>(25.0)</i>	<i>(24.6)</i>	<i>5.7</i>	<i>41.3</i>
Net non-recurring items	-	-	-	-
Reported net profit	(484)	(577)	188	2,502

## Balance sheet (Rs mn)

Y/E September	FY13	FY14E	FY15E	FY16E
Paid-up capital	188	188	188	188
Reserves & surplus	(2,472)	(2,800)	(2,465)	74
Minority interests	3,929	3,680	3,533	3,496
Net worth	1,645	1,068	1,256	3,759
Borrowing	19,246	19,246	19,246	19,234
Other non-current liabilities	327	327	327	327
<b>Total liabilities</b>	<b>22,559</b>	<b>22,245</b>	<b>23,672</b>	<b>28,621</b>
Gross fixed assets	14,665	14,665	14,833	15,274
Net fixed assets	12,465	12,245	12,191	12,403
Add: Capital WIP	2,102	2,102	2,102	2,102
Total fixed assets	14,568	14,348	14,293	14,505
Total Investment	370	370	370	370
Inventory	2,033	2,073	3,488	5,937
Debtors	45	45	45	45
Cash & bank	334	402	700	3,039
Loans & advances	1,349	1,146	917	871
Current liabilities	1,340	1,604	2,843	5,301
Net current assets	2,477	2,121	2,365	4,647
Other non-current assets	3,803	3,803	3,801	3,798
<b>Total assets</b>	<b>22,559</b>	<b>22,245</b>	<b>23,672</b>	<b>28,621</b>

Source: Company, Axis Capital

Note: Year ending is September

## Cash flow (Rs mn)

Y/E September	FY13	FY14E	FY15E	FY16E
Profit before tax	(1,049)	(789)	242	2,766
Depreciation & Amortisation	(205)	(220)	(222)	(229)
Chg in working capital	(1,765)	425	55	59
<b>Cash flow from operations</b>	<b>(680)</b>	<b>2,091</b>	<b>2,376</b>	<b>4,595</b>
Capital expenditure	(923)	-	(168)	(441)
<b>Cash flow from investing</b>	<b>(822)</b>	<b>-</b>	<b>(168)</b>	<b>(441)</b>
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	3,176	-	-	(12)
Dividend paid	-	-	-	-
<b>Cash flow from financing</b>	<b>1,203</b>	<b>(2,022)</b>	<b>(1,910)</b>	<b>(1,816)</b>
Net chg in cash	(300)	68	298	2,338

## Key ratios

Y/E September	FY13	FY14E	FY15E	FY16E
<b>OPERATIONAL</b>				
FDEPS (Rs)	(12.9)	(15.3)	5.0	66.4
CEPS (Rs)	(7.4)	(9.5)	10.9	72.5
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
<b>GROWTH</b>				
Net sales (%)	16.9	21.3	41.7	82.1
EBITDA (%)	37.0	33.5	63.4	102.1
<b>PERFORMANCE</b>				
RoCE (%)	4.9	5.9	10.4	20.7
<b>EFFICIENCY</b>				
Asset turnover (x)	0.1	0.1	0.2	0.3
Sales/ total assets (x)	0.1	0.1	0.1	0.2
Working capital/ sales (x)	0.7	0.8	0.5	0.3
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	8.8	14.2	16.6	7.7
Net debt/ equity (x)	8.6	13.9	16.0	6.5
Current ratio (x)	2.8	2.3	1.8	1.9
Interest cover (x)	0.4	0.6	1.1	2.5
<b>VALUATION</b>				
EV/ EBITDA (x)	42.2	31.5	19.2	9.0
EV/ Net sales (x)	23.7	19.5	13.7	7.1
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(5.9)	7.7	8.2	15.4

Source: Company, Axis Capital

Note: Year ending is September

# Annexure

- ◆ BF Utilities (BFUL) is a part of Kalyani Group (~Rs 120 bn), an Indian multi-national with high technology, engineering & manufacturing capability across various sectors
- ◆ BFUL is an **integrated infrastructure developer** engaged in the development of the Bangalore-Mysore Infrastructure Corridor (BMIC) project, one of the largest integrated infrastructure projects in India entailing the development of a 111 kms expressway, 9.1 kms Link Road, 41 kms Peripheral Road and 5 townships along the expressway
- ◆ The company has **sole and exclusive right to develop** the BMIC, which will comprise expressways, self-sustaining townships and other large mixed-use developments
- ◆ In addition to the BMIC Project, the company owns and operates the Hubli-Dharwad Bypass Road and operates a 18.33 MW wind power project in the Satara District in Maharashtra

## Business model

Toll Roads 195.5 km	Land assets proposed 20,193 acres	Utilities	Wind Power 18.33 MW
<b>Section A: 63.1 km</b> Section B & C: 102.1 km NHDL: 30.4 km	Interchanges: 2,935 acres * Townships: 12,638 acres Toll roads: 4,620 acres (Total land in Section A is 7,290 acres)	Power: 400 MW Water: 2 TMC p.a. Telecommunication Other utilities	Operational wind assets

Currently, the company is developing **Section A** of the project



BFUL	
Particulars	(% stake)
Promoters	65.6%
Free float	34.4%
<b>Total</b>	<b>100.0%</b>

Source: Company

NECE	
Particulars	(% stake)
NICE ^	64.8%
AM NICE Mauritius (JP Morgan)	12.0%
Mr. Ashok Kheny	6.4%
2i Capital	6.0%
Mr. Baba Kalyani	3.6%
Ambani Industries Pvt. Ltd.	3.0%
New India Assurance	2.3%
AIRRO	1.9%
<b>Total</b>	<b>100.0%</b>

Source: Company

^ Stake is NOT considering the CCPS held by JP Morgan in NECE

NICE	
Particulars	(% stake)
BFUL	74.5%
Mr. Ashok Kheny	20.5%
Mr. Baba Kalyani	5.0%
<b>Total</b>	<b>100.0%</b>

Source: Company

NHDL	
Particulars	(% stake)
BFUL	69.5%
Nandi Infrastructure Capital Co. Ltd.	30.5%
<b>Total</b>	<b>100.0%</b>

Source: Company

(acres) Location	Land required for the project			Land in possession		
	Total	Govt.	Private	Total	Govt.	Pvt. land on sale deed
Link Rd (L1)	156	45	111	138	45	93
Hosur Rd (1/7)	348	86	262	162	86	76
Bannerghatta Rd (2/7)	620	334	286	428	334	94
Kanakapura Rd (3/7)	119	78	41	105	78	27
Clover Leaf (4/7)	221	21	201	195	21	174
Mysore Rd (5/7)	550	136	414	376	136	240
Magadi Rd (6/7)	188	85	103	150	85	65
Tumkur Rd (7/7) ^	281	110	171	245	110	135
<b>Total Interchanges</b>	<b>2,483</b>	<b>895</b>	<b>1,589</b>	<b>1,799</b>	<b>895</b>	<b>904</b>
<b>Township + IC E1 &amp; E2</b>	<b>2,115</b>	<b>934</b>	<b>1,181</b>	<b>934</b>	<b>934</b>	<b>-</b>
<b>Township &amp; Interchanges</b>	<b>4,598</b>	<b>1,829</b>	<b>2,770</b>	<b>2,733</b>	<b>1,829</b>	<b>904</b>

Source: Company, other public sources

^ Includes 3 acres that has been sold to ITMA

**Note:** BFUL has balance possession to be handed over of 1,179 acres of land at Township and 685 acres of land at interchanges

# Axis Capital Limited

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## CONFLICT OF INTEREST DISCLOSURE

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### **Disclosure of interest statement (As of July 15, 2014)**

- |                                   |     |
|-----------------------------------|-----|
| 1. Analyst ownership of the stock | No  |
| 2. Investment Banking mandate     | Yes |

**We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision.**

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