

Issue Snapshot:

Issue period February 08 – February 11, 2010

Price Band: Rs. 410 – Rs. 450

Issue Size: Rs. 103 cr

*Issue Size: 2,288,888 equity shares

<i>QIB</i>	<i>atleast</i>	<i>13,73,333 eq sh</i>
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<i>Retail</i>	<i>atleast</i>	<i>6,86,666 eq sh</i>
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<i>Non Institutional</i>	<i>atleast</i>	<i>2,28,889 eq sh</i>
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* = assuming issue priced at higher band

Face Value: Rs 10

Book value: Rs 158.05 (December 31, 2009)

Bid size: 15 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 12.55 cr

Post issue Equity: Rs. 14.84 cr *

* = assuming issue priced at higher band

Listing: BSE & NSE

Lead Manager: IDBI Capital Market Services Ltd,
SBI Capital Market Ltd.

Registrar to issue: Bigshare Services Pvt Ltd

Current Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue % *
Promoters & Promoters Group	65.32	55.24
Public (incl others)	34.68	44.76
Total	100.0	100.0

* = assuming issue priced at higher band

CARE IPO grading: 2/5 indicating average fundamentals**Highlights of the issue:**

Arss Infrastructure Projects Ltd (AIPL) is engaged in construction activities in India. It undertakes construction of railway infrastructure, roads, highways, bridges and irrigation projects. It started as a construction company in the field of railway infrastructure development, mainly in the state of Orissa and subsequently expanded its business activities in the zonal jurisdictions of East Coast Railway, South Eastern Railway, South East Central Railway, Southern Railway and North Western Railway. It has developed expertise in railway construction projects, which includes earthwork, major and minor bridges, supply of ballast, sleepers, laying of sleepers and rails, linking of tracks etc. Over the years it has diversified its field of activities into other construction segments such as development and construction of roads, highways, bridges, irrigation projects, EPC activities for railways.

AIPL bids for projects both on a standalone basis as well as through project specific joint ventures. It has entered into joint ventures with national and international players such as PT Adhikarya (Persero), Harish Chandra (India) Limited, Triveni Engicons Private Limited, RITES, Kalindee Rail Nirman (Engineers) Limited, Patel Engineering Ltd, Rohit Kumar Das Construction Private Limited, Backbone Enterprises Ltd. and Atlanta Ltd. Its clients include Ministry of Railways, State Government of Orissa, Rail Vikas Nigam Limited, RITES Limited, IRCON International Limited, National Thermal Power Corporation, Hindustan Steel Corporation Limited, PWD – Orissa, IOCL, National Highway Authority of India, Vendata, Nalco, Jindal Steel & Power Limited, etc. It has presence in Eastern India, particularly in the state of Orissa. However, in recent years it has pursued opportunities in other parts of India including states of Chhattisgarh, Rajasthan, Jharkhand, Haryana, Kerala, Andhra Pradesh, Assam, Maharashtra, Tamil Nadu, Gujarat, Uttar Pradesh and Madhya Pradesh.

In the FY 2009, AIPL's total income was Rs. 628.22 crore and it earned net profit of Rs. 51.18 crore. Its revenues have grown at a CAGR of 116.7 % for the period FY 2007 – FY 2009 and its profit after tax has grown at a CAGR of 120.2 % over the same period. For the nine-month period ending December 31, 2009, its total income stood at Rs. 609.91 crore and it earned a net profit of Rs. 50.08 crore.

As of January 10, 2010, total value of AIPL's Order Book is Rs. 2877.53 crore, which consists of the unexecuted portions of the ongoing projects and new confirmed projects awarded to it, which is yet to commence construction.

Objects of Issue:

The objects of the Issue are:

- Investment in Joint Ventures.
- Funding long-term working capital requirement.
- General Corporate purposes.
- Public issue expenses.

Fund Requirement:

(Rs. Cr)

S. No.	Expenditure Items	Amount
1	Investment in Joint Ventures	5.0
2	Funding long term working capital requirements	86.0
3	General Corporate Purpose	*
4	Public issue expenses	*
	Total	#103.0

Funding requirements of the objects upto 103 cr will be met from the Issue Proceeds (Source: RHP)

Means of Finance:

S. No.	Expenditure Items	Amount
1	Public Issue	103.0
2	Internal Accruals	*
	Total	*

(Source: RHP)

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Risks & Concerns:

- AIPL has defaulted in making payment of interest and repayment of loans amounting to Rs. 0.24 crore, Rs. 0.12 crore and Rs. 0.23 crore during the Financial Year ended March 31, 2006, March 31, 2004 and March 31, 2003 respectively to various banks and/or financial institutions. However, as of the date, it has paid the entire aforesaid outstanding loan amount and interest. CRISIL vide its credit rating report on July 2009 has downgraded its ratings on banking facilities aggregating to Rs. 320.08 crore to DP/5 from BB/Stable/P4 as the company delayed payment of its term loan instalment.
- The authorities under the I.T. Act, conducted a search and seizure operation in AIPL's office premises and the residential premises of all its Promoters and Directors on September 26, 2003 and completed the income-tax assessment for it for the AY(s) 2001-02 to 2004-05 under Section 153A of the I.T. Act on the basis of their judgement of the income of AIPL for the aforesaid assessment years. During the course of the search and seizure operations, it has not made any voluntary disclosures to the Income Tax officials. However, its Promoters and Directors voluntarily disclosed income to the authorities under the IT Act.
- Some of AIPL's group companies namely Anil Contractors Private Limited, M/s Hindustan Construction, M/s Anil Agarwal and ARSS Engineering and Technology Private Limited are in the same line of business as AIPL. Hence, there will be common pursuits between its group companies and APIL, which may result in a conflict of interest between its group companies and the business strategies, and operations of AIPL.
- AIPL has allotted shares to its Promoters and persons forming part of the Promoter Group dated June 1, 2007 for consideration otherwise than cash. It has not obtained any separate or independent valuation of the shares so allotted to its Promoters and Promoter Group.
- In pursuance of the Share Subscription Agreement read with the Shareholders Agreement entered into between AIPL and SBI (SBI holds 7.57% stake in the pre-issue equity of the company), SBI is entitled to certain restrictive covenants, which would cease to be exercisable by SBI if AIPL is listed on the Stock Exchanges in India before December 31, 2009. SBI has vide its letter dated December 29, 2009 agreed to waive their superior rights till March 31, 2010.
- The Government of India has traditionally exercised and continues to exercise a significant influence over many aspects of the economy. AIPL's business, and the market price and liquidity of the Company's shares, may be affected by changes in Government of India's policies, including policies on taxation. Social, political, economic or other developments in or affecting India could also adversely affect AIPL's business.
- As on January 10, 2010 AIPL has an Order Book of Rs.2877.53 crore. Order Book represents projects that are considered firm, but cancellations or adjustments with respect to the scope or schedule may occur, either during the construction period or at its conclusion. It may also face problems in the course of execution of the project. Any delay, reduction in scope, revision of schedule, cancellation, execution difficulty, postponement of payment or payment default with regard to Order Book projects or any other uncompleted projects, or disputes with clients in respect of any of the foregoing, could materially harm its cash flow position, revenues and earnings. The order book has several contracts with a relatively short execution period. ARSS will have to keep up the pace of securing fresh orders to maintain current rate of growth. Current order book stands at Rs 2,877.5 crore (4.6 times 2008-09 revenues), and is well diversified with 41 per cent in the Railways segment, 40 per cent in roads, 3 per cent in irrigation and the balance in other smaller works.
- AIPL's revenues and Order book is heavily dependent on projects/engagements in Eastern India and if there is a significant decline in orders from eastern States then its revenues may be adversely affected in the future.

Competitive strengths:

- Project management expertise and track record
- Large fleet of construction equipment
- Long-term relationship with reputed clients
- Strong and diversified Order Book
- Continuous growth in AIPL's bid capacity and pre qualification capability

Conclusion:

AIPL has been a relatively small sized construction company and only, in last two years, it demonstrated significant growth in its top line. It has varied experience in several construction segments. The company started with execution of railway infrastructure development projects, and gradually expanded its scope of activities to other infrastructure segments. As of January 10, 2010 total value of AIPL's order book stand for Rs.2,877.53 crores. It has successfully executed over 60 projects involving 300 km of road & highways, 200 km of rail tracks and 10 minor & major bridges and other general civil engineering works over a span of seven years.

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Gross contract revenue grew at a CARG of 119% over the last three years with a significant year on year increase of about 99.6% in FY 09. The growth in FY 09 was on account of demand generated due to Govt's thrust on infrastructure and milestones achieved by the company in this regard.

At the price band of Rs 410-450, the offer is at a valuation of ~9 times the estimated FY10 per share earnings on a post-offer equity. A reasonable asking price and a focus on government projects make the offer from ARSS Infrastructure Projects a fair bet, but only for investors with a high-risk appetite. It could provide listing gains provided market conditions do not deteriorate further dramatically.

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