

January 27, 2012

IRB Infrastructure (IRBINF)

₹ 168

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 209 to ₹ 189
EPS (FY12E)	Changed from ₹ 13.3 to ₹ 13.9
EPS (FY13E)	Changed from ₹ 13.4 to ₹ 13.9
RATING	Unchanged

Results ahead of estimates...

IRB Infrastructure's Q3FY12 performance was ahead of our estimates on account of a better-than-expected performance in the construction division, lower-than-expected depreciation at the Surat Dahisar project (the depreciation was considered for 15 days in Q3FY12) and lower-than-expected effective tax rate. In the construction division, IRB reported net revenues at ~₹ 500 crore (jump of 9.2% YoY) with healthy EBITDA margin of ~24% despite completion of the Surat Dahisar and Kolhapur IRDP projects. During the quarter, the Panaji Goa Project was terminated due to NHAI's inability to acquire land. IRB is in the process of claiming compensation from NHAI towards cancellation. We maintain our BUY rating with an SOTP price target of ₹ 189/share.

■ Strong Q3FY12 results led by construction division

IRB reported net revenues at ~₹ 500 crore (jump of 9.2% YoY) with healthy EBITDA margin of ~24% in the construction division despite the completion of the Surat Dahisar & Kolhapur IRDP projects. Additionally, lower depreciation (₹ 72.4 crore vs. our estimates of ₹ 102.9 crore) with only 15 days depreciation for Surat Dahisar project and lower tax rate (18% vs. our estimates of 25%) led to a better performance in Q3FY12.

■ Toll revenues grow 5.6% sequentially

IRB's gross toll revenues grew 5.6% sequentially to ₹ 322 crore. The Surat Dahisar project witnessed 13.2% sequential growth to ₹ 106.3 crore. However, we highlight that the implied traffic growth rate for two out of three key projects has been muted in Q3FY12.

■ Panaji Goa project terminated by NHAI

In Q3FY12, the Panaji Goa Project was terminated due to NHAI's inability to resolve land acquisition matters, clearance of forest & environment department and dispute on toll rates with the Goa government. IRB is in the process of claiming compensation from NHAI towards cancellation (IRB is liable for compensation of ~150% of equity invested).

Valuation

At the CMP of ₹ 168, IRB is trading at 12.1x FY13E EPS and 1.7x FY13E P/BV. With a strong project portfolio & robust order book, we maintain **BUY** with an SOTP price target of ₹ 189/share (BOT project - ₹ 120/share, construction - ₹ 64/share & investment in real estate at ₹ 5/share).

Exhibit 1: Financial Performance

(₹ crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	745.5	676.6	668.8	735.9	1.3	11.5
EBITDA	341.7	313.1	293.6	321.5	6.3	16.4
EBITDA Margin (%)	45.8	46.3	43.9	43.7	215 bps	194 bps
Depreciation	72.4	102.9	58.5	62.9	15.1	23.6
Interest	142.0	125.0	82.0	141.1	0.6	73.2
PAT	131.4	82.9	133.0	110.1	19.4	-1.2

Source: Company, ICICIdirect.com Research

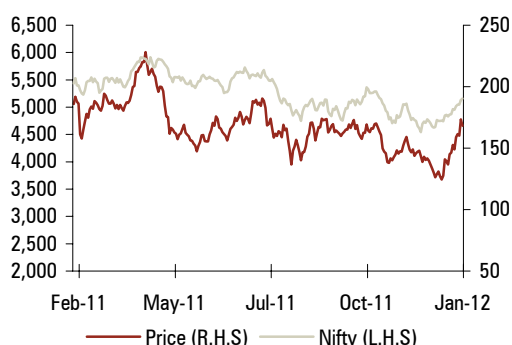
Rating matrix	
Rating	: Buy
Target	: ₹ 189
Target Period	: 12 months
Potential Upside	: 13%

Key Financials				
₹ crore	FY10	FY11	FY12E	FY13E
Net Sales	1,705	2,438.1	3,041.1	3,959.1
EBITDA	799.0	1,093.9	1,332.1	1,568.9
Net Profit	385.4	452.4	460.7	460.9
EPS (₹)	11.6	13.6	13.9	13.9

Valuation summary				
	FY10	FY11	FY12E	FY13E
P/E	14.5	12.4	12.1	12.1
Target P/E	16.3	13.9	13.6	13.6
EV / EBITDA	10.0	8.2	8.3	7.9
P/BV	2.7	2.3	2.0	1.7
RoNW (%)	18.9	18.6	16.3	14.2
RoCE (%)	12.3	12.2	10.6	10.0

Stock data	
Market Capitalization	₹ 5594 crore
Total Debt	₹ 6700 crore
Cash	₹ 1900 crore
EV	₹ 10394 crore
52 week H/L	230/122
Equity capital	₹ 332.4 crore
Face value	₹ 10
DII Holding (%)	6.5
FII Holding (%)	17.4

Price movement



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A strong construction division performance coupled with lower depreciation on account of the Surat Dahisar project led to a better-than-expected performance. This was partially offset by higher than expected interest expenses

Results ahead of our estimates

- IRB's topline grew 11.5% YoY to ₹ 745.5 crore vs. our expectation of ₹ 676.6 crore. While the construction segment net revenue saw a jump of 9.2% YoY to ~₹ 500 crore, toll net revenues grew 16.3% YoY to ~₹ 245 crore
- The operating margin came at 45.8%, which was largely in line with our expectation of 46.3%. The BOT segment had an impressive EBITDA margin of 90% vs. 88% in Q3FY11. The construction segment had a margin of ~24% despite completion of Surat Dahisar, which earlier had supported superior margins, implying that other projects under construction continue to earn higher margins
- The PAT at ₹ 131.4 crore (decline of 1.2% YoY) was substantially higher than our estimate of ₹ 82.9 crore due to superior topline, higher other income (~₹ 34 crore vs. our estimate of ~₹ 25 crore)
- Additionally, we highlight that depreciation came lower than expectation in Q3FY12 (₹ 72.4 crore vs. our estimates of ₹ 102.9 crore) and lower tax rate as Surat Dahisar depreciation was charged for 15 days in Q3FY12. Nonetheless, this was offset by higher interest expenses at ₹142 crore vs. our expectation of ₹ 125 crore. The net debt increased to ~₹ 4600 crore in Q3FY12

Surat Dahisar toll revenues rise by 13.2% sequentially

Gross toll revenues grew 5.6% sequentially to ₹ 322.3 crore (net toll revenues of ₹ 245 crore) mainly on account of a sharp jump in Surat Dahisar project toll revenues, which jumped 13.2% sequentially. The gross toll revenue per day now stands at ₹ 3.5 crore/day vs. ₹ 2.7 crore/day in Q3FY11. Net revenues per day (after accounting for government share), now stands at ₹ 2.7 crore/day vs. ₹ 2.3 crore/day in Q3FY11.

Exhibit 2: Break-up of gross toll revenues

₹ crore	Q3FY12	Q3FY11	Q2FY12	YoY(%)	QoQ(%)
Surat - Dahisar	106.3	95.5	93.9	11.3	13.2
Mumbai - Pune	100.0	80.9	99.7	23.7	0.3
Thane - Bhiwandi	15.9	13.8	14.5	15.2	9.7
Thane - Ghorbunder	7.5	7.3	6.9	2.7	8.7
Pune Nashik	5.8	5.5	5.5	5.1	5.5
Pune Solapur	4.2	3.5	3.9	20.0	7.7
Ahmednagar - Karmala	3.5	3.6	3.5	-2.8	0.0
Mohol - Mandrup	1.9	1.9	1.9	1.1	0.0
Kharpada Bridge	2.0	1.9	1.9	5.3	5.3
Bharuch - Surat	37.2	34.8	34.7	6.9	7.2
Tumkur Chitradurga	38.0		38.7	NA	-1.8
Total	322.3	248.7	305.1	29.6	5.6

Source: Company, ICICIdirect.com Research

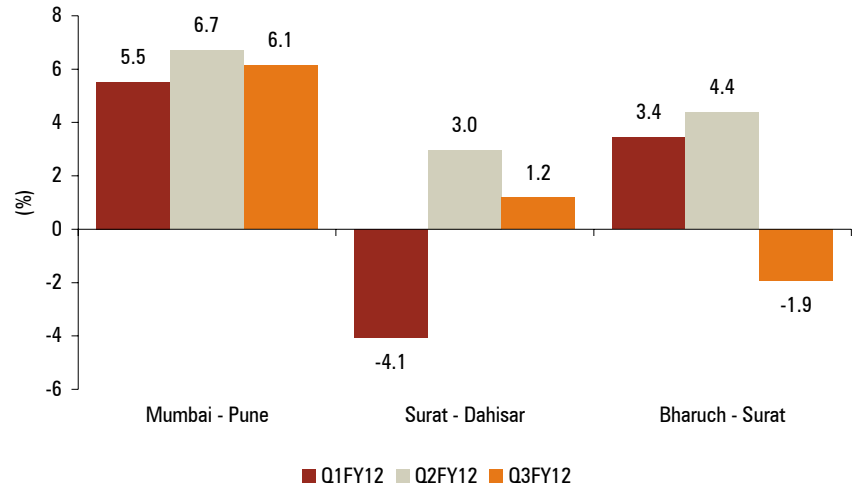
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But...traffic growth has been muted in 2 out of 3 key operational projects

While IRB's net revenues per day (after accounting for government share), now stands at ₹ 2.7 crore/day vs. ₹ 2.3 crore/day in Q3FY11, we highlight that volume growth has been muted in two out of three key projects. Only Mumbai Pune traffic volume growth has been in 5-6% in Q3FY12. As a result, we have now lowered our traffic growth assumption from FY2013 onwards to 5% for Surat Dahisar and Bharuch Surat projects. For Mumbai Pune as well we have now lowered traffic growth assumption to 6% from FY13 onwards.

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Exhibit 3: Implied volume growth



Source: Company, ICICIdirect.com Research

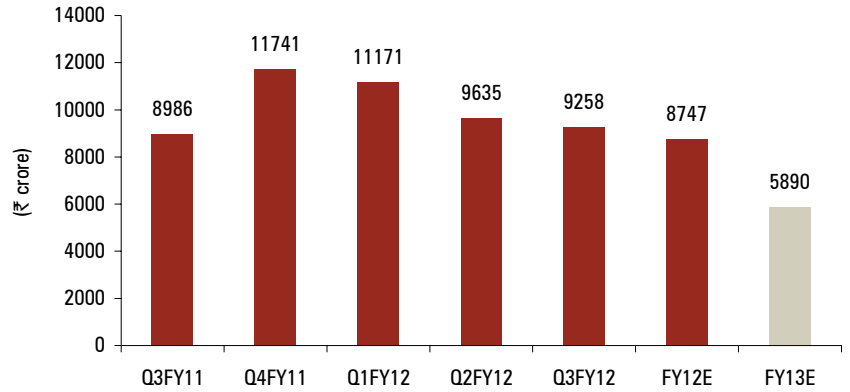
Panaji Goa project terminated by NHAI

During the quarter, the Panaji Goa Project was terminated due to NHAI's inability to resolve the issues on land acquisition, clearance of forest & environment department and dispute on toll rates with the government of Goa. The company is in the process of claiming compensation from NHAI towards cancellation (as per agreement, the company is liable for compensation of ~150% of equity invested).

Construction order book at ₹ 9,128 crore

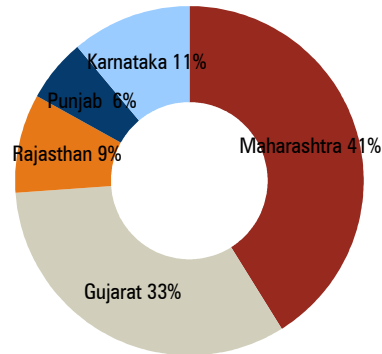
In terms of order book, the company's order book now stands at ₹ 9,128 crore. We highlight that we have not built in new order wins, going ahead in FY12 and FY13, as the management has indicated that it will not bid aggressively for new orders.

Exhibit 4: Construction order book trend



Source: Company, ICICIdirect.com Research

Exhibit 5: Geographical break up of road portfolio



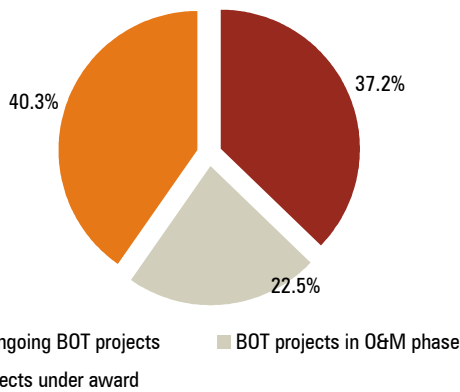
Source: Company, ICICIdirect.com Research

The company's order book now stands at ₹ 9,128 crore.

Gujarat with projects like Surat Dahisar, Surat Bharuch and Ahmedabad Vadodara now closes in with Maharashtra as the dominant contributor in terms of presence in states

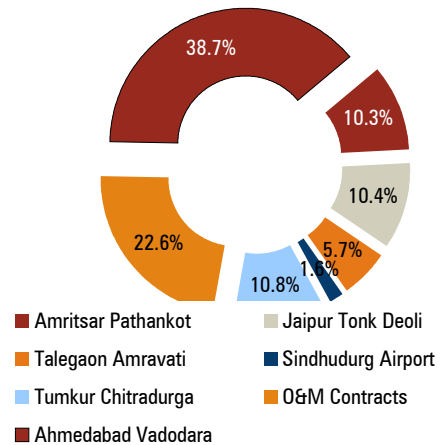
Ahmedabad Vadodara project, on which construction is expected to start from FY13, is the major contributor to the order book with ~39% share

Exhibit 6: Order book break-up



Source: Company, ICICIdirect.com, Research

Exhibit 7: Project wise order book break-up



Source: Company, ICICIdirect.com, Research

Valuation

At the CMP of ₹ 168, the stock is trading at 12.1x FY13E EPS and 1.7x FY13E P/BV. We have fine-tuned our earning estimates after incorporating superior performance in Q3FY12 and have now built in higher execution in construction order book. Consequently, we have increased the earning estimates of FY12 and FY13E by ~5% and ~4%, respectively.

BOT projects: We have valued road BOT projects using the FCFE methodology. The total BOT projects have been valued at ₹ 120/share. We have considered cost of equity of 12.5% for operational projects, 13% for the construction stage. For projects under development (Ahmedabad Vadodara project), we have considered cost of equity of 14%.

Construction business: We have valued the standalone construction business at ₹ 64/share (6x FY13E EPS).

We maintain our **BUY** recommendation on IRB with a price target of ₹ 189/share based on SOTP valuation

Exhibit 8: Valuation summary

Name of Project	Valuation Basis	Cost of Equity (%)	Total Equity Value (₹ cr)	IRB Stake(%)	IRB's stake value (₹ cr)	Value per share (₹)
Operational projects			2874.1		2881.7	86.7
Mumbai - Pune	FCFE	12.5	1385.6	100	1385.6	41.7
Bharuch - Surat	FCFE	12.5	501.7	100	501.7	15.1
Dahisar - Surat	FCFE	12.5	-75.8	90	-68.3	-2.1
Thane - Ghodbunder	FCFE	12.5	209.9	100	209.9	6.3
Thane Bhiwandi	FCFE	12.5	384.3	100	384.3	11.6
Pune - Nashik	FCFE	12.5	202.0	100	202.0	6.1
Pune - Solapur	FCFE	12.5	117.3	100	117.3	3.5
NKT project	FCFE	12.5	88.0	100	88.0	2.6
Mohol Mundurup	FCFE	12.5	41.9	100	41.9	1.3
Kharpada	FCFE	12.5	19.4	100	19.4	0.6
Under construction/development			1041.2		1117.0	33.6
Amritsar Pathankot	FCFE	13.0	367.5	100	367.5	11.1
Jaipur - Tonk - Deoli	FCFE	13.0	315.2	100	315.2	9.5
Kolhapur IRDP	FCFE	13.0	278.2	100	278.2	8.4
Talegaon Amravati	FCFE	13.0	263.4	100	263.4	7.9
Tumkur Chitradurga	FCFE	13.0	121.7	100	121.7	3.7
Ahmedabad Vadodara	FCFE	14.0	-229.0	100	-229.0	-6.9
BOT segment			3915.3		3998.8	120.3
Construction business	PE	6	2116.8	100	2116.8	63.7
Real Estate	P/BV	1	260.0	66	171.6	5.2
Total value			6292.1		6287.2	189.1

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)	FY10	FY11	FY12E	FY13E
Construction	983.5	1,618.0	2,087.2	2,857.6
BOT	721.4	820.1	953.9	1,101.5
Net Sales	1,704.9	2,438.1	3,041.1	3,959.1
Growth (%)		43.0	24.7	30.2
Direct Expenditure	785.1	1,181.2	1,499.0	2,177.5
Employee Expenses	71.0	92.9	127.9	138.6
Administrative Expenses	49.7	70.0	82.1	74.1
Total Operating Expenditure	905.9	1,344.2	1,709.1	2,390.2
EBITDA	799.0	1,093.9	1,332.1	1,568.9
Growth (%)		36.9	21.8	17.8
Interest	249.4	357.2	550.4	600.9
Depreciation	181.9	225.4	299.1	440.8
Other Income	49.0	64.5	123.4	124.2
PBT	416.7	575.8	606.0	651.4
Total Tax	13.3	111.7	142.2	200.4
PAT before MI	403.4	464.1	463.7	450.9
Minority Interest	17.9	11.7	3.0	-10.0
PAT	385.4	452.4	460.7	460.9
Growth (%)		17.4	1.8	0.0
EPS	11.6	13.6	13.9	13.9

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	332.4	332.4	332.4	332.4
Securities Premium Account	0.0	0.0	0.0	0.0
Reserve and Surplus	1,707.5	2,100.2	2,501.2	2,902.5
Secured Loan	2,903.5	4,113.9	6,311.4	7,434.6
Unsecured Loan	11.7	511.6	511.6	511.6
Minority Interest	77.9	89.6	92.6	82.6
Deferred Tax Liability	26.7	23.2	23.2	23.2
Liability side total	5,059.7	7,170.9	9,772.5	11,286.9
Assets				
Total Gross Block	423.0	532.9	582.9	632.9
Less Acc. Depreciation on Tangib	127.2	172.9	231.0	294.1
Net Block	295.7	360.0	351.9	338.8
Net Intangible Assets	4,051.9	5,510.6	7,893.7	9,653.7
Total Fixed Assets	4,347.6	5,870.6	8,245.5	9,992.5
Investments	45.1	55.1	55.1	55.1
Inventory	169.8	163.8	252.3	289.4
Debtors	29.7	39.7	49.5	64.4
Loans and Advances	438.0	634.9	764.0	1,057.1
Cash	510.3	1,200.0	1,395.7	1,116.8
Total Current Assets	1,147.8	2,038.4	2,461.4	2,527.8
Creditors	158.7	484.2	604.0	786.3
Provisions	322.9	309.9	386.5	503.1
Net Current Assets	666.1	1,244.3	1,471.0	1,238.4
Miscellaneous Expenses	0.9	0.9	0.9	0.9
Assets side total	5,059.7	7,170.9	9,772.5	11,286.9

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)	FY10	FY11	FY12E	FY13E
Profit after Tax	175.8	385.4	452.4	460.7
Depreciation	114.4	181.9	225.4	299.1
Cash Flow before working capital changes	290.2	567.3	677.8	759.9
Net Increase in Current Assets	-181.1	-19.6	-200.9	-227.4
Net Increase in Current Liabilities	61.1	160.6	312.4	196.4
Net cash flow from operating activities	170.2	708.3	789.3	728.9
(Purchase)/Sale of Fixed Assets	-811.4	-1,058.9	-1,748.3	-2,674.1
Net Cash flow from Investing Activities	-675.8	-966.6	-1,750.1	-2,671.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	463.1	429.4	1,210.4	2,197.5
Inc / (Dec) in Loan Funds	463.1	429.4	1,210.4	2,197.5
Net Cash flow from Financing Activities	398.2	353.8	1,650.6	2,137.8
Net Cash flow	-107.5	95.5	689.8	195.7
Cash and Cash Equivalent at the beginning	522.2	414.8	510.3	1,200.0
Closing Cash/ Cash Equivalent	414.8	510.3	1,200.0	1,395.7

Source: Company, ICICIdirect.com Research

Key ratios

	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	11.6	13.6	13.9	13.9
Cash EPS	17.1	20.4	22.9	27.1
BV	61.4	73.2	85.3	97.3
Operating profit per share	24.0	32.9	40.1	47.2
Operating Ratios (%)				
EBITDA Margin	46.9	44.9	43.8	39.6
PBT / Net Sales	24.4	23.6	19.9	16.5
PAT Margin	22.6	18.6	15.2	11.6
Inventory days	40.2	25.0	25.0	25.0
Debtor days	6.4	5.9	5.9	5.9
Creditor days	34.0	72.5	72.5	72.5
Return Ratios (%)				
RoE	18.9	18.6	16.3	14.2
RoCE	12.3	12.2	10.6	10.0
RoIC	13.1	11.7	9.4	7.7
Valuation Ratios (x)				
P/E	14.5	12.4	12.1	12.1
EV / EBITDA	10.0	8.2	8.3	7.9
EV / Net Sales	4.7	3.7	3.6	3.1
Market Cap / Sales	3.3	2.3	1.8	1.4
Price to Book Value	2.7	2.3	2.0	1.7
Solvency Ratios (x)				
Debt / EBITDA	3.6	4.2	5.1	5.1
Debt / Equity	1.4	1.9	2.4	2.5
Current Ratio	2.4	2.6	2.5	2.0
Quick Ratio	1.3	1.1	1.1	1.1

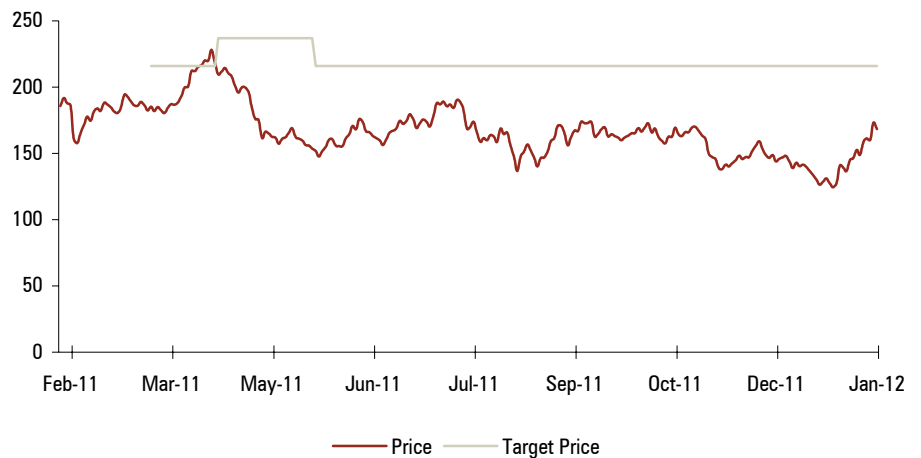
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Infrastructure)

JP Associates					Sales (₹ Crore)	EPS (₹)	PE (x)	P/BV(x)	RoNW (%)	RoCE (%)
Idirect Code	JAIASS	CMP	73	FY10	10,088.9	4.2	13.6	1.4	11.7	8.0
Mcap (₹ crore)	15481	Target	82	FY11	12,966.5	3.6	16.1	1.2	12.7	8.0
		% Upside	13%	FY12E	14,294.4	3.6	15.9	1.1	7.5	8.2
				FY13E	16,913.9	4.7	12.3	1.1	9.0	9.1
GMR Infra										
Idirect Code	GMRINF	CMP	30	FY10	4,566.5	0.4	62.5	1.5	2.3	3.4
Mcap (₹ crore)	11812	Target	32	FY11	5,773.8	-0.6	NA	1.1	-11.0	2.6
		% Upside	5%	FY12E	7,652.8	-0.5	NA	1.1	-1.9	2.9
				FY13E	9,689.6	0.4	62.4	1.1	1.8	4.1
GVK Power										
Idirect Code	GVKPOW	CMP	15	FY10	1,786.6	1.0	13.2	0.7	4.9	4.2
Mcap (₹ crore)	2290	Target	31	FY11	1,914.7	1.0	13.3	0.6	4.6	3.3
		% Upside	114%	FY12E	2,053.7	1.0	12.8	0.6	4.5	2.4
				FY13E	2,353.0	1.2	10.7	0.5	5.1	3.9
IRB Infrastructure										
Idirect Code	IRBINF	CMP	168	FY10	1,704.9	11.6	14.5	2.7	18.9	12.3
Mcap (₹ crore)	5594	Target	189	FY11	2,438.1	13.6	12.4	2.3	18.6	12.2
		% Upside	12%	FY12E	3,041.1	13.9	12.1	2.0	16.3	10.6
				FY13E	3,959.1	13.9	12.1	1.7	14.2	10.0

Source: Company, ICICIdirect.com Research

Exhibit 9: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
14-Mar-11	Initiating Coverage	186	216	BUY
11-Apr-11	Event Update	221	237	HOLD
25-May-11	Q4FY11 Result Update	152	216	BUY
21-Jul-11	Q1FY12 Result Update	184	216	BUY
14-Nov-11	Q1FY12 Result Update	164	216	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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