



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,356	IVRC IN
	REUTERS CODE
S&P CNX: 4,333	IVRC.BO
Equity Shares (m)	129.7
52-Week Range	627/250
1,6,12 Rel. Perf. (%)	-8/-12/-16
M.Cap. (Rs b)	42.0
M.Cap. (US\$ b)	0.9

31 July 2008

Buy

Previous Recommendation: Buy

Rs301

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	23,465	1,415	10.9	25.5	27.5	2.9	15.7	14.2	1.8	18.4
3/08A	36,646	2,052	16.2	48.8	18.5	2.6	14.6	15.0	1.3	13.5
3/09E	49,049	2,540	19.6	20.7	15.3	2.3	15.8	15.8	1.0	10.5
3/10E	68,308	3,417	26.4	34.5	11.4	1.9	18.4	18.7	0.8	7.8

- 1QFY09 below estimates:** During 1QFY09, IVRCL reported revenues at Rs9.3b (+37.1% YoY), marginally ahead of our estimates of Rs9.2b (+35.1% YoY). EBITDA margin stands at 8.8%, lower than our estimate of 9.5%, as transportation segment contributed 18% to revenues, where margins have been impacted (fixed price contracts). Net profit is at Rs435m (+14.6% YoY), lower than our estimate of Rs472m, largely due to higher interest cost.
- Order book up 30% YoY at Rs124b:** Order Book stands at Rs124b at June 08, vs Rs95b in June 07, up 30% YoY. Also, as at June 08, IVRCL is L1 in projects of Rs24b, vs. Rs10b in June 07. Contribution of buildings and power segment in order book has increased to 28% in June 08 (vs 22% in June 07), while share of transportation projects has reduced from 17% in Mar 07 to 7% as at June 08. This is positive for margins, given that transportation segment enjoys comparatively lower margins.
- FY09 guidance downgrade:** 1) FY09 Revenue guidance maintained at ~35%, while EBIDTA margin guidance downgraded to ~10%, vs. 10.5% earlier 2) ~93% of existing order book has cost escalation, with 70% star rate and 30% WPI/RBI index linked 3) Capex of plan of Rs1.2-1.4b for FY09. We expect FY09 interest cost at Rs936m, vs. Rs780m earlier due to increased cost of borrowings.
- Valuation and view:** We have downgraded FY09 (by 4.1%) and FY10 (by 8.0%) earnings, to factor in lower EBIDTA margins and higher interest cost. We expect IVRCL to report net profit of Rs2.5b in FY09 (up 21% YoY) and Rs3.4b in FY10 (up 35% YoY). At CMP of Rs301/sh, stock quotes at 15.3x FY09 and 11.4x FY10E. Adjusted for IVR PUDL, HDO, BOT projects, etc value of Rs87/sh, the stock quotes at PER of 10.9x FY09 and 8.1x FY10E. Maintain **Buy**.

Q/YE MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	6,773	6,885	9,749	13,217	9,285	9,067	12,605	18,093	36,606	49,049
Change (%)	58.8	88.9	86.6	33.2	37.1	31.7	29.3	36.9	58.8	34.0
EBITDA	600	553	1,084	1,387	820	780	1,349	1,952	3,614	4,901
Change (%)	47.5	79.4	94.9	29.3	36.6	41.0	24.4	40.7	57.0	35.6
As of % Sales	8.9	8.0	11.1	10.5	8.8	8.6	10.7	10.8	9.9	10.0
Depreciation	66	76	87	99	102	107	113	115	328	437
Interest	57	76	177	208	194	172	177	393	478	936
Other Income	10	16	8	11	26	15	12	-4	45	49
PBT	488	416	829	1,092	550	516	1,071	1,440	2,853	3,578
Tax	108	64	218	359	115	155	375	393	749	1,037
Effective Tax Rate (%)	22.2	15.3	26.3	32.9	20.9	30.0	35.0	27.3	26.2	29.0
Reported PAT	380	353	611	733	435	361	696	1,048	2,105	2,540
Adj PAT	380	353	558	733	435	361	696	1,048	2,052	2,540
Change (%)	45.4	127.0	105.7	0.1	14.6	2.4	24.8	43.0	45.1	23.8

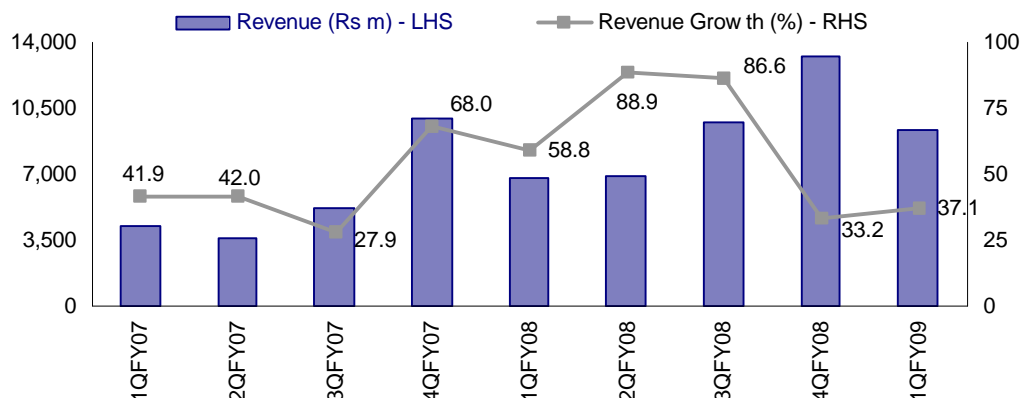
E: MOST Estimates

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During 1QFY09, IVRCL reported revenues at Rs9.3b (+37.1% YoY), marginally ahead of our estimates of Rs9.2b (+35.1%YoY)

REVENUE GROWTH TREND



Source: Company/Motilal Oswal Securities

Transportation segment contributed 18% to revenues during 1QFY09, and 7% of order book. This is positive for margins, given that the segment enjoys comparatively lower margins

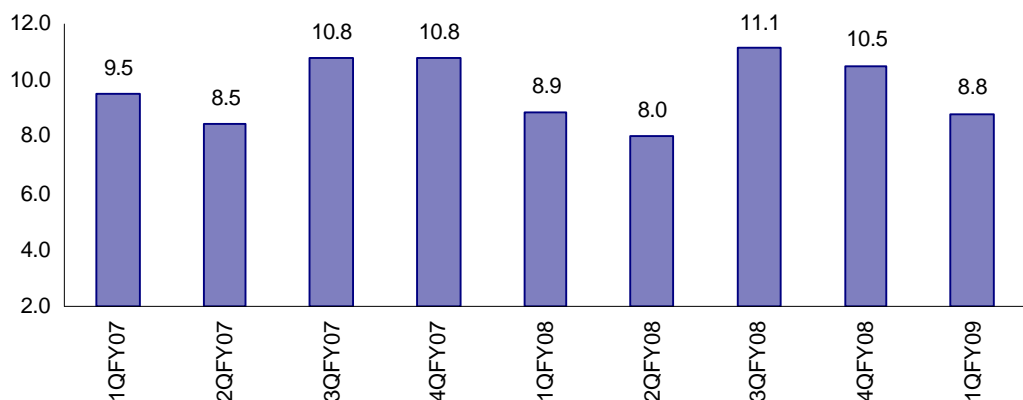
REVENUE GROWTH TREND

	FY07				FY08				FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Water and Environmental Projects	46.1	47.9	45.4	57.3	36.1	36.3	58.5	54.3	42.0
Roads and Bridges	26.3	14.1	4.8	15.6	22.6	21.8	20.5	14.4	18.0
Building and Industrial Structures	19.6	16.0	18.5	15.6	26.5	29.6	13.8	13.3	19.0
Power and Transmission Lines	8.1	22.1	31.3	11.6	14.8	12.3	7.2	18.0	21.0

Source: Company/Motilal Oswal Securities

Fixed price projects in Transportation projects (contributing 18% to revenues during 1QFY09) led to margin pressures

EBITDA MARGIN TREND, %



Source: Company/Motilal Oswal Securities

IVRCL: SMALL PROPORTION OF FIXED CONTRACTS

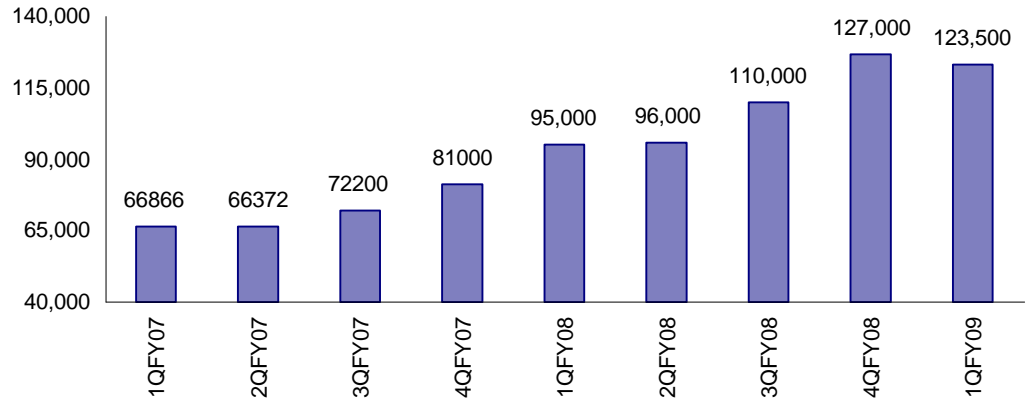
	VARIABLE PRICE (%)	FIXED PRICE (%)
Gammon India	80	20
HCC	95	5
IVRCL	93	7
L&T	70	30
NCC	70	30
Patel Engineering	90	10
Simplex	85	15

Source: Motilal Oswal Securities

For IVRCL, ~93% of existing order book has cost escalation, with 70% star rate and 30% WPI/RBI index linked

Order Book stands at Rs124b at June 08, vs Rs95b in June 07, up 30% YoY. Also, as at June 08, IVRCL is L1 in projects of Rs24b, vs Rs10b in June 07

ORDER BOOK TREND, RS M



Source: Company/Motilal Oswal Securities

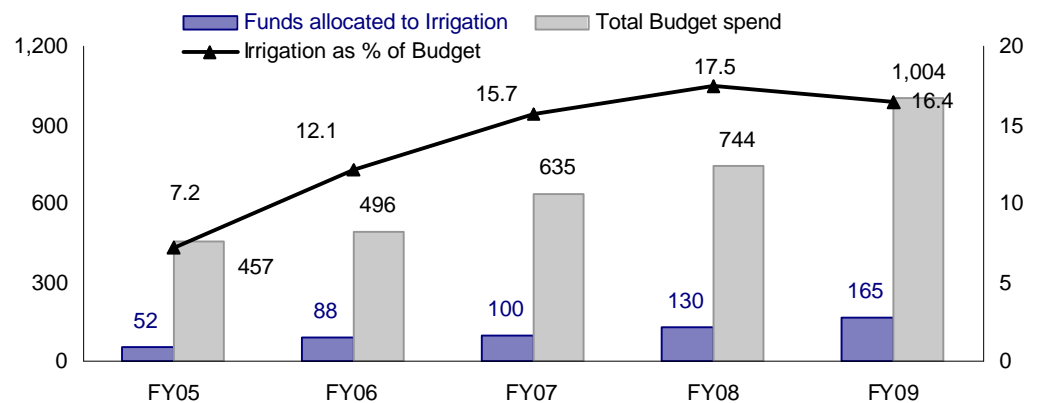
Share of transportation projects in order book has reduced from 17% in Mar 07 to 7% in June 08, which is positive for margins

FAVORABLE ORDER BOOK COMPOSITION (%)

	FY07				FY08				FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Water and Environmental Projects	52	51	50	56	61	63	58	61	65
Roads and Bridges	27	30	26	22	17	16	12	8	7
Building and Industrial Structures	14	13	12	11	13	14	21	23	22
Power and Transmission Lines	6	6	11	11	9	8	9	8	6

Source: Company

IRRIGATION SPEND BY ANDHRA PRADESH GOVERNMENT (RS B)



Source: Motilal Oswal Securities, AP Budget

SUBSIDIARY PERFORMANCE (RS M)

	REVENUE				PAT			
	1QFY09	1QFY08	% YOY	FY08	1QFY09	1QFY08	% YOY	FY08
IVR Prime	287.0	208.4	37.7	5,958.1	54.4	15.0	262.7	1,757.9
Hindustan Dorr oliver	845.2	545.4	55.0	3,050.7	61.3	35.2	74.1	226.3

Source: Company

IVR Prime Urban: Focus towards early monetization

IVR Prime Urban has land bank of 3,086 acres, representing development area of ~85m sq ft in cities of Hyderabad, Chennai, Bangalore, Pune and NOIDA. Planned projects include residential, commercial, retail and hotel projects, etc. scheduled for completion by 2011. The management informed that the work on the Jigny project in Bangalore has started while the excavation work is over at Gachibowli IT park project and construction has begun. The company has also obtained the land development permission from the local government at NOIDA. Of the current total development, Chennai accounts for 63% of the developable area while the second highest concentration is in the city of Pune at 12%. The significant land bank of the company in Chennai is in the town of Sriperumbudur, which accounts for 34.2m sq.ft (45% of the total area) of the total developable area of 75.46m sq.ft. Outstanding land cost stands at ~Rs3.8b largely towards Noida land, payable over next 4 years.

LAND BANK DETAILS

CITY	ACRES	CURRENT STATUS
Pune	1,050	Construction not yet started
Hyderabad	49	Part of 7msf, where the construction has started
Vizag	220	Construction has started
Bangalore	225	Part of 7msf, where the construction has started
Noida	100	Construction has started , completion by 2011
Chennai*	1,442	Construction on 600 acres will start during next 6 months
Total	3,086	

* Kotak Realty has acquired 28% stake in 600 acres of the existing land bank at Chennai

Source: Company

*IVR prime plans to develop
9msf during FY09*

Limited incremental commitments towards BOT projects: A positive

IVRCL has a portfolio of four BOT projects which are in various stages of completion, with all of them getting completed by end FY09. The company currently has a BOT portfolio of 4 projects, with combined capital investment of Rs16.5 (IVRCL's share). The total equity contribution for all these 4 BOT projects is at Rs3.0b, of which the company has already invested almost entire amount. But during this concall management indicated that they have plan to invest further Rs600m in the Chennai desalination plant. Also, the management stated that they are not looking at aggressively bidding for new BOT projects going forward, which would restrict equity commitments.

BOT PROJECT PORTFOLIO (RS M)

PROJECT NAME	PROJECT COST	DEBT	EQUITY	GRANT	IVRCL SHARE (%)	IVRCL EQUITY
Jalandhar - Amritsar Road Project	2,377	1,570	413	395	100	413
Salem to Kumarapalayam	5,011	2,921	800	1,290	100	800
Kumarapalayam – Chenagmpalli	4,214	3,389	651	175	100	651
Chennai Desalination*	4,900	3,780	1,120	0	75	840
Total	16,503	11,660	2,984	1,860		2,704

Large part of the equity commitments have already been invested

Source: Company

Valuation and view: We have downgraded FY09 (by 4.1%) and FY10 (by 8.0%) earnings, to factor in lower EBIDTA margins and higher interest cost. We expect IVRCL to report net profit of Rs2.5b in FY09 (up 21% YoY) and Rs3.4b in FY10 (up 35% YoY). At CMP of Rs301/sh, stock quotes at 15.3x FY09 and 11.4x FY10E. Adjusted for IVR PUDL, HDO, BOT projects, etc value of Rs87/sh, the stock quotes at PER of 10.9x FY09 and 8.1x FY10E. Maintain **Buy**.

SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	Construction	FY10E PER (x)	12	41,004	316	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Current market cap		1,399	11	20% discount to current stock price
IVR Prime Urban Developers	Real Estate	Current market cap		5,924	46	20% discount to current stock price
BOT Projects						
A) Projects under Construction Phase						
Chennai Desalination Project	Desalination project	Book Value	1	840	6	RoE of 20%
Jalandhar Amritsar Road Project	BOT Road	Book Value	1	413	3	RoE of 28-30%
Tamil Nadu Road Projects (2 Nos)	BOT Roads	Book Value	1	1,451	11	RoE of 18-20%
Future Investments in BOT	BOT	Book Value	1	1,000	8	Book Value of Investments till Mar 09
E&P (Alkor Petro)	E&P	Book Value		210	2	Book Value of Investments till Mar 09
Total				52,241	403	

Source: Motilal Oswal Securities

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by Mr. E. Sudhir Reddy. It's niche and key area of operation is the 'water' segment, under which it executes industrial projects, irrigation works, desalination projects and builds sewerage systems. During FY06, ~51% of the revenues were earned from this division and the company had a 28% strike rate of order procurement. The company has also geared up in terms of pre-qualifications to bid for large road projects independently and has started bidding for BOT projects as well.

Key investment arguments

- Reported order backlog at the end of Mar is Rs127b.
- Has one of the largest BOT portfolio (4 projects with investment of Rs17.6b) with diversified presence in roads and desalination projects.

Key investment risks

- Promoter stake is low at 9% as on March 2008
- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

Recent developments

- It has acquired a 23% stake in an E&P company called Alkor Petroo Ltd at a cost of Rs70m. The company will invest US\$50m over the next five years in the exploration phase.

Valuations and view

- We expect IVRCL to report net profit of Rs2.5b in FY09 (up 21% YoY) and Rs3.4b in FY10 (up 35% YoY).
- At CMP of Rs301/sh, stock quotes at 15.3x FY09 and 11.4x FY10E. Maintain **Buy**.

Sector view

- We believe that the short term environment remains challenging due to macro headwinds from higher commodity prices and borrowing costs.
- But given the underpenetration of the infrastructure in the country, we remain positive on the sector in the medium to long term.

COMPARATIVE VALUATIONS

		NCC	IVRCL	HCC
P/E (x)	FY09E	16.3	15.1	23.1
	FY10E	13.0	11.2	13.9
P/BV (x)	FY09E	1.6	2.2	1.6
	FY10E	1.4	1.9	1.4
EV/Sales (x)	FY09E	1.0	1.0	1.0
	FY10E	0.9	0.8	0.7
EV/EBITDA (x)	FY09E	10.3	10.3	8.2
	FY10E	8.8	7.7	6.1

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	9.6	9.6	9.9
Domestic Inst	17.7	18.4	11.8
Foreign	58.3	58.7	61.3
Others	14.5	13.4	17.0

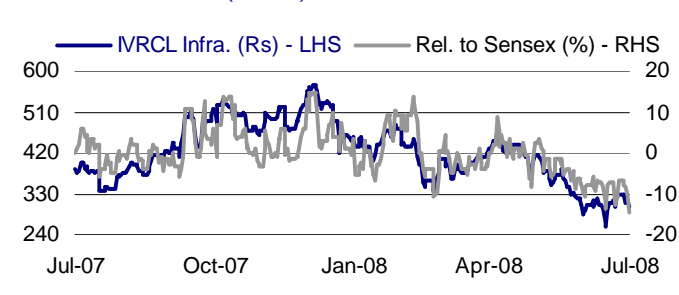
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	19.6	19.3	1.4
FY10	26.4	26.3	0.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
301	403	34.1	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Net Sales	15,214	23,465	36,646	49,049	68,308	
Change (%)	44.2	54.2	56.2	33.8	39.3	
Total Expenditure	13,871	21,163	33,030	44,148	61,262	
EBITDA	1,343	2,301	3,616	4,901	7,046	
% of Net Sales	8.8	9.8	9.9	10.0	10.3	
Depreciation	110	216	328	437	577	
Interest	253	308	479	936	1,423	
Other Income	57	74	45	49	54	
PBT	1,037	1,851	2,853	3,578	5,100	
Tax	108	436	749	1,037	1,683	
Rate (%)	10.4	23.6	26.2	29.0	33.0	
Reported PAT	930	1,415	2,104	2,540	3,417	
Adjusted PAT	930	1,415	2,052	2,540	3,417	
Change (%)	63.8	52.2	45.1	23.8	34.5	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Share Capital	214	259	259	259	259	
Share Application Money	0	0	0	0	0	
Reserves	4,555	12,918	14,706	16,865	19,770	
Net Worth	4,769	13,177	14,966	17,125	20,029	
Loans	6,786	5,552	10,648	14,173	18,214	
Deferred Tax Liability	41	56	56	56	56	
Capital Employed	11,597	18,785	25,670	31,355	38,299	
Gross Fixed Assets	1,580	2,593	4,249	5,599	7,399	
Less: Depreciation	473	664	992	1,429	2,006	
Net Fixed Assets	1,107	1,929	3,257	4,170	5,393	
Capital WIP	266	506	150	300	300	
Investments	2,765	2,829	4,061	5,211	7,411	
Curr. Assets	13,002	26,683	32,509	40,757	51,683	
Inventory	286	825	1,289	1,725	2,403	
Debtors	4,765	6,332	10,040	13,438	18,714	
Cash & Bank Balance	2,443	2,238	810	1,887	2,208	
Loans & Advances	1,156	10,919	10,176	10,063	9,357	
Other Current Assets	4,352	6,367	10,193	13,643	19,000	
Current Liab. & Prov.	5,543	13,121	14,306	19,083	26,488	
Creditors	3,818	10,032	9,502	12,700	17,623	
Other Liabilities	1,573	2,863	4,471	5,985	8,335	
Provisions	152	227	333	398	530	
Net Current Assets	7,459	13,561	18,203	21,673	25,195	
Application of Funds	11,597	18,825	25,670	31,355	38,299	

E: MOST Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Basic (Rs)						
Adjusted EPS	8.7	10.9	16.2	19.6	26.4	
Growth (%)	30.1	25.5	48.8	20.7	34.5	
Cash EPS	9.7	12.6	18.4	23.0	30.8	
Book Value	44.6	101.9	115.4	132.1	154.5	
DPS	10	10	2.1	2.5	3.4	
Payout (incl. Div. Tax.)	13.5	10.7	13.0	13.0	13.0	
Valuation (x)						
P/E (standalone)		27.5	18.5	15.3	11.4	
Cash P/E		23.9	16.4	13.1	9.8	
EV/EBITDA		18.4	13.5	10.5	7.8	
EV/Sales		18	13	10	0.8	
Price/Book Value		2.9	2.6	2.3	1.9	
Dividend Yield (%)		43.1	91.0	109.9	147.8	
Profitability Ratios (%)						
RoE	21.1	15.7	14.6	15.8	18.4	
RoCE	14.2	14.2	15.0	15.8	18.7	
Turnover Ratios						
Debtors (Days)	114	98	100	105	100	
Inventory (Days)	7	13	13	13	13	
Creditors (Days)	105	184	115	115	115	
Asset Turnover (x)	17	15	16	17	2.0	
Leverage Ratio						
Debt/Equity (x)	14	0.4	0.7	0.8	0.9	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
PBT before Extraordin:	1,037	1,851	2,853	3,578	5,100	
Add : Depreciation	110	216	328	437	577	
Interest	253	308	479	936	1,423	
Less : Direct Taxes Paid	108	436	749	1,037	1,683	
(Inc)/Dec in WC	-4,284	-6,307	-6,069	-2,394	-3,200	
CF from Operations	-2,991	-4,368	-3,157	1,518	2,216	
(Inc)/Dec in FA	-526	-1,278	-1,300	-1,500	-1,800	
(Pur)/Sale of Investments	-2,448	-64	-1,232	-1,150	-2,200	
CF from Investments	-2,975	-1,342	-2,532	-2,650	-4,000	
(Inc)/Dec in Networth	-54	7,200	-40	0	0	
(Inc)/Dec in Debt	4,315	-1,234	5,096	3,525	4,040	
Less : Interest Paid	253	308	479	936	1,423	
Dividend Paid	125	152	316	381	513	
CF from Fin. Activity	3,882	5,506	4,261	2,208	2,105	
Inc/Dec of Cash	-2,084	-204	-1,428	1,077	321	
Add: Beginning Balance	4,527	2,443	2,238	810	1,887	
Closing Balance	2,443	2,239	810	1,887	2,208	



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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