

BUY

Price Rs326

Target Price Rs380 **%Upside** 17↑

Market Capitalisation Rs43,454mn (US\$939mn)

52 week range H/L (Rs) 425/96

Shares o/s (mn) 133.5 **Daily vol (mn)** 2.87

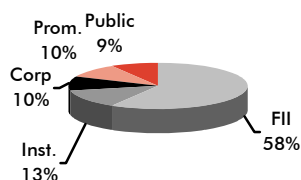
Reuters IVRC.BO **Bloomberg** IVRC IN

Perfm(%) **1M** (16.7) **3M** (12.4) **12M** 184.8 **YTD** (14.2)
Absolute **Rel. to Sensex** (10.9)(13.6) 61.6 (7.9)

BSE Sensex 16,307 **Nifty** 4,867

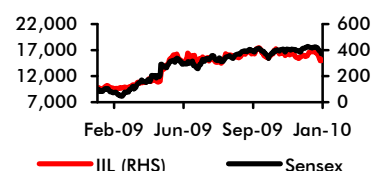
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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IVRCL

Execution disappoints

- Slow execution in AP projects led to flat revenue growth YoY, key reason being delay in payments, though the overall exposure to AP in order book has come down to 24%, we expect pick up only from H1FY11e. We cut our earning estimates by 10-20% over FY-11e.
- Margins expansion by 70bps helped EBIDTA grow by 6% YoY. Higher interest cost and full tax provisioning led to a marginal dip in net profits
- Order book position robust at Rs220bn (4x FY10e revenues) including L1 orders of Rs45bn. IIL bagged Rs12.5bn of DBFOT Road order in Gujrat-MP border section.
- We retain BUY on the stock with a reduced target price of Rs380; robust order book does not warrant multiple rerating at this juncture due to slow execution.

Key takeaways from IIL's 3QFY10 performance:

- Q3FY10 performance was below our and consensus expectations a continuation of Q2FY10 trend.
- BOT's nearing completion and Annuity revenues would start accruing from H1CY10. Post restructuring IIL may look at dilution at IVR Infra to fund new BOT's
- Order book de-risked to AP which now contributes about 24%, roads segment to be the key driver going forward.

We retain BUY with an SOTP target price of Rs380

We retain BUY on the stock with a SOTP-based target price of Rs380 (we value IIL at Rs285 based on 13x FY11E earnings; BOT assets contribute Rs33 to TP, while subsidiaries, Rs62. Company is prequalified in 12-14 NHAI projects and is expecting robust ordering activity in next 2-3 quarters in the roadways segment. We believe that IIL's robust order book does not warrant multiple re-rating unless order execution surprises us positively.

Key risks

(a) Slower execution; (b) cost overruns; (c) increase in debtor days; (d) slowdown in ordering activity; (e) increase in interest rates; (f) recently IIL's Lucknow office was raided by the Income tax and Enforcement Directorate and they have seized some documents relating to government contracts. Any negative outcome may impact our estimates.

Exhibit 1: Key financials

YE March (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	23,005	36,508	48,819	52,618	68,477
EBITDA	2,270	3,519	4,218	4,867	6,642
Net profit	1,245	2,105	2,260	1,978	2,960
EPS (Rs)	9.6	15.8	16.9	14.7	21.9
RoE (%)	16.2	14.9	13.2	10.3	13.7
RoCE (%)	12.4	13.2	11.3	9.2	11.6
P/E (x)	33.9	20.6	19.2	22.2	14.8

Source: Company, Ambit Capital research estimates

3QFY10 performance

- IIL's results came in below our expectation; revenue grew (0.5%) YoY, while EBITDA and net margin grew 6.6% and (1.5%) YoY. Net profits declined as the tax rate increased from 16% to 33% YoY owing to the company earlier claiming MAT, as a developer.
- EBITDA margin improved 70bps YoY to 9.8% for 3QFY10 on account of lower masonry and subcontracting cost; management has indicated 9.5%-9.75% guidance for the full year.
- Order book at Rs220bn includes Rs45bn of L1 orders. 4x FY10E Ambit Capital revenue estimates.
- AP contribution to reduce from the current 29% to 24%, as L1 orders are outside the state.

Exhibit 2: 3QFY10 financials

Rs mn	Q3FY10P	Q3FY10A	Q3FY09	Q2FY10	YoY %	QoQ %	P vs A %
Sales	15,101	11,840	11,896	12,178	-0.5	-2.8	-21.6
EBITDA	1,394	1,156	1,085	1,145	6.6	1.0	-17.1
PAT	631	458	465	488	-1.5	-6.0	-27.4

Note: P- Projected A-Actual; Source: Company, Ambit Capital research

New estimates - cutting estimates by 10-20%

We believe that slackness in execution would continue further in Q4FY10 and growth would pick up only from H1FY11e. We model for lower execution in irrigation project and cut our estimates by 10-20% over FY10-11e.

We remain bullish on overall prospects of the company and believe that execution pick up would be the key-driver for stock re-rating.

Exhibit 3: New Estimates

Rs mn	New		Old		Change(%)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Income	52,618	68,477	61,089	76,888	(13.9)	(10.9)
EBITDA	4,867	6,642	5,651	7,458	(13.9)	(10.9)
EBIT	4,260	5,920	5,043	6,736	(15.5)	(12.1)
PBT	2,964	4,437	3,734	4,990	(20.6)	(11.1)
PAT / Net profit	1,978	2,960	2,491	3,329	(20.6)	(11.1)
EPS(Rs)	14.7	21.9	18.5	24.7	(20.8)	(11.2)
Margins (%)						
EBITDA	9.3	9.7	9.3	9.7	(0.0)	0.0
EBIT	8.1	8.6	8.3	8.8	(0.2)	(0.1)
PBT	5.6	6.5	6.1	6.5	(0.5)	(0.0)
PAT / Net profit	3.8	4.3	4.1	4.3	(0.3)	(0.0)
RoCE	9.2	11.6	10.4	12.2	(1.2)	(0.6)
RoE	10.3	13.7	12.8	15.0	(2.5)	(1.3)

Source: Ambit Capital Research

Exhibit 4: Balance Sheet

Year to March (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Cash & equivalents	2,238	1,772	1,009	1,250	1,450
Debtors	6,332	6,585	11,430	10,091	13,133
Inventory	825	1,943	2,093	2,344	3,042
Loans & advances	7,848	9,312	12,520	9,397	12,025
Investments	2,829	3,409	3,892	4,340	4,615
Fixed assets	2,407	3,704	5,403	6,336	7,154
Other assets	6,248	10,554	11,083	11,660	14,954
Current liabilities & provisions	9,921	10,467	15,226	13,457	17,915
Total assets	18,806	26,813	32,203	31,961	38,457
Debt	5,561	10,678	13,980	11,586	15,376
Deferred Tax Liability	56	103	117	154	208
Total liabilities	5,617	10,782	14,098	11,740	15,583
Shareholders' equity	259	267	267	270	270
Reserves & surpluses	12,889	15,760	17,839	19,952	22,604
Total networth	13,189	16,031	18,106	20,222	22,874
Net working capital	(2,087)	(6,175)	(2,709)	(188)	(4,272)
Net debt (cash)	3,323	8,907	12,972	10,336	13,926
Total liabilities & equities	18,806	26,813	32,203	31,962	38,457

Exhibit 5: Income statement

Year to March (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	23,005	36,508	48,819	52,618	68,477
% growth		58.7%	33.7%	7.8%	30.1%
Operating expenditure	20,735	32,989	44,601	47,751	61,835
EBITDA	2,270	3,519	4,218	4,867	6,642
% growth		55.0%	19.9%	15.4%	36.5%
Depreciation	216	328	473	608	723
EBIT	2,054	3,191	3,745	4,260	5,920
Interest expenditure	561	1,094	1,306	1,462	1,705
Non-operational income/exp	154	674	299	167	222
PBT	1,648	2,771	2,738	2,964	4,437
Tax	403	666	478	987	1,477
PAT / Net profit	1,245	2,105	2,260	1,978	2,960
% growth		69.1%	7.4%	-12.5%	49.7%

Source: Company, Ambit Capital research estimates

Exhibit 6: Cash flow statement

Year to March (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
EBIT	2,054	3,191	3,745	4,260	5,920
Other income (expenditure)	154	674	299	167	222
Depreciation	216	328	473	608	723
Extraordinary	(164)	11	0	0	0
Tax	602	1,229	825	1,537	2,467
Others	3	(468)	0	(167)	(222)
Net working capital	(2,087)	(6,175)	(2,709)	(188)	(4,272)
Cash flow from operating activities	(425)	(3,667)	983	3,142	(97)
Capital expenditure	(1,284)	(1,627)	(2,171)	(1,541)	(1,541)
Others	(3,846)	786	(951)	2,674	221
Investments	(64)	(580)	(483)	(275)	(275)
Cash flow from investing activities	(5,194)	(1,420)	(3,606)	858	(1,594)
Incr (decr) in borrowings	(1,242)	5,046	3,302	(2,394)	3,789
Issuance of equity	7,312	867	49	344	0
Net dividends	(125)	(151)	(218)	(235)	(205)
Interest paid	(533)	(1,142)	(1,273)	(1,475)	(1,692)
Cash flow from financing activities	5,412	4,621	1,860	(3,760)	1,892
Net change in cash	(207)	(467)	(762)	240	200
Closing cash balance	2,238	1,772	1,009	1,250	1,450

Exhibit 7: Ratio analysis

Year to March (%)	FY07	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	9.9	9.6	8.6	9.3	9.7
EBIT margin	8.9	8.7	7.7	8.1	8.6
PAT Margin (%)	5.4	5.8	4.6	3.8	4.3
Return on capital employed	12.4	13.2	11.3	9.2	11.6
Return on equity	16.2	14.9	13.2	10.3	13.7
Current ratio (x)	1.5	2.5	2.2	2.4	2.4

Exhibit 8: Valuation parameters

Year to March	FY07	FY08	FY09	FY10E	FY11E
EPS (Rs)	9.6	15.8	16.9	14.7	21.9
Diluted EPS (Rs)	9.6	15.8	16.9	14.7	21.9
Book value per share (Rs)	101.7	120.1	135.6	149.8	169.5
P/E (x)	33.9	20.6	19.2	22.2	14.8
P/BV (x)	3.2	2.7	2.4	2.2	1.9
EV/EBITDA (x)	8.5	7.2	7.0	5.5	4.6
EV/Sales (x)	1.2	0.8	0.7	0.6	0.5

Source: Company, Ambit Capital research estimates

Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

Disclaimer

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