

2<sup>nd</sup> August, 2007**BUY**

Price	Target Price
<b>Rs376</b>	<b>Rs485</b>

<b>Sensex</b>	<b>14,936</b>
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**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(1)	17	(7)	98
Rel. to Sensex	(3)	9	(13)	43

Source: Bloomberg

**Stock Details**

Sector	Construction
Reuters	IVRC.BO
Bloomberg	IVRC@IN
Equity Capital (Rs mn)	259
Face Value (Rs)	2
52 Week H/L (Rs)	460/185
Market Cap (Rs bn)	48.8
Daily Avg Vol. (No of shares)	2851326
Daily Avg Turnover (US\$mn)	25.2

**Shareholding Pattern (%)**

(30th Jun.'07)

Promoters	9.9
FII/NRI	61.3
Institutions	11.8
Private Corp.	5.4
Public	11.5

Source: Capitaline

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**IVRCL Infrastructures & Projects**Result  
Update**Strong Growth**

IVRCL Infrastructures & Projects Ltd. (IVRCL) announced its Q1FY08 numbers which were marginally better than our estimates. The company reported a revenue of Rs6.8 billion (up 58.8% Y-o-Y). The EBITDA grew 67.9% y-o-y to Rs600.3 million and the PAT grew 74.6% Y-o-Y to Rs379.6 million. We also attended the conference call by the company and the key takeaways were:

**Key highlights**

- The order accretion continues to be very strong. The company received order worth over Rs21 billion during the quarter. The addition was mainly in the water related projects segment where the company added over Rs15 billion and which now constitutes 61% of the order book. The transportation (17%), Power T&D (9%) and Buildings Structure (13%) segments constitutes the remaining order book.
- The quarter saw an improvement of 50 bps in the EBITDA margins over the last year corresponding quarter at 8.9%. This is however below the last fiscal margins of 10%. The company expects the margins to improve by at least 25-50 bps for the full year.
- The interest cost for the quarter was down by over 45% resulting in a faster growth in the PAT. The net margin was at 5.6% for the quarter and the management is confident of managing at least 6% net margins for the year.
- In order to strengthen its position for pre-qualification for the projects in Power T&D segment, the company has set up a transmission tower manufacturing plant with a capex of Rs150 million. This is purely for captive purposes and is meant to support execution in the Power segment.
- On the BOT projects front, the company has started construction activities on all its BOT projects. The Chennai Water Desalination project is expect to be commissioned by the first quarter of FY09, whereas the three BOT projects should start operations by the end of FY09. The company has already invested Rs2.5 billion in its BOT operations and will invest another Rs1 billion in the next year.
- The company's subsidiary IVR Prime has recently concluded its IPO and the issue price have been set at Rs550. The stock is expected to be listed shortly. IVR prime has a total of 75.5 m sft of saleable area in the cities of Hyderabad, Vizag, Chennai, Bangalore, Pune and Noida.
- The company's debt level should come down in the current fiscal from the current Rs7.9 billion as the company would repay debt to the extent of Rs2.5 billion. This will be possible as the company's real estate subsidiary should repay the company the loans
- The management also denied any plans for foray into the oil & gas explorations space as was reported earlier in various financial dailies.
- The company has continued to take benefit of Section 80-IA and for the quarter the benefit taken was to the extent of Rs50 million.
- The company has guided a turnover growth of 50% and a bottom-line growth of 60-65% for its subsidiary Hindustan-Dorr Oliver (HDO). HDO currently has an order book of Rs4.5 billion.

**Key financials (Rs mn)**

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (x)	EV/ EBITDA	P/BV	RoIC (%)	P/E (x)	P/E# (x)
FY06	14957	1343	9.0	930	8.7	33.2	8.4	27.6	43.3	20.5
FY07E	23056	2295	10.0	1427	10.6	22.0	3.5	19.9	35.5	16.8
FY08E	33383	3338	10.0	1811	13.4	16.2	3.2	18.1	28.0	13.2
FY09E	45899	4590	10.0	2500	18.6	12.4	2.8	19.0	20.3	9.6

## Outlook and Recommendation:

IVRCL continued its splendid performance in Q1FY08 with a growth of over 55% to its topline as well as bottomline. The company also added over Rs21 billion to its order backlog which currently stands at Rs 95 bn. The company had raised over Rs5.5 bn through the QIP route during FY07 which would help the company meet its funding requirement for various BOT projects and meet the working capital requirement. The Company has also recently successfully launched the IPO of its real estate subsidiary IVR-PUDL and has raised over Rs 7.8 bn from the same. We believe that the company's growth trajectory will continue in future and the pace of order accretion provides added visibility. We have arrived at a valuation of Rs485 per share for the company based on a SOTP based valuation wherein we have valued the core construction business at Rs278 (15x FY09E), BOT projects at Rs55, holdings in subsidiaries at Rs143 for IVR-PUDL and Rs9 for Hindustan Dorr-Oliver. We reiterate our BUY recommendation.

## Valuation:

### Embedded value

Segment	Basis	Multiple (x)	Value (Rsmn)	Value per share (Rs)	Justification
Construction business	FY09E, PE (x)	15.0	37502.7	278	Rolling forward to FY09 estimates, P/E multiple in line with peers like HCC, NCC and Patel
BOT projects (Road Toll based)	P/BV	2.0	4816.0	36	IRR expected to touch 23-24% post commencement of projects. Premium justified as CoE in range of 12-14%. Buyers could pay 3-5x for an expected IRR of 10-12%.
BOT projects (Water toll based)	P/BV	2.0	2500.0	19	IRR at 21%. Premium justified as CoE in range of 12-14%. Buyers could pay 3-5x for an expected IRR of 10-12%.
Real Estate division	Recent IPO		19200.0	143	Taking 20% discount to the expected market cap of the real estate subsidiary IVR PUDL at the upper end of the price band of Rs.510-600
Hindustan Dorr Oliver's Stake	Market Cap		1208.4	9	Discount of 50% to the current market cap for company's stake of 52.8%
<b>Total Fair value</b>			<b>65227.1</b>	<b>485</b>	

## Financial overview for Quarter ended Jun 07

	Q1FY08	Q1FY07	(%) Chg	FY08E	FY07	(%) Chg
<b>Net Revenue</b>	<b>6773.2</b>	<b>4265.7</b>	<b>58.8</b>	<b>33382.8</b>	<b>23055.6</b>	<b>44.8</b>
<b>Expense</b>						
Consumption of RM	2958.5	1820.3	62.5	14020.8	9314.1	50.5
Employee Cost	317.6	154.3	105.8	1168.4	844.3	38.4
Other expenditure	303.3	284.7	6.5	14020.8	9687.1	44.7
Construction Expenses	1309.7	1648.9	-20.6	834.6	915.2	-8.8
Labour Cost	1283.9	0.0	0.0	0.0	0.0	0.0
<b>Total Expenditure</b>	<b>6172.9</b>	<b>3908.2</b>	<b>57.9</b>	<b>30044.5</b>	<b>20760.7</b>	<b>44.7</b>
<b>% of Revenue</b>	<b>91.1</b>	<b>91.6</b>		<b>90.0</b>	<b>90.0</b>	
<b>EBITDA</b>	<b>600.3</b>	<b>357.5</b>	<b>67.9</b>	<b>3338.3</b>	<b>2294.9</b>	<b>45.5</b>
<b>EBITDA Margin (%)</b>	<b>8.9</b>	<b>8.4</b>		<b>10.0</b>	<b>10.0</b>	
Interest	56.9	82.9	-31.4	484.7	308.4	57.2
Depreciation	66.2	38.0	74.0	250.6	215.9	16.1
Other Income	10.4	17.1	-39.1	100.0	91.6	9.2
<b>PBT</b>	<b>487.7</b>	<b>253.7</b>	<b>92.2</b>	<b>2703.0</b>	<b>1862.2</b>	<b>45.1</b>
Tax including FBT	107.6	38.0	183.6	892.0	421.1	111.8
Defered Tax	0.4	-1.6		0.0	14.5	
Adjustment for earlier year	0.0	0.0		0.0	0.0	
<b>Total Tax</b>	<b>108.1</b>	<b>36.3</b>	<b>197.4</b>	<b>892.0</b>	<b>435.5</b>	<b>104.8</b>
<b>Tax %</b>	<b>22.2</b>	<b>14.3</b>		<b>33.0</b>	<b>23.4</b>	
<b>PAT</b>	<b>379.6</b>	<b>217.4</b>	<b>74.6</b>	<b>1811.0</b>	<b>1426.7</b>	<b>26.9</b>
<b>Extra ordinary items</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>	<b>0.0</b>	
<b>Net Profit</b>	<b>379.6</b>	<b>217.4</b>		<b>1811.0</b>	<b>1426.7</b>	
<b>Net Margin (%)</b>	<b>5.6</b>	<b>5.1</b>		<b>5.4</b>	<b>6.1</b>	
Equity	134.7	106.9		134.7	134.7	
EPS, Rs	2.82	2.03	38.7	13.45	10.59	26.9

## Income Statement

Y/E, Mar (Rs. m)	FY06	FY07	FY08E	FY09E
<b>Net Sales</b>	<b>14957.0</b>	<b>23055.6</b>	<b>33382.8</b>	<b>45898.7</b>
Growth (%)	41.8	54.1	44.8	37.5
<b>Expenses</b>	<b>13614.1</b>	<b>20760.7</b>	<b>30044.5</b>	<b>41308.8</b>
Growth (%)	40.6	52.5	44.7	37.5
Cons. of Materials	6681.4	9314.1	14020.8	19277.4
% of sales	44.7	40.4	42.0	42.0
Employee Cost	440.6	844.3	1168.4	1606.5
% of sales	2.9	3.7	3.5	3.5
Construction exps	6282.4	9687.1	14020.8	19277.4
% of sales	42.0	42.0	42.0	42.0
Other Exp	209.7	915.2	834.6	1147.5
% of sales	1.4	4.0	2.5	2.5
(Profit)/loss on JV's	0.0	0.0	0.0	0.0
% of sales	0.0	0.0	0.0	0.0
<b>EBIDTA</b>	<b>1342.9</b>	<b>2294.9</b>	<b>3338.3</b>	<b>4589.9</b>
Growth (%)	55.2	70.9	45.5	37.5
<b>EBIDTA %</b>	<b>9.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
Other income	57.5	91.6	100.0	100.0
Interest (net of int. income)	253.1	308.4	484.7	672.7
Depreciation	110.0	215.9	250.6	285.6
<b>PBT</b>	<b>1037.3</b>	<b>1862.2</b>	<b>2703.0</b>	<b>3731.6</b>
Current tax	97.1	421.1	892.0	1231.4
Deferred tax	10.6	14.5	0.0	0.0
<b>Adjusted PAT</b>	<b>929.5</b>	<b>1426.7</b>	<b>1811.0</b>	<b>2500.2</b>
Growth (%)	63.8	53.5	26.9	38.1
Net Margin (%)	6.2	6.2	5.4	5.4
<b>E/O items</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Reported PAT</b>	<b>929.5</b>	<b>1426.7</b>	<b>1811.0</b>	<b>2500.2</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY06	FY07E	FY08E	FY09E
Equity share capital	213.9	269.3	269.3	269.3
Stock Option Outstndng	1.3	1.3	1.3	1.3
Share Appl Money	0.0	0.0	0.0	0.0
Reserves & surplus	4555.0	14226.8	15762.1	17947.1
<b>Networth</b>	<b>4770.1</b>	<b>14497.4</b>	<b>16032.7</b>	<b>18217.7</b>
<b>Deferred tax liability</b>	<b>41.4</b>	<b>55.9</b>	<b>55.9</b>	<b>55.9</b>
Secured Loans	2640.6	2640.6	4140.6	6140.6
Unsecured Loans	4145.7	1244.8	1244.8	1244.8
<b>Loan Funds</b>	<b>6786.3</b>	<b>3885.3</b>	<b>5385.3</b>	<b>7385.3</b>
<b>Total Liabilities</b>	<b>11597.8</b>	<b>18438.7</b>	<b>21473.9</b>	<b>25658.9</b>
Gross Block	1580.1	3080.1	3580.1	4080.1
Less: Depreciation	472.8	688.6	939.2	1224.9
<b>Net block</b>	<b>1107.4</b>	<b>2391.5</b>	<b>2640.9</b>	<b>2855.2</b>
Capital WIP	266.1	266.1	266.1	266.1
<b>Investment</b>	<b>2764.8</b>	<b>4764.8</b>	<b>6264.8</b>	<b>7264.8</b>
<b>Current Assets</b>	<b>13002.9</b>	<b>18774.5</b>	<b>23501.0</b>	<b>30625.9</b>
Inventories	285.5	315.8	457.3	628.7
Sundry debtors	4765.3	6948.2	10060.6	13832.5
Cash & bank balance	2443.5	3930.5	2008.0	1074.7
Loans & advances	1156.3	1263.3	1829.2	2515.0
Other assets	4352.3	6316.6	9146.0	12575.0
<b>Current liabilities</b>	<b>5543.3</b>	<b>7838.2</b>	<b>11278.9</b>	<b>15433.1</b>
Current liabilities	5391.2	7579.9	10975.2	15090.0
Provisions	152.1	258.3	303.7	343.1
<b>Net current assets</b>	<b>7459.6</b>	<b>10936.3</b>	<b>12222.1</b>	<b>15192.8</b>
<b>Misc expenditure</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Assets</b>	<b>11597.8</b>	<b>18358.6</b>	<b>21393.9</b>	<b>25578.9</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY06	FY07E	FY08E	FY09E
Pre-tax profit	1037.3	1862.2	2703.0	3731.6
Depreciation	110.0	215.9	250.6	285.6
Interest Provided	253.1	308.4	484.7	672.7
Interest Paid	-276.3	-308.4	-484.7	-672.7
Others	0.9	0.0	0.0	0.0
Chg in working cap	-1983.3	-2095.9	-3253.8	-3943.4
Tax paid	-254.8	-421.1	-892.0	-1231.4
<b>Operating cash Inflow</b>	<b>-1113.1</b>	<b>-438.9</b>	<b>-1192.2</b>	<b>-1157.6</b>
Capital expenditure	-528.1	-1500.0	-500.0	-500.0
<b>Free Cash Flow</b>	<b>-1641.2</b>	<b>-1938.9</b>	<b>-1692.2</b>	<b>-1657.6</b>
Investments	-2477.4	-2000.0	-1500.0	-1000.0
Equity Capital Raised	44.1	5550.0	0.0	0.0
Loans Taken / (Repaid)	1413.6	0.0	1500.0	2000.0
Dividend (incl. Tax)	-63.8	-124.1	-230.3	-275.7
Dividend Received	1.9	0.0	0.0	0.0
FCCB	2901.0	0.0	0.0	0.0
Share Application money	-2290.6	0.0	0.0	0.0
<b>Net chg in cash</b>	<b>-2112.4</b>	<b>1487.1</b>	<b>-1922.5</b>	<b>-933.4</b>
<b>Opening cash position</b>	<b>4526.8</b>	<b>2443.5</b>	<b>3930.5</b>	<b>2008.0</b>
<b>Closing cash position</b>	<b>2443.5</b>	<b>3930.5</b>	<b>2008.0</b>	<b>1074.7</b>

## Key ratios

Y/E, Mar (Rs. m)	FY06	FY07E	FY08E	FY09E
<b>Per Share Data (Rs)</b>				
EPS (x)	8.7	10.6	13.4	18.6
Cash EPS (x)	9.7	12.2	15.3	20.7
Book Value (x)	44.6	107.7	119.1	135.3
EV (Rs.)	44552.2	50591.2	54013.8	56947.1
<b>Valuations</b>				
PER (x)	43.3	35.5	28.0	20.3
PER# (x)	14.7	16.9	13.3	9.6
Price / CEPS (x)	38.6	30.8	24.6	18.2
Price / BV (x)	8.4	3.5	3.2	2.8
EV / Sales (x)	3.0	2.2	1.6	1.2
EV / EBITDA# (x)	31.1	20.0	14.3	10.8
EV/Order book (x)		0.6	0.7	0.7
DPS (x)	1.0	1.5	1.8	2.0
Dividend Yield (%)	0.3	0.4	0.5	0.5
Dividend Payout (%)	11.8	14.2	13.0	10.8
<b>Returns (%)</b>				
RoNW	21.1	14.8	11.9	14.6
RoCE	13.7	13.9	15.5	18.3
RoIC	27.6	19.9	18.1	19.0
<b>Asset T/O</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>2.0</b>
<b>Gearing Ratio</b>				
Net debt/ Equity (x)	0.9	0.0	0.2	0.3
Total Debt/Equity (x)	1.4	0.3	0.3	0.4

# net of target value of BOT and/or Real Estate projects

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