



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,382	IVRC IN
	REUTERS CODE
S&P CNX: 3,832	IVRC.BO

19 December 2006

Buy

Previous Recommendation: Buy

Rs391

Equity Shares (m)	134.7
52-Week Range	460/136
1,6,12 Rel. Perf. (%)	12/43/126
M.Cap. (Rs b)	52.7
M.Cap. (US\$ b)	1.2

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
3/06A	15,214	930	8.7	30.1	45.0	8.8	21.1	14.2	3.7	42.5
3/07E	23,821	1,465	10.9	25.1	36.0	3.6	15.2	13.7	2.1	22.0
3/08E	35,133	2,367	17.6	61.6	22.3	3.2	15.2	14.9	1.5	15.9

Event: Raised US\$125m through equity offering, a dilution of 12.5%

IVRCL has raised Rs5.6b through issue of 15m equity shares via a QIP process at Rs370/sh. Management has indicated that the key reasons for raising funds were: (1) to enhance net worth, which will enable the company to pre-qualify for bidding of large projects; and (2) to invest in BOT projects. The fully diluted equity post the current issue stands at ~Rs270m, a dilution of 12.5% (v/s Rs239m fully diluted currently). Promoters' stake post fund raising stands at ~9.9% (v/s 11.1% currently).

Over the past 18 months, IVRCL has raised up to Rs10b through equity offerings (including the current issue of Rs5.5b)

EQUITY HISTORY

MONTH	EQUITY (RS M)	AMT RAISED (RSM)	SOURCE OF RAISING FUNDS (EXCEPT ESOPS)
Apr-05	202	1,449	Public Issue
Nov-05	239	2,986	FCCB Conversion
Dec-06	269	5,500	QIP Issue

Source: Company

IVR Prime Urban Developers to raise funds through IPO

The board of IVRCL also approved plans to raise funds up to Rs5b+ for IVR Prime Urban Developers (IVR PUDL, an 80% subsidiary of IVRCL) in order to fund land acquisition cost and growth initiatives. Cushman and Wakefield (C&W) have valued the 1,655 acre land reserves

(52m sq. ft. of development space) of IVR PUDL at between Rs38.9b-Rs43b. We expect IVRCL's stake at ~65% post the fund raising by IVR PUDL in the next few months. Thus at C&W's valuation report, IVRCL's stake in IVR PUDL is valued at Rs25b-Rs28b (Rs185-Rs207/sh). The valuation methodology used for the valuing the land bank is the net present value of all future cash flows accruing from the development of the project (to be developed by 2011).

The land bank of the company is spread across 14 locations in five cities viz. Hyderabad (23 acre), Chennai (62 acre), Bangalore (1,306 acre), Pune (172 acre) and Noida (92 acre). The projects are proposed to be developed in the following manner: 70% for residential; 24%, commercial; 2%, retail and 4% for hotels and others.

Marginal upgrade in earnings

We revise our earnings estimates for IVRCL to factor in increased other income from cash surplus. We now expect IVRCL to report net profit of Rs1.5b (unchanged) in FY07, Rs2.4b in FY08 (v/s Rs2.2b earlier) and Rs2.8b in FY09 (v/s Rs2.7b earlier).

EARNINGS AND EPS REVISION SUMMARY

	NET PROFIT (RS M)			EPS (RS/SHARE)		
	CURR.	PREV.	% CH.	CURR.	PREV.	% CH.
FY07	1,468	1,465	-	10.9	12.3	-11.4
FY08	2,367	2,190	8	17.6	18.3	-3.8
FY09	2,827	2,679	5	21.0	22.4	-6.3

Source: Motilal Oswal Securities

Fund raising will facilitate significant ramp-up in order book over medium term

Post the current issue, IVRCL's net worth as at March 2007 would be Rs.14.4b (assuming fully diluted equity as the FCCB conversion price is Rs234/sh, v/s CMP of Rs391). Increased size will enable the company to pre-qualify for bidding in favor of bigger ticket size projects and also build a BOT portfolio. Thus, we expect a significant ramp up in the order book of the company over the medium term.

COMPARATIVE NET WORTH ON FY07 BASIS (RS B)

IVRCL	14.4
Nagarjuna Construction	10.8
Gammon	10.2
Hindustan Construction	9.7
Patel Engineering	7.2

Source: Motilal Oswal Securities

Maintain Buy

At CMP of Rs391, stock trades at 36x FY07 PER, 22.3x FY08E PER and 18.6x FY09E PER (reported basis) on the fully diluted equity base. We maintain **Buy**, with a price target of Rs430/sh (post factoring in current dilution). We value IVRCL on an SOTP basis: Construction business Rs252/sh (12x FY09 PER), HDO Rs12/sh (20% discount to CMP), IVR Prime Urban Rs150/sh (based on lower band of C&W's valuation, factoring in 20% holding company discount) and BOT projects Rs16/sh (book value).

SOTP VALUATION

EQUITY VALUATION OF IVRCL	BUSINESS SEGMENT	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	Construction	FY09E PER (x)	12	33,919	252	At par with industry average
Subsidiaries						
-Hindustan Dorr Oliver	Engineering	Rs/Sh	550	1,632	12	20% Discount to current stock price
-IVR Prime Urban Developers	Real Estate	Land Value, plus development profits		20,280	150	Based on C&W's valuation report IVRCL's stake post IPO assumed at 65%; holding company discount of 20%
BOT Projects						
A) Projects under Construction Phase						
-Chennai Desalination Proj.	Desalination proj.	Book Value		250	2	Book Value of investments till Mar 07
-Jalandhar Amritsar Rd Proj.	BOT Road	Book Value		413	3	Book Value of investments till Mar 07
-Tamil Nadu Road Proj. (2 Nos)	BOT Roads	NPV, P/BV (x)		1,451	11	Book Value of investments till Mar 07
Total				57,944	430	

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 FY05, ~64% 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 September 2006 is Rs70b and order intake during 2QFY07 was Rs6-7b.
- Has one of the largest BOT portfolios (four projects with investment of Rs17.6b) with diversified presence in roads and desalination projects.
- Fund raising in IVR PUDL can unlock sizeable value.

Key investment risks

- Promoter stake is low at 9.9% post recent equity dilution.
- BOT projects depress initial RoE.

Recent developments

- Board has approved fund raising of Rs5b through IPO route for IVR PUDL

Valuation and view

- We expect IVRCL to report net profit of Rs1.5b (unchanged) in FY07, Rs2.4b in FY08 (v/s Rs2.2b earlier) and Rs2.8b in FY09 (v/s Rs2.7b earlier).
- The stock quotes at a PER of 36x FY07E and 22.3x FY08E.
- BOT, Real Estate and Investments account for Rs179/share of our Price Target of Rs430/share. We maintain **Buy**.

Sector view

- Slowdown associated with change in central government is now behind us. The next three years are expected to be eventful, with increased investments in new verticals apart from the traditional ones, leading to a surge in order book.
- There is scope of EBITDA margin expansion, with increase in the size and scope of orders.
- BOT ventures could unlock sizable value.
- Real estate projects could also be immensely value accretive.

COMPARATIVE VALUATIONS

		IVRCL	HCC	NCC
P/E (x)	FY07E	36.0	30.5	22.1
	FY08E	22.3	18.0	14.2
P/BV (x)	FY07E	3.6	2.7	1.9
	FY08E	3.2	2.4	1.6
EV/Sales (x)	FY07E	2.1	1.6	1.6
	FY08E	1.5	1.2	1.1
EV/EBITDA (x)	FY07E	22.0	16.9	16.1
	FY08E	15.9	11.7	11.3

SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoter	12.2	12.6	12.8
Domestic Inst	22.6	27.0	25.6
Foreign	41.3	37.1	42.5
Others	23.8	23.2	19.1

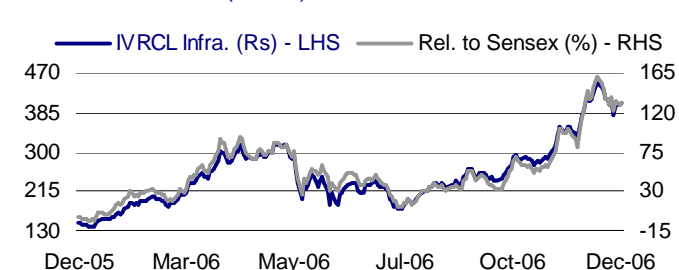
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	10.9	13.7	-20.6
FY08	17.6	20.2	-12.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
391	430	6.4	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	10,547	15,214	23,821	35,133	45,425
Change (%)	36.4	44.2	56.6	47.5	29.3
Total Expenditure	9,682	13,871	21,525	31,724	40,995
EBITDA	865	1,343	2,296	3,408	4,430
% of Net Sales	8.2	8.8	9.6	9.7	9.8
Depreciation	80	110	195	252	304
Interest	214	253	429	419	700
Other Income	24	57	82	98	108
PBT	595	1,037	1,754	2,835	3,533
Tax	28	108	289	468	707
Rate (%)	4.6	10.4	16.5	16.5	20.0
Reported PAT	567	930	1,465	2,367	2,827
Extra-ordinary Income (net)	0	0	0	0	0
Adjusted PAT	567	930	1,465	2,367	2,827
Change (%)	68.9	63.8	57.6	61.6	19.4

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	170	214	269	269	269
Share Application Money	1,454	0	0	0	0
Reserves	2,407	4,555	14,286	16,306	18,718
Net Worth	4,030	4,769	14,555	16,576	18,988
Loans	2,472	6,786	5,731	6,858	9,022
Deferred Tax Liability	30	41	0	0	0
Capital Employed	6,532	11,597	20,286	23,434	28,010

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Gross Fixed Assets	1,107	1,580	2,596	3,596	4,346
Less: Depreciation	366	473	667	919	1,223
Net Fixed Assets	741	1,107	1,929	2,677	3,123
Capital WIP	216	266	150	150	300
Investments	316	2,765	3,260	5,260	6,760
Curr. Assets	11,607	13,002	23,835	28,470	34,750
Inventory	178	286	447	659	853
Debtors	3,066	4,765	6,853	10,107	13,067
Cash & Bank Balance	4,527	2,443	7,929	5,294	4,783
Loans & Advances	787	1,156	1,827	2,695	3,485
Other Current Assets	3,050	4,352	6,779	9,716	12,562
Current Liab. & Prov	6,348	5,543	8,888	13,124	16,923
Creditors	3,470	3,818	6,192	9,126	11,793
Other Liabilities	2,791	1,573	2,464	3,633	4,698
Provisions	87	152	232	364	432
Net Current Assets	5,259	7,459	14,948	15,346	17,827
Misc. Expenses	0	0	0	0	0
Application of Funds	6,532	11,597	20,286	23,434	28,010

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
Adjusted EPS	6.7	8.7	10.9	17.6	21.0
Growth (%)	-9.4	30.1	25.1	61.6	19.4
Cash EPS	7.6	9.7	12.3	19.4	23.2
Book Value	47.5	44.6	108.1	123.1	141.0
DPS	0.7	1.0	1.4	2.3	2.7
Payout (incl. Div. Tax.)	12.7	13.5	13.0	13.0	13.0
Valuation (x)					
P/E (standalone)		45.0	36.0	22.3	18.6
Cash P/E		40.2	31.7	20.1	16.8
EV/EBITDA		42.5	22.0	15.9	12.8
EV/Sales		3.7	2.1	1.5	1.3
Price/Book Value		8.8	3.6	3.2	2.8
Dividend Yield (%)		28.1	48.7	78.7	94.0
Profitability Ratios (%)					
RoE	18.4	21.1	15.2	15.2	15.9
RoCE	15.2	14.2	13.7	14.9	16.5
Turnover Ratios					
Debtors (Days)	106	114	105	105	105
Inventory (Days)	6	7	7	7	7
Creditors (Days)	137	105	0	0	0
Asset Turnover (x)	2.0	1.7	1.5	1.6	1.8
Leverage Ratio					
Debt/Equity (x)	0.6	1.4	0.4	0.4	0.5

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
PBT before Extraord	595	1,037	1,754	2,835	3,533
Add : Depreciation	80	110	195	252	304
Interest	214	253	429	419	700
Less : Direct Taxes Paid	28	108	289	468	707
(Inc)/Dec in WC	1,227	-4,284	-2,003	-3,034	-2,991
CF from Operations	2,088	-2,991	86	4	840
(Inc)/Dec in FA	-356	-526	-900	-1,000	-900
(Pur)/Sale of Investments	-95	-2,448	-495	-2,000	-1,500
CF from Investments	-451	-2,975	-1,395	-3,000	-2,400
(Inc)/Dec in Networth	1,351	-54	8,495	0	0
(Inc)/Dec in Debt	590	4,315	-1,055	1,127	2,164
Less : Interest Paid	214	253	429	419	700
Dividend Paid	72	125	215	347	415
CF from Fin. Activity	1,655	3,882	6,795	360	1,050
Inc/Dec of Cash	3,292	-2,084	5,486	-2,635	-511
Add: Beginning Balance	1,234	4,527	2,443	7,929	5,294
Closing Balance	4,526	2,443	7,929	5,294	4,783

N O T E S

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Disclosure of Interest Statement	IVRCL Infrastructure
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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