



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,788	IVRC IN
	REUTERS CODE
S&P CNX: 2,886	IVRC.BO
Equity Shares (m)	129.7
52-Week Range	575/57
1,6,12 Rel. Perf. (%)	-40/-37/-32
M.Cap. (Rs b)	11.0
M.Cap. (US\$ b)	0.2

31 October 2008

Buy

Previous Recommendation: Buy

Rs85

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	7.8	0.8	15.7	14.2	0.6	6.2
3/08A	36,606	2,053	15.8	44.6	5.4	0.7	14.0	14.6	0.5	5.5
3/09E	49,689	2,338	17.3	9.9	4.9	0.6	13.6	15.8	0.4	4.6
3/10E	68,058	3,205	23.8	37.1	3.6	0.5	16.1	18.6	0.4	3.8

⚡ **Stagnant EBITDA margin due to nil profits on escalations and higher inventory:** Strong revenue growth during 1HFY09 was partially aided by benefits accrued on account of price variation clauses. For 2QFY09, EBITDA margin stood at 8%, below our estimate of 9.5% (+150bpYoY), largely on account of (1) revenue booking for projects with PVC, without incremental profit on these escalations and (2) higher inventory.

⚡ **Order book up 44% YoY at Rs138b:** Order book stands at Rs138b at Sep 08, vs Rs96b in Sep 07, up 44% YoY. The company is also L1 in projects worth Rs15b, which are expected to be awarded during next 1-2 month. Irrigation spend is witnessing traction in Madhya Pradesh with projects awards worth Rs200b likely in medium term. Also, in Andhra Pradesh, project award activity is likely to increase, given the run-up to state elections.

⚡ **Management guidance:** During FY09, management has guided for revenue growth of 35-40% YoY and EBITDA margins of 9.5-9.9% (earlier at ~10%). It also indicated that incremental debt requirement during FY09 will be limited to Rs1.5-2b (existing debt Rs14.5b). The net working capital stands at Rs23b as at Sept 08, as against Rs19.7b at end FY08. Loans and advances currently stand at Rs4b, including Rs2.6b to IVR Prime.

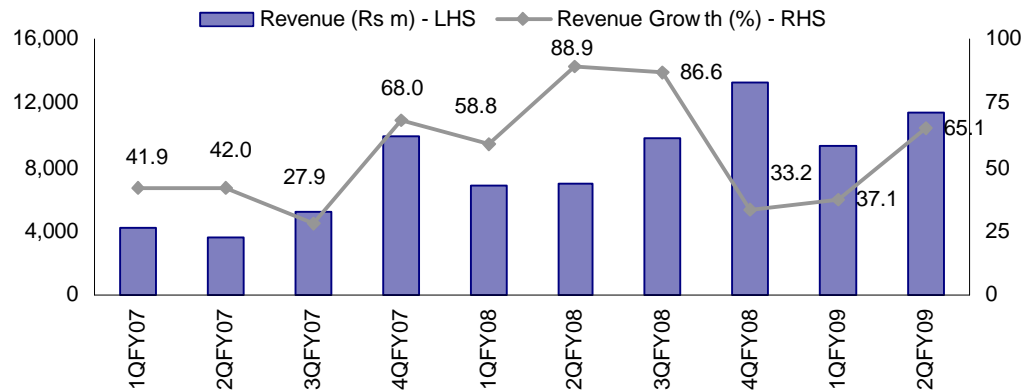
⚡ **Valuation and view:** We expect IVRCL to report net profit of Rs2.3b in FY09 (up 10% YoY) and Rs3.2b in FY10 (up 37% YoY). At CMP of Rs85/sh, stock quotes at 4.9x FY09 and 3.6x FY10E. Maintain **Buy**.

QUARTERLY PERFORMANCE										(Rs Million)
Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	6,773	6,885	9,749	13,217	9,285	11,366	12,800	16,239	36,606	49,689
Change (%)	58.8	88.9	86.6	33.2	37.1	65.1	31.3	22.9	58.8	35.7
EBITDA	600	553	1,084	1,387	820	913	1,344	1,661	3,614	4,738
Change (%)	47.5	79.4	94.9	29.3	36.6	65.0	24.0	19.8	57.0	31.1
As of % Sales	8.9	8.0	11.1	10.5	8.8	8.0	10.5	10.2	9.9	9.5
Depreciation	66	76	87	99	102	113	115	115	328	446
Interest	57	76	177	208	194	304	356	462	478	1,316
Other Income	10	16	8	11	26	172	12	17	45	227
PBT	488	416	829	1,092	550	667	885	1,101	2,853	3,203
Tax	108	64	218	359	115	96	292	362	749	865
Effective Tax Rate (%)	22.2	15.3	26.3	32.9	20.9	14.4	33.0	32.8	26.2	27.0
Reported PAT	380	353	611	733	435	571	593	740	2,105	2,338
Adj PAT	380	353	558	733	435	601	593	740	2,053	2,368
Change (%)	45.4	127.1	105.7	0.1	14.6	70.5	6.2	0.9	45.2	13.9

E: MOST Estimates

Strong revenue growth during 1HFY09 was partially aided by benefits accrued on account of price variation clauses. During 1QFY09, IVRCL's revenues were higher by Rs1b on account of PVC. Similar benefits have accrued during 2QFY09, enhancing already strong revenue growth

REVENUE GROWTH TREND



Source: Company/MOSL

Irrigation and water segment contribution during 2QFY09 is significantly higher at 52% as compared to 36%YoY. This segment has ~40% projects from drinking water and rest ~60% from irrigation

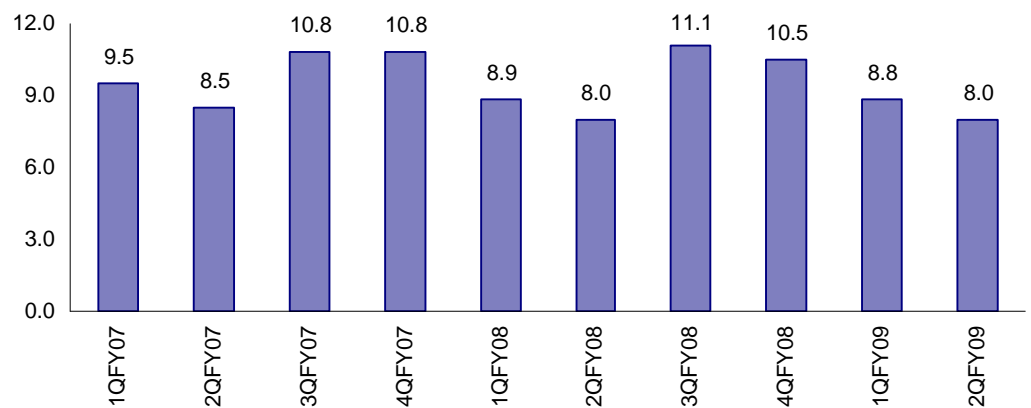
REVENUE GROWTH TREND

	FY07			FY08			FY09		
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Water and									
Environmental Projects	47.9	45.4	57.3	36.1	36.3	58.5	54.3	42.1	51.7
Roads and Bridges	14.1	4.8	15.6	22.6	21.8	20.5	14.4	17.9	15.1
Building and									
Industrial Structures	16.0	18.5	15.6	26.5	29.6	13.8	13.3	21.1	17.2
Power and									
Transmission Lines	22.1	31.3	11.6	14.8	12.3	7.2	18.0	18.9	15.9

Source: Company/MOSL

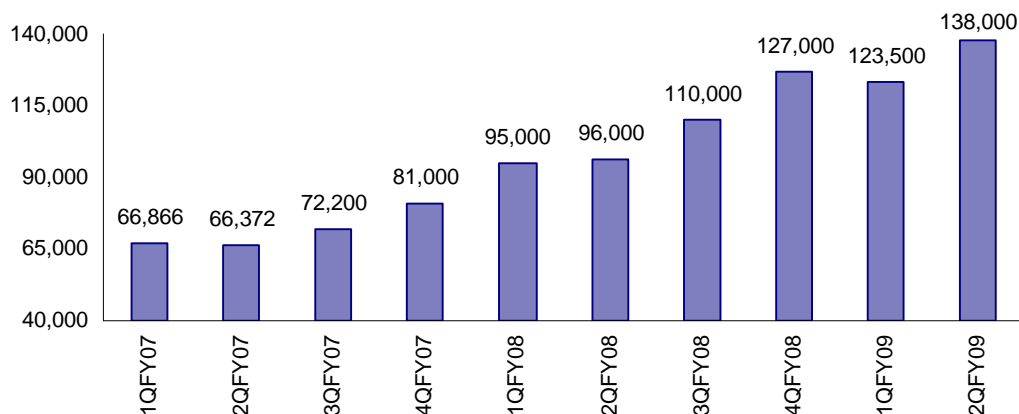
The stagnant EBITDA margin YoY is on account of (1) revenue booking for projects with PVC, without incremental profit on these escalations and (2) higher inventory during the quarter

EBITDA MARGIN TREND (%)



Source: Company/MOSL

ORDER BOOK TREND (RS M)



Source: Company/MOSL

The company is also LI in projects worth Rs15b, which are expected to be awarded during next 1-2 month

Irrigation spend is witnessing traction in Madhya Pradesh with projects awards worth Rs200b likely in medium term. Also, in Andhra Pradesh, project award activity is likely to increase, given run-up to state elections

FAVORABLE ORDER BOOK COMPOSITION (%)

	FY07			FY08			FY09		
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Water and Environmental Projects	51	50	56	61	63	58	61	65	69
Roads and Bridges	30	26	22	17	16	12	8	7	5
Building and Industrial Structures	13	12	11	13	14	21	23	22	20
Power and Transmission Lines	6	11	11	9	8	9	8	6	6

Source: Company

Large part of the equity commitments (Rs2.5b) have already been invested with additional equity commitment at Rs230m. These projects would be operational from FY10 are likely to generate revenues of Rs10m/day

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 expect IVRCL to report net profit of Rs2.3b in FY09 (up 10% YoY) and Rs3.2b in FY10 (up 37% YoY). At CMP of Rs85/sh, stock quotes at 4.9x FY09 and 3.6x 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)	8	25,641	192	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Current market cap		642	5	25% Discount to current stock price
IVR Prime Urban Developers	Real Estate	Current market cap		1,111	8	25% 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	BOT Roads	Book Value	1	1,451	11	RoE of 18-20%ar 09
Total				30,098	225	

Source: MOSL

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 Rs138b.
- Has one of the largest BOT portfolios (4 projects with investment of Rs16.5b) with diversified presence in roads and desalination projects.

Key investment risks

- Promoter stake is low at 9% as on Mar 08
- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

Recent developments

Nil.

Valuations and view

- We expect IVRCL to report net profit of Rs2.3b in FY09 (up 10% YoY) and Rs3.2b in FY10 (up 37% YoY).
- At CMP of Rs85/sh, stock quotes at 4.9x FY09 and 3.6x FY10E. Maintain **Buy**.

Sector view

- Credit crunch in the money market and banking systems could result in postponement of several private and state government projects. This could negatively impact the order intake during FY10, in turn impacting the revenue growth for FY11/FY12. This will also negatively impact the valuation multiples for the sector.
- Decline in commodity prices are likely to have positive impact on the sector earnings during FY10.
- While we remain cautious in short term, the long term outlook for the sector remains encouraging.

COMPARATIVE VALUATIONS

		IVRCL	NCC	HCC
P/E (x)	FY08E	5.4	23.7	38.1
	FY09E	4.9	25.2	21.6
P/BV (x)	FY08E	0.7	1.9	4.0
	FY09E	0.6	1.8	2.3
EV/Sales (x)	FY08E	0.5	1.3	1.2
	FY09E	0.4	1.0	1.0
EV/EBITDA (x)	FY08E	5.5	11.0	11.4
	FY09E	4.6	8.7	10.3

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	9.6	9.6	9.9
Domestic Inst	18.3	17.7	13.2
Foreign	57.6	58.3	62.8
Others	14.6	14.5	14.1

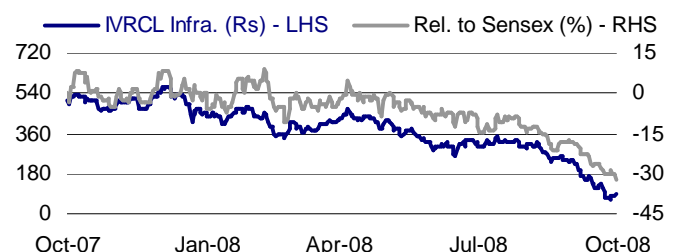
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	17.3	17.9	-2.9
FY10	23.8	23.1	3.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
85	225	164.7	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	15,214	23,465	36,606	49,689	68,058
Change (%)	44.2	54.2	56.0	35.7	37.0
Total Expenditure	13,871	21,163	32,990	44,951	61,288
EBITDA	1,343	2,301	3,616	4,738	6,770
% of Net Sales	8.8	9.8	9.9	9.5	9.9
Depreciation	110	216	328	446	594
Interest	253	308	478	1,316	1,697
Other Income	57	74	45	227	100
PBT	1,037	1,851	2,854	3,203	4,579
Tax	108	436	749	865	1,374
Rate (%)	10.4	23.6	26.2	27.0	30.0
Reported PAT	930	1,415	2,106	2,338	3,205
Adjusted PAT	930	1,415	2,053	2,338	3,205
Change (%)	63.8	52.2	45.2	13.9	37.1

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	214	259	267	270	270
Share Application Money	0	0	0	0	0
Reserves	4,555	12,918	15,789	18,162	20,997
Net Worth	4,769	13,177	16,056	18,432	21,267
Loans	6,786	5,559	10,678	11,678	15,678
Deferred Tax Liability	41	56	124	124	124
Capital Employed	11,597	18,793	26,858	30,234	37,070
Gross Fixed Assets	1,580	2,593	4,176	5,867	7,817
Less: Depreciation	473	664	984	1,430	2,024
Net Fixed Assets	1,107	1,929	3,192	4,437	5,793
Capital WIP	266	506	541	600	650
Investments	2,765	2,829	3,409	3,982	4,182
Curr. Assets	13,002	26,683	28,852	34,116	44,053
Inventory	286	825	1,943	2,611	3,577
Debtors	4,765	6,332	6,606	9,121	13,052
Cash & Bank Balance	2,443	2,238	1,772	688	989
Loans & Advances	1,156	10,919	7,806	8,049	8,083
Other Current Assets	4,352	6,367	10,725	13,647	18,352
Current Liab. & Prov.	5,543	13,121	9,132	12,901	17,608
Creditors	3,818	10,032	6,196	8,990	12,258
Other Liabilities	1,573	2,863	2,697	3,624	4,963
Provisions	152	227	238	287	387
Net Current Assets	7,459	13,561	19,721	21,215	26,445
Application of Funds	11,597	18,825	26,863	30,234	37,070

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
Adjusted EPS	8.7	10.9	15.8	17.3	23.8
Growth (%)	30.1	25.5	44.6	9.9	37.1
Cash EPS	9.7	12.6	17.8	20.7	28.2
Book Value	44.6	101.9	120.3	136.7	157.7
DPS	10	10	16	17	2.4
Payout (incl. Div. Tax.)	13.5	10.7	10.4	10.0	10.0
Valuation (x)					
P/E (standalone)		7.8	5.4	4.9	3.6
Cash P/E		6.8	4.8	4.1	3.0
EV/EBITDA		6.2	5.5	4.6	3.8
EV/Sales		0.6	0.5	0.4	0.4
Price/Book Value		0.8	0.7	0.6	0.5
Dividend Yield (%)		152.5	219.9	275.1	377.1
Profitability Ratios (%)					
RoE	21.1	15.7	14.0	13.6	16.1
RoCE	14.2	14.2	14.6	15.8	18.6
Turnover Ratios					
Debtors (Days)	114	98	65	105	70
Inventory (Days)	7	13	19	19	19
Creditors (Days)	105	184	73	115	115
Asset Turnover (x)	17	15	16	17	2.0
Leverage Ratio					
Debt/Equity (x)	14	0.4	0.7	0.6	0.7
CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
PBT before Extraordin:	1,037	1,851	2,854	3,203	4,579
Add : Depreciation	110	216	328	446	594
Interest	253	308	478	1,316	1,697
Less : Direct Taxes Paid	108	436	749	865	1,374
(Inc)/Dec in WC	-4,284	-6,307	-6,626	-2,578	-4,929
CF from Operations	-2,991	-4,368	-3,714	1,522	568
(Inc)/Dec in FA	-526	-1,278	-1,626	-1,750	-2,000
(Pur)/Sale of Investments	-2,448	-64	-580	-573	-200
CF from Investments	-2,975	-1,342	-2,206	-2,323	-2,200
(Inc)/Dec in Networth	-54	7,200	1,024	304	0
(Inc)/Dec in Debt	4,315	-1,227	5,119	1,000	4,000
Less : Interest Paid	253	308	478	1,316	1,697
Dividend Paid	125	152	219	270	370
CF from Fin. Activity	3,882	5,513	5,446	-282	1,933
Inc/Dec of Cash	-2,084	-197	-474	-1,084	301
Add: Beginning Balance	4,527	2,443	2,238	1,772	688
Closing Balance	2,443	2,246	1,764	688	989

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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