

RESULTS REVIEW

IVRCL Infrastructure and Projects Ltd.

Buy

Share Data

Market Cap	Rs. 60.9 bn
Price	Rs. 470
BSE Sensex	19,162.57
Reuters	IVRC BO
Bloomberg	IVRC IN
Avg. Volume (52 Week)	0.5 mn
52-Week High/Low	Rs. 557/241.15
Shares Outstanding	129.7 mn

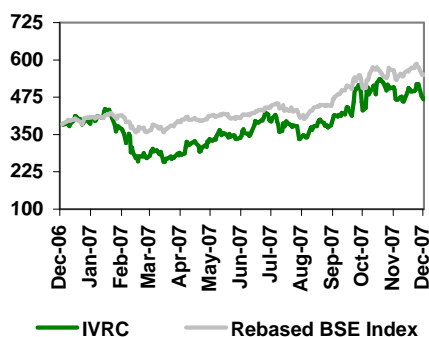
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	15.2	19.3
+/- (%)	11.2%	27.4%
PER (x)	31.0x	24.3x
EV/ Sales (x)	2.0x	1.4x
EV/ EBITDA (x)	19.4x	13.5x

Shareholding Pattern (%)

Promoters	10
FIs	63
Institutions	13
Public & Others	14

Relative Performance



Expanding horizons

IVRCL Infrastructure and Projects Ltd. (IVRCL) registered an impressive performance during the quarter supported by rapid order inflow from Water Management and Power businesses. As a result, sales went up by 88.9% yoy to Rs. 6,884.5 mn. While in absolute terms, EBITDA increased 79.4% yoy to Rs. 553.1 mn due to high growth in sales, EBITDA margin declined 43 bps yoy to 8% as a result of increase in construction and sub-contracting costs. On a yoy basis, there was a phenomenal growth in profits by 126.4% to Rs. 352.5 mn because of a reduction in interest expense and lower tax provision in addition to higher sales. As a result, despite a fall in the EBITDA margin, net profit margin improved 85 bps yoy to 5.1%. The Company had an order backlog of Rs. 100 bn at the end of the quarter, an increase of 42.9% yoy.

Going forward, we expect the share of Water management contracts to reduce. IVRCL's well planned strategy to diversify into high margin businesses such as Power, BOT projects, Real Estate and Oil & Gas exploration and production is likely to pay off well in the future and can prove to be margin accretive.

At the current market price, the Company is trading at a forward P/E of 31x FY08E and 24.3x FY09E. Based on SOTP valuation, we have arrived at a target price of Rs. 560. Hence, we maintain our Buy rating on the stock.

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	3,644	6,773	6,885	88.9%	1.6%	7,913	13,640	72.4%
EBITDA	308	600	553	79.4%	(7.9)%	665	1,149	72.9%
Net Profit	156	380	353	126.4%	(7.1)%	366	731	99.9%
Margins(%)								
EBITDA	8.5%	8.9%	8.0%			8.4%	8.4%	
NPM	4.3%	5.6%	5.1%			4.6%	5.4%	
Per Share Data (Rs.)								
EPS	1.4	2.9	2.5	75.5%	(12.2)%	3.4	5.0	47.5%

Result Highlights

Robust growth in order book by 42.9% yoy to Rs. 100 bn

On a yoy basis, IVRCL's net revenues grew 88.9% to Rs. 6,884.5 mn because of the faster execution of orders over the last year. Order book stood strong at Rs. 100 bn in Q2'08 from Rs. 70 mn in Q2'07. Power & transmission contracts formed 9.8% of the order book, while a significant amount of contracts in the construction business were also received by the Company. IVRCL's four BOT projects are in different stages of completion and are expected to contribute to the revenues starting 2009/10.

Rising operating costs dent margins during the quarter

Though IVRCL's EBITDA increased 79.4% yoy to Rs. 553.1 mn on account of robust growth in sales, increase in construction and sub-contracting costs had a dampening effect on the EBITDA margin that fell 43 bps yoy to 8%. IVRCL's captive tower parts manufacturing plant with an installed capacity of 48,000 MT, commenced production during the quarter. This is likely to add significant value to IVRCL's power division which is expected to grow by 60-70% in the next 2 years. The Company enjoys an operating margin of approx. 12% in this business.

Transmission tower manufacturing plant up and running

Interest expense declined by 26% yoy to Rs. 76 mn

IVRCL's net income jumped 126.4% yoy to Rs. 352.5 mn due to lower interest expense and effective tax rate. Though we had anticipated that tax rate would increase after the expiry of the Section 80I benefits, IVRCL recorded a lower tax rate during the quarter at 15.3%. However, considering the pending litigation of the Company regarding the availability of tax benefits under Section 80I, we have provided for full tax rate at 33.3% in our estimates.

Foray into oil and gas exploration business with the acquisition of 100% stake in Alkor Petroo Ltd.

The Company has recently acquired 100% stake in Alkor Petroo Ltd. which is involved in the business of exploration and production of oil and gas. Alkor has 20% interest in two blocks situated in Egypt and 25% interest in three blocks situated in Yemen, all of which will be operated by Gujarat Petroleum Corp. Ltd. As per the estimates of an international agency, two of the blocks, having a 50% probability of striking, are likely to generate revenues of USD 1 bn over their expected life. However, since the exploration process is in the preliminary stages, we do not expect the benefits to accrue to IVRCL in the short-term.

Key Events

- IVRCL announced that it has entered into a share-purchase agreement to acquire 100% stake in Alkor Petroo Ltd, an unlisted oil and gas exploration company based in Hyderabad.
- The Company won contracts worth Rs. 25,172 mn in irrigation works and Rs. 3,942.4 mn in construction of buildings and power transmission lines.

Key Risks

- Any unfavourable rise in the raw material prices will lead to an increase in construction expenses and thus negatively affect bottomline.
- IVRCL is mainly engaged in executing water management contracts and has no prior experience in the management of oil & gas exploration and production companies.
- Any unwelcome change in the government policy towards expenditure on infrastructure development in the country is likely to affect the order inflow of IVRCL and pull down topline growth.

Outlook

At the end of the quarter, IVRCL held a strong order book at 4x times FY07 revenues. The expected inflow of orders in the Water Management, Power and Construction businesses will continue to drive the topline growth. Moreover, IVRCL's four BOT projects are expected to start contributing to the revenues in 2009/10.

IVRCL has been diversifying its portfolio in value accretive high margin businesses such as Power, BOT projects, Real Estate and Oil & Gas exploration and production. Going forward, we expect that the contribution from Water Management contracts will decline and share of high margin businesses will improve. This in turn will lead to improvement in overall margins.

*Diversifying into other
high margin businesses*

While we hold a positive outlook for IVRCL, we are little concerned regarding the Company's ability to finance the expansion programmes. Hence, timely management of the funds will be crucial to sustain such high growth in the long-term. Moreover, presently IVRCL faces rising raw material prices due to which margins are under pressure. As a result, we have downgraded our EBITDA margin estimates by 100 bps each to 10.2% in FY08E and 10.6% in FY09E.

At the current market price, the stock is trading at a forward P/E of 31x FY08E and 24.3x FY09E. Based on SOTP valuation, we have arrived at a target price of Rs. 560. Maintain Buy.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	10,602	16,871	24,962	33,691	46,664	36.7%
EBITDA	908	1,531	2,871	3,437	4,946	31.3%
Net Profit	571	1,078	1,631	1,967	2,506	24.0%
Margins(%)						
EBITDA	8.6%	9.1%	11.5%	10.2%	10.6%	
NPM	5.4%	6.4%	6.5%	5.8%	5.4%	
Per Share Data (Rs.)						
EPS	6.8	10.0	13.6	15.2	19.3	19.0%
PER (x)	70.2x	27.8x	34.5x	31.0x	24.3x	

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