

Construction – Civil / Turnkey-Large

IVRCL Infrastructures & Projects Ltd

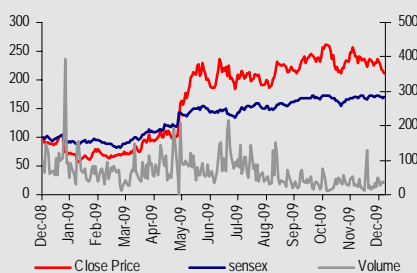
Buy

CMP **Rs. 354**Target Price **Rs. 429**

Key Data

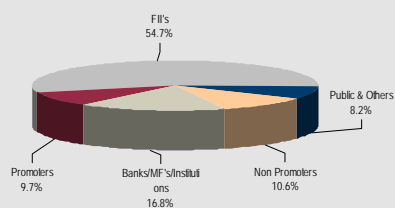
Face Value (Rs)	2.00
Market Cap (Rs in mn)	47261.0
Total O/s Shares in (in mn)	133.5
Free Float	90.27%
52 Week High / Low	424/82
Avg. Monthly Volume (BSE)	362504
Avg. Monthly Volume (NSE)	2040195
BSE Code	530773
NSE Code	IVRCLINFRA
Bloomberg Code	IVRC@IN
Beta	1.63
Date of Incorporation	Nov 1987
Last Dividend Declared	70%
Six month return	4.4%
Indices	BSE500
FCCB's outstanding	USD 7.6 mn
Warrants outstanding	N.A.

One Year Price Chart



Source: Capitaline

Share Holding Pattern



Source: Company, KJMC Research

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IVRCL is one of the major construction and infrastructure players in India with presence in water, irrigation, roads, power transmission, buildings, industrial, etc. It has been among the fastest growing construction companies in India with standalone net revenue and PAT CAGR of 44.9% and 49.4% respectively in FY04-09. The company is expected to maintain high growth of 25% in FY09-12E backed by strong current order book of Rs 190 bn (including Rs 45 bn of L1) and new order inflows across segment. We believe that transfer of BOT projects to subsidiary IVR Prime will be win-win situation for both. The current valuation leaves over 20% upside potential on the stock. We recommend BUY on the stock.

Key Highlights

Strong order book position giving revenue growth visibility

IVRCL has a strong and diversified order book of Rs 145 bn, 3x FY09 net revenue. Further, it is L1 in Rs 45 bn of orders. The order book gives visibility on sustainable growth in net revenue for the next two to three years. We expect revenue CAGR of 25% in FY09-12E.

Order inflows expected to pick up

The order book of roads segment is expected to pick up on 1) inflows of Rs15 bn of new orders in which IVRCL is L1, 2) EPC orders from new and existing BOT projects in the subsidiary company, 3) projects funded by government and multilateral agencies. Further, led by weak monsoon in the current year, the government spending on water and irrigation infrastructure projects is expected to speed up. This would strengthen IVRCL order book.

Restructuring – to strengthen BOT business

The transfer of BOT assets to subsidiary IVR Prime would result IVRCL into a pure EPC company whereas IVR Prime would be infrastructure and real estate company. IVR Prime with its strong net worth would be able to increase BOT project portfolio and in turn benefit IVRCL with the EPC part of those projects. In addition, IVRCL on consolidated basis would continue to hold all infrastructure assets.

Valuation

The stock is currently trading at an attractive P/E of 15.1x based on FY11E standalone earnings. In the past few months the scrip has underperformed on the bourses. We expect re-rating of the stock.

Financial Snapshot

Rs in Mn

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Net Revenue	36,606	48,819	57,393	72,753	95,435
EBITDA	3,614	4,218	5,373	6,728	8,663
EBITDA Margin %	9.9	8.6	9.4	9.2	9.1
PAT	2,105	2,260	2,384	3,174	4,411
EPS	15.8	16.9	17.7	23.5	32.7
P/E	22.5	20.9	20.0	15.1	10.8
EV/EBITDA	15.5	14.3	11.3	9.1	7.2
ROE%	14.4	13.2	12.3	14.3	17.2
ROCE%	14.4	12.7	14.2	16.7	19.8

Source: Company, KJMC Research

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General data sources

Company, Capitaline, Public domain, Bloomberg.

Contents

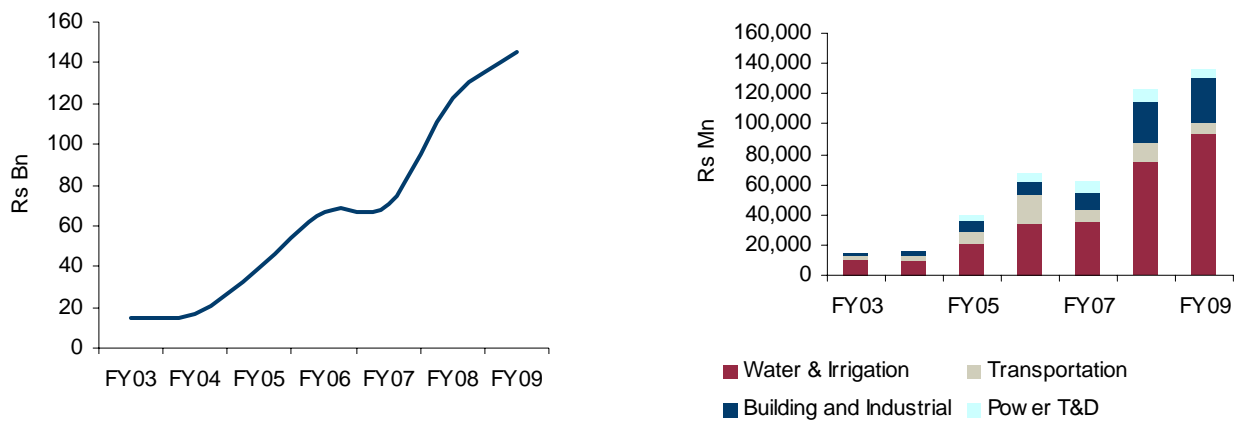
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Investment Highlights

Strong order book position giving revenue growth visibility

IVRCL has a strong and diversified order book of Rs 145 bn constitutes 69% of water and irrigation projects, 22% from building, 5% from transportation (Roads) and 4% from power T&D. Further, it is L1 in Rs 45 bn of orders including Rs 10 bn of water, Rs 15 bn of transportation, Rs 15 bn of building and Rs 5 bn of power projects. The order book grew at a CAGR of 29.4% in the past three years (FY06-09). The management has guided for 25-30% growth in the order book in the next two years.

Growing Order Book



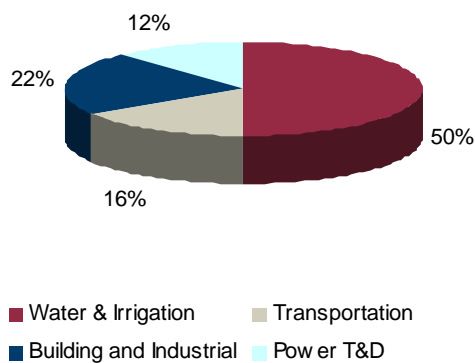
Source: Company

Sustainable growth in earnings - A sustainable earning growth is expected on robust order book and strong visibility on new order inflows. The net revenue and earnings is expected to growth at a CAGR of 25% and 24.5% respectively with 400 bps improvement in ROE at 17.2% by FY12E. Revenue growth would be driven by higher contribution from transportation and T&D segments.

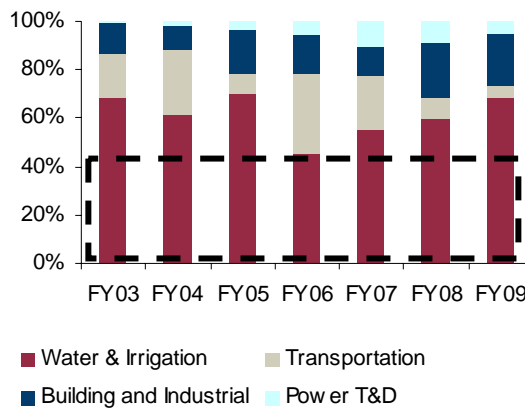
Major presence in water and irrigation space

IVRCL is a major player in water and irrigation projects and the segment contributes over 69% of the order book and 50% of FY09 net revenue. Currently out of Rs 145 bn of order book, Rs 10 bn are water and irrigation orders. The order inflows in the sector is expected to continue as government spending on water and irrigation infrastructure projects is expected to speed up led by weak monsoon in the current year. In the 11th five year plan, the government has estimated a public investment of Rs. 2533 bn which is 2.3x of 10th plan. Though the order flows from Andhra Pradesh in near terms is expected to be relatively slower, the other states like Gujarat, Maharashtra, MP, Karnataka, etc are expected to speed up investment in irrigation and water segment on poor monsoon.

Breakup of FY09 net revenue



Water and irrigation – major revenue contributor



Source: Company

Order inflows in roads to pick up

The contribution of orders from transportation segment is expected to increase on 1) inflows of Rs15 bn of new orders in which IVRCL is L1 orders, 2) EPC orders from new and existing BOT projects in the subsidiary company, 3) bagging projects funded by government and multilateral agencies.

Expectation on new orders - Currently IVRCL is L1 in Rs 15 bn of roads contracts. Besides this, it would begin construction of Baramati Phaltan and Sion Panvel BOT road projects, for which there would be opportunity for EPC contracts. In addition IVRCL through its subsidiary IVR Prime would be bidding for several BOT projects. The overall investment scenario in roads segment is positive as Government is looking for various options to fund NHAI and state projects. Government is targeting to develop average 20 km of roads per day against 4-10 km per day in the past 5 years by awarding balance part of NHAI projects. Government is finalizing 37 projects involving conversion of 3770 km of single lane roads into double lane. These projects would be on cash contracts basis leaving opportunity for contractors like IVRCL.

Status of NHAI projects as on October 2009

Particulars	NHDP							Port Connectivity	Others	Total by NHAI
	GQ	NS - EW Ph. I & II	Phase III	Phase V	Phase VI	Phase VII	NHDP Total			
Total Length (Km.)	5,846	7,300	12,109	6,500	1000	700	33,455	380	965	34,800
Already 4-Laned (Km.)	5,736	4,316	1045	148	-	-	11,245	241	841	12,327
Under Implementation (Km.)	110	2,189	2,605	886	-	19	5,809	133	104	6,046
Contracts Under Implementation (No.)	15	116	25	1	-	-	157	5	10	172
Balance length for award (Km.)	-	637	8,459	5,466	-	-	14,562	6	20	14,588

Source: NHAI

IVRCL - to get boost from BOT projects

IVRCL currently has five BOT projects which are at operational or implementation stage. Kumarpalayam Tollways is currently operational whereas Jalandhar Amritsar, Salem Tollways and Chennai Water Desalination are expected to be operational in the current financial year. Besides these it is expected to sign letter of intent (LOI) for two more

projects through JV. Altogether the size of BOT projects is at Rs 69 bn. IVRCL is signing LOI in Sion- Panvel road project of Rs 18.4 bn and IOCL Tankage of Rs 27.45 bn. This will increase IVRCL BOT portfolio to Rs 68.2 bn. Besides these it is lowest bidder in two more BOT road projects, Indore Gujarat border and Salem-Coimbatore of total Rs 24 bn. The company has not given any further details on these two projects.

Project Details

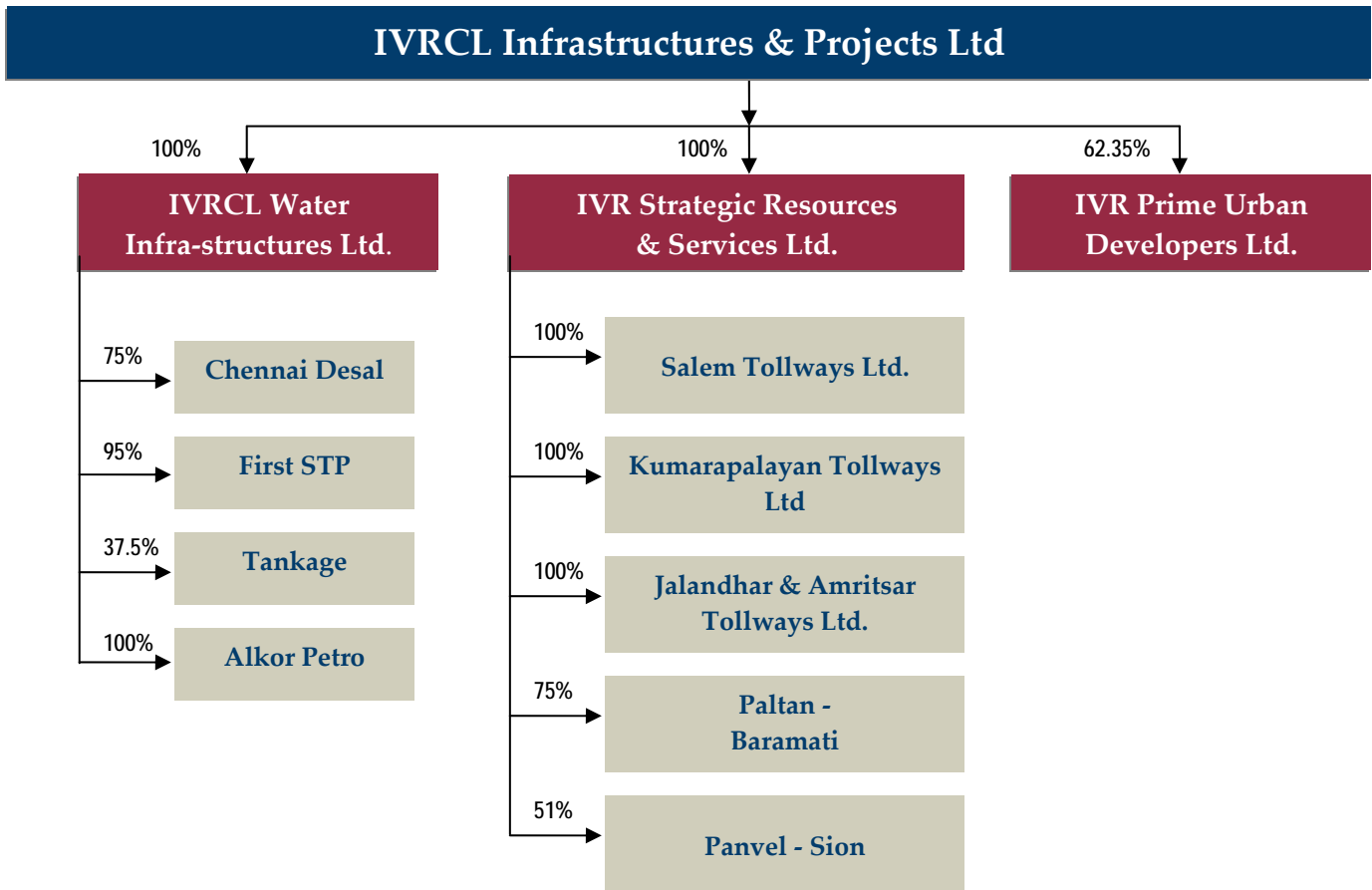
BOT Projects (Rs Mn)	Stake	Equity	Debt	Grant	Cost
Jalandhar Amritsar	100%	30	0	0	30
Kumarpalayam Tollways	100%	1760	3951	0	5711
Selam Tollways	100%	1011	2400	395	3806
Baramati to Phaltan	75%	801	3390	175	4366
Sion Panvel (L1)	51%	1280	2930	1290	5500
First STP	95%	690	1853	1220	3763
Chennai Water Desalination	75%	4350	10151	3900	18401
IOCL Tankage (Annuity of Rs 35 cr per month) (L1)	37.50%	2167	2889	22392	27448

Source: Company

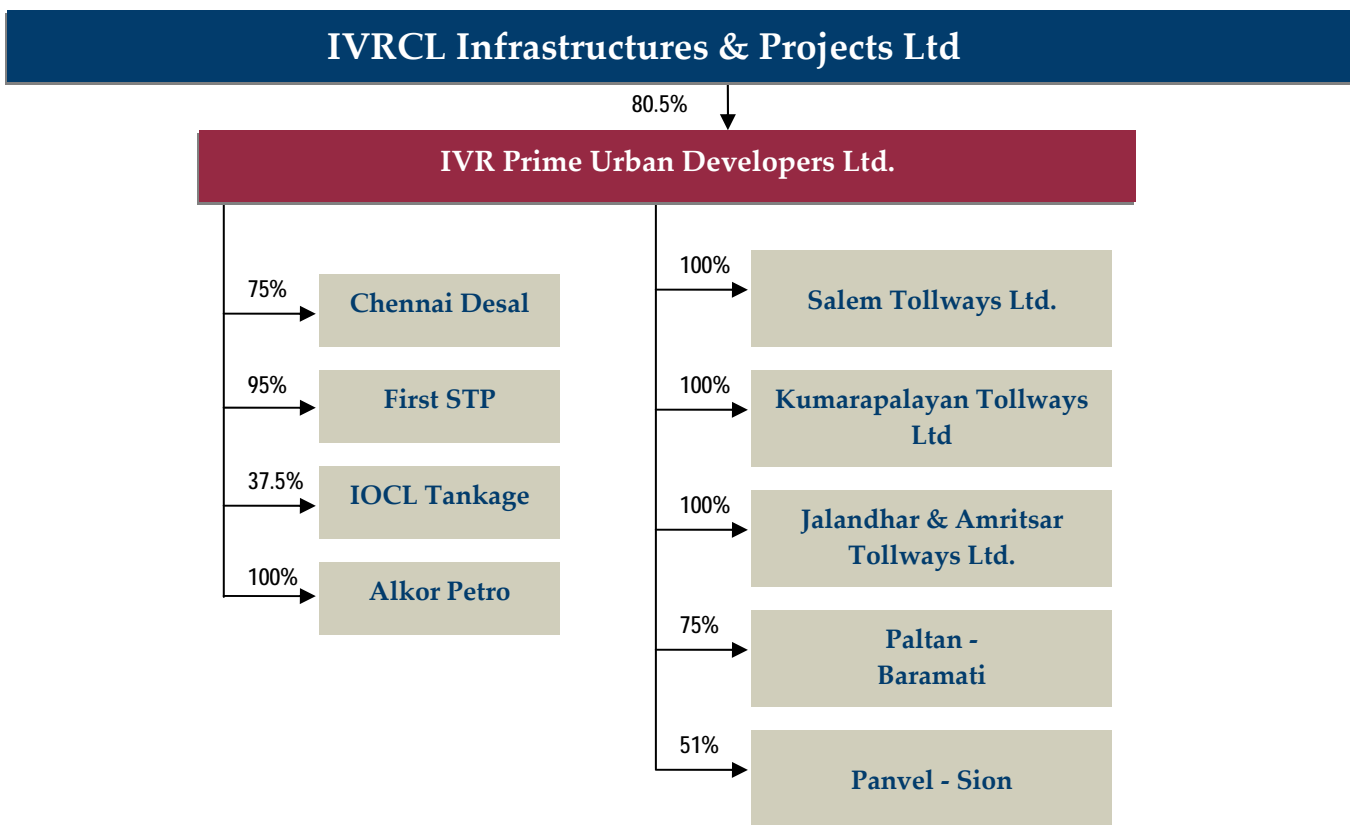
Restructuring – positive for IVRCL in long run

Recently IVRCL board has approved business restructuring under which all current and future BOT assets would be transferred to its 62.35% subsidiary IVR Prime. These assets are currently under IVRCL's 100% subsidiary IVR Strategic Resources & Services Ltd (SRSL) and IVRCL Water Infra-structures Ltd (WIL). As per scheme, IVRCL would receive 59.46 mn equity shares of IVR Prime, leading to 18.15% increase in stake to 80.5%. Thus on consolidated basis, it will be a win-win situation for IVRCL, as it would continue to be a holding company for all infrastructure assets.

Existing Structure



New Structure



Restructuring – to enable strength to BOT business

As a result of the restructuring exercise, IVRCL would be a pure EPC company whereas IVR Prime would own Infrastructure and Real Estate assets. This also leads to de-leveraging exercise resulting into better debt equity of the restructured entity. IVR Prime has Net Worth of nearly Rs 1 bn which is expected to double post restructuring. This would provide strength to IVR prime to bid for larger size BOT contracts. In addition providing equity support to new projects would be easier for IVR Prime by selling land and developed area from its 3330 acre of land bank (As the case may be). Currently, IVR Prime will have an equity commitment of Rs 3.4 bn over the next two years in the new BOT projects. Apart from this, IVR Prime has Rs2.8 bn of loans payable to IVRCL. Further, IVR Prime will also have to provide equity support to the projects in which it is L1. Thus, the funding is expected to be met through internal accruals, selling real estate assets and fresh issuance of equity.

Key Risk & Concerns

Slowdown in government spending

Most of the infrastructure projects are planned and funded by government and its agencies. Any slowdown in government spending provides risk to our revenue estimates.

Interest rate volatility

Any major volatility in the interest rate may increase the interest cost and provides risk to our earning estimates.

Geographical risk

Approximately Rs 50 bn of total orders is from Andhra Pradesh. Changing political environment in AP on creation of Telangana state may provide risk on future order flows or delay in payments.

Projects with longer execution cycle

IVRCL has a working capital intensive business as the order book has average execution cycle of over 30 months. Any delay on behalf of its clients would lead to higher fund requirement and interest burden.

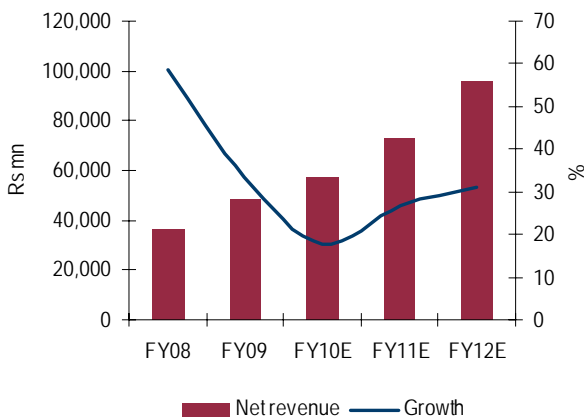
Lower promoter holding

The promoter's stake in the company is very low at 9.73 %. This may restrict IVRCL to meet funding requirement through issuance of equity to non promoters.

Financial Outlook

Net revenue expected to grow at a CAGR of 25% in FY09-12E. The growth in net revenue was led by 1) Execution of strong order book 2) Strong growth of 24.6% CAGR in order inflows 3) pick up in the contribution from roads segment. The current order book (including L1) is 3.9x FY09 net revenue, thereby gives revenue visibility. Besides this, strong order inflows expected in the next three years would further support the revenue growth. We expect 24.3% CAGR in Water and Irrigation, 31.9% CAGR in Transportation, 26.6% CAGR in Building and 14.9% CAGR in Power T&D revenue in FY09-12E.

Net revenue to grow at a CAGR of 25%



IVRCL Revenue breakup

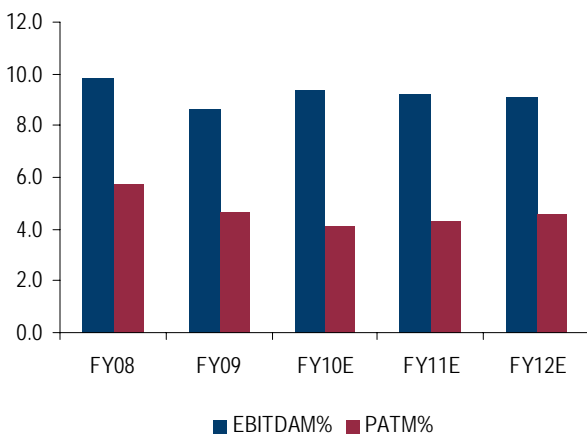
Particulars	FY08	FY09	FY10E	FY11E	FY12E
Water & Irrigation Project Division	48.0%	50.0%	63.2%	52.1%	49.1%
Transportation	20.0%	16.0%	9.3%	13.6%	18.8%
Building and Industrial Projects	14.0%	22.0%	20.8%	23.8%	22.8%
Power T&D	18.0%	12.0%	6.8%	10.5%	9.3%

Source: Company, KJMC Research

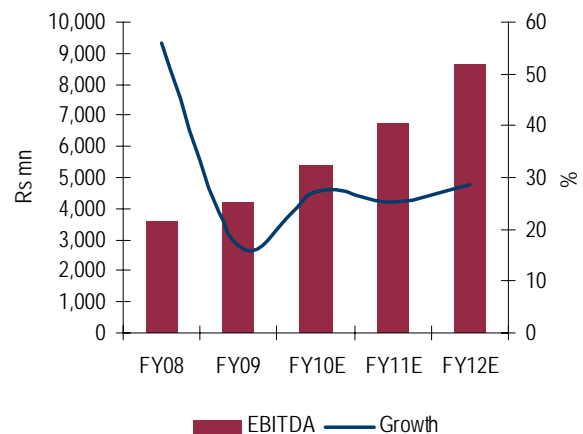
EBITDA margin expected in the range of 9.1-9.4%

We expect 80 bps increase in EBITDA margin in FY10E, based on 1) better margin performance in H1FY10 2) higher contribution from high margin water and irrigation projects. Further in FY11E and FY12E, the margins are expected to stabilize at 9.1-9.2%. Hence, we expect EBITDA to grow at a CAGR of 27.1% in FY09-12E.

EBITDA margin expected at 9%



EBITDA to grow at a CAGR of 27.1% in FY09-12E

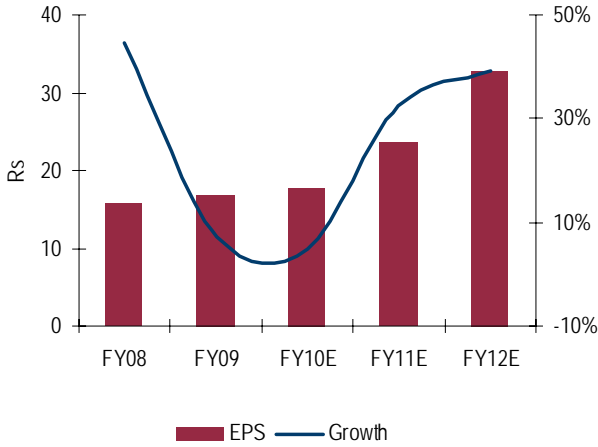


Source: Company, KJMC Research

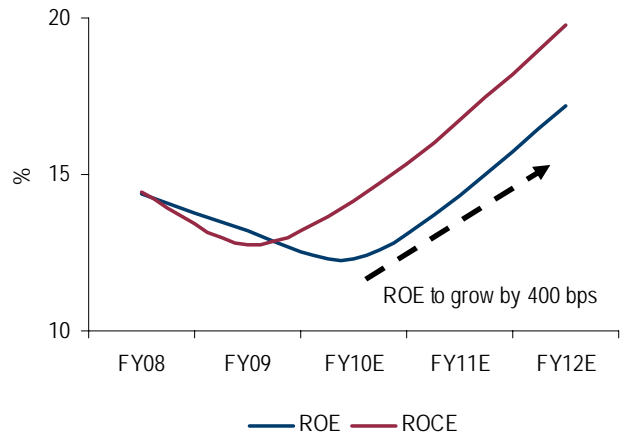
ROE expected to improve by 400 bps by FY12E

We expect FY12E ROE to be at 17.2% with 400 bps improvement in FY09-12E. The improvement in ROE is based on 1) 25% CAGR expected in PAT and 2) assumption of no equity dilution. With this, the earnings are expected to grow at a CAGR of 24.5% in FY09-12E.

Earnings to grow at 24.5% CAGR



Expect FY12E ROE to be at 17.2%



Source: Company, KJMC Research

Valuation

The stock is currently trading at a P/E of 20x and 15.1x based on FY10E and FY11E standalone earnings. Since, IVRCL also has two of its subsidiaries, IVR Prime and Hindustan Dorr Oliver listed on bourses, we have adopted sum of the parts (SOTP) method to value the stock. We have also valued 4 BOT projects which are completed/ operational. The value of the same comes to Rs 24.6/ share. But we have not included the value of these projects as these are already factored in the price of IVR Prime. Based on SOTP valuation we arrive at a target price of Rs 429. We recommend **BUY** on the stock.

SOTP Valuation

Segment	Basis	Multiple/discount (x)	Value (Rs mn)	Value per share (Rs)
IVRCL	PE	16	50777	376
IVR Prime	Market value of current equity holding	70% discount on Mkt value of investment (at CMP Rs 174)	4900	36
HDO	Market value of current equity holding	70% discount on Mkt Value of investment (at CMP Rs 160)	2218	17
Total			57894	429

Source: KJMC Research

Existing BOT Projects

Projects	Basis of valuation	Value (Rs Mn)	Value per share for IVRCL
Jalandhar Amritsar Tollways	NPV	1478	10.9
Salem Tollways	NPV	589	4.4
Kumarpalayam Tollways	NPV	482	3.6
Chennai water desalination	NPV	779	5.8
Total		3328	24.6

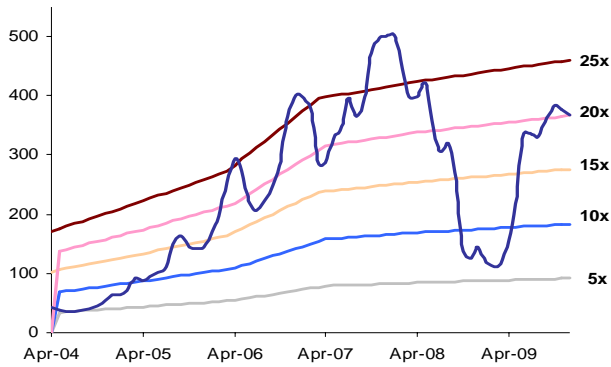
Source: KJMC Research

Peer Group Comparison

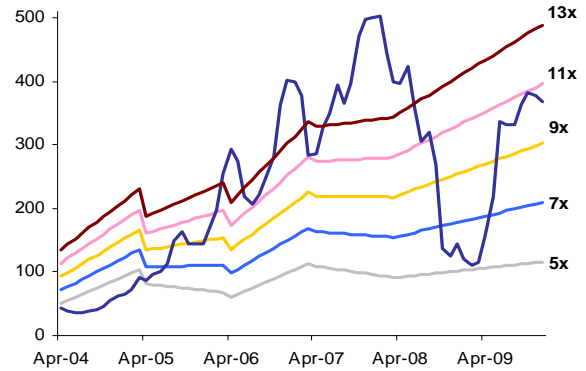
Particulars Rs Mn (FY09)	IVRCL	NCC	HCC
Net Revenue	48819	41367	33137
CAGR% (3Yr)	48.3%	31.0%	18.6%
EBITDA	4218	3736	4385
CAGR% (3Yr)	46.4%	31.6%	33.9%
PAT	2260	1538.6	1254
CAGR% (3Yr)	34.5%	14.0%	0.0%
EBITDA Margin%	8.6%	9.0%	13.2%
Order Book	145000	142660	155420
Order Book/Net Sales	3.0	3.4	4.7
FY10E P/E	20.0	19.5	32.7
FY11E P/E	15.1	14.5	25.6
FY10E EV/EBITDA	11.2	9.6	12.2
FY11E EV/EBITDA	8.9	7.8	10.4

Source: Company, KJMC Research, Bloomberg Estimates, Capitaline

Forward P/E band



Forward EV/EBITDA Band



Source: KJMC Research, Bloomberg, Capitaline

Quarterly and Half yearly performance

Particulars (Rs Mn)	Q2FY10	Q2FY09	YoY Growth%	H1FY10	H1FY09	YoY Growth%
Net Sales	12178.3	11366.1	7.1	23039.9	20650.6	11.6
Expenditure	11033.6	10453.2	5.6	20899.4	18937.1	10.4
Construction, Stores, spares, Materials consumed	4721.8	4270.7	10.6	9114.9	7992.0	14.1
Sub Contracting expense	3061.9	3158.5	-3.1	4707.7	5441.6	-13.5
Masonry, Labour & Construction Exp	2613.6	2341.9	11.6	5839.0	4173.1	39.9
Employee Cost	402.7	488.5	-17.6	820.7	931.2	-11.9
Other Expenditure	233.7	193.7	20.7	417.0	399.3	4.4
EBITDA	1144.7	912.8	25.4	2140.6	1713.5	24.9
EBITDAM%	9.4	8.0	136.8	9.3	8.3	99.3
Other Income	57.2	171.75	-66.7	96.26	198.00	-51.4
Depreciation	133.1	113.2	17.6	263.5	215.3	22.4
Interest	353.7	304.2	16.3	739.0	495.1	49.2
PBT	715.1	667.1	7.2	1234.3	1201.0	2.8
Tax	227.4	96.133	136.5	393.51	205.846	91.2
PAT	487.7	571.0	-14.6	840.8	995.2	-15.5
PATM%	4.0	5.0	-101.9	3.6	4.8	-117.0
Extraordinary Items	0.0	0.0	-	1409.0	0.0	-
PAT (after Extra-ordinary/Exceptional items)	487.7	571.0	-14.6	-568.2	995.2	-157.1
Equity Capital	267.0	267	0.0	267.0	267.0	0.0
EPS (Rs)	3.7	4.3	-14.6	6.3	7.5	-15.5

Source: Company, KJMC Research

50 days moving average price chart for 5 years



Source: Bloomberg

Financial Summary (Standalone)

Profit & Loss Statement

Rs. in mn

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Net Revenue	36,606	48,819	57,393	72,753	95,435
Growth %	58.8	33.4	17.6	26.8	31.2
Total Expenses	32,992	44,601	52,019	66,025	86,773
Growth %	59.1	35.2	16.6	26.9	31.4
Construction Expenses	30,965	41,772	48,804	62,011	81,630
% Of NR	84.6	85.6	85.0	85.2	85.5
Employee Expenses	1,442	1,953	2,296	2,911	3,818
% Of NR	3.9	4.0	4.0	4.0	4.0
Other Expenses	584	876	920	1,104	1,324
% Of NR	1.6	1.8	1.6	1.5	1.4
EBITDA	3,614	4,218	5,373	6,728	8,663
Growth	55.9	16.7	27.4	25.2	28.8
EBITDAM %	9.9	8.6	9.4	9.2	9.1
Other Income	45	299	299	299	299
Interest	478	1,306	1,474	1,621	1,678
Depreciation	328	473	642	672	703
PBT	2,853	2,738	3,557	4,734	6,580
Tax	749	478	1,172	1,560	2,169
Reported PAT	2,105	2,260	2,384	3,174	4,411
Growth	48.8	7.4	5.5	33.1	39.0
Net Margin%	5.7	4.6	4.2	4.4	4.6
Adjusted PAT	2,105	2,260	2,384	3,174	4,411

Source : Company, KJMC Research

Balance Sheet

Rs. in mn

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Equity Share Capital	267	267	270	270	270
Reserves	15,789	17,839	20,385	23,337	27,527
Net worth	16,056	18,106	20,655	23,607	27,797
Secured Loans	5,788	10,185	10,685	10,685	11,685
Unsecured Loans	4,891	3,795	3,410	3,410	3,410
Loan Funds	10,678	13,980	14,095	14,095	15,095
Total Liabilities	26,738	32,086	34,749	37,702	42,892
Gross Block	4,176	6,624	7,324	7,674	8,024
Less: Accumulated Depreciation	984	1,417	2,058	2,730	3,433
Net Block	3,192	5,207	5,265	4,943	4,590
Capital Work In Progress	541	196	196	196	196
Investments	3,409	3,892	3,892	3,892	3,892
Current Assets	28,831	38,135	40,927	48,208	59,686
Inventories	1,943	2,093	3,753	4,039	5,309
Debtors	6,585	11,430	11,533	14,620	19,178
Cash & Bank	1,772	1,009	875	848	688
Loans & Advances	7,806	9,319	10,066	10,066	10,066
Current Liabilities & Prov	9,132	15,226	15,413	19,419	25,354
Net Current Assets	19,699	22,909	25,514	28,789	34,332
Deferred Tax	-103	-118	-118	-118	-118
Total Assets	26,738	32,086	34,749	37,702	42,892

Source : Company, KJMC Research

Cash Flows

Rs. in mn

Particulars	FY08	FY09	FY10E	FY11E	FY12E
Pre-Tax Profit	2,853	2,738	3,557	4,734	6,580
Depreciation & Non Cash	402	554	642	672	703
Interest & others	484	1,073	1,474	1,621	1,678
Chg in W Cap	-6,286	-2,878	-2,739	-3,302	-5,703
Tax Paid	-1,229	-1,018	-1,172	-1,560	-2,169
Operating Cash Flows	-3,775	468	1,761	2,165	1,090
Capex	-1,627	-2,153	-700	-350	-350
Free Cash Flows	-5,402	-1,685	1,061	1,815	740
Investments	-398	-1,058	0	0	0
Equity Capital	1	0	385	0	0
Loans	5,930	3,221	115	0	1,000
Dividend	-151	-189	-221	-221	-221
Others	-392	-1,052	-1,474	-1,621	-1,678
Net Change in Cash	-467	-763	-134	-27	-160
Opening Cash Position	2,238	1,771	1,009	875	848
Closing Cash Position	1,771	1,009	875	848	688

Source : Company, KJMC Research

Ratios

Y/E, Mar (Rs. m)	FY08	FY09	FY10E	FY11E	FY12E
Profitability %					
EBITDA Mgn	9.9	8.6	9.4	9.2	9.1
PAT Mgn	5.7	4.6	4.2	4.4	4.6
ROCE	14.4	12.7	14.2	16.7	19.8
ROE	14.4	13.2	12.3	14.3	17.2
Per Share Data (Rs/share)					
EPS	15.8	16.9	17.7	23.5	32.7
CEPS	18.2	20.5	22.4	28.5	37.9
BVPS	120.3	135.6	153.0	174.9	205.9
DVPS	1.4	1.4	1.4	1.4	1.4
Valuations (X)					
PER	22.5	20.9	20.0	15.1	10.8
CPER	19.4	17.3	15.8	12.4	9.3
P/BV	2.9	2.6	2.3	2.0	1.7
EV/Sales	1.5	1.2	1.1	0.8	0.7
EV/EBITDA	15.5	14.3	11.3	9.1	7.2
Dividend Yield	0.4	0.4	0.4	0.4	0.4
Turnover (X Days)					
Debtor TO	64	67	73	73	73
Inventory TO	15	17	21	22	20
Gearing Ratio (X)					
Net Debt/Equity	0.6	0.7	0.6	0.6	0.5
Total Debt/Equity	0.7	0.8	0.7	0.6	0.5

Source : Company, KJMC Research

ANNEXURE-I : COMPANY

Company Background

IVRCL Infrastructures & Projects Ltd (IVRCL) is one of the major civil construction players in India with presence in water, irrigation, roads, highways, power transmission, buildings, industrial etc. About 69% of its orders are from irrigation and water projects. IVRCL's majority of orders are from Andhra Pradesh (22%) and Maharashtra (27%) followed by 6-8% each from Gujarat, Rajasthan, Karnataka, Madhya Pradesh, Tamil Nadu, UP, etc.

The company began its journey in 1990 as civil contractor and became infrastructure player in 2001 by foraying in the BOT projects. Currently it is operating/developing 5 BOT projects and singing LOI for two more projects. With the recent restructuring these BOT projects would be operated through its subsidiary, IVR Prime and IVRCL would focus on EPC contracts. In the past five years, IVRCL's standalone net revenue grew at a CAGR of 44.9% to Rs 48.8 bn. The management has given guidance of Rs 60-62.5 bn of net revenue with 9.5% of EBITDA in FY10.

Major Subsidiaries

IVR Prime Urban Developers Ltd

IVR Prime Urban Developers Ltd is the real estate subsidiary of IVRCL with a land bank of 3393 acres and projects planned or developed in Chennai, Vizag, Bangalore, Pune, Nagpur and New Delhi, Hyderabad, etc. With the recent restructuring exercise resulting into transfer of BOT assets, the subsidiary would become infrastructure and real estate developer. In FY09, the company reported Rs 810.65 mn of net revenue and Rs 85.86 mn of PAT. The financial performance got impacted by slowdown in real estate sector.

Location	Land reserves (acres)
Tamil Nadu	1541
Karnataka	266
Noida	101
Hyderabad	60
Maharashtra	1205
Visakhapatnam	220
Total	3393

Source: Company

Hindustan Dorr Oliver Ltd

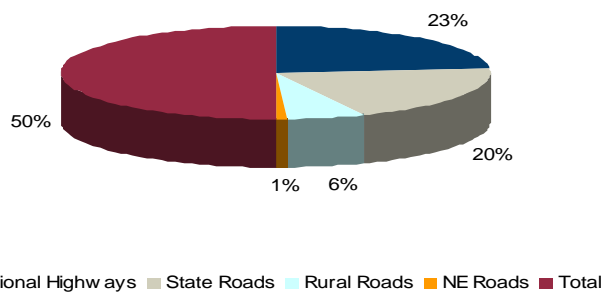
Hindustan Dorr Oliver Ltd is 55% subsidiary of IVRCL and is focusing on high growth sectors of oil business, Manufacturing, Design & Engineering activities of Knowledge Process Outsourcing and large scale EPC projects in Mineral Beneficiation & Environment sectors. It has reported Rs 5.2 bn revenue with Rs 226.36 mn of PAT in FY09. The company has an order book of Rs 14 bn as on 30th September 2009. The management has given a FY10 revenue guidance of Rs 7.5-8 bn, over 50% yoy growth.

ANNEXURE-II : INDUSTRY

Indian Road Sector

India is the second largest in the world in terms of road network with 3.3 mn km of roads carrying about 61% of the freight and 85% of the passenger traffic. Out of the total network, National Highways constitutes only about 2% of the road network but carry about 40% of the total road traffic. The number of vehicles has been growing at an average pace of 10.16% per annum over the last five years. According to the Planning Commission, annual growth projected at 12-15% for passenger traffic, and 15-18% for cargo traffic. Besides this, 40% of India's villages do not have access to All-Weather roads. To improve road infrastructure, the Government is planning to increase spends on road development substantially.

Break up of Road Network



Road Type	Length (In Km)
Expressways	200
National Highways	70,548
State Highways	131,899
Major District Roads	467,763
Rural and Other Roads	2,650,000
Total Length	3,320,410

Source: NHAI

11th Five Year Plan for Roads

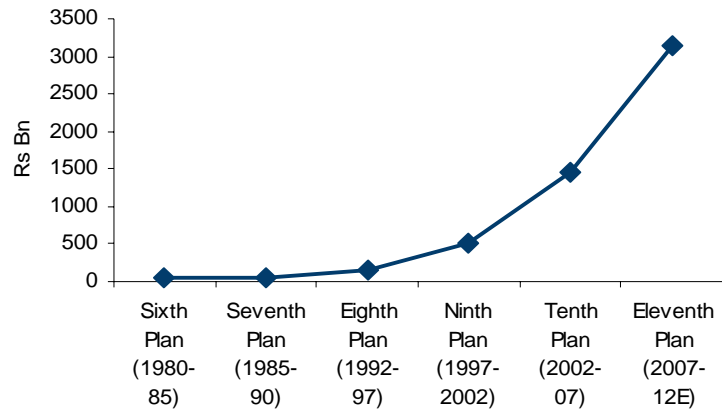
For the roads and bridges sector, the 11th Five Year Plan (FYP) envisages a total investment of approximately Rs 3142 bn (US\$ 78.5 bn) over the five-year period FY08-FY12. The targeted investment is 116.8% higher than the 10th FYP. The private sector participation in investment in the current FYP is expected to be 34% which is much higher than 4.8% in 10th FYP. 50% of the investment would go to the development of national highways which includes 25.4% from private players participating in NHDP projects.

Investment in roads & bridges projects in 11th FYP

(Rs Bn)	FY08	FY09	FY10	FY11	FY12	Total XI FYP
Centre	303	324	354	414	478	1872
Public	183	194	207	226	263	1074
Private	120	129	147	188	215	798
State	215	224	238	270	322	1270
Public	175	182	189	206	248	1000
Private	40	43	49	64	74	270
Total	518	548	592	684	800	3142
Public	359	376	396	432	511	2074
Private	160	172	196	251	289	1068

Source: Planning Commission, Secretariat for the Committee on Infrastructure

Increasing planned investment in Indian road sector



Source: Planning Commission

National Highway Development Programme (NHDP)

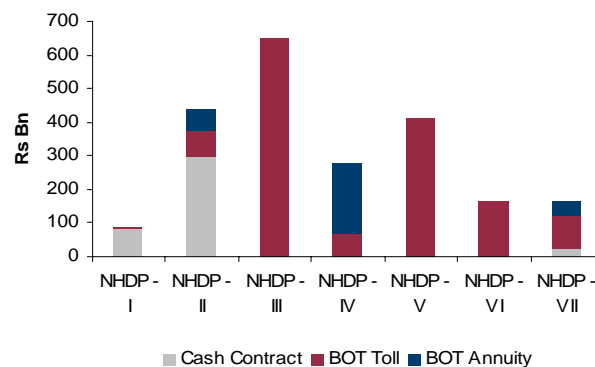
The Government of India has launched National Highway Development Programme (NHDP) involving a total investment of US\$ 54.1 billion up to 2012. NHDP is being implemented by National Highway Authority of India (NHAI) in seven different phases. As per planning commission total investment in NHDP in the current five year plan is estimated at Rs 138.98 bn with Rs 79.84 bn of private investment.

NHDP Projects at a glance

Phases	Total Investment (Rs bn)	Length (Km)	Objective
NHDP - I	300	7498	1) Golden Quadrilateral 5,846 km 2) NS-EW Corridor of 981 km 3) Port connectivity 356 km 4) Others 315 km
NHDP - II	343.4	6647	1) NS-EW Corridor 6,161 km 2) Other National Highways of 486 km
NHDP - III	765.5	12109	Upgradation and 4 laning of National Highways
NHDP - IV	250	20000	Upgradation of highways into two-lane highways
NHDP - V	412.1	6500	Six laning of existing 4 lane highways including 5,700 km of GQ and other stretches
NHDP - VI	166.8	1000	Development of expressways
NHDP - VII	166.8	700	Building of Ring Roads, Bypasses and flyovers and selected stretches

Source: NHAI

Mode of development

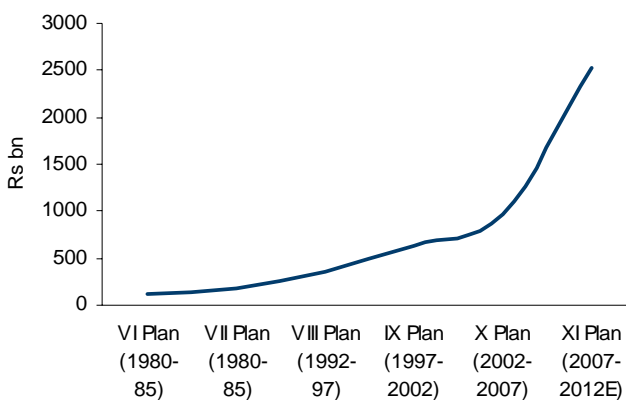


Source: Report of the Core Group on the Financing of the National Highway Development Program

Irrigation

- ▶ Agriculture sector contributes 20% to Indian GDP and employs over 60% of population. Due to larger dependence on the monsoon and uneven rainfall across India, the agricultural sector has not been able to contribute to India's GDP to full extent. Developing irrigation system across the country is one of the most important agenda for the government.
- ▶ India has total irrigation potential of about 139.9 million hectare (mn ha), out of which 58.5 mn ha through major and medium irrigation projects (over 2000 ha), 17.0 mn ha through minor irrigation schemes (less than 2000 ha) and 64.0 mn ha through groundwater development. Most of the investment is expected in major and medium irrigation projects.
- ▶ It is estimated that only about 103 mn ha has been created till 10th FYP and only about 87 mn ha is utilized. The 11th FYP aims to add another 16 mn ha of land for irrigation. The 11th plan has estimated a public investment of Rs. 2533 bn, with a Central contribution of Rs. 247 bn and of states of Rs 2285 bn. The estimated invested in current FYP is 2.3x of last FYP.
- ▶ States with large project banks are Andhra Pradesh (Rs774 bn), Gujarat (Rs784 bn), Karnataka (Rs119 bn), Madhya Pradesh (Rs120 bn), Maharashtra (Rs322 bn) and Orissa (Rs116 bn). Andhra Pradesh is the most aggressive state when it comes to irrigation and water contracts. As per industry sources, it is estimated to have awarded projects worth Rs 1000 bn in the last 5 years.

Investment in irrigation expected to increase

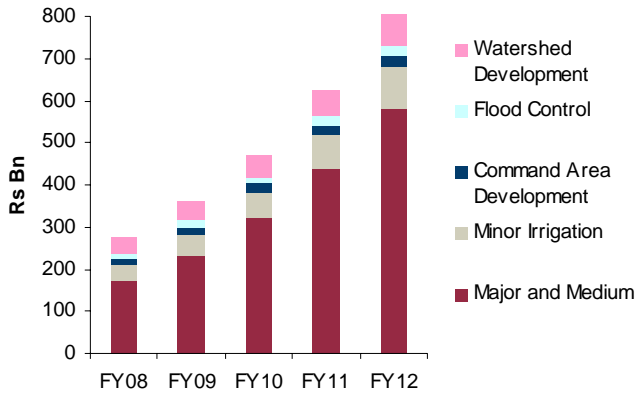


FYP targets for irrigation sector

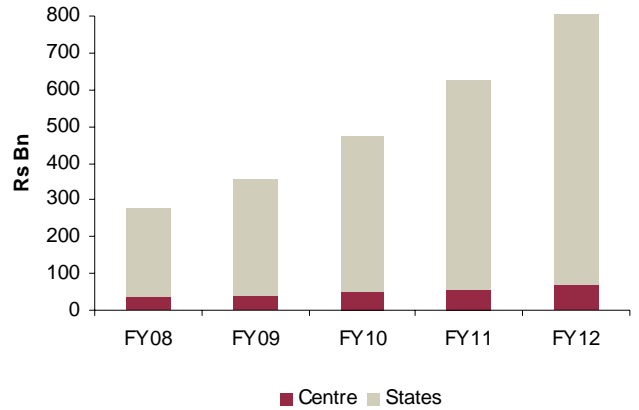
Name	10 th Plan	11 th Plan
Centre	136.2	247.6
State	978.9	2,285.40
Total	1,115.10	2,533.00

Source: Planning commission, Secretariat for the Committee on Infrastructure

Investment breakup in irrigation



Centre Vs State planned investment in irrigation



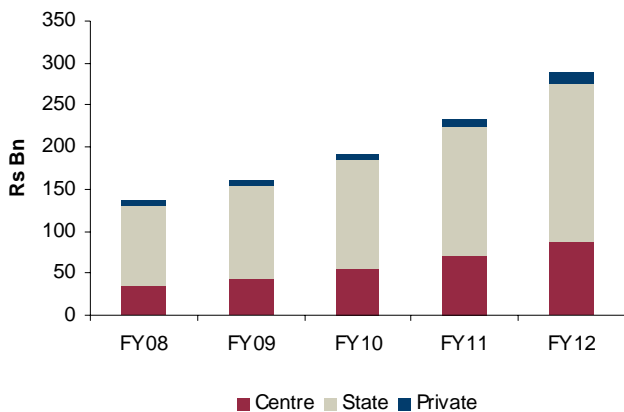
Source: Secretariat for the Committee on Infrastructure

Water & urban infrastructure

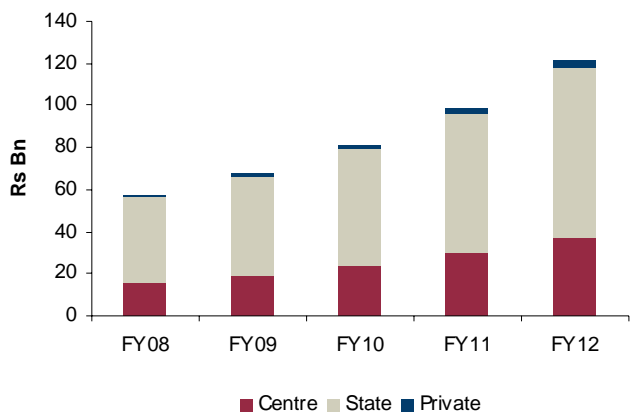
The Steering Committee Report on Urban Development for the 11th Plan has estimated the investment requirements at Rs 1437.3 bn over the 11th Plan period. This includes investment in urban infrastructure which includes water, sewerage, sanitation and solid waste management. Out of this, Rs 420 bn or about 29.2% would be Central spending and Rs. 963 bn or 67% is by States. The private sector is expected to invest Rs 54.2 bn or 3.8%.

As per estimates Rs 536.66 mn of investment would be required to provide water accessibility only. The government intends to provide water to entire urban population by the end of 11th FYP. To meet this government has launched various schemes. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) entails an investment of Rs 1,205.36 billion for 63 cities over the period 2005-12. This includes contribution of Rs.500 bn by the States and local bodies.

Investment in Water Supply



Investment in Sanitation



Source: Secretariat for the Committee on Infrastructure

Power

India is a power deficit nation. To meet the rising demand the government has targeted to add 78700 MW and 82200 MW of generation capacity in 11th FYP and 12th FYP. Thus the government targets to achieve 210907 MW of capacity by the end of 11th plan from 132330 MW at the end of 10th FYP.

Proposed Power Generation capacity addition in 11th FYP

Particulars (MW)	2007-08	2008-09	2009-10	2010-11	2011-12
Thermal	6620	9304	14229	16655	12885
Hydro	2423	1097	1805	1741	8561
Nuclear	220	660	2000	500	0
Total	9263	11061	18034	18896	21446

Source: CEA

Besides, we also need to develop our transmission and distribution infrastructure. The T&D losses in India are relatively higher at 26.9% than that of 10-15% in developed nations. The higher T&D losses is primarily on account of a weak T&D system, low voltage distribution lines, numerous transformation stages, overloads in transmission lines, higher pilferages, etc. To reduce these technical losses, huge capex is required. In the current FYP, investment of Rs 3773.5 bn in power generation, Rs 1404.2 bn in Transmission and Rs 1487.5 Bn in distribution has been planned. Hence there is huge opportunity for the EPC players in catering to these segments.

Investment in 11th FYP in power sector

Particulars (Rs bn)	Generation	Transmission	Distribution	Total 11th Plan
Centre	1439.8	616.4	497.0	2553.2
States	915.3	448.3	893.5	2257.0
Private	1418.5	339.6	97.0	1855.1
Total	3773.5	1404.2	1487.5	6665.3

Source: CEA

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Recommendation Parameters

Expected returns in absolute terms over a one-year period

Buy	-	appreciate more than 20% over a 12- month period
Hold / Neutral	-	appreciate up to 20% over a 12- month period
Reduce	-	depreciate up to 10% over a 12- month period
Sell	-	depreciate more than 10% over a 12- month period

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