

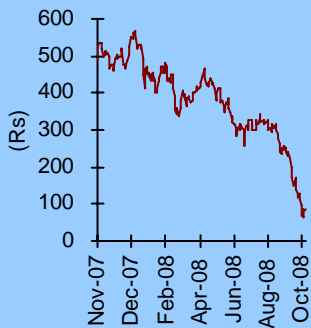
Construction

Shareholding pattern

	Mar '08	Jun '08	Sep '08
Promoters	9.6	9.6	9.6
Institutional investors	75.4	74.4	74.7
MFs and UTI	18.1	17.4	18.1
Insurance Cos.	0.1	0.1	0.1
FII's	57.0	56.8	56.5
Others	15.0	16.0	15.7

Source: BSE

Price chart



Sumeet Budhraj

sumeet_budhraj@isecltd.com
+91 22 6637 7230

Swarit Dakalia

swarit_dakalia@isecltd.com
+91 22 6637 7366

INDIA

IVRCL Infrastructures & Projects

BUY
Maintained

Rs85

Safest bet

Reason for report: Q2FY09 results review & earnings revision

IVRCL Infrastructures & Projects' Q2FY09 topline growth was impressive at 65% YoY, though the company maintained its FY09E revenue growth guidance of 35-40%. EBITDA margin was sustained at 8%. For H2FY09, we anticipate tight credit availability that will affect interest cost for ongoing projects and slow down the launch of new projects. We have lowered order inflow estimates through H2FY09E-10E to factor in no growth in FY10 order inflows, thereby negating our earlier assumption that post elections, order inflow will grow at 22%. We have increased FY09E working capital estimates 14% and consequently FY09E & FY10E interest costs have increased 15% & 18% respectively. The company's orderbook is at Rs138bn (2.7x FY09E revenue). FY09E EPS growth, after adjusting for full tax rate in FY08, will be 20% with 19% EPS CAGR through FY09E-11E. We reiterate BUY based on sum-of-the-parts (SOTP) value of Rs164/share, implying an upside of 93% from the current levels.

- **Strong orderbook (2.7x FY09E revenues), but credit crunch implies slowdown.** IVRCL achieved 51% topline growth in H1FY09, and given our estimate of 37% revenue growth in FY09E, we expect 28% growth in H2FY09E. The company is likely to secure lesser orders due to high interest rate and tight credit availability. EBITDA margin is likely to be affected only 20bps in FY09E due to low proportion of fixed-price contracts at ~7% and the expected fall in commodity prices.
- **FY09E working capital rose 14%.** Higher interest rate will likely lead to FY09E & FY10E interest costs rising 15% and 18% respectively.
- **Low exposure to capital intensive BOT projects** augurs well for IVRCL. The company plans to incrementally invest a nominal sum of Rs233mn.
- **Valuations.** We maintain BUY based on our SOTP of Rs164/share – Rs142/share for construction business valued at 7.5x FY10E EPS and including existing/under construction BOT projects at P/BV of 1.1x, thereby implying an upside of 93% from the current levels. IVRCL remains our top pick in the sector.

Market Cap	Rs11.3bn/US\$232mn
Reuters/Bloomberg	IVRC.BO/IVRC IN
Shares Outstanding (mn)	133.5
52-week Range (Rs)	575/57
Free Float (%)	90.4
FII (%)	56.5
Daily Volume (US\$'000)	13,620
Absolute Return 3m (%)	(71.6)
Absolute Return 12m (%)	(82.5)
Sensex Return 3m (%)	(33.2)
Sensex Return 12m (%)	(50.4)

Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	36,508	50,054	59,615	68,466
Net Income (Rs mn)	2,248	2,224	2,572	3,069
EPS (Rs)	16.8	16.5	19.1	22.7
% Chg YoY	49.0	(2.1)	15.6	19.3
P/E (x)	4.7	4.8	4.1	3.5
CEPS (Rs)	18.2	19.7	23.3	27.8
EV/E (x)	5.6	4.8	4.3	3.8
Dividend Yield	2.1	2.1	2.5	3.0
RoCE (%)	19.6	15.4	15.0	15.1
RoE (%)	30.0	22.7	21.5	21.3

Table 1: Comparison of estimates

	FY09E			FY10E			FY11E		
	Old	New	% chg (YoY)	Old	New	% chg (YoY)	Old	New	% chg (YoY)
Order inflow (Rs mn)	79,637	76,826	(4)	97,157	72,985	(25)	121,446	86,122	(29)
Growth in order inflow (%)	(15)	(18)	20	22	(5)	(123)	25	18	(28)
Order execution rate (%)	32	32	1	36	34	(6)	33	34	4
Operating Working Capital (Rs mn)	17,356	19750	14	22,373	23337	4	29,167	26302	(10)
Interest cost (Rs mn)	1,582	1,826	15	1,814	2,134	18	2,252	2,223	(1)
Interest cost to average debt (%)	3.2	3.6	15.2	2.8	3.6	27.1	2.6	3.2	23.1

Source: Company, I-Sec Research

Table 2: Comparison of earnings

	FY09E			FY10E			FY11E		
	Old	New	% chg (YoY)	Old	New	% chg (YoY)	Old	New	% chg (YoY)
Sales (Rs mn)	49,958	50,054	0	64,402	59,615	(7)	85,424	68,466	(20)
Sales growth (%)	37	37		29	19		33	15	
EBITDA (Rs mn)	4,645	4,759	2	5,993	5,665	(5)	8,121	6,574	(19)
EBITDA margin (%)	9.3	9.5		9.3	9.5		9.5	9.6	
PAT recurring (Rs mn)	2,214	2,224	0	2,868	2,572	(10)	3,912	3,069	(22)
PAT margin (%)	4.4	4.4		4.5	4.3		4.6	4.5	

Source: Company, I-Sec Research

Table 3: Q2FY09 results review*(Rs mn, year ending March 31)*

Particulars	FY09E			FY10E		FY11E		
	Q2FY09	Q2FY08	% chg (YoY)	Q1FY09	% chg (QoQ)	H1FY09	H1FY08	% chg (YoY)
Net Sales	11,366	6,885	65	9,285	22	20,651	13,658	51
Expenditure	10,453	6,331	65	8,465	23	18,918	12,504	51
Materials	4,271	2,765	54	3,721	15	7,992	5,724	40
Subcontractors	3,158	1,658	91	2,283	38	5,442	2,967	83
Masonry and other labour	2,342	1,215	93	1,493	57	3,835	2,499	53
Staff cost	488	353	38	423	16	911	670	36
Other expenditure	194	340	(43)	545	(64)	739	644	15
Operating Profit	913	553	65	820	11	1,733	1,153	50
<i>(operating margins %)</i>	8.0	8.0		8.8		8.4	8.4	
Depreciation	113	76	48	102	11	215	142	51
Other Income	172	16	994	26	556	198	26	657
EBIT	971	492	97	744	31	1,715	1,037	65
Interest	304	76	300	194	57	498	133	275
Profit before Tax	667	416	60	550	21	1,217	904	35
Provision for tax	96	64	50	115	(16)	211	172	23
Net Profit	571	353	62	435	31	1,006	732	37
Recurring net profit	424	339	25	414	2	842	711	18
Net profit margin (%)	3.7	4.9		4.5		4.1	5.2	
Recurring EPS	3.2	2.5	25	3.1	2	6.3	5.3	18

Source: Company, I-Sec Research

Table 4: SOTP valuations

Particulars	Segments	Earlier value (Rs mn)	Earlier value per share (Rs)	Method	Current value (Rs mn)	Current value per share (Rs)	Method
IVRCL Standalone	Core construction business	34,410	255	At 12x FY10E Earnings	19,288	143	At 7.5x FY10E Earnings
IVR Prime	Real estate	4,064	24	At 20% discount to current stock price	-	-	
HDO	Engineering	1,189	8	At 20% discount to current stock price	-	-	
BOT Projects							
Jalandar Amritsar Tollways	Roads Toll	516	4	At P/B of 1.25x	496	4	At P/B of 1.2x
Kumarpalayam Tollways	Roads Toll	715	5	At P/B of 1.1x	715	5	At P/B of 1.1x
Salem Tollways	Roads Toll	881	7	At P/B of 1.1x	881	7	At P/B of 1.1x
Chennai Water Desalination Plant	Desalination	924	7	At P/B of 1.1x	924	7	At P/B of 1.1x
Total		42,700	309		22,304	165	

Source: I-Sec Research

Table 5: Ratings history since initiation

Date	FY10 EPS	FY10 P/E*	Rating Buy	Construction business	Investment value	Target price	Market price	Upside %
25-Sep-08*	21.2	12	BUY	255	61	316	256	24
10-Oct-08**	21.2	12	BUY	255	49	304	196	56
31-Oct-08	19.1	7.5	BUY	143	22	165	85	94

* Construction sector: *Approaching its bloom*

** Construction- Quarterly Results Preview (July-September, 2008)

Source: I-Sec Research

Financial summary

Table 6: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	36,508	50,054	59,615	68,466
Operating Expenses	32,989	45,295	53,949	61,892
EBITDA	3,519	4,759	5,665	6,574
% margins	9.6	9.5	9.5	9.6
Depreciation & Amortisation	328	479	575	687
Gross Interest	1,094	1,826	2,134	2,223
Other Income	745	856	940	985
Recurring PBT	2,842	3,310	3,896	4,650
Add: Extraordinaries	(71)	-	-	-
Less: Taxes	666	1,125	1,324	1,580
- Current tax	600	1,061	1,249	1,491
- Deferred tax	51	40	47	57
Less: Minority Interest	-	-	-	-
Net Income (Reported)	2,105	2,185	2,572	3,069

Source: Company data, I-Sec Research

Table 7: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	30,166	36,746	42,387	47,239
of which cash & cash eqv.	1,772	1,600	1,650	1,700
Total Current Liabilities & Provisions	10,467	12,639	15,031	17,320
Net Current Assets	19,699	24,107	27,356	29,919
Investments	3,409	3,660	3,910	4,160
of which Strategic/Group	3,409	3,659	3,910	4,160
Net Fixed Assets	3,163	4,043	3,964	4,840
of which Capital Work-in-Progress	541	541	541	541
Total Assets	26,813	32,350	35,771	39,459
Liabilities				
Borrowings	10,678	13,874	14,942	15,824
Deferred Tax Liability	103	143	191	248
Equity Share Capital	267	270	270	270
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	15,760	18,059	20,364	23,114
Net Worth	16,031	18,333	20,638	23,388
Total Liabilities	26,813	32,350	35,771	39,459

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 10: Quarterly trends

(Rs mn, year ending March 31)

	Dec-07	Mar-08	Jun-08	Sep-08
Net sales	9,749	13,217	9,285	11,366
% growth (YoY)	87	33	37.1	65.1
EBITDA	1,114	1,387	820	913
Margin (%)	11.4	10.5	8.8	8.0
Other income	8	11	26	172
Add: Extraordinaries	-	-	-	-
Net profit	641	733	435	571

Source: Company data, I-Sec Research

Table 8: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	2,497	2,626	4,098	4,642
Working Capital Changes	(6,175)	(3,577)	(2,964)	(2,159)
Capital Commitments	(2,207)	(1,609)	(746)	(1,812)
Free Cash Flow	(5,885)	(2,560)	388	670
Cash flow from Investing Activities	786	893	938	983
Issue of Share Capital	867	344	0	(0)
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	5,046	3,156	1,069	881
Dividend paid	(151)	(219)	(227)	(267)
Extraordinary Items	11	-	-	-
Chg. in Cash & Bank balance	(467)	(172)	50	50

Source: Company data, I-Sec Research

Table 9: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (Rs)				
Reported EPS	15.8	16.2	19.1	22.7
Diluted Recurring EPS	16.8	16.5	19.1	22.7
Recurring Cash EPS	18.2	19.7	23.3	27.8
Dividend per share (DPS)	1.6	1.7	2.0	2.4
Book Value per share (BV)	120.1	135.8	152.9	173.3
Growth Ratios (%)				
Operating Income	58.7	37.1	19.1	14.8
EBITDA	55.0	35.2	19.0	16.0
Recurring Net Income	53.4	(1.1)	15.6	19.3
Diluted Recurring EPS	49.0	(2.1)	15.6	19.3
Diluted Recurring CEPS	61.8	8.3	18.1	19.4
Valuation Ratios (% YoY)				
P/E	5.0	5.2	4.5	3.7
P/CEPS	4.7	4.3	3.6	3.1
P/BV	0.7	0.6	0.6	0.5
EV / EBITDA	5.8	5.0	4.4	3.9
EV / Operating Income	0.6	0.5	0.4	0.4
EV / Operating FCF	(5.5)	(25.1)	22.0	10.4
Operating Ratio				
Operating expenses / Revenue	86.0	86.2	86.2	86.1
Other Income / PBT (%)	26.2	25.9	24.1	21.2
Effective Tax Rate (%)	24.0	34.0	34.0	34.0
NWC / Total Assets (%)	66.9	69.6	71.9	71.5
Inventory Turnover (days)	15.3	18.8	20.2	20.5
Receivables (days)	66.3	55.9	59.9	61.0
Payables (days)	29.6	21.2	18.7	19.0
D/E Ratio (x)	0.7	0.8	0.7	0.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins	6.0	4.4	4.2	4.4
RoCE	13.5	11.6	11.7	12.1
RoNW	15.4	12.9	13.2	13.9
Dividend Payout Ratio	10.0	10.3	10.4	10.4
Dividend Yield	1.9	2.0	2.3	2.8
EBITDA Margins	9.6	9.5	9.5	9.6

Source: Company data, I-Sec Research

ANALYST CERTIFICATION

We I, *Sumeet Budhraj PGDM, BE; Swarit Dakalia, CA*, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and might not be an associated person of ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Nonrated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Sumeet Budhraj PGDM, BE; Swarit Dakalia, CA*, research analyst and the author of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Sumeet Budhraj PGDM, BE; Swarit Dakalia, CA*, research analyst and the author of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.
