

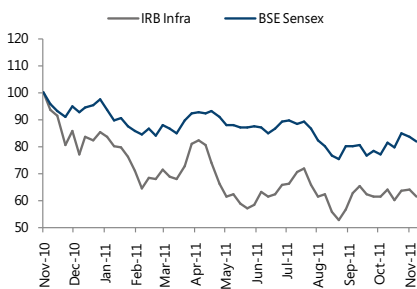
Result Update – Q2FY12

Accumulate

Reco	Maintained
CMP	₹ 161
Target Price	₹ 180
Upside Potential	11.8

Price Performance

52 wk Hi/Lo	271/132
All time Hi/Lo	315/64
6 mnth Average Vol	1530620
Stock Beta	1.27



Valuation

	FY11	FY12P	FY13P
P/E (x)	11.8	11.7	9.8
P/BV (x)	2.2	2.1	2.0
RONW (%)	20.2	17.0	16.4
ROCE (%)	11.4	8.3	6.9

Peer Valuation (FY12)

	ITNL	Sadbhav
PE	8.0	14.0
P/BV	1.4	2.7

Equity Data

Market Cap. (₹ bln)	53
Face value (₹)	10
No of shares o/s (mln)	332

	Sep'10	Sep'11	%Δ
Promoters	74.95	74.86	-0.12
DFI's	4.28	4.74	10.74
FII's	12.69	13.32	4.9
Public	8.08	7.08	-12.37

Rahul Metkar

rahul.metkar@msflibg.in
(+ 91 22 3094 7115)

Ashish Kumar

ashish.kumar@msflibg.in
(+ 91 22 3094 7116)

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IRB Infrastructure Ltd.

Execution below expectation; steady traffic growth

IRB reported results were significantly below our estimates both on topline & net profit levels. The profit miss was due to 22% revenue miss and a higher interest cost (₹ 1411mln v/s MSFL est. of ₹ 1079mln). The revenue miss was largely on account of lower execution of its under construction projects while the profitability hit was on account of higher interest costs on standalone entity and a ₹ 140mln forex provision. IRB has excluded Goa-Panaji project from its order backlog due to continued delay in handing over RoW by the Govt. Now, since the Surat-Dahisar project has completed substantial work, going forward, we may see lower operating margins for the construction division resulting in declining return ratios for the company. With no positive surprises on the traffic front in its major projects and FY13E growth being contingent on execution ramp-up on the Ahmedabad-Vadodara project we expect 12% upside from the current price levels. We continue to maintain our Accumulate rating with a revised price target of ₹ 180.

Construction drives growth, expect lower growth rates & margins going forward

The construction arm of the company reported 79% y-o-y growth in revenue to ₹ 5.27bln. The strong performance was due to peak execution in Surat Dahisar and execution ramp up in Jaipur-Deoli project. The order book for the construction division stands at ₹ 96.35bln. With Surat-Dahisar achieving 95% completion we expect the operating margins for the company to decline to ~20%. Also, growth rate for construction division is expected to slow down to ~20% for 2HFY12E-1HFY13E post which execution ramp-up in Ahmedabad-Vadodara shall support growth.

BOT revenues in line, traffic growth yet to surprise positively

Gross toll collection grew 33.9% y-o-y to ₹ 3.05bln mainly driven by tariff hike in Mumbai-Pune Expressway, Surat Dahisar & commencement of toll collection in Tumkur Chitradurga beginning Q1FY12. However, traffic growth rates across its major projects viz. Mumbai-Pune, Surat-Dahisar & Bharuch-Surat have been in line with expectation.

Valuation

With completion of Surat-Dahisar project we expect the construction division's EBIDTA margins to decline to ~20% resulting in lower return ratios. While traffic growth is yet to surprise us positively we believe there could be limited upside in the near term. We continue to maintain our Accumulate rating with a revised target price of ₹ 180 (We have excluded Goa-Panaji project from our valuation).

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	17,049	24,381	29442	42385
OPBDIT	7,990	10,939	12846	16063
Net Profit	3,854	4,524	4580	5472
Adj EPS	11.6	13.6	13.8	16.5
Networth	20,399	24,326	29580	36988
Debt	29,152	46,255	64183	99169
Fixed Assets	43,477	58,706	78907	113952
Net Current Assets	6,661	12,443	15606	22881

Exhibit 1: Quarterly Financials

	Q2FY12	Q2FY11	% chg	H1FY12	H1FY11	% chg
Sales	7359	4903	50.1%	15372	10023	53.4%
Expenditure	4144	2539	63.2%	8863	5167	71.5%
Contract Expenses	2127	1314	61.8%	4324	2065	109.4%
	28.9%	26.8%		28.1%	20.6%	
Cost of material Consumed	1179	480	145.7%	2845	1718	65.60%
	16.0%	9.8%		18.5%	17.1%	
Other Direct Expense	329	373	-11.8%	684	670	2.1%
	4.5%	7.6%		4.4%	6.7%	
Employee Cost	313	211	48.7%	594	411	44.60%
	4.3%	4.3%		3.9%	4.1%	
Other Cost	196	162	21.0%	416	303	37.3%
	2.7%	3.3%		2.7%	3.0%	
EBITDA	3215	2364	36.0%	6509	4857	34.0%
% Margin	43.7%	48.2%		42.3%	48.5%	
Interest	1411	693	103.7%	2586	1354	90.9%
Depreciation	629	544	15.5%	1231	1081	13.8%
Other income	301	82	265.8%	583	299	95.0%
PBT	1476	1209	22.1%	3276	2720	20.4%
Tax	367	190	92.7%	809	494	64.0%
Tax rate	24.9%	15.7%		24.70	18.1%	
PAT	1109	1018	8.9%	2466	2227	10.8%
% Margin	15.1%	20.8%		16.0%	22.2%	
Minority Interest	8	27	-70.3%	24	60	-60.9%
Net profit	1101	991	11.1%	2442	2166	12.8%
Net profit %	15.0%	20.2%		15.9%	21.6%	

Source: Company, MSFL Research

Result Highlights

- Top line grew 50.1% y-o-y to ₹ 7.35bln as against our expectation of ₹ 9.47bln. Construction revenue grew 78.6% y-o-y to ₹ 5.27bln as against our expectation of ₹ 7.13bln while BOT revenue witnessed a 17.3% y-o-y growth and stood at ₹ 2.38bln which was in-line with our estimate of ₹ 2.33bln. Gross toll collection grew 33.8% y-o-y to ₹ 33.52mln/day v/s ₹ 25.0mln/day
- EBITDA grew 36% y-o-y to ₹ 3.21bln as against our expectation of ₹ 3.71bln. Gross margin witnessed at 520bps y-o-y decline and stood at 50.6% as against 55.8% in Q2FY11. Consolidated EBITDA margin stood at 43.7%, registering a 452bps y-o-y decline but was above our est. of 39.2%.
- Interest cost for the company increased by 103.7% y-o-y to ₹ 1.41bln and was above our expectation of ₹ 1.09bln primarily due to forex component of ₹ 140mln & increase in debt in Surat-Dahisar project.
- Net profit grew by 11.1% to ₹ 1.1bln as against our expectation of ₹ 1.6bln. PAT margin stood at 15.0% and witnessed a 526bps y-o-y decline
- Consolidated gross debt has increased from ₹ 46.25bln (Net debt – ₹ 34.3bln) as on Mar'11 to ₹ 60.8bln (Net debt – ₹ 43.3bln) taking the leverage from 1.9x (Net debt/equity – 1.4x) to 2.27x (Net debt/equity – 1.62x)

Construction segment: key growth driver in Q2FY12

Construction activity has picked up for Suart Dahisar and Kolhapur projects. Both these projects contributed ~60-65% of the construction revenue. Construction segment registered a significant growth and contributed 69% of the total revenue during the quarter. However, execution on other under construction projects viz Pathankot Amritsar, Talegaon Amravati and Tumkur Chitradurga were lower than our expectations. We believe that execution would pick up on above mentioned projects in. We believe a ramp up in construction activity for Jaipur-Deoli, Amritsar-Pathankot & Amravati-Talegaon shall result in a similar revenue mix for the company in FY12E. We expect a further delay of 1 year in commencement of construction of Goa-Panaji project and expect construction to start in FY14.

Exhibit 2: Order book trend (₹ in bln)

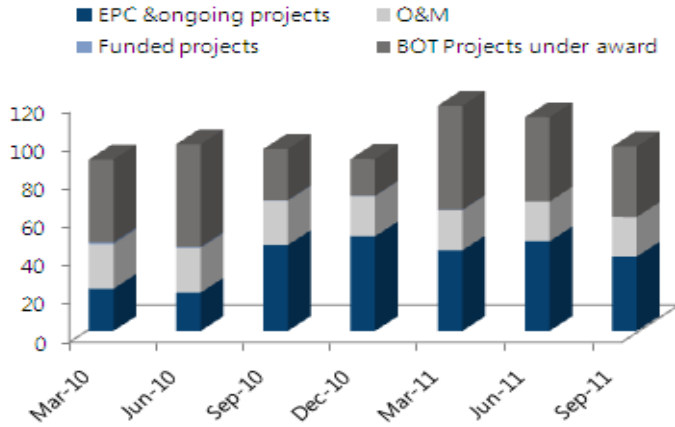


Exhibit 3: Consolidated Revenue growth

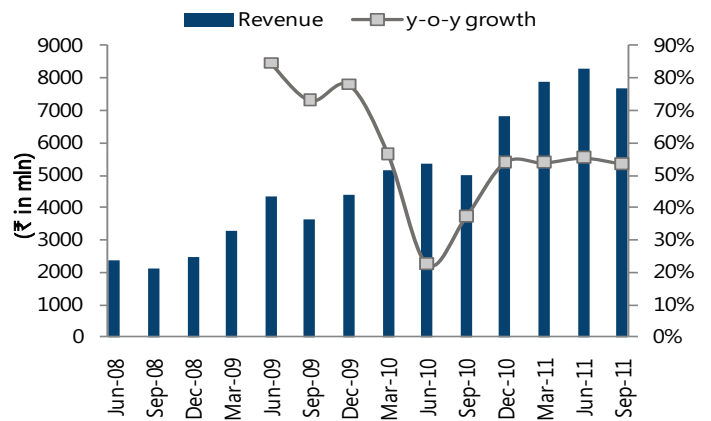


Exhibit 4: Increasing EPC revenue contribution

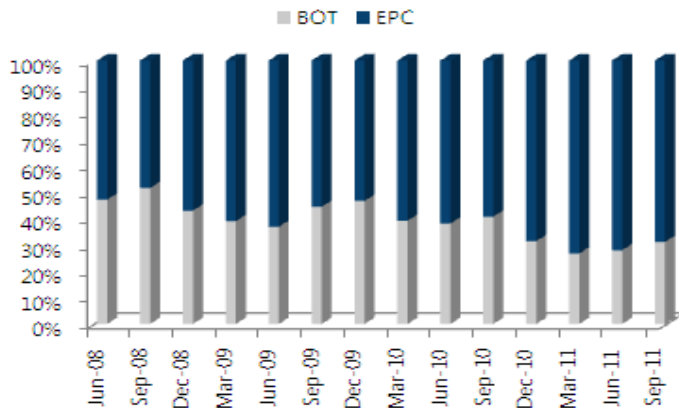


Exhibit 5: BOT Revenue growth

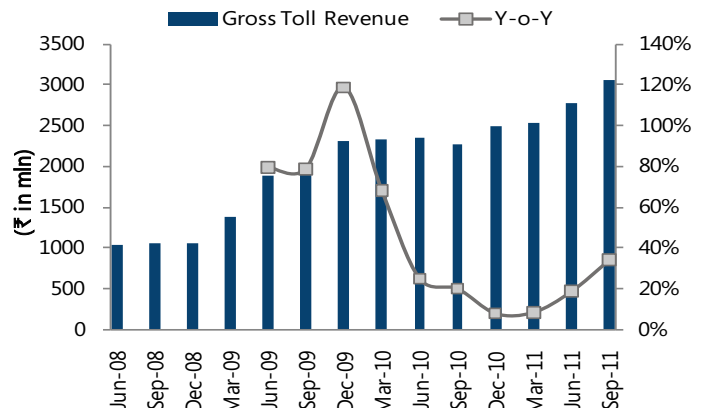


Exhibit 6: Construction revenue trend

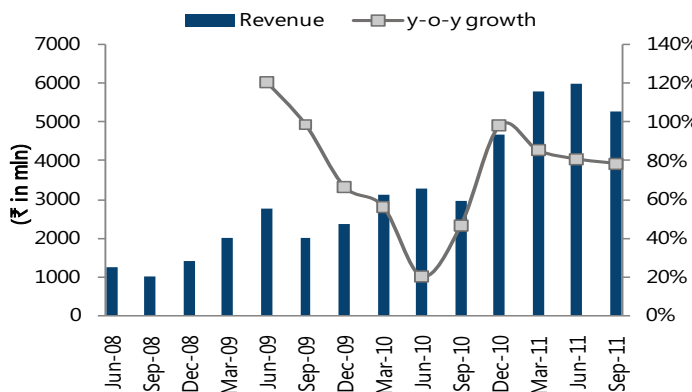
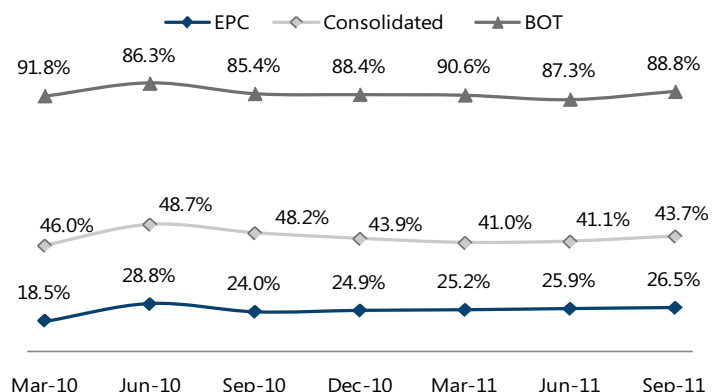


Exhibit 7: Quarterly EBITDA margin trend



Source: Company, MSFL Research

Order book at ₹ 96.3bln – 3.9x FY11 revenue

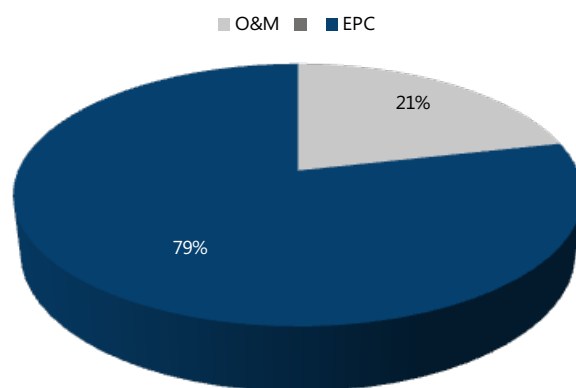
IRB Infra’s order backlog stands at ₹ 96.3bln, where captive EPC stands at ₹ 75.7bln. However, we estimate construction revenue to grow at CAGR of 45% over FY11-13E mainly driven by projects won in FY10. The share of EPC in consolidated revenue is likely to rise to ~70% from current 60% over FY12E-13E.

Exhibit 8: Projectwise order book breakup in ₹ mln

Projects	Value in ₹ bln
Talegaon Amravati	6.9
Jaipur Deoli	11.3
Pathankot Amritsar	10.3
Sindudurg Airport	1.5
Tumkur Chitradurga	10.2
Ahmedabad Varodara	35.2
O&M Phase	20.6
Total	96.3

Source: Company, MSFL Research

Exhibit 9: Order backlog details

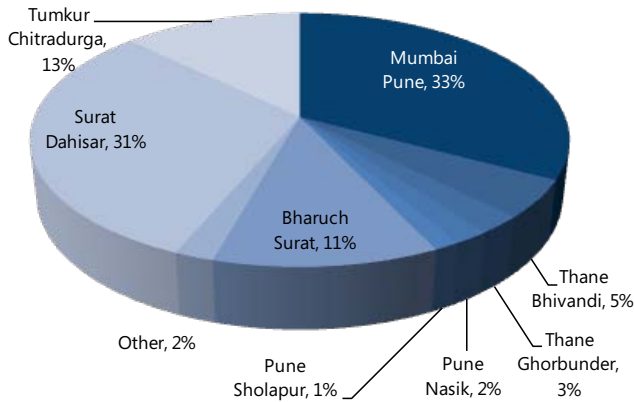


Source: Company, MSFL Research

BOT revenues in line; steady traffic growth

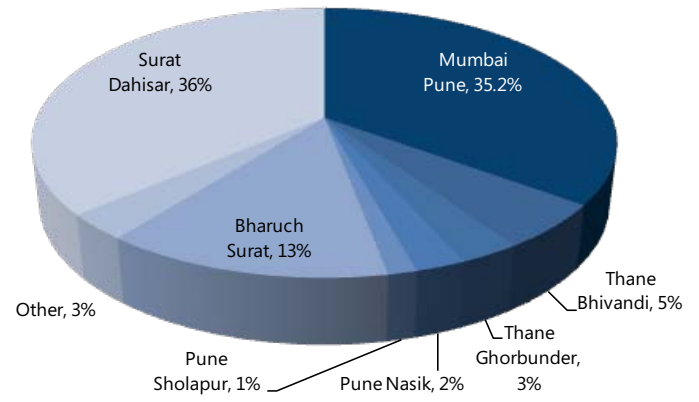
The BOT revenues for the company came in line with expectations with gross toll collection increasing by 33.8% y-o-y to ₹ 3.05bln primarily driven by tariff hike in Surat Dahisar & Mumbai-Pune Expressway and higher tolling days in Tumkur-Chitradurga project. Surat-Dahisar registered a growth of 13.3% on account of 10.5% hike in toll w.e.f Sep 01, 2011 while Mumbai-Pune Expressway registered a growth of 24% on account of 18% hike in toll rates w.e.f 1st April 2011. Consequent to the increase in construction revenue the contribution of BOT revenue has decreased to 31% from 40% in Q2FY11. However, there has been no significant change in the revenue contribution amongst the BOT road projects. Projects like Surat-Dahisar, Mumbai-Pune and Bharuch-Surat remained key revenue contributors, contributing 75% of the total BOT revenue. With entire effect of tariff hike in Surat Dahisar being factored in Q3FY12E we expect further diversification in BOT revenue contribution.

Exhibit 10: BOT Toll contribution in Q2FY12



Source: Company, MSFL Research

Exhibit 11: BOT Toll contribution in Q2FY11



Toll collection improves

IRB witnessed a 33.8% y-o-y growth in over all gross toll collection to ₹ 3.05bln as against ₹ 2.27bln in Q2FY12. It was mainly on back of contribution from from Tumkur Chitradura and 10% increase in toll rate in Surat Dahisar road project during the quarter. Management expects the toll collection could further improve from Q4FY12 as Kolhapur project is expected to start toll collection Toll collection on major projects viz Surat Dahisar, Mumbai Pune and Bharuch Surat has improved by an average ~17% during the quarter. Mumbai Pune road project has witnessed a 24.3% growth in avearge daily toll collection on y-o-y basis which was on account of 18% toll increase from April 1, 2011.

Exhibit 12: Average daily BOT toll revenue in ₹ mln

Road Projects	Q2FY11	Q2FY12	Growth (%)
Surat Dahisar	9.11	10.32	13.3%
Mumbai Pune	8.81	10.96	24.3%
Thane Bhiwandi	1.34	1.59	18.9%
Thane Ghorbunder	0.71	0.76	6.2%
Pune Nashik	0.58	0.60	3.8%
Pune Solapur	0.34	0.43	25.8%
Nagar Karmala	0.38	0.38	0.0%
Mohol mandrup	0.22	0.21	-5.0%
Kharpada Bridge	0.16	0.21	26.7%
Bharuch Surat	3.35	3.81	13.8%
Tumkur Chitradurga*	0.00	4.25	-

Tolling started in June, 2011

Source: Company, MSFL Research

Exhibit 13: Projectwise Toll Collection

Projects	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Thane Bhiwandi	112	112	118	131	133	122	138	150	156	145
Kharpada	18	15	16	17	19	15	19	21	23	19
Ahmednagar karmala	29	34	35	36	38	35	36	37	37	35
Mohol mandrup	17	18	14	14	17	20	19	21	20	19
Pune Solapur	36	31	32	35	36	31	35	42	43	39
Pune Nashik	42	43	47	48	48	53	55	55	56	55
Mumbai Pune	764	767	771	761	802	803	809	802	986	997
Thane Ghorbabdar	59	67	72	70	72	65	73	74	70	69
Surat Dahisar	778	780	873	907	882	829	955	982	942	939
Bharuch Surat		21	324	317	298	306	348	351	336	347
Kaman Paygaon	9	8	0	0	0	0	0	0	0	0
Khambatki Ghat	12	0	0	0	0	0	0	0	0	0
Tumkur Chitradurga	0	0	0	0	0	0	0	0	114	387
Total	1876	1896	2302	2336	2345	2277	2487	2535	2783	3051
Y-o-Y Growth	79.7%	78.7%	118.6%	68.3%	25.0%	20.1%	8.0%	8.5%	18.7%	34.0%

Source: Company, MSFL Research

Exhibit 14: Projectwise y-o-y growth in toll Collection

Projects	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Thane Bhiwandi	3%	14%	24%	29%	20%	9%	17%	15%	17%	19%
Kharpada	-11%	-9%	-1%	4%	3%	-3%	19%	20%	23%	27%
Ahmednagar karmala	-7%	20%	30%	35%	29%	3%	3%	2%	-2%	-1%
Mohol mandrup	-5%	7%	-8%	-10%	1%	10%	38%	47%	16%	-4%
Pune Solapur	-3%	0%	8%	15%	1%	1%	11%	21%	19%	26%
Pune Nashik	5%	3%	16%	16%	14%	23%	17%	15%	17%	3%
Mumbai Pune	6%	6%	7%	7%	5%	5%	5%	5%	23%	24%
Thane Ghorbabdar	-13%	5%	8%	5%	23%	-3%	1%	6%	-3%	6%
Surat Dahisar	NA	NA	NA	170%	13%	6%	9%	8%	7%	13%
Bharuch Surat	NA	NA	NA	NA	NA	1346%	7%	11%	13%	14%
Kaman Paygaon	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Khambatki Ghat	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Tumkur Chitradurga	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, MSFL Research

Change in estimates

We have revised our estimates for the construction segment due to delay in commencement of construction of its Goa – Panaji. We have assumed a further delay of one year and expect the construction to start only in FY14. With substantial work on Surat-Dahisar project completed in Q2FY12 we expect the EBIDTA margin for the construction division to decline to 20% in 2HFY12E from current 23-25% and expect further decline on account of significant contribution from Ahmedabad-Vadodara.

Exhibit 15: Change in Estimates

Details	FY12E old	FY12E new	% chg	FY13E old	FY13E new	% chg
Sales	33421	29442	-11.9%	45897	42835	-6.7%
EBITDA	13885	12846	-7.5%	16645	16063	-3.5%
EBITDA Margin	41.5%	43.6%	+210bps	36.3%	37.5%	+120bps
PAT	5036	4580	-9.1%	5566	5472	-1.7%
EPS	15.2	13.8		16.7	16.5	

Source: MSFL Research

Valuation

With completion of Surat-Dahisar project we expect the construction division's EBIDTA margins to decline to ~20% resulting in lower return ratios. While traffic growth is yet to surprise us positively we believe there could be limited upside in the near term. We continue to maintain our Accumulate rating with a revised target price of ₹ 180 (We have excluded Goa-Panaji project from our valuation).

Exhibit 16: SOTP Valuation

Details	Valuation	Multiple	Value per share Old (₹)	Value per share New
Road BOT Projects	DCF		112	112
Construction	P/E	7x	75.9	67.9
Total			188	180

Source: MSFL Research

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sales	9,919	17,049	24,381	29,442	42,835
Total Expenditure	5,531	9,059	13,442	16,596	26,771
EBIDTA	4,388	7,990	10,939	12,846	16,063
EBIDTA Margin (%)	44.2%	46.9%	44.9%	43.6%	37.5%
Depreciation	1,144	1,819	2,254	3,346	4,552
EBIT	3,244	6,171	8,686	9,500	11,511
Interest cost	1,377	2,494	3,572	4,500	4,845
Operating Profit	1,868	3,677	5,113	5,000	6,665
Other Income	282	490	645	1,247	1,104
PBT	2,149	4,167	5,758	6,247	7,770
Tax	378	133	1,117	1,696	2,372
PAT	1,772	4,034	4,641	4,551	5,397
Minority Interest	13	179	117	(30)	(74)
Net PAT	1,758	3,854	4,524	4,580	5,472
Net PAT Margin (%)	17.7%	22.6%	18.6%	15.6%	12.8%
EPS	5.3	11.6	13.6	13.8	16.5
Sales Growth (%)	35%	72%	43%	20.8%	45.5%
EBITDA Growth (%)	7%	82%	37%	17.4%	25.0%
Net PAT Growth (%)	54%	119%	17%	1.2%	19.5%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	3,324	3,324	3,324	3,324	3,324
Reserves & Surplus	13,977	17,075	21,002	24,211	28,311
Grant	-	-	-	2,046	5,354
Networth	17,301	20,399	24,326	29,580	36,988
Minority Interest	599	779	896	866	792
Secured Loans	24,741	29,035	46,255	64,133	99,119
Unsecured Loans	117	117	-	50	50
Total Loans	24,859	29,152	46,255	64,183	99,169
Deferred Tax Liability	182	267	232	232	232
TOTAL	42,940	50,597	71,709	94,861	137,181

Application of Funds

Net Fixed Assets	34,707	43,477	58,706	78,907	113,952
Investment	1,108	451	551	339	339
Current Assets	10,180	11,477	20,384	30,629	42,879
Current Liabilities	3,065	4,816	7,941	15,024	19,999
Net Current Assets	7,116	6,661	12,443	15,606	22,881
Misc. expenditure not w/o	10	9	9	9	9
TOTAL	42,940	50,597	71,709	94,861	137,181

Cash Flow

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	2,915	5,853	6,895	7,897	9,950
(Inc)/Dec in Net Current Assets	(300)	3,180	1,115	(5,224)	(3,421)
Cash flow from Operations	2,615	9,033	8,010	2,673	6,529
Inc/(Dec) in Debt	4,884	4,315	17,103	17,927	34,987
Inc/(Dec) in Equity	-	-	-	-	-
Proceeds from NHAI Grant	-	-	-	2,046	3,308
Dividend & Tax	(223)	(429)	(870)	(1,372)	(1,372)
Cash flow from Financing	3,308	1,431	16,233	18,601	36,923
Fixed Asset formation	(8,114)	(10,603)	(17,482)	(23,548)	(39,598)
Inc/(Dec) in Investment	2,067	381	(100)	211	-
Cash flow from Investment	(6,047)	(10,222)	(17,582)	(23,337)	(39,598)
Net Change in Cash	(123)	241	6,661	(2,063)	3,854

Ratio

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	30.4	13.9	11.8	11.7	9.8
P/BV	3.1	2.6	2.2	2.1	2.0
EV/EBIDTA	16.9	9.7	8.0	8.3	8.7
EV/Sales	7.5	4.5	3.6	3.6	3.3
Dividend Yield (%)	0.9%	0.9%	0.9%	0.9%	0.9%
EPS	5.29	11.60	13.6	13.8	16.5
DPS	1.5	1.5	1.5	1.5	1.5
Book Value	52.1	61.4	73.2	77.2	80.8
Adj. ROE	10.5%	20.4%	20.2%	17.0%	16.4%
Adj. ROCE	6.7%	12.8%	11.4%	8.3%	6.9%

Solvency Ratio (x)

Debt/Equity	1.4	1.4	1.9	2.2	2.7
Debt/EBIDTA	5.7	3.6	4.2	5.0	6.2

Turnover Ratio (x)

Asset Turnover	0.2	0.3	0.3	0.3	0.3
Fixed Asset Turnover	0.5	0.5	0.7	0.5	0.8
Current Ratio	3.3	2.4	2.6	2.0	2.1
Inventory (days)	75.6	36.3	24.5	9.4	10.1
Debtors (days)	4.8	6.4	5.9	50.0	54.0
Creditors (days)	16.6	14.9	72.5	178.6	164.7

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MSFL Investment Rating

The ratings below have been prescribed on a potential returns basis with a timeline of up to 12 months. At times, the same may fall out of the price range due to market price movements and/or volatility in the short term. The same shall be reviewed from time to time by MSFL. The addressee(s) decision to buy or sell a security should be based upon his/her personal investment objectives and should be made only after evaluating the stocks' expected performance and associated risks.

Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

Marwadi Shares & Finance Limited

Institutional Business Group, MSFL
 @p-sec, 306, Gresham Assurance House
 132, Mint Road, Fort, Mumbai - 400 001
 Tel : + 91 22 30947100 / 102 Fax : +91 22 2269 0478

Registered Office
 Marwadi Financial Plaza, Nava Mava Main Road,
 Off 150 FT. Ring Road, Rajkot - 360 005
 Tel : + 91 281 2481313 / 3011000