



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 20,310	IVRC IN
	REUTERS CODE
S&P CNX: 6,122	IVRC.BO

15 November 2010

Neutral

Previous Recommendation: Neutral

Rs135

Equity Shares (m)	267.0
52-Week Range (Rs)	207/131
1,6,12 Rel. Perf. (%)	-13/-40/-55
M.Cap. (Rs b)	36.0
M.Cap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	Adj P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/09A	48,819	2,290	8.5	10.5			1.5	13.4	13.7		
3/10A	54,923	2,111	7.9	-6.9	20.8	10.0	2.4	11.5	14.7	1.1	11.0
3/11E	60,825	2,251	8.4	6.6	16.0	9.4	1.8	11.6	14.7	0.9	9.2
3/12E	77,340	2,846	10.7	26.4	12.7	7.4	1.6	13.2	16.5	0.8	8.1

- **IVRCL 2QFY11 earnings well below estimates:** IVRCL's 2QFY11 performance was well below estimates. Revenues were Rs10.75b (down 14.4% YoY), below our estimate of Rs11.5b (down 8.4% YoY). 2QFY11 revenue was impacted by heavy monsoons. Loss of revenue was estimated at about Rs3b. Excess absorption of overheads due to lower revenues also impacted margins. EBITDA margins were 8.9% (down 100bp YoY), lower than estimates of 9.5%. Net profit was Rs233m (down 51% YoY), significantly below estimates of Rs330m.
- **Management lowers revenue guidance for FY11:** The company lowered revenue guidance to Rs65b, from over 67b earlier. Even to achieve Rs65b of sales in FY11, the company will have to grow 40% in 2HFY11, which appears optimistic given that execution has not materially picked up even in October. We have cut our revenue estimates for FY11 and FY12 by 6% each, in light of execution constraints. The management expects to maintain about 9.5% EBITDA margin.
- **Order book at Rs228b (excluding L1 projects of Rs12b):** This is up from Rs193b as at 1QFY11 indicating strong inflow in recent months. The company recently bagged its first large export order of Rs18b from Saudi Arabia, to set up water transport infrastructure. Of the Rs240b order book, in-house BOT projects contributed Rs55b and Andhra Pradesh irrigation projects were Rs35b, where execution in FY11 will be constrained.
- **Valuations and view:** We are cutting our earnings estimates by 6% for FY12. We now expect EPS of Rs8.4 in FY11 (up 6.6% YoY) and Rs10.7 in FY12 (up 26.4% YoY). At CMP, the stock quotes at 16x FY11E earnings and 12.7x FY12E earnings. Adjusted for the value of IVRCL Assets (Rs43/share of IVRCL) and HDO (Rs13/share of IVRCL), the stock quotes at P/E of 9.4x FY11E and 7.4x FY12E earnings. We believe valuations factor in downside risk to earnings, and are attractive. Earnings recovery in 3QFY11 can re-rate the stock. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	10,860	12,565	11,840	18,904	11,064	10,750	14,598	24,413	54,923	60,825
Change (%)	16.9	10.5	-0.5	16.2	1.9	-14.4	23.3	29.1	12.5	10.7
EBITDA	996	1,241	1,156	1,982	1,006	953	1,460	2,588	5,313	6,007
Change (%)	20.7	35.9	6.5	36.7	1.0	-23.2	26.3	30.6	24.3	13.1
As of % Sales	9.2	9.9	9.8	10.5	9.1	8.9	10.0	10.6	9.7	9.9
Depreciation	129	133	139	141	157	184	170	173	543	685
Interest	389	354	368	525	453	480	530	628	1,637	2,091
Other Income	39	34	39	20	9	57	65	50	155	180
PBT	516	788	688	1,335	404	345	825	1,837	3,289	3,411
Tax	165	309	229	486	125	112	264	658	1,177	1,160
Effective Tax Rate (%)	32.0	39.2	33.4	36.4	31.0	32.6	32.0	35.8	35.8	34.0
Reported PAT	351	479	458	850	279	233	561	1,179	2,111	2,251
Adj PAT	351	479	458	850	279	233	561	1,179	2,111	2,251
Change (%)	-19.4	-20.3	-1.5	6.4	-20.6	-51.4	22.4	38.7	-8.2	6.6

E: MOSL Estimates

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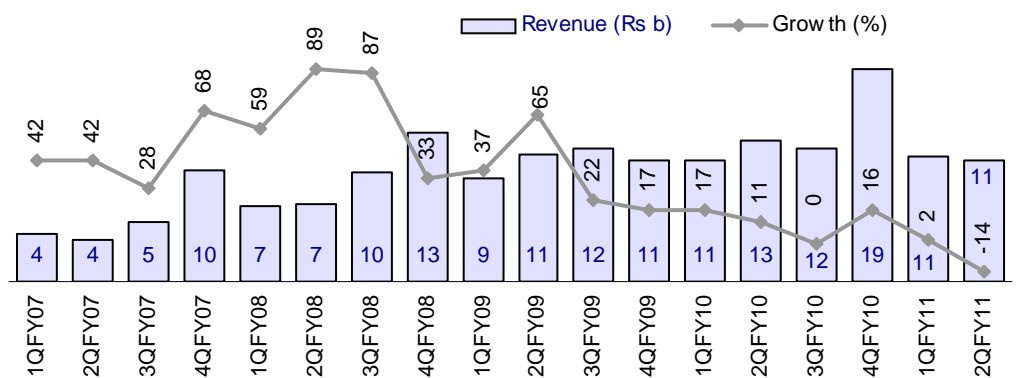
IVRCL 2QFY11 results below estimates; revenue impacted by heavy monsoons; management lowers guidance; cutting FY12 estimates; Neutral

- IVRCL's 2QFY11 performance was well below estimates. Revenues were Rs10.75b (down 14.4% YoY), below our estimate of Rs11.5b (down 8% YoY). EBITDA margins were 8.9% (down 100bp YoY), lower than our estimates of 9.5%. Net profit was Rs233m (down 51% YoY), significantly below estimates of Rs330m.
- Revenue growth was impacted in 2QFY11 largely due to heavy monsoons, resulting in loss of revenue of about Rs3b. The company had poor execution in 1QFY11 and lost revenue on two contracts, namely, National Automotive Testing Organization (Rs5b order, lost revenue of Rs750m), and IOCL Tankage (revenue loss of Rs1b). Given the political developments in Andhra Pradesh (which contributes about 15% to the order book at Rs35b), revenue was further impacted.
- 1HFY11 sales included water (Rs6b), irrigation (Rs4b), buildings (Rs6b), power (Rs1b), transport (Rs2.6b) and oil & gas (Rs2.5b).
- Despite a decline in sub-contracting charges, down to 15.7% of sales from 24.4% in same quarter last year, EBITDA margin declined by 100bp YoY due to excess fixed cost absorption on account of lower revenue.

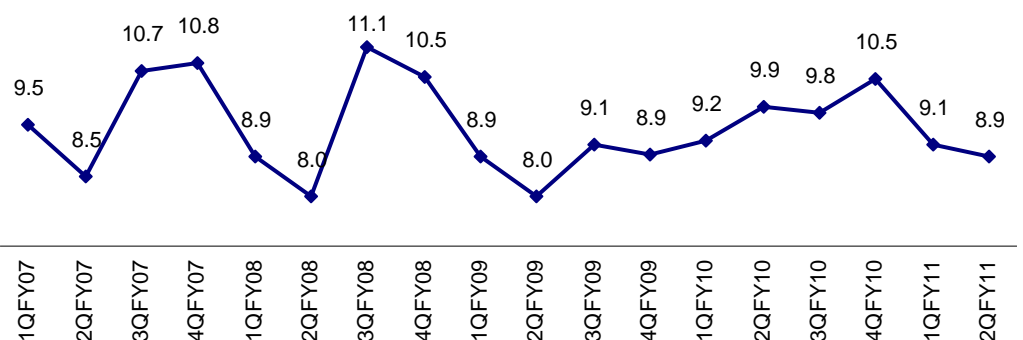
Management lowers FY11 revenue guidance

The company has lowered revenue guidance to Rs65b, from over Rs67b earlier. Even to achieve Rs65b of sales in FY11, the company will have to grow at 40% in 2HFY11, which appears optimistic given that execution has not materially picked up even in October. We have cut our revenue estimates for FY11 and FY12 by 6% each year, in the light of execution constraints. The management expects to maintain EBITDA margins of about 9.5%.

Revenue: sharp dip in 2QFY11 revenue



EBITDA margins: 100bp decline in 2QFY11

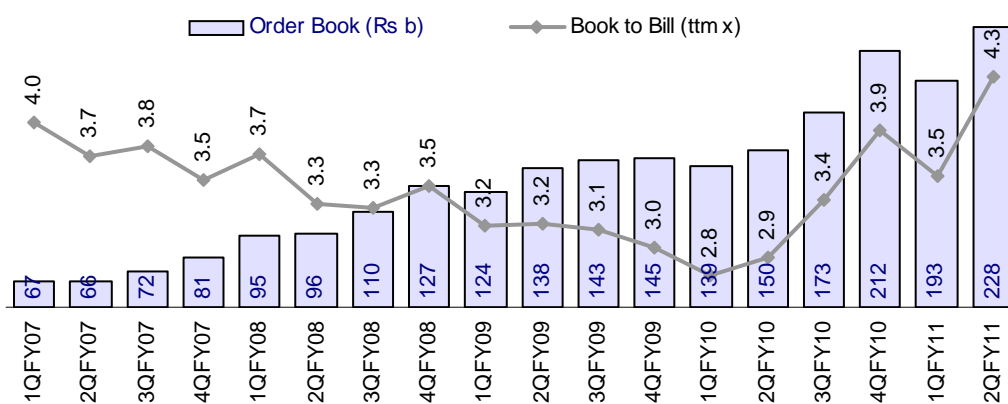


Source: Company/MOSL

Order book at Rs228b (up 8% YTD, up 18% QoQ), L1 in projects of Rs12b

- Order book as at October 10 was Rs228b (excluding L1 projects of Rs12b). This is up from Rs193b as at 1QFY11, indicating strong intake in recent months. The company recently bagged its first large export order of Rs18b from Saudi Arabia, to set up water transport infrastructure.
- Of the Rs228b order book, in-house BOT projects contribute Rs55b and Andhra irrigation projects are worth Rs35b, where execution in FY11 will be constrained. Thus, while the management has maintained FY11 revenue guidance of Rs65b (up 20%), we are cutting our revenue estimates to Rs61b (down 6%).
- The order book, including L1, constitutes of water (Rs66b), irrigation (Rs50b), buildings (Rs30b), power (Rs15b), transport (Rs70b), oil & gas (Rs5b) and others (Rs4b).

Book to bill ratio rises to 4.3x TTM revenue; large export order boosts intake



Source: Company/MOSL

2QFY11 net interest costs up 36% YoY, increased advances to subsidiaries, retention money lead to higher working capital, debt

- Interest costs in 2QFY11 were Rs480m, up 36% YoY. Interest costs rose to 4.4% of sales v/s 2.8% YoY and 4.1% QoQ. The management said increased costs were largely due to higher bank guarantee charges (given increased project bids), higher working capital for a large part of the quarter (collections improved towards the end) and increasing interest rates in systems. Interest rates on short term paper moved up to 8-8.5% from 6-6.5% six months earlier.
- Net debt at the end of 2QFY11 was Rs23b up from Rs14.5b at the end of FY10 and DER was 1.1x (up from 0.8x in 4QFY10). The management expects the debt to fall to Rs18b-19b by the end of FY11.
- Net working capital (excluding cash) deteriorated from Rs18.4b in 4QFY10 to Rs28.1b as at 2QFY11. In that sense, improvement seen in 4QFY10 was nullified in 2QFY11. A large part of the increase was due to an increase in loans and advances (Rs2b to subsidiaries) and a rise in other current assets (which includes retention money of Rs6b and unbilled revenue of Rs8.5b). The company has been avoiding accepting mobilization advances, carrying interest costs of 10-12%, which also resulted in stagnation in liabilities and hence rise in net current assets.
- 2QFY11 advances to subsidiaries were Rs2b, down from Rs2.9b at the end of 4QFY10.

- Debt on the books of IVRCL Assets (standalone) was Rs7.4b, v/s ~nil nine months earlier and the increase was due to equity investments in project SPVs. Equity invested in project SPVs was Rs7.2b, up from Rs4.5b, nine months earlier; and outstanding equity commitment was Rs7b. Of this, IVRCL raised Rs4b worth of funds, including Rs2.5b at 13.5% from IFCI through compulsory convertible debentures (CCD) and placement of Rs1.5b through placement of shares on a preferential basis to a private equity firm.

Balance sheet (Rs m)

Y/E March	1HFY10	FY10	1HFY11	FY11
Capital	267	534	534	534
Reserves	18,658	17,999	18,505	19,502
Net Worth	18,925	18,533	19,039	20,036
Loans	18,127	16,133	22,666	21,633
Deferred Tax Liability	161	125	110	125
Total Cap Employed	37,214	34,791	41,816	41,794
Fixed Assets	5,461	6,017	6,655	6,611
Investments	4,589	6,138	6,138	7,960
Current Assets	43,685	47,026	52,023	45,454
Inventories	1,921	2,447	3,076	2,986
Debtors	15,832	19,446	19,809	16,589
Cash	688	1,644	894	1,996
Other Current Assets	16,058	16,884	18,993	16,889
Loans and Advances	9,187	6,606	9,252	6,993
Current Liabilities & Prov.	16,522	24,389	23,001	18,230
Current Liabilities	16,358	23,944	22,729	17,836
Provisions	164	445	271	394
Net Current Assets	27,164	22,637	29,023	27,224
Total Cap Employed	37,214	34,791	41,816	41,794

Source: Company/MOSL

IVRCL ASSETS: BOT PROJECT DETAILS (RS M)

PROJECT NAME	LENGTH	CONCESSION	PROJECT COST	EQUITY	IVRCL SHARE (%)	EXPECTED COMPLETION
Jalandhar - Amritsar Road Project	49	20 years	3,436	641	100	FY11
Salem to Kumarapalayam	53.53	20 years	5,020	800	100	FY11
Kumarapalayam – Chenagmpalli	48.51	20 years	4,215	651	100	FY10
Chennai Desalination*	100MLD	25 years	5,679	1,730	75	FY10
Sion - Panvel	25	18.9 years	14,500	3,500	51	FY14
Baramati - Phaltan	77.9	25 years	3,820	690	75	FY14
IOCL Tankage	12 tanks	15 years	30,000	2,250	38	
Chengapalli - Walayar	42	27 years	11,250	4,250	100	FY14
Indore - Gujarat	155	27 years	15,237	3,809	100	FY14
Goa - Maharashtra	122.06	23 years	30,000	4,000	100	FY14
Aggregate			123,157	22,321		

Source: Company/MOSL

Valuations and view

- We are cutting our FY12 earnings estimates by 6%. We now expect an EPS of Rs8.4 in FY11 (up 6.6% YoY) and Rs10.7 in FY12 (up 26.4% YoY). We cut revenue by 6% for each, FY11 and FY12.
- At CMP, the stock quotes at 16x FY11E earnings and 12.7x FY12E earnings. Adjusted for the value of IVRCL Assets (Rs43/share of IVRCL) and HDO (Rs13/share of IVRCL), the stock quotes at P/E of 9.5x FY11E and 7.5x FY12E earnings. We believe valuations factor-in downside risk to earnings and are attractive. Earnings recovery in 3QFY11 can re-rate the stock. Maintain **Neutral**.
- We revise our target price downwards to Rs162 (earlier Rs183).

IVRCL: SOTP COMPOSITION

	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	FY12E PER	10.0	28,455	107	At discount to industry average
Subsidiaries					
- Hindustan Dorr Oliver	Market price		3,564	13	25% Discount to current stock price
- IVR Prime Urban Developers	Market price		11,366	43	25% Discount to current stock price
Total			43,385	162	

Source: MOSL

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by E Sudhir Reddy. Its niche and key area of operations are the 'water' segment, under which it executes industrial projects, irrigation works, desalination projects and sewage systems. In FY10 the company restructured the infrastructure ownership portfolio, and merged it into IVRCL Assets (80.5% subsidiary). IVRCL also has 52.8% stake in Hindustan Dorr Oliver.

Key investment arguments

- Reported order backlog at the end of March 2010 was Rs212b and book-to-bill ratio was 3.9x TTM revenue, which provides revenue visibility for FY11 and FY12.
- The company has one of the largest BOT portfolios with diversified presence in roads and desalination projects.

Key investment risks

- Promoter stake was low at 9.7% as on March 2010.
- BOT projects depress initial RoE.
- Andhra irrigation projects contribute ~20% (slow moving) and in-house projects 20-22% (execution pick-up contingent on fund raising/real estate monetization in IVRCL Assets) of the order book.
- IVRCL Assets' proportionate share of equity commitment in BOT projects is Rs13.9b.

Recent developments

- IVRCL concluded financial arrangements for three road BOT projects awarded in FY10.
- The company issued NCDs of Rs1.1b to eight banks, with a coupon rate of 8.85% per year payable yearly, repayable at the end of 17 months.

Valuation and view

- We expect IVRCL to report net profit of Rs2.25b in FY11 (up 6.6%) and Rs2.8b in FY12 (up 26%). We have cut our earnings estimates by 6% for FY12. We now expect EPS of Rs8.4 in FY11 (up 6.6% YoY) and Rs10.7 in FY12 (up 26% YoY). We value IVRCL at Rs162/share, which includes IVRCL standalone (Rs107/share, 10x FY12E), IVRCL Assets (Rs43/share) and HDO (Rs13/share).
- The stock quotes at 16x FY11E and 12.7x FY12E. Maintain **Neutral**.

Sector view

- Government could hasten the order award activity of projects, from which the sector would benefit.
- We are positive on the sector given the tailwinds to the order flow.

Comparative valuations

		IVRCL	Simplex	NCC
P/E (x)	FY11E	16.0	14.3	12.1
	FY12E	12.7	10.5	9.9
P/BV (x)	FY11E	1.8	2.1	1.5
	FY12E	1.6	1.8	1.4
EV/Sales (x)	FY11E	0.9	0.6	1.1
	FY12E	0.8	0.5	0.9
EV/EBITDA (x)	FY11E	9.2	6.5	10.4
	FY12E	8.1	5.5	8.8

EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	8.4	9.4	-10.3
FY12	10.7	12.1	-11.2

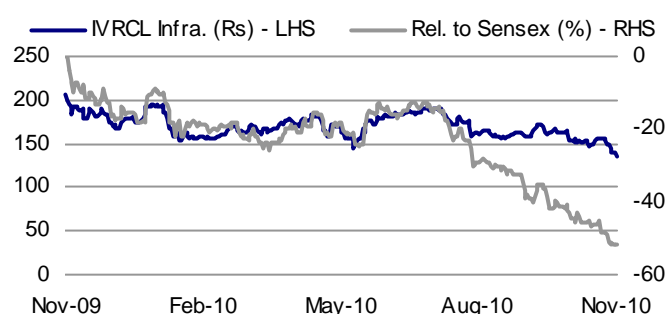
Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
135	162	20.0	Neutral

Shareholding Pattern (%)

	Sep-10	Jun-10	Sep-09
Promoter	9.5	9.6	9.7
Domestic Inst	8.6	13.3	16.8
Foreign	58.2	55.8	54.7
Others	23.7	21.3	18.8

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	
Net Sales	36,606	48,819	54,923	60,825	77,340	
<i>Change (%)</i>	<i>56.0</i>	<i>33.4</i>	<i>12.5</i>	<i>10.7</i>	<i>27.2</i>	
Total Expenditure	32,992	44,601	49,610	54,818	69,735	
EBITDA	3,614	4,218	5,313	6,007	7,605	
<i>% of Net Sales</i>	<i>9.9</i>	<i>8.6</i>	<i>9.7</i>	<i>9.9</i>	<i>9.8</i>	
Depreciation	328	473	543	685	821	
Interest	478	1,306	1,637	2,091	2,652	
Other Income	45	299	155	180	180	
PBT	2,853	2,738	3,289	3,411	4,311	
Tax	749	478	1,177	1,160	1,466	
<i>Rate (%)</i>	<i>26.2</i>	<i>17.5</i>	<i>35.8</i>	<i>34.0</i>	<i>34.0</i>	
Reported PAT	2,105	2,260	2,111	2,251	2,846	
Adjusted PAT	2,052	2,290	2,111	2,251	2,846	
<i>Change (%)</i>	<i>45.1</i>	<i>11.6</i>	<i>-7.8</i>	<i>6.6</i>	<i>26.4</i>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	
Share Capital	267	270	534	534	534	
Reserves	15,793	17,839	17,999	19,813	22,097	
Net Worth	16,060	18,109	18,533	20,347	22,631	
Loans	10,678	13,980	16,133	19,633	21,633	
Deffered Tax Liability	124	117	125	125	125	
Capital Employed	26,863	32,206	34,791	40,105	44,389	
Gross Fixed Assets	4,176	6,624	7,502	9,405	11,155	
Less: Depreciation	984	1,417	1,838	2,523	3,344	
Net Fixed Assets	3,192	5,207	5,664	6,882	7,811	
Capital W/P	541	196	353	200	200	
Investments	3,409	3,895	6,138	7,960	7,960	
Curr. Assets	28,852	38,135	47,026	45,669	52,096	
Inventory	1,943	2,093	2,447	3,000	3,390	
Debtors	6,606	11,430	19,446	18,331	23,308	
Cash & Bank Balance	1,772	1,009	1,644	360	-3,553	
Loans & Advances	7,806	9,319	6,606	7,012	8,153	
Other Current Assets	10,725	14,284	16,884	16,966	20,798	
Current Liab. & Prov.	9,132	15,226	24,370	20,605	23,677	
Creditors	6,196	10,800	14,837	15,983	17,799	
Other Liabilities	2,697	3,986	9,088	4,166	5,297	
Provisions	238	440	445	456	581	
Net Current Assets	19,721	22,909	22,656	25,063	28,418	
Misc. Expenses	0	0	0	0	0	
Application of Funds	26,863	32,207	34,810	40,105	44,389	

E: MOSL Estimates

RATIOS						
Y/E MARCH	2008	2009	2010	2011E	2012E	
Basic (Rs)						
Adjusted EPS	7.7	8.5	7.9	8.4	10.7	
Growth (%)	40.9	10.5	-6.9	6.6	26.4	
Cash EPS	17.8	20.5	9.9	11.0	13.7	
Book Value	120.3	134.3	69.4	76.2	84.8	
DPS	1.4	1.4	1.3	1.4	1.8	
Payout (incl. Div. Tax.)	0.1	0.1	0.2	0.2	0.2	
Valuation (x)						
P/E (standalone)	27.0	12.1	20.8	16.0	12.7	
Cash P/E	23.3	10.1	16.6	12.3	9.8	
EV/EBITDA	17.8	9.7	11.0	9.2	8.1	
EV/Sales	1.8	0.8	1.1	0.9	0.8	
Price/Book Value	3.4	1.5	2.4	1.8	1.6	
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.3	

Profitability Ratios (%)

RoE	14.0	13.4	11.5	11.6	13.2
RoCE	14.6	13.7	14.7	14.7	16.5

Turnover Ratios

Debtors (Days)	65	84	129	110	110
Inventory (Days)	19	16	16	18	16
Creditors (Days)	73	94	117	115	100
Asset Turnover (x)	1.6	1.7	1.6	1.6	1.8

Leverage Ratio

Debt/Equity (x)	0.7	0.8	0.9	1.0	1.0
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CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2008	2009	2010	2011E	2012E	
PBT before Extraordin	2,853	2,738	3,289	3,411	4,311	
Add: Depreciation	328	473	543	685	821	
Interest	478	1,306	1,637	2,091	2,652	
Less: Direct Taxes Paid	749	478	1,177	1,160	1,466	
(Inc)/Dec in WC	-6,626	-3,951	907	-3,710	-7,269	
CF from Operations	-3,715	88	5,198	1,318	-950	
(Inc)/Dec in FA	-1,626	-2,143	-1,157	-1,750	-1,750	
(Pur)/Sale of Investments	-580	-486	-2,242	-1,823	0	
CF from Investments	-2,206	-2,629	-3,400	-3,573	-1,750	
(Inc)/Dec in Networth	1,032	1	-1,274	0	0	
(Inc)/Dec in Debt	5,119	3,302	2,153	3,500	2,000	
Less: Interest Paid	478	1,306	1,637	2,091	2,652	
Dividend Paid	219	219	406	437	562	
CF from Fin. Activity	5,454	1,778	-1,163	972	-1,214	
Inc/Dec of Cash	-467	-763	635	-1,283	-3,914	
Add: Beginning Balance	2,238	1,772	1,009	1,644	360	
Closing Balance	1,771	1,009	1,644	360	-3,553	



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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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