



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,091	IVRC IN
	REUTERS CODE
S&P CNX: 4,083	IVRC.BO

31 January 2007

Buy

Previous Recommendation: Buy

Rs406

Equity Shares (m)	134.7
52-Week Range	460/164
1,6,12 Rel. Perf. (%)	1/82/67
M.Cap. (Rs b)	54.7
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	15,214	930	8.7	30.1	46.7	9.1	21.1	14.2	3.9	43.9
3/07E	22,384	1,402	10.4	19.8	39.0	3.8	14.6	13.5	2.3	23.5
3/08E	35,133	2,331	17.3	66.2	23.4	3.3	15.0	16.1	1.6	15.4

- Robust financial performance:** During 3QFY07, IVRCL reported revenues of Rs5.2b (up 28% YoY), EBITDA of Rs556m (up 61.8% YoY) and net profit of Rs321m (up 45% YoY). EBITDA margin expanded to 10.7% during 3QFY07 (8.4% in 3QFY06). While reported revenues at Rs5.2b have been lower than our estimates of Rs5.9b, net profit of Rs321m was in line with our expectation.
- IVR Prime Urban files prospectus for IPO:** IVR Prime Urban Developers (80% subsidiary of IVRCL) has submitted the draft Red Herring prospectus with SEBI for an IPO. The company has a land bank of 2,298.75 acre (development area of 56.63m sq ft) in Hyderabad, Chennai, Bangalore, Pune and Noida. Cushman & Wakefield have valued the land reserves and development profits of the company at Rs50-55.2b, and after deducting the developer's margins, the net present value stands at Rs28.9b-Rs31.9b. Post the proposed IPO, IVRCL's stake in IVR PUDL will stand at 62.4% v/s 80% currently.
- Robust order book ensures revenue visibility:** Order backlog as at December 2006 stood at Rs72.2b, up from Rs70b in September 2006 and Rs67b in June 2006. Order intake during 3QFY07 stood at Rs16b. The company is L1 in projects worth Rs8b-Rs9b, which are expected to be awarded over next few months, primarily from the water and roads segment.
- Valuation and view:** During FY07, we expect IVRCL to report net profit of Rs1.4b (up 51% YoY) and Rs2.3b in FY08 (up 66.2% YoY) and Rs2.8b in FY09 (up 19.4% YoY). At the CMP of Rs406, the stock is trading at a PER of 39x FY07E, 23.5x FY08E and 19.7x FY09E. Adjusted for the value of BOT (Rs16/sh), Real Estate (Rs174/sh) and HDO (Rs12/sh), the stock is trading at PER of 19.6x FY07E, 11.8x FY08E and 9.9x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	3,007	2,567	4,083	5,906	4,266	3,644	5,223	9,251	14,957	22,384
Change (%)	28.3	36.6	44.1	69.2	41.9	42.0	27.9	56.6	41.8	47.1
EBITDA	235	210	344	558	407	308	556	947	1,343	2,219
Change (%)	33.3	26.0	57.8	64.9	73.3	46.5	61.8	69.8	55.3	65.2
As of % Sales	7.8	8.2	8.4	9.4	9.5	8.5	10.7	10.2	9.0	9.9
Depreciation	22	24	27	36	38	49	60	55	110	202
Interest	40	72	85	49	133	103	98	24	253	357
Other Income	10	3	4	43	17	55	18	38	57	127
PBT	183	118	235	516	253	211	416	906	1,037	1,786
Tax	12	6	13	78	42	56	94	192	108	384
Effective Tax Rate (%)	6.6	5.0	5.6	15.1	16.6	26.5	22.7	21.1	10.4	21.5
Reported PAT	171	112	222	438	211	155	321	715	930	1,402
Adj PAT	171	112	222	438	261	155	321	715	930	1,402
Change (%)	59.2	37.7	54.9	74.1	53.0	38.7	45.0	63.1	63.8	50.8

E: MOST Estimates

Robust financial performance

During 3QFY07, IVRCL reported revenues of Rs5.2b (up 28% YoY), EBITDA of Rs556m (up 61.8% YoY) and net profit of Rs321m (up 45% YoY). EBITDA margins expanded to 10.7% during 3QFY07, up from 8.4% in 3QFY06. While reported revenues at Rs5.2b have been lower than our estimates of Rs5.9b, EBITDA margins at 10.7% were higher than our estimates of 9%. Thus, net profit at Rs321m during 3QFY07 was in line with our expectations.

Robust order book ensures revenue visibility

Order backlog stood at Rs72.2b as at end-December 2006 (including EPC value of BOT projects - Rs10.6b) up from Rs70b in September 2006 and Rs67b in June 2006. Order intake during 3QFY07 stood at Rs16b. Further, IVRCL has emerged as the lowest cost bidder in projects worth Rs8b-Rs9b, which are expected to be awarded over the next few months, and which are primarily from the water and road segments.

The company expects order backlog to increase to Rs85b-Rs90b at end-FY07 and the water segment is expected to contribute 50%+ to the total order backlog. The remaining 50% would be contributed by verticals such as buildings, power segment and roadways.

TREND IN ORDER BOOK COMPOSITION

	FY02	FY03	FY04	FY05	FY06	DEC-06
Water and Environmental Projects	57	69	58	56	50	50
Roads and Bridges	33	18	20	19	27	26
Building and Indus. Structures	10	12	20	17	16	12
Power and Transmission Lines	0	0	3	8	8	11

Source: Company

IVR Prime Urban files prospectus for IPO

IVR Prime Urban Developers (80% subsidiary of IVRCL) has submitted the draft Red Herring prospectus with the SEBI for an IPO. The company has a land bank of 2,298.75 acre, representing a development area of 56.63m sq ft in

the cities of Hyderabad, Chennai, Bangalore, Pune and Noida. Planned projects include residential, commercial, retail and hotel projects etc. scheduled for completion by 2011. Post the proposed IPO, IVRCL's stake in IVR PUDL will stand at 62.4%, v/s 80% currently.

Cushman & Wakefield have valued the land reserves and development profits of the company at Rs50.0-55.2b, and after deducting the developer's margins, the Net Present value stands at Rs28.9-31.9b. During 1HFY07, IVR Prime Urban Developers reported revenues of Rs702m (up 34% YoY) and net profit of Rs178m (up 998% YoY).

LAND BANK DETAILS

S.NO	NATURE OF THE LAND	(IN ACRES)
1.	Own Title	116.86
2.	Ranchi Village Project	13.76
3.	Joint Development Agreements	665.10
4.	Agreements to enter into joint development	92.37
5.	Joint development agreements with corporate entities forming part of its promoter group	398.91
6.	Joint development agreements with other corporate entities	138.24
7.	Contractual arrangements with land owners	308.80
8.	Agreements with certain individuals holding power of attorney on behalf of land owners	550.77
9.	Land under power of attorney by company's employees	13.94
Total Land Reserves		2298.75

Source: IVR Prime Urban Draft Prospectus

DEVELOPABLE AREA (M SQ FT)

CITY	TYPE						TOTAL AREAS
	RESID- ENTIAL	COMM- ERICIAL	IT PARK	HOTELS	MALLS	OTHERS	
Hyderabad	0.56	0.27	0.71	0.50	0.77	-	2.81
Chennai	26.65	-	10.00	0.30	-	1.00	37.95
Bangalore	4.16	0.24	-	-	-	-	4.40
Pune	6.78	0.59	-	0.24	-	-	7.61
Noida	1.86	2.00	-	-	-	-	3.86
Total	40.01	3.10	10.71	1.04	0.77	1.00	56.63

Source: IVR Prime Urban Draft Prospectus

IVRCL'S STAKE POST IPO

	NO OF SHARES (M)	% STAKE
IVRCL	40.0	62.4
Promoters	10.0	15.6
Proposed IPO	14.2	22.1
Total	64.2	100.0

Source: IVR Prime Urban Draft Prospectus

Hindustan Dorr Oliver (HDO) witnesses margin pressure

During 3QFY07, IVRCL did not report consolidated numbers, as IVR Prime Urban Developers has submitted Draft Red Herring Prospectus with SEBI for an IPO, and thus is in a silent period. Hindustan Dorr Oliver reported revenues of Rs549m (up 31% YoY) and EBITDA of Rs39m (down by 15.3% YoY). EBITDA margins declined to 7.7% (v/s 11% in 3QFY06 and 9.3% in 1HFY07), primarily given the nature of the business towards projects. It reported net profit of Rs32m (down by 23.6%). Tax provision increased to 35.6% in 3QFY07 v/s 4.4% in 3QFY06 as the company has exhausted its accumulated losses. HDO is in the process of ramping up its operations in knowledge process outsourcing (KPO) to 200-250 employees at Mumbai and Chennai.

Key takeaways from the conference call

Robust management guidance: Management has guided for:

- ☞ Revenues of Rs22b-Rs24b and PAT of Rs1.35-1.4b in FY07
- ☞ Order backlog of Rs85b-Rs90b as at March 2007 v/s Rs62b in FY06 (up 37% YoY)
- ☞ Tax rate in the range of 20-22% in FY07
- ☞ For FY08, EBITDA margin improvement of minimum 50bp YoY

BOT portfolio

IVRCL currently has a BOT portfolio of four projects, with combined capital investment of Rs14.6b (IVRCL's share).

Management has outlined the progress report on each of these projects:

- ☞ **Jalandhar-Amritsar highway** has achieved financial closure and construction activity has commenced. We gather that RoE on the road project has increased to ~23%, v/s 19% at the time of bidding due to improvement in traffic estimates.
- ☞ **Two road projects in Tamil Nadu** also achieved financial closure in August 2006, and construction on the project has begun. Expected RoE on both these projects are in the range of 22.5-25.0%.
- ☞ **Chennai desalination project** has also achieved financial closure recently. Work on the project is expected to commence by February 2007.

IVRCL'S BOT PORTFOLIO (RS B)

Desalination Plant, Chennai	3.8*
Jalandhar – Amritsar Highway	2.3
Salem – Kumarapalayam Road, Tamil Nadu	8.5
Total	14.6

* IVRCL has a 75% stake, with project cost at Rs5b

Source: Company

Valuations and view

During FY07, we expect IVRCL to report net profit of Rs1.4b (up 51% YoY); Rs2.3b in FY08 (up 66.2% YoY) and Rs2.8b in FY09 (up 19.4% YoY). At the CMP of Rs406, the stock is trading at PER of 39x FY07E, 23.4x FY08E and 19.6x FY09E. Adjusted for the value of BOT (Rs16/sh), real estate (Rs174/sh) and HDO (Rs12/sh), the stock is trading at PER of 19.6x FY07E, 11.8x FY08E and 9.9x FY09E. Maintain **Buy**.

SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	Construction	FY09E PER (x)	12	33,395	248	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Rs/Sh	550	1,632	12	20% Discount to current stock price
IVR Prime Urban Developers	Real Estate	Land Value, plus development profits		23,400	174	Based on lower range of Cushman and Wakefields valuation report; IVRCL's stake post IPO at 62.4%; holding company discount of 25%
BOT Projects						
A) Projects under Construction Phase						
Chennai Desalination Project	Desalination project	Book Value		250	2	Book Value of investments till Mar 07
Jalandhar Amritsar Road Project	BOT Road	Book Value		413	3	Book Value of investments till Mar 07
Tamil Nadu Road Projects (2 Nos)	BOT Roads	Book Value		1,451	11	Book Value of investments till Mar 07
Total				60,540	449	

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by Mr. E. Sudhir Reddy. Its niche and key area of operation is the 'water' segment, within which it executes industrial projects, irrigation works, desalination projects and builds sewerage systems. During FY06, ~51% of the revenues were earned from this division and the company had a 28% strike rate of order procurement. The company has also geared up in terms of pre-qualifications to bid for large road projects independently and has started bidding for BOT projects as well.

Key investment arguments

- Reported order backlog at the end of December 2006 is Rs72b, a book to bill ratio of 3.2x FY07 revenue.
- Has one of the largest BoT portfolios (4 projects with investment of Rs17.6b) with diversified presence in roads and desalination projects.
- Fund raising in IVR PUDL can unlock sizeable value

Key investment risks

- Promoter stake is low at 12.2% as on September '06.
- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

COMPARATIVE VALUATIONS

		IVRCL	HCC	NCC
P/E (x)	FY07E	39.0	31.8	25.2
	FY08E	23.4	18.8	16.2
P/BV (x)	FY07E	3.8	2.8	2.1
	FY08E	3.3	2.5	1.8
EV/Sales (x)	FY07E	2.3	1.7	1.7
	FY08E	1.6	1.2	1.2
EV/EBITDA (x)	FY07E	23.5	17.6	17.9
	FY08E	15.4	12.1	12.4

SHAREHOLDING PATTERN (%)

	DEC.06	SEP.06	DEC.05
Promoter	10.4	12.2	12.8
Domestic Inst	16.2	22.6	26.7
Foreign	55.3	41.3	38.5
Others	18.1	23.8	22.0

Recent developments

- IVR PUDL has submitted its Draft Red Herring Prospectus for an IPO

Valuations and view

- During FY07, we expect IVRCL to report net profit of Rs1.4b (up 51% YoY), Rs2.3b in FY08 (up 66.2% YoY) and Rs2.8b in FY09 (up 19.4% YoY).
- At the CMP of Rs406, the stock is trading at PER of 39x FY07E, 23.4x FY08E and 19.6x FY09E.
- BOT, real estate and investments account for Rs202/sh to our price target of Rs449/sh. Maintain **Buy**.

Sector view

- Slow down associated with a change in the Central government is now behind us and next three years are expected to be eventful with increased investments in new verticals apart from the traditional ones leading to a surge in order books.
- There is scope for EBITDA margin expansion with increase in the size and scope of orders
- BOT ventures could unlock sizable value
- Real estate projects could also be immensely value accretive

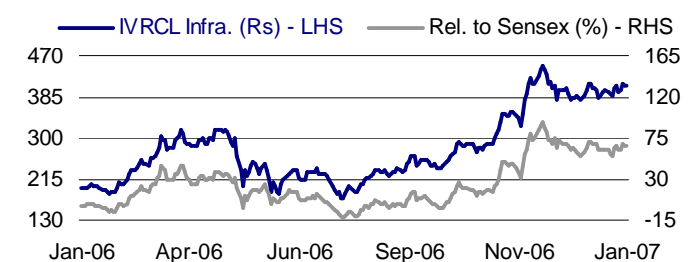
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	10.4	13.2	-21.4
FY08	17.3	19.7	-12.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
406	449	10.7	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	10,547	15,214	22,384	35,133	45,425
Change (%)	36.4	44.2	47.1	57.0	29.3
Total Expenditure	9,682	13,871	20,165	31,465	40,659
EBITDA	865	1,343	2,219	3,667	4,766
% of Net Sales	8.2	8.8	9.9	10.4	10.5
Depreciation	80	110	202	252	304
Interest	214	253	357	410	708
Other Income	24	57	127	102	112
PBT	595	1,037	1,786	3,108	3,865
Tax	28	108	384	777	1,082
Rate (%)	4.6	10.4	21.5	25.0	28.0
Reported PAT	567	930	1,402	2,331	2,783
Adjusted PAT	567	930	1,402	2,331	2,783
Change (%)	68.9	63.8	50.8	66.2	19.4

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	170	214	269	269	269
Share Application Money	1,454	0	0	0	0
Reserves	2,407	4,555	14,232	16,222	18,596
Net Worth	4,030	4,769	14,502	16,491	18,866
Loans	2,472	6,786	5,731	6,858	9,022
Deferred Tax Liability	30	41	0	0	0
Capital Employed	6,532	11,597	20,233	23,349	27,888
Gross Fixed Assets	1,107	1,580	2,596	3,596	4,346
Less: Depreciation	366	473	675	927	1,231
Net Fixed Assets	741	1,107	1,921	2,669	3,115
Capital WIP	216	266	150	150	300
Investments	316	2,765	3,260	5,260	6,760
Curr. Assets	11,607	13,002	23,241	28,314	34,533
Inventory	178	286	420	659	853
Debtors	3,066	4,765	6,439	10,107	13,067
Cash & Bank Balance	4,527	2,443	8,294	5,137	4,566
Loans & Advances	787	1,156	1,717	2,695	3,485
Other Current Assets	3,050	4,352	6,370	9,716	12,562
Current Liab. & Prov.	6,348	5,543	8,338	13,044	16,820
Creditors	3,470	3,818	5,801	9,052	11,696
Other Liabilities	2,791	1,573	2,315	3,633	4,698
Provisions	87	152	223	359	425
Net Current Assets	5,259	7,459	14,902	15,270	17,713
Application of Funds	6,532	11,597	20,233	23,349	27,888

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
Adjusted EPS	6.7	8.7	10.4	17.3	20.7
Growth (%)	-9.4	30.1	19.8	66.2	19.4
Cash EPS	7.6	9.7	11.9	19.2	22.9
Book Value	47.5	44.6	107.7	122.4	140.1
DPS	0.7	1.0	1.4	2.2	2.7
Payout (incl. Div. Tax.)	12.7	13.5	13.0	13.0	13.0
Valuation (x)					
P/E (standalone)		46.7	39.0	23.4	19.6
Cash P/E		41.7	34.1	21.2	17.7
EV/EBITDA		43.9	23.5	15.4	12.4
EV/Sales		3.9	2.3	1.6	1.3
Price/Book Value		9.1	3.8	3.3	2.9
Dividend Yield (%)		27.1	44.9	74.7	89.2
Profitability Ratios (%)					
RoE	18.4	21.1	14.6	15.0	15.7
RoCE	15.2	14.2	13.5	16.1	17.9
Turnover Ratios					
Debtors (Days)	106	114	105	105	105
Inventory (Days)	6	7	7	7	7
Creditors (Days)	137	105	0	0	0
Asset Turnover (x)	2.0	1.7	1.4	1.6	1.8
Leverage Ratio					
Debt/Equity (x)	0.6	14	0.4	0.4	0.5

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
PBT before Extraordinary	595	1,037	1,786	3,108	3,865
Add : Depreciation	80	110	202	252	304
Interest	214	253	357	410	708
Less : Direct Taxes Paid	28	108	384	777	1,082
(Inc)/Dec in WC	1,227	-4,284	-1,592	-3,525	-3,014
CF from Operations	2,088	-2,991	370	-532	781
(Inc)/Dec in FA	-356	-526	-900	-1,000	-900
(Pur)/Sale of Investments	-95	-2,448	-495	-2,000	-1,500
CF from Investments	-451	-2,975	-1,395	-3,000	-2,400
(Inc)/Dec in Networth	1,351	-54	8,495	0	0
(Inc)/Dec in Debt	590	4,315	-1,055	1,127	2,164
Less : Interest Paid	214	253	357	410	708
Dividend Paid	72	125	206	342	408
CF from Fin. Activity	1,655	3,882	6,877	376	1,048
Inc/Dec of Cash	3,292	-2,084	5,851	-3,157	-571
Add: Beginning Balance	1,234	4,527	2,443	8,294	5,137
Closing Balance	4,526	2,443	8,294	5,137	4,566

N O T E S



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Disclosure of Interest Statement	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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