

February 15, 2012

Reco	Previous Reco
Hold	Buy
CMP	Target Price
Rs 60	Rs 62
EPS change FY12E/13E (%)	-38 /-5%
Target Price change (%)	NA
Nifty	5,532
Sensex	18,202

Price Performance

(%)	1M	3M	6M	12M
Absolute	52	76	56	(17)
Rel. to Nifty	34	61	42	(18)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Construction
Bloomberg	IVRCL@IN
Equity Capital (Rs mn)	534
Face Value(Rs)	2
No of shares o/s (mn)	267
52 Week H/L	96/27
Market Cap (Rs bn/USD mn)	16/325
Daily Avg Volume (No of sh)	9156279
Daily Avg Turnover (US\$m)	8.0

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	11.2	11.0	9.5
FII/NRI	38.5	40.7	49.3
Institutions	5.4	3.6	4.0
Private Corp	20.7	23.1	20.8
Public	24.2	21.6	16.5

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Jitesh Bhanot

jitesh.bhanot@emkayglobal.com
+91 22 6624 2491

- IVRCL's Q3FY12 APAT at Rs69 mn (-87% yoy) lower than est. Execution continues to remain sluggish – revenues -15.2% yoy to Rs 11.9bn v/s est. of Rs 14bn
- EBITDA at Rs0.88bn (-39%yoy) v/s est. Rs1.26bn - margins contracted 286 bps yoy to 7.3% led by execution miss & fixed cost absorbed by lower proportion of revenues
- Asset sale on track- land parcels at Noida & 1 road project divested for Rs 4bn. Mgmt expects to close the deal by Mar-12. Slow pace of divestment may pressurise stretched B/s.
- Execution issues persist - divestment critical to ease cash flow. Sharp stock run up (+75% in 3M) already factoring this positive. Cut FY12/13 EPS by 38%/5% downgrade to Hold

Execution issues persists dragging overall Q3 operating performance

IVRCL reported below expectation Q3FY12 numbers. Revenues at Rs 11.9bn v/s exp. of Rs 14bn were significantly lower. IVRCL continue to face several projects execution challenges ranging from clearances getting stuck for project to land acquisition. Margins followed the path of execution miss & surprised negatively at 7.3% contracting 286 bps yoy v/s exp. 9%. Apportionment of fixed overhead over the lower than expected revenues resulted in margin miss. APAT came in at Rs 69mn v/s our exp. of Rs 207mn beat led by lower operating performance.

Order backlog at Rs 250bn provides at 4.4x FY11 revenues

IVRCL infra has bagged orders worth Rs 107bn in YTD FY12 taking the overall order backlog to Rs 250 bn providing 4.4x visibility to FY11 revenues. We believe with improving liquidity due to divestment the execution bandwidth will receive a fillip.

Divestment of non core asset have started with Noida land & 1 BOT asset

Management indicated that monetization of non core assets have kick started with 3 out of the 4 land parcels at Noida held by IVRCL A&H being divested. Management expects to receive Rs 2.25bn from the consideration of this 3 land parcel divestment. 1 of the BOT asset is also on the blocks for which the negotiations have started. IVRCL expects an overall consideration of Rs 4bn from the divestment of both the assets.

Liquidity to improve led by divestment proceeds – However sharp stock run up already factors some positives-Reduce to Hold - TP 62

Execution issues will continue to persist. Government machinery needs to run smoothly and handle the clearance issues for a sustainable improvement in execution. We believe IVRCL has delivered strong order inflows ahead of expectation in YTD FY12 and visible prospects of liquidity easing due to divestment proceeds have led to upgrade in earnings multiple at 8.5x FY13E earnings for IVRCL. Based on revised order inflow & reduced execution, we have downgraded FY12E/13E earnings by -38%/5%. We reduce our rating to HOLD, however upgrade TP to Rs62 led by run up in subsidiary companies.

Financial Snapshot (Standalone)

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	(%)	P/E	EBITDA	P/BV	
FY10	54,929	5,319	9.7	2,111	7.9	-9.5	11.5	7.6	5.7	0.9
FY11A	56,515	5,146	9.1	1,579	5.9	-25.2	8.2	10.1	6.9	0.8
FY12E	53,160	4,416	8.3	583	2.2	-63.0	2.9	27.5	9.0	0.8
FY13E	61,680	5,416	8.8	1,195	4.5	104.9	5.8	13.4	6.9	0.8

Source: Emkay Research

Quarterly Results

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12A	Q3FY12A	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Revenue	14104	20516	11219	10460	11955	-15.2	14.3	33635	35671	-5.7%
Expenditure	12664	18351	10387	9524	11077	-12.5	16.3	30988	32518	-4.7%
<i>as % of sales</i>	<i>89.8</i>	<i>89.4</i>	<i>92.6</i>	<i>91.0</i>	<i>92.7</i>					
Consumption of RM	5325	6907	4153	3761	4323	-18.8	15.0	12237	13121	-6.7%
<i>as % of sales</i>	<i>37.8</i>	<i>33.7</i>	<i>37.0</i>	<i>36.0</i>	<i>36.2</i>			<i>36.4</i>	<i>36.8</i>	
Construction Expenses	1894	4049	1828	1596	1677	-11.5	5.0	5101	5479	-6.9%
<i>as % of sales</i>	<i>13.4</i>	<i>19.7</i>	<i>16.3</i>	<i>15.3</i>	<i>14.0</i>			<i>15.2</i>	<i>15.4</i>	
Masonry and Other labour	4551	6234	3462	3133	4163	-8.5	32.9	10758	11104	-3.1%
<i>as % of sales</i>	<i>32.3</i>	<i>30.4</i>	<i>30.9</i>	<i>30.0</i>	<i>34.8</i>			<i>32.0</i>	<i>31.1</i>	
Employee Cost	604	735	681	647	624	3.3	-3.6	1951	1889	3.3%
<i>as % of sales</i>	<i>4.3</i>	<i>3.6</i>	<i>6.1</i>	<i>6.2</i>	<i>5.2</i>			<i>5.8</i>	<i>5.3</i>	
Other expenditure	291	426	263	387	292	0.2	-24.6	941	925	1.7%
<i>as % of sales</i>	<i>2.1</i>	<i>2.1</i>	<i>2.3</i>	<i>3.7</i>	<i>2.4</i>			<i>2.8</i>	<i>2.6</i>	
EBITDA	1440	2165	832	937	878	-39.0	-6.3	2647	3153	-16.1%
Depreciation	199	217	228	250	229	15.0	-8.4	706	540	30.6%
EBIT	1241	1947	605	687	649	-47.7	-5.5	1941	2613	-25.7%
Other Income	95	49	72	54	80	-16.1	47.5	206	408	-49.4%
Interest	592	656	628	652	661	11.6	1.3	1941	1525	27.3%
PBT	744	1340	49	89	69	-90.8	-22.8	206	1496	-86.2%
Total Tax	238	432	7	7	1	-99.7	-91.2	15	476	-96.9%
Adjusted PAT	506	908	42	81	68	-86.6	-16.6	191	1020	-81.2%
(Profit)/loss from JV's/Ass/MI										
APAT after MI	506	908	42	81	68	-86.6	-16.6	191	1020	-81.2%
Extra ordinary items	-84	-265	0	0	0			0	-84	
Reported PAT	422	643	42	81	68	-83.9	-16.6	191	936	-79.6%
Adjusted EPS	1.9	3.4	0.2	0.3	0.3	-86.6	-16.6	0.7	3.8	-81.2%

Margins						(bps)	(bps)			(bps)
EBIDTA	10.2%	10.6%	7.4%	9.0%	7.3%	-286.4	-161.2	7.9%	8.8%	-97.0
EBIT	8.8%	9.5%	5.4%	6.6%	5.4%	-336.7	-113.7	5.8%	7.3%	-155.4
EBT	5.3%	6.5%	0.4%	0.8%	0.6%	-470.3	-27.6	0.6%	4.2%	-358.0
PAT	3.0%	3.1%	0.4%	0.8%	0.6%	-242.7	-21.0	0.6%	2.6%	-205.5
Effective Tax rate (%)	32.0%	32.3%	13.6%	8.3%	0.9%	-3,100.3	-739.9	7.1%	31.8%	-2466.7

Order-book backlog and Order inflow details

Rs Mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	yoy	qoq
Opening order backlog	240000.0	242000.0	237900.0	237000.0	255000.0	6.3%	7.6%
Order inflow	16112.0	16465.7	10338.0	68484.9	7000.0	-56.6%	-89.8%
Revenue Booked	14112.0	20565.7	11238.0	10484.9	11990.6	-15.0%	14.4%
Closing Orderbacklog	242000.0	237900.0	237000.0	255000.0	250009.4	3.3%	-2.0%
L1 orders	33000.0	23740.0	33000.0	56000.0	25000.0	-24.2%	-55.4%
Captive orderbacklog			31300.0	40000.0	62000.0		55.0%
External orderbacklog			172700.00	159000.00	163009.40		2.5%

Source: Company. Emkay Research

Order inflow at Rs 107bn in YTFY12 ahead of expectation

Order inflow of Rs107 bn in YTFY12, the overall order backlog now stands at Rs 250bn and IVRCL expects to finish FY12E with similar order backlog number of Rs 250bn. Inflows were driven by the Transportation and Building segment. The order backlog provides 4.4x visibility based on FY11 revenues. The year has also seen some cancellations including international orders from Saudi Arabia & Goa Karnataka road project. Order inflow were higher than anticipated and are expected to have a positive rub off on the execution pace of FY13E.

Conference call Highlights

- IVRCL infra and IVRCL A&H merger has already received the approval from the competition commission and shareholders have also approved the scheme of arrangements. The swap ratio for the merger is 5 shares of IVRCL infrastructure for every 6 shares held in IVRCL A&H.
- IVRCL is contemplating to reduce the overall gross debt from Rs 25bn to Rs 22bn by March 12 facilitated from the proceeds of Non core investments (Noida land parcel & BOT asset)
- Management is optimistic on the order flow from the Building & transportation vertical over the coming years with on ground activity seeing a pick up.
- IVRCL also believes the interest rates will correct from 12-13% range to 9.5 to 10% over the next two years creating significant value for the developer portfolio.
- IVRCL infrastructure bagged 4/6 laning of Raipur -Bilaspur Section on NH-200 in the State of Chhatisgarh under NHDP Phase – IV-A. The project cost is ~Rs 13bn panning across 126kms. IVRCL quoted a premium of Rs 45.5cr v/s Rs 43cr quoted by ERA infra led consortium which stood L2 for the project.
- IVRCL infrastructure also bagged 151 km 4 laning project from Rai Malikpur (Rajasthan border) – Dadri – Kharak corridor in the state of Haryana. Total project cost is Rs 12bn with concession life of 20 years including of 30 month construction period.
- IVRCL has 1300 acre of land parcel at Sri Perumbudur – Chennai. The approval of 2nd airport at Sri perumbudur will lead to appreciation in the value of land. Chances of 300 acre of the overall land parcel being acquired by the airport developer cannot be ruled out, however the value offered by government for settlement of land dues is likely to higher than the existing market rates as per management expectations.
- Execution impacted by natures fury – rains in Rajasthan in Nov – Dec, Cyclone in Tamil Nadu as well as heavy snowfall in J&K all affecting the execution during Q3FY12.
- IVRCL has handed back Goa-Karnataka Project and has launched claims against NHAI
- Net working cycle continues to remain at elevated levels – flat sequentially with Net working capital of Rs 23bn.

Downgrade FY12E/13E earnings by -38%/-5%

Although order inflow has surpassed our expectation, Execution continues to remain challenging for IVRCL Infra. IVRCL has delivered a disappointing YTD FY12 performance leading to further downgrade in our estimates. Based on the revised near term outlook we have downgraded our FY12E earnings by 38% and FY13 earnings by 5%.

Downgrade FY12EPS by 38% & FY13E EPS by 5%

Rs mn	FY12E			FY13E		
	Earlier	Revised	% chg	Earlier	Revised	% chg
Sales	58,374	53,160	-9%	65,196	61,680	-5%
EBIDTA	5,038	4,416	-12%	5,725	5,416	-5%
EBIDTA (%)	8.6	8.3	-32.5	8.8	8.8	0.0
APAT	942	583	-38%	1,253	1,195	-5%
EPS	3.5	2.2	-38%	4.7	4.5	-5%

Source: Emkay Research

Core business offers little upside potential – reduce to Hold with TP Rs 62

Divestment of non core assets at IVRCL has already kick started with the disposal of Noida land parcel. IVRCL is also targeting the divestment of entire Noida land parcel along with one BOT project would be complete by March 12. Company expects an overall inflow of Rs 4bn from the proceeds of such divestment which will provide the much needed respite to overall liquidity. We have upgraded our valuation multiple to 8.5x based on the revived liquidity, however sharp appreciation in value over the last couple of months has meant very little upside from this levels. We reduce our rating to Hold with a Target price of Rs 62.

IVRCL's SOTP value at Rs 62

Business	Valuation Basis	Multiple (x)	Value (Rsmn)	Value per share (Rs)
Construction business	FY13E, PE (x)	8.5	10160	38
Hindustan Dorr Oliver	MCap	Current Mcap	1137	4
IVR Asset Holding	MCap	Current Mcap	5304	20
Total Fair value			16601	62.0

Source: Emkay Research, Capitaline

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11A	FY12E	FY13E
Net Sales	54929	56515	53160	61680
<i>Growth (%)</i>	10.3	2.9	-5.9	16.0
Expenditure	49610	51369	48744	56264
Materials Consumed	19432	19975	19310	22205
Construction Exp	26849	27299	25527	29618
Employee Cost	2026	2623	2552	2868
Other Exp	1303	1471	1356	1573
EBITDA	5319	5146	4416	5416
<i>Growth (%)</i>	26.1	-3.3	-14.2	22.7
EBITDA %	9.7	9.1	8.3	8.8
Depreciation	543	758	993	1090
EBIT	4776	4388	3422	4326
EBIT margin (%)	8.7	7.8	6.4	7.0
Other income	149	120	213	247
Interest expenses	1637	2182	2777	2789
PBT	3288	2326	858	1784
Total Tax	1177	747	275	589
<i>Effective tax rate (%)</i>	35.8	32.1	32.0	33.0
Adjusted PAT	2111	1579	583	1195
<i>Growth (%)</i>	-9.5	-25.2	-63.0	104.9
Net Margin (%)	3.8	2.8	1.1	1.9
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adjusted PAT After JVs/Ass/MI	2111	1579	583	1195
E/O items	-1409	0	0	0
Reported PAT	702	1579	583	1195
<i>Growth (%)</i>	-68.9	124.9	-63.0	104.9

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11A	FY12E	FY13E
Pre-tax profit	3288	2326	858	1784
Depreciation	543	758	993	1090
Interest Provided	1448	1900	2777	2789
Other Non-Cash items	291	337	0	1
Chg in working cap	-2480	-1659	-3697	823
Tax paid	-1293	-1651	-275	-589
Operating cash Inflow	1797	2010	657	5899
Capital expenditure	-1196	-1948	-1000	-1000
Free Cash Flow	601	62	-343	4899
Other income	149	120	213	247
Investments	-1088	-309	-500	-500
Investing Cashflow	-2284	-2256	-1500	-1500
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	2199	4641	3747	-1000
Interest Paid	-1904	-2333	-2777	-2789
Dividend paid (incl tax)	-215	-246	-186	-186
Income from investments	20	32	0	0
Others	0	0	0	0
Financing Cashflow	101	2095	784	-3975
Net chg in cash	600	-312	-60	424
Opening cash position	945	1545	1234	1174
Closing cash position	1545	1234	1174	1598

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11A	FY12E	FY13E
Equity share capital	534	534	534	534
Reserves & surplus	17999	19340	19736	20745
Networth	18533	19874	20270	21279
Minority Interest				
Secured Loans	12688	16295	21295	20295
Unsecured Loans	3445	4663	3410	3410
Loan Funds	16133	20958	24705	23705
Deferred tax liability	125	86	151	151
Total Liabilities	34791	40918	45126	45135
Gross Block	7502	9242	10242	11242
Less: Depreciation	1838	2324	3317	4408
Net block	5664	6918	6925	6834
Capital work in progress	353	260	260	260
Investment	6138	6347	6847	7347
Current Assets	47004	54524	52779	54980
Inventories	10295	12507	12088	13181
Sundry debtors	19464	19298	20099	21968
Cash & bank balance	1644	1432	1174	1598
Loans & advances	12081	15950	16749	16899
Other current assets	3520	5337	2669	1334
Current lia & Prov	24369	27130	21684	24287
Current liabilities	23924	26727	21542	24143
Provisions	445	403	142	144
Net current assets	22635	27394	31095	30693
Total Assets	34790	40919	45126	45134

Key Ratios

Y/E, Mar (Rs. m)	FY10	FY11A	FY12E	FY13E
Profitability (%)				
EBITDA Margin	9.7	9.1	8.3	8.8
Net Margin	3.8	2.8	1.1	1.9
ROCE	14.7	11.9	8.4	10.1
ROE	11.5	8.2	2.9	5.8
RoIC	17.8	14.7	9.8	11.9
Per Share Data (Rs)				
EPS	7.9	5.9	2.2	4.5
CEPS	11.0	10.0	5.9	8.6
BVPS	69.4	74.4	75.9	79.7
DPS				
Valuations (x)				
PER	7.6	10.1	27.5	13.4
P/CEPS	5.4	6.0	10.2	7.0
P/BV	0.9	0.8	0.8	0.8
EV / Sales	0.6	0.6	0.7	0.6
EV / EBITDA	5.7	6.9	9.0	7.0
Dividend Yield (%)	1.7	1.7	1.7	3.3
Gearing Ratio (x)				
Net debt/ Equity	0.8	1.0	1.2	1.0
Net Debt/EBITDA	2.7	3.8	5.3	4.1
Working Cap Cycle (days)	119.1	130.0	188.4	165.4

Recommendation History: IVRCL Infrastructure & Projects – IVRC IN

Date	Reports	Reco	CMP	Target
14/11/2011	IVRCL Q2FY12 Result Update	Buy	38	60
16/08/2011	IVRCL Infrastructure Q1FY12 Result Update	Buy	39	60
30/05/2011	IVRCL Infrastructure Q4FY11 Result Update	Buy	70	93
15/02/2011	IVRCL Infrastructure Q3FY11 Result Update	Buy	72	101

Recent Research Reports

Date	Reports	Reco	CMP	Target
09/02/2012	GMR Infrastructure Q3FY12 Result Update	Hold	31	32
08/02/2012	IL&FS Transportaion Q3FY12 Result Update	Accumulate	209	222
25/01/2012	IRB Infrastructure Q3FY12 Result Update	Buy	168	240
06/01/2012	GMR Infrastructure Event Update	UR	23	UR

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

DISCLAIMER: Emkay Global Financial Services Limited and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. We along with our affiliates are participants in virtually all securities trading markets in India. Our research professionals provide important input into our investment banking and other business selection processes. Investors may assume that Emkay Global Financial Services Limited and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, 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 or regulation or which would subject Emkay Global Financial Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Emkay. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of Emkay or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.