



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE SENSEX: 19,724	IVRC IN
	REUTERS CODE
S&P CNX: 5,866	IVRC.BO

1 November 2007

Buy

Previous Recommendation: Buy

Rs485

Equity Shares (m)	129.7
52-Week Range	530/241
1,6,12 Rel. Perf. (%)	2/8/10
M.Cap. (Rs b)	62.9
M.Cap. (US\$ b)	1.6

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
3/07A	23,465	1,415	10.9	25.5	44.5	4.8	15.7	14.2	2.8	28.8
3/08E	34,011	1,937	14.9	36.9	32.5	4.2	13.8	16.9	1.9	18.7
3/09E	48,196	2,791	21.5	44.1	22.5	3.7	17.4	21.1	1.4	14.0

- Robust Financial Performance:** During 2QFY08, IVRCL reported revenues of Rs6.9b (up 88.9% YoY), EBIDTA of Rs553m (up 79.4% YoY) and net profit of Rs353m (up 127% YoY). While the reported numbers are better than our estimates of revenues of Rs4.9b, EBIDTA of Rs443m and net profit of Rs197m, EBIDTA margins at 8% during 2QFY08 was lower than our expectation of 9% in 2QFY08.
- Strong order book position:** Order backlog stood at Rs96b as at end September 2007 up from Rs95b in June 2007 and Rs66.4b in September 2006. Further, IVRCL has emerged as the lowest cost bidder in projects worth Rs12b, of which orders worth Rs8b are from Water segment. During 2QFY08, water segment accounted for 36% of the revenues, roads 22%, power 30% and Housing 12%.
- Key Takeaways from Concall:** 1) Robust FY08 guidance: Revenues guidance revised upwards to Rs34-36b (up 45-53% YoY based on existing order book), 2) EBIDTA margin improvement by 25-50bps at 10.5% 3) Order book expected at Rs120b by end FY08 (up 68.8% YoY) and 4) Capex of Rs1.4b for FY08 and Rs750-800m for FY09.
- Valuation and view:** We expect IVRCL to report a net profit of Rs1.9b in FY08 (up 36.9% YoY) and Rs2.8b in FY09 (up 44.1% YoY). We factor in impact of higher taxes due to withdrawal of Sec 80IA benefits. At the CMP of Rs485, the stock quotes at a PER of 32.5x FY08E and 22.5x FY09E. Adjusted for the value of BOT (Rs21/sh), IVR Prime (Rs101/sh) and HDO (Rs13/sh), the stock quotes at PER of 23.5x FY08E and 16.3x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	4,266	3,644	5,223	9,923	6,773	6,885	7,051	13,303	23,059	34,011
Change (%)	41.9	42.0	27.9	68.0	58.8	88.9	35.0	34.1	54.2	47.5
EBITDA	407	308	556	1,073	600	553	747	1,589	2,301	3,490
Change (%)	73.3	46.5	61.8	92.3	47.5	79.4	34.4	48.1	71.4	51.6
As of % Sales	9.5	8.5	10.7	10.8	8.9	8.0	10.6	11.9	10.0	10.3
Depreciation	38	49	60	69	66	76	77	80	216	300
Interest	133	103	98	25	57	76	95	109	308	337
Other Income	17	55	18	2	10	16	22	29	74	77
PBT	253	211	416	981	488	416	597	1,429	1,851	2,930
Tax	42	56	94	249	108	64	203	619	436	993
Effective Tax Rate (%)	16.6	26.5	22.7	25.4	22.2	15.3	33.9	43.3	23.6	33.9
Reported PAT	211	155	321	732	380	353	395	810	1,415	1,937
Adj PAT	261	155	271	732	380	353	395	810	1,415	1,937
Change (%)	53.0	38.7	22.4	67.1	45.4	127.0	45.6	10.6	52.2	36.9

E: MOST Estimates

Robust Financial Performance

During 2QFY08, IVRCL reported revenues of Rs6.9b (up 88.9% YoY), EBIDTA of Rs553m (up 79.4% YoY) and net profit of Rs353m (up 127% YoY). While the reported numbers are better than our estimates of revenues of Rs4.9b, EBIDTA of Rs443m and net profit of Rs197m, EBIDTA margins at 8% during 2QFY08 was lower than our expectation of 9% in 2QFY08. During 2QFY08, water segment accounted for 36% of the revenues, roads 22%, power 30% and Housing 12%

Net Interest cost during 2QFY08 declined to Rs76m, from Rs103m during 2QFY07. During 2QFY08, IVRCL received interest on advances given to IVR Prime Urban Developers (62.4% subsidiary) and cash balance of 1.6b.

The company has not provided for the impact of the withdrawal of tax benefits under Sec 80IA, as the management believes that based on the legal opinion, the matter is still sub-judice. Tax provision during 2QFY08 stands at Rs64m, resulting in a tax rate of 15.3% (vs our expectation of Rs101m assuming full tax rate).

Robust Order Book ensures revenue visibility

Order backlog stood at Rs96b as at end September 2007 up from Rs95b in June 2007 and Rs66.4b in September 2006. Further, IVRCL has emerged as the lowest cost bidder in projects worth Rs12b, of which orders worth Rs8b are from Water segment.

TREND IN ORDER BOOK COMPOSITION

	FY03	FY04	FY05	FY06	FY07	2QFY08
Water and Environmental Proj.	69	58	56	50	56	63
Roads and Bridges	18	20	19	27	22	16
Building and Industrial Struc.	12	20	17	16	11	14
Power and Transmission Lines	0	3	8	8	11	8

Source: Company

During 2QFY08, water segment contributed 36% to the revenues, vs 48% during 2QFY07; while the share of power sector increased to 30% from 16% during the same period. This has led to margin expansion, as we understand that margins in the power business are better than irrigation.

TREND IN REVENUE COMPOSITION

	FY03	FY04	FY05	FY06	FY07	2QFY08
Water and Environmental Proj.	69	58	56	51	51	36
Roads and Bridges	18	20	19	26	15	22
Building and Industrial Struc.	12	20	17	16	17	12
Power and Transmission Lines	0	3	8	7	17	30

Source: Company

IVR Prime urban: development plan progress

The company has land bank of 2,479 acres, representing a development area of 75.5m sq ft in cities of Hyderabad, Chennai, Bangalore, Pune and NOIDA. Planned projects include residential, commercial, retail and hotel projects, etc. scheduled for completion by 2011. The management informed that the work on the Jigny project in Bangalore has started while the excavation work is over at Gachibowli IT park project and construction work has started. The company has also obtained the land development permission from the local government for NOIDA project.

Also, the company has acquired significant land at Sriperumbudur. It is in the process of roping in a financial partner for the project and expects to complete the transaction in next 10-15 days time. The payment for the land at Sriperumbudur is being made as per the schedule.

The company has also identified another 150 acres of land at Hyderabad and Bangalore (near Kanakpura road) each and is in the process of the acquisition of the same. Of the current total development, Chennai accounts for 63% of the developable area while the second highest concentration is in the city of Pune at 12%. The significant land bank of the company in Chennai is in the town of Sriperumbudur, which accounts for 34.2m sq.ft (45% of the total area) of the total developable area of 75.46m sq.ft.

DEVELOPABLE AREA (M SQ FT)

CITY	TYPES						SALEABLE AREA (M SQ.FT)	SALEABLE AREA (ACRE)
	RESIDENTIAL	COMMERCIAL	IT PARK	HOTELS	RETAIL	OTHERS		
Hyderabad	0.67	0.97	-	0.50	0.87	-	3.01	19.35
Visakhapatnam	4.71	-	-	-	-	-	4.71	74.28
Chennai	32.27	3.27	10.00	0.30	0.78	1.00	47.62	1,352.82
Bangalore	4.16	0.24	-	-	-	-	4.40	73.13
Pune	8.16	0.59	-	0.24	-	-	8.99	879.76
Noida	4.73	2.00	-	-	-	-	6.73	79.51
Total	54.70	7.07	10.00	1.04	1.65	1.00	75.46	2,478.85

Source: Company

We calculate the value of the IVRCL's holding in the IVR Prime Urban assuming a holding company discount of 20% at the current market price. The value of IVRCL's stake works out to Rs13.1b or Rs101/sh.

Key Takeaways from the conference call:**Robust FY08 Management Guidance**

- ☞ Revenues of Rs34-36b in FY08 (up 45-53% YoY) based on existing order book
- ☞ EBIDTA margin improvement of 25-50bp YoY at 10.5%
- ☞ Order backlog of Rs120b (up 68.8% YoY) by end FY08.
- ☞ Capex of Rs1.4b for FY08 and Rs750-800m for FY09
- ☞ Revenue of Rs3b and net profit of Rs250m for HDO in FY08

BOT portfolio

IVRCL currently has a BOT portfolio of 4 projects, with combined capital investment of Rs14.6b (IVRCL's share). The total equity contribution for all its current BOT project stands at Rs3.3b, of which the company has already invested Rs2.4b. A large part of the balance Rs0.9b would be invested in FY08 or by 1QFY09.

The management has outlined the progress report on each of these projects

- ☞ **Jalandhar-Amristar Highway** had achieved financial closure and construction activity has commenced. We

gather that ROE has increased to ~23%, vs. 19% at the time of bidding due to improvement in traffic estimates.

- ☞ **Two road projects in Tamil Nadu** has achieved around 25% physical progress. Expected ROE on both these projects are in the range of 22.5-25.0%. All the three road BOT project are expected to get completed by end FY09
- ☞ **Chennai Desalination project:** The construction work on the project is on while the company expects to complete the project by mid FY09.

IVRCL'S BOT PORTFOLIO (RS B)

Desalination plant, Chennai	3.8*
Jalandhar - Amritsar Highway	2.3
Salem - Kumarapalayam Road, Tamilnadu	8.5
Total	14.6

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

Valuations and view

We expect IVRCL to report a net profit of Rs1.9b in FY08 (up 36.9% YoY) and Rs2.8b in FY09 (up 44.1% YoY). We factor in impact of higher taxes due to withdrawal of Sec 80IA benefits. At the CMP of Rs485, the stock quotes at a PER of 32.5x FY08E and 22.5x FY09E. Adjusted for the value of BOT (Rs21/sh), IVR Prime (Rs101/sh) and HDO (Rs13/sh), the stock quotes at PER of 23.5x FY08E and 16.3x 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)	18	50,235	387	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Rs/Sh	690	1,638	13	20% discount to current stock price
IVR Prime Urban Developers	Real Estate	Land Value, plus development profits		13,098	101	Based on Current Market Price; holding holding company discount of 20%
BOT Projects						
A) Projects under Construction Phase						
Chennai Desalination Project	Desalination project	Book Value		840	6	Book Value of investments till March 2008
Jalandhar Amritsar Road Project	BOT Road	Book Value		413	3	Book Value of investments till March 2008
Tamil Nadu Road Projects (2 Nos)	BOT Roads	Book Value		1,451	11	Book Value of investments till March 2008
Total				67,674	522	

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by Mr. E. Sudhir Reddy. It's niche and key area of operation is the 'water' segment, under 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 Sep-07 is Rs96b, representing book to bill ratio of 4.2x FY07 revenue.
- ✍ Has one of the largest BOT portfolio (4 projects with investment of Rs17.6b) with diversified presence in roads and desalination projects.

Key investment risks

- ✍ Promoter stake is low at 9% as on September 2007.
- ✍ BOT projects depress initial RoE.
- ✍ Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

Recent developments

- ✍ IVR Prime urban developer has successfully completed its initial public offering.

Valuations and view

- ✍ We expect IVRCL to report a net profit of Rs1.9b in FY08 (up 36.9% YoY) and Rs2.8b in FY09 (up 44.1% YoY).
- ✍ At the CMP of Rs485, the stock quotes at a PER of 32.5x FY08E and 22.5x FY09E.
- ✍ Adjusted for the value of BOT (Rs21/sh), IVR Prime (Rs101/sh) and HDO (Rs13/sh), the stock quotes at PER of 23.5x FY08E and 16.3x FY09E. Maintain **Buy**.

Sector view

- ✍ Slowdown associated with change in 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 of EBIDTA margin expansion with the increase in the size and scope of orders.
- ✍ BOT ventures could unlock sizable value.
- ✍ Real estate projects could also be immensely value accretive.

COMPARATIVE VALUATIONS

		IVRCL	HCC	NCC
P/E (x)	FY08E	32.5	55.7	38.1
	FY09E	22.5	29.0	24.0
P/BV (x)	FY08E	4.2	4.0	4.0
	FY09E	3.7	3.6	3.6
EV/Sales (x)	FY08E	1.9	2.1	2.2
	FY09E	1.4	1.7	1.7
EV/EBITDA (x)	FY08E	18.7	18.6	20.3
	FY09E	14.0	13.2	14.6

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	9.9	9.9	12.2
Domestic Inst	13.2	11.8	22.7
Foreign	62.8	61.3	41.3
Others	14.1	17.0	23.8

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	14.9	14.3	4.2
FY09	21.5	18.7	15.2

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
485	522	7.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Net Sales	10,547	15,214	23,465	34,011	48,196	
Change (%)	36.4	44.2	54.2	44.9	41.7	
Total Expenditure	9,682	13,871	21,163	30,521	43,224	
EBITDA	865	1,343	2,301	3,490	4,972	
% of Net Sales	8.2	8.8	9.8	10.3	10.3	
Depreciation	80	110	216	300	367	
Interest	214	253	308	337	468	
Other Income	24	57	74	77	85	
PBT	595	1,037	1,851	2,930	4,222	
Tax	28	108	436	993	1,431	
Rate (%)	4.6	10.4	23.6	33.9	33.9	
Reported PAT	567	930	1,415	1,937	2,791	
Adjusted PAT	567	930	1,415	1,937	2,791	
Change (%)	68.9	63.8	52.2	36.9	44.1	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Share Capital	170	214	259	259	259	
Share Application Money	1,454	0	0	0	0	
Reserves	2,407	4,555	12,918	14,564	16,936	
Net Worth	4,030	4,769	13,177	14,824	17,196	
Loans	2,472	6,786	5,552	4,998	7,348	
Deferred Tax Liability	30	41	56	56	56	
Capital Employed	6,532	11,597	18,785	19,878	24,600	
Gross Fixed Assets	1,107	1,580	2,593	3,749	4,699	
Less: Depreciation	366	473	664	964	1,331	
Net Fixed Assets	741	1,107	1,929	2,785	3,369	
Capital WIP	216	266	506	150	300	
Investments	316	2,765	2,829	4,001	5,501	
Curr. Assets	11,607	13,002	26,683	27,852	36,550	
Inventory	178	286	825	1,077	1,373	
Debtors	3,066	4,765	6,332	9,318	13,204	
Cash & Bank Balance	4,527	2,443	2,238	2,454	712	
Loans & Advances	787	1,156	10,919	5,591	7,923	
Other Current Assets	3,050	4,352	6,367	9,413	13,338	
Current Liab. & Prov.	6,348	5,543	13,121	14,910	21,120	
Creditors	3,470	3,818	10,032	10,453	14,803	
Other Liabilities	2,791	1,573	2,863	4,150	5,881	
Provisions	87	152	227	308	436	
Net Current Assets	5,259	7,459	13,561	12,942	15,431	
Application of Funds	6,532	11,597	18,825	19,878	24,600	

E: MOST Estimates

RATIOS						
Y/E MARCH	2005	2006	2007	2008E	2009E	
Basic (Rs)						
Adjusted EPS	6.7	8.7	10.9	14.9	21.5	
Growth (%)	-9.4	30.1	25.5	36.9	44.1	
Cash EPS	7.6	9.7	12.6	17.3	24.4	
Book Value	47.5	44.6	101.9	114.3	132.6	
DPS	0.7	1.0	1.0	1.9	2.8	
Payout (incl. Div. Tax.)	12.7	13.5	10.7	13.0	13.0	
Valuation (x)						
P/E (standalone)		55.8	44.5	32.5	22.5	
Cash P/E		49.9	38.6	28.1	19.9	
EV/EBITDA		50.1	28.8	18.7	14.0	
EV/Sales		4.4	2.8	1.9	1.4	
Price/Book Value		10.9	4.8	4.2	3.7	
Dividend Yield (%)		22.7	26.7	51.9	74.8	
Profitability Ratios (%)						
RoE	18.4	21.1	15.7	13.8	17.4	
RoCE	15.2	14.2	14.2	16.9	21.1	
Turnover Ratios						
Debtors (Days)	106	114	98	100	105	
Inventory (Days)	6	7	13	12	10	
Creditors (Days)	137	105	184	115	115	
Asset Turnover (x)	2.0	1.7	1.5	1.8	2.2	
Leverage Ratio						
Debt/Equity (x)	0.6	1.4	0.4	0.3	0.4	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
PBT before Extraordin:	595	1,037	1,851	2,930	4,222	
Add : Depreciation	80	110	216	300	367	
Interest	214	253	308	337	468	
Less : Direct Taxes Paid	28	108	436	993	1,431	
(Inc)/Dec in WC	1,227	-4,284	-6,307	835	-4,231	
CF from Operations	2,088	-2,991	-4,368	3,409	-606	
(Inc)/Dec in FA	-356	-526	-1,278	-800	-1,100	
(Pur)/Sale of Investments	-95	-2,448	-64	-1,172	-1,500	
CF from Investments	-451	-2,975	-1,342	-1,972	-2,600	
(Inc)/Dec in Networth	1,351	-54	7,200	-40	0	
(Inc)/Dec in Debt	590	4,315	-1,234	-554	2,350	
Less : Interest Paid	214	253	308	337	468	
Dividend Paid	72	125	152	291	419	
CF from Fin. Activity	1,655	3,882	5,506	-1,222	1,464	
Inc/Dec of Cash	3,292	-2,084	-204	215	-1,742	
Add: Beginning Balance	1,234	4,527	2,443	2,238	2,454	
Closing Balance	4,526	2,443	2,239	2,453	712	

N O T E S



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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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