16 August 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

IVRCL Ltd

In value territory

Buy

Target price
Rs67.60 (from Rs102.40)

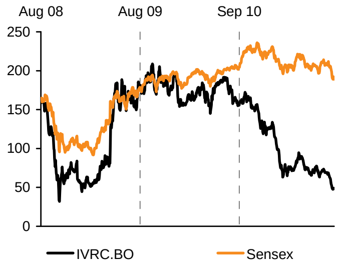
Price
Rs48.25

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	68.95	72.95	159.6
Absolute (%)	-30.0	-33.9	-69.8
Rel market (%)	-22.4	-27.5	-67.4
Rel sector (%)	-22.1	-29.5	-70.5



Market capitalisation
Rs12.88bn (US$284.74m)

Average (12M) daily turnover
Rs300.57m (US$6.68m)

Sector: BBG AP Eng & Mach
RIC: IVRC.BO, IVRC IN
Priced Rs48.25 at close 12 Aug 2011.
Source: Bloomberg

Despite a disappointing 1QFY12 performance, we believe IVRCL is better geared for future growth than its peers under our coverage. The short-term pain of a high interest-rate environment impacted project executions during the quarter, but the bottom of the earnings cycle is nearing, in our view. We maintain our Buy call.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	48,819	54,923	56,505	60,509	69,866
EBITDA (Rsm)	4,237	5,313	5,696	5,490 ▼	6,621 ▼
Reported net profit (Rsm)	2,270	2,113	1,999	1,454 ▼	2,130 ▼
Normalised net profit (Rsm)[1]	2,270	2,111	1,999	1,454	2,130
Normalised EPS (Rs)	8.24	7.67	7.26	5.28 ▼	7.73 ▼
Dividend per share (Rs)	1.40	0.80	0.60	0.60	0.90
Dividend yield (%)	2.90	1.66	1.24	1.24	1.87
Normalised PE (x)	5.85	6.29	6.65	9.14	6.24
EV/EBITDA (x)	6.10	5.15	5.68	5.77	5.15
Price/book value (x)	0.73	0.72	0.67	0.60	0.56
ROIC (%)	9.96	10.10	9.90	7.61	8.99

Use of ▲ ▼ indicates that the line item has changed by at least 5%. year to Mar, fully diluted
1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

Slower-than-expected project executions impacted 1QFY12 profitability

IVRCL reported 1QFY12 standalone revenue at Rs11.2bn – up 2% yoy but down 45% qoq and 9% below our forecasts. Management said slower project executions were due to working capital pressure faced by subcontractors and suppliers as a result of high interest rates. Also, EBITDA margins were further impacted by higher construction expenses and time lags in passing on higher costs to clients. Thus, the 1Q margin was 7.6%, down 186bp yoy, and EBITDA was Rs856m, 28% lower than we had forecast. Standalone PAT for the quarter was Rs42m, down 87% yoy and 95% qoq. 1Q EPS was Rs0.15.

EPS forecasts down 31% for FY12F and 13% for FY13F

Management said it expected slow project execution to continue as long as interest rates remained high. We believe interest rates should start softening by 4QFY12 and build a slower revenue growth into the next two quarters. As a result, we lower our revenue forecasts 4.4% for FY12 and 6.7% for FY13. Further, we have also built in some margin pressure for FY12. We think the company is nearing the bottom of its earnings cycle. We still forecast FY13 PAT to grow 46% yoy as we believe softening interest rates and working capital efficiencies will likely grow revenue and margin.

We believe that bottom of the earnings cycle is nearing; maintain Buy

We lower our target price to Rs67.6 (from Rs102.4), on EPS cuts and price declines of its listed subsidiaries. We think IVRCL has seen the bottom in absolute profits terms and things should improve now. Also, its biggest region in revenue terms, Andhra Pradesh, has started to see increased collections, likely resulting in increased orders and sales traction in future, in our view. The stock corrected 45% in the last three months (Sensex down 6%) and is now 22% above its five-year low. Adjusted for subsidiaries' valuation it is trading at 3.5x FY12F PE. On a consolidated level, the stock's one-year forward PBV is 0.4x, testing FY08's lows.

Analyst

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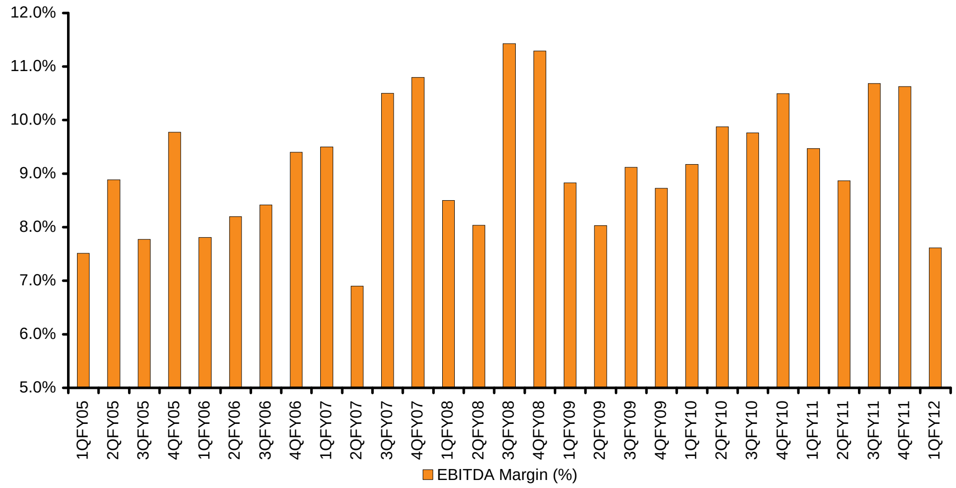
Short-term pain, but long-term growth

The 1QFY12 EBITDA was 20% below our estimate due to slower project executions and higher construction costs, prompting us to cut our EPS forecasts and target price. But, we believe the earnings cycle is nearing its bottom and the stock correction is overdone. Buy.

1QFY12 results surprised negatively on slower project executions

- Standalone net revenue was Rs11.2bn, up 2% yoy, down 45% qoq and 9% below the RBS estimate of Rs12.3bn. Management cited the main reason for lower revenue growth being slow project executions due to the squeeze on working capital at the subcontractor level. This was due to the high interest-rate environment.
- Standalone EBITDA margin came in at 7.6%, down 186bp yoy and 301bp qoq (RBS estimate: 9.6%).
- The lower margins were due to: a) slower execution resulting in operational deleverage; and b) the time lag in passing on higher costs to customers in certain contracts.
- EBITDA was Rs856m, down 18% yoy and 61% qoq (RBS estimate: Rs1.18bn).
- Interest expenses rose 39% yoy to Rs628m (RBS: Rs625m).
- The tax rate was 14% for the quarter (vs 28% in 1QFY11 and 30.7% at the end of FY11), softening the impact of the EBITDA slide on PAT. Management clarified during the analyst call that the lower tax rate was mainly due to the high proportion of JV income. The tax was paid at the JV level.
- Standalone PAT was Rs42m, down 85% yoy and 93% qoq (RBS estimate: Rs276m).
- EPS for the quarter came in at Rs0.15.
- The order book was at about Rs214bn (including L1 of Rs23.7bn) against Rs238bn at the end of FY11. Management said it removed a Rs19bn order from its order book during 1Q, pending issues related to the order.
- Hindustan Dorr Oliver (HDO), IVRCL's listed subsidiary, reported net profit of Rs63m in 1QFY12 (Rs166m in 1QFY11 and Rs14m in 4QFY11) on the back of net revenue of Rs1.5bn (down 41% yoy and 23% qoq). Management said the revenue decline was mainly due to the delays in billing on account of design approvals from customers.
- IVRCL Assets and Holdings, the company's listed real estate subsidiary, reported a net loss of Rs313m during 1Q, vs a loss of Rs50m in 1QFY12, on a revenue of Rs1.6bn (up 59% yoy).

Chart 1 : Quarterly standalone EBITDA margin trend



Source: Company data

Table 1 : Subsidiaries' 1QFY12 result summary

Rsm	1QFY12	1QFY11	% yoy	4QFY11
Hindustan Dorr Oliver (standalone)				
Revenue	1496	2523	-41%	1952
EBITDA	149	299	-50%	90
Margins (%)	9.9%	11.8%		4.6%
Reported PAT	61	166	-63%	14
IVRCL Assets & Holdings (standalone)	1QFY12	1QFY11	% yoy	4QFY11
Revenue	1605	1012	59%	2895
EBITDA	-20	26	na	190
Margins (%)	-1.3%	2.6%		6.6%
Reported PAT	-313	-50	na	-253

Source: Company data

Analyst conference call highlights

- Order book break up: Water accounted for Rs4.2bn; Irrigation Rs4.1bn; Building Rs4.8bn; Transportation Rs6.0bn; Power Rs1.0bn; and Oil & Gas and others Rs1.3bn.
- At the end of the quarter, gross debt was Rs24bn (Rs21bn as at end FY11). However, management said the debt position had eased due to the release of some working capital and it was now at Rs22bn. Also, it remained hopeful of maintaining debt at current levels.
- The average interest rate during the quarter was 12.5% and management said that by the end of June the interest rate had reached 13%. It added that the high interest rate environment could keep execution at lower levels for roughly the next two quarters.
- Receivables declined to Rs18.4bn by the end of June (Rs19.3bn as at end FY11).
- Payables was Rs23.3bn as end June (Rs27.0bn as at end FY11) as subcontractors and suppliers stopped providing credit due to working capital shortages at their end.
- Net current asset as at the end of the quarter was Rs24bn (Rs27.4bn as at end FY11), while cash was Rs1.35bn.
- Management highlighted that the net loss at the standalone IVRCL Assets and Holdings was due to high interest expenses on loans taken to fund the equity contribution of the build, own, transfer (BOT) assets. It said it was looking to divest stakes in some of its operational BOT assets to repay debt to save on interest expenses and to fund further equity requirements of under-construction projects.

Standalone EPS forecasts cut by 31% for FY12 and 13% for FY13

We lowered our EPS forecasts for the following reasons:

- lower than previously expected revenue growth due to slower execution at the subcontractor level;
- some pressure on EBITDA margins (particularly in FY12F) due to higher construction expenses and lower operational efficiency due to slower expected execution; and
- slightly higher depreciation expenses.

However, we believe interest expenses in FY13 will not rise above FY12 levels. Hence, we forecast they will be flat yoy in FY13 (RBS estimated 11% yoy growth earlier.)

Table 2 : Forecast revision summary

Rsm	FY12F		FY13F	
	old	new	old	new
Net sales	63,309	60,509	74,866	69,866
		-4.4%		-6.7%
EBITDA	6,380	5,490	7,331	6,621
		-14.0%		-9.7%
PAT	2,104	1,454	2,451	2,130
		-30.9%		-13.1%

Source: RBS forecasts

Despite the steep earnings cut, we forecast IVRCL's PAT will grow 46% yoy in FY13, higher than its peer NCC Ltd (28% yoy). We also believe earnings and margins should bounce back from 4QFY12 for the standalone entity due to an expected easing in interest expenses, in our view.

Revised target price is Rs67.6; we maintain Buy

Our revised SOTP-based target price declined sharply from Rs102.4 to Rs61.4 due to: a) a decline in our FY12 EPS forecasts, and b) a decline in the share prices of its listed subsidiaries. However, we believe the recent sharp correction in the stock price is overdone despite the near-term slowdown in profitability, as, in our view, the company is well equipped to weather the current tough macro economic environment. We also believe in terms of absolute profitability, 1QFY12 could see the bottom of the earnings cycle and things may gradually start to improve from here.

Further, the improving situation in Andhra Pradesh, its biggest revenue earning region, in terms of collection period and an aggressive order flow from National Highway Authority of India should result in good top line growth for the company. The stock is currently trading at 22% above its lowest level in five years (reached in 2008) and at 0.4x price to book value at the consolidated entity level, a good entry point for investors, in our view. We maintain our Buy recommendation.

Key assumptions

Table 3 : Order inflow/ backlog (Rsm)

	FY09	FY10	FY11	FY12F	FY13F
Order inflow	72,276.3	78,657.5	125,376.4	86,000.0	111,700.0
Growth (%)	-18.3%	8.8%	59.4%	-31.4%	29.9%
Order book backlog	145,000.0	168,865.4	238,000.0	263,800.0	306,000.0
Growth (%)	18.4%	16.5%	40.9%	10.8%	16.0%

Source: Company data, RBS forecasts

Table 4 : P&L assumptions (Rsm)

Revenue break-up	FY09	FY10	FY11	FY12F	FY13F
Water & Environmental	27,691.3	25,292.1	25,000.0	23,200.0	27,000.0
Growth (%)	40.9%	-8.7%	-1.2%	-7.2%	16.4%
as a % of total revenue	55.7%	46.2%	44.5%	38.5%	38.8%
Roads & Bridges	6,000.0	7,000.0	9,000.0	11,500.0	13,500.0
Growth (%)	-14.9%	16.7%	28.6%	27.8%	17.4%
as a % of total revenue	12.1%	12.8%	16.0%	19.1%	19.4%
Buildings & Industrial Structures	10,000.0	11,000.0	12,500.0	14,000.0	15,500.0
Growth (%)	124.7%	10.0%	13.6%	12.0%	10.7%
as a % of total revenue	20.1%	20.1%	22.2%	23.3%	22.3%
Power & Transmission Lines	6,000.0	5,000.0	2,941.8	3,500.0	4,500.0
Growth (%)	1.1%	-16.7%	-41.2%	19.0%	28.6%
as a % of total revenue	12.1%	9.1%	5.2%	5.8%	6.5%
Total revenue	49,691.3	54,792.1	56,241.8	60,200.0	69,500.0
Growth (%)	34.0%	10.3%	2.6%	7.0%	15.4%
EBITDA margin (%)	8.7%	9.7%	10.1%	9.1%	9.5%

Source: Company data, RBS forecasts

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	48819	54923	56505	60509	69866
Cost of sales	-30091	-31056	-29402	-32675	-37727
Operating costs	-14491	-18554	-21407	-22344	-25517
EBITDA	**4237**	**5313**	**5696**	**5490**	**6621**
DDA & Impairment (ex gw)	-473.0	-542.8	-747.6	-960.2	-1055
EBITA	**3764**	**4770**	**4948**	**4530**	**5566**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**3764**	**4770**	**4948**	**4530**	**5566**
Net interest	-1309	-1637	-2182	-2710	-2700
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	298.6	155.1	119.7	200.0	220.0
Reported PTP	**2753**	**3288**	**2886**	**2020**	**3086**
Taxation	-483.4	-1177	-887.2	-565.5	-956.7
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	1.97	n/a	n/a	n/a
Other post-tax items	-0.00	0.00	0.00	0.00	0.00
Reported net profit	**2270**	**2113**	**1999**	**1454**	**2130**
Normalised Items Excl. GW	0.00	1.97	0.00	0.00	0.00
Normalised net profit	**2270**	**2111**	**1999**	**1454**	**2130**

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	1032	1667	1481	3216	4286
Other current assets	39126	45361	53092	55096	62005
Tangible fixed assets	5402	6017	7161	7062	8007
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	3868	6114	6314	8314	10314
Total assets	**49430**	**59160**	**68048**	**73688**	**84613**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	17226	24369	27130	29441	34811
Long term debt (3)	13980	16133	20958	22000	25500
Oth non-current liab	117.4	124.8	86.5	167.3	383.3
Total liabilities	**31324**	**40627**	**48175**	**51609**	**60694**
Total equity (incl min)	18106	18533	19874	22079	23919
Total liab & sh equity	**49430**	**59160**	**68048**	**73688**	**84613**
Net debt	12948	14466	19477	18784	21214

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	4237	5313	5696	5490	6621
Change in working capital	-2390	-2808	1304	-305.6	-118.1
Net interest (pd) / rec	-1011	-1482	-2062	-2510	-2480
Taxes paid	-450.0	-1170	-692.7	-484.7	-740.7
Other oper cash items	-1568	3725	-6732	694.1	-1206
Cash flow from ops (1)	**-1182**	**3579**	**-2487**	**2884**	**2076**
Capex (2)	-2143	-1158	-1891	-861.5	-2000
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-521.7	-3756	-383.6	-3120	-3313
Cash flow from invest (3)	**-2664**	**-4913**	**-2275**	**-3981**	**-5313**
Incr / (decr) in equity	0.03	267.0	-0.02	16.8	0.00
Incr / (decr) in debt	3302	2153	4825	1042	3500
Ordinary dividend paid	-218.6	-451.1	-257.8	-193.3	-193.3
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**3083**	**1969**	**4567**	**865.4**	**3307**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-763.0**	**634.9**	**-195.1**	**-232.4**	**69.7**
Equity FCF (1+2+4)	-3325	2422	-4378	2022	75.7

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, RBS forecasts

Standard ratios

Performance	IVRCL FY09A	IVRCL FY10A	IVRCL FY11F	IVRCL FY12F	IVRCL FY13F	Hindustan Construction FY12F	Hindustan Construction FY13F	Hindustan Construction FY14F	NCC FY12F	NCC FY13F	NCC FY14F
Sales growth (%)	33.3	12.5	2.88	7.09	15.5	15.0	17.0	20.0	11.0	15.0	15.0
EBITDA growth (%)	15.9	25.4	7.21	-3.62	20.6	16.0	12.6	18.1	12.0	12.6	13.8
EBIT growth (%)	13.1	26.7	3.74	-8.46	22.9	19.1	13.6	20.9	10.7	11.6	14.0
Normalised EPS growth (%)	2.43	-7.00	-5.31	-27.3	46.5	-41.1	156.1	74.7	-20.8	27.8	38.4
EBITDA margin (%)	8.68	9.67	10.1	9.07	9.48	13.3	12.8	12.6	9.70	9.50	9.40
EBIT margin (%)	7.71	8.68	8.76	7.49	7.97	9.79	9.51	9.58	8.24	7.99	7.92
Net profit margin (%)	4.65	3.84	3.54	2.40	3.05	0.74	1.62	2.37	2.49	2.77	3.34
Return on avg assets (%)	7.35	5.89	5.42	4.59	4.95	4.04	4.48	5.10	4.58	4.80	5.12
Return on avg equity (%)	13.3	11.5	10.4	6.93	9.26	2.28	5.70	9.41	5.77	7.00	9.06
ROIC (%)	9.96	10.1	9.90	7.61	8.99	6.14	6.51	7.88	6.54	6.96	7.66
ROIC - WACC (%)	-2.46	-2.27	-2.52	-4.80	-3.43	-5.04	-4.67	-3.30	-6.16	-5.73	-5.04
					year to Mar			year to Mar			year to Mar
Valuation											
EV/sales (x)	0.53	0.50	0.57	0.52	0.49	1.14	0.96	0.79	0.72	0.63	0.57
EV/EBITDA (x)	6.10	5.15	5.68	5.77	5.15	8.57	7.48	6.30	7.43	6.64	6.03
EV/EBITDA @ tgt price (x)	7.32	6.12	6.59	6.71	5.93	10.8	9.43	7.94	7.72	6.90	6.25
EV/EBIT (x)	6.86	5.73	6.54	6.99	6.13	11.6	10.1	8.28	8.75	7.89	7.15
EV/invested capital (x)	0.83	0.83	0.82	0.77	0.75	1.01	0.99	0.96	0.81	0.79	0.76
Price/book value (x)	0.73	0.72	0.67	0.60	0.56	1.14	1.10	1.02	0.65	0.62	0.57
Equity FCF yield (%)	-25.0	18.2	-33.0	15.2	0.57	-6.84	16.8	6.67	7.19	9.46	-2.88
Normalised PE (x)	5.85	6.29	6.65	9.14	6.24	50.4	19.7	11.3	11.6	9.07	6.55
Norm PE @tgt price (x)	8.20	8.82	9.31	12.8	8.74	89.6	35.0	20.0	12.7	9.97	7.20
Dividend yield (%)	2.90	1.66	1.24	1.24	1.87	0.86	1.38	1.72	1.44	1.76	1.92
					year to Mar			year to Mar			year to Mar

Per share data	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	275.4	275.4	275.4	275.4	275.4
Reported EPS (INR)	8.24	7.67	7.26	5.28	7.73
Normalised EPS (INR)	8.24	7.67	7.26	5.28	7.73
Dividend per share (INR)	1.40	0.80	0.60	0.60	0.90
Equity FCF per share (INR)	-12.1	8.79	-15.9	7.34	0.27
Book value per sh (INR)	65.7	67.3	72.2	80.2	86.9
					year to Mar

Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Net debt to equity (%)	71.5	78.1	98.0	85.1	88.7
Net debt to tot ass (%)	26.2	24.5	28.6	25.5	25.1
Net debt to EBITDA	3.06	2.72	3.42	3.42	3.20
Current ratio (x)	2.33	1.93	2.01	1.98	1.90
Operating CF int cov (x)	0.28	4.21	0.13	2.34	2.14
Dividend cover (x)	5.03	8.19	10.3	7.52	7.34
					year to Mar

Priced as follows: IVRC.BO - Rs48.25; HCNS.BO - Rs29.00; NCCL.BO - Rs62.50
Source: Company data, RBS forecasts

Valuation methodology

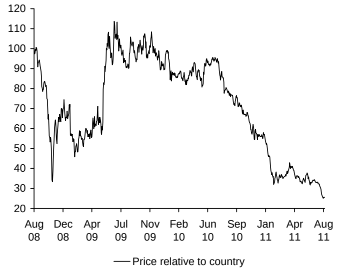
	IVR Assets & holdings	Hindustan Dorr-Oliver	Total
Current Price / Investment	33.5	38.2	
Valuation Methodology	Current stock price	Current stock price	
Range of Valuation			
Equity Value of Subsidiary	6,601.1	2,747.0	
IVRCL Holding	75.7%	55.3%	
Equity value for IVRCL shareholder	**4,998.1**	**1,518.5**	**6,516.6**
Diluted Equity (no of shares m)	275.4		
Value Per Share (Rs)	18.1	5.5	23.7
Holding Company Discount	15.0%		
Value Per Share (Rs)	**15.4**	**4.7**	**20.1**
Core Construction Value			47.5
EPS FY12F (Rs)	5.3		
Target PE for FY12F (x)*	9.0		
SOTP			67.6

* based on peer group and cyclical averages
Source: Company data, RBS forecasts

Company description — Buy

IVRCL is an integrated construction and development company in India, with FEED skills and LSTK-implementation capabilities. It has built domain knowledge and has the ability to secure pre-qualification approval in important infrastructure segments, ranging from water and environment to power transmission and distribution. The company derives more than 45% of its sales from water and environment projects, a ratio which is likely to gradually decline as the power and roads divisions are expected to grow rapidly. The company is forward-integrating into BOT projects, where it has bagged a high Rs70bn worth of projects this year. The acquisition of Hindustan Dorr-Oliver helps it improve its standing in water-infrastructure projects and also diversify into the industrial segment.

Price relative to country



Strategic analysis — Average SWOT company score: 4

Strengths — 4

Strong project-management skills, requisite experience and expertise in all major segments of the construction industry and integrated execution capabilities should improve growth visibility as it successfully completes the large order book in hand.

Weaknesses — 2

Management has been resorting to repeated equity dilution to improve IVRCL's net worth and hence its bidding capability. With the restructuring of the BOT asset subsidiary as part of the listed subsidiary IVR Prime, dilution risk seems low.

Opportunities — 5

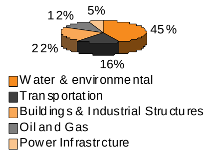
The Indian government's US$500bn infrastructure spending plan over FY07-12 provides scale opportunities for construction companies. By expanding into new areas, IVRCL has scope to return to a high growth trajectory.

Threats — 3

Low promoter holding is a threat. However, the company is confident of managing this threat through its ESOP plan.

Scoring range is 1-5 (high score is good)

Sales break-up for FY11



Source: Company data

Market data

Headquarters
M-22/3RT Vijayanagar Colony, Hyderabad 500057, India

Website
www.ivrcl.com

Shares in issue
267.0m

Freefloat
90%

Majority shareholders
Government Pension fund Global (10%), HSBC Global investment fund (8%), ICICI Pru Life Insurance (6%)

Country view: India

The compression of multiples typically characteristic of a market undergoing the transition from growth to value continued to pressure Indian equities in the 2Q. While the economic deceleration is well under way, we continue to view the country as a major potential loser from higher costs of capital in quarters and perhaps even years ahead. Still, given the significant short-term relative underperformance and the expected decline in commodities prices, clearly a bounce is possible. Yet, as valuations are broadly unattractive and returns declining, we continue to consider the risk-reward trade-off as unattractive.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 3-

Supplier power — 3-

Low supplier power but, with a pass-through clause in several projects, this can be easily overcome. In some cases, the supply of raw materials by customers eases this concern.

Barriers to entry — 4+

Low barriers to entry to the construction business, but the pre-qualification criteria for many government projects create an entry barrier.

Customer power — 2-

As the government is the sector's largest client, companies' bargaining power is low. To maintain long-term client relationships despite large order books, companies may have to accommodate clients.

Substitute products — 3+

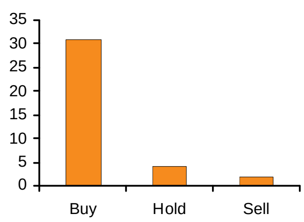
Substitutes are limited, as the industry works on a cost-plus basis and design comes primarily from the customer. Many potential substitutes are evaluated at the design stage.

Rivalry — 2-

Even though companies overlap in terms of different areas of work, rivalry is usually low during a cyclical uptrend. With the order books of all leading companies appearing healthy, rivalry is low.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 16 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	829 (12)	539 (4)
Hold	428 (7)	233 (4)
Sell	80 (6)	49 (0)
Total (IB%)	1337 (10)	821 (4)

Source: RBS

Trading recommendations (as at 16 Aug 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	1 (0)	1 (0)

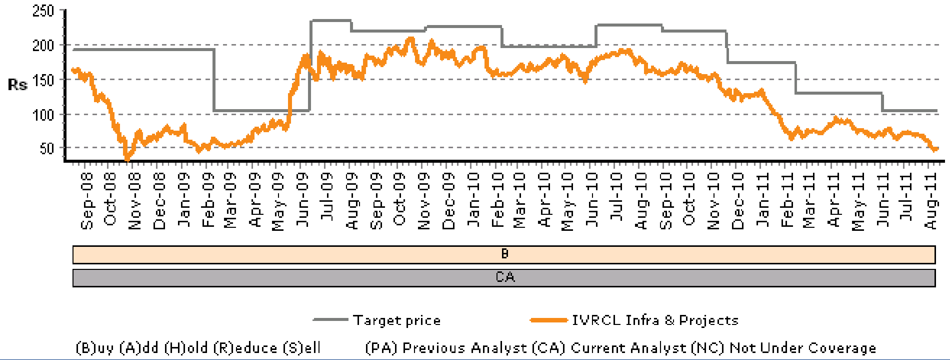
Source: RBS

Valuation and risks to target price

IVRCL Ltd (RIC: IVRC.BO, Rec: Buy, CP: Rs48.25, TP: Rs67.60): Key risks to our SOTP-based target price are: 1) lack of availability of skilled and experienced professionals in the high-growth construction industry; 2) a sharp increase in steel and cement prices affecting margins, although most new orders have a cost-escalation clause; 3) a sharply lower-than-expected ramp-up in infrastructure spending by key clients; and 4) equity fund raising by IVRCL or its subsidiaries to meet expansion needs.

IVRCL Ltd coverage data

Stock performance, recommendations and coverage (as at 15 Aug 2011)



Pramod Amthe started covering this stock on 5 Nov 07. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history (as at 16 Aug 2011)

Date	Rec	Analyst
	n/a	

Source: RBS

Regulatory disclosures

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