

# On the right way

## Pure play on toll roads, Initiate with a Buy, PO: Rs294

We initiate coverage on IRB, India's leading toll road operator, with a Buy rating. Govt. focus on building road infrastructure in the country is well established with the target of building 20kms/day, requiring investment of US\$50bn over 3 years. The company, having won four new road projects over last few months, is emerging as a key beneficiary of the boom in this segment. We have valued the company on SOTP at Rs294/share.

## Strong earnings growth outlook

We estimate consolidated earnings growth of 24% CAGR over FY10-12. Robust E&C order book of Rs92bn (10x FY10E sales) buoyed by the four new projects will likely drive 92% CAGR in E&C earnings over FY10E-12E. However, we estimate profit growth of 8% CAGR from road projects as contribution from the four new road projects will start from FY13 only.

## SOTP based PO of Rs294

We have valued road projects on DCF and arrived at a value of Rs176 / share (60% of total). This consists of Rs108 (37%) from operational projects and Rs68 (23%) from projects under construction /development. E&C has been valued at Rs106 / share (36%) at a target EV/EBITDA multiple of 7.5x for FY11E, at a steep discount to large engineering companies and 10% discount to smaller companies like IVRCL, given predominantly in-house order book.

## Key risks: execution, funding for new projects

The four new projects are yet to achieve financial closure. As per recent NHAI notification, IRB will be barred from bidding for new projects if it has three or more projects pending financial closure. We do not see this as a major issue with gearing of 1.2x for consolidated Balance Sheet and expect this to be done by early FY11. Major execution delays are unlikely as most of the land has been acquired and construction will be done by in-house E&C.

## Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	1,139	1,758	3,468	4,654	5,301
EPS	3.43	5.29	10.43	14.00	15.95
EPS Change (YoY)	NA	54.4%	97.2%	34.2%	13.9%
Dividend / Share	0	1.96	2.25	2.33	2.50
Free Cash Flow / Share	(7.29)	(14.28)	(7.63)	(43.77)	(44.57)

## Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	74.28x	48.12x	24.40x	18.18x	15.96x
Dividend Yield	0%	0.770%	0.884%	0.915%	0.982%
EV / EBITDA*	26.63x	27.53x	13.56x	8.77x	6.99x
Free Cash Flow Yield*	-2.86%	-5.61%	-3.00%	-17.19%	-17.50%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 18.

Equity | India | Toll Road Operators  
18 February 2010

## Bank of America Merrill Lynch

**Manish Sarawagi >>** +91 22 6632 8688  
Research Analyst  
DSP Merrill Lynch (India)  
manish.sarawagi@baml.com

**Bharat Parekh >>** +91 22 6632 8656  
Research Analyst  
DSP Merrill Lynch (India)  
bharat.parekh@baml.com

## Stock Data

Price	Rs254.60
Price Objective	Rs294.00
Date Established	18-Feb-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs76.50-Rs280.90
Mrkt Val / Shares Out (mn)	US\$1,835 / 332.4
Average Daily Volume	1,299,923
BofAML Ticker / Exchange	XIRBF / NSI
Bloomberg / Reuters	IRB IN / IRBI.NS
ROE (2010E)	18.6%
Net Dbt to Eqty (Mar-2009A)	115.7%
Est. 5-Yr EPS / DPS Growth	20.0% / NA
Free Float	26.1%

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 19 to 21. Analyst Certification on Page 17. Price Objective Basis/Risk on page 17.

18 February 2010

# *iQprofile*<sup>SM</sup> IRB Infrastructure Developers Ltd.

## Key Income Statement Data (Mar)

(Rs Millions)	2008A	2009A	2010E	2011E	2012E
Sales	7,327	9,528	17,994	36,169	47,637
Gross Profit	4,119	3,983	8,087	12,503	15,681
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	3,103	2,840	6,333	10,376	12,609
Net Interest & Other Income	(1,437)	(690)	(1,886)	(3,696)	(5,008)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,666	2,149	4,447	6,680	7,601
Tax (expense) / Benefit	(400)	(378)	(840)	(1,915)	(2,253)
Net Income (Adjusted)	1,139	1,758	3,468	4,654	5,301
Average Fully Diluted Shares Outstanding	332	332	332	332	332

## Key Cash Flow Statement Data

Net Income	1,139	1,758	3,468	4,654	5,301
Depreciation & Amortization	1,016	1,144	1,754	2,127	3,071
Change in Working Capital	(419)	(1,200)	(854)	(3,308)	(1,475)
Deferred Taxation Charge	32	155	345	788	926
Other Adjustments, Net	139	1,467	994	3,418	1,522
Cash Flow from Operations	1,908	3,324	5,707	7,679	9,346
Capital Expenditure	(4,331)	(8,069)	(8,243)	(22,226)	(24,159)
(Acquisition) / Disposal of Investments	(1,571)	877	0	0	1,066
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(5,903)	(7,193)	(8,243)	(22,226)	(23,092)
Shares Issue / (Repurchase)	10,899	0	0	0	0
Cost of Dividends Paid	0	(652)	(748)	(774)	(831)
Cash Flow from Financing	5,932	3,995	4,342	13,848	10,257
Free Cash Flow	(2,424)	(4,746)	(2,535)	(14,546)	(14,813)
Net Debt	14,991	20,712	24,848	41,389	54,101
Change in Net Debt	(6,904)	4,521	3,283	15,320	14,577

## Key Balance Sheet Data

Property, Plant & Equipment	27,737	34,707	41,195	61,293	82,380
Other Non-Current Assets	42	42	42	42	42
Trade Receivables	118	130	167	312	376
Cash & Equivalents	5,221	4,147	5,100	3,182	1,558
Other Current Assets	6,193	7,115	8,855	15,597	17,537
Total Assets	39,310	46,141	55,359	80,426	101,894
Long-Term Debt	20,212	24,859	29,948	44,571	55,659
Other Non-Current Liabilities	26	182	527	3,402	7,669
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	2,600	3,210	4,134	7,712	9,308
Total Liabilities	22,838	28,251	34,609	55,686	72,636
Total Equity	16,488	17,900	20,760	24,750	29,267
Total Equity & Liabilities	39,326	46,151	55,369	80,436	101,904

## *iQmethod*<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	NA	6.5%	11.3%	12.2%	10.8%
Return On Equity	14.1%	10.5%	18.6%	21.2%	20.3%
Operating Margin	42.3%	29.8%	35.2%	28.7%	26.5%
EBITDA Margin	56.2%	41.8%	44.9%	34.6%	32.9%

## *iQmethod*<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.7x	1.9x	1.6x	1.6x	1.8x
Asset Replacement Ratio	4.3x	7.1x	4.7x	10.4x	7.9x
Tax Rate (Reported)	24.0%	17.6%	18.9%	28.7%	29.6%
Net Debt-to-Equity Ratio	90.9%	115.7%	119.7%	167.2%	184.9%
Interest Cover	1.6x	2.1x	2.9x	2.6x	2.4x

## Key Metrics

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 18.

## Company Description

IRB Infrastructure is one of the leading road infrastructure developers in India. It has one of the largest toll road portfolio in the country on BOT basis with total length of 1150 kms. It holds 7.2% market share on the Golden Quadrilateral. It also has strong in-house integrated execution capabilities.

## Investment Thesis

IRB, with its experience and expertise, is well positioned to benefit from boom in the road infra segment. The company's recent road project wins will drive strong earnings growth of 24% CAGR over FY10-12. We have valued the company on SOTP and arrived at a value of Rs294 per share.

## Stock Data

Price to Book Value 4.2x

## Initiate with a Buy

IRB Infrastructure is one of the leading toll road operators in the country with total length of 1150kms. The company operates on almost all the major entry-exit routes out of the cities of Mumbai and Pune. Recently, it has also won projects in Punjab and Rajasthan and is now slowly emerging as a pan-India player in the roads segment.

We initiate coverage on IRB with a Buy rating and a PO of Rs294 implying 15% potential upside. We like the stock for the following reasons:

- **Pure play on the booming toll road segment in India.** Government's focus on building road infrastructure in the country is well established. Government has set an ambitious target of building 20kms/day of roads effective from June'10 versus 2kms last year. This will require investments to the tune of US\$50bn over next 3 years. Govt. is also likely to launch access controlled expressway projects in 2010 to connect densely populated stretches. IRB, with its experience and expertise in BOT road projects, is well positioned to capitalize on this opportunity. Over last few months, the company has won four new projects - Jaipur-Deoil, Amritsar-Pathankot, Telegaon-Amravati and Goa-Karnataka Border-Panaji. These projects would be the key drivers of earnings over next few years. Besides these, the company is also pre-qualified for bidding for projects worth Rs250bn.
- **In-house execution capabilities.** IRB has developed integrated execution capabilities for implementing the road projects with an in-house Engineering & Construction (E&C) division. We believe this reduces execution risk significantly.
- **Strong Order book for E&C.** The order book for E&C currently stands at Rs92bn (10x FY10E E&C sales). This includes the four new projects worth Rs41bn, which will be executed over FY11-13. This imparts strong earnings visibility for the E&C business for at least next 3 years. We estimate earnings CAGR of 92% over FY10-12 for the E&C business.
- **Upswing in road traffic.** After a muted traffic growth in FY09 and 1HFY10, we are witnessing a revival in the last few months driven by surge in economic activity. We are expecting 8-10% traffic growth over next couple of years versus 5-6% in last 1-1.5 years.
- **Strong earnings growth.** We estimate 24% CAGR in earnings over FY10-12 driven by increased contribution from E&C on strong order book and higher toll collection. The share of E&C in consolidated profits will likely rise to more than 50% over next couple of years from 25% currently driven by contribution from the four new projects. These projects will be commissioned in mid FY13, post which they will contribute to the toll revenues; contributing nearly 20% of the total toll collection.
- **SOTP based PO of Rs294.** We have valued IRB on SOTP and arrived at a value of Rs294. This offers 15% potential upside. Road projects have been valued on DCF while the E&C has been valued at 7.5x FY11E EV/EBIDTA.

## Valuations

### SOTP valuation

We have valued IRB Infrastructure on sum-of-the-parts (SOTP) valuation and arrived at a value of Rs294 per share. This consists of Rs176 (60% of the total value) from road assets and Rs106 (36% of the total value) from Engineering and Construction business. Each of the road assets have been valued on DCF assuming cost of equity of 12.4% for assets for which toll collection has started and 13.3% for the new projects which are yet to achieve financial closure.

Table 1: IRB Infra SOTP valuation

	Basis	Risk free rate	Beta	Risk premium	Cost of equity	Equity value (Rs mn)	Per share value	Proportion of total
<b>Road assets</b>						<b>58,642</b>	<b>176</b>	<b>60%</b>
<i>Operational</i>						<i>36,031</i>	<i>108</i>	<i>37%</i>
- Mumbai - Pune	DCF	7.8%	0.8	5.5%	11.9%	19,748	59	20%
- Bharuch - Surat	DCF	7.8%	0.9	5.5%	12.4%	7,393	22	8%
- Thane - Bhiwandi	DCF	7.8%	0.9	5.5%	12.4%	3,217	10	3%
- Thane - Ghorbunder	DCF	7.8%	0.9	5.5%	12.4%	2,613	8	3%
- Pune - Solapur	DCF	7.8%	0.9	5.5%	12.4%	751	2	1%
- Pune - Nashik	DCF	7.8%	0.9	5.5%	12.4%	1,212	4	1%
- Others	DCF	7.8%	0.9	5.5%	12.4%	1,098	3	1%
<i>Under construction</i>						<i>6,686</i>	<i>20</i>	<i>7%</i>
- Surat - Dahisar	DCF	7.8%	0.9	5.5%	12.4%	3,031	9	3%
- Kolhapur Integrated	DCF	7.8%	0.9	6.0%	12.9%	3,654	11	4%
<i>Under development</i>						<i>15,925</i>	<i>48</i>	<i>16%</i>
- Amritsar - Pathankot	DCF	7.8%	0.9	6.5%	13.3%	5,296	16	5%
- Jaipur - Tonk	DCF	7.8%	0.9	6.5%	13.3%	4,704	14	5%
- Talegaon - Amravati	DCF	7.8%	0.9	6.5%	13.3%	2,263	7	2%
- Goa - Karnataka	DCF	7.8%	0.9	6.5%	13.3%	3,661	11	4%
<b>EPC</b>	Target EV/E					<b>35,108</b>	<b>106</b>	<b>36%</b>
Real estate investments						1,300	4	1%
Cash at parent level						2,700	8	3%
<b>Sum of the parts value</b>						<b>97,750</b>	<b>294</b>	<b>100%</b>

Source: Bof A Merrill Lynch Global Research

### Relative valuation

We have valued the E&C business of IRB at a target EV/EBIDTA of 7.5x for FY11E which compares favorably with other peer-group companies. This is at 50% discount to the valuation multiples of large engineering companies like BHEL and L&T. However, this is at 10% discount to the valuation multiples used in case of IVRCL for valuing their E&C business. We believe the discount to large engineering companies is justified given their superior E&C capabilities which span across infrastructure domain while IRB's is restricted largely to road construction. Also, IRB's order book consists of mainly in-house projects. On the other hand, the growth outlook in roads segment is very strong given the increased Government emphasis and hence a lower multiple than 7.5x will not be appropriate, in our view.

Table 2: IRB peer-group valuation comparison

Table 2: IRB peer group valuation comparison															
Company	BofAML Code	Reco	Mkt Cap US\$ mn	P/E			EV/E			P/BV			RoE		
				FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Indian															
IRB's E&C business			731	42	14	11	20	8	6	13.7	6.8	4.3	32%	50%	37%
IRB consolidated			1,664	24	18	16	13	10	9	4.2	3.5	2.9	19%	21%	20%
IVRCL Infrastruc	IIFRF	C-1-7	894	20	16	12	11	9	7	2.2	2.0	1.7	11%	13%	15%
Nagarjuna Const	NGRJF	C-1-7	887	21	17	14	11	9	8	1.8	1.7	1.5	10%	10%	11%
Bharat Heavy	BHHEF	C-1-7	24,818	26	21	17	18	14	11	7.0	5.5	4.3	31%	30%	29%
ABB	ABVFF	C-3-7	3,625	38	31	24	22	19	15	6.8	5.7	4.7	19%	20%	21%
Cummins India	CUIDF	C-1-7	1,925	19	16	13	16	14	12	5.2	4.5	3.8	29%	30%	32%
Larsen & Toubro	LTOUF	C-1-7	18,529	25	21	16	18	15	11	4.4	3.8	3.1	21%	20%	22%
Suzlon Energy	SZEYF	C-3-7	2,443	NM	22	13	15	11	8	1.6	1.5	1.4	-5%	7%	11%
Voltas	VTSJF	C-1-7	1,139	15	13	11	11	10	8	5.0	3.9	3.1	37%	34%	31%
Korean															
Daelim Indus Co	DERXF	C-3-8	2,206	8	8	8	7	8	8	0.7	0.7	0.6	10%	9%	8%
GS Engineering	GSNGF	C-2-7	3,999	12	11	10	7	8	8	1.3	1.2	1.1	12%	12%	12%
Hyundai Eng&Con	HYEHF	C-1-7	5,976	15	12	9	14	12	10	2.1	1.8	1.5	15%	16%	17%
Hyundai Develop.	HYHVF	C-1-7	2,216	95	11	6	29	12	7	1.1	1.0	0.8	1%	9%	15%
Daewoo Eng & Con	DWOFF	C-3-7	3,012	14	14	12	7	8	7	1.1	1.1	1.0	8%	8%	8%
Samsung C&T	SSGFF	C-1-7	7,854	31	25	18	28	23	17	1.8	1.7	1.6	6%	7%	9%
Samsung Engineer	SGRGF	C-1-7	3,995	19	16	11	15	13	8	6.4	5.0	3.9	39%	36%	42%
Japanese															
Mitsubishi Elec	MIELF	B-1-8	17,655	131	94	16	6	8	6	1.9	1.7	1.5	1%	2%	10%
Toshiba	TOSBF	C-1-9	20,011	NM	NM	20	29	7	5	3.1	2.3	2.1	-47%	-7%	11%
European															
ABB Ltd.	ABLZF	B-1-8	41,482	15	15	12	8	7	6	3.2	2.8	2.4	23%	23%	23%
Alstom	AOMFF	B-1-7	17,843	12	11	11	7	7	7	4.6	3.5	2.8	41%	37%	29%
Invensys	IVNSF	C-1-7	385,286	21	21	14	10	9	7	4.4	3.4	2.7	25%	18%	22%
Schneider	SBGSF	B-3-8	26,005	24	21	12	13	11	8	1.7	1.6	1.5	9%	9%	14%
Siemens	SMAWF	B-1-8	78,075	24	12	10	10	8	7	2.0	1.9	1.7	9%	16%	17%
Spectris	SEPJF	B-1-7	135,066	18	12	9	9	7	7	1.8	1.7	1.5	11%	15%	17%
Average				30	20	13	14	11	9	3.2	2.7	2.2	14%	17%	19%

Source: Bof A Merrill Lynch Global Research \*Implied market cap based on our valuation for EPC business

## Key issues / risks

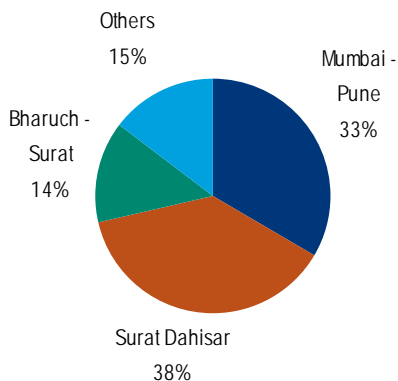
- **Diversification to realty, airports could stretch management bandwidth:**  
Management's ambitions of transforming the company into an infrastructure conglomerate worry us. IRB intends to develop an integrated township alongside the Mumbai – Pune expressway. The company has invested so far Rs1.3bn in this project and has acquired close to 1168acres of land. Besides, the company recently won the bid for developing a Greenfield Airport in Sindhudurg District of Maharashtra – the total project cost estimated to be Rs1.75bn. We believe these diversifications, albeit small compared to the size of the company, could de-focus the management from the huge opportunity in the roads and highways sector, where they already have build expertise and competitive advantage.
- **Funding for new projects:** The four new projects recently won by IRB – Jaipur – Deoil, Amritsar – Pathankot, Telegaon – Amravati and Goa-Karnataka Border – Panaji, are yet to achieve financial closure. Management expects the same to be done by early FY11. As per recent NHAI notification, the company will be debarred from bidding for new projects if it has three or more projects pending financial closure. This implies that IRB will not be able to win new projects till it achieves financial closure of few of its existing projects. We see this move as positive from industry's perspective as it will prevent only few companies from dominating the bidding process and ensure proper execution.

- **New equity issuance:** IRB intends to raise equity to the tune of Rs12bn over next few months. However, management has clarified that these funds will be raised only for potential new projects which IRB could win. For all the existing projects under construction / development, the equity requirements (we estimate about Rs5-6bn p.a. over FY11-12) could be met from exiting cash in the holding company (Rs2.7bn) and from cash accruals from E&C. For Surat-Dahisar, part of the equity requirement could be met from internal accruals with toll collection having already started.
- **Geographic concentration:** All its operational projects are concentrated in the western region of India in the States of Maharashtra, Gujarat and Goa. Management intends to diversify into other regions as well. Of the four new projects won by IRB, one is in Punjab (Amritsar – Pathankot) and another one is in Rajasthan (Jaipur-Deoli).
- **Execution risk:** Timely execution of two projects under construction (Surat-Dahisar and Kolhapur) and four under development is important. We believe IRB's in-house execution capabilities, does reduce execution risk to some extent. Also, as per the new rule, Letter of Award is given by NHAI only once 80% of the land has been acquired. Hence, chances of delays due to land acquisition issues are minimal.
- **Traffic risk:** A 1% lower traffic in FY11E than assumed by us, reduces our SOTP value by 1% and FY11E EPS by 1.5%.
- **Material cost:** A 1% higher material cost could impact FY11E EPS by 1.8%. Material cost (bitumen, cement, steel and aggregates) comprises about 50% of E&C revenues. We note that E&C enters into a fixed price contract with an in built material cost escalation. If the material cost turns out to be higher than what is built into the contract price, the impact has to be borne by the E&C.
- **Interest rates:** The interest cost for the Mumbai – Pune expressway (22% of total loan in FY11) has been fixed at 10.6% for the entire period of the loan. However, a rise in interest rate does impact other projects. We estimate a 1% higher interest rate will impact earnings by about 4%. A 1% higher risk-free rate impacts our SOTP value by 5%.
- **E&C order book consists of mainly in-house projects.** We have analyzed the impact of E&C pricing on our valuation, given predominantly in-house projects. Hypothetically, if we assume a 5% lower EBIDTA margin on E&C and the benefit is passed on through lower project cost, our SOTP will get negatively impacted by 8%.

## Toll road projects: 60% of SOTP

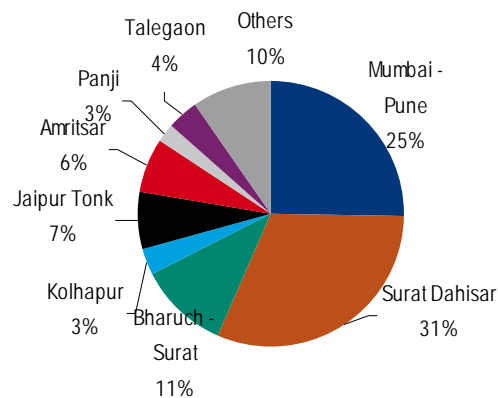
IRB has one of the largest toll road project portfolio in the country with 1150kms of roads under operation or under construction / development. Its three most important operational projects are: 1) Mumbai – Pune Expressway (33% of total toll revenues), 2) Bharuch – Surat project (14%) and 3) Surat – Dahisar project (38%). The balance projects account for only 15% of the toll revenues. Note that while toll collection has started from Surat-Dahisar project, construction (6-laning) is going on and is likely to be completed in mid-FY12. The four new projects (Jaipur – Deoil, Amritsar – Pathankot, Talegaon – Amravati and Goa-Karnataka Border – Panaji), recently won by IRB, will start to contribute to revenues from 2HFY13. We expect these projects to account for approximately 20% of total toll revenues in FY14, which would be the first full year of operations of these projects.

Chart 1: Toll revenue – Project wise break-down (3QFY10)



Source: Company, Bof A Merrill Lynch Global Research

Chart 2: Toll revenue – Project wise break-down (FY14E)



Source: Company, Bof A Merrill Lynch Global Research

Table 3: Snapshot of IRB's toll road projects

Project	Length (kms)	Awarding Authority	Revenue share / Fee / Grant	Concession period (yrs)	Concession ending	Scope of work	Toll rate hike	Project cost (Rs mn)
<b>Operational</b>	<b>481</b>							<b>32,941</b>
Mumbai - Pune	206	Maharashtra State Road Development Corp (MSRDC)	Upfront fee to MSRDC of Rs9.2bn	15.0	Aug-19	4-laning and improvement of NH-4 and O&M and Mumbai Pune expressway	18% every third year WPI linked; reset every July	13,016
Bharuch - Surat	65	NHAI	Upfront fee to NHAI Rs5bn	15.0	Jan-22	Six / Four laning, O&M		14,044
Thane Bhiwandi Bypass	24	Ministry of Road Transport and Highways	-	18.5	May-17	4-laning, improvement and maintenance	5-6% escalation	1,040
Thane Ghodbunder	15	MSRDC	Upfront fee to MSRDC of Rs1.4bn	15.0	Dec-20	Improvements, O&M	5-6% escalation	2,462
Pune - Solapur	26	Ministry of Road Transport and Highways	-	16.0	Mar-19	Four laning	5-6% escalation	630
Pune - Nashik	30	Ministry of Road Transport and Highways	-	18.0	Sep-21	Four laning	5-6% escalation	737
Nagar - Karmala	60	Government of Maharashtra	-	15.0	Dec-16	Improvements, O&M	5-6% escalation	368
Kharpada Bridge		Ministry of Road Transport and Highways	-	17.8	Aug-15	Construction, O&M	5-6% escalation	320
Mohol - Mandrup	33	Government of Maharashtra	-	16.0	May-18	Improvements, O&M	5-6% escalation	180
Kaman - Paygon	22	Government of Maharashtra	-	15.0	Dec-13	Improvements, O&M	5-6% escalation	144
<b>Under construction</b>	<b>289</b>							<b>32,650</b>
Surat - Dahisar	239	NHAI	Revenue share of 38% in first year, increasing by 15 every year	12.0	Feb-21	Six laning, O&M	WPI linked; reset every September	28,350
Kolhapur	50	MSRDC	Negative grant of Rs270mn	30.0	Jan-39	Integrated road development	5-6% escalation	4,300
<b>Under development</b>	<b>383</b>							<b>41,310</b>
Talegaon - Amravati	67	NHAI	Grant Rs2.16bn	22.0	2031	Four laning, O&M	3% + 40% of WPI	7,460
Jaipur Tonk Deoli	149	NHAI	Grant Rs3.06bn	25.0	2034	Construction, O&M	3% + 40% of WPI	14,700
Amritsar - Pathankot	102	NHAI	Grant Rs1.27bn	20.0	2029 (Provision for expanding to 2033)	Construction, O&M	3% + 40% of WPI	11,910
Goa Karnataka border - Panji	65	NHAI	Grant Rs1.86bn	30.0	2039	Four laning, O&M	3% + 40% of WPI	7,240

Source: Company, Bof A Merrill Lynch Global Research



## Operational projects

### Mumbai - Pune Expressway: 206 kms

IRB has the concession to operate Mumbai - Pune section of the National Highway (NH) No. 4 (111 kms) and Mumbai - Pune Expressway (95 kms) for a period of 15 years ending August 2019.

This is the most significant asset in IRB's portfolio. Pune is the eighth largest city in India and second largest in Maharashtra and Mumbai - Pune corridor is one of the busiest in the country. The Expressway accounted for nearly 70% of IRB's toll revenues last year. The share has now come down to 34% this year, after toll collection started from Surat - Dahisar and Bharuch - Surat roadways.

The project involves four laning and improvement of NH-4 (completed in September'06) and toll collection and operation and maintenance of Mumbai-Pune Expressway. The total cost of the project was Rs13bn which includes upfront fee to Maharashtra State Road Development Corporation of Rs9.2bn.

### Earnings outlook

We estimate net profit of Rs629mn in FY10 (up 26% yoy) rising to Rs933mn in FY11, a growth of 48% yoy, and Rs1.65bn in FY12E, a growth of 77% yoy.

- We estimate sales growth of 7% yoy in FY10 and 10% in FY11 driven by higher vehicle traffic on pick up in economic activity. The agreement provides for an 18% rise in toll rates every third year. The next revision is due in FY12E. Hence sales growth could be higher at 27% in FY12.
- We estimate EBIDTA margins to remain in the 80-85% range during the forecast period.
- Interest cost will be lower as debt gets repaid. Interest cost is fixed at 10.6% for the entire period.

Table 4: Mumbai - Pune Expressway: Earnings Statement

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Sales	2,352	2,883	3,084	3,393	4,324
Change		23%	7%	10%	27%
O&M exps	344	460	521	553	586
Personnel exps	35	43	44	45	47
Other exps	43	48	50	51	53
<b>EBIDTA</b>	<b>1,929</b>	<b>2,332</b>	<b>2,470</b>	<b>2,743</b>	<b>3,639</b>
EBIDTA margin	82%	81%	80%	81%	84%
Depreciation	525	615	679	713	908
EBIT	1,404	1,716	1,791	2,030	2,731
Other income	71	52	50	59	109
Interest	1,212	1,204	1,084	965	847
Interest cost		10.6%	10.6%	10.6%	10.6%
PBT	263	564	757	1,124	1,992
Tax	34	64	129	191	339
<b>PAT</b>	<b>230</b>	<b>500</b>	<b>629</b>	<b>933</b>	<b>1,653</b>
Change		118%	26%	48%	77%

Source: Bof A Merrill Lynch Global Research

## Bharuch – Surat: 65 kms

IRB has the concession to operate this section of NH-8 for a period of 15 years starting Jan'2007. The project involved 6 laning of 65 kms of Bharuch – Surat section. The total project cost was Rs14bn including Rs5bn upfront fee to NHAI. This was funded by Rs12.1bn debt (86%) and balance Rs1.98bn equity (14%).

Surat, in the state of Gujarat, is among the ten largest cities of India and has one of the fastest GDP growth rates in the country. It is a large diamond and textiles hub. Bharuch (in Gujarat), on the other hand, is one of the most heavily industrialized towns in India with many large chemical plants. It also has one of the biggest liquid cargo terminals. Given these, the importance of Bharuch – Surat section of National Highway can hardly be underscored.

## Earnings outlook

The project started operations from end of September'09 and hence FY10 estimates are for half year only. Higher interest expenses in the initial few years will result in losses at the net level. However, as the toll revenues rise and interest cost falls as debt gets repaid, the project will start to generate profits – we estimate by FY15. Key assumptions are traffic growth of 10% in FY11 and 8% thereafter (till FY14) moderating to 2-5% in later years. We have assumed toll rate hike of 5% p.a.; hike is linked to WPI with yearly reset (every July).

Table 5: Bharuch - Surat: Earnings Statement

(Rs mn)	FY10E	FY11E	FY12E
Toll revenue	639	1,476	1,673
O&M exps	70	141	141
Personnel exps	7	14	14
Other exps	35	70	70
<b>EBIDTA</b>	<b>526</b>	<b>1,250</b>	<b>1,448</b>
EBIDTA margin	82%	85%	87%
Depreciation	224	516	586
EBIT	302	734	862
Other income	5	5	7
Interest	622	1,302	1,302
PBT	(315)	(563)	(432)
<b>PAT</b>	<b>(315)</b>	<b>(563)</b>	<b>(432)</b>

Source: Bof A Merrill Lynch Global Research

## Other operational projects

Mumbai-Pune expressway, Bharuch-Surat and Surat-Dahisar projects account for 85% of IRB's total revenues from tolling. The balance 15% is contributed by Thane Ghodbunder, Pune-Nashik, Pune-Solapur, Nagar-Karmala, Kharpada Bridge, Mohol-Mandrup and Kaman-Paygaon projects. Details on these projects are provided in Table 3. These projects contribute about 9% to our SOTP value.

## Projects under construction

### Surat – Dahisar: 240 kms

The project involves six laning of Surat-Dahisar section of NH-8. IRB won the project through competitive bidding route from National Highways Authority of India (NHAI) under the National Highway Development Program (NHDP) – Phase V. The project is on a revenue sharing basis, with first year revenue share with NHAI at 38%, rising by 1% every year. Rise in toll rates is linked to WPI.

The total project cost is Rs26.85bn funded by equity Rs8.79bn (38%) and balance by debt. Construction began in February'09 and is scheduled to complete in August 2011. The concession period is for a period of 12 years ending February 2021. While the construction is underway, toll collection has already begun on the exiting route effective February'09.

### Earnings outlook

We estimate PAT of Rs1.4bn in FY10 (9m FY10 around Rs1.1bn), declining to Rs1.1bn in FY11 and to Rs470mn in FY12E, when the project gets commissioned. The fall in PAT is mainly driven by higher interest as debt is raised; however depreciation gets charged only from 2HFY12 after the project gets commissioned.

We estimate toll revenues to rise 24% yoy in FY11E. The higher growth rate is partially because of low base; initial toll collection from the project was clearly lower than management expectations. The current toll collection at the project is already over Rs10mn per day (Rs3650 annually). We expect the traffic to pick up further in FY11 helped by further pick up in economic activity.

Table 6: Surat - Dahisar Earnings Statement

(Rs mn)	FY09	FY10E	FY11E	FY12E
Toll revenue	336	3,387	4,216	4,893
Change		908%	24%	16%
less: revenue share to NHAI	128	1,287	1,644	1,957
% share	38%	38.0%	39.0%	40.0%
Net revenue	208	2,100	2,572	2,936
O&M exps	10	234	351	351
% of project cost	0.0%	1.0%	1.5%	1.5%
Personnel exps	8	8	8	9
Other exps	40	41	42	44
<b>EBIDTA</b>	<b>150</b>	<b>1,816</b>	<b>2,170</b>	<b>2,532</b>
EBIDTA margin	72%	87%	84%	86%
Depreciation	0	0	0	526
EBIT	150	1,816	2,170	2,007
Other income	0	0	0	0
Interest	1	129	844	1,441
Interest cost	0.2%	11.5%	11.5%	11.5%
PBT	149	1,687	1,326	566
Tax	17	287	225	96
<b>PAT</b>	<b>132</b>	<b>1,400</b>	<b>1,100</b>	<b>470</b>

Source: Company, Bof A Merrill Lynch Global Research

### Kolhapur Integrated project

IRB won this project from Maharashtra State Road Development Corporation (MSRDC) in July'08. The project involves implementation of integrated road development program in Kolhapur on BOT basis. The total length is 50kms. The project is expected to be commissioned by end of FY11.

All 9 entry points will be tolled post substantial completion of the project. Only vehicles entering or leaving the city will be paying toll. The concession period is 30 years. Besides the concession period, IRB has also been allotted land – 30,000 sq meters – for lease period of 99 years for commercial development.

The total project cost is Rs4.3bn to be funded by debt Rs2.58bn (60%) and the balance by equity. The financial closure has already been achieved. The negative grant of Rs270mn has already been paid.

## Projects under development - 16% of SOTP

### Jaipur - Deoli: 149 kms

IRB won the concession for Jaipur-Deoli project under NHDP Phase – III. The concession agreement was executed in December'09; the concession period being 25 years. The project involves design, engineering, finance, construction, operation and maintenance of 149kms of Jaipur-Deoli section of NH 12 in the State of Rajasthan.

The project is expected to be commissioned by December'12. The total project cost is estimated, as per management, to be Rs14.7bn. The financial closure is expected by March'10. The grant sought from NHAI for the project is Rs3.06bn.

### Amritsar - Pathankot

Amritsar – Pathankot project too was won by IRB under NHDP Phase – III recently with the concession agreement being executed in December'09. The concession period is 20 years, in this case. The project involves design, engineering, finance, construction, operation and maintenance of 102kms of Amritsar - Pathankot section of NH 15 in the State of Punjab.

The project is expected to be commissioned by November'12. The total project cost is estimated to be Rs11.9bn. The financial closure is expected by March'10. The grant sought from NHAI for the project is Rs1.27bn.

### Talegaon - Amravati

The concession agreement for this project, won under NHDP Phase – III, was executed in November'09. The project involves 4 laning of Talegaon-Amravati section of NH 6 in Maharashtra. The concession period is 22 years.

The project is expected to be commissioned by November'12. The total project cost is estimated to be Rs7.46bn. The financial closure is expected by March'10. The grant sought from NHAI for the project is Rs2.16bn.

### Goa Karnataka Border - Panaji

IRB has recently received the Letter of Award from NHAI for this project which involves 4 laning of Goa Karnataka Border to Panaji, Goa stretch of NH-4A. The concession period is for 30 years and scheduled date of start of operations is February 2013.

The total project cost is Rs7.24bn and financial closure is expected by May'2010. The grant sought from NHAI for the project is Rs1.86bn.

## Key assumptions

For the above four projects, our key assumptions are:

- Traffic growth of 7-8% in initial 2-3 years tapering to 4% in later years.
- WPI inflation of 4%, resulting in toll rate hike of 4.6% p.a. over the concession period.
- Project IRR in the range of 17-22%.

## E&C: 36% of SOTP

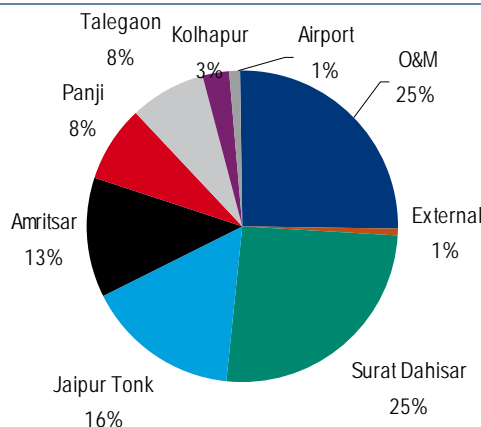
IRB has developed in-house execution capabilities for building road projects. We believe this reduces execution risk significantly. Currently, the division, with its existing equipments and manpower, has the capacity to execute projects worth Rs30bn a year. The company plans to invest Rs300-400mn in FY11 which will enhance the capacity by 16%.

## Strong order book

Order backlog at the end 3QFY10 stood at Rs92bn. This consists of Rs41bn or 41% from the four new projects, Rs23bn or 25% from Surat-Dahisar project and another 25% O&M contracts. This imparts strong visibility to earnings from E&C business at least till FY13.

We note that IRB's almost entire order-book comprises of in-house projects with external projects comprising only 1% of the order-book.

Chart 3: Order book of Rs92bn



Source: Company, Bof A Merrill Lynch Global Research

## Earnings outlook

We estimate net profit in FY11 to rise to 3x over FY10. This would be driven by:

- Revenues increasing by 172% yoy in FY11E to Rs25bn. This will be driven primarily by contribution from the four new projects – Jaipur-Deoli, Amritsar-Pathankot, Goa Border-Panaji and Talegaon-Amravati. We estimate about 25% of the total revenues from these projects will be accounted for in FY11, 40% in FY12 and the balance in FY13.
- EBIDTA margins sustaining at 18-20% levels. The fall in margins in FY09 was driven by a surge in raw material cost in that year. Margins have rebounded back to 20% levels this year.

Table 7: E&C business - Earnings Statement

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Revenues	3,831	5,797	9,365	25,467	34,424
Change		51%	62%	172%	35%
EBIDTA	957	808	1,920	5,093	6,196
EBIDTA Margin	25%	13.9%	20.5%	20.0%	18.0%
Depreciation	133	195	505	551	607
EBIT	824	612	1,415	4,543	5,590
Interest	87	70	329	839	1,390
Other income	53	6	24	219	457
PBT	790	549	1,109	3,923	4,656
Tax	276	192	277	1,334	1,583
PAT	515	356	832	2,589	3,073
Change		-31%	133%	211%	19%

Source: Bof A Merrill Lynch Global Research

## Other businesses

### Airport

IRB won the bid for Greenfield airport in Sindhudurg District of Maharashtra. The development agreement with Maharashtra Industrial Development Corporation (MIDC) was executed in September'09.

The agreement provides for a concession period of 95 years including construction period of 18 months. The total developable area is 670 acres and estimated project cost (including land) is Rs1750mn. The total investment in the project to date is miniscule.

### Realty

IRB intends to develop integrated township alongside Mumbai – Pune Expressway. The company has already acquired 1168 acres of land for this purpose in Mauje Taje and Mauje Pimpoli Taluka in Pune district and intends to acquire another 250 acres. The total investment in the project to date is around Rs1300mn.

## Consolidated earnings outlook

### EPS CAGR of 24% over FY10E-12E

We estimate consolidated earnings growth of 24% CAGR over next two years, following a near doubling of earnings in FY10, driven by the following:

- **E&C:** Strong current order backlog of Rs92bn driving 92% CAGR in revenues and earnings from E&C business over FY10-12E. The share of earnings from E&C in consolidated earnings will rise from current 25% to over 50% over next couple of years. E&C share should again come down once the four new projects will become operational in FY13.
- **Road projects:** Higher profits from Mumbai–Pune Expressway on higher traffic and toll rate hike (in FY12) will be offset by lower profits from Surat-Dahisar on higher interest costs. Hence consolidated profit growth from road projects will be likely be more muted at 8% CAGR over FY10-12E.

Table 8: Consolidated Earnings Statement

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Sales	7,327	9,528	17,994	36,169	47,637
- BOT projects	3,696	4,480	8,629	10,703	13,213
- EPC	3,579	4,939	9,365	25,467	34,424
EBIDTA	4,119	3,983	8,087	12,503	15,681
EBIDTA margin	56%	42%	45%	35%	33%
- BOT projects	2,903	3,499	6,167	7,610	9,684
- EPC	957	808	1,920	5,093	6,196
Depreciation	1,016	1,144	1,754	2,127	3,071
EBIT	3,103	2,840	6,333	10,376	12,609
Interest	1,958	1,377	2,217	4,003	5,227
Other income	520	687	331	307	219
PBT	1,666	2,149	4,447	6,680	7,601
Tax	400	378	840	1,915	2,253
PAT	1,266	1,772	3,608	4,765	5,348
Less: Minority Interest	126	13	140	110	47
Consolidated PAT	1,139	1,758	3,468	4,654	5,301
EPS	3.4	5.3	10.4	14.0	16.0
Change		54%	97%	34%	14%

Source: Bof A Merrill Lynch Global Research

## Balance Sheet: Peak debt-equity of 1.8x

We estimate IRB's consolidated debt-equity ratio to rise from current 1.2x to 1.8x by FY12E, the year of peak capex. In this regard, it is important to note the following points:

- **Peak capex phase:** We have assumed total capex of Rs22bn in FY11 and Rs24bn in FY12. This includes capex for the four new projects apart from the Surat-Dahisar project. We note that the four new projects will start to contribute to cash flows and earnings from FY13 onwards and hence the debt-equity ratio is expected to fall again.
- **New equity issuance:** IRB plans to raise upto Rs12bn by way of equity issuance. However management has clarified that these funds will be raised only for potential new projects which IRB could win. For all the existing projects under construction / development, the equity requirements (we estimate about Rs5-6bn p.a. over FY11-12) could be met from exiting cash in the holding company (Rs2.7bn) and from cash accruals from E&C. For Surat-Dahisar, part of the equity requirement could be met from internal accruals with toll collection having already started. We have not built in any new equity issuance into our forecasts.
- **Financial closure for new projects pending:** The four new projects are still to achieve financial closure. We expect this in early FY11.
- **Working Capital:** We have assumed the net working capital requirement for E&C business to remain steady at around 28% of sales. The working capital requirement for operational projects is negligible.

Table 9: Consolidated Balance Sheet

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Share Capital	3,324	3,324	3,324	3,324	3,324
Reserves	12,883	13,977	16,697	20,577	25,047
- share premium	10,048	10,035	10,035	10,035	10,035
- other reserves	2,835	3,942	6,662	10,542	15,012
<b>Net worth</b>	<b>16,207</b>	<b>17,301</b>	<b>20,021</b>	<b>23,901</b>	<b>28,371</b>
Minority Interest	281	599	739	849	896
<b>Loan</b>	<b>20,212</b>	<b>24,859</b>	<b>29,948</b>	<b>44,571</b>	<b>55,659</b>
Grant			-	2,088	5,429
Deferred tax	26	182	527	1,314	2,240
<b>Total</b>	<b>36,727</b>	<b>42,940</b>	<b>51,235</b>	<b>72,723</b>	<b>92,596</b>
Gross block	22,188	24,601	38,692	38,692	66,362
Less: depreciation	3,340	4,440	6,194	8,321	11,393
<b>Net block</b>	<b>18,848</b>	<b>20,161</b>	<b>32,498</b>	<b>30,370</b>	<b>54,969</b>
CWIP	8,889	14,545	8,697	30,923	27,411
Investments	1,985	1,108	1,108	1,108	42
- strategic	42	42	42	42	42
- liquid	1,943	1,066	1,066	1,066	-
Cash	5,221	4,147	5,100	3,182	1,558
<b>Net current assets</b>	<b>1,768</b>	<b>2,968</b>	<b>3,822</b>	<b>7,131</b>	<b>8,606</b>
Misc exps	16	10	10	10	10
<b>Total</b>	<b>36,727</b>	<b>42,940</b>	<b>51,235</b>	<b>72,723</b>	<b>92,596</b>

Source: Bof A Merrill Lynch Global Research

Table 10: Consolidated Cash flow Statement

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Profit after Tax	1,139	1,758	3,468	4,654	5,301
Add: Depreciation	1,016	1,144	1,754	2,127	3,071
Add: other adjustments	(248)	422	485	898	973
<b>Cash from operations</b>	<b>1,908</b>	<b>3,324</b>	<b>5,707</b>	<b>7,679</b>	<b>9,346</b>
W/Cap changes	(419)	(1,200)	(854)	(3,308)	(1,475)
<b>Cash after w/cap changes</b>	<b>1,489</b>	<b>2,123</b>	<b>4,853</b>	<b>4,371</b>	<b>7,871</b>
Capex	4,331	8,069	8,243	22,226	24,159
Investments	1,571	(877)	-	-	(1,066)
<b>Free Cash Flow</b>	<b>(4,414)</b>	<b>(5,069)</b>	<b>(3,389)</b>	<b>(17,855)</b>	<b>(15,222)</b>
New equity	10,899	-	-	-	-
Debt	(4,967)	4,646	5,090	14,623	11,088
Grant	-	-	-	2,088	3,341
Dividend	-	652	748	774	831
<b>Cash flow from financing</b>	<b>5,932</b>	<b>3,995</b>	<b>4,342</b>	<b>15,936</b>	<b>13,598</b>
<b>Total cash flow</b>	<b>1,518</b>	<b>(1,075)</b>	<b>953</b>	<b>(1,918)</b>	<b>(1,624)</b>
Op cash bal	3,703	5,221	4,147	5,100	3,182
Cl cash bal	5,221	4,147	5,100	3,182	1,558
<b>Change in cash</b>	<b>1,518</b>	<b>(1,074)</b>	<b>953</b>	<b>(1,918)</b>	<b>(1,624)</b>

Source: Bof A Merrill Lynch Global Research



## Price objective basis & risk

### IRB Infrastructure Developers Ltd. (XIRBF)

Our PO of Rs294 for IRB Infrastructure is based on sum-of-the-parts (SOTP) valuation:

1) We have valued the road projects at Rs176/share (60% of total) based on DCF. This comprises of Rs108 from operational projects (37%) and Rs68 (23%) from projects under construction.

2) We have valued the Engineering & Construction (E&C) business at Rs106/share (36% of total) based on 7.5x FY11 EV/EBIDTA at 50% discount to large engineering companies and at 10% discount to smaller companies like IVRCL, given predominantly in-house order book.

Real estate investments and cash in parent balance sheet comprise the remainder 4% of SOTP.

Risks are execution delays, lower traffic growth, surge in material costs and higher interest rates.

## Analyst Certification

I, Manish Sarawagi, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India.

American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction.

Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Manish Sarawagi
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Manish Sarawagi
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIF	LANCI IN	Manish Sarawagi
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
<b>NEUTRAL</b>				
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
<b>UNDERPERFORM</b>				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Manish Sarawagi
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
	Suzlon Energy	SZEYF	SUEL IN	Bharat Parekh
<b>RVW</b>				
	Indraprastha Gas	IAGSF	IGL IN	Vidyadhar Ginde

iQmethod<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BoFA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BoFA Merrill Lynch.

iQprofile<sup>SM</sup>, iQmethod<sup>SM</sup> are service marks of Merrill Lynch & Co., Inc. iQdatabase<sup>®</sup> is a registered service mark of Merrill Lynch & Co., Inc.

## Important Disclosures

### Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	88	61.11%	Buy	43	51.19%
Neutral	23	15.97%	Neutral	11	47.83%
Sell	33	22.92%	Sell	12	40.00%

### Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofAML Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: IRB Infra.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

## Other Important Disclosures

**BofA Merrill Lynch (BofAML) Research refers to the combined Global Research operations of Merrill Lynch and BAS.**

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

"Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates, including BofA (defined below). "BofA" refers to Banc of America Securities LLC ("BAS"), Banc of America Securities Limited ("BASL") and their affiliates. Investors should contact their Merrill Lynch or BofA representative if they have questions concerning this report.

**Information relating to Non-US affiliates of Merrill Lynch and Distribution of Affiliate Research Reports:**

MLPF&S, BAS, and BASL distribute, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Banco Merrill Lynch de Investimentos S.A.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited and BASL, which are authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd and Banc of America Securities - Japan, Inc., registered securities dealers under the Financial Instruments and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited and Banc of America Securities Asia Limited, which are regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd and Bank of America Singapore Limited (Merchant Bank) are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 provides this report in Australia in accordance with section 911B of the Corporations Act 2001 and neither it nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person (other than BAS, BAI and their respective clients) receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

BAS distributes this research report to its clients and accepts responsibility for the distribution of this report in the US to BAS clients. Transactions by US persons that are BAS clients in any security discussed herein must be carried out through BAS.

**General Investment Related Disclosures:**

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

18 February 2010

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by Merrill Lynch entities located outside of the United Kingdom. These disclosures should be read in conjunction with the BASL general policy statement on the handling of research conflicts, which is available upon request.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. Merrill Lynch may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

Merrill Lynch, through business units other than BofAML Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

#### **Copyright and General Information regarding Research Reports:**

Copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites and other portals by Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of Merrill Lynch.

Materials prepared by Merrill Lynch research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Merrill Lynch, including investment banking personnel. Merrill Lynch has established information barriers between BofAML Research and certain business groups. As a result, Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports.

To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. Merrill Lynch research personnel's knowledge of legal proceedings in which any Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). Merrill Lynch policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BAS, MLPF&S or any of their affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither Merrill Lynch nor any officer or employee of Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.