

30 January 2009

Sujit Jain

sujitj@pinc.co.in

Tel: +91-22-6618 6379

Abhinav Bhandari

abhinavb@pinc.co.in

Tel: +91-22-6618 6371

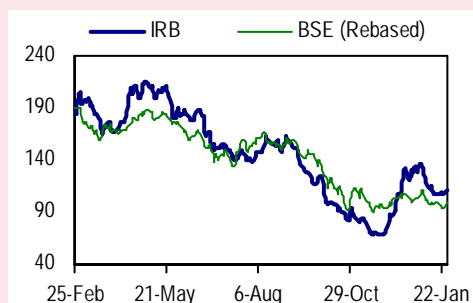
STOCK DATA

Market Cap	Rs37.2bn
Book Value per share	Rs49
Eq Shares O/S (F.V. Rs.10)	332mn.
Median Vol (11 mths)	157,593 (BSE+NSE)
52 Week High/Low	Rs222/65
Bloomberg Code	IRB@IN
Reuters Code	IRBI.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(12.8)	31.7	NA
Relative	(10.0)	29.0	NA

STOCK PRICE PERFORMANCE



IRB Infrastructure Developers Ltd.'s (IRB) Q3FY09 results were in line with our expectations. Net sales for the quarter stood at ~Rs2.4bn. While income from toll based BOT projects was at ~Rs1.1bn, contribution from the E&C division stood at Rs1.4bn. OPM for the period was at 42.5%, the company posted net profits of Rs382mn.

For nine months ended Dec'08, IRB reported net sales of Rs6.7bn. OPM for the period stood at 47.2%. Backed by other income of Rs230mn, net profits stood at ~Rs1.3bn.

• MRMPL's order backlog robust at Rs61.5bn

A major chunk of the present backlog is accounted for by EPC work of the ongoing BOT projects (49.2%) providing strong earnings visibility for the next 2-3 years. While share of O&M stands at ~44%, the remaining chunk is being filled in by the funded contracts.

• Surat Dahisar BOT attains financial closure, IDAA progressing as scheduled

Surat Dahisar received sanctions for raising debt worth ~Rs19.6bn from a consortium of banks, led by Canara Bank in Dec'08. The BOT is presently under documentation phase, post which toll collection (~Rs8.7mn per day) is expected to commence by mid-Feb'09.

Construction work on IDAA (Bharuch Surat) is expected to complete within the stipulated timeline of Jun'09; toll collections (Rs6.5mn per day) should commence by end-Jul'09.

• Revise earnings estimates downwards for FY09 & FY10

Owing to the delay in financial closure of Surat Dahisar BOT by couple of months, we downgrade our EPS for FY09 to Rs5.7. Additionally, keeping in mind the ongoing economic slowdown, we assume higher cost of equity (16%) & also curtail traffic growth projections by 2-3% across the 12 BOT projects.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs112, IRB trades at a P/E of 8.1x & EV/EBIDT of 5.5x its FY10 earnings estimates. We believe the stock is adequately priced at the current levels, in line with our SOTP valuation of Rs111 per share (Refer page 5). Hence, we downgrade our recommendation to 'HOLD'.

KEY FINANCIALS (CONSOLIDATED)					
Rs mn	Yr Ended (March)				
	2007*	2008	2009E	2010E	2011E
Net Sales	5,251	7,327	9,268	21,062	26,398
YoY Gr. (%)	-	39.5	26.5	127.3	25.3
Op. Profits	2,802	4,119	4,991	10,850	12,337
Op. Marg. (%)	53.4	56.2	53.9	51.5	46.7
Net Profits	611	1,139	1,894	4,601	4,567
Eq Capital	2,473	3,324	3,324	3,324	3,324

KEY RATIOS					
	Yr Ended (March)				
	2007*	2008	2009E	2010E	2011E
Dil. EPS (Rs)	1.8	3.4	5.7	13.8	13.7
ROCE (%)	8.4	14.2	12.4	24.6	22.9
RONW (%)	16.2	11.4	11.2	23.4	19.5
P/E (x)	60.9	32.7	19.6	8.1	8.2
EV/Sales (x)	4.6	7.1	5.9	3.0	2.8
EV/EBDIT (x)	8.0	11.3	10.2	5.5	5.8

*Proforma Adjustments

● **Changes in Surat Dahisar's financial matrix**

IRB in JV with Deutsche Bank AG (10% stake, against 20% earlier) bagged the Surat Dahisar BOT in Jan'08 from NHAI under NHDP Phase V. The project was bagged under the new MCA of NHAI, wherein the JV agreed to share 38% toll revenues with NHAI for the initial year (FY10) of the concession period of 12 years. From FY11 onwards, the revenue share is slated to rise by an additional 1% every year till the end of the concession period in FY21.

We present below revised key numbers which have been taken into consideration by the lenders while sanctioning loans towards the project.

Surat Dahisar Key Details (Rs mn)

Particular	Prior Assumptions	Approved by Lenders
Base Year Revenue Share (%)	38	38
Toll Collection per day (For the initial year, post revenue sharing)	11.5	8.7
Total Debt	18,000	19,560
Equity Contribution (IRB + Deutsche)	3,500	5,440
Internal Accruals	3,500	3,350
Total Project Cost	25,000	28,350
EPC Cost	25,000	26,000
Pre Operative Expenses	-	2,350
O&M Expenses (For 12 years)	12,000	8,320

Source: Company

Owing to these changes, we have revised our financial matrix for the project. We give below a snapshot of our revised DCF Valuation & subsequent NPV accruing to IRB from Surat Dahisar BOT -

Profit & Loss Account (Rs mn)

	FY08	FY09	FY10	FY11	FY12
Gross Revenues	-	420	5,040	5,569	6,154
IRB's Share (%)	-	62	62	61	60
Revenues	-	260	3,125	3,397	3,692
O&M	-	-	-	-	499
EBIDTA	-	260	3,125	3,397	3,193
Interest	-	1	719	1,924	2,140
Dep. & Amortization	-	-	-	-	1,701
PBT	-	259	2,406	1,474	(647)
Tax	-	32	301	184	-
PAT	-	227	2,105	1,289	(647)

Surat Dahisar

Holding (%)	90
Expires on	1 Nov'20
Total cost (mn)	28,350
Debt:Equity	2.2
Interest rate	12.5
WACC (%)	16.0
NPV/Share	5.0
Project IRR (%)	4.8

DCF Valuation (Rs mn)					
	FY08	FY09	FY10	FY11	FY12
PAT	-	227	2,105	1,289	(647)
Dep. & Amortization	-	-	-	-	1,701
Capex	-	260	7,800	13,000	4,940
FCFF	-	(33)	(5,695)	(11,711)	(3,886)
Additional Borrowing	-	39	5,712	11,736	3,910
FCFE	-	6	17	25	23
Discounted Cash Flows	-	6	14	18	14
NPV		1,863*			
IRB's Share		1,677			

* Calculated over the entire concession period

● Paid negative grant of Rs270mn for IRDP, Kolhapur

Post payment of the negative grant in Jan'09, IRB has been handed over the site for the Kolhapur project by MSRDC. We expect the project to achieve financial closure by end-Apr'09. While the total project cost is estimated at Rs4.3bn, the aggregate value of the EPC contract related to the project is Rs3.6bn. The O&M expenses stand at Rs6.6bn for the entire concession period of 30 years. The project will be financed by a combination of debt (Rs3bn) & equity including preference shares (Rs1.3bn).

In addition to the toll collection rights, IRB has been awarded a plot of land measuring 30,000 sq. mtrs. in prime commercial area of Kolhapur. The land parcel having an FSI of 2x is granted on a 99-year lease. The company has indicated a shift in its execution plans for the aforesaid location. Instead of the earlier planned 'A' Grade office space, it now has decided to develop the property as a Budget Hotel. In this regard, the company has already signed a MoU with the Indian Hotels Group & the design plans are currently being worked out. The project is expected to take off in the next 18-20 months.

DCF Valuation (Rs mn)					
	FY08	FY09	FY10	FY11	FY12
PAT	-	-	-	-	(166)
Dep. & Amortization	-	-	-	-	154
Capex	-	-	1,260	1,980	360
FCFF	-	-	(1,260)	(1,980)	(372)
Additional Borrowing	-	210	1,260	1,980	375
FCFE	-	210	-	-	3
Discounted Cash Flows	-	202	-	-	2
NPV		960*			
IRB's Share		960			

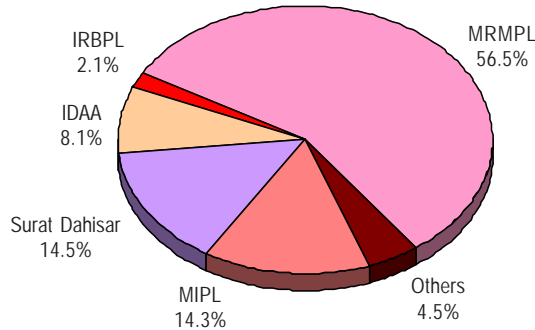
* Calculated over the entire concession period

VALUATIONS & RECOMMENDATION

A steady flow of revenues from operational road assets should propel IRB's consolidated revenues at a CAGR of ~69% over the period FY09-11. We expect the company's revenues to propel from ~Rs9.3bn in FY09 to Rs26.4bn in FY11. MIPL (32%) & MRMPL (~50%) were the major revenue contributors in FY08. However by FY10, with the commencement of revenues from Surat Dahisar (14.5%) & IDAA (8.1%), dependence on MIPL (14.3%) is expected to decline significantly.

IRDP, Kolhapur	
Holding (%)	100
Expires on	1 Jan '39
Total cost (mn)	4,300
Debt:Equity	2.3
Interest rate	11.0
WACC (%)	16.0
NPV/Share	2.9
Project IRR (%)	9.8

Segmentation of Consolidated Revenues (FY10E)

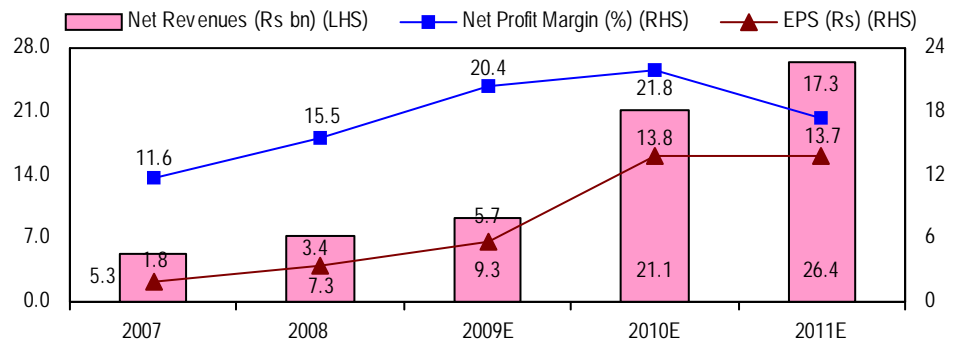


Source: PINC Estimates

An established track record backed by skilled & experienced promoters, makes us positive on IRB...

Backed by an in-house execution expertise, operating profits are expected to be robust at around 54% in FY09. However with more than 55% revenue contribution expected from MRMPL in FY10 & FY11, margins are expected to decline to 51.5% & 46.7% respectively. Despite higher interest (Total debt at Rs22.4bn in FY09E) & capital charges, net profits should surge at a CAGR of ~55% from Rs1.9bn in FY09 to ~Rs4.6bn by FY11.

IRB Group's Expected Performance



Source: PINC Estimates

A build up of a mature portfolio of toll road assets generating stable & steady cash flows over the years gives IRB an edge over its peers...

We have valued IRB based on SOTP approach. Toll based BOT projects are valued via the DCF methodology taking cost of equity at 16%. Additionally, we have revised downwards our traffic growth projections by 2-3% across the 12 BOT projects. The E&C business (MRMPL) has been assigned a 4x FY10 EPS multiple. IRB's proposed township at Pune is still in the preliminary stages of planning & development and as such we have valued the same at the ongoing plot selling prices in the region at ~Rs245/sq.ft. The Kolhapur Hotel project still being in the land acquisition phase has not been included in our valuations.

Our SOTP valuations indicate IRB's fair value per share at Rs111. Any new BOT project bagged by the company pose an upside risk to our valuations. At the CMP of Rs112, IRB trades at a P/E of 8.1x & EV/EBIDT of 5.5x its FY10 earnings estimates. We believe the stock is adequately priced at the current levels, in line with our valuations. Hence, we downgrade our recommendation to 'HOLD'.

SOTP Valuation					
BOT Details	Length (kms)	D:E	Total Cost (mn)	IRR (%)	NPV/Share
MIPL	206	9.8	13,016	85.0	32.7
Surat Dahisar	239	2.2	28,350	4.8	5.0
IDAA	65	6.1	14,091	24.5	18.7
IRB Infra	1.4	2.2	320	45.5	1.2
NKT	60	1.5	368	59.2	1.9
TGTRPL	14.9	7.2	2,463	39.9	6.0
ATR Infra	29.8	72.7	737	32.0	2.4
ATRPL	26	2.5	630	53.4	2.4
Thane Bhiwandi	24	2.1	1,040	} 38.4	4.5
Kaman Paygaon	22	2.3	144		
MMK	33	1.6	180	54.2	1.0
IRDP, Kolhapur	49	2.3	4,300	9.8	2.9
Fair Value per Share (A)					79
E & C Business					
MRMPL's FY10E Net Profit					1,070
EPS contribution to IRB					3.2
Assigned P/E multiple (x)					4
Fair Value per Share (B)					13
Real Estate					
Net Asset Value					3,761
Fair Value per Share (C)					11
Cash on IRB's Books					2,500
Fair Value per Share (D)					8
SOTP (A+B+C+D)					111
CMP (Rs)					112
Potential upside (%)					(1.3)

Source: PINC Estimates

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	14,614	9,268	(36.6)	24,054	21,062	(12.4)
Op. Profit	7,327	4,991	(31.9)	12,728	10,850	(14.8)
Net Profit	3,440	1,894	(44.9)	6,167	4,601	(25.4)
Diluted EPS	10.3	5.7	(44.9)	18.6	13.8	(25.4)

Financial Results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended	Nine Months Ended	Year Ended
	31/12/08	31/12/08	31/03/08
Net Sales	2,391	6,708	7,327
Total Expenditure	1,376	3,539	3,208
Construction expenses	1,182	2,954	2,533
Personnel Expenses	115	309	341
Sales & Administration Expenses	79	276	334
Operating profit	1,015	3,169	4,119
Other Income	90	230	520
PBDIT	1,105	3,399	4,639
Interest	364	973	1,958
Depreciation	286	813	1,016
PBT	455	1,613	1,665
Provision for current tax	72	277	361
Provision for deferred tax	-	-	32
Fringe benefits	-	-	7
PAT before minority interest	382	1,336	1,265
Minority Interest	-	-	126
Net Profits	382	1,336	1,139
Equity Capital (F.V. Rs 10)	3,324	3,324	3,324
Reserves (excl. rev. res.)	-	-	12,883
EPS for the period (Rs)	1.2	4.0	3.4
Diluted EPS (Rs)	1.2	4.0	3.4
Book Value (Rs)	-	-	49
OPM (%)	42.5	47.2	56.2
NPM (%)	16.0	19.9	15.5
Expenditure (% of Net Sales)			
Construction expenses	49.5	44.0	34.6
Personnel Expenses	4.8	4.6	4.7
Sales & Administration Expenses	3.3	4.1	4.6

Income Statement	2007*	2008	2009E	2010E	2011E
Revenues	5,251	7,327	9,268	21,062	26,398
<i>Growth (%)</i>	-	39.5	26.5	127.3	25.3
Total Expenditure	2,449	3,208	4,277	10,212	14,061
Operating Profit	2,802	4,119	4,991	10,850	12,337
Interest & dividend income	228	520	351	389	369
EBIDT	3,030	4,639	5,342	11,239	12,706
Interest	1,387	1,958	1,587	3,501	4,454
Depreciation	862	1,016	1,418	1,843	2,314
Prior period item	274	-	-	-	-
EBT	1,055	1,665	2,337	5,896	5,938
Tax provision	261	400	420	1,084	1,243
PAT before minority interest	795	1,265	1,917	4,812	4,696
Minority Interest	184	126	23	211	129
Net Profits	611	1,139	1,894	4,601	4,567
Fully diluted Eq. sh. O/s (mn nos)	25	332	332	332	332
Book Value (Rs)	153	49	53	65	76
Basic EPS (Rs)	24.7	3.4	5.7	13.8	13.7
Diluted EPS (Rs)	1.8	3.4	5.7	13.8	13.7

Balance Sheet	2007*	2008	2009E	2010E	2011E
<i>Equity Share Capital</i>	2,473	3,324	3,324	3,324	3,324
<i>Reserves & Surplus</i>	1,303	12,883	14,396	18,232	22,035
Net worth	3,775	16,207	17,719	21,556	25,358
Total Debt	25,180	20,212	22,412	30,212	40,912
Deferred Tax liability	(6)	26	31	36	41
Capital Employed	28,949	36,446	40,163	51,805	66,312
Fixed Assets	24,420	27,737	32,331	41,971	56,156
Net current assets	5,053	6,989	7,485	9,697	10,149
Investments	413	1,985	635	635	635
Minority Interest	1,118	281	304	514	643
Misc. Expenditure	181	16	16	16	16
Total Assets	28,949	36,446	40,163	51,805	66,312

*Proforma Adjustments

Cash Flow Statement	2007	2008	2009E	2010E	2011E
PBT	445	1,665	2,337	5,896	5,938
Depreciation	526	1,016	1,418	1,843	2,314
Interest & dividend received	(177)	(500)	(351)	(389)	(369)
Interest paid	866	1,934	1,587	3,501	4,454
Tax paid	(231)	(412)	(415)	(1,079)	(1,238)
(Inc)/Dec in working capital	1,035	(1,586)	(548)	(2,274)	(501)
Cash from operations	2,472	2,118	4,028	7,497	10,599
Sale/(Purchase) of fixed assets	(6,663)	(185)	(1,600)	(300)	(150)
Sale/(Purchase) of intangible assets (net)	-	(4,101)	(4,413)	(11,182)	(16,349)
Sale/(Purchase) of investments (net)	252	(1,569)	1,350	-	-
Interest & dividend received	177	485	351	389	369
Cash from investing activities	(11,680)	(5,287)	(4,312)	(11,093)	(16,130)
Proceeds from issue of shares	1,616	-	-	-	-
Security Premium	-	9,446	-	-	-
Proceeds/(Repay) from secured loans	5,244	(2,324)	2,000	7,800	9,700
Proceeds/(Repay) from unsecured loans	251	-	200	-	1,000
Eq. Dividend paid	(66)	(15)	(382)	(764)	(764)
Interest paid	(860)	(1,942)	(1,587)	(3,501)	(4,454)
Misc. Expenditure	(20)	25	-	-	-
Cash from financing activities	8,790	4,077	231	3,535	5,481
Inc/(Dec.) in cash	(418)	908	(53)	(61)	(49)

Key Ratios	2007	2008	2009E	2010E	2011E
EBIDTA (%)	57.7	63.3	57.6	53.4	48.1
ROACE (%)	8.4	14.2	12.4	24.6	22.9
ROANW (%)	16.2	11.4	11.2	23.4	19.5
Sales/Total Assets (x)	0.2	0.2	0.2	0.4	0.4
Debt:Equity (x)	6.7	1.2	1.3	1.4	1.6
Current Ratio (x)	3.2	3.7	3.1	2.3	2.0
Debtors (days)	98.5	5.8	48.4	111.7	133.6
Inventory (days)	16.1	71.4	66.4	57.0	48.3
Net working capital (days)	92.5	86.9	89.9	78.4	69.4
EV/Sales (x)	4.6	7.1	5.9	3.0	2.8
EV/EBIDT (x)	8.0	11.3	10.2	5.5	5.8
P/E (x)	60.9	32.7	19.6	8.1	8.2
P/BV (x)	0.7	2.3	2.1	1.7	1.5

TEAM

EQUITY DESK

Gealgeo V. Alankara	Head - Institutional Sales	<i>alankara@pinc.co.in</i>	<i>91-22-6618 6466</i>
Sailav Kaji	Head Derivatives & Strategist	<i>sailavk@pinc.co.in</i>	<i>91-22-6618 6344</i>

SALES

Anil Chaurasia	<i>anil.chaurasia@pinc.co.in</i>	<i>91-22-6618 6483</i>
Alok Doshi	<i>adoshi@pinc.co.in</i>	<i>91-22-6618 6484</i>
Sundeep Bhat	<i>sundeepb@pinc.co.in</i>	<i>91-22-6618 6486</i>
Gagan Borana	<i>gagan.borana@pinc.co.in</i>	<i>91-22-6618 6485</i>

DEALING

Chandrakant Ware	<i>chandrakantw@pinc.co.in</i>	<i>91-22-6618 6327</i>
Ashok Savla	<i>ashok.savla@pinc.co.in</i>	<i>91-22-6618 6400</i>
Raju Bhavsar	<i>rajub@pinc.co.in</i>	<i>91-22-6618 6301</i>
Manoj Parmar	<i>manojp@pinc.co.in</i>	<i>91-22-6618 6326</i>
Hasmukh D. Prajapati	<i>hasmukhp@pinc.co.in</i>	<i>91-22-6618 6325</i>
Pratiksha Shah	<i>pratikshas@pinc.co.in</i>	<i>91-22-6618 6329</i>

DIRECTORS

Gaurang Gandhi	<i>gaurangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Hemang Gandhi	<i>hemangg@pinc.co.in</i>	<i>91-22-6618 6400</i>
Ketan Gandhi	<i>ketang@pinc.co.in</i>	<i>91-22-6618 6400</i>

COMPLIANCE

Rakesh Bhatia	Head Compliance	<i>rakeshb@pinc.co.in</i>	<i>91-22-6618 6400</i>
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