

IRB Infrastructure Developers (IRBI.BO)

Q2FY13 – EBITDA Marginally Below Estimates

■ Company Update

- **EBITDA marginally below ests.** – IRB reported revenues of Rs8.8bn in Q2FY13, up 15% YoY but 7% below our ests. Construction revenues were ~9% below ests. due to lower than expected execution. EBITDA at Rs4.1bn was 3% below ests. Lower interest expenses and taxes boosted PAT, which was in line with our ests.
- **Update on under-construction BOT projects** - Jaipur – Deoli Project is ~82% complete, Talegaon – Amravati Project is ~75% complete and Amritsar-Pathankot project is ~61% complete and Tumkur Chitradurga project is ~47% complete. Construction of Ahmedabad-Vadodra project is expected to start in Dec 2012 and toll collection in Kolhapur project is expected to commence shortly. IRB currently has an OB of Rs95bn, of which ~Rs75bn is to be executed over the next 3-4 years.
- **Traffic growth sedate in some stretches** – Toll revenues in Mumbai – Pune expressway grew by 4%YoY in Q2FY13. Management mentioned that this was a blip and expects traffic growth to rebound to 6-7% for the year. Traffic growth in Surat- Dahisar and Tumkur – Chitradurga projects continues to be affected by diversion due to construction and mining ban respectively.
- **Slowdown of ordering activity from NHAI** – IRB commented that the slowdown in ordering from NHAI has continued even in Q2FY13 – primarily for two reasons – 1) tepid response to tenders for BOT projects, 2) Streamlining of processes at NHAI. Given NHAI targets (9500kms in FY13E), IRB expects a strong pick-up in ordering in H2FY13E. IRB will continue to focus on bidding for BOT projects (targeting ~300-400kms of road projects/year) and may selectively bid for EPC contracts.
- **Will continue to look for acquisition targets** - IRB continues to explore acquiring operational road assets with established toll collection and will target assets which can give them equity IRRs of ~18%.
- **Maintain Buy** – While we believe that the stock on a PE of 7x FY13E offers value, issues/newsflow of the ongoing investigation are likely to remain an overhang on the stock.

Buy	1
Price (30 Oct 12)	Rs119.85
Target price	Rs238.00
Expected share price return	98.6%
Expected dividend yield	2.7%
Expected total return	101.3%
Market Cap	Rs39,834M US\$737M

Price Performance (RIC: IRBI.BO, BB: IRB IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2011A	4,524	13.61	17.4	8.8	1.6	20.2	1.3
2012A	4,960	14.92	9.6	8.0	1.4	18.8	1.5
2013E	5,402	16.25	8.9	7.4	1.2	17.6	2.7
2014E	5,089	15.31	-5.8	7.8	1.1	14.7	2.6
2015E	6,340	19.08	24.6	6.3	1.0	16.3	3.2

Source: Powered by dataCentral

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IRBI.BO: Fiscal year end 31-Mar						Price: Rs119.85; TP: Rs238.00; Market Cap: Rs39,834m; Recomm: Buy					
Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	24,381	31,307	35,384	41,006	44,871	PE (x)	8.8	8.0	7.4	7.8	6.3
Cost of sales	-15,696	-20,542	-22,894	-26,554	-28,802	PB (x)	1.6	1.4	1.2	1.1	1.0
Gross profit	8,686	10,765	12,489	14,452	16,069	EV/EBITDA (x)	6.3	6.0	6.3	6.1	5.9
Gross Margin (%)	35.6	34.4	35.3	35.2	35.8	FCF yield (%)	-23.9	-50.1	-69.0	-23.7	-12.8
EBITDA (Adj)	10,939	13,735	16,730	20,227	22,294	Dividend yield (%)	1.3	1.5	2.7	2.6	3.2
EBITDA Margin (Adj) (%)	44.9	43.9	47.3	49.3	49.7	Payout ratio (%)	11	12	20	20	20
Depreciation	-2,254	-2,970	-4,241	-5,775	-6,225	ROE (%)	20.2	18.8	17.6	14.7	16.3
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	8,686	10,765	12,489	14,452	16,069	EBITDA	10,939	13,735	16,730	20,227	22,294
EBIT Margin (Adj) (%)	35.6	34.4	35.3	35.2	35.8	Working capital	1,115	-3,657	1,823	401	332
Net interest	-3,572	-5,505	-5,263	-7,414	-7,123	Other	-4,080	-5,778	-7,114	-9,476	-9,804
Associates	0	0	0	0	0	Operating cashflow	7,975	4,300	11,439	11,152	12,822
Non-op/Except	645	1,252	220	320	100	Capex	-17,483	-24,258	-38,908	-20,600	-17,930
Pre-tax profit	5,758	6,512	7,446	7,358	9,046	Net acq/disposals	0	0	0	0	0
Tax	-1,117	-1,552	-2,071	-2,382	-2,782	Other	-100	411	0	0	0
Extraord./Min.Int./Pref.div.	-117	0	27	113	75	Investing cashflow	-17,583	-23,847	-38,908	-20,600	-17,930
Reported net profit	4,524	4,960	5,402	5,089	6,340	Dividends paid	-597	-716	-1,294	-1,219	-1,518
Net Margin (%)	18.6	15.8	15.3	12.4	14.1	Financing cashflow	16,506	25,755	9,734	10,020	6,467
Core NPAT	4,524	4,960	5,402	5,089	6,340	Net change in cash	6,897	6,208	-17,735	572	1,359
Per share data	2011	2012	2013E	2014E	2015E	Free cashflow to s/holders	-9,509	-19,958	-27,469	-9,448	-5,108
Reported EPS (Rs)	13.61	14.92	16.25	15.31	19.08						
Core EPS (Rs)	13.61	14.92	16.25	15.31	19.08						
DPS (Rs)	1.50	1.80	3.25	3.06	3.82						
CFPS (Rs)	23.99	12.94	34.42	33.55	38.58						
FCFPS (Rs)	-28.61	-60.05	-82.65	-28.43	-15.37						
BVPS (Rs)	73.19	85.95	98.32	109.96	124.47						
Wtd avg ord shares (m)	332	332	332	332	332						
Wtd avg diluted shares (m)	332	332	332	332	332						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	43.0	28.4	13.0	15.9	9.4						
EBIT (Adj) (%)	40.7	23.9	16.0	15.7	11.2						
Core NPAT (%)	17.4	9.6	8.9	-5.8	24.6						
Core EPS (%)	17.4	9.6	8.9	-5.8	24.6						
Balance Sheet (Rsm)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	12,000	18,208	473	1,044	2,403						
Accounts receivables	0	0	0	0	0						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	58,706	79,995	114,662	129,487	141,192						
Goodwill & intangibles	9	0	0	0	0						
Financial & other assets	994	4,240	2,416	2,015	1,684						
Total assets	71,709	102,442	117,551	132,547	145,278						
Accounts payable	0	0	0	0	0						
Short-term debt	0	0	0	0	0						
Long-term debt	46,255	68,367	78,299	89,537	97,522						
Provisions & other liab	232	4,386	5,479	5,479	5,479						
Total liabilities	46,487	72,753	83,778	95,016	103,001						
Shareholders' equity	24,326	28,566	32,678	36,548	41,370						
Minority interests	896	1,123	1,095	983	907						
Total equity	25,222	29,689	33,773	37,531	42,277						
Net debt	34,256	50,160	77,826	88,493	95,119						
Net debt to equity (%)	135.8	169.0	230.4	235.8	225.0						

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Figure 1. IRB Consolidated Results .

	2QFY12			2QFY13			2QFY13E		
	Construction	BOT	Total	Construction	BOT	Total	Construction	BOT	Total
Total Income	5,275	2,385	7,660	6,215	2,569	8,784	6,800	2,618	9,418
% growth YoY	79%	17%	54%	18%	8%	15%	29%	10%	23%
EBITDA	1,399	2,116	3,516	1,873	2,266	4,138	2,040	2,225	4,265
EBITDA Margin %	27%	89%	46%	30%	88%	47%	30%	85%	45%
Financial expenses	(319)	(1,092)	(1,411)	(605)	(875)	(1,480)	(600)	(940)	(1,540)
Depreciation	(140)	(488)	(629)	(137)	(970)	(1,107)	(127)	(959)	(1,086)
PBT	939	536	1,476	1,131	421	1,552	1,313	326	1,639
Tax	(284)	(83)	(367)	(362)	(3)	(365)	(394)	(39)	(433)
	30%	15%	25%	32%	1%	24%	30%	12%	26%
PAT bf min. interest	655	453	1,109	768	418	1,187	919	287	1,206
Less: Minority Interest		(8)	(8)		23	23		22	22
PAT	655	445	1,101	768	441	1,210	919	309	1,228
PAT Margin %	12%	19%	14%	12%	17%	14%	14%	12%	13%

Source: Company, Citi Research

IRB Infrastructure Developers

Company description

Incorporated in 1998, IRB is one of the leading infrastructure companies in India focusing on development of roads and highways. IRB designs, builds and operates roads and highways. It manages one of the largest road portfolios in India - 16 roads with a total length of ~1375km. It has a market share of ~7.22% in the Golden Quadrilateral. The promoters of the company own ~74% of IRB.

Investment strategy

We assign a Buy rating on IRB with a target price of Rs238. IRB is one of very few listed pure plays on roads in India. The company is well positioned to win a reasonable share of NHAI projects based on its technical qualification and net worth, and is a likely beneficiary of NHAI's target of awarding ~8800kms in FY13. IRB is also well capitalized in terms of investments required in various projects and does not need to dilute at the moment, in our view. The stock trades at ~12x FY13E P/E, a significant discount to its historical average of 16x.

Valuation

Our target price for IRB of Rs238 is based on an SOTP approach. 1) The BOT assets are valued at Rs149/share on a discounted FCFE basis; 2) The EPC business is valued at Rs84/share, set at 9x June 13E P/E. 3) Other investments and cash on books are valued at Rs5/share, based on book value.

Risks

Downside risks to our target price include slower execution, fewer than expected project wins, and greater competitive intensity in the roads sector.

Appendix A-1

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IRB Infrastructure Developers (IRBI.BO)

Ratings and Target Price History Fundamental Research

Analyst: Deepal Delivala
Covered since July 16 2010



	Date	Rating	Target Price	Closing Price
1	16-Jul-10	*3M	*278.00	277.10
2	17-Feb-11	*1M	*233.00	183.90

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	233.00	163.20

	Date	Rating	Target Price	Closing Price
5	26-Mar-12	1	*238.00	180.30

* Indicates change

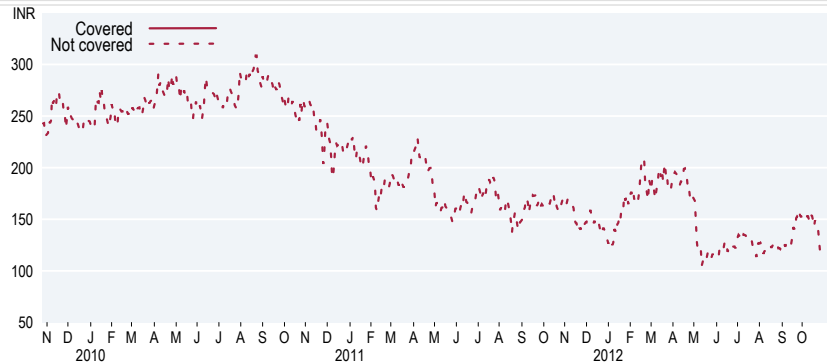
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IRB Infrastructure Developers (IRBI.BO)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Deepal Delivala
Covered since July 16 2010



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	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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