

RESULTS REVIEW

IVRCL Infrastructures and Projects Ltd.

Buy

Share Data

Market Cap	Rs. 13.8 bn
Price	Rs. 103.2
BSE Sensex	8,902.6
Reuters	IVRC.BO
Bloomberg	IVRC IN
Avg. Volume (52 Week)	0.5 mn
52-Week High/Low	Rs. 493.7 / 56.5
Shares Outstanding	133.5 mn

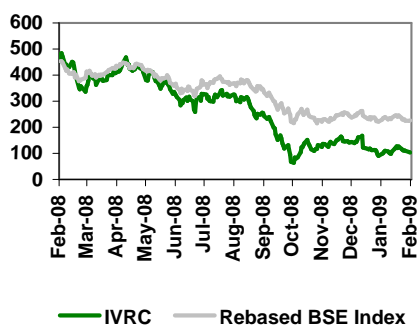
Valuation Ratios (Standalone)

Year to 31 March	2009E	2010E
EPS (Rs.)	15.1	16.0
+/- (%)	(4.4%)	5.9%
PER (x)	6.8x	6.5x
EV/ Sales (x)	0.5x	0.4x
EV/ EBITDA (x)	5.4x	4.4x

Shareholding Pattern (%)

Promoters	10
FII's	42
Institutions	23
Public & Others	25

Relative Performance



Banking on a strong order book

IVRCL continues to be one of the strongest companies in the construction & infrastructure space due to significant advantages over its peers, including revenue visibility for the next 3–4 years and a high degree of exposure to government-funded orders, especially in the water & irrigation segment. The stock correction in the last few months is attributable to the negative sentiments attached with the worsening economic scenario, particularly in the real estate sector, to which IVRCL has an exposure through its subsidiary IVR Prime. We have calibrated our estimates to address the concerns of lower order inflows and slower execution over the next couple of quarters owing to the forthcoming elections. Consequently, we have arrived at a fair value estimate of Rs. 139, which reflects a potential upside of 35% over the current market price (CMP); hence, we maintain our Buy rating.

Healthy order book and favourable portfolio mix: IVRCL has an extremely healthy order book of Rs. 143 bn, 3.9x the FY08 revenues, which should insulate the Company from any slowdown in the order inflows over the next two years due to the adverse economic scenario. Moreover, IVRCL's leadership in the water & irrigation space, which accounts for more than 65% of the current order book, provides it a significant opportunity to benefit from the increased planned government spending in the segment during the 11th Five Year plan period.

Looming elections likely to impact near-term order inflow: IVRCL has one of the safest order books as it focuses heavily on government-funded projects. However, order inflow and revenue booking are likely to be adversely impacted over the next 2–3 quarters as the Election Commission guidelines do not allow the incumbent government to award any new projects. Thus, we have downwardly revised our order backlog and revenue growth estimates from a CAGR of 30% and 29% to 20% and 23%, respectively, over FY08–10.

Key Figures (Standalone)

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY%	QoQ%	9M'08	9M'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	9,749	11,366	11,896	22.0%	4.7%	23,389	32,546	39.2%
EBITDA	1,114	913	1,085	(2.6%)	18.8%	2,227	2,798	25.6%
Net Profit	641	571	465	(27.4%)	(18.5%)	1,372	1,461	6.5%
Margins(%)								
EBITDA	11.4%	8.0%	9.1%			9.5%	8.6%	
NPM	6.6%	5.0%	3.9%			5.9%	4.5%	
Per Share Data (Rs.)								
EPS	4.83	4.23	3.45	(28.6%)	(18.4%)	10.12	10.82	6.9%

Concerns on exposure to real estate largely factored in: IVR Prime has been impacted severely by the slump in the real estate sector, and its performance is expected to remain weak at least for the next one year. IVR Prime's stock has corrected by 89% from its 52-week high; consequently, it contributes ~Rs. 9 per share (6%) to IVRCL's fair value estimate. As a result, any further downside to the real estate subsidiary's valuation will have a nominal effect on our fair value estimate for IVRCL.

Valuation

Our revised SOTP-based fair value estimate of Rs. 139 reflects a potential upside of 35% over the current market price. We have valued the standalone business by using DCF methodology, the two subsidiaries—HDO and IVR Prime—on their market capitalisation, and the Company's four BOOT projects at book value. The stock is currently trading at an attractive valuation at a price-to-book multiple of ~0.80x; hence, we maintain our Buy rating on the stock.

Result Highlights and Analysis

- During the quarter ended December 2008, IVRCL's standalone net sales increased 22.0% yoy to Rs. 11,896 mn. The Company's management indicated that top-line growth fell due to slower execution. Going forward, more execution delays are likely due to the forthcoming elections. As a result, we have downwardly revised our top-line growth estimate from a CAGR of 29% to 23% over FY08–10.
- The current order backlog stands at ~Rs. 143 bn, of which more than 65% belongs to the water & irrigation segment. While the Company received orders worth Rs. 24 bn during the quarter, it has emerged as the L1 (lowest) bidder for projects worth an additional Rs. 17 bn. IVRCL's revenue visibility continues to remain high at 3–4 years, which we believe is the key advantage over its peers in the medium term, when order inflows in the industry are likely to take a hit due to the economic slowdown.
- Standalone EBITDA margin fell 231 bps yoy to 9.1% as operating expenses rose 25% yoy. The 9M'09 EBITDA margin fell ~90 bps yoy to 8.6%. Given that Q4 is the strongest quarter for the Company, we expect an EBITDA margin of

8.8% for FY09, a marginal improvement from the nine-month figure. Moreover, the real benefit of the cooling off commodity prices is expected to come through in the next few quarters, mainly to the extent of the fixed price contracts (~10%), as IVRCL uses the first-in-first-out (FIFO) method of inventory valuation. Hence, we expect the margin to improve to 9.4% in FY10.

- Interest costs during Q3'09 were 2.4x that of Q3'08 as the cost of finance went up from ~9.0% to ~11.5%. However, we expect some relief in the coming quarters as the interest rates ease off. Moreover, IVRCL has decided not to bid for NHAI's BOT contracts as they have lower margins and involve a large cash outflow in the initial years, which would necessitate a further increase the Company's debt and interest burden.
- The adjusted net profit declined 27.4% yoy to Rs. 465 mn, primarily due to the jump in interest costs.
- IVRCL's claim for deduction under Section 80IA of the Income Tax Act remains under dispute with the tax authorities. The management is of the view that its tax provisions are adequate; hence, it has not provided for the tax effect of Rs. 1,250 mn up to December 2008 in respect of the above.

Performance of Key Subsidiaries

Hindustan Dorr-Oliver Ltd. (HDO): HDO continued to report strong numbers in Q3'09. Net sales increased 65.3% yoy to Rs. 1,247 mn, while the EBITDA margin improved 180 bps yoy to 11.8%. Net profit surged 47.4% yoy to Rs. 74 mn.

IVR Prime Urban Developers Ltd. (IVR Prime): IVR Prime's performance remained dismal on account of the real estate slump. Net sales in Q3'09 were a mere Rs. 115 mn, as against Rs. 2,960 mn in Q3'08, while the EBITDA margin nosedived from 49.6% to 17.2% during the same period. Net profit plunged from Rs. 1,163 mn in Q3'08 to a meagre Rs. 9 mn in Q3'09. We expect the pressure on account of falling demand to continue at least for the next one year; this is likely to negatively impact IVRCL's consolidated margins. Meanwhile, the Company has put the development of new projects on hold till the demand for the sector revives.

Performance of key subsidiaries

Quarterly Data	Hindustan Dorr Oliver Ltd.					IVR Prime Urban Developers Ltd.				
	Q3'08	Q2'09	Q3'09	YoY%	QoQ%	Q3'08	Q2'09	Q3'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)										
Net Sales	755	1,164	1,247	65.3%	7.1%	2,960	372	115	(96.1%)	(69.0%)
EBITDA	75	135	147	95.7%	9.1%	1,467	102	20	(98.6%)	(80.5%)
Net Profit	50	80	74	47.4%	(7.3%)	1,163	69	9	(99.2%)	(86.6%)
Margins(%)										
EBITDA	10.0%	11.6%	11.8%			49.6%	27.4%	17.2%		
NPM	6.7%	6.9%	5.9%			39.3%	18.6%	8.0%		
Per Share Data (Rs.)										
EPS	1.40	2.22	2.06	47.1%	(7.2%)	18.13	1.08	0.14	(99.2%)	(87.0%)

Source: Company data, Indiabulls research

Key Orders

IVRCL bagged several orders from October 2008 till date. These include:

- An order worth Rs. 1,683 mn for the construction of 4 elevated metro stations in Bangalore.
- A contract worth Rs. 5,503 mn for the turnkey execution of a group housing project in Hyderabad.
- An EPC order worth Rs. 2,538 mn under the Godavari Drinking Water Supply Project.
- A rural electrification works contract worth Rs. 1,790 mn by NTPC Electric Supply Company Ltd.
- A lift irrigation project worth Rs. 8,930 mn by the Andhra Pradesh government.

Outlook

IVRCL's focus on priority sectors is expected to insulate it from being substantially hit by the deepening economic slowdown. This is especially true for the water & irrigation segment, IVRCL's core strength, planned allocations for which have been doubled during the 11th Five Year plan (2007–2012). Moreover, the Company's already robust order book, which provides revenue visibility for the next 3–4 years, should help in keeping the top-line momentum intact even if order inflows take a hit due to the difficult macroeconomic

environment. Some concerns remain on the order inflow and execution front for the next few quarters due to the forthcoming general elections in May 2009 and the state level elections planned over 2009. This is because once elections are declared, the incumbent government cannot make commitments towards new projects, including those in the infrastructure sector.

Key Figures (Standalone)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	14,957	23,059	36,606	48,130	54,942	22.5%
EBITDA	1,343	2,318	3,614	4,211	5,137	19.2%
Net Profit	930	1,415	2,105	2,013	2,133	0.7%
Margins(%)						
EBITDA	9.0%	10.1%	9.9%	8.8%	9.4%	
NPM	6.2%	6.1%	5.7%	4.2%	3.9%	
Per Share Data (Rs.)						
EPS	8.6	11.7	15.8	15.1	16.0	0.6%
PER (x)	32.2x	25.0x	6.5x	6.8x	6.5x	

SOTP Valuation

	Per share value in Rs.
Standalone	106
IVR Prime	9
Hindustan Dorr-Oliver	4
BOOT Projects	20
Total	139

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