

Value Creation On Track

2QFY07 Results: Sales +48.2%; PAT +45%; Backlog +63%YoY

IVRCL's 2QFY07 results were strong – sales at Rs3.6bn, +48.2%YoY (MLE Rs3.8bn); EBITDA margin expansion of 28bps YoY and recurring PAT (ex-FCCB prov.) at Rs163mn, +45.4%YoY (MLE 174mn). Order book registered 63%YoY growth at ~Rs72bn (~3x FY07E revenues), improving visibility. Further, a key trigger, in our view, would be its real estate venture, which is reaching critical mass to create value through an equity offering during 4QFY07E. **Reiterate Buy.**

Backlog Improves Visibility; Consolidated Financials Adds Material Upside

With ~Rs72bn of order backlog (+63%YoY; ~3x FY07E revenues), IVRCL provides good revenue visibility. The management expects Rs85bn order backlog by FY07E v/s MLE Rs71bn. The company reported its consolidated financials for the first time for 2QFY07, with consolidated revenues of Rs4.5bn and PAT at Rs280mn (72% higher v/s parent).

SPV Execution/Value Creation On Track

IVRCL's 80% subsidiary, IVR Prime Urban Developer (PUDL), has started the construction of a Mall & IT Park at Hyderabad along with an Integrated township of 1.5mn sq ft. It has a land bank of ~2000 acres & is in the process of developing ~50mn sq. ft. over FY06-10E. PUDL registered sales of Rs570mn & PAT of Rs144mn (~41% of consolidated PAT) during 2QFY07. **We understand that PUDL is getting ready for fund raising in 4QFY07E.**

IVRCL's SPVs have commenced the execution of Jalandhar-Amritsar toll road project in Punjab and Salem-Kumarapalayam-Chengappally in Tamil Nadu. Besides, the company has already secured all the clearances for its Chennai desalination project, the work for which is expected to start shortly in technical partnership with BEFESA, Spain.

Hindustan Dorr Oliver's (HDO) turnaround is on track, with 2QFY07 sales at Rs440mn (+43% YoY) and PAT Rs39.3mn (>10x v/s 2QFY06) led by improved capacity utilization in manufacturing operations and better operation & financial management in project operations. IVRCL expects Rs2.5bn (Rs1.4bn in FY06) sales in FY07E. HDO is setting up a KPO with 25 people (expandable to 100) in Chennai & bidding for Japanese projects with TCS.

Remain Buyers With Price Target Of Rs300

We reiterate Buy with PO of Rs300 based on sum-of-the-parts approach. We have valued IVRCL's core construction business at PER 14x FY08E – a 30% discount to E&C majors despite its faster growth. **Risks:** Government capex, raw material costs, competition, denial of tax benefits (u/s 80IA), traffic/interest rate risk in toll/annuity projects, and project execution risk.

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Refer to important disclosures on page 4 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.



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Stock Data

Price	Rs289.45
Price Objective	Rs300.00
Date Established	2-Aug-2006
Investment Opinion	C-1-7
Volatility Risk	HIGH
ML Symbol / Exchange	IIFRF / BSE
Bloomberg / Reuters	IVRC IN / IVRC.BO

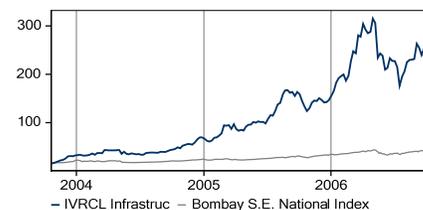


Table 1: IVRCL's 2QFY07 Results Review

Year end Mar31 (Rs.mn)	2Q06	2QFY07	% YoY
ORDER BACKLOG	44131	72000	63.1%
Gross Work Bills	2497	3694	47.9%
Less indirect tax	(39)	(49)	28.2%
Total Income	2458	3644	48.2%
Construction & Material	(1007)	(1311)	30.2%
as % of income	41.0%	36.0%	
Subcontractors's Bills	(775)	(828)	6.9%
as % of income	31.5%	22.7%	
Masonry	(253)	(797)	214.6%
as % of income	10.3%	21.9%	
Staff Cost	(110)	(176)	59.6%
as % of income	4.5%	4.8%	
Others	(108)	(218)	102.2%
as % of income	4.4%	6.0%	
Total Expenditure	(2252)	(3329)	47.8%
EBITDA	206	315	53.2%
EBITDA Margin	8.4%	8.6%	
Depreciation	(24)	(49)	102.3%
EBIT	182	266	46.6%
EBIT Margin	7.4%	7.3%	
Interest	(72)	(103)	42.6%
Other Income	8	55	574.4%
PBT	118	218	85.4%
PBT Margin	4.8%	6.0%	
Total Tax	(6)	(56)	840.4%
Tax Rate	5%	26%	
Recurring PAT	112	163	45.4%
Recurring PAT Margin	4.5%	4.5%	
FCCB impact		(7)	
Reported PAT	112	156	39.2%

Source: Company

Price Objective Basis & Risk

Our PO of Rs 300 based on sum-of-the-parts approach. We have valued IVRCL's core construction business at PER 14x FY08E – a 30% discount to E&C majors despite its faster growth. Based on the multiple above, the core business is valued at Rs263 per share, BOOT projects at Rs38, value of stake in HDO at Rs12 and value of IVR prime at Rs15.5 and net debt of Rs26 per share. **Risks:** Government capex, raw material costs, competition, denial of tax benefits (u/s 80IA), traffic/interest rate risk in toll/annuity projects, and project execution risk.

Analyst Certification

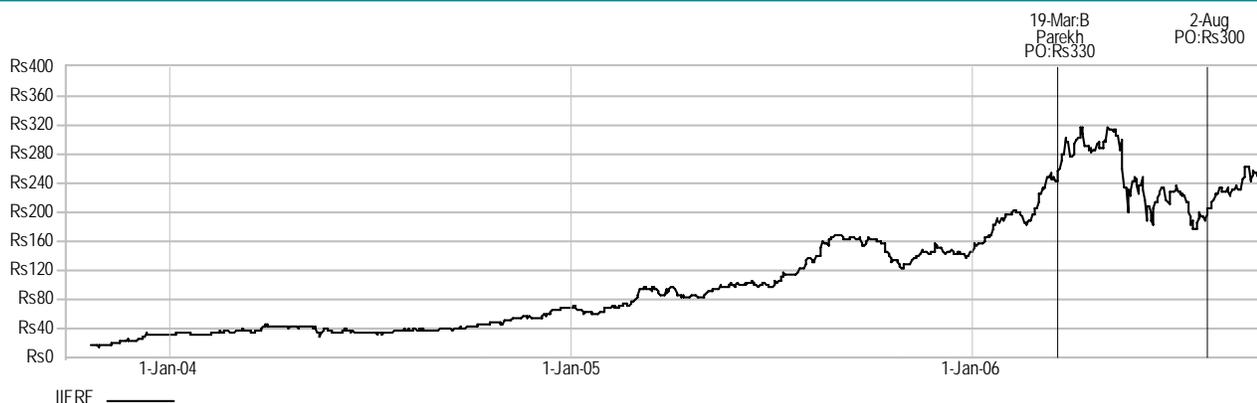
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IIFRF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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Buy	14	66.67%	Buy	4	28.57%
Neutral	7	33.33%	Neutral	2	28.57%
Sell	0	0.00%	Sell	0	0.00%

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