MOTILAL OSWAL

4QFY06 Results Update

SECTOR: INFRASTRUCTURE

IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,213	IVRC IN
	REUTERS CODE
S&P CNX: 3,017	IVRC.BO

Equity Shares (m)	119.7
52-Week Range	326/96
1,6,12 Rel. Perf. (%)	-4/53/96
M.Cap. (Rs b)	29.6
M.Cap. (US$ b)	0.6

5 June 2006

Buy

Previous Recommendation: Buy

Rs247

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/06A	14,957	930	7.8	16.2	31.9	3.8	15.7	14.2	1.9	21.2
3/07E	23,926	1,497	12.5	61.0	19.8	3.3	17.7	15.4	1.4	15.2
3/08E	35,795	2,166	18.1	44.7	13.7	2.7	21.6	18.6	1.0	10.7

Financial performance: During FY06, revenues stood at Rs15b (up 41.8% YoY), EBITDA at Rs1.3b (up 55.3% YoY) and net profit of Rs930m (up 63.8% YoY). EBITDA margins expanded to 9% (v/s 8.2% YoY), driven by operating leverage, change in revenue composition and projects crossing threshold limit for profit recognition. Effective order backlog for March 2006 stood at Rs77b, (including L1 projects worth Rs12b-15b), equivalent to 5.2x FY06 revenues.

Management guidance

- Revenues of Rs25b in FY07 v/s Rs15b in FY06 (up 67% YoY)
- Net profit of Rs1.5b in FY07 v/s Rs930m in FY06 (up 61% YoY)
- Consolidated PAT of Rs2b in FY07 v/s Rs1.1b in FY06 (up 94% YoY)
- Order backlog of Rs85b in March 2007 v/s Rs62b in March 2006 (up 37% YoY)

Increasing contribution of subsidiaries: During FY06, subsidiaries reported robust performance: (1) Hindustan Dorr-Oliver (IVRCL's share 51.4%) recorded revenues of Rs1.4b (up 68.7% YoY) and net profit of Rs65m (up 477.7% YoY); (2) IVR Prime Urban (IVRCL's 100% subsidiary) recorded revenues of Rs1.36b (v/s Rs218m in FY05) and net profit of Rs118m (v/s Rs6.9m in FY05). Thus, the consolidated profit increased to Rs1.1b in FY06, up 69.3% YoY.

Valuation and view: During FY07, we expect IVRCL to report net profit of Rs1.5b (up 60% YoY) and Rs2.2b in FY08 (up 46% YoY). At CMP of Rs247, the stock quotes at a reported PER of 19.8x FY07 and 13.7xFY08E. Maintain **Buy.**

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales	**2,344**	**1,879**	**2,834**	**3,490**	**3,007**	**2,567**	**4,083**	**5,906**	**10,547**	**14,957**
Change (%)					*28.3*	*36.6*	*44.1*	*69.2*	*36.4*	*41.8*
EBITDA	**176**	**167**	**218**	**338**	**235**	**210**	**344**	**558**	**865**	**1,343**
Change (%)					*33.3*	*26.0*	*57.8*	*64.9*	*36.1*	*55.3*
As of % Sales	*7.5*	*8.9*	*7.7*	*9.7*	*7.8*	*8.2*	*8.4*	*9.4*	*8.2*	*9.0*
Depreciation	19	20	19	22	22	24	27	36	80	110
Interest	43	58	63	50	40	72	85	49	214	253
Other Income	5	3	9	7	10	3	4	43	24	57
Extra-ordinary income	0	0	0	0	0	0	0	0	0	0
PBT	**120**	**91**	**145**	**273**	**183**	**118**	**235**	**516**	**595**	**1,037**
Tax	13	10	2	22	12	6	13	78	28	108
Effective Tax Rate (%)	*10.5*	*10.8*	*1.5*	*8.0*	*6.6*	*5.0*	*10.0*	*15.1*	*4.6*	*10.4*
Adj PAT	**107**	**81**	**143**	**252**	**171**	**112**	**222**	**438**	**567**	**930**
Change (%)					*59.2*	*37.7*	*54.9*	*74.1*	*68.9*	*63.8*

E: MOSt Estimates

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Robust financial performance

During 4QFY06, IVRCL reported revenues of Rs5.9b (up 69.2% YoY), EBITDA of Rs558m (up 64.9% YoY) and net profit of Rs438m (up 74.1% YoY), in line with our estimates. During FY06, revenues stood at Rs15b (up 41.8% YoY), EBITDA at Rs1.3b (up 55.3% YoY) and net profit of Rs930m (up 63.8% YoY).

During FY06, EBITDA margins expanded to 9% (v/s 8.2% YoY), driven by operating leverage, change in revenue composition with increasing share from power segment and projects crossing threshold limit for profit recognition.

Guidance for FY07

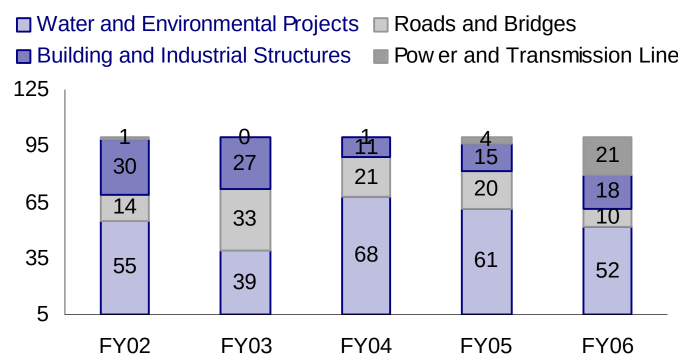
Management has provided guidance for:

- Revenues of Rs25b in FY07 v/s Rs15b in FY06 (up 67% YoY)
- Net profit of Rs1.5b in FY07 v/s Rs930m in FY06 (up 61% YoY)
- Consolidated PAT of Rs2b in FY07 v/s Rs1.1b in FY06 (up 94% YoY)
- Order backlog of Rs85b v/s Rs62b in FY06 (up 37% YoY)

Diversifying presence across various segments

IVRCL has also been successful in building strong presence in power Transmission and Distribution segment (FY06 revenues Rs3b v/s FY05 Rs320m), and this segment is expected to be a key growth driver. The company has identified various verticals like railways, hydro power, ports, metro rail, etc as future drivers and is also working towards building pre-qualifications in these segments.

TREND IN REVENUE COMPOSITION (%)



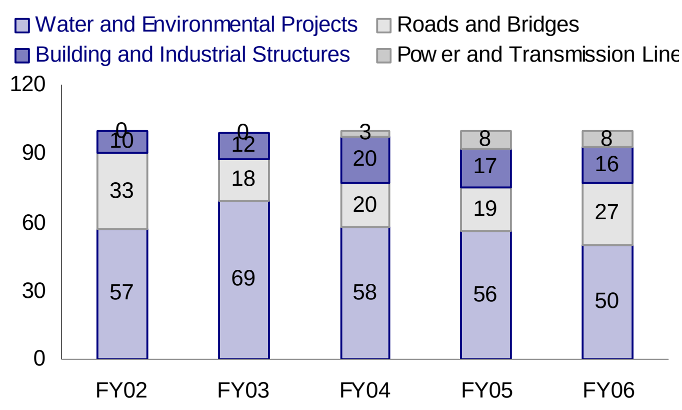
Source: Company/ Motilal Oswal Securities

Order book ensures revenue visibility

Order backlog stood at Rs62b as at end March 2006 (including EPC value of BOT projects – Rs10b). Further, IVRCL has emerged as the lowest cost bidder in projects worth Rs12b-15b, which are expected to be awarded over the next few months. Thus, effective current order book stands at Rs77b, equivalent to 5.2x FY06 revenues.

The company expects the order backlog to increase to Rs85b at the end of FY07 dominated by the water segment, which would contribute 55%-58% of the total order backlog in FY07. The balance 45% would be equally contributed by verticals like buildings, power segment and roads.

TREND IN ORDER BOOK COMPOSITION (%)



Source: Company/ Motilal Oswal Securiteis

Improving contribution from subsidiaries

During FY06, subsidiaries added Rs147m to the standalone net profit of IVRCL, up from Rs3m in FY05. Consolidated profit stood at Rs1.1b in FY06, up 69.3% YoY.

1) **Hindustan Dorr-Oliver** (IVRCL's share 51.4%) recorded revenues of Rs1.4b (up 68.7% YoY) and net profit of Rs65m (up 477.7% YoY). The company's order backlog at the end of March 2006 was Rs1.5b. In addition, it has emerged as a L1 bidder for a few projects, the announcements for which would be made in 1QFY07. The management stated that they expect the company to witness revenue CAGR of 40%-50% for the next few years. Hindustan Dorr-Oliver is also

setting up operations in Knowledge Process Outsourcing (KPO).

2) **IVR Prime Urban** (IVRCL's 100% subsidiary) recorded revenues of Rs1.36b (v/s Rs218m in FY05) and net profit of Rs118m (v/s Rs6.9m in FY05). During FY01, the company acquired 50acres of land at Gachibowali in Hyderabad district of Andhra Pradesh @Rs2.9m/acre, the market value of which stands at Rs300m/acre. Of this, the company constructed 450 apartments and 123 villas on 38.17 acres, of which 70%-75% are sold and the remaining would be sold in FY07. On the remaining 11.83 acres, the company is setting up (a) shopping mall (0.65m square feet) and commercial complex (0.85m square feet) at an investment of Rs4b (8 acres) and (b) contemplating to construct a five-star hotel (3.83 acres).

Thus, net profit expected from this subsidiaries in FY07 (excluding gains from 11.83 acres of commercial property) is Rs600m. Further, the company has aggressive growth plans to undertake property development in various cities like Pune, Hyderabad, Chennai, Bangalore, etc. We believe that over the next two years, IVRCL Prime Urban Developers will emerge as a sizeable player in the real estate development market, leveraging on the presence of IVRCL in 23 states in the country. Further, the company is adopting a unique business model, whereby it focuses largely property development (JV or otherwise), and not land bank accumulation. Thus, the intent is to gain from profits in property development, without taking a risk on movement in land prices. The management stated that the company targets delivering 4m-5m square feet per annum in the next 4-5 years.

Key takeaways from the conference call:

BOT portfolio

IVRCL currently has a BOT portfolio of 4 projects, with combined capital investment of Rs14.6b (IVRCL's share). Management has outlined the progress report for each of these projects:

- **Jallandhar-Amristar Highway** has achieved financial closure and construction activity has commenced. We gather that the RoE on the road project has increased to ~25%, v/s 19% at the time of bidding due to improvement in traffic estimates.
- **Two road projects in Tamil Nadu** are expected to achieve financial closure in July 2006, and construction is expected to commence soon.
- **Chennai Desalination** project is expected to achieve environment clearance by July 2006. Also, the financial closure has been achieved, and drawings, designs, etc are also complete to the extent of 70%-80%.

Given that construction activities on all the existing BOT projects are close to getting started, the management has stated that the company can now bid for further BOT projects. Going forward, the company has plans to bid for BOT projects in power Transmission and Distribution segments via joint ventures.

IVRCL'S BOT PORTFOLIO (RS B)

Desalination Plant, Chennai	3.8 *
Jallandhar – Amritsar Highway	2.3
Salem – Kumarapalayam Road (2 projects), Tamilnadu	8.5
Total	**14.6**

*Source: Company, * IVRCL has a 75% stake, with project cost at Rs5b*

Capital raising plans

Management stated that IVRCL has comfortable DER of 0.6x as at March 2006, and thus does not require additional financing for cash construction business. The necessity and quantum of fund raising will depend on the success of the company in the BOT space. Also, the board has approved capital raising plans of Rs5b+ for IVR Prime Urban Developers (100% subsidiary of IVRCL).

Power division would be a strong revenue driver

During FY06, IVRCL has been successful in building a strong presence in the power T&D segment (FY06 revenues Rs3b, v/s Rs320m in FY05), and this segment is expected to be a key growth driver over the next few years. The company targets 60%-70% CAGR growth in revenues in this segment and the management has given guidance for revenues of Rs5b in FY07.

Other income

During FY06, other Income increased to Rs57m v/s Rs24m in FY05. This comprises:

- Rs18m as duty drawback benefit
- Rs20m bonus for earlier completion of projects in Gujarat

Increase in tax rates in FY06

Tax rates for FY06 increased to 10.4% in FY06 v/s 4.6% in FY05. This increase is due to larger revenue contribution from power division, earnings from which is not exempt from tax. Also, contracts from own BOT projects, which account for Rs10b of the March 2006 order book of Rs62b are not exempt from tax. Thus, as the contribution from these segments to overall revenues and profit increases in FY07, the management has given guidance for higher tax rates of ~15%.

Valuation and view

During FY07, we expect IVRCL to report net profit of Rs1.5b (up 60% YoY) and Rs2.2b in FY08 (up 46% YoY). We believe that increased momentum in order intake and expansion in EBITDA margins would drive earnings upgrades. At the CMP of Rs247, the stock quotes at a reported PER of 19.8x FY07 and 13.7xFY08E. Adjusted for subsidiaries and BOT projects, the stock quotes at a PER of 10.2x FY07E and 7.1x FY08E. We maintain **Buy.**

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by Mr. E. Sudhir Reddy. It's niche and key area of operation is the 'water' segment, under which it executes industrial projects, irrigation works, desalination projects and builds sewerage systems. During FY05, ~64% of the revenues were earned from this division and the company had a 28% strike rate of order procurement. The company has also geared up in terms of pre-qualifications to bid for large road projects independently and has started bidding for BOT projects as well.

Key investment arguments

- Reported order backlog at the end of March 2006 is Rs62b. In addition, IVRCL has emerged as an L1 bidder for projects worth Rs12b-15b. Thus the effective order book is Rs77b, 5.2x FY06 revenues
- Has one of the largest BOT portfolio (4 projects with investment of Rs14.6b) with diversified presence in roads and desalination projects.
- IVRCL's subsidiaries post strong growth potential

Key investment risks

- Promoter stake is low at 12.9% as on 31March 2006
- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

Recent developments

- IVRCL has received santions for raising GDR of US$125m and the board has approved fund raising of Rs5b through IPO route for IVR Prime Urban.

Valuations and view

- During FY07, we expect IVRCL to report net profit of Rs1.5b (up 60% YoY) and Rs2.2b in FY08 (up 46% YoY).
- Based on SOTP methodology, we arrive at our PT of Rs336/share.
- At the CMP of Rs247, the stock quotes at a reported PER of 19.8x FY07 and 13.7xFY08E. We maintain **Buy**.

Sector view

- Slowdown associated with change in central government is now behind us and next three years are expected to be eventful with increased investments in new verticals apart from the traditional ones leading to a surge in order books.
- There is scope of EBITDA margin expansion with the increase in the size and scope of orders.
- BOT ventures could unlock sizable value.
- Real estate projects could also be immensely value accretive.

COMPARATIVE VALUATIONS

		IVRCL	NAGAR.CONS.	GAMMON
P/E (x)	FY07E	30.8	16.3	22.1
	FY08E	19.1	10.4	14.7
P/E (x) *	FY07E	10.1	12.5	9.2
	FY08E	7.0	8.0	6.1
P/BV (x)	FY07E	3.7	2.9	3.3
	FY08E	3.1	2.4	2.8
ROE (%)	FY07E	15.7	19.1	15.1
	FY08E	17.7	25.0	19.3

** adj for BoT and other investment*

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	12.9	12.8	13.8
Domestic Institutions	27.4	26.7	10.2
FIIs/FDIs	38.4	38.5	56.4
Others	21.3	22.0	19.6

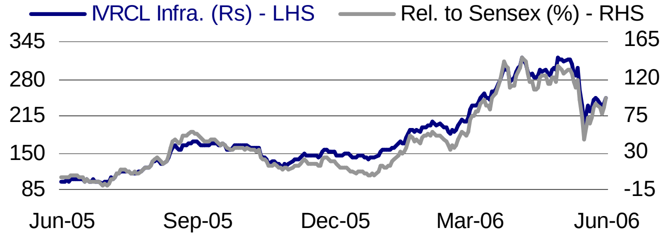
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	12.5	13.2	-5.4
FY08	18.1	18.2	-0.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
247	336	35.8	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(Rs Million)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Net Sales	**7,735**	**10,547**	**14,957**	**23,926**	**35,795**
Change (%)	*75.6*	*36.4*	*41.8*	*60.0*	*49.6*
Total Expenditure	7,099	9,682	13,614	21,757	32,426
EBITDA	**636**	**865**	**1,343**	**2,169**	**3,369**
% of Net Sales	*8.2*	*8.2*	*9.0*	*9.1*	*9.4*
Depreciation	98	80	110	162	222
Interest	220	214	253	277	629
Other Income	21	24	57	30	30
PBT	**339**	**595**	**1,037**	**1,761**	**2,548**
Tax	-53	28	108	264	382
Rate (%)	*-15.6*	*4.6*	*10.4*	*15.0*	*15.0*
Reported PAT	**392**	**567**	**930**	**1,497**	**2,166**
Extra-ordinary Income (n	56	0	0	0	0
Adjusted PAT	**336**	**567**	**930**	**1,497**	**2,166**
Change (%)	*116.5*	*68.9*	*63.8*	*61.0*	*44.7*

BALANCE SHEET					(Rs Million)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Share Capital	106	170	239	239	239
Share Application Money	785	1,454	0	0	0
Reserves	1,248	2,407	7,576	8,853	10,701
Net Worth	**2,139**	**4,030**	**7,815**	**9,093**	**10,941**
Loans	1,882	2,472	3,805	5,750	8,450
Deffered Tax Liability	74	30	0	0	0
Capital Employed	**4,095**	**6,532**	**11,621**	**14,842**	**19,391**
Gross Fixed Assets	964	1,107	1,523	2,023	2,773
Less: Depreciation	291	366	473	635	856
Net Fixed Assets	**673**	**741**	**1,050**	**1,388**	**1,917**
Capital WIP	8	216	150	150	150
Investments	222	316	1,418	4,418	5,918
Curr. Assets	**5,650**	**11,607**	**14,135**	**17,084**	**23,612**
Inventory	185	178	200	240	288
Debtors	1,744	3,066	3,693	5,900	8,826
Cash & Bank Balance	1,234	4,527	4,955	2,495	1,858
Loans & Advances	791	787	1,229	1,967	2,942
Other Current Assets	1,696	3,050	4,058	6,482	9,698
Current Liab. & Prov	**2,457**	**6,348**	**5,133**	**8,197**	**12,206**
Creditors	1,952	3,470	4,289	6,855	10,217
Other Liabilities	437	2,791	691	1,106	1,654
Provisions	68	87	152	237	335
Net Current Assets	**3,193**	**5,259**	**9,002**	**8,886**	**11,406**
Misc. Expenses	0	0	0	0	0
Application of Funds	**4,095**	**6,532**	**11,621**	**14,842**	**19,391**

E: MOSt Estimates

RATIOS					
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Basic (Rs)					
Adjusted EPS	**7.4**	**6.7**	**7.8**	**12.5**	**18.1**
Growth (%)	*149.7*	*-9.4*	*16.2*	*61.0*	*44.7*
Cash EPS	8.2	7.6	8.7	13.9	19.9
Book Value	40.3	47.5	65.3	76.0	91.4
DPS	1.0	0.7	1.0	1.6	2.4
Payout (incl. Div. Tax.)	14.6	12.7	14.5	13.0	13.0
Valuation (x)					
P/E (standalone)		37.0	31.9	19.8	13.7
Cash P/E		32.4	28.5	17.9	12.4
EV/EBITDA		31.9	21.2	15.2	10.7
EV/Sales		2.6	1.9	1.4	1.0
Price/Book Value		5.2	3.8	3.3	2.7
Dividend Yield (%)		25.4	48.4	78.6	113.8
Profitability Ratios (%)					
RoE	21.3	18.4	15.7	17.7	21.6
RoCE	17.0	15.2	14.2	15.4	18.6
Turnover Ratios					
Debtors (Days)	82	106	90	90	90
Inventory (Days)	9	6	5	4	3
Creditors. (Days)	106	137	0	0	0
Asset Turnover (x)	2.4	2.0	1.6	1.8	2.1
Leverage Ratio					
Debt/Equity (x)	0.9	0.6	0.5	0.6	0.8

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
PBT before Extraord	**339**	**595**	**1,037**	**1,761**	**2,548**
Add : Depreciation	98	80	110	162	222
Interest	220	214	253	277	629
Less : Direct Taxes Paid	-53	28	108	264	382
(Inc)/Dec in WC	-652	1,227	-3,315	-2,344	-3,157
CF from Operations	**57**	**2,088**	**-2,022**	**-408**	**-141**
(Inc)/Dec in FA	-73	-356	-353	-500	-750
(Pur)/Sale of Investments	-28	-95	-1,102	-3,000	-1,500
CF from Investments	**-101**	**-451**	**-1,455**	**-3,500**	**-2,250**
(Inc)/Dec in Networth	699	1,351	2,961	0	0
(Inc)/Dec in Debt	594	590	1,334	1,944	2,700
Less : Interest Paid	220	214	253	277	629
Dividend Paid	57	72	135	220	318
CF from Fin. Activity	**1,015**	**1,655**	**3,906**	**1,448**	**1,754**
Inc/Dec of Cash	**972**	**3,292**	**429**	**-2,460**	**-637**
Add: Beginning Balance	262	1,234	4,527	4,955	2,495
Closing Balance	**1,234**	**4,526**	**4,956**	**2,495**	**1,858**

N O T E S

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Disclosure of Interest Statement	IVRCL Infrastructure
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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