

## IVRCL Infrastructure

### Performance Highlights

IVRCL Infrastructure (IVRCL) posted modest set of numbers for 4QFY2010 on a Standalone basis and below our expectations. As per management, Revenue growth was restricted due to the non-conducive political conditions in Andhra Pradesh (AP) and lack of project related clearances in Madhya Pradesh (MP), which would have otherwise bolstered Revenues by Rs600-1,200cr for FY2010. Operating Margins grew by 200bp yoy aiding Bottom-line growth. However, as the company paid Tax at a marginal rate as against claiming Sec 80IA benefits, partially negated the effects of OPM expansion. Bottom-line grew 5.7% yoy to Rs85.3cr in 4QFY2010. In light of Revenue booking being below estimates for FY2010, we prune our Top-line estimates by 12% and 5.1% for FY2011E and FY2012E, respectively. **However, on the back of robust Order Book (4.3x FY2010E Revenues), we maintain a Buy on the stock with a revised Target price of Rs216 (240).**

**Modest Top-line growth, though below expectations:** For 4QFY2010, IVRCL reported a modest growth of 13.2% to Rs1,890cr. Revenue growth was restricted due to the non-conducive political conditions in AP as well as lack of project related clearances in MP, which would have otherwise bolstered Revenues by Rs600-1,200cr. OPM grew by a healthy 200bp to 10.5% for the quarter. The company paid Tax at a marginal rate as against claiming Sec. 80IA benefits, which restricted the benefits of OPM expansion percolating to the PAT level. For FY2010, Top-line grew 12.5% yoy, while OPM witnessed 110bp expansion. Reported PAT for FY2010 witnessed de-growth of 68.9% to Rs70.2cr due to one-time write-offs pertaining to reversal of Tax benefits claimed under Sec.80IA, excluding which Net Profit de-grew 6.5%. On the back of under performance on the Top-line front, we prune our FY2011E and FY2012E Top-line estimates by 12.0% and 5.1% respectively.

**Outlook and Valuation:** IVRCL's past track record bears testimony to its execution capabilities, while its robust Order Book renders Revenue visibility. Therefore, we expect the company to revert back on growth trajectory and do not see any concerns on the execution front. Management has guided to achieve Top-line of Rs7,000cr for FY2011E. However, owing to below expectation 4QFY2010 performance, we have pruned our FY2011E and FY2012E Top-line estimates. Nonetheless, on the back of the company's good past performance, robust Order Book to Sales ratio (4.3x FY2010 Revenues) and sound management, we maintain a Buy on the stock, with a revised Target Price of Rs216(Rs240).

#### Key Financials(Standalone)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Net Sales</b>	<b>4,882</b>	<b>5,492</b>	<b>6,663</b>	<b>8,294</b>
% chg	33.4	12.5	21.3	24.5
<b>Adj.Net Profit</b>	<b>225.6</b>	<b>212.0</b>	<b>259.7</b>	<b>325.2</b>
% chg	7.1	(6.1)	22.6	25.2
<b>FDEPS (Rs)</b>	<b>8.4</b>	<b>7.8</b>	<b>9.6</b>	<b>12.0</b>
EBITDA Margin (%)	8.6	9.7	9.3	9.4
P/E (x)	20.4	21.8	17.8	14.2
RoAE (%)	13.2	11.4	12.9	14.2
RoACE (%)	12.7	13.6	13.3	14.2
P/BV (x)	2.5	2.4	2.2	1.9
EV/Sales (x)	1.2	1.2	1.0	0.9
EV/EBITDA (x)	14.0	12.0	11.1	9.5

Source: Companv. Anael Research

## BUY

CMP	Rs171
Target Price	Rs216

Investment Period	12months
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### Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	4,563
Beta	1.6
52 WK High / Low	212/141
Avg. Daily Volume	483003
Face Value (Rs)	2
BSE Sensex	16,742
Nifty	5,020
Reuters Code	IVRC.BO
Bloomberg Code	IVRC@IN

### Shareholding Pattern (%)

Promoters	9.7		
MF/Banks/Indian FIs	20.6		
FII/NRIs/OCBs	58.0		
Indian Public	11.7		
Abs (%)	3m	1yr	3yr
Sensex	(0.2)	12.6	14.9
IVRCL Infra	3.1	0.2	(3.7)

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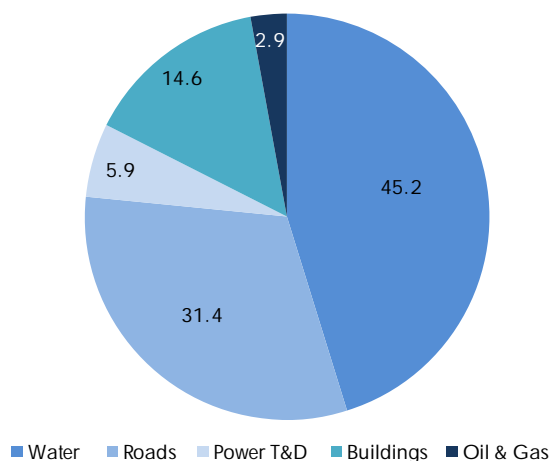
**Exhibit 1: 4QFY2010 Performance (Standalone)**

Y/E March (Rs cr)	4QFY10	4QFY09	%chg	FY2010	FY2009	% chg
<b>Net Sales</b>	<b>1,890</b>	<b>1,671</b>	<b>13.2</b>	<b>5,492</b>	<b>4,882</b>	<b>12.5</b>
Total Expenditure	1,692	1,528	10.7	4,961	4,460	11.2
<b>Operating Profit</b>	<b>198.4</b>	<b>142.7</b>	<b>39.0</b>	<b>531.3</b>	<b>421.8</b>	<b>26.0</b>
OPM (%)	10.5	8.5	-	9.7	8.6	-
Interest	52.5	39.2	34.1	163.9	130.6	25.5
Depreciation	14.0	13.4	4.4	54.3	47.3	14.8
Non Op. Income	2.0	8.7	(77.2)	15.5	29.9	(48.2)
Non recurring items	-	-	0.0	-	-	0.0
Profit Before Tax	133.8	98.8	35.4	328.6	273.8	20.0
Tax	48.6	18.1	167.8	258.6*	47.8	440.9
<b>Reported PAT</b>	<b>85.3</b>	<b>80.7</b>	<b>5.7</b>	<b>70.0</b>	<b>226.0</b>	<b>(69.0)</b>
PAT (%)	4.5	4.8	-	1.3	4.6	-
Adjusted PAT	85.3	80.7	5.7	210.9	226.0	(6.7)
Adj. PAT (%)	4.5	4.8	-	3.8	4.6	-
<b>Adj. FDEPS</b>	<b>3.2</b>	<b>3.0</b>	<b>5.7</b>	<b>7.8</b>	<b>8.4</b>	<b>(6.7)</b>

Source: Company, Angel Research; Note: \*Tax figure for FY2010 includes write back of Tax benefits (Sec-80IA) for previous years to the tune of Rs140.9cr, excluding which Tax rate for FY2010 stands at 35.8%

**Robust Order Book lends Revenue visibility**

The company's Order Book including L1 of Rs2,000cr stood at around Rs23,375cr as on date, and expands the verticals of Water (45.2%), Transportation (31.4%), Power (5.9%), Buildings and Urban Infra (14.6%) and Oil and Gas (2.9%). Orders to the tune of Rs3,900cr are from AP, whereas captive orders amounting to Rs6,000cr are from IVR Prime. Robust Order Book continues to provide Top-line visibility (4.3x FY2010 Revenues).

**Exhibit 2: Segmental Order Book classification (as on May 31, 2010)**


Source: Company, Angel Research

## BOT Portfolio Update

The Jalandhar – Amritsar and Komarapalayam Road BOT projects are operational, whereas the Salem Toll project would commence operations shortly. The Chennai Desalination plant is expected to commence operations shortly. With respect to the new orders in the Road BOT Segment, the company expects to receive 95% of the land for the Chengapalli-Walayar project from NHAI. The Indore-Jabuar and Phaltan Baramati projects are on track in terms of land acquisition. The company has also secured the Goa-Karnataka Road BOT project, which is currently one of India's largest Road BOT projects, with a total project cost of Rs3,100cr and positive grant of Rs660cr.

Overall, management estimates equity requirement to tune of Rs1,300-1,500cr over the next three years, inclusive of Rs350cr in FY2011. The company expects to garner Rs500cr through monetisation of land in IVR Prime and partially utilise the proceeds for the equity component of the recently bagged Road BOT projects.

## Outlook and Valuation

IVRCL's past track record bears testimony to its execution capabilities, while its robust Order Book renders Revenue visibility. Therefore, we expect the company to revert back on growth trajectory and do not see any concerns on the execution front. Management has guided to achieve Top-line of Rs7,000cr for FY2011E. However, owing to below expectation 4QFY2010 performance, we have marginally pruned our Top-line estimates by 12% and 5.1% for FY2011E and FY2012E, respectively.

### Exhibit 3: Revision in estimates

(Rs cr)

	Old Estimates		New Estimates	
	FY2011E	FY2012E	FY2011E	FY2012E
Net Sales	7,570	8,741	6,663	8,294
EBITDA	714.6	826.7	622.4	779.4
PAT	312.8	347.9	259.7	325.2

Source: Company, Angel Research

At the CMP of Rs171, the stock is trading at 14.2x FY2012E EPS and 1.9x FY2012E P/BV. We have valued IVRCL on SOTP basis wherein its core Construction business is valued at a P/E of 14x FY2012E Earnings (Rs168/share), and share in IVR Prime (Rs34/share) and Hindustan Dorr Oliver (Rs14/share) on Market cap basis post assigning a 20% holding company discount. On the back of the company's good past performance, robust Order Book to Sales ratio and sound management, we maintain a Buy on the stock, with a revised Target Price of Rs216 (Rs240).

<b>Profit &amp; Loss Statement (Standalone)</b>						<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011E</b>	<b>FY2012E</b>
<b>Net Sales</b>	<b>2,346</b>	<b>3,661</b>	<b>4,882</b>	<b>5,492</b>	<b>6,663</b>	<b>8,294</b>
Other operating income	32.6	-	-	-	-	-
<b>Total operating income</b>	<b>2,379</b>	<b>3,661</b>	<b>4,882</b>	<b>5,492</b>	<b>6,663</b>	<b>8,294</b>
% chg	54.2	53.9	33.4	12.5	21.3	24.5
Total Expenditure	2,116	3,299	4,460	4,961	6,041	7,514
Net Raw Materials	877	1,247	1,658	2,021	2,185	2,695
Other Mfg costs	1,164	1,899	2,587	2,737	3,531	4,396
Personnel	75	153	215	203	324	423
Other	-	-	-	-	-	-
<b>EBITDA</b>	<b>262.8</b>	<b>361.7</b>	<b>421.4</b>	<b>531.3</b>	<b>622.4</b>	<b>779.4</b>
% chg	75.0	37.6	16.5	26.1	17.1	25.2
(% of Net Sales)	11.0	9.9	8.6	9.7	9.3	9.4
Depreciation & Amortisation	21.6	32.8	47.3	54.3	64.9	72.7
<b>EBIT</b>	<b>241.2</b>	<b>328.9</b>	<b>374.1</b>	<b>477.0</b>	<b>557.4</b>	<b>706.7</b>
% chg	72.2	36.4	13.8	27.5	16.9	26.8
(% of Net Sales)	10.1	9.0	7.7	8.7	8.4	8.5
Interest & other Charges	56.1	47.8	130.6	163.9	188.3	236.0
Other Income	-	4.5	29.9	15.5	18.4	22.0
(% of PBT)	-	1.6	10.9	4.7	4.7	4.5
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>185.1</b>	<b>285.6</b>	<b>273.4</b>	<b>329.5</b>	<b>387.6</b>	<b>492.7</b>
% chg	78.4	54.3	(4.3)	20.5	17.6	27.1
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>185.1</b>	<b>285.6</b>	<b>273.4</b>	<b>329.5</b>	<b>387.6</b>	<b>492.7</b>
Tax	43.6	74.9	47.8	258.6*	127.9	167.5
(% of PBT)	23.6	26.2	17.5	78.5	33.0	34.0
<b>PAT (reported)</b>	<b>141.5</b>	<b>210.7</b>	<b>225.6</b>	<b>70.9</b>	<b>259.7</b>	<b>325.2</b>
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>141.5</b>	<b>210.7</b>	<b>225.6</b>	<b>70.9</b>	<b>259.7</b>	<b>325.2</b>
<b>ADJ. PAT</b>	<b>141.5</b>	<b>210.7</b>	<b>225.6</b>	<b>211.8</b>	<b>259.7</b>	<b>325.2</b>
% chg	52.2	49.0	7.1	(6.1)	22.6	25.2
(% of Net Sales)	6.0	5.8	4.6	3.9	3.9	3.9
<b>Basic EPS (Rs)</b>	<b>10.9</b>	<b>15.8</b>	<b>16.9</b>	<b>7.8</b>	<b>9.6</b>	<b>12.0</b>
<b>Fully Diluted EPS (Rs)</b>	<b>5.2</b>	<b>7.8</b>	<b>8.4</b>	<b>7.8</b>	<b>9.6</b>	<b>12.0</b>
% chg	52.2	49.0	7.1	(6.1)	22.6	25.2

Note: \*Tax figure for FY2010 includes write back of Tax benefits (Sec. 80IA) for previous years to the tune of Rs140.9cr, excluding which Tax rate for FY2010 stands at 35.8%

<b>Balance Sheet (Standalone)</b>							<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	
<b>SOURCES OF FUNDS</b>							
Equity Share Capital	25.9	26.7	26.7	54.0	54.0	54.0	
Preference Capital	-	-	-	-	-	-	
Reserves & Surplus	1,292	1,579	1,784	1,840	2,078	2,381	
<b>Shareholders Funds</b>	<b>1,318</b>	<b>1,606</b>	<b>1,810</b>	<b>1,894</b>	<b>2,132</b>	<b>2,435</b>	
Minority Interest	-	-	-	-	-	-	
Total Loans	556	1,068	1,398	1,886	2,444	2,934	
Deferred Tax Liability	5.6	10.3	11.7	11.7	11.7	11.7	
<b>Total Liabilities</b>	<b>1,879</b>	<b>2,684</b>	<b>3,220</b>	<b>3,792</b>	<b>4,588</b>	<b>5,381</b>	
<b>APPLICATION OF FUNDS</b>							
Gross Block	259	418	662	732	832	982	
Less: Acc. Depreciation	66.4	98.4	141.7	195.9	260.9	333.6	
<b>Net Block</b>	<b>193</b>	<b>319</b>	<b>521</b>	<b>536</b>	<b>571</b>	<b>649</b>	
Capital Work-in-Progress	50.6	54.1	19.6	118.0	125.7	142.7	
Goodwill	-	-	-	-	-	-	
<b>Investments</b>	<b>283</b>	<b>341</b>	<b>389</b>	<b>389</b>	<b>389</b>	<b>389</b>	
Current Assets	2,349	2,883	3,814	4,537	5,482	6,926	
Inventories	82.5	194.3	209.3	392.3	512.5	829.4	
Sundry Debtors	633	658	1,143	1,399	1,752	2,204	
Cash	224	177	101	149	146	160	
Loans & Advances	862	922	1,199	1,318	1,666	2,073	
Other	548	930	1,162	1,278	1,406	1,659	
Current liabilities	996	913	1,523	1,788	1,980	2,725	
<b>Net Current Assets</b>	<b>1,353</b>	<b>1,970</b>	<b>2,291</b>	<b>2,748</b>	<b>3,502</b>	<b>4,201</b>	
Misc. Exp. not written off	-	-	-	-	-	-	
<b>Total Assets</b>	<b>1,879</b>	<b>2,684</b>	<b>3,220</b>	<b>3,792</b>	<b>4,588</b>	<b>5,381</b>	

<b>Cash Flow Statement (Standalone)</b>							<b>(Rs cr)</b>
<b>Y/E March</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010E</b>	<b>FY2011E</b>	<b>FY2012E</b>	
Profit Before Tax	185	286	273	329	388	493	
Depreciation	22	33	47	54	65	73	
Change in Working Capital	628	663	398	409	757	684	
Less: Other income	-	5	30	16	18	22	
Direct taxes paid	44	75	48	259	128	168	
<b>Cash Flow from Operations</b>	<b>(464)</b>	<b>(424)</b>	<b>(155)</b>	<b>(299)</b>	<b>(450)</b>	<b>(309)</b>	
(Inc.)/ Dec. in Fixed Assets	(125)	(162)	(210)	(168)	(108)	(167)	
(Inc.)/ Dec. in Investments	(6)	(58)	(48)	-	-	-	
(Inc.)/ Dec. in loans & adv.	-	-	-	-	-	-	
Other income	-	5	30	16	18	22	
<b>Cash Flow from Investing</b>	<b>(132)</b>	<b>(215)</b>	<b>(228)</b>	<b>(153)</b>	<b>(89)</b>	<b>(145)</b>	
Issue of Equity	719	100	-	35	-	-	
Inc./(Dec.) in loans	(123)	512	330	488	558	490	
Dividend Paid (Incl. Tax)	(15)	(22)	(19)	(22)	(22)	(22)	
Others	(5)	3	(4)	-	-	-	
<b>Cash Flow from Financing</b>	<b>575</b>	<b>593</b>	<b>307</b>	<b>500</b>	<b>536</b>	<b>468</b>	
Inc./(Dec.) in Cash	(21)	(47)	(76)	48	(3)	15	
<b>Opening Cash balances</b>	<b>244</b>	<b>224</b>	<b>177</b>	<b>101</b>	<b>149</b>	<b>146</b>	
<b>Closing Cash balances</b>	<b>224</b>	<b>177</b>	<b>101</b>	<b>149</b>	<b>146</b>	<b>160</b>	

**Key Ratios**

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	32.6	21.9	20.4	21.8	17.8	14.2
P/CEPS	28.3	18.9	16.9	17.3	14.2	11.6
P/BV	3.5	2.9	2.5	2.4	2.2	1.9
Dividend yield (%)	0.6	0.8	0.8	0.9	0.9	1.0
EV/Sales	2.1	1.5	1.2	1.2	1.0	0.9
EV/EBITDA	18.8	15.2	14.0	12.0	11.1	9.5
EV / Total Assets	2.6	2.1	1.8	1.7	1.5	1.4
<b>Per Share Data (Rs)</b>						
EPS (Basic)	5.2	7.8	8.4	7.8	9.6	12.0
EPS (fully diluted)	5.2	7.8	8.4	7.8	9.6	12.0
Cash EPS	6.0	9.0	10.1	9.9	12.0	14.7
DPS	1.0	1.4	1.4	1.5	1.6	1.7
Book Value	48.8	59.5	67.1	70.2	79.0	90.2
<b>Dupont Analysis</b>						
EBIT margin	10.1	9.0	7.7	8.7	8.4	8.5
Tax retention ratio	76.4	73.8	82.5	21.5	67.0	66.0
Asset turnover (x)	1.3	1.8	1.7	1.6	1.6	1.7
ROIC (Post-tax)	9.8	11.7	11.0	3.0	9.2	9.7
Cost of Debt (Post Tax)	7.7	4.3	8.7	2.1	5.8	5.8
Leverage (x)	0.3	0.4	0.6	0.8	1.0	1.1
Operating ROE	10.3	14.6	12.4	3.8	12.6	13.9
<b>Returns (%)</b>						
ROACE (Pre-tax)	12.8	14.4	12.7	13.6	13.3	14.2
Angel ROIC (Pre-tax)	12.8	15.8	13.3	14.1	13.8	14.6
ROE	10.7	14.4	13.2	11.4	12.9	14.2
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	9.2	10.8	9.0	7.9	8.5	9.1
Inventory / Sales (days)	13	14	15	20	25	30
Receivables (days)	97	64	67	84	86	87
Payables (days)	130	99	96	118	111	111
Working capital (ex-cash) (days)	173	146	149	159	163	163
<b>Solvency ratios (x)</b>						
Net debt to equity	0.3	0.6	0.7	0.9	1.1	1.1
Net debt to EBITDA	1.3	2.5	3.1	3.3	3.7	3.6
Interest Coverage (EBIT / Interest)	4.3	6.9	2.9	2.9	3.0	3.0

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Disclosure of Interest Statement	IVRCL Infrastructure
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

### Ratings (Returns) :

Buy (&gt; 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)

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Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838 / NSE Member code -12798 Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 00220 / FMC Regn No: NCDEX / TCM / CORP / 0302