



Results Flash

IVRCL Infra IVRC IN

INDIA / CONSTRUCTION

**TARGET
CLOSE
UP/DOWNSIDE**

**INR124.00
INR70.25
+76.5%**

BUY

Write-off impacts 4QFY11

- 4QFY11 revenue and PAT below estimates
- Delays in handful projects substantially impact numbers
- No guidance for FY12, entering seasonally weak quarters
- We will revisit estimates after incorporating 4QFY11 results



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4QFY11 results miss estimates

IVRCL reported 4QFY11 revenue grew 9% y-y to INR20.5b, 20% short of our estimate. Management cited delays in clearances in certain large BOT projects (Goa and Sion-Panvel) as the primary reason for the shortfall. EBITDA was INR1.8b, a 10.3% y-y decline and 30% below our estimate. EBITDA margin was 8.7%, 180bps lower than last year and 120bps below our estimate. Excluding write-off of INR400m due to cost overruns (potentially recoverable according to management), EBITDA margin was flat y-y and 70bps above our estimate.

Interest cost was INR657m, an increase of 25% y-y but 13% below our estimate. PAT fell 25% y-y to INR643m, 42% lower than our estimate. Excluding cost overruns, PAT was 5% below our estimate.

No guidance for FY12, we will revisit estimates

IVRCL gave no guidance for FY12 due to poor visibility. However, management said that the Sion-Panvel project (INR12b) is picking up pace. IVRCL continues to have a large order book of INR238b, representing 4x FY11 revenue. The balance sheet remains stretched with the working capital-to-revenue ratio at 48% of LTM revenue. Net debt to equity was 1.1x. We will revisit our estimates after incorporating the 4QFY11 numbers.

Valuation

We will revisit our SoTP-based TP of INR124 after incorporating the 4QFY11 numbers. The standalone business contributes INR100 to our TP, based on 6.5x 1-year forward NTM EV/EBITDA (10x implied P/E). IVR Assets and Hindustan Dorr contribute INR15 and INR9, respectively, based on a 25% holding company discount to their market caps. Risks to our recommendation include: slower order intake, poor execution, inflation, higher interest costs, and failure to raise capital at the subsidiaries.

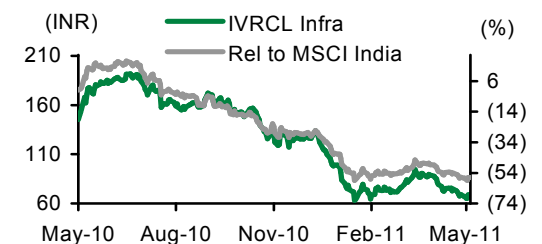
HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	124.00	110.00	12.7
EPS 2011 (INR)	7.53	5.89	(27.8)
EPS 2012 (INR)	8.50	7.91	6.9
	Positive	Neutral	Negative
Market Recs.	36	5	1

KEY STOCK DATA

YE Mar (INR m)	2011E	2012E	2013E
Revenue	61,300	70,490	81,030
Rec. net profit	2,038	2,301	3,039
Recurring EPS (INR)	7.53	8.50	11.23
EPS growth (%)	(2.3)	12.8	32.1
Recurring P/E (x)	9.3	8.3	6.3
Dividend yield (%)	1.0	1.0	1.0
EV/EBITDA (x)	6.1	5.8	4.8
Price/book (x)	0.9	0.8	0.7
Net debt/Equity	108.6	95.2	74.4
ROE (%)	10.5	10.8	12.7

Mkt cap (USD m)	416
3m avg daily turnover (USD m)	6.2
Free float (%)	73
Major shareholder	Promoters (10%)
12m high/low (INR)	191.70/63.35
3m historic vol. (%)	58.7



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(18.7)	0.7	(54.8)
Relative to country (%)	(13.1)	(2.5)	(61.1)

Sources: Bloomberg consensus; BNP Paribas estimates

Exhibit 1: Key results

IVRCL Scorecard	4Q10A	4Q11A	Change	4Q11E	Var
	(INR m)	(INR m)	(y-y %)	(INR m)	(%)
Sales	18,904.1	20,522.1	8.6	25,656.9	(20.0)
EBITDA	1,984.1	1,780.7	(10.3)	2,539.0	(29.9)
EBITDA margin %	10.5	8.7		9.9	
EBIT	1,843.6	1,563.3	(15.2)	2,329.0	(32.9)
EBIT margin %	9.8	7.6		9.1	
Net Profit	852.3	642.5	(24.6)	1,099.9	(41.6)
PAT margin %	4.5	3.1		4.3	

Sources: IVRCL, BNP Paribas

Excluding INR400m in write-off, EBITDA margin was 10.6% for the quarter and PAT was INR104m.

FINANCIAL STATEMENTS

IVRCL Infra

Profit and Loss (INR m) Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Revenue	48,679	54,771	61,300	70,490	81,030
Cost of sales ex depreciation	(41,772)	(46,281)	(50,987)	(58,588)	(67,318)
Gross profit ex depreciation	6,907	8,490	10,313	11,903	13,712
Other operating income	140	152	359	100	100
Operating costs	(2,829)	(3,329)	(4,768)	(5,128)	(5,906)
Operating EBITDA	4,218	5,313	5,904	6,875	7,906
Depreciation	(473)	(543)	(748)	(865)	(977)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	3,745	4,770	5,156	6,010	6,929
Net financing costs	(1,306)	(1,637)	(2,282)	(2,714)	(2,528)
Associates	0	0	0	0	0
Recurring non operating income	299	155	126	150	150
Non recurring items	0	0	0	0	0
Profit before tax	2,738	3,288	3,001	3,446	4,551
Tax	(478)	(1,177)	(962)	(1,145)	(1,512)
Profit after tax	2,260	2,111	2,038	2,301	3,039
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	2,260	2,111	2,038	2,301	3,039
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	2,260	2,111	2,038	2,301	3,039

Per share (INR)

Recurring EPS *	8.47	7.71	7.53	8.50	11.23
Reported EPS	8.47	7.91	7.62	8.60	11.36
DPS	0.70	0.70	0.70	0.70	0.70

Growth

Revenue (%)	33.0	12.5	11.9	15.0	15.0
Operating EBITDA (%)	16.7	26.0	11.1	16.4	15.0
Operating EBIT (%)	13.9	27.4	8.1	16.6	15.3
Recurring EPS (%)	20.0	(8.9)	(2.3)	12.8	32.1
Reported EPS (%)	17.7	(6.6)	(3.7)	12.9	32.1

Operating performance

Gross margin inc depreciation (%)	13.2	14.5	15.6	15.7	15.7
Operating EBITDA margin (%)	8.7	9.7	9.6	9.8	9.8
Operating EBIT margin (%)	7.7	8.7	8.4	8.5	8.6
Net margin (%)	4.6	3.9	3.3	3.3	3.8
Effective tax rate (%)	17.5	35.8	32.1	33.2	33.2
Dividend payout on recurring profit (%)	8.3	9.1	9.3	8.2	6.2
Interest cover (x)	3.1	3.0	2.3	2.3	2.8
Inventory days	17.6	17.9	20.8	22.4	22.4
Debtor days	67.5	102.9	123.9	117.4	107.2
Creditor days	103.5	152.6	178.1	170.5	163.3
Operating ROIC (%)	12.6	11.3	11.0	10.9	12.5
Operating ROIC – WACC (%)	(2.1)	(3.0)	(3.4)	(3.5)	(1.9)
ROIC (%)	11.9	9.8	9.5	9.5	10.7
ROIC – WACC (%)	(2.9)	(4.5)	(4.9)	(4.9)	(3.6)
ROE (%)	13.2	11.5	10.5	10.8	12.7
ROA (%)	8.0	5.9	5.6	5.7	6.1

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (INR m)	2009A	2010A	2011E	2012E	2013E
Engineering & Construction	48,679	54,771	61,300	70,490	81,030

Sources: IVRCL; BNP Paribas estimates

Conservative revenue growth; we believe 5% upside is possible

9.5-10% EBITDA margin guidance

IVRCL Infra

Cash Flow (INR m)					
Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Recurring net profit	2,260	2,111	2,038	2,301	3,039
Depreciation	473	543	748	865	977
Associates & minorities	0	0	0	0	0
Other non-cash items	0	0	0	0	0
Recurring cash flow	2,733	2,654	2,787	3,166	4,016
Change in working capital	(2,878)	(2,480)	(8,946)	(513)	405
Capex - maintenance	0	0	0	0	0
Capex – new investment	(2,188)	(1,209)	(1,226)	(1,201)	(1,126)
Free cash flow to equity	(2,333)	(1,035)	(7,386)	1,452	3,295
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(189)	(215)	(219)	(219)	(219)
Non recurring cash flows	(176)	(69)	0	(500)	(500)
Net cash flow	(2,698)	(1,319)	(7,605)	733	2,576
Equity finance	0	0	0	0	0
Debt finance	1,322	296	4,717	(2,264)	(4,028)
Movement in cash	(1,377)	(1,023)	(2,887)	(1,531)	(1,452)

Capex increased to reflect FY11 run-rate

Per share (INR)

Recurring cash flow per share	10.24	9.94	10.42	11.83	15.01
FCF to equity per share	(8.74)	(3.88)	(27.61)	5.42	12.31

Balance Sheet (INR m)

Year Ending Mar	2009A	2010A	2011E	2012E	2013E
Working capital assets	37,127	45,361	56,226	59,789	61,845
Working capital liabilities	(15,226)	(24,369)	(26,288)	(29,338)	(31,799)
Net working capital	21,900	20,992	29,938	30,451	30,046
Tangible fixed assets	5,402	6,017	6,495	6,832	6,981
Operating invested capital	27,303	27,009	36,433	37,283	37,027
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Investments	3,892	6,138	6,138	6,638	7,138
Other assets	0	0	0	0	0
Invested capital	31,195	33,147	42,571	43,920	44,165
Cash & equivalents	(1,009)	(1,644)	(1,038)	(2,220)	(3,296)
Short term debt	0	0	0	0	0
Long term debt *	13,980	16,133	23,132	23,582	22,082
Net debt	12,972	14,490	22,094	21,362	18,786
Deferred tax	117	125	125	125	125
Other liabilities	0	0	0	0	0
Total equity	18,106	18,533	20,352	22,434	25,254
Minority interests	0	0	0	0	0
Invested capital	31,195	33,147	42,571	43,920	44,165

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)

Book value per share	67.83	69.44	76.07	83.83	94.37
Tangible book value per share	67.83	69.44	76.07	83.83	94.37

Higher debt has been used to fund working capital

Financial strength

Net debt/equity (%)	71.6	78.2	108.6	95.2	74.4
Net debt/total assets (%)	27.3	24.5	31.6	28.3	23.7
Current ratio (x)	2.5	1.9	2.2	2.1	2.0
CF interest cover (x)	0.9	1.1	(1.7)	2.0	2.7

Valuation	2009A	2010A	2011E	2012E	2013E
Recurring P/E (x) *	8.3	9.1	9.3	8.3	6.3
Recurring P/E @ target price (x) *	14.6	16.1	16.5	14.6	11.0
Reported P/E (x)	8.3	8.9	9.2	8.2	6.2
Dividend yield (%)	1.0	1.0	1.0	1.0	1.0
P/CF (x)	6.9	7.1	6.7	5.9	4.7
P/FCF (x)	(8.0)	(18.1)	(2.5)	12.9	5.7
Price/book (x)	1.0	1.0	0.9	0.8	0.7
Price/tangible book (x)	1.0	1.0	0.9	0.8	0.7
EV/EBITDA (x) **	6.5	5.9	6.1	5.8	4.8
EV/EBITDA @ target price (x) **	9.7	8.6	8.5	7.8	6.6
EV/invested capital (x)	1.0	1.0	1.0	0.9	0.9

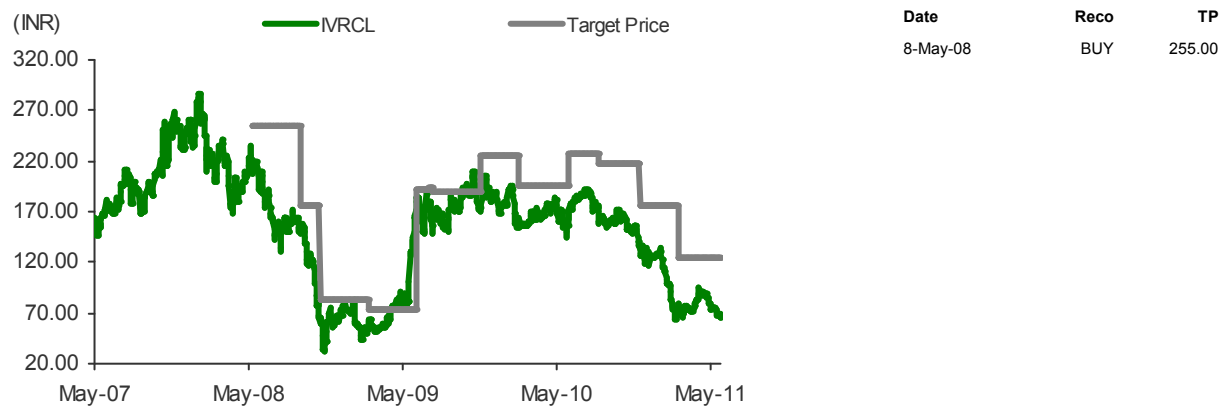
* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: IVRCL; BNP Paribas estimates

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE

IVRCL Infrastructures & Projects (IVRC IN)



Vishal Sharma started covering this stock from 8 May 2008
 Price and TP are in local currency

Valuation and risks: Downside risks to our SoTP-based TP include further execution delays in Andhra Pradesh and higher raw material prices affecting margins.

Sources: Bloomberg, BNP Paribas

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All share prices are as at market close on 30 May 2011 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock Ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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Improving (↑): The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral (↔): The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

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Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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Buy	364	Buy	5.22
Hold	140	Hold	3.57
Reduce	52	Reduce	1.92

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