
Indian Road Sector - Sector note with initiation on ITNL

January 2011

Indian Road Sector

High on Highways

Sector Outlook

Positive

Sector brimming with opportunity; large players to emerge as winners

With an estimated US\$ 1tn of investments earmarked for the 12th plan, the Govt. envisions infrastructure development as the biggest thrust area necessary to enable India leap-frog into the next phase of development. The road sector in particular is in focus and will account for ~15% of this expected infra spend translating to a US\$ 150bn opportunity. Hence we are positive on the road sector.

NHAI – the nodal agency on roads - is at the forefront driving investment in highways through programmes like NHDP. Spurt in BOT opportunities, simplicity of bidding and execution & high traffic-growth expectations have lured the private players to take part in the sector & they are expected to corner an ever-increasing share of the future road projects as well. Of them, the larger players are to specifically benefit due to the recent changes in the NHAI bid guidelines like the networth criteria, JV stipulation, restriction on number of projects in pipeline etc. Finally, the planned mega highway projects will also present a niche opportunity to these larger players.

We prefer IRB over ITNL, albeit marginally, due to an in-house construction arm and more profitable road stretches

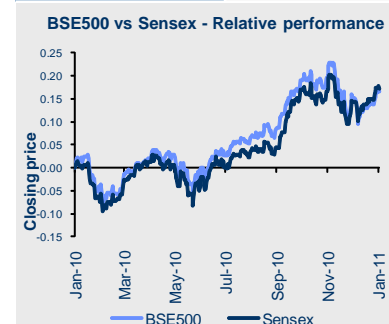
- We prefer the integrated model with construction capabilities like IRB's model as it enables tighter control on costs and completion-time than a model like ITNL's which restricts itself to project management only on the construction side
- IRB's construction arm scores over ITNL's as it has strong revenue visibility (Rs. 72bn construction orderbook), RM cost advantages and strong equipment base of >Rs. 4bn while ITNL's construction arm does not possess any such construction capability and serves more as a project aggregator. Thus margins on pure construction of ITNL's is only ~10-12% as against the ~14% of IRB's
- We also prefer a player with a profitable roads-portfolio like IRB than that which is well-diversified geographically and revenue model-wise like that of ITNL's. IRB's roads portfolio is likely to generate a cumulative EBITDA of >Rs. 50bn and PBT of ~Rs. 15bn over FY12-15E. On the other hand, ITNL's roads portfolio is not as attractive from a profitability perspective with cumulative EBITDA of ~Rs. 57bn with corresponding PBT of ~Rs. 4.9bn over the same period
- We also view favourably IRB's ~13% overall market share with NHAI projects that have been awarded in FY08-10 vis-à-vis ITNL's track record which is lower at ~5% overall market share during the same period. This in our view makes IRB a stronger contender for the upcoming mega road projects, which is likely to be a niche opportunity
- In the light of increasing opportunity in the BOT road projects space and strong networth possessed by both these players (at comfortable range of ~Rs. 20bn) we foresee a virtuous cycle of more projects garnered by both IRB and ITNL in the future and hence a growing order-book and a growing network

Viewed on an absolute scale we revise our stance on IRB to 'Add' (from Sell) and we initiate coverage on ITNL with an 'Add' rating. However, on a relative basis we rate IRB as 'Outperform' while we rate ITNL as 'Underperform' given our relative preference for IRB's business model.

Date	Jan 05, 2011
------	--------------

Market data

Sensex	20499
Nifty	6146
BSE500	7981



Performance of Indices (%)

	1m	3m	12m
BSE500	1.4%	-2.3%	15.6%
Sensex	2.7%	0.1%	16.7%

Vijaykumar Bupathy
vijaykumar@sparkcapital.in
 +91 44 4344 0036

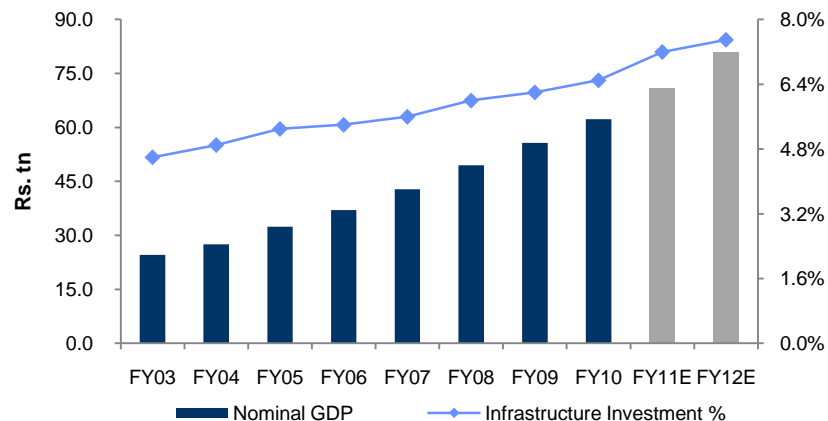
Bharanidhar Vijayakumar
bharanidhar@sparkcapital.in
 +91 44 4344 0038



The Industry Scenario

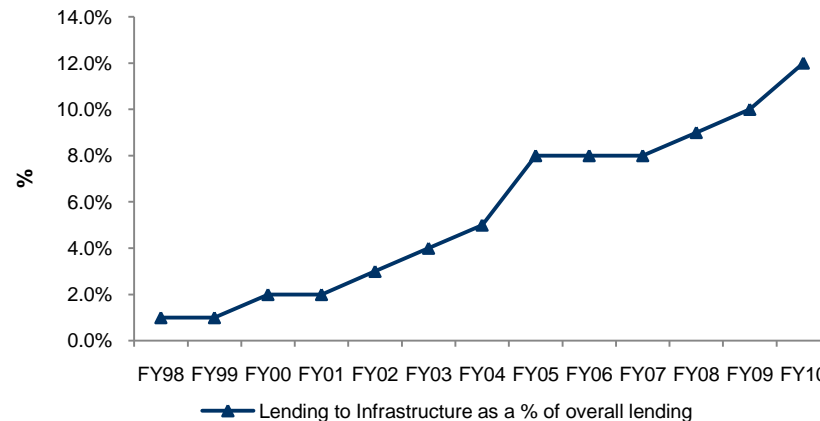
Dominant Infra theme – A US\$ 150bn opportunity during the 12th Plan

Continued emphasis on infrastructure spending



Source: Plan Documents

Flow of funds into the infrastructure sector ever increasing



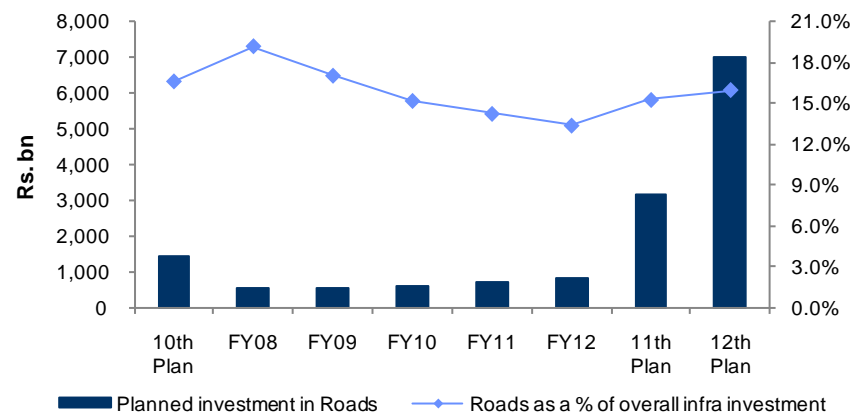
Source: RBI

Roads in focus, with only 6% of network being highways

Particulars	Length (kms)	Length %	Traffic %	Agency
National Highways	66,590	2.0%	20.0%	CG through Dept. of Road Transport
State Highways	131,899	4.0%	61.0%	State Govts (PWDs)
Major District roads, rural and urban roads	3,117,763	94.0%	19.0%	Rural Engineering Organizations & Local Authorities
Total	3,316,252	100.0%	100.0%	

Source: NHAI, Spark Capital Research

~15-16% of expected investments to be in Roads & bridges



Source: Plan Documents

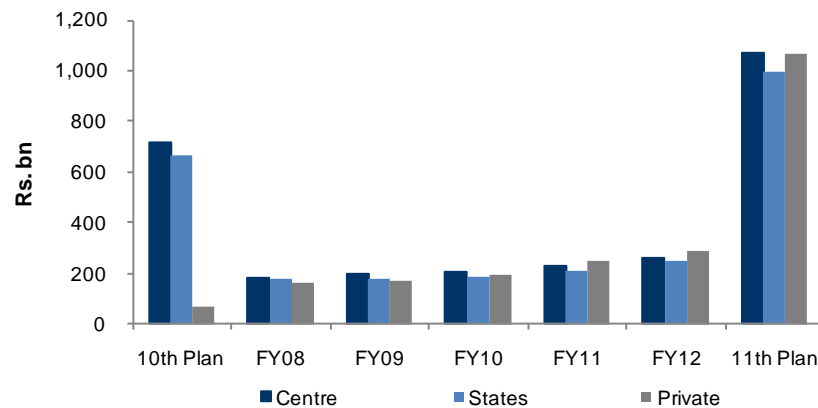
Road map of expected opportunities

NHAI focuses on National Highways through the 7 Phase NHDP

Phases	Details	Length Kms	Completed	Being Implemented	To be awarded
1	GQ	5,846	5,809	37	Nil
1&2	NS-EW	7,300	5,385	1,332	583
3	4 Laning	12,109	1,922	5,207	4,980
4	2 Laning	14,799	Nil	378	14,421
5	6 Laning	6,500	407	1,893	4,200
6	Expressway	1,000	Nil	Nil	1,000
7	Ring roads etc	700	Nil	41	659

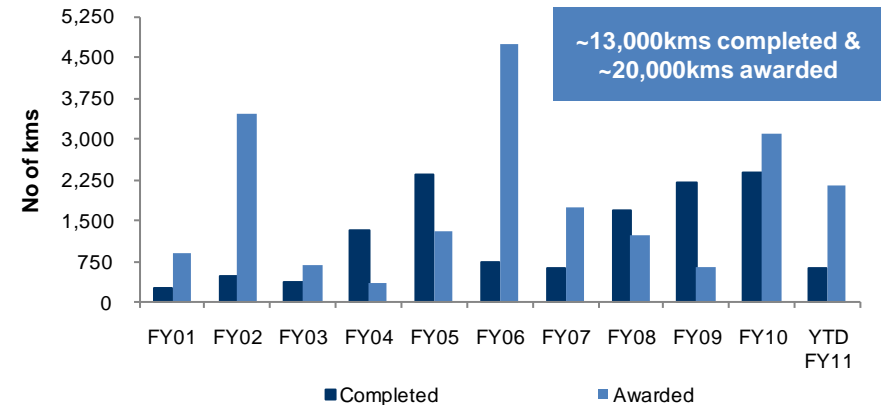
Source: NHAI, Spark Capital Research

Planned investments split evenly between Centre, State & Private



Source: Plan Documents

Of the NHDP, only ~40% awarded and ~27% completed



Source: NHAI, Spark Capital Research

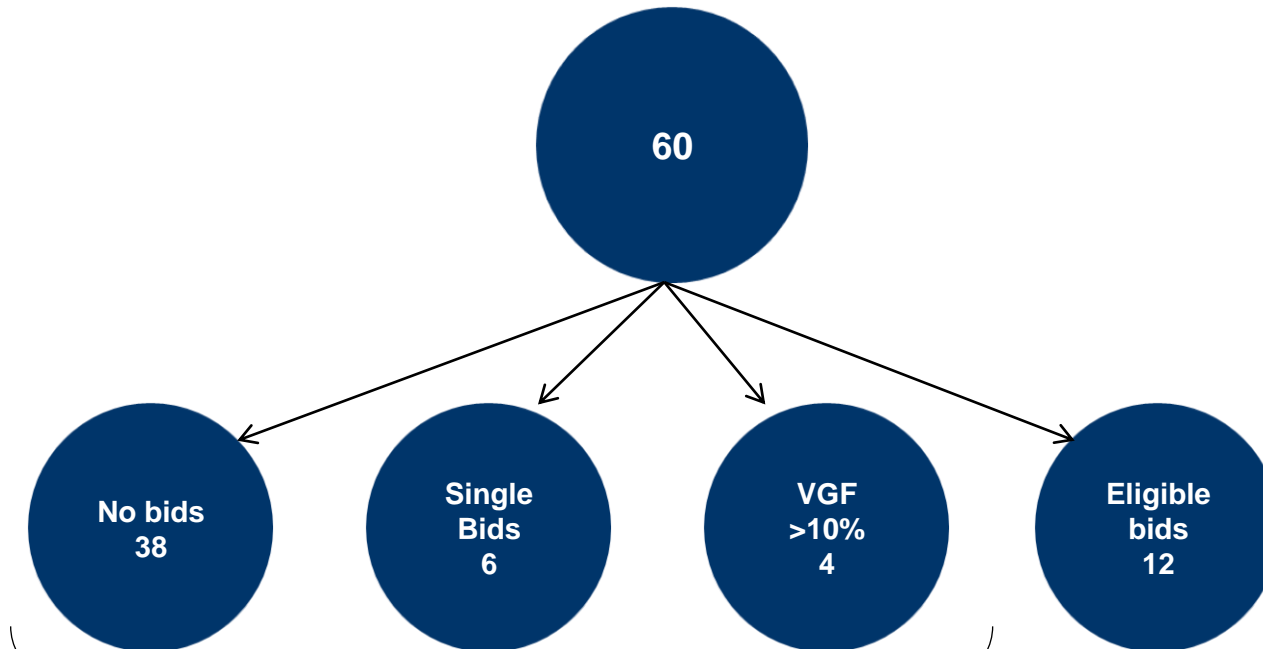
BOT Projects awarded over the 11th Plan

Year	# Toll	Length Kms	Project Cost (Rs. mn)	# Annuity	Length Kms	Project Cost (Rs. mn)
FY08	8	1,109	80,570	1	36	2,090
FY09	7	639	81,510	0	0	0
FY10	38	3,188	316,380	3	172	17,750
Total	53	4,936	478,460	4	208	19,840

Source: NHAI, Spark Capital Research

What happened to NHAI projects in 2008-09, during the financial crisis

Bids initiated by NHAI during late 2008



The above 48 projects along with an additional 22 projects were then made available for bidding. Of these 70 projects, NHAI estimated that only 23 Phase III projects and 12 Phase V projects (total 35) were likely to be viable on toll basis

Key findings following the bidding debacles of late 2008

- ✦ Not all projects are viable on tolling basis with realistic traffic growth assumptions. 38 out of 60 projects had no bidders during this phase.
- ✦ Requirement to rebid single-bid cases delays the project award process.
- ✦ There is merit to increasing the VGF from the 10% limit imposed.
- ✦ The BK Chaturvedi committee undertook a detailed study of several road stretches and concluded that
 - Only 35 projects out of the 70 projects could be viable on toll basis. Thus a greater focus on annuity projects.
 - Going beyond the aforesaid 70 projects and looking at the remaining 133 projects, more than 90 projects may not be viable on toll basis.

Key regulatory changes thereafter; we expect larger players to cash in

Recent changes in regulatory stance		
Aspect	Earlier Provisions	Revised Provisions
Single Bid	Projects with only single bids went into a rebidding process (6 out of 22 projects during Oct'08-June'09 were with single bids).	Discretionary powers given the NHAI Board to accept single bids if found reasonable
Viability Gap Funding	VGF for 6-lane packages restricted to 10% with an overall cap of 5% for the entire 6-laning programme.	Overall VGF raised to 10% with individual project's VGF being restricted to 20%
Grant	40% grant to be distributed evenly during the construction and operation period. For projects awarded in 2009, entire grant during construction period.	Entire grant to be paid out during the construction period itself.
Termination Clause	NHAI can terminate the contract if average daily traffic in any year exceeds the design capacity. Contract was to continue only if the developer augmented the highway.	Where traffic exceeds design capacity, developer to prepare a DPR. On that basis NHAI would allow a max extension of 5 years at 15% IRR on incremental investment.
Developer Exit	Winning bidder must hold at least 51% of SPV during construction, 33% for 3 years into operation and 26% till end of concession.	51% stake to be maintained during the construction period only.
Conflict of Interest	Bid disqualified if a bidder holds more than 5% in any other company that is applying for the same project.	5% replaced by 25% so that financial investors owning stakes in multiple companies are not impacted.
Prequalification	Prequalification to be prepared individually for projects or for a maximum of three projects.	Prequalifications to be prepared annually and would be valid for 12 months or until September 30 th , whichever is earlier.
Award Mechanism	Bids to be called on toll basis first. In case of poor response, on annuity basis. If the response to that is poor as well, to be awarded on EPC.	Projects can be directly bid on annuity basis if prima facie found unviable on tolling basis.
Restriction on number of projects	No restrictions on number of projects that a developer could take up.	A bidder is disqualified from bidding for new projects if funding for three or more of projects has not been finalized.
Networth Criteria	Developer to have (combined) networth equivalent to 25% of the project cost.	Slab based at 25% of TPC upto Rs. 20bn, 50% of TPC for Rs. 20.0 to 30.0bn and 100% of TPC for >Rs. 30.0bn.

All the changes in regulations are focused on improving the pace of project award as well as execution. Also now, upto 80% of LA needs to be completed ahead of handing over projects to the developer.

Positive for larger developers with networth >Rs. 20.0bn. Only they can potentially bid for the mega road projects that are in pipeline.

Mega road projects – A specific focus opportunity for the large players

List of mega highway projects in the pipeline

State	Project name	Length in Kms	Project Cost in Rs. bn
Andhra Pradesh	Six laning of Ichapuram-Srikakulam-Vishakhapatnam-Ankapalli-Rajahmundry	436	35.2
Rajasthan & Gujarat	Six laning of Kishangarh-Udaipur-Ahmedabad	557	50.0
Maharashtra	Four laning of Gujarat-Maharashtra border-Dhule-Jalgaon-Akola-Amravati	485	39.1
Madhya Pradesh	Four laning of Gwalior-Shivpur-Biaora-Dewas	450	36.3
Punjab & Rajasthan	Two lanes with paved shoulder of Amritsar-Ganganagar-Bikaner-Nagaur-Jodhpur-Pali	700	56.4
Madhya Pradesh	Four laning of Lakhnadon-Jabalpur-Katni-Reva	400	31.4
Maharashtra	Four laning of Indapur-Goa/Maharashtra border	400	31.4
Gujarat	Four laning of Ahmedabad-Bamanbore-Samakhili and Bamanbore-Rajkot-Gondal	425	34.3
Gujarat	Six/four/two lanes with paved shoulders of Bhavnagar-Pipavav-Porbandar-Dwarka	445	35.9
Maharashtra	Six laning of Aurangabad	425	38.3
Total		4,773	350.0

Potential beneficiaries of the mega high way projects

- ☞ A total of 10 mega highway projects are being planned by the Govt. Of these, NHA has asked for qualifications for only two projects, one in Apr' 2010 and another during Jun'2010.
- ☞ This initiative of the Govt. coupled with the recent change in network criteria, implies that only the larger players with network of >Rs. 20bn would be eligible for these projects, each of which is over the Rs. 40bn TPC mark.
- ☞ We think established players such as IRB, ITNL and Reliance Infrastructure will be key beneficiaries of this new initiative from the Govt.

Moreover, the Govt. has outlined a new expressway programme which plans to build >18,000kms of greenfield expressways by 2022, in a phased manner. Again we expect the larger players to garner a lion's share of these upcoming opportunities within the sector.

Framework of Analysis

Indian Road Sector

Coverage universe – Key Differentiators

We evaluate IRB and ITNL using the following key parameters



Business model – prefer the integrated development model of IRB with ability to provide construction services



Portfolio of road assets – prefer a profitable roads portfolio with conservative leverage



Market share dynamics – prefer IRB due to better market share with NHAI



Contribution from the EPC arm – prefer a profitable and sustainable model



Financials – Look at consolidated financials with focus on growth, leverage and RoEs

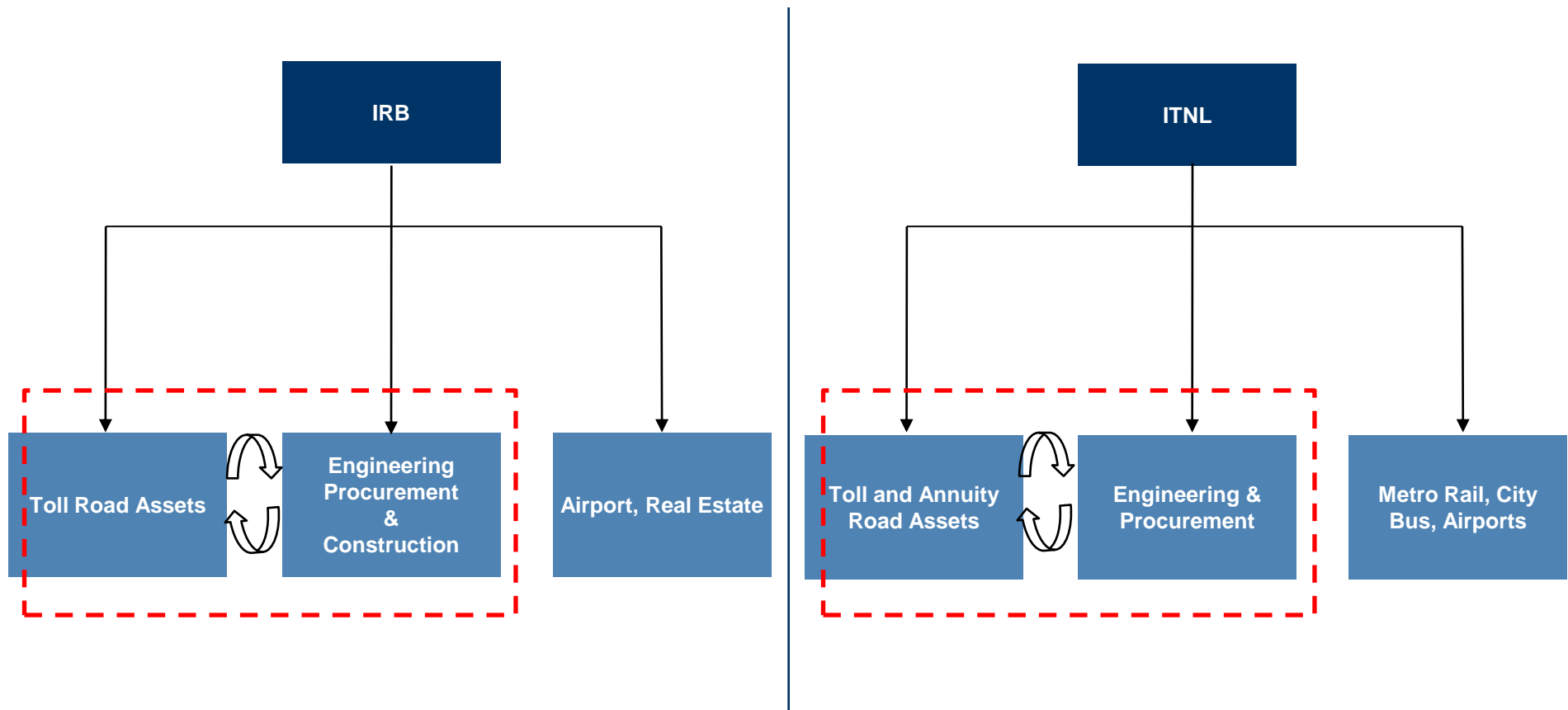


Valuations – Greater proportion of value from low risk BOT assets is a positive

Road Sector – Framework of Analysis

#1 Comparison of business models of IRB and ITNL

Both IRB as well as ITNL have an integrated development model possessing both ownership of road assets and an EPC arm which works almost exclusively for the roads segment. However, while IRB has construction capabilities with an equipment bank of >Rs. 4bn, ITNL's EPC segment does not possess any construction capabilities. Thus IRB captures the greater part of the value chain of Designing, Constructing, Financing, Operating and Maintaining a road asset. Thus we have reason to prefer the business of IRB over ITNL, albeit marginally.



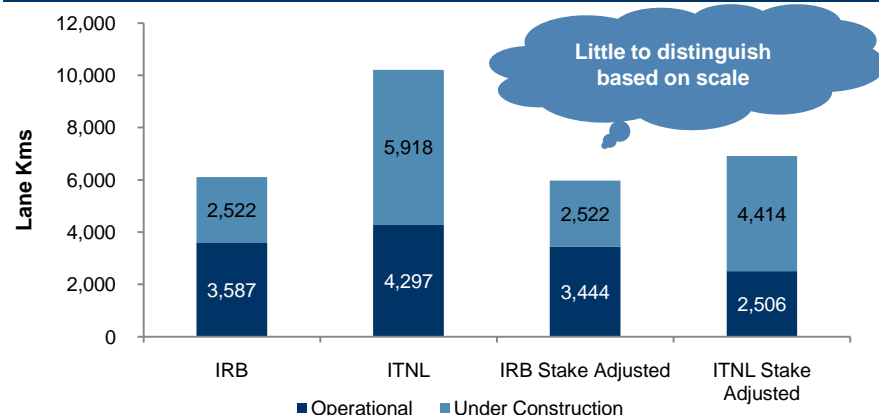
Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

30,000ft view of the road asset portfolios of IRB and ITNL – We view the portfolio of IRB in slightly brighter light

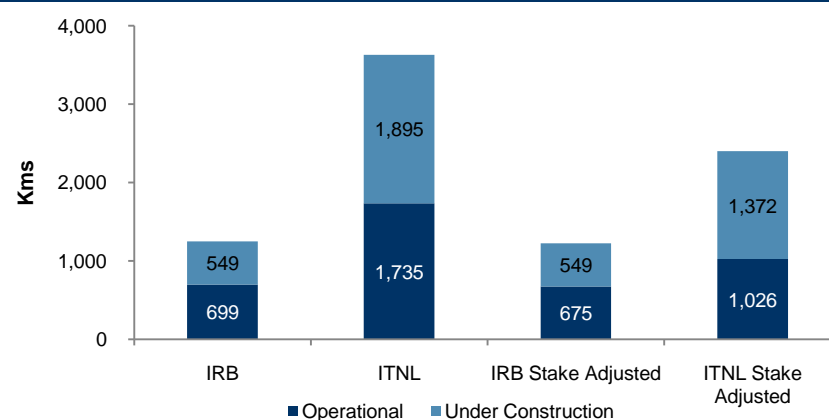
- **Comparable scale** - Road asset portfolios of the two companies are comparable to a large degree with IRB possessing 6,109 lane kms and ITNL having >10,000 lane kms of roads. However, viewed on a stake-adjusted basis, we note that the portfolios of the two companies are comparable with IRB at a shade under 6,000 lane kms and ITNL at a shade under 7,000. **Thus there is little to differentiate between the two companies based on scale.**
- **Diametrically different on source of projects, maturity of asset portfolio and revenue mix** - IRB has a total of 14 BOT toll projects with 6 of those projects in the construction stage. All the projects secured by the company over the last 2-3 years have been from NHAI. On the other hand, ITNL has a total of 22 road projects with 11 on annuity basis and 11 on toll basis. Of the 22 projects, 12 are under construction, of which 7 are on toll and 5 are on annuity. Moreover, only 5 out of the 12 projects under construction awarded by NHAI, reflecting the company's reliance on State sector for its projects. **We prefer IRB's relative maturity of projects (9 projects generating strong revenues and profits) which we believe will allow the company to bid for more projects (and win) in the near term as well as its focus on NHAI projects which are more likely to get commissioned on time (NHAI places greater emphasis on LA than the States and there is greater clarity on the terms of the contracts).**
- IRB is expected to commission projects with costs totaling to ~Rs. 60bn over the next 3 years whereas ITNL is expected to commission projects worth Rs. 108bn (stake adjusted) over the next 4 years. Viewed on the basis of equity to be infused over such periods, we observe that IRB is expected to infuse ~Rs. 15bn whereas ITNL is expected to infuse only ~Rs. 13bn. Thus we believe the costs (in equity terms) to be incurred by the two companies is similar but the leverage (and hence risk) on the ITNL balance sheet is expected to be greater. **Prefer the conservative financing pattern at IRB.**

IRB & ITNL – Lane Kms



Source: Company, Spark Capital Research

IRB & ITNL - Kms



Source: Company, Spark Capital Research

Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

List of projects under the fold of IRB						
Project	State	Kms	Lane Kms	CoD	Project Cost (Rs. mn)	Operational
Thane Bhiwandi Bypass	Maharashtra	24	96	Jan-99	1,040	✓
Kharpada Bridge	Maharashtra	1	3	Nov-97	320	✓
Nagar Karmala Tembhorni	Maharashtra	60	240	Dec-00	368	✓
Mohol Mandrup Kamtee	Maharashtra	33	132	May-02	180	✓
Pune Nashik	Maharashtra	30	119	Sep-03	737	✓
Pune Sholapur	Maharashtra	26	104	Mar-03	630	✓
Mumbai Pune	Maharashtra	206	1,009	Aug-04	13,016	✓
Thane Ghodbunder	Maharashtra	15	60	Dec-05	2,462	✓
Surat Dahisar	Gujarat	239	1,434	Feb-09	28,350	Tolling Commenced – project under construction
Bharuch Surat	Gujarat	65	390	Jan-07	14,700	✓
Kolhapur Project	Maharashtra	50	300	Jan-11	4,300	✗
Pathankot to Amritsar	Punjab	102	410	Nov-12	14,453	✗
Jaipur to Deoli	Rajasthan	146	585	Dec-12	17,330	✗
Talegaon to Amravati	Maharashtra	67	267	Nov-12	8,880	✗
Panji -Goa	Goa	69	276	Feb-13	8,332	✗
Tumkur Chitradurga	Karnataka	114	684	Apr-11	11,420	✗
Total		1,248	6,109		126,518	

Project snippets

All projects are on Toll and all the recent projects are part of the NHDP initiated by NHAI

Surat-Dahisar although technically under construction, had already commenced generating revenues as it is a 6 laning project

IRB owns 100% stakes in all the projects except Surat-Dahisar where it has a 90% stake (10% is with financial investor)

All projects in pipeline have achieved financial closure

Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

List of projects under the fold of ITNL							
Project	State	T/A	Kms	Lane Kms	CoD	Cost (Rs. mn)	Operational
Vadodara Halol Road	Gujarat	Toll	95	190	Oct-00	1,600	✓
Noida Toll Bridge	Delhi	Toll	15	60	Feb-01	5,890	✓
Ahmedabad Mehsana Road	Gujarat	Toll	167	333	Feb-03	3060	✓
Belgaum Maharashtra Border Road	Karnataka	Ann.	77	472	Jul-04	5,420	✓
Thiruvananthapuram City Roads - Phase I	Kerala	Ann.	14	51	Jan-08	1,100	✓
Jetput Rajkot Gondal Road	Rajasthan	Toll	97	389	Mar-08	2,760	✓
Mega Highways Project Rajasthan – Phase I	Rajasthan	Toll	1,053	2,106	Mar-09	15,000	✓
Kothakutta Kurnool Road	Andhra Pradesh	Ann.	74	296	Sep-09	8,630	✓
Ramky Elsamex Hyderabad Ring Road	Andhra Pradesh	Ann.	19	152	Dec-09	3,994	✓
Beawar Gomti Road	Rajasthan	Toll	124	248	Aug-10	3,550	✓
Hyderabad Outer Ring Road	Andhra Pradesh	Ann.	87	173	Dec-10	4,278	✗
Thiruvananthapuram City Roads – Phase II & III	Kerala	Ann.	28	107	Mar-12	2,626	✗
Chattisgarh Accelerated Road Dev. Programme	Chhattisgarh	Ann.	684	1,368	Dispute	23,466	✗
Hazaribagh Ranchi Road	Jharkhand	Ann.	28	319	Sep-12	8,692	✗
Jharkhand Accelerated Road Dev. Programme	Jharkhand	Ann.	251	1,002	Oct-12	14,078	✗
Moradabad Bareilly Road	Uttar Pradesh	Toll	112	448	Feb-13	15,204	✗
Mega Highways Project Rajasthan – Phase II	Rajasthan	Toll	238	476	Mar-13	7,500	✗
Pune Sholapur Road	Maharashtra	Toll	105	571	Apr-13	14,000	✗
Warora to Chandrapur Road	Maharashtra	Toll	69	275	May-13	7,000	✗
Jorbat Shillong Road	Assam, Meghalaya	Ann.	62	247	Oct-13	8,240	✗
Narkattpally Addanki Road	Andhra Pradesh	Toll	213	852	Nov-14	12,000	✗
Chenani Nashri Tunnel	J&K	Ann.	20	80	Oct-15	37,200	✗
Total			3,632	10,215		250,288	

Project snippets

Total of 22 projects of which one is still under dispute

11 projects on toll and 11 projects on annuity

Of the 22, 12 are under construction

Of the 12 under construction 5 are from NHAI

Of the 12 under construction, 5 are on annuity

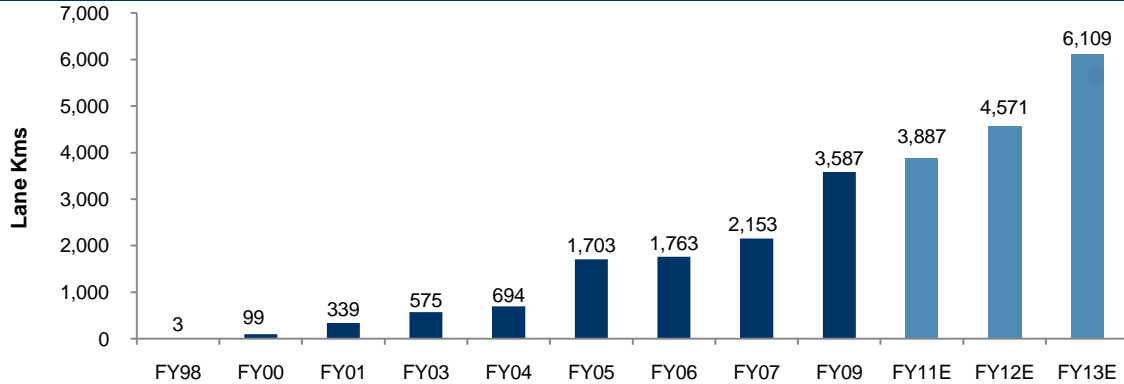
ITNL's stake in the various projects ranges from 26% to 100%

3 projects in pipeline are yet to achieve closure

Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

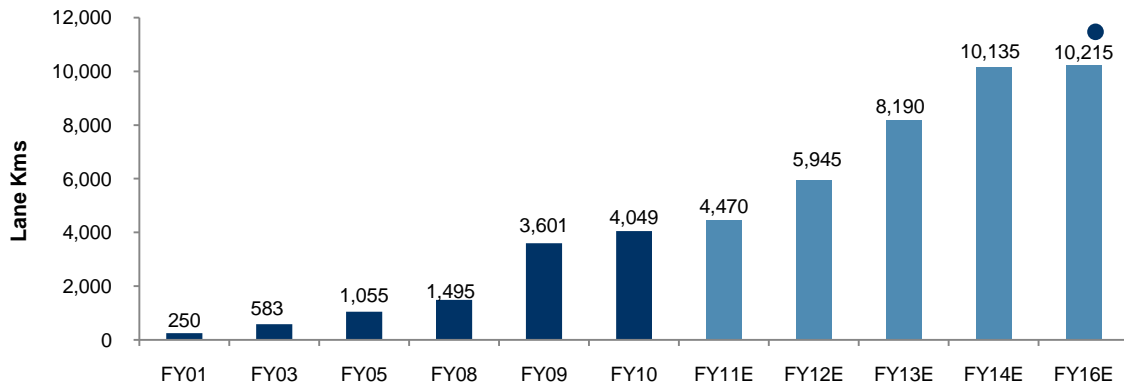
IRB – Expected ramp-up in operational portfolio (Lane Kms)



Ramp-up in operations to happen over the next two years itself, reflecting the matured development pipeline

Source: Company, Spark Capital Research

ITNL – Expected ramp-up in operational portfolio (Lane Kms)



Operations to ramp-up over the 3-4 year horizon indicating the company has to focus on execution for a while

Source: Company, Spark Capital Research

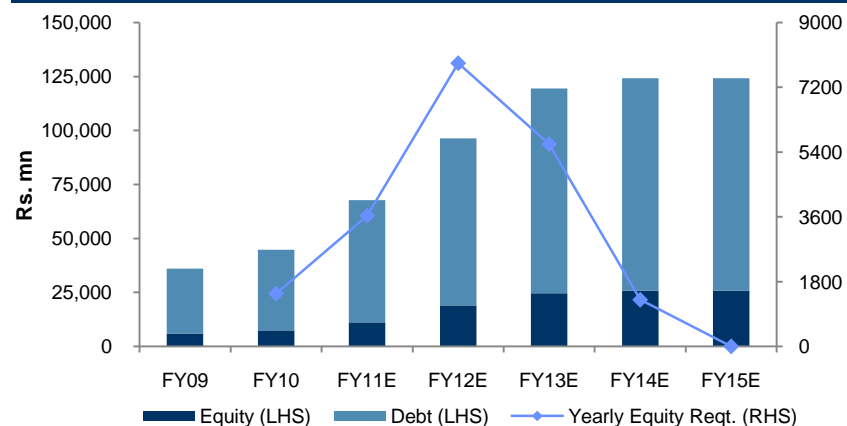
Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

IRB's development portfolio is characterized by advanced stage projects, conservative financing and high profitability

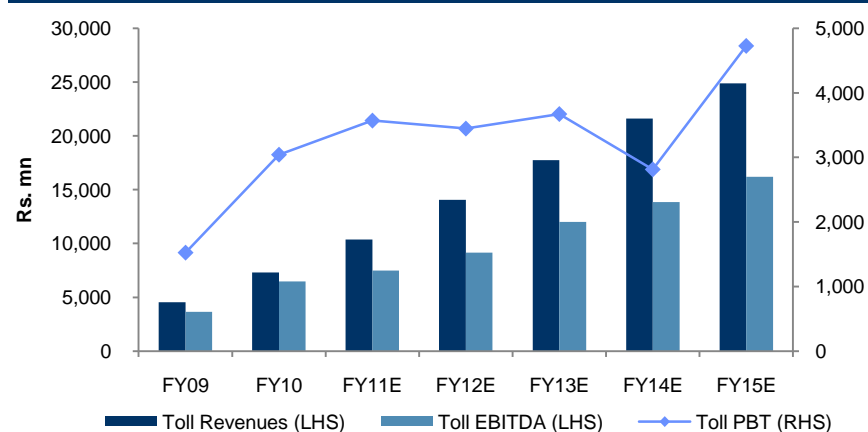
- As discussed earlier, the development pipeline of IRB is fairly advanced with Surat-Dahisar expected to be commissioned during FY12 and the other five projects of the company expected to be commissioned during FY13. This reflects in the equity requirement of the company peaking over the next couple of years and then tapering off (subject to new project wins).
- Overall, we expect IRB to commission projects with a total cost of ~Rs. 60bn over the next 2 years. Put together, these projects require a further Rs. 15bn in equity and Rs. 45bn in debt, indicating a DER of 3:1. We consider these levels of leverage to be normal for the roads sector, particularly given the company's strong relationships with bankers and proven ability to financially close debt for projects even during the financial crisis. Moreover the cash profits from the company's EPC division boosts the ability of the company to fund the equity and effectively serves to reduce the leverage on the balance sheet.
- The aforesaid investments into development of toll roads will enable the company grow their BOT revenues from under Rs. 8bn in FY10 to just a shade under 25bn by FY15E, representing a 3x growth in revenues over a five year horizon. Over the same period, we expect the PBT of the toll projects to improve from Rs. 3bn in FY10 to almost Rs. 5bn by FY15E, representing a relatively moderate PBT CAGR of 9%. This reflects the relatively high competitive intensity in bidding for toll projects that prevailed during 2008 (growth negatively impacted due to Surat-Dahisar project).
- Cumulatively, we expect IRB's toll road projects to generate EBITDA of ~Rs. 59bn over FY11-15E and a PBT of ~Rs. 18bn over the same period, largely reflecting the strong cash flow generation potential of the toll rights owned by IRB.

IRB - Total Investments in BOT segment and funding pattern



Source: Company, Spark Capital Research

IRB - BOT Revenues and Profitability



Source: Company, Spark Capital Research

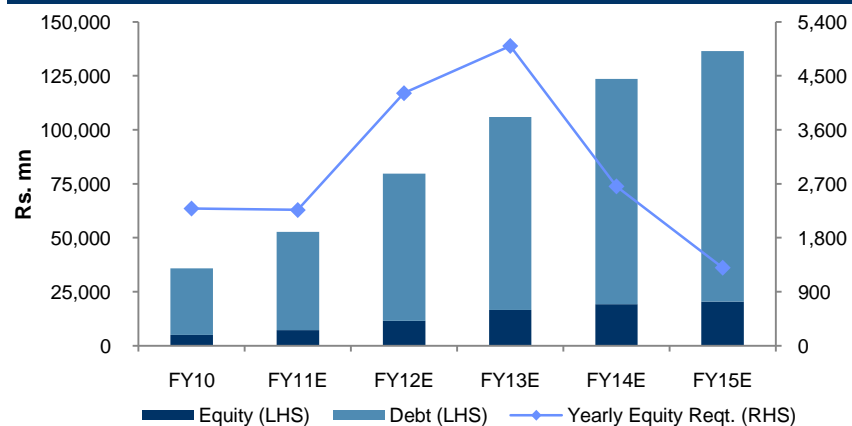
Road Sector – Framework of Analysis

#2 Portfolio of Road Assets

ITNL's development portfolio is characterized by early stage projects and aggressive financing

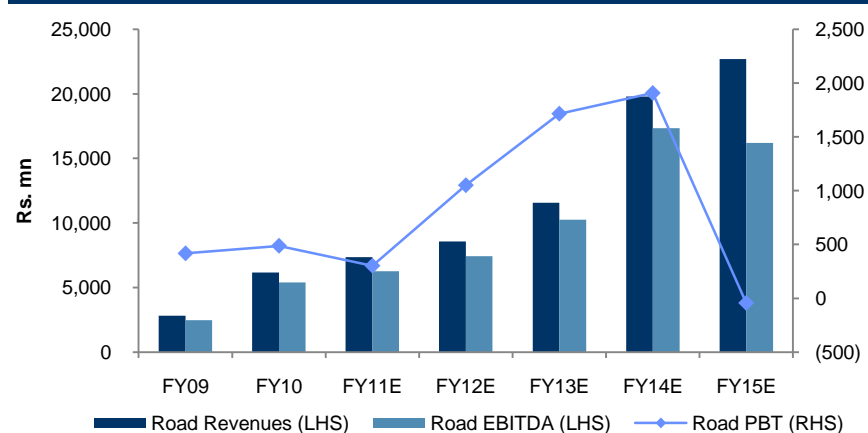
- The relatively large development pipeline of ITNL is at a nascent stage with two large ticket sized project (Chenani-Nashri and Jorbat-Shillong) being won only in mid 2010. Totally, there are 12 projects of which 3 have not achieved financial closure. Thus the company's focus should remain on financial closure of projects and execution.
- Overall, we expect ITNL to commission projects with a total cost of ~Rs. 108bn over the next 4 years. Put together, these projects require a further Rs. 14bn in equity and Rs. 93bn in debt, indicating a DER of 7:1. We consider these levels of leverage to be aggressive for the roads sector, despite the company's strong relationships with bankers and proven ability to financially close debt for projects even during the financial crisis.
- The aforesaid investments into development of BOT roads will enable the company grow their BOT revenues from under ~Rs. 6bn in FY10 to just a shade under 23bn by FY15E, representing a ~4x growth in revenues over a five year horizon. Over the same period, we expect the PBT of the toll projects to drop from Rs. 488mn in FY10 to a loss by FY15E due to the high leverage on the projects. The negative PBT is despite positive cash flow from the projects.
- Cumulatively, we expect ITNL's BOT road projects to generate EBITDA of ~Rs. 57bn over FY11-15E and a PBT of ~Rs. 4.9bn over the same period, largely reflecting the significant impact that interest and depreciation charges are expected to have on the financials of the BOT segment of ITNL over this period. However, we note that the company prefers to keep profitability of the BOT segment by carving out profits through the upfront fees as well as O&M expenses as that is a more tax efficient method.

ITNL- Total Investments in BOT segment and funding pattern



Source: Company, Spark Capital Research

ITNL - BOT Revenues and Profitability



Source: Company, Spark Capital Research

Road Sector – Framework of Analysis

#3 – Market Share Dynamics and players we prefer

NHAI BOT Projects secured by IRB during the 11 th Plan						
Year	# Toll	Length Kms	Project Cost (Rs. mn)	# Annuity	Length Kms	Project Cost (Rs. mn)
FY08	2	304	43,050	-	-	-
FY09	-	-	-	-	-	-
FY10	4	385	22,172	-	-	-
Total	6	689	65,222	-	-	-
Market Share %		13.9%	13.6%		0.0%	0.0%

NHAI BOT Projects secured by ITNL during the 11 th Plan						
Year	# Toll	Length Kms	Project Cost (Rs. mn)	# Annuity	Length Kms	Project Cost (Rs. mn)
FY08	0	0	0	0	0	0
FY09	0	0	0	0	0	0
FY10	1	112	15,204	1	80	8,692
Total	1	112	15,204	1	80	8,682
Market Share %		2.3%	3.2%		38.3%	43.8%

Overall market share of ~13% in the NHAI project awards during the 11th Plan period

Focused exclusively on toll based projects

Market share with NHAI is ~5% with a mix of both annuity and toll projects

While the private players can tap on opportunities presented by NHAI as well as State highways, we believe players with a bias towards NHAI projects are likely to benefit from limited competition (given the established bias towards larger players), comparatively less delays (80% of LA to be done before project is handed over to the developer) and greater clarity in project terms as well as the bidding process (NHAI is more transparent as compared to the States).

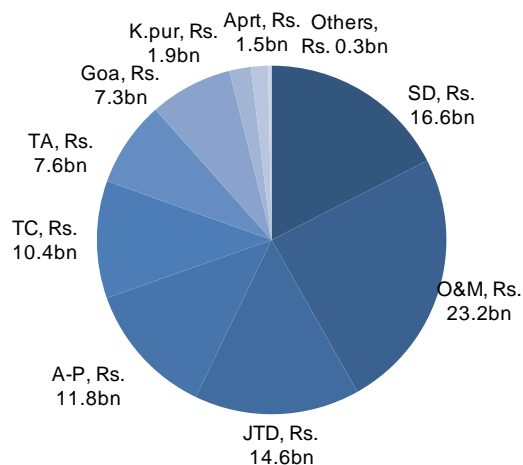
Road Sector – Framework of Analysis

#4 – Contribution of the EPC Segment

EPC segment is an integral part of the business model of both companies but only IRB leverages construction capabilities of EPC segment

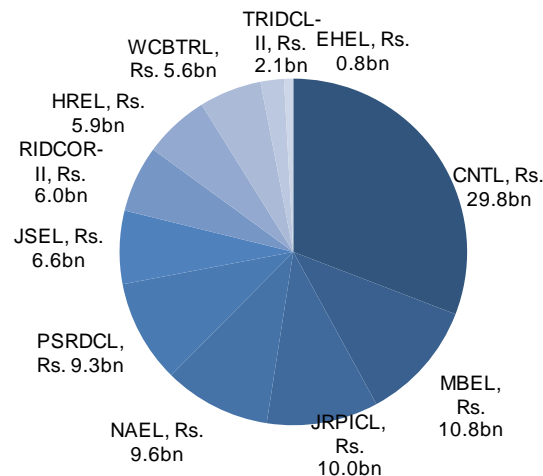
- IRB’s two main business segments, toll roads and EPC, truly feed into each other with the construction segment providing control over project execution as well as construction costs. Modern Road Makers, the 100% subsidiary of IRB which executes the construction contracts for IRB, has a construction orderbook of Rs. 72bn as well as an O&M orderbook of Rs. 23bn, resulting in a total orderbook position of Rs. 95bn. This orderbook provides adequate visibility for construction revenues beyond FY13E. This subsidiary possesses a strong equipment bank of ~Rs. 4bn that is capable of executing projects worth Rs. 25-30bn each year, in line with the revenue potential. **We like IRB’s EPC segment for its construction capabilities as well as strong revenue visibility.**
- ITNL, on the other hand, does not possess any construction capabilities. The parent entity outsources the construction to third party contractors, who are either pure contractors or own minority stakes in projects. The company has worked with contractors such as KMC Constructions and Ramky Infrastructure in the past. Thus ITNL’s role in the project is limited to overseeing project execution and charging an upfront fees for securing finances for the project. We estimate the 100% in-house construction orderbook of ITNL at Rs. 97bn (representing the unexecuted portion of the projects in hand).

IRB has a construction orderbook of Rs. 72bn



Source: Company, Spark Capital Research

We estimate ITNL’s construction orderbook at Rs. 97bn



Source: Company, Spark Capital Research

Road Sector – Framework of Analysis

#4 – Contribution of the EPC Segment

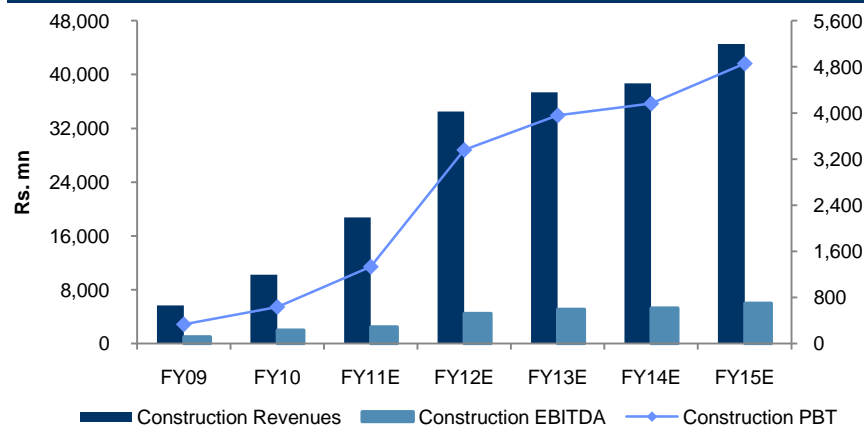
While IRB is likely to be under greater pressure to book orders over the next year we think opportunities are abound

- As discussed earlier, IRB has a strong orderbook that is to be executed over the next two years. We are confident that the construction segment can double revenues from ~Rs. 19bn in FY11E to ~Rs. 37bn by FY13E. However, for securing revenue visibility beyond FY13E, the company will need fresh orders over the next year. That said, we believe IRB is well placed to secure fresh orders either under the BOT model or even as a pure contractor.
- ITNL too has a strong construction orderbook of ~Rs. 97bn which provides adequate revenue visibility up to FY14E, given the company has a lot more projects in pipeline as compared to IRB. ITNL, the parent company does not possess any construction capabilities and enters into back-to-back construction contracts with independent contractors for executing the abovementioned works. Revenues are booked as and when certain milestones are achieved by the contractor. In addition the company also books an upfront fees (3-4% of project cost) for advisory work as well as for securing finances for the project. However ITNL is not well positioned to take up cash contracting projects as its EPC arm is dependent on the BOT arm unlike IRB where the construction segment is capable of functioning independently.

Scale to be comparable but construction margins to be a shade better for IRB

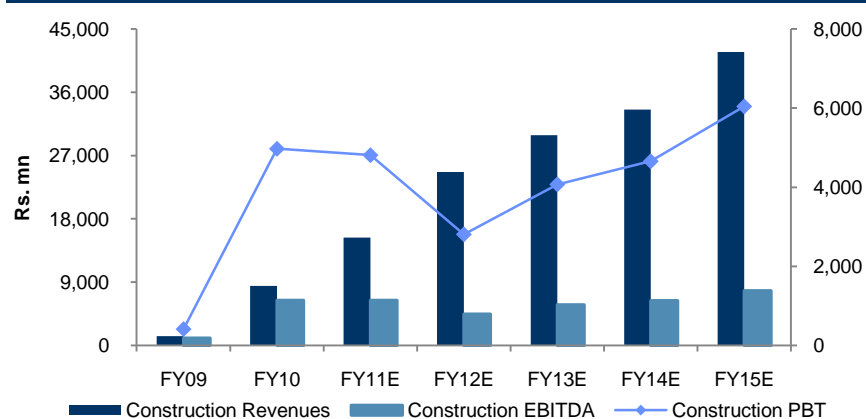
- Construction revenues for the two companies are likely to be comparable at >Rs. 30bn during FY12E. We expect the construction segment of IRB to report EBITDA margins of ~12.5%, which we think is reasonable given the structural cost advantages such as access to own aggregate mines, ownership for a sizeable equipment fleet, favorable project locations and low working capital strain. ITNL's construction margins, we expect, will settle at 16-17% as against the 36% expected during FY11E, which is a function of the upfront fees recognized. Excluding the upfront fees, we expect steady state margins of ~10%.

IRB – Expect strong scale up in revenues and profits



Source: Company, Spark Capital Research

ITNL – Expect a dip in FY12E profitability



Source: Company, Spark Capital Research

Road Sector – Framework of Analysis

#5 – Financials

IRB benefits from strong visibility in both segments. Balance sheet to remain healthy over the foreseeable future. Return on capital to remain attractive at >15%.

Rs. mn	FY10	FY11E	FY12E	FY13E	FY14E
Toll	8,481	10,376	14,064	17,739	21,601
Construction	9,835	18,758	34,526	37,367	38,698
Others	-	-	-	-	-
Total Revenues	18,316	29,134	48,590	55,106	60,300

Toll segment revenues are set to double over three years, from ~Rs. 10bn during FY11 to >Rs. 20bn by FY14E.

No annuity revenues while the construction segment will remain a major revenue driver.

Toll	3,042	3,570	3,446	3,671	2,814
Construction	634	1,333	3,360	3,960	4,164
Interest income	490	76	236	512	886
Total PBT	4,166	4,978	7,041	8,142	7,864

Profits to be derived in a balanced manner from both the toll segment as well as the construction segment.

Toll projects to generate steady cash flows. However, the depreciation burden in Surat-Dahisar expected to hurt profitability.

Networth	20,399	24,124	29,732	36,189	42,276
Debt-equity	1.4	2.0	2.3	2.3	1.9

Networth to witness a consistent increase over the next 4-5 years. Debt-equity to be within conservative levels.

RoE	20.1%	16.7%	20.8%	19.6%	15.5%
RoCE	13.0%	9.8%	9.5%	12.2%	12.4%

Return on capital to remain attractive over the foreseeable future.

Road Sector – Framework of Analysis

#5 – Financials

ITNL's revenue visibility is reasonable but the profitability of the road projects owned by the company are not that attractive. Profitability is derived mainly from the construction segment. Return ratios are average in comparison to IRB.

Rs. mn	FY10	FY11E	FY12E	FY13E	FY14E
Toll	3,723	4,253	4,993	5,997	11,722
Construction	8,455	15,315	24,678	29,870	33,520
Annuity	2,431	3,108	3,583	5,567	8,081
Elsamex & others	10,654	11,080	11,524	11,985	12,464
Total Revenues	25,263	33,756	44,778	53,418	65,787
Toll	139	482	1,115	1,816	1,730
Construction	4,971	4,810	2,809	4,071	4,656
Annuity	348	(179)	(64)	(101)	177
Elsamex & Others	76	677	542	410	256
Total PBT	5,535	5,789	4,402	6,197	6,819
Networth	16,686	20,931	24,168	28,395	31,904
Debt-equity	1.9	2.1	2.7	2.9	2.9
RoE	19.3%	19.1%	12.5%	13.9%	11.8%
RoCE	15.8%	12.2%	8.1%	7.5%	7.6%

BOT segment revenues are set to increase manifold from ~Rs. 7bn during FY11 to >Rs. 18bn by FY14E.

Construction segment will remain a major revenue driver.

More than Rs. 10bn expected each year from Elsamex and its subsidiaries. A key risk in our view.

Substantial portion of the profits to be derived from the construction segment of the company. Assuming there are no further order inflows and upfront fees is not recognized, actuals may lag estimates.

BOT projects are not highly profitable.

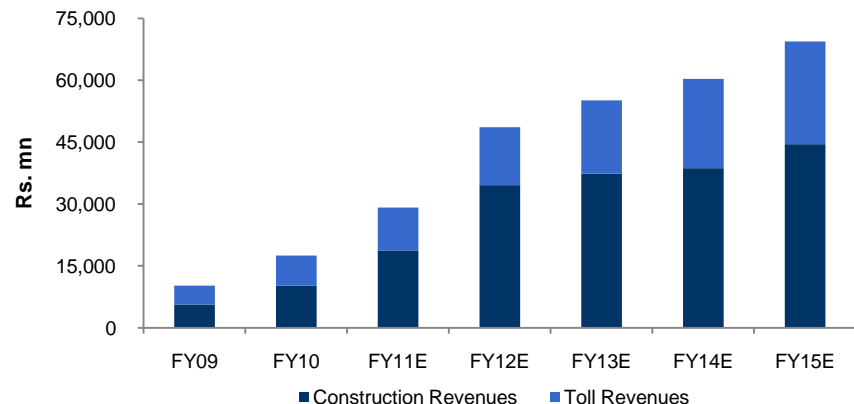
Networth to witness a consistent increase over the next 4-5 years. However, debt-equity to remain at aggressive levels implying the company would not be able to easily absorb new project wins in the near term.

Return on capital to remain reasonable over the foreseeable future.

Road Sector – Framework of Analysis

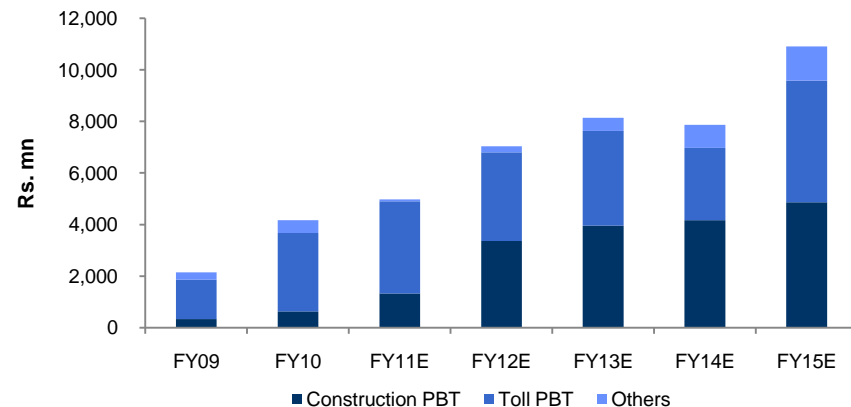
#5 – Financials - Key charts on IRB and ITNL

IRB – Balanced revenue contribution from both segments



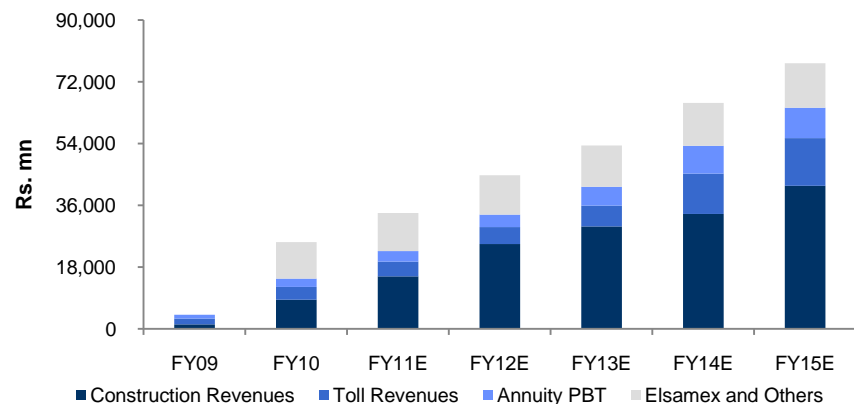
Source: Company, Spark Capital Research

IRB – Profitability derived from both segments in a balanced manner



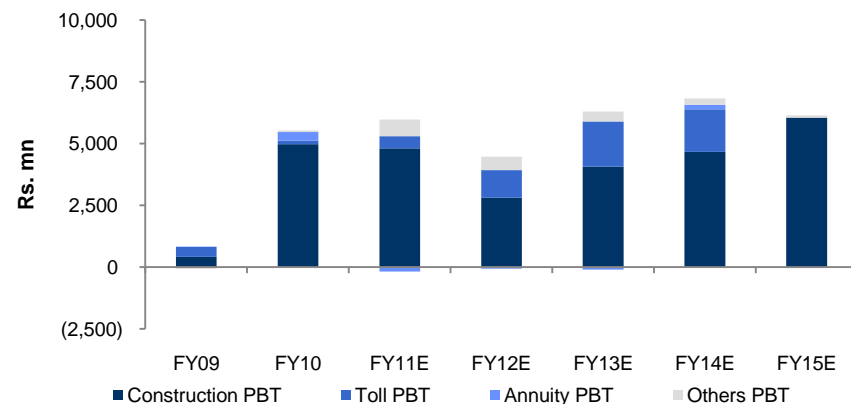
Source: Company, Spark Capital Research

ITNL – Significant portion of revenues to come from Elsamex



Source: Company, Spark Capital Research

ITNL- No major profitability driver but for the EPC segment



Source: Company, Spark Capital Research

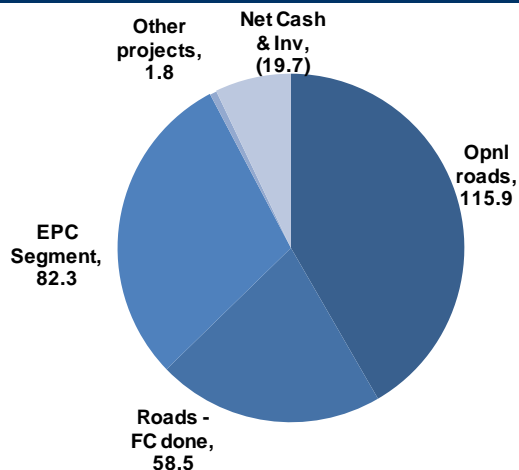
Road Sector – Framework of Analysis

#6 – Valuations – Sticking with DCF but introducing a terminal value for the construction segment

We view the integrated development of road projects on a holistic basis and value the company on DCF

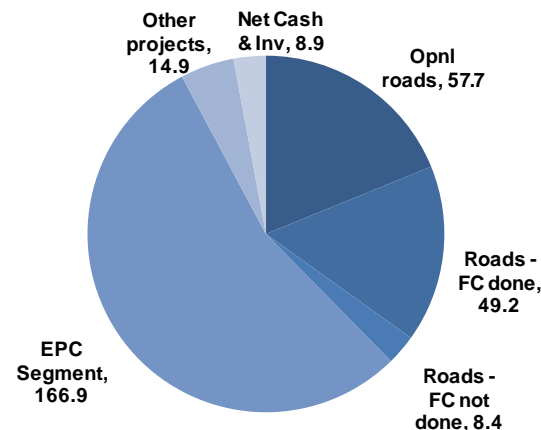
- Road projects:** The business of owning and operating BOT road projects (toll / annuity) represents a low-risk, steady cash flow generating business. While toll roads have the potential to increase revenues with traffic growth, annuity road projects have the potential to securitize cash flows during periods of low interest rates. Either way, the revenues and profitability of these projects are highly predictable with only modest potential for either positive or negative surprises. For these reasons we prefer to value these businesses on DCF (FCFE basis), with CoE of 12-16% depending upon revenue model and stage of completion of the project. We value the road projects (all have achieved financial closure) of IRB at Rs. 174 per share whereas we value ITNL's road projects at Rs. 115 per share (Rs. 8.4 for projects not achieved financial closure).
- EPC business:** We differ from consensus in the way we value the EPC businesses of these companies. We prefer sticking to DCF valuations for this segment as well but think it is appropriate to introduce a terminal value for the construction business, tempered for the margin and working capital advantage provided by in-house construction business. Moreover, we restrict terminal value of the construction business to 66% of the overall valuation of the business. On this basis, we value the construction business of IRB at Rs. 82 per share (FY12E EV/EBITDA of 6.3x and P/E of 8.6x) and that of ITNL at Rs. 167 per share.
- Other businesses:** We value the other businesses of the companies at the equity investments therein. Other business and cash contribute negatively to the valuation of IRB whereas they contribute Rs. 24 per share to the valuation of ITNL.

IRB – SoTP valuation of Rs. 239 per share



Source: Company, Spark Capital Research

ITNL – SoTP valuation of Rs. 306 per share



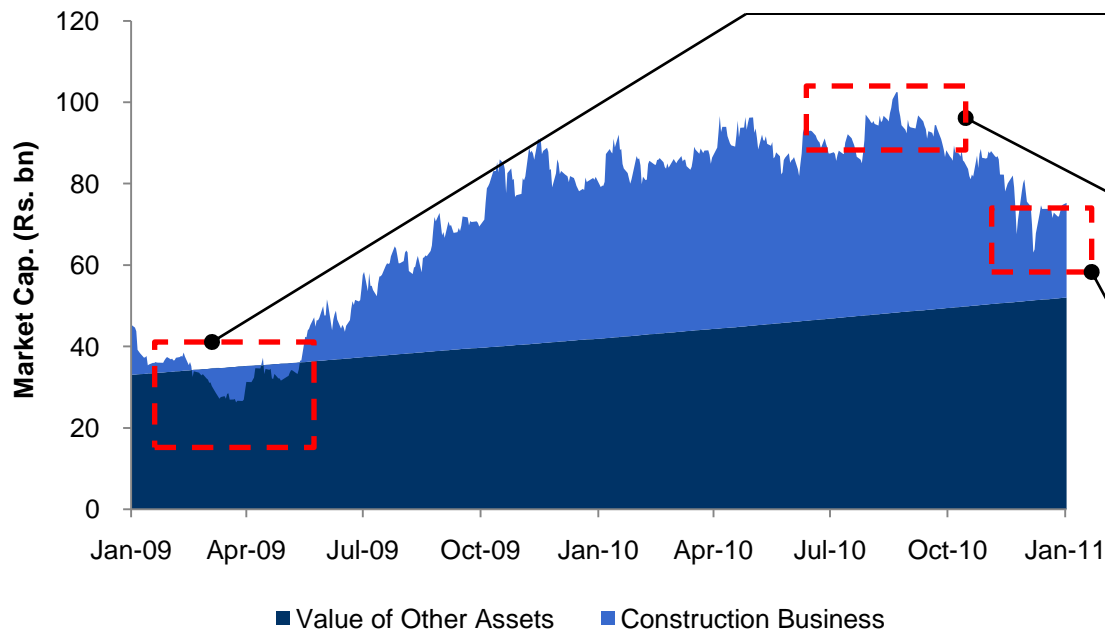
Source: Company, Spark Capital Research

Road Sector – Framework of Analysis

#6 – Valuations – How has the market valued the construction segment of IRB?

For >70% of the days between Jan 2009-Jan 2011 the stock has traded at greater than our implied valuation multiple of 6.3x FY12E (1yr fwd) EV/EBITDA indicating our conservative stance on the stock

IRB – Market valuation of the construction segment



Construction Business was not attributed any value during this phase

Construction arm valued at Rs. 48.3bn at the peak with FY12E EV/EBITDA multiple of 12.7x and P/E multiple of 17.0x

Stock corrects and construction arm valued at Rs. 11.7bn at the lowest with FY12E EV/EBITDA of 2.9x and P/E multiple 3.7x

Source: Bloomberg, Spark Capital Research

Road Sector – Framework of Analysis

Valuation Matrix

Company	Revenues, Rs.bn			EBITDA, Rs.bn			PAT, Rs.bn			RoE %			FY10-12E CAGR %		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	Revs	EBITDA	PAT
IRB	18.32	29.13	48.59	7.99	9.95	13.65	3.79	3.73	5.61	20%	17%	21%	63%	31%	22%
ITNL	24.03	33.11	43.97	9.63	11.01	10.22	3.44	4.24	3.24	19%	19%	12%	35%	3%	-3%

Company	Construction Revenues, Rs.bn			Construction EBITDA, Rs.bn			BOT Revenues, Rs.bn			BOT EBITDA, Rs.bn			BOT EBITDA as % of Total		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
IRB	10.24	18.76	34.53	2.01	2.47	4.50	7.30	10.38	14.06	6.47	7.48	9.15	76%	75%	67%
ITNL	8.45	15.32	24.68	6.44	6.44	4.49	6.15	7.36	8.58	5.38	6.27	7.43	44%	48%	61%

Company	Net Debt to Equity (x)			CMP	Shares	M.Cap	BV per share, Rs.			Price / BV (x)			Target Price	Rating	
	FY10	FY11E	FY12E	Rs.	(mn)	Rs. bn	FY10	FY11E	FY12E	FY10	FY11E	FY12E	SOTP (Rs.)	Absolute	Relative
IRB	1.4	2.0	2.3	230	332.4	76.45	61.4	72.6	89.5	3.7	3.2	2.6	239	ADD	OPF
ITNL	1.9	2.1	2.7	299	194.3	58.09	91.6	114.2	133.4	3.3	2.6	2.2	306	ADD	UPF

IRB Infrastructure Developers (IRB)

Rating: ▲

Target price: ▲

EPS: ▲

CMP

Rs. 230

Absolute

Add

Target

Rs. 239

Relative

Outperform

Focused play on the large US\$ 150bn opportunity expected to unfold in the roads sector over the next 4-5 years. Integrated developer model enables the company benefit entirely from the development value chain by leveraging upon construction capabilities. We believe the company is a potential beneficiary of one or more upcoming mega road projects, which is likely to be a niche opportunity. Upgrade to Reduce/Outperform from Sell/Underperform.

- Massive sector opportunity of US\$ 150bn opportunity is expected to unfold in the roads & bridges sector (toll / annuity roads and cash contracts) over the next 4-5 years and IRB with its integrated development model is well placed to benefit.
- Profitable portfolio of toll roads which will likely provide a steady stream of cash flows – Over FY12-15E, we expect a cumulative EBITDA and PBT of >Rs. 50bn and ~Rs.15bn respectively from the toll roads segment.
- Envious track record of winning projects awarded by NHAI with all the company's new project wins coming from NHAI since 2007, reflected in the ~13% overall market share with NHAI projects during the period FY08-10. In our view, a potential beneficiary of one or more upcoming mega road projects, which is likely to be a niche opportunity.
- We believe IRB is likely to report strong order inflows over the near term given the relative maturity of projects under construction. Proven capability of achieving financial closure within set timelines adds comfort.
- Highly profitable (~14% EBITDA margins) construction arm which caters almost exclusively to the Group's pipeline projects. This business benefits from the strong revenue visibility (Rs. 95bn orderbook), RM cost advantages and minimal working capital requirements given the prompt payments from the project companies.
- Aided by the profitable / cash flow generation construction arm, financials are healthy with profits well balanced (almost equal during FY12E) between the asset-owning segment and the construction segment. Attractive return on capital with RoEs consistently expected to be >15% over the foreseeable future.

We have tweaked estimates marginally and have introduced the recently-won Tumkur-Chitradurga project. Further, we roll forward our DCF to consider value as at end of FY11 and attribute a terminal value to the construction business. Our TP stands revised to Rs. 239 (Rs. 151 earlier) on account of the mentioned changes. Upgrade to Reduce/Outperform from Sell/Underperform, following the >25% correction in stock price since Aug'2010.

Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	P/BV(x)
FY10	18,316	7,990	3,792	11.4	19.0	3.7
FY11E	29,134	9,954	3,725	11.2	19.4	3.2
FY12E	48,590	13,654	5,608	16.9	12.9	2.6

Update

Date: Jan 05, 2011

Market Data

SENSEX	20499
Nifty	6146
Bloomberg	IRB IN
Shares o/s	332mn
Market Cap	Rs. 76bn
52-wk High-Low	Rs. 315-186
3m Avg. Daily Vol	Rs. 378mn
Index member	BSE200

Latest shareholding (%)

Promoters	74.9
Institutions	17.0
Public	8.1

Stock performance

	1m	3m	12m
IRB	1.2%	-11%	-5%
BSE200	1.5%	-2.0%	15.5%

Vijaykumar Bupathy

vijaykumar@sparkcapital.in
+91 44 4344 0036

Bharanidhar Vijayakumar

bharanidhar@sparkcapital.in
+91 44 4344 0038

IRB Infrastructure Developers (IRB)

Valuation Matrix

CMP	Rs. 230	Absolute	Add
Target	Rs. 239	Relative	Outperform

SPV	Project	Cost of equity	Project's equity value (Rs. mn)	IRB's stake	Value to IRB (Rs. mn)	Per share value	%
Mhaiskar Infrastructure	Mumbai - Pune	14.0%	19,980	100.0%	19,980	60.1	25.2%
IDAA Infrastructure	Bharuch - Surat	14.0%	2,989	100.0%	2,989	9.0	3.8%
IRB Surat Dahisar Tollway	Surat - Dahisar	15.0%	1,441	90.0%	1,297	3.9	1.6%
Ideal Road Builders	Four BOT projects	14.0%	5,353	100.0%	5,353	16.1	6.7%
IRB Infrastructure	Kharpada bridge	14.0%	681	100.0%	681	2.0	0.9%
NKT Toll Road	Nagar - Karmala - Tembhorni	14.0%	1,430	100.0%	1,430	4.3	1.8%
ATR Infrastructure	Pune - Nashik	14.0%	2,664	100.0%	2,664	8.0	3.4%
Aryan Toll Road	Pune - Solhapur	14.0%	1,735	100.0%	1,735	5.2	2.2%
Thane Ghodbunder Toll Road	Thane - Ghodbunder	14.0%	2,391	100.0%	2,391	7.2	3.0%
IRB Patankhot Amritsat Toll Road	Amritsar Patankhot	15.0%	3,942	100.0%	3,942	11.9	5.0%
IRB Talegaon Amaravati Tollway	Talegaon Amaravati	15.0%	2,459	100.0%	2,459	7.4	3.1%
IRB Jaipur Deoli Tollway	Jaipur Deoli	15.0%	5,167	100.0%	5,167	15.5	6.5%
IRB Goa Tollway	Goa Panaji	15.0%	2,821	100.0%	2,821	8.5	3.6%
IRB Tumkur Tollway	Tumkur Chitradurga	15.0%	2,765	100.0%	2,765	8.3	3.5%
IRB Kolhapur Integrated Road development company	Kolhapur urban road	15.0%	2,280	100.0%	2,280	6.9	2.9%
Aryan Infrastructure Investment	Land bank adjoining MPEW	Book Value	586	100.0%	586	1.8	0.7%
Modern Road Makers	Road construction, operation and maintenance	14.0%	27,357	100.0%	27,357	82.3	34.5%
Total			86,041		85,897	258.4	108.2%
Add: Net cash / (net debt) at the holding company (FY11)					(6,541)	(19.7)	-8.2%
Total Equity Value					79,356	238.8	100.0%

IRB Infrastructure Developers (IRB)

Key Estimates Revision

CMP	Rs. 230	Absolute	Add
Target	Rs. 239	Relative	Outperform

Key estimate revision						
	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	29,251	29,134	-0.4%	46,928	48,590	3.5%
EBITDA	10,549	9,954	-5.6%	14,174	13,654	-3.7%
Margin (%)	36.1%	34.2%		30.2%	28.1%	
PAT	3,397	3,725	9.7%	5,555	5,608	1.0%
Margin (%)	11.6%	12.8%		11.8%	11.5%	
EPS	10.23	11.22	9.7%	16.73	16.89	1.0%

All figures in Rs. mn, except EPS, which is in Rs.

SOTP Valuation						
	Before Revision of Valuation			After Revision of Valuation		
	Basis	Valn, Rs. mn	Rs. per share	Basis	Valn, Rs. mn	Rs. per share
Operational Roads	FCFE	40,189	120.9	FCFE	38,518	115.9
Roads Under Construction	FCFE	5,234	15.7	FCFE	19,436	58.5
Construction Segment	DCF at 14%	8,250	24.8	DCF at 14%	27,357	82.3
Net Cash at Hold Co.	At Cash	(3,343)	(10.1)	At Cash	(6,541)	(19.7)
Aryan Infra (Realty)	-	-	-	Book Value	586	1.8
Total		50,330	151		79,356	239

IRB Infrastructure Developers (IRB)

Financial Summary

CMP
Rs. 230
Absolute
Add
Target
Rs. 239
Relative
Outperform

Abridged Financial Statements				
Rs. mn	FY09	FY10	FY11E	FY12E
Profit & Loss				
Revenues	10,047	18,316	29,134	48,590
EBITDA	4,380	7,990	9,954	13,654
Other Income	290	490	76	236
Depreciation	1,145	1,819	1,862	3,539
EBIT	3,525	6,660	8,168	10,351
PBT	2,149	4,166	4,978	7,041
PAT	1,758	3,792	3,725	5,608
Balance Sheet				
Net Worth	17,301	20,399	24,124	29,732
Minority interest	599	777	923	948
Total debt	24,858	29,152	49,173	68,858
Deferred Tax	182	(387)	(387)	(387)
Total Networth & Liabilities	42,939	49,941	73,834	99,151
Gross Fixed assets	24,599	40,185	39,440	63,940
Net fixed assets	20,159	34,676	32,068	53,029
CWIP	14,545	8,802	32,538	36,639
Investments	1,108	448	-	-
Inventories	2,054	1,698	1,698	1,698
Sundry Debtors	130	297	297	297
Cash and bank balances	4,149	5,102	7,054	6,761
Loans & Advances	3,849	3,726	4,994	5,543
Other current assets	-	-	-	-
Current liability and provisions	3,065	4,816	4,816	4,816
Net current assets	7,118	6,007	9,227	9,484
Misc. Expenditure	10	9	-	-
Deferred Tax	-	-	-	-
Total Assets	42,939	49,942	73,833	99,151
Cash Flows				
Cash flows from Operations	3,047	9,659	7,654	11,932
Cash flows from Investing	(7,191)	(9,183)	(22,543)	(28,601)
Cash flows from Financing	2,909	1,044	16,832	16,375

Key metrics				
	FY09	FY10	FY11E	FY12E
Growth ratios				
Revenues	37.1%	82.3%	59.1%	66.8%
EBITDA	6.3%	82.4%	24.6%	37.2%
PAT	54.4%	115.6%	-1.8%	50.5%
Margin ratios				
EBITDA	43.6%	43.6%	34.2%	28.1%
PAT	17.5%	20.7%	12.8%	11.5%
Performance ratios				
RoA	4.4%	8.2%	6.0%	6.5%
RoE	10.5%	20.1%	16.7%	20.8%
RoCE	7.3%	13.0%	9.8%	9.5%
Total Assets Turnover (x)	0.2	0.4	0.4	0.5
Fixed Assets Turnover (x)	0.5	0.5	0.9	0.9
Working capital Turnover (x)	1.4	3.0	3.2	5.1
Financial stability ratios				
Total Debt to Equity (x)	1.4	1.4	2.0	2.3
Current ratio (x)	3.3	2.2	2.9	3.0
Working capital days	255	118	114	70
Inventory & Debtor days	78	39	25	15
Creditor days	110	95	60	36
Interest cover (x)	2.6	2.7	2.6	3.1
Debt to EBITDA (x)	5.7	3.6	4.9	5.0
Valuation metrics				
Fully Diluted shares (mn)	332.4	332.4	332.4	332.4
Fully diluted M. Cap (Rs.mn)	76,477	76,477	76,477	76,477
Fully Diluted EPS (Rs.)	5.3	11.4	11.2	16.9
P/E (x)	43.5	20.2	20.5	13.6
EV (Rs.mn)	97,185	100,527	118,596	138,574
EV to sales	9.7	5.5	4.1	2.9
EV/ EBITDA (x)	22.2	12.6	11.9	10.1
BV/ share (Rs.)	52.1	61.4	72.6	89.5
Price to BV (x)	4.4	3.7	3.2	2.6

IL&FS Transportation Networks (ITNL)

Industry veteran

CMP	Rs. 299	Absolute	Add
Target	Rs. 306	Relative	Underperform

Diversified play on the large US\$ 150bn opportunity expected to unfold in the roads sector over the next 4-5 years. Despite lacking construction capabilities, ITNL captures a lion's share of the road development value chain by generating project management fees, generating strong cash flows to the parent. Initiate with Add/Underperform rating.

- Massive sector opportunity of US\$ 150bn opportunity is expected to unfold in the roads & bridges sector (toll / annuity roads and cash contracts) over the next 4-5 years and ITNL with its integrated development model is capable of capitalizing on the same.
- Ownership interest in 22 different road projects with the potential to generate strong cash flows over the medium term – Over FY12-15E, we expect the roads segment to generate cumulative EBITDA of ~Rs. 57bn with corresponding PBT of Rs. 4.9bn.
- Although track record of winning NHAI projects is inferior to IRB, we take comfort from the fact that 5 out of 12 projects under construction come from the authority, reflected in the ~5% overall market share with NHAI projects during the period FY08-10. Also, the company is prequalified for large NHAI projects of >Rs. 40bn project cost.
- Unlike IRB, we think ITNL is booked adequately till FY14E with projects worth >Rs. 120bn in the pipeline and will likely focus on achieving financial closure of the 3 projects that have not yet achieved that milestone.
- EBITDA margins of the construction arm (~15% for FY12E) is highly sensitive to the upfront fees, without which the margins will tend towards the ~11% mark. Any change in stance from on booking the upfront fees could pose risks to our estimates. However, we take comfort from our low-balled profitability estimates.
- Likely to be aided by the cash flow generation from the EPC arm and in a comfortable position to fund equity investments into BOT assets. However we forecast only modest consolidated financials with EBITDA and PAT expected to stagnate over FY10-12E, driven by lower booking of upfront fees on BOT projects.

We value ITNL as an integrated developer and hence value both the asset owning segment as well as the EPC arm using DCF (FCFE). On that basis, our per share valuation splits as Rs. 167 for the EPC segment, Rs. 58 for operational roads, Rs. 49 for roads where FC has been achieved, Rs. 8 for roads where FC not achieved, Rs. 24 for others including cash and investments. This translates to a target price of Rs. 306 per share. Initiate with Add/Underperform.

Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	P/BV(x)
FY10	24,029	9,630	3,445	17.7	16.5	3.3
FY11E	33,105	11,012	4,245	21.9	13.4	2.6
FY12E	43,966	10,223	3,237	16.7	17.5	2.2

Initiation

Date	Jan 05, 2011
------	--------------

Market Data

SENSEX	20499
Nifty	6146
Bloomberg	ILFT IN
Shares o/s	194mn
Market Cap	Rs. 58bn
52-wk High-Low	Rs. 368-253
3m Avg. Daily Vol	Rs. 36mn
Index member	BSE500

Latest shareholding (%)

Promoters	75.1
Institutions	10.1
Public	14.8

Stock performance

	1m	3m	12m
ITNL	-0.2%	-6%	NA

Sensex	2.7%	0%	16%
--------	------	----	-----

Vijaykumar Bupathy
vijaykumar@sparkcapital.in
 +91 44 4344 0036

Bharanidhar Vijayakumar
bharanidhar@sparkcapital.in
 +91 44 4344 0038

IL&FS Transportation Networks (ITNL)

Valuation Matrix

CMP	Rs. 299	Absolute	Add
Target	Rs. 306	Relative	Underperform

SPV	Project	Cost of equity	Project's equity value (Rs. mn)	ITNL's stake	Value to ITNL (Rs. mn)	Per share value	%
Subsidiaries							
GRICL	Ahmedabad Mehsana Road	14.0%	384	83.6%	321	1.7	0.5%
GRICL	Vadodara Halol Road	14.0%	3,255	83.6%	2,721	14.0	4.6%
RIDCOR-I	Mega Highways - Rajasthan - I	14.0%	7,729	50.0%	3,865	19.9	6.5%
WGEL	Rajkot to Jetpur - Gondal	14.0%	321	49.0%	157	0.8	0.3%
NKEL	Maharashtra Border to Belgaum	12.0%	2,017	74.5%	1,502	7.7	2.5%
REHRRL	Ramky Elsamex Hyderabad Ring Road	12.0%	654	26.0%	170	0.9	0.3%
IRIDCL	Beawar Gomti (Rajasthan)	14.0%	477	100.0%	477	2.5	0.8%
HREL	Hazaribagh Ranchi Expressway	13.0%	(4)	73.9%	(3)	(0.0)	0.0%
JRPICL	Jharkhand Road Projects Implementation Company	13.0%	(304)	100.0%	(304)	(1.6)	-0.5%
CNTL	Chenani to Nashri in J&K	13.0%	2,600	100.0%	2,600	13.4	4.4%
JSEL	Jorbat to Shillong in North East	13.0%	339	50.0%	169	0.9	0.3%
CHDCL	Chattisgarh Highway Development			74.0%	0	0.0	0.0%
RIDCOR-II	Road Infra Dev Corp. - Phase 2	15.0%	831	50.0%	415	2.1	0.7%
PSRDCL	Pune Sholapur Road Development co	15.0%	1,123	100.0%	1,123	5.8	1.9%
MBEL	Moradabad Bareilly	15.0%	4,844	100.0%	4,844	24.9	8.1%
VNIPL	Nagpur city bus transportation	Book Value	106	80.0%	85	0.4	0.1%
EHEL	Hyderabad Outer Ring Road	13.0%	933	74.0%	691	3.6	1.2%
RMGL	Gurgaon Metro Rail	Book Value	367	26.0%	95	0.5	0.2%
Associates							
TRIDCL-I	Thiruvananthapuram City Roads - Phase I	12.0%	(377)	49.9%	(188)	(1.0)	-0.3%
APEL	Kothakutta to Kurnool	12.0%	(428)	49.0%	(210)	(1.1)	-0.4%
TRIDCL-II	Thiruvananthapuram City Roads - Phase 2&3	13.0%	(377)	49.9%	(188)	(1.0)	-0.3%
WCBTRL	Warora to Chandrapur	15.0%	1,768	35.0%	619	3.2	1.0%
NAEL	Narkattpally to Addanki in AP	15.0%	2,425	50.0%	1,212	6.2	2.0%
JVs/ Others							
NTBCL	Delhi to Noida	14.0%	9,405	25.4%	2,384	12.3	4.0%
ELSAMEX	ELSAMEX	Book Value	2,722	100.0%	2,722	14.0	4.6%
Total					25,282	130.1	42.5%
Add: Net cash & Investments		DCF			1,735	8.9	2.9%
Construction Segment		DCF			32,432	166.9	54.6%
Total Equity Vaue					59,449	306.0	100.0%

IL&FS Transportation Networks (ITNL)

Financial Summary

CMP

Rs. 299

Absolute

Add

Target

Rs. 306

Relative

Underperform

Abridged Financial Statements				
Rs. mn	FY09	FY10	FY11E	FY12E
Profit & Loss				
Revenues	12,254	24,029	33,105	43,966
EBITDA	4,066	9,630	11,012	10,223
Other Income	1,066	844	727	878
Depreciation	353	603	1,067	1,396
EBIT	4,780	9,870	10,672	9,705
PBT	804	5,242	5,987	4,560
PAT after MI + Share in Assoc.	263	3,445	4,245	3,237
Balance Sheet				
Net Worth + MI	9,636	17,805	22,193	25,911
Preference Shares to minority	804	800	1,676	1,676
Total Debt	18,542	33,215	46,644	69,323
Deferred Tax Liability	647	779	852	852
Total Networth & Liabilities	29,629	52,599	71,365	97,762
Gross Fixed assets	11,164	19,134	27,254	27,557
Net fixed assets	8,533	16,180	22,470	20,616
CWIP	81	57	10,684	39,698
Investments + Goodwill	4,865	7,254	4,295	4,689
Receivables under concession agmt.	9,216	13,948	13,947	13,947
Inventories	245	292	292	292
Sundry Debtors	7,873	6,478	5,792	7,414
Cash and bank balances	1,601	5,502	13,166	13,881
Loans & Advances & Other CA	4,463	10,757	8,698	6,793
Current liabilities	7,250	7,868	7,978	9,566
Net current assets	6,933	15,161	19,971	18,813
Total Assets	29,629	52,599	71,366	97,763
Cash Flows				
Cash flows from Operations	175	3,189	4,950	3,291
Cash flows from Investing	(184)	(14,586)	(21,705)	(28,923)
Cash flows from Financing	(300)	15,226	14,305	22,679

Key metrics				
	FY09	FY10	FY11E	FY12E
Growth ratios				
Revenues	-	96.1%	37.8%	32.8%
EBITDA	-	136.8%	14.4%	-7.2%
PAT	-	1212.0%	23.2%	-23.7%
Margin ratios				
EBITDA	33.2%	40.1%	33.3%	23.3%
PAT	2.1%	14.3%	12.8%	7.4%
Performance ratios				
RoA (%)	0.9%	6.5%	5.9%	3.3%
RoE (%)	2.7%	19.3%	19.1%	12.5%
RoCE (%)	16.1%	15.8%	12.2%	8.1%
Total Assets Turnover (x)	0.4	0.5	0.5	0.4
Fixed Assets Turnover (x)	1.1	1.3	1.2	1.6
Working capital Turnover (x)	1.7	3.1	4.1	4.6
Financial stability ratios				
Total Debt to Equity (x)	1.9	1.9	2.1	2.7
Current ratio (x)	4.2	2.4	3.8	5.2
Working capital days	213	118	87	78
Inventory & Debtor days	278	213	155	117
Creditor days	131	161	95	56
Interest cover (x)	1.2	2.1	2.3	1.9
Valuation metrics				
Fully Diluted shares (mn)	194.3	194.3	194.3	194.3
Fully diluted M. Cap (Rs.mn)		57,990		
Fully Diluted EPS (Rs.)	1.4	17.7	21.9	16.7
P/E (x)	221	16.8	13.7	17.9
EV (Rs.mn)		52,312	53,873	52,252
EV/ EBITDA (x)		5.4	4.9	5.1
BV/ share (Rs.)	49.6	91.6	114.2	133.4
Price to BV (x)	6.0	3.3	2.6	2.2

Recommendation History - IRB				
Date	CMP	Target price	Absolute Rating	Relative Rating
Update				
29-Oct-10	266	151	Sell	UPF
8-Oct-10	269	151	Sell	UPF
28-Jul-10	265	151	Sell	UPF
12-Jul-10	263	151	Sell	UPF

Recommendation History - ITNL				
Date	CMP	Target price	Absolute Rating	Relative Rating
Initiating Coverage				

Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Analyst Certification

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Spark Disclaimer

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

This document does not constitute or form part of any offer for sale or subscription or incitation of any offer to buy or subscribe to any securities. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. Spark Capital Advisors (India) Private Limited makes no representation or warranty, express or implied, as to the accuracy, completeness or fairness of the information and opinions contained in this document. Spark Capital Advisors (India) Private Limited, its affiliates, and the employees of Spark Capital Advisors (India) Private Limited and its affiliates may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through the independent analysis of Spark Capital Advisors (India) Private Limited

Copyright in this document vests exclusively with Spark Capital Advisors (India) Private Limited.