



IVRCL Infrastructure

STOCK INFO. BLOOMBERG
BSE SENSEX: 16,154 IVRC IN
REUTERS CODE
S&P CNX: 4,880 IVRC.BO

15 April 2008

Buy

Rs380

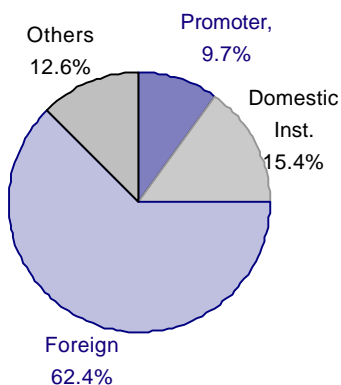
Previous Recommendation: Buy

Equity Shares (m)	129.7
52-Week Range	627/277
1,6,12 Rel. Perf. (%)	-5/-12/15
M.Cap. (Rs b)	49.3
M.Cap. (US\$ b)	1.2

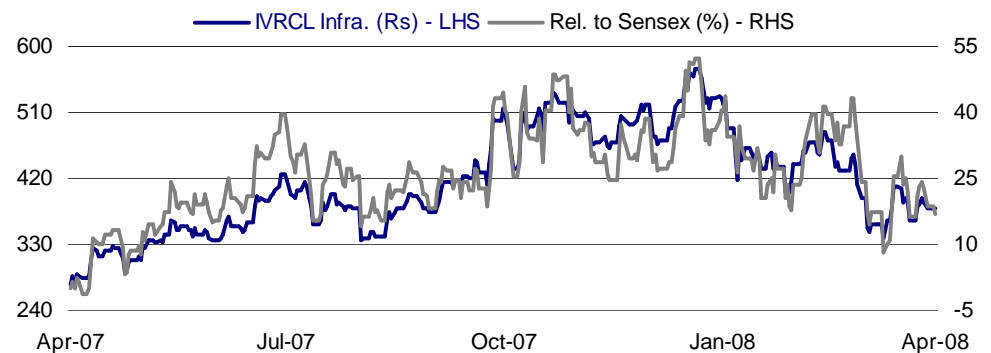
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	23,465	1,415	10.9	25.5	34.8	3.7	15.7	14.2	2.2	22.8
3/08E	34,336	2,043	16.2	48.2	23.5	3.3	14.5	14.4	1.7	16.7
3/09E	48,830	2,747	21.2	31.1	17.9	2.8	17.0	16.9	1.2	11.4
3/10E	67,694	3,812	29.4	38.8	12.9	2.4	20.2	19.5	1.0	8.7

- Robust order book (up 48.1% YoY) to drive earnings growth:** IVRCL's current order backlog stands at Rs120b (+48.1% YoY, 3.5x FY08E revenue), which will drive revenue and earnings CAGR of 40.4% and 36.6% during FY08-FY10. We expect EBITDA margins to improve 70bp over FY08-FY10 driven by i) increasing proportion of buildings and power transmission in the order book and ii) operating leverage. Share of transportation projects to order book has reduced from 22% in March 2007 to 12% as at December 2007, which again is positive for margins. Given that ~93% of order book has price variation clauses, the impact of raw material price increases is limited.
- Establishing a strong position in power T&D, buildings:** IVRCL has been successful in building a strong presence in the power T&D segment (FY08 revenues Rs6.5-7b, v/s Rs3.6b in FY07). Also, share of buildings in order book has increased to 21% in December 2007 (v/s 12% in December 2006), wherein margins are relatively better. Both these segments are expected to be key growth drivers. IVRCL is also the largest construction companies in India in the 'water management' segment (50% of FY08 revenues).
- Robust FY09 guidance:** IVRCL reiterated revenues of Rs46-49b (up 35%-44% YoY), EBITDA margin of 10.6-10.8% (up ~50bp YoY) and PAT of Rs2.9-3b (up 38-43% YoY). The company has comfortable net DER of 0.6x (March 2008), while incremental equity commitments towards BOT projects are negligible.
- Valuation and view:** We expect IVRCL to report net profit of Rs2b in FY08 (up 44.4% YoY), Rs2.7b in FY09 (up 34.4% YoY) and Rs3.8b in FY10 (up 38.8% YoY). At the CMP of Rs380/share, the stock trades at reported PER of 23.5x FY08E, 17.9x FY09E and 12.9x FY10E. Adjusted for BOT, real estate etc. the stock is trading at PER of 17.3x FY08E, 13.2x FY09E and 9.5x FY10E. Maintain **Buy**.

SHAREHOLDING PATTERN (DEC.07)



STOCK PERFORMANCE (1 YEAR)

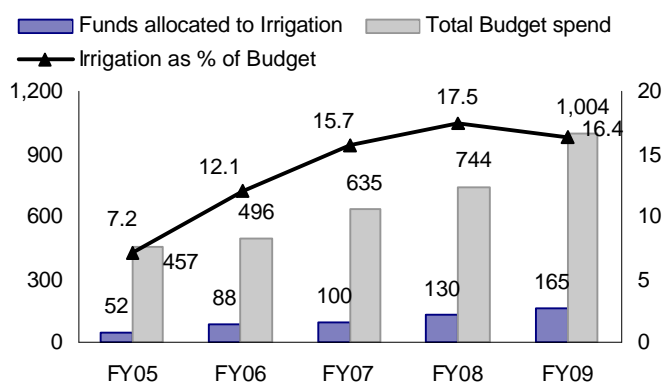


Order book as at March 2008, up 48.1% YoY; to drive strong revenue CAGR

IVRCL's current order backlog stands at Rs120b v/s Rs81b in FY07 (up 48.1% YoY). This represents a book to bill ratio of 3.5x FY08E revenues of Rs34.3b. We expect order flow momentum to remain strong driven by:

✎ **Robust order pipeline in water segment:** States like Rajasthan, Bihar, Madhya Pradesh, Gujarat, Maharashtra etc have increased irrigation spending. Also, the Andhra Pradesh government has increased allocation towards irrigation projects to Rs165b for FY09 v/s spend of Rs130b in FY08 (RE).

IRRIGATION SPEND BY ANDHRA PRADESH GOVERNMENT (RS B)



Source: Motilal Oswal Securities/AP Budget

✎ Increased presence in buildings and power transmission:

IVRCL's has been witnessing strong traction in the buildings segment from both government and private players, due to the sizeable development plans. Also, with few contractors in this industry equipped with strong execution capability, IVRCL stands to benefit. Buildings and power transmission now account for 21% of the order book as at December 2007 (v/s 12% in December 2006).

INDUSTRY ORDER BOOK TREND (RS M)

	FY05	FY06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	YOY (%)
Gammon	37,000	68,000	74,000	80,000	75,000	75,000	80,000	78,000	75,000	0.0
HCC	53,810	96,720	91,430	98,170	96,040	93,120	93,810	96,020	90,530	-5.7
IVRCL*	39,059	62,000	66,866	66,372	72,200	81,000	95,000	96,000	110,000	48.1
L&T	178,310	246,640	286,520	306,760	357,100	368,820	368,820	440,290	496,000	38.9
NCC	35,920	54,278	62,700	66,917	70,250	73,020	77,710	90,040	97,500	38.8
Patel Engineering	0	0	43,000	50,000	47,651	50,000	50,000	54,000	55,000	15.4
Simplex Infra.	45,000	45,000	45,900	52,000	54,880	53,200	70,000	70,770	89,000	62.2

* Current order book of Rs120b, up 48.1% YoY

Source: Industry

Over the last 12 months, IVRCL has reported a strong increase in order book at 48.1% — the highest among peers. Even Simplex, L&T and NCC have reported a sizeable increase in order book at 62.2%, 38.9% and 38.8% respectively. Gammon, HCC and Patel have witnessed largely stagnant order books at 0%, -5.7% and 15.4% respectively, owing to few project awards from the hydropower and transportation segments.

EBITDA margin expansion possible

About 93% of IVRCL's order book comprises cash contracts that include price variation clauses, thus minimizing the impact of raw material price increases. The company is thus better positioned versus peers such as Gammon, NCC, L&T etc., which have order books that comprise large proportion of fixed price contracts.

SMALL PROPORTION OF FIXED PRICE CONTRACTS (%)

	VARIABLE	FIXED
Gammon India	80	20
HCC	95	~5
IVRCL	92	8
L&T	35	65
NCC	75	25
Patel Engineering	90	~10
Simplex	81	19
Punj Lloyd	30	70

Source: Company/Motilal Oswal Securities

We expect EBITDA margins for IVRCL to improve 70bp during FY08-FY10 on account of: (1) increasing proportion of buildings and power transmission in the order book to 21% in December 2007 (v/s 12% in December 2006), where EBITDA margins are relatively higher at ~13-15%, compared with transportation projects (EBITDA margins 7-10%); (2) strong operating leverage from 40% revenue CAGR during FY08-10E. Share of transportation projects

BOT PROJECT PORTFOLIO (RS M)

	PROJECT COST	DEBT	EQUITY	GRANT	IVRCL SHARE (%)	IVRCL EQUITY
Jalandhar - Amritsar Road Project	2,377	1,570	413	395	100	413
Salem to Kumarapalayam	5,011	2,921	800	1,290	100	800
Kumarapalayam - Chenagmpalli	4,214	3,389	651	175	100	651
Chennai Desalination*	4,900	3,780	1,120	0	75	840
Total	16,503	11,660	2,984	1,860		2,704

Source: Company/Motilal Oswal Securities

Expect 40% revenue CAGR to FY10; robust financials

We expect IVRCL to report strong revenue CAGR of 40.4% over FY08-10, driven by: (1) robust order book of Rs120b (3.5x FY08E revenues) as at March 2008, ensuring revenue and earnings visibility over the medium term; (2) increasing proportion of relatively shorter execution cycles and high-margin segments like building and power in the order book from 22% in March 2007 to 30% in December 2007; also share of roads to order book has declined from 22% to 12% in the same period; and (3) fixed price contracts account for just ~8% of the order book, thus restricting impact from commodity price increases.

Robust FY09 guidance

Management has provided robust FY09 guidance: Revenues Rs46-49b (up 35-44% YoY), EBIDTA margin, 10.6-10.8% (up ~50bp YoY) and net profit of Rs2.9-3.0b (up 38-43% YoY). Capex for FY08 is estimated at Rs1.3b; and for FY09, at Rs750m-1b.

Valuation and view

We expect IVRCL to report net profit of Rs2b in FY08 (up 44.4% YoY), Rs2.7b in FY09 (up 34.4% YoY) and Rs3.8b in FY10 (up 38.8% YoY). At the CMP of Rs380/share, the stock trades at reported PER of 23.5x FY08E, 17.9x FY09E and 12.9x FY10E. Adjusted for BOT, real estate etc. the stock is trading at PER of 17.3x FY08E, 13.2x FY09E and 9.5x FY10E. Maintain **Buy**.

SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	Construction	FY10E PER (x)	14	53,372	412	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Market Price		1,445	11	20% discount to current stock price
IVR Prime Urban Developers	Real Estate	Market Price		5,764	44	20% discount to current stock price
BOT Projects						
A) Projects under Construction Phase						
Chennai Desalination Project	Desalination project	Book Value		1,260	10	1.5x P/BV, given ROE of 20%
Jalandhar Amritsar Road Project	BOT Road	Book Value		826	6	2x P/BV, given ROE of 18-20%
Tamil Nadu Road Projects (2 Nos)	BOT Roads	Book Value		2,176	17	1.5x P/BV, given ROE of 18-20%
Future Investments in BOT	BOT	Book Value		1,000	8	Book Value of Investments till March 2009
E&P (Alkor Petro)	E&P	Book Value		210	2	Book Value of Investments till March 2009
Total				66,053	509	

Source: Motilal Oswal Securities

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Net Sales	15,214	23,465	34,336	48,830	67,694	
Change (%)	44.2	54.2	46.3	42.2	38.6	
Total Expenditure	13,871	21,163	30,845	43,607	60,302	
EBITDA	1,343	2,301	3,490	5,223	7,392	
% of Net Sales	8.8	9.8	10.2	10.7	10.9	
Depreciation	110	216	331	437	577	
Interest	253	308	444	677	1,097	
Other Income	57	74	42	46	50	
PBT	1,037	1,851	2,758	4,156	5,768	
Tax	108	436	662	1,409	1,955	
Rate (%)	10.4	23.6	24.0	33.9	33.9	
Reported PAT	930	1,415	2,096	2,747	3,812	
Adjusted PAT	930	1,415	2,043	2,747	3,812	
Change (%)	63.8	52.2	44.4	34.4	38.8	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Share Capital	214	259	259	259	259	
Share Application Money	0	0	0	0	0	
Reserves	4,555	12,918	14,699	17,034	20,274	
Net Worth	4,769	13,177	14,959	17,294	20,534	
Loans	6,786	5,552	10,648	14,173	18,214	
Deferred Tax Liability	41	56	56	56	56	
Capital Employed	11,597	18,785	25,663	31,523	38,803	
Gross Fixed Assets	1,580	2,593	4,249	5,599	7,399	
Less: Depreciation	473	664	996	1,432	2,010	
Net Fixed Assets	1,107	1,929	3,254	4,167	5,390	
Capital WIP	266	506	150	300	300	
Investments	2,765	2,829	4,061	5,211	7,411	
Curr. Assets	13,002	26,683	31,593	40,777	51,899	
Inventory	286	825	1,208	1,718	2,381	
Debtors	4,765	6,332	9,407	13,378	18,546	
Cash & Bank Balance	2,443	2,238	1,663	4,072	2,869	
Loans & Advances	1,156	10,919	9,765	8,027	9,273	
Other Current Assets	4,352	6,367	9,551	13,582	18,830	
Current Liab. & Prov.	5,543	13,121	13,395	18,932	26,196	
Creditors	3,818	10,032	8,873	12,544	17,347	
Other Liabilities	1,573	2,863	4,190	5,958	8,260	
Provisions	152	227	332	429	589	
Net Current Assets	7,459	13,561	18,199	21,845	25,703	
Application of Funds	11,597	18,825	25,663	31,523	38,803	

E: MOSI Estimates

RATIOS						
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Basic (Rs)						
Adjusted EPS	8.7	10.9	16.2	21.2	29.4	
Growth (%)	30.1	25.5	48.2	31.1	38.8	
Cash EPS	9.7	12.6	18.3	24.6	33.9	
Book Value	44.6	101.9	115.4	133.4	158.4	
DPS	10	10	2.1	2.8	3.8	
Payout (incl. Div. Tax.)	13.5	10.7	13.0	13.0	13.0	
Valuation (x)						
P/E (standalone)		34.8	23.5	17.9	12.9	
Cash P/E		30.2	20.7	15.5	11.2	
EV/EBITDA		22.8	16.7	11.4	8.7	
EV/Sales		2.2	1.7	1.2	1.0	
Price/Book Value		3.7	3.3	2.8	2.4	
Dividend Yield (%)		34.1	71.7	94.0	130.5	
Profitability Ratios (%)						
RoE	211	15.7	14.5	17.0	20.2	
RoCE	14.2	14.2	14.4	16.9	19.5	
Turnover Ratios						
Debtors (Days)	114	98	100	105	100	
Inventory (Days)	7	13	13	13	13	
Creditors. (Days)	105	184	115	115	115	
Asset Turnover (x)	1.7	1.5	1.5	1.7	1.9	
Leverage Ratio						
Debt/Equity (x)	1.4	0.4	0.7	0.8	0.9	
CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
PBT before Extraordinar	1,037	1,851	2,758	4,156	5,768	
Add : Depreciation	110	216	331	437	577	
Interest	253	308	444	677	1,097	
Less : Direct Taxes Paid	108	436	662	1,409	1,955	
(Inc)/Dec in WC	-4,284	-6,307	-5,213	-1,237	-5,061	
CF from Operations	-2,991	-4,368	-2,342	2,623	426	
(Inc)/Dec in FA	-526	-1,278	-1,300	-1,500	-1,800	
(Pur)/Sale of Investments	-2,448	-64	-1,232	-1,150	-2,200	
CF from Investments	-2,975	-1,342	-2,532	-2,650	-4,000	
(Inc)/Dec in Networth	-54	7,200	-40	0	0	
(Inc)/Dec in Debt	4,315	-1,234	5,096	3,525	4,040	
Less : Interest Paid	253	308	444	677	1,097	
Dividend Paid	125	152	315	412	572	
CF from Fin. Activity	3,882	5,506	4,298	2,436	2,371	
Inc/Dec of Cash	-2,084	-204	-576	2,409	-1,203	
Add: Beginning Balance	4,527	2,443	2,238	1,663	4,072	
Closing Balance	2,443	2,239	1,662	4,072	2,869	



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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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