

IRB Infrastructure Developers Ltd.

DOLAT CAPITAL

CMP: Rs 242

Target Price: Rs 103

Infrastructure / Sell

IRB's Q3FY10 top line growth was below our estimates. This is on account of lower than estimated growth in toll revenue. The consolidated net revenue has grown by ~81% YoY on the back of ~87% YoY increase in the net toll revenue and a ~76% YoY increase in the construction revenue. EBIDTA margin has expanded by 994 bps to 52% due to contraction in total direct expenditure which includes raw material costs and contract expenses as a percentage of sales YoY to ~40.5% from ~49.5%. Although YoY net toll growth was substantial, further analysis on comparable basis (common projects in the period of comparison) suggests net toll revenue grew by 5.2% YoY and 2.9% QoQ. We have valued the stock on SOTP (BOT – NPV and EPC – PER) method and believe that the stock remains overvalued at these levels. We maintain a SELL on the stock with a target price of Rs 103 per share (BOT – Rs 77/- and EPC – Rs 26/-).

Q3FY10 Result (Consolidated)

Particulars - (Rs Mn)	Q3FY10	Q3FY09	Y-o-Y %	Q2 FY10	Q-o-Q %	9MFY10	9MFY09	Y-o-Y %
Net Sales (Incl other Oper Inc)	4330.8	2391.1	81.1	3559.0	21.7	12031.1	6707.8	79.4
Net Toll Revenue	1975.3	1055.0	87.2	1603.9	23.2	5165.1	3219.6	60.4
Construction Revenue	2355.5	1336.1	76.3	1955.1	20.5	6866.0	3488.2	96.8
Other Income	87.0	90.0	-3.3	73.9	17.8	375.9	230.2	63.3
Total Income	4417.8	2481.1	78.1	3632.8	21.6	12407.0	6938.0	78.8
Total Expenditure	2059.4	1374.7	49.8	1811.9	13.7	6350.8	3519.7	80.4
EBIDTA (Excl.OI)	2271.3	1016.4	123.5	1747.1	30.0	5680.2	3188.1	78.2
EBIDTA (Incl.OI)	2358.3	1106.4	113.2	1821.0	29.5	6056.1	3418.3	77.2
Interest	735.6	365.4	101.3	476.6	54.4	1679.4	992.3	69.2
Depreciation	530.8	286.2	85.5	396.1	34.0	1303.3	813.0	60.3
Tax	139.2	72.4	92.2	205.1	-32.1	526.1	276.9	90.0
Net Profit	914.4	382.4	139.1	708.2	29.1	2437.2	1336.2	82.4
OPM %	52.4	42.5		49.1		47.2	47.5	
NPM %	21.1	16.0		19.9		20.3	19.9	

Financial Highlights

- IRB recorded a revenue growth of ~81% YoY mainly attributed to ~87% YoY & ~23% QoQ jump in the net toll revenue coupled with ~76% YoY jump in the construction revenue. The toll revenue on YoY is not comparable as Surat Dahisar and Surat Bharuch BOTs which have contributed ~44% to the total net revenue in the quarter were not commercially functional in the same quarter last fiscal. Excluding these projects, the YoY net toll growth was merely 5.2% and QoQ growth was 2.9%. Mumbai Pune Expressway (Combined with NH4 - MPEW), which accounted for 39% of the total net toll has recorded a growth of 6.8% YoY and 0.5% QoQ and is still the largest contributor in the total net toll revenue along with Surat Dahisar and Surat Bharuch projects which have a share of ~27% and ~16% respectively in the total net revenue. With completion of Surat Bharuch project and the start of construction for Surat Dahisar stretch along with Kolhapur project have increased the construction activities in the quarter. We expect the construction activities to gather momentum in FY11.

NET Toll Revenue Particulars (Rs Mn)	FY08				FY09				FY10		
	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NET Toll Revenue	904.59	891.63	932.00	965.22	1097.94	1068.30	1053.35	1259.99	1589.94	1603.87	1975.26
QoQ growth %		-1.4	4.5	3.6	13.8	-2.7	-1.4	19.6	26.2	0.88	23.16
YoY growth %					21.4	19.8	13.0	30.5	44.8	50.1	87.5

- EBIDTA margin expansion by 994 bps to 52.4% positively surprised us. We have estimated EBIDTA margin of 39% on account of higher construction expenses owing to speedy construction work on Surat Dahisar stretch and Kolhapur project construction to gather momentum. However, total direct expenditure which includes raw material costs and contract expenses as a percentage of sales has contracted YoY to ~40.5% from ~49.5%.
- Net profit margin surged by 512 bps in spite of doubling the interest cost and 85% jump in depreciation YoY mainly due to expanded EBIDTA margin and YoY drop in the tax rate by 317 bps to 12.75%.

Other Highlights of Q3FY10

Order book details

The Company has an order book of Rs.92.38 bn as on 31st Dec 2009 (of which O&M work accounts for 25%, EPC on ongoing and proposed BOT projects accounts for 27%, BOT projects under award accounts for 46% and rest 2% is attributed to the funded projects). The company expects to execute the order book in next three and half years.

Market share

IRB has total 1135 Km of projects either operational or under construction which accounts to 5050 Lane Km. Out of this 1646 Lane Km is under development and 3404 Lane Km is operational. The company has generated the revenue of Rs 0.67 mn per Lane Km in Q3FY10. Out of the total length of roads 56% of the total Km of roads are in Maharashtra, 16% are in Gujarat, 13% in Rajasthan, 9% in Punjab and 6% in Goa.

Project update

- The company has pre closed Kaman Paygaon Project as per the notification issued by Govt. of Maharashtra with a view to widen the road. The Govt. has paid Rs 61.6 mn to the company as termination payment. This project was contributing approx 0.35% to the consolidated toll revenue.
- The company has reorganized its consortium lenders for Mumbai Pune Express Way SPV (Mhaiskar Infra Pvt Ltd). By doing this its cost of debt has been fixed till the entire tenure of 8.5 years and come down to 10.60% p.a. from earlier floating rate of 12.50%.

Project wise toll revenue growth

Though ~87% YoY growth in the total net toll revenue appears to be healthy, it is boosted primarily by Surat Dahisar and Surat Bharuch projects which contributed ~44% of the total net toll revenue in this quarter and were not a part of the portfolio same quarter last fiscal. Hence, excluding these projects YoY toll revenue growth was marginal at 5.2%. Mumbai Pune Express Way has maintained its leadership position with 39% contribution in the total net toll revenue followed by 27% by Surat Dahisar project and 16% by Surat Dahisar stretch.

BOT Revenue Project Wise (Rs Mn)	9M FY 10	9M FY09	% yoy	Dec 09	Dec 08
TBB-4 (Mumbra)	341.08	302.04	12.93	118.00	96.00
Bhiwandi Wada	0.00	15.68	-100.00	0.00	0.00
Kaman	21.72	27.63	-21.41	5.00	9.00
Khambatki	12.21	96.99	-87.41	0.00	32.00
Kharpada	49.60	53.65	-7.55	16.00	16.00
NKT	98.57	86.68	13.72	35.00	27.00
MMK	48.98	49.65	-1.34	14.00	15.00
Pune -Solapur	98.19	96.78	1.46	32.00	30.00
Pune - Nashik	132.42	122.75	7.87	47.00	41.00
Mumbai - Pune	2301.97	2169.17	6.12	771.00	722.00
Thane - Ghodbunder	208.04	198.58	4.76	72.00	67.00
Surat Dahisar (Gross)	2430.91	0.00		873.00	0.00
Surat Bharuch	345.13	0.00		324.00	0.00
Kolhapur	0.00	0.00		0.00	0.00
Total Revenue (Gross)	6088.81	3219.59		2307.00	1055.00
% YoY growth	89.12			118.67	
% QoQ				21.41	
Total Revenue (Net)**	5165.06	3219.59		1975.26	1055.00
% YoY growth	60.43			87.23	
% QoQ growth				23.16	
Comparable basis (Gross)					
% YoY growth	2.89			5.21	
% QoQ				4.36	
Comparable basis (Net)					
% YoY growth	2.89			5.21	
% QoQ				2.95	
Mumbai - Pune - Share in Net Revenue	44.57	67.37		39.03	68.44
Surat-Dahisar - Share in Net Revenue	29.18	0.00		27.40	0.00
Surat-Bharuch-Share in the Net Revenue	6.68	0.00		16.40	0.00

** Net revenue is arrived at by giving 38% share to NHAI in Surat Dahisar BOT

Valuation

At a CMP of Rs.242, the stock trades at 24.3x FY10E EPS of Rs 9.9 and at 21.3x FY11E EPS of Rs11.3. We have valued the stock on SOTP basis (BOT – NPV and EPC- PER) and arrived at a fair value of Rs 103 (BOT – Rs 77 and EPC – Rs 26). We believe, the stock remains overvalued at these levels and maintain a SELL recommendation.

Financials

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT	% Growth	EPS (Rs.)	PER (x)	EV/EBIDTA (x)	ROANW (%)	ROACE (%)
FY08	7,381	141.4	4,173	56.5	1,193	429.3	3.6	67.4	22.9	11.9	11.0
FY09	9,978	35.2	4,433	44.4	1,817	52.3	5.5	44.3	22.8	10.8	9.0
FY10E	22,517	125.7	8,955	39.8	3,305	81.9	9.9	24.3	12.3	17.7	16.0
FY11E	23,474	4.3	10,808	46.0	3,770	14.1	11.3	21.3	10.7	17.4	16.2

Figure in Rs.mn

The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

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