



IRB Infrastructure IRB IN

INDIA / CAPITAL GOODS

TARGET	INR293.00	BUY
PRIOR TP	INR293.00	
CLOSE	INR262.60	
UP/DOWNSIDE	+11.6%	

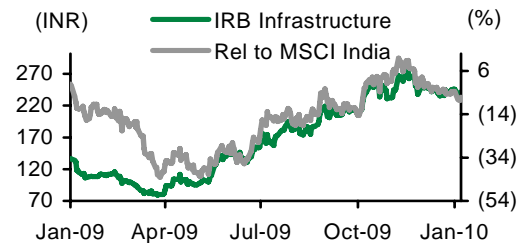
HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	293.00	252	16.0
EPS 2010 (INR)	10.93	10.31	(3.4)
EPS 2011 (INR)	16.18	13.96	15.9

	Positive	Neutral	Negative
Market Recs.	13	2	5

KEY STOCK DATA

YE Mar (INR m)	2010E	2011E	2012E
Revenue	17,489	36,244	41,698
Rec. net profit	3,633	5,381	5,565
Recurring EPS (INR)	10.93	16.18	16.74
Prior rec. EPS (INR)	9.96	16.18	16.74
Chg. in EPS est. (%)	9.8	0.0	0.0
EPS growth (%)	106.5	48.1	3.4
Recurring P/E (x)	24.0	16.2	15.7
Dividend yield (%)	0.6	0.6	0.6
EV/EBITDA (x)	12.0	9.2	8.5
Price/book (x)	4.3	3.5	2.9
Net debt/equity	117.8	148.0	155.7
ROE (%)	19.3	23.6	20.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(1.9)	0.5	105.3
Relative to country (%)	(4.2)	(6.4)	6.0

Next results	January 2010
Mkt cap (USD m)	1,912
3m avg daily turnover (USD m)	5.3
Free float (%)	26
Major shareholder	Mhaiskar Family (74%)
12m high/low (INR)	274.50/79.05
3m historic vol. (%)	44.7

Sources: Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

Don't wait till the next project win 6 Oct 2009

INDUSTRY OUTLOOK ↔

NEW INFORMATION

More +ve post mgmt meet

- Debt refinanced at slightly lower than expected rate.
- Financial closure of new projects in the next two months.
- Bidding selectively to ensure profitability.
- SoTP: INR293; BOT INR130, Construction INR108; Others INR55

We met with management of IRB Infrastructure and are incrementally positive after the meeting.

Partial debt refinanced at lower interest rates

The company refinanced INR10b of its existing debt on the Mumbai-Pune Highway at 10.6% on average fixed for the remaining tenure of the project (8.5 years). We were expecting 11%.

Financial closure of projects in the next two months

The financial closure of the four new projects won in mid 2009 will be completed in the next two months. Construction on the projects would start in the first quarter of FY11.

Aiming for INR50b project awards, in no hurry to participate in the exuberance

We believe bidding has been aggressive for recent NHA projects. IRB has been selective in bidding in order to maintain profitability. In the last two months, approximately 1500km of projects have been awarded. We expect the awarding activity to pick up significantly after March 2010. The National Highways Authority of India aims to award approximately 12,000km of projects this year (worth USD20b), of which we believe approximately 3,500kms have been awarded. IRB's near-term pipeline comprises INR250b worth of projects.

Potential fund raising of INR12b for future projects

With the cash flows from the existing portfolio of 16 projects, the company will be able to fund INR20b worth of projects in addition to the six projects under implementation. The company has passed a resolution to raise up to INR12b of equity. We estimate this issuance will enable the company to fund an additional INR50b worth of projects.

Valuation

We maintain our SoTP based TP of INR293.00. We used DCF (with cost of equity of 13.5%) to value the BOT projects at INR130, 8x FY11E EBITDA to value the construction arm at INR108. We value the company's real estate business using DCF (discount rate of 15%) at INR25. Finally, we attribute INR30 as the option value to INR20b projects that the company can fund from existing cash flows (assuming 2x P/B and 3:1 debt equity ratio). IRB is our top pick in the sector.



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FINANCIAL STATEMENTS

IRB Infrastructure

Profit and Loss (INR m) Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Revenue	7,327	9,919	17,489	36,244	41,698
Cost of sales ex depreciation	(3,208)	(5,545)	(8,760)	(23,321)	(26,250)
Gross profit ex depreciation	4,119	4,374	8,729	12,923	15,448
Other operating income	0	0	0	0	0
Operating costs	0	0	0	0	0
Operating EBITDA	4,119	4,374	8,729	12,923	15,448
Depreciation	(1,016)	(1,144)	(1,736)	(2,063)	(3,417)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	3,103	3,230	6,993	10,861	12,032
Net financing costs	(1,958)	(1,377)	(2,508)	(3,277)	(4,208)
Associates	0	0	0	0	0
Recurring non operating income	520	296	489	0	0
Non recurring items	0	0	0	0	0
Profit before tax	1,666	2,149	4,974	7,584	7,823
Tax	(400)	(378)	(1,201)	(2,083)	(2,138)
Profit after tax	1,266	1,772	3,773	5,501	5,685
Minority interests	(126)	(13)	(140)	(120)	(120)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	1,139	1,758	3,633	5,381	5,565
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	1,139	1,758	3,633	5,381	5,565

Interest expenses will increase as new projects become operational

Per share (INR)

Recurring EPS *	4.18	5.29	10.93	16.18	16.74
Reported EPS	4.18	5.29	10.93	16.18	16.74
DPS	0.00	1.68	1.68	1.68	1.68

Growth

Revenue (%)	139.7	35.4	76.3	107.2	15.0
Operating EBITDA (%)	149.0	6.2	99.6	48.0	19.5
Operating EBIT (%)	175.0	4.1	116.5	55.3	10.8
Recurring EPS (%)	272.8	26.6	106.5	48.1	3.4
Reported EPS (%)	272.8	26.6	106.5	48.1	3.4

Shift of revenue mix toward construction will result in lower margins

Operating performance

Gross margin inc depreciation (%)	42.3	32.6	40.0	30.0	28.9
Operating EBITDA margin (%)	56.2	44.1	49.9	35.7	37.0
Operating EBIT margin (%)	42.3	32.6	40.0	30.0	28.9
Net margin (%)	15.5	17.7	20.8	14.8	13.3
Effective tax rate (%)	24.0	17.6	24.1	27.5	27.3
Dividend payout on recurring profit (%)	0.0	31.7	15.4	10.4	10.0
Interest cover (x)	1.9	2.6	3.0	3.3	2.9
Inventory days	33.8	84.1	85.6	32.1	28.6
Debtor days	38.7	4.6	3.7	3.5	4.5
Creditor days	118.2	77.4	57.1	26.3	28.3
Operating ROIC (%)	8.5	7.9	12.9	14.3	11.8
Operating ROIC – WACC (%)	-	-	-	-	-
ROIC (%)	9.5	8.3	13.4	14.0	11.6
ROIC – WACC (%)	-	-	-	-	-
ROE (%)	11.4	10.5	19.3	23.6	20.0
ROA (%)	7.7	6.8	11.1	11.9	10.2

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (INR m)	2008A	2009A	2010E	2011E	2012E
Construction	3,631	5,430	9,500	27,000	30,500
Toll	3,696	4,487	7,989	9,244	11,198
Intracompany	0	2	0	0	0

Sources: IRB Infrastructure; BNP Paribas estimates

IRB Infrastructure

Cash Flow (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Recurring net profit	1,139	1,758	3,633	5,381	5,565
Depreciation	1,016	1,144	1,736	2,063	3,417
Associates & minorities	126	13	140	120	120
Other non-cash items	1,435	1,147	2,508	3,277	4,208
Recurring cash flow	3,717	4,062	8,017	10,840	13,310
Change in working capital	(1,586)	(1,421)	38	231	169
Capex - maintenance	0	0	0	0	0
Capex – new investment	(4,288)	(8,114)	(8,950)	(22,668)	(21,830)
Free cash flow to equity	(2,157)	(5,473)	(895)	(11,597)	(8,351)
Net acquisitions & disposals	0	0	0	0	0
Dividends paid	(15)	(223)	(654)	(654)	(654)
Non recurring cash flows	(2,677)	829	0	2,025	3,369
Net cash flow	(4,848)	(4,866)	(1,548)	(10,225)	(5,635)
Equity finance	8,506	208	0	0	0
Debt finance	(832)	5,707	6,733	12,964	10,512
Movement in cash	2,826	1,049	5,185	2,740	4,877

The four new projects secured will result in higher capex

Per share (INR)					
Recurring cash flow per share	13.63	12.22	24.11	32.60	40.03
FCF to equity per share	(7.91)	(16.46)	(2.69)	(34.88)	(25.12)

Balance Sheet (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Working capital assets	4,367	6,179	6,278	6,523	6,595
Working capital liabilities	(2,600)	(3,210)	(3,348)	(3,824)	(4,065)
Net working capital	1,768	2,968	2,930	2,699	2,529
Tangible fixed assets	27,737	34,707	41,920	62,526	80,939
Operating invested capital	29,505	37,675	44,850	65,225	83,469
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Investments	1,985	1,108	1,108	1,108	1,108
Other assets	16	10	10	10	10
Invested capital	31,505	38,793	45,968	66,343	84,586
Cash & equivalents	(5,221)	(4,147)	(6,824)	(6,287)	(6,955)
Short term debt	0	0	0	0	0
Long term debt *	20,212	24,859	31,592	44,556	55,068
Net debt	14,991	20,712	24,768	38,270	48,113
Deferred tax	26	182	182	182	182
Other liabilities	0	0	0	2,025	5,394
Total equity	16,207	17,301	20,420	25,267	30,299
Minority interests	281	599	599	599	599
Invested capital	31,505	38,793	45,968	66,343	84,586

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

Cash is sufficient to fund an additional INR20b of projects; IRB will have to raise funds to undertake projects beyond this level

Per share (INR)					
Book value per share	48.75	52.04	61.42	76.00	91.13
Tangible book value per share	48.75	52.04	61.42	76.00	91.13

Financial strength					
Net debt/equity (%)	90.9	115.7	117.8	148.0	155.7
Net debt/total assets (%)	38.1	44.9	44.1	50.1	50.3
Current ratio (x)	3.7	3.2	3.9	3.3	3.3
CF interest cover (x)	2.1	2.9	4.2	4.4	4.2

Valuation					
	2008A	2009A	2010E	2011E	2012E
Recurring P/E (x) *	62.8	49.6	24.0	16.2	15.7
Recurring P/E @ target price (x) *	70.1	55.4	26.8	18.1	17.5
Reported P/E (x)	62.8	49.6	24.0	16.2	15.7
Dividend yield (%)	0.0	0.6	0.6	0.6	0.6
P/CF (x)	19.3	21.5	10.9	8.1	6.6
P/FCF (x)	(33.2)	(16.0)	(97.6)	(7.5)	(10.5)
Price/book (x)	5.4	5.0	4.3	3.5	2.9
Price/tangible book (x)	5.4	5.0	4.3	3.5	2.9
EV/EBITDA (x) **	19.2	22.6	12.0	9.2	8.5
EV/EBITDA @ target price (x) **	20.9	24.8	13.1	10.0	9.1
EV/invested capital (x)	3.3	2.8	2.5	1.9	1.6

* Pre exceptional, pre-goodwill and fully diluted

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

Sources: IRB Infrastructure; BNP Paribas estimates

DISCLAIMERS & DISCLOSURES

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All share prices are as at market close on 8 January 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

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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