

INITIATING COVERAGE

IVRCL Infrastructures & Projects Ltd

Hold

Share Data

Market Cap	Rs. 54.1 bn
Price	Rs. 417.4
BSE Sensex	Rs. 15311.2
Reuters	IVRC.BO
Bloomberg	IVRC.IN
Avg. Volume (52 Week)	0.7 mn
52-Week High/Low	Rs. 460/164
Shares Outstanding	129.7 mn

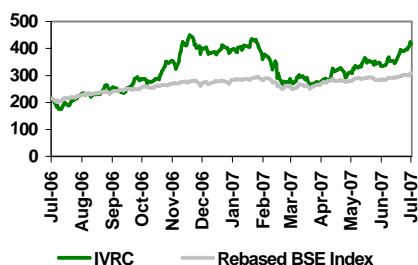
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	17.0	22.0
+/- (%)	15.2%	29.4%
PER (x)	24.6x	19.0x
EV/ Sales (x)	1.7x	1.3x
EV/ EBITDA (x)	16.5x	12.2x

Shareholding Pattern (%)

Promoters	10
FII's	55
Institutions	15
Public & Others	20

Relative Performance



Building brighter future

IVRCL Infrastructures & Projects Limited (IVRCL) is one of the largest infrastructure construction companies in India. The Company is experiencing robust growth because of an increased investment by the Indian government and private sector in the infrastructure projects. With more than 50% of revenues coming from water segment, the Company is exploring high margin businesses like oil & gas exploration and transmission and distribution, to lower its dependency on the water segment. IVRCL's future looks bright with order backlog of around Rs. 81 bn at FY07 end and another Rs. 17 bn worth of projects in the pipeline. However, we feel that the stock price has already factored in the future growth prospects of the Company and there is limited upside from current levels.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data) (FY07-09E)						
Net Sales	10,602	16,871	24,718	33,616	43,029	31.9%
EBITDA	908	1,531	2,706	3,496	4,733	32.3%
Net Profit	571	1,085	1,689	2,203	2,852	29.9%
Margins(%)						
EBITDA	8.6%	9.1%	10.9%	10.4%	11.0%	
NPM	5.4%	6.4%	6.8%	6.6%	6.6%	
Per Share Data (Rs.)						
Normalized EPS	33.8	10.3	14.8	17.0	22.0	22.1%
PER (x)	12.4x	40.5x	28.3x	24.6x	19.0x	

- We expect IVRCL to report net sales CAGR of 31.9% for FY07-09E driven by large investments by the Indian government and the private sector in infrastructure projects.
- The net profit is expected to grow at a CAGR 29.9% from FY07-09E.
- At the current price of Rs. 417.4, the stock is trading at a forward PE of 24.6x FY08E and 19x FY09E.
- Based on DCF valuation we feel that the stock is fairly valued at the current levels and therefore, we initiate coverage with a Hold.

Rationale

Indian government investment in infrastructure projects to continue

Government of India (GOI) is investing in infrastructure projects at an increasing rate, from Rs. 7.7 trillion in the 10th five-year plan to Rs. 18.7 trillion in the 11th five-year plan, to keep up with the growing Indian economy. GOI is investing in many different infrastructure projects from highways to water supply to drainage. Under the 11th five-year government plan, the Indian government plans to invest close to Rs. 1,063.5 bn in water supply and sanitation, Rs. 1,831.4 bn in irrigation, Rs. 5,257.2 bn in power, Rs. 3,686.5 bn on roads and the remaining Rs. 6,861.3 bn on railways, telecom, ports, airports, gas and storage. To sustain the feverish growth in the economy, India would have to continue to invest in various infrastructure projects in the coming years.

GOI to invest close to Rs. 18.7 trillion on infrastructure projects under the 11th 5-year plan

Strong order book provides revenue visibility

The Company had a strong order book at the end of FY07 of around Rs. 81 bn comprising of ~56% contribution from water related projects, ~22% from transport and ~11% each from power and building projects. The order backlog provides a sustained revenue flow over the next 2.5-3 years. The current order book to sales ratio stands at 2.4x FY08E and 1.9x FY09E. Besides the above the Company has orders worth Rs. 17 bn in the pipeline which further improves the revenue visibility.

Order backlog of Rs. 81 bn and Rs. 17 bn worth of projects in the pipeline

DBOOT & BOT projects

IVRCL is also into Design, Build, Own, Operate & Transfer (DBOOT) and Build, Operate & Transfer (BOT) projects. In DBOOT and BOT projects, IVRCL gets the right to operate and manage the infrastructure like tollways for a certain period of time before transferring the control back to the government. Depending on the project, IVRCL generates revenue by charging a fixed annual fee or by collecting tolls.

3 BOT toll based road projects and 1 BOT water based project

IVRCL has set up subsidiaries, IVRCL Water Infrastructures Limited and IVRCL Road Tollways Limited, which focus on DBOOT and BOT projects in water and transportation segments. The Company recently completed the

construction of 1 BOT based Chennai water desalination plant and it will operate and manage the desalination plant for the next 25 years. The Company also has 3 BOT toll based road projects which are expected to be operational in the next two-three years.

Diversified business

IVRCL is involved in many different segments within infrastructure development such as water, transportation, developing residential structures, etc. The diversification into other segments lowers IVRCL's dependency on water segment. IVRCL is also exploring new market segments like oil & gas exploration, power transmission and distribution, etc that offer higher margins than water and environment segment in which IVRCL specializes. The Company is planning to enter into oil and gas exploration through an acquisition and will consider bidding in the seventh round of the National Exploration and Licensing Policy (NELP) programme, on completion of the acquisition. This will not only enhance its prequalification abilities for project bidding but at the same time it further diversifies the business.

Dominance in water and environment segment to continue

IVRCL's core competency lies in water and environment segment and it is a dominating player in this market segment. IVRCL's competitive edge lies in its big size, expertise in water and environment segment and successful execution of past projects. This would enable IVRCL to bid for bigger contracts which might allow IVRCL to achieve higher operating margins because of economies of scale. Close to 60% of the booked orders are for the water and environment segment which makes sure that IVRCL would remain a dominant player in the segment.

Booming building & industrial structure segment

Due to the booming Indian economy, a lot of money is being invested in building and industrial structure segment. On one hand, the general population has more disposable income than before which has resulted in an increased demand for housing units. On the other hand, industrial sector has also increased capex spending to keep up with the growing economy which has created an increase in demand for industrial structures.

IVRCL derives more than 50% of its revenue from water segment

IVR Prime has a land stock of about 2,500 acres in tier-1 cities

IVR Prime Urban Development listing

IVRCL controls 80% of IVR Prime Urban Development (IVR Prime), a subsidiary of IVRCL which operates in the building and industrial structure segment. IVRCL is considering diluting 20% of IVR Prime's shares to raise close to Rs. 7 bn. IVR Prime has a land stock of about 2,500 acres and residential and commercial buildings in big cities like Chennai, Bangalore, Noida, Hyderabad and Pune. Once the funds have been raised through equity dilution, IVRCL plans to use these funds to develop the land stock over the next five years which could unlock potential revenues for IVRCL.

Key Risks

Lack of skilled workforce

The other companies involved in infrastructure construction sector are also expanding very quickly as a result of increased spending by both public and private sector in infrastructure projects. This has created a shortage of skilled workforce, consequently the workers salaries have increased. The attrition rate has also gone up due to an increase in demand for skilled and semi-skilled workforce so it might become difficult in future for IVRCL to retain talent.

Small promoter holding in IVRCL

10.4% promoters holding

The promoters of IRVCL hold only 10.4% of the company. The promoters could find it difficult to raise large sum of money through further equity dilution due to their low holding status. It might prevent IVRCL from taking on capital intensive projects which could result in a lower growth rate.

Decrease in government spending in infrastructure projects

A slowdown in investment for infrastructure projects by the Indian government could stunt the sales growth of IVRCL. In spite of the fact that IVRCL has a diverse portfolio and customer base, the continued public sector investment in infrastructure projects is very important for IVRCL's growth.

*Order book of more than
Rs. 80bn*

Outlook

India's GDP has been growing at around 8% annually over the past couple of years and it is likely to continue to grow at this rate in the coming years. Indian government has been actively investing in infrastructure projects to keep up with the growing economy. The investment in the building and industrial structure is also increasing due to rise in housing demand and increase in capex by the industrial sector respectively.

With order book of more than Rs. 80 bn spread over the next 2.5-3 years, additional orders worth Rs. 17 bn in the pipeline along with the continued investment in the infrastructure projects by the public and private sector we expect IVRCL's earnings to grow at a CAGR of 22.1% over FY07-09E. However, due to recent bull market we feel the stock price has factored in the future growth prospects of the Company; therefore, we initiate coverage with a Hold.

Company Background

Based in Hyderabad, IVRCL is an infrastructure development Company. The Company focuses on four infrastructure segments - Water & Environment, Transportation, Building & Industrial Structures and Power.

The water division of IVRCL lays down water pipelines for supplying drinking and industrial water, lift irrigation projects, construct underground drainage and sewer treatment plants, build recycling and recovery facilities and lay down pipelines for delivery of oil and gas. IVRCL Water Infrastructures Limited focuses on water related DBOOT and BOT projects.

IVRCL's transportation division builds new roads and highways and upgrade the existing road infrastructure. IVRCL Road Tollways Limited was formed with a focus on BOT projects. The subsidiary invests in and operates long term BOT projects like toll ways.

The building and industrial structure division of IVRCL develops residential, commercial and industrial properties. IVR Prime operates in this segment and presently it is developing properties in Chennai, Hyderabad, Bangalore, Noida and Pune.

The power division of IVRCL installs transmission lines, high voltage distribution systems and sub-stations. The power division also provides support to the other divisions of IVRCL.

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