

# Weak 2Q - Opportunity to Buy

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**PAT growth to bounce from 2HFY10E; Roads could surprise; Buy**  
IVRC 2Q Rec. PAT +9%YoY (-12% BofAMLe) on slowed execution – sales +7%YoY, higher interest cost 1.3x and 136% higher tax on withdrawal of 80 IA benefit.

Expansion in margins by 137bps and QoQ peaking of interest cost were positives. We see any stock correction led by weak 2Q as an opportunity to buy IVRC on a) pick-up in orders & execution from 3Q on re-instatement of stable Govt. at center, b) softer material prices drive up margins and c) peaked interest costs, drive 24% EPS CAGR vs flat FY09 and d) stock is inexpensive at 10x (core business) FY11E EPS.

## Worst likely over in 2Q; backlog to shift to Maharashtra v/s AP

We think that the worst for IVRC's order book, which slowed to 4%YoY to Rs146bn (~2.5x FY10E sales), is over as company diversifies its backlog by winning some big ticket orders in the state of Maharashtra. Infact company has Rs44bn of L1 currently, of which, Rs30bn (21% of backlog) is located in the state of Maharashtra. This will de-risk IVRC away from slow down in AP irrigation on change in leadership in the state. Led by a weak 2Q, we have cut our FY10E by 6% but keep FY11-12E relatively unchanged on improved sales visibility on ensuing pick-up in capex cycle, stable material costs and peaked interest costs.

## HDO Does Well; Infra annuity to start from 3/4QFY10E

HDO did very well - PAT +96%YoY. All its 4 Infra SPVs are funded and would start to accrue annuities from 3/4QFY10E. Mgt. confirmed sales of Infra SPVs to rise from Rs4.6mn/day (Rs1.6bn annualized) to Rs14mn/day in 2-3years. IVR Prime hardly had any development revenues. It is considering to revive its Chennai project from 3Q on improving sentiment in the OMR region.

## Bullish On Roads Again; Ambitious guidance; Balance sheet OK

We see mgt's renewed bullishness on roads as key driver of surprise ahead. Road BOOT model has improved on a) higher govt. grant (40%), b) Govt. support on land acquisition and co-ordination promised by the new minister and c) lower interest rates. Mgt maintain its guidance for a 30-35%YoY growth in FY10E revenues, which we think is ambitious. IVRC has a well funded balance sheet to meet this growth – net D/E of 0.5x in FY09A. Reiterate Buy on the water play - our PO of Rs410.

### Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	2,161	2,158	2,437	3,294	3,649
EPS	16.19	16.17	18.25	24.68	27.33
EPS Change (YoY)	47.8%	-0.2%	12.9%	35.2%	10.8%
Dividend / Share	1.40	1.40	1.37	1.73	1.91
Free Cash Flow / Share	(44.01)	(21.68)	14.00	2.81	5.25

### Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	21.47x	21.50x	19.04x	14.08x	12.71x
Dividend Yield	0.403%	0.403%	0.394%	0.497%	0.551%
EV / EBITDA*	16.59x	13.99x	10.68x	8.58x	7.93x
Free Cash Flow Yield*	-12.66%	-6.24%	4.03%	0.808%	1.51%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 8.

### Stock Data

Price	Rs347.55
Price Objective	Rs410.00
Date Established	18-Aug-2009
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs78.00-Rs425.00
Mrkt Val / Shares Out (mn)	US\$988 / 133.5
Average Daily Volume	2,622,997
BofAML Ticker / Exchange	IIFRF / BSE
Bloomberg / Reuters	IVRC IN / IVRC.BO
ROE (2010E)	13.2%
Net Dbt to Eqty (Mar-2009A)	71.6%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	87.0%

### Key Changes

(Rs)	Previous	Current
2010E Rev (m)	62,116.0	58,258.0
2011E Rev (m)	72,254.2	75,593.5
2012E Rev (m)	79,072.7	80,026.1
2010E EPS	19.41	18.25
2011E EPS	24.82	24.68
2012E EPS	27.50	27.33

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Refer to important disclosures on page 9 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

## iQprofile<sup>SM</sup> IVRCL Infrastructure & Proj

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
<b>(Rs Millions)</b>					
Sales	36,606	48,819	58,258	75,593	80,026
Gross Profit	5,261	5,094	6,577	8,164	8,803
Sell General & Admin Expense	(1,647)	(876)	(1,049)	(1,285)	(1,360)
Operating Profit	3,286	3,745	4,969	6,241	6,734
Net Interest & Other Income	(362)	(1,094)	(1,386)	(1,397)	(1,367)
Associates	NA	NA	NA	NA	NA
Pretax Income	2,867	2,651	3,584	4,845	5,367
Tax (expense) / Benefit	(763)	(493)	(1,147)	(1,550)	(1,717)
Net Income (Adjusted)	2,161	2,158	2,437	3,294	3,649
Average Fully Diluted Shares Outstanding	142	142	142	142	142

### Key Cash Flow Statement Data

Net Income	2,105	2,158	2,437	3,294	3,649
Depreciation & Amortization	328	473	559	638	708
Change in Working Capital	(6,786)	(3,398)	(177)	(2,557)	(2,856)
Deferred Taxation Charge	(51)	(14)	0	0	0
Other Adjustments, Net	155	29	0	0	0
Cash Flow from Operations	(4,249)	(752)	2,819	1,375	1,501
Capital Expenditure	(1,626)	(2,143)	(950)	(1,000)	(800)
(Acquisition) / Disposal of Investments	(399)	(1,058)	222	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(2,025)	(3,200)	(728)	(1,000)	(800)
Shares Issue / (Repurchase)	8	0	0	0	0
Cost of Dividends Paid	(219)	(219)	(214)	(270)	(299)
Cash Flow from Financing	5,864	3,088	(123)	(270)	(299)
Free Cash Flow	(5,875)	(2,895)	1,869	375	701
Net Debt	8,907	12,972	12,503	12,398	11,996
Change in Net Debt	5,536	4,167	(468)	(105)	(402)

### Key Balance Sheet Data

Property, Plant & Equipment	3,733	5,402	5,793	6,156	6,247
Other Non-Current Assets	3,409	3,892	4,170	4,170	4,170
Trade Receivables	6,585	11,430	13,640	17,699	18,737
Cash & Equivalents	1,772	1,009	2,977	3,082	3,484
Other Current Assets	20,474	25,696	26,178	28,511	30,815
Total Assets	35,973	47,430	52,759	59,618	63,453
Long-Term Debt	10,678	13,980	15,480	15,480	15,480
Other Non-Current Liabilities	103	117	117	117	117
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	9,132	15,226	18,241	22,076	22,561
Total Liabilities	19,913	29,324	33,839	37,674	38,158
Total Equity	16,060	18,106	18,920	21,945	25,295
Total Equity & Liabilities	35,973	47,430	52,759	59,618	63,453

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	10.5%	10.7%	10.4%	12.1%	12.0%
Return On Equity	14.8%	12.6%	13.2%	16.1%	15.5%
Operating Margin	9.0%	7.7%	8.5%	8.3%	8.4%
EBITDA Margin	9.7%	8.6%	9.5%	9.1%	9.3%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	-2.0x	-0.3x	1.2x	0.4x	0.4x
Asset Replacement Ratio	5.0x	4.5x	1.7x	1.6x	1.1x
Tax Rate (Reported)	26.6%	18.6%	32.0%	32.0%	32.0%
Net Debt-to-Equity Ratio	55.5%	71.6%	66.1%	56.5%	47.4%
Interest Cover	7.9x	3.0x	3.3x	4.0x	4.4x

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

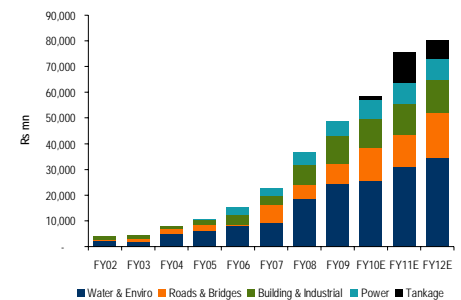
### Company Description

IVRCL started in 1987, focusing on building & small water-based projects by Sudhir Reddy. In 1994, it diversified into water-based projects and moved into road construction in 2000. IVRCL operates four divisions - Water Supply & Irrigation, Roads & Bridges, Buildings & Industrial Structures and Power. It has also entered the real estate business through its subsidiary, IVR-Prime Developer Ltd.

### Investment Thesis

IVRCL focus on water domain, we expect strong earnings growth over next three years. Potential Infra SPVs wins and scale-up at IVR Prime/Alkor Petro are the triggers, in our view. Further, strong order book should provide visibility. Well-funded balance sheet, IVRCL is geared to bid for ensuing big infra projects.

### Chart 1: IVRCL - Revenue Mix



Source: Company, BofAML Global Research

### Stock Data

Price to Book Value

2.5x

**Table 1: IVRCL - 2QFY10 Results Review**

For the Period (Rs mn)	2QFY09	2QFY10	%YoY
Order Backlog	140,000	146,000	4.3%
<b>Gross Work Bills</b>	<b>11,588</b>	<b>12,491</b>	<b>7.8%</b>
Less indirect tax	(222)	(313)	40.6%
- % of gross sales	1.9%	2.5%	
<b>Total Income</b>	<b>11,366</b>	<b>12,178</b>	<b>7.1%</b>
Construction & Material	(4,271)	(4,722)	10.6%
- as % of income	37.6%	38.8%	
Subcontractors's Bills	(3,158)	(3,062)	-3.1%
- as % of income	27.8%	25.1%	
Masonry	(2,342)	(2,614)	11.6%
- as % of income	20.6%	21.5%	
Staff Cost	(488)	(403)	-17.6%
- as % of income	4.3%	3.3%	
Others	(194)	(234)	20.7%
- as % of income	1.7%	1.9%	
<b>Total Expenditure</b>	<b>(10,453)</b>	<b>(11,034)</b>	<b>5.6%</b>
<b>EBITDA</b>	<b>913</b>	<b>1,145</b>	<b>25.4%</b>
- EBITDA Margin	8.0%	9.4%	
Depreciation	(113)	(133)	17.6%
<b>EBIT</b>	<b>800</b>	<b>1,012</b>	<b>26.5%</b>
- EBIT Margin	7.0%	8.3%	
Interest	(274)	(354)	29.0%
Other Income	0	37	10713.3%
<b>PBT</b>	<b>526</b>	<b>695</b>	<b>32.3%</b>
- PBT Margin	4.6%	5.7%	
Total Tax	(96)	(227)	135.8%
- Tax Rate	18.3%	32.7%	
<b>Rec.PAT</b>	<b>429</b>	<b>468</b>	<b>9.0%</b>
- Rec. PAT Margin	3.8%	3.8%	
<b>Exceptionals</b>	<b>141</b>	<b>20</b>	<b>-86.0%</b>
<b>Reported PAT</b>	<b>571</b>	<b>488</b>	<b>-14.5%</b>

Source: Company

**Table 2: Hindustan Dorr - 2QFY10 Results Review**

(Rs mn)	2QFY09	2QFY10	%YoY
<b>Total Income</b>	<b>1,164</b>	<b>2,030</b>	<b>74.3%</b>
<b>EBITDA</b>	<b>135</b>	<b>253</b>	<b>87.7%</b>
- EBITDA Margin	11.6%	12.5%	
Depreciation	(8)	(13)	74.7%
<b>EBIT</b>	<b>127</b>	<b>240</b>	<b>88.5%</b>
- EBIT Margin	10.9%	11.8%	
<b>PBT</b>	<b>117</b>	<b>221</b>	<b>89.1%</b>
- PBT Margin	10.0%	10.9%	
<b>Rec. PAT</b>	<b>80</b>	<b>156</b>	<b>96.0%</b>
- Rec. PAT Margin	6.9%	7.7%	
<b>Reported PAT</b>	<b>80</b>	<b>156</b>	<b>96.0%</b>
- Rep PAT Margin	6.9%	7.7%	

Source: Hindustan Dorr

**Table 3: IVR Prime - 2QFY10 Results Review**

(Rs mn)	2QFY09	2QFY10	%YoY
<b>Income from Operations</b>	<b>372</b>	<b>3</b>	<b>-99.1%</b>
<b>EBITDA</b>	<b>102</b>	<b>(9)</b>	<b>(1)</b>
- EBITDA Margin	27.4%	-274.4%	
Depreciation	(3)	(5)	79.9%
<b>EBIT</b>	<b>99</b>	<b>(14)</b>	<b>-113.9%</b>
- EBIT Margin	26.7%	-407.7%	
<b>PBT</b>	<b>106</b>	<b>(54)</b>	<b>-151.2%</b>
- PBT Margin	28.4%	-1597.1%	
<b>Rec PAT</b>	<b>69</b>	<b>(61)</b>	<b>-188.2%</b>
- Rec PAT Margin	18.6%	-1803.2%	
<b>Reported PAT</b>	<b>69</b>	<b>(61)</b>	<b>-188.2%</b>
- Rep PAT Margin	18.6%	-1803.2%	

Source: IVR Prime

**Table 4: IVRCL - Sum of the Parts Value**

Parts	Stake (%)	Basis	Value (Rsmn)	Rs/share
IVRCL Construction business	NA	At 12x PER of 1-year forward EPS at - ~40% discount to majors	40,953	307
Hind-dorr-Oliver Equity Stake	55.0%	Current Market value @ 55% stake	2,727	20
IVR-Prime	62.4%	50% discount to NPV and 17% discount at Current price	4,066	30
Chennai Desalination Plant	75%	10% discount to DCF	1,688	13
Jalandhar-Amritsar	100%	10% discount to DCF	706	5
Kumarapalayam-Chengapally Project	100%	10% discount to DCF	2,212	17
Salem - Kumarapalayam Project	100%	10% discount to DCF	2,188	16
<b>Total Value</b>			<b>54,540</b>	<b>409</b>

Source: BofAML Global Research

**Table 5: IVRCL - Estimates change Summary**

(Rs mn)	Old	New	% change
<b>Sales</b>			
FY10E	62,116	58,258	-6.2%
FY11E	72,254	75,593	4.6%
FY12E	79,073	80,026	1.2%
<b>EBITDA</b>			
FY10E	5,715	5,529	-3.3%
FY11E	6,792	6,879	1.3%
FY12E	7,433	7,442	0.1%
<b>Recurring PAT</b>			
FY10E	2,591	2,437	-5.9%
FY11E	3,314	3,294	-0.6%
FY12E	3,672	3,649	-0.6%
<b>EPS (Rs)</b>			
FY10E	19.4	18.3	-5.9%
FY11E	24.8	24.7	-0.6%
FY12E	27.5	27.3	-0.6%

Source: BofAML Global Research

**Table 6: IVRCL - Profit & Loss Statement (Parent)**

Year End Mar31 (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
<b>Income from Operations</b>	<b>36606</b>	<b>48819</b>	<b>58258</b>	<b>75593</b>	<b>80026</b>
- Growth %	59%	33%	19%	30%	6%
Construction & Material	(12,473)	(16,578)	(19,749)	(25,853)	(27,209)
- as % of income	34.1%	34.0%	33.9%	34.2%	34.0%
Subcontractors's Bills	(10,923)	(13,513)	(14,914)	(21,166)	(22,407)
- as % of income	29.8%	27.7%	25.6%	28.0%	28.0%
Masonry	(6,506)	(11,681)	(15,234)	(17,764)	(18,806)
- as % of income	17.8%	23.9%	26.2%	23.5%	23.5%
Staff Cost	(1,442)	(1,953)	(1,783)	(2,646)	(2,801)
- as % of income	3.9%	4.0%	3.1%	3.5%	3.5%
Others	(1,647)	(876)	(1,049)	(1,285)	(1,360)
- as % of income	4.5%	1.8%	1.8%	1.7%	1.7%
<b>Total Expenditure</b>	<b>(32,992)</b>	<b>(44,601)</b>	<b>(52,729)</b>	<b>(68,714)</b>	<b>(72,584)</b>
<b>EBITDA</b>	<b>3,614</b>	<b>4,218</b>	<b>5,529</b>	<b>6,879</b>	<b>7,442</b>
- EBITDA Margin	9.9%	8.6%	9.5%	9.1%	9.3%
Depreciation	(328)	(473)	(559)	(638)	(708)
<b>EBIT</b>	<b>3,286</b>	<b>3,745</b>	<b>4,969</b>	<b>6,241</b>	<b>6,734</b>
- EBIT Margin	9.0%	7.7%	8.5%	8.3%	8.4%
Interest	(407)	(1,233)	(1,495)	(1,548)	(1,548)
Other Income	45	139	110	151	181
<b>PBT</b>	<b>2,924</b>	<b>2,651</b>	<b>3,584</b>	<b>4,845</b>	<b>5,367</b>
- PBT Margin	8.0%	5.4%	6.2%	6.4%	6.7%
- Current Tax	(712)	(478)	(1,147)	(1,550)	(1,717)
- Deferred tax	(51)	(14)			
<b>Total Tax</b>	<b>(763)</b>	<b>(493)</b>	<b>(1,147)</b>	<b>(1,550)</b>	<b>(1,717)</b>
- Tax Rate	26.1%	18.6%	32.0%	32.0%	32.0%
<b>Recurring PAT</b>	<b>2,161</b>	<b>2,158</b>	<b>2,437</b>	<b>3,294</b>	<b>3,649</b>
- Recurring PAT Margin	5.9%	4.4%	4.2%	4.4%	4.6%
- Growth%	52.8%	-0.1%	12.9%	35.2%	10.8%
Exceptional	(57)	102	0	0	0
<b>Reported PAT</b>	<b>2,105</b>	<b>2,260</b>	<b>2,437</b>	<b>3,294</b>	<b>3,649</b>

Source: Company, BofAML Global Research

**Table 7: IVRCL - Balance Sheet Statement (Parent)**

<b>Year End Mar31 (Rs mn)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>
Share Capital	267	267	267	267	267
Share Application Money/ Stock Options	4	0	0	0	0
Reserves & Surplus	15,789	17,839	18,653	21,678	25,028
<b>Total Networkth</b>	<b>16,060</b>	<b>18,106</b>	<b>18,920</b>	<b>21,945</b>	<b>25,295</b>
Secured Loans	5,788	10,185	11,685	12,185	12,685
Unsecured Loans	4,891	3,795	3,795	3,295	2,795
<b>Total Loans</b>	<b>10,678</b>	<b>13,980</b>	<b>15,480</b>	<b>15,480</b>	<b>15,480</b>
DTL	103	117	117	117	117
<b>TOTAL LIABILITIES &amp; NETWORTH</b>	<b>26,841</b>	<b>32,203</b>	<b>34,518</b>	<b>37,542</b>	<b>40,893</b>
Gross Block	4,176	6,624	7,624	8,624	9,424
Accumulated D&A	(984)	(1,417)	(1,976)	(2,613)	(3,322)
<b>Net Block</b>	<b>3,192</b>	<b>5,207</b>	<b>5,648</b>	<b>6,010</b>	<b>6,102</b>
CWIP	541	196	146	146	146
<b>Net Fixed Assets</b>	<b>3,733</b>	<b>5,402</b>	<b>5,793</b>	<b>6,156</b>	<b>6,247</b>
Investments	3,409	3,892	4,170	4,170	4,170
Inventories	1,943	2,093	2,871	3,372	3,562
Debtors	6,585	11,430	13,640	17,699	18,737
Cash & bank balances	1,772	1,009	2,977	3,082	3,484
Loans & Advances - Subsidiaries	3,924	4,499	3,999	3,999	3,999
Loans & Advances - Others	3,882	4,820	5,302	5,832	6,415
Unbilled Revenue	6,209	6,799	6,807	7,390	8,128
Other Current Assets	4,517	7,485	7,199	7,919	8,711
<b>Total CA</b>	<b>28,831</b>	<b>38,135</b>	<b>42,795</b>	<b>49,293</b>	<b>53,036</b>
Advances from Clients	2,697	3,986	4,878	5,574	6,095
Other Current Liabilities	6,196	10,800	12,901	16,040	16,004
Provisions	238	440	462	462	462
<b>Total CL &amp; Provisions</b>	<b>9,132</b>	<b>15,226</b>	<b>18,241</b>	<b>22,076</b>	<b>22,561</b>
<b>NCA</b>	<b>19,699</b>	<b>22,909</b>	<b>24,554</b>	<b>27,217</b>	<b>30,475</b>
<b>TOTAL ASSETS</b>	<b>26,841</b>	<b>32,203</b>	<b>34,518</b>	<b>37,542</b>	<b>40,893</b>

Source: Company, BofAML Global Research

Table 8: IVRCL - Cash Flow Statement (Parent)

Year End Mar31 (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
<b>PBT</b>	<b>2,924</b>	<b>2,651</b>	<b>3,584</b>	<b>4,845</b>	<b>5,367</b>
Tax Paid	(763)	(493)	(1,147)	(1,550)	(1,717)
Change in DTL	47	14	0	0	0
Add: D&A	328	473	559	638	708
Chg in Inventories	(1,118)	(150)	(777)	(501)	(189)
Chg in Debtors	(253)	(4,845)	(2,210)	(4,059)	(1,038)
Chg in Loans & Advances	2,932	(938)	(482)	(530)	(583)
Chg in Unbilled Revenue & Other CA	(4,358)	(3,559)	278	(1,302)	(1,530)
Chg in Adv from Clients & Other CL	(4,001)	5,894	2,993	3,835	484
Chg in Provisions	12	201	22	0	0
<b>Change in Working Capital</b>	<b>(6,786)</b>	<b>(3,398)</b>	<b>(177)</b>	<b>(2,557)</b>	<b>(2,856)</b>
<b>Cash Flow from Operations</b>	<b>(4,249)</b>	<b>(752)</b>	<b>2,819</b>	<b>1,375</b>	<b>1,501</b>
Extraordinary Items + Tax Adjustments	(57)	102	0	0	0
Capex	(1,626)	(2,143)	(950)	(1,000)	(800)
Change in Investments/Adv to Subs	(399)	(1,058)	222	0	0
<b>Cash Flow from Investing Activities</b>	<b>(2,081)</b>	<b>(3,099)</b>	<b>(728)</b>	<b>(1,000)</b>	<b>(800)</b>
Change in Debt	5,126	3,302	1,500	0	0
Change in Equity	8	0	0	0	0
Change in Reserves	949	5	(1,409)	0	(0)
Dividend & Dividend Tax	(219)	(219)	(214)	(270)	(299)
<b>Cash Flow from Financing Activities</b>	<b>5,864</b>	<b>3,088</b>	<b>(123)</b>	<b>(270)</b>	<b>(299)</b>
<b>Increase/(Decrease) in Cash</b>	<b>(467)</b>	<b>(763)</b>	<b>1,968</b>	<b>105</b>	<b>402</b>
Opening Cash & Bank Balance	2,238	1,772	1,009	2,977	3,082
<b>Closing Cash &amp; Bank Balance</b>	<b>1,772</b>	<b>1,009</b>	<b>2,977</b>	<b>3,082</b>	<b>3,484</b>

Source: Company, BofAML Global Research

Table 9: IVRCL - Key Ratios & Valuations (Parent)

Year End Mar31	FY08	FY09	FY10E	FY11E	FY12E
Share Price (Rs)	348	348	348	348	348
Shares o/s (mn)	133	134	134	134	134
Mkt Cap (Rs mn)	46394	46400	46400	46400	46400
Rec. EPS (Rs)	16.2	16.2	18.3	24.7	27.3
- EPS Growth %	47.8%	-0.2%	12.9%	35.2%	10.8%
CEPS (Rs)	18.6	19.7	22.4	29.5	32.6
DPS (Rs)	1.4	1.4	1.4	1.7	1.9
BV (x)	120	136	142	164	189
P/E (x)	21.5	21.5	19.0	14.1	12.7
P/CEPS (x)	18.6	17.6	15.5	11.8	10.6
Yield (%)	0.4%	0.4%	0.4%	0.5%	0.6%
P/BV (x)	2.9	2.6	2.5	2.1	1.8
EV/EBITDA (x)	14.2	13.0	9.9	8.0	7.3
EV/Sales (x)	1.40	1.12	0.94	0.72	0.68
EV/OB (x)	0.43	0.40	0.33	0.29	0.26
P/OB (x)	0.39	0.34	0.28	0.24	0.22
<b>Dupont Analysis</b>					
- PAT/EBIT (%)	66%	58%	49%	53%	54%
- EBIT/Sales (%)	9%	8%	9%	8%	8%
- Sales/Avg Assets (%)	160%	165%	175%	210%	204%
- Avg Assets/Avg Networth (%)	156%	173%	180%	176%	166%
RoE (%)	14.8%	12.6%	13.2%	16.1%	15.5%
RoCE (%)	10.7%	10.4%	10.2%	11.8%	11.7%
Net Debt (Rs mn)	4982	8473	8504	8399	7997
EV (Rs mn)	51377	54872	54904	54799	54397
Net D/E (x)	0.31	0.47	0.45	0.38	0.32
Net Debt/EBITDA (x)	1.38	2.01	1.54	1.22	1.07
Interest Coverage (x)	8.07	3.04	3.32	4.03	4.35
Debt to Total Assets (x)	0.40	0.43	0.45	0.41	0.38

Source: Company, BofAML Global Research

## Price objective basis & risk

### IVRCL Infrastruc (IIFRF)

Our PO of Rs410 is based on SOTP valuation. We have valued IVRCL core construction business at 12x PER of 1-year forward EPS, a 40pct discount to E&C majors at Rs307 per share. Hind-dorr-Oliver where IVRCL has 55pct stake is valued at CMP giving a per share value of Rs20. IVR Prime where IVRCL has 62.4pct stake is valued at 50pct discount to NPV at Rs30 per share in line with Mid Cap real estate companies. Chennai desalination plant where IVRCL has 75pct stake is valued on a DCF basis at Rs13 per share. Similarly, Jalandhar-Amritsar project, Kumarapalayam-Chengapally project, and Salem-Kumarapalayam project where IVRCL has 100pct stake are valued based on DCF of Rs5, Rs17 and Rs16 per share respectively. We arrive at an SOTP value of Rs409 per share. Risks: Unrelated acquisition in Oil & Gas space, Government capex, raw material costs, competition, traffic/interest rate risk in toll/annuity projects and project execution risk.

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India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Gujarat State	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Manish Sarawagi
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Hydro	XJSHF	JHPL IN	Bharat Parekh
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
<b>NEUTRAL</b>				
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
<b>UNDERPERFORM</b>				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Manish Sarawagi
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
	Suzlon Energy	SZEYF	SUEL IN	Bharat Parekh
<b>RVV</b>				
	Balaji Tele	BLJIF	BLJT IN	Bharat Parekh
	Indraprastha Gas	IAGSF	IGL IN	Vidyadhar Ginde
	Sun TV LTD	SUTVF	SUNTV IN	Pratish Krishnan

*iQmethod*<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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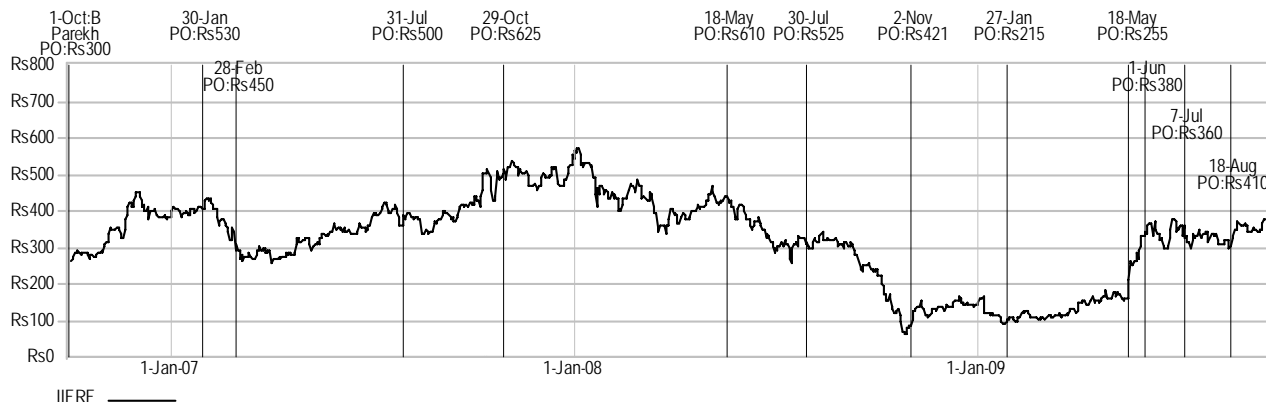
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### IIFRF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2009 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	22	61.11%	Buy	8	44.44%
Neutral	5	13.89%	Neutral	1	20.00%
Sell	9	25.00%	Sell	4	44.44%

### Investment Rating Distribution: Global Group (as of 01 Sep 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1528	47.19%	Buy	740	53.86%
Neutral	815	25.17%	Neutral	436	60.39%
Sell	895	27.64%	Sell	378	45.99%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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