

1QFY12 Results

CMP: Rs 40
Target Price: Rs 58
52wk H/L: Rs 174/ Rs 39

IVRCL Ltd (IVRCL) reported a poor set of results with net profit declining 85% YoY. The cockroach theory is at work with sluggish execution, margin pressures and interest burden. We are revising our earnings estimates. While fundamentals have deteriorated, we believe the worst is discounted in the price. Hence, we have maintained our OUTPERFORMER rating but have cut our earnings estimates and SOTP target to Rs58. Key catalysts would be consistency in execution and value unlocking at the SPV level in IVRCL Assets & Holdings.

Sluggish execution

IVRCL recorded revenue of Rs11.2 bn during 1QFY12, up 1.6% YoY. Execution was impacted due to working capital constraints at the sub contractor's end. This resulted in execution delays. The company believes that this scenario will continue for two more quarters and expects the situation to improve only from 4QFY12.

EBITDA margins disappoint

EBITDA was down 15.1% YoY at Rs856 mn. Margins were down 126 bps YoY to 7.6%. Margins were impacted due to rising raw material cost. Further, cost escalation in certain projects hurt EBITDA margins by 25–50 bps. Management indicated that it is eligible to claim escalation after 24 months. Adjusted PAT was down 85% YoY to Rs42 mn on the back of margin pressures and 38.8% rise in interest cost.

Conclusion

While IVRCL has disappointed with its results, we believe that the sharp drop in stock price outpaces deterioration in fundamentals. We have cut our earnings estimates to factor in margin pressures. We maintain our OUTPERFORMER rating but have cut our SOTP target to Rs58.

Stock data

Market Cap (Rs bn)	10.6
Market Cap (USD mn)	236
Shares Outstanding (mn)	267
Free Float (%)	90.5%
3M avg. daily vol.(mn)	3.1
Bloomberg Code	IVRC IN
Reuters Code	IVRC BO

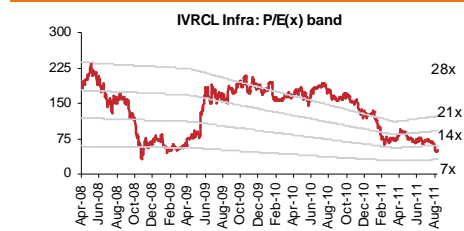
Shareholding Pattern (%)

Promoter	9.5%
Institutions	52.3%
Public & Others	38.2%

Stock Performance

Return (%)	1m	3m	6m	12m
Absolute	-30.4	-34.4	-27.9	-70.0
Relative	-21.8	-26.2	-22.9	-63.1

P/E(x) band



Source: Bloomberg, Almondz Research

Exhibit 1: Quarterly Results

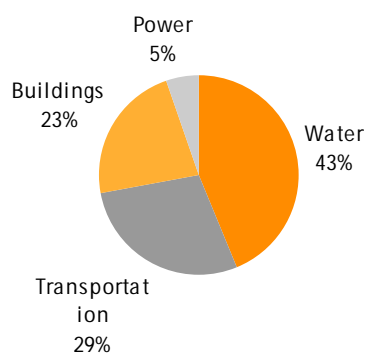
In Rs mn	FY11				FY12E				1QFY12 YOY	FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Revenue	11064	10750	14168	20522	11243	13162	15695	21692	2%	56515	61791
Total Expenses	10057	9797	12774	18741	10387	12109	14361	19745		51369	56601
EBITDA	1008	953	1394	1781	856	1053	1334	1948	-15%	5146	5190
EBITDA margin (%)	9.1%	8.9%	9.8%	8.7%	7.6%	8.0%	8.5%	9.0%		9.1%	8.4%
Less: Depreciation	157	184	189	217	228	225	225	223	45%	758	901
Less: Interest	453	480	592	656	628	678	710	839	39%	2181	2856
PBT (operating)	398	289	613	907	0	149	399	886	-100%	2207	1434
Add: Other income	9	57	11	43	49	26	26	24	460%	120	125
PBT	406	345	625	950	49	176	425	910	-88%	2326	1559
Less: Tax	125	112	202	308	7	56	136	300	-95%	747	499
Effective tax rate (%)	31%	33%	32%	32%	14%	32%	32%	33%		32%	32%
PAT	281	233	423	643	42	119	289	610	-85%	1579	1060
Minority Interest	0	0	0	0	0	0	0	0		0	0
Extraord income/(loss)	0	0	0	0	0	0	0	0		0	0
PAT (after EO)	281	233	423	643	42	119	289	610	-85%	1579	1060
EPS (Rs)	1.1	0.9	1.6	2.4	0.2	0.4	1.1	2.3		5.9	4.0
EPS (Rs) (after EO)	1.1	0.9	1.6	2.4	0.2	0.4	1.1	2.3	-85%	5.9	4.0
Diluted shares (mn)	267	267	267	267	267	267	267	267			

Source: Company, Almondz Research

Focus on execution

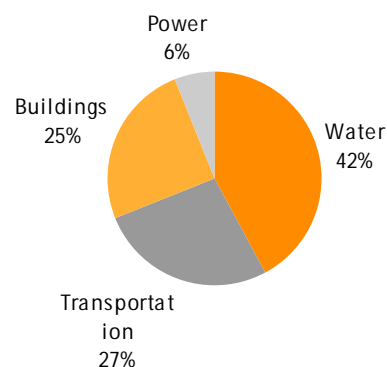
IVRCL's order book at end-1QFY12 was Rs177 bn, excluding L1 of Rs33 bn representing a book-to-bill of 3.1x. Out of this, AP accounts for Rs28 bn. Total captive orders are Rs 45 bn, which include the Goa-Karnataka order of Rs19 bn, on which the management has not commenced work. Management has excluded Saudi Orders of Rs19 bn from the order book during 1QFY12.

Exhibit 2: Segment wise break up of order book



Source: Company, Almondz Research

Exhibit 3: Segment wiser break up of revenue



Source: Company, Almondz Research

Changes in estimates

We have cut our estimates to factor in execution and margin pressures.

Exhibit 4: Changes in estimates

Rs Mn	FY12E			FY13E		
	Earlier	Revised	Var (%)	Earlier	Revised	Var (%)
Revenue	64600	61791	-4%	77520	71060	-8%
EBITDA	5911	5190	-12%	6977	5969	-14%
EBITDA Margins	9.1%	8.4%		9.0%	8.4%	
Net Profit	1717	1060	-38%	2167	1322	-39%

Source: Company, Almondz Research

Conclusion

While IVRCL has disappointed with its results, we believe the sharp drop in stock price far outpaces the deterioration in fundamentals.

We maintain our OUTPERFORMER rating but have cut our SOTP target to Rs58.

Exhibit 5: Valuation Summary

Particulars	CMP	Basis of Valuation	IVRCL's	Value	Value per	(%)
			Stake	(Rs. Mn)	share (Rs)	
Construction Business		PER 8x FY12 EPS		10574	40	68%
IVRCL Asset Holdings	34	20% discount to CMP	80.5%	3806	14	25%
Hindustan Dorr	38	20% discount to CMP	55.3%	1106	4	7%
Total				15487	58	100%
CMP					40	
Upside					45%	

Source: Company, Almondz Research

Financial summary

	(Rs mn)				
Y/E March	FY09	FY10	FY11	FY12E	FY13E
Income from Operations	48819	54944	56515	61791	71060
Other Operating Income	48507	53681	56174	61441	70710
Profit from JV's	101	-160	100	100	100
Sale of Products	211	1423	241	250	250
Less: Tot operating exp	44600	49610	51369	56601	65091
Direct exp	41192	43692	45152	52275	60117
Personnel exp	1796	1835	2091	2286	2629
Office Admin & Others	1613	4083	4126	2039	2345
EBITDA	4219	5334	5146	5190	5969
EBITDA margin (%)	8.6%	9.7%	9.1%	8.4%	8.4%
Less: Depreciation	473	543	758	901	971
EBIT	3746	4791	4388	4290	4998
Less: Interest	1306	1637	2181	2856	3180
PBT (operating)	2440	3155	2207	1434	1819
Add: Other income	299	155	120	125	125
PBT	2739	3310	2326	1559	1944
Less: Tax	478	1177	747	499	622
Effective tax rate (%)	17%	36%	32%	32%	32%
PAT	2261	2133	1579	1060	1322
Add: Share of Associates	0	0	0	0	0
Less: Minority interest	0	0	0	0	0
Net income (before E.O.)	2261	2133	1579	1060	1322
Prior period items	0	0	0	0	0
Extraordinary Items	0	1411	0	0	0
Net income (after E.O.)	2261	722	1579	1060	1322

	(Rs mn)				
Y/E March	FY09	FY10	FY11P	FY12E	FY13E
Equity capital	267	534	534	534	534
Stock Options	0	0	0	0	0
Reserves and surplus	17839	17999	19340	20151	21223
Net worth	18106	18533	19874	20685	21757
Total debt	13980	16133	20958	24714	29139
Deferred tax liability	117	125	87	132	132
Total liabilities	32203	34791	40918	45531	51029
Gross block	6624	7502	9674	10709	11709
Less: Acc. depreciation	1417	1838	2596	3496	4467
Net block	5207	5664	7078	7212	7242
CWIP	196	353	100	100	100
Goodwill	0	0	0	0	0
Investments	3892	6138	6347	7347	8347
Current assets	38135	47005	54523	60790	68961
Inventories	2093	2447	2732	3047	3310
Debtors	11430	19445	19298	21161	23362
Cash	1009	1644	1432	3214	4627
Loans and advances	9319	6606	9532	9887	11370
Other Current assets	14284	16864	21530	23481	26292
Current liabilities	15226	24369	27130	29918	33621
Creditors	10406	13966	15989	17678	20330
Current Liabilities	4381	9958	10738	11740	12791
Provisions	440	445	403	500	500
Net Working Capital	22909	22635	27393	30872	35340
Total assets	32203	34791	40918	45531	51029

	(Rs mn)				
Y/E March	FY09	FY10	FY11P	FY12E	FY13E
Net profit	2261	722	1579	1060	1322
Depreciation	473	543	758	901	971
Working capital changes	-9248	-9572	-7731	-4484	-6758
Others	6713	10105	4894	5565	6757
Cash flow from opns	198	1797	-500	3041	2292
Capital expenditure	-2153	-1196	-1919	-1035	-1000
Inc/Dec in investments	-483	-1053	-209	-1000	-1000
Others	767	971	120	125	125
Cash flow from investing	-1869	-1278	-2008	-1910	-1875
Inc/Dec in Equity	0	0	0	0	0
Change in borrowings	1221	1149	4825	3756	4425
Dividends paid (incl. tax)	-189	-215	-249	-249	-249
Others	372	-854	-2181	-2856	-3180
Cash flow from financing	1404	81	2394	651	996
Net change in cash	-266	600	-114	1783	1413
Opening cash balance	1213	945	1545	1432	3214
Closing cash balance	947	1545	1432	3214	4627

	(Rs mn)				
Per share ratio (Rs)	FY09	FY10	FY11P	FY12E	FY13E
EPS	8.5	8.0	5.9	4.0	5.0
EPS growth (%)	7%	-6%	-26%	-33%	25%
Cash EPS	10.2	9.9	8.8	7.3	8.6
BV	68	69	74	77	81
DPS	0.7	0.8	0.8	0.8	0.8
Payout (%)	8%	10%	14%	20%	16%
Valuation (x)					
P/E (on adjusted FD EPS)	4.7	5.0	6.8	10.1	8.1
P/CEPS	3.9	4.0	4.6	5.4	4.7
P/BV	0.6	0.6	0.5	0.5	0.5
EV/EBITDA	5.6	4.7	5.9	6.2	5.9
EV/Sales	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	1.8%	2.0%	2.0%	2.0%	2.0%
Profitability ratios (%)					
RoE	12.5%	11.5%	7.9%	5.1%	6.1%
RoCE	10.4%	9.2%	7.5%	6.6%	6.8%
Turnover ratios					
Debtors (days)	85	103	125	119	114
Inventory (days)	16	15	17	17	16
Creditor (days)	85	90	106	109	107
Net Working capital (days)	149	142	152	158	150
Asset turnover (x)	7.4	7.3	5.8	5.8	6.1
Solvency ratio (x)					
Gross debt / equity	0.8	0.9	1.1	1.2	1.3
Net debt / equity	0.8	0.9	1.1	1.2	1.3
Net debt/ EBITDA	3.3	3.0	4.1	4.8	4.9
Interest Coverage (EBIT /	2.9	2.9	2.0	1.5	1.6
Growth ratios (%)					
Net sales	33%	13%	2.9%	9%	15%
EBITDA	17%	26%	-4%	1%	15%
PAT (before E.O.)	7%	-6%	-26%	-33%	25%
EPS	7%	-6%	-26%	-33%	25%
Operating ratios (%)					
EBITDA margin	9%	10%	9%	8%	8%
EBIT margin	8%	9%	8%	7%	7%
PAT margin	5%	4%	3%	2%	2%
Other income/PBT	11%	5%	5%	8%	6%
Effective Tax rate	17%	36%	32%	32%	32%

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