

RESULTS REVIEW

IVRCL Infrastructures and Projects Ltd.

Buy

Share Data

Market Cap	Rs. 37.9 bn
Price	Rs. 283.80
BSE Sensex	12,961.68
Reuters	IVRC.BO
Bloomberg	IVRC IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 575/260
Shares Outstanding	133.5 mn

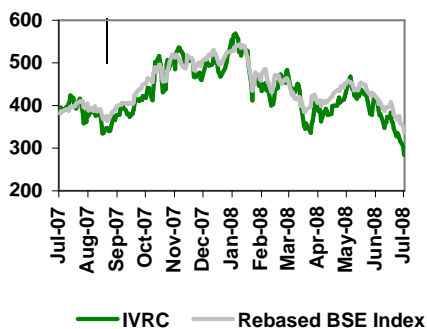
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	21.1	25.7
+/- (%)	(14.8%)	21.5%
PER (x)	13.4x	11.1x
EV/ Sales (x)	0.9x	0.7x
EV/ EBITDA (x)	7.9x	6.4x

Shareholding Pattern (%)

Promoters	10
FII's	57
Institutions	18
Public & Others	15

Relative Performance



Growth momentum intact

IVRCL reported 33% yoy increase in net sales and 29% yoy growth in EBITDA for Q4'08. We reiterate our Buy rating on the stock on the basis of the following factors:

Healthy growth in order backlog expected to continue: As per the planning commission's estimates, infrastructure spending in the irrigation and water supply & sanitation sectors, in which the Company has a strong presence, is expected to more than double during the Eleventh Five Year Plan. This reinforces an extremely positive outlook for IVRCL, which has already seen a CAGR of 34% in order backlog over the last three years to stand at around Rs. 120 bn as on March 31, 2008. However, considering the high base and faster rate of order execution, we expect a CAGR of 12% in order backlog over the next two years.

Margins likely to come under pressure: We believe rising cost of construction materials and labour cost may adversely affect the margins of the Company. EBITDA margin for the quarter fell 34 bps, compared with Q4'07. Moreover, rising interest rate could further hurt the Company's margins. Rising home loan rates and soaring inflation may reduce IVR Prime's margins and also result in a slowdown in the real estate business. Consequently, we expect the net profit margins to fall by 231 bps by FY10E.

At the current market price, the stock is trading at a P/E of 13.4x and 11.1x for FY09E and FY10E, respectively. Based on our SOTP valuation, our target price of Rs. 335 reflects a potential upside of 18% with respect to the current market price. Hence, we reiterate our Buy rating on the stock.

Key Figures (Standalone)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	9,923	9,749	13,217	33.2%	35.6%	23,059	36,606	58.8%
EBITDA	1,075	1,114	1,387	29.0%	24.5%	2,318	3,614	55.9%
Net Profit	732	641	733	0.1%	14.4%	1,415	2,105	48.8%
Margins(%)								
EBITDA	10.8%	11.4%	10.5%			10.1%	9.9%	
NPM	7.4%	6.6%	5.5%			6.1%	5.7%	
Per Share Data (Rs.)								
EPS	6.13	2.51	4.83	(21.2%)	92.4%	11.67	15.77	35.1%

Result Highlights

Strong orderbook and faster project execution contributed to a remarkable increase in the top line

IVRCL reported a 33% yoy increase in net sales to Rs. 13,217 mn, led by a faster execution of projects and a robust orderbook of Rs. 138 bn as on June 2, 2008. The water and irrigation segment, maintaining its dominance, constituted around 55% of the orderbook. The next to follow was the building and structures segment at 24%, roads at 9%, power and transmission at 6%, and oil and gas at 6%.

The EBITDA margin of the Company declined by 34 bps to 10.5% in Q4'08 owing to 82% yoy and 62% yoy increase in sub-contracting expenditure and staff cost, respectively.

Depreciation costs scaled up 44% yoy to Rs. 99 mn as the Company incurred a capex of Rs. 1 bn in FY08.

Increase in interest cost and tax outgo impacted margins adversely

Even after a 33% yoy increase in net sales, net income remained unchanged at Rs. 733 mn due to about eight times rise in interest cost and 44% yoy increase in tax outgo. Meanwhile, the net profit margin slipped by 183 bps yoy to 5.5% for Q4'08.

At the end of FY08, the debt-to-equity ratio of the Company was 0.66, higher than the previous year's figure of 0.41.

Performance of key subsidiaries

Quarterly Data	Hindustan Dorr Oliver Ltd					IVR Prime Urban Developers Ltd				
	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	Q4'07	Q3'08	Q4'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)										
Net Sales	785	755	3,060	289.7%	305.5%	190	2,960	2,334	1,126.1%	(21.1%)
EBITDA	77	75	346	351.0%	361.3%	45	1,467	628	1,281.9%	(57.2%)
Net Profit	68	50	229	239.3%	356.2%	18	1,163	420	2,281.9%	(63.9%)
Margins(%)										
EBITDA	9.8%	10.0%	11.3%			23.9%	49.6%	26.9%		
NPM	8.6%	6.7%	7.5%			9.3%	39.3%	18.0%		
Per Share Data (Rs.)										
EPS	1.89	1.40	6.37	237.0%	355.0%	0.24	18.13	6.55	2,629.2%	(63.9%)

Source: Company data, Indiabulls Research

Key Events

- The Board of the Company has recommended a dividend of 70% for FY08 representing a payout ratio of 9%.
- IVR Prime Urban Developers Limited has recommended a maiden dividend of 40%, and Hindustan Dorr-Oliver has recommended a dividend of 30%.

Key Risks

The following factors could pose a threat to our rating:

- Any unfavourable rise in the prices of raw material
- Any unwelcome change in the government policy towards expenditure on infrastructure development

Outlook

As per the planning commission's estimates, infrastructure spending in the irrigation and water supply & sanitation sectors, in which the Company has a strong presence, is expected to more than double during the Eleventh Five Year Plan.

Estimated infrastructure spending in major sectors during the XI five year plan

Sector	X Plan	XI Plan	% Change
Electricity	2,919	6,165	111%
Roads	1,449	3,118	115%
Railways	1,197	2,580	116%
Irrigation	1,115	2,231	100%
Water Supply & Sanitation	648	1,991	207%

Source: Planning Commission of India, Indiabulls Research

Increased spending in the water supply & sanitation and irrigation sector will give boost to the Company's order backlog

We believe that increased government spending in irrigation, power, and roads augurs well for IVRCL's earnings growth. In addition, the Company has made considerable progress in the road and building segments, while the water and irrigation segment continues to be the key revenue driver. The Company has marked an entry into oil and gas sector services by bagging a contract valued Rs 8,376 mn from ONGC Petro Additions Ltd., a subsidiary of ONGC. Furthermore, the subsidiaries of the Company have shown a

Margins are likely to get impacted in FY09E and FY10E as labour costs and construction materials cost surge

stellar performance during the quarter. However, considering the rising home loan rates and inflation, IVR Prime's margins may face a downside in the short term. Moreover, rising interest rate, escalating labour cost, and raw material prices could affect the margins of standalone business negatively. Consequently, we expect the net profit margins to dip from 7.9% in FY08 to 5.8% and 5.6% in FY09E and FY10E, respectively.

At the current market price, the Company is trading at a forward P/E of 13.4x and 11.1x for FY09E and FY10E, respectively. Based on our SOTP valuation, we have arrived at the share price of Rs. 335, which reflects a potential upside of 18% with respect to the current market price. Hence, we reiterate our Buy rating on the stock.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	16,871	24,962	42,099	49,095	61,641	21.0%
EBITDA	1,531	2,859	5,983	5,548	6,781	6.5%
Net Profit	1,078	1,744	3,319	2,828	3,436	1.7%
Margins(%)						
EBITDA	9.1%	11.5%	14.2%	11.3%	11.0%	
NPM	6.4%	7.0%	7.9%	5.8%	5.6%	
Per Share Data (Rs.)						
EPS	10.0	13.4	24.8	21.1	25.7	1.7%
PER (x)	47.3x	20.8x	11.4x	13.4x	11.1x	

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