



IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,411	IVRC IN
	REUTERS CODE
S&P CNX: 4,250	IVRC.BO

30 May 2007

Buy

Previous Recommendation: Buy

Rs348

Equity Shares (m)	134.7
52-Week Range	460/164
1,6,12 Rel. Perf. (%)	5/-26/8
M.Cap. (Rs b)	46.9
M.Cap. (US\$ b)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	23,059	1,415	10.5	20.8	33.2	3.4	15.1	13.8	2.0	19.7
3/08E	31,915	1,711	12.7	21.0	27.4	3.0	11.6	14.6	1.5	15.0
3/09E	46,915	2,502	18.6	46.2	18.7	2.7	15.2	19.2	1.1	10.8

Robust financial performance: During 4QFY07, IVRCL reported revenues of Rs9.9b (up 68% YoY), EBIDTA of Rs1.1b (up 92.3% YoY) and net profit of Rs732m (up 67.1% YoY). EBIDTA margins expanded to 10.8% during 4QFY07 driven by operational leverage. The reported numbers are better than our estimates: revenues Rs8.2b, EBIDTA Rs833m and Net profit Rs371m.

IVR Prime Urban IPO receives clearance: IVR PUDL (80% subsidiary of IVRCL) has received observation card from SEBI for its proposed IPO. The management is hopeful of completing the IPO over the next 3-4 months. The company has land bank of 2,299 acres, representing development area of 56.6m sq ft in cities of Hyderabad, Chennai, Bangalore, Pune and Noida.

Key takeaways from concall: (1) Robust FY08 guidance: Revenues of Rs33-35b (up 43-52% YoY based on existing order book), EBIDTA margin improvement by 25-50bp (2) Order book as at March 2007 stood at Rs80b, L1 in projects of Rs17b (expected to be awarded over next 6 months) (3) Liability for Sec 80-IA provision stands at Rs766m till FY07.

Valuation and view: We expect IVRCL to report net profit of Rs1.7b (up 21% YoY) in FY08 and Rs2.5b in FY09 (up 46.2% YoY). At CMP of Rs348, the stock trades at PER of 33.2x FY07, 27.4x FY08E and 18.7x FY09E. Adjusted for value of BOT (Rs16/sh), Real Estate (Rs122/sh) and HDO (Rs8/sh), the stock trades at PER of 20.8x FY07, 17.2x FY08E and 11.7x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY06				FY07				FY06	FY07	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Sales	3,007	2,567	4,083	5,906	4,266	3,644	5,223	9,923	14,957	23,059	
Change (%)	28.3	36.6	44.1	69.2	41.9	42.0	27.9	68.0	41.8	54.2	
EBITDA	235	210	344	558	407	308	556	1,073	1,343	2,301	
Change (%)	33.3	26.0	57.8	64.9	73.3	46.5	61.8	92.3	55.3	71.4	
As of % Sales	7.8	8.2	8.4	9.4	9.5	8.5	10.7	10.8	9.0	10.0	
Depreciation	22	24	27	36	38	49	60	69	110	216	
Interest	40	72	85	49	133	103	98	25	253	308	
Other Income	10	3	4	43	17	55	18	2	57	74	
PBT	183	118	235	516	253	211	416	981	1,037	1,851	
Tax	12	6	13	78	42	56	94	249	108	436	
Effective Tax Rate (%)	6.6	5.0	5.6	15.1	16.6	26.5	22.7	25.4	10.4	23.6	
Reported PAT	171	112	222	438	211	155	321	732	930	1,415	
Adj PAT	171	112	222	438	261	155	271	732	930	1,415	
Change (%)	59.2	37.7	54.9	74.1	53.0	38.7	22.4	67.1	63.8	52.2	

Robust financial performance

During 4QFY07, IVRCL reported revenues of Rs9.9b (up 68% YoY), EBIDTA of Rs1.1b (up 92.3% YoY) and net profit of Rs732m (up 67.1% YoY). The EBIDTA margins for the company expanded to 10.8% during 4QFY07, up from 9.4% in 4QFY06 largely driven by operating leverage. The reported numbers are better than our estimates: Revenues Rs8.2b, EBIDTA Rs833m and Net profit Rs371m. Net Interest cost during 4QFY07 declined to Rs25m (vs Rs98m during 3QFY07) as company received interest at ~11.5% on advances of Rs3.8b to IVR Prime Urban Developers (80% subsidiary), which resulted in interest income of Rs70m during 4QFY07.

During FY07, the company reported revenues of Rs23.1b (up 54.2% YoY), EBIDTA of Rs2.3b (up 71.4% YoY) and Net profit of Rs1.4b (up 52.2% YoY). EBIDTA margins for the company improved by 100bps to 10% in FY07. During FY07, IVRCL's consolidated revenues grew by 49.3% YoY to Rs25.2b and net profit after minority interest grew by 56.9% YoY to Rs1.7b.

The company has not provided for withdrawal of tax benefits under Sec 80IA, as the management indicated that the matter is still sub-judice. Appellate Tribunal of Income Tax has set up a Special Bench, and the case would come up for hearing during end July 2007.

Robust Order Book ensures revenue visibility

Order backlog stood at Rs80b as at end March 2007 up from Rs57.7b in March 2006 and Rs73b in December 2006. Order intake during FY07 stood at Rs46.3b. Further, IVRCL has emerged as the lowest cost bidder in projects worth Rs17b, of which orders worth Rs14b are from Water segment. During FY07, water segment accounted for 51% of the revenues, roads 15%, power 17% and Housing 17%.

TREND IN ORDER BOOK COMPOSITION (%)

	FY02	FY03	FY04	FY05	FY06	FY07
Water Projects	57	69	58	56	50	56
Roads and Bridges	33	18	20	19	27	22
Building	10	12	20	17	16	11
Power	0	0	3	8	8	11

Source: Company

IVR Prime urban IPO cleared by SEBI

IVR Prime Urban Developers (80% subsidiary of IVRCL) has received the observation card from SEBI for its proposed IPO. The management is hopeful of completing the IPO over the next 3-4 months. The company has land bank of 2,299 acres, representing a development area of 56.6m sq ft in cities of Hyderabad, Chennai, Bangalore, Pune and Noida. Planned projects include residential, commercial, retail and hotel projects, etc. scheduled for completion by 2011. Post the proposed IPO, IVRCL's stake in IVR PUDL will stand at 62.4%, vs 80% currently.

Based on the valuation reports, the land reserves and development profits of the company is estimated at Rs50.0-55.2b, and after deducting the developer's margins, the Net Present value stands at Rs28.9-31.9b. During FY07, IVR PUDL reported revenues of Rs1.5b (up 8% YoY) and net profit of Rs213m (up 82% YoY).

LAND BANK DETAILS

NATURE OF THE LAND	(IN ACRES)
Own Title	116.9
Ranchi Village Project	13.8
Joint Development Agreements	665.1
Agreements to enter into joint development	92.4
Joint development agreements with corporate entities forming part of its promoter group	398.9
Joint development agreements with other corporate entities	138.2
Contractual arrangements with land owners	308.8
Agreements with certain individuals holding power of attorney on behalf of land owners	550.8
Land under power of attorney by company's employees	13.9
Total Land Reserves	2,298.8

Source: Company

DEVELOPABLE AREA (M SQ FT)

CITY	TYPE						TOTAL AREAS
	RESID- ENTIAL	COMM- ERCIAL	IT PARK	HOTELS	MALLS	OTHERS	
Hyderabad	0.6	0.3	0.7	0.5	0.8	-	2.8
Chennai	26.7	-	10.0	0.3	-	1.0	38.0
Bangalore	4.2	0.2	-	-	-	-	4.4
Pune	6.8	0.6	-	0.2	-	-	7.6
Noida	1.9	2.0	-	-	-	-	3.9
Total	40.0	3.1	10.7	1.0	0.8	1.0	56.6

Source: IVR Prime Urban Draft Prospectus

IVRCL'S STAKE POST IPO

	NO OF SHARES (M)	% STAKE
IVRCL	40.0	62.4
Promoters	10.0	15.6
IPO Offering	14.2	22.1
Total	64.2	100.0

Source: Company

Hindustan Dorr Oliver: robust performance

Hindustan Dorr Oliver reported revenues of Rs2.1b (up 46% YoY), EBIDTA of Rs186m (up by 154% YoY) and Net profit of Rs154m (up 99% YoY). EBIDTA margins improved to 8.9% (vs. 5.1% YoY). The company has an unexecuted order book position of Rs3b, executable over a period of 15-18 months. The company is L1 in EPC projects worth Rs5b for Industrial waste water treatment & recycling projects. The company is also targeting overseas market now and has recently bagged Rs140-150m orders from US. The company aims to achieve exports turnover of US\$10m over the next two years.

HDO is in the process of ramping up its operations in Knowledge Process Outsourcing (KPO) to 200-250 employees at Mumbai and Chennai.

Key takeaways from the conference call

Robust FY08 management guidance

- ☞ Revenues of Rs33-35b in FY08 (up 43-52% YoY) based on existing order book
- ☞ EBIDTA margin improvement of 25-50bp YoY
- ☞ Revenue growth of 50% for HDO in FY08

BOT portfolio

IVRCL currently has a BOT portfolio of 4 projects, with combined capital investment of Rs14.6b (IVRCL's share). The management has outlined the progress report on each of these projects

- ☞ **Jalandhar-Amristar Highway** had achieved financial closure and construction activity has commenced. We gather that RoE has increased to ~23%, vs. 19% at the time of bidding due to improvement in traffic estimates.
- ☞ **Two road projects in Tamil Nadu** also achieved financial closure in August 2006, and are in the construction phase. Expected RoE on both these projects are in the range of 22.5-25%.
- ☞ **Chennai Desalination project** has also achieved the financial closure and the project has also entered the construction phase.

IVRCL'S BOT PORTFOLIO (RS B)

Desalination Plant, Chennai	3.8*
Jalandhar - Amritsar Highway	2.3
Salem - Kumarapalayam Road, Tamilnadu	8.5
Total	14.6

* IVRCL has a 75% stake, with project cost at Rs5b

Source: Company

Valuations and view

We expect IVRCL to report net profit of Rs1.7b (up 21% YoY) in FY08 and Rs2.5b in FY09 (up 46.2% YoY). We factor in impact of higher taxes due to withdrawal of Sec 80IA benefits. At CMP of Rs348, the stock trades at PER of 33.2x FY07, 27.4x FY08E and 18.7x FY09E Adjusted for the value of BOT (Rs16/sh), Real Estate (Rs122/sh) and HDO (Rs8/sh), the stock quotes at PER of 20.8x FY07, 17.2x FY08E and 11.7x FY09E. Maintain **Buy**.

SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
IVRCL Standalone	Construction	FY09E PER (x)	12	30,018	223	At par with industry average
Subsidiaries						
Hindustan Dorr Oliver	Engineering	Rs/Sh	430	1,021	8	20% discount to current stock price
IVR Prime Urban Developers	Real Estate	Land Value, plus development profits		16,474	122	Based on lower range of Cushman and Wakefields valuation report; IVRCL's stake post IPO at 62.4%; holding company discount of 20%; corporate tax rate of 34%
BOT Projects						
A) Projects under Construction Phase						
Chennai Desalination Project	Desalination project	Book Value		250	2	Book Value of investments till March 2007
Jalandhar Amritsar Road Project	BOT Road	Book Value		413	3	Book Value of investments till March 2007
Tamil Nadu Road Projects (2 Nos)	BOT Roads	Book Value		1,451	11	Book Value of investments till March 2007
Total				49,626	368	

IVRCL Infrastructure: an investment profile

Company description

IVRCL is a Hyderabad-based construction company incorporated in 1987 and promoted by Mr. E. Sudhir Reddy. It's niche and key area of operation is the 'water' segment, under which it executes industrial projects, irrigation works, desalination projects and builds sewerage systems. During FY06, ~51% of the revenues were earned from this division and the company had a 28% strike rate of order procurement. The company has also geared up in terms of pre-qualifications to bid for large road projects independently and has started bidding for BOT projects as well.

Key investment arguments

- Reported order backlog at the end of March 2007 is Rs80b, representing book to bill ratio of 3.5x FY07 revenue.
- Has one of the largest BOT portfolio with diversified presence in roads and desalination projects.
- Fund Raising in IVR PUDL can unlock sizeable value.

Key investment risks

- Promoter stake is low at 9% as on March 2007.
- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge; with increased traction, there are constraints in execution.

COMPARATIVE VALUATIONS

		IVRCL	HCC	NCC
P/E (x)	FY08E	27.4	23.6	18.5
	FY09E	18.7	15.9	13.5
P/BV (x)	FY08E	3.0	1.9	1.5
	FY09E	2.7	1.7	1.3
EV/Sales (x)	FY08E	1.5	1.0	1.2
	FY09E	1.1	0.9	1.0
EV/EBITDA (x)	FY08E	15.0	10.6	12.4
	FY09E	10.8	8.4	9.8

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	10.0	10.4	12.9
Domestic Inst	13.3	16.2	27.4
Foreign	58.6	55.3	38.4
Others	18.1	18.1	21.3

Recent developments

- IVR PUDL has received observation card from SEBI regarding its IPO, which is positive.

Valuations and view

- We expect IVRCL to report net profit of Rs1.7b in FY08 and Rs2.5b in FY09.
- At CMP of Rs348, the stock trades at PER of 33.2x FY07, 27.4x FY08E and 18.7x FY09E.
- Adjusted for the value of BOT (Rs16/sh), Real Estate (Rs122/sh) and HDO (Rs9/sh), the stock trades at PER of 20.8x FY07, 17.2x FY08E and 11.7x FY09E. Maintain **Buy**.

Sector view

- Slowdown associated with change in central government is now behind us and next three years are expected to be eventful with increased investments in new verticals apart from the traditional ones leading to a surge in order books
- There is scope of EBIDTA margin expansion with the increase in the size and scope of orders
- BOT ventures could unlock sizable value
- Real estate projects could also be immensely value accretive

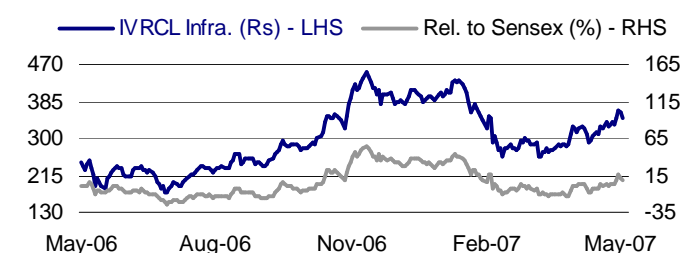
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	12.7	15.9	-20.3
FY09	18.6	20.4	-8.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
348	368	5.7	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	10,547	15,214	23,059	31,915	46,915	
Change (%)	36.4	44.2	51.6	38.4	47.0	
Total Expenditure	9,682	13,871	20,757	28,645	41,960	
EBITDA	865	1,343	2,301	3,270	4,955	
% of Net Sales	8.2	8.8	10.0	10.2	10.6	
Depreciation	80	110	216	276	353	
Interest	214	253	308	482	901	
Other Income	24	57	74	77	85	
PBT	595	1,037	1,851	2,589	3,784	
Tax	28	108	436	878	1,283	
Rate (%)	4.6	10.4	23.6	33.9	33.9	
Reported PAT	567	930	1,415	1,711	2,502	
Adjusted PAT	567	930	1,415	1,711	2,502	
Change (%)	68.9	63.8	52.2	21.0	46.2	

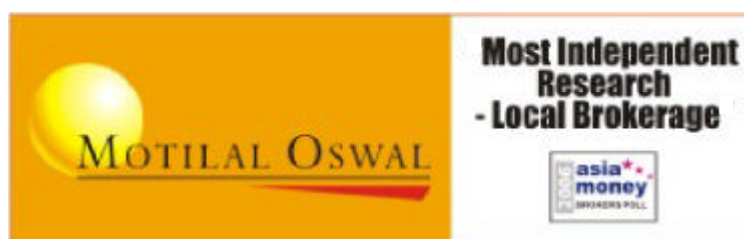
BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	170	214	269	269	269	
Share Application Money	1,454	0	0	0	0	
Reserves	2,407	4,555	13,716	15,171	17,297	
Net Worth	4,030	4,769	13,986	15,440	17,567	
Loans	2,472	6,786	5,731	6,858	9,022	
Deferred Tax Liability	30	41	0	0	0	
Capital Employed	6,532	11,597	19,717	22,298	26,589	
Gross Fixed Assets	1,107	1,580	2,946	3,946	5,046	
Less: Depreciation	366	473	703	979	1,332	
Net Fixed Assets	741	1,107	2,244	2,967	3,714	
Capital WIP	216	266	150	150	300	
Investments	316	2,765	3,260	5,260	6,760	
Curr. Assets	11,607	13,002	22,592	25,736	33,130	
Inventory	178	286	433	599	880	
Debtors	3,066	4,765	6,633	9,181	13,496	
Cash & Bank Balance	4,527	2,443	7,194	4,682	2,180	
Loans & Advances	787	1,156	1,769	2,448	3,599	
Other Current Assets	3,050	4,352	6,562	8,826	12,974	
Current Liab. & Prov.	6,348	5,543	8,529	11,815	17,315	
Creditors	3,470	3,818	5,971	8,240	12,071	
Other Liabilities	2,791	1,573	2,385	3,301	4,852	
Provisions	87	152	173	274	393	
Net Current Assets	5,259	7,459	14,063	13,921	15,814	
Application of Funds	6,532	11,597	19,717	22,298	26,589	

E: MOST Estimates

RATIOS		2005	2006	2007E	2008E	2009E
Basic (Rs)						
Adjusted EPS		6.7	8.7	10.5	12.7	18.6
Growth (%)		-9.4	30.1	20.8	21.0	46.2
Cash EPS		7.6	9.7	12.1	14.8	21.2
Book Value		47.5	44.6	103.8	114.6	130.4
DPS		0.7	1.0	1.0	1.7	2.4
Payout (incl. Div. Tax.)		12.7	13.5	11.0	13.0	13.0
Valuation (x)						
P/E (standalone)			40.1	33.2	27.4	18.7
Cash P/E			35.8	28.8	23.6	16.4
EV/EBITDA			38.2	19.7	15.0	10.8
EV/Sales			3.4	2.0	1.5	1.1
Price/Book Value			7.8	3.4	3.0	2.7
Dividend Yield (%)			31.6	38.7	63.9	93.4
Profitability Ratios (%)						
RoE		18.4	21.1	15.1	11.6	15.2
RoCE		15.2	14.2	13.8	14.6	19.2
Turnover Ratios						
Debtors (Days)		106	114	105	105	105
Inventory (Days)		6	7	7	7	7
Creditors (Days)		137	105	0	0	0
Asset Turnover (x)		2.0	1.7	1.5	1.5	1.9
Leverage Ratio						
Debt/Equity (x)		0.6	1.4	0.4	0.4	0.5

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
PBT before Extraordin:	595	1,037	1,851	2,589	3,784	
Add : Depreciation	80	110	216	276	353	
Interest	214	253	308	482	901	
Less : Direct Taxes Paid	28	108	436	878	1,283	
(Inc)/Dec in WC	1,227	-4,284	-1,853	-2,371	-4,395	
CF from Operations	2,088	-2,991	86	99	-639	
(Inc)/Dec in FA	-356	-526	-1,236	-1,000	-1,250	
(Pur)/Sale of Investments	-95	-2,448	-495	-2,000	-1,500	
CF from Investments	-451	-2,975	-1,732	-3,000	-2,750	
(Inc)/Dec in Networth	1,351	-54	7,916	0	0	
(Inc)/Dec in Debt	590	4,315	-1,055	1,127	2,164	
Less : Interest Paid	214	253	308	482	901	
Dividend Paid	72	125	156	257	376	
CF from Fin. Activity	1,655	3,882	6,397	388	888	
Inc/Dec of Cash	3,292	-2,084	4,752	-2,513	-2,501	
Add: Beginning Balance	1,234	4,527	2,443	7,194	4,682	
Closing Balance	4,526	2,443	7,195	4,682	2,180	

N O T E S



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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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