

IL&FS Transportation Ltd (ILFT)

Rs 178

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

High gearings and threat to margins

Accumulate

ILFT reported revenue of Rs 1,989 crore (+12.5% vs. est) above our expectations on account of increase in construction income as execution has picked up in the ongoing road projects. Further, the company is able to book substantial Fee Income (Rs 161 mn) from the newly won as well as under construction projects.

ILFT reported EBITDA of Rs 457 crore (+12%, YoY) and margins fell by 166 bps, primarily impacted due to increase in construction revenue in the revenue mix on YoY basis. Interest cost gone up to Rs 231 crore (+24%, QoQ) reveals consolidation of Chinese road project as well as withdrawal of more debt at the consolidated levels. PAT grew to Rs 177 crore (+11%, YoY basis), primarily impacted by lower tax rate in the last quarter.

Substantial risk to margins (+23.1%, FY13E) in the absence of Fee Income

The fee income booked is Rs 557 crore & Rs 573 crore on the average order inflow of Rs 55 bn in FY11 & FY12E respectively that has added 80% of EBITDA to full year financial. We expect margins are at risk in the absence of fee income in case company is unable to sustain order inflow of projects.

Orderbacklog, Rs 120 bn, & Toll revenue reaches to Rs 1.9 crore/ day

ILFT orderbacklog stands at Rs 120 bn (+10.1%, YoY) provide revenue visibility for EPC segment for the next 2-3 years. EPC margins shrink by 500 bps in FY12 and expected a challenge to maintain healthy margins for FY13E. Toll revenue daily gross turnover reaches to Rs 1.9 crore / day (+24.2%, YoY).

View & outlook

We revise consolidated estimates of EPS to Rs 25.6 and Rs 26.3 (from Rs 20.4 and 23.1) for FY12E and FY13E respectively based on higher fee income and construction revenue. We have not valued newly won projects due to non financial closure. We reduced EPC value to Rs 30 (from Rs 46) on account of fall in margins by 400 bps. We rate ILFT to "Accumulate" (TP 203) based on 1.) unexpected increase in fee income 2.) consol D/E is 3.7 beyond comfortable levels 3.) consol margins are at risk in the absence of fee income in future and 4.) aggressive bidding still continue in road sector.

Exhibit 1 : Key Financials

(Rs Crore)

Particulars	FY10	FY11	FY12E	FY13E
Sales	2,408	4,048	5,606	6,568
EBDITA	815	1,164	1,466	1,519
Net Profit	344	433	497	511
EPS	15.0	18.9	25.6	26.3
P/E	11.8	9.4	6.9	6.7
P/BV	2.3	1.7	1.2	1.1
RoE %	19.7	18.6	18.0	16.2
RoCE %	14.3	13.7	10.3	9.8

Source: Company, KRChoksey Research

Target Price (Rs): 203

Potential Upside : 13.8%

Previous TP (Rs): 224

Market Data

Shares outs (Cr)	19.4
Equity Cap (Rs Cr)	194.2
Mkt Cap (Rs. Cr)	4,056
52 Wk H/L (Rs)	367/143
Avg Vol (1yr avg)	2,18,552
Face Value (Rs)	10.0
Bloomberg Code	ILFT.IN

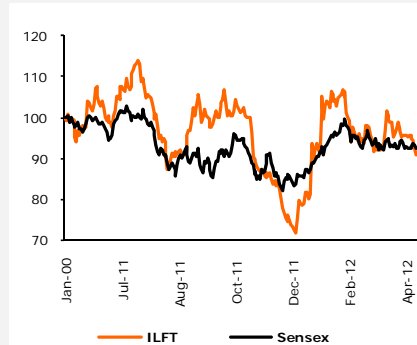
Market Info

SENSEX	16,810
NIFTY	5,110

Share Holding pattern (%)

Particular%	Mar-12	Dec-11	Change
Promoters	72.46	71.20	1.26
Institution	2.96	2.55	0.41
FII's	4.02	4.27	(0.25)
Public	20.56	21.98	(1.42)
Total	100	100	

Price Performance



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Q4 FY12 Consolidated Result Analysis (Rs Cr)

Particulars (Rs Cr)	Q4 FY11	Q3 FY12	Q4 FY12	QoQ (%)	YoY (%)
Net Sales	1,658	1,268	1,989	57	20
Other Operating Income	(2)	0	0	(100)	(100)
Raw Material Consumed	6	19	75	295	1,171
Employee Expenses	92	92	102	11	11
Construction Contract Cost	497	708	1,166	65	135
Operation & Maintenance	0	11	45	309	0
Other Expenses	646	117	155	32	(76)
EBITDA	409	321	457	43	12
EBITDAM	24.6%	25.3%	23.0%	(230)	(166)
Interest	179	185	231	24	29
Depreciation	18	17	28	63	50
Other Income	24	30	45	52	91
PBT	235	148	244	65	4
Tax	69	47	57	22	(17)
Tax Rate %	29.3%	31.6%	23.4%	(823)	(589)
PAT	166	101	187	85	12
MI after PAT	(7)	(12)	(18)	44	156
Share of P/ L of Ass.	0	(1)	8		
Net Profit after MI	159	88	177	102	11
Extra-ordinary Items	0	0	0		
Adjusted Profit After EoI	159	88	177	102	11

Source: Company, KRChoksey Research

Valuation & outlook

We revise consolidated estimates of EPS to Rs 25.6 and Rs 26.3 (from Rs 20.4 and 23.1) for FY12E and FY13E respectively based on higher fee income and construction revenue. We have not valued newly won projects due to non financial closure. We reduced EPC value to Rs 30 (from Rs 46) on account of fall in margins by 400 bps. We rate ILFT to "Accumulate" (TP 203) based on 1.) unexpected increase in fee income 2.) consol D/E is 3.7 beyond comfortable levels 3.) consol margins are at risk in the absence of fee income in future and 4.) aggressive bidding still continue in road sector.

Valuation Snapshot:

	NPV (Rs cr)	ITNL's Stake (%)	Rs/ Share
Standalone Segment ITNL (Value)	DCF till FY15E		30
Road projects			
Operational			
NKEL	44.0	94%	2.1
WGEL	170.0	100%	8.8
GRICL	461.9	84%	20.0
TRDCL I	305.0	84%	13.2
APEL	163.6	100%	8.4
EHEL	45.8	74%	1.7
RIDCOR I	265.6	50%	6.8
IRIDCL	112.0	100%	5.8
Under Construction			
TRDCL II	6.3	84%	0.3
HREL	84.0	74%	3.2
PSRDCL	212.6	100%	11.0
WCBTRCL	325.9	35%	5.9
RIDCOR II	30.5	50%	0.8
JRPICL	(120.3)	50%	(3.1)
N.A.M.EL	417.5	50%	10.8
MBEL	487.7	100%	25.1
JSEL	(50.9)	50%	(1.3)
CNTL	59.7	100%	3.1
CHDCL	168.1	74%	6.4
Total BOT Projects Value			129.0
Investments in Projects			
CEG	150	100%	7.7
RMGL	330	54%	9.2
MPBCDCL	328	51%	8.6
VNIPL	18	100%	0.9
Total Investment Value			26.5
Elsamax			
(0.5x BV)	366	100%	11.3
Current Mcap			
NTBCL	435	25%	5.6
Total			203

Source: KR Choksey Research

Change in Estimates

Rs Crore	FY12E		Change (%)	FY13E		Change (%)
	Old	New		Old	New	
Net Sales	5,384	5,606	4.1%	6,502	6,568	1.0%
EBITDA	1,195	1,466	22.6%	1,360	1,519	11.7%
Interest Cost	537	728	35.6%	576	777	34.8%
PAT	468	497	6.2%	529	511	-3.3%

Source: Company, KRChoksey Research

Consolidated Financial Statements:

Profit and loss Account		Rs crore			
Particulars	FY10	FY11	FY12	FY13E	
Net sales	2,408	4,048	5,606	6,568	
<i>Growth</i>	96.5%	68.1%	38.5%	17.2%	
Cost of sales	1,593	2,884	4,140	5,049	
EBDITA	815	1,164	1,466	1,519	
EBIDTAM	33.8%	28.8%	26.1%	23.1%	
Depreciation	60	61	77	92	
EBIT	754	1,103	1,389	1,427	
Interest	309	508	728	777	
Other Income	79	79	124	142	
PBT	524	674	785	793	
Tax	186	224	246	238	
<i>% of tax</i>	35.4%	33.3%	31.3%	30.0%	
Net Profit	338	450	539	555	
Minority Interest	(3)	(12)	(46)	(48)	
P/L of Associate Company	9	(5)	4	4	
Net Profit after MI	344	433	497	511	
Extraordinary Items	0	0	0	0	
Reported Net Profit	344	433	497	511	

Source: Company, KRChoksey Research

Balance Sheet		(Rs Cr)			
Particulars	FY10	FY11	FY12	FY13E	
Share capital	229	229	194	194	
Reserves	1,474	2,045	2,569	2,967	
Total Networth	1,749	2,325	2,764	3,162	
Minority Interest	112	131	293	323	
Total debt	3,322	5,467	10,226	10,937	
Deferred tax	78	132	204	132	
Total Liability	5,260	8,056	13,487	14,553	
Net block	1,889	3,257	6,914	8,649	
Capital WIP	6	3	0	0	
Investments	433	194	383	383	
Inventories	29	26	21	36	
Sundry debtors	648	749	882	1,170	
Cash & bank	550	528	284	614	
Loans and advances	992	1,813	1,988	2,519	
Total current assets	3,719	5,952	7,938	7,916	
Current liabilities	652	1,196	1,533	2,159	
Provisions	135	159	215	236	
Total current liabilities	787	1,355	1,748	2,395	
Net current assets	2,932	4,597	6,190	5,521	
Total Assets	5,260	8,056	13,487	14,553	

Source: Company, KRChoksey Research

Cash flow					(Rs Cr)
Particulars	FY10	FY11	FY12	FY13E	
PBT	524	674	785	793	
Add: depreciation	60	61	77	92	
Add: Interest	309	508	728	777	
Cash flow from operations	894	1,243	1,589	1,662	
Change in working capital	927	1,688	1,837	(1,000)	
Taxes	186	224	246	238	
Miscellaneous expenses	0	0	0	0	
Net cash from operations	(219)	(669)	(493)	2,423	
Capital expenditure	(808)	(1,427)	(3,730)	(1,827)	
Change in Investments	(232)	239	(189)	0	
Net cash from investing	(1,040)	(1,188)	(3,919)	(1,827)	
Increase/Decrease in debt	1,467	2,145	4,759	711	
Dividends	(68)	(94)	(91)	(114)	
Proceedings from equity	561	0	(35)	0	
Interest	(309)	(508)	(728)	(777)	
Others	(1)	291	264	(86)	
Net cash from financing	1,649	1,834	4,168	(266)	
Net Inc./ (Dec.) in Cash	390	(23)	(244)	330	
Opening cash balance	160	550	528	284	
Closing cash balance	550	528	284	614	

Source: Company, KRChoksey Research

Key ratios

Particulars	FY10	FY11	FY12	FY13E
Valuation Ratios				
Market price (Rs)	177	177	177	177
EPS (Rs)	15.0	18.9	25.6	26.3
P/E (X)	11.8	9.4	6.9	6.7
P/CEPS (X)	10.0	8.2	6.0	5.7
P/BV (X)	2.3	1.7	1.2	1.1
M cap/Sales (X)	1.7	1.0	0.6	0.5
EV/EBIDTA (X)	8.4	7.7	9.1	9.1
EV/Sales (X)	2.8	2.2	2.4	2.1
Profitability Ratios				
EBIDTA margin %	33.8%	28.8%	26.1%	23.1%
PAT margin %	14.3%	10.7%	8.9%	7.8%
ROE %	19.7%	18.6%	18.0%	16.2%
ROCE %	14.3%	13.7%	10.3%	9.8%
Efficiency Ratios				
Asset turnover	0.5	0.5	0.4	0.5
Av collections period-days	98	68	57	65
Av payment period-days	99	108	100	120
Inventory turnover-days	4	2	1	2
Liquidity ratios				
Current ratio	4.7	4.4	4.5	3.3
Interest coverage	2.6	2.3	2.0	2.0
Debt/equity	1.9	2.4	3.7	3.5

Source: Company, KRChoksey Research

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IL&FS Transportation Ltd.				Rating Legend	
Date	CMP (Rs.)	TP (Rs.)	Recommendation	Our Rating	Upside
08-May-12	178	203	Accumulate	Buy	More than 15%
08-Feb-12	209	224	Hold	Accumulate	5% - 15%
14-Nov-11	200	246	BUY	Hold	0 – 5%
08-Aug-11	215	275	BUY	Reduce	-5% – 0
				Sell	Less than -5%

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