

November 14, 2011

Rupa Shah
rupashah@plindia.com
+91-22-66322244

	Accumulate
Rating	
Price	Rs38
Target Price	Rs42
Implied Upside	10.5%
Sensex	17,119

(Prices as on November 14, 2011)

Trading data

Market Cap. (Rs bn)	10.1
Shares o/s (m)	267.0
3M Avg. Daily value (Rs m)	282.9

Major shareholders

Promoters	11.01%
Foreign	39.47%
Domestic Inst.	3.57%
Public & Other	45.95%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.3)	(49.4)	(72.9)
Relative	(1.5)	(41.8)	(57.8)

Price Performance (RIC: IVRC.BO, BB: IVRC IN)



Source: Bloomberg

IVRCL

Signs of relief

- **Revenue/EBITDA show signs of improvement:** IVRCL's Q2FY12 sales were flat at Rs10.4bn. On account of lean working, sub-contracting and material costs have also come down; thus, indicating, an improvement in EBITDA margins. The company has taken one-time hit of Rs70m for an advance given to the sub-contractor. Despite that, core EBITDA margins at 9.0% were higher by 223bps YoY.
- **High interest leads to 65% dip in PAT:** Interest cost was high at Rs65m QoQ and YoY due to increase in debt levels on account of high interest rates (13%). The debt increased on account of further funding needs of subsidiaries to the extent of Rs3bn. The tax rate was lower like the previous quarter and PAT de-grew by 65% YoY in Q2FY12 at Rs81m.
- **Order book position, 16% from captives:** Current order book and L1 projects stand at Rs250bn. IVRCL has received orders aggregating to Rs70bn in Q2FY12. Captive order book is Rs40bn in Roads and L1 is Rs56bn.
- **Remerging BOTs with itself:** IVRCL, after taking a hit in terms of funding BOTs, has decided to bring back the value to the parent and thus, is merging BOTs with parent. Post this, dilution in IVRCL will be to the extent of 14.3%. Post merger, BOTs and land parcels would be sold gradually and the target is to make IVRCL an asset like company as before.
- **Valuations:** We have upgraded the FY12 and FY13 earnings marginally on the back of lower tax rate and better execution. At the CMP, the stock discounts FY13E core earnings by 8.7x (20% discount to our coverage universe valuations). We continue to maintain '**Accumulate**' on the stock and increase out TP from Rs39.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	54,771	56,174	51,396	57,831
Growth (%)	12.2	2.6	(8.5)	12.5
EBITDA (Rs m)	5,312	4,805	4,322	4,953
PAT (Rs m)	2,100	1,579	785	899
EPS (Rs)	7.9	5.9	2.9	3.4
Growth (%)	(53.5)	(24.8)	(50.3)	14.5
Net DPS (Rs)	0.8	1.1	1.2	1.2

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	9.7	8.6	8.4	8.6
RoE (%)	11.5	8.2	4.0	4.5
RoCE (%)	9.6	8.1	5.6	5.6
EV / sales (x)	0.4	0.5	0.7	0.7
EV / EBITDA (x)	4.6	6.2	8.6	8.2
PE (x)	4.8	6.4	12.9	11.3
P / BV (x)	0.5	0.5	0.5	0.5
Net dividend yield (%)	2.1	3.0	3.2	3.2

Source: Company Data; PL Research

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Exhibit 1: Q2FY12 Result Overview (Rs m)

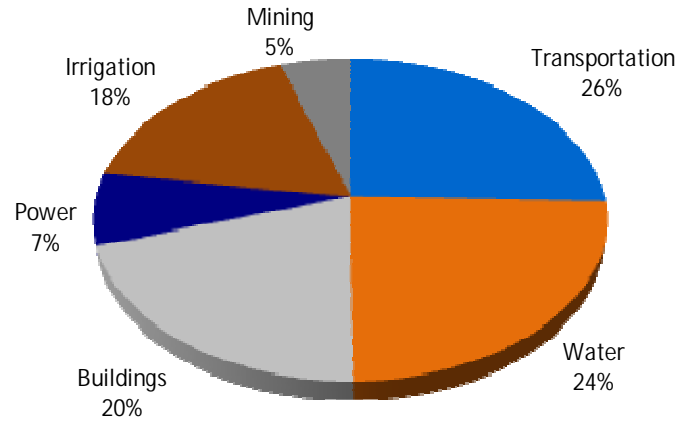
Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net Sales	10,460	10,502	(0.4)	11,219	21,679	21,564	0.5
Expenditure							
Consumption of Raw Materials	3,761	4,095	(8.2)	4,134	7,895	7,703	2.5
<i>% of Net Sales</i>	<i>36.0</i>	<i>39.0</i>		<i>36.8</i>	<i>36.4</i>	<i>35.7</i>	
Subcontracting expenses	1,596	1,684	(5.2)	1,828	3,424	3,585	(4.5)
<i>% of Net Sales</i>	<i>15.3</i>	<i>16.0</i>		<i>16.3</i>	<i>15.8</i>	<i>16.6</i>	
Other Construction Expenditure	3,133	3,033	3.3	3,462	6,596	6,647	(0.8)
<i>% of Net Sales</i>	<i>30.0</i>	<i>28.9</i>		<i>30.9</i>	<i>30.4</i>	<i>30.8</i>	
Personnel Cost	647	633	2.2	681	1,328	1,285	3.4
<i>% of Net Sales</i>	<i>6.2</i>	<i>6.0</i>		<i>6.1</i>	<i>6.1</i>	<i>6.0</i>	
Other Expenditure	386.6	351.6	9.9	281.7	668	634	5.3
<i>% of Net Sales</i>	<i>3.7</i>	<i>3.3</i>		<i>2.5</i>	<i>3.1</i>	<i>2.9</i>	
Total Expenditure	9,523	9,797	(2.8)	10,387	19,910	19,855	0.3
EBITDA	937	706	32.8	832	1,769	1,709	3.5
<i>Margin (%)</i>	<i>9.0</i>	<i>6.7</i>	<i>223.8</i>	<i>7.4</i>	<i>8.2</i>	<i>7.9</i>	<i>23.7</i>
Depreciation	250	184	35.6	228	477	342	39.8
EBIT	687	521	31.8	605	1,292	1,367	(5.5)
Interest	652	481	35.8	628	1,281	933	37.2
Other Income	54	304	(82.2)	72	126	316	(60.0)
PBT	89	345	(74.3)	49	138	750	(81.6)
Tax	7	112	(93.4)	7	14	238	(94.1)
<i>Tax Rate (%)</i>	<i>8.3</i>	<i>32.6</i>		<i>13.6</i>	<i>10.2</i>	<i>31.7</i>	
Recurring PAT	81	233	(65.0)	42	124	512	(75.9)

Source: Company Data, PL Research

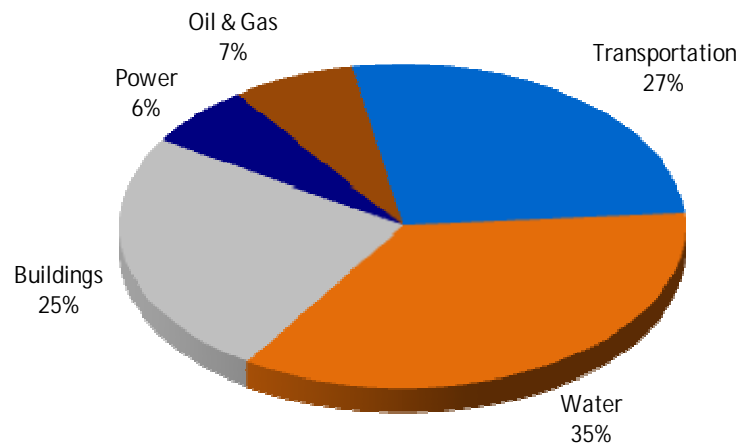
Exhibit 2: Change in Estimates

	FY12E			FY13E		
	Earlier	Post Revision	% change	Earlier	Post Revision	% change
Revenues (Rs m)	51,396	51,396	(0.0)	57,831	57,831	(0.0)
PAT (Rs m)	628	785	25.1	879	899	2.3
EPS (Rs)	2.4	2.9	22.6	3.3	3.4	2.0

Source: PL Research

Exhibit 3: Q2FY12 Order Book Break-up


Source: Company Data, PL Research

Exhibit 4: Q2FY12 Revenue Break-up


Source: Company Data, PL Research

Exhibit 5: SOTP

IVRCL	9.5x FY12E EPS	32
Hind. Dorr Oliver	75% Disc. to CMP	2
IVR Asset Holding	75% Disc. to Invested Eq of Rs20bn @ 0.75x P/BV	9
Total		42

Source: PL Research



Key Highlights of the Conference Call

EBITDA margins will be maintained, going further. However, no guidance was given on revenues. The company has bid for Rs230bn of orders alongwith higher interest rates and IRRs for future bids. There are no receivables in AP and balance order book is Rs26bn.

2-3 land parcels in Noida are sold out and the same number of projects are up for sale. The company currently plans to retain the current project at Sriperambadur and BOTs won in the last two years. These will go for sale in the next tranche.

Loans have increased by Rs6bn from March 2011 level, of which, Rs3bn has been used for funding subsidiaries and balance to fund WC. The company targets to bring the loans down to Rs20bn by FY12E end.

New mining project of Rs12bn (of Hindustan Copper) has more to do with designing than with mining and thus, had to bring JV partners.

On rational of demerger of IVRCL Asset & Holding with IVRCL, the company commented that no debt was available for BOTs and thus, IVRCL was bearing the brunt. Thus, the company wants to be asset light now and thus, part with BOTs slowly and gradually, especially real estate land.

Land bank details of real estate company are as follows: 128 acres Noida, 94 acres in Panvel, 100 acres in Lonavala, 168 acres in Bengaluru, 14 acres in Bengaluru city, 700 acres in Sriperambadur, 600 acres near Sriperambadur, 250acres in Vishkapatnam, 168 acres in Minjur, 45 acres in Pondicherry and 50 acres in Hyderabad.

Work on BOTs is moving well and in this quarter, the company has already executed Baramati-Phaltan at Rs300m, Indore-Gujarat at Rs1.2bn and Chengapalli at Rs1bn. Balance equity to be infused in BOTs over the next three years is Rs4.5bn, including Haryana BOT. Work on Sion-Panvel has started recently.

Total debt in IVRCL Asset & Holding is Rs9.4bn, of which, Rs1.5bn is NCD and balance is debt from IVRCL. Once Noida land is sold off, cash is expected to come back and at the time of merger, IVRCL Assets will be a debt-free company.


Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	54,771	56,174	51,396	57,831
Raw Material Expenses	13,365	19,897	16,306	17,660
Gross Profit	41,406	36,277	35,089	40,171
Employee Cost	1,310	2,623	—	—
Other Expenses	34,784	28,849	30,767	35,218
EBITDA	5,312	4,806	4,322	4,953
Depr. & Amortization	543	758	889	922
Net Interest	1,637	2,182	2,510	2,829
Other Income	155	460	258	150
Profit before Tax	3,287	2,326	1,181	1,352
Total Tax	1,187	747	396	453
Profit after Tax	2,100	1,579	785	899
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	2,100	1,579	785	899
Avg. Shares O/S (m)	267.0	267.0	267.0	267.0
EPS (Rs.)	7.9	5.9	2.9	3.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	2,655	(2,632)	(5,468)	(2,904)
C/F from Investing	(1,614)	(1,950)	(1,391)	(500)
C/F from Financing	(406)	4,369	6,276	4,038
Inc. / Dec. in Cash	635	(213)	(583)	634
Opening Cash	1,009	1,644	1,431	849
Closing Cash	1,644	1,431	849	1,483
FCFF	1,163	(4,373)	(6,968)	(3,404)
FCFE	3,316	452	(192)	1,056

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	12.2	2.6	(8.5)	12.5
EBITDA (%)	25.9	(9.5)	(10.1)	14.6
PAT (%)	(7.1)	(24.8)	(50.3)	14.5
EPS (%)	(53.5)	(24.8)	(50.3)	14.5
Profitability				
EBITDA Margin (%)	9.7	8.6	8.4	8.6
PAT Margin (%)	3.8	2.8	1.5	1.6
RoCE (%)	9.6	8.1	5.6	5.6
RoE (%)	11.5	8.2	4.0	4.5
Balance Sheet				
Net Debt : Equity	0.8	1.0	1.4	1.5
Net Wrkng Cap. (days)	(457)	(315)	(182)	(171)
Valuation				
PER (x)	4.8	6.4	12.9	11.3
P / B (x)	0.5	0.5	0.5	0.5
EV / EBITDA (x)	4.6	6.2	8.6	8.2
EV / Sales (x)	0.4	0.5	0.7	0.7
Earnings Quality				
Eff. Tax Rate	36.1	32.1	33.5	33.5
Other Inc / PBT	4.7	19.8	21.8	11.1
Eff. Depr. Rate (%)	7.2	8.2	8.3	8.2
FCFE / PAT	157.9	28.6	(24.4)	117.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	18,533	19,874	19,769	20,296
Total Debt	16,133	20,958	27,734	32,194
Other Liabilities	125	86	245	246
Total Liabilities	34,791	40,918	47,748	52,736
Net Fixed Assets	6,017	7,178	7,558	7,186
Goodwill	—	—	—	—
Investments	6,138	6,347	6,238	6,238
Net Current Assets	22,635	27,392	33,952	39,311
<i>Cash & Equivalents</i>	<i>1,644</i>	<i>1,431</i>	<i>849</i>	<i>1,483</i>
<i>Other Current Assets</i>	<i>45,361</i>	<i>53,091</i>	<i>55,226</i>	<i>62,446</i>
<i>Current Liabilities</i>	<i>24,369</i>	<i>27,130</i>	<i>22,123</i>	<i>24,618</i>
Other Assets	—	—	1	2
Total Assets	34,791	40,917	47,748	52,737

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	14,104	20,516	11,219	10,460
EBITDA	1,320	1,775	832	937
<i>% of revenue</i>	<i>9.4</i>	<i>8.7</i>	<i>7.4</i>	<i>9.0</i>
Depr. & Amortization	199	217	228	250
Net Interest	592	656	628	652
Other Income	95	49	72	54
Profit before Tax	625	950	49	89
Total Tax	202	308	7	7
Profit after Tax	423	643	42	81
Adj. PAT	423	643	42	81

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Transportation (Rs m)	6,572	9,000	18,198	20,451
Water (Rs m)	22,457	25,000	19,528	19,528
Power (Rs m)	4,394	9,820	7,323	7,323
Buildings & Oil (Rs m)	16,110	12,500	4,882	4,882
Blended EBITDA Marg. (%)	9.7	8.2	8.4	8.6
Int. as a % to sales	3.0	3.9	4.8	4.8
Order Book (Rs bn)	200.0	238.0	295.2	334.3
Order intake (Rs bn)	120.0	117.0	95.0	90.0
Int. Rate (%)	12.9	13.4	12.4	12.0
Capex (Rs bn)	0.9	1.7	1.5	0.5
NCA/Sales (%)	41.2	48.9	66.1	68.0
RM & Const Cost (%)	90.3	91.6	90.5	90.5

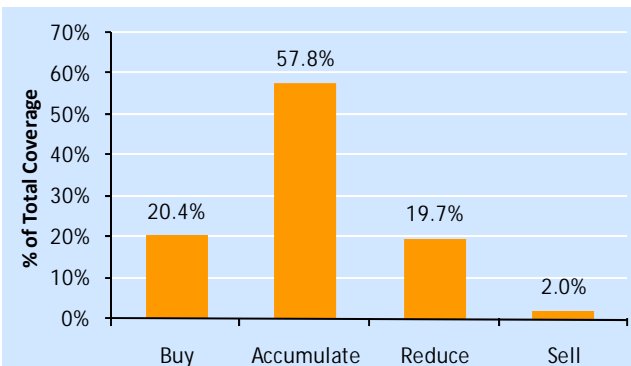
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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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