

Construction – Civil / Turnkey-Large

IVRCL Ltd

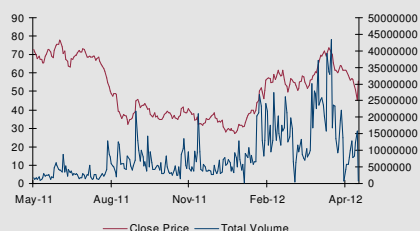
Hold

CMP	Rs 47
Target Price	Rs 48

Key Data

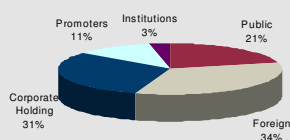
Face Value (Rs)	2.00
Market Cap (Rs in mn)	12530
Total O/s Shares in (in mn)	267.0
Free Float	88.99%
52 Week High / Low	79/27
Avg. Monthly Volume (BSE)	2304017
Avg. Monthly Volume (NSE)	11354837
BSE Code	530773
NSE Code	IVRCLINFRA
Bloomberg Code	IVRC@IN
Beta	1.94
Date of Incorporation	Nov 1987
Last Dividend Declared	30%
Six month return	19%
Indices	BSE 200
FCCB's outstanding	N.A.
Warrants outstanding	N.A.

One Year Price / Volume Chart



Source: Capitaline

Share Holding Pattern as on 31.03.12



Source: Company, KJMC Research

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IVRCL Q4FY12 standalone result was below our expectation on execution delays. The revenue for Q4FY12 fell by 22.2% yoy on execution delays in 3-4 projects. The execution delays caused revenue loss of Rs 5-5.5 bn in 12 month ended March 2012. Execution took a hit on various hurdles like legal & environmental issues, slower decisions, design issues, etc related to those four contracts. EBITDA margin took a hit with 227 bps yoy decline at 6.3% on provisions against debtor and lower revenue bookings. The PAT for the quarter declined by 92.3% yoy to Rs 49.4 mn. IVRCL has an order backlog of Rs 278bn (including Rs 54 bn of L1 order) at the end of the quarter.

Key Highlights

Execution worsen in Q4FY12: The execution continued to remain subdued in Q4FY12 with net revenue declined sharply by 22.2% on yoy basis to Rs 15.96 bn. Execution took a hit on various hurdles like legal & environmental issues, slower decisions, design issues, etc related to four contracts. This has caused annual revenue loss of over Rs 5-5.5 bn. We believe that the execution may remain weak in next few quarters also. But looking at the strong order book and a low revenue base in FY12E, we expect 12% revenue growth in FY13E.

EBITDA margin declined by 227 bps on yoy: During the quarter, IVRCL has reported 227 bps yoy and 101 bps qoq decline in the EBITDA margins on account of Rs 500 mn provisions against debtors and lower execution. As a result the EBITDA for the quarter declined by 42.8% yoy to Rs 1010mn. The interest cost for the quarter remained flattish on yoy and qoq to Rs 661 mn. The debt at the end of the quarter remained unchanged at Rs 25 bn over Q3FY12. The PAT for the quarter declined by 92.3% yoy to Rs 49.4 mn.

Order book grew to Rs 278 bn: IVRCL has reported a robust Rs 278 bn of order backlog at the end of the quarter which also includes Rs 54 bn of L1 orders. The order inflow for 12 months ended March 2012 was at Rs 107 bn. The order book composition included Rs 71.29 bn of own BOT projects.

Order backlog gives visibility, but execution delays continue to worry: The execution rate in 12 month ended march 2012 was 22.5% of the order backlog at the beginning of FY12. Going by the same, the current order backlog gives a strong revenue growth visibility in FY13. But looking at delays in execution by the company, we remain conservative in terms of making revenue growth estimates and expect the execution rate to reduce further to 20%.

Financial Snapshot (Standalone)

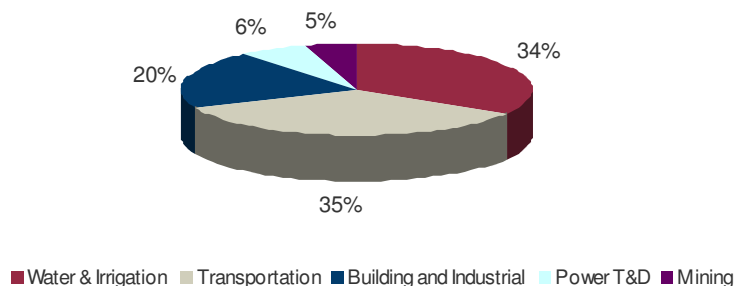
in Rs Mn

Particulars	FY10	FY11	FY12E	FY13E	FY14E
Net Revenue	54,923	56,515	49,595	55,538	66,018
EBITDA	5,313	5,146	3,657	4,421	5,332
EBITDA Margin %	9.7	9.1	7.4	8.0	8.1
PAT	2,111	1,579	241	575	1,093
EPS	7.9	5.9	0.9	2.2	4.1
P/E	5.9	7.9	52.1	21.8	11.5
EV/EBITDA	5.1	6.2	9.8	8.9	7.4
ROE%	11.5	8.2	1.2	2.9	5.3

Source: Company, KJMC Research

Update BOT Business: IVRCL has sold 3 out of four land parcel in Noida for Rs 2 bn. The company expects to generate another Rs 1 bn from the sale of fourth parcel. The proceeds would be utilized to meet equity requirement in BOT projects. In FY13 it would need Rs 4.4 bn of equity commitment in the BOT projects. The process of merging BOT subsidiary, IVRCL Assets is on track and the same is expected to be completed in 4-6 weeks. The company has extended the financial year FY12 by 3 months in order to report the merged account for FY12.

Break up of Order Book (including L1)



Source: Company

Quarterly Result - Standalone

Rs in mn

Particulars	Q4FY12	Q4FY11	YoY Growth %	Q3FY12	QoQ Growth %	12m FY12	12m FY11	YoY Growth %
Net Sales	15960.3	20520.4	-22.2	11955.4	33.5	49595.0	56173.9	-11.7
Expenditure	14950.2	18755.7	-20.3	11077.5	35.0	45937.9	51368.6	-10.6
Construction, Stores, spares, Materials consumed	5013.9	6907.1	-27.4	4323.0	16.0	17250.7	19974.9	-13.6
Sub Contracting expense	3642.9	4439.4	-17.9	1676.6	117.3	8743.6	9918.5	-11.8
Masonry, Labour & Construction Exp	4873.5	6248.5	-22.0	4162.8	17.1	15632.0	17380.9	-10.1
Employee Cost	647.4	734.7	-11.9	623.5	3.8	2598.6	2623.6	-1.0
Other Expenditure	772.5	425.9	81.4	291.5	165.0	1713.1	1470.7	16.5
EBITDA	1010.0	1764.8	-42.8	878.0	15.0	3657.1	4805.2	-23.9
EBITDAM%	6.3	8.6	-227.2 bps	7.3	-101.5 bps	7.4	8.6	-118.0 bps
Other Income	74.2	63.72	16.4	79.80	-7.1	297.6	470.6	-36.8
PBIDT	1084.2	1828.5	-40.7	957.8	13.2	3954.8	5275.8	-25.0
Depreciation	269.0	217.4	23.7	228.6	17.6	975.0	757.8	28.7
Interest	661.1	661.0	0.0	660.6	0.1	2619.5	2191.9	19.5
PBT	154.2	950.1	-83.8	68.5	125.0	360.2	2326.2	-84.5
Tax	104.7	307.591	-66.0	0.649	16035.7	119.4	747.2	-84.0
PAT	49.4	642.5	-92.3	67.9	-27.2	240.8	1579.0	-84.7
PATM%	0.3	3.1	-282.1 bps	0.6	-25.8	0.5	2.8	-232.5 bps
PAT (after Extra-ordinary/Exceptional items)	49.4	642.5	-92.3	67.9	-27.2	240.8	1579.0	-84.7
Equity Capital	534.0	534.0	0.0	534.0	0.0	534.0	534.0	0.0
EPS	0.2	2.4	-92.3	0.3	-27.2	0.9	5.9	-84.7

Source: Company, KJMC Research

Outlook & Valuation

In the recent past the stock was in momentum on expectation of possible hostile takeover by Essel group. Essel group recently acquired 12.3% stake in the company from open market. But further it clarified about not going for hostile takeover in the current circumstances. As a result, the stock got corrected to Rs 47 after touching a high of Rs 74. Any further development related to substantial stake acquisition by Essel group may result in stock price momentum, but it would be irrespective of fundamentals.

The company has extended the financial year FY12 by 3 months in order to report the merged account for the full year. Currently we have continued with our yearly projections and would review the same once it reports its financial year ending accounts in the next quarter. We have downgraded our revenue and earning estimates for FY13E factoring in the impact of delay in execution and lower margins. Based on FY13E and FY14E revised EPS of Rs 2.2 and Rs 4.1, the stock is currently trading at a P/E of 21.8x and 11.5x respectively. Considering downgrade in earnings, we reduce our SOTP based target price to Rs 48 (from Rs 63) and maintain our Hold rating on the stock.

Financial Summary (Standalone)

Profit & Loss Statement						Balance Sheet					
Rs. in mn						Rs. in mn					
Y/E, Mar	FY10	FY11	FY12E*	FY13E	FY14E	Y/E, Mar	FY10	FY11	FY12E	FY13E	FY14E
Net Revenue	54,923	56,515	49,595	55,538	66,018	Equity Share Capital	534	534	534	534	534
Growth %	10.3	2.9	-12.2	12.0	18.9	Reserves	17,999	19,340	19,393	19,781	20,687
Total Expenses	49,610	51,369	45,938	51,117	60,686	Net worth	18,533	19,874	19,927	20,315	21,221
Growth %	8.8	3.5	-10.6	11.3	18.7	Secured Loans	12,688	16,295	20,795	23,295	24,795
Construction Expenses	46,281	47,274	41,626	46,347	55,092	Unsecured Loans	3,445	4,663	4,663	4,663	4,663
% Of NR	84.3	83.6	83.9	83.4	83.4	Loan Funds	16,133	20,958	25,458	27,958	29,458
Employee Expenses	2,026	2,624	2,599	2,800	3,329	Total Liabilities	34,666	40,832	45,385	48,273	50,679
% Of NR	3.7	4.6	5.2	5.0	5.0	Gross Block	7,502	9,242	9,942	10,642	11,342
Other Expenses	1,303	1,471	1,713	1,970	2,266	Less: Accumulated Depreciation	1,838	2,324	3,299	4,343	5,455
% Of NR	2.4	2.6	3.5	3.5	3.4	Net Block	5,664	6,918	6,643	6,299	5,887
EBITDA	5,313	5,146	3,657	4,421	5,332	Capital Work In Progress	353	260	260	260	260
Growth	26.5	-3.1	-28.9	20.9	20.6	Investments	6,138	6,347	6,347	6,347	6,347
EBITDAM %	9.7	9.1	7.4	8.0	8.1	Current Assets	47,005	54,523	51,749	58,537	67,264
Other Income	155	120	298	298	298	Inventories	2,447	2,732	3,279	3,648	4,331
Interest	1,637	2,182	2,620	2,814	2,881	Debtors	19,445	19,298	17,000	19,037	20,820
Depreciation	543	758	975	1,044	1,112	Cash & Bank	1,644	1,432	2,054	1,172	2,251
PBT	3,288	2,326	360	861	1,635	Loans & Advances	6,606	9,532	10,532	13,532	16,532
Tax	1,177	747	119	285	542	Current Liabilities & Prov	24,369	27,130	19,527	23,084	28,992
Reported PAT	2,111	1,579	241	575	1,093	Net Current Assets	22,635	27,393	32,222	35,453	38,271
Growth	-5.9	-25.2	-84.8	139.1	90.0	Deferred Tax	-125	-87	-87	-87	-87
Net Margin%	3.8	2.8	0.5	1.0	1.7	Total Assets	34,666	40,832	45,385	48,273	50,679

Cash Flows						Ratios					
Rs. in mn											
Y/E, Mar	FY10	FY11	FY12E	FY13E	FY14E	Y/E, Mar	FY10	FY11	FY12E	FY13E	FY14E
Pre-Tax Profit	3,288	2,326	360	861	1,635	Profitability %					
Depreciation & Non Cash	878	1,097	975	1,044	1,112	EBITDA Mgn	9.7	9.1	7.4	8.0	8.1
Interest & others	1,404	1,897	2,620	2,814	2,881	PAT Mgn	3.8	2.8	0.5	1.0	1.7
Chg in W Cap	-2,480	-1,659	-4,206	-4,113	-1,740	ROCE	14.3	11.6	6.2	7.2	8.5
Tax Paid	-1,293	-1,651	-119	-285	-542	ROE	11.5	8.2	1.2	2.9	5.3
Operating Cash Flows	1,797	2,010	-371	320	3,347	Per Share Data (Rs/share)					
Capex	-1,196	-1,948	-700	-700	-700	EPS	7.9	5.9	0.9	2.2	4.1
Free Cash Flows	601	62	-1,071	-380	2,647	CEPS	9.9	8.8	4.6	6.1	8.3
Investments	-557	-2,913	0	0	0	BVPS	69.4	74.4	74.6	76.1	79.5
Equity Capital	0	0	0	0	0	DVPS	0.8	0.6	0.6	0.6	0.6
Loans	2,199	4,641	4,500	2,500	1,500	Valuations (X)					
Dividend	-215	-246	-187	-187	-187	PER	5.9	7.9	52.1	21.8	11.5
Others	-1,393	-1,856	-2,620	-2,814	-2,881	CPER	4.7	5.4	10.3	7.8	5.7
Net Change in Cash	635	-312	622	-882	1,079	P/BV	0.7	0.6	0.6	0.6	0.6
Opening Cash Position	1,009	1,545	1,432	2,054	1,172	EV/Sales	0.5	0.6	0.7	0.7	0.6
Closing Cash Position	1,644	1,234	2,054	1,172	2,251	EV/EBITDA	5.1	6.2	9.8	8.9	7.4
						Dividend Yield%	1.7	1.3	1.3	1.3	1.3
						Turnover (X Days)					
						Debtor TO	109	125	125	125	115
						Inventory TO	17	18	24	25	24
						Gearing Ratio (X)					
						Net Debt/Equity	0.8	1.0	1.2	1.3	1.3
						Total Debt/Equity	0.9	1.1	1.3	1.4	1.4

*Note: Projection based on financial year ending on 31st March 2012,

Source : Company, KJMC Research

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Recommendation Parameters

Expected returns in absolute terms over a one-year period

Buy	-	appreciate more than 20% over a 12- month period
Accumulate	-	appreciate 10% to 20% over a 12- month period
Hold / Neutral	-	appreciate up to 10% over a 12- month period
Reduce	-	depreciate up to 10% over a 12- month period
Sell	-	depreciate more than 10% over a 12- month period

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Mutual Fund's AMFI No.	:	ARN - 2386

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