

May 30, 2011

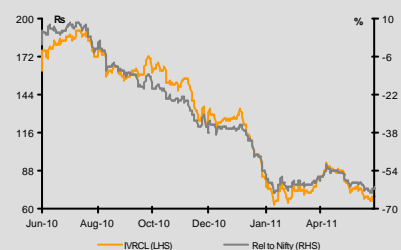
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs70	Rs 93
EPS change FY12E/13E (%)	-9 / 0
Target Price change (%)	8
Nifty	5,473
Sensex	18,232

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	2	(41)	(55)
Rel. to Nifty	(6)	0	(37)	(58)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Construction
Bloomberg	IVRC@IN
Equity Capital (Rs mn)	534
Face Value(Rs)	2
No of shares o/s (mn)	267
52 Week H/L	194/60
Market Cap (Rs bn/USD mn)	19/422
Daily Avg Volume (No of sh)	1123152
Daily Avg Turnover (US\$m)	2.0

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	9.5	9.5	9.5
FII/NRI	51.2	57.9	58.2
Institutions	5.6	5.3	8.6
Private Corp	18.8	15.6	12.1
Public	14.9	11.7	11.6

Source: Capitaline

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- IVRCL Q4FY11 APAT at Rs908 mn (+6.5% yoy) in line. RPAT at Rs642 mn, impacted by write offs & provisions. Execution remains sluggish, revenue growth of 8.7%, below estimates
- Adj. EBITDA at Rs2.16 bn (+11%yoy) came in line, even after a revenue miss as margins at 10.6%(+21 bps yoy) surprised positively
- Order backlog at Rs238 bn though stands at 4.2X FY11 revenue, 40% of the backlog faces execution challenges. We cut 12E EPS by -8.7% led by slower execution. Cut TP by 8% to Rs93
- Sharp underperformance (~37% over last 6 months) already factors in execution headwinds. Valuations at 10x (6X ex the value of subs) seem to factor in negatives. Maintain Buy

Execution headwinds slows revenue growth to 8.7%

With ~40% of the order backlog facing execution headwinds, IVRCL's revenue grew by just 8.7% with revenues of Rs20.5 bn, below our estimate of Rs21.7 bn. Key order/project where IVRCL is facing execution issues are

Project	Execution Issues
Goa Karnataka Road Project	Land acquisition yet to be completed
Sion Panvel Road Project	Financial Closure not Done by IVR Assets * Holding
Koyna Hydro Project	Clearances yet to happen
AP Irrigations works	Continue to faces payment issues. Hence slower execution
Saudi Arabia Project	Turbulence in middle east.

The above mentioned orders constitute ~ 40% of IVRCI Rs238 bn order backlog. Though IVRCI Asset & Holdings (IVR AH) is about to set financial closure of the Sion-Panvel project, Goa-Karnataka Project continues to face land acquisition issues. Further though receivables from AP Govt have significantly come down over last 12 months, the management is still adopting prudent strategy of not ramping up execution to full throttle in these projects. Hence we believe execution is likely to remain muted over next 2-3 quarters.

EBITDA margins surprise positively -leading to in line 4Q numbers

Though IVRCL's execution remained muted during the quarter, 4Q adjusted EBIDTA (Adjusting for a one time write offs & provision of Rs390 mn on account of doubtful debts & uncleared cost overruns related to Jharkhand Rural Electrification works) at Rs2.16 bn (+11% yoy), came in line with estimates, with margins at 10.55% (+21 bps yoy) surprising positively (vs expectations of 9.7%). IVRCL reported its best quarterly margin in the last 12 quarters, due to higher proportion of execution from the high margin Buildings and Industrial segment. With in line 4Q EBIDTA, APAT at Rs907 mn (+6.5% yoy) also came in line with our estimates. RPAT at Rs643 mn declined 24.6% yoy.

Financial Snapshot (consolidated)

								Rs Mn		
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	54,923	5,313	9.7	2,067	7.7	-11.4	11.3	9.2	6.3	1.0
FY11E	56,174	4,805	8.6	1,579	5.9	-23.6	8.2	12.0	8.0	1.0
FY12E	65,376	6,047	9.2	1,891	7.1	19.8	9.1	10.0	6.4	0.9
FY13E	73,562	6,804	9.3	2,235	8.4	18.2	9.9	8.5	6.1	0.8

Source: Emkay Research

Quarterly Results

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11A	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Revenue	18870	11062	10502	14104	20516	8.7	45.5	56184	54524	3.0%
Expenditure	16920	10057	9797	12664	18351	8.5	44.9	50869	49341	3.1%
<i>as % of sales</i>	<i>89.7</i>	<i>90.9</i>	<i>93.3</i>	<i>89.8</i>	<i>89.4</i>					
Consumption of RM	6847	3606	4095	5325	6907	0.9	29.7	19934	20147	-1.1%
<i>as % of sales</i>	<i>36.3</i>	<i>32.6</i>	<i>39.0</i>	<i>37.8</i>	<i>33.7</i>					
Construction Expenses	3575	1901	1684	1894	4049	13.3	113.8	9529	10845	-12.1%
<i>as % of sales</i>	<i>18.9</i>	<i>17.2</i>	<i>16.0</i>	<i>13.4</i>	<i>19.7</i>					
Masonry and Other labour	5159	3614	3033	4551	6234	20.9	37.0	17432	15020	16.1%
<i>as % of sales</i>	<i>27.3</i>	<i>32.7</i>	<i>28.9</i>	<i>32.3</i>	<i>30.4</i>					
Employee Cost	716	652	633	604	735	2.6	21.6	2623	2026	29.5%
<i>as % of sales</i>	<i>3.8</i>	<i>5.9</i>	<i>6.0</i>	<i>4.3</i>	<i>3.6</i>					
Other expenditure	624	283	352	291	426	-31.7	46.5	1351	1303	3.7%
<i>as % of sales</i>	<i>3.3</i>	<i>2.6</i>	<i>3.3</i>	<i>2.1</i>	<i>2.1</i>					
EBITDA	1950	1005	706	1440	2165	11.0	50.3	5315	5183	2.5%
Depreciation	141	157	184	199	217	54.7	9.4	758	542	39.8%
EBIT	1810	848	521	1241	1947	7.6	56.9	4557	4641	-1.8%
Other Income	54	11	304	95	49	-8.6	-48.1	460	284	61.9%
Interest	525	453	480	592	656	24.9	10.9	2182	1641	33.0%
PBT	1338	406	345	744	1340	0.1	80.1	2836	3285	-13.7%
Total Tax	486	125	112	238	432	-11.0	81.9	908	1176	-22.8%
Adjusted PAT	852	281	233	506	908	6.5	79.3	1928	2109	-8.6%

Order-book backlog and Order inflow details

Order book details	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11A	% yoy	% qoq
Opening order backlog	220000.0	233750.0	233750.0	240000.0	242000.0	10.0	0.8
Order inflow	32626.8	11069.4	16754.7	16112.0	16465.7	-49.5	2.2
Revenue Booked	18876.8	11069.4	10504.7	14112.0	20565.7	8.9	45.7
Closing Orderbacklog	233750.0	233750.0	240000.0	242000.0	237900.0	1.8	-1.7

Source: Company. Emkay Research

Though Order backlog at Rs 238 bn stands at 4.2x FY11 revenues, 40% of the backlog remains slow moving

With order inflow of Rs16.5 bn order backlog stands at Rs 238 billion, which is at 4.2x FY11 revenues. However ~40% of the order backlog which includes Rs 61bn from the transportation vertical and Rs 27bn from AP is slow moving and face execution issues. AP is facing execution delays due to state government finances and pending receivables. Transportation vertical which includes road projects from IVR assets holding is facing delays due to lack of financial closures and tardy process of land acquisition and other clearances.

Conference call Highlights

- Management remains confident on executing all the road projects and has indicated that the subsidiary (IVR Asset) remains well funded to meet the capex obligations of FY12E. Also the management is confident that dilution of minority stakes in BOT SPV's will take care of any additional equity requirement post FY12E.
- IVRCL Asset & Holdings (IVR AH) is about to see financial closure of the Sion-Panvel project which should help company ramp up execution on the project.
- Goa-Karnataka Project continues to face land acquisition issues with only ~45% of the land required for the project in hand. Though NHAI is pursuing the matter with the Goa Govt, it is not sure when the entire land acquisition will be completed.
- Though receivable from AP Govt have significantly come down (Rs0.75 bn) over last 12 months, the management is still adopting prudent strategy of not ramping up execution full throttle in these projects. Hence we believe execution is likely to remain muted over next 2-3 quarters.
- Turbulence in Middle East has significantly impacted execution on the Saudi Arabia project, IVRCL first major overseas project. IVRCL has not submitted performance guarantees for the project and hence the works have been impacted. The company expects the work to see ramp up over next 2-3 quarter.
- Though IVRCL management remains confident of pick up in the pace of execution, its has refrained from giving any revenue guidance for FY12. Management highlighted that the company is re-working execution plans and will be able to give revenue guidance over next 3-6 months. The management also remains confident of holding onto EBIDTA margins of ~10%.

Cut FY12E EPS estimates by 9%, target by 8% to Rs93

As mentioned earlier that though IVRCL's order backlog at 4.2x FY11 revenues, provides good revenue visibility, ~40% of the order backlog is witnessing tardy progress and faces execution headwinds, hurting that visibility. We remain skeptical on the pace of ramp up of these projects. We also built in lower order inflow assumptions in the transportation vertical due to aggressive competition in the road BOT space, which we believe will restrict IVRCL AH to aggressively bid for road projects. Consequently we cut our EPS estimates by -8.7% for FY12E and target by 8% to Rs93 (valuing core construction business at 9X FY12 PER). We introduce our FY13E EPS at Rs8.4.

Downgrading FY11/12 EPS estimates by -1%/-16%

Rs mn	FY12E			FY13E
	Earlier	Revised	% change	Introduce
Sales	67710	65376	-3.4	73562
EBIDTA	6263	6047	-3.4	6804
EBIDTA (%)	9.2	9.2		9.3
Net Profit	2071	1891	-8.7	2235
EPS	7.8	7.1	-8.7	8.4

Source: Emkay Research

IVRCL's SOTP value at Rs 93

Business	Valuation Basis	Multiple (x)	Value (Rsmn)	Value per share (Rs)
Construction business	FY12E, PE (x)	9.0x	17020	64
Hindustan Dorr Oliver	MCap	25% discount to M Cap	1866	7
IVR Asset Holding	MCap	25% discount to M Cap	5874	22
Total Fair value			24760	93.0

Source: Emkay Research, Capitaline

Execution headwinds remain, however valuation offers comfort - BUY

Though IVRCL continue to face execution headwinds issues, we believe the 37% underperformance of the stock over last 6 months already factors in all these issues. Further we believe valuation at 10x its FY12E earnings, (which are expected to decline by 2% on adjusted FY11 earnings) and 6X ex the value of subs profit offers comfort. Maintain Buy.

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Sales	54923	56174	65376	73562
<i>Growth (%)</i>	10.3	2.3	16.4	12.5
Expenditure	49610	51369	59329	66758
Materials Consumed	19151	19975	23993	26997
Construction Exp	27130	27299	30792	34648
Employee Cost	2026	2623	2975	3347
Other Exp	1303	1471	1569	1765
EBITDA	5313	4805	6047	6804
<i>Growth (%)</i>	26.0	-9.6	25.8	12.5
EBITDA %	9.7	8.6	9.2	9.3
Depreciation	543	758	910	995
EBIT	4770	4047	5138	5810
EBIT margin (%)	8.7	7.2	7.9	7.9
Other income	155	460	327	368
Interest expenses	1681	2182	2642	2842
PBT	3244	2326	2823	3335
Total Tax	1177	747	931	1101
<i>Effective tax rate (%)</i>	36.3	32.1	33.0	33.0
Adjusted PAT	2067	1579	1891	2234
<i>Growth (%)</i>	-11.4	-23.6	19.8	18.1
Net Margin (%)	3.8	2.8	2.9	3.0
(Profit)/loss from JVs/Ass/MI	0	0	0	1
Adj. PAT After JVs/Ass/MI	2067	1579	1891	2235
E/O items	44	0	0	0
Reported PAT	2111	1579	1891	2235
<i>Growth (%)</i>	-6.6	-25.2	19.8	18.2

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Pre-tax profit	3288	2326	2823	3336
Depreciation	543	758	910	995
Interest Provided	1448	2217	2642	2842
Other Non-Cash items	291	0	0	1
Chg in working cap	-2480	-4876	-1674	-4739
Tax paid	-1293	-785	-931	-1101
Operating cash Inflow	1797	-361	3769	1334
Capital expenditure	-1196	-1000	-1000	-1000
Free Cash Flow	601	-1361	2769	334
Other income	155	460	327	368
Investments	-1088	0	0	0
Investing Cashflow	-2284	-1000	-1000	-1000
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	2199	4825	1000	1000
Interest Paid	-1904	-2217	-2642	-2842
Dividend paid (incl tax)	-215	-250	-187	-187
Income from investments	20	0	0	0
Others	0	0	0	0
Financing Cashflow	101	2358	-1829	-2030
Net chg in cash	600	-212	940	-1696
Opening cash position	945	1644	1432	2371
Closing cash position	1644	1432	2371	676

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity share capital	534	534	534	534
Reserves & surplus	17999	19340	21094	23142
Networth	18533	19874	21628	23676
Minority Interest				
Secured Loans	12688	17548	18548	19548
Unsecured Loans	3445	3410	3410	3410
Loan Funds	16133	20958	21958	22958
Deferred tax liability	125	86	86	86
Total Liabilities	34791	40918	43672	46720
Gross Block	7502	9702	10702	11702
Less: Depreciation	1838	2662	3572	4567
Net block	5664	7039	7130	7135
Capital work in progress	353	139	139	139
Investment	6138	6347	6138	6139
Current Assets	47005	54523	60594	66390
Inventories	10295	12428	13433	15317
Sundry debtors	19445	19298	23285	26200
Cash & bank balance	1644	1432	2371	676
Loans & advances	15618	16201	21494	24185
Other current assets	3	5165	11	12
Current lia & Prov	24369	27130	30328	33083
Current liabilities	23924	26728	30185	32937
Provisions	445	402	143	145
Net current assets	22636	27393	30266	33307
Total Assets	34791	40918	43672	46720

Key Ratios

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	9.7	8.6	9.2	9.3
Net Margin	3.8	2.8	2.9	3.0
ROCE	14.7	11.9	12.9	13.7
ROE	11.3	8.2	9.1	9.9
RoIC	17.7	13.6	15.1	15.5
Per Share Data (Rs)				
EPS	7.7	5.9	7.1	8.4
CEPS	10.9	8.8	10.5	12.1
BVPS	69.4	74.4	81.0	88.7
DPS				
Valuations (x)				
PER	9.2	12.0	10.0	8.5
P/CEPS	6.5	8.1	6.8	5.9
P/BV	1.0	1.0	0.9	0.8
EV / Sales	0.6	0.7	0.6	0.6
EV / EBITDA	6.3	8.0	6.4	6.1
Dividend Yield (%)	1.4	1.4	1.4	2.8
Gearing Ratio (x)				
Net debt/ Equity	0.8	1.0	0.9	0.9
Net Debt/EBIDTA	2.7	4.1	3.2	3.3
Working Cap Cycle (days)	38.7	37.4	37.4	43.4

Recommendation History: IVRCL Infrastructure & Projects – IVRC IN

Date	Reports	Reco	CMP	Target
15/02/2011	IVRCL Infrastructure Q3FY11 Result Update	Buy	72	101
15/11/2010	IVRCL Q2FY11 Result Update	Hold	139	160
10/08/2010	IVRCL Q1FY11 Result Update	Hold	170	185
31/05/2010	IVRCL Q4FY10 Result Update	Buy	156	199

Recent Research Reports

Date	Reports	Reco	CMP	Target
30/05/2011	Shree Cement Q4FY11 Result Update	Accumulate	1,836	1,960
27/05/2011	Aban Offshore Q4FY11 Result Update	Accumulate	541	645
26/05/2011	Century Plyboards Q4FY11 Result Update	Buy	65	75
25/05/2011	Madras Cement Q4FY11 Result Update	Accumulate	93	100

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