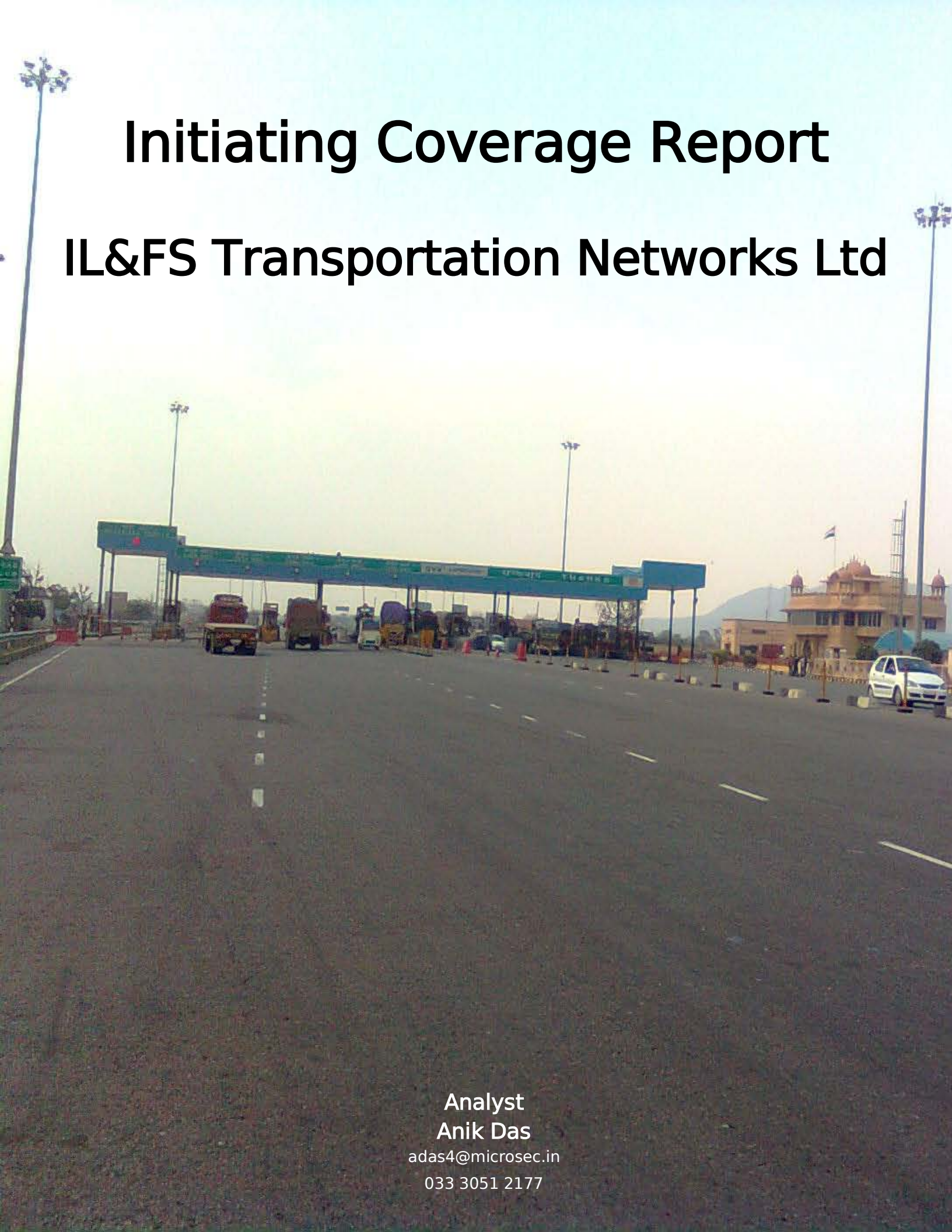


Initiating Coverage Report

IL&FS Transportation Networks Ltd



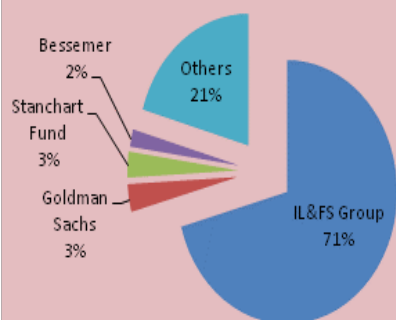
Analyst
Anik Das
adas4@microsec.in
033 3051 2177

BUY

Market Data

Current Market Price (INR)	183.55
52 Week High / Low(INR)	230/143
Target Price (INR)	217
Upside	18.2%
Market Cap (In INR Cr)	3,561

Shareholding Pattern



STOCK SCAN

BSE Code	533177
NSE Code	IL&FSTRANS
Bloomberg Ticker	ILFT:IN
Reuters Ticker	ILFT.NS
Face Value (INR)	10.00
Equity Share Capital (In INR Cr)	195
Average P/E	13.1x
Beta vs Sensex	0.65
Average Monthly Volume ('000s)	33.76



IL&FS Transportation Networks Ltd

Sector – Infrastructure

IL&FS Transportation Networks (ITNL), a leading road infrastructure company, with an illustrious parentage (IL&FS), a sharply focused business model and comfortable funding position, is all set to ride benefits emanating from the robust momentum in NHAI road project awards. ITNL has followed a disciplined bidding strategy to maintain its IRR, based on which it has judiciously built a balanced road portfolio comprising a mix of annuity & toll, spread across the breadth of the country. ITNL's domestic portfolio to help it grow its revenue & net profit at a CAGR of 27% & 16% respectively over FY11-14. Its relative inexpensive valuation & flexibility to withstand business cycles makes it an attractive pick. **We initiate coverage on ITNL with a Buy rating.**

Investment Highlights

Leading road BOT asset player: ITNL is a pioneer in the road BOT space and has been involved in the development and operation of roads and highways for the past two decades. ITNL has a portfolio of 23 projects spanning over 11,860 lane km spread across 16 states. Of these, 12 projects comprising 5,453 lane km of roads are operational. Moreover, these projects are geographically spread out and bi-furcated into toll and annuity, which cushions its revenues due to limited exposure to any one region or project.

Poised to benefit from strong momentum in road project awards: Activity in the road space is picking up as a result of increased project award by the National Highway Authority of India (NHAI). The authority has awarded projects spread over more than 6,491 km in FY12. This follows from 5,000 kms of project awards in FY11. The overall target for FY13 is even higher at 8,800 km. **In the recently held meeting on infrastructure sector chaired by the Prime Minister, the target for road sector award was set at 9,500 km in FY13.**

Parentage helps in qualifying for large projects: ITNL's parent, the IL&FS Group, has been a prominent player in promoting and financing public infrastructure projects in India for over 22 years and a pioneer of public private partnership projects. IL&FS's strong balance sheet and vast experience will help ITNL to pre-qualify for large projects.

Unique business model compared to peers: ITNL undertakes complete project management from bid evaluation to designing to O&M post construction. However, as it does not have in-house construction expertise, company only does designing and project management services.

New road projects boost order book: ITNL has a robust order book of Rs12,000cr (or 2.4x FY2012 revenues), which provides high revenue visibility over the next few years with an average execution period of 30 months

Key Financials Highlights

(Figure in Rs CR)

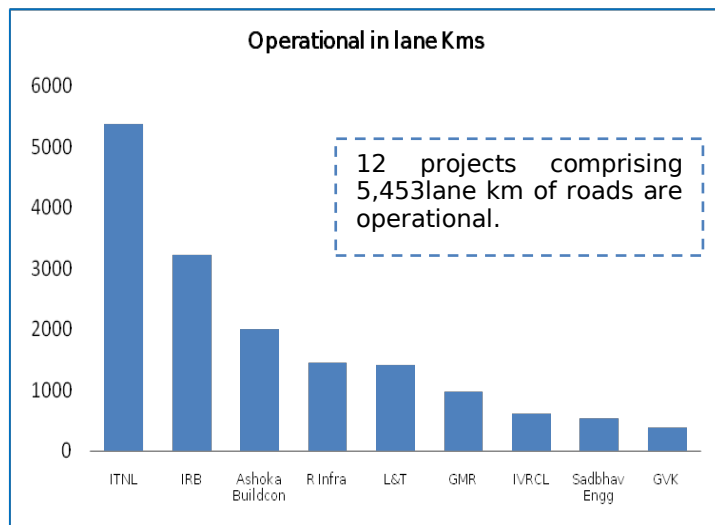
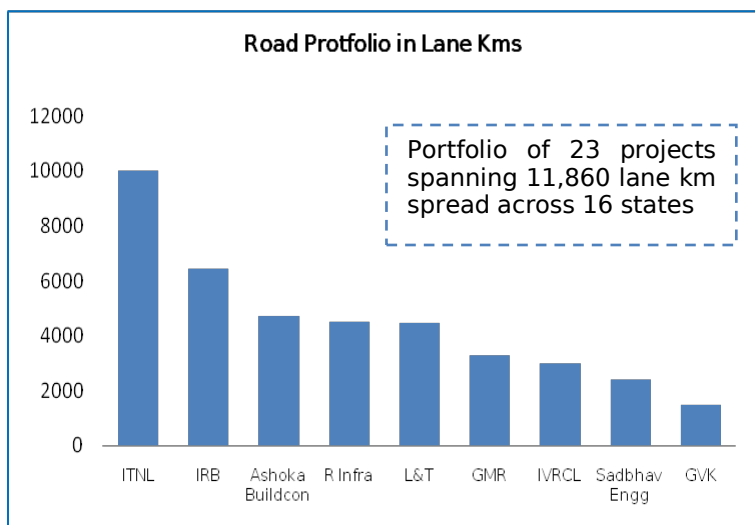
Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E
Net Sales	1225	2403	4049	5606	6685	7978
Growth (%)		96.2%	68.5%	38.5%	19.3%	19.3%
EBITDA	193	794	1,156	1,466	1,743	2,083
EBITDA Margin (%)	15.8%	33.0%	28.6%	26.2%	26.1%	26.1%
Net Profit	26	344	435	497	593	714
Net Profit Margin (%)	2.1%	14.3%	10.7%	8.9%	8.9%	8.9%
Diluted EPS (INR)	1.53	17.70	22.39	25.56	30.50	36.72
P/E	117.29	10.14	8.01	7.02	5.88	4.89
BVPS	54.00	88.00	117.10	138.50	164.16	196.12
P/BV	3.40	2.09	1.57	1.33	1.12	0.94
EV/EBITDA	5.82	9.19	7.67	8.86	5.25	7.21
RoE	2.77	26.20	21.90	20.00	20.16	20.39

Source: Company, Microsec Research

Investment Rationale

Leading road BOT asset player-

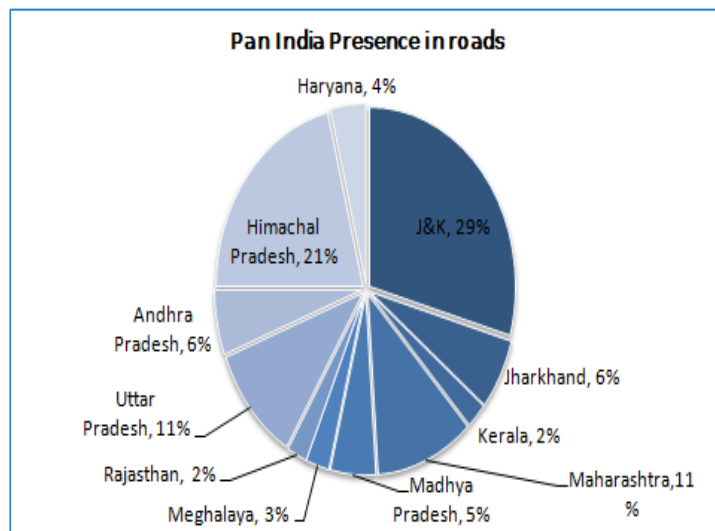
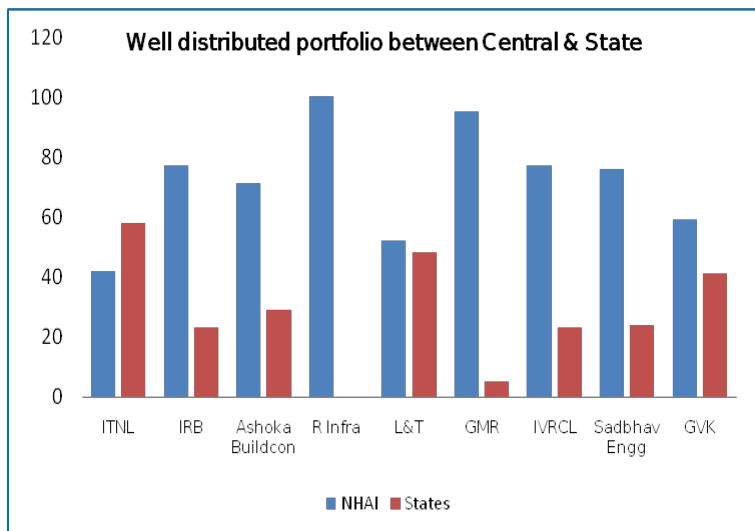
ITNL is a pioneer in the road BOT space and has been involved in the development and operation of roads and highways for the past two decades. The company has an established track record of having successfully bid, developed and operating road BOT projects on a commercial basis. ITNL is the largest BOT road player in India with 11,860 lane km of projects under its portfolio. Company's portfolio has witnessed a solid growth in last 10 years where in its portfolio has grown from 190 lane kms in 2001 to 11860 lane kms in 2012.



Source: NHAI, Microsec Research

Diversified surface transport player with pan India presence-

ITNL has 23 road projects spread across the length and breadth of the country. Company has bagged the projects in difficult areas like J&K, Meghalaya and Jharkhand which indicates company's ability to execute the projects. Besides that company is also diversified across other segments like railways (metro), airports, and bus terminals.

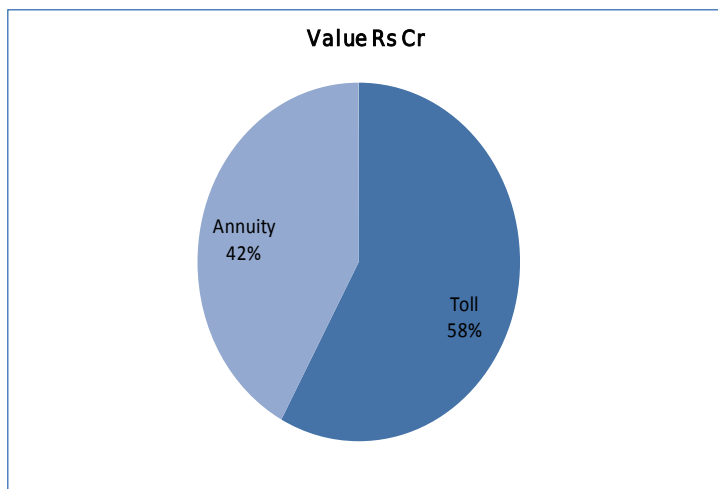
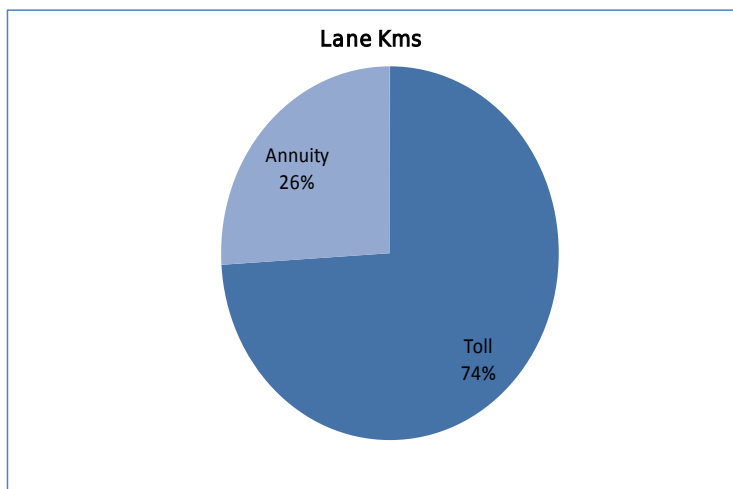


Source: Company, Microsec Research

Risk diversification through good mix of annuity, toll projects-

ITNL has a good mix of annuity and toll projects, which positions it well to benefit from any upside in toll collection due to accelerated economic growth; at the same time, the company is able to enjoy stable cash flows from annuity projects. Its annuity portfolio is amongst the largest in the country, both in terms of project size and lane km, lending stability to cash flows.

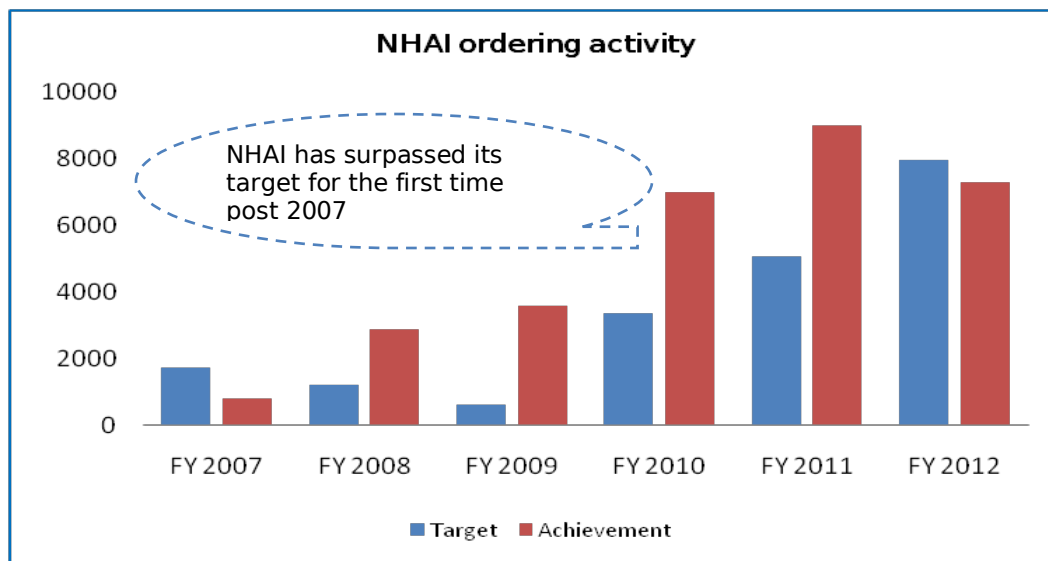
Balanced project mix- both in terms of value and lane Kms-



Source: Company, Microsec Research

Opportunity size of INR700b, possible award of 9,500km in FY13-

NHAI is targeting to award road projects totaling 9,500km in FY13 (v/s 6,491km in FY12), which is pegged to be an opportunity pie of Rs 700b for developers (almost same size as in FY12). This will be the second consecutive year of sizable improvement in project award compared to 5,083km in FY11 and 3,360km in FY10. **Improvement in awards is driven by: (1) annual prequalification norms (to be initiated for FY13 soon), (2) setting up land acquisition cells, and (3) funding flexibility. 6,000km projects would be on BOT (toll-based) and the balance 2,800km on EPC/annuity mechanism.**



Source: NHAI, Microsec Research

Company Profile

ITNL's promoter, IL&FS, is a pioneer in the road BOT space in India. IL&FS Transportation Networks Limited (ITNL) is a developer, operator and facilitator of surface transportation infrastructure projects. The company has been involved in the development, operation, and maintenance of national and state highways, flyovers, and bridges with a presence in Andhra Pradesh, Haryana, Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Kerala, Jharkhand, Chhattisgarh, J&K, Meghalaya and Rajasthan.

Currently company has a road portfolio of 23 road projects covering 11,860 lane km spread across 16 states in India. ITNL is also developing other transportation infrastructure sub-sectors such as mass rapid transport systems (MRTS) and urban transportation infrastructure segment.

ITNL's 100% subsidiary, Elsamex which is based in Spain, provides maintenance services primarily for highways and roads in Spain and other countries. The subsidiary has over 21,000 lane km of roads and over 3,100 petrol stations under maintenance worldwide.

The company has had private equity investment from reputed investors like Goldman Sachs Strategic Investments and Standard Chartered Bank Asian Infrastructure Fund. Also, IL & FS Employees' Welfare Trust has sold some stake held by it in ITNL to Bessemer India Capital Holdings II.

In Mar'10, ITNL raised Rs 5.9bn through an IPO by diluting 11.67% equity. Post IPO, promoter holding stood in ITNL is 75%.

Major Milestones

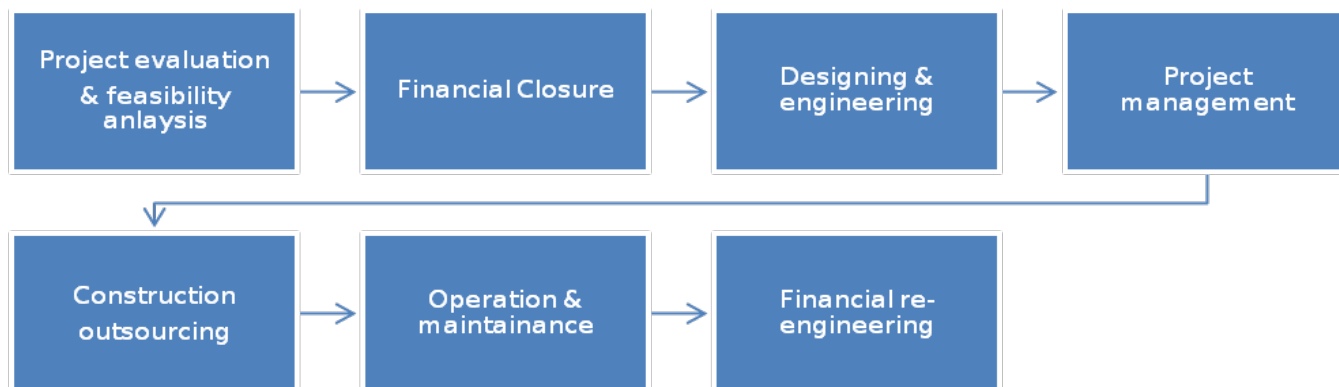
FY 1994	•IL&FS initiates its first BOT road project in Madhya Pradesh
FY 1998	•Concession signed for Noida Toll Bridge
FY 1999	•Concession signed for Vadodara Halol and Ahmedabad Mehsana
FY 2001	•First BOT road project Vadodara Halol commissioned
FY 2002	•Noida Toll Bridge commissioned
FY 2006	•Concession signed for 1,000km program in Rajasthan
FY 2007	•PE investment from Trinity and Goldman Sachs
FY 2009	•Rajasthan mega highways I and Jetpur Rajkot Gondal commissioned.
FY 2010	•Portfolio crosses 10,000 lane km. IPO completed.
FY 2011	•Entered airports and border entry point sub-sectors
FY 2012	•Acquire stake in Chongging Yuhe Expressway

Organization Chart

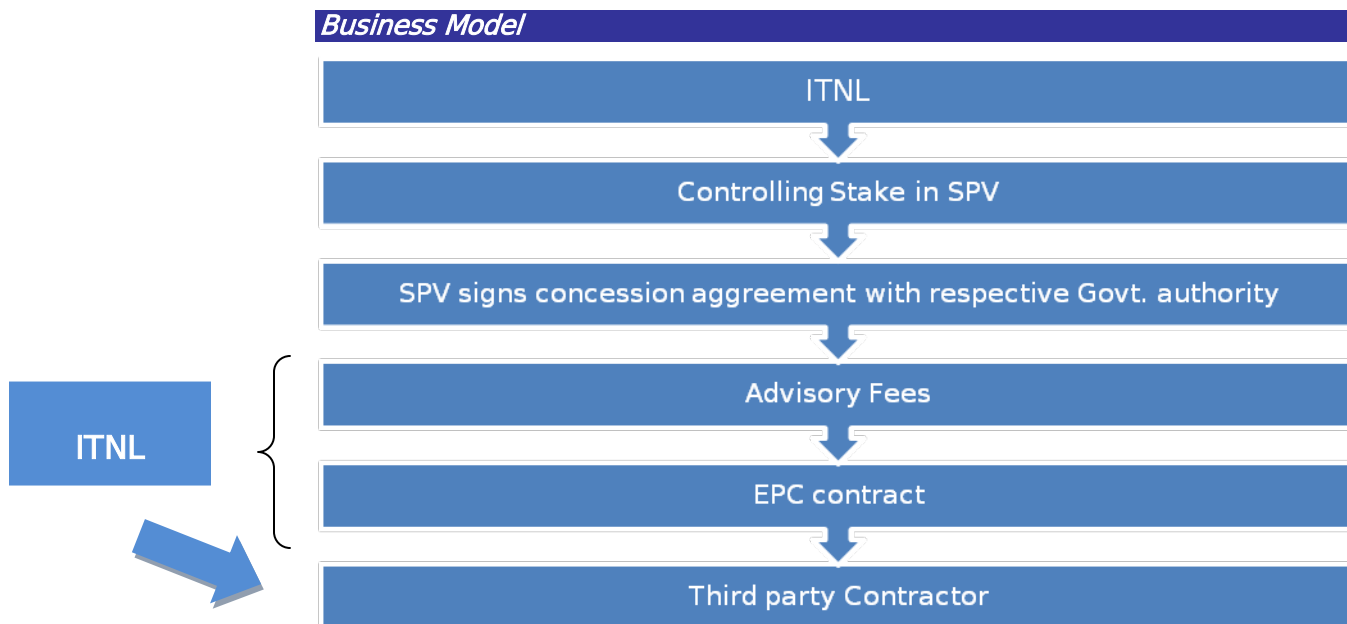
Annuity Projects	Toll Projects	Urban Transport	Others
<ul style="list-style-type: none"> •North Karnataka Expressway (93.5%1) •Andhra Pradesh Expressway (100%1) •Thiruvananthpuram City Roads (50%) •Hazirabagh Ranchi Road (74%) •Chenani Nashri Tunnelway •East Hyderabad Expressway (74%) •Jorbat Shillong Road (50%) •Jharkhand Roads (74%1) •Hyderabad Ring Road (26%) 	<ul style="list-style-type: none"> •Gujarat Toll Road (83.6%) •West Gujarat Eway (100%1) •Noida Toll Bridge (25.4%1) •Beawar Gomti Road (100%) •Pune Solapur Road (100%) •Moradabad Bareilly Road (100%) •Warora Chandrapur Road (35%) •NAM Road (50%) •YuHe Expressway(49%) •A4 Autovia (48.75%) •Kiratpur to Nerchowk (100%) 	<ul style="list-style-type: none"> •Vansh Nimay - Bus (90%) •Rapid Metro Rail Gurgaon (59.3%) •MP Border Check Post – (51%) •Charminar Robo Park – Multi level car park (98%) 	<ul style="list-style-type: none"> •L&FS Rail Ltd (69.29%) •TNL Offshore Pte. Ltd.(100%) •ITNL International Pte.Ltd. (100%) •Elsamex SA, Spain (100%)

Notes: 1 Includes beneficial ownership

ITNL'S Value Chain



ITNL undertakes complete project management from bid evaluation to designing to O&M post construction. However, as it does not have in-house construction expertise, company only does designing and project management services (PMS). Thus, when the SPV is awarded a project, it gives an EPC order to the holding company. Thereon, the holding company does the designing/engineering and project management services (through the parent company), while construction is sub-contracted to local/smaller players.



ITNL's revenue comes from annuity receipts, toll collections, operations & maintenance activities and advisory & project management fees.

The company undertakes most of its projects through a two-stage competitive bidding process comprising pre-qualification and commercial bidding.

Upon the award of a project, an SPV is created which houses the project and develops, maintains and operates the concession.

After the letter of award is received and the concession agreement is signed, the process of financial closure of the project begins.

Once construction is complete and the project becomes operational, the SPV earns annuity/toll revenues till the end of the concession period.

At the end of the concession period the road project is handed over by the concessionaire to the concessioning authority.

Strong parentage and experienced management

ITNL has a strong parent in Infrastructure Leasing & Financial Services (IL&FS), which has rich experience in project advisory, project development and debt syndication. ITNL on account of having strong parentage would enjoy an edge over competition as it would leverage this advantage while bidding and qualifying for new projects or approaching lenders for financing its projects.

ITNL's Board comprises an experienced and professional management who have vast experience in the surface transportation segment. Some of the top personnel have also been associated with NHAI in the past, which we believe will benefit the company while bidding for upcoming projects.

ITNL's road BOT project details

Project	BOT Type	Lane km	Project cost (INR Cr)	Debt o/s as on Mar'12	Concession period (years)
North Karnataka Expressway	Annuity	472	600	399	17.5
West Gujarat Expressway	Toll	389	276	140	20
Noida Toll Bridge	Toll	60	589	109	30
Vadodara Halol	Toll	190	171	228	30
Ahmedabad Mehsana	Toll	333	342		30
Andhra Pradesh Expressway	Annuity	328	863	733	20
Thiruvananthapuram city roads - I	Annuity	51	108	51.6	17.5
RIDCOR-I	Toll	2,106	1,650	1,632	32
Beawar Gomti	Toll	248	355	261	30
East Hyderabad Expressway	Annuity	173	428	290	15
Thiruvananthapuram city roads - II	Annuity	107	263	78.3	15
Jharkhand road development program	Annuity	466	1,408	1,110	17.5
Hazaribagh Ranchi	Annuity	319	869	592	18
Pune Sholapur road	Toll	571	1,403	342	20
RIDCOR-II	Toll	715	813	359	32
Chandrapur Warora	Toll	275	689	0	30
Moradabad Bareilly	Toll	522	1,984	758	25
Chennai Nashri	Annuity	38	3,720	907	20
Jorbat Shillong	Annuity	262	824	263	20
Narketpally Addanki	Toll	888	1,761	350	24
Chaibasa Kandra Chowka	Annuity	137	491	49	17.5
Adityapur Kandra	Annuity	60	242	44.8	15.8
Kiratpur Ner Chowk	Toll	327	2,291	0	28
Kharagpur Baleshwar	Toll	477	654	0	24
Sikar Bikaner	Toll	540	803	0	25
Beawar Gomti (Additional)	Toll	217	1,200	0	30

BOT Toll Revenue Growth

Name of the Project	Toll Revenue start date	2007	2008	2009	2010	2011
Ahmedabad Mehsana Road	3-Feb	61.4	66	74.7	85	103.7
Noida Toll Bridge (UP)	1-Feb	54.7	65.9	70.6	69.6	77.4
Mega Highways - Rajasthan (Ph - I)	8-Mar	9.3	54.6	82.6	106.3	154.8
Rajkot to Jetpur - Gondal (Gujrat)	8-May	12.1	22.5	31.2	33.7	38
Beawer Gomti (Rajasthan)	10-Aug				9.4	16.8
Total		137.5	209	259.1	304	390.7

Non Road Projects

Metro Rail Project

Awarded by Haryana Urban Development Authority (HUDA)

Metro link from Delhi metro Sikanderpur station to DLF Cyber City on NH-8 in Gurgaon

Project Cost of Rs 1088 cr with a concession period of 99 years - ITNL stake in the project ~59.3%

Nagpur Bus System

Awarded by Nagpur Municipal Corporation

Mobilizing, running, operating and maintaining the Nagpur City Bus Services on an exclusive basis

Concession period of 10 years ending on 2020 - 470 buses deployed

MP Border Check Post Project

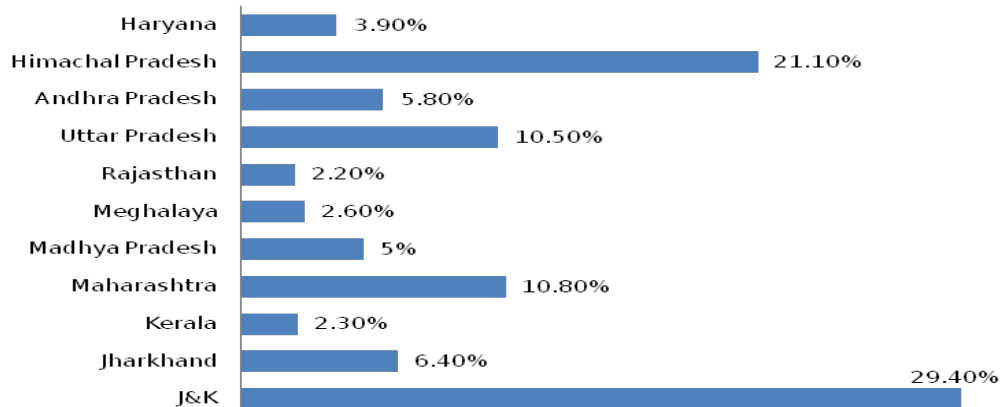
In consortium with Spanco (ITNL stake 51%), 24 border check-post in MP to be developed

Revenue sources – entry fee from commercial vehicles, parking fee, loading/unloading etc

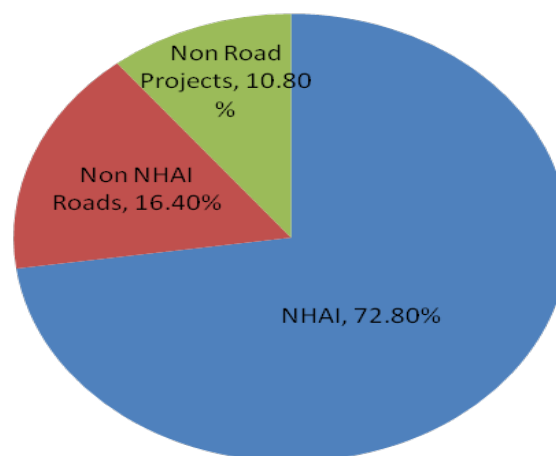
Concession period of 12.5 years with 2 year construction period. Project cost estimated at Rs 1350 cr

Pan - India Presence

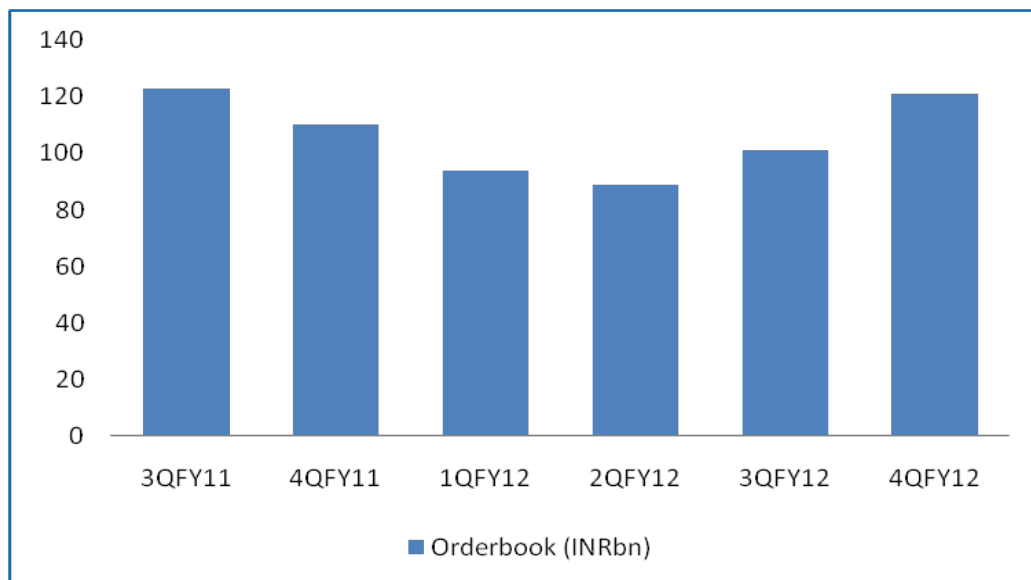
Since ITNL is a quasi government owned entity, It has bid for project in J&K which ensures an annual annuity payment that insulates itself from any revenue fluctuation.



Major chunk of NHAI Projects



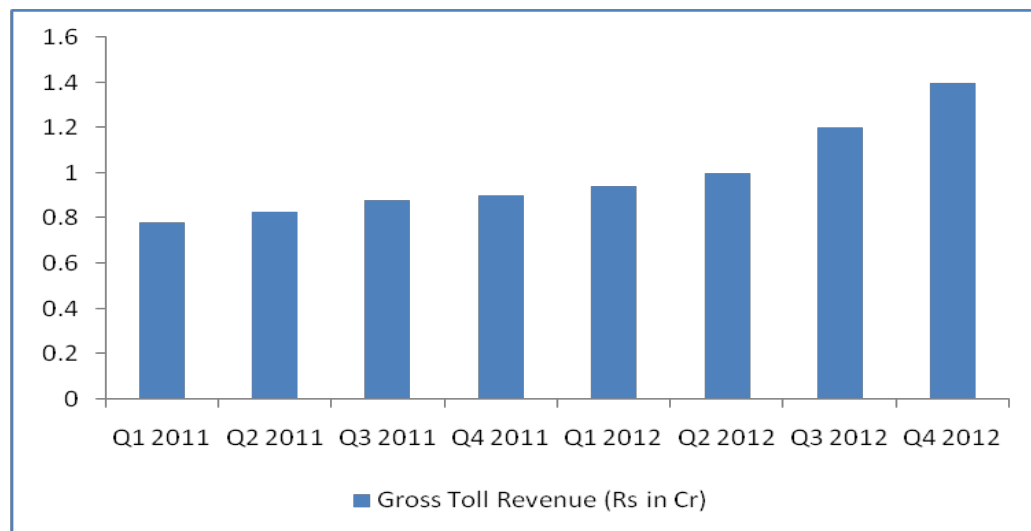
Trend in Order book (INR Bn)



Source: Company, Microsec Research

IL&FS Transportation order backlog stands at Rs 120.5bn which provides significant visibility to growth prospects for the company in FY13E & FY14E. During the quarter, ITNL added four road projects to its kitty namely: 1) Kiratpur to Ner chowk (TPC Rs 2,291cr); 2) Baleshwar Kharagpur (TPC Rs 654cr); 3) Beawer Gomti extension (TPC Rs 1,200cr); and 4) Sikar Bikaner (TPC Rs 803cr).

Per day toll collection trend



Source: Company, Microsec Research

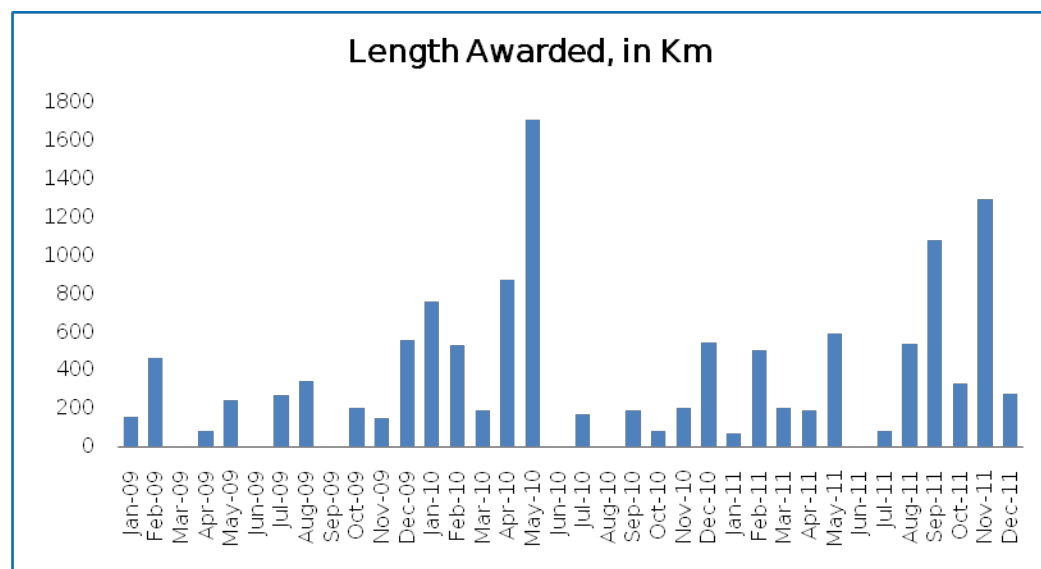
Average daily toll collection has been growing steadily across all the major stretches. ITNL has been able to increase their average daily toll collection to Rs 1.13 Cr per day. BOT revenue contribution is likely to increase during FY13E as projects like Hazaribag Ranchi, Jharkhand Projects and RIDCOR II are expected to get operational this fiscal.

Industry Overview – (The Indian Road Sector)

The Indian road network comprises expressways, national highways, state highways, major district roads and rural and other roads. National Highways are the key constituents of India's road network since they carry 40% of the total road traffic although they constitute only 2% of the total road network. India's road density is 770 Kms per 1,000 square Kms, against the world average of 840 Kms, according to a study by FICCI and Ernst & Young.

The Indian Government has envisaged the National Highways Development Project (NHDP), which is being implemented through the National Highways Authority of India (NHAI). The NHDP provides a significant opportunity for the development of National Highways including construction of bridges, flyovers and elevated structures.

Projects Awarded by NHAI



Source: NHAI, Microsec Research

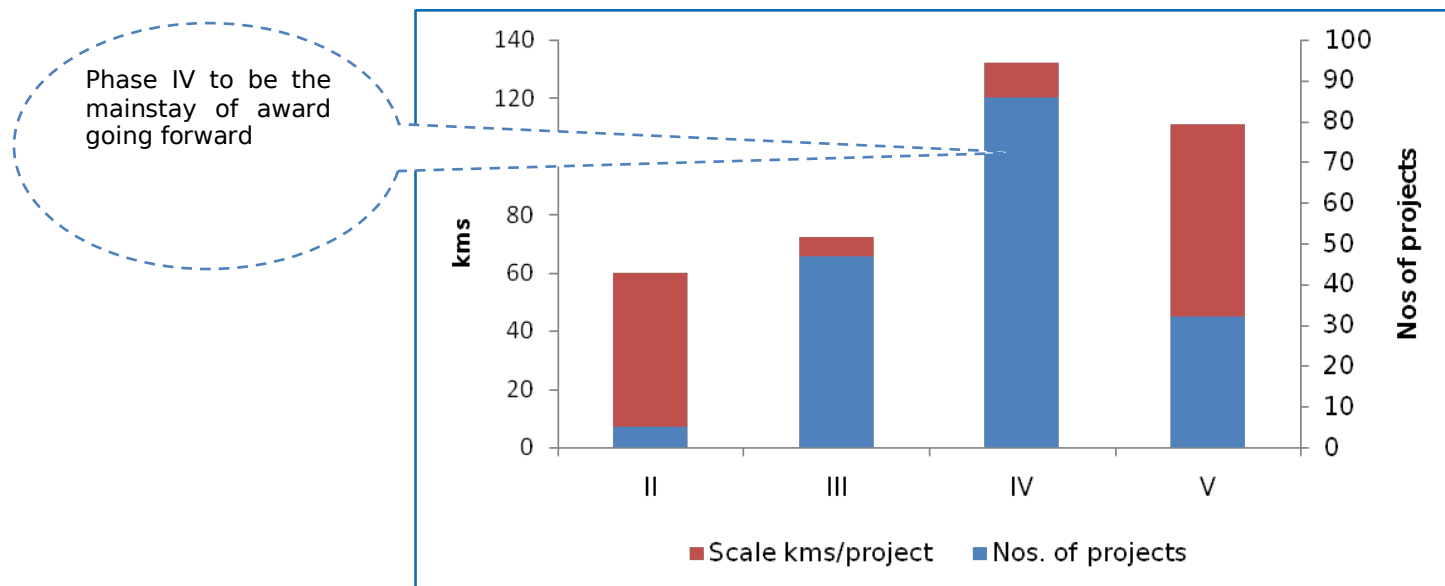
Phases of NHDP

	Description	Length (km)
Phase I	Golden Quadrilateral, NS-EW corridor, port connectivity and others	7,398
Phase II	NS-EW corridor and other national highways	6,647
Phase III	Upgrading and four-laning of national highways	12,109
Phase IV	Improvement of national highways	14,799
Phase IV	Improvement of national highways	14,799
Phase V	Six laning of existing four lane highways	6,500
Phase VI	Expressways	1,000
Phase VII	Ring roads, bypasses, flyovers	700

Geographical breakup of Phase III opportunity

Eastern Region		Southern Region		Northern Region		Western Region		Central Region	
States	% Of Length	States	% Of Length	States	% Of Length	States	% Of Length	States	% Of Length
Bihar	7.10%	TN	11.60%	UP	1.40%	Maharashtra	6.50%	Chhattisgarh	1.50%
Orissa	4.10%	Karnataka	0.70%	Punjab	0.90%	Rajasthan	0.60%	MP	9.00%
WB	1.80%	Kerala	8.40%	Haryana	11.80%				
Arunachal	0.70%	Pondicherry	0.10%	Delhi	0.80%				
Assam	18.10%			HP	3.00%				
Manipur	3.30%								
Meghalaya	3.80%								
Mizoram	4.10%								
Nagaland	0.80%								
Total	43.80%		20.80%		17.90%		7.10%		10.50%

Average scale of project in kms

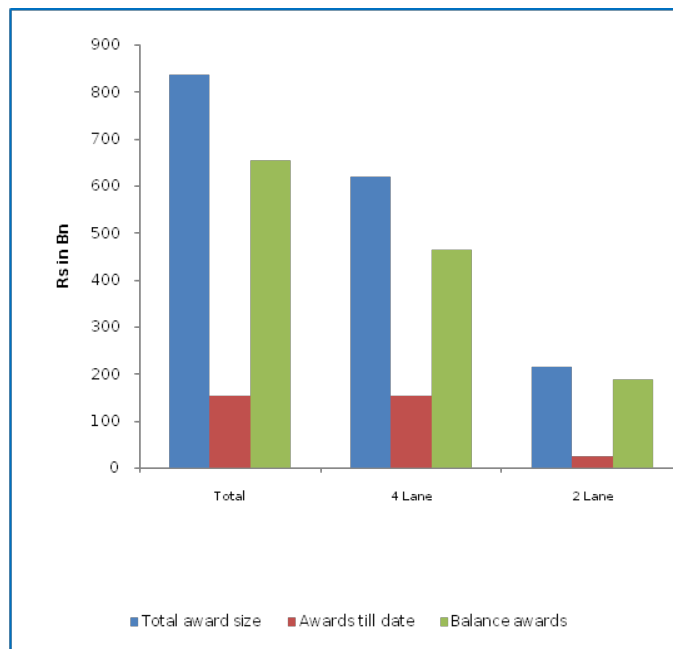
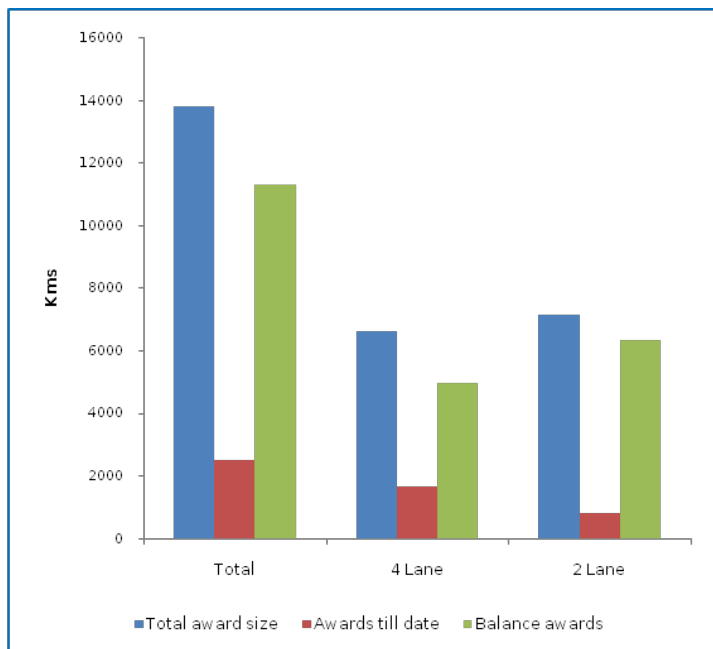


Source: NHAI, Microsec Research

Phase IV – Largest opportunity in size, PPP dependent on Govt. Grants

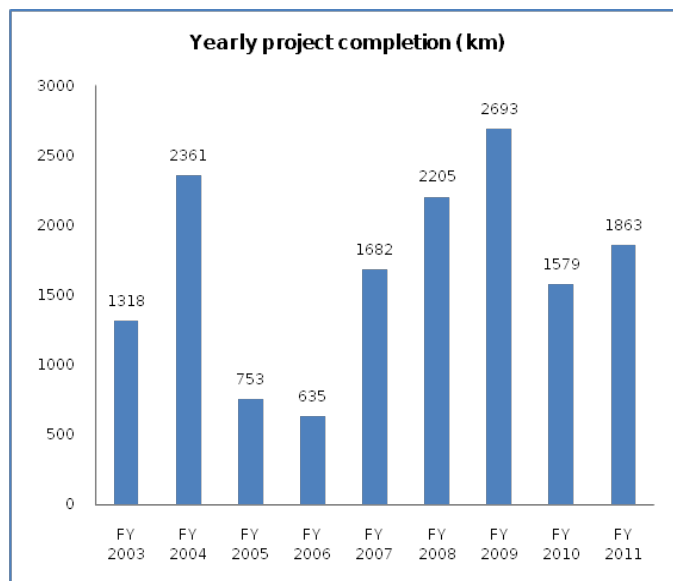
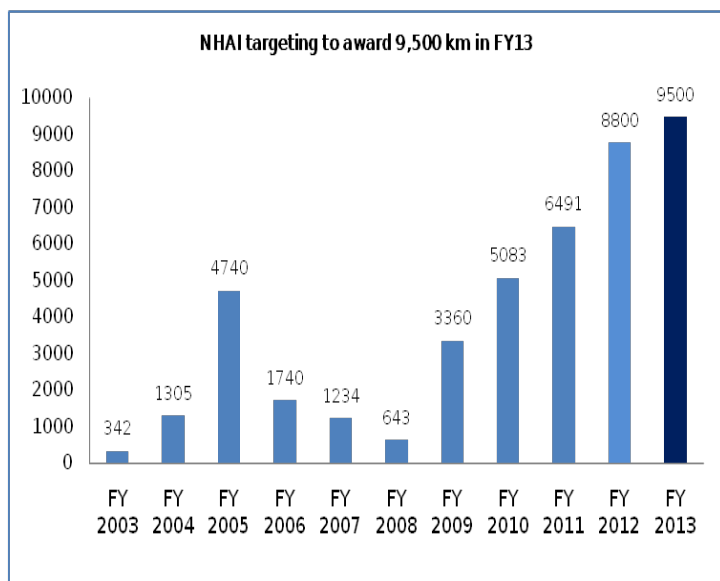
Development of Phase IV presents the largest available opportunity under NHDP in near term. The average project size in terms of length for both 4 laning & 2 laning is 132kms providing the requisite scale for attracting larger developers. However, they fare poorly on traffic attractiveness and will have to be dependent on NHAI grants for development under PPP mode.

Lane-wise Phase IV development opportunity



Source: Company, Microsec Research

Lane-wise Phase IV development opportunity



Source: Company, Microsec Research

NHAI is targeting to award road projects totaling 9,500km in FY13 (v/s 6,491km in FY12), which is pegged to be an opportunity pie of Rs 700b for developers (almost same size as in FY12). This will be the second consecutive year of sizable improvement in project award compared to 5,083km in FY11 and 3,360km in FY10.

Emerging Trends in Road Sector

Contractors evolving into developers-

Given the large number of projects being awarded on PPP basis, EPC contractors are increasingly assuming the role of developers by taking up BOT projects through the special purpose vehicle (SPV) route. While an EPC contractor is exposed to execution risk, the risks involved in a BOT project also include funding and operational/market risks. Further, the upfront equity investment required for a BOT project is higher, which along with the longer gestation, increases the funding requirement for these players. In the case of a BOT-toll project, developers are also exposed to uncertainty associated with traffic projections.

The launch of infrastructure debt fund and take-out financing has increased the financing options-

Road projects have a long gestation (concession period of 15-30 years). Banks are reluctant to lend for such a long duration because of its own assets and liabilities mismatch. The Central Government has taken several initiatives to improve the availability of financing for the infrastructure sector by creating the infrastructure debt fund, and also by increasing the limit of FII investments in infrastructure debt funds (from US\$5 billion to US\$25 billion) in the last union budget.

Intense competition leads to aggressive bidding-

The competitive intensity in the road sector has increased during the past one year following the entry of many new players. Many of the projects awarded in past few months have received more than 10 bids with large variations in the top bids; also, majority of these bids were significantly higher than NHA's expectation. The variation in bids is likely to be because of differences in traffic estimates and traffic growth projections for various players.

High interest rate regime a concern-

The cost of funding becomes a concern if interest rates remain at higher levels for a longer duration. Given that road projects are highly leveraged, their sensitivity to interest rates is high and persistently elevated rates can dampen project viability.

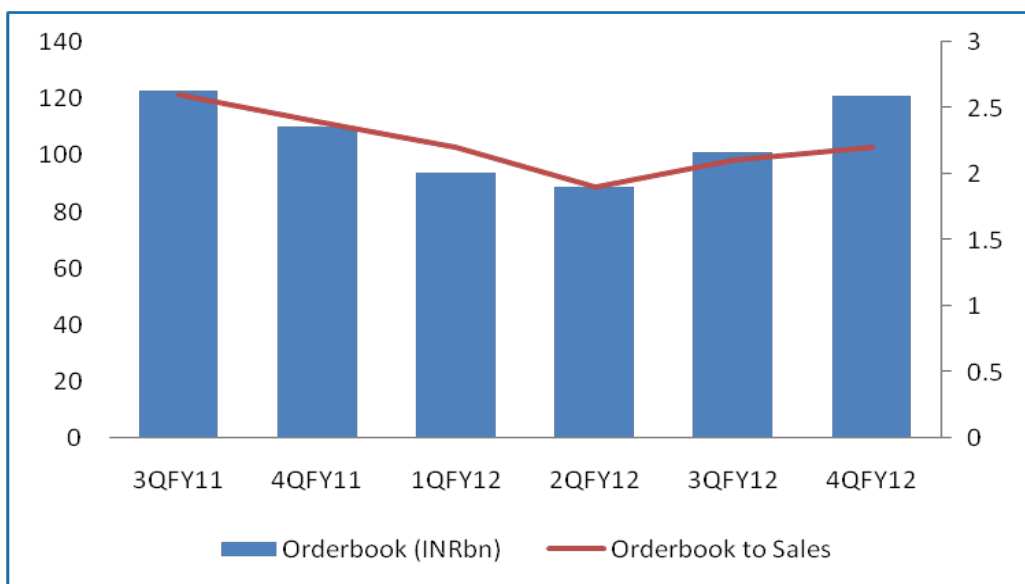
Surge in projects awarded by NHA-

NHA awarded some large road projects, including mega highway projects (over 400 km in length). Over the years, the size of projects awarded by the authority has increased, both in terms of length and project cost. Project award is expected to remain robust over the next few years, given the number of projects in the pipeline. Under the National Highway Development Project (NHDP) itself, NHA plans to award about 24,000 km of highway projects over the next few years. Further, many State governments have now started looking at the PPP route for awarding road projects.

Financial Analysis

Strong Order book on a consistent basis -

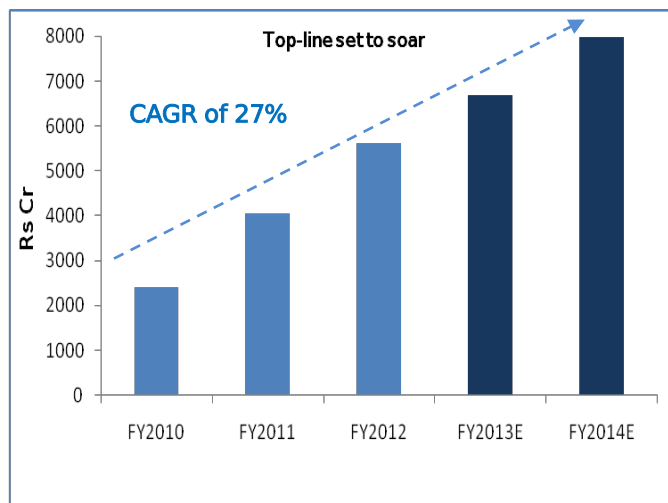
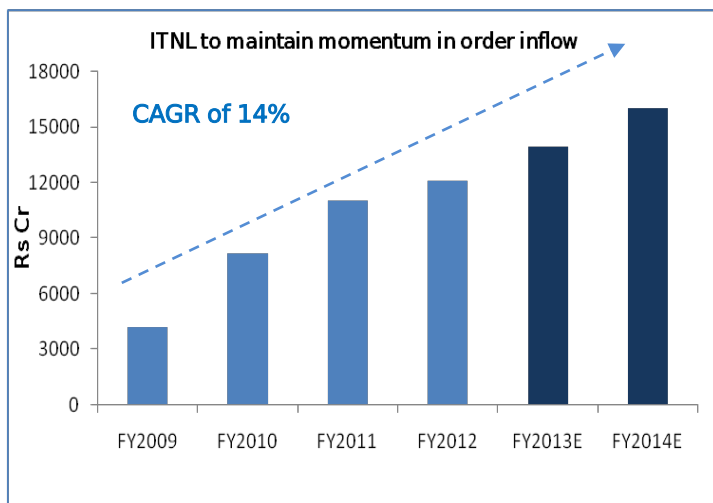
IL&FS Transportation order backlog stands at Rs 120.5bn which provides significant visibility to growth prospects for the company in FY13E & FY14E. The company has seen substantial growth in its order book mainly due to the increase in project awarding by the NHA. In Q4 FY2011 particularly, the company saw a surge in its order inflow. ITNL has changed its business model and is channelizing all EPC orders through the holding company, any new project win would also add to the order book. During FY12, company saw order inflows to the tune of Rs 65bn.



Source: Company, Microsec Research

Order book provides comfortable revenue visibility-

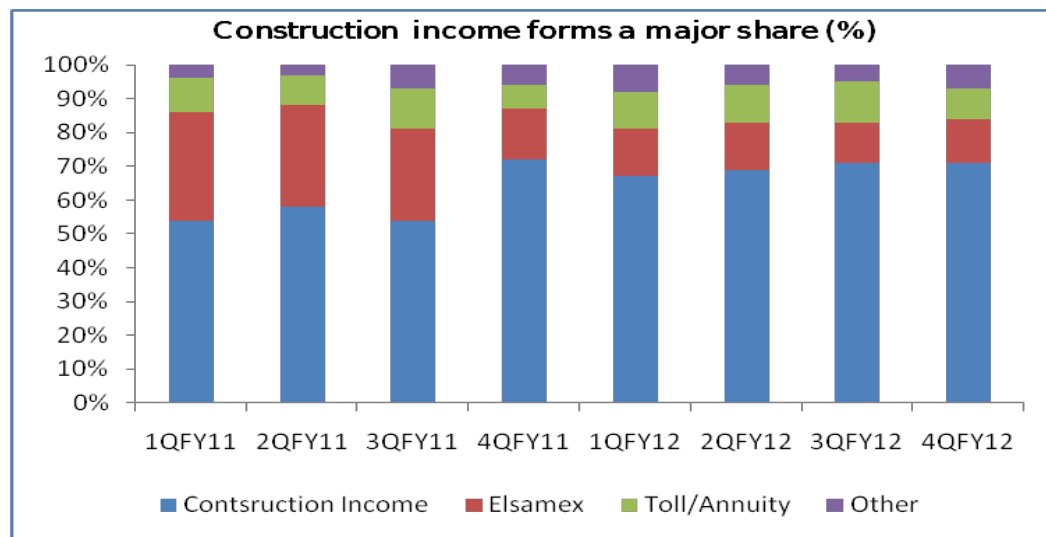
We expect order book to grow at a CAGR of 14.3% over FY2010-14E on the back of higher orders expected to be bagged from NHA and the state governments. Pertinently, we have assumed that ITNL would maintain its share 10% of orders from NHA going ahead and bag decent orders from the state government as well.



Source: Company, Microsec Research

Top-line to post 27% CAGR-

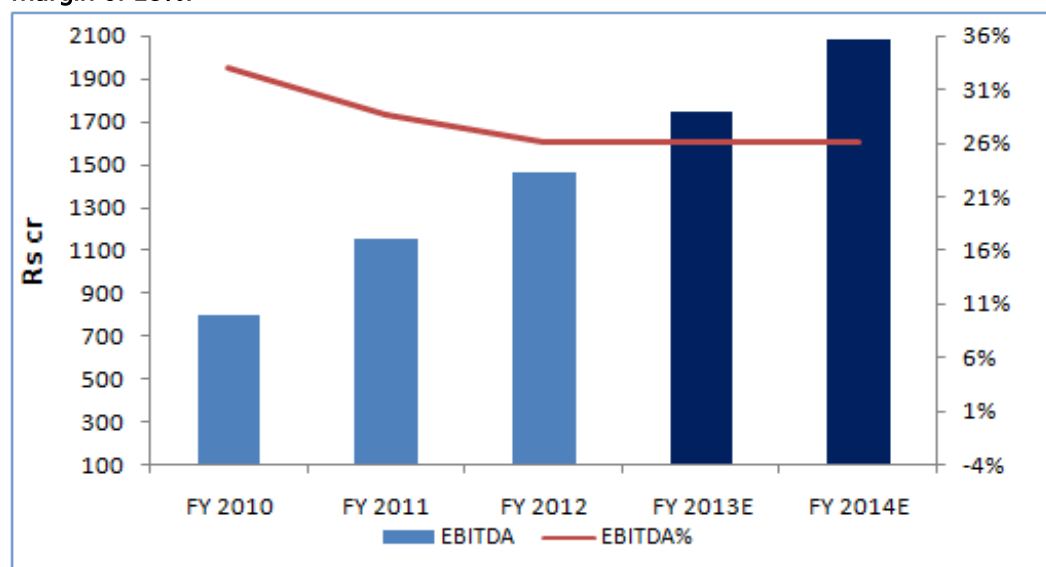
Over FY10-12, Company's revenues clocked a CAGR of 32%. This was mainly due to commissioning of a) Ramky Elsamex Hyderabad Ring Road, (b) East Hyderabad Expressway and (c) Beawer-Gomti road project. Currently, operational BOT projects generate revenues of Rs 1.13 crore per day, up from Rs 0.57 crore per day in 2009. We expect ITNL to post 27% CAGR in consolidated top-line primarily driven by higher construction income and toll/annuity receipts as more projects go under construction and become operational.



Source: Company, Microsec Research

EBITDA to post a CAGR of 21% over FY2010-14E-

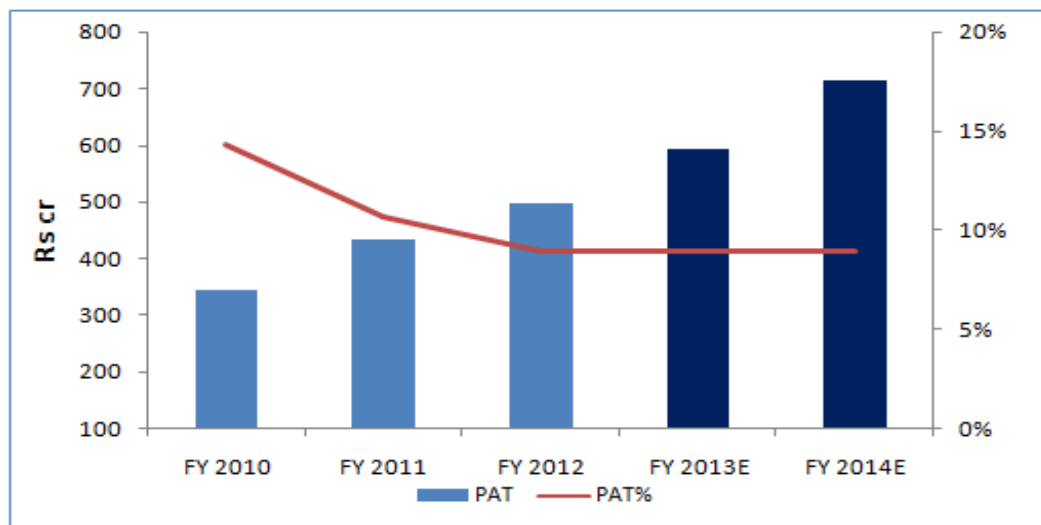
We expect EBITDA to post a CAGR of 21% over FY2010-14E with increase in the share of construction revenues (a low margin segment) from 13.9% to 71% over FY2010-14E. Management expects EBITDA Margin to remain at 25-35%. However, contribution from the low-margin E&C business would be higher; hence we are factoring in EBITDA Margin of 26.1% for FY2013 and FY2014 which is higher than the industry's EBITDA margin of 18%.



Source: Company, Microsec Research

PAT to post a CAGR of 16% over FY2010-14E-

On the bottom-line front, we expect ITNL to post a CAGR of 16% over FY2010-14E, on the back of strong top-line growth. However, PAT margins are expected to dip owing to normalised EBITDA margins and increasing interest costs.



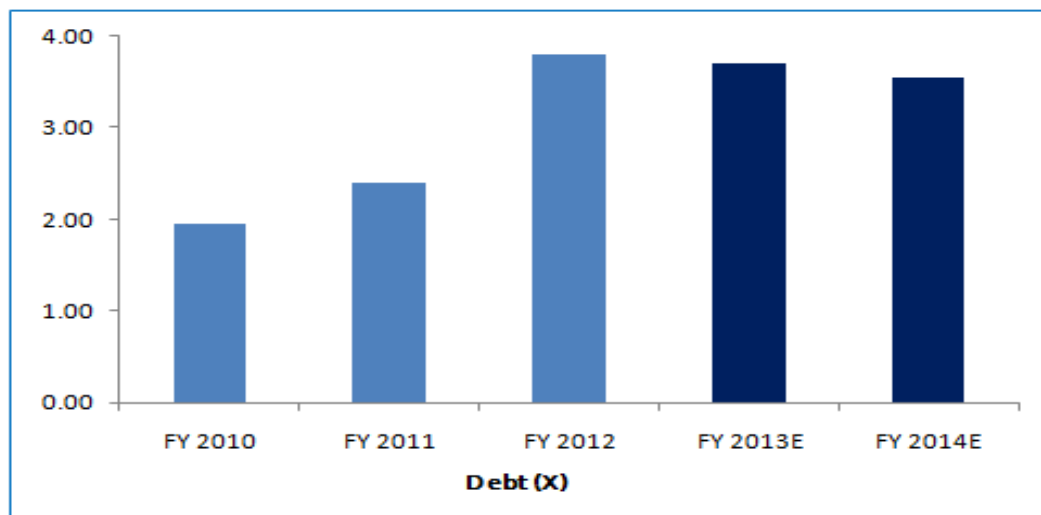
Source: Company, Microsec Research

Financial position comfortable to fund equity requirement-

Currently, company has a project portfolio of Rs 237Bn, of which the under development portfolio stands at Rs 182Bn. As in FY12-end, its consolidated debt to equity stood at 3.8x. It would need to infuse further Rs 11Bn as equity in its project. Given its order book of Rs 121Bn, it would be able to generate cash flow of Rs 12Bn per annum. Thus most of the equity requirement would be met through internal accruals.

D/E to peak in FY13E-

ITNL's debt-equity stood at 3.8x in FY12. Debt-equity is expected to remain high as the company on an average puts 15-20% equity in projects, compared to 25-30% by peers in the industry.



Source: Company, Microsec Research

Q4 FY 2012 Consolidated Financial Performance

IL&FS Transportation Networks Ltd - Quarterly-Consolidated - [INR-Crore]								
DESCRIPTION	Q4 12	Q4 11	Q3 12	YOY	QOQ	FY12	FY11	YOY
Revenues	1988.69	1655.79	1268.43	20.11%	56.78%	5605.62	4048.80	38.45%
Expenditure	1531.56	1244.56	947.73	23.06%	61.60%	4140.06	2893.91	43.06%
EBITDA	457.13	411.23	320.70	11.16%	42.54%	1465.56	1154.89	26.90%
EBIDTA %	22.99%	24.84%	25.28%	-185Bps	-230Bps	26.14%	28.52%	-234Bps
Other Income	45.21	25.33	29.74			123.81	78.57	
Operating Profit	502.34	436.56	350.44			1589.37	1233.46	
Interest	230.81	179.03	185.46	28.92%	24.45%	728.21	498.06	46.21%
PBDT	271.53	257.53	164.98			861.16	735.40	
Depreciation	27.54	18.37	16.92			76.56	61.42	
PBT	243.99	239.16	148.06			784.60	673.98	
Tax	57.13	68.87	46.85			245.72	224.25	
PAT %	186.86	170.29	101.21	9.73%	84.63%	538.88	449.73	19.82%
Minority Interest	17.65	-6.89	-12.29			-45.77	-12.07	
Associates	8.11	-4.21	-1.12			3.85	-4.78	
Net Profit	177.32	159.19	87.80	11.39%	101.96%	496.96	432.88	14.80%
PAT %	9.40%	10.28%	7.98%	-89Bps	141Bps	9.61%	11.11%	-149Bps
Diluted EPS	9.10	8.17	4.52	11.38%	167.82%	25.48	22.19	14.83%

Revenues rise by 20%-

ITNL has reported an exceptional Q4 FY2012 results backed by sharp pick up in execution activity. ITNL's revenue for the quarter came in at Rs 1,989cr, registering 20.1% yoy & 56.8% qoq growth. During the quarter, revenue from Elsames came in at Rs 267cr, while toll/annuity contributed Rs 181cr. Contribution to revenue by under construction projects was as follows: Jharkhand – 18%, Chenani Nashri – 16%, Narketpalli Addanki – 14%, Moradabad Bareilly – 12% and Hazaribaug Ranchi – 10%.

Higher revenues from construction impacts margins-

EBIDTA margins contracted by 185bps and 230bps to 23% and 26.1% in 4QFY12 and FY12, respectively, on account of higher revenues from the low margin construction segment. Increase in debt levels on account of acquisition of Yu He project coupled with debt draw down for projects under construction resulted in 29% rise in interest costs. Net profits rose by 11% to Rs 1.77bn in 4QFY12.

Project wins of Rs 4700 Cr contributing to the operating performance-

ITNL bagged 4 projects totaling Rs 4700 cr in Q4FY12. ITNL has achieved financial closure of Kiratpur Ner Chowk (Rs 2300 Cr) and recognized 1.5% as the upfront fee which has contributed to the Q4 performance.

Management Overview

Mr. Deepak Dasgupta

- He is the chairman and has served the Government of Haryana and the Central Government for over 35 years.
- He served as the Chairman of NHAI for over five years and as an Advisor to the Asian Development Bank.

K. Ramchand

- Managing Director of the company and has over 30 years of experience in urban and transport infrastructure development sector

Harish Mathur

- Chief Executive and has over 33 years of experience in various road construction projects.

George Cherian

- CFO and has over 35 years of experience in accounting and finance.

Mr. Deepak Satwalekar

- He is the Independent Director of the company. He was earlier the Managing Director and Chief Executive Officer of HDFC Standard Life Insurance.

Vibhav Kapoor

- He is the Non Executive Director of the company. He is currently 'Group Chief Investment Officer' for IL&FS parent company since July 1, 2002,

Risks and Concerns

Risk associated with BOT projects-

ITNL is involved in development of PPP road projects; it is exposed to risks associated with gaining right-of-way on land stretches, execution risk, and 'force majeure' risk, among others

Equity dilution risk-

ITNL has exposure to the road BOT space, which entails upfront investments with returns generally being back-ended. While the company is currently well funded, it needs to win large amount of BOT projects to maintain its current growth momentum. In case it wins a large number of projects at one go, the company's internal accruals may not be enough to meet the equity requirement of all projects simultaneously. This may stretch its balance sheet and lead to equity dilution.

Sub-contracting project's civil construction to local contractors-

ITNL sub-contracts the civil construction work to local sub-contractors and looks after only the initial designing and supervision of the construction work, to ensure the project's quality. Relying on sub-contractors poses a risk of not completing the projects on schedule.

Interest Rate Risk-

BOT projects are inherently high-leverage projects. Hence, ITNL's business model is vulnerable to interest rate fluctuations and any hike in interest rates could increase the company's interest costs.

Peer Comparison

Company	Sales FY12	EBITDA FY12	PAT FY12	EPS FY12	EBITDA (%)	PAT (%)	ROE (%) FY12	D/E FY12	EPS FY13E	CMP	P/E FY12	P/E FY13E Bloomberg	No of shares	MCAP	Mcap/Sales	Order Book/Sales	P/BV FY12	EV/EBITDA FY12
Jaiprakash Associates Ltd.	14873.5	5464.7	632.9	4.8	36.7%	4.3%	9.4	2.1	3.8	73.2	12.0	19.3	212.6	15555.0	1.0	2.0	1.1	9
NCC Ltd.	6229.9	794.1	221.8	8.7	12.7%	3.6%	9.1	1.8	3.8	42.7	4.9	11.3	25.7	1094.4	0.2	3.5	0.32	9.14
Simplex Infrastructures Ltd.	4889.0	444.5	126.0	25.2	9.09%	2.58%	12.2	1.5	26.7	210.1	8.3	7.9	5.0	1042.9	0.2	3.0	1.49	7.13
Patel Engineering Ltd.	3688.3	491.6	75.0	10.8	13.3%	2.0%	4.6	1.7	16.3	93.0	8.7	6.5	7.0	649.1	0.2	2.4	0.35	5.67
Ramky Infrastructure Ltd.	3147.0	459.3	232.3	27.5	14.6%	7.4%	28.7	1.2	31.7	94.4	3.4	3.0	5.7	539.7	0.2	3.6	1.59	6.02
IRB Infrastructure Developers Ltd	3130.7	1373.5	496.0	14.9	43.9%	15.8%	17.3	2.3	15.5	125.9	8.4	8.1	33.2	4182.8	1.3	2.7	1.26	6.36
Unity Infraprojects Ltd.	1772.2	260.9	96.0	13.0	14.7%	5.4%	15.8	1.3	13.2	43.1	3.3	3.3	7.4	319.0	0.2	2.3	0.35	3.68
Ashoka Buildcon Ltd.	1500.0	325.0	124.8	23.7	21.7%	8.3%	12.5	1.9	28.4	200.0	8.4	7.0	5.3	1052.8	0.7	3.3	1.08	7.16
Pratibha Industries Ltd.	1268.1	189.3	71.4	7.2	14.9%	5.6%	19.2	0.9	8.1	47.4	6.6	5.8	9.9	470.9	0.4	5.2	1.43	5.26
IL&FS Transportation Networks Ltd.	5605.6	1465.6	538.9	25.5	26.1%	9.6%	19.7	3.7	28	183.6	7.2	6.5	19.42	3564.5	0.6	2.2	1.2	8.4
										AVG	7.1	7.8				3.0	1.0	6.8

Source: Company, Microsec Research, Ace Equity

Valuation

At the CMP of Rs 183, the stock trades at a P/E and EV/EBIDTA of 7.18x and 8.86x, discounting its FY12 earnings. Due to robust order book, strong balance sheet, higher margins and Strong parentage and experienced management, we assign a PE of 7.1x and arrive at a target price of Rs 217 that reflects 18% upside over the ITNL's current stock price of Rs 183.

ITNL has a strong professional management team and it has strong emphasis on corporate governance. Indeed, in the current turbulent times, when corporate governance issues have plagued many of its peers, ITNL provides a safe choice for investors with a proven and scalable business model backed by strong fundamentals and transparent management practices.

Income Statement

IL&FS Transportation Networks Ltd Annual-Y-O-Y(%)-Consolidated- [INR-Crore]						
DESCRIPTION	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013E	FY 2014E
Net Sales	1225	2403	4049	5606	6685	7978
Other operating income						
Net Sales & Other Operating Income	1225	2403	4049	5606	6685	7978
<i>% growth</i>	<i>239%</i>	<i>96%</i>	<i>68%</i>	<i>38%</i>	<i>19%</i>	<i>19%</i>
Total Expenditure	1032	1609	2893	4140	4942	5895
PBIDT (Excl OI)	193	794	1156	1466	1743	2083
<i>EBDITA (%)</i>	<i>15.8%</i>	<i>33.0%</i>	<i>28.6%</i>	<i>26.1%</i>	<i>26.1%</i>	<i>26.1%</i>
<i>% growth</i>	<i>11.8%</i>	<i>310.6%</i>	<i>45.6%</i>	<i>26.8%</i>	<i>18.9%</i>	<i>19.5%</i>
Other Income	107	84	79	124	136	136
Operating Profit	300	878	1235	1589	1879	2219
Interest (Net)	174	294	498	728	866	943
PBDT	126	584	737	861	1013	1276
Depreciation	35	60	61	77	140	214
PBT	91	524	676	784	873	1062
Tax	48	186	224	246	280	348
Profit After Tax	32	338	452	538	593	714
Minority Interest	-3	-3	-12	-46		
Shares of Associates	-3	9	-5	4		
Consolidated Net Profit	26	344	435	497	593	714
PAT (%)	2.1%	14.3%	10.7%	8.9%	8.9%	8.9%
% Growth	-72%	1215%	26%	14%	19%	20%
Equity Capital	171	194	194	194	194	194
Face Value (In Rs)	10	10	10	10	10	10
No. of shares	17	19	19	19	19	19
	2	2				
Adjusted EPS	2	18	22	26	30	37

Balance sheet

DESCRIPTION	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013E	FY 2014E
SOURCES OF FUNDS:						
Share Capital	171	194	194	194	194	194
Share Warrants & Outstandings	35	35	35	35	35	35
Total Reserves	715	1474	2045	2462	2962	3584
Shareholder's Funds	921	1703	2274	2691	3192	3813
Minority Interest	77	112	131	131	131	131
Adv - capital of Subsidiary	45	45	45	51	51	51
Secured Loans	1043	1753	3480			
Unsecured Loans	811	1568	1987	10225	11855	13541
Total Debts	1854	3322	5467	10225	11855	13541
Deferred Tax Assets / Liabilities	65	78	144	144.0	144	144
Total Liabilities	2962	5260	8061	13242	15373	17680
APPLICATION OF FUNDS :						
Gross Block	1848	3118	5872	10170	11977	13225
Less: Accumulated Depreciation	264	295	365	441	581	795
Less: Impairment of Assets						
Net Block	1584	2823	5507	9729	11396	12430
Lease Adjustment A/c						
Capital Work in Progress	8	6	3	3	3	3
Goodwill on Consolidation	285	271	280	280	280	280
Investments	201	454	194	389	544	785
Toll receivable account	190	190	190	190	190	190
Current Assets, Loans & Advances						
Inventories	25	29	84	109	175	200
Sundry Debtors	787	648	749	1152	1200	1400
Cash and Bank	160	550	528	972	1206	2259
Other Current Assets	103	105	68	68	68	68
Loans and Advances	344	971	1813	2175	2410	2650
Total Current Assets	1419	2303	3242	4476	5059	6577
Less : Current Liabilities and Provisions						
Current Liabilities	725	787	1355	1829	2103	2589
Provisions						
Total Current Liabilities	725	787	1355	1829	2103	2589
Net Current Assets	694	1516	1887	2647	2956	3988
Miscellaneous Expenses not written off			4	4.0	4	4
Total Assets	2962	5260	8061	13242	15373	17680

Cash Flow

DESCRIPTION	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013E	FY 2014E
Profit before Tax	91	524	676	784	873	1062
Depreciation	35	60	61	77	140	214
Interest/ Dividend Recd.					866	943
Change in Debtors	31	139	-101	-403	-48	-200
Change in Loans & Adv	-90	-627	-842	-362	-235	-240
Change in Inventory	-5	-4	-55	-25	-66	-25
Change in Other C/A	841	-2	37	0	0	0
Change in CL	-120	62	568	474	274	486
Income Tax Paid	-48	-186	-224	-246	-280	-348
Net operating Cash Flow				299	1524	1892
Change in Fixed Assets	-500	-1239	-2684	-4298	-1807	-1248
Change in Capital WIP	76	2	3	0	0	
Change in Investments	1	-253	260	-195	-155	-241
CF from Investing Activities				-4493	-1962	-1489
Change in Share Capital	-35	23	0	0	0	0
Change in Long term Debt	-34	710	1727	-3480	0	0
Change in Short Term Debt	275	758	418	8197	1630	1686
Dividend Paid	-25.1	-68	-81.3	-92.6	-92.6	-93
Interest Paid	-174	-294	-498	-728	-866	-943
Tax paid on Dividend				0	0	0
CF from Financing Activities				3896	672	650
Net Cash Flow from Business				-298	234	1053
Add : Opening Cash				528	972	1206
Closing Cash				230	1206	2259

Ratio Analysis

Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E
Profitability Ratios						
EBIDTA Ratio	15.8%	33.0%	28.6%	26.1%	26.1%	26.1%
PBT Ratio	7.4%	21.8%	16.7%	14.0%	13.1%	13.3%
Net Profit ratio	2.1%	14.3%	10.7%	8.9%	8.9%	8.9%
Sales/Total Asset (Times)	0.38	0.43	0.45	0.38	0.39	0.40
Return Ratios						
ROCE	9.6%	20.5%	18.0%	14.5%	12.3%	12.3%
ROE	2.7%	26.2%	21.9%	20.0%	20.16%	20.39%
Liquidity Ratios						
Debt / Equity	2.01	1.95	2.40	3.80	3.71	3.55
Current Ratio	1.96	2.93	2.39	2.45	2.41	2.54
Interest Cover(x)	1.44	2.69	2.33	2.08	2.01	2.13
Investor Ratios						
EPS	1.53	17.70	22.39	25.56	30.50	36.72
DPS	1.25	3.00	3.50	3.50	3.50	3.50
Dividend yield (%)	0.74	1.79	2.08	2.08	2.08	2.08
BV per Share	54.00	88.00	117.05	138.52	164.16	196.12
P/BV	3.40	2.09	1.57	1.33	1.12	0.94
P/E	120.35	10.37	8.20	7.18	6.02	5.00
EV/Sales	1.41	3.41	2.36	2.32	2.2	1.9
EV/EBITDA	5.82	9.19	7.67	8.86	8.25	7.21

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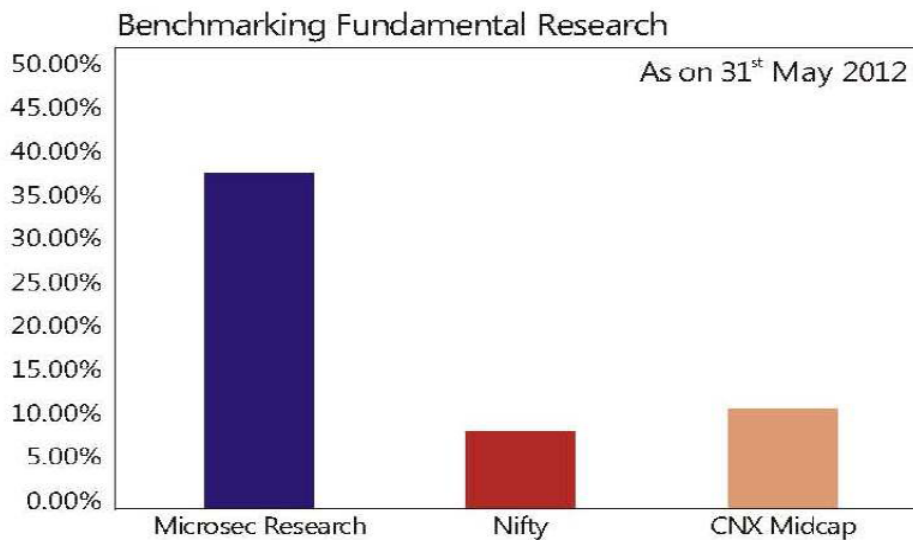
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Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

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Microsec benchmark its Research and the same is updated on our website at www.microsec.in. Come, strike the right balance through Benchmarking Research.

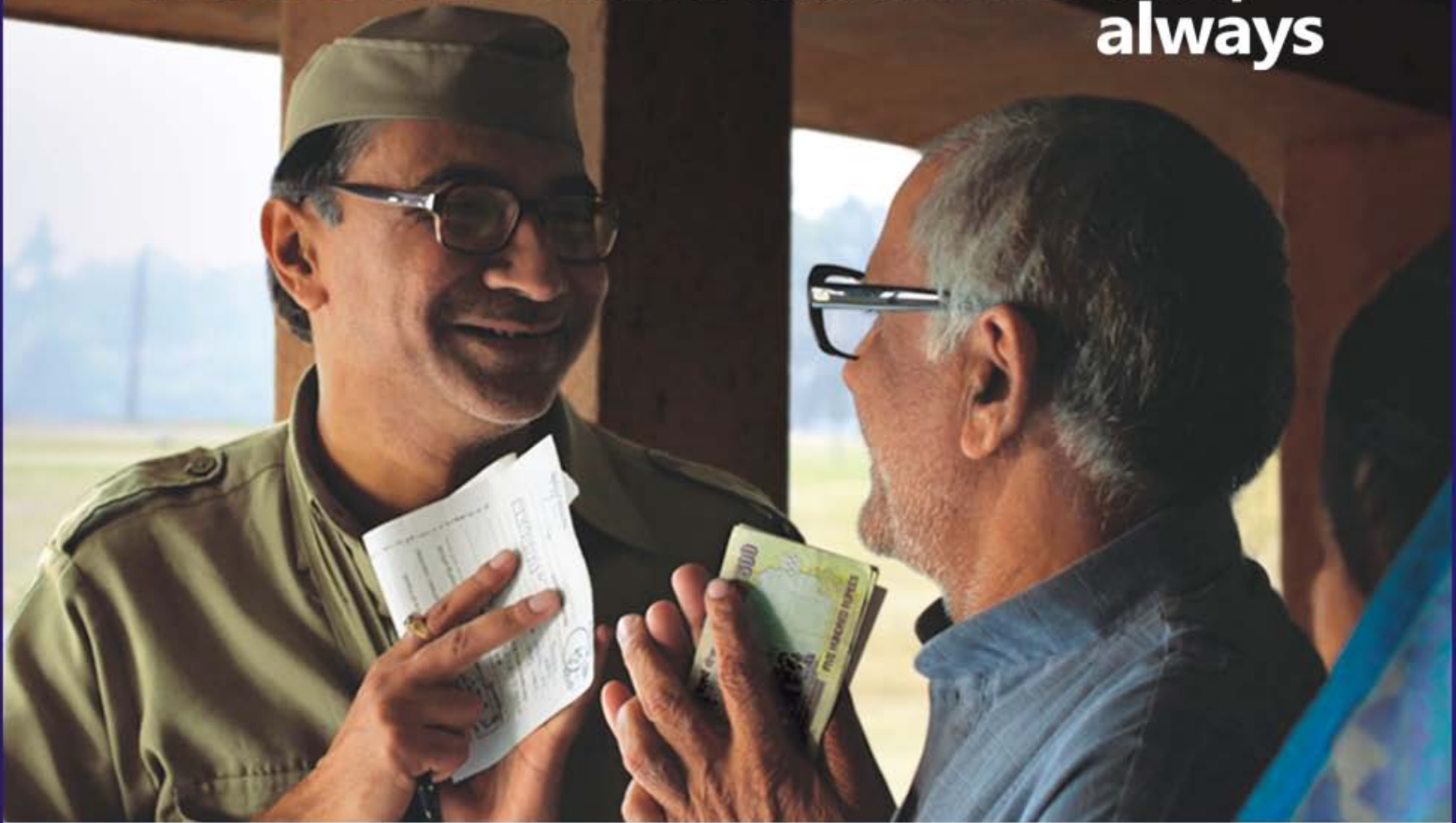
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