

## EARNINGS REVIEW

# IL&FS Transportation Networks (ILFT.BO)

Buy

Equity Research

## Above expectations: strong execution well supported by toll growth

### What surprised us

ITNL reported Q3FY12 Net Income of Rs 1bn which came above GS and Bloomberg consensus expectations - primarily driven by strong revenues in the construction segment (+125% yoy) and well supported by Elsamex and other toll based SPVs (+46% yoy). Margin however was lower primarily due to higher composition of construction revenue in the mix and increase in construction related costs by 220 bps yoy. Toll collection in the quarter was up 4% qoq and 15% yoy on like for like projects- with close to Rs 19mn daily toll collection. The company expects 10-12% traffic increase on its toll project portfolio for FY12E implying a strong Q4. The total bid-pipeline for the company is close to Rs 568 bn as of Jan end.

### What to do with the stock

Excluding strong bid pipeline of Rs 86bn at RFP stage we expect revenue growth of 21% over the next 2 years based on the current order book. In addition, we expect ITNL to be the biggest beneficiary of any interest rate cut in our coverage as almost 40% of the project portfolio is annuity based - resulting in increasing project NPV.

We change our FY13/14E EPS by +9%/+16% as we incorporate the recently won Kiratpur road project in our estimates. As a result of above expectation results and new project win, our SOTP based 12m TP increases to Rs 230 (from Rs 215 earlier). The stock is trading at FY13E P/B of 1.2X vs. long term median of 2X - and generates 20-21% ROE over the next 2 years - which in our view is attractive. We retain our Buy rating. Risks: Further increase in interest rates; delays in new contract awards.

### Q3FY12 results

Rs mn	Q3FY12A	vs GS	vs consensus	YoY growth
Sales	12,684	24%	13%	73%
EBITDA	3,207	10%	2%	45%
Net Profit	1,012	19%	9%	63%

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

### INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

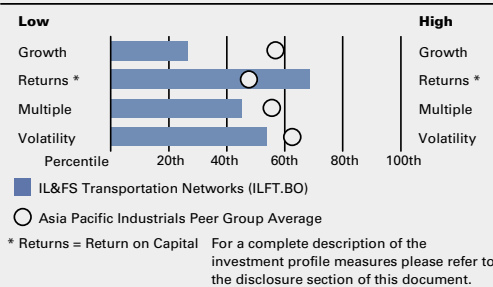
### Coverage View: Neutral

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### Investment Profile

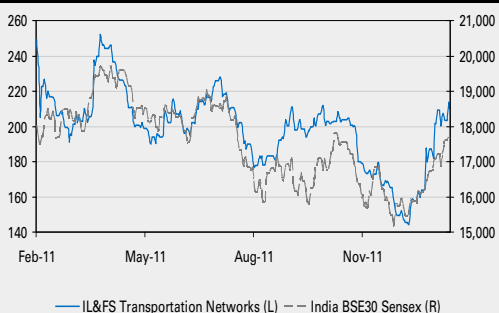


### Key data

Key data	Current
Price (Rs)	210.30
12 month price target (Rs)	230.00
Market cap (Rs mn / US\$ mn)	40,855.0 / 832.8
Foreign ownership (%)	5.1

	3/11	3/12E	3/13E	3/14E
<b>EPS (Rs) New</b>	<b>22.28</b>	<b>27.75</b>	<b>30.93</b>	<b>31.46</b>
EPS revision (%)	0.0	(0.4)	8.6	15.8
EPS growth (%)	11.0	24.5	11.5	1.7
<b>EPS (dil) (Rs) New</b>	<b>22.28</b>	<b>27.75</b>	<b>30.93</b>	<b>31.46</b>
P/E (X)	9.4	7.6	6.8	6.7
P/B (X)	1.8	1.5	1.2	1.1
EV/EBITDA (X)	9.1	8.0	7.8	7.7
Dividend yield (%)	1.7	1.3	1.5	1.5
ROE (%)	22.0	21.5	19.9	17.1
CROCI (%)	10.7	16.8	16.8	15.5

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	3.2	4.0	(15.6)
Rel. to India BSE30 Sensex	2.8	2.1	(13.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/07/2012 close.

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# IL&FS Transportation Networks: Summary Financials

Profit model (Rs mn)					Balance sheet (Rs mn)				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
<b>Total revenue</b>	<b>40,482.3</b>	<b>55,982.1</b>	<b>74,041.8</b>	<b>81,526.0</b>	Cash & equivalents	5,275.5	7,408.0	12,062.1	6,365.7
Cost of goods sold	(21,657.4)	(30,409.7)	(40,812.0)	(45,100.5)	Accounts receivable	7,489.0	10,356.4	13,697.3	15,081.8
SG&A	(2,152.1)	(2,976.2)	(3,936.2)	(4,334.1)	Inventory	262.2	208.0	279.1	308.4
R&D	--	--	--	--	Other current assets	19,328.0	23,193.6	26,672.6	26,672.6
Other operating profit/(expense)	(5,737.8)	(8,117.4)	(10,736.1)	(11,821.3)	<b>Total current assets</b>	<b>32,354.6</b>	<b>41,165.9</b>	<b>52,711.1</b>	<b>48,428.6</b>
<b>EBITDA</b>	<b>11,549.6</b>	<b>15,149.2</b>	<b>19,444.0</b>	<b>21,409.4</b>	Net PP&E	1,133.2	1,525.8	2,046.3	2,800.8
Depreciation & amortization	(614.6)	(670.3)	(886.6)	(1,139.3)	Net intangibles	31,466.5	59,853.9	89,569.5	104,161.5
<b>EBIT</b>	<b>10,935.0</b>	<b>14,478.9</b>	<b>18,557.4</b>	<b>20,270.2</b>	Total investments	1,944.4	1,844.4	1,744.4	1,644.4
Interest income	691.1	422.0	592.6	965.0	Other long-term assets	27,168.1	32,168.1	37,168.1	42,168.1
Interest expense	(4,980.6)	(6,148.2)	(9,546.8)	(11,468.1)	<b>Total assets</b>	<b>94,066.8</b>	<b>136,558.1</b>	<b>183,239.4</b>	<b>199,203.3</b>
Income/(loss) from uncons. subs.	(47.8)	(100.0)	(100.0)	(100.0)	Accounts payable	10,363.7	14,331.7	18,955.1	20,871.1
Others	94.3	120.0	120.0	120.0	Short-term debt	9,061.2	11,061.2	12,561.2	14,561.2
<b>Pretax profits</b>	<b>6,692.0</b>	<b>8,772.8</b>	<b>9,623.2</b>	<b>9,787.1</b>	Other current liabilities	1,597.3	1,597.3	1,597.3	1,597.3
Income tax	(2,242.5)	(2,982.7)	(3,175.7)	(3,229.7)	<b>Total current liabilities</b>	<b>21,022.2</b>	<b>26,990.2</b>	<b>33,113.6</b>	<b>37,029.6</b>
Minorities	(120.7)	(400.0)	(438.8)	(446.2)	Long-term debt	45,608.4	76,608.4	110,608.4	115,608.4
<b>Net income pre-preferred dividends</b>	<b>4,328.8</b>	<b>5,390.0</b>	<b>6,008.8</b>	<b>6,111.1</b>	Other long-term liabilities	3,379.9	3,793.1	4,442.5	5,533.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	48,988.3	80,401.4	115,050.9	121,142.3
<b>Net income (pre-exceptionals)</b>	<b>4,328.8</b>	<b>5,390.0</b>	<b>6,008.8</b>	<b>6,111.1</b>	<b>Total liabilities</b>	<b>70,010.5</b>	<b>107,391.6</b>	<b>148,164.4</b>	<b>158,171.9</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>4,328.8</b>	<b>5,390.0</b>	<b>6,008.8</b>	<b>6,111.1</b>	<b>Total common equity</b>	<b>22,742.2</b>	<b>27,452.3</b>	<b>32,922.1</b>	<b>38,432.3</b>
EPS (basic, pre-except) (Rs)	22.28	27.75	30.93	31.46	Minority interest	1,314.1	1,714.1	2,152.9	2,599.2
EPS (basic, post-except) (Rs)	22.28	27.75	30.93	31.46	<b>Total liabilities &amp; equity</b>	<b>94,066.8</b>	<b>136,558.1</b>	<b>183,239.4</b>	<b>199,203.3</b>
EPS (diluted, post-except) (Rs)	22.28	27.75	30.93	31.46	<b>BVPS (Rs)</b>	<b>117.06</b>	<b>141.31</b>	<b>169.47</b>	<b>197.83</b>
DPS (Rs)	3.50	2.77	3.09	3.15					
Dividend payout ratio (%)	15.7	10.0	10.0	10.0					
Free cash flow yield (%)	(34.5)	(45.3)	(37.6)	8.3					
Growth & margins (%)					Ratios				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Sales growth	62.8	38.3	32.3	10.1	CROCI (%)	10.7	16.8	16.8	15.5
EBITDA growth	31.5	31.2	28.3	10.1	ROE (%)	22.0	21.5	19.9	17.1
EBIT growth	33.6	32.4	28.2	9.2	ROA (%)	5.6	4.7	3.8	3.2
Net income growth	25.7	24.5	11.5	1.7	ROACE (%)	12.3	10.5	9.7	8.7
EPS growth	11.0	24.5	11.5	1.7	Inventory days	4.7	2.8	2.2	2.4
Gross margin	46.5	45.7	44.9	44.7	Receivables days	63.0	58.2	59.3	64.4
EBITDA margin	28.5	27.1	26.3	26.3	Payable days	142.3	148.2	148.8	161.2
EBIT margin	27.0	25.9	25.1	24.9	Net debt/equity (%)	205.3	275.2	316.8	301.7
					Interest cover - EBIT (X)	2.5	2.5	2.1	1.9
Cash flow statement (Rs mn)					Valuation				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	4,328.8	5,390.0	6,008.8	6,111.1	P/E (analyst) (X)	9.4	7.6	6.8	6.7
D&A add-back	614.6	670.3	886.6	1,139.3	P/B (X)	1.8	1.5	1.2	1.1
Minorities interests add-back	(120.7)	(400.0)	(438.8)	(446.2)	EV/EBITDA (X)	9.1	8.0	7.8	7.7
Net (inc)/dec working capital	4,130.2	(2,710.7)	(2,267.7)	502.1	EV/GCI (X)	1.4	1.1	1.0	1.0
Other operating cash flow	(1,121.1)	6,506.1	9,811.7	11,375.6	Dividend yield (%)	1.7	1.3	1.5	1.5
<b>Cash flow from operations</b>	<b>7,831.8</b>	<b>9,455.8</b>	<b>14,000.6</b>	<b>18,681.8</b>					
Capital expenditures	(27,354.2)	(28,721.9)	(30,158.0)	(15,079.0)					
Acquisitions	(2,751.3)	(5,000.0)	(5,000.0)	(5,000.0)					
Divestitures	3,256.9	0.0	0.0	0.0					
Others	581.6	422.0	592.6	965.0					
<b>Cash flow from investments</b>	<b>(26,266.9)</b>	<b>(33,299.8)</b>	<b>(34,565.3)</b>	<b>(19,114.0)</b>					
Dividends paid (common & pref)	(683.5)	(679.9)	(539.0)	(600.9)					
Inc/(dec) in debt	21,199.3	33,000.0	35,500.0	7,000.0					
Common stock issuance (repurchase)	(195.3)	(195.3)	(195.3)	(195.3)					
Other financing cash flows	(2,111.9)	(6,148.2)	(9,546.8)	(11,468.1)					
<b>Cash flow from financing</b>	<b>18,208.5</b>	<b>25,976.6</b>	<b>25,218.9</b>	<b>(5,264.3)</b>					
<b>Total cash flow</b>	<b>(226.7)</b>	<b>2,132.5</b>	<b>4,654.1</b>	<b>(5,696.4)</b>					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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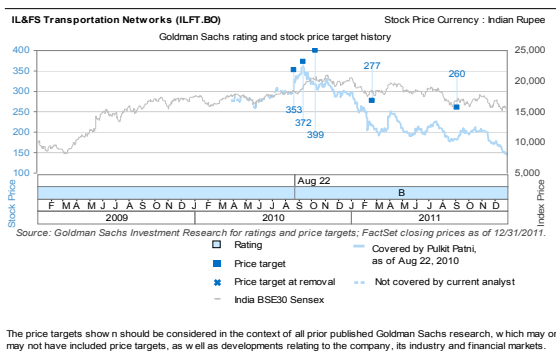
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