

IL&FS Transportation Ltd

Rs 215

Leading player in surface transportation for bet

BUY

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

IL&FS Transportation Network Ltd (BO.ILFT) is the largest developer, operator and investor of surface transportation infrastructure projects in India. We expect revenue CAGR of 15% over the period of FY11-15E primarily led by increase in Construction and Fee income. The high EBITDA margins of ~20%-22% in construction division and ~85% in toll division will provide higher returns ~16% of RoEs in FY13E-14E.

Strong Revenue CAGR 15% & PAT CAGR 12.4% from FY11-15E

We forecast strong revenue CAGR of 15% over the period of FY11-FY15E, primarily led by strong Fee and construction income. Further, ILFT collects Rs 1.83 crore gross average toll per day from 10 operational road projects which we expect to increase by 4.7x up to Rs 8.53 crore per day in FY15E primarily will be led by functional of 14 new road projects. The increase in toll revenue by 4.7x will leave enough free cash flow in the system.

Project Capital Works worth of Rs 1,08 bn remaining to be executed

ILFT has Rs 108 bn worth of project capital works remaining to be executed in over the period of 3-4 years. ILFT receives ~3% of total project cost (TPC) as upfront charges and further ~8%-9% as consulting charges from its subsidiaries. Further, the team of 400 engineers who designs supervises and outsources construction work to local subcontractors. This model allows it to focus on the core activities which optimizes leverage and maximizes the returns on assets and return on net worth.

NHAI's Plan to award 9,300 km road projects in FY13E

National Highway Authority of India (NHAI) has planned to award ~9300 km of road projects with total worth of ~Rs 600-700 bn in current financial year. Consequently, we expect over ~22,000 km of new highway projects to awarded in the next four years. ILFT maintained 5% market share in FY12 and a naturally beneficiary to grab the above opportunities.

Valuation

We have valued ILFT on a SOTP method and arrived at a target price of Rs 282. We have valued the standalone business, in which the company derives its revenues from advisory fees and EPC work at Rs 100 based on the 5x its FY13E EPS of Rs 20. We have valued the existing BOT projects of ILFT at Rs 150, investment at Rs 17, Elsamex at Rs 11.3/share and ILFT's stake in Noida Toll Bridge at Rs 4/ share.

Exhibit 1 : Key Financials

(Rs Crore)

Particulars	FY11	FY12E	FY13E	FY14E
Sales	4,048	5,606	6,194	6,869
EBDITA	1,164	1,466	1,644	1,975
Net Profit	433	497	517	564
EPS	18.9	25.6	26.6	29.0
P/E	11.7	8.6	8.3	7.6
P/BV	2.2	1.5	1.3	1.2
RoE %	18.6	18.0	15.9	15.3
RoCE %	14.0	10.4	9.6	10.1

Target Price (Rs): 282

Potential Upside : 31.1%

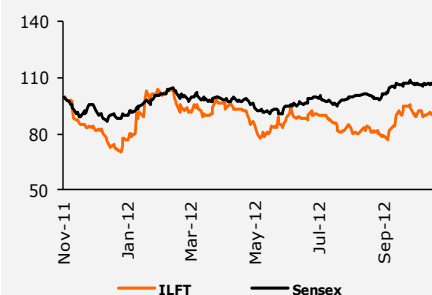
Previous TP (Rs): 222

Market Data

Shares outs (Cr)	19.4
Equity Cap (Rs Cr)	194.2
Mkt Cap (Rs Cr)	4,268
52 Wk H/L (Rs)	227/156
Avg Vol (1yr avg)	2,18,552
Face Value (Rs)	10.0
Bloomberg Code	ILFT.IN

Market Info:

SENSEX	19,986
NIFTY	6,056

Price Performance

Share Holding pattern (%)

Particular	Sep-12	Jun-12	Chg
Promoters	72.46	72.46	0.00
Institution	3.33	3.28	0.05
FII's	3.18	3.61	(0.43)
Public	21.03	20.65	0.38
Total	100	100	

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ILFT Business Strategy & Competitive Analysis

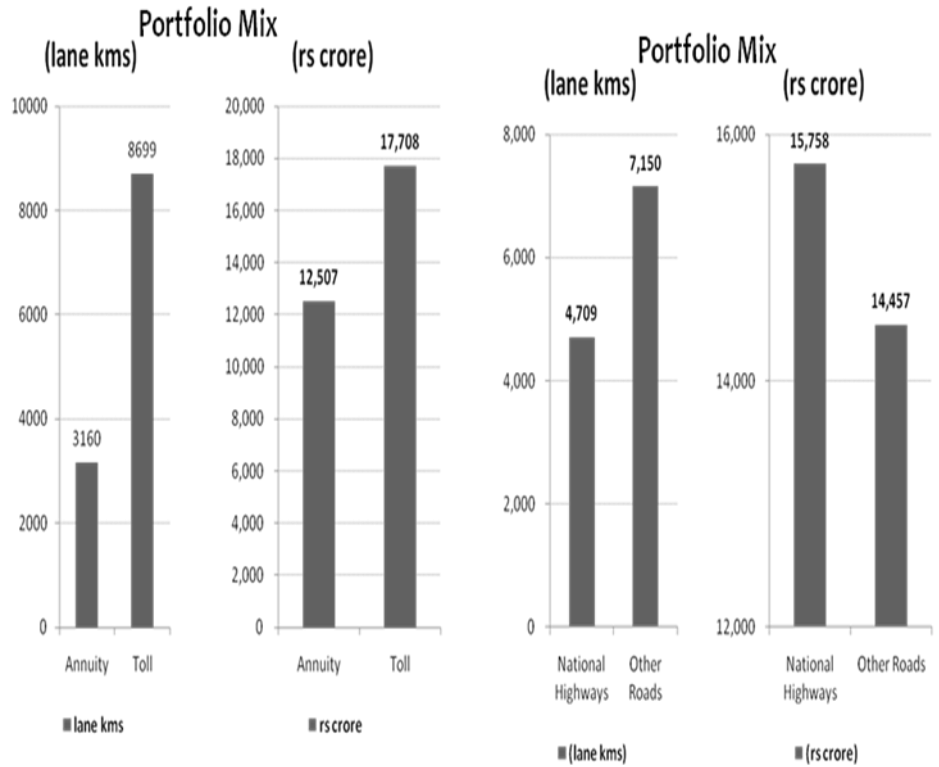
Toll Business:

- ILFT portfolio consists of 25 road projects out of which 10 are operational, 2 airports, 1 Bus Terminal at Nashik and Gurgaon Metro Rail project. ILFT’s road projects includes both on BOT Toll and Annuity basis and its road portfolio has ~12,000 lane kms (~Rs 30,215 crore) spread across 16 states in India.
- ITNL is involved in the development, operations and maintenance of surface transportation infrastructure projects encompassing national and state highway, roads, flyovers and bridges. ITNL has established a diverse project portfolio in the BOT road segment and made successful inroads in non-road sectors like metro rail, bus transportation and border entry points.

ILFT has a portfolio of 10,245 lane km with a comfortable mix of both toll & annuity road projects

ILFT’s current road highway projects -BOT portfolio

ILFT has a PAN India presence with BOT projects in 14 states of India

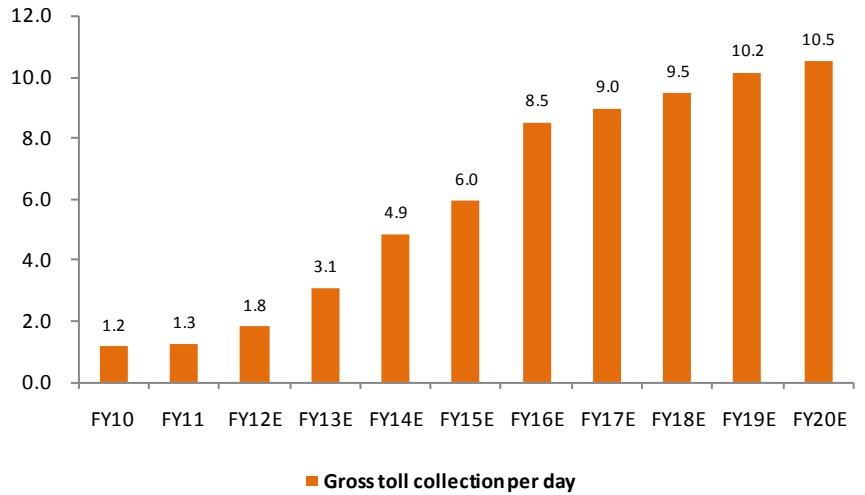


Source: Company, KRChoksey Research

- ILFT collects Rs 1.83 crore gross average toll per day from 10 operational road projects which we expect to increase by 4.7x up to Rs 8.53 crore per day in FY15E primarily will be led by functional of 14 new road projects. The increase in toll revenue by 4.7x will leave enough free cash flow in the system.

Revenue collection per Day (Rs Cr)

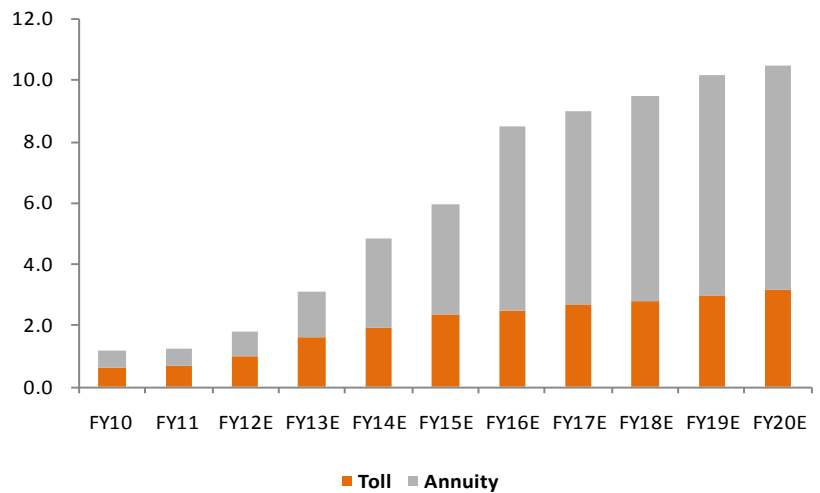
ILFT collects Rs 1.86 cr average toll per day from 10 operational road projects which we expect to increase by 4.7x to Rs 8.53 cr per day in FY15E



Source: Company, KRChoksey Research

BOT Revenue Break-up in Annuity and Toll, Annuity projects are contributing a substantial portion to total BOT revenue

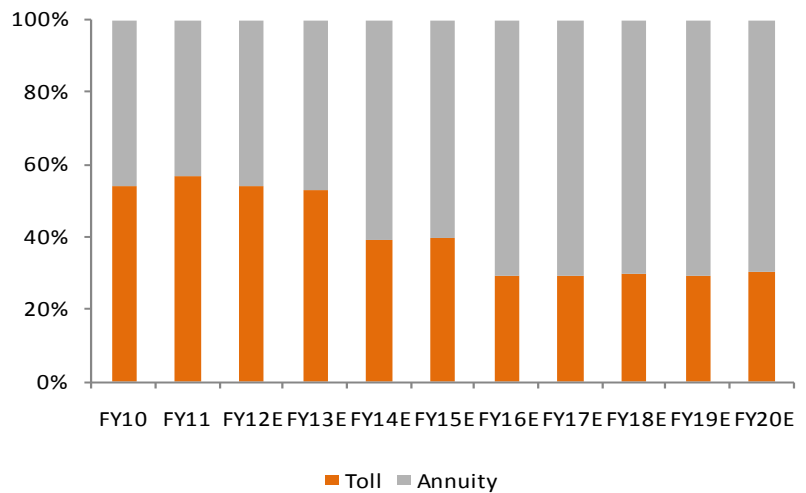
ILFT's Toll/Annuity Collection Breakup (Rs Cr)



Source: Company, KRChoksey Research

Annuity contribution (~75%) is substantial to minimize the risk of traffic growth

ILFT's Toll/Annuity Collection Breakup %

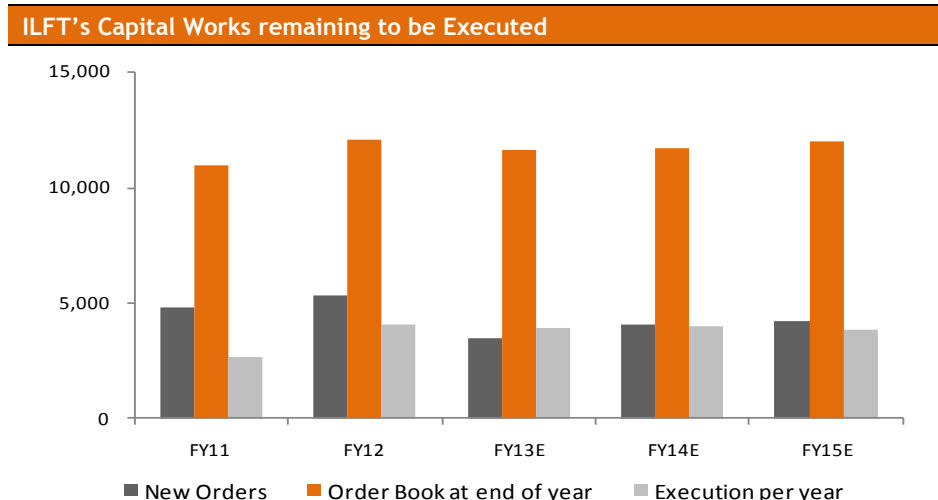


Source: Company, KRChoksey Research

Project Capital Works worth of Rs 108 bn remaining to be executed:

ILFT has Rs 108 bn worth of project capital works remaining to be executed in over the period of 3-4 years. In our model, we have assumed an order inflow of Rs 40 bn of new projects every year till FY15E on account of increase in NHAI project award activities.

ILFT has an order book of Rs 108 bn & enjoys higher EBITDA margins of ~20%-22% in project capital works on account of higher upfront & consulting fees paid by subsidiaries to parent company



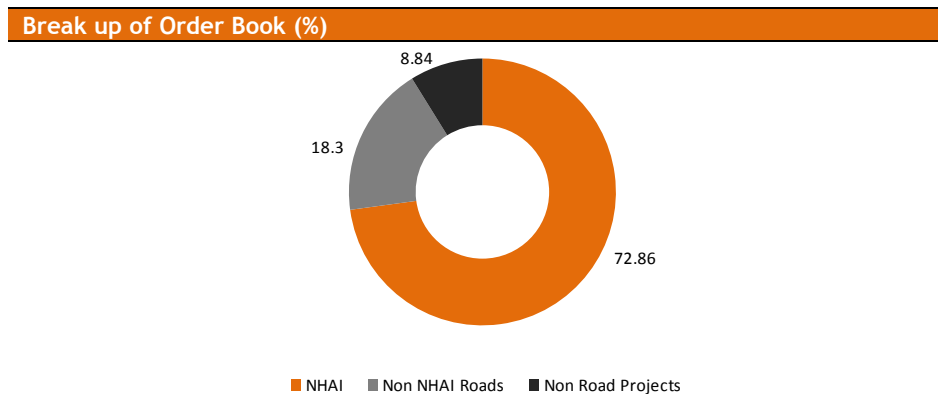
Source: Company, KRChoksey Research

ILFT is enjoying higher EBITDA margins of ~20%-22% in project capital works on account of higher upfront & consulting fees paid by subsidiaries to parent company as compare to other construction peers in the industry.

Subsidiary paid ~3% of TPC as upfront charges and further ~8%-9% as consulting charges to parent company i.e. ILFT. ILFT has team of 400 engineers and they design, supervise and outsource construction work to local subcontractors in order to bring more efficiency in the execution of road works.

The company's model allows it to focus on the core activities of project development where there is scope for higher profit margins and which optimizes leverage and maximizes the returns on assets and return on net worth. The company focuses on identification of the right projects for development, ensuring smooth project execution and timely completion. It is directly involved in operations and maintenance of the project.

ILFT is diversifying its portfolio and minimizing its exposure to road sector by bidding for airports and metro rail projects



Source: Company, KRChoksey Research

Elsamex SA: O&M Subsidiary in Europe

Elsamex will help ILFT in tapping the upcoming opportunity of road maintenance in India

ILFT acquired a 100% stake in Elsamex for an equity value of Eur 12.15 mn in FY08. It had debt of Eur 40 mn and a small loss at net level in FY08. Elsamex undertakes maintenance of roads, buildings, and petrol stations. ILFT believes that there is an upcoming opportunity for road maintenance in India and that it can leverage on the Elsamex technical capabilities to take advantage of the same. In FY12, Elsamex had revenue of Rs 769 cr and net profit of Rs 25 cr.

Rs Cr	FY11	FY12
Sales	947	769
EBITDA	99	93
PAT	29	25

Source: Company, KRChoksey Research

Additional Equity of Rs 1,000 cr is required in next 3 years.

Management indicated flat topline guidance for coming years as a result of which its contribution to consolidated profit would be lower as compare to last two financial years. Elsamex's contribution is 25% in consolidated revenue of FY11 which is gradually decreasing to 12.4% in FY13E.

High Gearing Ratio of 4x in FY14E may lead to equity dilution of 10%.

ILFT has been awarded 5 new projects in current financial year. ILFT needs equity of Rs 10 bn in next three years in order to operationalise these projects. Management indicated equity funding is done by internal accruals and further leverage of standalone balance sheet which has current D/E ratio is 1:1.

We have not factored in any dilution in our forecast although the risks are high with consolidated net-debt equity ratio rising to 4.2x in FY13. ILFT may go for 10% dilution in FY14E, leading to lower gearing.

Industry Recent Developments

Toll for 3-Axle trucks is reduced to ₹ 2.4/km v/s Rs 3.45 that was charged previously, which would burden the Government pockets by higher VGF

MORTH has proposed a change in classification status and base toll rate applicable on national highways for 3-axle commercial vehicles (CV). At present, under the toll policy of 2008, 3-axle CV's are categorized under multi-axle vehicles, on which a base toll rate of Rs 3.45 per km is applicable. The ministry has proposed to classify 3-axle CV's as a distinct category, and apply a new base rate on this category that would not be more than 10 per cent of the base rate applicable on a 2-axle bus and trucks. The base toll rate for 3-axle CV's would therefore decline to about Rs 2.4 per km.

Existing Toll Policy (2008)		Proposed Toll Policy (2010)	
Vehicle Type	Rs /km	Vehicle Type	Rs /km
Car, jeep, van, LMV	0.65	Car, jeep, van, LMV	0.65
LCV	1.05	LCV	1.05
Bus or Truck	2.2	Bus or Truck	2.2
HCV, Machinery, Multi-axle vehicles (MAV) 3 to 6 axles	3.45	3 - axle	2.4
Oversized Vehicles 7 or more axles	4.2	HCV, Machinery, Multi-axle vehicles (MAV) 4 to 6 axles	3.45
		Oversized Vehicles 7 or more axles	4.2

Source: MORTH, CRISIL, KRChoksey Research

Higher VGF may delay the awarding of new road projects and leave Government short of its targeted collection

According to CRISIL Research the decline in toll collection due to the revised toll policy would be Rs 10 billion over 2011-12 to 2015-16. To assure equity IRR of 16-18 per cent to road developers after the change in the toll policy, the government will have to incur additional funds as Viability Gap Funding (VGF) for BOT Toll projects.

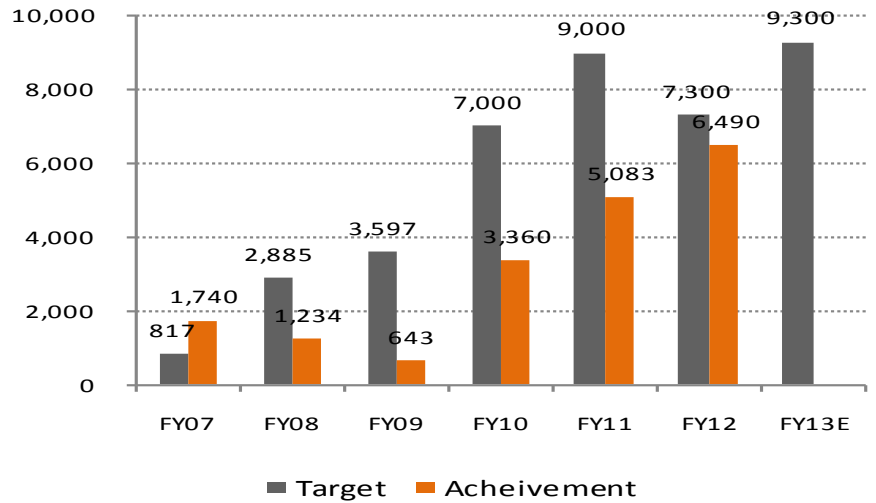
However, because of the increase in VGF there is a possibility that the awarding of new projects would be delayed because of the reduced toll collection revenues and increased viability gap funding which will leave Government with a shortfall in its targeted collection, which may lead to Government not being able to award 2000 km of BOT toll projects.

INFRASTRUCTURE SCENARIO:

Road Sector - Weak ordering activity by NHA in H1FY13

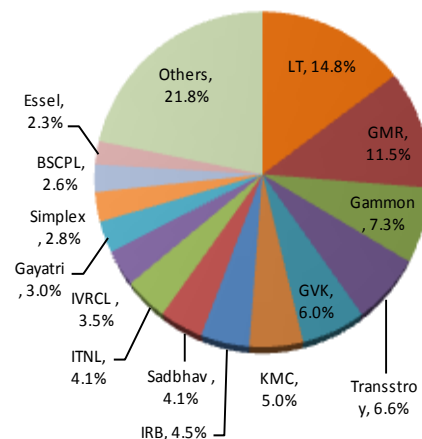
NHAI’s awarding activity momentum is interrupted, only 572 km of road projects have been awarded in the H1FY13 where as the yearly target set to award 9,300 km of road projects in FY13 including 3,500 Km EPC projects. We find that > 60% of road projects awarded in FY12 still has not achieved the financial closure due to strict lending norms; however ease in lending norms by lenders may change the game for the developers. We expect due to above reasons the completive intensity will be moderate in future and that results into higher equity IRR for the developers.

NHAI: Project award - target v/s achievement (km)



Source: NHAI, MORTH

ITNL’s market share in FY12



Source: NHAI, MORTH

IL&FS Transportation Networks Ltd (ILFT)

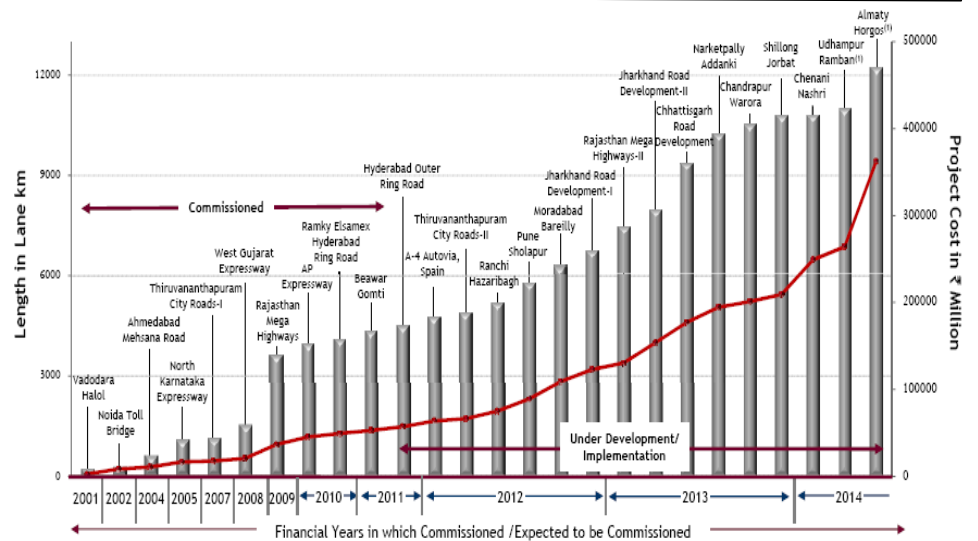
Company Background

ILFT is an India-based surface transportation infrastructure company. ILFT is a developer, operator and facilitator of surface transportation infrastructure projects, taking projects from conceptualization through commissioning to operations and maintenance. It is involved in the development, operation and maintenance of national and state highways, roads, including urban roads, flyovers and bridges. Its subsidiary, Elsamex S.A., provides maintenance services for roads, buildings and petrol station in Spain, with additional operations in Portugal, Columbia and Mexico.

ILFT has a pan India presence and is the largest BOT road asset portfolio of 12,000 lane km in India. ILFT has presence in other sub sectors viz. metro rail , bus transportation, border entry points and regional airports

ILFT has a large portfolio with 15 toll road and 9 annuity projects totaling to 12,000 lane km. ILFT’s road BOT asset portfolio is split into annuity (27%) and toll (73%) in lane km term. Also ILFT’s associate company, Noida Toll Bridge Co Ltd was the first toll bridge company in India to be listed on the bourses.

Overview of road projects in terms of size and timeline



Source: Company, KR Choksey Research

We forecast a three-year CAGR of 12.4% in consolidated PAT and EBITDA margins to grow from 26%

Financial Analysis:

Strong consolidated PAT CAGR of 12.4% in three years

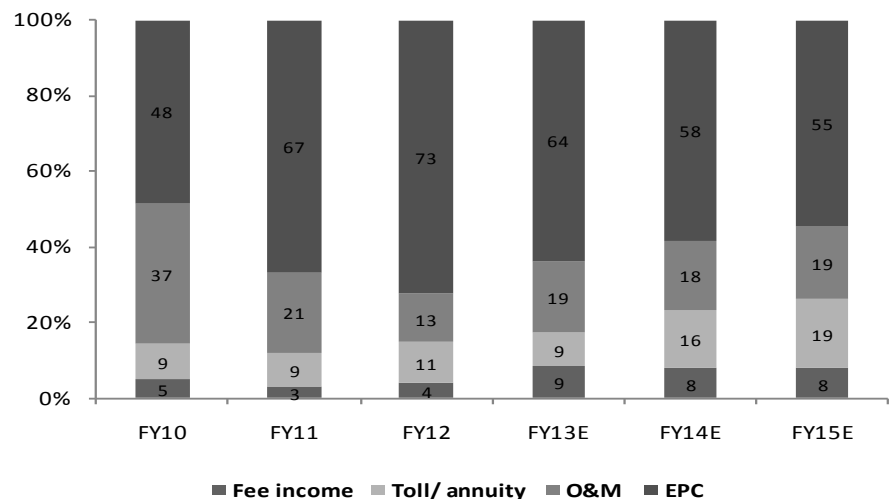
IL&FS Transportation Ltd.

in FY12 to 31% by FY15E, primarily on account of the rising share of toll income in consolidated revenue.

We expect a three-year CAGR of 15% in consolidated revenues, primarily driven by higher revenues from EPC. We forecast EBITDA margins to grow from 26% in FY12 to 31% by FY15E, primarily on account of the rising share of toll income in consolidated revenue.

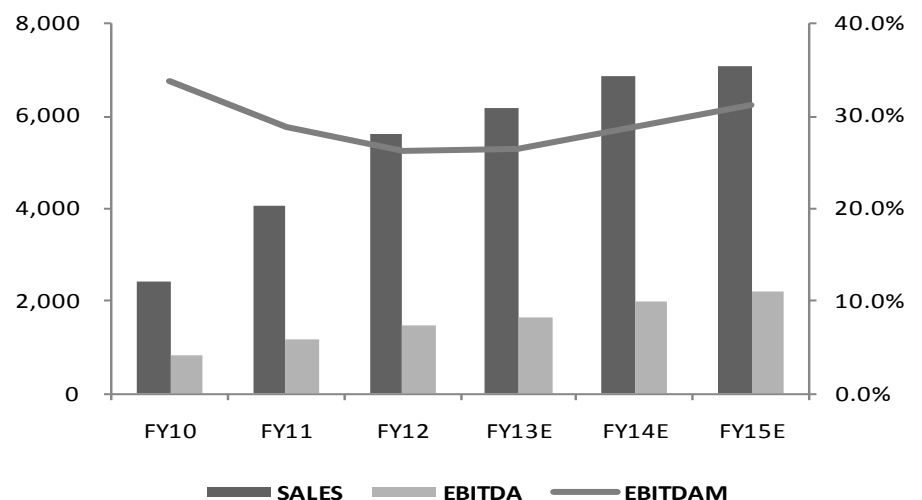
We forecast a three-year CAGR of 12.4% in consolidated PAT. We have not factored in any dilution in our forecast although the risks are high with consolidated net-debt equity ratio rising to 4.2x in FY13E. ILFT has a large number of annuity projects that may be securitized upon completion to help raise additional funding.

ILFT Revenue Breakup (%)



Source: Company, KR Choksey Research

ILFT Financials



Source: Company, KR Choksey Research

Valuation and view:

We have valued ILFT on a SOTP method and arrived at a target price of Rs 282. We have valued the standalone business, in which the company derives its revenues from advisory fees and EPC work at Rs 100 based on the 5x its FY13E EPS of Rs 20. We have valued the existing BOT projects of ILFT at Rs 150,

investment at Rs 17, Elsamex at Rs 11.3/share and ILFT's stake in Noida Toll Bridge at Rs 4/ share.

Valuation			
	NPV (Rs cr)	ITNL's Stake (%)	Rs/ Share
Standalone Segment ITNL (Value)	390.1		100.5
Road projects			
Operational			
NKEL	44.0	94%	2.1
WGEL	170.0	100%	8.8
GRICL	481.1	84%	20.8
TRDCL I	314.5	84%	13.6
APEL	163.6	100%	8.4
EHEL	50.7	74%	1.9
RIDCOR I	265.6	50%	6.8
IRIDCL	149.5	100%	7.7
Under Construction			
TRDCL II	6.3	84%	0.3
HREL	87.7	74%	3.3
PSRDCL	245.4	100%	12.7
WCBTRCL	325.9	35%	5.9
RIDCOR II	49.0	50%	1.3
JRPICL	(97.8)	50%	(2.5)
N.A.M.EL	417.5	50%	10.8
MBEL	555.8	100%	28.7
JSEL	(44.1)	50%	(1.1)
CNTL	95.8	100%	4.9
JRPICL II	(2.5)	100%	(0.1)
KNEL	143.4	100%	7.4
Total BOT Projects Value			149.2
Investments in Projects			
CEG	150	100%	7.7
RMGL	145	54%	7.5
MPBCDCL	16	51%	0.8
VNIPL	16	100%	0.8
Total Investment Value			16.9
Elsamax			
(1x BV)	366	100%	11.3
Current Mcap			
NTBCL	310	25%	4.0
Total			282

Source: KRChoksey Research

Financials Consolidated

Profit and loss Account				
Particulars (Rs cr)	FY11	FY12	FY13E	FY14E
Net sales	4,048	5,606	6,194	6,869
Growth	68.1%	38.5%	10.5%	10.9%

Cost of sales	2,884	4,140	4,549	4,894
EBDITA	1,164	1,466	1,644	1,975
<i>EBIDTAM</i>	28.8%	26.1%	26.5%	28.8%
Depreciation	61	77	95	105
EBIT	1,103	1,389	1,549	1,871
Interest	508	728	887	1,085
Other Income	79	124	142	105
PBT	674	785	804	891
Tax	224	246	252	285
<i>% of tax</i>	33.3%	31.3%	31.3%	32.0%
Net Profit	450	539	553	606
Minority Interest	(12)	(46)	(40)	(46)
P/L of Associate Company	(5)	4	4	4
Net Profit after MI	433	497	517	564
Extraordinary Items	0	0	0	0
Reported Net Profit	433	497	517	564
Share Data (Rs)				
EPS (Rs)	18.9	25.6	26.6	29.0
CEPS (Rs)	21.6	29.5	31.5	34.4
Dividend per share (Rs)	3.5	4.0	5.0	5.0
Book Value per share (BV)	101.4	142.3	166.8	190.0

Source: Company, KRChoksey Research

Balance Sheet				
(Rs Cr)				
Particulars (Rs cr)	FY11	FY12	FY13E	FY14E
Share capital	229	194	194	194
Reserves	2,045	2,570	3,046	3,496
Total Networkth	2,325	2,764	3,240	3,690
Minority Interest	131	293	323	355
Total debt	5,467	10,455	12,732	14,658
Deferred tax	132	224	204	204
Total Liability	8,056	13,736	16,499	18,908
Net block	3,257	6,914	8,900	9,792
Capital WIP	3	20	20	20
Investments	194	395	395	395
Inventories	26	21	34	38
Sundry debtors	749	882	933	1,129
Cash & bank	528	284	289	641
Loans and advances	1,813	1,714	1,814	1,905
Total current assets	5,952	7,938	9,202	10,881
Current liabilities	1,196	1,316	1,782	1,920
Provisions	159	215	236	260
Total current liabilities	1,355	1,531	2,018	2,179
Net current assets	4,597	6,407	7,184	8,701
Total Assets	8,056	13,736	16,499	18,908

Source: Company, KRChoksey Research

Cash flow				
(Rs Cr)				
Particulars	FY11	FY12	FY13E	FY14E
PBT	674	785	804	891
Add: depreciation	61	77	95	105
Add: Interest	508	728	887	1,085

Cash flow from operations	1,243	1,589	1,787	2,080
Change in working capital	1,688	2,053	772	1,165
Taxes	224	246	252	285
Miscellaneous expenses	0	0	0	0
Net cash from operations	(669)	(710)	763	630
Capital expenditure	(1,427)	(3,750)	(2,081)	(997)
Change in Investments	239	(201)	0	0
Net cash from investing	(1,188)	(3,951)	(2,081)	(997)
Increase/Decrease in debt	2,145	4,988	2,277	1,927
Dividends	(94)	(91)	(114)	(114)
Proceedings from equity	0	(35)	0	0
Interest	(508)	(728)	(887)	(1,085)
Others	291	283	47	(10)
Net cash from financing	1,834	4,417	1,323	719
Net Inc./(Dec.) in Cash	(23)	(244)	5	352
Opening cash balance	550	528	284	289
Closing cash balance	528	284	289	641

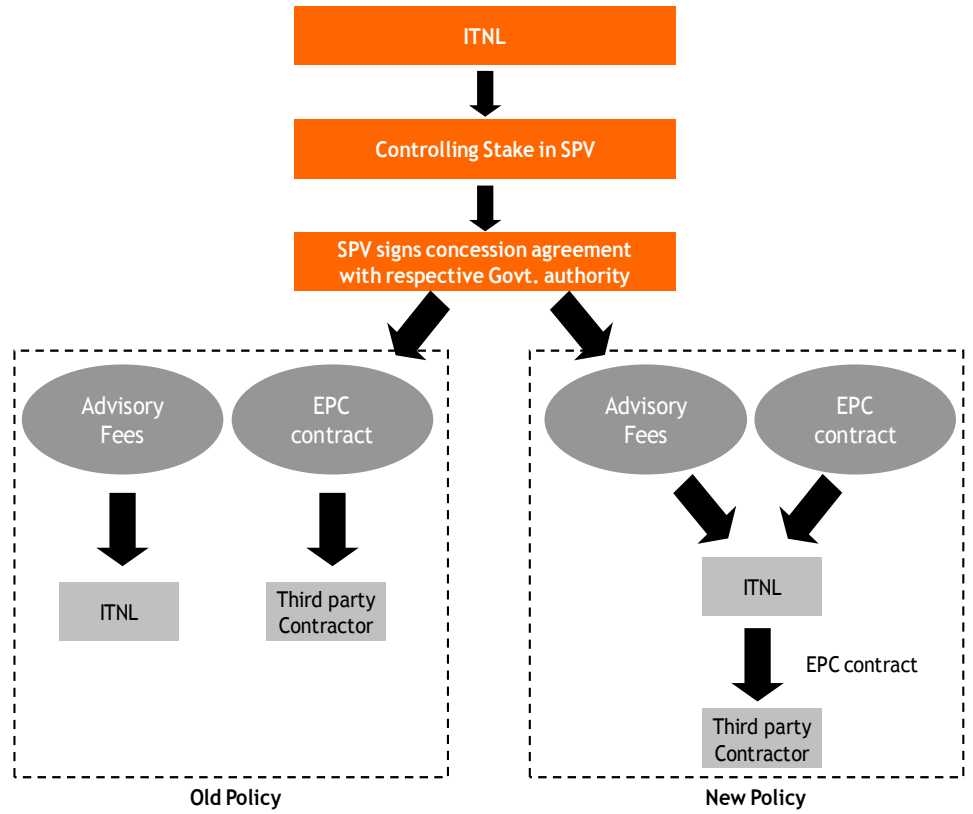
Key ratios

Particulars	FY11	FY12	FY13E	FY14E
Valuation Ratios				
Market price (Rs)	215	215	215	215
EPS (Rs)	18.9	25.6	26.6	29.0
P/E (X)	11.7	8.6	8.3	7.6
P/CEPS (X)	10.2	7.5	7.0	6.4
P/BV (X)	2.2	1.5	1.3	1.2
M cap/Sales (X)	1.2	0.8	0.7	0.6
EV/EBIDTA (X)	8.6	9.9	10.2	9.3
EV/Sales (X)	2.5	2.6	2.7	2.7
Profitability Ratios				
EBIDTA margin %	28.8%	26.1%	26.5%	28.8%
PAT margin %	10.7%	8.9%	8.3%	8.2%
ROE %	18.6%	18.0%	15.9%	15.3%
ROCE %	14.0%	10.4%	9.6%	10.1%
Efficiency Ratios				
Asset turnover	0.5	0.4	0.4	0.4
Av collections period-days	68	57	55	60
Av payment period-days	108	86	105	102
Inventory turnover-days	2	1	2	2
Liquidity ratios				
Current ratio	4.4	5.2	4.6	5.0
Interest coverage	2.3	2.0	1.9	1.8
Debt/equity	2.4	3.8	3.9	4.0

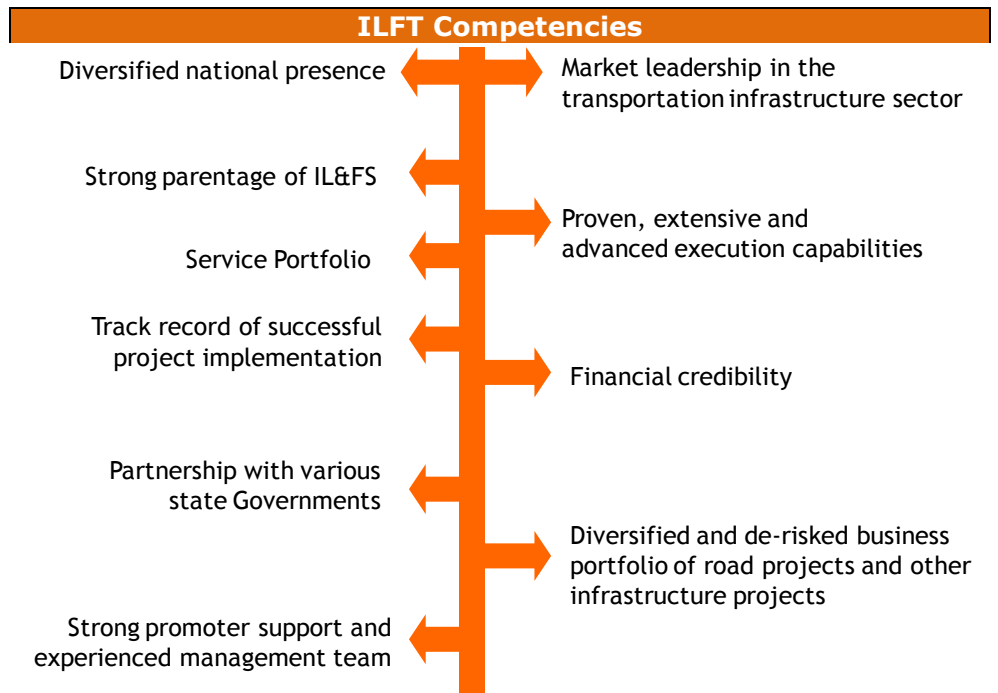
Source: Company, KRChoksey Research

Annexure 1:

ILFT's Transforming Business Model



Annexure 2: ILFT – Competitive Advantage:



Source: Company, KRChoksey Research

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IL&FS Transportation Ltd.			
Date	CMP(Rs)	TP (Rs)	Recommendation
18-Jan-13	215	282	BUY
07-Nov-12	190	222	BUY
10-Aug-12	170	193	Accumulate
08-May-12	178	203	Accumulate
08-Feb-12	209	224	Hold
14-Nov-11	200	246	BUY
08-Aug-11	215	275	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 - 5%
Reduce	-5% - 0
Sell	Less than -5%

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