

## Infrastructure Sector-Quarterly Compendium

18 November 2011

### Asset developers perform better than EPC players

2QFY11 earnings (net profit) of the infrastructure sector (seven EPC players and six infrastructure developers) showed a declining trend because of higher interest costs and slower project execution by EPC players. Interest costs as a percentage of sales rose by ~200bps to 500bps following higher interest rates coupled with increase in working capital requirement. Bloomberg consensus estimate earnings of the infrastructure sector for FY12 and FY13 were downgraded by 3%. In our sector report dated 26 September 2011, we had stated the performance of infrastructure companies would be subdued in the coming quarters. However, concerns over rising interest rates, regulatory issues and projects execution delay are likely to subside in the short term, thereby leading to outperformance by infrastructure stocks. We retain our positive view on the sector.

#### Key highlights:

- Infrastructure developers companies reported robust net sales as compared to pure EPC players. Net sales growth of EPC players was up 8% YoY, but down 3% compared to Bloomberg consensus estimate due to rising working capital. Infrastructure developers' net sales growth was up 30% YoY and 12% higher than Bloomberg consensus estimate, primarily driven by execution of captive projects.
- EBITDA of pure EPC players increased 6% YoY, but was down 7% compared to Bloomberg consensus estimate, primarily in line with lower revenue growth. EBITDA of infrastructure developers rose 20% YoY, which was 5% higher than Bloomberg consensus estimate.
- Interest costs, as a percentage of sales, increased by ~200bps to 500bps for infrastructure companies during the quarter, which has impacted EPC players' net profit.
- Net profit of EPC players declined 68%, which was 44% lower than Bloomberg consensus estimate, primarily due to subdued revenue growth and higher interest costs. Net profit of infrastructure developers declined 23%, which was 15% lower than Bloomberg consensus estimate, because of declining margins following the rising contribution of lower margin segment business to revenue and also higher interest costs.
- Net working capital requirement of EPC players increased 17% (as against sales growth of 7%), but for infrastructure developers it declined 6%, primarily due to increase in current liabilities.
- Bloomberg consensus FY13 net profit estimate post 2QFY12 results was downgraded primarily because of HCC (down 17%), NCC (down 14%) and GMR Infrastructure (down 4%).

**Our view:** Going ahead, infrastructure companies will continue to show a declining trend in terms of profitability in the coming quarters, which is largely discounted by the market. However, concerns over rising interest rates, regulatory issues and project execution delay are likely to subside in the short term. The valuation of the sector is close to its bottom and therefore we retain our positive view on the sector.

### View: Positive

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Company	Rating	Market cap		CMP (Rs)	Target price	Up/Down (%)	EPS (Rs)			P/E (x)			RoE (%)		
		Rsbn	US\$ bn				FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
IRB Infra	Buy	47.6	0.95	143	235	64	13.6	14.0	18.0	10.5	10.2	7.9	18.6	16	17.1
Reliance Infra	Buy	109	2.2	408	724	77	58.0	60.6	72.6	7	6.7	5.6	6.6	6.5	7.3
GMR Infra	Buy	79	1.6	21	39	85	(0.3)	0.2	1.2	NA	105	17.5	NA	1.0	5.8
HCC	Hold	13.6	0.28	23	26	13	1.2	0.03	0.8	19.1	766	28.7	4.7	0.1	3.1
IVRCL	Buy	8.8	0.18	30	55	66	5.9	3.9	5.9	5.5	7.7	5.0	8.2	5.2	6.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Net sales quarterly trend

(Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	BBG cons.	Dev. (%)
<b>Construction companies</b>							
HCC	8,846	10,577	8,286	(6.3)	(21.7)	9642	(14.07)
IVRCL	10,502	11,219	10,460	(0.4)	(6.8)	11245	(6.98)
Simplex Infrastructure	10,499	12,596	13,211	25.8	4.9	11251	17.42
Sadbhav Engineering	2,609	6,129	4,304	65.0	(29.8)	3816	12.79
NCC	11,986	11,409	10,902	(9.0)	(4.4)	12717	(14.27)
Pratibha Industries	2,596	3,614	3,378	30.1	(6.5)	3294	2.55
Unity Infra	3,465	3,773	3,903	12.6	3.5	3984	(2.04)
<b>Total</b>	<b>50,503</b>	<b>59,316</b>	<b>54,444</b>	<b>7.8</b>	<b>(8.2)</b>	<b>55,949</b>	<b>(2.69)</b>
<b>Infra developers</b>							
Reliance Infrastructure	39,691	51,911	57,289	44.3	10.4	49172	16.51
GMR Infrastructure	12,313	18,636	18,123	47.2	(2.8)	17483	3.66
IRB Infrastructure	4,903	8,013	7,359	50.1	(8.2)	7245	1.57
ITNL	8,833	10,931	12,555	42.1	14.9	10,736.00	16.94
GVK Power	5,034	6,123	4,774	(5.2)	(22.0)	5,149	(7.28)
Lanco Infra	20,439	19,491	18,966	(7.2)	(2.7)	16,461	15.22
<b>Total</b>	<b>91,213</b>	<b>115,105</b>	<b>119,065</b>	<b>30.5</b>	<b>3.4</b>	<b>106,246</b>	<b>12.07</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: EBITDA trend

(Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	BBG cons.	Dev. (%)
<b>Construction companies</b>							
HCC	1,133	1,377	937	(17.3)	(32.0)	1263	(25.81)
IVRCL	706	832	937	32.8	12.5	914	2.49
Simplex Infrastructure	1,041	1,188	1,181	13.5	(0.6)	1125	4.98
Sadbhav Engineering	314	678	453	44.1	(33.2)	495	(8.50)
NCC	1,206	1,158	1,032	(14.4)	(10.9)	1233	(16.30)
Pratibha Industries	389	489	454	16.7	(7.2)	478	(5.02)
Unity Infra	496	502	633	27.6	25.9	530	19.35
<b>Total</b>	<b>5,284</b>	<b>6,225</b>	<b>5,626</b>	<b>6.5</b>	<b>(9.6)</b>	<b>6,038</b>	<b>(6.82)</b>
<b>Infra developers</b>							
Reliance Infrastructure	6,174	7,890	7,024	13.8	(11.0)	6681	5.13
GMR Infrastructure	3,775	4,980	5,014	32.8	0.7	4791	4.65
IRB Infrastructure	2,364	3,295	3,214	36.0	(2.4)	3171	1.36
ITNL	2,615	3,312	3,567	36.4	7.7	2968	20.18
GVK Power	1,455	1,397	1,438	(1.2)	2.9	1,173	22.59
Lanco Infra	4,189	4,910	4,509	7.6	(8.2)	4,721	(4.49)
<b>Total</b>	<b>20,571</b>	<b>25,783</b>	<b>24,765</b>	<b>20.4</b>	<b>(3.9)</b>	<b>23,505</b>	<b>5.36</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Net profit trend

PAT	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	BBG cons.	Dev. (%)
<b>Construction companies</b>							
HCC	121	29	(405)	(433.9)	(1,502.6)	(49)	727.2
IVRCL	233	42	81	(65.0)	92.7	56	45.3
Simplex Infrastructure	268	240	179	(33.3)	(25.5)	133	34.4
Sadbhav Engineering	137	338	181	32.1	(46.3)	182	(0.3)
NCC	500	233	115	(77.0)	(50.6)	263	(56.3)
Pratibha Industries	137	187	162	18.5	(13.3)	161	0.6
Unity Infra	215	196	206	(4.5)	5.0	190	8.4
<b>Total</b>	<b>1,612</b>	<b>1,265</b>	<b>519</b>	<b>(67.8)</b>	<b>(59.0)</b>	<b>936</b>	<b>(44.5)</b>
<b>Infra developers</b>							
Reliance Infrastructure	3,602	4,057	3,630	0.8	(10.5)	3422	6.1
GMR Infrastructure	284	(667)	(625)	(319.9)	(6.2)	-584	7.1
IRB Infrastructure	991	1,342	1,100	11.0	(18.0)	1135	(3.1)
ITNL	1,075	1,157	1,162	8.1	0.4	999	16.3
GVK Power	428	589	379	(11.4)	(35.7)	509	(25.5)
Lanco Infra	704	138	(206)	(129.3)	(249.3)	913	(122.6)
<b>Total</b>	<b>7,085</b>	<b>6,617</b>	<b>5,440</b>	<b>(23.2)</b>	<b>(17.8)</b>	<b>6,394</b>	<b>(14.9)</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Interest costs trend

(Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)
<b>Construction companies</b>					
HCC	671	933	1,074	60.2	15.2
IVRCL	480	628	652	35.8	3.9
Simplex Infrastructure	295	502	512	73.2	2.0
Sadbhav Engineering	90	126	154	70.9	22.5
NCC	375	640	709	89.1	10.8
Pratibha Industries	149	193	194	29.9	0.5
Unity Infra	176	222	314	78.5	41.4
<b>Infra developers</b>					
Reliance Infrastructure	1,520	2,168	2,507	64.9	15.6
GMR Infrastructure	2,383	3,724	3,922	64.6	5.3
IRB Infrastructure	693	1,174	1,411	103.7	20.2
ITNL	983	1,426	1,694	72.3	18.8
GVK Power	656	662	789	20.3	19.2
Lanco Infra	1,754	2,308	2,508	43.0	8.7

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Interest costs as a percentage of sales trend

	2QFY11	1QFY12	2QFY12
<b>Construction companies</b>			
HCC	7.6	8.8	13.0
IVRCL	4.6	5.6	6.2
Simplex Infrastructure	2.8	4.0	3.9
Sadbhav Engineering	3.5	2.1	3.6
NCC	3.1	5.6	6.5
Pratibha Industries	5.8	5.3	5.7
Unity Infra	5.1	5.9	8.0
<b>Infra developers</b>			
Reliance Infrastructure	3.8	4.2	4.4
GMR Infrastructure	19.4	20.0	21.6
IRB Infrastructure	14.1	14.7	19.2
ITNL	11.1	13.0	13.5
GVK Power	13.0	10.8	16.5
Lanco Infra	8.6	11.8	13.2

HCC's increase in interest costs was driven by decline in sales, increase in debt and high interest rates

IRB Infrastructure's interest cost increase was primarily driven by rise in debt post commissioning of projects.

## Exhibit 6: Net working capital trend

	2QFY11	2QFY12	YoY (%)
<b>Construction companies</b>			
HCC	50,544	58,077	14.9
IVRCL	29,023	32,880	13.3
Simplex Infrastructure	25,615	31,993	24.9
Sadbhav Engineering	3,385	5,978	76.6
NCC	28,156	30,877	9.7
Pratibha Industries	5,391	7,671	42.3
Unity Infra	11,670	13,039	11.7
<b>Total</b>	<b>153,783</b>	<b>180,515</b>	<b>17.4</b>
<b>Infra developers</b>			
Reliance Infrastructure	75,166	105,680	40.6
GMR Infrastructure	30,226	7,195	(76.2)
IRB Infrastructure	12,638	18,533	46.6
ITNL	17,655	18,667	5.7
GVK Power	18,858	12,805	(32.1)
Lanco Infra	51,256	30,105	(41.3)
	205,798	192,985	(6.2)

EPC players- Increase in working capital by 17% YoY versus sales growth of 7% YoY

GMR Infrastructure- Decrease in working capital was because of increase in current liabilities

## Exhibit 7: Debt trend

	2QFY11	Q2FY12	YoY (%)
<b>Construction companies</b>			
HCC	33,773	41,709	23.5
IVRCL	22,666	26,343	16.2
Simplex Infrastructure	14,385	19,009	32.1
Sadbhav Engineering	4,207	4,557	8.3
NCC	20,612	26,012	26.2
Pratibha Industries	5,337	7,685	44.0
Unity Infra	6,946	8,138	17.2
<b>Total</b>	<b>107,926</b>	<b>133,453</b>	<b>23.7</b>
<b>Infra Developers</b>			
Reliance Infrastructure	58,726	115,051	95.9
GMR Infra	214,253	263,566	23.0
IRB Infra	37,407	60,804	62.6
ITNL	40,165	68,879	71.5
GVK Power	2,015	1,508	(25.2)
Lanco Infra	106,609	189,819	78.1

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Bloomberg consensus estimate – Net sales**

	FY12E			FY13E		
	Pre-result	Post-result	% Deviation	Pre-result	Post-result	% Deviation
<b>Net sales</b>						
IRB infrastructure	31,991.1	31,683.4	(1.0)	42,192.0	41,484.0	(1.7)
GMR infrastructure	66,273.9	66,526.0	0.4	94,383.5	94,431.0	0.1
Reliance Infrastructure	188,896.0	187,187.9	(0.9)	214,903.8	211,335.3	(1.7)
IVRCL	58,917.9	58,447.7	(0.8)	68,469.0	68,230.7	(0.3)
HCC	43,605.0	43,240.9	(0.8)	49,373.0	48,887.6	(1.0)
Simplex Infrastructure	53,823.0	54,135.2	0.6	61,908.0	54,135.2	(12.6)
Sadbhav Engineering	27,773.6	27,590.5	(0.7)	31,765.0	31,512.7	(0.8)
Pratibha Industries	15,743.0	15,525.0	(1.4)	18,954.0	19,221.0	1.4
Unity Infra	19,671.0	19,605.0	(0.3)	23,075.0	23,014.0	(0.3)
NCC	66,046.0	65,991.0	(0.1)	73,931.0	74,285.0	0.5
GVK power	23,497.0	23,920.0	1.8	28,921.0	28,916.0	(0.0)
Lanco	118,716.0	117,989.0	(0.6)	160,632.0	160,671.0	0.0
ILFS transportation	53,497.0	53,606.0	0.2	67,491.0	65,864.0	(2.4)
	768,450.5	765,447.6	(0.4)	935,998.3	921,987.5	(1.5)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 9: Bloomberg consensus estimate – Net profit**

	FY12E			FY13E		
	Pre-result	Post-result	% Deviation	Pre-result	Post-result	% Deviation
<b>PAT</b>						
IRB infrastructure	4,864.3	4,843.9	(0.4)	5,481.0	5,370.0	(2.0)
GMR infrastructure	(752.0)	(964.0)	28.2	2,865.0	2,766.0	(3.5)
Reliance Infrastructure	16,784.5	16,105.5	(4.0)	20,206.0	19,775.0	(2.1)
IVRCL	1,157.4	1,133.0	(2.1)	1,560.0	1,526.4	(2.2)
HCC	(98.0)	(157.0)	60.2	300.0	250.0	(16.7)
Simplex Infrastructure	1,120.0	1,103.0	(1.5)	1,441.6	1,420.0	(1.5)
Sadbhav Engineering	1,430.0	1,429.0	(0.1)	1,592.0	1,603.0	0.7
Pratibha Industries	827.0	810.0	(2.1)	1,025.0	985.0	(3.9)
Unity Infra	981.0	976.0	(0.5)	1,140.0	1,135.0	(0.4)
NCC	1,633.0	1,469.0	(10.0)	2,050.0	1,769.0	(13.7)
GVK power	1,815.0	1,815.0	-	2,432.0	2,428.0	(0.2)
Lanco	4,068.0	4,068.0	-	6,545.0	6,545.0	-
ILFS transportation	4,858.0	4,935.0	1.6	5,645.0	5,555.7	(1.6)
	38,688.2	37,566.4	(2.9)	52,282.6	51,128.1	(2.2)

Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 10: Our coverage universe companies' quarterly performance**

Sales	2QFY11	1QFY11	2QFY12	% Chg. (YoY)	% Chg.(QoQ)	2QFY12 NBIE Est	% Deviation	2QFY12 BB est.	% Deviation
IRB infrastructure	4,903	8,013	7,359	50.1	(8.2)	7,194	2.3	7,245	1.6
GMR infrastructure	12,313	18,636	18,123	47.2	(2.8)	18,784	(3.5)	17,483	3.7
Reliance Infrastructure	39,691	51,911	57,289	44.3	10.4	51,238	11.8	49,172	16.5
IVRCL	10,502	11,219	10,460	(0.4)	(6.8)	12,610	(17.0)	11,245	(7.0)
HCC	8,846	10,577	8,286	(6.3)	(21.7)	9,461	(12.4)	9,642	(14.1)

  

EBITDA	2QFY11	1QFY11	2QFY12	% chg.(YoY)	% chg.(QoQ)	2QFY12 NBIE est.	% Deviation	2QFY12 BB est.	% Deviation
IRB infrastructure	2,364	3,295	3,214	36.0	(2.4)	3,130	2.7	3,171	1.4
GMR infrastructure	3,775	4,980	5,014	32.8	0.7	5,128	(2.2)	4,791	4.6
Reliance Infrastructure	6,174	7,890	7,024	13.8	(11.0)	7,032	(0.1)	6,681	5.1
IVRCL	706	832	937	32.8	12.5	1,040	(9.9)	914	2.5
HCC	1,133	1,377	937	(17.3)	(32.0)	1,206	(22.3)	1,263	(25.8)

  

PAT	2QFY11	1QFY11	2QFY12	% chg.(YoY)	% chg.(QoQ)	2QFY12 NBIE est.	% Deviation	2QFY12 BB est.	% deviation
IRB infrastructure	991	1,342	1,100	11.0	(18.0)	1,121	(1.9)	1,135	(1.9)
GMR infrastructure	284	(667)	(625)			(777)		(584)	
Reliance Infrastructure	3,602	4,057	3,630	0.8	(10.5)	3,910	(7.2)	3,422	(7.2)
IVRCL	233	42	81	(65.0)	92.7	141	(42.3)	56	(42.3)
HCC	121	29	(405)			(124)		(49)	

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## IRB Infrastructure: (CMP: Rs 143, TP: Rs 235, Rating: BUY)

### Robust Growth Continues

IRB Infrastructure reported net profit of Rs1.1bn (up11% YoY) for 2QFY12, broadly in line with our expectation as well as Bloomberg consensus estimate. Net sales rose 50% YoY to Rs7.35bn, primarily driven by 78% growth in the EPC segment. EBITDA margin fell by 450bps to 43.7% because of rising contribution of the EPC segment (low margin) to top-line and interest costs increased 104% to Rs1.4bn on higher interest rates, which suppressed net profit growth to 11%. Based on the quarterly performance and progress in ongoing projects, we believe the company would revise its guidance upwards in the coming quarters and thereby retain our Buy rating on the stock with a TP of Rs235.

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net sales	4,903	8,013	7,359	50.1	(8.2)	10,023	15,372	53.4
Total expenditure	2,539	4,719	4,145	63.2	(12.2)	5,166	8,863	71.6
EBITDA	2,364	3,295	3,214	36.0	(2.4)	4,857	6,509	34.0
EBITDA margin (%)	48.2	41.1	43.7	-	-	48.5	42.3	-
Interest costs	693	1,174	1,411	103.7	20.2	1,354	2,586	91.0
Depreciation	544	602	629	15.5	4.4	1,081	1,231	13.9
Other income	82	282	301	266.2	6.6	299	583	95.0
PBT	1,209	1,800	1,475	22.0	(18.1)	2,721	3,275	20.4
Tax	190	443	367	92.8	(17.1)	494	809	64.0
PAT (after minority interest)	991	1,342	1,100	11.0	(18.0)	2,167	2,442	12.7

Source: Company, Nirmal Bang Institutional Equities Research

## GMR Infrastructure: (CMP: Rs 21, TP: Rs 39, Rating: BUY)

### Operational performance in line with estimate

GMR Infrastructure reported a net loss of Rs625mn for 2QFY12, (higher than Bloomberg estimate of a loss of Rs 580mn but lower than our estimate of a loss of Rs777mn) primarily due to net loss in DIAL to the tune of Rs 1.19bn on higher capital cost. Revenue growth of 48% at Rs 18.2bn and EBITDA growth of 41% to Rs 5bn was broadly in line with our estimates, primarily driven by robust growth in airport, EPC and other segments which includes revenue from investments and management fees. However, regulatory uncertainties related to airport and fuel availability remain. We believe the concerns have been largely priced in the CMP and therefore maintain our Buy rating on the stock with a TP of Rs39.

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net sales	12,217	18,636	18,123	48.3	(2.8)	24,531	36,758	49.8
Total expenses	8,656	13,656	13,109	51.4	(4.0)	17,195	26,765	55.7
EBITDA	3,561	4,980	5,014	40.8	0.7	7,335	9,993	36.2
EBITDAM (%)	29.1	26.7	27.7	-	-	29.9	27.2	-
Other income	143	812	700	390.9	(13.8)	815	1,511	85.3
Depreciation	1,993	2,758	2,675	34.3	(3.0)	3,641	5,433	49.2
Interest costs	2,492	3,724	3,922	57.4	5.3	4,875	7,646	56.9
Exceptional items	1,403	-	-	-	-	1,403	-	-
PBT	(781)	(691)	(884)	13.2	28.0	(365)	(1,575)	331.6
Tax	197	655	586	197.2	(10.6)	295	1,240	320.1
RPAT	(978)	(1,346)	(1,470)	50.3	9.2	(660)	(2,815)	326.5
Minority interest	(286)	679	844	-	-	(252)	1,523	-
PAT (Post MI)	(692)	(667)	(625)	(9.7)	(6.2)	(408)	(1,292)	216.9

Source: Company, Nirmal Bang Institutional Equities Research

## Reliance Infrastructure: (CMP: Rs 408, TP: Rs 724, Rating: BUY)

### Strong traction in EPC business

Reliance Infrastructure's standalone earnings beat our estimates as well as Bloomberg estimates, up 191% at Rs4.95bn, primarily driven by strong traction in the EPC segment. On consolidated basis, earnings remained flat at Rs 3.6bn because of lower margin in the EPC segment (versus standalone) and loss in the infrastructure segment. Looking at recent positive developments (like renewal of Mumbai power discom licence and the recent tariff hike by its Delhi electricity distribution unit), strong EPC segment order book of Rs240bn which has started driving revenue growth and also commissioning of six road projects, Mumbai metro rail project (Phase I) and a power transmission project in the next six months apart from attractive valuation, we retain our Buy rating on the stock with a TP of Rs724.

Y/E March (Rsmn) Consolidated	2QFY11	1QFY12	2QFY12	YoY(%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net sales	39,691	51,911	57,289	44.3	10.4	77,927	109,200	40.1
Cost of electricity energy purchased	20,174	19,067	22,098	9.5	15.9	42,278	41,165	(2.6)
Cost of fuel	3,200	4,479	3,686	15.2	(17.7)	7,378	8,165	10.7
Cost of materials and sub-contract charges	5,636	14,939	18,475	227.8	23.7	8,661	33,415	285.8
Employee costs	2,431	2,769	2,675	10.0	(3.4)	4,761	5,444	14.3
Other expenses	2,076	2,767	3,332	60.5	20.4	3,878	6,099	57.3
EBITDA	6,174	7,890	7,024	13.8	(11.0)	10,253	14,913	45.5
<b>EBITDA margin (%)</b>	<b>15.55</b>	<b>15.20</b>	<b>12.26</b>			<b>13.16</b>	<b>13.66</b>	
Depreciation	1,257	1,024	1,009	(19.7)	(1.5)	2,453	2,034	(17.1)
Interest costs	1,520	2,168	2,507	64.9	15.6	2,893	4,675	61.6
Other income	(261)	1,283	1,264	583.7	(1.5)	1,758	2,548	44.9
PBT	3,136	5,981	4,772	52.2	(20.2)	6,666	10,752	61.3
Tax expenses	615	2,713	1,833	198.0	(32.5)	1,279	4,546	255.5
Net profit	2,521	3,268	2,939	16.6	(10.1)	5,388	6,207	15.2
<b>Share of profit in associates</b>	<b>1,081</b>	<b>777</b>	<b>684</b>	<b>(36.7)</b>	<b>(11.9)</b>	<b>1,967</b>	<b>1,461</b>	<b>(25.7)</b>
Adj. PAT	3,602	4,057	3,630	0.8	(10.5)	7,355	7,687	4.5

Source: Company, Nirmal Bang Institutional Equities Research

## IVRCL: (CMP: Rs 33, TP: Rs 55 Rating: BUY)

### Subdued Performance

IVRCL reported net profit of Rs81mn (down 65% YoY) for 2QFY12, below our expectation of Rs141mn but above Bloomberg consensus estimate of Rs56mn. Net sales remained flat at Rs10.4bn, 17% lower than our expectation and 9% down from Bloomberg consensus estimate. However, EBITDA margin improved 230bps YoY to 9% (60bps higher than our expectation) and EBITDA increased 32% to Rs937mn. Interest costs and depreciation increased 36% each to Rs 652mn and Rs 249mn, respectively. Subsequently, net profit fell 65% to Rs 81mn. We have cut our revenue estimates by 8% for FY12E and by 5% for FY13E to factor in lower-than-expected revenue traction. Subsequently, this led to earnings downgrade of 22% for FY12E and 11% for FY13E. We maintain our Buy rating on IVRCL with a revised target price of Rs55 from Rs59 earlier.

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net sales	10,502	11,219	10,460	(0.4)	(6.8)	21,564	21,679	0.5
Total Expenses	9,797	10,387	9,524	(2.8)	(8.3)	19,853	19,910	0.3
EBITDA	706	832	937	32.8	12.5	1,711	1,769	3.4
<b>EBITDAM (%)</b>	<b>6.7</b>	<b>7.4</b>	<b>9.0</b>			<b>7.9</b>	<b>8.2</b>	
Other Income	304.4	72.3	54.1	(82.2)	(25.2)	315.9	126.4	(60.0)
Interest costs	480.5	628.2	652.4	35.8	3.9	933.4	1,280.6	37.2
Depreciation	184.2	227.7	249.7	35.6	9.7	341.6	477.4	39.8
PBT	345.3	48.8	88.8	(74.3)	81.9	751.8	137.6	(81.7)
Tax expense	112.5	6.6	7.4	(93.4)	12.8	237.8	14.0	(94.1)
PAT	232.8	42.2	81.4	(65.0)	92.7	514.0	123.6	(75.9)

Source: Company, Nirmal Bang Institutional Equities Research



**HCC: (CMP: Rs 23, TP: Rs 26, Rating: Hold)**
**Earnings Hit By Low Revenue Growth, High Interest Costs**

HCC's 2QFY12 results were sharply below our expectations and Bloomberg consensus estimates due to slower execution of projects during the monsoon season and higher interest costs led by increase in debt level. Net sales stood at Rs8.28bn, down 6% YoY (12% below our estimate and 14% below Bloomberg consensus) and net loss at Rs405mn (against our estimate of net loss of Rs125mn and Bloomberg consensus of net loss of Rs45mn). We have cut our revenue estimates by 8% for FY12 and by 6% for FY13 to factor in lower-than-expected revenue traction. We have also raised our interest cost estimates by 6% for FY12 and 5% for FY13 to factor in higher debt level. Subsequently, this has led to earnings downgrade of 97% for FY12E and 49% for FY13E. We have also revised our target price for HCC from Rs31 to Rs26 and cut the rating from Hold to Sell.

Y/E March (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net sales	8,846	10,577	8,286	(6.3)	(21.7)	18,799	18,863	0.3
Consumption of raw materials	2,560	2,891	2,508	(2.0)	(13.2)	5,527	5,399	(2.3)
Construction expenses	3,565	4,706	3,350	(6.0)	(28.8)	7,773	8,055	3.6
Employee costs	1,189	1,126	1,155	(2.9)	2.6	2,283	2,281	(0.1)
Other expenditure	399	478	336	(15.8)	(29.8)	825	814	(1.4)
Total expenses	7,713	9,200	7,349	(4.7)	(20.1)	16,409	16,549	0.9
EBITDA	1,133	1,377	937	(17.3)	(32.0)	2,390	2,314	(3.2)
<b>EBITDAM (%)</b>	<b>12.8</b>	<b>13.0</b>	<b>11.3</b>			<b>12.7</b>	<b>12.3</b>	
Other Income	61	7	(30)			92	(23)	(124.9)
Interest costs	671	933	1,074	60.2	15.2	1,248	2,007	60.8
Depreciation	359	392	414	15.5	5.5	707	806	14.0
PBT	165	60	(581)			527	(522)	
Tax	43	33	(176)			124	(143)	
Adj. PAT	121	27	(405)			403	(379)	

Source: Company, Nirmal Bang Institutional Equities Research

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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