

IVRCL Infra & Projects

Q2FY11/ Estimate change

16 November 2010

Buy

Target Price: Rs173

CMP: Rs136*

Upside: 27%

*as on 15 November 2010

Q2 disappoints; estimates lowered

IVRCL Infra's Q2 numbers were the most disappointing among our construction universe. Revenue at Rs10bn was 29% below street estimates. Operating margin was 7.2% in the quarter (management's guided optimal margins to be 9.75%). The management has lowered its FY11 revenue guidance slightly to Rs65bn (earlier: Rs67.5bn). We estimate Rs58.5bn. We have cut our earnings estimates by 31% for FY11 and 27% for FY12 to factor in lower revenue. EBITDA margins have also been lowered to 9.1% and 9.4% for FY11 and FY12 vs earlier 9.7% & 9.8%. We maintain Buy with a reduced target price of Rs173 (upside of 27%).

- **Good monsoon hits topline:** The better-than-expected monsoon this year impacted revenue by Rs3bn-Rs4bn. The monsoon extended for half of Q3FY11 and will impact revenue for the quarter.
- **Drivers for 2HFY11 growth:** We believe the transportation, water and building segments which contribute a substantial share to total order-book will drive 2HFY11 revenue.
- **Order-book at Rs240bn:** IVRCL Infra's order-book of Rs240bn gives us confidence on revenue visibility for FY12. Its book-to-bill ratio of 4.5x TTM revenue is among the highest in the construction industry.
- **Maintain Buy with reduced target price of Rs173:** The stock price has corrected by 16% since our initiation. Even after reducing earnings estimates, our revised target price offers a 27% upside from current levels. We believe FY12 would be a robust year in terms of revenue accretion as major projects would start ramping-up.

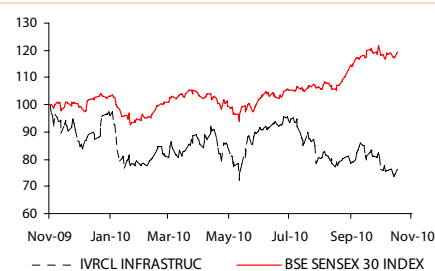
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Key Data

Bloomberg Code	IVRC IN
Reuters Code	IVRC.BO
Current Shares O/S (mn)	267.0
Diluted Shares O/S(mn)	267.0
Mkt Cap (Rsbn/USDmn)	36.2/803.4
52 Wk H / L (Rs)	207/131
Daily Vol. (3M NSE Avg.)	1,627,070
Face Value (Rs)	2
USD = Rs44.3	

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
IVRCL Infra	(11.3)	(20.2)	(32.4)
NIFTY	0.6	19.1	18.8

Source: Bloomberg, Centrum Research
*as on 15 November 2010

Y/E March (Rsmn) (Standalone)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	Q2FY11E	Variance (%)
Net sales	10,550	12,178	(13.4)	11,064	(4.6)	15,930	(33.8)
Consumption of RM	8,812	10,397	(15.2)	9,122	(3.4)	13,147	(33.0)
% of sales	83.5	85.4	(185)	82.4	108	82.5	99.8
Employee costs & SG&A	984	636	54.7	935	5.3	1,249	(21.2)
% of sales	9.3	5.2	410	8.4	88	7.8	149.2
EBITDA	753	1,145	(34.2)	1,008	(25.2)	1,534	(50.9)
EBITDA Margin (%) / bps	7.1	9.4	(226)	9.1	(197)	9.6	(249.1)
Dep and amortisation	184	133	38.4	157	17.0	167	10.3
Interest	480	354	35.8	453	6.1	484	(0.8)
EBT	89	658	(86.5)	397	(77.7)	883	(89.9)
Other income	257	57	348.3	9	2,836.1	36	610.1
PBT	345	715	(51.7)	406	(15.0)	919	(62.4)
Provision for tax	112	227	(50.5)	125	(10.3)	313	(64.0)
Effective Tax Rate %/bps	32.6	31.8	77	30.9	169	34.0	(143.2)
PAT (reported)	233	488	(52.3)	281	(17.1)	607	(61.6)
PAT (adjusted)	233	488	(52.3)	281	(17.1)	607	(61.6)
NPM (%) / bps	2.2	4.0	(180)	2.5	(33)	3.8	(160.2)
EPS (adjusted)	0.9	3.61	(75.8)	1.05	(17.1)	2.3	(61.6)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	49,907	36.2	4,320	8.7	2,260	7.4	8.5	13.2	13.1	16.0	11.6
FY10	55,010	10.2	5,400	9.8	2,111	(6.6)	7.7	11.5	14.6	17.6	9.8
FY11E	58,456	6.3	5,304	9.1	1,881	(10.9)	7.0	9.7	11.5	19.4	11.5
FY12E	74,629	27.7	7,005	9.4	2,441	29.8	9.0	11.5	12.8	15.0	9.3
FY13E	91,813	23.0	8,434	9.2	3,126	28.1	11.6	13.2	13.9	11.7	8.1

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Earnings estimates lowered

Post the disappointing Q2FY11 results we have revised our estimates for FY11 and FY12. Our revenue estimates have been lowered by 15% and 9%, respectively. We believe our revenue estimate of Rs58bn in FY11 is achievable and any number higher than this would mean unreasonable execution rate, considering that half of Q3FY11 has also impacted by extended south-east monsoons.

We assign 20% revenue growth in H2FY11 based on the historical trend and contribution to full year's revenue adjusting for spillover. The management's guidance of Rs65bn revenue in FY11 means 41% revenue growth in H2FY11, which we believe is too high. According to our estimates, H2FY11 will contribute 63% of total revenue (23% in Q3FY11 and 40% in Q4FY11), which we believe is reasonable.

EBITDA margins have also been lowered as the management revised its guidance from 9.75% earlier to around 9.5%. Because of tepid H1FY11, EBITDA margin for FY11 would be around 9.1%. We have factored in better margins for Q3FY11 and Q4FY11.

Depreciation, Interest charges and other income are tweaked slightly on the higher side. The resultant impact is 31% and 27% downward revision in PAT estimates for FY11 and FY12, respectively.

Exhibit 1: Revised estimates

Particulars	Actual		Old Estimates		New Estimates				Old Estimates		New Estimates			
	Q1FY11	Q2FY11	Q3FY11E	Q4FY11E	Q3FY11E	Var %	Q4FY11E	Var %	FY11E	FY12E	FY11E	Var %	FY12E	Var %
Revenue	11,062	10,502	17,079	24,328	13,668	(20.0)	23,109	(5.0)	68,372	82,069	58,341	(14.7)	74,497	(9.2)
Growth YoY (in %)	1.9	(13.4)	44.5	28.9	15.6	NA	22.5	NA	27.3	20.0	6.3	NA	27.7	NA
Other Operating Income	3	48	28	40	24	NA	41	NA	96	134	116	NA	132	NA
Total Income from Operations	11,064	10,550	17,107	24,367	13,692	(20.0)	23,150	(5.0)	68,468	82,202	58,456	(14.6)	74,629	(9.2)
Rev Consensus (Post Event)											61,781		75,129	
Variance											(5.4)		(0.7)	
Constructions Costs	9,122	8,812	14,186	20,256	11,236	(20.8)	18,905	(6.7)	56,711	68,389	48,076	(15.2)	61,239	(10.5)
% of revenue	82.4	83.5	82.9	83.1	82.1	104.2	81.7	133.5	82.8	83.2	82.2	104.1	82.1	113.5
Employee Costs	652	633	802	1,069	741	(7.5)	1,184	10.8	3,364	3,866	3,210	(4.6)	4,048	4.7
% of revenue	5.9	6.0	4.7	4.4	5.4	37.6	5.1	(216.2)	4.9	4.7	5.5	31.3	5.4	(51.0)
Other Expenditure	283	352	437	622	458	4.8	774	24.4	1,749	1,932	1,866	6.7	2,337	21.0
% of revenue	2.6	3.3	2.6	2.6	3.3	(23.9)	3.3	(487.6)	2.6	2.3	3.2	(45.9)	3.1	(227.9)
Total Expenditure	10,057	9,797	15,425	21,947	12,435	(19.4)	20,863	(4.9)	61,824	74,187	53,152	(14.0)	67,624	(8.8)
% of revenue	90.9	92.9	90.2	90.1	90.8	NA	90.1	NA	90.3	90.2	90.9	NA	90.6	NA
EBITDA Consensus (Post Event)											5,844		7,182	
Variance											(9.2)		(2.5)	
EBITDA (Rsmn)	1,008	753	1,682	2,420	1,257	(25.3)	2,287	(5.5)	6,644	8,016	5,304	(20.2)	7,005	(12.6)
EBITDA Margins (in %)	9.1	7.1	9.8	9.9	9.2	NA	9.9	NA	9.7	9.8	9.1	NA	9.4	NA
Depreciation	157	184	167	167	193	15.8	193	15.8	658	741	728	10.6	867	17.0
Interest Expenses	453	480	511	536	574	12.3	599	11.6	1,984	2,350	2,106	6.1	2,589	10.1
Other Income	9	257	31	39	40	30.2	47	22.2	114	140	353	208.3	148	6.3
Profit Before Tax (Rsmn)	406	345	1,035	1,756	530	(48.8)	1,542	(12.2)	4,116	5,064	2,823	(31.4)	3,698	(27.0)
JPBT Margin	3.7	3.3	6.1	7.2	3.9	NA	6.7	NA	6.0	6.2	4.8	NA	5.0	NA
Tax Expenses	125	112	352	597	180	(48.8)	524	(12.2)	1,387	1,722	942	(32.1)	1,257	(27.0)
Effective Tax Rate (in %)	30.9	32.6	34.0	34.0	34.0	NA	34.0	NA	33.7	34.0	33.4	NA	34.0	NA
Profit After Tax (Rsmn)	281	233	683	1,159	350	(48.8)	1,018	(12.2)	2,729	3,342	1,881	(31.1)	2,441	(27.0)
Net Profit Margin (in %)	2.5	2.2	4.0	4.8	2.6	NA	4.4	NA	4.0	4.1	3.2	NA	3.3	NA
PAT Consensus (Post Event)											2,222		2,802	
Variance											(15.4)		(12.9)	
EPS - Diluted	1.1	0.9	2.6	4.3	1.31	(48.8)	3.81	(12.2)	10.2	12.5	7.0	(31.8)	9.0	(27.8)

Source: Company, Bloomberg, Centrum Research Estimates

Exhibit 2: Analysis of H2 contribution over the last 4 years

Contribution Analysis (in %)	Q1	Q2	Q3	Q4	1H Total	2HTotal	2H Var % Base 2HFY11
FY07	18.5	15.8	22.7	43.0	34.3	65.7	2.6
FY08	18.5	18.8	26.6	36.1	37.3	62.7	(0.3)
FY09	19.1	23.3	24.4	33.2	42.4	57.6	(5.4)
FY10	20.2	22.6	22.0	35.2	42.8	57.2	(5.8)
FY11	19.0	18.0	23.4	39.6	37.0	63.0	
Average	19.0	19.7	23.8	37.4	38.7	60.8	(2.2)

Source: Company, Centrum Research Estimates

Exhibit 3: YoY growth trend

YoY Growth Analysis (%)	Q1	Q2	Q3	Q4	1H Total	2HTotal	2H Var %
FY07	NA	NA	NA	NA	NA	NA	NA
FY08	58.2	88.9	86.6	33.2	72.4	51.6	31.8
FY09	37.5	65.1	22.0	23.1	51.4	22.7	2.8
FY10	16.9	7.1	(0.5)	16.2	11.5	9.1	(10.7)
FY11	1.9	(13.4)	15.6	22.5	(6.2)	19.8	
Average	28.6	36.9	31.0	23.7	32.3	27.8	8.0

Source: Company, Centrum Research Estimates

Exhibit 4: QoQ Growth

QoQ Growth Analysis (%)	Q1	Q2	Q3	Q4
FY07	NA	NA	NA	NA
FY08	(31.9)	1.9	41.6	35.6
FY09	(29.7)	22.4	4.7	36.8
FY10	(33.3)	12.1	(2.8)	59.7
FY11	(41.5)	(4.6)	29.8	69.1
Average	(34.1)	7.9	18.3	50.3

Source: Company, Centrum Research Estimates

Maintain Buy with reduced target price of Rs173

The stock price has corrected 14% in past 5 sessions and 16% over the last 3 months. Even after reducing earnings estimates, our revised target price offers a 27% upside from current levels. We believe FY12 would be a robust year in terms of revenue accretion as major projects would start ramping-up.

Exhibit 5: Valuation

Valuation	Method	Holding Discount	Market Cap	Stake	Multiple	FY12 EPS	Value / Share
Core Construction / EPC Business	P/E	NA	NA	NA	13.0	9.0	117.5
Hindustan Dorr Oliver	M.Cap	25.0%	9,061.9	53.0%	NA	NA	13.3
IVR Urban Prime	M.Cap	25.0%	18,606.9	80.5%	NA	NA	41.6
IVRCL Consolidated Value							172.5
Current Market Price							135.5
Upside / Downside (PE)							27.3%

Source: Centrum Research Estimates

Key takeaways from the conference call

Updates on EPC – core construction business

Reason for Q2FY11 revenue deficit: The management has blamed the extended monsoon for deficit in revenue amount during the quarter. Expectation was Rs13.5bn for the quarter. Regions such as Paradip, Madhya Pradesh and Tamil Nadu where rainfall was high, impacted most of the revenue deficit of Rs3bn/4bn.

Spike in other operating income: 1) There was a service tax amount credited in the books for Rs80mn; however, the similar amount was debited in the books as it is for a pass-through contract nullifying the total impact on the quarter result. 2) Also, there was a Rs80mn amount related to DGFT claims which was credited during the period and Rs40mn is due to qualification charges levied by IVRCL Infra for IVRCL A&H BOT projects.

Rs65bn FY11 revenue guided: The management guides that the revenue lost in Q2FY11 due to extended southwest monsoon will spillover to next year (as the client will allow for extension in timeline where projects got delayed on monsoon impact). Hence, FY11 is expected to deliver Rs65bn revenue. On contribution from IVRCL A&H, it expects Rs7.5bn worth of EPC revenue which will further increase to Rs15bn in FY12 and around Rs24bn in FY13 on current projects.

Order-book position: The order-book of Rs240bn includes L1 of Rs12bn. Andhra Pradesh order backlog is Rs35bn out of which Rs25bn is back-to-back arranged with sub-contractors. Internal order-book consists of Rs55bn, which consists of BOT project like Goa-Maharashtra, Sion-Panvel, etc.

Operating margins expected to be around 9.5%: Operating margins in Q2FY11 was lower at 7.2% if adjusted for the one-off items in “other operating income”. This is much lower than the company guidance of 9.75% earlier. The management also clarified that internal projects which are routed through IVRCL A&H have margins in the range of 8% since 4% margin is charged by IVRCL A&H for its services (project management, engineering, procurement, etc).

Interest Expenses: Company cites increase in interest rate due to the impact because of base rate. Earlier CP rate was around 5.5%/6% and now it has climbed to around 8.5%.

Increase in loans & advances: This is due to Rs2bn lend to various BOT projects. However, amount can be recovered once QIP money (planned in FY11) comes at IVRCL A&H level.

Capex for FY11: The management cites minimal/negligible capex requirement for international projects as pipeline projects doesn't require substantial capex (company bagged Rs20bn worth of international projects in Q3FY11). Capex is expected to be around Rs1.65bn for FY11 out of which Rs0.9bn is already expended in H1FY11. 2HFY11 capex is mostly related to road projects.

Updates on IVRCL Asset & Holdings Infrastructure Project

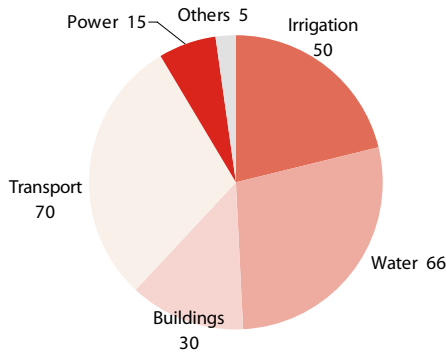
Goa-Maharashtra Project: Signing of Concession Agreement (CA) will happen this month

Chennai Desalination Project: Is collecting Rs5.3mn per day and operating at full capacity

If QIP doesn't happen: Company cites alternatives like securitization of cash flows from of operational projects, stake sale in operational SPVs, etc.

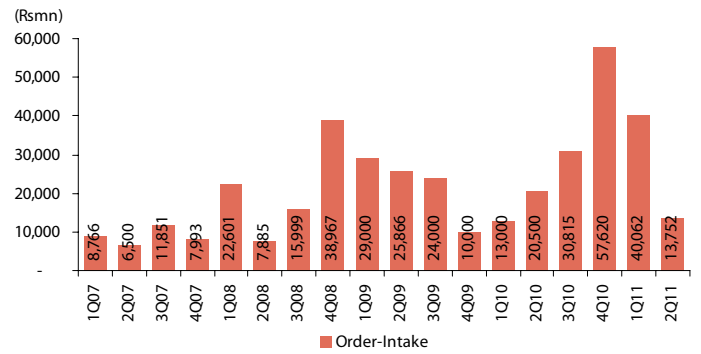
Immediate funding requirement in BOT projects: Rs6bn/7bn in next 1 year which is already partly funded through Rs2.5bn of IFCI CCD's, Rs1.5bn from Ascent India Fund and rest of the deficit of Rs2bn would be through QIP and other routes and should not be a problem for the company.

Exhibit 6: Q2FY11 order-book mix (Rsbn)



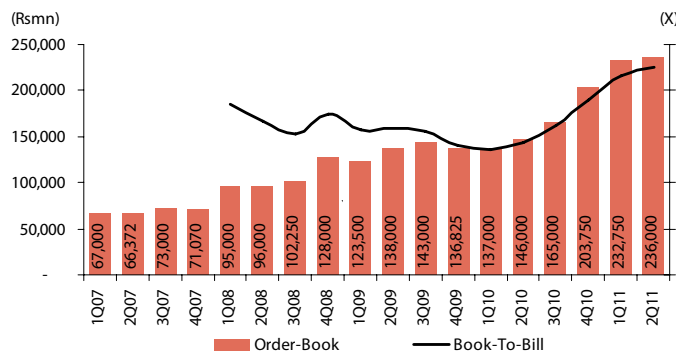
Source: Company

Exhibit 7: Order-Intake Trend over the last 4 years



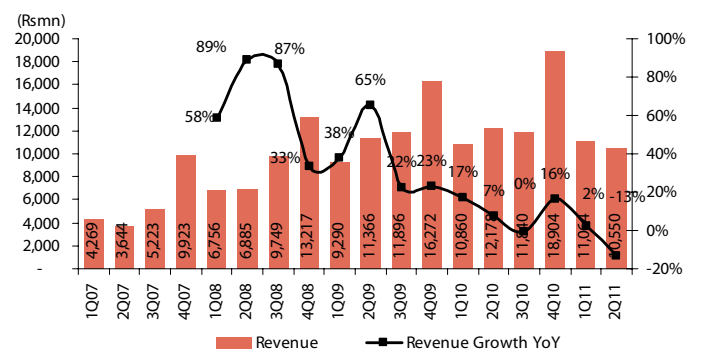
Source: Company

Exhibit 8: Order-book trend & Book-To-Bill Ratio (TTM)



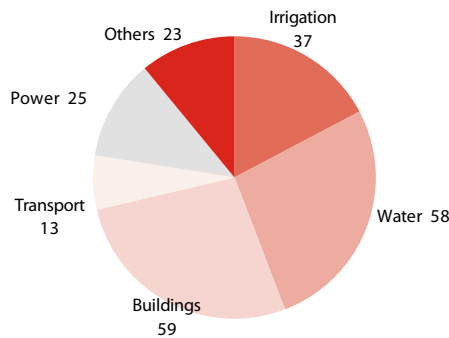
Source: Company

Exhibit 9: Revenue Trend over the last 4 years



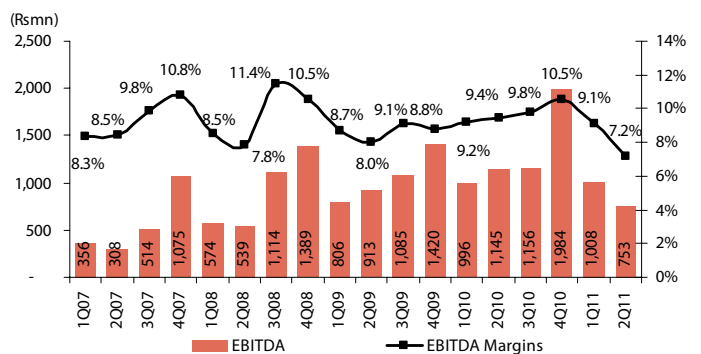
Source: Company

Exhibit 10: H1FY11 Revenue break-up



Source: Company

Exhibit 11: EBITDA margin trend over last 4 Years



Source: Company

Financials (Standalone)

Exhibit 12: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	49,907	55,010	58,456	74,629	91,813
<i>Growth in revenue</i>	36.2	10.2	6.3	27.7	23.0
Cost of Raw Material	42,758	46,281	48,076	61,239	75,523
<i>% of Revenue</i>	85.7	84.1	82.2	82.1	82.3
Employee cost	1,953.1	2,025.6	3,210.2	4,047.8	4,979.8
<i>% of Sales</i>	3.9	3.7	5.5	5.4	5.4
O&M expenses	875.8	1,303.5	1,865.9	2,337.1	2,875.2
<i>% of Sales</i>	1.8	2.4	3.2	3.1	3.1
EBITDA	4,320	5,400	5,304	7,005	8,434
<i>EBITDA Margin (%)</i>	8.7	9.8	9.1	9.4	9.2%
Depreciation	473	543	728	867	955
PBIT	3,847	4,857	4,576	6,138	7,480
Interest expenses	1,306	1,637	2,106	2,589	2,927
PBIT from operations	2,541	3,221	2,470	3,550	4,553
Other non operating income	197	67	353	148	183
PBT before ext.od items	2,738	3,288	2,823	3,698	4,736
Extra-ordinary income/ (exp)					
PBT	2,738	3,288	2,823	3,698	4,736
Provision for tax	478	1,177	942	1,257	1,610
<i>Effective tax rate</i>	17.5	35.8	33.4	34.0	34.0
<i>Minority interest</i>					
PAT	2,260	2,111	1,881	2,441	3,126
Adjustment for Ext.Od items					
Adjusted PAT	2,260	2,111	1,881	2,441	3,126
<i>Growth in PAT (%)</i>	7.4	(6.6)	(10.9)	29.8	28.1
<i>PAT margin</i>	4.5	3.8	3.2	3.3	3.4

Source: Company, Centrum Research Estimates

Exhibit 14: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	267	534	534	534	534
Reserves	17,839	17,999	19,659	21,824	24,595
Shareholders' fund	18,106	18,533	20,193	22,358	25,129
Debt	13,980	16,133	24,666	28,666	31,666
Deferred Tax Liability	117	125	110	110	110
Total Capital Employed	32,203	34,791	44,970	51,135	56,906
Gross Block	6,624	7,502	8,103	8,854	9,755
Accumulated dep.	1,417	1,838	2,566	3,433	4,387
Net Block	5,207	5,664	5,537	5,421	5,367
Capital WIP	196	353	345	338	335
Total Fixed Assets	5,402	6,017	5,882	5,759	5,702
Investments	3,892	6,138	6,338	6,838	7,438
Deferred Tax Asset	-	-	-	-	-
Inventories	2,093	2,447	3,595	4,794	5,744
Debtors	11,430	19,445	27,373	33,231	38,049
Cash & bank balances	1,009	1,644	1,672	1,473	1,922
Loans and Advances	9,319	6,606	12,051	13,966	15,230
Other Current Assets	14,284	16,864	18,642	21,346	22,494
Total current assets	38,135	47,005	63,333	74,810	83,439
Current lia & provisions	15,226	24,369	30,583	36,272	39,672
Net current assets	22,909	22,635	32,751	38,538	43,767
Misc. Expenditure	-	-	-	-	-
Total Assets	32,203	34,791	44,970	51,134	56,906

Source: Company, Centrum Research Estimates

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	2,738	3,288	2,823	3,698	4,736
Depreciation	473	543	728	867	955
Interest expenses	1,636	1,932	2,106	2,589	2,927
OP profit before WC change	4,129	5,570	5,657	7,153	8,617
Working capital adjustment	(2,914)	(2,480)	(10,087)	(5,986)	(4,780)
Gross cash from operations	1,215	3,090	(4,430)	1,167	3,837
Direct taxes paid	(1,018)	(1,293)	(942)	(1,257)	(1,610)
Cash from operations	197	1,797	(5,372)	(90)	2,227
CF from investing					
Capex	(1,659)	(1,231)	(593)	(744)	(898)
Investment	(483)	(1,053)	(200)	(500)	(600)
Others	273	1,006	-	-	-
Cash from investment	(1,869)	(1,278)	(793)	(1,244)	(1,498)
CF from financing					
Proceeds from sh cap & prem.	0	-	-	-	-
Borrowings/ (Repayments)	3,221	2,199	8,533	4,000	3,000
Interest paid	(1,628)	(1,904)	(2,106)	(2,589)	(2,927)
Dividend paid	(189)	(215)	(213)	(276)	(354)
Others	-	-	-	-	-
Cash from financing	1,404	81	6,214	1,135	(280)
Net cash increase/ (dec)	(268)	600	50	(199)	449

Source: Company, Centrum Research Estimates

Exhibit 15: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin Ratios					
EBITDA Margin	8.7	9.8	9.1	9.4	9.2
PBIT Margin	7.7	8.8	7.8	8.2	8.1
PBT Margin	5.5	6.0	4.8	5.0	5.2
PAT Margin	4.5	3.8	3.2	3.3	3.4
Growth Ratios ()					
Revenues	36.2	10.2	6.3	27.7	23.0
EBITDA	18.7	25.0	(1.8)	32.1	20.4
Net Profit	7.4	(6.6)	(10.9)	29.8	28.1
Return Ratios ()					
ROCE	13.1	14.6	11.5	12.8	13.9
ROIC	9.5	10.9	8.7	9.5	10.2
ROE	13.2	11.5	9.7	11.5	13.2
Turnover Ratios					
Asset turnover ratio (x)	1.5	1.6	1.3	1.5	1.6
Working Capital Turnover (x)	2.2	2.4	1.8	1.9	2.1
Avg collection period (days)	83.6	129.0	170.9	162.5	151.5
Avg payment period (days)	118.4	176.0	207.5	193.5	189.5
Per share (Rs)					
Fully diluted EPS	8.5	7.7	7.0	9.0	11.6
CEPS	10.2	9.7	9.7	12.3	15.2
Book Value	67.8	69.4	75.6	83.7	94.1
Solvency ratios					
Debt/ Equity	0.8	0.9	1.2	1.3	1.3
Interest coverage ratio	3.3	3.3	2.5	2.7	2.9
Valuation parameters (x)					
P/E	16.0	17.6	19.4	15.0	11.7
P/BV	2.0	2.0	1.8	1.6	1.4
EV/ EBITDA	11.6	9.8	11.5	9.3	8.1
EV/ Sales	1.0	1.0	1.0	0.9	0.7
M-Cap/ Sales	0.7	0.7	0.6	0.5	0.4

Source: Company, Centrum Research Estimates

Appendix A

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