

## IRB Infrastructure

## Q3FY10 Performance Review

<b>Recommendation</b>	:	<b>Marketperformer</b>
CMP	:	Rs 249
<b>Target</b>	:	<b>Rs 275</b>
Upside Potential	:	10.1 %

<b>Sector</b>	:	<b>Infrastructure</b>
Sensex	:	16,358
Bloomberg code	:	IRB IN
Reuters Code	:	IRBI.BO

### AT A GLANCE

Issued Equity Capital (Cr. Shrs)	:	33.2
Mkt. Cap (Rs. in Crs)	:	8284.0
Major Shareholders		
Promoters (%)	:	73.86%
Free Float (%)	:	26.14%
Avg. Daily Vol. ('000)	:	777

**Background:** Incorporated in 1998, IRB Infrastructure Developers Ltd. is the holding company for SPVs (special purpose vehicles) of 15 BOT (Build, Operate and Transfer) projects, E&C and a real estate subsidiary of IRB Group. The company, along with its subsidiaries has constructed or, operated and maintained more than 1400 km of road length so far. IRB is one of the largest Toll operating companies, with daily toll collection exceeding Rs 2.5 cr from 10 operational Toll road projects.

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### Strong but below estimated top line growth

For Q3FY09, IRB reported below estimated topline growth, mainly on the account of lower revenue growth of the construction segment. The consolidated revenue for the quarter grew by 81% to Rs 433 crore. Net toll revenue for the quarter grew by 93% while revenue from the construction segment increased by 67% over the year ago period. Higher revenue from BOT segment is on the account of toll revenue from the newly commissioned Surat-Dahisar and Surat-Baruch BOT projects. Excluding these projects, the YoY net toll growth stands at healthy 9%.

### Better operating performance resulted in strong bottomline

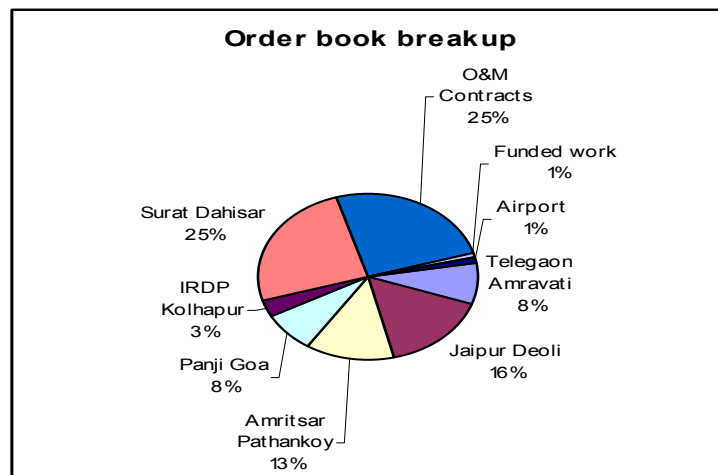
Operating margin for the BOT and construction segment increased by 290 and 80 bps respectively on the sequential basis. Resultantly consolidated OPM increased to 52.4% for the quarter against 42.5% for the same period last year. Commissioning of two BOT projects resulted in higher interest and depreciation expense. However, effective tax rate for the quarter declined to 13%, mainly on the account of higher contribution from BOT segment. Resultantly, net profit for the quarter increased by 139% over the year ago period.

### Order book details

IRB's order book position as on 31<sup>st</sup> December, 2009 stands at Rs9,238 crore. The order backlog is 6X its trailing 12 month consolidated revenue and 10X its TTM construction revenue. Operating and maintenance contracts constitute 25% of the order book while the balance of the order book is formed by construction contracts in BOT projects. The company has also qualified for the bidding of project worth Rs24,000 crores and we expect further accretion of orders in the coming 4-6 months.

FY Mar (Rs Crore)	Turnover	EBITDA	EBIT	Net Profit	EPS (Rs)	BVPS (Rs)	PE (X)	P/BV (X)	EV/EBIDTA (X)	ROE (%)
2009	1021.4	467.0	352.6	175.8	5.3	52.1	43.9	4.5	21.1	10.6
2010E	1970.8	930.4	747.8	380.5	11.4	63.5	21.7	3.9	11.4	20.6
2011E	3404.5	1253.4	988.3	447.2	13.5	77.0	18.5	3.2	8.5	19.9

Order Book Composition	Amount (in Rs cr)
EPC and ongoing BOT projects	2532
BOT projects in O&M phase	2349
Funded construction projects	76
BOT projects under award	4281
<b>Total</b>	<b>9238</b>



### Earnings revision and Valuation

We are decreasing our FY11 revenue estimates by 2%. However, on account of higher operating margin estimates, we are increasing our FY11 earning estimates by 6%. At the CMP of Rs249, the stock is currently quoting at P/E of 21.7x and 18.5x of its FY10 and FY11 earnings respectively and EV/EBITDA of 11.4x and 8.5x of its FY10 and FY11 estimates respectively. We reiterate our **Marketperformer** rating on IRB while marginally increasing our target price to Rs **275**. We have valued the company with SOTP method and our target price implies 10.1% upside form the current levels.

### Result Summary Q3FY10 (Consolidated)

	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)
<b>Net sales</b>	433.1	239.1	81.1%	355.9	21.7%
Total expenditure	205.9	137.6	49.7%	181.2	13.7%
Direct expenses	175.3	118.2	48.2%	150.9	16.2%
Employee cost	18.3	11.5	59.8%	16.8	8.9%
Office administration & other expense	12.3	7.9	57.2%	13.5	-8.5%
<b>Operating profit</b>	227.1	101.5	123.7%	174.7	30.0%
Other income	8.7	9.0	-3.3%	7.4	17.9%
EBITDA	235.8	110.5	113.4%	182.1	29.5%
Interest	73.6	36.4	101.9%	47.7	54.4%
PBDT	162.3	74.1	119.0%	134.4	20.7%
Depreciation	53.1	28.6	85.5%	39.6	34.0%
<b>PBT</b>	109.2	45.5	140.1%	94.8	15.2%
Tax	13.9	7.2	92.2%	20.5	-32.1%
<b>PAT (before minority interest)</b>	95.3	38.2	149.5%	74.3	28.2%
Minority interest	3.8	0.0		3.5	9.9%
<b>PAT</b>	91.4	38.2	139.1%	70.8	29.1%
EPS	2.75	1.15	139.1%	2.13	29.1%

## Segment results

	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)
<b>Revenues</b>	<b>441.8</b>	<b>248.1</b>	<b>78.1%</b>	<b>363.3</b>	<b>21.6%</b>
Construction	235.4	141.3	66.6%	201.8	16.7%
BOT	206.4	106.8	93.3%	161.5	27.8%
<b>EBITDA</b>	<b>235.8</b>	<b>110.6</b>	<b>113.2%</b>	<b>182.1</b>	<b>29.5%</b>
Construction	50.5	19.8	155.1%	41.7	21.0%
BOT	185.3	90.8	104.1%	140.4	32.0%
<b>Interest</b>	<b>73.6</b>	<b>36.5</b>	<b>101.6%</b>	<b>47.7</b>	<b>54.4%</b>
Construction	5.5	1.0	450.0%	6.1	-9.7%
BOT	68.1	35.4	92.4%	41.6	63.8%
<b>Depreciation</b>	<b>53.1</b>	<b>28.6</b>	<b>85.7%</b>	<b>39.6</b>	<b>34.0%</b>
Construction	12.6	4.5	180.0%	13.3	-5.2%
BOT	40.5	24.1	68.0%	26.3	53.8%
<b>Tax expense</b>	<b>13.9</b>	<b>7.2</b>	<b>93.1%</b>	<b>20.5</b>	<b>-32.2%</b>
Construction	6.6	3.9	69.2%	7.9	-16.3%
BOT	7.3	3.3	121.2%	12.6	-42.2%
<b>PAT</b>	<b>95.3</b>	<b>38.2</b>	<b>149.5%</b>	<b>70.8</b>	<b>34.6%</b>
Construction	25.8	10.3	150.5%	14.5	78.3%
BOT	69.5	27.9	149.1%	56.3	23.4%
<b>Margins (%)</b>					
<b>EBITDA</b>	<b>53.4%</b>	<b>44.6%</b>		<b>50.1%</b>	
Construction	21.5%	14.0%		20.7%	
BOT	89.8%	85.0%		86.9%	
<b>PBT</b>	<b>24.7%</b>	<b>18.3%</b>		<b>26.1%</b>	
Construction	13.8%	10.1%		11.1%	
BOT	37.2%	29.3%		44.9%	
<b>PAT</b>	<b>21.6%</b>	<b>15.4%</b>		<b>19.5%</b>	
Construction	11.0%	7.3%		7.2%	
BOT	33.7%	26.1%		34.9%	

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STOCK RATING: Outperformer: > 20% upside over the next 12 months; Marketperformer: trade within a +/-20% range over the next 12 months; Underperformer: > 20% downside over the next 12 months.