IRB INFRASTRUCTURE DEVELOPERS LTD.

November 18, 2011

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IRB Infrastructure Ltd (IRB) is one of the largest domestic infrastructure developers with a robust book-to-bill ratio of 3.95x in FY'11 revenue, lending an earning visibility for the next 3-4 years. IRB, to its credentials, possesses superior-quality road assets, with over 40% of the total road portfolio in Maharashtra along with over 11% of NHAI flagship program~ "Golden Quadrilateral". The company's strategy to de-risk its business by entering into other verticals like airport development and real estate, tied with enlarging mismatch in Indian road network, may also augur well for the company.

Investor's Rationale

- With high project management expertise, cutting edge technology, large in house equipment bank and design innovation, IRB is well poised to capitalize on the growing demand for infrastructural development in the road and highway segment in the country. NHAI is planning to add 24,406km by 2017 and large numbers of projects are yet to receive bids. With a track record of building mammoth size infrastructure in short span of time, the road ahead for the construction giant becomes easy.

- IRB derives around ~60% of its revenue from the collection of tolls across 1,000km of road in the country. With the increase in traffic and the toll tariff, the highways developer IRB with lion's share in the Golden Quadrilateral is expected to achieve a growth of 25% in its toll revenues over ₹10 billion by the end of FY12.

- With massive order book of ~₹96.3 billion, IRB not only enjoy high revenue visibility for the next 3-4 years but also garners support for structured growth. Its strong execution capability has also enabled the IRB to bid for mega highways and hence is confident to achieve its internal benchmark of IRR of ~16%. Its integrated business model also adds a low cost advantage, providing an unparallel edge over its peers.

- IRB to its credential has some of the very high-density, strategically aligned road stretches in its gamut. IRB, through its BOT assets portfolio, controls over 11% of the total stretch of the Golden Quadrilateral (GQ). These high-density stretches would not only reduce the average payback period for a typical road BOT project but would also ensure that the company would grow both in terms of traffic and toll tariff.

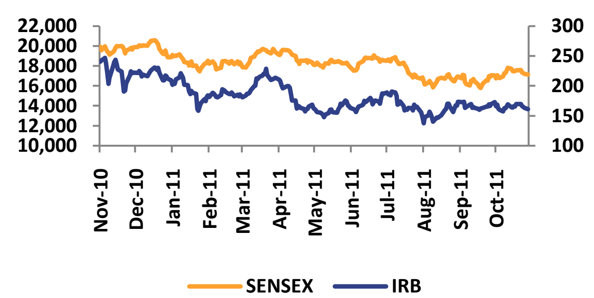
Market Data

Rating	BUY
CMP (₹)	139
Target (₹)	170
Potential Upside	~22%
Duration	Mid-Term
52 week H/L (₹)	271/132
All time High (₹)	303
Decline from 52WH (%)	44.4
Rise from 52WL (%)	6.1
Beta	1.0
Mkt. Cap (₹ bn)	46.1
Enterprise Val (₹ bn)	81.3

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	17.0	24.3	29.9	38.3
Net Profit(₹bn)	3.8	4.5	4.8	5.3
Share Capital	3.3	3.3	3.3	3.3
EPS (₹)	11.6	13.6	14.4	16.0
PE (x)	12.0	10.2	9.6	8.7
P/BV (x)	2.3	1.9	1.6	1.4
EV/EBITDA (x)	8.4	7.0	6.8	6.0
ROE (%)	18.9	18.6	16.8	16.0
ROCE (%)	13.2	13.0	13.1	13.9

One year Price Chart

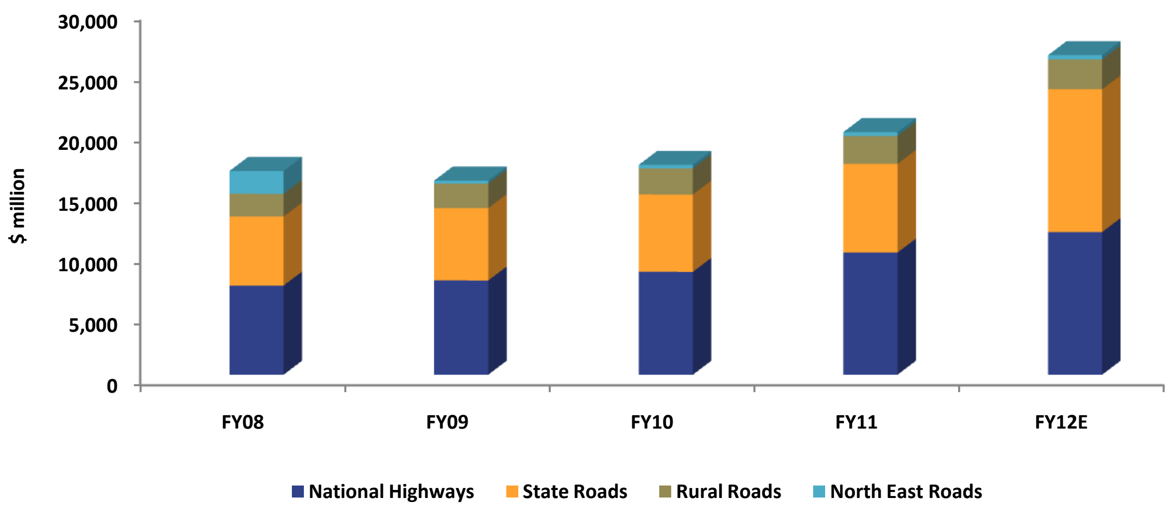


Shareholding Pattern	Sep'11	Jun'11	Diff.
Promoters	74.9%	74.8%	0.1
Institutional	18.1%	17.4%	0.6
General Public	4.6%	4.7%	(0.1)
Others	2.5%	3.1%	(0.6)

Plethora of opportunity in the road network space

IRB being the prime beneficiary in road infra space, is well poised to capitalize on the high demand for infrastructure in India, particularly in the road network space. Road network exhibited a 2.4% CAGR during FY'01-10 as against increase in passenger and commercial vehicles by 13.6% and 14% respectively during the same period. India has the second largest road network in the world spread across 3.3 million kms, handling more than 70% of freight and 85% of passenger traffic in the country. However, the country's network of Highways or Expressways, measured over 70,934 km comprises only of 2% of the length of total road network. Considering congested structure of the Indian road network and its growing traffic burden, the Government of India has launched major initiatives to upgrade and strengthen National Highways through various phases of the National Highways Development Project (NHDP). In addition, NHAI plans to add 24,406km over the next 5 years (Mar'17) at a total cost over ₹1.5 trillion. With augmented focus of Government of India on developing national highways, NHAI has targeted to award orders worth ~₹570 billion (~8,000kms) during FY'12 and another 1,000kms on Annuity/EPC basis projects are also expected to be awarded in FY'12. While the balance of 16,406km worth over ₹1 trillion is likely to be awarded by NHAI during FY'13E-15E respectively, to various road developers in order to achieve its target of constructing and delivering 24,406km or national highways by 2017. Given the focus and impetus on the road sector, the magnitude of opportunity for the players cannot be undermined from the escalation prospective available in Indian Road sector. Further, given the large number of projects that are still to be bided in the road sector, the magnitude of opportunity for the players cannot be undermined, as the Ahmedabad-Vadodra project falls in the basket of IRB, the road ahead becomes easier for the company, as it is well-positioned to win other projects. Recently, the Cabinet Committee, on Infrastructure approved 15 projects totaling 1,184 km at an investment of ₹156.8 billion.

Investment opportunity in Indian road network



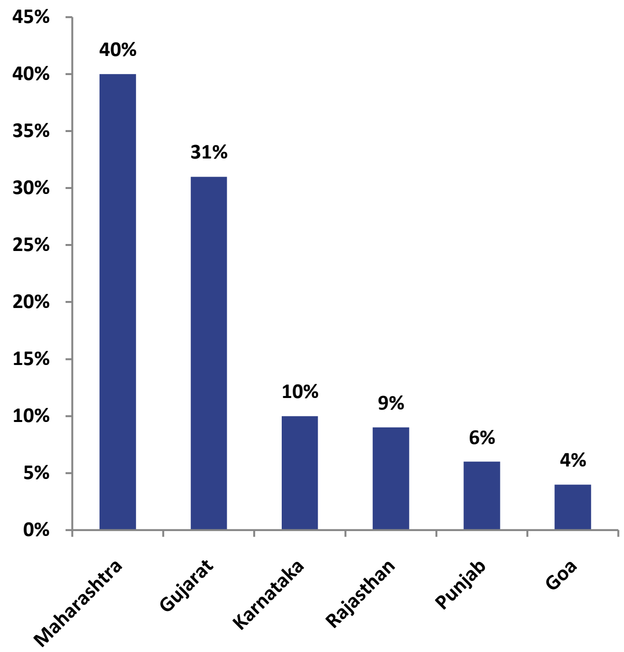
Robust Q2FY'12 earnings

IRB`s Q2 FY'12 topline grew 50.1% YoY to ₹7.35 billion on account of strong execution in the construction division which grew over 78% during the quarter, while BOT business surged over 17%. The robust growth in construction revenue was driven by strong execution in Surat Dahisar and Jaipur Deoli. The growth in BOT revenue was supported by 18% toll rate hike in Mumbai Pune project from 1st April 2011, 10% toll hike in Bharuch Surat from 1st July 2011 and 10% hike in Surat Dahisar from 1st September 2011. In addition there was average traffic growth of 6% across projects. The company reported 452bps decline in its operating margin at 43.7%, with construction segment margin stood at 23%. Nonetheless, IRB reported ₹1.10 billion PAT, an increase of 8.9% over corresponding period last year, on the back of over 103% surge in its interest cost of ₹1.41 billion tied with forex losses of ₹140 million.

One of the largest player in Indian Road Network

IRB is one of the largest road developers in India and collects toll across 1,000km of road stretches amounting over ₹26 million on a daily basis. IRB currently has 18 projects in its BOT assets portfolio located across 6 major states in India, of which 11 are fully operational, 5 are under construction. Of the balanced two projects financial closure is achieved for one and for recently awarded ultra mega expressway concession agreement is yet to be documented. The company has 11 assets in Maharashtra and operates over all major entry and exit routes in city of Mumbai, Pune and Kolhapur. IRB currently controls Lion's share amounting over 11% of the total stretch of Golden Quadrilateral (GQ). IRB's road portfolio consists of 3,413 Lane Kms of operational and 2,322 Lane kms of under development roads with a good mix of State and National Highways. It further realised gross revenue of ₹0.89 million per Lane Km. While the revenue per lane km figure looks encouraging, a volume driven growth could be seen as and when further projects get operational. Apart from this portfolio IRB also has 987 Lane Kms under award stage which will further add to the EPC order book and ensure long term growth for the company.

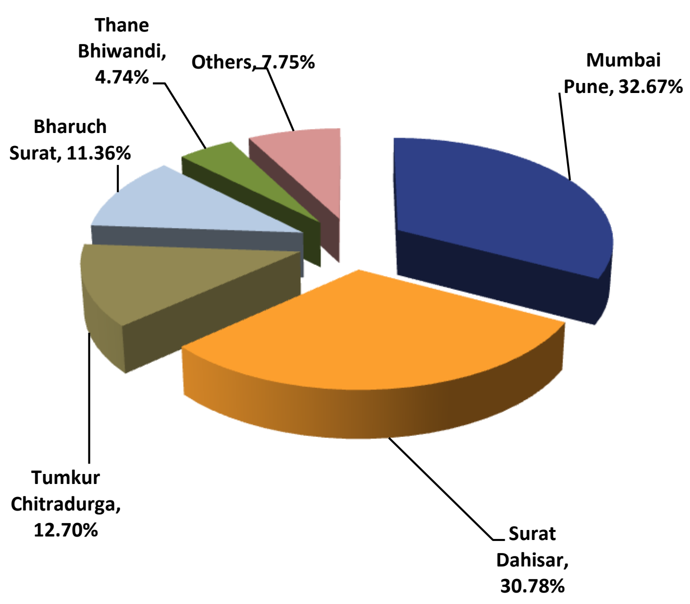
Geographical break-up of road portfolio



Superior asset quality ~ higher per day toll revenue

IRB to its credential has some of the very high-density, strategically aligned road stretches in its gamut. IRB, through its BOT assets portfolio, controls over 11% of the total stretch of the Golden Quadrilateral (GQ). IRB hold one of the busiest corridors~ Mumbai Pune expressways along with entire stretch from Dahisar to Bharuch in two parts. These high-density stretches would not only reduce the average payback period for a typical road BOT project but would also ensure that the company would grow both in terms of traffic and toll tariff. With the increase in traffic and the toll tariff, the highways developer IRB Infra expects a growth of 25% in its toll revenues over ₹10 billion by the end of this fiscal. The company hiked the Mumbai Pune Expressway toll rate by 18% and commenced tolling on the Tumkur Chitradurga highway in June, 2011. Besides, the gross toll revenue per day of the company increased to ₹33 million/day in Q2 FY'12 vs. ₹25 million/day in Q2 FY'11. While the company witnessed steady traffic growth of over 6% across its road assets. The securing of key traffic corridors and timely completion of the same also stands testimony to excellent execution capabilities of the company.

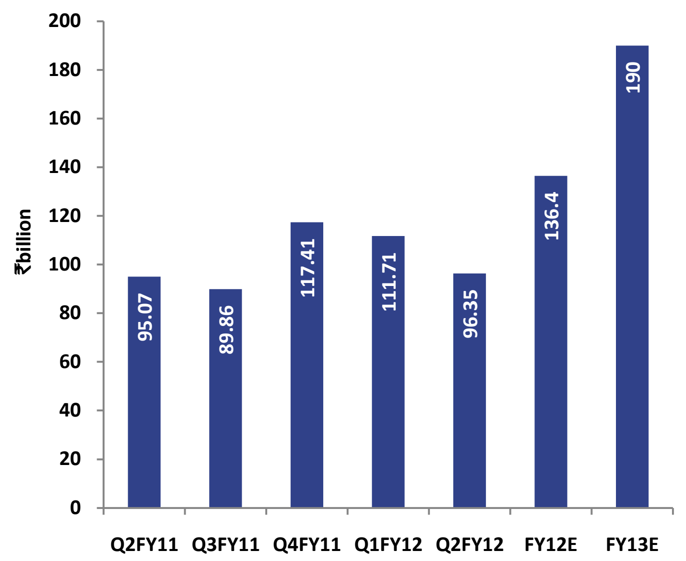
Revenue dependency on road projects



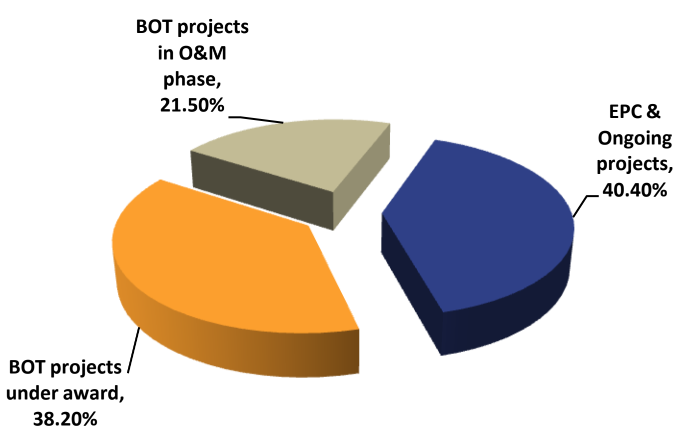
Robust order book would ensure earning visibility for next 3-4 years

Despite being no fresh order intake during the H1 FY'12, the unexecuted order book of the company stood over ₹96.3 billion (3.95x FY'11 revenue), including ₹20.7 billion of O&M work, ₹38.9 billion from under construction work and ₹36.78 billion of work for which LOA received but work not started. The order book is excluding the Goa Panaji order, as land acquisition is still awaited on the same. The robust order book of over ₹96 billion lends high earning visibility for the next three-four years. The high earning visibility would ensure that the company would achieve its internal benchmark of IRR of ~ 16%. The company is well poised to take a structured growth over next three-four years. Besides this, IRB has expressed its interest for projects worth ₹490 billion of which projects worth ₹52 billion are in RFP stage and IRB has prequalified to bid for project size of ₹41 billion. Meanwhile, the management has given guidance of 15-20% growth for FY'12, led by combination of higher toll and traffic increases and on-schedule execution of four of its under construction projects.

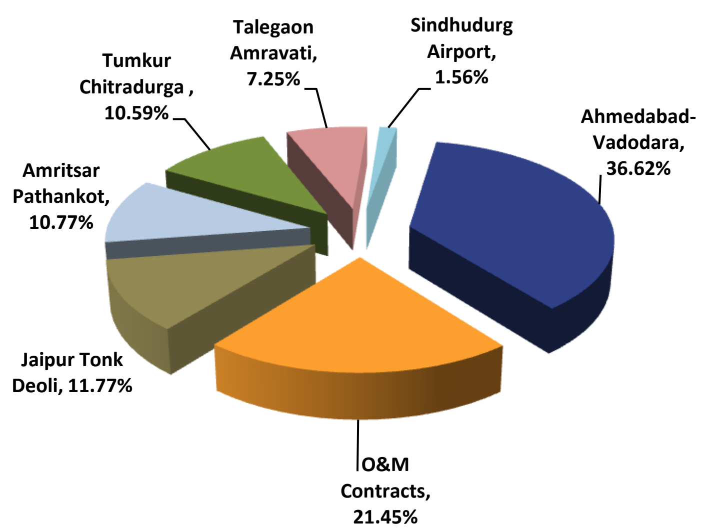
Order book trend



Order book break-up



Project wise order book break-up



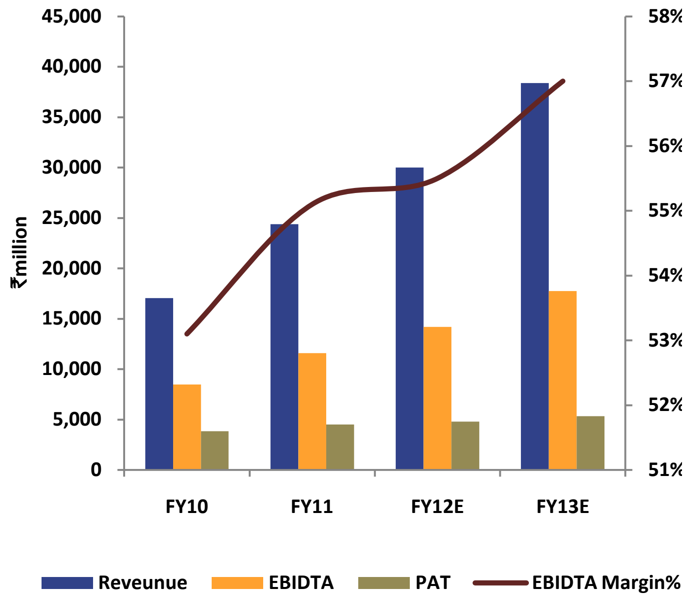
Integrated business model would ensure elevated margins backed by in-house EPC

IRB benefitted highly from its integrated business model, wherein the internal construction arm, Modern Road Makers (MRMPL), undertakes EPC work related to secured road BOT projects. The lowest cost advantage attached to it provides an unparallel edge as compared to its other counterparts. IRB execute all its BOT road projects and other road projects in house on contractual basis through its 100% subsidiary MRMPL. MRMPL has executed 1200km of road projects till date. MRMPL builds roads for funded projects for major bodies like NHAI, MSRDC, PWD, various municipal corporations and for its own BOT projects. The company has acquired state of art equipments and with it owns equipments, IRB is capable to execute several projects simultaneously. Also, company owns quarrying of key raw materials like bitumen which enables it to control cost and earn relatively higher margins on aggressively bided projects also. The concession agreements of all the projects allow the developer to raise toll rates as per a pre specified formula. This poses further confidence on the company as the increased maintenance costs can easily be transferred to end users without taking a hit on margins.

On track execution

Strong execution capability of the company has enabled the IRB to bid for mega highways and it has been already awarded the first, of five Ultra Mega projects by NHAI. It has won Ahmedabad to Vadodara section of NH-8 on Design Build Finance Operate Transfer basis, with a concession of 25 years. Beside this, the two projects - Surat Dahisar & Kolhapur project has been completed substantially (~95%) and IRB is awaiting completion certificate for the same. The final project cost of Surat Dahisar now stands at ₹25.3 billion vs. ₹22.5 billion indicated earlier. Further, major construction revenue in FY'13 would be due to execution of Jaipur-Deoli, Talegaon-Amravati, Pathankhot-Amritsar and the newly awarded Ahmedabad-Vadaodara projects. We have assumed revenue growth of 25% CAGR over FY'11-13E.

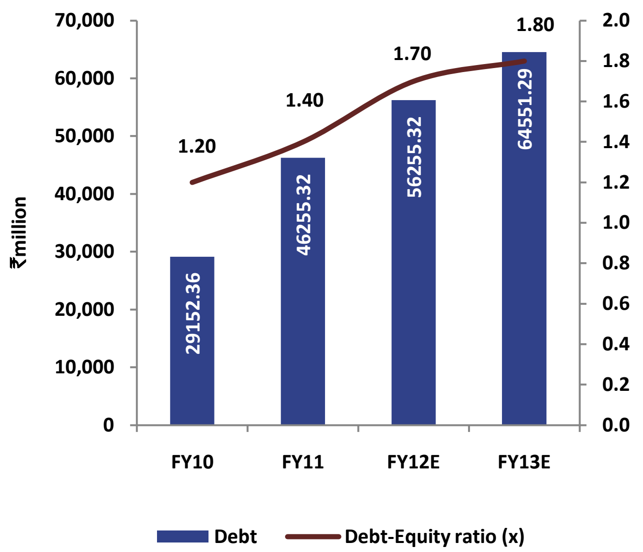
Future growth pegged @ 25% during FY'11-13



Less Financial Leverage than peers

IRB has ~₹12 billion of cash on its consolidated books at the end of FY'11, with net debt to equity ratio stood at 1.41x, though high but looking at the current scenario is better than its peers. Most of the company's projects have debt to total capital ratio of more than 50%. This makes the company vulnerable to adverse interest rate movements, but the company as already created a buffer by negotiating debts at favourable terms with lenders and wherever possible the developer has secured foreign loans to fund the projects. With rise in toll collection and steady growth in traffic, we expect the leverage would remain under comfort zone of the management.

Leverage to remain under comfort zone



Fund raising through ECB would minimize borrowing cost

The financial closure of Ahmedabad Vadodara project would be achieved by the end of December 2011 or by beginning of January 2012. IRB is looking for a mix of ECB route as well as rupee loan to reduce the interest cost to 10.5-11%, as higher domestic interest rates are hitting the margins. This could substantially lower project's interest cost, leading to higher earnings. IRB is fully funded in terms of equity requirement for existing projects. In the next three and half years it needs `30-35 billion of equity funding (including Ahmedabad Baroda) which would be met through internal cash generation.

Venturing into Airport Development and Real Estate would de-risk its business

IRB signed development agreement with MIDC (Maharashtra Industrial Development Corporation) in Sep'2009 for development of green-field airport on BOT basis on 670 acres plot for an estimated total project cost of ₹1.7 billion for a concession period of 95 years including 18months of construction period. IRB has completed land acquisition for a premium of ₹200 million. The company plans to apply for MoEF clearance, after the ban on projects in Konkan region is expected to expire. IRB has acquired large traction of land of ~1200 acres alongside of Mumbai Pune Expressway and intends to develop integrated township. This move of the company would go a long way in leveraging its revenue basket with inflow from varied sector.

Indian Infrastructure Industry

The Infrastructure Industry in India has been experiencing a rapid growth in its different verticals with the development and urbanization leading to increasing interest shown by foreign as well as domestic investors and infrastructure players in this field. The Eleventh Five-Year Plan (2007-2012) of the Planning Commission of the Government of India identifies high quality infrastructure as the most critical physical requirement for attaining faster growth in a competitive global environment and also for ensuring investment in less-developed regions. Moreover, the Planning Commission states that the total investment needed in infrastructure would have to increase to 9.3% by the final year of the Eleventh Plan period to meet India's target GDP growth rate of 9%. In Budget 2011-12, the government of India has also allotted over ₹2,140 billion for infrastructure development, which was 23.3% higher than budget 2010-11 allocation.

Road and Highways

India has the second largest road network in the world spread across 3.3 million kms, handling more than 70% of freight and 85% of passenger traffic in the country. However, the country's network of Highways or Expressways, measured over 70,934 km comprises only of 2% of the length of total road network. Considering congested structure of the Indian road network and its growing traffic burden, the Government of India has launched major initiatives to upgrade and strengthen National Highways through various phases of the National Highways Development Project (NHDP), entailing an estimated investment of more than ₹3,000 billion.

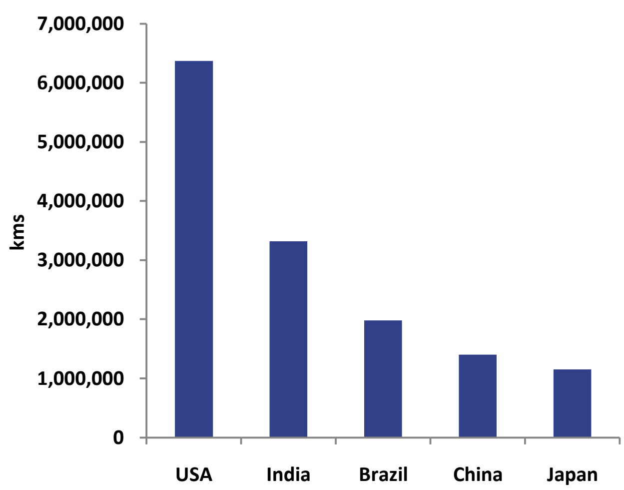
In recent times, Indian roads sector has witnessed increased traction in terms of bidding activities. India built about 1,800 kms of roads in FY11. In FY12, the Indian government intends to award contracts to build 7,300 km of highway, as part of its drive to take up the pace of construction to 20 km a day. So far, the road transport and highways ministry and NHAI have only managed to step up the award process to 20 km a day but the pace of construction has remained at 4-5 km a day. Actual construction of 20 km a day is only expected to commence by 2014.

This accelerated pace of road network expansion is driven by several policy and structural reforms being implemented. Other Government's initiatives that includes, awarding Mega projects (9 projects each of approx. ₹50 billion), conversion of approx. 10,000 kms of State Highways to National Highways, Expressway development in various states etc. indicates the latent opportunities for both, infrastructure developers and construction companies.

Indian Road Network

	Length (In Km)
Expressways	200
National Highways	70,934
State Highways	1,31,899
Major District Roads	4,67,763
Rural and Other Roads	26,50,000
Total Length	33,20,796

India owns the world's second largest road network



Outlook

In the first six months ended September 2011, the cumulative growth rate of eight key infrastructure sectors of the country has been sluggish at 4.9% against 5.6% registered in the same year-ago period, dragged down by decline in coal, natural gas and fertiliser output, rising interest rates and input costs. However, the growth scenario is expected to gain momentum in the next five years ending March 2017, considering India's plans to invest $1 trillion in building infrastructure, of which the government has set a target of $500 billion investment in 2012. With increasing investment, the share of private sector in total investment on infrastructure has increased rapidly. The contribution of private sector in total infrastructure investment in each of the first two years of 11th Plan (2007-2012) was around 34%. This is higher than the 11th Plan target of 30%, and 25% achieved in 10th Plan period. It is expected to rise to 36% by end of 11th Plan and 50% during the 12th Plan (2012-2017).

Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	3,323.6	3,323.6	3,323.6	3,323.6
Reserve and surplus	17,075.3	21,002.2	25,274.9	30,020.6
Net Worth	20,398.9	24,325.9	28,598.6	33,344.2
Minority Interest	778.7	895.7	895.7	895.7
Loan funds	29,152.4	46,255.3	56,255.3	64,551.3
Deferred Tax Liability	267.2	232.1	232.1	232.1
Capital Employed	**50,597.2**	**71,709.0**	**85,981.7**	**99,023.3**
Gross fixed assets	40,185.1	41,316.7	60,971.7	73,166.0
Less: acc. depreciation	5,510.8	7,695.0	10,603.9	14,557.6
Net Fixed assets	34,674.3	33,621.8	50,367.8	58,608.4
Capital WIP	8,802.4	25,084.7	20,067.7	23,315.0
Total Fixed Assets	43,476.7	58,706.4	70,435.5	81,923.4
Investment	450.6	550.5	605.6	666.1
Net Current Assets	6,660.8	12,442.9	14,931.5	16,424.7
Miscellaneous Exp.	9.1	9.1	9.1	9.1
Capital Deployed	**50,597.2**	**71,709.0**	**85,981.7**	**99,023.3**

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Operating Income	**17,048.5**	**24,381.1**	**29,988.8**	**38,385.6**
Other Income	489.5	644.9	838.4	1,257.6
Operating Expenses	9,058.5	13,441.9	16,643.8	21,879.8
EBITDA	**8,479.5**	**11,584.1**	**14,183.4**	**17,763.4**
EBITDA Margin (%)	48.3	46.3	46.0	44.8
Depreciation	1,819.1	2,253.7	2,908.9	3,953.7
EBIT	**6,660.5**	**9,330.5**	**11,274.5**	**13,809.7**
EBIT Margins (%)	38.0	37.3	36.6	34.8
Interest	2,493.9	3,572.1	5,038.1	6,602.3
PBT	**4,166.6**	**5,758.4**	**6,236.3**	**7,207.3**
Tax	133.0	1,117.5	1,434.4	1,873.9
Net Profit	**3,854.0**	**4,523.8**	**4,802.0**	**5,333.4**
Net Profit Margin (%)	22.0	18.1	15.6	13.5

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	48.3	46.3	46.0	44.8
EBIT Margin (%)	38.0	37.3	36.6	34.8
NPM (%)	22.0	18.1	15.6	13.5
ROCE (%)	13.2	13.0	13.1	13.9
ROE (%)	18.9	18.6	16.8	16.0
EPS (₹)	11.6	13.6	14.4	16.0
P/E (x)	12.0	10.2	9.6	8.7
BVPS	61.4	73.2	86.0	100.3
P/BVPS (x)	2.3	1.9	1.6	1.4
EV/Operating Income (x)	4.2	3.3	3.2	2.8
EV/EBITDA (x)	8.4	7.0	6.8	6.0

Valuation and view

With high project management expertise, cutting edge technology, large in house equipment bank and design innovation, IRBI has been maintaining track record of building mammoth size infrastructure in short span of time. With massive order book of ~₹75.68 billion, the company is also expected to enjoy high revenue visibility for the next 2-3 years. Based on a sound business model with well defined business strategies, the company's balance sheet is expected to reach ~₹1billion in the coming two years.

Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹139. At the current market price, the stock is trading at PE of 9.6x on FY12 EPS of ₹14.4 and 8.7x on FY12E EPS of ₹16.

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