

BSE Code: 530773 **NSE Code:** IVRCLINFRA **Reuters Code:** IVRC.NS **Bloomberg Code:** IVRC:IN

IVRCL Ltd (IVRCL) is one of the leading players in the construction space, which has been on the news in the recent times over its takeover battle with the Essel Group. Although, trader's excitement over the stock has worn-off after Essel Group backed-off its position, we believe there is lot to come from the stock. The company has a very strong order book of ~₹250 billion and has embarked on a major restructuring programme for its businesses, which entails amalgamation of IVRCL Assets and Holdings Ltd with itself and demerger of the real estate business.

Investor's Rationale

IVRCL is an emerging player in the Infrastructure sector with strong focus in the Irrigation and Water space. The company over the past 25 years has strengthened its position in the Industry as leading constructors in the roads, power transmission, railways, real estatesegment and has even set-up its own sea water desalination plant. Under its wider diversification strategy, it also eyes to foray into oil & gas, Industrial Infra and metro railway space.

During the first nine of the fiscal, IVRCL recorded a strong order book of over ₹260 billion, resulting a robust book-to-bill ratio of over 4.6x of its FY'11 revenue that provides strong earning visibility in next 2-3 years. Further, IVRCL has also emerged as L1 bidder for projects worth over ₹30 billion. We expect order intake to remain healthy given the recent pick up in order awards from NHAI and various state government agencies in the coming years.

With shifting focus of IVRCL from the water and irrigation division towards the transportation space, the company has narrowed its revenue dependability from single segments operations. NHAI has an ambitious target of awarding road contracts of 16,406km 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, which opens wide opportunities for emerging players like IVRCL to bank on.

With IVRCL's strategic move to sell a part of its BOT asset portfolio and land bank to reduce the debt burden, we expect the company to bring financial stability to its balance sheet with around ₹10-15 billion debt reduction, which in turn will reduce its interest levels and help the company to swing back to profitability.

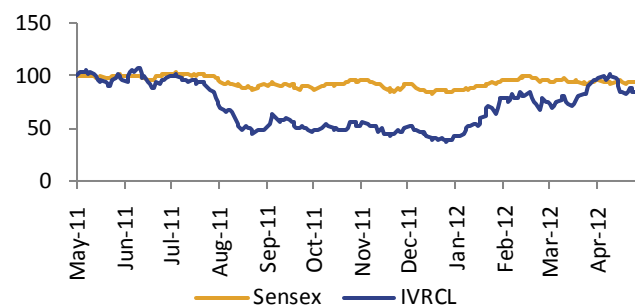
Market Data

Rating	BUY
CMP (₹)	56.7
Target (₹)	75
Potential Upside (%)	~32%
Duration	Long Term
52 week H/L (₹)	78.9/27.1
All time High (₹)	114.4
Dedine from 52WH (%)	28.1
Rise from 52WL (%)	109.2
Beta	1.9
Mkt. Cap (₹ bn)	110.2
Enterprise Value (₹ bn)	222.1

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	58,318.1	68,376.4	69,743.9	78,113.2
Net Profit(₹mn)	2,156.0	506.0	293.8	958.9
Share Cap. (₹mn)	537.6	554.9	554.9	554.9
EPS (₹)	8.0	1.8	1.1	3.5
P/E (x)	7.1	31.1	53.5	16.4
P/BV (x)	0.6	0.6	0.6	0.6
EV/EBITDA (x)	7.6	8.3	9.7	8.3
ROE (%)	8.0	1.9	1.1	3.4
ROCE (%)	9.1	7.3	6.0	7.3

One year Price Chart



Shareholding Pattern	Dec'11	Sep'11	Diff.
Promoters	11.2	11.2	-
FII	33.0	37.1	(4.1)
DII	3.1	5.4	(2.3)
Others	52.7	46.3	6.4



A ₹16 billion Company, leadership in building water Infrastructure

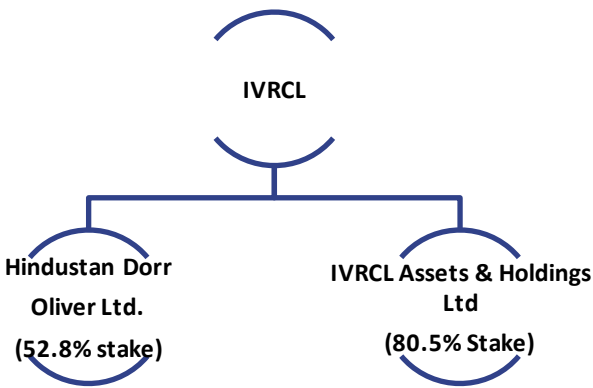
Over 25 years, IVRCL has established a distinct identity in India as a leading constructors of buildings, industrial structures, bridges, flyovers, highways, roads, power transmission, railways, real estate and water treatment plants.

IVRCL Ltd, incorporated in 1987 and promoted by Mr E Sudhir Reddy, is among the leading players in the infrastructure space with a market capitalization of ~₹16 billion. The company started its journey with strong focus on Irrigation and Water projects, built several build canals and reservoirs, penetrated deeper into the segment to create an established track record in the execution of high end water infrastructure projects. Today, IVRCL has emerged as one of the leading constructors of buildings, industrial structures, bridges, flyovers, highways, roads, power transmission, railways, real estate, water treatment plants and even set-up its own sea water desalination plant. Under its wider diversification strategy, it also it also eyes to foray into oil & gas, Industrial Infra and metro railway space.

In FY10, the company restructured its BOT asset portfolio which was under IVRCL's 100% subsidiary, IVR Strategic Re-sources & Services Ltd and IVRCL Water Infra structures and merged the same into IVRCL Assets, to leverages its expertise in construction and project execution. The company has one of the largest BOT portfolios, with diversified presence in roads and desalination projects.IVRCL’s ample management skills were on display in the successful acquisition, assimilation and turnaround of Hindustan Dorr Oliver, a leading Engineering, Procurement and Construction Company (EPC).All these companies are an integral part of the IVRCL Group’s overall strategy to emerge as a dominant force in the specialized engineering.

Over the past three, years, with proven project execution skills and presence across 21 states in India, the company has grown at 31% CAGR in terms of revenues. By the end of the first nine months of the fiscal, IVRCL had an order book of 260 billion and expects to win order worth ₹30-40billion in the next few quarters. With Increased government commitment towards infrastructure projects and the integrated execution capabilities of the company, we remain positive on the long term outlook of IVRCL.

IVRCL-Corporate Structure



IVRCL-competitive Advantage





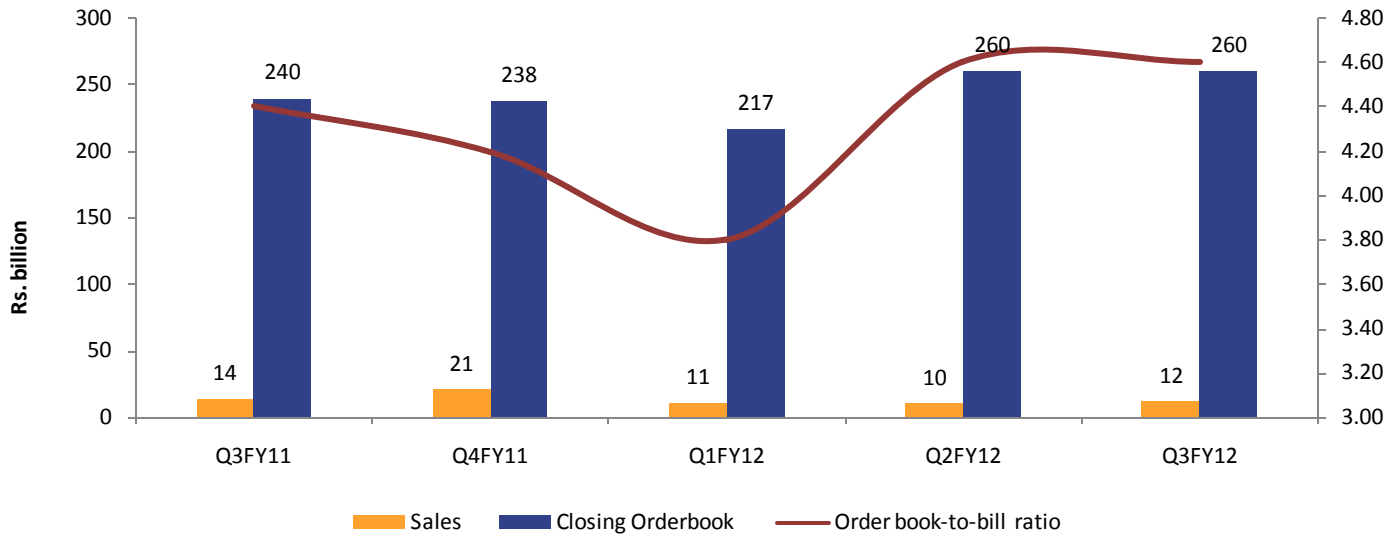
Strong book-bill ratio @ 4.6x provide earning visibility for next 18-24 months

IVRCL's current order backlog stood over ₹250 billion, which translates into robust book-to-bill ratio of over 4.6x of its FY'11 revenue and providing strong earning visibility in next 2-3 years. The company to its credential bagged orders worth over ₹34 billion during the recent quarter, 68% jump as compared with last year, while the fresh order tally crosses the ₹107 billion during the year till date. Further, out of the total order backlog ₹64 billion is the captive orders and the IVRCL is L1 bidder for projects worth over ₹30 billion. The order inflows in the quarter includes ₹12 billion of EPC work for the new BOT road project Raipur-Bilaspur bagged by IVRCL Assets (internal order). IVRCL has able to grab 4 large ticket orders, including 3 orders worth over ₹39 billion in road infra space (Trans-Arunachal highway project, Raipur-Bilaspur section of NH-200 and 4-lanning project in Haryana) while the fourth order is in mining space ~ ₹12 billion order from Hindustan Copper for the development of an underground mine of 5mtpa capacity at Balaghat, Madhya Pradesh.

We expect order intake to remain healthy given the recent pick up in order awards from NHA and various state government predominately for roads (awarded ~4700 km of roads vs. 2000 km in 1HFY'11) and also traction in project awards for water management space.

Stellar book-bill ratio of 4.6x of its FY'11 earnings would ensure revenue visibility for next 18-24 months

Order book stays strong but execution concerns still loom



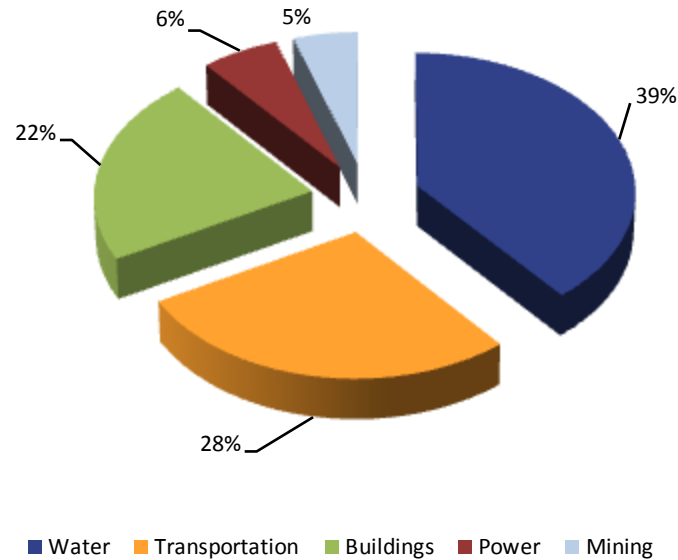
IVRCL's order intake, likely to breach ₹125 billion mark of fresh order intake during FY'13E

IVRCL's order book is predominantly dominated by projects from water management space contributing over ~39% of the order book, followed by the Transportation segment that accounts for over ~28% of the order book, while construction segment accounts over 22% of the total order backlog. While nearly half of these orders are with shorter execution cycle. This helps it enjoy high book-to-bill conversion ratio.

Further, the company is positive on the future outlook in terms of new inflows as the current bids outstanding are to the tune of over ₹500 billion. It has witnessed a bid strike rate of 20-22% in the past few years, and going by the track record there is strong visibility of new orders. The management is confident to cross ₹125 billion mark of fresh order intake during FY'13E.



Water segment dominates order book with 39% share in 9MFY12



Plethora of opportunity in the road network space ~ National Highways

IVRCL, whose total order has around 28% exposure towards the transportation 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 of 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 bid in the road sector, the magnitude of opportunity for the players cannot be undermined, considering the rich experience the SIIL poses, the road ahead becomes easier for the company, as it is well-positioned to win other projects.

Order inflow in FY'11 remains dull as NHAI awarded ~ just 5000 km of road against an ambitious target of 12,000 km of roads. However, the traction so far in FY'12 has been good as NHAI awarded ~ over 5,000 km of road (including ~ 400 km of L1) against ~2300km in full year of FY11. We believe the government is taking concerted action to meet the target of building 20kms of highways per day. These include appropriate policy changes, increasing ordering activity and making adequate financing available for the sector.

Only 2% of the total road network of the India comprises of highways and expressways, opening vast opportunities for emerging players in the sector like IVRCL

NHAI aims to add 24,406km of roads to the Indian road network over the next 5 years





IVRCL's road projects under execution

Project Name	Length (kms)	Concession period (years)	Project Cost (₹billion)
Sion - Panvel	25	19	17.05
Baramati - Phaltan	78	25	3.8
Chengapalli - Walayar	42	27	11.2
Indore-Jhabua-Gujrat/MP	155	27	15.2
Goa - Maharashtra	122	23	31.
Karanji - Wani – Ghuggus- Chandrapur project	80	30	7.5
Widening of Nechipu to Hoj via Seppa, Khodaso, Saggalee	311	17	14.8

BOT asset sale programme likely to reduce IVRCL's debt of least ₹10-15 billion and drive earnings growth in FY13.

IVRCL might need ₹3 billion for five under construction projects in FY13E, which might hinder debt reduction efforts.

BOT Assets sale to drive balance sheet improvement

IVRCL is all set to divest its holding in three road projects in Tamil Nadu, namely, Kumarpalayam-Chengapalli, Salem-Kumarpalayam and Chengapalli-Walayar, which were once taken up by the company with an outlay of ₹25 billion. The proposed deal, where the IVRCL is likely to divest up to 49% in the projects is expected to rake in about Rs750 crore for the company. Of the proposed projects for sale, work on the Chengapalli-Walayar stretch is still on and is expected to be commissioned by the end of 2013 while the other two projects are at the tolling mode. The move of the company is aimed at retrieving a significant portion of debt burden of the special purpose vehicles (SPVs) engaged in BOT projects and at obtaining back the equity investments which the company plans to deploy in other projects. IVRCL Assets Holdings has close to ₹7.5 billion loan from IVRCL, of which ₹4 billion is expected to be repaid from asset sale by FY12 end. This should help in trim IVRCL's debt and drive earnings growth in FY13. Prior to this, the company has sold land in Noida worth ₹2.25 billion for the same purpose. The proceeds of the asset sale programme are likely to be utilized to meet equity requirement in BOT projects.

The management of Hyderabad-based firm programme to sell its infrastructure assets comprises of road projects, desalination plant, tankages and oil wells in Egypt and Oman. However, exiting the road projects was on priority. Presently, the company has eight road projects, both completed and under construction, and five other BOT assets that include desalination, sewage treatment, tankages, multi-level car parking and truck terminal projects. The management hopes to retire a debt of at least ₹10-15 billion through sale of the road projects as IVRCL highly leveraged balance sheet and a debt burden continues to be a cause of worry. It currently has around ₹24 billion of debt for parent firm and another ₹20 billion across different SPVs.



Huge land bank of IVRCL Asset to work in advantage of IVRCL

Huge Land Bank with IVRCL Assets

IVRCL Assets has a land bank of about 3,300 acres spread over Noida, Bangalore & Hyderabad, and many road projects that have strong revenue visibility. The company is engaged in the construction activities on the same in various phases which is the company's core business. By developing the land company can earn huge revenues. This is an added advantage to IVRCL which holding 80% of the stake.

Merger with IVRCL Asset & Holdings to facilitate direct ownership of BOT projects

IVRCL has received approval from Competition Commission of India (CCI) for the proposed amalgamation of IVRCL Assets and Holdings with itself and the demerger of its real estate business into a new company. Post the merger, equity funding for mega projects being routed through IVRCL, the merger will give direct ownership of BOT assets to IVRCL and the huge land bank of the group to it, which could be monetized to raise funds for equity requirements and working capital. However, at the same time, IVRCL Asset & Holdings debt burden will also add to IVRCL's existing debt after the merger.

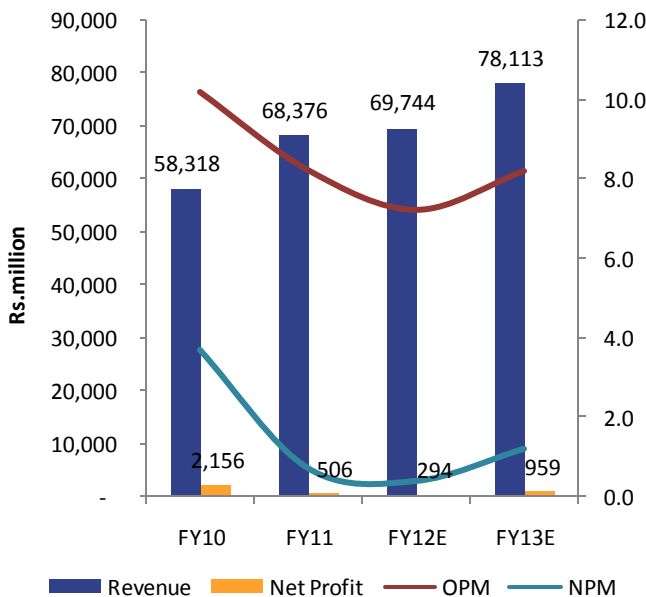
Rising operating cost hammers 9MFY12 profitability

During 9MFY12, IVRCL's profitability has tumbled 79.6% to ₹191.4 million from ₹936.5 million in the same period a year earlier due to higher operating cost, high interest costs, rising working capital requirements and regulatory issues. Led by slower execution, lack of clearances, slow decision-making and unseasonal rains, the revenues of the private construction firm also fell 6.3% to ₹33,729 million in the first nine months of the fiscal. The operating margins of the company have fell by 200 basis points as the company could not absorb the overhead due to a muted top-line.

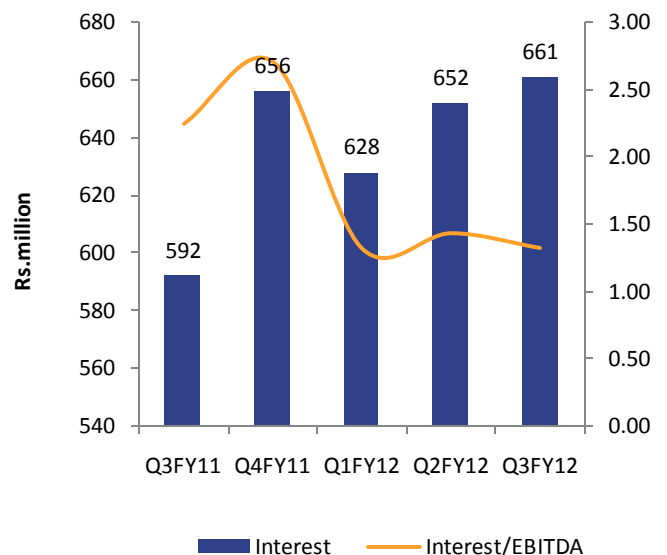
Merger with IVRCL Assets & Holdings to boost asset portfolio of IVRCL

9M profitability fell ~80% while revenue fell ~6% for the period

Profitability trend falls due to higher operating cost



Interest coverage potential shows a downtrend





Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	537.6	554.9	554.9	554.9
Reserve and surplus	26,372.0	26,756.2	26,961.9	27,633.1
Net Worth	26,909.6	27,311.3	27,516.8	28,188.1
Loan funds	33,064.2	43,048.3	49,720.8	52,952.7
Minority Interest	5,623.6	6,466.9	6,466.9	6,466.9
Deferred Tax Liability	3.3	114.8	150.0	150.0
Capital Employed	65,600.7	76,941.3	83,854.6	87,757.7
Total Fixed assets	28,133.0	37,259.7	41,109.1	43,451.0
Investment	41.3	1,096.1	1,100.0	1,100.0
Net Current Assets	37,426.5	38,585.4	41,645.5	43,206.7
Capital Deployed	65,600.7	76,941.3	83,854.6	87,757.7

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	11.6	11.0	10.4	11.4
EBIT Margin (%)	10.2	8.2	7.2	8.2
NPM (%)	3.7	0.7	0.4	1.2
ROCE (%)	9.1	7.3	6.0	7.3
ROE (%)	8.0	1.9	1.1	3.4
EPS (₹)	8.0	1.8	1.1	3.5
P/E (x)	7.1	31.1	53.5	16.4
BVPS	100.1	98.4	99.2	101.6
P/BVPS (x)	0.6	0.6	0.6	0.6
EV/Operating Income (x)	0.9	0.9	1.0	0.9
EV/EBITDA (x)	7.6	8.3	9.7	8.3
EV/EBIT (x)	8.6	11.1	13.9	11.5

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	58,318.1	68,376.4	69,743.9	78,113.2
Other income	203.2	171.8	309.5	340.5
Expenses	51,738.7	61,001.9	62,769.5	69,520.7
EBITDA	6,782.7	7,546.2	7,283.9	8,932.9
<i>EBITDA Margin %</i>	11.6	11.0	10.4	11.4
Depreciation	802.6	1,904.9	2,228.7	2,496.2
EBIT	5,980.1	5,641.3	5,055.2	6,436.7
Interest	2,198.7	4,210.4	4,673.6	5,140.9
Profit Before Tax	3,781.4	1,430.9	381.6	1,295.8
Tax	2,846.6	1,136.3	87.8	336.9
Net Profit	2,156.0	506.0	293.8	958.9
<i>NPM %</i>	3.7	0.7	0.4	1.2

Valuation and view

IVRCL's stock price has corrected over 20% in the past 1 year, on account of slower execution in Andhra Pradesh, extended monsoons and tardy process of land acquisition and other clearances. With negatives largely factored in, we find the present valuations attractive for making a re-entry into the stock. We believe that IVRCL will continue tapping huge opportunities in Irrigation, water and Road related projects. While over the past couple of years the company has strengthened its position in Buildings and Industrial Structures segment, going forward, power transmission projects will increasingly contribute to the growth. Considering strong order book of over ₹250 billion and merger of the company with its subsidiary IVRCL Asset & Holding on cards, we are positive on the outlook of the company. And hence, rate the stock as BUY. At the current market price of ₹56.7, the stock is trading at a PE of 16.4x on FY'13E EPS of ₹3.5.



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