

IRB Infrastructure Developers

BUY

INDUSTRY INFRASTRUCTURE

CMP (as on 24 Jul 2017) Rs 216

Target Price Rs 288

Nifty 9,966

Sensex 32,246

KEY STOCK DATA

Bloomberg IRB IN

No. of Shares (mn) 351

MCap (Rs bn) / (\$ mn) 76/1,184

6m avg traded value (Rs mn) 605

STOCK PERFORMANCE (%)

52 Week high / low Rs 273/177

3M 6M 12M

Absolute (%) (12.1) (0.3) 0.2

Relative (%) (20.9) (18.0) (15.8)

SHAREHOLDING PATTERN (%)

Promoters 57.37

FIs & Local MFs 8.17

FPIs 26.97

Public & Others 7.49

Source : BSE

Robust performance

IRB's 1QFY18 Revenue, EBIDTA and PAT were 30/16.3/10.9% ahead of our estimates on account of robust EPC revenue growth of 45% YoY.

EBITDA margins contracted ~600bps YoY to 45% led by change in revenue mix towards EPC (73% rev share vs 61% YoY) which has lower EBITDA margins (30%) vs BOT Assets (85%). IRB's 1QFY18 order backlog of Rs 89.1bn (2.5x FY17 EPC revenue) provides growth visibility on EPC front with EPC revenue expected to grow 10-15% in FY18E.

IRB has reported toll collection for all projects excluding InvIT assets (pending result declaration). Mumbai Pune posted robust growth of 21.2% YoY (lead by 17% tariff hike). Ahmedabad Vadodara and Amritsar Pathankot grew 4.7% and 8.9% YoY (4.5% tariff hike included).

BOT project pipeline remains strong. Maintain BUY with SOTP of Rs 288/sh.

Financial Summary (Consolidated)

Year Ending March (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	18,169	15,173	19.7	16,271	11.7	51,279	58,459	56,510	62,450
EBITDA	8,178	7,740	5.7	8,218	(0.5)	26,603	30,483	26,328	30,913
APAT	2,379	1,818	30.8	2,072	14.8	6,395	7,144	8,359	9,492
Diluted EPS (Rs)	6.8	5.2	30.8	5.9	14.8	18.2	20.3	23.8	27.0
P/E (x)						11.9	10.6	9.1	8.0
EV / EBITDA (x)						8.1	6.3	7.8	7.0
RoE (%)						13.9	13.6	13.9	14.2

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- **EPC revenue robust, toll de-growth owing to deconsolidation:** IRB reported 45/(16.5)% YoY EPC/BOT revenue growth during 1QFY18. Project yet to commence construction (61% of order book pending FC and appointed date), may slowdown execution during next two quarters. GST impact has reflected from June 2nd half and may persist till 2QFY18E, resulting in muted toll growth.
- **Ahmedabad BOT key pain point – Rs 8bn sub debt from IRB towards cash shortfall:** with competing stretch being upgraded by Gujarat State, IRB is facing loss in traffic. IRB has raised the issue with NHAI and wants it to take up the issue under 'State Support Agreement'. Resolution expected over next few quarters. Despite the additional funding, Net D/E has reduced to 2.1x vs 2.87x end FY17.
- **Near-term outlook:** (1) Traffic growth to meaningfully pick up across projects from 3QFY18E on low base, (2) Competitive intensity in BOTs segment remains low, and (3) BS improvement will lead to further re-rating.

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EBITDA margins contracted ~600bps YoY to 45%, led by change in revenue mix towards EPC (73% rev share vs 61% YoY) which has lower EBITDA margins vs BOT Assets. EBITDA margins also got impacted owing to Rs 400mn InvIT issue expense

Interest/Depreciation de-grew 13/17.7% leading to PBT growth of 58.1% YoY

Other income includes Rs 231mn profit on transfer of six BOT assets to InvIT

Higher tax provisioning on expiry of 80IA benefit and BOT losses resulted in APAT growth of 30.8% YoY

IRB's 1QFY18 order backlog is Rs 89.1bn (2.5x FY17 EPC revenue)

Consolidated gross/net debt in 1QFY18 stands at Rs 134.7/111.7bn. Consolidated Net D/E at 2.1x is very comfortable

Consolidated Quarterly Financial

Particulars (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	18,169	15,173	19.7	16,271	11.7
Material Expenses	8,467	6,291	34.6	6,648	27.4
Employee Expenses	572	639	(10.5)	814	(29.8)
Other Operating Expenses	952	504	88.9	591	61.1
EBITDA	8,178	7,740	5.7	8,218	(0.5)
Depreciation	1,816	2,207	(17.7)	2,264	(19.8)
EBIT	6,362	5,532	15.0	5,954	6.9
Other Income	535	308	74.1	289	85.0
Interest Cost	2,854	3,282	(13.0)	3,260	(12.5)
PBT	4,044	2,558	58.1	2,983	35.5
Tax	1,665	740	125.0	911	82.7
RPAT	2,379	1,818	30.8	2,072	14.8
APAT	2,379	1,818	30.8	2,072	14.8

Source: Company, HDFC sec Inst Research

Margin Analysis

	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Material Expenses % Net Sales	46.6	41.5	514	40.9	574
Employee Expenses % Net Sales	3.1	4.2	(106)	5.0	(186)
Other Operating Expenses % Net Sales	5.2	3.3	192	3.6	161
EBITDA Margin (%)	45.0	51.0	(600)	50.5	(549)
Tax Rate (%)	41.2	28.9	1,225	30.5	1,063
APAT Margin (%)	13.1	12.0	111	12.7	36

Source: Company, HDFC sec Inst Research

IRB 1QFY18 EPC revenue grew 45% YoY led by strong execution in 5 under construction projects

1QFY18 BOT YoY revenue de-grew 16.5% as the six BOT assets moved to InvIT from 9th May 2017. IRB toll revenue got impacted by GST resulting in overall traffic growth of 4% for the portfolio ex InvIT

EBIDTA margins contracted by 540bps YoY owing to higher revenue share from EPC segment

Toll collection grew 14.4% YoY on account of 17% tariff hike in Mumbai Pune and 4.5% hike in Ahmedabad Vadodara and Amritsar Pathankot project

Ahmedabad –Vadodara project is seeing diversion to competing state highway and IRB has sought relief from NHAI. Total claims Rs 1.7bn has been filed from Dec-15 onwards. Parallely, IRB has asked NHAI to take up issue with Gujarat State

Segmental Performance

Particulars (Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Revenue	18,704	15,481	20.8	16,561	12.9
Construction	13,623	9,398	45.0	10,619	28.3
BOT	5,081	6,083	(16.5)	5,942	(14.5)
EBITDA (incl OI)	8,713	8,047	8.3	8,507	2.4
Construction	4,348	2,890	50.4	3,353	29.7
BOT	4,365	5,157	(15.4)	5,154	(15.3)
EBITDA Margin (%)	46.6	52.0	(539.6)	51.4	(478.5)
Construction (%)	31.9	30.8	116.2	31.6	34.3
BOT (%)	85.9	84.8	114.1	86.8	(83.6)
EBIT	6,898	5,840	18.1	6,244	10.5
Construction	4,105	2,762	48.6	3,194	28.6
BOT	2,792	3,078	(9.3)	3,050	(8.4)
EBIT Margins (%)	36.9	37.7	(84.4)	37.7	(82.3)
Construction (%)	30.1	29.4	74.7	30.1	6.1
BOT (%)	55.0	50.6	436.2	51.3	362.7

Source: Company, HDFC sec Inst Research

Project Wise BOT Revenue Trend

Particulars (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Mumbai - Pune	1,598	1,464	1,621	1,649	1,880	1,735	1,372	1,832	2,278
Surat - Dahisar BOT Project	1,506	1,446	1,563	1,619	1,609	1,484	1,114	1,475	-
Tumkur Chitradurga	505	488	512	514	529	497	399	543	-
Bharuch Surat Project	487	454	492	502	494	470	372	500	-
TBB - 4 (Mumbra)	196	189	201	209	202	188	152	202	-
Thane - Ghodbunder	99	74	77	79	90	83	52	82	84
Pune - Nashik	65	67	67	69	70	77	59	76	79
Pune - Solapur	60	54	59	60	63	55	45	61	64
Namakkal - Ommalur	186	184	166	213	204	192	149	193	-
Ahmedabad - Vadodara	435	368	527	856	875	826	690	917	916
Talegoan Amravati	121	102	120	129	127	117	102	148	-
Jaipur Deoli	329	263	295	319	321	267	224	312	-
Amritsar Pathankot	225	217	272	272	294	279	238	271	320
Agra Etawah	-	-	-	-	-	167	208	261	247
Total (Rs mn)	5872.9	5381.0	5972.1	6490.0	6756.9	6437.8	5176.4	6873.0	3,988.0

Source: Company, HDFC sec Inst Research, - InvIT assets toll number will be released along with InvIT results

We value IRB's BOT portfolio at Rs 128/share

We value standalone EPC business at 4x FY19E EV/EBIDTA and reduce net debt as of FY18E to arrive at EPC value of Rs 125/share

We value the 15% stake in InvIT at BV value of units held at Rs 25/sh

Real Estate land holding at Rs 10/share

Maintain BUY with SOTP-based target price of Rs 288/sh

Outlook And Valuation

Target Price of Rs 288/sh implies 33.9% upside

- We have value BOT projects on DCF basis with 12.5-14% WACC. We arrive at Rs 128/sh valuation for the IRB's BOT portfolio.
- We have valued EPC standalone at 4x FY19E EV/EBIDTA. This is 50% discount to peers as IRB largely executes captive BOT orders and in an event of

slowdown in BOT project awards, IRB may get negatively impacted.

- We maintain BUY with TP of Rs 288/share. We peg (1) BOT projects at Rs 128/share, (2) EPC business at Rs 125/share (4x FY19E EV/EBIDTA), (3) InvIT stake at Rs 25/sh and (4) Real estate at Rs 10/sh.

SOTP Valuation

SPV	Asset Operated	Holding	Valuation Measure	Disc rate	Value (Rs mn)	Value /Share
BOT						
Mhaiskar Infrastructure	Mumbai Pune Expressway	100%	FCFE	12.5%	18,032	51.3
IRB Infrastructure	Kharpada-Patalganga Bridge	100%	FCFE	13.0%	263	0.7
Ahmedabad Vadodara	Ahmedabad Vadodara	100%	FCFE	14.0%	(8,069)	(23.0)
ATR Infrastructure	Pune Nashik	100%	FCFE	13.0%	315	0.9
Aryan Toll Road	Pune Sholapur	100%	FCFE	13.0%	1,297	3.7
Agra Etawah	Agra Etawah	100%	FCFE	13.5%	(481)	(1.4)
Amritsar Pathankot	Amritsar Pathankot	100%	FCFE	13.0%	4,017	11.4
Kaithal Rajasthan	Kaithal Rajasthan	100%	FCFE	13.5%	5,642	16.1
Goa - Kundapur	Goa - Kundapur	100%	FCFE	13.5%	7,522	21.4
Thane Ghodbunder Toll Road	Thane Ghodbunder	100%	FCFE	13.0%	689	2.0
Yadeshi Aurangabad	Yadeshi Aurangabad	100%	FCFE	13.5%	9,209	26.2
Solapur yadeshi	Solapur yadeshi	100%	FCFE	13.5%	3,988	11.3
NKT Road & Toll	Ahmednagar Tembhurni Road	100%	FCFE	13.0%	(24)	(0.1)
BOT FCFE	Gross value of BOT - (I)				44,980	128
EPC						
Modern Road Makers	EPC Business	100%	EV/EBIDTA(x)	4	42,018	119.6
PV of O&M Contracts	PV of O&M Contracts	100%	NPV	13.0%	3,363	9.6
Net debt				Standalone	(1,532)	(4.4)
Value of EPC segment	(II)				43,849	125
Add : INVIT investment value	Gross value of Units at BV - (III)		Unit Value	15% stake	8,890	25
Add : Real Estate	Gross value of Real Estate - (IV)				3,500	10.0
Total	Total Value - (I)+(II)+(III)+(IV)				1,01,219	288

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	38,475	51,279	58,459	56,510	62,450
Growth (%)	3.1	33.3	14.0	(3.3)	10.5
Material Expenses	13,060	20,538	22,867	25,220	26,058
Employee Expenses	1,898	2,465	2,726	2,469	2,713
Other Operating Expenses	1,400	1,673	2,384	2,493	2,767
EBIDTA	22,117	26,603	30,483	26,328	30,913
EBIDTA Margin (%)	57.5	51.9	52.1	46.6	49.5
EBIDTA Growth (%)	26.1	20.3	14.6	(13.6)	17.4
Depreciation	7,071	8,533	8,548	5,231	5,754
EBIT	15,046	18,069	21,935	21,097	25,159
Other Income (Incl EO items)	1,130	1,272	1,232	1,541	1,726
Interest	9,312	10,639	13,327	11,595	13,334
PBT	6,864	8,702	9,839	11,043	13,551
Tax	1,441	2,306	2,685	2,761	4,065
RPAT	5,423	6,395	7,154	8,282	9,486
OCI/Min Int./Share of associates	(6)	1	10	(77)	(6)
APAT	5,429	6,395	7,144	8,359	9,492
APAT Growth (%)	18.2	17.8	11.7	17.0	13.5
Adjusted EPS (Rs/sh)	15.4	18.2	20.3	23.8	27.0
EPS Growth (%)	18.2	17.8	11.7	17.0	13.5

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	3,515	3,515	3,515	3,515	3,515
Reserves	40,094	44,785	53,214	59,634	66,924
Total Shareholders Funds	43,609	48,299	56,729	63,149	70,438
Minority Interest	351	355	365	289	283
Long Term Debt	119,747	138,063	120,897	132,930	145,575
Short Term Debt	6,315	11,887	9,308	9,431	9,431
Total Debt	126,062	149,950	130,205	142,361	155,006
Net Deferred Taxes	170	148	148	148	148
TOTAL SOURCES OF FUNDS	170,191	198,753	187,447	205,947	225,876
APPLICATION OF FUNDS					
Net Block (Inc CWIP)	365,991	391,687	311,549	311,321	310,567
Investments	88	68	68	68	68
Total Non-current Assets	366,078	391,754	311,617	311,389	310,634
Inventories	2,598	3,088	2,494	2,521	2,738
Debtors	49	1,037	863	721	742
Cash & Equivalents	16,322	15,610	13,077	18,859	20,895
Other Current Assets	8,845	10,337	10,337	10,337	10,337
Total Current Assets	27,814	30,072	26,771	32,438	34,713
Current liabilities	221,525	221,390	149,340	135,673	117,452
Provisions	2,189	1,687	1,687	2,030	2,030
Total Current Liabilities	223,714	223,077	151,027	137,703	119,482
Net Current Assets	(195,900)	(193,005)	(124,256)	(105,265)	(84,769)
Misc Expenses & Others	13	4	87	(177)	10
TOTAL APPLICATION OF FUNDS	170,191	198,753	187,447	205,947	225,876

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	6,864	8,702	9,839	11,043	13,551
Non-operating & EO items	(1,130)	(1,272)	(1,232)	(1,541)	(1,726)
Interest expenses	9,312	10,639	13,327	11,595	13,334
Depreciation	7,071	8,533	8,548	5,231	5,754
Working Capital Change	205,938	(3,607)	(71,283)	(13,208)	(18,460)
Tax Paid	(1,441)	(2,306)	(2,685)	(2,761)	(4,065)
OPERATING CASH FLOW (a)	226,615	20,690	(43,485)	10,359	8,388
Capex	(239,217)	(34,310)	74,533	(4,823)	(5,187)
<i>Free cash flow (FCF)</i>	<i>(12,602)</i>	<i>(13,620)</i>	<i>31,048</i>	<i>5,536</i>	<i>3,201</i>
Investments	1,187	1,292	1,232	1,541	1,726
INVESTING CASH FLOW (b)	(238,029)	(33,018)	75,765	(3,282)	(3,461)
Share capital Issuance	191	-	-	-	-
Debt Issuance	23,117	23,888	(19,745)	12,156	12,645
Interest expenses	(9,312)	(10,639)	(13,327)	(11,595)	(13,334)
Dividend	(1,260)	(1,632)	(1,657)	(1,939)	(2,202)
FINANCING CASH FLOW (c)	12,737	11,617	(34,730)	(1,378)	(2,891)
NET CASH FLOW (a+b+c)	1,322	(712)	(2,450)	5,699	2,036
EO Items, Others	-	-	(83)	83	-
Closing Cash & Equivalents	16,322	15,610	13,077	18,859	20,895

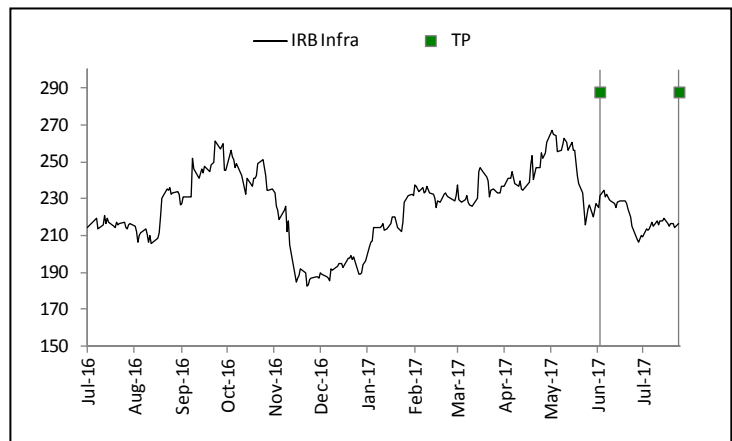
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	66.1	59.9	60.9	55.4	58.3
EBITDA Margin	57.5	51.9	52.1	46.6	49.5
EBIT Margin	39.1	35.2	37.5	37.3	40.3
APAT Margin	14.1	12.5	12.2	14.8	15.2
RoE	13.7	13.9	13.6	13.9	14.2
RoIC	8.6	7.9	8.9	8.8	9.0
RoCE	8.3	7.7	8.7	8.7	8.7
EFFICIENCY					
Tax Rate (%)	21.0	26.5	27.3	25.0	30.0
Fixed Asset Turnover (x)	0.1	0.1	0.2	0.2	0.2
<i>Inventory (days)</i>	<i>24.7</i>	<i>22.0</i>	<i>15.6</i>	<i>16.3</i>	<i>16.0</i>
<i>Debtors (days)</i>	<i>0.5</i>	<i>7.4</i>	<i>5.4</i>	<i>4.7</i>	<i>4.3</i>
<i>Other Current Assets (days)</i>	<i>83.9</i>	<i>73.6</i>	<i>64.5</i>	<i>66.8</i>	<i>60.4</i>
<i>Current Liab (days)</i>	<i>2,101.6</i>	<i>1,575.8</i>	<i>932.4</i>	<i>876.3</i>	<i>686.5</i>
<i>Provision (days)</i>	<i>20.8</i>	<i>12.0</i>	<i>10.5</i>	<i>13.1</i>	<i>11.9</i>
<i>Cash Conversion Cycle (days)</i>	<i>(2,013.3)</i>	<i>(1,484.9)</i>	<i>(857.5)</i>	<i>(801.7)</i>	<i>(617.6)</i>
Debt/EBITDA (x)	5.7	5.6	4.3	5.4	5.0
Net D/E	2.5	2.8	2.1	2.0	1.9
Interest Coverage	1.6	1.7	1.6	1.8	1.9
PER SHARE DATA					
EPS (Rs/sh)	15.4	18.2	20.3	23.8	27.0
CEPS (Rs/sh)	35.6	42.5	44.6	38.7	43.4
DPS (Rs/sh)	3.1	4.0	4.1	4.8	5.4
BV (Rs/sh)	124.1	137.4	161.4	179.7	200.4
VALUATION					
P/E	14.0	11.9	10.6	9.1	8.0
P/BV	1.7	1.6	1.4	1.3	1.2
EV/EBITDA	8.4	8.1	6.3	7.8	7.0
EV/Revenues	4.8	4.2	3.3	3.6	3.5
OCF/EV (%)	1.2	0.1	(0.2)	0.1	0.0
FCF/EV (%)	(6.8)	(6.3)	15.6	2.7	1.5
FCFE/Market Cap (%)	1.6	(0.5)	(2.5)	7.5	3.1
Dividend Yield (%)	1.4	1.9	1.9	2.2	2.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-Jun-17	232	BUY	288
25-Jul-17	216	BUY	288

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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