

# Stock Update

Weak operational performance; maintain Hold

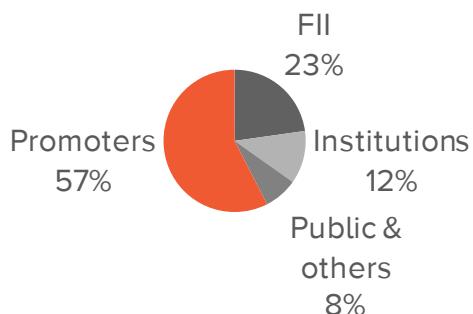
## IRB Infrastructure Developers

Reco: Hold | CMP: Rs133

### Company details

Price target:	Rs150
Market cap:	Rs4,685 cr
52-week high/low:	Rs244/106
NSE volume: (No of shares)	24.9 lakh
BSE code:	532947
NSE code:	IRB
Sharekhan code:	IRB
Free float: (No of shares)	14.9 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	1.6	-10.4	-41.4
Relative to Sensex	5.4	-8.3	-20.1	-49.0

### Key points

- Strong EPC execution negated by weak margins and below-the-operating-line expenses:** In Q4FY2019, IRB Infrastructure Developers' (IRB) consolidated revenue grew by 41% y-o-y to Rs. 1,948 crore, led by strong growth in construction income (up 59.1% y-o-y) and healthy BOT revenue (up 8.7% y-o-y). Barring Ahmedabad Vadodara (toll revenue up 12% y-o-y) and Kaithal Rajasthan (up 39.1% y-o-y), like-to-like comparison of BOT portfolio shows a decline of 2.6% y-o-y (down 1.3% y-o-y). Management attributes slower growth in toll revenue to softening of traffic due to construction activities at some of its projects and due to election period. Operating profit margin (OPM) contracted by 865 BPS y-o-y to 39% on account of a sharp decline in construction margins (down 653 BPS y-o-y), which was affected by higher booking of low-margin utility shifting revenue. Hence, operating profit grew by just 15.4% y-o-y to Rs. 760 crore. Further, higher depreciation (up 17.8% y-o-y, two projects got operational), higher interest (up 50.2% y-o-y, debt drawdown for three Rajasthan projects) and higher tax rate (42.4% in Q4FY2019 vs. 37.6% in Q4FY2018) led to a 13.3% y-o-y decline in consolidated net profit to Rs. 208 crore.

- Aiming to grow its revenue by 30% and operating profit by 20% y-o-y during FY2020:** Management expects FY2020 revenue to grow by 30%, which is expected to be contributed by 30-35% revenue growth from the construction segment and 20-25% from BOT income. Construction income growth relies on receipt of appointed dates for one BOT and two HAM projects. BOT income growth is expected to come from full tolling at Solapur Yedeshi, 100% tolling commencement of Kaithal Rajasthan, partial tolling at Hapur Moradabad and full-year revenue coming from Yedeshi Aurangabad. IRB expects 9-11% growth in existing toll projects with 4-6% growth expected from traffic growth. Operating profit is expected to grow at a lower rate of 20% y-o-y due to higher contribution from the construction segment.

- Outlook – Expectation of higher BOT awards; Monetisation of assets:** IRB expects higher road project awards going ahead on BOT toll

basis vis-a-vis industry's expectation of higher EPC/HAM projects. The assumption is based on tightening liquidity situation of NHAI along with the bank's aversion of taking higher risk of funding in EPC/HAM projects. Hence, IRB expects to achieve Rs. 3,000 crore-5,000 crore projects in the BOT segment during FY2020. The company is also looking to monetise assets through InvIT or third-party sale.

- ♦ **Valuation – Maintain Hold with a revised PT of Rs. 150:** We have fine tuned our estimates for FY2020 and introduce FY2021 estimates in this note. We believe IRB's outlook is dependent upon timely receipt of HAM projects, industry project awards in favour of BOT going ahead, improvement of traffic growth in its BOT projects and monetisation of assets. Hence, at this stage, we have maintained our Hold rating on the stock with a revised PT of Rs. 150.

#### Results (consolidated)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	Rs cr QoQ (%)
Net sales	1948.3	1382.2	41.0%	1788.5	8.9%
Other income	50.6	49.9	1.5%	46.5	8.8%
Total income	1998.9	1432.1	39.6%	1835.0	8.9%
Total expenses	1188.2	723.4	64.2%	1028.1	15.6%
Operating profit	760.1	658.8	15.4%	760.4	0.0%
Depreciation	135.7	115.2	17.8%	132.1	2.7%
Interest	313.9	209.0	50.2%	286.6	9.5%
Profit Before Tax	361.2	384.5	-6.1%	388.2	-7.0%
Taxes	153.2	144.7	5.9%	169.3	-9.5%
PAT	208.0	239.8	-13.3%	218.9	-5.0%
Consolidated PAT	208.0	239.8	-13.3%	218.9	-5.0%
No of equity shares	35.1	35.1	0.0%	35.1	0.0%
EPS (Rs.)	5.9	6.8	-13.3%	6.2	-5.0%
<b>Margins (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	39.0%	47.7%	-865 bps	42.5%	-350 bps
NPM	10.7%	17.3%	-667 bps	12.2%	-157 bps
Tax rate (%)	42.4%	37.6%	478 bps	43.6%	-119 bps

#### Segment-wise performance

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	Rs cr QoQ (%)
<b>Revenues</b>					
Construction	1407.9	885.0	59.1%	1253.3	12.3%
BOT	536.4	493.5	8.7%	531.6	0.9%
<b>Total</b>	<b>1944.3</b>	<b>1378.6</b>	<b>41.0%</b>	<b>1784.9</b>	<b>8.9%</b>
<b>EBITDA</b>					
Construction	291.6	241.0	21.0%	298.6	-2.3%
BOT	468.2	417.8	12.1%	462.4	1.3%
<b>Total</b>	<b>759.7</b>	<b>658.8</b>	<b>15.3%</b>	<b>760.9</b>	<b>-0.2%</b>
<b>EBITDA margin (%)</b>					
Construction	20.7%	27.2%	-653 bps	23.8%	-311 bps
BOT	87.3%	84.7%	262 bps	87.0%	30 bps

BOT revenue								Rs cr
Toll collections	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (%)	QoQ (%)	
Mumbai-Pune	227.1	230.9	214.8	237.2	235.4	3.7	-0.8	
Pune-Nashik	8.2	8.3	9.1	9.1	9.0	9.8	-1.1	
Pune-Solapur	6.3	6.3	5.8	6.3	4.7	-25.4	-25.4	
Thane-Ghodbunder	10.2	19.5	9.9	9.7	10.7	4.9	10.3	
Ahmedabad-Vadodara	102.0	104.1	98.2	112.6	114.4	12.2	1.6	
Agra Etawah	24.7	23.1	20.4	23.1	21.3	-13.8	-7.8	
Udaipur Gujarat	38.6	38.3	35.3	35.9	35.8	-7.3	-0.3	
Kaithal Rajasthan	16.1	16.6	18.9	21.7	22.4	39.1	3.2	
Gulabpura Chittorgarh	57.4	53.3	50.4	47.3	46.1	-19.7	-2.5	
Kishangarh-Gulabpura	15.3	34.4	34.2	33.4	32.3	111.1	-3.3	
Solapur Yedeshi	4.7	17.4	16.9	16.7	17.9	280.9	7.2	
Yedeshi Aurangabad					4.9	-	-	
<b>Total</b>	<b>510.6</b>	<b>552.2</b>	<b>513.9</b>	<b>553.0</b>	<b>554.9</b>	<b>8.7</b>	<b>0.3</b>	

Valuation (Consolidated)					Rs cr
Particulars	FY18	FY19	FY20E	FY21E	
Sales	5,694.1	6,707.0	8,159.4	8,781.1	
Growth YoY (%)	(2.6)	17.8	21.7	7.6	
EBITDA	2,679.4	2,937.3	3,379.9	3,425.4	
Margins (%)	47.1	43.8	41.4	39.0	
Adjusted net profit	919.7	850.0	1,106.0	1,032.8	
Growth YoY (%)	28.5	(7.6)	30.1	(6.6)	
Shares in issue (cr)	35.1	35.1	35.1	35.1	
EPS (Rs.)	26.2	24.2	31.5	29.4	
Growth YoY (%)	28.5	(7.6)	30.1	(6.6)	
P/E (x)	5.1	5.5	4.2	4.5	
Book value (Rs.)	162.0	179.7	206.5	231.2	
P/B (x)	0.8	0.7	0.6	0.6	
RoCE (%)	13.4	12.9	16.0	18.1	
RoNW (%)	16.8	14.2	16.3	13.4	

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