Sharekhan by BNP PARIBAS

IRB Infrastructure Developers

Increasing financial strength

Sector: Infrastructure

Result Update

	Change
Reco: **Buy**	↑
CMP: **Rs. 95**	
Price Target: **Rs. 150**	↔

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 3,351 cr
52-week high/low:	Rs. 207/84
NSE volume: (No of shares)	31.4 lakh
BSE code:	532947
NSE code:	IRB
Sharekhan code:	IRB
Free float: (No of shares)	14.9 cr

Shareholding (%)

Promoters	57.5
FII	21.2
DII	11.4
Others	9.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.1	-28.7	-29.1	-55.3
Relative to Sensex	-0.3	-24.8	-29.9	-54.9

Sharekhan Research, Bloomberg

IRB Infrastructure's (IRB) consolidated net profit declined by 17% y-o-y on account of increased interest and depreciation led by inclusion of two tolling assets and higher tax outgo. Net revenue grew by 15% y-o-y, supported by EPC and BOT segments, while blended OPM remained steady y-o-y. The major highlight was the signing of a definitive agreement with GIC for transfer of nine assets (three operational and six under various stages of construction) in private InvIT with IRB having management control with 51% stake. The deal is valued at ~1x P/B, which seems fairly valued in the current tough environment. GIC will be investing Rs. 4,400 crore (Rs. 3,000 crore to deleverage, Rs. 1,400 for funding under-construction projects). On completion, the portfolio is expected to have EV of Rs. 22,500 crore and EBITDA and FCF of Rs. 1.29 lakh crore and Rs. 88,000 crore, respectively. It would result in interest savings of Rs. 300 crore-350 crore, EPC and O&M opportunity of Rs. 7,000 crore and a strong financial partner to bid for future projects. We believe the deal considerably eases the leverage and funding requirement of IRB's portfolio. Hence, we upgrade IRB to Buy with an unchanged PT of Rs. 150.

Key positives

- GIC deal to transfer nine assets through private InvIT, maintaining management's control with 51% stake.
- As per management, the deal does not include any return commitment from IRB's side or any exit clauses.
- Construction segment's OPM revives q-o-q.

Key negatives

- High interest and depreciation due to inclusion of two tolling assets along with higher tax outgo.
- Ahmedabad-Vadodara project is not part of the deal and remains key hangover as of now.

Our Call

Valuation – Upgrade to Buy with unchanged PT of Rs. 150: We believe the induction of GIC as a financial partner for IRB resolves key issues of high leverage and easing of funding requirement of under-construction projects. Moreover, it provides another vehicle for IRB to transfer future projects, especially in privately held InvIT (which has much lesser restrictions than its listed IRB InvIT). Further, GIC's partnership provides financial strength to bid for more and larger projects, leading to enhanced visibility for IRB's EPC and O&M book. At this stage, we have not accounted the deal in our financials as it will take another three to four months for the deal to get consumed. However, on account of removal of key hangovers mentioned above and improved growth outlook, we upgrade the stock to Buy with unchanged PT of Rs. 150.

Key Risks

Weak macro environment leading to lower traffic growth and project tendering is a key risk.

Valuation (Standalone) Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	5,845.9	5,694.1	6,707.0	7,621.3	8,427.2
OPM (%)	52.1	47.1	43.8	44.2	40.5
Adjusted PAT	715.5	919.7	850.0	783.6	794.5
% YoY growth	11.9	28.5	(7.6)	(7.8)	1.4
Adjusted EPS (Rs.)	20.4	26.2	24.2	22.3	22.6
P/E (x)	4.7	3.6	3.9	4.3	4.2
P/B (x)	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (x)	5.3	5.7	6.1	2.9	2.7
RoNW (%)	14.2	16.8	14.2	11.8	11.0
RoCE (%)	12.6	13.4	12.9	16.1	18.5

Source: Company; Sharekhan Research

Healthy operational performance dented by increase in below the operating line items

IRB reported 15.3% y-o-y growth in consolidated revenue to Rs. 1,773 crore for Q1FY2020, backed by healthy revenue growth in construction (up 15.7% y-o-y) and BOT (up 14.8% y-o-y), in line with our estimates. Further, OPM remained almost flat y-o-y (up 923 BPS q-o-q) on account of improvement in OPM of the construction segment (no revenue booking from low-margin utility shifting and change of scope of work). Hence, operating profit grew by 14.6% y-o-y to Rs. 855 crore. Higher depreciation (up 14.2% y-o-y) and interest expense (up 46.5% y-o-y) on account of commencement of two new tolling projects, which were capitalised earlier, led to PBT decline of 5.5% y-o-y to Rs. 387 crore. Further, higher effective tax rate (46.6% vs. 39% in Q1FY2019) led to consolidated net profit decline of 17.4% y-o-y to Rs. 206.6 crore.

Induction of GIC as a financial partner through private InvIT

IRB signed binding definitive agreement with affiliates of GIC, Singapore's sovereign wealth fund, for a total investment of Rs. 4,400 crore. As part of the transaction, IRB will transfer nine of its BOT assets (three operational and six under construction) into a private infrastructure investment trust in which IRB will hold controlling stake of 51% with balance 49% with GIC. Of the total Rs. 4,400 crore investment of GIC, Rs. 3,000 crore would be used in deleveraging and balance Rs. 1,400 crore (to be infused over two years) will be used to fund construction costs. The balance EPC work (Rs. 7,000 crore) and O&M portfolio will be executed by IRB as the project manager for the private InvIT. Post completion of the construction, the EV of the portfolio is estimated at Rs. 22,500 crore with potential EBITDA and free cash flow generation of Rs. 1.29 lakh crore and Rs. 88,000 crore, respectively, over the period of the project's life. The deal is valued at ~1x P/B, which in the current tough environment seems fairly valued. Going ahead, IRB and GIC affiliate plan to evaluate project bids together through the private InvIT. The deal will help in interest savings of Rs. 300 crore-350 crore annually due to deleveraging. As per management, the deal will be consummated over the next three to four months.

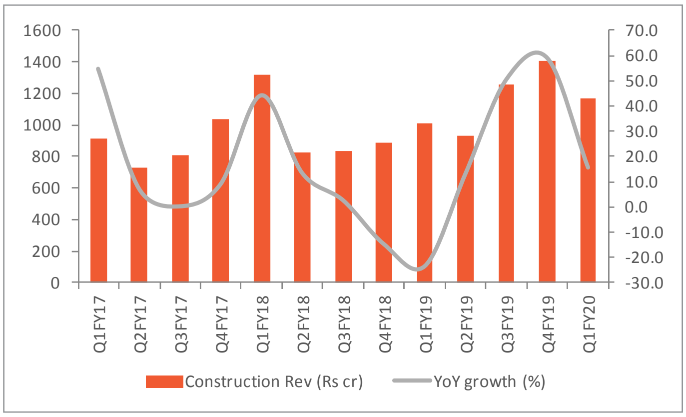
Results (Consolidated) Rs cr

Particulars	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Net sales	**1773.0**	**1538.0**	**15.3%**	**1948.3**	**-9.0%**
other income	48.1	45.3	6.2%	50.6	-5.0%
Total income	1821.1	1583.2	15.0%	1998.9	-8.9%
Total expenses	917.6	791.3	16.0%	1188.2	-22.8%
Operating profit	**855.4**	**746.7**	**14.6%**	**760.1**	**12.5%**
Depreciation	153.5	134.5	14.2%	135.7	13.1%
Interest	362.8	247.7	46.5%	313.9	15.6%
Profit Before Tax	387.2	409.8	-5.5%	361.2	7.2%
Taxes	180.5	159.7	13.1%	153.2	17.9%
PAT	206.6	250.1	-17.4%	208.0	-0.6%
Consolidated PAT	**206.6**	**250.1**	**-17.4%**	**208.0**	**-0.6%**
No of equity shares	35.1	35.1	0.0%	35.1	0.0%
EPS	5.9	7.1	-17.4%	5.9	-0.6%
OPM(%)	48.2%	48.5%	-30 bps	39.0%	923 bps
NPM(%)	11.7%	16.3%	-461 bps	10.7%	98 bps
Tax rate (%)	46.6%	39.0%	766 bps	42.4%	422 bps

Source: Company; Sharekhan Research

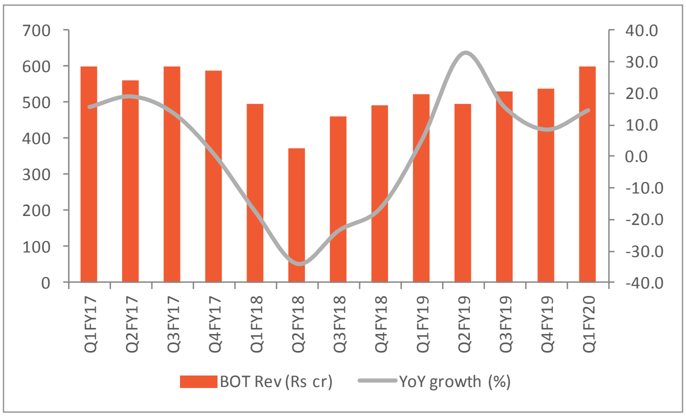
Financials in charts

Construction revenue trend



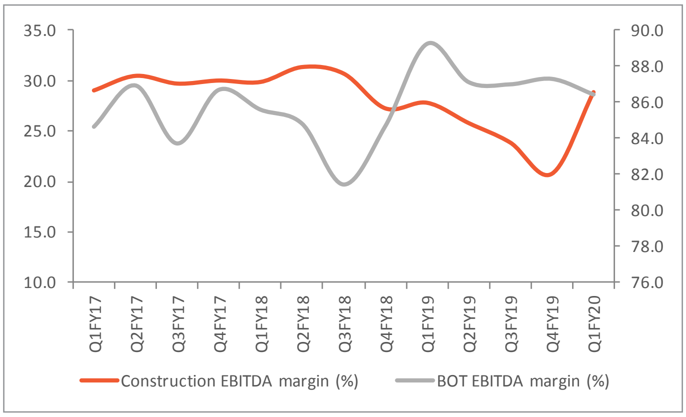
Source: Company, Sharekhan Research

BOT revenue trend



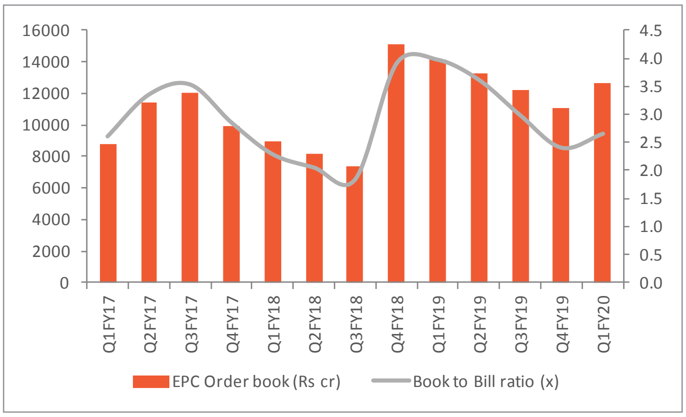
Source: Company, Sharekhan Research

Segment-wise EBITDA margin



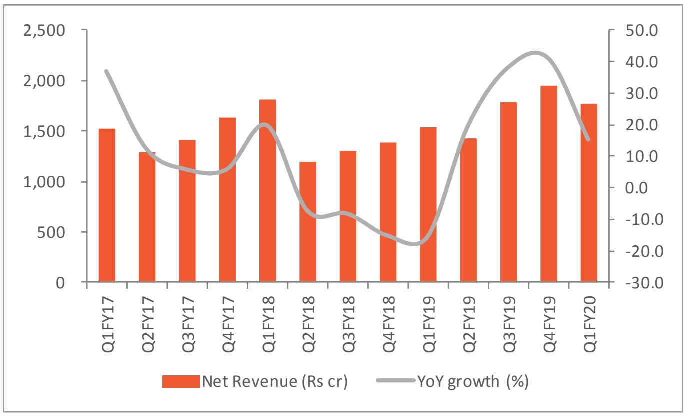
Source: Company, Sharekhan Research

Order book trend



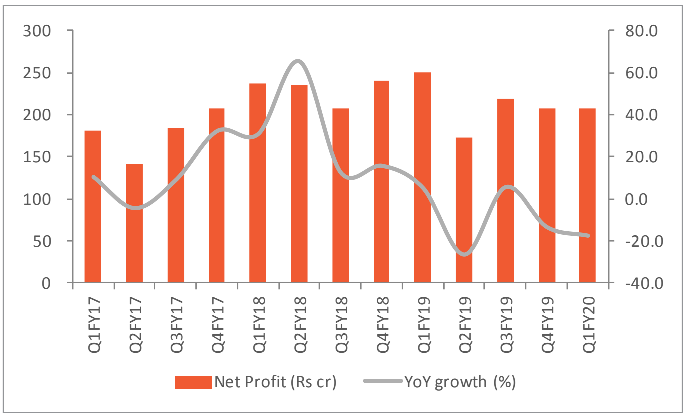
Source: Company, Sharekhan Research

Net revenue trend



Source: Company, Sharekhan Research

Net profit trend



Source: Company, Sharekhan Research

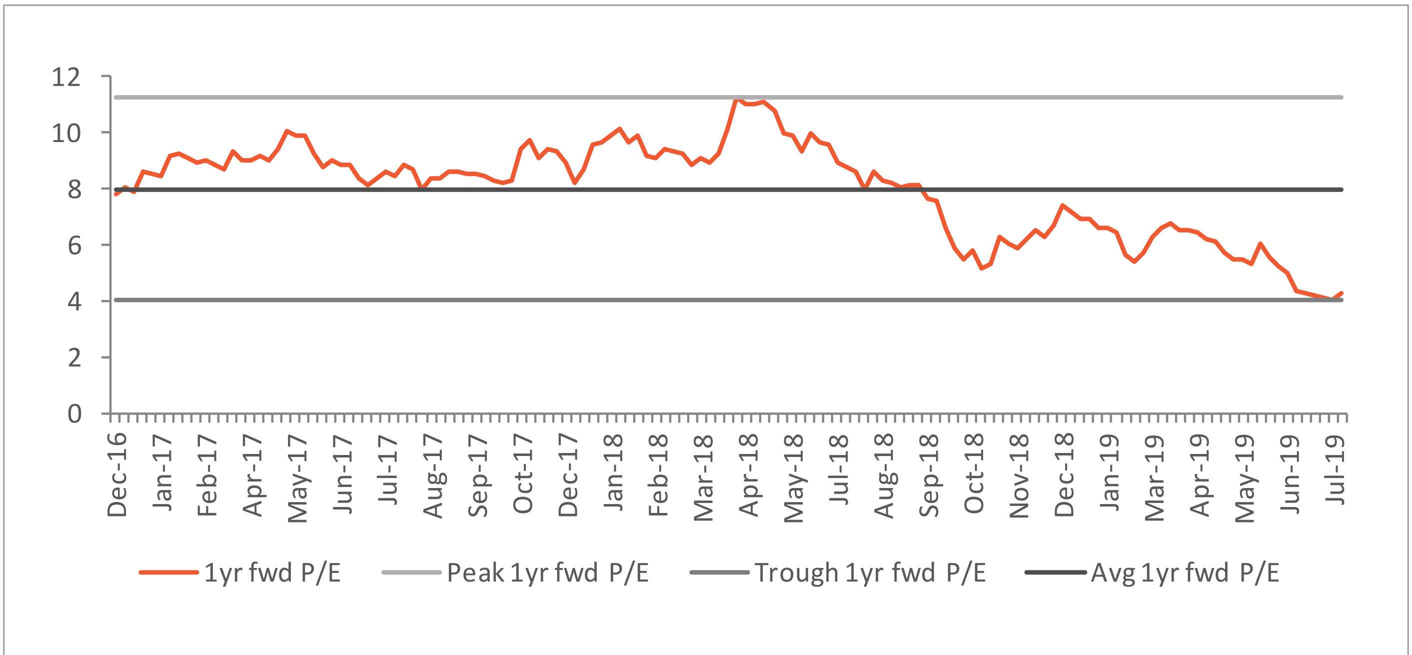
Outlook

Expect project tendering to improve post monsoon: The road sector's outlook has been hampered over the trailing one year with muted project tendering activities due to elections. Additionally, land acquisition issues and liquidity crunch in banking channels have continued to affect financial closures and receipt of appointed dates to commence construction. However, the industry expects tendering activity to pick up post monsoons along with companies preferring to take appointed dates post the monsoon season. IRB's deal with GIC significantly aids in removing key issues of high leverage and funding requirement of under-construction projects and improves growth outlook and financial strength of the company.

Valuation

Upgrade to Buy with unchanged PT of Rs. 150: We believe the induction of GIC as a financial partner for IRB resolves key issues of high leverage and easing of funding requirement of under-construction projects. Moreover, it provides another vehicle for IRB to transfer future projects, especially in privately held InvIT (which has much lesser restrictions than its listed IRB InvIT). Further, GIC's partnership provides financial strength to bid for more and larger projects, leading to enhanced visibility for IRB's EPC and O&M book. At this stage, we have not accounted the deal in our financials as it will take another three to four months for the deal to get consumed. However, on account of removal of key hangovers mentioned above and improved growth outlook, we upgrade the stock to Buy with unchanged PT of Rs. 150.

One year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
IRB Infrastructure	4.3	4.2	2.9	2.7	0.5	0.4	11.8	11.0
Sadbhav Engineering#	10.5	8.4	6.0	5.1	1.0	0.9	9.8	11.1
Ashoka Buildcon	57.1	27.0	3.2	2.1	11.4	9.1	20.3	37.5
Dillip Buildcon*#	7.5	6.9	4.4	4.1	1.4	1.1	19.4	17.7
PNC Infratech*#	14.7	12.3	7.6	6.3	2.0	1.7	14.7	14.9
KNR Constructions#	13.5	10.9	6.8	5.6	2.1	1.8	17.3	18.1

Source: Sharekhan Research

About company

IRB, incorporated in 1998, is one of the largest private roads and highways infrastructure developers in India. The company's portfolio of 23 projects comprises 20 BOT and three HAM projects. BOT segment includes seven operational projects; four projects under tolling and construction, seven projects under O&M contracts as a Project Manager for IRB InvIT and another two projects under construction. In HAM space, one project is under construction and the appointed date is awaited from NHAI for the other two.

Investment theme

IRB is the largest toll road BOT player in India and the second largest BOT operator in the country with all its projects being toll-based. The company has an integrated business model with an in-house construction arm, which provides competitive advantage in bidding for larger projects and captures the entire value from BOT assets. Further, the company has a 15% stake in its InvIT Fund, which allows it to periodically transfer road assets, freeing up its equity to invest in future projects. IRB's recent deal with GIC provides another vehicle to deleverage its balance sheet, transfer of future assets and a strong financial partner for future project bidding.

Key Risks

- Weak economic environment leading to lower growth in toll revenue.
- Lower order inflow in BOT and HAM projects can lead to muted growth in construction revenue.
- High interest rate scenario can lead to lower valuation of its stake in its listed InvIT.

Additional Data

Key management personnel

Mr. Virendra D. Mhaiskar	Chairman and Managing Director
Mr. Ajay P. Deshmukh	Chief Executive Officer – Infrastructure
Mr. Dhananjay K. Joshi	Chief Executive Officer - Corporate Affairs, Realty & Airport
Mr. Anil D. Yadav	Group Chief Finance Officer
Mr. Madhav H. Kale	Head - Corporate Strategy & Planning

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mhaiskar Ventures Pvt Ltd	56.74
2	Republic of Singapore	4.67
3	Aditya Birla Sun Life Trustee Co P	4.39
4	Life Insurance Corp of India	3.52
5	SBI Funds Management Pvt Ltd	3.46
6	Aditya Birla Sun Life Asset Manage	3.35
7	Platinum Asset Management Ltd	2.74
8	Monetary Authority Of Singapore/Ne	1.41
9	Dimensional Fund Advisors LP	1.34
10	Vanguard Group Inc/The	1.28

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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