

IRB Infrastructure

Estimate change

TP change

Rating change



Bloomberg	IRB IN
Equity Shares (m)	351
M.Cap.(INRb)/(USDb)	38.4 / 0.5
52-Week Range (INR)	139 / 46
1, 6, 12 Rel. Per (%)	-8/31/42
12M Avg Val (INR M)	230

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	68.5	47.5	54.0
EBITDA	29.7	23.6	27.4
PAT	6.6	1.5	2.2
EBITDA (%)	43.4	49.6	50.6
EPS (INR)	18.9	4.2	6.2
EPS Gr. (%)	-21.9	-77.6	47.4
BV/Sh. (INR)	190.2	192.0	195.8

Ratios

Net D/E	0.8	1.8	1.8
RoE (%)	10.2	2.2	3.2
RoCE (%)	12.0	8.9	7.9
Payout (%)	11.7	57.0	38.7

Valuations

P/E (x)	5.8	25.9	17.6
P/BV (x)	0.6	0.6	0.6
EV/EBITDA (x)	3.1	6.9	5.8
Div Yield (%)	1.8	1.8	1.8

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	55.0	55.0	55.2
DII	34.3	34.0	31.0
FII	1.5	1.6	2.8
Others	9.1	9.3	11.0

FII Includes depository receipts

CMP: INR109

TP: INR103 (-6%)

Neutral

Weak order book increases dependency on new order wins

- IRB Infrastructure (IRB)'s consolidated financials are not comparable YoY due to the monetization of nine assets through the InvIT route and consolidation of the Mumbai–Pune Phase-II project. The Construction business reported revenue/EBITDA/adj. PAT decline of 43%/41%/77% YoY. On account of a higher interest expense (+14% YoY), consolidated loss came in at INR197m (est. profit of INR590m).
- Cash flow visibility has improved meaningfully due to the Mumbai–Pune Phase-II project. However, the Construction order book (OB) remains weak at EPC OB/rev of 1.2x, thereby increasing dependency on new order wins.
- We cut our consol. EBITDA estimates by 5% for FY21, but maintain our FY22/FY23E EBITDA estimates. Weak order inflows and slower-than-expected ramp-up in toll collections may pose downside risk to our earnings estimates. We maintain Neutral, with SOTP-based TP of INR103. Any favorable resolution of the Ahmedabad–Vadodara project may pose an upside risk to our TP.

In-line operating performance

- Revenue declined 36% to INR11.2b and was **in line with expectations**. EBITDA declined 26% to INR5.6b and was **in line with expectations**. Interest expense increased to INR4.4b (above est. of INR3.5b), whereas depreciation was lower than est. On account of higher-than-expected interest expense, the company reported net loss of INR197m (est. profit of INR590m).
- Segmental highlights – EPC business:** Revenue declined 43% to INR7.6b on account of a depleting order book. EPC margins came in at 29.7% v/s 28.9% in 2QFY20. The EPC order book (excl. O&M) stands at INR51b, with an OB/rev ratio of just 1.2x. **BOT business:** Revenue declined 12% to INR3.7b. Note that YoY performance is not strictly comparable due to the *transfer of nine assets to Pvt. InvIT, effective from Mar'20, and accretion of Mumbai–Pune Phase II.*

Key takeaways from management commentary

- The pace of construction has rebounded to 80–90% of pre-COVID levels; management expects a revenue uptick in 3Q and 4Q with the monsoon season behind.
- While the order book is not strong currently, the company does not wish to compromise on margins just for the sake of new order wins.
- Toll collections have bounced back well, and excluding under-construction projects, collections have reached pre-COVID levels in some projects and even exceeded levels in some. Management expects positive YoY growth at the portfolio level in 4QFY21.

Valuation and view

- We cut our consol. EBITDA estimates by 5% for FY21, but maintain our FY22/FY23E EBITDA estimates. Weak order inflows and slower-than-expected ramp-up in toll collections may pose downside risk to our earnings estimates. We maintain Neutral, with SOTP-based TP of INR103. Any favorable resolution of the Ahmedabad–Vadodara project may pose an upside risk to our TP.

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Quarterly performance

Quarterly performance											INR m	
Y/E March	FY20				FY21E				FY20	FY21E	MOFSL	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	17,730	17,521	17,426	15,845	10,223	11,233	13,199	12,845	68,522	47,500	11,358	-1
YoY Change (%)	15.3	22.3	-2.6	-18.7	-42.3	-35.9	-24.3	-18.9	2.2	-30.7	-35.2	
EBITDA	8,554	7,474	7,137	6,549	4,776	5,550	6,779	6,463	29,714	23,568	5,645	-2
Margins (%)	48.2	42.7	41.0	41.3	46.7	49.4	51.4	50.3	43.4	49.6	49.7	
Depreciation	1,535	1,139	955	1,054	844	1,285	1,600	1,708	4,683	5,437	2,000	
Interest	3,628	3,813	4,099	4,104	3,656	4,350	4,200	3,951	15,644	16,156	3,500	
Other Income	481	490	475	504	512	455	500	650	1,950	2,117	600	
Extra-Ord expense	0	0	0	574	0	0	0	0	574	0	0	
PBT	3,872	3,012	2,558	1,895	788	370	1,479	1,455	11,337	4,091	745	-50
Tax	1,805	1,010	961	767	331	150	346	380	4,544	1,207	355	
Rate (%)	46.6	33.5	37.6	40.5	42.0	40.5	23.4	26.1	40.1	29.5	47.6	
Share of profit in Associates	0	0	0	-158	-759	-417	-150	-75	-158	-1,400	200	
Reported PAT	2,066	2,002	1,597	1,543	-301	-197	983	999	7,209	1,484	590	-133
Adj PAT	2,066	2,002	1,597	969	-301	-197	983	999	6,635	1,484	590	-133
YoY Change (%)	-17.4	15.7	-27.0	-53.4	-114.6	-109.8	-38.5	3.1	-21.9	-77.6	-70.5	
Margins (%)	11.7	11.4	9.2	6.1	-2.9	-1.8	7.4	7.8	9.7	3.1	5.2	

Exhibit 1: Segmental performance snapshot

In INR m	2QFY21	2QFY20	YoY	1QFY21	QoQ
Construction business					
Revenue	7,595	13,361	-43.2%	7,612	-0.2%
EBIDTA	2,280	3,884	-41.3%	2,476	-7.9%
EBITDA margin (%)	30.0%	29.1%	1.0%	32.5%	-2.5%
Adj. PAT	556	2,436	-77.2%	1,126	-50.6%
BOT business					
Revenue	3,638	4,160	-12.6%	2,611	39.3%
EBIDTA	3,270	3,590	-8.9%	2,300	42.2%
EBITDA margin (%)	89.9%	86.3%	3.6%	88.1%	1.8%
Adj. PAT	-752	-434	NA	-1,427	NA

Source: MOFSL, Company

Exhibit 2: IRB SOTP-based valuation methodology

Segment	Equity Commitment (INR m)	Value (INR m)	Value/sh (INR)	as % of TP
Road BOTs – Operational				
Pune Nasik	10	75	0	0%
Ahmedabad-Vadodara	15,000	-26,043	-74	-72%
Mumbai - Pune - Phase II	16,520	23,421	67	65%
Sub-total	31,530	-2,547	-7	-7%
Road BOTs – Under implementation				
Vadodara Kim Expressway I	2,448	616	2	2%
Sub-total	2,448	616	2	2%
Road BOTs (Total)	33,978	-1,931	-5	-5%
InvIT – listed		3,106	9	9%
Construction	FY22E EV/ Normalised EBITDA(x) of 8.0x	60,077	171	166%
Less: Net debt (ex-BOT)	FY21E	-25,161	-72	-70%
Total fair value		36,090	103	100%

Source: MOSL, Company

Valuation and view

- **FY20 EPC revenue at peak levels:** IRB has been ramping-up execution over the past few years, with an EPC revenue CAGR of 21% over FY15–20. However, new order wins have not matched the pace, leading to the fast depletion of the order book (OB). The Construction OB remains weak at EPC OB/rev of 1.2x. Thus, the dependency on new order wins is quite high.
- **Second InvIT provides some relief to deteriorating financials:** In Aug'19, IRB made a surprise announcement of asset monetization of nine road assets (six of which are under implementation) into a private InvIT trust. IRB holds 51% in the proposed InvIT; the balance 49% is with GIC.
- **Mumbai–Pune expressway homecoming provides lifeline:** IRB emerged as the sole bidder for ~10 years in the Mumbai–Pune TOT project, with a bid of INR82.6b. The Mumbai–Pune Phase II contract has commenced, and the company has also paid upfront equity of INR14.4b to MSRDC.
- **Maintain Neutral, with TP of INR103:** We cut our consol. EBITDA estimates by 5% for FY21, but maintain our FY22/FY23E EBITDA estimates. Weak order inflows and slower-than-expected ramp-up in toll collections may pose downside risk to our earnings estimates. We maintain Neutral, with SOTP-based TP of INR103. Any favorable resolution of the Ahmedabad–Vadodara project may pose an upside risk to our TP.

Exhibit 3: Earnings change table

Earnings Change INR m	Old			New			Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY22E
Revenue	48,635	54,141	59,698	47,500	54,050	59,598	-2%	0%	0%
EBITDA	24,681	27,263	30,200	23,568	27,353	30,303	-5%	0%	0%
EBITDA margin	50.7%	50.4%	50.6%	49.6%	50.6%	50.8%	-1.1%	0.3%	0.3%
PAT	3,124	3,398	4,849	1,484	2,188	3,789	-52%	-36%	-22%

Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	58,459	56,941	67,070	68,522	47,500	54,050	59,598
Change (%)	14.0	-2.6	17.8	2.2	-30.7	13.8	10.3
EBITDA	30,483	26,794	29,373	29,714	23,568	27,353	30,303
Margin (%)	52.1	47.1	43.8	43.4	49.6	50.6	50.8
Depreciation	8,548	5,440	5,395	4,683	5,437	7,641	8,403
EBIT	21,935	21,353	23,978	25,031	18,131	19,711	21,900
Int. and Finance Charges	13,327	9,667	11,201	15,644	16,156	17,523	18,389
Other Income	1,232	1,687	1,956	1,950	2,117	2,396	2,758
PBT bef. EO Exp.	9,839	13,373	14,733	11,337	4,091	4,584	6,269
EO Items	0	1,267	0	574	0	0	0
PBT after EO Exp.	9,839	14,640	14,733	11,911	4,091	4,584	6,269
Total Tax	2,685	5,444	6,234	4,544	1,207	1,415	1,794
Tax Rate (%)	27.3	37.2	42.3	38.1	29.5	30.9	28.6
Minority Interest / Associate income	8	0	0	-158	-1,400	-980	-686
Reported PAT	7,146	9,197	8,500	7,209	1,484	2,188	3,789
Adjusted PAT	7,146	7,930	8,500	6,635	1,484	2,188	3,789
Change (%)	11.8	11.0	7.2	-21.9	-77.6	47.4	73.2
Margin (%)	12.2	13.9	12.7	9.7	3.1	4.0	6.4

Consolidated - Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	3,515	3,515	3,515	3,515	3,515	3,515	3,515
Total Reserves	50,226	53,411	59,637	63,314	63,952	65,294	68,238
Net Worth	53,740	56,925	63,151	66,829	67,467	68,809	71,752
Minority Interest	354	0	0	0	0	0	0
Total Loans	1,65,362	1,20,090	1,54,009	75,709	1,53,708	1,59,522	1,58,849
Deferred Tax Liabilities	148	-3,205	-1,351	-570	-570	-570	-570
Capital Employed	2,19,605	1,73,811	2,15,809	1,41,968	2,20,605	2,27,761	2,30,031
Gross Block	4,19,914	3,23,202	3,47,320	2,99,277	3,73,277	3,82,277	3,83,397
Less: Accum. Deprn.	45,904	12,494	17,889	22,572	28,009	35,650	44,053
Net Fixed Assets	3,74,010	3,10,709	3,29,432	2,76,705	3,45,268	3,46,627	3,39,344
Capital WIP	77,494	56,485	37,966	4,030	4,030	4,030	4,030
Total Investments	68	9,455	6,454	41,459	45,742	44,762	44,076
Curr. Assets, Loans&Adv.	26,665	24,036	29,436	76,091	66,774	78,111	93,176
Inventory	4,004	4,873	4,425	3,314	2,063	2,312	2,610
Account Receivables	80	1,326	1,135	4,408	2,744	3,076	3,472
Cash and Bank Balance	11,489	12,678	15,603	22,707	29,389	38,146	50,069
Loans and Advances and CA	11,092	5,159	8,273	45,663	32,578	34,577	37,026
Curr. Liability & Prov.	2,58,631	2,26,874	1,87,478	2,56,317	2,41,210	2,45,769	2,50,595
Other Current Liabilities	2,56,148	2,26,127	1,86,611	2,55,800	2,40,692	2,45,251	2,50,077
Provisions	2,483	747	867	517	517	517	517
Net Current Assets	-2,31,966	-2,02,837	-1,58,042	-1,80,226	-1,74,435	-1,67,658	-1,57,419
Appl. of Funds	2,19,605	1,73,811	2,15,809	1,41,968	2,20,605	2,27,761	2,30,031

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)							
EPS	20.3	22.6	24.2	18.9	4.2	6.2	10.8
Cash EPS	44.7	38.0	39.5	32.2	19.7	28.0	34.7
BV/Share	152.9	162.0	179.7	190.2	192.0	195.8	204.2
DPS	4.0	2.0	2.0	2.0	2.0	2.0	2.0
Payout (%)	23.6	9.2	10.0	11.7	57.0	38.7	22.3
Valuation (x)							
P/E	5.4	4.9	4.5	5.8	25.9	17.6	10.2
Cash P/E	2.5	2.9	2.8	3.4	5.6	3.9	3.2
P/BV	0.7	0.7	0.6	0.6	0.6	0.6	0.5
EV/Sales	3.3	2.6	2.6	1.3	3.4	3.0	2.5
EV/EBITDA	6.3	5.4	6.0	3.1	6.9	5.8	4.9
Dividend Yield (%)	3.7	1.8	1.8	1.8	1.8	1.8	1.8
FCF per share	-24.6	90.1	-69.2	389.8	-144.4	53.8	82.7
Return Ratios (%)							
RoE	14.0	14.3	14.2	10.2	2.2	3.2	5.4
RoCE	8.9	9.3	10.5	12.0	8.9	7.9	8.6
RoIC	11.7	11.9	11.0	13.5	11.9	9.7	11.5
Leverage Ratio (x)							
Interest Cover Ratio	1.6	2.2	2.1	1.6	1.1	1.1	1.2
Net Debt/Equity	2.9	1.9	2.2	0.8	1.8	1.8	1.5

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	9,839	13,373	14,733	11,337	4,091	4,584	6,269
Depreciation	8,548	5,440	5,395	4,683	5,437	7,641	8,403
Interest & Finance Charges	12,096	9,667	11,201	15,644	16,156	17,523	18,389
Direct Taxes Paid	-2,685	-5,712	-6,234	-4,544	-1,207	-1,415	-1,794
(Inc)/Dec in WC	34,827	70,768	-42,433	30,008	-785	765	851
CF from Operations	62,625	93,536	-17,338	57,128	23,693	29,098	32,118
Others	0	-420	-1,956	-1,376	-2,117	-2,396	-2,758
CF from Operating incl EO	62,625	93,116	-19,294	55,752	21,576	26,702	29,361
(Inc)/Dec in FA	-71,284	-61,449	-5,038	81,260	-72,324	-7,785	-288
Free Cash Flow	-8,659	31,667	-24,331	1,37,012	-50,748	18,917	29,073
(Pur)/Sale of Investments	0	-7,996	3,001	-35,005	-5,684	0	0
Others	1,151	1,687	1,956	1,950	2,117	2,396	2,758
CF from Investments	-70,133	-67,758	-80	48,204	-75,891	-5,389	2,470
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	17,491	-12,021	33,918	-78,300	77,999	5,814	-673
Interest Paid	-13,327	-9,667	-11,201	-15,644	-16,156	-17,523	-18,389
Dividend Paid	-1,687	-846	-846	-846	-846	-846	-846
Others	934	-3,223	427	-2,063	0	0	0
CF from Fin. Activity	3,411	-25,757	22,299	-96,852	60,996	-12,555	-19,908
Inc/Dec of Cash	-4,097	-398	2,925	7,104	6,682	8,758	11,922
Opening Balance	15,586	13,077	12,678	15,603	22,707	29,389	38,146
Closing Balance	11,489	12,678	15,603	22,707	29,389	38,146	50,069

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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