

# IRB Infrastructure

Estimate change



TP change



Rating change



**CMP: INR229**

**TP: INR240 (+5%)**

**Neutral**

## Execution set to accelerate

- IRB Infrastructure (IRB)'s revenue de-grew 8% YoY to INR13.4b in 2QFY23 (14% below our estimate). Heavy monsoons and delay in appointed dates adversely impacted execution in 2QFY23.
- EBITDA declined 7% YoY to INR6.65b. On a sequential basis, EBITDA declined 37% due to lower execution. On a YoY basis, APAT more than doubled to INR853 in 2QFY23 (in-line with our estimate).
- While Construction revenues were soft, toll revenues saw robust growth of ~55% YoY in 2Q FY23. IRB expects the toll revenue momentum to remain strong. IRB recently received appointed date for the Ganga Expressway Project. During the quarter, IRB received part compensation of INR590m from NHAI against losses on Kaithal Rajasthan BOT project, due to the farmers' agitation.
- With strong opportunity in BOT/HAM projects, IRB is expecting INR50-70b of new inflows in the remaining part of FY23. With an order book of INR200b as of Sep'22 and a robust tender pipeline, we expect IRB to record 17%/14%/54% revenue/EBITDA/PAT CAGR, respectively, over FY22-24. We largely retain our estimates and reiterate our Neutral rating with a revised target of INR240 (based on SoTP valuation).

## Robust order book in hand; tender pipeline robust

- IRB's order book stood at INR200b as on Sep'22, with EPC at INR112b and O&M in BOT/TOT projects at INR88b, providing revenue visibility over the next few years.
- IRB has received appointed date for the Ganga Expressway project.
- IRB is seeing several opportunities in BOT toll projects and expects to win INR50-70b worth of projects in FY23. These would be driven by BOT-toll from NHAI and state and also from HAM projects.

## Key takeaways from the management commentary

- The management expects INR45b (net of GST) of construction revenues in FY23.
- Over the past three years, project awarding by NHAI has been aggressive in the second half of the financial year.
- The management expects 6-8 BOT toll tenders to be floated by NHAI in the near future.
- In case of the HAM project, the NHAI component of equity infusion of 40% could reduce to 20%, thereby, reducing competition.

## Valuation and view

- IRB's order book is strong at INR200b (incl. O&M). The EPC OB/revenue ratio stands at 2.8x, providing revenue visibility. IRB recently achieved appointed date closure for Ganga Expressway project in October 2022. As some of these large projects move into execution, we expect EPC growth to improve going ahead.
- We largely retain our estimates and reiterate our Neutral rating with a revised target of INR240 (based on SoTP valuation).

Bloomberg	IRB IN
Equity Shares (m)	604
M.Cap.(INRb)/(USDb)	138.4 / 1.7
52-Week Range (INR)	347 / 179
1, 6, 12 Rel. Per (%)	4/-9/-4
12M Avg Val (INR M)	630

### Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	58.0	66.0	79.0
EBITDA	28.0	32.5	36.1
PAT	3.6	7.3	8.6
EBITDA (%)	48.2	49.2	45.7
EPS (INR)	6.0	12.1	14.2
EPS Gr. (%)	79.5	102.9	17.2
BV/Sh. (INR)	208.1	216.6	227.2

### Ratios

Net D/E	1.2	0.8	0.7
RoE (%)	3.7	5.7	6.4
RoCE (%)	8.1	8.0	9.2
Payout (%)	0.0	29.7	25.4

### Valuations

P/E (x)	38.4	18.9	16.2
P/BV (x)	1.1	1.1	1.0
EV/EBITDA (x)	10.3	7.5	6.5
Div Yield (%)	0.0	1.3	1.3

### Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	34.2	34.2	58.5
DII	48.6	6.5	13.0
FII	7.0	48.7	13.3
Others	10.3	10.6	15.2

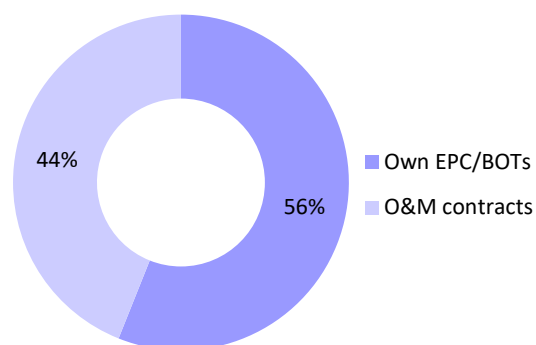
FII Includes depository receipts

## Consolidated quarterly performance

Y/E March	FY22				FY23				(INR m)			
	1Q	2Q	3Q	4Q	1Q*	2Q	3QE	4QE	FY22	FY23E	FY23 2QE	Var %
Net Sales	16,257	14,652	12,791	14,336	19,246	13,430	15,500	17,872	58,037	66,047	15,700	(14)
YoY Change (%)	59.0	30.4	(17.3)	(10.7)	18.4	(8.3)	21.2	24.7	9.5	13.8	7.1	
EBITDA	6,999	7,176	7,384	6,416	10,606	6,651	7,285	7,941	27,975	32,483	7,005	(5)
Margins (%)	43.1	49.0	57.7	44.8	55.1	49.5	47.0	44.4	48.2	49.2	44.6	
Depreciation	1,364	1,652	1,924	1,889	2,031	1,919	1,850	1,829	6,828	7,629	2,000	
Interest	4,675	4,770	5,471	3,990	3,850	3,893	4,000	4,140	18,906	15,882	3,900	
Other Income	448	392	2,187	2,491	708	959	575	565	5,517	2,807	575	
PBT	1,407	1,147	2,176	3,028	5,434	1,799	2,010	2,537	7,758	11,779	1,680	7
Tax	349	368	487	679	1,468	702	507	639	1,882	3,315	423	
Rate (%)	24.8	32.1	22.4	22.4	27.0	39.0	25.2	25.2	24.3	28.1	25.2	
Share of profit in Associates	(340)	(356)	(962)	(604)	(334)	(244)	(250)	(303)	(2,262)	(1,131)	(400)	
Reported PAT	719	423	727	1,745	3,632	853	1,253	1,594	3,614	7,333	857	(0)
Adj PAT	719	423	727	1,745	3,632	853	1,253	1,594	3,614	7,333	857	(0)
YoY Change (%)	NA	NA	4.6	79.0	405.1	101.7	72.4	(8.6)	208.5	102.9	102.5	
Margins (%)	4.4	2.9	5.7	12.2	18.9	6.4	8.1	8.9	6.2	11.1	5.5	

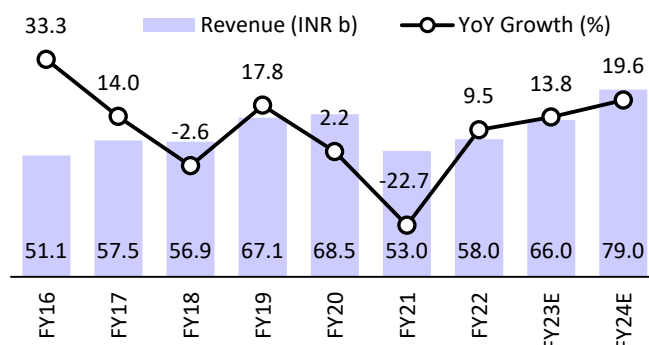
**Note:** \*Financials for 1QFY23 include claims received from NHA towards its Pathankot Amritsar BOT project. Around INR4.2b/INR3.7b/INR2.7b is included in revenue/EBITDA/PAT towards this claim in 1QFY23.

## Exhibit 1: Order book breakup (2QFY23: INR200b)



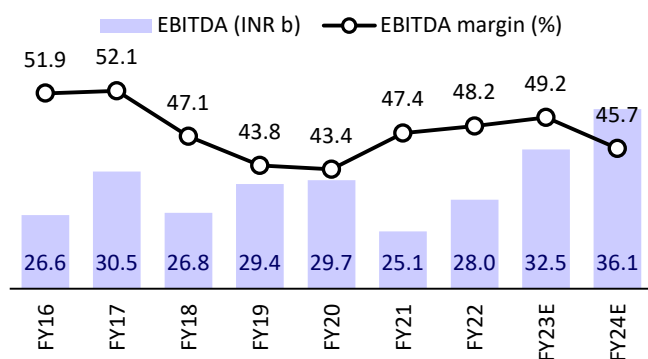
Source: MOFSL, Company

## Exhibit 2: Revenue to report ~17% CAGR over FY22-24E



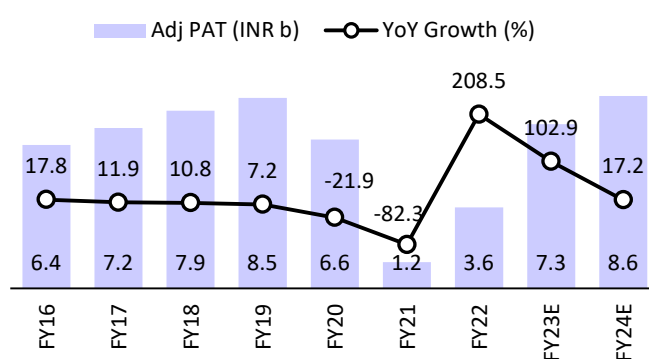
Source: MOFSL, Company

## Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

## Exhibit 4: Adjusted PAT to reach pre-COVID levels by FY24E



Source: MOFSL, Company



## Highlights from the management commentary

### Business update

- IRB has completed an equity raise of INR 5.3b for the Ganga Expressway Project in 2Q FY23. Singapore-based GIC affiliate company Anahera Investment Pte Ltd (Anahera) contributed INR 2.6b and IRB contributed INR 2.7b toward the project. IRB will hold a 51% stake in the project while Anahera will hold 49%.
- IRB will also act as the Project Manager and it will be receiving the entire flow of consideration toward EPC and O&M works for the project, aggregating ~INR 104b.
- Vadodara Kim HAM project that is part of Delhi Mumbai Greenfield expressway, achieved full COD. The project is being transferred to the IRB InvIT Fund for a consideration of INR13b. IRB would receive INR3.4b along with a debt reduction of INR9.5b.
- The company received part compensation of INR590m from NHAI against losses on Kaithal Rajasthan BOT project due to the farmers' agitation.
- The management expects NHAI to reduce its fund infusion to 20% from 40%, which could reduce competition.

### Order book

- The order book stood ~INR200b at the end of 2QFY23, of which, EPC order book was ~INR112b, comprising ~56% of the total order book.
- In 2QFY23, it received appointed date for the Ganga Expressway project and expects revenues to flow in from 2H FY23
- When bidding, IRB would focus on BOT projects, followed by HAM. While the company is also looking at ToT projects, it has been slow in terms of getting awarded.
- The company expects 6-8 BOT projects to be tendered by NHAI in the near future.

### Balance Sheet

- At the end of Sep'22, net debt stood at INR 105b with Net Debt/Equity at 0.8x. Strong liquidity position will aid the company in future equity requirement of ~INR12.5b until FY25.
- Improvement in ratings continue to reflect the company's established track record in the roads and highways sector, backed by prudent project selection and strong execution capabilities, and moderate working capital management.

### Guidance

- The construction revenue is expected at ~INR45b for FY23.
- Toll road projects are expected to benefit from the high WPI-based inflation as it will lead to an increase in toll rates. High growth in toll rates coupled with a 5-6% traffic growth is expected to result in a 14%-15% growth in toll collections in FY23
- The management expects INR50-70b of new order inflows in the remaining part of FY23, driven primarily by BOT-toll and HAM projects.
- No projects to be transferred to InvITs (Public or Private InvIT) in the near term. Public InvIT, however, would evaluate third-party projects.

**Exhibit 5: Segmental performance snapshot**

(INR m)	2QFY23	2QFY22	YoY	1QFY23	QoQ
<b>Construction business</b>					
Revenue	8,662	10,246	-15.5%	14,123	-39%
EBIDTA	2,331	3,185	-26.8%	5,910	-61%
EBITDA margin (%)	26.9%	31.1%	-415 bp	41.8%	-1490 bp
Adjusted PAT	913	798	14.4%	3,687	-75%
<b>BOT business</b>					
Revenue	4,767	4,406	8.2%	5,122	5.4%
EBIDTA	4,320	3,992	8.2%	4,697	7%
EBITDA margin (%)	90.6%	90.6%	-	91.7%	-105 bp
Adjusted PAT	-59	-375	NA	-55	7%

Source: MOFSL, Company

**Valuation and view**

- IRB's order book is strong at INR200b (incl. O&M). The EPC OB/revenue ratio stands at 2.8x, providing revenue visibility. IRB recently achieved appointed date closure for Ganga Expressway project in October 2022. As some of these large projects move into execution, we expect EPC growth to improve going ahead.
- We largely retain our estimates and reiterate our Neutral rating with a revised target of INR240 (based on SoTP valuation).

**Exhibit 6: SoTP-based target price stands at INR240**

Particulars	INR m	Per share (INR)
<b>Standalone</b>		
FY24E Core PAT	8,487	
Target PE multiple	10.0	
<b>Standalone valuation</b>	<b>84,865</b>	<b>141</b>
<b>Asset business</b>		
<b>Other Investments</b>	<b>54,984</b>	<b>99</b>
<b>Total</b>	<b>139,849</b>	<b>240</b>

Source: MOFSL, Company

## Financials and valuations

### Consolidated Income Statement

	(INR m)						
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>56,941</b>	<b>67,070</b>	<b>68,522</b>	<b>52,986</b>	<b>58,037</b>	<b>66,047</b>	<b>78,974</b>
Change (%)	-2.6	17.8	2.2	-22.7	9.5	13.8	19.6
<b>EBITDA</b>	<b>26,794</b>	<b>29,373</b>	<b>29,714</b>	<b>25,127</b>	<b>27,975</b>	<b>32,483</b>	<b>36,081</b>
Margin (%)	47.1	43.8	43.4	47.4	48.2	49.2	45.7
Depreciation	5,440	5,395	4,683	5,817	6,828	7,629	9,180
<b>EBIT</b>	<b>21,353</b>	<b>23,978</b>	<b>25,031</b>	<b>19,310</b>	<b>21,147</b>	<b>24,854</b>	<b>26,901</b>
Int. and Finance Charges	9,667	11,201	15,644	16,924	18,906	15,882	17,335
Other Income	1,687	1,956	1,950	1,889	5,517	2,807	2,986
<b>PBT bef. EO Exp.</b>	<b>13,373</b>	<b>14,733</b>	<b>11,337</b>	<b>4,274</b>	<b>7,758</b>	<b>11,779</b>	<b>12,551</b>
EO Items	1,267	0	574	0	0	0	0
<b>PBT after EO Exp.</b>	<b>14,640</b>	<b>14,733</b>	<b>11,911</b>	<b>4,274</b>	<b>7,758</b>	<b>11,779</b>	<b>12,551</b>
Total Tax	5,444	6,234	4,544	1,445	1,882	3,315	3,168
Tax Rate (%)	37.2	42.3	38.1	33.8	24.3	28.1	25.2
Minority Interest/Associate income	0	0	-158	-1,658	-2,262	-1,131	-792
<b>Reported PAT</b>	<b>9,197</b>	<b>8,500</b>	<b>7,209</b>	<b>1,172</b>	<b>3,614</b>	<b>7,333</b>	<b>8,591</b>
<b>Adjusted PAT</b>	<b>7,930</b>	<b>8,500</b>	<b>6,635</b>	<b>1,172</b>	<b>3,614</b>	<b>7,333</b>	<b>8,591</b>
Change (%)	11.0	7.2	-21.9	-82.3	208.5	102.9	17.2
Margin (%)	13.9	12.7	9.7	2.2	6.2	11.1	10.9

### Consolidated Balance Sheet

	(INR m)						
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	3,515	3,515	3,515	3,515	6,039	6,039	6,039
Total Reserves	53,411	59,637	63,314	65,493	119,617	1,24,769	1,31,179
<b>Net Worth</b>	<b>56,925</b>	<b>63,151</b>	<b>66,829</b>	<b>69,008</b>	<b>125,656</b>	<b>1,30,808</b>	<b>1,37,218</b>
Minority Interest	0	0	0	0	0	0	0
Total Loans	120,090	154,009	75,709	166,640	166,853	1,27,781	1,21,409
Deferred Tax Liabilities	-3,205	-1,351	-570	-687	-435	-435	-435
<b>Capital Employed</b>	<b>173,811</b>	<b>215,809</b>	<b>141,968</b>	<b>234,962</b>	<b>292,074</b>	<b>2,58,154</b>	<b>2,58,191</b>
Gross Block	323,202	347,320	299,277	302,110	307,928	3,12,430	3,12,930
Less: Accum. Deprn.	12,494	17,889	22,572	28,389	35,217	43,278	52,458
<b>Net Fixed Assets</b>	<b>310,709</b>	<b>329,432</b>	<b>276,705</b>	<b>273,721</b>	<b>272,711</b>	<b>2,69,153</b>	<b>2,60,472</b>
Capital WIP	56,485	37,966	4,030	4,030	625	625	625
<b>Total Investments</b>	<b>9,455</b>	<b>6,454</b>	<b>41,459</b>	<b>47,989</b>	<b>49,042</b>	<b>54,411</b>	<b>60,119</b>
<b>Curr. Assets, Loans and Adv.</b>	<b>24,036</b>	<b>29,436</b>	<b>76,091</b>	<b>85,285</b>	<b>101,999</b>	<b>89,778</b>	<b>1,05,850</b>
Inventory	4,873	4,425	3,314	3,217	3,175	3,996	4,890
Account Receivables	1,326	1,135	4,408	5,879	15,934	7,006	8,573
Cash and Bank Balance	12,678	15,603	22,707	23,390	17,438	23,149	27,301
Loans and Advances and CA	5,159	8,273	45,663	52,799	65,451	55,628	65,086
<b>Curr. Liability and Prov.</b>	<b>226,874</b>	<b>187,478</b>	<b>256,317</b>	<b>176,064</b>	<b>132,303</b>	<b>1,55,813</b>	<b>1,68,876</b>
Other Current Liabilities	226,127	186,611	255,800	175,562	131,707	1,55,217	1,68,280
Provisions	747	867	517	502	596	596	596
<b>Net Current Assets</b>	<b>-202,837</b>	<b>-158,042</b>	<b>-180,226</b>	<b>-90,780</b>	<b>-30,305</b>	<b>-66,035</b>	<b>-63,026</b>
<b>Appl. of Funds</b>	<b>173,811</b>	<b>215,809</b>	<b>141,968</b>	<b>234,961</b>	<b>292,074</b>	<b>2,58,154</b>	<b>2,58,191</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	22.6	24.2	18.9	3.3	6.0	12.1	14.2
Cash EPS	38.0	39.5	32.2	19.9	17.3	24.8	29.4
BV/Share	162.0	179.7	190.2	196.4	208.1	216.6	227.2
DPS	5.0	2.5	5.0	0.0	0.0	3.0	3.0
Payout (%)	23.0	12.4	29.3	0.0	0.0	29.7	25.4
<b>Valuation (x)</b>							
P/E	10.2	9.5	12.2	69.0	38.4	18.9	16.2
Cash P/E	6.0	5.8	7.1	11.6	13.3	9.3	7.8
P/BV	1.4	1.3	1.2	1.2	1.1	1.1	1.0
EV/Sales	3.3	3.3	2.0	4.2	5.0	3.7	3.0
EV/EBITDA	7.0	7.5	4.5	8.9	10.3	7.5	6.5
Dividend Yield (%)	2.2	1.1	2.2	0.0	0.0	1.3	1.3
FCF per share	90.1	-69.2	389.8	-193.2	-70.8	110.2	55.6
<b>Return Ratios (%)</b>							
RoE	14.3	14.2	10.2	1.7	3.7	5.7	6.4
RoCE	9.3	10.5	12.0	9.0	8.1	8.0	9.2
RoIC	11.9	11.0	13.5	11.0	8.3	8.8	11.5
<b>Leverage Ratio (x)</b>							
Interest Coverage Ratio	2.2	2.1	1.6	1.1	1.1	1.6	1.6
Net Debt/Equity	1.9	2.2	0.8	2.1	1.2	0.8	0.7

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>OP/(Loss) before Tax</b>	13,373	14,733	11,337	4,274	7,758	11,779	12,551
Depreciation	5,440	5,395	4,683	5,817	6,828	7,629	9,180
Interest and Finance Charges	9,667	11,201	15,644	16,924	18,906	15,882	17,335
Direct Taxes Paid	-5,712	-6,234	-4,544	-1,445	-1,882	-3,315	-3,168
(Inc.)/Dec. in WC	70,768	-42,433	30,008	-90,384	-73,592	40,797	5,197
<b>CF from Operations</b>	<b>93,536</b>	<b>-17,338</b>	<b>57,128</b>	<b>-64,813</b>	<b>-41,982</b>	<b>72,772</b>	<b>41,096</b>
Others	-420	-1,956	-1,376	-1,889	-5,517	-2,807	-2,986
<b>CF from Operations incl. EO</b>	<b>93,116</b>	<b>-19,294</b>	<b>55,752</b>	<b>-66,702</b>	<b>-47,500</b>	<b>69,965</b>	<b>38,110</b>
(Inc.)/Dec. in FA	-61,449	-5,038	81,260	-1,213	4,754	-3,427	-4,554
<b>Free Cash Flow</b>	<b>31,667</b>	<b>-24,331</b>	<b>137,012</b>	<b>-67,915</b>	<b>-42,746</b>	<b>66,538</b>	<b>33,556</b>
(Pur.)/Sale of Investments	-7,996	3,001	-35,005	-8,189	-3,315	-6,500	-6,500
Others	1,687	1,956	1,950	1,889	5,517	2,807	2,986
<b>CF from Investments</b>	<b>-67,758</b>	<b>-80</b>	<b>48,204</b>	<b>-7,513</b>	<b>6,956</b>	<b>-7,120</b>	<b>-8,068</b>
Issue of Shares	0	0	0	0	53,466	0	0
Inc./(Dec.) in Debt	-12,021	33,918	-78,300	90,932	212	-39,071	-6,373
Interest Paid	-9,667	-11,201	-15,644	-16,924	-18,906	-15,882	-17,335
Dividend Paid	-2,116	-1,058	-2,116	0	0	-2,181	-2,181
Others	-1,953	639	-793	890	-180	0	0
<b>CF from Fin. Activity</b>	<b>-25,757</b>	<b>22,299</b>	<b>-96,852</b>	<b>74,897</b>	<b>34,592</b>	<b>-57,135</b>	<b>-25,889</b>
<b>Inc./Dec. in Cash</b>	<b>-398</b>	<b>2,925</b>	<b>7,104</b>	<b>683</b>	<b>-5,951</b>	<b>5,710</b>	<b>4,152</b>
Opening Balance	13,077	12,678	15,603	22,707	23,390	17,438	23,149
<b>Closing Balance</b>	<b>12,678</b>	<b>15,603</b>	<b>22,707</b>	<b>23,390</b>	<b>17,438</b>	<b>23,149</b>	<b>27,301</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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