

IRB Infrastructure Developers

BUY

INDUSTRY	INFRASTRUCTURE
CMP (as on 7 Feb 2018)	Rs 219
Target Price	Rs 274
Nifty	10,477
Sensex	34,083
KEY STOCK DATA	
Bloomberg	IRB IN
No. of Shares (mn)	351
MCap (Rs bn) / (\$ mn)	77/1,196
6m avg traded value (Rs mn)	518
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 273/194
	3M 6M 12M
Absolute (%)	(8.4) (2.7) (6.2)
Relative (%)	(10.5) (8.3) (26.4)
SHAREHOLDING PATTERN (%)	
Promoters	57.37
FIIs & Local MFs	11.96
FPIs	23.55
Public & Others	7.13
<i>Source : BSE</i>	

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Robust performance

IRB's 3QFY18 Revenue, EBIDTA and PAT were 1.9/5.4/21.7% ahead of our estimates. BOT revenue (ex 7 BOT's which got transferred to IRB InvIT) grew 18.8% YoY after adjusting for demonit toll stoppage of 23 days and excluding new projects post 3QFY17.

Mumbai Pune posted robust growth of 10% QoQ. Tolling commenced during the quarter at Chittorgarh – Gulabpura (11th Nov 17). Toll collections in Kaithal-Rajasthan (Sep 17 toll start) have been muted on account of (1) current levy is 88% of full tariff and (2) adjoining corridors are still under completion vs this project's early completion by 5months.

3QFY18 construction order backlog is Rs 74.0 bn. Consolidated net debt in 3QFY18 has increased QoQ from Rs 93.9bn to 108.6 bn. Consolidated Net D/E at 1.9x is comfortable. Bharatmala, TOT bids and HAM projects augurs well for new wins. Maintain BUY with SOTP of Rs 274/sh.

Financial Summary (Consolidated)

Year Ending March (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	12,962	14,109	(8.1)	11,227	15.4	58,459	55,907	61,123	62,561
EBITDA	6,304	7,435	(15.2)	5,724	10.1	30,483	25,762	29,665	29,703
APAT	2,074	1,842	12.6	2,347	(11.6)	7,004	8,718	9,438	8,432
Diluted EPS (Rs)	5.9	5.2	12.6	6.7	(11.6)	19.9	24.8	26.9	24.0
P/E (x)						11.0	8.8	8.2	9.1
EV / EBITDA (x)						6.7	8.1	7.6	8.0
RoE (%)						13.9	15.6	15.0	12.1

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- EPC segment to drive revenue share:** IRB reported 3.1/(23.3)% YoY EPC/BOT revenue growth during 3QFY18. This has resulted in 406bps EBIDTA margin contraction (EPC share – 65% vs 58% YoY).
- Kolhapur claims partly received:** IRB has received Rs 1bn from MSRDC for Kolhapur project in addition to ~Rs 0.5 bn released earlier. The total claim stands at Rs 4bn. Outstanding debt on the books is ~Rs 2.2bn. Ahmedabad BOT resolution on account of competing stretch got delayed owing to Gujarat election. IRB expects to go for arbitration in case resolution is not reached. Adjusted toll grew 9% YoY.
- Balance sheet healthy:** IRB has Rs 30bn of standalone debt and Rs 10bn of net debt. Consolidated net D/E increased from 1.74x to 1.94x. Total pending equity requirement is Rs 14bn (FY19E –Rs 8bn, FY20E-Rs 6bn).
- Near-term outlook:** We remain construction on (1) IRB as toll recovery picks pace, (2) Focus shift to HAM will lead to better visibility on EPC segment & (3) Strong balance augurs well for growth.

IRB's 3QFY18 revenue was in line with our estimates at Rs 12,962 mn. Agra – Etawah and Yedeshi Aurangabad contributed ~Rs 2.3bn/2.0bn to the topline in 3QFY18.

Interest/Depreciation declined 30.2/32.8% leading to PBT growth of 25.1% YoY. This is on account of InvIT asset transfers.

Other income grew 52.1% YoY. For 2QFY18 it includes Rs 1,041mn profit on transfer of IRB Pathankot Amritsar Toll project to InvIT.

Higher tax provisioning is on expiry of 80IA benefit and BOT losses. IRB is full tax paying.

IRB's 3QFY18 construction order backlog is Rs 74.0 bn. Consolidated net debt in 3QFY18 has increased QoQ from Rs 93.9bn to 108.6 bn. Consolidated Net D/E at 1.9x is comfortable

Consolidated Quarterly Financial

Particulars (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Net Sales	12,962	14,109	(8.1)	11,227	15.4	43,119	42,188	2.2
Material Expenses	4,996	5,318	(6.1)	4,456	12.1	18,477	16,219	13.9
Employee Expenses	810	670	20.9	644	25.9	2,026	1,912	6.0
Other Operating Expenses	852	686	24.2	403	111.4	2,411	1,793	34.5
EBITDA	6,304	7,435	(15.2)	5,724	10.1	20,205	22,264	(9.2)
Depreciation	1,212	1,803	(32.8)	1,260	(3.8)	4,288	6,284	(31.8)
EBIT	5,092	5,632	(9.6)	4,464	14.1	15,917	15,980	(0.4)
Other Income	454	298	52.1	1,465	(69.0)	2,455	942	160.6
Interest Cost	2,366	3,389	(30.2)	2,356	0.4	7,577	10,067	(24.7)
PBT	3,180	2,541	25.1	3,573	(11.0)	10,795	6,855	57.5
Tax	1,106	699	58.2	1,225	(9.7)	3,996	1,774	125.3
APAT	2,074	1,842	12.6	2,347	(11.6)	6,799	5,081	33.8

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY18	3QFY17	YoY (bps)	2QFY18	QoQ (bps)	9MFY18	9MFY17	YoY (bps)
Material Expenses % Net Sales	38.5	37.7	85	39.7	(115)	42.9	38.4	441
Employee Expenses % Net Sales	6.2	4.7	150	5.7	52	4.7	4.5	17
Other Operating Expenses % Net Sales	6.6	4.9	171	3.6	298	5.6	4.3	134
EBITDA Margin (%)	48.6	52.7	(406)	51.0	(235)	46.9	52.8	(591)
Tax Rate (%)	34.8	27.5	727	34.3	48	37.0	25.9	1,114
APAT Margin (%)	16.0	13.1	294	20.9	(491)	15.8	12.0	372

Source: Company, HDFC sec Inst Research

IRB 3QFY18 EPC revenue grew 3.1% YoY and 1.4% QoQ.

3QFY18 BOT YoY revenue de-grew 23.3% as the six BOT assets moved to InvIT from 9th May 2017 and Amritsar project in 28th Sep 2017

EBIDTA margins contracted by 407bps YoY owing to higher revenue share from EPC segment post transfer of assets to InvIT

IRB has reported toll collection for all projects excluding InvIT. Mumbai Pune posted growth of 70% YoY on account of demonit base in 3QFY17. Adjusted growth is 26.6% YoY (includes 18% toll hike impact in 2QFY18)

Tolling commenced during the quarter at Chittorgarh – Gulabpura (Nov 11, 2017)

Segmental Performance

Particulars (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Total Revenue	12,962	14,109	(8.1)	11,959	8.4	43,053	42,453	1.4
Construction	8,363	8,113	3.1	8,244	1.4	29,780	24,758	20.3
BOT	4,599	5,996	(23.3)	3,715	23.8	13,273	17,695	(25.0)
EBITDA	6,303	7,435	(15.2)	5,696	10.7	20,140	22,530	(10.6)
Construction	2,559	2,418	5.8	2,543	0.6	9,000	7,478	20.3
BOT	3,744	5,017	(25.4)	3,154	18.7	11,140	15,052	(26.0)
EBITDA Margin (%)	48.6	52.7	(407.0)	47.6	99.5	46.8	53.1	(629.0)
Construction (%)	30.6	29.8	80.0	30.8	(24.3)	30.2	30.2	1.6
BOT (%)	81.4	83.7	(227.5)	84.9	(347.6)	83.9	85.1	(112.7)
EBIT	5,091	5,632	(9.6)	4,436	14.8	15,852	16,246	(2.4)
Construction	2,443	2,241	9.0	2,334	4.7	8,432	7,018	20.1
BOT	2,648	3,391	(21.9)	2,102	26.0	7,420	9,228	(19.6)
EBIT Margins (%)	39.3	39.9	(64.3)	37.1	218.2	36.8	38.3	(144.7)
Construction (%)	29.2	27.6	159.4	28.3	90.0	28.3	28.3	(3.2)
BOT (%)	57.6	56.6	101.2	56.6	99.7	55.9	52.1	375.7

Source: Company, HDFC sec Inst Research

Project Wise BOT Revenue Trend

Particulars (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Mumbai - Pune	1,621	1,649	1,880	1,735	1,372	1,832	2,278	2,134	2,332
Surat - Dahisar BOT Project	1,563	1,619	1,609	1,484	1,114	1,475	-	-	-
Tumkur Chitradurga	512	514	529	497	399	543	-	-	-
Bharuch Surat Project	492	502	494	470	372	500	-	-	-
TBB - 4 (Mumbra)	201	209	202	188	152	202	-	-	-
Thane - Ghodbunder	77	79	90	83	52	82	84	78	99
Pune - Nashik	67	69	70	77	59	76	79	80	84
Pune - Solapur	59	60	63	55	45	61	64	58	65
Namakkal - Ommalur	166	213	204	192	149	193	-	-	-
Ahmedabad - Vadodara	527	856	875	826	690	917	916	865	1,007
Talegoan Amravati	120	129	127	117	102	148	-	-	-
Jaipur Deoli	295	319	321	267	224	312	-	-	-
Amritsar Pathankot	272	272	294	279	238	271	320	278	-
Udaipur - Gujarat	-	-	-	-	-	-	-	115	388
Kaithal Rajasthan	-	-	-	-	-	-	-	42	167
Agra Etawah	-	-	-	167	208	261	247	243	286
Chittorgarh – Gulabpura	-	-	-	-	-	-	-	-	343
Total (Rs mn)	5972.1	6490.0	6756.9	6437.8	5176.4	6873.0	3,988.0	3,893.0	4,771.0

Source: Company, HDFC sec Inst Research, Amritsar Pathankot has been transferred to IRB InvIT from 28th Sep 2017

We value IRB's BOT portfolio at Rs 117/share

We value standalone EPC business at 4x Dec-19E EV/EBIDTA and reduce net debt as of FY19E to arrive at EPC value of Rs 123/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 274/share

Outlook And Valuation

Target Price of Rs 274/sh implies 25.1% upside

- We have valued BOT projects on DCF basis with 12.5-14% WACC. We arrive at Rs 117/sh valuation for the IRB's BOT portfolio.
- We have valued EPC standalone at 4x Dec-19E 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 274/share. We peg (1) BOT projects at Rs 117/share, (2) EPC business at Rs 123/share (4x Dec-19E 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	Kharpara-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)
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)
IRB Kolhapur IRDC	Kolhapur City Roads	100%	FCFE	12.5%	2,580	7.3
BOT FCFE	Gross value of BOT - (I)				40,963	117
EPC						
Modern Road Makers	EPC Business	100%	EV/EBIDTA(x)	4	44,910	127.8
PV of O&M Contracts	PV of O&M Contracts	100%	NPV	13.0%	3,264	9.3
Net debt –as of FY19E				Standalone	(6,500)	(18.5)
Value of EPC segment	(II)				41,674	123
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
Total	Total Value - (I)+(II)+(III)+(IV)				95,027	274

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	51,279	58,459	55,907	61,123	62,561
Growth (%)	33.3	14.0	(4.4)	9.3	2.4
Material Expenses	20,538	22,867	25,184	25,978	26,883
Employee Expenses	2,465	2,726	2,469	2,713	2,993
Other Operating Expenses	1,673	2,384	2,493	2,767	2,982
EBIDTA	26,603	30,483	25,762	29,665	29,703
EBIDTA Margin (%)	51.9	52.1	46.1	48.5	47.5
EBIDTA Growth (%)	20.3	14.6	(15.5)	15.2	0.1
Depreciation	8,533	8,548	5,231	5,754	6,330
EBIT	18,069	21,935	20,531	23,911	23,374
Other Income (Incl EO items)	1,272	1,232	2,587	2,897	3,245
Interest	10,639	13,327	11,595	13,334	14,534
PBT	8,702	9,839	11,522	13,474	12,084
Tax	2,306	2,685	2,881	4,042	3,625
RPAT	6,395	7,154	8,642	9,432	8,459
Minority Interest/Share of associates	4	(1)	(77)	(6)	27
EO Items	155	150	0	0	0
APAT	6,236	7,004	8,718	9,438	8,432
APAT Growth (%)	14.9	12.3	24.5	8.2	(10.7)
Adjusted EPS (Rs/sh)	17.7	19.9	24.8	26.9	24.0
EPS Growth (%)	14.9	12.3	24.5	8.2	(10.7)

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY16	FY17E	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	3,515	3,515	3,515	3,515	3,515
Reserves	44,848	49,201	55,897	63,145	69,621
Total Shareholders Funds	48,363	52,716	59,412	66,660	73,136
Minority Interest	355	-	(77)	(82)	(56)
Long Term Debt	132,840	120,897	151,787	156,790	169,435
Short Term Debt	23,421	18,734	-	7,643	7,643
Total Debt	156,261	139,631	151,787	164,432	177,078
Net Deferred Taxes	(3,480)	(3,901)	(3,901)	(3,901)	(3,901)
Other Non Current Liabilities & Provisions	207,393	159,597	188,522	188,412	187,913
TOTAL SOURCES OF FUNDS	408,892	348,043	395,744	415,521	434,170
APPLICATION OF FUNDS					
Net Block (Inc CWIP)	391,687	311,942	379,706	403,977	424,760
Investments	362	1,459	1,459	1,459	1,459
Other Non Current Assets	1,177	1,244	-	-	-
Total Non-current Assets	393,226	314,644	381,165	405,436	426,219
Inventories	3,088	3,527	2,521	2,738	3,046
Debtors	87	705	713	724	741
Cash & Equivalents	15,008	13,077	20,775	17,264	16,329
Other Current Assets	6,430	28,005	3,228	3,228	3,228
Total Current Assets	24,613	45,313	27,236	23,954	23,344
Current Liabilities	8,855	11,828	12,228	13,440	14,963
Provisions	92	87	429	429	429
Total Current Liabilities	8,947	11,914	12,657	13,869	15,392
Net Current Assets	15,666	33,399	14,579	10,085	7,952
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	408,892	348,043	395,744	415,521	434,170

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	8,702	9,839	11,522	13,474	12,084
Non-operating & EO items	(869)	(548)	(2,510)	(2,897)	(3,272)
Interest expenses	10,639	13,327	11,595	13,334	14,534
Depreciation	8,533	8,548	5,231	5,754	6,330
Working Capital Change	(482)	4,032	56,610	873	727
Tax Paid	(3,125)	(3,106)	(2,881)	(4,042)	(3,625)
OPERATING CASH FLOW (a)	23,398	32,093	79,568	26,496	26,778
Capex	(31,591)	(27,790)	(72,995)	(30,026)	(27,113)
<i>Free cash flow (FCF)</i>	<i>(8,193)</i>	<i>4,303</i>	<i>6,573</i>	<i>(3,530)</i>	<i>(335)</i>
Investments	151	(2,192)	2,587	2,897	3,245
INVESTING CASH FLOW (b)	(31,440)	(29,982)	(70,409)	(27,129)	(23,868)
Share capital Issuance	-	-	-	-	-
Debt Issuance	23,601	16,339	12,156	12,645	12,645
Interest expenses	(14,355)	(17,509)	(11,595)	(13,334)	(14,534)
Dividend	(2,538)	(846)	(2,023)	(2,190)	(1,956)
FINANCING CASH FLOW (c)	6,709	(2,016)	(1,461)	(2,878)	(3,845)
NET CASH FLOW (a+b+c)	(1,333)	94	7,698	(3,511)	(935)
EO Items, Others	12,244	10,218	-	-	-
Closing Cash & Equivalents	15,008	13,077	20,775	17,264	16,329

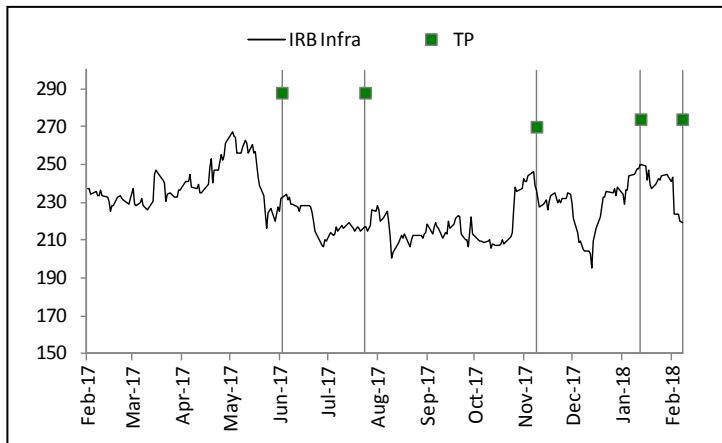
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	59.9	60.9	55.0	57.5	57.0
EBITDA Margin	51.9	52.1	46.1	48.5	47.5
EBIT Margin	35.2	37.5	36.7	39.1	37.4
APAT Margin	12.2	12.0	15.6	15.4	13.5
RoE	13.6	13.9	15.6	15.0	12.1
RoIC	4.9	4.4	4.4	4.3	4.0
RoCE	5.4	4.4	4.7	4.6	4.4
EFFICIENCY					
Tax Rate (%)	26.5	27.3	25.0	30.0	30.0
Fixed Asset Turnover (x)	0.1	0.2	0.1	0.2	0.1
Inventory (days)	22.0	22.0	16.5	16.4	17.8
Debtors (days)	0.6	4.4	4.7	4.3	4.3
Other Current Assets (days)	45.8	174.9	21.1	19.3	18.8
Current Liab (days)	63.0	73.8	79.8	80.3	87.3
Provision (days)	0.7	0.5	2.8	2.6	2.5
Cash Conversion Cycle (days)	4.7	126.9	(40.5)	(42.9)	(48.9)
Debt/EBITDA (x)	5.9	4.6	5.9	5.5	6.0
Net D/E	2.9	2.4	2.2	2.2	2.2
Interest Coverage	1.7	1.6	1.8	1.8	1.6
PER SHARE DATA					
EPS (Rs/sh)	17.7	19.9	24.8	26.9	24.0
CEPS (Rs/sh)	42.0	44.3	39.7	43.2	42.0
DPS (Rs/sh)	4.0	4.1	5.0	5.4	4.8
BV (Rs/sh)	137.6	150.0	169.0	189.7	208.1
VALUATION					
P/E	12.3	11.0	8.8	8.2	9.1
P/BV	1.6	1.5	1.3	1.2	1.1
EV/EBITDA	8.2	6.7	8.1	7.6	8.0
EV/Revenues	4.3	3.5	3.7	3.7	3.8
OCF/EV (%)	0.1	0.2	0.4	0.1	0.1
FCF/EV (%)	(3.8)	2.1	3.2	(1.6)	(0.1)
FCFE/Market Cap (%)	1.4	4.1	9.3	(5.5)	(2.9)
Dividend Yield (%)	1.8	1.9	2.3	2.5	2.2

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-Jun-17	232	BUY	288
25-Jul-17	216	BUY	288
8-Nov-17	236	BUY	270
12-Jan-18	244	BUY	274
8-Feb-18	219	BUY	274

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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Any holding in stock –No

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