

IRCON International

BUY

Guidance maintained

Summary

IRCON international (IRCON) Q1FY22 PAT came 25% lower than our estimate. Weak Q1 is led delay in execution of Gurgaon Rewari order. However, in Q2FY22 IRCON has commenced its execution and is targeting revenue of Rs65-70bn in FY22E with EBITDA margin of 9-9.5%. Q1FY22 Order book at Rs343bn provides revenue visibility at 6x TTM Revenue with 95%/ 5% of order book from Railway/ Highway sector. Order book includes order inflow of Rs7bn received in Q1 and full year target of Rs60-70bn of inflow. Company has announced an interim dividend of Rs0.45/sh for FY22 and as a policy is targeting quarterly distribution of div. versus year end declaration in previous years. We have modeled total div of Rs3.2/sh for FY22E (implying div yield of 8% for FY22E). On unchanged earnings, re-iterate BUY rating with TP of Rs56, stock trades at 7x FY23E EPS which is below average PER since IPO (exhibit 8).

Key Highlights and Investment Rationale

- Q1FY22 Snapshot:** IRCON operations were impacted by covid second wave and Q1FY22 Revenue/ EBITDA was down by 53%/ 60% QoQ at Rs10.5bn/ Rs0.7bn. EBITDA margin stood at 6.7% vs 7.1% YoY/ 7.8% QoQ. Q1FY22 PAT at Rs0.8bn, +112% YoY/ -54% QoQ. Segment wise, International EBIT margin was lower QoQ/ YoY.
- Order inflow guidance of Rs60-70bn for FY22:** Q1FY22 IRCON's Order book stood at Rs343bn equals 6x TTM Revenue with 95%/ 5% of order book from Railway/ Highway sector and geography wise international order book at 5% and domestic at 95%. For all the orders tenders are already invited and they are in execution stage. Q1FY22 IRCON order inflow stood at Rs7bn in Q1FY22. Going forward, company expects an order inflow of Rs60-70bn in FY22 driven by domestic and international region.
- Maintain strong revenue guidance:** IRCON targets FY22E revenue at ~Rs65-70bn. And, company is aiming for EBITDA margin at 9-9.5% for FY22. EBITDA margin is expected to be driven by execution of high margin order, higher contractual employee.

TP	Rs56
CMP	Rs42
Potential upside / downside	+33%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	5.3	6.2
Consensus	--	--
% difference	--	--

Shareholding Pattern (%)

Promoters	73.2
FII	2.2
DII	0.2
Public	24.4

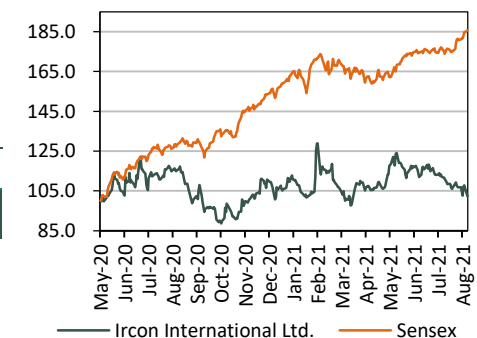
Price Performance (%)

	-1m	-3m	-12m
Absolute	(8.8)	(16.3)	(11.7)
Rel to Sensex	(13.7)	(28.8)	(58.3)

Key Stock Data

Bloomberg / Reuters	IRCON IN /IRCN.BO
Sector	Infrastructure
Shares o/s (mn)	941
Market cap. (Rs mn)	39,690
Market cap. (US\$ mn)	573
3-m daily avg Trd value(Rs mn)	--
52-week high / low	Rs54 / 36
Sensex / Nifty	55,792 / 16,615

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	44,151	52,025	49,478	58,097	67,927
EBITDA	3,780	4,765	3,611	5,114	6,266
EBITDA (%)	8.6	9.2	7.3	8.8	9.2
Adj. PAT	4,447	4,898	4,046	4,962	5,806
EPS (Rs)	4.7	5.2	4.3	5.3	6.2
EPS Growth (%)	14.6	10.1	(17.4)	22.6	17.0
PE (x)	8.9	8.1	9.8	8.0	6.8
Dividend Yield (%)	5.0	5.6	6.2	7.6	8.9
EV/EBITDA (x)	9.5	7.0	2.0	1.1	0.9
RoE (%)	11.5	12.1	9.4	11.1	12.6
RoCE (%)	4.6	6.4	5.7	9.4	11.2

Source: IDBI Capital Research;

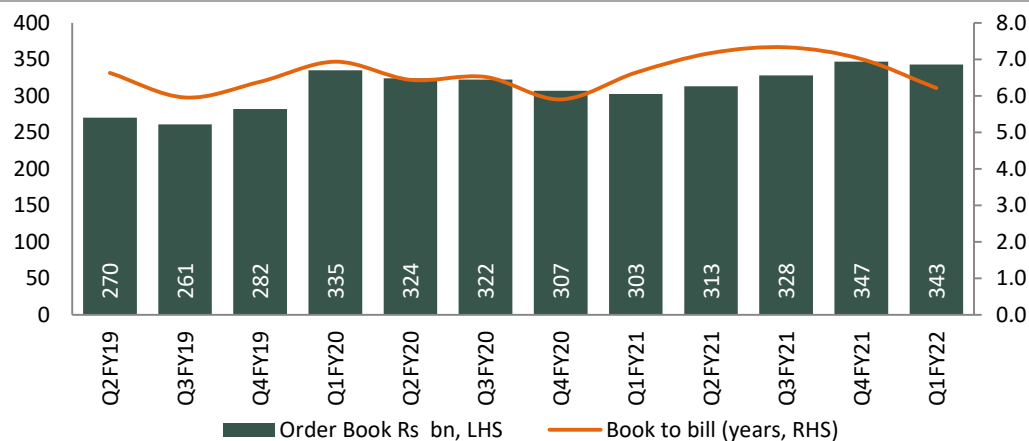
Exhibit 1: Quarterly Snapshot

(Rs mn)

Particulars	Q1FY22	Q1FY21	YoY Chg (%)	Q4FY21	QoQ Chg (%)
Net Sales	10,511	4,774	120	22,604	-53
EBIDTA	709	338	110	1,767	-60
<i>EBITDA margin (%)</i>	6.7	7.1		7.8	
Other income	524	361	45	1074	-51
PBIDT	1,233	700	76	2,841	-57
Depreciation	61	62	-2	61	0
Interest	31	36	-14	19	66
Pre-tax profit	1,142	601	90	2,761	-59
Tax	295	203	45	908	-68
Tax rate	26	34		33	
Profit after tax	847	399	112	1,853	-54

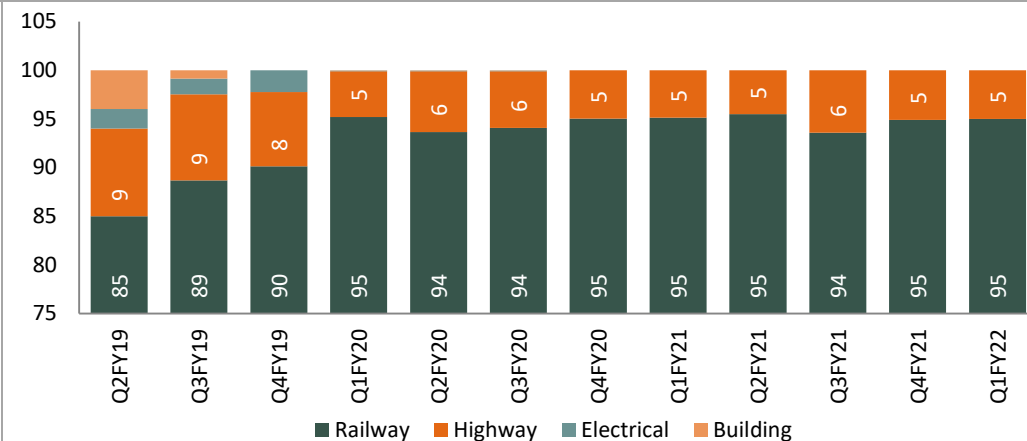
Source: Company

Exhibit 2: Order-book at 6x TTM revenue



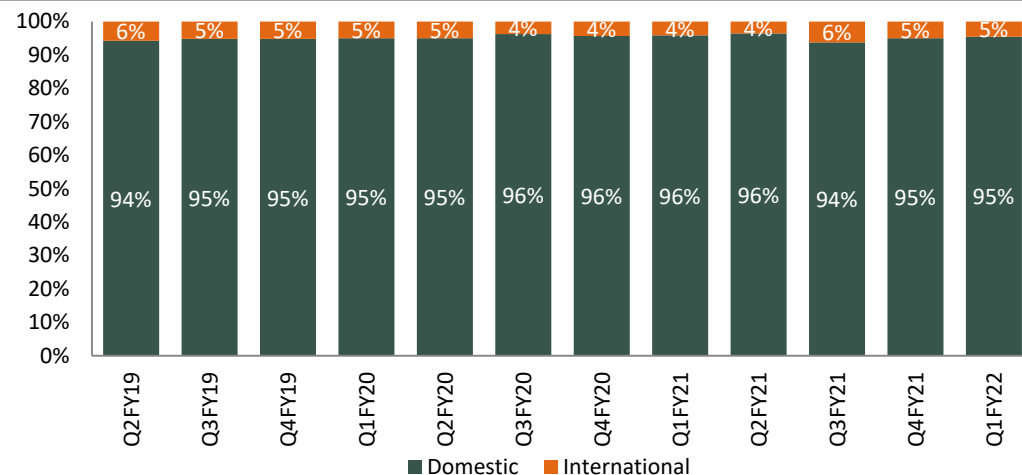
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Exhibit 3: Order book sector wise : Railway sector at 95%



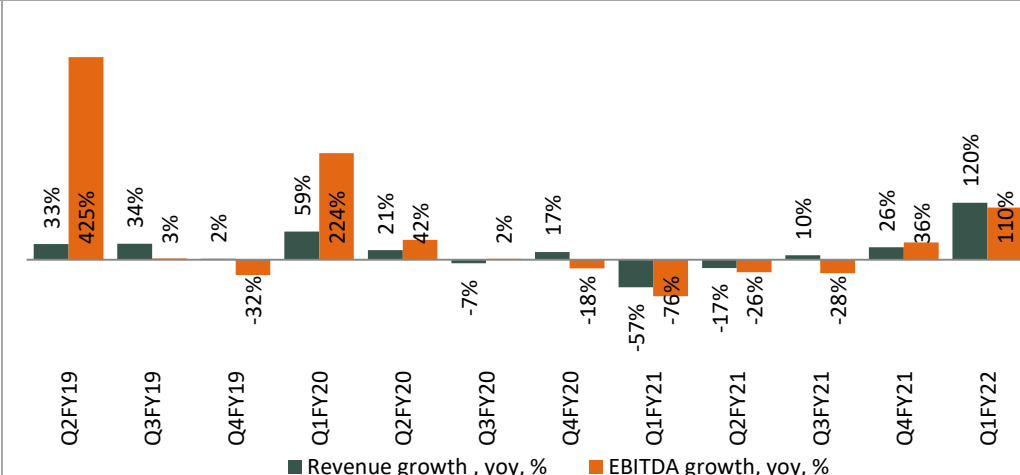
Source: Company

Exhibit 4: Order book composition: Geographic wise



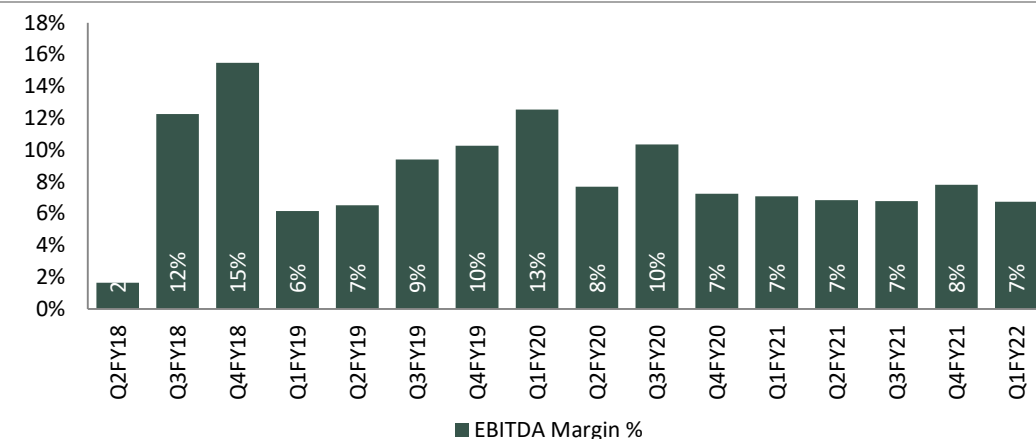
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Exhibit 5: Execution over the years, lumpy in nature



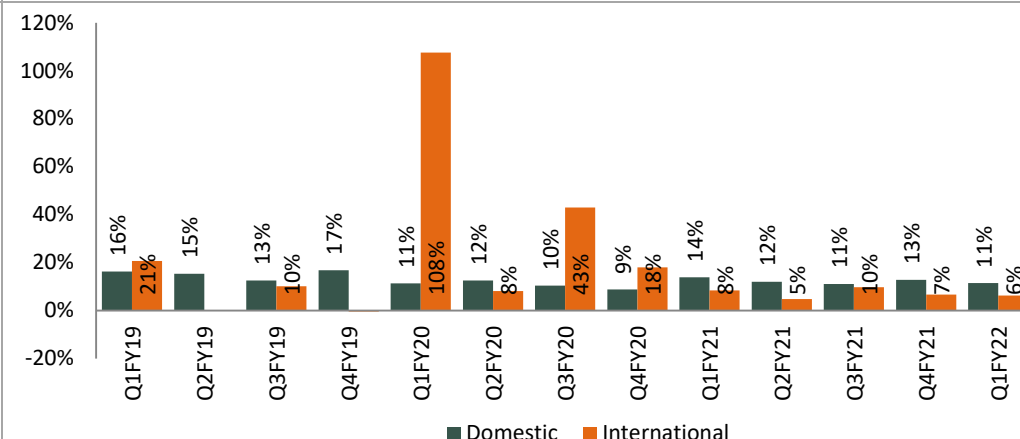
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Exhibit 6: Q1FY22 EBITDA margin at 7%



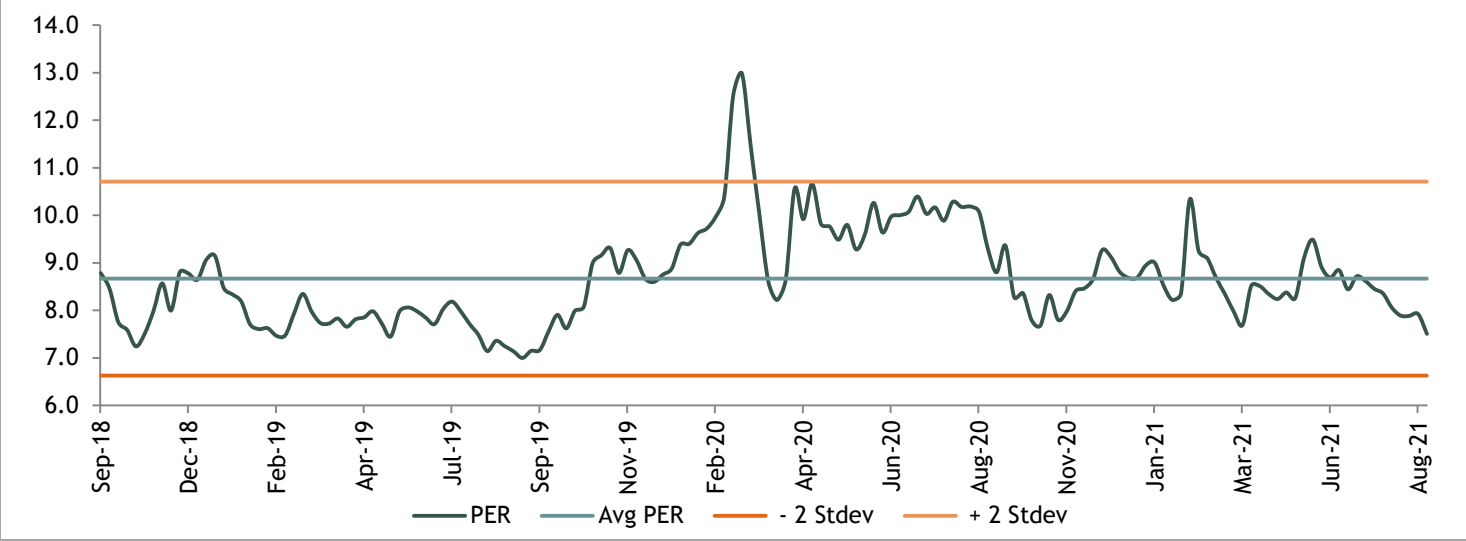
Source : Company

Exhibit 7: EBIT margin –Geographic wise



Source : Company

Exhibit 8: Valuation band PER



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	52,025	49,478	58,097	67,927
<i>Growth (%)</i>	17.8	(4.9)	17.4	16.9
Operating expenses	(47,259)	(45,867)	(52,983)	(61,661)
EBITDA	4,765	3,611	5,114	6,266
<i>Growth (%)</i>	26.1	-24.2	41.6	22.5
Depreciation	(159)	(248)	(282)	(316)
EBIT	4,606	3,362	4,832	5,950
Interest paid	(273)	(147)	-	-
Other income	2,393	2,525	2,209	2,288
Pre-tax profit	6,726	5,740	7,040	8,238
Tax	(1,828)	(1,695)	(2,078)	(2,432)
<i>Effective tax rate (%)</i>	27.2	29.5	29.5	29.5
Net profit	4,898	4,046	4,962	5,806
Exceptional items	-	-	-	-
Adjusted net profit	4,898	4,046	4,962	5,806
<i>Growth (%)</i>	10.1	(17.4)	22.6	17.0
<i>Shares o/s (mn nos)</i>	941	941	941	941

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	6,726	5,740	7,040	8,238
Depreciation	159	248	282	316
Tax paid	(444)	(377)	(2,078)	(2,432)
Chg in working capital	5,762	4,149	4,535	1,862
Other operating activities	(2,084)	(1,712)	(2,209)	(2,288)
Cash flow from operations (a)	10,119	8,049	7,570	5,696
Capital expenditure	(377)	(7,957)	(500)	(500)
Chg in investments	(2,182)	2,448	(4,000)	(3,000)
Other investing activities	(2,157)	6,611	2,209	2,288
Cash flow from investing (b)	(1,645)	(7,056)	(2,291)	(1,212)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(6,781)	(0)	-	-
Dividend (incl. tax)	(2,752)	(1,580)	(3,643)	(4,264)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(9,534)	(1,580)	(3,643)	(4,264)
Net chg in cash (a+b+c)	(1,060)	(587)	1,635	221

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	2,867	2,697	2,913	3,097
Investments	19,575	20,166	24,166	27,166
Other non-curr assets	36,352	15,894	15,894	15,894
Current assets	67,647	67,888	71,637	73,268
Inventories	3,207	1,176	1,490	1,742
Sundry Debtors	5,593	5,046	6,844	8,002
Cash and Bank	25,009	32,505	34,142	34,363
Marketable Securities	-	-	-	-
Loans and advances	628	940	940	940
Total assets	126,441	106,645	114,609	119,425
Shareholders' funds	41,611	44,065	45,383	46,926
Share capital	941	941	1,881	1,881
Reserves & surplus	40,671	43,124	43,502	45,045
Total Debt	18,459	-	-	-
Secured loans	18,459	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	7,338	6,790	6,928	7,085
Curr Liab & prov	59,033	55,790	62,298	65,414
Current liabilities	56,792	53,768	60,276	63,392
Provisions	2,241	2,022	2,022	2,022
Total liabilities	84,830	62,580	69,226	72,499
Total equity & liabilities	126,441	106,645	114,609	119,425
Book Value (Rs)	44	47	48	50

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	5.2	4.3	5.3	6.2
Adj EPS growth (%)	10.1	(17.4)	22.6	17.0
EBITDA margin (%)	9.2	7.3	8.8	9.2
Pre-tax margin (%)	12.9	11.6	12.1	12.1
ROE (%)	12.1	9.4	11.1	12.6
ROCE (%)	6.4	5.7	9.4	11.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.4	0.5	0.6
Leverage factor (x)	3.2	2.7	2.5	2.5
Net margin (%)	9.4	8.2	8.5	8.5
Net Debt/Equity (x)	(0.2)	(0.7)	(0.8)	(0.7)
Working Capital & Liquidity ratio				
Inventory days	22	9	9	9
Receivable days	39	37	43	43
Payable days	45	59	59	59

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	8.1	9.8	8.0	6.8
Price / Book value (x)	1.0	0.9	0.9	0.8
PCE (x)	7.9	9.3	7.6	6.5
EV / Net sales (x)	0.6	0.1	0.1	0.1
EV / EBITDA (x)	7.0	2.0	1.1	0.9
Dividend Yield (%)	5.6	6.2	7.6	8.9



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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