

IRB Infrastructure

BSE SENSEX	S&P CNX
34,083	10,477
Bloomberg	IRB IN
Equity Shares (m)	351.5
M.Cap.(INRb)/(USDb)	82.9 / 1.3
52-Week Range (INR)	272 / 194
1, 6, 12 Rel. Per (%)	-10/1/-26
Avg Val, INRm	573.0
Free float (%)	42.6

Financials & Valuations (INR b)

Y/E March	FY18E	FY19E	FY20E
Net Sales	58.8	64.1	62.8
EBITDA	29.0	31.6	29.9
NP	8.9	8.6	7.5
EPS (INR)	25.4	24.6	21.3
EPS Gr. (%)	24.8	-3.0	-13.6
BV/Sh. (INR)	173.5	193.3	212.2
RoE (%)	15.5	13.4	10.5
RoCE (%)	9.6	11.2	10.0
Payout (%)	18.9	19.5	9.4
Div. Yield	1.7	1.7	0.8

Estimate change



TP change



Rating change



CMP:INR220

TP:INR250 (+14%)

Neutral

Operational results below expectations led by weak EPC performance

- Operating performance marginally below expectations:** IRB's revenue declined 8% YoY to INR11.2b, below our estimate of INR13.7b, due to weaker-than-estimated EPC revenue. Operating profit stood at INR6.7b (-9.0% YoY), below our estimate of INR7.1b. Operating margin shrunk 70bp YoY to 52% due to an adverse revenue mix (higher contribution from the low-margin construction business). Adj. profit of INR2.5b was meaningfully above our estimate of INR1.6b, led by lower-than-estimated interest cost and higher-than-estimated other income.
- BoT revenue registers strong growth:** Toll revenue from continuing projects grew 24% QoQ to INR4.6b, supported by strong traffic growth across projects. Toll revenue for the key Mumbai-Pune project grew 9% YoY and for the Ahmedabad-Vadodara project rose 16% YoY. Chittorgarh-Gulabpura also started contributing to revenue from this quarter.
- Muted EPC revenue growth:** EPC revenue grew at a muted 3% YoY to INR8.5b. EPC EBIT margin improved 160bp YoY to 29% on account of lower contribution from the utility shifting segment, where margins are weak. IRB has six projects under construction, of which Solapur-Yedeshi has been almost completed and should commence commercial operations from 4QFY18. Order book stands robust at INR74b; IRB incrementally expects order inflow from the upcoming finalization of the HAM and ToT projects.
- Valuation view:** We raise our estimate for FY18/19/20E by 11/6/8% to factor in lower-than-estimated interest cost. We maintain **Neutral** on the stock with a target price of INR250, valuing the EPC business at INR123 (8x FY20 EPS), BoT at INR104 and INR25 for its stake in InvIT.

Quarterly Performance

Y/E March	FY17				FY18				FY17E	FY18E	Mosl 3QFY18	Var
	1Q	2Q	3Q	4QE	1Q	2Q	3Q	4QE				
Net Sales	15,173	12,906	14,109	16,271	18,169	11,227	12,962	16,416	58,459	58,774	13,743	-6
YoY Change (%)	36.8	12.3	5.8	5.9	19.7	-13.0	-8.1	0.9	14.0	0.5	-2.6	
Total Expenditure	7,434	5,816	6,674	8,053	9,991	5,503	6,222	8,078	27,976	29,793	6,597	
EBITDA	7,740	7,090	7,435	8,218	8,178	5,724	6,740	8,338	30,483	28,981	7,146	-6
Margins (%)	51.0	54.9	52.7	50.5	45.0	51.0	52.0	50.8	52.1	49.3	52.0	
Depreciation	2,207	2,274	1,803	2,264	1,816	1,260	1,212	1,418	8,548	5,706	1,050	
Interest	3,282	3,396	3,389	3,260	2,854	2,356	2,366	3,588	13,327	11,165	3,700	
Other Income	308	336	298	289	535	424	455	376	1,232	1,790	300	
PBT before EO expense	2,558	1,757	2,541	2,983	4,044	2,532	3,616	3,707	9,839	13,899	2,696	34
Extra-Ord expense	0	0	0	0	0	1,041	0	0	0	0	0	
PBT	2,558	1,757	2,541	2,983	4,044	3,573	3,616	3,707	9,839	13,899	2,696	34
Tax	740	335	699	911	1,665	1,225	1,100	987	2,685	4,977	1,100	
Rate (%)	28.9	19.1	27.5	30.5	41.2	34.3	30.4	26.6	27.3	35.8	40.8	
Min Int & P/Lof Asso. Cos.	0	0	0	0	0	2	2	2	8	6	2	
Reported PAT	1,818	1,422	1,842	2,072	2,379	2,346	2,514	2,718	7,146	8,916	1,594	58
Adj PAT	1,818	1,422	1,842	2,072	2,379	1,503	2,514	2,718	7,146	8,916	1,594	58
YoY Change (%)	10.4	-4.6	8.6	37.1	30.8	5.7	36.5	31.2	11.8	24.8	-13.4	
Margins (%)	12.0	11.0	13.1	12.7	13.1	13.4	19.4	16.6	12.2	15.2	11.6	

E: MOSL Estimates

Amit Shah - Research Analyst (Amit.Shah@MotilalOswal.com);+91 22 6129 1543

Ankur Sharma - Research Analyst (Ankur.VSharma@MotilalOswal.com);+91 22 6129 1556

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New projects to start contributing to revenue

IRB has started partial tolling at Kaithal Rajasthan project, with average daily toll collection of INR2.0m, below its estimate of INR2.8m. Toll revenue is impacted by key structure work currently undertaken, and should pick up once the structure work is completed. IRB has completed the project five months ahead of schedule. IRB has also started collecting toll from the Udaipur Shamlaji (INR4.5m per day toll collection) and Gulabpura Chitorgarh (INR6.0m per day toll collection) projects. These projects have provided toll collection boost to 3QFY18.

Ahmedabad-Vadodara continues to incur loss

Although Ahmedabad Vadodara project has witnessed good traffic growth during the quarter, it continues to incur loss given a competing stretch being upgraded by Gujarat State, leading to traffic loss in its Ahmedabad-Vadodara highway project. IRB has raised the issue with the NHAI, and a resolution is expected over the next few quarters. However, currently, it incurs a loss of INR800m on per annum basis.

Exhibit 1: Project-wise toll collections (list of continuing project)

Toll collection (INR m)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY gr. (%)
Mumbai-Pune	1,464	1,621	1,619	1,880	1,735	1,372	1,833	2278	2134	2,332	69.9
Thane-Ghodbunder	74	77	79	90	83	52	82	84	78	99	91.7
Pune-Nashik	67	67	69	70	77	59	76	79	80	84	43.1
Pune-Solapur	54	59	60	63	55	45	61	64	58	65	44.0
Ahmedabad-Vadodara*	368	527	856	875	826	690	917	916	865	1,007	45.9
Pathankot-Amritsar	217	272	272	294	279	238	271	320	278		
Agra Etawah BOT					167	208	261	247	243	286	46
Udaipur Gujarat									115	388	
Kaithal Rajasthan									42	167	
Chittorgarh Gulabpura BoT										343	
Total	5,387	5,974	6,490	6,757	6,438	5,176	6,873	3,988	3,893		

Exhibit 2: Segment Results

Segment Revenue	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
BoT	6,011.8	5,617	5,994	5,889.5	4,958.4	3,715.9	4,597.3
Construction	9,130.8	7,247	8,104	10,373.0	13,173.4	7,483.4	8,322.3
Total	15,173	12,906	14,109	16,271	18,169	11,227	
Segment Results							
BoT	3,006.7	2,758	3,390	2,998.0	2,670.1	2,102.1	2,645.4
Construction	2,517.0	2,061	2,253	2,971.6	3,672.0	2,357.5	2,444.5
Total	5,534	4,623	5,634	5,956	6,362	4,464	5,095
Margins (%)							
BoT	50.0	49.1	57	51	54	57	58
Construction	27.6	28.4	28	29	28	32	29

Valuation and view

We value IRB's state highway portfolio at ~INR8.4b (INR24/share). This portfolio, which provides linear growth in earnings/cash flow, is now dominated by Mumbai-Pune Highway, which has an outstanding concession period of less than three years. We value IRB's NH portfolio at INR27.9b (INR80/share). These projects are in the initial stages of commissioning. As they are yet to reach critical traffic levels, we expect negative contribution in the initial years.

We value IRB's EPC business at 8x FY20E EPS of INR15.4, at a discount to the prevailing peer EPC business valuation of 18x. This is because IRB's EPC business earns much higher EBITDA margin than competitors in the segment, which helps it to upfront profits and meet equity requirements of the projects.

Exhibit 3: SOTP table

Particulars	Segments	Value (INRm)	Value per share (INR)	Rationale
EPC business	Core construction business	4,978	123	At 8x FY20E Earnings
BoT Assets	Subsidiary	34,024	104	DCF
InvIT Equity Stake			25	At market price
SOTP Value			240	

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	36,872	37,319	38,489	51,279	58,459	58,774	64,105	62,804
Change (%)	17.7	1.2	3.1	33.2	14.0	0.5	9.1	-2.0
Material costs	4,697	5,027	4,345	3,713	2,683	10,344	11,595	11,146
Employees Cost	1,557	1,799	1,898	2,465	2,726	2,217	2,375	2,468
Manufacturing costs	13,063	11,630	8,715	16,825	20,184	15,790	16,952	17,629
Admin & Other Expenses	1,158	1,327	1,414	1,673	2,384	1,442	1,545	1,613
Total Expenditure	20,475	19,782	16,372	24,677	27,976	29,793	32,467	32,856
% of Sales	55.5	53.0	42.5	48.1	47.9	50.7	50.6	52.3
EBITDA	16,397	17,537	22,117	26,603	30,483	28,981	31,638	29,948
Margin (%)	44.5	47.0	57.5	51.9	52.1	49.3	49.4	47.7
Depreciation	4,415	4,771	7,071	8,533	8,548	5,706	5,331	5,864
EBIT	11,982	12,766	15,046	18,069	21,935	23,274	26,307	24,084
Int. and Finance Charges	6,200	7,562	9,312	10,639	13,327	11,165	14,454	15,592
Other Income	1,348	1,214	1,130	1,272	1,232	1,790	1,638	1,645
PBT bef. EO Exp.	7,130	6,419	6,864	8,702	9,839	13,899	13,491	10,137
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	7,130	6,419	6,864	8,702	9,839	13,899	13,491	10,137
Total Tax	1,530	1,823	1,441	2,306	2,685	4,977	4,838	2,669
Tax Rate (%)	21.5	28.4	21.0	26.5	27.3	35.8	35.9	26.3
Minority Interest	-31	5	-6	4	8	6	8	0
Reported PAT	5,631	4,591	5,429	6,391	7,146	8,916	8,645	7,468
Adjusted PAT	5,631	4,591	5,429	6,391	7,146	8,916	8,645	7,468
Change (%)	12.1	-18.5	18.2	17.7	11.8	24.8	-3.0	-13.6
Margin (%)	15.3	12.3	14.1	12.5	12.2	15.2	13.5	11.9

Consolidated - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	3,324	3,324	3,515	3,515	3,515	3,515	3,515	3,515
Total Reserves	29,232	32,283	40,094	44,758	50,226	57,454	64,413	71,068
Net Worth	32,556	35,607	43,609	48,272	53,740	60,969	67,927	74,582
Minority Interest	1,092	356	351	355	354	360	368	368
Total Loans	87,761	110,841	125,762	149,937	165,566	136,153	133,393	134,618
Deferred Tax Liabilities	259	143	170	148	148	148	148	148
Capital Employed	121,667	146,947	169,890	198,713	219,809	197,631	201,836	209,717
Gross Block	70,712	105,855	344,227	385,926	419,914	296,696	297,311	298,020
Less: Accum. Deprn.	15,624	20,311	26,589	34,438	44,970	50,676	56,008	60,998
Net Fixed Assets	55,088	85,544	317,638	351,488	374,944	246,020	241,303	237,022
Capital WIP	49,160	44,867	48,353	40,198	77,494	106,304	148,172	185,005
Total Investments	620	145	88	68	68	9,888	9,888	9,888
Curr. Assets, Loans&Adv.	25,793	26,480	27,827	30,049	25,935	54,538	19,481	-8,224
Inventory	2,488	2,683	2,598	3,088	4,004	4,026	4,391	4,302
Account Receivables	80	55	49	1,037	80	81	88	86
Cash and Bank Balance	14,710	14,823	15,757	15,587	10,759	38,750	2,772	-25,412
Loans and Advances and CA	8,515	8,919	9,422	10,337	11,092	11,683	12,231	12,801
Curr. Liability & Prov.	8,994	10,090	224,015	223,090	258,632	219,119	217,010	213,980
Account Payables	3,135	4,078	2,339	3,052	3,949	3,970	4,331	4,243
Other Current Liabilities	2,749	3,125	219,487	218,351	252,199	212,690	210,248	207,343
Provisions	3,110	2,888	2,189	1,687	2,483	2,458	2,430	2,395
Net Current Assets	16,799	16,390	-196,188	-193,041	-232,697	-164,580	-197,528	-222,204
Appl. of Funds	121,667	146,947	169,891	198,713	219,809	197,631	201,835	209,711

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)								
EPS	16.0	13.1	15.4	18.2	20.3	25.4	24.6	21.3
Cash EPS	28.6	26.6	35.6	42.5	44.7	41.6	39.8	37.9
BV/Share	92.6	101.3	124.1	137.4	152.9	173.5	193.3	212.2
DPS	3.8	3.8	3.9	4.0	4.0	4.0	4.0	2.0
Payout (%)	28.0	33.9	29.9	26.5	23.6	18.9	19.5	9.4
Valuation (x)								
P/E			15.3	13.0	11.6	9.3	9.6	11.1
Cash P/E			6.6	5.6	5.3	5.7	5.9	6.2
P/BV			1.9	1.7	1.5	1.4	1.2	1.1
EV/Sales			5.0	4.2	4.1	3.1	3.3	3.9
EV/EBITDA			8.7	8.2	7.8	6.2	6.8	8.1
Dividend Yield (%)	1.6	1.6	1.6	1.7	1.7	1.7	1.7	0.8
FCF per share	-29.3	-28.3	-13.8	-23.2	-24.6	222.8	-53.1	-39.1
Return Ratios (%)								
RoE	18.4	13.5	13.7	13.9	14.0	15.5	13.4	10.5
RoCE	9.5	8.4	8.2	8.4	8.9	9.6	11.2	10.0
RoIC	16.4	12.7	12.3	10.7	11.6	17.2	40.3	43.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.4	0.1	0.1	0.1	0.2	0.2	0.2
Asset Turnover (x)	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Inventory (Days)	25	26	25	22	25	25	25	25
Debtor (Days)	1	1	0	7	1	1	1	1
Creditor (Days)	31	40	22	22	25	25	25	25
Leverage Ratio (x)								
Interest Cover Ratio	1.9	1.7	1.6	1.7	1.6	2.1	1.8	1.5
Net Debt/Equity	2.2	2.7	2.5	2.8	2.9	1.4	1.8	2.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	7,066	6,419	6,864	8,679	9,839	13,899	13,491	10,137
Depreciation	4,415	4,771	7,071	8,533	8,548	5,706	5,331	5,864
Interest & Finance Charges	4,874	6,362	8,276	9,547	12,096	9,375	12,816	13,947
Direct Taxes Paid	-2,422	-2,325	-2,163	-3,117	-2,685	-4,977	-4,838	-2,669
(Inc)/Dec in WC	519	1,389	-1,766	-648	34,828	-40,126	-2,992	-3,466
CF from Operations	14,451	16,616	18,282	22,995	62,625	-16,123	23,808	23,814
Others	2	-61	-47	429	0	0	0	0
CF from Operating incl EO	14,453	16,555	18,235	23,424	62,625	-16,123	23,808	23,814
(Inc)/Dec in FA	-24,766	-26,516	-23,091	-31,595	-71,284	94,408	-42,482	-37,543
Free Cash Flow	-10,312	-9,962	-4,856	-8,171	-8,658	78,286	-18,674	-13,729
(Pur)/Sale of Investments	-482	479	75	41	0	-9,820	0	0
Others	304	342	964	1,289	1,151	1,791	1,638	1,645
CF from Investments	-24,944	-25,696	-22,052	-30,265	-70,133	86,379	-40,844	-35,897
Issue of Shares	0	0	4,216	0	0	0	0	0
Inc/(Dec) in Debt	14,171	21,802	14,372	23,126	17,694	-29,413	-2,761	1,225
Interest Paid	-6,180	-10,887	-13,173	-14,349	-13,327	-11,165	-14,492	-16,658
Dividend Paid	-997	-1,661	-665	-2,107	-1,687	-1,687	-1,687	-703
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	6,994	9,254	4,751	6,670	2,680	-42,265	-18,940	-16,136
Inc/Dec of Cash	-3,497	113	934	-171	-4,827	27,992	-35,976	-28,219
Opening Balance	18,207	14,710	14,823	15,757	15,586	10,759	38,749	2,812
Closing Balance	14,710	14,823	15,757	15,586	10,759	38,750	2,774	-25,407

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

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