

Stock Update

Healthy BOT performance supports earnings; Retain Buy with a revised PT of Rs. 270

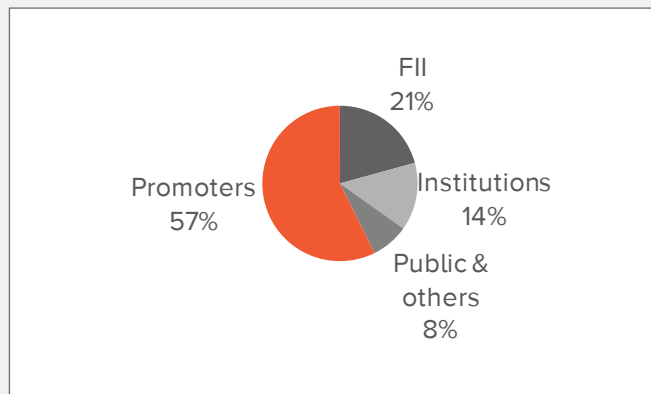
IRB Infrastructure Developers

Reco: Buy | CMP: Rs194

Company details

Price target:	Rs270
Market cap:	Rs6,832 cr
52-week high/low:	Rs286/184
NSE volume: (No of shares)	22.7 lakh
BSE code:	532947
NSE code:	IRB
Sharekhan code:	IRB
Free float: (No of shares)	15.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.7	-24.5	-17.2	-6.7
Relative to Sensex	-15.6	-29.5	-19.3	-19.2

Key points

- Strong operating margins in BOT while construction segment improves sequentially:** In Q1FY2019, consolidated net profit of IRB Infrastructure Developers (IRB) grew by 5.1% y-o-y as transfer of seven Build-Operate-Transfer [BOT road assets in InvIT resulted in lower depreciation (down 25.9% y-o-y) and lower interest expense (down 13.2% y-o-y)]. BOT revenue grew by 5.4% y-o-y. Revenue of the construction business (down 23.4% y-o-y, up 14% y-o-y) showed improvement sequentially. Operating profit margin (OPM) expanded by 354 BPS y-o-y due to strong operating margin in the BOT segment.
- Revenue growth momentum to pick up in H2FY2019:** IRB expects strong uptick in revenue during H2FY2019 as construction revenue from the recently bagged three HAM and one BOT project starts to kick in. Revenue from BOT projects is also expected to be strong as two of its projects start toll collection during H2FY2019. Current order book of IRB stands at Rs. 14,104 crore, which is 4x its TTM construction revenue, providing visibility on construction revenue over the next two to three years. On the order inflow front, the company expects strong order intake over the next two quarters.
- Outlook – Positive sector outlook to support higher growth:** The Road Transport and Highways Ministry has set an ambitious target of constructing 45 km a day (up 67% y-o-y) national highways for FY2019 as against 27 km a day achieved in FY2018. Further, the target for contract awards is pegged at 20,000 km for FY2019 as against 17,055 km achieved for FY2018. We believe IRB has an opportunity to further improve its order book during FY2019 as it has been bidding for Hybrid Annuity Mode (HAM) projects while keeping its balance sheet lighter with transfer of assets to InvIT (Solapur-Yedeshi project is likely to be transferred during FY2020).
- Valuation - Maintain Buy with a revised PT of Rs. 270:** We have lowered our construction revenue for FY2019-FY2020, factoring delay in getting financial closure of the recently won projects. Hence, we have lowered our price target (PT) to Rs. 270 (lower EPC execution along with downward revision in EPC earnings multiple). We maintain our Buy rating on the stock.

Results (consolidated)

Particulars	Rs cr				
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net sales	1538.0	1816.9	-15.4	1382.2	11.3
Other income	45.3	53.5	-15.4	49.9	-9.2
Total income	1583.2	1870.4	-15.4	1432.1	10.6
Total expenses	791.3	999.1	-20.8	723.4	9.4
Operating profit	746.7	817.8	-8.7	658.8	13.3
Depreciation	134.5	181.6	-25.9	115.2	16.7
Interest	247.7	285.4	-13.2	209.0	18.5
Profit Before Tax	409.8	404.4	1.3	384.5	6.6
Taxes	159.7	166.5	-4.1	144.7	10.4
PAT	250.1	237.9	5.1	239.8	4.3
Consolidated PAT	250.1	237.9	5.1	239.8	4.3
No of equity shares	35.1	35.1	0.0	35.1	0.0
EPS (Rs.)	7.1	6.8	5.1	6.8	4.3
Margins (%)					
OPM	48.5	45.0	354 bps	47.7	89 bps
NPM	16.3	13.1	317 bps	17.3	-109 bps
Tax rate (%)	39.0	41.2	-221 bps	37.6	133 bps

Segment-wise performance

Particulars	Rs cr				
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenues					
Construction	1009.1	1317.3	-23.4	885.0	14.0
BOT	522.8	495.8	5.4	493.5	5.9
Total	1531.9	1813.2	-15.5	1378.6	11.1
EBITDA					
Construction	280.5	393.5	-28.7	241.0	16.4
BOT	466.5	424.3	9.9	417.8	11.7
Total	747.0	817.8	-8.7	658.8	13.4
EBITDA margin (%)					
Construction	27.8	29.9	-208 bps	27.2	56 bps
BOT	89.2	85.6	366 bps	84.7	457 bps

BOT revenue

Toll collections	Rs cr						
	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
Mumbai-Pune	227.8	213.4	233.2	227.1	230.9	1.4	1.7
Pune-Nashik	7.9	8.0	8.4	8.2	8.3	5.1	1.2
Pune-Solapur	6.4	5.8	6.5	6.3	6.3	-1.6	0.0
Thane-Ghodbunder	8.4	7.8	9.9	10.2	19.5	132.1	91.2
Amritsar-Pathankot	32.0	27.8	-	-	-	-	-
Ahmedabad-Vadodara	91.6	86.5	100.7	102.0	104.1	13.6	2.1
Agra Etawah	24.7	24.3	28.6	24.7	23.1	-6.5	-6.5
Udaipur Gujarat		11.5	38.8	38.6	38.3		-0.8
Kaithal Rajasthan		4.2	16.7	16.1	16.6		3.1
Gulabpura Chittorgarh			34.3	57.4	53.3		-7.1
Kishangarh-Gulabpura				15.3	34.4		124.8
Solapur Yedeshi				4.7	17.4		270.2
Total	366.8	361.5	477.1	510.6	552.2	38.5	8.1
BOT projects handed back/ transferred to InvIT	178.8	27.8					
Total	545.6	389.3	477.1	510.6	552.2	1.2	8.1

Valuation (consolidated)

Particulars	Rs cr			
	FY17	FY18	FY19E	FY20E
Sales	5,845.9	5,694.1	6,601.5	8,719.8
Growth YoY (%)	14.0	(2.6)	15.9	32.1
EBITDA	3,048.3	2,679.4	3,093.1	3,502.3
Margins (%)	52.1	47.1	46.9	40.2
Adjusted net profit	715.5	919.7	1,045.0	1,183.7
Growth YoY (%)	11.9	28.5	13.6	13.3
Shares in issue (cr)	35.1	35.1	35.1	35.1
EPS (Rs.)	20.4	26.2	29.7	33.7
Growth YoY (%)	11.9	28.5	13.6	13.3
P/E (x)	9.5	7.4	6.5	5.8
Book value (Rs.)	150.0	162.0	187.0	216.0
P/B (x)	1.3	1.2	1.0	0.9
RoCE (%)	12.6	13.4	16.2	19.7
RoNW (%)	14.2	16.8	17.0	16.7

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