

Industry	Eng. & Cons.
Bloomberg	IRB IN
BSE CODE	532947

Execution is likely to pick up

RATING	BUY
CMP	126
Price Target	155
Potential Upside	23%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	286/117
Mkt Capital (Rs Cr)	4437
Free float (%)	43%
Avg. Vol 1M (,000)	2200
No. of Shares	35
Promoters Pledged %	0

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Key Highlights -

- IRB has achieved financial closure of all of its HAM projects despite the tight liquidity situation. Further Management expects to close BoT project financially by next month.
- Company has tied up with Banks and NBFCs (L&T Finance, Birla Finance and PNB Finance) for the project loan at 9.75% with 80:20 debt to equity ratio.
- Currently 80-90% land is available on all the projects but management will take appointment date only after 100% land acquisition and execution is likely to start from end of Q3FY19. This will ensure uninterrupted execution.
- Order intake for the Q2FY19 and H1FY19 remained NIL and which is expected to pick up from Q3FY19.

2Q FY19 Results-

The Revenue during Q2FY19 went up by 27.6% YoY on account of 33% growth in the toll collection and 10% growth in the construction revenue. Other adjusted income during the quarter rose up by 26% on account of dividend received from IRB InvIT fund. EBITDA grew by 17% YoY mainly due to the increased revenue whereas margin down by 420 bps. The interest cost increased by 10% YoY. PAT during the quarter fell by 26% YoY on account higher interest and tax outgo. For the quarter Q2FY19 and H1FY19 order intake was NIL on account of slow tendering by NHAI. Though, the order book at the end of quarter stood at Rs 13219 Cr as compared to 8189 Cr of Q2FY18 which is 3.6x TTM revenue.

View and Valuation

IRB has been able to achieved financial closure of all the HAM projects in stipulated time period whereas the industry is struggling to get projects financially closed and expect to close BoT project by next month. Land on all the projects are acquired to the tune of 80-90% but management will take appointment date only after 100% land acquisition which ensures uninterrupted execution. We expect IRB will commence construction on 3 HAM projects from end of Q3FY19 and on BoT project from Q4FY19. Toll collection on key project Ahemdabad Vadodara is improving from last couple of quarters and which is likely to improve further. EBITDA margin is likely to come down on blended basis as the revenue mix change towards low margin EPC business. We have reduced our FY19 Revenue/PAT estimates by 4%/10% on account of lower than expected revenue and margin but largely maintain for FY20. **We continue to value IRB at Rs.155 (7.7x EV/EBITDA) and maintain our BUY rating on the stock.**

Key Risks to our rating and target

- Sharp cut down in NHAI tendering
- Delay in land acquisition

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	5128	5846	5694	6516	7924
EBITDA	2660	3048	2679	3090	3109
EBIT	1807	2193	2135	2507	2664
PAT	639	715	920	863	755
EPS (Rs)	18	20	26	25	21
EPS growth (%)	18%	12%	29%	-6%	-13%
ROE	13%	14%	16%	14%	11%
ROCE	9%	12%	11%	11%	10%
BVPS	137.6	155.5	162.0	177.5	195.1
P/B (X)	1.7	1.4	1.7	0.7	0.6
P/E (x)	13.0	10.8	10.3	5.1	5.9
EV/EBITDA (x)	8.0	6.4	7.9	6.1	7.4

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2QFY19 Results

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	H2FY18	H2FY19	YoY %
Net Sales	1,123	1,296	1,382	1,538	1,432	28%	-7%	2,940	2,970	1.0%
Construction	884	832	885	1,035	965	9%	-7%	2,246	2,000	-11.0%
Toll	385	460	494	548	521	35%	-5%	893	1,069	19.7%
Other Income	146	45	50	45	53	-64%	17%	200	98	-50.8%
COGS	446	500	549	627	589	32%	-6%	1,292	1,216	-5.9%
Employee	64	81	89	77	86	33%	11%	122	163	33.7%
Other Expenses	40	85	86	88	87	116%	-1%	136	175	29.0%
Total	550	666	723	791	762	38%	-4%	1,549	1,553	0.3%
EBITDA	572	630	659	747	670	17%	-10%	1,390	1,417	1.9%
Depreciation	126	121	115	134	137	9%	2%	308	272	-11.7%
EBIT	446	509	544	612	533	19%	-13%	1,083	1,145	5.8%
Intreset	236	237	209	248	272	15%	10%	521	520	-0.3%
Exceptional	-	-	-	-	-	0%	0%	-	-	0%
PBT	357	318	384	410	314	-12%	-23%	762	724	-5.0%
Tax	123	111	145	160	141	15%	-12%	289	301	4.1%
PAT	235	207	240	250	173	-26%	-31%	473	423	-10.5%

Revenue remained strong, EBITDA down

Q2FY19 witnessed a growth of 27.6% YoY led by 33% increase in BoT revenue on account of strong toll collection at Ahemdabad Vadodara & Kaithal Rajasthan and contribution from under construction six laning projects. While EPC revenue grew 10% YoY on account of the strong order book and healthy execution. Toll collections at Mumbai Pune continued remained soft on account of maintenance work at Mumbra bypass. Work is completed at the end of September and traffic is likely to come back from next quarter onwards. The interest cost increased by 10% YoY as the two projects Kaithal Rajasthan and Yedeshi Aurangabad have commenced toll collection. EBITDA margin during the quarter come has down by 420 bps to 46.8% on account of lower EPC margin (26% v/s 27-29%) and utility shifting revenue of Rs.70 Cr which is pass through for the company.

Achieved financial closure, execution is likely to pickup

IRB has closed its all 3 HAM projects financially despite challenging macroeconomics. 70000 Cr of projects are in market for financial closure and only 40-50% is able to close projects financially below bid projects cost. Whereas IRB has achieved financial closure of all 3 HAM projects and in process to complete BoT project. This is expected to close by next month. Currently, 80-90% land is available on this projects but management will take appointment date only after 100% land acquisition. This move will ensure uninterrupted execution. We expect construction work is expected to commence from end of Q3FY19. We have estimated 10/40% EPC revenue growth in FY19/20. Order intake for the Q2FY19 and H1FY19 remained NIL and which is expected to pick up from Q3FY19.

Concall Highlights

- ❑ The Management believes due to turmoil in the Banks and NBFC the financial closure of around Rs 70000 Cr worth projects in the industry seemed difficult, which has been observed only 40-50% have achieved financial closure that also at below bid cost.
- ❑ Management believes that the NHAI has been postponing the bidding activities because of delay in achievement in financial closure in industry, but is hopeful that bidding activity will pick up in From Q3FY19.
- ❑ Despite the turmoil in the industry IRB has been able to achieve financial closure in all HAM projects at bid cost.
- ❑ Hapur bypass is expected to receive financial closure in coming months.
- ❑ Kaithal Rajasthan reported a strong growth of 13 % in toll collection led by the completion of major structure work (RoB), management expects further growth in traffic in the project.
- ❑ The Company has guided for the Construction Revenue Target of Rs 4500 Cr. The expected EBITDA Margins for the HAM and BoT projects for FY19 is 17-18% and 25-27% respectively.
- ❑ Company is getting its HAM projects financed through Banks and NBFC (LT Finance, Birla Finance, PNB) whereby Cost of Funding is 9.75%, Debt to equity ratio of 80:20
- ❑ Company is getting two of its HAM projects done through in house work, while one it has got subcontracted.

Revenue Mix

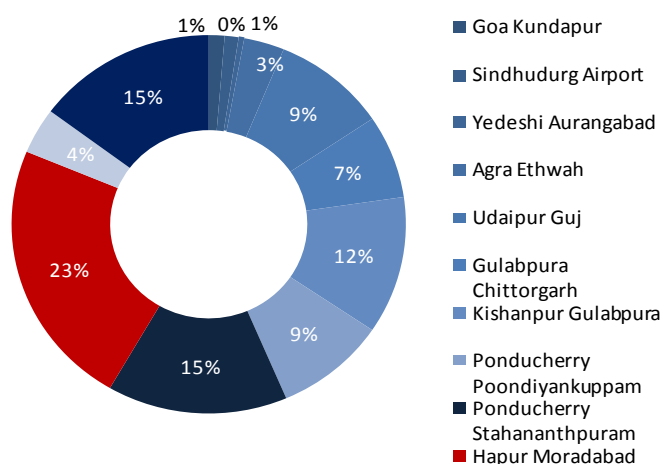
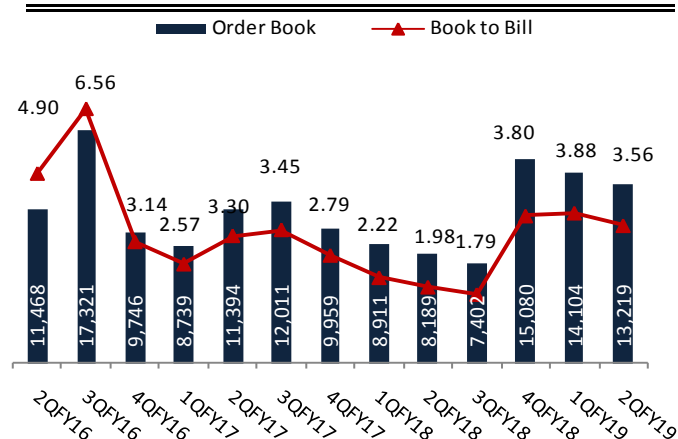
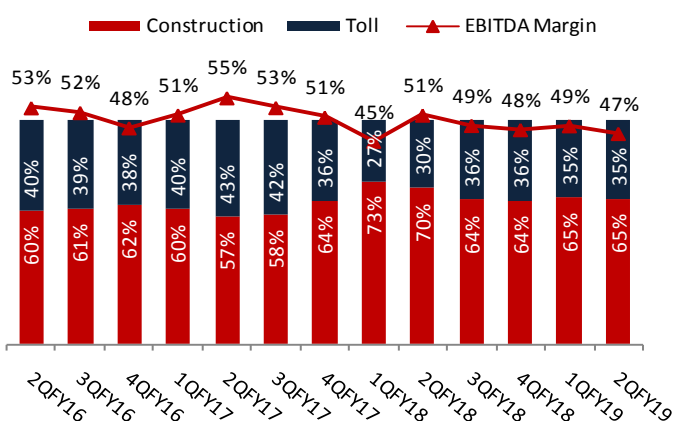
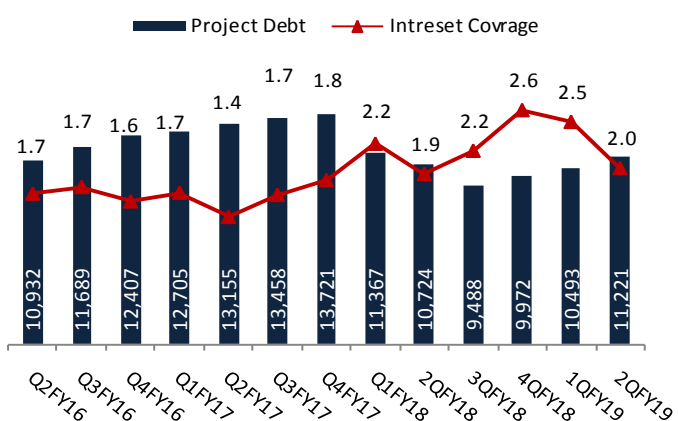
	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Construction	1,062	1,362	884	832	885	1,035	965	9%	-7%
BoT	594	508	385	460	494	548	521	35%	-5%
Total	1,656	1,870	1,269	1,292	1,379	1,583	1,485	17%	-6%

Order Book Break Up

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Ongoing Projects	3,822	2,785	4,079	5,297	6,917	5,943	5,058	-5%	-15%
Yet to commence	5,436	5,436	3,438	1,449	8,163	8,161	8,161	463%	0%
BOT Projects in O&M	701	690	673	656	-	-	-		
Total	9,959	8,911	8,189	7,402	15,080	14,104	13,219	79%	-6%

Gross Toll Collection at Major Projects

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Mumbai- Pune	183	228	213	233	227	231	215	1%	-7%
Ahemdabad - Vadodra	92	92	87	101	102	104	98	13%	-6%
Thane - Ghodbandar	8	8	8	10	10	20	10	27%	-49%
Pune - Nasik	8	8	8	8	8	8	9	13%	10%
Pune - Solapur	6	6	6	6	6	6	6	-1%	-8%

Exhibit: Order Book Break UP(Q2FY19)

Exhibit: Order Book and Book to Bill

Exhibit: Revenue Mix % with EBITDA M %

Exhibit: Project Debt and Intreset Coverage


Financial Details

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	3,687	3,732	3,847	5,128	5,846	5,694	6,516	7,924
Change (%)	18%	1%	3%	33%	14%	-3%	14%	22%
EBITDA	1,633	1,754	2,212	2,660	3,048	2,679	3,090	3,109
Change (%)	19%	7%	26%	20%	15%	-12%	15%	1%
Margin (%)	44%	47%	57%	52%	52%	47%	47%	39%
Depr & Amor.	442	477	707	853	855	544	583	445
EBIT	1,192	1,277	1,505	1,807	2,193	2,135	2,507	2,664
Int. & other fin. Cost	615	756	931	1,064	1,333	967	1,225	1,627
Other Income	130	121	113	127	123	169	126	113
EBT	707	642	686	870	984	1,337	1,409	1,151
Exp Item	-	-	-	-	-	127	-	-
Tax	153	182	144	231	269	544	546	396
Minority Int & P/L share of Ass.	(3)	0	(1)	0	(0)	-	-	-
Reported PAT	557	459	543	639	715	920	863	755
Adjusted PAT	557	459	543	639	715	845	863	755
Change (%)		-18%	18%	18%	12%	18%	2%	-13%
Margin(%)	15%	12%	14%	12%	12%	15%	13%	10%

Balance sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Share Capital</i>	332	332	351	351	351	351	351	351
<i>Reserves</i>	2,923	3,228	4,099	4,485	4,920	5,341	5,887	6,506
<i>Networth</i>	3,256	3,561	4,451	4,836	5,272	5,693	6,239	6,858
<i>Debt</i>	7,906	10,294	11,747	14,473	13,020	12,996	15,939	19,776
<i>Other Non Cur Liab</i>	485	339	21,262	20,744	15,960	15,661	15,661	15,661
<i>Total Capital Employed</i>	9,890	12,959	15,568	18,120	17,361	17,524	21,014	25,534
<i>Net Fixed Assets (incl CWIP)</i>	10,425	13,041	36,486	39,057	31,083	36,712	40,507	45,277
<i>Non Cur Investments</i>	1	1	1	1	1	762	762	762
<i>Other Non Cur Asst</i>	10,877	13,350	36,991	39,624	31,704	37,125	40,920	45,691
<i>Non Curr Assets</i>	10,878	13,351	36,992	39,625	31,705	37,887	41,682	46,452
<i>Inventory</i>	249	268	260	309	353	487	234	285
<i>Debtors</i>	8	6	6	9	70	133	152	185
<i>Cash & Bank</i>	1,471	1,501	1,530	1,501	1,308	1,268	1,324	1,166
<i>Other Curr Assets</i>	608	586	590	723	522	629	667	647
<i>Curr Assets</i>	2,336	2,361	2,386	2,541	2,252	2,517	2,377	2,283
<i>Creditors</i>	341	408	225	309	451	406	464	565
<i>Provisions</i>	311	289	94	137	93	75	109	103
<i>Other Curr Liab</i>	1,117	1,074	1,659	1,769	1,733	5,648	5,755	5,875
<i>Curr Liabilities</i>	1,057	1,036	1,655	1,760	1,724	5,639	5,712	5,838
<i>Net Curr Assets</i>	1,278	1,325	731	781	529	(3,122)	(3,336)	(3,555)
<i>Total Assets</i>	13,214	15,712	39,378	42,166	46,641	40,403	44,058	48,735

Financial Details

Cash flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	707	642	686	870	984	1,464	1,409	1,151
(inc)/Dec in Working Capital	48	139	(177)	(48)	424	(106)	362	72
Non Cash Op Exp	442	477	707	853	855	544	583	445
Int Paid (+)	611	747	931	1,064	1,333	967	1,225	1,627
Tax Paid	242	232	216	313	348	501	546	396
others	(123)	(117)	(108)	(87)	(55)	(59)	-	-
CF from Op. Activities	1,441	1,656	1,823	2,340	3,192	2,132	3,033	2,899
(inc)/Dec in FA & CWIP	(2,517)	(3,001)	(2,308)	(3,159)	(2,775)	(3,970)	(4,378)	(5,216)
Free Cashflow	(1,076)	(1,345)	(484)	(819)	417	(1,838)	(1,345)	(2,317)
(Pur)/Sale of Inv	(48)	48	8	4	(332)	1,298	(0)	84
others	321	262	21	13	(12)	(19)	-	-
CF from Inv. Activities	(2,247)	(2,743)	(2,295)	(3,144)	(2,981)	(2,621)	(4,378)	(5,132)
inc/(dec) in NW	-	-	422	-	-	-	-	-
inc/(dec) in Debt	1,481	2,209	1,448	2,360	1,634	1,643	2,943	3,837
Int. Paid	(613)	(740)	(1,317)	(1,435)	(1,751)	(895)	(1,225)	(1,627)
Div Paid (inc tax)	(119)	(194)	(78)	(254)	(85)	(338)	(317)	(136)
others	(0)	(1)	(1)	-	-	-	-	-
CF from Fin. Activities	748	1,274	474	671	(202)	410	1,401	2,075
Inc(Dec) in Cash	(57)	186	2	(133)	9	(79)	56	(158)
Add: Opening Balance	355	257	443	410	276	285	1,268	1,324
Closing Balance	302	443	445	276	286	206	1,324	1,166

Key ratio

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	17%	13%	12%	13%	14%	16%	14%	11%
ROCE	11%	9%	9%	9%	12%	11%	11%	10%
Asset Turnover	0.28	0.24	0.10	0.12	0.13	0.14	0.15	0.16
Debtor Days	1	1	1	1	4	9	9	9
Inv Days	25	26	25	22	22	31	31	31
Payable Days	34	40	21	22	28	26	26	26
Int Coverage	2	2	2	2	2	2	2	2
P/E	7.8	6.7	14.8	13.0	10.8	10.3	5.1	5.9
Price / Book Value	1.3	0.9	1.8	1.7	1.4	1.7	0.7	0.6
EV/EBITDA	5.8	6.2	8.5	8.0	6.4	7.9	6.1	7.4
FCF per Share	62	72	68	89	111	89	117	120
Div Yield	3.1%	4.3%	0.0%	2.5%	0.9%	3.0%	6.0%	2.6%

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