

## IRB HOLD

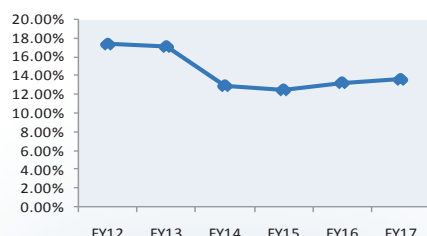
12-Sep-17

INDUSTRY - Eng. & Cons.  
BSE Code - 532947  
NSE Code - IRB  
NIFTY - 10006

### Company Data

CMP	211
Target Price	245
Previous Target Price	265
Upside	16%
52wk Range H/L	272/177
Mkt Capital (Rs Cr)	7,433
Av. Volume (,000)	118

### Improving RoE

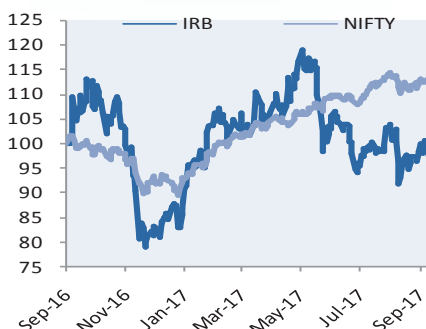


### Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	57.4	57.4	57.4
Public	42.6	42.6	42.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	5.4	(7.6)	(8.2)
Rel.to Nifty	3.5	(11.1)	(21.8)



### Key Highlights of the Report:

- ✓ Commence toll collection on Udaipur Gujarat and Kaithal Rajasthan BOT projects from 3rd September and 8th September respectively which is in line with our expectation.
- ✓ Management expects to collect Rs.165 Cr on annual basis from Udaipur Gujarat and expects 5-7% traffic growth during the construction period.
- ✓ Slow down in road sector on project awarding front (especially BOT) due to slow land acquisition and GST lead to NIL order intakes till date this
- ✓ Currently stock is trading at 6.7x EV/EBITDA of FY18E. Flattish EPC revenue in FY19 and contraction in EBITDA margin gives us limited upside at current valuation, hence we maintain our "HOLD" rating on the stock with unchanged target price Rs.245.

Financials/Valu	FY14	FY15	FY16	FY17	FY18E
Net Sales	3,732	3,847	5,128	5,846	6,103
EBITDA	1,754	2,212	2,660	3,048	2,890
EBIT	1,277	1,505	1,807	2,193	2,303
PAT	459	543	639	715	921
EPS (Rs)	14	15	18	20	26
EPS growth (%)	-18%	12%	18%	12%	29%
ROE	13%	12%	13%	14%	15%
ROCE	9%	10%	9%	12%	12%
BV	3,561	4,361	4,836	5,272	5,949
P/B (X)	1.0	1.9	1.7	1.9	1.3
EV/EBITDA (x)	6.5	7.9	8.0	7.2	6.7

### Commence Toll collection on Gujarat Udaipur and Kaithal – Rajasthan

- ✓ IRB has commenced toll collection on Gujarat Udaipur and Kaithal Rajasthan BOT toll projects on 3rd September and 8th September
- ✓ Udaipur Tollway Pvt. Ltd., a wholly owned subsidiary of the company has received appointment date. Accordingly, the SPV has started toll collection from 3rd September.
- ✓ As per management toll collection on the project is 45 lakh/day and expects 5-7% traffic growth.
- ✓ Kaithal Tollway Pvt. Ltd., SPV of the company has received provisional completion certificate for completing 87% of the design length and commenced partial toll collection from 8th September. Company has started toll collection 4 months ahead of schedule CoD.

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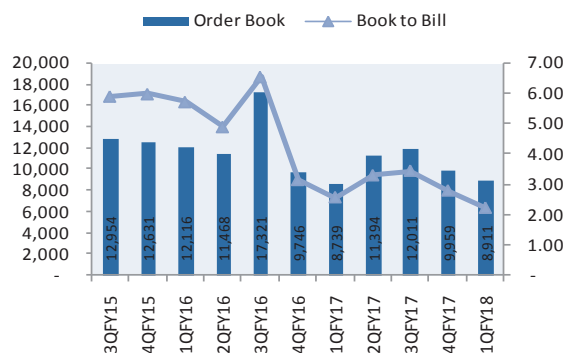
## Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
<b>Net Sales</b>	<b>1,517</b>	<b>1,291</b>	<b>1,411</b>	<b>1,627</b>	<b>1,817</b>	<b>20%</b>	<b>12%</b>	<b>5,128</b>	<b>5,846</b>	<b>14%</b>
Construction	913	755	834	1,062	1,362	49%	28%	3,102	3,565	15%
Toll	601	569	606	594	508	-15%	-14%	2,117	2,371	12%
Other Income	31	34	30	29	54	74%	85%	127	123	-3%
<b>COGS</b>	<b>629</b>	<b>461</b>	<b>532</b>	<b>665</b>	<b>847</b>	<b>35%</b>	<b>27%</b>	<b>2,054</b>	<b>2,287</b>	<b>11%</b>
Employee Expenses	64	60	67	81	57	-11%	-30%	247	273	11%
Other Expenses	50	60	69	59	95	89%	61%	167	238	42%
<b>Total Expenditure</b>	<b>743</b>	<b>582</b>	<b>667</b>	<b>805</b>	<b>999</b>	<b>34%</b>	<b>24%</b>	<b>2,468</b>	<b>2,798</b>	<b>13%</b>
<b>EBITDA</b>	<b>774</b>	<b>709</b>	<b>743</b>	<b>822</b>	<b>818</b>	<b>6%</b>	<b>0%</b>	<b>2,660</b>	<b>3,048</b>	<b>15%</b>
<b>EBITDA M (%)</b>	<b>51</b>	<b>55</b>	<b>53</b>	<b>51</b>	<b>45</b>			<b>52</b>	<b>52</b>	
Depreciation	221	227	180	226	182	-18%	-20%	853	855	0%
<b>EBIT</b>	<b>553</b>	<b>482</b>	<b>563</b>	<b>595</b>	<b>636</b>	<b>15%</b>	<b>7%</b>	<b>1,807</b>	<b>2,193</b>	<b>21%</b>
Intreset	328	340	339	326	285	-13%	-12%	1,064	1,333	25%
Exceptional Item	-	-	-	-	-			-	-	
<b>PBT</b>	<b>256</b>	<b>176</b>	<b>254</b>	<b>298</b>	<b>404</b>	<b>58%</b>	<b>36%</b>	<b>870</b>	<b>984</b>	<b>13%</b>
Tax	74	33	70	91	166	125%	83%	231	269	16%
<b>PAT</b>	<b>182</b>	<b>142</b>	<b>184</b>	<b>206</b>	<b>191</b>	<b>5%</b>	<b>-7%</b>	<b>639</b>	<b>715</b>	<b>12%</b>
<b>PAT %</b>	<b>12</b>	<b>11</b>	<b>13</b>	<b>13</b>	<b>11</b>			<b>12</b>	<b>12</b>	

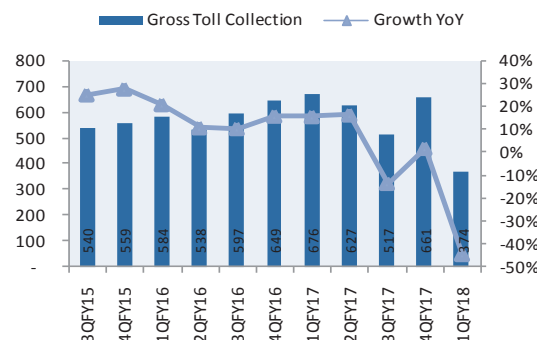
## Robust Revenue growth on back of Strong execution

- ✓ IRB reported robust set of numbers in Q1FY18. Revenue was up by 20% YoY on back of strong execution of under construction projects. EPC revenue grew by 49% YoY to Rs. 1362 Cr, well ahead of our expectation of Rs.1052 Cr.
- ✓ Toll collection was down by 15% on account of six projects transferred to IRB InvIT trust at the middle of the quarter.
- ✓ EBITDA margin was impacted by 600 bps YoY due to change in revenue mix. Transfer of six projects resulted into lower contribution from Toll revenue.
- ✓ Project wise tax provision led to higher tax in BOT segment which resulted into decline in PAT margin.
- ✓ Interest and amortization decline during the quarter on account of transfer six road projects and it will further decline.

## Order Book



## Gross Toll Collection



**Mumbai Pune Express way received tariff revision of 18% from 1<sup>st</sup> April 2017**

### Toll Collection Project wise

Toll Collection	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Mumbai- Pune	188	173	137	183	228	21%	24%	633	682	8%
Ahemdabad - Vadodra	88	83	69	92	92	5%	0%	219	331	51%
Pathankot - Amritsar	29	28	24	27	32	9%	18%	99	108	10%
Thane - Bhiwandi*	20	19	15	20	-			79	74	-6%
Thane - Ghodbandar	9	8	5	8	8	-7%	2%	33	31	-7%
Pune - Nasik	6	6	5	6	6	1%	5%	27	22	-16%
Pune - Solapur	6	6	5	6	6	1%	5%	23	22	-4%
<b>Total</b>	<b>347</b>	<b>322</b>	<b>260</b>	<b>343</b>	<b>373</b>	<b>7%</b>	<b>9%</b>	<b>1,113</b>	<b>1,271</b>	<b>14%</b>

\* Concession period has been completed

### Healthy Growth in Toll Collection

- ✓ Net toll collection down by the 10% YoY due to six projects has transferred at the middle of the quarter to IRB InvIT trust but we look at the remaining projects portfolio toll collection was up by 7% YoY to Rs. 373 Cr compared to 347 Cr in last year.
- ✓ The toll collection growth was mainly led by the tariff revision on major projects during the Q1FY18. Mumbai Pune express way received tariff revision of 18%, Ahemdabad Vadodara and Pathankot received in range of 4-4.5% .
- ✓ IRB witnessed 5-6% traffic growth on an average on entire road portfolio led by the 14% YoY traffic growth on Pune Nasik toll projects.
- ✓ Traffic growth slow down to 3-4% post the GST but management expects strong recovery in traffic from second half as the festive season is coming up and situation will be normalize.

### Concall Highlights:

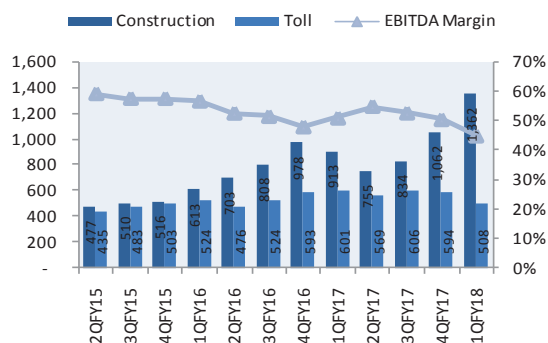
- ✓ IRB Infra achieved financial closure of Udaipur Gujarat Border project and execution will start from Q2FY18.
- ✓ Received 18% tariff revision on Mumbai pune highway project.
- ✓ GST has impacted traffic growth and management expect traffic growth in Q2FY18 will remain low and expect good pick up in Q3FY18 as the festive season will start.
- ✓ Witnessing 6-7% traffic growth on Mumbai Pune express way and 3-4% on avg. on entire road portfolio.
- ✓ Maintain EPC revenue guidance of 10-12% in the FY18.
- ✓ EPC EBITDA margin may hit by 100-200 bps on account of GST
- ✓ Tolling on Kaithal Rajasthan project will start in month time period
- ✓ Targeting to receive 300-400 km of new projects in FY18.
- ✓ All the six BOT projects has transferred on 9th May 2017 to IRB InvIT. Till 9th May revenue and cost was recognized in IRB's books of accounts.
- ✓ Higher tax on BOT segment due to full tax provision on project basis. However cash outgo is to extend of MAT.
- ✓ Upfront cash received from InvIT trust invested in liquid assets. Yield on this investment resulted into higher other income.
- ✓ BOT revenue will increase from Q3FY18 as the all the three BOT projects in Rajasthan will come under execution and which has right to collect toll collection from appointment date and tolling on Kaithal Rajasthan will start.
- ✓ Board approves transfer of Patahntkot Amritsar to IRB InvIT at a valuation of 1500-1500 Cr, debt on the project is 900 Cr.

**Board approves to transfer Pathankot Amritsar to IRB InvIT at valuation of 1500-1550 Cr**

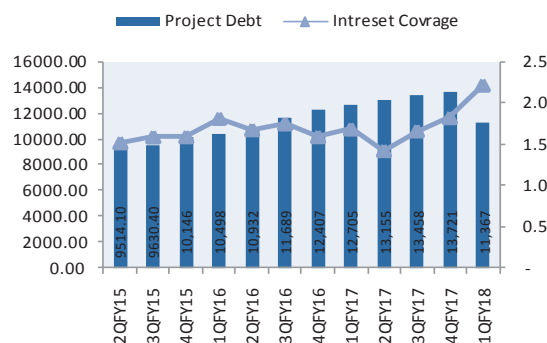
### Investment Arguments:

- ✓ **Reducing Revenue visibilities is concern:-** Slower movement in road sector in terms of new projects, IRB ended quarter with NIL order intake. Hence, current order book stands at Rs.8900 Cr with 2.2x of TTM. Revenue visibilities has reduced from 3.5x to 2.2x, though the current order book gives us confidence of 10-15% EPC revenue growth in FY18 but revenue growth in FY19 is under pressure. However management is confident to get 300-400 km of new projects in FY18 but current order book position is concern for us. GST implementation may lead to contraction in EBITDA margin by 100-200 bps.
- ✓ **Strong Debt to Equity:-** IRB successfully launched India's first ever Infrastructure trust in May 2017. Six project assets has been transferred to InvIT trust at book value of Rs.5921 Cr on 9th May 2017. Transfer of Six project assets lead to reduction in debt by Rs.3424 Cr on consolidated book. Post this transfer process IRB's debt to equity will improve to 1.8:1 from 3:1. Lower debt will strengthen the bottom line going ahead. IRB received Rs.1700 Cr upfront and 15% units of trust worth Rs.889 Cr as consideration. This will provide the company huge potential to invest in their upcoming projects. Further the board approves transfer of Pathankot Amritsar road project to IRB InvIT at valuation of 1500-1550 Cr which will further strengthen the debt to equity.
- ✓ **Healthy Toll Collection:-** Toll Collection during the quarter posted healthy single digit growth led by the tariff revision. Entire road portfolio registered traffic growth in range of 4-5% during the first quarter. Post the GST implementation traffic growth has come down but management expects strong recovering in traffic numbers from Q3FY18 as the situation will normalize. Udaipur to Gujarat and Kaithal Rajasthan has commenced toll collection in early September which will boost the toll collection going ahead. Another couple of projects will start collecting toll from October and November.

### Revenue Mix and EBITDA Margin Trend



### Project Debt with Interset Coverage



### View & Valuation:-

IRB has started collecting toll on Udaipur- Gujarat and Kaithal Rajasthan in month of September which is in line with our estimate and we are expecting another couple of projects will commence toll collection by November end which will boost the toll collection. As the situation will be normalizing in Q3FY18 we expect healthy recovery in traffic as well. Slow down in road sector on project awarding front (especially BOT) lead to NIL order intakes till date this year. Current revenue visibilities have reduced from 3.5x to 2.2x of TTM revenue, which is our utmost concern going ahead. Though we expect healthy EPC revenue growth of 15% in FY18 but growth outlook in FY19 remains flat. GST implementation may lead to contraction in EBITDA margin by 100-200 bps. Currently stock is trading at 6.7x and 6.6x EV/EBITDA of FY18E and FY19E respectively. **Flattish EPC revenue in FY19 and contraction in EBITDA margin gives us limited upside at current valuation, hence we maintain our "HOLD" rating on the stock with unchanged target price Rs.245.**

## Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	3,847	5,128	5,846	6,103
Change (%)	3%	33%	14%	4%
EBITDA	2,212	2,660	3,048	2,890
Change (%)	26%	20%	15%	-5%
Margin (%)	57%	52%	52%	47%
Dep & Amortization	707	853	855	587
EBIT	1,505	1,807	2,193	2,303
Interest & other finance cost	931	1,064	1,333	1,101
Other Income	113	127	123	234
EBT	686	870	984	1,436
Exceptional Item	-	-	-	-
Tax	144	231	269	516
Minority Int & P/L share of Ass.	(1)	0	(0)	(0)
Reported PAT	543	639	715	921
Adjusted PAT	543	639	715	921
Change (%)	18%	18%	12%	29%
Margin(%)	14%	12%	12%	15%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	12%	13%	14%	15%
ROCE	10%	9%	12%	12%
Asset Turnover	0.1	0.1	0.1	0.2
Debtor Days	0	1	4	4
Inventory Days	25	22	22	22
Payable Days	22	22	28	28
Interest Coverage	1.62	1.70	1.65	2.09
P/E	15	13	14	8
Price / Book Value	1.9	1.7	1.9	1.3
EV/EBITDA	8	8	7	7
FCF per Share	68	89	48	90
Dividend Yield	0.01	0.02	0.02	0.03

Balance Sheet				
Rs in Crores				
Y/E March	FY15	FY16	FY17	FY18E
Share Capital	351	351	351	351
Reserves	4,009	4,485	4,920	5,598
Networth	4,361	4,836	5,272	5,949
Debt	11,436	14,473	13,020	13,019
Other Non Current Liab	21,659	20,744	15,960	15,166
Total Capital Employed	15,165	18,120	17,361	18,037
Net Fixed Assets (incl CWIP)	36,599	39,057	31,083	31,712
Non Current Investments	1	1	1	890
Other Non Current Assets	37,014	39,624	31,704	32,334
Non Current Assets	37,014	39,625	31,705	33,224
Inventory	260	309	353	155
Debtors	5	9	70	74
Cash & Bank	1,580	1,501	1,308	2,303
Other Current Assets	534	723	522	635
Current Assets	2,378	2,541	2,252	3,167
Creditors	234	309	451	470
Provisions	219	137	93	130
Other Current Liabilities	1,668	1,769	1,733	1,786
Curr Liabilities	1,539	1,760	1,724	1,740
Net Current Assets	840	781	529	1,427
Total Assets	39,393	42,166	46,641	36,390

Cash Flow Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17E	FY18E
PBT	686	868	984	1,436
(inc)/Dec in Working Capital	(177)	(65)	557	259
Non Cash Op Exp	707	853	855	587
Interest Paid (+)	931	1,063	1,333	1,101
Tax Paid	216	312	269	516
others	(108)	(66)	-	-
CF from Op. Activities	1,823	2,342	3,460	2,867
(inc)/Dec in FA & CWIP	(2,308)	(3,159)	7,119	(1,217)
Free Cashflow	(484)	(817)	1,680	1,651
(Pur)/Sale of Investment	8	4	(12,793)	11,690
others	21	(9)	(12,684)	12,684
CF from Inv. Activities	(2,295)	(3,175)	4,532	267
inc/(dec) in NW	422	-	(474)	-
inc/(dec) in Debt	1,448	2,356	(1,452)	(2)
Interest Paid	(1,317)	(1,435)	(1,333)	(1,101)
Dividend Paid (inc tax)	(78)	(254)	(189)	(243)
others	(1)	-	-	-
CF from Fin. Activities	474	667	(8,184)	(2,139)
Inc(Dec) in Cash	2	(165)	(192)	995
Add: Opening Balance	443	445	1,501	1,308
Closing Balance	445	279	1,309	2,303