

## IRB Infrastructure Developers Ltd.

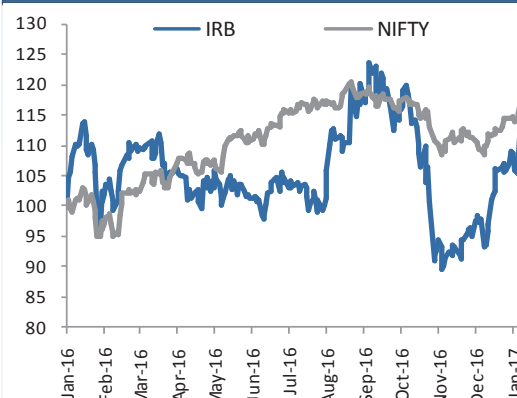
Result Update	
CMP	228
Target Price	265
Previous Target Price	235
Upside	16%
Change from Previous	13%

Market Data	
BSE Code	532947
NSE Symbol	IRB
52wk Range H/L	177/266
Mkt Capital (Rs Cr)	8,020
Av. Volume	181822
Nifty	8603

Stock Performance			
	1Month	3 Month	1Year
Absolute	20.7	-7.4	-3.0
Rel.to Nifty	11.9	-6.4	-18.9

Share Holding Pattern-%			
	3QFY17	2QFY17	1QFY17
Promoters	57%	57%	57%
Public	43%	43%	43%

### Company Vs NIFTY



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### Strong Performance, nullify Demonetization Impact :-

IRB has reported better number than our expectation in Q3FY17. Net sales grew by 5.8% YoY to Rs. 1411 Cr as compared to Rs.1333 Cr in the corresponding quarter previous year despite of demonetization which led to suspension of toll collection for 23 days. But on the contrary, average daily toll collection for December month (from 3rd Dec to 31st Dec) has grown by 3% to 7.79 Cr compare to 7.53 in October month. Total income from toll collection grew by 16% YoY (including 150 Cr of claim against toll loss during the suspension of 23 days) compared to Q3FY16. While EPC revenue has grown by 3% YoY to Rs. 834 Cr. Things are improving faster post the demonetization and management has envisaged 5-6% traffic growth in next 3-6 months which provides strong recovery in toll collection. We expect robust revenue growth in EPC segment based on healthy order book (3.45x of TTM construction revenue).

Actual toll collection for the Q3FY17 was Rs. 517 Cr and company has raised a claim of Rs. 150 Cr for the revenue loss during the suspension period. Revenue and profitability loss on the state highways will compensate in cash by the respective state authorities but NHA1 compensates only for interest and O&M expenses incurred during the period in cash for national highways. Principal and profitability on national highways will compensate by way of extension of the concession period.

### Q3FY17 Result Update :-

- ◆ Net sales grew by the 5.8% YoY to Rs. 1411 Cr in Q3FY17 as compared to Rs. 1333 Cr in Q3FY16
- ◆ EBITDA margin has improved by 110 bps to Rs. 743 Cr as against Rs 688 Cr on account of better gross margin.
- ◆ Depreciation during the quarter has come down due to lower toll collection. Rs. 180 Cr in Q3FY17 compared to Rs. 226 Cr in Q3FY16
- ◆ IRB reported 8.6% YoY growth in PAT with 40 bps improvement on back of lower depreciation and interest cost.
- ◆ Order book as on 31<sup>st</sup> December stands at Rs.12011 Cr including Rs. 1750 Cr of O&M projects.

	In Rs. Cr				
Financials	Q3FY16	Q2FY17	Q3FY17	YoY (+/-)	QoQ (+/-)
Sales	1333	1291	1411	6%	9%
EBITDA	688	709	743	8%	5%
PAT	170	142	184	8%	30%
EBITDA%	51.6%	54.9%	52.7%	110 bps	(220) bps
PAT	12.7%	11.0%	13.1%	40 bps	210 bps

**Investment Argument:-****Robust construction revenue visibility:-**

Currently, 5 projects are under construction and in next 8-10 months time period another 3 projects in Rajasthan namely Gujarat/Rajasthan, Kishangarh - Udaipur and Kishangarh - Gulabpura will come under execution. Order book stands at Rs. 12011 Cr i.e. 3.45x of TTM EPC revenue. All the projects are well on track and management confident to complete projects on time. Current on-going projects will drive the revenue growth and we expect revenue growth of 40-45% in FY18E.

**Strong Recovery in Toll Collection:-**

IRB has witnessed encouraging traffic growth post the demonization. Average daily toll collection in month of December has grown by 3% to Rs. 7.79 Cr compared to Rs. 7.53 Cr in month of October. IRB's most of the operation road projects are in western part of the country which is seeing good recovery in traffic movement. Management expects 10-12% growth in BOT revenue including 5-6% traffic growth.

**InvIT will unlock Value:-**

IRB has filed DRHP (Draft Red Hired Prospectus) for its InvIT with SEBI and company is in an advanced stage to get approval. IRB expect it to launch before March 2017. IRB is in the process to raise Rs. 4300 Cr through InvIT IPO. These proceeds will be utilized for the debt reduction and for the future projects.

**Concall Highlights :-**

- ◆ Traffic growth is encouraging despite demonization.
  - ◆ December toll collection is up by 3% compare to October month. And management expect 5-6% traffic growth in next 3-6 months
  - ◆ Suspension of toll collection led to low depreciation and amortization as the company follows revenue pattern based policy.
  - ◆ One of the road projects reported 10% reduction in traffic growth due to demonization.
  - ◆ IRB is pre-qualified for the 11738 Cr worth of projects.
  - ◆ Q4FY17 will be much more promising than Q3FY17 in terms of traffic growth.
  - ◆ IRB has raised claim of Rs.150 Cr as toll collection was suspended for the 23 days.
  - ◆ Sufficient cash surplus for funding equity requirement of on-going and up-coming projects
  - ◆ Equity requirement is Rs.1700 Cr including 3 new projects over period of 4 years. ( Rs.170 cr in FY17, 500 cr each in FY18,FY19 and FY20)
  - ◆ No major impact of demonization on EPC segment.
  - ◆ Work on Udaipur to Rajasthan/Gujarat border project will start from April, on Kishangarh Udaipur- Ahmedabad from June and recently won project Kishangarh Gulabpura by October
  - ◆ Current average toll collection of 30lakh/day on Agra- Ethwah
- IRB has received 139 Cr grant in Yedeshi – Aurngabad during the quarter and it will complete before monsoon.
- ◆ Waiting for SEBI approval for InvIT and expect to launch it before March 2017.

**Outlook and Valuation :-**

Encouraging traffic growth during the quarter and strong recovery in economic activity nullify the demonetization impact. Most of the project has seen improvement in traffic especially in western part of the country. We expect 5-6% traffic growth in near term. Based on better than expected result and strong recovery in toll collection during the Q3FY17 we expect 11% revenue growth in FY17E and robust 40-45% revenue growth in FY18E. And Introduction of InvIT will help IRB to grow higher. At current price of Rs.228, stock trading at 7.3x to FY17E EV/EBITDA and 1.5x to P/B which lower than its average P/B of 1.8x. Hence, **we recommend to “BUY” with target price of Rs. 265.**

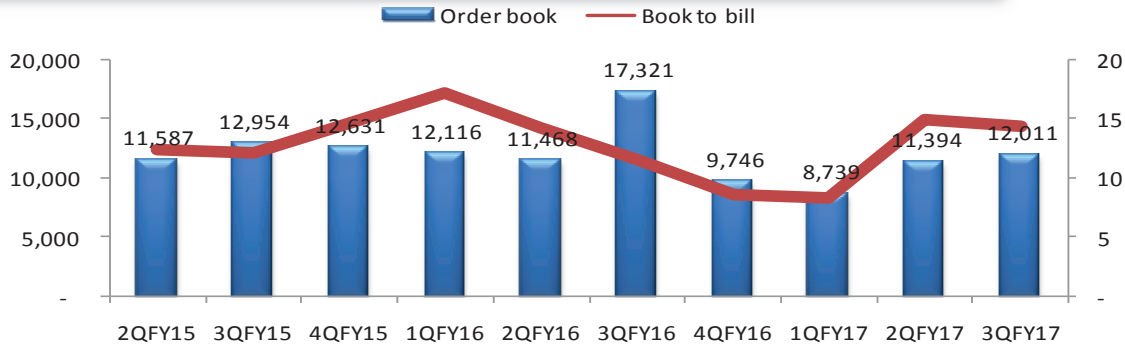
Quarterly Performance	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY%	QoQ%
Net Sales	883	964	990	1,109	1,149	1,333	1,537	1,517	1,291	1,411	6%	9%
Other Operating Income	-	-	-	-	-	-	-	-	-	-		
<b>Net Sales</b>	<b>883</b>	<b>964</b>	<b>990</b>	<b>1,109</b>	<b>1,149</b>	<b>1,333</b>	<b>1,537</b>	<b>1,517</b>	<b>1,291</b>	<b>1,411</b>	<b>6%</b>	<b>9%</b>
Contact Site Exp	193	240	239	273	314	488	597	553	379	447	-8%	18%
RM Cost	75	75	103	126	138	64	51	76	82	85	31%	3%
<b>COGS</b>	<b>268</b>	<b>314</b>	<b>341</b>	<b>399</b>	<b>452</b>	<b>552</b>	<b>648</b>	<b>629</b>	<b>461</b>	<b>532</b>	<b>-4%</b>	<b>15%</b>
Employee Expenses	50	45	53	48	60	57	81	64	60	67	17%	11%
Other Expenses	42	49	25	33	32	36	68	50	60	69	89%	14%
<b>Total Expenditure</b>	<b>360</b>	<b>408</b>	<b>420</b>	<b>480</b>	<b>544</b>	<b>646</b>	<b>797</b>	<b>743</b>	<b>582</b>	<b>667</b>	<b>3%</b>	<b>15%</b>
<b>EBITDA</b>	<b>523</b>	<b>555</b>	<b>571</b>	<b>629</b>	<b>605</b>	<b>688</b>	<b>740</b>	<b>774</b>	<b>709</b>	<b>743</b>	<b>8%</b>	<b>5%</b>
Depreciation	180	179	172	202	203	226	222	221	227	180	-20%	-21%
<b>EBIT</b>	<b>343</b>	<b>377</b>	<b>399</b>	<b>427</b>	<b>402</b>	<b>461</b>	<b>517</b>	<b>553</b>	<b>482</b>	<b>563</b>	<b>22%</b>	<b>17%</b>
Intreset	227	237	251	235	240	264	327	328	340	339	28%	0%
<b>PBT</b>	<b>145</b>	<b>169</b>	<b>176</b>	<b>220</b>	<b>192</b>	<b>229</b>	<b>225</b>	<b>256</b>	<b>176</b>	<b>254</b>	<b>11%</b>	<b>45%</b>
Tax	23	35	40	55	43	61	73	74	33	70	15%	109%
<b>PAT</b>	<b>122</b>	<b>133</b>	<b>138</b>	<b>165</b>	<b>150</b>	<b>170</b>	<b>151</b>	<b>182</b>	<b>142</b>	<b>184</b>	<b>9%</b>	<b>30%</b>

Margin Profile											YoY (+/-)	QoQ (+/-)
Gross Margin	69.60%	67.38%	65.53%	63.99%	60.65%	58.57%	57.86%	58.54%	64.28%	62.31%	374	(197)
EBIDTA	59.2%	57.6%	57.6%	56.7%	52.7%	51.6%	48.1%	51.0%	54.9%	52.7%	110	(220)
EBIT	38.9%	39.1%	40.2%	38.5%	35.0%	34.6%	33.7%	36.5%	37.3%	39.9%	530	260
PAT	13.8%	13.8%	14.0%	14.9%	13.0%	12.7%	9.8%	12.0%	11.0%	13.1%	40	210

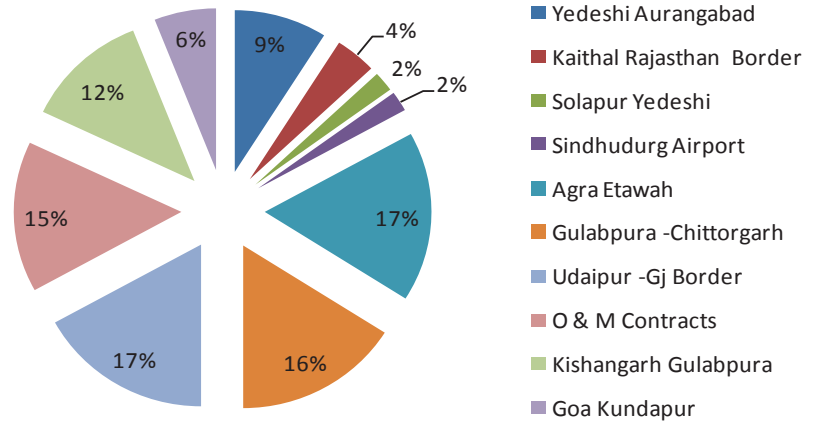
Operating Matrix											YoY%	QoQ%
Construction Order	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17		
Ongoing BOT Projects	4,254	3,776	3,219	8,136	7,503	6,675	5,810	4,818	5,634	4,826	-28%	-14%
Construction yet to comm.	5,402	5,403	7,551	2,133	2,133	8,828	2,133	2,133	3,987	5,436	-38%	36%
	<b>9,656</b>	<b>9,178</b>	<b>10,770</b>	<b>10,269</b>	<b>9,636</b>	<b>15,503</b>	<b>7,943</b>	<b>6,951</b>	<b>9,621</b>	<b>10,262</b>	<b>-34%</b>	<b>7%</b>
BOT Projects in O&M	1,932	3,776	1,861	1,847	1,832	1,818	1,803	1,788	1,773	1,750	-4%	-1%
<b>Total</b>	<b>11,587</b>	<b>12,954</b>	<b>12,631</b>	<b>12,116</b>	<b>11,468</b>	<b>17,321</b>	<b>9,746</b>	<b>8,739</b>	<b>11,394</b>	<b>12,011</b>	<b>-31%</b>	<b>5%</b>

Toll Collection at Major Projects											YoY%	QoQ%
Mumbai- Pune	136	147	149	160	146	162	165	188	173	137	-15%	-21%
Surat - Dahisar	131	145	147	151	145	156	162	161	148	111	-29%	-25%
Tumkar Chitradurga	45	47	48	50	49	51	51	53	50	40	-22%	-20%
Baruch - Surat	45	49	48	49	45	49	50	49	47	37	-25%	-21%
Ahem.-Vadodra (NE-1)	35	42	43	44	37	53	86	88	83	69	31%	-16%
Jaipur - Deoli	24	27	29	33	26	29	32	32	27	22	-24%	-16%
Pathankot - Amritsar	-	8	21	23	22	27	27	29	28	24	-12%	-15%
Thane- Bhiwandi Bypass	17	19	19	20	19	20	21	20	19	15	-24%	-19%
Omalar Salem Namakkal	19	21	19	19	18	17	21	20	19	15	-11%	-22%
Talegaon Amravati	10	11	12	12	10	12	13	13	12	10	-15%	-13%

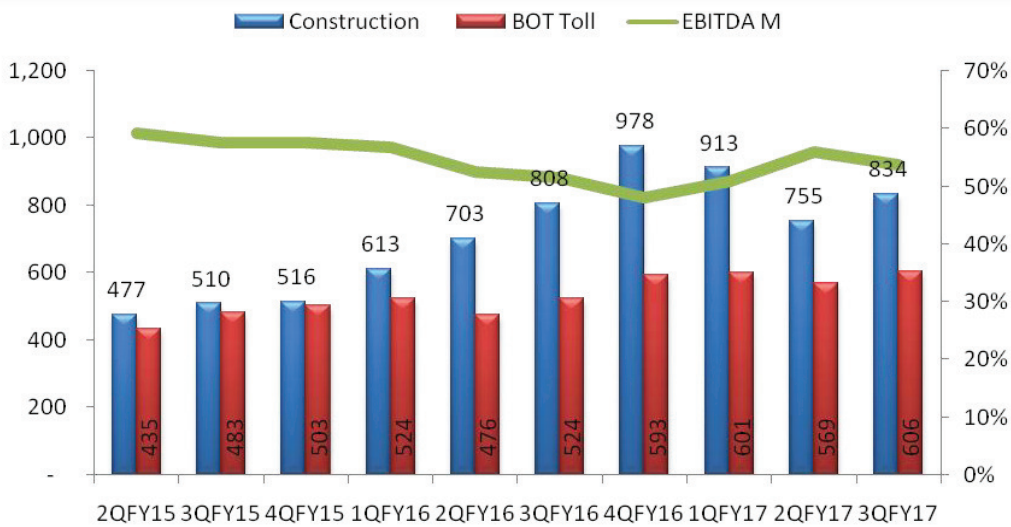
### Order Book



### Order Book break up project wise



### Revenue Mix



### Financials Snap Shot

#### INCOME STATEMENT

	FY14	FY15	FY16	FY17E
Net Revenue	3732	3847	5130	5694
Other Income	121	113	124	119
Total Revenue	3853	3960	5254	5812
EBITDA	1754	2212	2661	3041
EBITDA Margin (%)	0	1	1	1
Depreciation	477	707	853	935
EBIT	1277	1505	1807	2106
Interest	756	931	1063	1346
PBT	642	686	868	878
Tax	182	144	232	246
Tax Rate (%)	28%	21%	27%	28%
Reported PAT	459	543	636	633
Dividend Paid	194	164	164	164
No. of Shares	33	35	35	35

#### RATIOS

	FY14	FY15	FY16	FY17E
EPS	14	15	18	18
Book Value	107	124	137	151
DPS	6	5	5	5
Payout (incl. Div. Tax.)	42%	30%	26%	26%
<b>Valuation(x)</b>				
P/E	7	15	13	15
Price / Book Value	1	2	2	2
Dividend Yield (%)	6%	2%	2%	2%
<b>Profitability Ratios</b>				
RoE	13%	12%	13%	12%
RoCE	9%	10%	10%	10%
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.2	0.1	0.1	0.1
Debtors (No. of Days)	1	0	7	7
Inventory (No. of Days)	59	73	55	55
Creditors (No. of Days)	40	22	22	22
Net Debt/Equity (x)	2.64	2.48	2.62	2.68

#### BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	332	351	351	351
Reserves	3228	4009	4476	4942
Net Worth	3561	4361	4827	5293
Long term Debt	9398	10804	12652	14192
Short term Debt	897	631	1189	1189
Deferred Tax	22	19	16	16
Total Capital Employed	12959	15165	17479	19485
Net Fixed Assets	13041	36599	39169	40494
Capital WIP	48	80	78	78
Debtors	6	5	104	115
Cash & Bank Balances	1501	1580	1559	0
Trade payables	408	234	305	339
Total Provisions	289	219	169	324
Net Current Assets	879	477	510	-1349
Total Assets	15712	39393	42181	42046

#### CASH FLOW

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	642	686	868	878
Depreciation	477	707	853	935
Direct Taxes Paid	232	216	312	246
Op. before WC change	1749	2216	2719	3159
CF from Op. Activity	1656	1823	2342	2104
Non Current Investment	0	1	0	0
Capex	3002	2311	3161	2261
CF from Inv. Activity	(2743)	(2295)	(3175)	(2261)
Repayment of LTB	888	794	1140	0
Interest Paid	740	1317	1435	1346
Divd Paid (incl Tax)	194	78	254	164
CF from Fin. Activity	1274	474	667	30
Inc/(Dec) in Cash	186	2	(165)	(127)
Add: Opening Balance	257	443	445	1559
Closing Balance	443	445	279	1432