

IVRCL Infra & Projects Ltd.

INR 110

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February 20, 2009

Company Background

IVRCL Infrastructures & Projects Ltd (formerly IVR Constructions Ltd) was incorporated in 1987 & commenced its operations in 1990 thereby establishing itself as a premier EPCC (Engineering, Procurement, Construction & Commissioning) & Lump Sum Turnkey Service Provider with front-end engineering capabilities. It has also emerged a major player in water transmission, treatment & waste water management & is also known for its desalination drive. Beside it is also into business of Constructing buildings & Industrial structures.

Result Impact.(3QFY09 Standalone basis)

➔ Net Sales impressive.

IVRCL registered an increase of 22.03% growth in its Topline counter to INR 11,896 mn as against INR 9,749 mn. The Water & Irrigation segment contributed around INR 6,500 mn followed by Buildings, Road & Power segment which contributed INR 210 mn, INR 170 mn & INR 160 mn respectively in 3QFY2009.

➔ Net Profit declined led by high Interest costs.

Bottom Line declined significantly by 27% to INR 465 mn as against INR 641 mn during the same period a year ago. Decline in Net Profit were mainly on account of higher Interest costs, which increased due to high borrowings costs. Interest costs on YoY basis increased by 137% to INR 419 mn as against 177 mn previously, given that the Debt has increased to INR 14 bn at current stage.

➔ Outlook likely to remain Robust.

IVRCL's Management expects that the revenue is likely to grow at a rate of 35-40% in during next few years. Meanwhile it is expected, that EBITDA margin would be between 9-9.5% from the current level of 11.5-11.25% as interest rates are likely to come down in the coming days. Even the cost of the materials are expected to cool down & would show its impact from the next quarter onwards which would give a good support to its revenues.

Investment Rationale.

➔ Focus on Water & Irrigation projects to remain strong.

Even though the country's economic growth is slowing down, the water & irrigation segment which constitutes ~70% of IVRCL's order book of INR 150 bn & accounts for more than 50% of the overall revenues would continue to get investments, due to the shortage of water-related infrastructural facilities & the need to improve the agriculture-related infrastructure. As per the Planning Commission's estimates Infrastructural spending in the irrigation & water supply & sanitation sectors is expected to more than double during the Eleventh Five Year Plan (2007–2012). Thus, this focusing would help to capture IVRCL, a sizeable pie of the capex made by the Government in this sector as water related projects are its core strength for its revenue & would also help to sustain its Top Line growth.

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Info Codes

Reuters	: IVRC.BO
Bloomberg	: IVRC@IN
NSE	: IVRCLINFRA
BSE	: 530773

Market Data

52 Wk Range (INR)	: 494 / 56
Shares in Issue (mn)	: 133.5
Mkt. Cap (INR bn)	: 14.69
BSE 2 Wk Avg Vol	: 686902

Share Holding Pattern (%)

Promoters	: 09.73
MFs, FIs & Banks	: 23.06
FIIIs	: 42.17
Others	: 25.04

Investment Theme

IVRCL continues to give its best output in the current quarter, with securing new orders of worth INR 24 bn higher by 44% YoY basis. Its order book position has grown at a CAGR of 47% over the last 6 years which currently stands to nearly 150 bn, thus giving a strong visibility for revenues for next 3 years. The company has completed significant investment commitments on the various BOT projects, which are expected to be operational in the next two years. Its major arm segment, Water contributes 65% of total order book, followed by Buildings & Power segment of 20% & 12%, while Road & Bridges contributes 3% in the total order book.

Orders Flowing with Strong Force

➔ **Order book growth remains healthy.**

Despite economic slowdown, order book for the firm remained strong with IVRCL securing new orders of worth around INR 24 bn which was higher by 44% on YoY basis, while the present order log is INR 150 bn further IVRCL is at L1 for projects worth INR 17 bn.

➔ **Robust order in water segment projects**

States like Rajasthan, Bihar, Madhya Pradesh, Gujarat, Maharashtra etc have increased irrigation spending. Even the irrigation spending by the States have not seen any significant slowed down in capex until now, which is positive. IVRCL has, in recent times bagged one of its biggest lift irrigation projects in Andhra Pradesh valued close to INR 9 bn. Andhra Pradesh, one of key States with high irrigation spends, is said to have utilised over INR 380 bn on irrigation projects over the last four years & also the Cabinet has recently approved INR 385 bn worth of projects in the state. Further more spending is expected to come, where IVRCL can take advantage from this upcoming opportunities. Further moving IVRCL's Order books consists 66% from water, which contributed around 55% of the total revenue during 3QFY09.

➔ **Increased presence in buildings and power transmission.**

IVRCL's has been witnessing strong traction in the buildings segment from both government & private players, due to the sizeable development plans. Also, with few contractors in this industry, equipped with strong execution capability, IVRCL stands to benefit. Building projects now accounts for 20% of the order book as on 3QFY09, while it contributed around 18% of the total revenues for 3QFY09.

➔ **All 3 BOT projects to be commissioned soon.**

IVRCL's management expects that its 3 BOT projects viz Jalandhar Amritsar Toll ways, Salem Toll ways & Chennai Water desalination would be commissioned soon. Currently IVRCL is working on four BOT based projects aggregating INR 16.5 bn (Three in roads worth of INR 11.6 bn & One in Water Desalination worth of INR 4.9 bn [which is India's largest]).

➔ **Performance of its key subsidiaries**

Hindustan Dorr Oliver Ltd.

Hindustan Dorr-Oliver Ltd(HDO), a 53% owned subsidiary of IVRCL is having its core business activities in providing Engineered Solutions, Technologies & EPC installations in Liquid-Solid Separation applications & having a total order book of around INR 6 bn. HOD reported a healthy 3QFY2009 performance with Revenues of INR 1,269 mn as against INR 763 mn, EBIDTA of INR 172 mn as against INR 89 mn & PAT of INR 74 mn vs INR 50mn. The Government is spending more on Water treatment & Irrigation projects & the company has ability to provide solutions of the governments by in taking more projects. Thus by expectation, it is best placed to benefit from the capex in irrigation during 11th Five Year Plan (FY07-FY12) which is estimated to be around INR 2625 bn.

IVR PrimeUrban Developers(IVRPUD).

The Real Estate subsidiary of the company, IVRPUD figures were quite depressive for 3QFY09, where its Top Line clocked INR 115 bn which was down by 96.1% from previous years quarter figures while Bottom Line came in at INR 90 mn vs INR 1,163 mn in comparison to previous year. The revenues in the last few quarters were high mainly on account of stake sale in one of the company's projects in Chennai. With the economy slowdown,

Water segment to play a key role.

Despite economic slowdown, IVRCL Infra & Projects Ltd is confident of meeting its guidance of 35% growth & a INR 50 bn revenue targets, where its key bets are Government & Water. The company has a total order book of around INR 143-150 bn which is to be executed in the next three years. In addition, the company is also in the process of bidding for projects in the Government segment for various construction activities. The big area for IVRCL today is water, right from purification to supply and monitoring. Water is turning to be a trigger machine for the company, as most of the IVRCL's projects are related to water & they see a big business to be coming out from there. Indeed, water-related projects make up as much as 60% of IVRCL's INR 150 bn order book today & the company is trying to improve its capabilities so as to be able to tap the full potential when the segment opens up completely. The company is executing a supervisory control & data acquisition project for the authorities in Hyderabad, which is based on technology and helps the civic body to monitor the water drawing by every customer. It is also participating in some of the biggest irrigation projects in the country. IVRCL's recent acquisition, Hindustan Dorr Oliver too is focusing on water related projects. However the company is working on specialising in water treatment & currently building effluent treatment plants for four refineries in the country.

the prices in the markets has softened significantly along with going slow in launching new projects as well. IVRCL lends INR 4 bn to its subsidiaries including INR 2.75 bn to IVR Prime. It also had clarified that IVR Prime will not be requiring any further funding as of now.

Key Events.

- ➔ IVRCL bagged a INR 4,180 mn lift irrigation project from the Government of Madhya Pradesh for the execution of the PUNASA Lift Irrigation Scheme. This includes setting up a pipeline distribution network to cultivate about 35,008 hectares on a turnkey basis & maintaining the complete commissioned scheme for one year.
- ➔ The Company has been awarded the Pranahitha-Chevella lift irrigation project, of worth INR 7150 mn by the Andhra Pradesh Government. This involves the supply of water from Mid Manair Reservoir to Upper Manair Reservoir by a water conveyor system on an EPC turnkey basis.
- ➔ Orders of worth INR 7.46 bn were awarded which include, INR 5.5 bn housing project in Hyderabad & an exhibition centre in Navi Mumbai for INR 1.1 bn.
- ➔ IVRCL has successfully executed key projects such as Phase III of Sripada Sagar Project in AP on EPC basis, water carrier system for Neyveli Lignite's Power plant (Rajasthan), water treatment system for NTPC, water distribution system in Bikaner and several valuable other projects for its various clients
- ➔ Having significant expertise in executing water related projects, IVRCL is well positioned to remain as the front runner in the upcoming water sector opportunities. In order to tap niche water projects, company has also set up Advanced Water Technologies Division to tap niche water projects.
- ➔ With the planned investment of INR 2,625 bn in the water supply & sanitation in the 11th five year plan, IVRCL is best placed to benefit from this investment as Water & Irrigation segment continues to remain as one of the key growth driver for the company.
- ➔ IVRCL has a strong order book at INR 150 bn excluding L1 status for projects of worth INR 17 bn which provides clear visible revenues from years ahead.
- ➔ IVRCL's Chennai Water Desalination project is targeting to produce its second 100 MLD desalination plant as well & is closely working with BEFESA (existing partner) for the same.
- ➔ A very large part of the company's order book (~95%) is also covered with escalation clauses, thereby providing protection against the input costs rise which would help to maintain its Profit margins.

Key Financials

Year Ended 31 st	Mar 06	Mar 07	Mar 08
Revenue (INR mn)	15382.1	23791	37713.1
Rev. growth (%)	44.62	54.67	58.52
EBITDA (INR mn)	1448.1	2511.1	4006.6
Net profit (INR mn)	929.6	1414.6	2104.8
Shares outstanding (mn)	106.95	129.65	133.5
EPS (INR)	8.7	10.9	15.8
EPS growth (%)	(73.97)	25.53	44.50
P/E (x)	32.0	26.8	25.4
EV/ EBITDA	208.1	152.1	135.9
ROCE (%)	15.18	11.71	12.96

Key Intakes

- ➔ IVRCL currently is not concentrating on private contracts, rather it bids only for Central / State government contracts. It is not having a single private contract in its kitty.
- ➔ IVRCL mainly concentrates on new water/irrigation & power projects given by Government.
- ➔ The current order backlog (excluding BOT contracts) of IVRCL stands at around INR 150bn, which is 4x times of FY08 topline. IVRCL as on date of FY09 has received the order worth INR 50 bn (inflows). Further it is in L1 (lowest bidder) for INR 17 bn of different contracts. Total order backlog (excluding BOT contracts) comprises of Water & Environment segment, which occupies 65%, while Buildings and Power segments hold 20% & 12% respectively & the balance of 3% is represented by road projects.
- ➔ IVRCL's 54% subsidiary, Hindustan Dorr-Oliver Ltd is mainly focusing on oil business, manufacturing design & engineering activities of KPO and large scale EPC projects in Mineral Beneficiation & Environment sectors.
- ➔ Currently IVRCL is working on four BOT based projects aggregating INR 16.5 bn (Three in roads worth of INR 11.6 bn & One in Water Desalination worth of INR 4.9bn (India's largest)).
- ➔ In FY08 IVRCL forayed into oil and gas segment by acquiring 85% stake in Alkor Petroo Ltd (APL). APL is having 25% participating interest in three oil exploration block i.e., Block 19, 28 and 57 in Yemen and 20% participating interest in two blocks viz., Block 6 and 8 in Egypt.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 06	FY 07	% Chg	FY 08	% Chg
Total Sales + Excise	15178.9	23348.8	53.82	36860.3	57.87
Other Income	203.2	442.2	117.62	852.8	92.85
Change in Stocks	0.0	0.0	-	29.2	-
Raw Material Con.	6681.5	9308.1	39.31	12502.5	34.32
Employee Exp.	440.6	853.6	93.74	1442.0	68.93
Excise	0.0	0.0	-	0.0	-
Other Exp.	6811.9	11118.2	63.22	19791.2	78.01
Operating Exp.	13934.0	21279.9	52.72	33706.5	58.40
Operating Profit	1244.9	2068.9	66.19	3153.8	52.44
Total Interest	300.7	477.7	58.86	907.4	89.95
Gross Profit	1147.4	2033.4	77.22	3099.2	52.41
Net Dep.	110.0	215.9	96.27	328.2	52.01
Total Taxation	107.8	402.9	273.75	666.2	65.35
Net Profit/Loss	929.6	1414.6	52.17	2104.8	48.79

4 Years Balance Sheets

(INR mn)

Balance Sheet as on 31 st	Mar 05	Mar 06	Mar 07	Mar 08
SOURCES OF FUNDS	6473.5	11528.0	18749.8	26709.8
Equity Share capital	169.8	213.9	259.3	267.0
Share Application Money	1454.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2378.0	4527.8	12929.3	15764.4
Loan Funds	1854.7	2640.5	3894.7	5787.8
Unsecured Loans	617.0	4145.8	1666.5	4890.6
USES OF FUNDS	6473.5	11528.0	18749.8	26709.8
Gross Block	1107.1	1580.2	2593.6	4175.9
Less : Revaluation Reserves	28.6	28.6	28.5	28.5
Less : Accumulated Depreciation	366.1	472.8	664.4	984.1
Net Block	712.4	1078.8	1900.7	3163.3
Capital Work in Progress	215.8	266.1	505.9	540.9
Investments	316.9	2765.0	2829.0	3409.2
Current Assets	11752.5	13921.5	23645.3	30331.4
Less : Current Liabilities	6524.1	6503.4	10131.1	10735.0
Net Current Assets	5228.4	7418.1	13514.2	19596.4
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	316.3	2224.2	2224.1	2394.4
Mkt Val. Quoted Investments	8820.4	1145.5	2528.9	0.2
Contingent Liabilities	887.8	1568.2	1665.9	3516.5
Dividend (%)	30	50	50	70

Quarterly Income Sheet

(INR mn)

Quarter Ended	Mar 08	June 08	Sep 08	Dec 08
Total Income	13228.7	9310.7	11537.9	11909.6
Sales	13217.3	9284.6	11366.1	11895.8
Other Income	11.4	26.1	171.8	13.8
Stock Adjustments	0.0	0.0	0.0	0.0
Total Expenses	11829.8	8464.7	10566.4	10811.1
Raw Materials	3926.6	3721.3	0.0	0.0
Adm & Selling Exp	0.0	0.0	0.0	0.0
Other Expenses	7903.2	4743.4	10566.4	10811.1
EBITDA	1398.9	846	971.5	1098.5
Depreciation	99.1	102.1	0.0	123.4
EBIT	1299.8	743.9	971.5	975.1
Interest	207.7	193.9	304.2	419.2
PBT	1092.1	550	667.3	555.9
Tax	359.0	115.1	96.1	90.7
PAT	733.1	434.9	571.2	465.2

52 Week Index Relative Percentage Appreciation



IVRCL with Sensex

Risks Associated

Any unfavorable changes in the Government policy towards Infrastructural section or its any related division would have any adverse affect on its growth or development plan. The project undertaken by the companies need to be completed within the given time frame, rather would led to increase in working capital needs leading to high interest burden. Raw Materials is the major concern for the companies as with the rising inflation it would also increase their costs thus sucking their margin profits with increasing their capital costs. The sections are also related to risks concern with development & commercial prices, demand supply & are also sensitive with economic variables. Credit crunch in the money market & banking systems could result in postponement of several private and state government projects. This could negatively impact the order intake for its future period, in turn impacting its revenue growth for next coming years which would also affect its various diversified portfolio.

In a Nutshell

IVRCL is a Hyderabad-based construction company incorporated in 1987 & promoted by Mr. E. Sudhir Reddy. It's niche & key area of operation is the water segment, under which it executes industrial projects, irrigation works, desalination projects & builds sewerage systems. During 3QFY09, 55% of the revenues were earned from water division & the company's order book has increased by 44% in the same quarter in comparison to previous years quarter. Despite the continuing economic slowdown, order book of IVRCL remained strong with the company securing new orders of worth INR 24 bn which is 44% higher on YoY basis, while the present order backlog is INR 143 bn & the company is also L1 for projects of worth INR 17 bn. The company has also geared up in terms of pre-qualifications to bid for large road projects independently & has started bidding for BOT projects as well. The company is having wide experience in Water & Irrigation segment & so with the 11th Five Year plan expecting to infuse around INR 2625 bn in the scheme, it would be one of the key beneficial point. It has also bagged projects across varied regions in India & across the entire value chain (from irrigation & water supply to sanitation)

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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