

IL&FS Transportation Networks

ILFT IN; ILFT.BO

August 16, 2013

Infrastructure & Construction | India

1Q/F14 result review

BUY

Current price	Rs	121
Target price	Rs	175
Upside/(downside)	%	45
Earning estimate		Revised

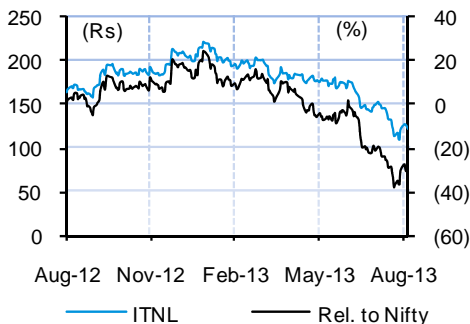
Market data

Mkt capitalisation	Rs bn	23.5
Average daily vol	'000	14.4
52-week H/L	Rs	229 / 108
Shares O/S	mn	194.3
Free float	mn	53.5
Promotor holding	%	72.5
Foreign holding	%	3.7
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	(8.7)	(10.4)	(6.4)	2.4
Stock (abs)	(19.1)	(32.3)	(36.5)	(25.9)
Relative to Index	(10.4)	(21.9)	(30.1)	(28.2)

Performance



Source: Bloomberg, SSL

Mixed quarter; Maintain BUY

ITNL posted mixed results with consol revenue/PAT declining/increasing by -8.1% YoY/ 2.3% YoY for the quarter. Early monsoon led to the decline in construction revenue by 15.2% YoY. Furthermore, weak Elsamex (down -10.8% YoY) performance led to the decline in consol revenue, despite strong growth reported by Fee income and Toll/Annuity segments. EBITDA margin improved 1142bps YoY to 35.9% on account of higher contribution from high margin Fee income and Toll/Annuity segment. However, higher interest cost (28.8% YoY growth) and depreciation (7.5% YoY) led to pressure on bottom line. PAT grew by 2.3% YoY to Rs1.2bn (margin – 8.6%) translating into an EPS of Rs6.4.

Fee income helps standalone performance: Standalone revenue declined by 10.1% YoY to Rs6.9bn largely attributed to a 54% YoY increase in fee income to Rs2.9bn. Fee income comprised mainly the fee income from recently won projects like Barwa Adda, Khed - Sinnar and RMGSL, and usual supervision fee from other projects under construction. The higher contribution from Fee income improved standalone EBITDA margin by 1251bps to 37.8%. However, we maintain our F14 margin forecast of ~18% despite Q1 beat as we expect un-favorable revenue mix (higher construction revenue contribution) to lower the standalone margin.

Toll/Annuity strong performance continues: Toll/annuity revenue grew 21.2% YoY and 8.3% QoQ to Rs2.48bn due to start of new projects and increase in traffic. Barring Vadodra – Halol which witnessed a decline of 4.7% YoY in Average Daily Toll Collection (ADTC), Toll revenue increased for all projects. The management expects to commence the operation of 4 projects during the current year.

Order book provides revenue comfort but leverage to remain high: ITNL's current order book of Rs138.5bn provides good revenue visibility for next 2-3 years. New orders like Gurgaon Metro extension has brushed aside the concerns on order book and has improved construction revenue visibility. Furthermore, we remain concerned of the ITNL's high standalone (1.81x) and consolidated (3.99x) leverage which we believe will remain high for the next two years. ITNL has ~Rs19bn of equity requirement which the management expects to fund through internal cash flow, Toll project securitization and equity dilution.

Maintain BUY: We maintain our **BUY** rating but lower our TP to **Rs175** from Rs260 as we have incorporated lower toll growth for Toll projects and have also accounted for the delays in under construction projects. However, we remain confident of ITNL's diversified and balanced infrastructure portfolio and its pan-India presence provides greater stability of revenues and cash flows. This along with the asset-light model bode well for highly fragmented road sector. At the CMP, the stock trades attractive valuations of 4.4x F14e and 4x F15e earnings. On book value, it trades at a P/B of 0.53x F14e and 0.47x F15e.

Financial summary - Consolidated

Y/E March (Rs mn)	F 12	F 13	F 14e	F 15e
Sales	56,056	66,448	70,360	75,734
EBITDA	14,656	18,404	20,868	25,372
EBITDA margin (%)	26.1	27.7	29.7	33.5
PAT	4,970	5,202	5,346	5,906
PAT margin (%)	8.9	7.8	7.6	7.8
EPS (Rs)	25.6	26.8	27.5	30.4
P/E (x)	4.7	4.5	4.4	4.0
P/B (x)	0.8	0.6	0.5	0.5
EV/EBIDTA (x)	8.4	8.8	9.0	8.0
Debt / Equity	4.0	4.5	4.4	4.2
RoE (%)	19.7	16.2	13.8	13.6
RoCE (%)	13.4	11.4	10.0	10.7

Source: Company, SSLe

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Exhibit 1: Quarterly financials - Consolidated

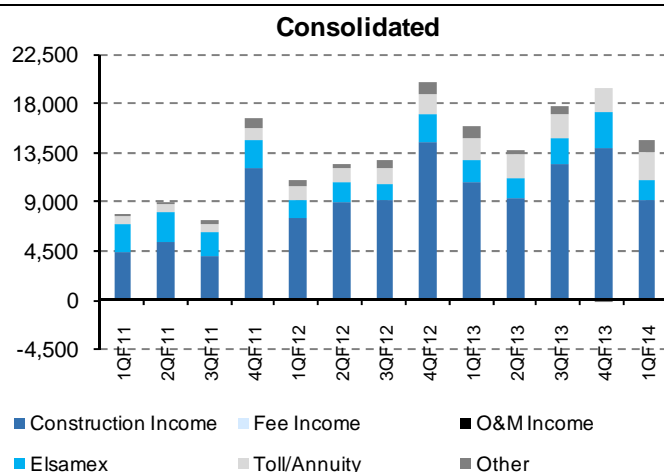
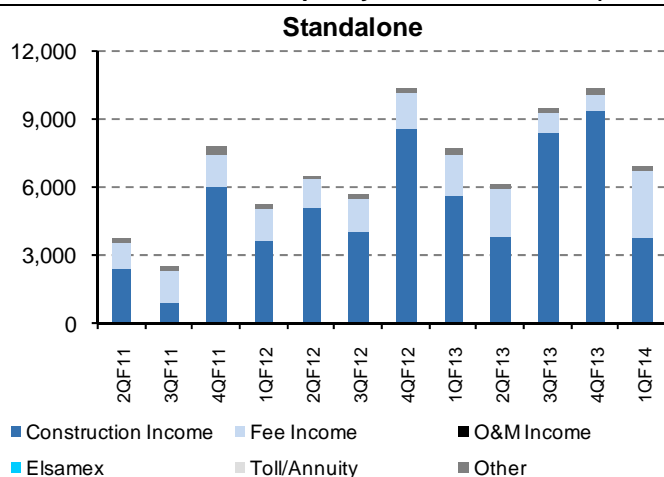
Y/E March (Rs mn)	1Q/F14	1Q/F13	YoY (%)	4Q/F13	QoQ (%)	1Q/F14e	Var. (%)
Net sales	14,511	15,796	(8.1)	19,305	(24.8)	17,059	(14.9)
Construction Cost	6,221	8,061	(22.8)	10,055	(38.1)	8,706	(28.5)
% of sales	42.9	51.0		52.1		51.0	
Personnel & Other Exp	960	958	0.3	1,131	(15.1)	1,035	(7.2)
% of sales	6.6	6.1		5.9		6.1	
Total Cost	9,307	11,133	(16.4)	14,588	(36.2)	12,021	(22.6)
EBITDA	5,204	4,663	11.6	4,717	10.3	5,038	3.3
EBITDA Margin (%)	35.9	29.5		24.4		29.5	
Dep and amortisation	260	242	7.5	304	(14.4)	261	(0.5)
Interest	3,247	2,520	28.8	3,022	7.4	3,022	7.4
Other income	287	349	(17.8)	320	(10.4)	377	(23.9)
PBT	1,984	2,250	(11.8)	1,711	15.9	2,132	(6.9)
Provision for tax	678	912	(25.7)	-86	0.0	497	0.0
Effective Tax Rate %	34	41		-5		23	
Minority Interest	49	98	(50.5)	44	10.0	46	6.0
PAT (Reported)	1,245	1,217	2.3	1,785	(30.2)	1,265	(1.5)
NPM (%)	8.6	7.7		9.2		7.4	
Diluted EPS	6.4	6.3	2.3	9.2	(30.2)	6.5	(1.5)

Source: Company, SSLe

Exhibit 2: ITNL Revenue break-up

Rs mn	Consolidated								Standalone							
	1QF14	1QF13	YoY (%)	4QF13	QoQ (%)	F13	F12	YoY (%)	1QF14	1QF13	YoY (%)	4QF13	QoQ (%)	F13	F12	YoY (%)
Construction	9,094	10,721	(15.2)	13,876	(34.5)	46,187	39,838	15.9	3,773	5,566	(32.2)	9,356	(59.7)	27,205	21,400	27
Elsamex	1,836	2,059	(10.8)	3,276	(44.0)	9,605	7,687	25.0								
Toll / Annuity	2,488	2,052	21.2	2,297	8.3	8,693	7,955	9.3								
Fee Income									2,947	1,918	54	745	295.6	5,686	5,756	(1)
Others	1,093	964	13	(144)		1,963	576	241	199	209	(4.5)	221	(9.7)	801	570	41
Total Revenue	14,511	15,796	(8.1)	19,305	(24.8)	66,448	56,056	18.5	6,919	7,693	(10.1)	10,322	(33.0)	33,692	27,726	21.5

Source: Company, SSL

Exhibit 3: Revenue break-up – By different business (Rs mn)

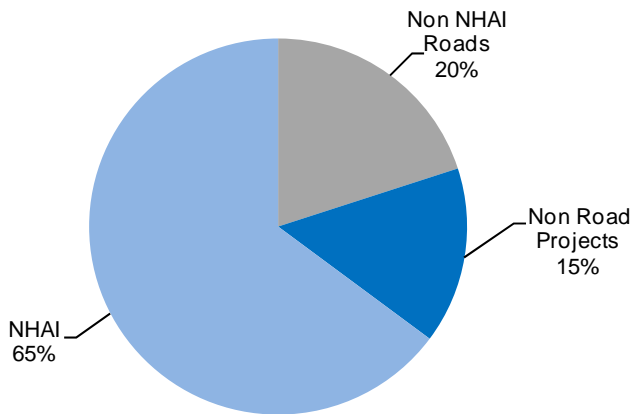
Source: Company, SSL

Exhibit 4: Revenue Collection on Operational Road Projects

Toll Projects under Operation	Average Daily Toll Collection (Rs Mn)										Toll Increase
	1QF14	1QF13	Change (%)	4QF13	Change (%)	F13	F12	Change (%)	F11	Change (%)	
Ahmedabad Mehsana (Gujarat)	1.75	1.70	2.9	1.70	2.9	1.70	1.59	6.8	1.32	20.6	1st Apr 13
Vadodra Halol (Gujarat)	1.22	1.28	(4.7)	1.18	3.4	1.22	1.24	(1.4)	1.01	22.5	1st Apr 13
Noida Toll Bridge (UP)	2.64	2.24	17.9	2.63	0.4	2.43	2.10	16.0	1.91	9.7	
Mega Highways – Rajasthan	5.96	5.70	4.6	5.92	0.7	5.65	4.23	33.6	2.91	45.4	Every 2 years
Rajkot to Jetpur – Gondal (Gujarat)	1.25	1.25	0.0	1.34	(6.7)	1.25	1.04	19.9	0.92	13.3	In 3Q
Beawer Gomti (Rajasthan)	0.52	0.47	10.6	0.51	2.0	0.48	0.46	5.5	0.43	6.4	In 1Q
Yu He Expressway	10.57	8.43	25.4	9.57	10.4	8.90					
A4 Autovia (Spain)	3.25	2.71	19.9	2.51	29.5	2.45					
Baleshwar Kharagpur	1.45	-	-	-	-	-					

Source: Company, SSL

Exhibit 5: Order book - Client diversification



Source: Company, SSL

Exhibit 6: Order book - Geography

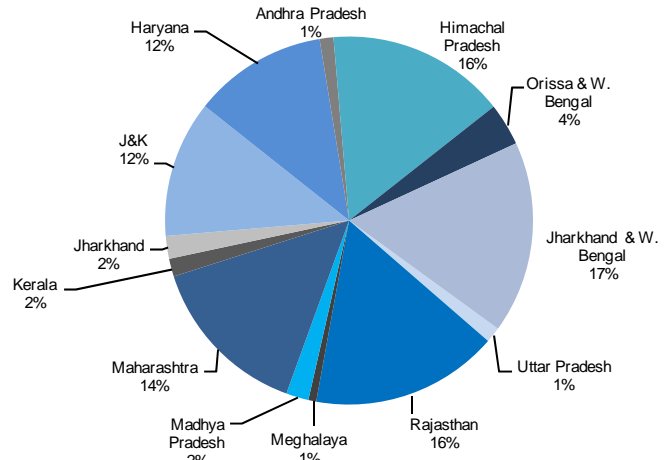


Exhibit 7: Bid pipeline - July 2013

	RFP Stage			RFQ Stage		
	Projects	Length (km)	Cost (Rs mn)	Projects	Length (km)	Cost (Rs mn)
NHAI	3	230	48,750	18	2,046	204,810
State Projects	2	80	11,260	18	1860	193,200
MOR	-	-	-	1	63	210,000
BRO	-	-	-	1	14	89,420
Total	5	310	60,010	38	3,983	697,430

Source: Company, SSL

Exhibit 8: Standalone leverage

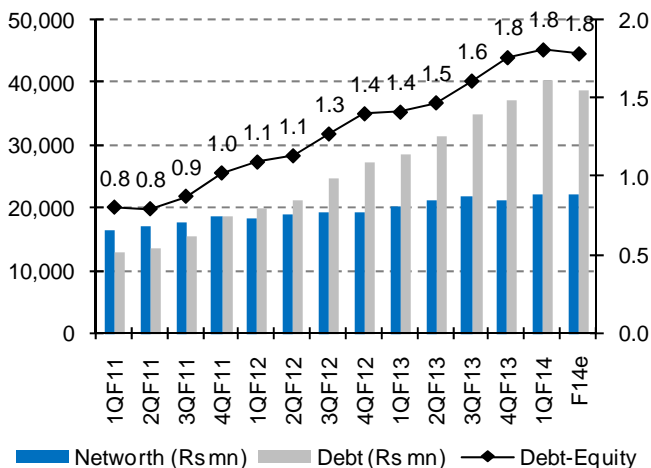
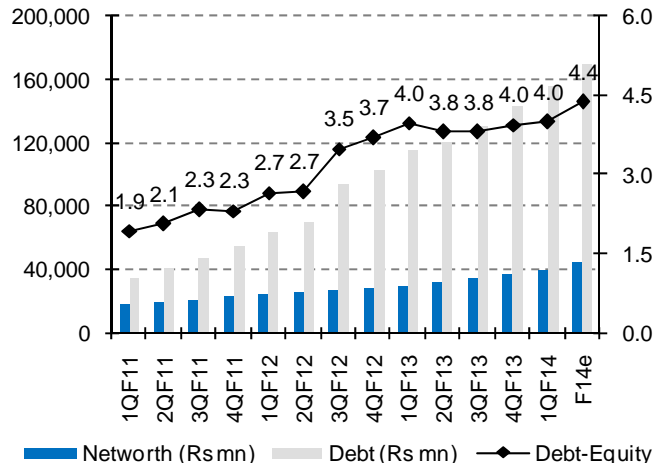


Exhibit 9: Consolidated leverage



Source: Company, SSL

Outlook

Valuation and recommendation: We maintain our **BUY** rating but lower our target price to **Rs175** from Rs260 as we have incorporated lower toll growth for Toll projects and have also accounted for the delays in under construction projects. However, we remain confident of ITNL's diversified and balanced infrastructure portfolio and its pan-India presence provides greater stability of revenues and cash flows. This along with the asset-light model bode well for highly fragmented road sector. At the current price, the stock trades attractive valuations of 4.4x F14e and 4x F15e earnings. On book value, it trades at a P/B of 0.53x F14e and 0.47x F15e.

Exhibit 10: ITNL SOTP	Per Share
BOT Assets - 1	134
Infra Projects - 2	10
Elsamex	
PAT F15e (Rs Mn)	264
EPS	1.4
P/E (x)	3
Elsamex Value Per Share - 3	4
Standalone	
PAT F15e (Rs Mn)	1,722
EPS	8.9
P/E (x)	3
Standalone Value Per Share - 4	27
ITNL Value Per Share (1+2+3+4)	175
CMP	121
Upside/(downside)	44%

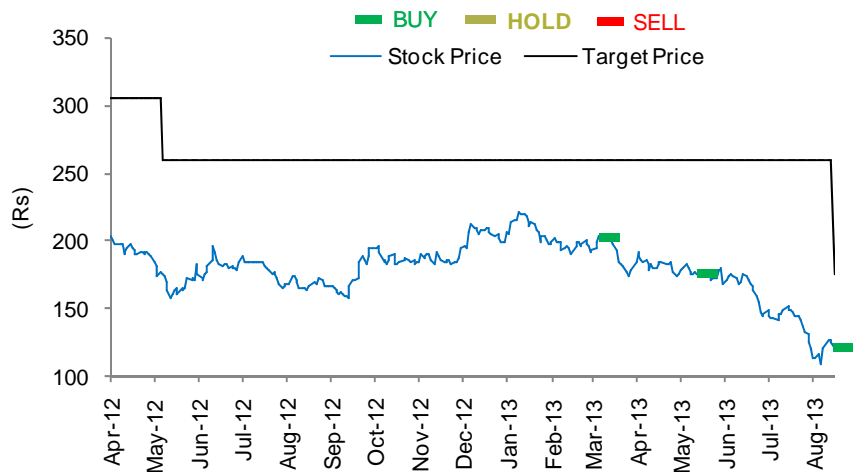
Source: SSLe

Financials – Consolidated

Income statement					Cash flow statement				
Y/E March (Rs mn)	F 12	F 13	F 14e	F 15e	Y/E March (Rs mn)	F 12	F 13	F 14e	F 15e
Sales	56,056	66,448	70,360	75,734	Profit Before Tax	7,846	7,684	8,153	9,007
YoY (%)	38.5	18.5	5.9	7.6	Depreciation	766	944	1,338	2,093
Construction Contract Cost	30,513	34,235	35,180	37,867	Interest Expenses	7,282	11,190	13,003	16,142
Employees cost	3,694	3,819	4,573	4,923	Tax Paid	(1,962)	(1,583)	(2,740)	(3,026)
Total Cost	41,401	48,044	49,492	50,362	Change in Working Capital	2,730	1,961	(284)	(390)
EBITDA	14,656	18,404	20,868	25,372	Operating Cash Flow	16,287	19,398	19,568	23,933
Margin (%)	26.1	27.7	29.7	33.5	Investment in Fixed Assets	(19,716)	(30,621)	(27,943)	(20,610)
YoY (%)	27.0	25.6	13.4	21.6	Purchase of Investments	(1,268)	(196)	-	-
Depreciation & Amortisation	766	944	1,338	2,093	Others	(32,827)	(19,736)	(4,000)	-
EBIT	13,890	17,460	19,530	23,279	Cash Flow - Investing	(53,811)	(50,554)	(31,943)	(20,610)
Margin (%)	24.8	26.3	27.8	30.7	Proceeds From Borrowings	39,985	41,847	25,918	11,274
YoY (%)	27.1	25.7	11.9	19.2	Interest Paid	(6,740)	(13,713)	(13,003)	(16,142)
Other Income	1,238	1,414	1,626	1,870	Dividend Paid	(688)	(777)	(777)	(777)
Interest Expense	7,282	11,190	13,003	16,142	Cash Flow - Financing	34,756	32,296	12,137	(5,645)
Exceptional Items	-	-	-	-	Increase/(Dec.) in Cash	(2,768)	1,141	(238)	(2,322)
PBT	7,846	7,684	8,153	9,007	Cash at Beginning	5,275	2,838	4,552	4,315
Margin (%)	14.0	11.6	11.6	11.9	Cash at End	2,838	4,552	4,315	1,993
YoY (%)	16.4	(2.1)	6.1	10.5					
Tax Expense	2,457	2,274	2,740	3,026	Key ratios				
Tax Rate (%)	31.3	29.6	33.6	33.6	Y/E March	F 12	F 13	F 14e	F 15e
Associate Income	38.5	46.8	97.4	107.7	O/s Shares (mn)	194.3	194.3	194.3	194.3
Minority Interest	458	255	165	183	EPS	25.6	26.8	27.5	30.4
Net Profit	4,970	5,202	5,346	5,906	CEPS	29.5	31.6	34.4	41.2
Margin (%)	8.9	7.8	7.6	7.8	BVPS	157.4	205.8	230.1	257.5
YoY (%)	14.8	4.7	2.8	10.5	DPS	4.0	4.0	4.0	4.0
EPS	25.6	26.8	27.5	30.4	Dividend Yield (%)	3.3	3.3	3.3	3.3
					Profitability				
Balance sheet					RoE	19.7	16.2	13.8	13.6
Y/E March (Rs mn)	F 12	F 13	F 14e	F 15e	RoCE	13.4	11.4	10.0	10.7
Share Capital	1,943	1,943	1,943	1,943	RoIC	11.6	10.1	9.1	9.7
Reserves and Surplus	25,695	34,456	39,024	44,153	RoA	11.3	9.7	8.8	9.4
Shareholders' Equity	27,638	36,398	40,967	46,096	Valuation				
Minority Interest	2,935	3,577	3,743	3,925	PE	4.7	4.5	4.4	4.0
Net Worth	30,573	39,975	44,710	50,021	P / CEPS	4.1	3.8	3.5	2.9
Secured Loans	80,263	135,070	161,353	173,389	P / BV	0.8	0.6	0.5	0.5
Unsecured Loans	21,931	8,522	8,157	7,394	EV / Sales	2.2	2.4	2.7	2.7
Deferred Tax Liabilities	2,047	2,425	2,425	2,425	EV / EBITDA	8.4	8.8	9.0	8.0
Total Liabilities	134,813	185,992	216,644	233,229	Gearing				
Gross Block	33,276	65,186	85,186	110,186	Debt / Equity	4.0	4.5	4.4	4.2
Accumulated D & A	4,412	5,356	6,694	8,787	Net Debt / Equity	3.9	4.3	4.3	4.1
Net Block	28,864	59,830	78,492	101,399	Net Debt / EBITDA	6.8	7.6	7.9	7.0
Capital Work-in-progress	195	195	6,311	2	Debt / M-Cap	1.3	1.7	1.9	2.1
Investments	3,954	6,871	6,871	6,871	Operating Cash Flow / Debt	0.2	0.1	0.1	0.1
Rec. Service Concession	48,691	67,825	71,825	71,825	Interest Coverage	1.9	1.6	1.5	1.4
Inventory	210	169	179	193	M-Cap / Sales	0.4	0.4	0.3	0.3
Sundry Debtors	8,820	7,517	7,959	8,567	Capex / Depreciation	25.8	32.4	20.9	9.8
Loans and Advances	17,143	14,170	15,004	16,150	Turnover				
Cash and Bank Balances	2,838	4,552	4,315	1,993	Debtors (Days)	53	45	40	40
Total Current Assets	30,692	29,285	30,504	30,182	Inventory (Days)	3	2	2	2
Current Liabilities	15,521	17,297	18,315	19,714	Creditor (Days)	89	90	92	92
Provisions	2,146	2,614	2,767	2,979	Du Pont				
Total Current Liabilities	17,667	19,911	21,083	22,693	NPM (%)	8.9	7.8	7.6	7.8
Net Current Assets	13,025	9,375	9,421	7,489	Asset Turnover (x)	0.5	0.4	0.3	0.3
Total Assets	134,813	185,992	216,644	233,229	Leverage (x)	4.9	5.6	5.7	5.7
					RoE	19.7	16.2	13.8	13.6

Source: Company, SSLe

Recommendation History



Date	Stock Price	TP	Rec.
8-May-12	175	260	BUY
10-Aug-12	165	260	BUY
7-Nov-12	190	260	BUY

Rating based on Current Rating System (Feb'13)

Date	Stock Price	TP	Rec.
7-Feb-13	198	260	BUY
14-May-13	176	260	BUY
16-Aug-13	121	175	BUY

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Guide to the expected return over the next 12 months. 1=BUY (expected to give absolute returns of 15 or more percentage points); 2=HOLD (expected to give absolute returns between -10 to 15 percentage points); 3=SELL (expected to give absolute returns less than -10 percentage points)

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