
Indian Roads Sector

Sector thoughts

Initiating coverage on Ashoka Buildcon & IL&FS Transportation Networks

Update on IRB Infrastructure Developers

September 2014

Indian Roads Sector

Speed after the speed-breaker

Road sector is brimming with opportunity which is up for grabs. >30,000kms of roads to be constructed and >25,000kms (~20,000kms new and ~7,000kms terminated & stalled projects) of NHDP road projects to be awarded in the next 4-5 years translates into an opportunity for new projects from NHDP alone @>USD 45bn. FY13 witnessed the peak of NH road construction cycle (with 30kms constructed per day) while the projects awarded hit a trough in the same period (only 1,339kms awarded in FY13 & FY14 @ 2kms/ day). We believe that it is only natural that this cycle will reverse and with NHA setting an aggressive target to award 8,500kms in FY15E (already awarded 449kms in the general elections affected quarter), the harbinger is already set. However, we do not foresee an immediate reversal of fortunes on the land acquisition & clearances issues or in the financial situation of the private contractors; but, FY15 budgetary proposal to invest Rs. 379bn in NHs, proposal to set-up a roads regulator, delinking forest and environmental clearance assure us that we are likely to see a slow and sure return of private sector activity in the medium to long term. In the near term, stronger players will be in a better position to cherry pick projects that are profitable for them. We would like to play this impending reversal in sector prospects through IRB, Ashoka Buildcon and ITNL (in that order).

Summary of Comparative Analysis

- 1) With 100% market share in garnering YTD FY15 NHA awards and a 45% market in FY14, 2) with 64% of the road portfolio in Maharashtra and Gujarat, 3) with 21 road projects totaling 2,087kms & 9,387 lane kms, and 4) with Rs. 48mn/ day of average toll collections **IRB scores on scale and market leadership**
- 1) With presence in 16 states and with a first hand knowledge of sector trends and traffic patterns, 2) with 31 road projects totaling 2,970kms and 12,822 lane kms (stake adjusted – 9,866), 3) with 61% of its projects being non-NHA, and 4) with 20% of its projects on an Annuity basis **ITNL scores on scale and diversity**
- 1) With >24% PPP market share on NH-6, 2) with 65% of its roads portfolio in the East-West corridor and 3) with the most conservative leverage levels (Net Debt/ Equity of <2) **Ashoka Buildcon is a niche and conservative player slowly emerging onto the big league**
- All three Companies fare well in the future growth prospects – ASBL's average toll collections is likely to grow at 24% CAGR and it's lane kms at 16% CAGR over FY14-18E; for ITNL it is 27% and 16% respectively and for IRB it is 21% and 11% respectively
- IRB scores the best in having the most profitable roads portfolio as well as a superior construction business (highest margins), while ASBL scores best in profitability growth (EPS CAGR of 20% for FY14-18E) followed by ITNL (8% CAGR), we also like ASBL's potential improvement in RoEs (from 8% in FY14 to 12% in FY18E)
- We revise our stance on IRB due to the above mentioned reasons and rate it Buy with TP of Rs. 335/ share. We initiate coverage on Ashoka Buildcon with a Buy rating and a TP of Rs. 200/ share and initiate coverage on ITNL with a Buy rating with a TP of Rs. 284/ share**

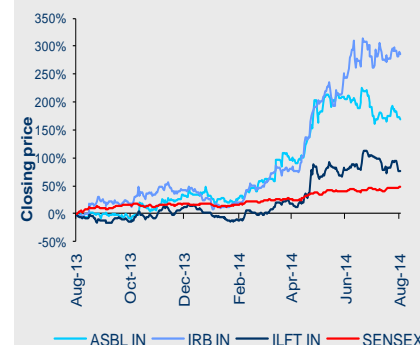
Sector Note

Date Sept 1, 2014

Market Data

SENSEX 26638

Nifty 7954



Rating Summary

Stock	CMP	TP	Rating
	Rs.	Rs.	
ASBL IN	127	200	Buy
ILFT IN	203	284	Buy
IRB IN	251	335	Buy

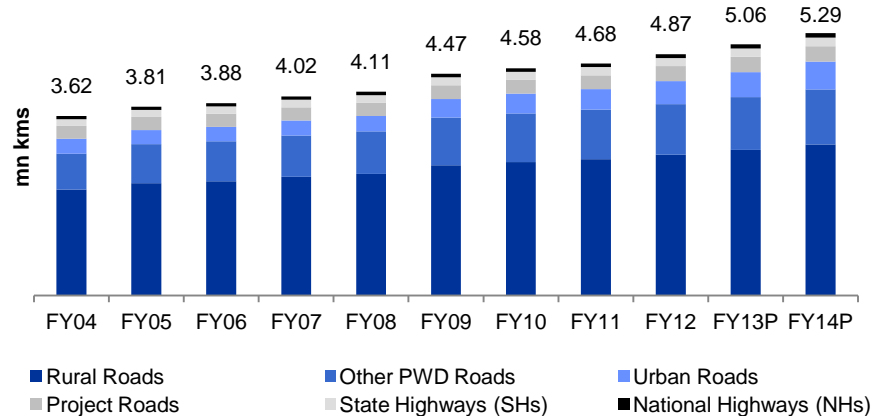
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Industry Section

Industry Section

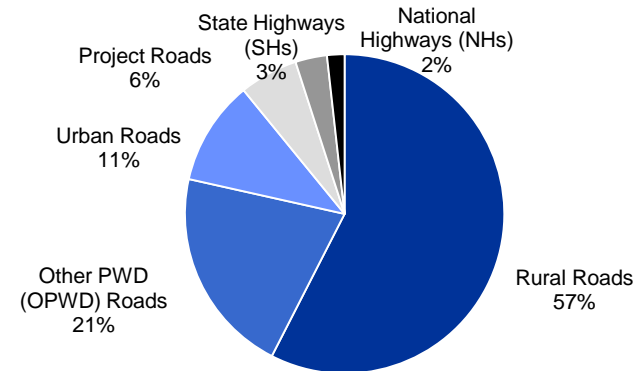
Current Status of Road Network in India

One of the largest road networks in the world - ~5.3mn kms

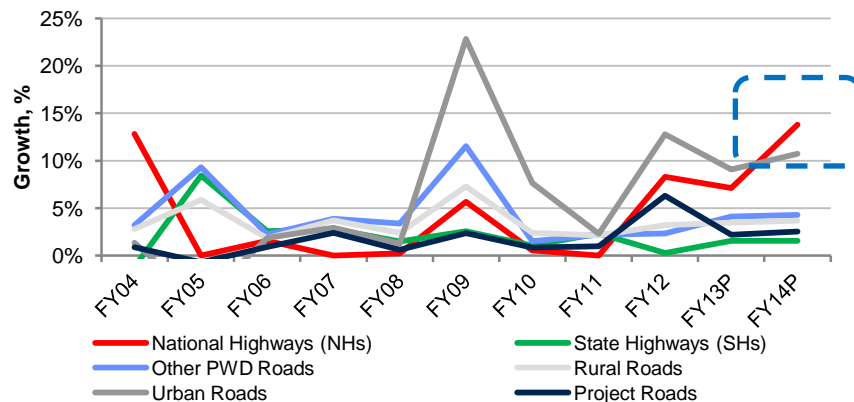


Source: Ministry of Road Transport & Highways (MoRTH), Spark Capital Research

Highways (NH & SH) forms only ~5% of the total roads in the country



NH length grew at 14% in FY14 due to bunching of awards in FY10-12



- India has a large network of roads, totaling about 53 lakh km
- The road density in India is now nearly **1.6 km per sq. km** of area which compares favorably with many countries
- NHs constitute the **primary system** of road transportation in the country, carrying road traffic across the length and breadth of the country. **At present, only ~25% of NH is 4-laned, while ~55% is 2-laned and the rest single/ intermediate laned**
- State Highways (SHs) and Major District Roads (MDRs) constitute the **secondary system** of road transportation in the country
- Conversion of SHs into NHs and increased pace of construction contributed to a double digit growth in NH addition in FY14

Industry Section

80% of total road traffic plies on NH and SH

Easy availability, adaptability to individual needs and the cost savings are some of the factors which go in favor of road transport

Road transport also acts as a feeder service to railway, shipping and air traffic

National Highways

- Implemented by Central Government (through MoRTH, NHAI, BRO)

- Forms ~2% of total roads length

- Carries ~40% of the total road traffic

State Highways & Major Highways

- Implemented by State Governments (PWDs)

- Forms ~3% of total roads length

- Carries ~40% of the total road traffic

Rural Roads & Urban Roads

- Implemented by Rural Engineering Organizations, Local Authorities like Panchayats and Municipalities

- Forms ~95% of the total roads length

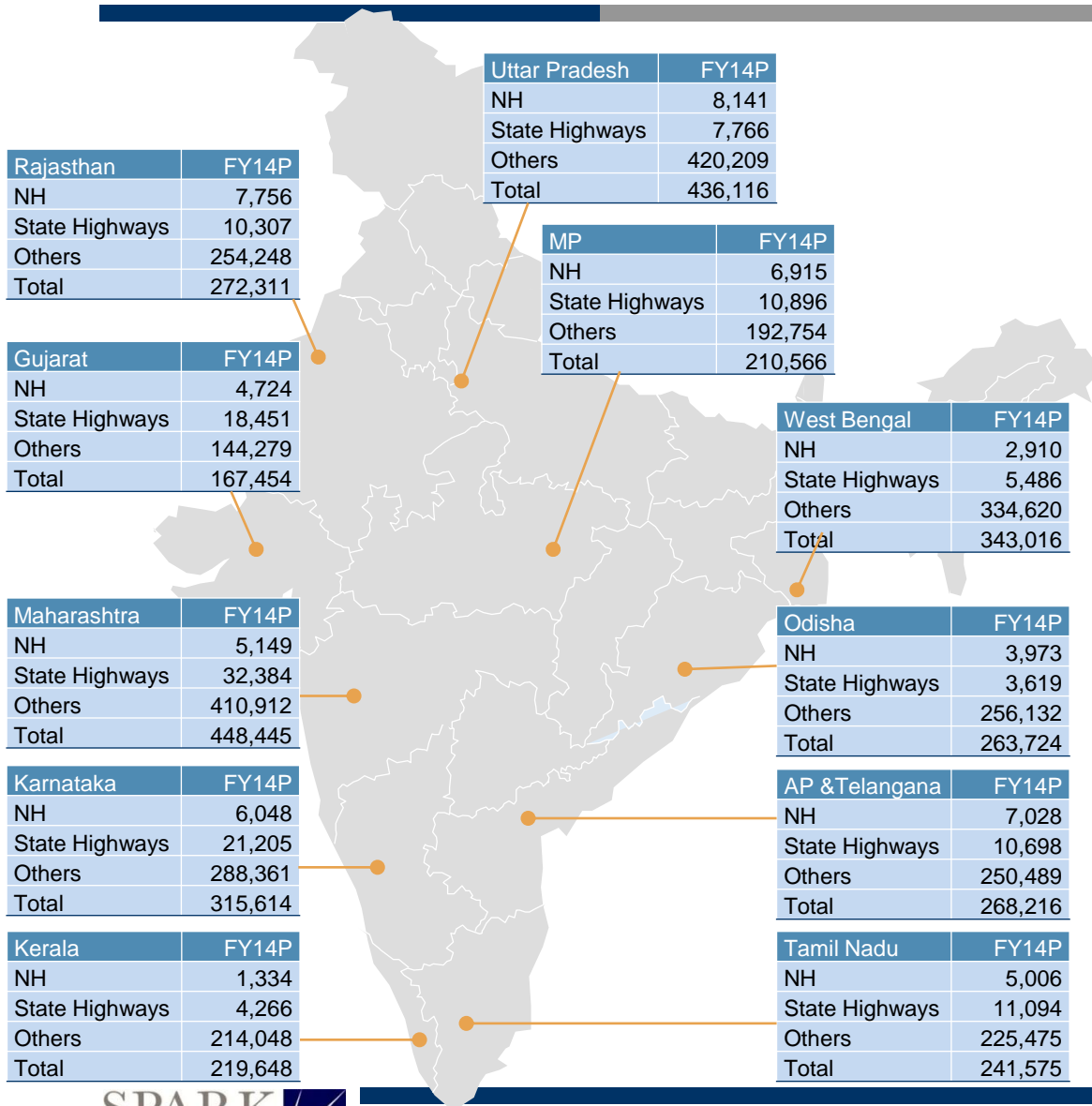
- Carries ~20% of the total road traffic

Being thoroughfares >60% of commercial traffic is carried by NHs & SHs

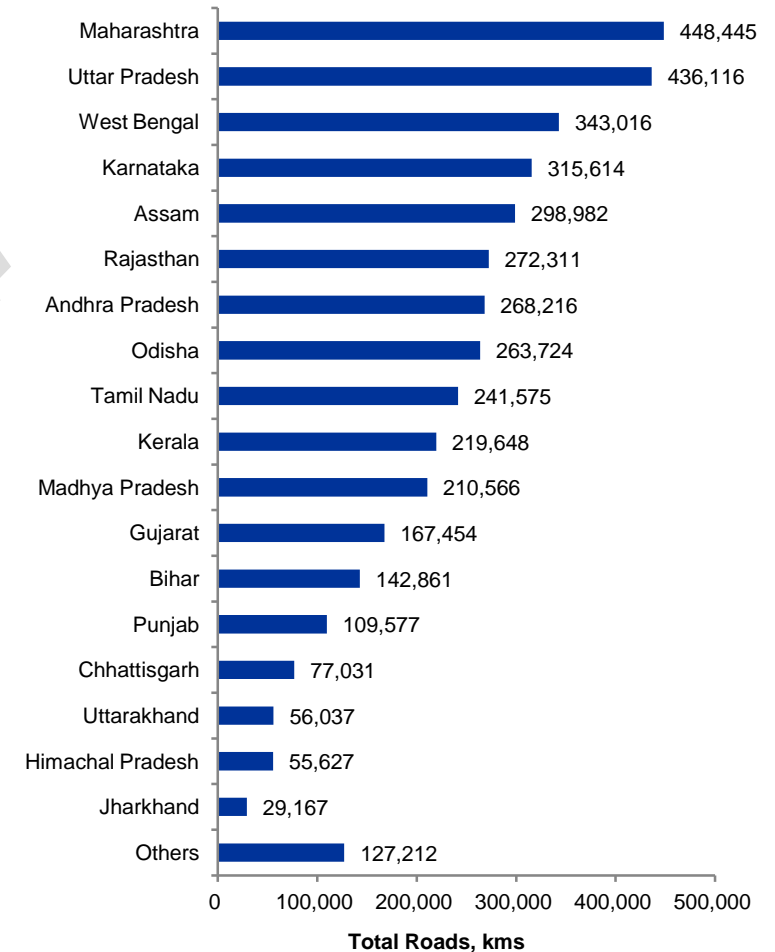
65% of freight and 80% of passenger traffic in the country is carried by roads

Industry Section

Total Road Network State-wise



Total road network – state-wise



Source: MoRTH, Spark Capital Research

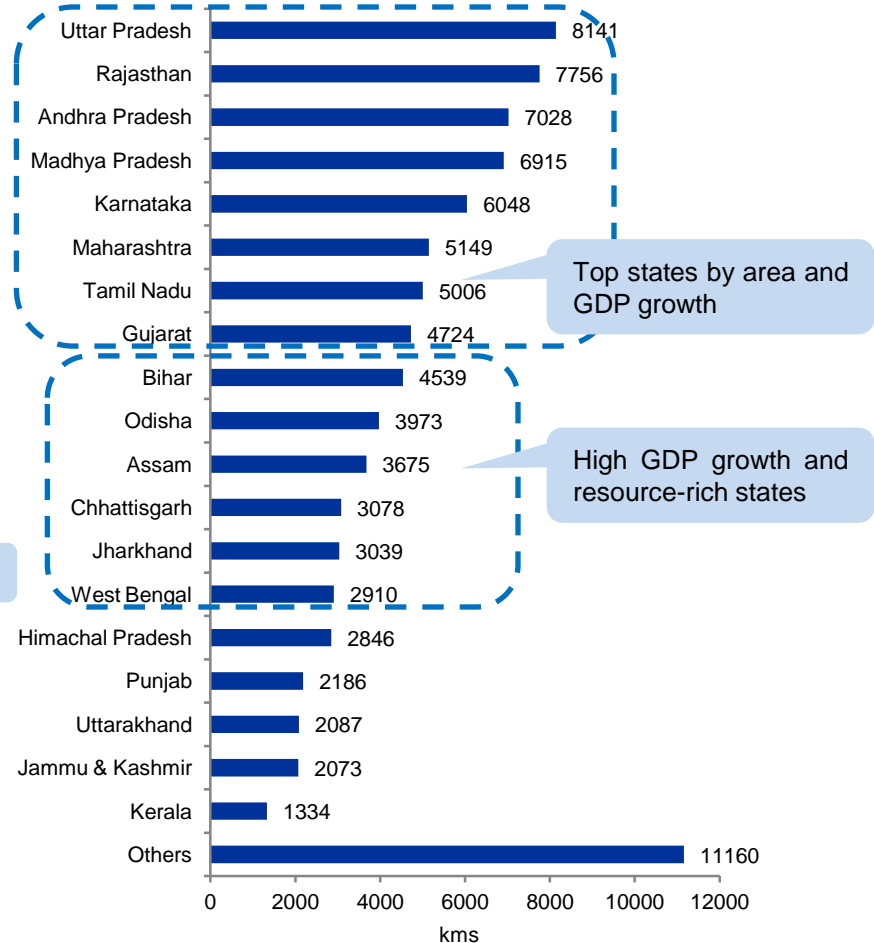
Industry Section

Current status of National Highways

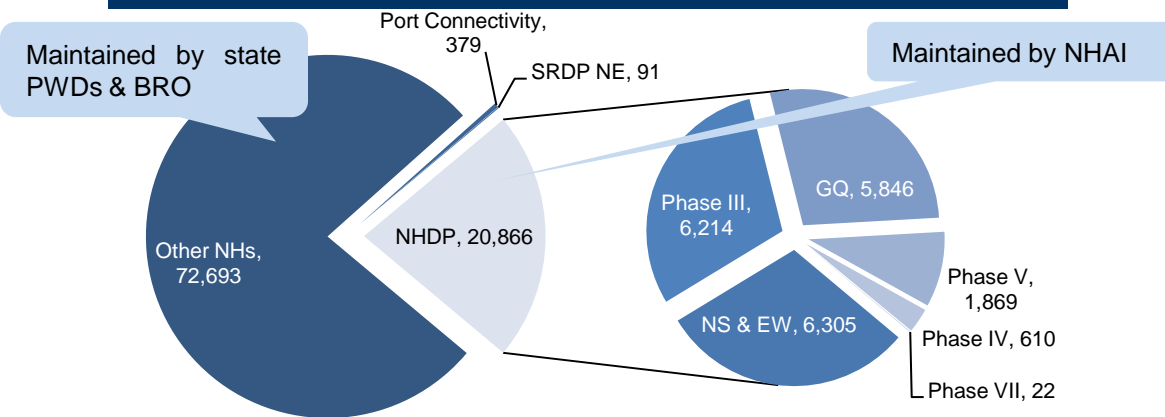
- MoRTH is responsible for construction and maintenance of National Highways in the Country
- Alongside, NHAI was constituted by an act of Parliament to develop, maintain and manage the NHs vested or entrusted to it by the Central Govt. It became operational in 1995
- At the end of June, 2014 there was ~94,000kms of NH in the country; NH as part of the NHDP scheme formed 22% of this, of which, the Golden Quadrilateral & the North South-East West Corridor formed a sizeable portion

Existing NH	kms	%
NS & EW	6,305	7%
Phase III	6,214	7%
GQ	5,846	6%
Phase V	1,869	2%
Phase IV	610	1%
Phase VII	22	0%
Total NHDP	20,866	22%
Port Connectivity	379	0%
SRDP NE	91	0%
Other NHs	72,693	77%
Total Non-NHDP	73,163	78%
Total NH	94,029	100%

State-wise split of NH as at March, 2014



Split of existing 94,029kms of NH, as at June 2014



Industry Section

NHDP – so far only 42% completed & only 62% awarded; >20,000kms (~USD40bn) opportunity in the next 3 years

NHAI is currently implementing the largest highway project undertaken in the country – NHDP, spread over 7 phases, with total length of 50,629km and with an estimated expenditure of >Rs. 4,700bn (>USD 75bn)

NHDP – plan (kms)	GQ	NS-EW	Other NHDP	Port Connectivity	Other NH	Expressways	Total Length	Completed	Pending
Phase I – GQ, NS-EW corridors, Port connectivity & Others	5,846	981	-	356	315	-	7,522	7,521	1
Phase II - 4/6-laning NS- EW Corridor, Others	-	6,161	-	-	486	-	6,647	5,810	837
Phase III - Upgradation, 4/6-laning	-	-	12,109	-	-	-	12,109	6,214	5,895
Phase IV – 2 laning with paved shoulders	-	-	14,799	-	5,201	-	20,000	1,200	18,800
Phase V – 6 laning of GQ and High density corridor	5,700	-	-	-	800	-	6,500	1,869	4,631
Phase VI - Expressways	-	-	-	-	-	1,000	1,000	0	1,000
Phase VII - Ring Roads, Bypasses and flyovers and other structures	-	-	-	-	700	-	700	22	678
Total, kms	11,546	7,142	26,908	356	7,502	1,000	54,478	22,636	31,842

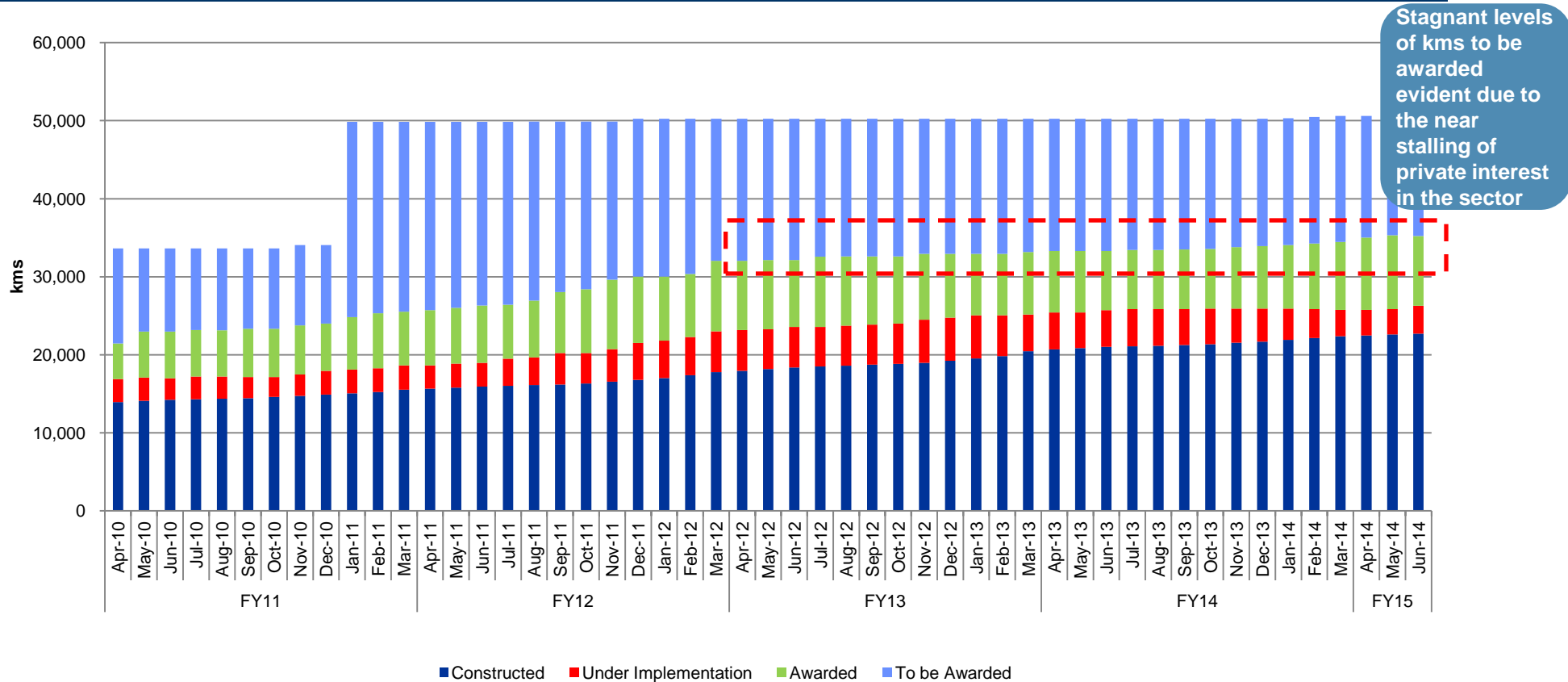
Details of projects yet to be awarded	Pending, kms	Under Implementation, kms	Yet to be awarded, kms	Yet to be awarded, Rs. mn
Phase I	1	0	1	95
Phase II	837	420	417	44,413
Phase III	5,895	4,210	1,685	199,252
Phase IV	18,800	5,246	13,554	334,594
Phase V	4,631	2,212	2,419	260,791
Phase VI	1,000	0	1,000	283,637
Phase VII	678	19	659	250,517
Total NHDP	31,842	12,107	19,735	1,373,300
SARDP - NE, NHAI	295	18	277	14,711
SARDP - NE, BRO, States	374	0	374	19,862
Total NH Opportunity	32,511	12,125	20,386	1,407,873

Opportunity in new NH projects is high with >20,000kms (>USD 40bn) to be awarded in the next 3 years. Also, ~3,500kms of older projects is expected to come for re-bidding

Industry Section

NHDP - what happened in the last few years

Progress in NHDP and SRDP-NE road construction plan – while construction has progressed, stock of projects to be awarded remained constant

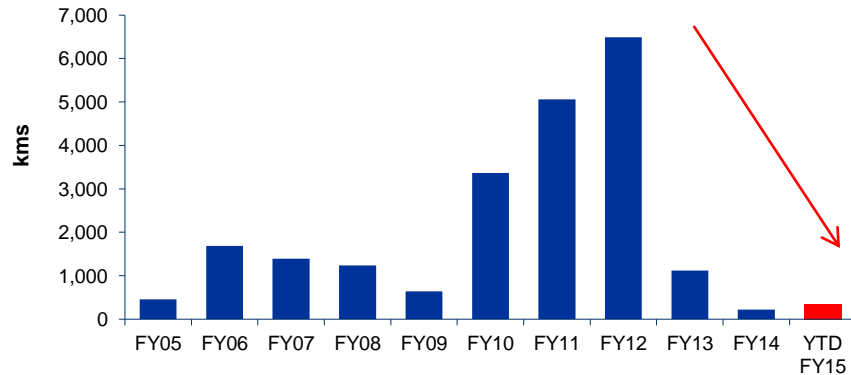


Source: NHA/

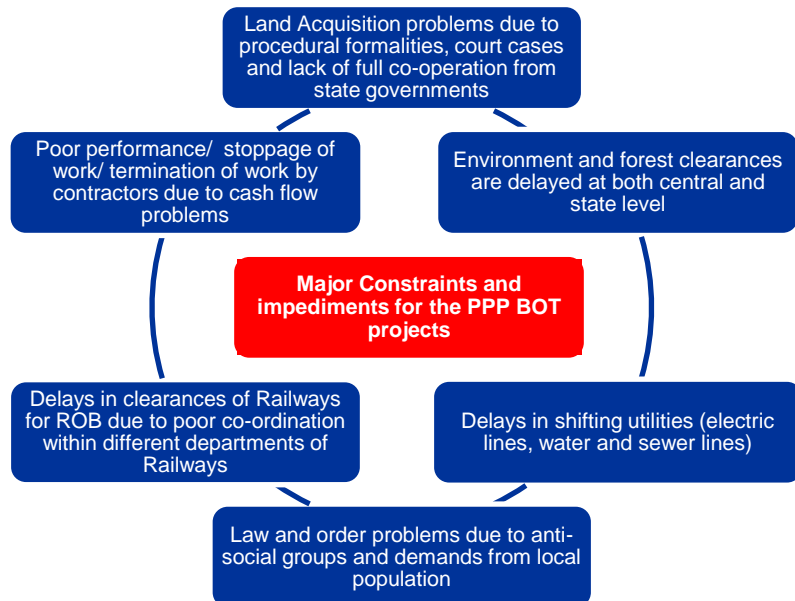
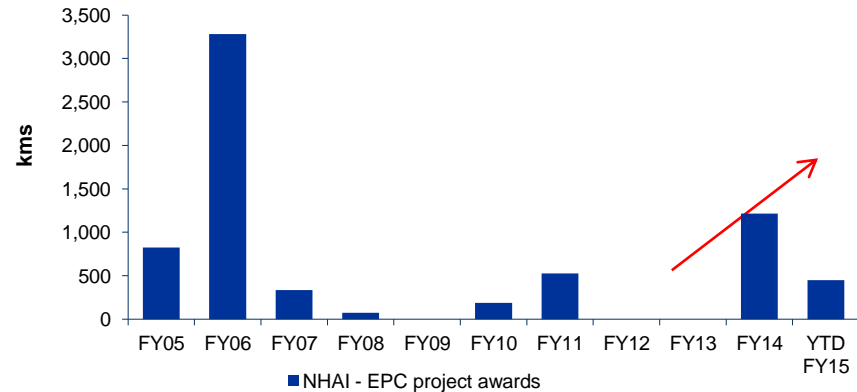
Industry Section

NHDP - what happened in the last few years (contd.)

Trend in NHAI PPP project awards



Trend in NHAI EPC Cash Contract awards



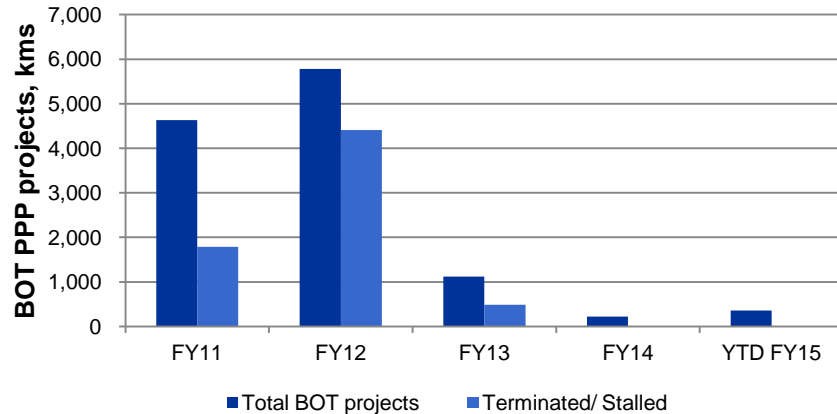
Interest in PPP projects fell in the period FY13-14 due to:

- Delays in land acquisition and environmental/ forest clearance
- Choke in bank funding to struggling concessionaires and EPC contractors
- Fall in traffic due to sluggish economy
- Hence NHAI resorted to awarding EPC cash contracts in FY14 and YTD FY15E (giving out positive grants)
- We believe that NHAI will look to award 30% of the 8,500km targeted for FY15 via PPP mode while the rest as cash contracts; budgetary allocation in FY15 for NHAI has been allocated Rs. 379bn which will enable it to construct >4,000 kms of roads on its own

Industry Section

NHDP - 12,110kms & 110 projects awarded from FY11 till date; 26% of them are terminated and 29% of them are stalled

Status of the BOT PPP projects awarded by NHAI from FY11



Source: NHAI, Spark Capital Research

Terminated projects
(3182kms, 28nos.)

- Funding crunch with the concessionaire, land acquisition and irrational premiums offered to NHAI are the major reasons

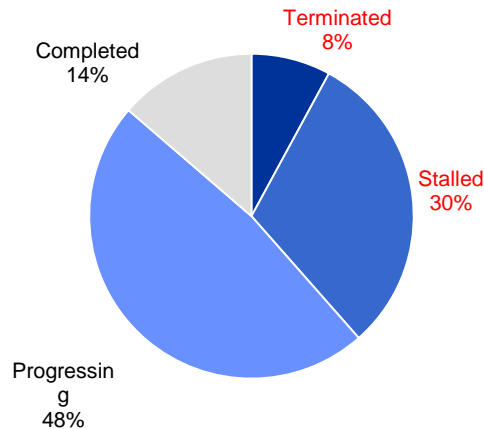
Stalled projects
(3497kms, 31nos.)

- 72% of stalled projects have no agreement signed between NHAI and concessionaire (due to finding crunch and land acquisition problems)

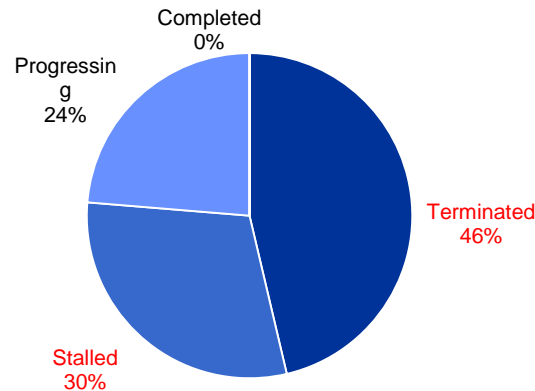
Progressing projects
(4797kms, 45nos.)

- Even with the projects that are progressing, 30% of them have been delayed by over 10 months from scheduled completion dates

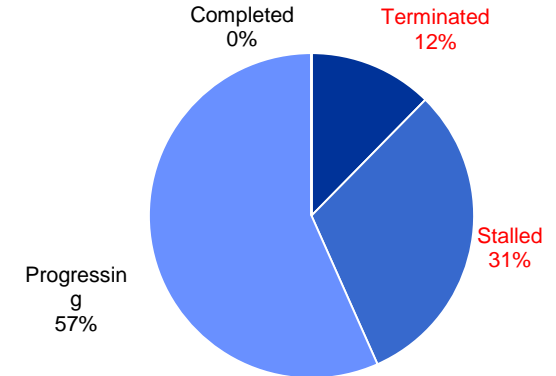
Status of projects awarded in FY11, kms



Status of projects awarded in FY12, kms



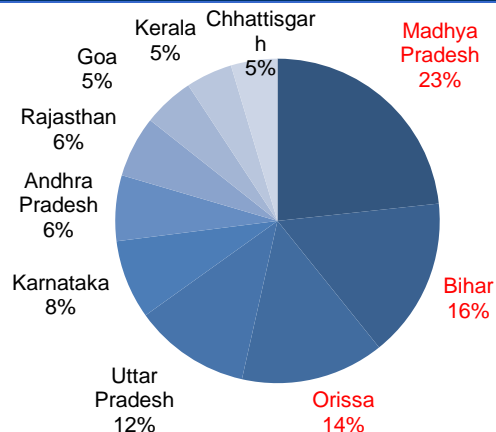
Status of projects awarded in FY13, kms



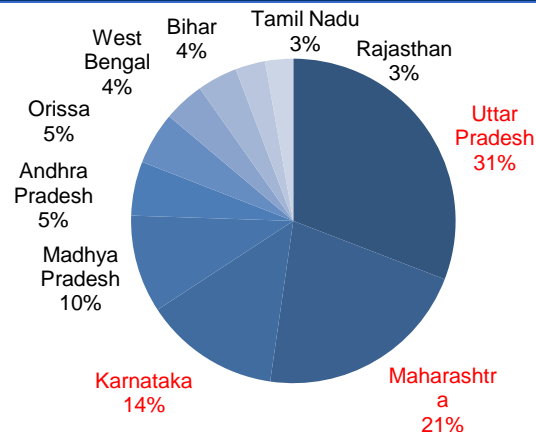
Industry Section

Analysis of the terminated, stalled and delayed projects – Bihar is bad news, Transstroy has bitten more than it can chew

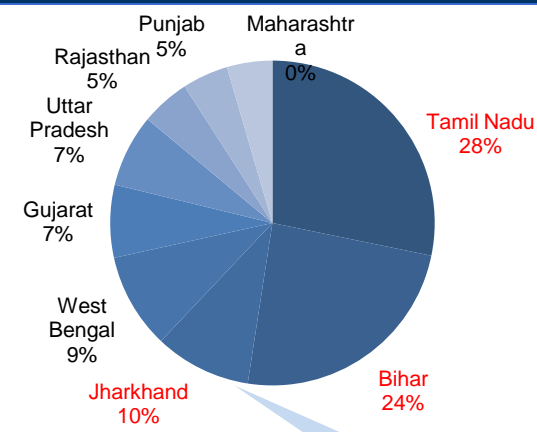
Terminated projects state-wise



Stalled Projects state-wise



Delayed projects (>5 months) state-wise



Terminated Projects (top 12 by concessionaire)			Stalled Projects			Delayed Projects		
Concessionaire	kms	Nos.	Concessionaire	kms	Nos.	Concessionaire	kms	Nos.
IVRCL Assests & Holding	386	3	L&T Infrastructure Dev. Projects	629	3	Transstroy-OJSC Consortium	546	4
GVK	330	1	Lanco Infratech	268	1	Madhucon Projects	313	3
Gammon Infrastructure Projects	313	3	Simplex Infrastructure	229	2	Soma Tollways	192	1
Abhijeet Infrastructure	245	2	Gammon Infrastructure Projects	228	2	IDFC-PLUS Expressway Berhad	123	1
Ramkey Infrastucture	245	2	Essel Infra Projects	218	2	PNC Infratech	123	1
Transstroy-OJSC Consortium	239	3	Transstroy-OJSC Consortium	205	2	GVK	83	1
Soma Tollways	226	1	Reliance Infrastructure	180	1	Essel Infra Projects	78	1
KMC Constructions	221	1	PNC Infratech	166	1	SEW Infra	78	1
ESSAR - Atlanta (JV)	126	1	Era Infra Engineering	151	1	IL&FS Transportation Networks	74	2
Navyuga Engineering	113	1	Vijay Infrastructure	119	1	Tantia-Jiangsu	69	1
Ashoka Buildcon	112	1	IRB Infrastructure Developers	114	1	Shapoorji & Palonji	65	1
Sadbhav Engineering	111	1	Coastal-SREI Consortium	100	1	Reliance Infrastructure	60	1

Bihar, Uttar Pradesh, Madhya Pradesh and Tamil Nadu appear to be the most problematic states

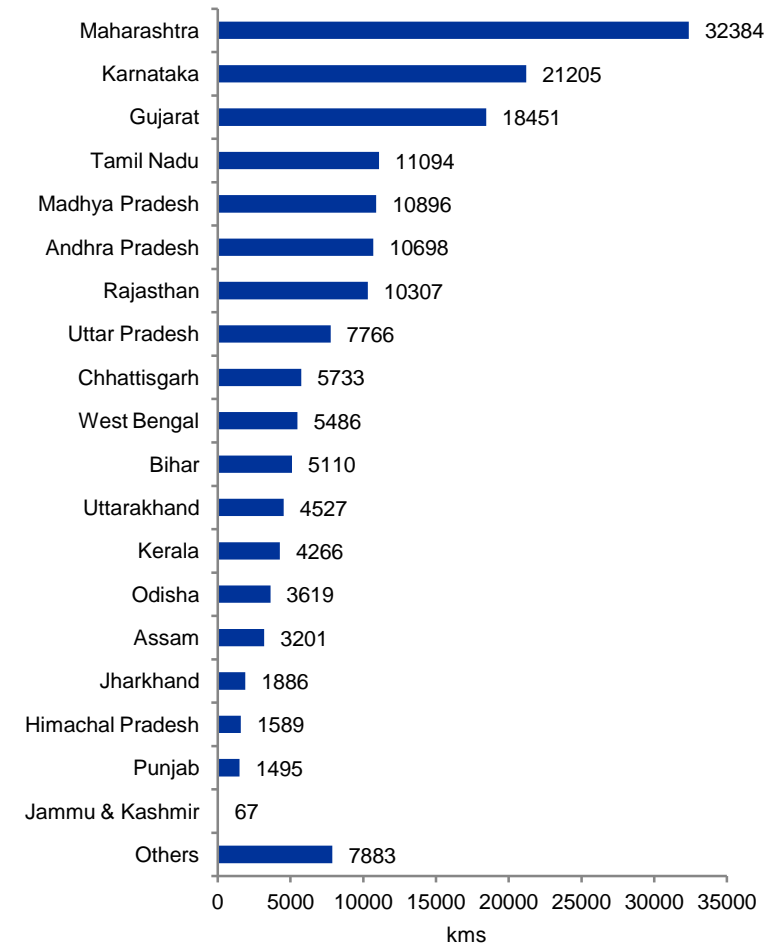
Transstroy, IVRCL, Gammon, Madhucon, Abhijeet, Essel, Soma, Lanco, L&T appear to be the most troubled

Industry Section

Current status of State Highways

- We foresee strong roads projects pipeline from the States as well. Industry interactions peg the potential number equal to the size of remaining NHDP opportunity
- We believe that the following states have the most mature and professional state roads authorities and development bodies:
 - Maharashtra
 - Gujarat
 - Madhya Pradesh
 - Andhra Pradesh
 - Tamil Nadu
- Of the above, Maharashtra, Gujarat and Madhya Pradesh have a MCA that is close to NHAI's concession agreement
- While we believe that Rajasthan, Orissa and Chhattisgarh are the most improved in terms of state PWDs taking initiatives to develop state highways
- It is evident from the adjacent chart that Maharashtra is the pioneer in state highways building and will continue to remain so; private players who have a strong experience and presence in these states is set to benefit
- We believe some of the issues with respect to state PWDs are:
 - Non-coordinated planning of road projects resulting in roads connecting the same points as that of NHs
 - Non enforcement of concession models

State-wise split of SH as at March, 2014



Source: MoRTH, Spark Capital Research

Framework of Analysis

Framework of Analysis

Parameters we use to analyse the 3 companies

We evaluate Ashoka Buildcon, IRB and ITNL using the following key parameters



Business model – prefer the integrated development model of IRB & Ashoka Buildcon with ability to provide construction services



Portfolio of road assets – prefer a profitable roads portfolio with conservative leverage – IRB scores the best



Market share dynamics – prefer IRB & ITNL due to better market share with NHAI



Contribution from the EPC arm – prefer a profitable and sustainable model; IRB scores the best; neutral between ITNL and ASBL



Financials – Look at consolidated financials with focus on growth, leverage and RoEs; ASBL scores the best followed by IRB

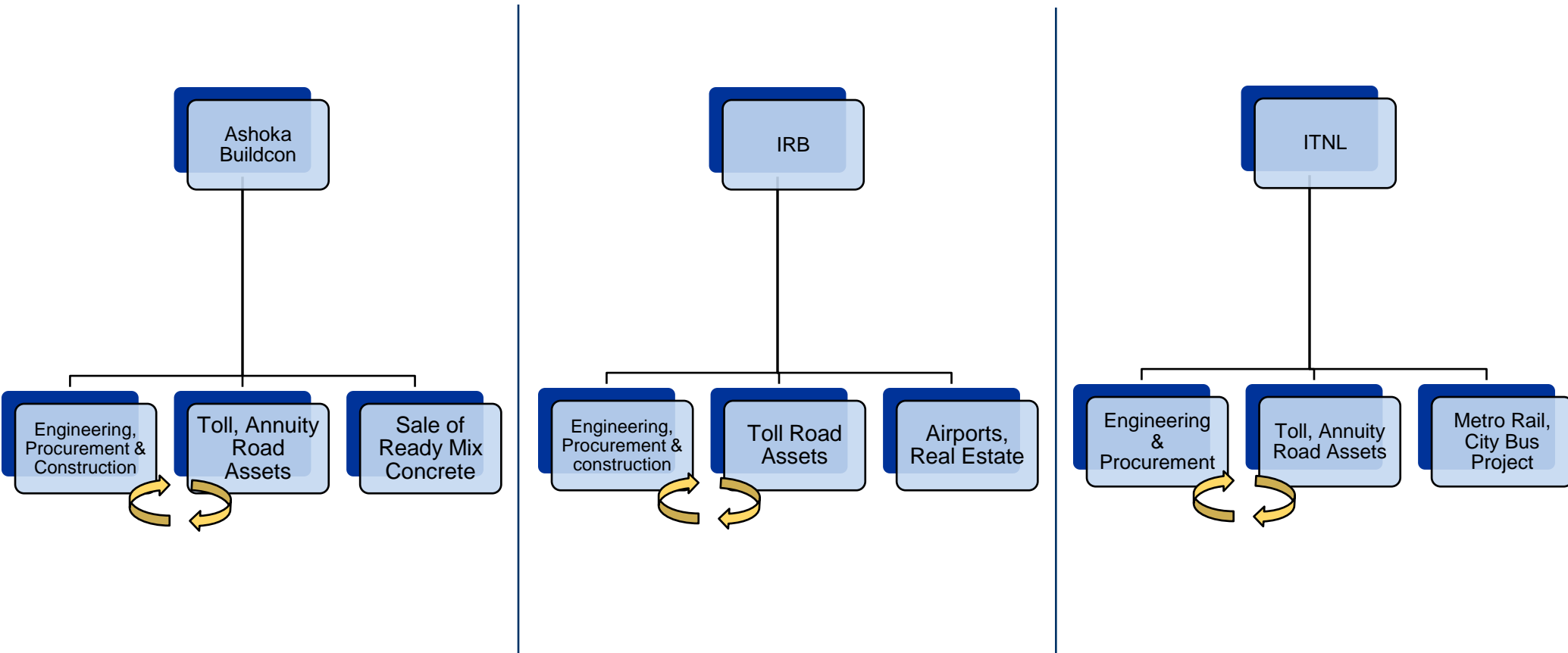


Valuations – Greater proportion of value from low risk BOT assets and in-house EPC arm; IRB and ASBL pips ITNL

Framework of Analysis

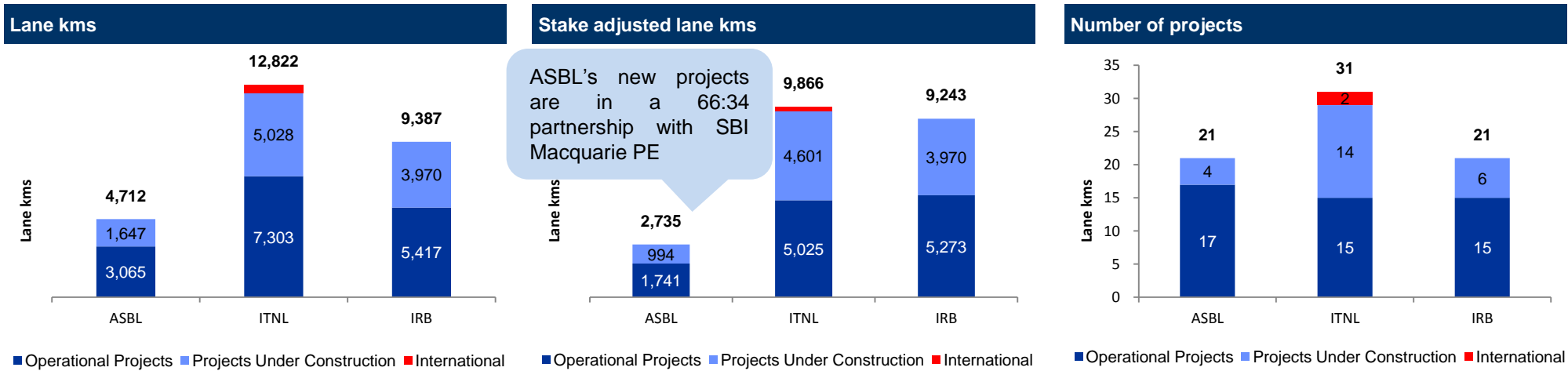
#1 Comparison of business models of Ashoka Buildcon, IRB & ITNL

All 3, ASBL, IRB and ITNL have an integrated development model possessing both ownership of road assets and an EPC arm which works almost exclusively for the roads segment. However, while ASBL and IRB has construction capabilities with an equipment bank of >Rs. 4bn each, ITNL's EPC segment does not possess any construction capabilities. Thus ASBL and IRB captures the greater part of the value chain of Designing, Constructing, Financing, Operating and Maintaining a road asset. Thus we have reason to prefer the business models of ASBL and IRB over ITNL, albeit marginally.

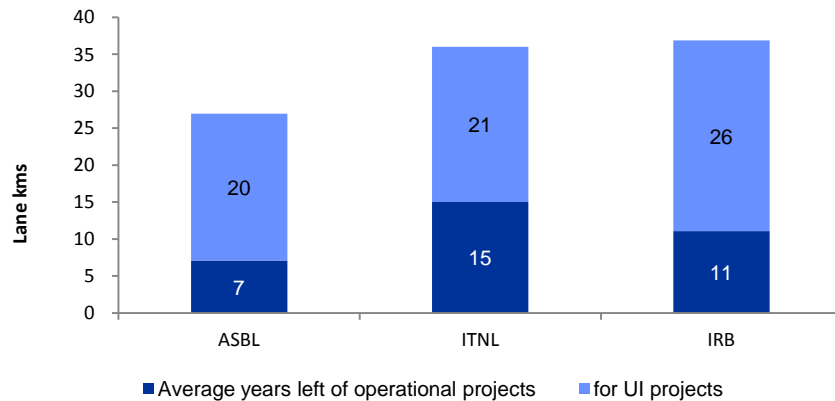


Framework of Analysis

#2 Portfolio of Road Assets - Scale



Maturity of projects – 9 projects of ASBL have <3 yrs concession period



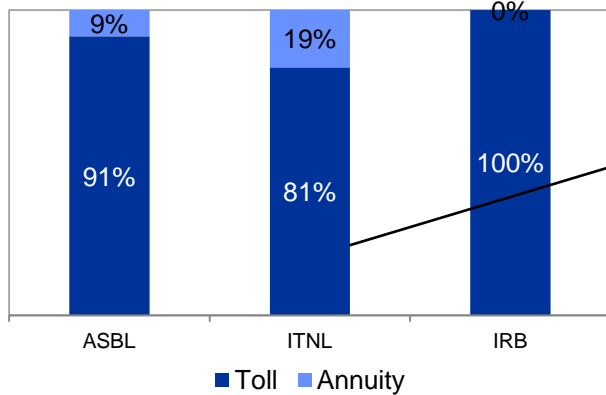
30,000ft view of the road asset portfolios of ASBL, IRB and ITNL – We view the portfolio of IRB in slightly brighter

- Road asset portfolios of the IRB and ITNL are comparable to a large degree with IRB possessing 9,387 lane kms and ITNL having >12,000 lane kms of roads; while ASBL is a smaller player with 4,304 lane kms. ASBL's 9 out of 17 operational projects have <3 years of concession period left
- However, viewed on a stake-adjusted basis, we note that the portfolios of ITNL and IRB are comparable (~9,000kms) while ASBL is only 1/4th of this size at ~2,700kms. **Thus ITNL and IRB score on scale and on remaining life of projects vis-à-vis ASBL; we like IRB over ITNL as IRB holds 100% in almost all its projects**

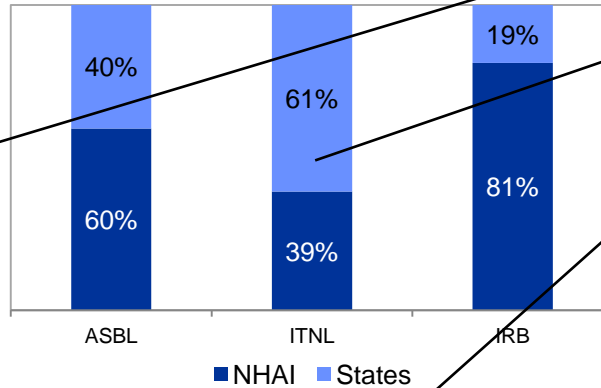
Framework of Analysis

#2 Portfolio of Road Assets (contd.)

Projects (lane kms) by type



Projects (lane kms) by Client

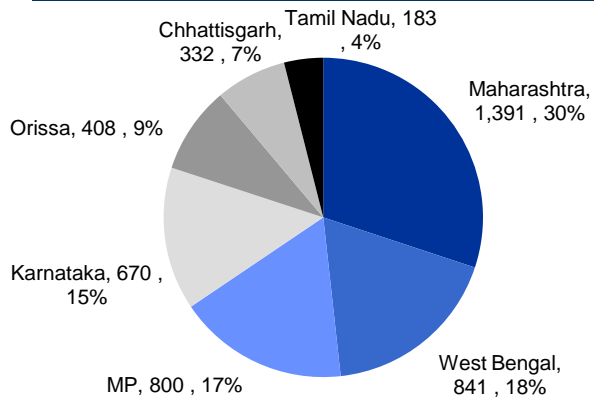


We like IRB's and ASBL's portfolio with majority Toll projects

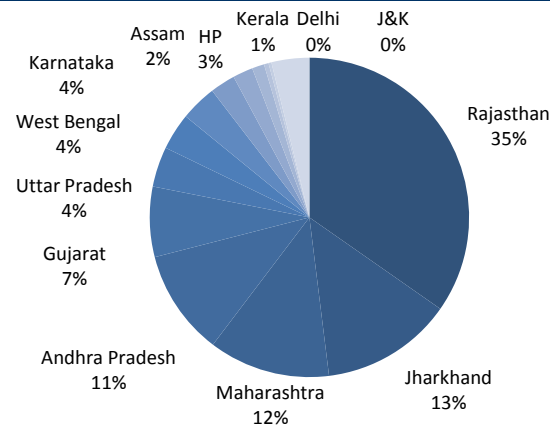
We are neutral on the projects by client type as state projects sometimes offer higher IRRs

- We like ASBL's assets concentrated in Maharashtra and in the North-East corridor which will benefit from transportation of resources from East to West
- We also like IRB's stronghold in Western India, specifically in Gujarat & Maharashtra
- We like ITNL's widespread presence in the Country (16 states) enabled by its business model to outsource construction

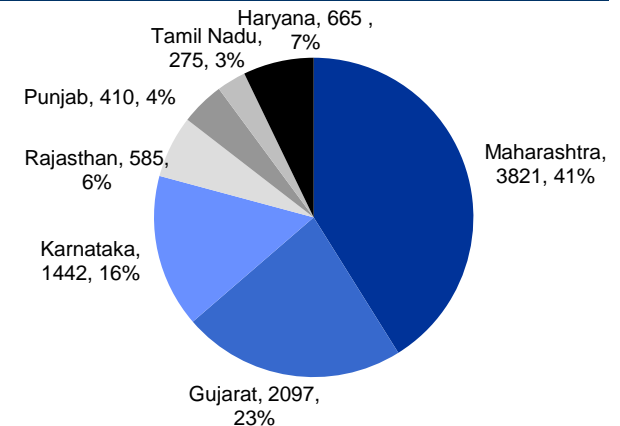
ASBL – lane kms by state



ITNL – lane kms by state



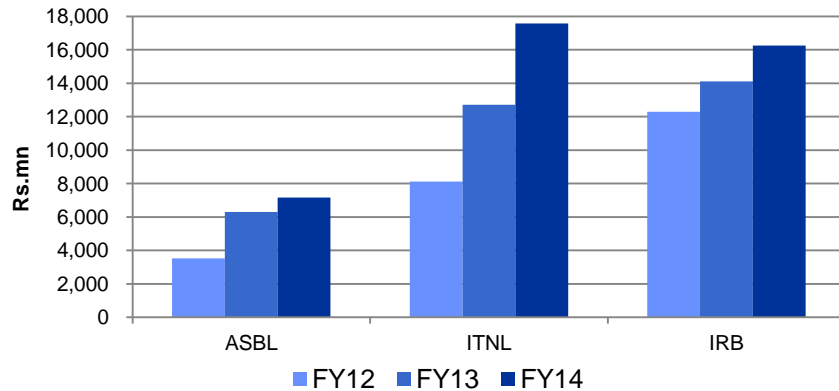
IRB – lane kms by state



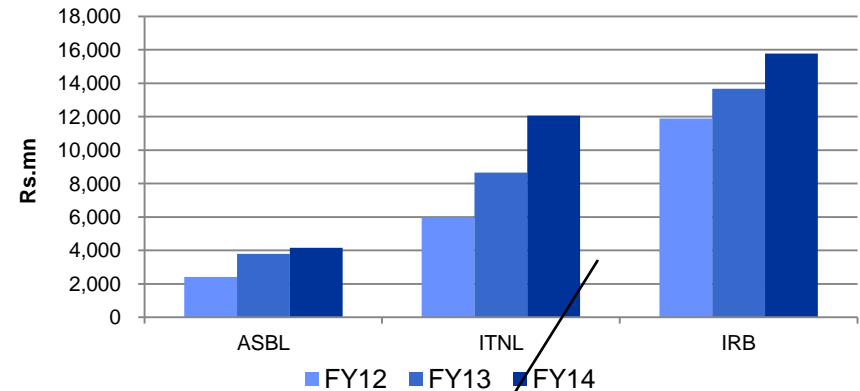
Framework of Analysis

#2 Portfolio of Road Assets – Revenues and Profits

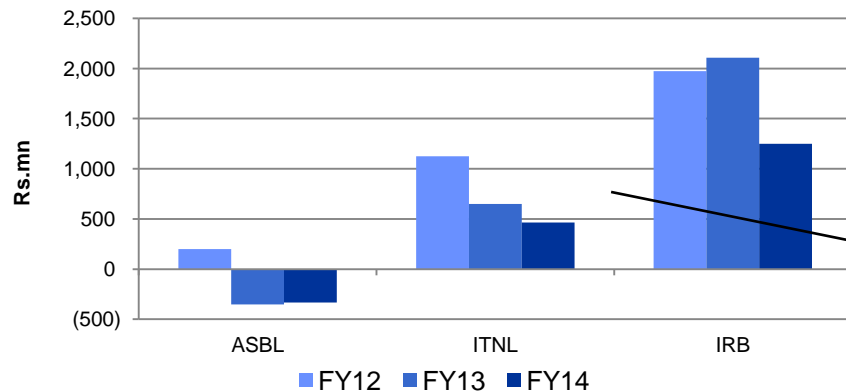
Gross Toll & Annuity Revenues



Stake Adjusted Toll & Annuity Revenues



Stake adjusted profits from Road Assets



We like IRB's quantum of toll revenues compared to others

All the three players have witnessed declining trend in their profitability from road assets, primarily because of:

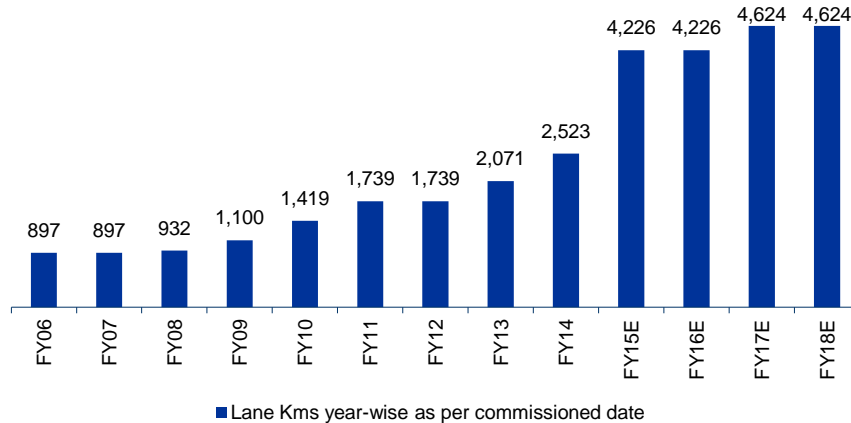
- Peaking interest rate cycle
- Classification of annuity projects as financial assets in the case of ITNL (hence interest is charged to P&L)
- New projects being operational in the recent past, which are loss making in the initial years

We prefer IRB over the other two as it has the most profitable road asset portfolio

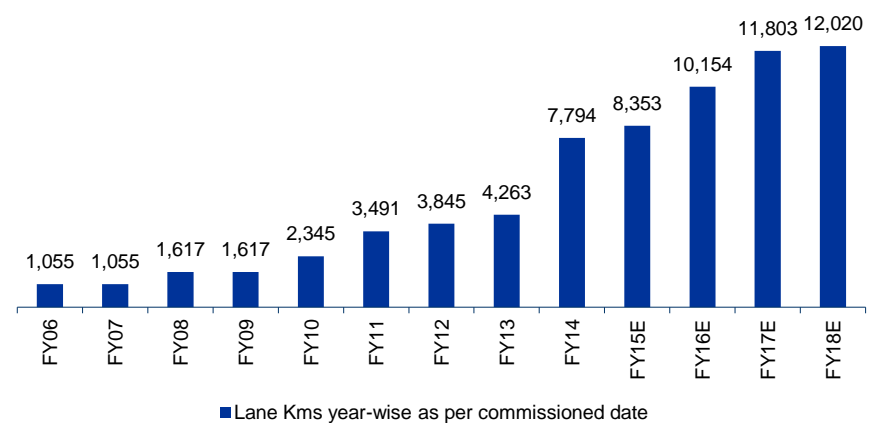
Framework of Analysis

#2 Portfolio of Road Assets – Growth in lane kms

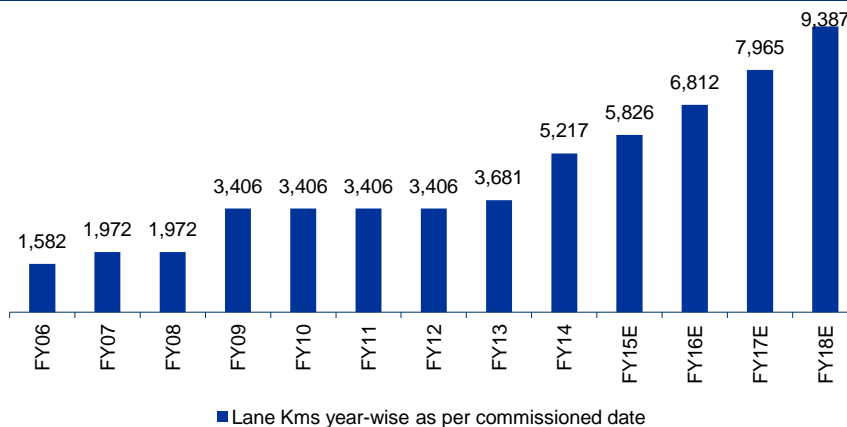
ASBL - growth in lane kms – 16% CAGR for FY14-18E



ITNL - growth in lane kms – 11% CAGR for FY14-18E



IRB - growth in lane kms – 16% CAGR for FY14-18E



We like the future (FY14-18E) ramp-up in lane-kms of all three players

ASBL

CAGR of 16%

IRB

CAGR of 16%

ITNL

CAGR of 11%

Road projects that are likely to be commissioned in the future

- Sambalpur-Baragarh
- Dhankuni-Kharagpur
- Chennai ORR
- KSHIP - II

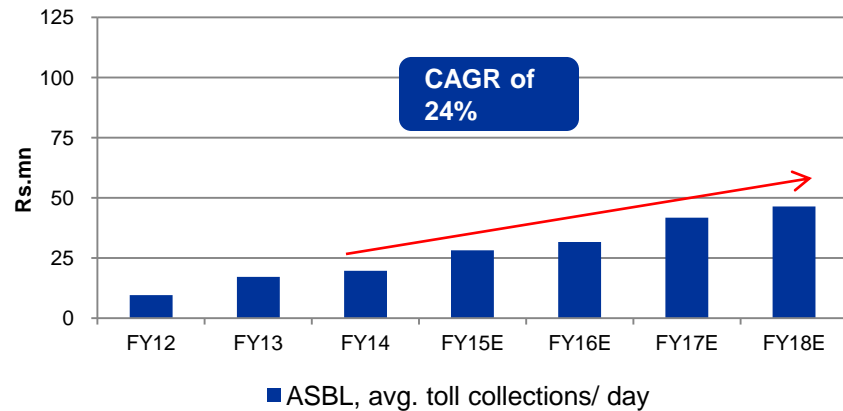
- Ahmedabad Vadodara
- Goa-Kundapur
- Solapur-Yedeshi
- Yedeshi Aurangabad
- Kaithal Rajasthan Border

- Jorabat-Shillong
- Baleshwar-Kharagpur
- Sikar-Bikaner
- Moradabad-Bareilly
- Khed-Sinnar, Kiratpur Ner Chowk & Barwa Adda

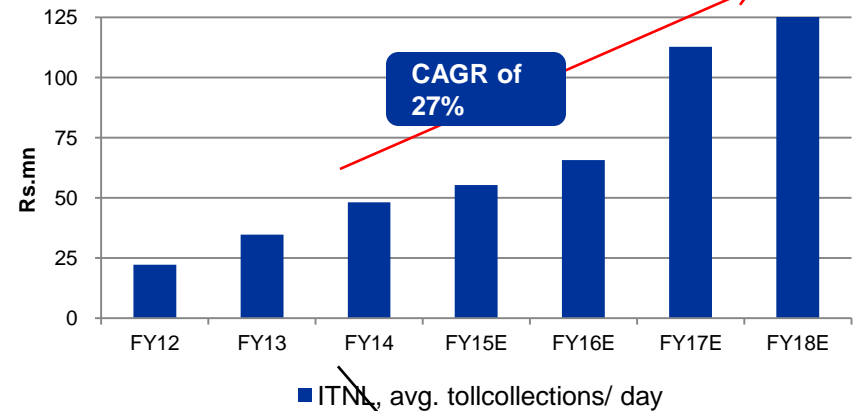
Framework of Analysis

#2 Portfolio of Road Assets – Growth in average daily toll collections

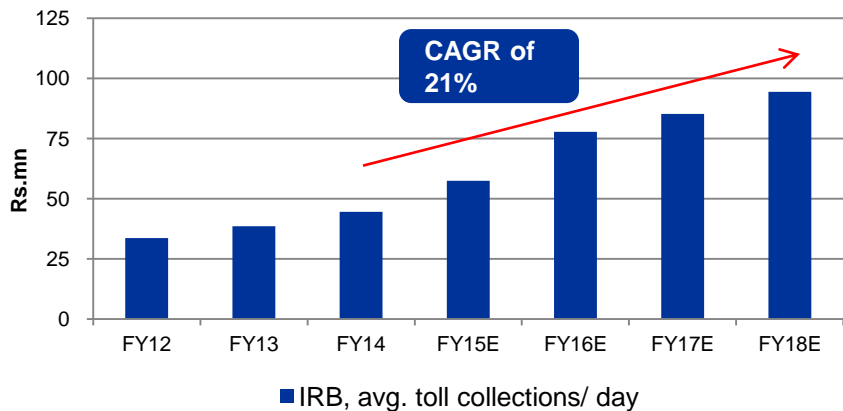
ASBL - growth in average collections (gross) per day



ITNL - growth in average collections (gross) per day



IRB - growth in average collections (gross) per day



- ITNL's average collection per day is set to more than double by FY18E and at the highest CAGR of 27%; as seen from previous slide, though the growth in lane kms is lowest for ITNL (due to base effect partly) the growth in average toll collections is the highest as two large annuity projects (Chenani Nashri and Jorabat Shillong, with a cumulative annuities of Rs. 7.8bn or ~Rs. 20mn /day)
- For IRB, the growth is driven by full toll collections at Talegaon Amravati and Pathankot Amritsar stretches; addition of Ahmedabad Vadodara and Goa-Kundapaur stretches also contribute to the growth
- For ASBL, Sambalpur, Chennai ORR and KHIP projects will be the new additions while Pimpalgaon Nashik will see improved toll collections in the future

Framework of Analysis

#2 Portfolio of Road Assets – Top road assets by profits

Ashoka – top 15 road assets by profitability

PAT, Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Pimpalgaon – Nashik	46	206	431	698	1,144
Indore – Edalabad	414	479	564	675	803
Jaora – Nayagaon	(69)	13	199	369	583
Chennai ORR	0	0	0	633	492
Belgaum-Dharwad	1	(23)	46	124	212
Durg Bypass	(191)	(135)	(71)	3	167
Wainganga Bridge	126	153	188	228	130
Nashirabad Over Bridge	15	23	32	40	48
Bhandara Road	(249)	(211)	(156)	(86)	27
Katni Bypass	112	67	0	0	0
Dewas Bypass	134	170	109	0	0
Ahmednagar – Aurangabad	91	126	159	189	(22)
Dhankuni - Kharagpur	0	(338)	(477)	(298)	(84)
Sambalpur-Baragarh	0	(294)	(355)	(258)	(142)
KSHIP WAP-2	0	0	0	(320)	(367)

ITNL – top 15 road assets by profitability

PAT, Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Chennani – Nashri	(2)	0	0	1,366	1,374
Andhra Pradesh Expressway	(477)	572	726	798	854
Noida Toll Bridge	539	511	618	693	807
Gujarat Roads	680	334	434	543	674
Jorabat Shillong	86	0	0	543	473
North Karnataka Expressway	214	289	341	394	301
Rajkot-Gondal	(148)	127	200	285	388
Jharkhand Roads	(597)	218	195	219	246
East Hyderabad Expressway	(172)	(57)	(14)	31	56
Thiruvananthapuram City Roads	(81)	(55)	(12)	(14)	(18)
Pune Sholapur	(321)	(351)	(227)	(28)	215
Hazaribagh Ranchi Expressway	(617)	(89)	(121)	(121)	(124)
Chandrapur Warora	54	(344)	(262)	(175)	(135)
Beawar Gomti Road	(240)	(287)	(250)	(205)	(150)
Narketpally Addanki	280	(541)	(497)	(316)	15

IRB – top 15 road assets by profitability

PAT, Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Mumbai Pune	1,979	2,864	2,793	3,759	3,495
Surat Dahisar	(757)	(630)	(278)	632	935
Baruch Surat	(129)	(83)	384	693	526
Pune-Nashik	201	228	267	311	245
Kolhapur Roads	(1)	(15)	(6)	92	134
Pune-Sholapur	98	115	137	110	132
Mohol-Kurul-Kamtee-Mandrup	1	69	89	67	82
Thane Ghodbunder	2	(192)	37	49	44
Thane Bhiwandi	511	578	677	480	31
Ahmednagar-Karmala	31	108	35	61	0
Bridge over Patalganga	38	44	9	0	0
Solapur Yedeshi	0	0	0	(246)	(110)
Talegaon Amravati	327	(150)	(110)	(186)	(175)
Goa-Kundapur	0	0	(520)	(371)	(217)
KSHIP WAP-2	0	0	0	(320)	(367)

- We like IRB's road asset portfolio which have very profitable and operational assets like Mumbai-Pune, Surat-Dahisar, Baruch-Surat, Pune-Nashik and Pune-Sholapur
- ASBL's profitable assets which are operational will have their concession period ending soon while there are only a handful of new projects which will be profitable in the next 4 years
- ITNL's operational assets are profitable as they are mature (Gujarat Roads, Noida Toll Bridge, North Karnataka Expressway, Rajkot-Gondal etc.)
- We prefer IRB, ITNL and ASBL in that order over ASBL on quality of operational assets while we are neutral on all their future projects

Framework of Analysis

#3 Market Share dynamics and the players we prefer

Market share in securing NHAI projects in the last 6 years						
	FY10	FY11	FY12	FY13	FY14	YTD FY15
Ashoka Buildcon						
No of projects won	0	3	1	0	0	0
Kms	0	281	112	0	0	0
Share of NHAI projects	0%	6%	2%	0%	0%	0%
ITNL						
No of projects won	3	3	1	1	1	0
Kms	293	196	84	123	123	0
Share of NHAI projects	9%	4%	1%	11%	55%	0%
IRB						
No of projects won	3	1	1	1	1	2
Kms	315	114	196	190	99	355
Share of NHAI projects	9%	2%	3%	17%	44%	100%

- IRB is the only player who has won BOT projects in YTD FY15, while it is one among the only 2 players who won BOT projects in FY14, other one being ITNL; it is evident that ITNL and IRB are among the handful of players left who are capable of bidding for BOT projects
- We expect ITNL and IRB to win atleast 300kms of projects every year going forward (it will imply a ~10% market share in BOT project awards in FY15E as the plan is to award ~3,000kms in BOT in FY15E)
- Ashoka Buildcon won the Cuttack-Angul project in FY12 which was subsequently terminated and has not won any NHAI project since, we expect Company to win ~100-200kms of projects every year going forward; ***we prefer IRB followed by ITNL followed by ASBL in taking advantage of the forthcoming BOT opportunity***

While the private players can tap on opportunities presented by NHAI as well as State highways, we believe players with a bias towards NHAI projects are likely to benefit from limited competition (given the established bias towards larger players), comparatively less delays (80% of LA to be done before project is handed over to the developer) and greater clarity in project terms as well as the bidding process (NHAI is more transparent as compared to the States).

Framework of Analysis

#4 Contribution of the EPC segment

EPC segment is an integral part of the business model of IRB and ASBL while ITNL has a team of ~400 engineers who provide project management and advisory role while the construction is outsourced to 3rd parties

- IRB's two main business segments, toll roads and EPC, truly feed into each other with the construction segment providing control over project execution as well as construction costs. Modern Road Makers, the 100% subsidiary of IRB which executes the construction contracts for IRB, has a construction orderbook of Rs. 94bn as well as an O&M orderbook of Rs. 19bn. This orderbook provides adequate visibility for construction revenues beyond FY16E. This subsidiary possesses a strong equipment bank of ~Rs. 4bn that is capable of executing projects worth Rs. 25-30bn each year, in line with the revenue potential. **We like IRB's high margins in the EPC business**
- Ashoka Buildcon has strong EPC capabilities in both road construction and electricity distribution (last mile T&D); like IRB this helps provide a strong control on construction costs and timelines. Current orderbook of the Company stands at Rs. 30.4bn and has recently won a ~Rs. 8.6bn T&D order from Bihar. We expect ASBL to win ~Rs. 20bn of orders every year going forward. **We like the diversified EPC business of ASBL**
- ITNL, on the other hand, does not possess any construction capabilities. The parent entity outsources the construction to third party contractors, who are either pure contractors or own minority stakes in projects. The company has worked with contractors such as KMC Constructions and Ramky Infrastructure in the past. Thus ITNL's role in the project is limited to overseeing project execution and charging an upfront fees for pre construction advisory, supervision and securing finances for the project (~12% margin) and hence strongly dependent on new project wins; **Company also realizes a net construction margin of ~10%. We like ITNL's nimbleness that the strategy to outsource construction provides**

IRB EPC margin

32% in FY14

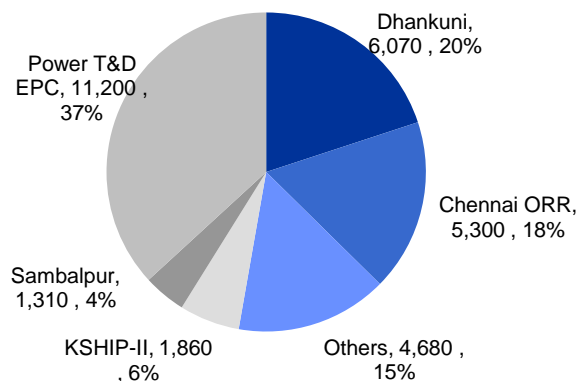
ITNL EPC margin

~18%

ASBL EPC margin

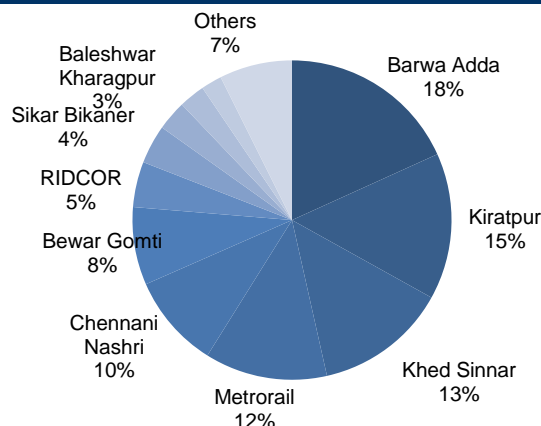
15% in FY14

ASBL – Composition of Orderbook



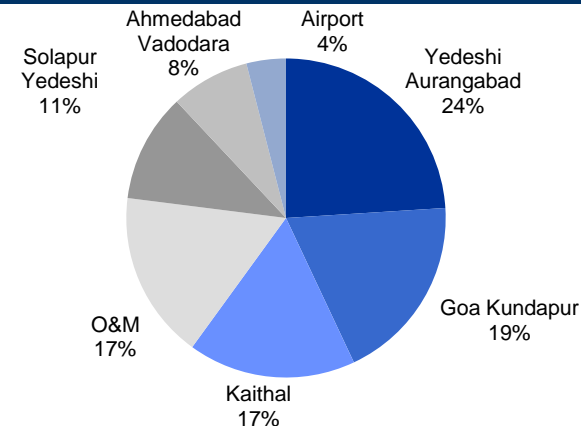
Total orderbook size of Rs. 30.4bn

ITNL – Composition of Orderbook



Total orderbook size of ~Rs. 130bn

IRB – Composition of Orderbook

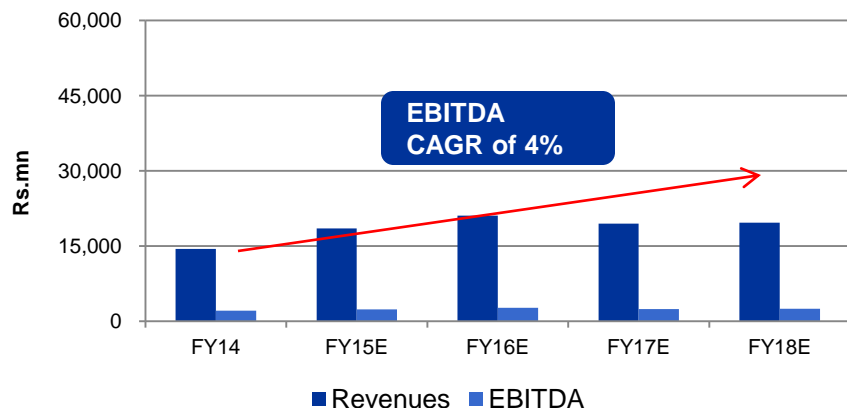


Total orderbook size of ~Rs. 113bn

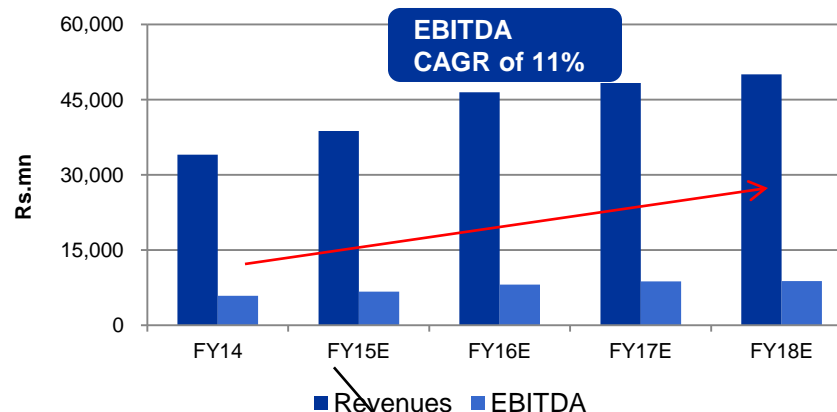
Framework of Analysis

#4 Contribution of the EPC segment (contd.)

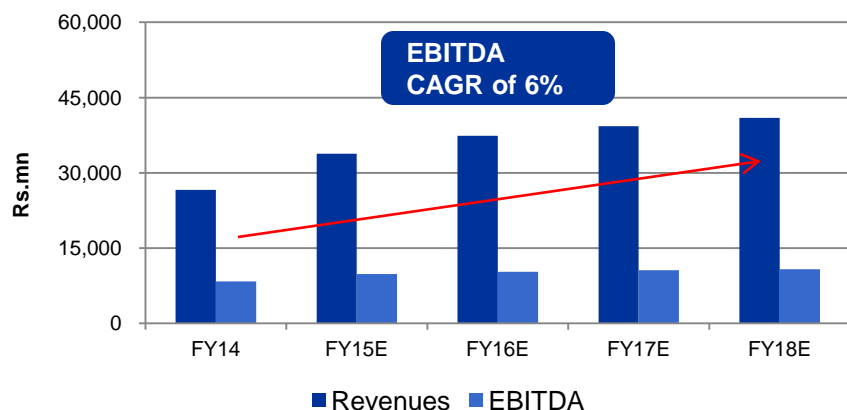
ASBL – Construction Segment Financials



ITNL – Standalone Financials



IRB - Construction Segment Financials

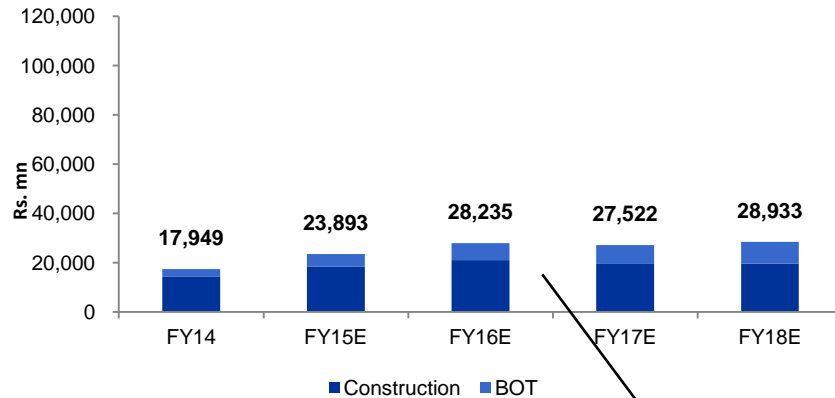


- IRB's orderbook provides revenue visibility for the next 3 years; Company is likely to win ~Rs. 30bn of road projects every year going forward. We believe IRB is well placed to secure fresh orders either under the BOT model or even as a pure contractor
- ITNL is not well positioned to take up cash contracting projects as its EPC arm is dependent on the BOT arm unlike IRB where the construction segment is capable of functioning independently. That said, the nimbleness of its construction model is likely to enable it to execute current order book faster; hence we believe that the CAGR in standalone EBITDA is likely to grow at 11% for FY14-18E
- ASBL aims to have ~30% of its orderbook from T&D which has lower execution cycles than roads (~2 years) hence it will be under greater pressure to book new orders in the next few years

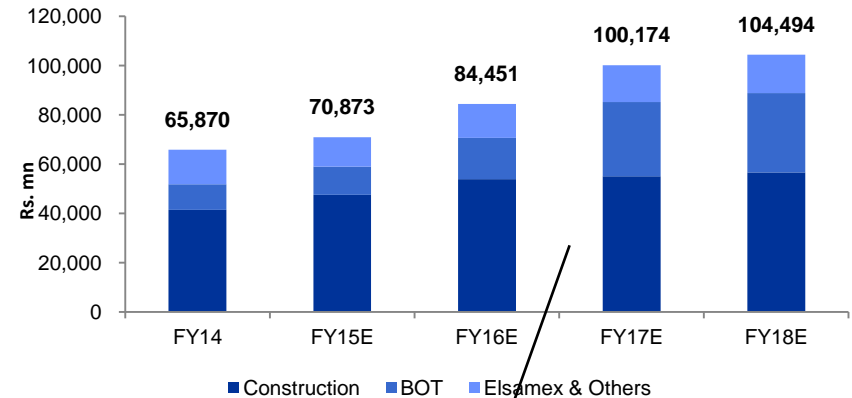
Framework of Analysis

#5 Financials

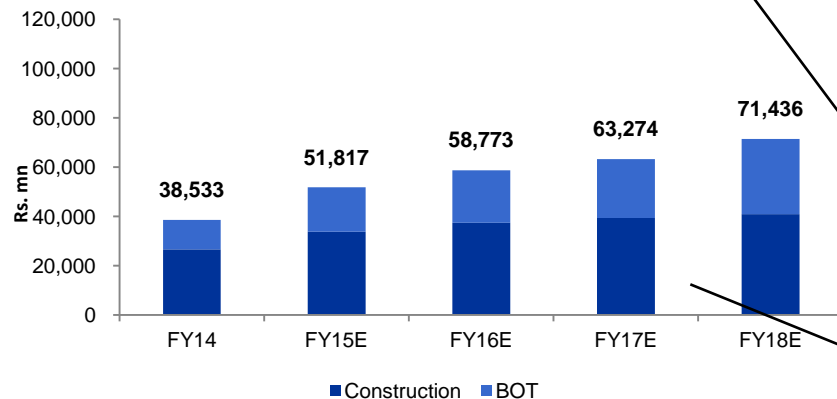
ASBL – Consolidated Revenues



ITNL – Consolidated Revenues



IRB – Consolidated Revenues



- 15% revenues to come from Elsamex while 31% from BOT in FY18E; hence ITNL's revenues is driven more by construction segment

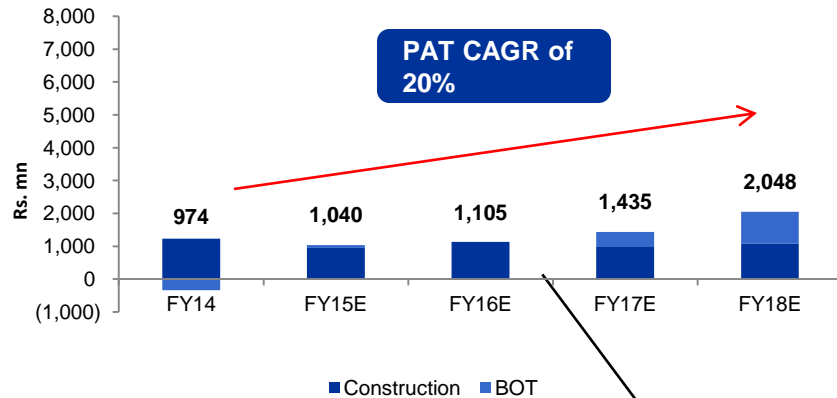
- Reported revenues more skewed towards Construction (68% in FY18E), but as part of the BOT revenues is adjusted against CWIP and most BOT revenues coming from Associates in reality the balance is fairly equal

- Balanced mix of revenues from BOT and Construction segments than the other two (43% BOT and 57% Construction)

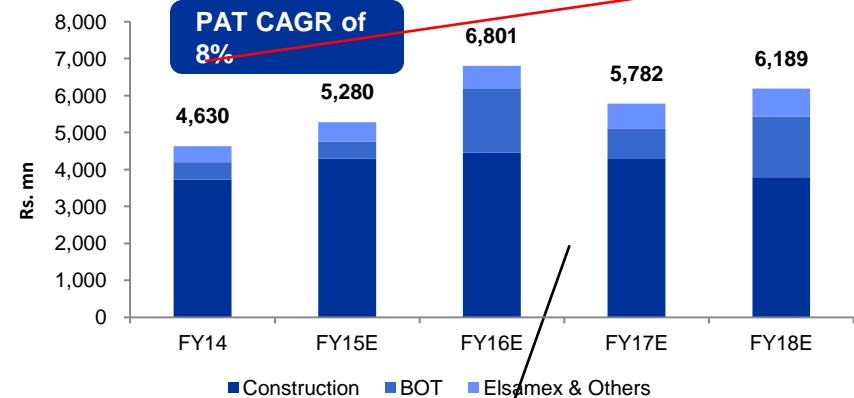
Framework of Analysis

#5 Financials (contd.)

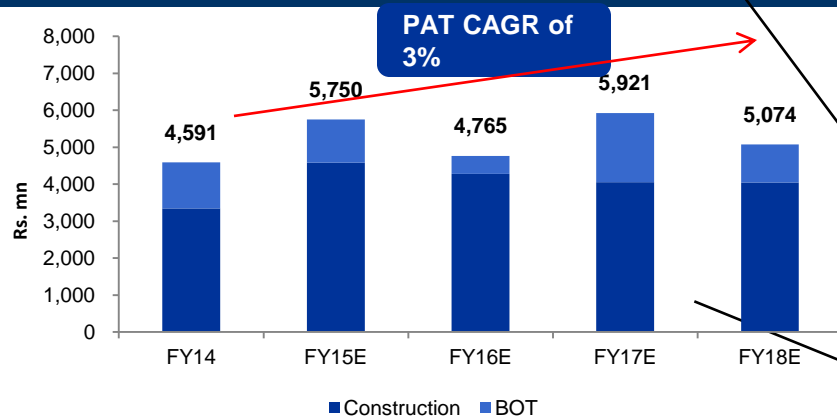
ASBL – Consolidated PAT



ITNL – Consolidated PAT



IRB – Consolidated PAT



- Due to increasing debt at standalone and several projects expected to be commissioned in future, cost structure will be erratic and likely to depress growth in profitability for ITNL

- With a low base and only few projects to be commissioned in the future and slow turning around of BOT segment into profits will mean that ASBL's PAT is likely to grow the most; **we like ASBL the most in potential for PAT growth**

- With large projects like Ahmedabad Vadodara and Goa Kundapur commissioning in the future the interest component is likely to affect the overall PAT

Framework of Analysis

#5 Financials (contd.)

Ashoka – Consolidated Financials

Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Revenues	17,949	23,893	28,235	27,522	28,933
growth, %	-3%	33%	18%	-3%	5%
EBITDA	3,945	5,546	7,449	7,926	9,104
margin, %	22%	23%	26%	29%	31%
Other Income	173	127	224	309	438
Depreciation	1,389	1,845	2,229	2,452	2,792
Interest	1,335	2,342	3,891	4,175	4,156
PAT	974	1,040	1,105	1,435	2,048
growth, %	16%	7%	6%	30%	43%
Net worth	11,839	12,879	13,983	15,419	17,467
Debt	29,621	36,355	36,869	37,469	36,700
D/E	2.5	2.8	2.6	2.4	2.1
RoE, %	8%	8%	8%	9%	12%
RoCE, %	2%	3%	4%	4%	5%

ITNL – Consolidated Financials

Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Revenues	65,870	70,873	84,451	100,174	104,494
growth, %	-1%	8%	19%	19%	4%
EBITDA	18,896	22,335	27,932	40,176	41,939
margin, %	29%	32%	33%	40%	40%
Other Income	2,155	1,949	1,275	1,363	1,600
Depreciation	1,510	2,085	2,808	3,786	4,703
Interest	14,710	16,931	19,748	31,303	31,518
PAT	4,630	5,280	6,801	5,782	6,189
growth, %	-11%	14%	29%	-15%	7%
Net worth	50,038	54,163	59,808	64,434	69,467
Debt	188,165	213,441	253,644	260,370	258,367
D/E	3.8	3.9	4.2	4.0	3.7
RoE, %	11%	10%	12%	9%	9%
RoCE, %	5%	5%	5%	7%	7%

IRB – Consolidated Financials

Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Revenues	37,319	51,817	58,773	63,274	71,436
growth, %	1%	39%	13%	8%	13%
EBITDA	17,537	24,111	27,030	30,085	35,131
margin, %	47%	47%	46%	48%	49%
Other Income	1,214	1,621	1,678	1,788	1,921
Depreciation	4,771	5,901	7,314	8,814	10,521
Interest	7,562	12,274	14,876	14,977	17,669
PAT	4,591	5,750	4,765	5,921	5,074
growth, %	-18%	25%	-17%	24%	-14%
Net worth	35,607	41,356	46,121	52,042	57,116
Debt	110,445	138,161	149,748	160,937	164,534
D/E	3.1	3.3	3.2	3.1	2.9
RoE, %	13%	15%	11%	12%	9%
RoCE, %	6%	5%	3%	3%	4%

- We like ASBL's improvement in RoE and conservative leverage levels
- ITNL's balance sheet is likely to have high leverage levels
- Both IRB and ITNL to witness fall in RoEs due to flattish profitability

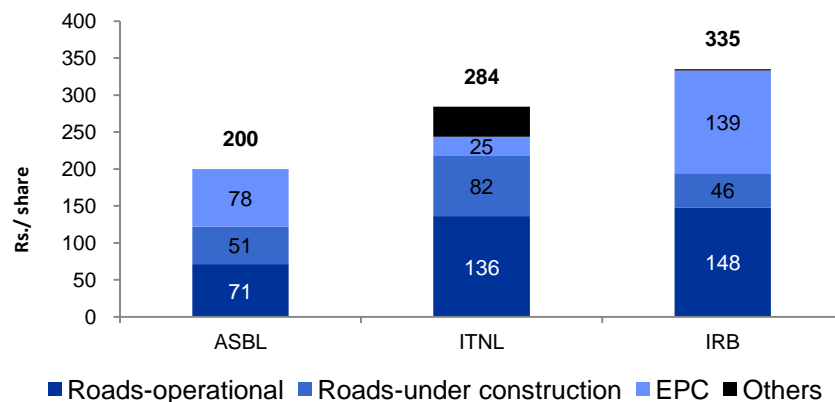
Framework of Analysis

#6 Valuations

We view the integrated development of road projects on a holistic basis and value the company on DCF

- **Road projects:** The business of owning and operating BOT road projects (toll / annuity) represents a low-risk, steady cash flow generating business. While toll roads have the potential to increase revenues with traffic growth, annuity road projects have the potential to securitize cash flows during periods of low interest rates. Either way, the revenues and profitability of these projects are highly predictable with only modest potential for either positive or negative surprises. For these reasons we prefer to value these businesses on DCF (FCFE basis), with CoE of 14-16% depending upon revenue model and stage of completion of the project. We value the road projects (all except 3 new projects have achieved financial closure) of IRB at Rs. 194 per share whereas we value ITNL's road projects at Rs. 218 per share and the road projects of ASBL at Rs. 122/ share (all achieved financial closure)
- **EPC business:** We value the EPC business on an EV/ EBITDA basis and attribute a multiple taking into account: a) peer valuations and b) margins of the EPC business. Then we deduct the net-debt in the books of the EPC business to arrive at a value. **Accordingly we find that the peer EV/ EBITDA of construction companies are at ~7x and hence attribute this to IRB, while we attribute 6x to ITNL's EPC business (due to lower margins) and 5x to ASBL's construction business (lowest margins).** We arrive at a value of Rs. 139/ share for IRB's construction segment (*implying EV @2.6x FY16E construction sales and 2.0x its book value*), Rs. 25/ share for ITNL (*implying EV @1.0x FY16E standalone sales and 1.5x its book value*) and Rs. 78/ share for ASBL (*implying EV @0.7x FY16E standalone sales and 1.2x its book value*)
- **Other businesses:** We value the other businesses of the companies at the equity investments therein. Other business and cash contribute to Rs. 2/ share for IRB whereas they contribute Rs. 41/ share to the valuation of ITNL.

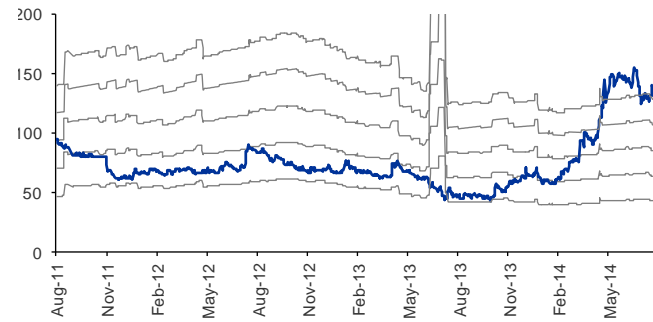
SoTP Valuation, Rs./ share



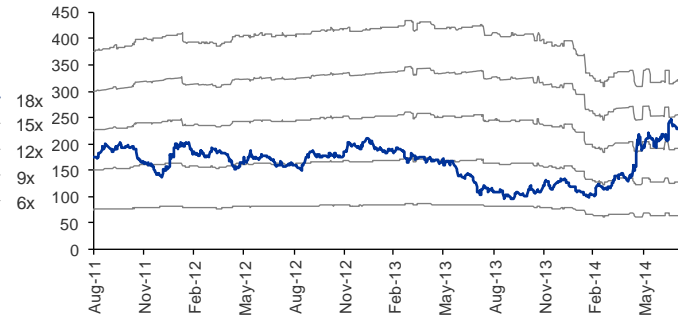
Framework of Analysis

#6 Valuations – 1 year fwd P/E charts and 1 year fwd EV/ EBITDA charts

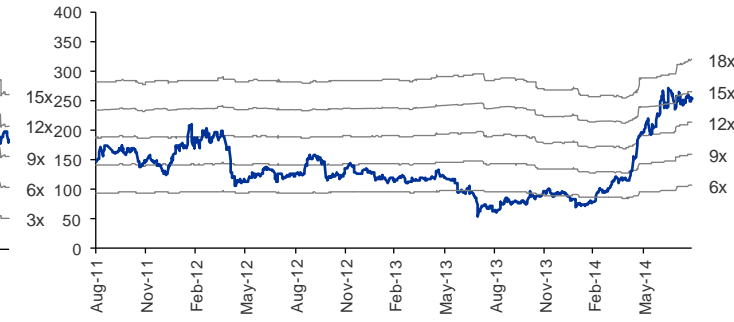
ASBL – 1 year fwd P/E chart



ITNL – 1 year fwd P/E chart

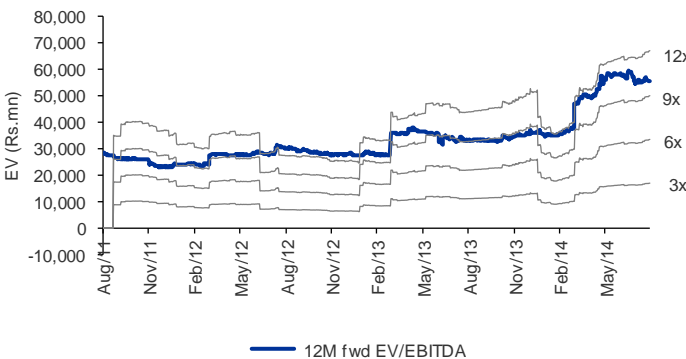


IRB – 1 year fwd P/E chart

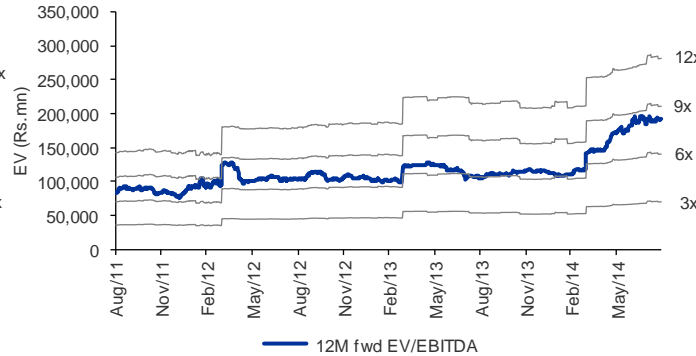


Source: Bloomberg

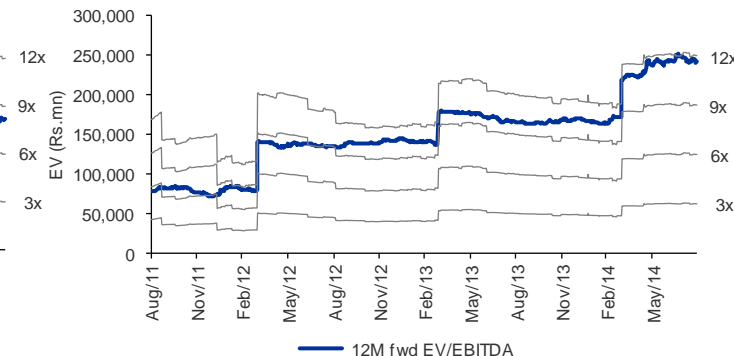
ASBL – 1 year fwd EV/EBITDA chart



ITNL – 1 year fwd EV/EBITDA chart



IRB – 1 year fwd EV/EBITDA chart



Framework of Analysis

#6 Valuations – Comparable Companies

Rs. mn				Sales		EBITDA		PAT		RoE, %
Company Name	Current Year	Market Cap	EV	Current Yr	Y+1	Current Yr	Y+1	Current Yr	Y+1	Current Yr
IRB	03/15 Y	84,686	191,511	45,510	52,915	22,563	26,681	5,597	6,064	15%
Ashoka Buildcon	03/15 Y	20,520	55,299	22,519	26,629	5,661	7,782	1,165	1,271	8%
ITNL	03/15 Y	50,393	240,783	73,560	79,546	23,503	26,984	4,738	5,512	9%
Sadbhav	03/15 Y	31,648	88,453	36,080	43,329	7,919	9,762	783	1,488	6%
Noida Toll	03/15 Y	6,098	5,763	1,294	1,382	951	1,010	617	662	13%
CCCL	03/15 Y	1,155	10,558	9,873	12,303	(356)	680	(1,238)	(505)	NA
Gammon	03/14 Y	9,799	48,290	-	-	-	-	-	-	NA
Gayatri Projects	03/15 Y	4,176	68,007	19,404	25,344	2,938	3,862	664	1,068	NA
IVRCL	03/15 Y	5,585	82,562	46,860	52,705	2,853	3,651	(3,577)	(2,842)	NA
Jaypee Infratech	03/15 Y	44,724	118,756	36,885	37,511	14,878	16,183	4,151	5,417	NA
KNR	03/15 Y	6,309	10,227	8,370	9,170	1,277	1,399	546	696	6%
Madhucon	03/15 Y	2,701	57,792	-	-	-	-	-	-	NA
NCC	03/15 Y	17,730	48,266	77,691	83,367	8,501	9,128	696	1,114	2%
Patel Engg	03/15 Y	7,523	39,861	29,203	31,247	5,511	5,895	326	408	NA
Punj Lloyd	03/15 Y	12,221	76,838	99,851	99,784	4,665	8,594	(5,600)	(4,648)	-19%
Ramky Infra	03/15 Y	3,678	34,046	-	-	-	-	-	-	NA
Simplex Infra	03/15 Y	14,325	43,379	58,638	66,773	6,299	7,214	543	1,109	4%
Supreme Infra	03/15 Y	7,184	35,057	29,180	-	5,119	-	1,512	-	17%
		EV/EBITDA		P/E		EV/SALES		EBITDA, %		
	Current Year	Current Yr	Y+1	Current Yr	Y+1	Current Yr	Y+1	Current Yr	Y+1	
IRB	03/15 Y	8.5	7.2	15.1	14.0	4.2	3.6	50%	50%	
Ashoka Buildcon	03/15 Y	9.8	7.1	17.6	16.1	2.5	2.1	25%	29%	
ITNL	03/15 Y	10.2	8.9	10.6	9.1	3.3	3.0	32%	34%	
Sadbhav	03/15 Y	11.2	9.1	40.4	21.3	2.5	2.0	22%	23%	
Noida Toll	03/15 Y	6.1	5.7	9.9	9.2	4.5	4.2	73%	73%	
CCCL	03/15 Y	(29.7)	15.5	(0.9)	(2.3)	1.1	0.9	-4%	6%	
Gammon	03/14 Y	-	-	-	-	-	-	-	-	
Gayatri Projects	03/15 Y	23.1	17.6	6.3	3.9	3.5	2.7	15%	15%	
IVRCL	03/15 Y	28.9	22.6	(1.6)	(2.0)	1.8	1.6	6%	7%	
Jaypee Infratech	03/15 Y	8.0	7.3	10.8	8.3	3.2	3.2	40%	43%	
KNR	03/15 Y	8.0	7.3	11.6	9.1	1.2	1.1	15%	15%	
Madhucon	03/15 Y	-	-	-	-	-	-	-	-	
NCC	03/15 Y	5.7	5.3	25.5	15.9	0.6	0.6	11%	11%	
Patel Engg	03/15 Y	7.2	6.8	23.1	18.4	1.4	1.3	19%	19%	
Punj Lloyd	03/15 Y	16.5	8.9	(2.2)	(2.6)	0.8	0.8	5%	9%	
Ramky Infra	03/15 Y	-	-	-	-	-	-	-	-	
Simplex Infra	03/15 Y	6.9	6.0	26.4	12.9	0.7	0.6	11%	11%	
Supreme Infra	03/15 Y	6.8	-	4.8	-	1.2	-	18%	-	

Company Section

Ashoka Buildcon (ASBL)

Emerging Leader

CMP	TP	Rating
Rs. 127	Rs. 200	Buy

Ashoka Buildcon (ASBL) is one of the most experienced players in the roads construction and BOT space, albeit a smaller one. With a near doubling in lane kms from FY16 due to commissioning of some large projects (Dhankuni Kharagpur, Sambalpur Baragarh) and effect of full toll collections from two other large projects (Pimpalgaon Nashik, Belgaum Dharwad) we expect the average toll collections per day to grow at a CAGR of 24% which will primarily drive an EPS growth of 20% for the period FY14-18E. We like the diversified and established EPC business which will benefit from NHAI's BOT awards as well as the EPC opportunity. We like the better quality balance sheet with 1.7 Net Debt to Equity ratio in FY14 and also like the improving RoE profile over FY14-18E (from 8% in FY14 to 12% in FY18E). Initiate with a "Buy" rating with a target price of Rs. 200/ share

Investment Rationale

- Has close to 2 decades of experience in road EPC and BOT space with an existing road portfolio of 21 assets (17 operational) with total lane kms of 4,712kms. This makes the Company one of the top 15 players in the road BOT space with the Company currently eligible to bid for projects worth ~Rs. 30bn
- Strong presence in the economically superior state of Maharashtra (30% of road portfolio) and the largest player on NH-6 that connects the resource rich East to Western India, a direct beneficiary from growth in commercial activity
- Near doubling of lane kms by the end of FY15E (from 2,523km in FY14E to 4,226km) will drive the 24% CAGR in average daily toll collections from Rs. 20mn/ day in FY14 to Rs. 47mn/ day in FY18E
- Established EPC skills in both roads space and last mile electricity T&D will benefit from the current thrust in EPC project awards and T&D reforms across states. A large order book of ~Rs. 30bn provides revenue visibility for the next 3 years. We estimate a 8% CAGR in construction revenues and 4% CAGR in EBITDA for FY14-18E
- Driven by new projects turning profitable, we estimate consolidated PAT to grow from Rs. 974mn in FY14 to Rs. 2,048mn in FY18E (a 20% CAGR) which will aide an RoE improvement from 8% to 12% in the same period
- Our DCF valuation for the road assets yields a value of Rs. 14/ share for the roads owned by ABL and Rs. 108/ share for the roads owned by Ashoka Concessions. We attribute 5x 1 year forward EV/ EBITDA to value the standalone entity yielding a value of Rs. 78/ share, arriving at a total SoTP valuation of Rs. 200/ share (a 57% upside from CMP). Buy with a TP of Rs. 200/ share**

Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY14	17,949	3,945	974	6.2	23.5	13.4
FY15E	23,893	5,546	1,040	6.6	22.1	10.7
FY16E	28,235	7,449	1,105	7.0	20.8	8.0

Initiating Coverage

Date	Sept 1, 2014		
Market Data			
SENSEX	26664		
Nifty	7958		
Bloomberg	ASBL IN		
Shares o/s	158mn		
Market Cap	Rs. 20bn		
52-wk High-Low	Rs. 159-42		
3m Avg. Daily Vol	Rs. 19mn		
Index member	BSESMCAP		
Latest shareholding (%)			
Promoters	67.5		
Institutions	17.2		
Public	15.3		
Stock performance (%)			
	1m	3m	12m
ASBL	-1.0%	-2.1%	181.3%
SENSEX	2.6%	8.6%	48.1%
BSEsmcap	3.4%	14.1%	100.2%

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Ashoka Buildcon (ASBL)

Business Model

CMP

Rs. 127

TP

Rs. 200

Rating

Buy

Construction Segment



• Provides unsecured debt to SPVs until draw-down of term loans begin

• Debt repaid once term loans are availed
• Dividends

execution

BOT Assets



Ashoka Buildcon (ASBL)

Details of BOT Road portfolio

CMP
Rs. 127
TP
Rs. 200
Rating
Buy

Road Project	Type	Client	State	kms	lanes	Lane kms	Operational	Stake	CoD	Cost, Rs. mn	Debt, Rs. mn
NH-6 Bhandara Road	Toll	NHAI	Maharashtra	80	4	320	Y	34%	Oct-10	5,350	3,352
Indore – Edalabad Road	Toll	MPRDC	Madhya Pradesh	203	2	406	Y	100%	Nov-02	1,653	148
Pune – Shirur Road	Toll	PWD	Maharashtra	54	4	216	Y	100%	Jul-05	1,610	0
Ahmednagar – Aurangabad Road	Toll	PWD	Maharashtra	42	4	168	Y	100%	May-08	1,027	0
Katni Bypass	Toll	PWD	Madhya Pradesh	18	2	35	Y	100%	Feb-08	709	0
Dewas Bypass	Toll	PWD	Madhya Pradesh	20	2	40	Y	100%	May-04	613	21
Ahmednagar – Karmala Road	Toll	PWD	Maharashtra	40	4	160	Y	100%	Feb-02	504	138
Wainganga Bridge	Toll	MoRT&H	Maharashtra	13	2	26	Y	50%	Mar-01	409	185
Nashirabad Railway-Over Bridge	Toll	MoRT&H	Maharashtra	4	2	8	Y	100%	Jul-00	147	0
Sheri Nallah Bridge	Toll	PWD	Maharashtra	4	2	7	Y	100%	Oct-00	142	0
Dhule Bypass	Toll	PWD	Maharashtra	6	2	12	Y	100%	Aug-98	58	0
Foot-Over-Bridge in Mumbai (Godrej)	Toll	-	Maharashtra	0	0	N/A	Y	100%	Jan-00	0	0
Anawali – Kasegaon Road	Toll	-	Maharashtra	6	4	22	Y	5%	Jan-00	0	0
NH-6 Durg Bypass, Chhattisgarh - Maharashtra Border Road	Toll	NHAI	Chhattisgarh	83	4	332	Y	34%	Dec-12	5,870	3,860
Jaora – Nayagaon Road (3 sections?)	Toll	MPRDC	Madhya Pradesh	128	4	319	Y	25%	Mar-10	8,180	5,347
NH-3 Pimpalgaon – Nashik – Gonde road (JV with L&T)	Toll	NHAI	Maharashtra	60	6	452	Y	17%	May-14	14,070	12,618
NH-4 Belgaum-Dharwad Road	Toll	NHAI	Karnataka	82	6	454	Y	66%	Jul-14	6,300	4,586
NH-6 Sambalpur-Baragarh Road	Toll	NHAI	Orissa	88	4	408	N	66%	Sep-14	10,080	6,687
NH-6 Dhankuni to Kharagpur Section	Toll	NHAI	West Bengal	111	6	841	N	66%	Dec-14	20,160	9,793
KSHIP WAP-2	Annuity	Karnataka PWD	Karnataka	108	2	216	N	51%	Jul-16	4,500	0
Chennai ORR	Annuity	TNRDC	Tamil Nadu	31	6	183	N	33%	Mar-16	14,400	0
Total				1,179		4,624				95,781	46,734

Ashoka Buildcon (ASBL)

Geographical Spread of Road Assets

CMP

Rs. 127

TP

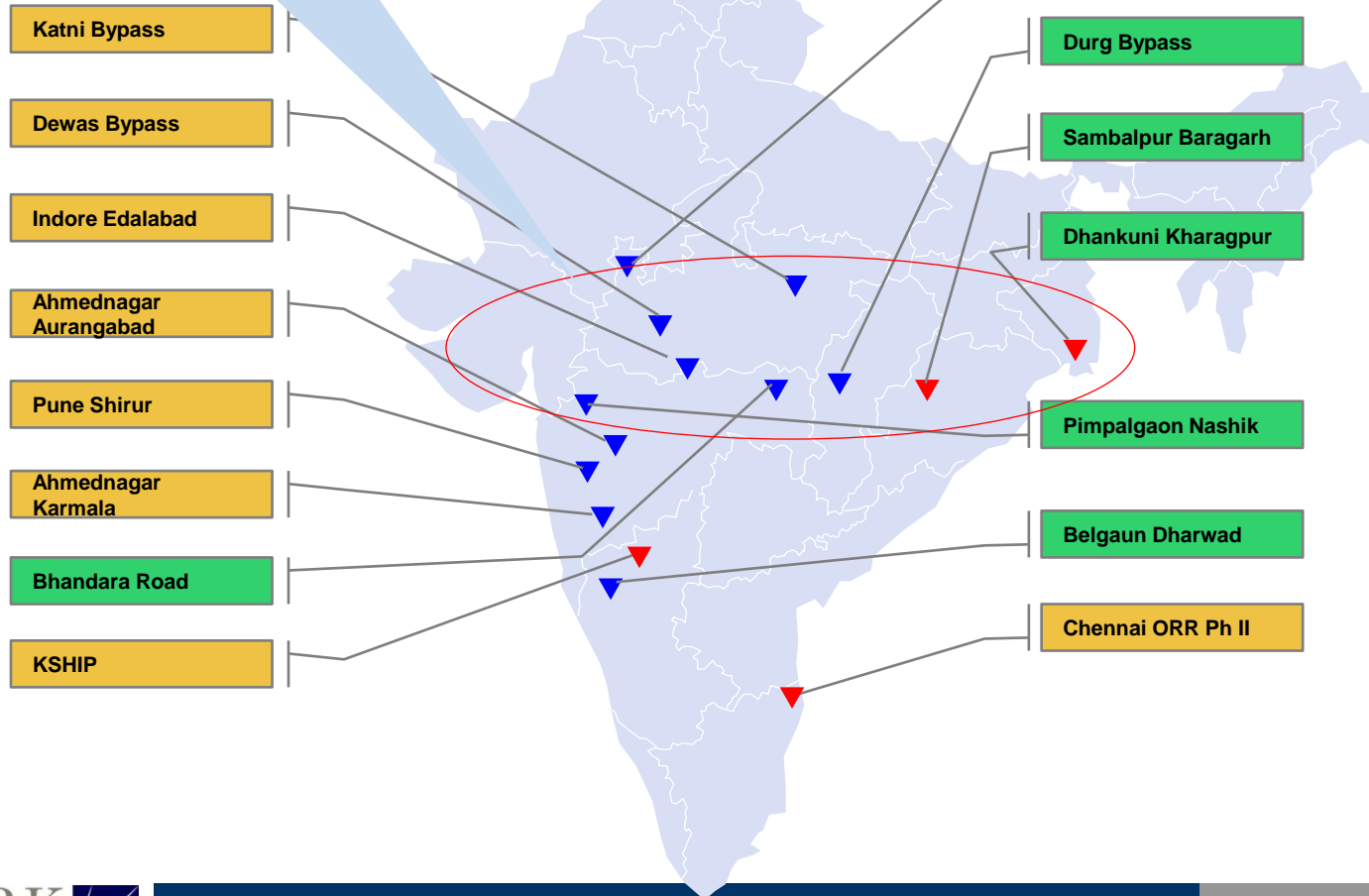
Rs. 200

Rating

Buy

Concentration in the East to West corridor

Largest BOT Player on NH-6 with 1,739 Lane kms with over 24% PPP market share



NHAI projects

State projects

Operational

Under Implementation

Ashoka Buildcon (ASBL)

Details of BOT Road portfolio

CMP

Rs. 127

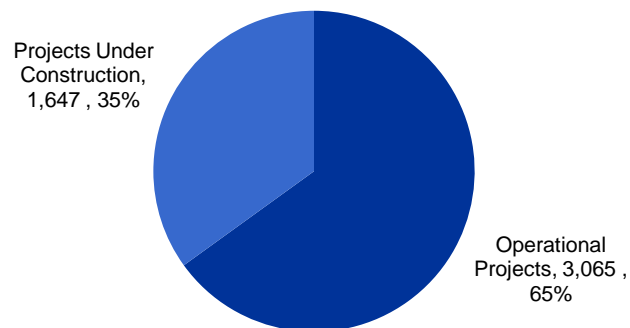
TP

Rs. 200

Rating

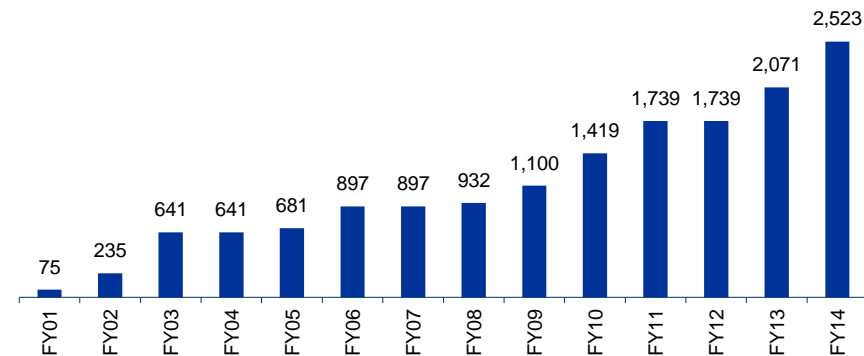
Buy

Road Portfolio, Lane Kms – total ~4,712kms



Source: Company

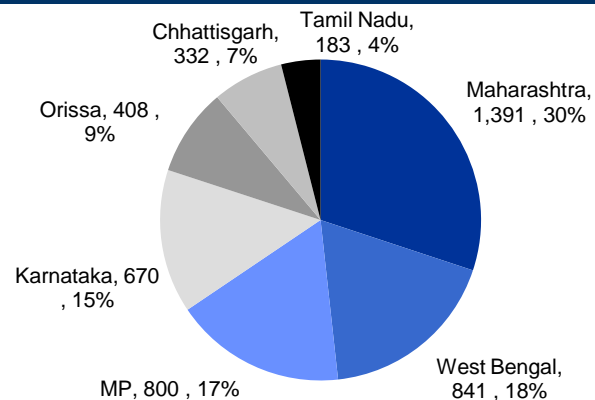
Historical growth in Lane Kms (as per commissioning)



■ Lane Kms year-wise as per commissioned date

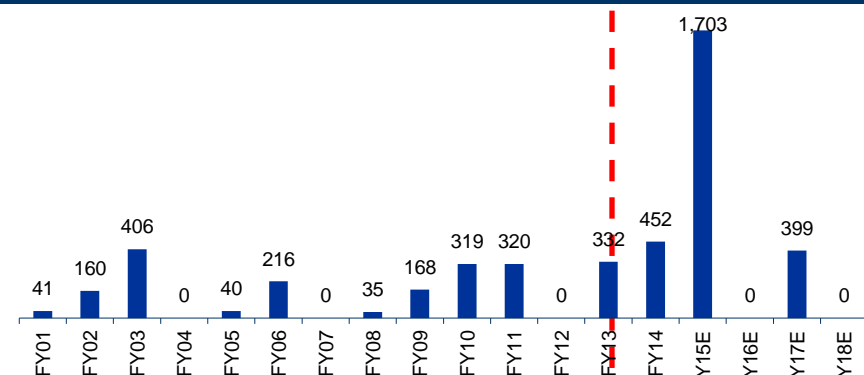
Source: Company

Road Portfolio, Lane kms – state wise



Source: Company

4 projects (~2,000 lane kms) will be commissioned in the next 4 years



■ Lane Kms year-wise as per commissioned date

Source: Company, Spark Capital Research

Ashoka Buildcon (ASBL)

Standalone Entity and CAPEX requirements

CMP

Rs. 127

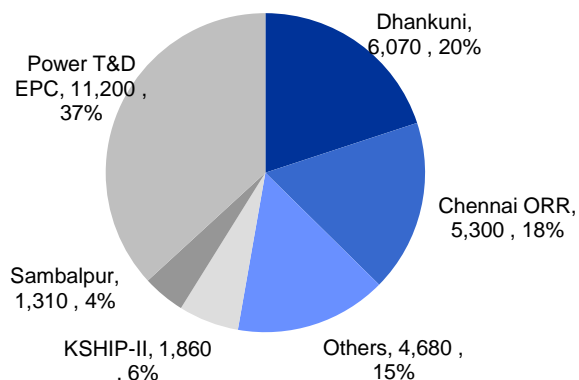
TP

Rs. 200

Rating

Buy

ASBL's order book stands at ~Rs. 30bn



Source: Company

Order book and cash requirements for the next 3 years:

- Company has recently won a ~RS. 8.6bn T&D order from Bihar. Without including this the current order book stands at ~Rs. 30bn
- Company would require ~Rs. 2bn as equity in the next 3 years for projects under construction
- As the analysis on the adjacent table shows, with cash in hand and with a ~Rs. 1.5bn of cash flow generation per year from the standalone business the Company can comfortably fund the equity requirements of the projects under construction. This also means that it is in a relatively comfortable position to aggressively win more orders in the roads/ T&D space

Rs. mn	FY14	FY15E	FY16E	FY17E
Equity Requirement for projects under construction				
Equity Requirement each year for operational projects		1,510	271	309
Cumulative cash requirement		1,510	1,780	2,090
Construction Revenues	16,376	15,566	19,676	22,200
<i>growth, %</i>	<i>22%</i>	<i>-5%</i>	<i>26%</i>	<i>13%</i>
EBITDA	2,022	1,984	2,221	2,536
<i>margin, %</i>	<i>12%</i>	<i>13%</i>	<i>11%</i>	<i>11%</i>
Operating Cash flows				
EBITDA	2,022	1,984	2,221	2,536
	582	474	395	466
Less: Tax	533	499	682	774
Less: Interest	397	334	209	319
Less: Equipment CAPEX	63	0	0	0
Cash Flows before working capital	1,611	1,625	1,725	1,909
Cash at end of FY14	338			
Cumulative Cash in hand		1,963	3,688	5,597
Debt in Construction segment	1,902	3,902	3,902	3,902

Ashoka Buildcon (ASBL)

SoTP Valuation

CMP
Rs. 127
TP
Rs. 200
Rating
Buy

Assumptions	FY16E	FY17E	FY18E	FY19E	FY20E
Traffic Assumptions	5%	6%	7%	8%	7%
WPI	5.8%	5.3%	4.8%	4.3%	4.3%

SoTP Valuation or Road Assets	ASBL's Stake	Valuation Method	Equity Value	Value to ASBL	per share	% of total
Projects	%		Rs. mn	Rs. mn	Rs.	
Indore – Edalabad Road	100%	FCFE using 14% CoE	1,957	1,951	12	6%
Pune – Shirur Road	100%	FCFE using 14% CoE	104	104	1	0%
Ahmednagar – Aurangabad Road	100%	FCFE using 14% CoE	512	512	3	2%
Dewas Bypass	100%	FCFE using 14% CoE	141	141	1	0%
Wainganga Bridge	50%	FCFE using 14% CoE	429	215	1	1%
Nashirabad Railway-Over Bridge	100%	FCFE using 14% CoE	236	236	1	1%
Sheri Nallah Bridge	100%	FCFE using 14% CoE	6	6	0	0%
KSHIP WAP-2	51%	FCFE using 15% CoE	(1,875)	(956)	(6)	-3%
Total Value for ABL's Road Assets			1,511	2,210	14	7%
NH-6 Bhandara Road	34%	FCFE using 14% CoE	1,341	452	3	1%
NH-6 Durg Bypass, Chhattisgarh - Maharashtra Border Road	34%	FCFE using 14% CoE	3,272	1,101	7	3%
Jaora – Nayagaon Road (3 sections?)	25%	FCFE using 14% CoE	10,617	2,642	17	8%
NH-3 Pimpalgaon – Nashik – Gonde road (JV with L&T)	17%	FCFE using 14% CoE	14,467	2,483	16	8%
NH-4 Belgaum-Dharwad Road	66%	FCFE using 14% CoE	2,177	1,437	9	5%
NH-6 Sambalpur-Baragarh Road	66%	FCFE using 15% CoE	3,037	2,004	13	6%
NH-6 Dhankuni to Kharagpur Section	66%	FCFE using 15% CoE	8,984	5,929	38	19%
Chennai ORR	33%	FCFE using 15% CoE	3,090	1,020	6	3%
Total Value for ACL's Road Assets			46,985	17,067	108	54%
Construction & RMC Business	100%	5x FY16E EV/ EBITDA	13,913	13,913	88	44%
Less: Net Debt	100%		(1,597)	(1,597)	(10)	-5%
Total Value for Standalone			12,316	12,316	78	39%
Ashoka Buildcon			60,813	31,593	200	100%

Ashoka Buildcon (ASBL)

Financial Summary

CMP
Rs. 127
TP
Rs. 200
Rating
Buy

Abridged Financial Statements (Consolidated)

Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Profit & Loss					
Revenues	17,949	23,893	28,235	27,522	28,933
EBITDA	3,945	5,546	7,449	7,926	9,104
Other Income	173	127	224	309	438
Depreciation	1,389	1,845	2,229	2,452	2,792
EBIT	2,730	3,828	5,444	5,783	6,750
Interest	1,335	2,342	3,891	4,175	4,156
PBT	1,237	1,486	1,553	1,607	2,593
PAT after MI	974	1,040	1,105	1,435	2,048
Balance Sheet					
Net Worth + MI	17,274	18,694	19,494	20,700	22,734
Total debt	31,032	37,766	38,280	38,880	38,111
Other Non Current Liabilities	77,606	77,946	78,422	78,966	78,966
Long term provisions	720	(574)	(1,736)	(3,784)	(5,158)
Deferred Tax Liability	0	0	0	0	0
Total Networth & Liabilities	126,631	133,832	134,461	134,762	134,653
Gross Fixed assets	46,718	134,290	133,582	134,498	134,498
Net fixed assets	40,250	126,035	123,663	123,948	121,213
Goodwill	79,621	(519)	580	(1,304)	(1,304)
Non Current Investments	2,847	3,096	3,712	5,127	5,695
Non Current Assets	3,055	3,442	3,873	4,299	4,387
Inventory & Receivables	7,577	9,482	10,584	9,885	9,971
Cash	945	1,229	1,701	1,997	3,933
Loans and other current assets	888	888	888	888	888
Current liabilities	8,551	9,821	10,539	10,077	10,129
Net current assets	858	1,778	2,633	2,692	4,662
Total Assets	126,631	133,832	134,461	134,762	134,653
Cash Flows					
Cash flows from Operations	3,858	2,249	2,949	4,125	4,805
Cash flows from Investing	(9,220)	(8,069)	(2,337)	(874)	(656)
Cash flows from Financing	5,790	6,081	(172)	(905)	(2,143)

Key metrics

	FY14	FY15E	FY16E	FY17E	FY18E
Growth ratios					
Revenues	-3%	33%	18%	-3%	5%
EBITDA	6%	41%	34%	6%	15%
PAT	16%	7%	6%	30%	43%
Margin ratios					
EBITDA	22%	23%	26%	29%	31%
PAT	5%	4%	4%	5%	7%
Performance ratios					
RoA (%)	0.8%	0.8%	0.8%	1.1%	1.5%
RoE (%)	8.4%	7.9%	7.8%	9.3%	11.9%
RoCE (%)	2.2%	2.9%	4.1%	4.3%	5.0%
Total Assets Turnover (x)	0.1	0.2	0.2	0.2	0.2
Fixed Assets Turnover (x)	0.4	0.2	0.2	0.2	0.2
Working capital Turnover (x)	20.9	13.4	10.7	10.2	6.2
Financial stability ratios					
Net Debt to Equity (x)	1.7	2.0	1.9	1.8	1.5
Current ratio (x)	1.1	1.2	1.2	1.3	1.5
Working capital days	17	27	34	35	58
Inventory & Debtor days	152	143	135	129	124
Creditor days	172	148	134	132	126
Interest cover (x)	1.8	1.6	1.4	1.4	1.6
Valuation metrics					
Fully Diluted shares (mn)	158	158	158	158	158
Fully diluted M. Cap (Rs.mn)	20,060				
Fully Diluted EPS (Rs.)	6.2	6.6	7.0	9.1	13.0
P/E (x)	21	19	18	14	10
EV (Rs.mn)	50,147	56,597	56,639	56,942	54,238
EV/ EBITDA (x)	13	10	8	7	6
BV/ share (Rs.)	109	118	123	131	144
Price to BV (x)	1.2	1.1	1.0	1.0	0.9

IL&FS Transportation Networks Ltd (ITNL)

Diversified play on the infrastructure theme

CMP	TP	Rating
Rs. 203	Rs. 284	Buy

Largest player in the BOT asset owners by lane kms and a diversified play on the large US\$ 100bn opportunity expected to unfold in the roads sector over the next 4-5 years. Despite lacking construction capabilities, ITNL captures a lion's share of the road development value chain by generating project management fees, and has best in class traffic sampling capabilities. Initiate with Buy rating with a TP of Rs. 284/ share.

- Massive sector opportunity of >US\$ 50bn expected over the next 4-5 years in the central roads & bridges sector (toll / annuity roads and cash contracts) and ITNL with its integrated development model is capable of capitalizing on it
- Company will be direct beneficiary from this opportunity as it is one of the few bidders who is still capable of bidding and winning NHAI projects (11% market share in FY13 and 55% market share in FY14) and as Company is one of the top 5 to be prequalified for large NHAI projects of >Rs. 55bn size; also the business model to outsource construction to 3rd parties will make it light-footed enabling it to win several projects in the future.
- Ownership interest in 31 different road projects with the potential to generate strong cash flows over the long term over FY14-18E; we expect the average daily toll collections to grow by a CAGR of 27% from Rs. 48mn/ day to Rs. 127mn/ day on the back of a 11% CAGR in lane kms in the same period. This is likely to translate into 37% CAGR in the PAT from BOT segment (from ~Rs.50mn in FY14 to Rs. 1,635mn in FY18E)
- We estimate a 11% CAGR in the standalone entity's EBITDA from Rs. 5.8bn in FY14 to Rs. 8.8bn in FY18E which along with new road asset commissioning will enable a 22% CAGR for FY14-18E in the consolidated EBITDA
- Key concerns: a) EBITDA margins at standalone (~17% for FY14) is sensitive to the upfront fees, and hence highly dependent on new project wins, any change in our expectations of ~Rs. 40bn of new projects/ year will be a risk to our estimates, b) higher leverage levels is a concern, however it will benefit the most in a falling interest rate cycle

Our DCF based valuation for the road assets yields a value of Rs. 54bn, which is Rs. 218/ share; this is compared to the total equity commitment of ~Rs. 38bn from ITNL, implying a 1.4x multiple on investment, hence we take comfort in our conservative valuation. We value the standalone business using a 6x 1 year forward EV/ EBITDA multiple yielding a value of Rs. 49bn (a implied 1x Sales and 1.5x BV valuation); from this we subtract the net debt to arrive at a per share value of Rs. 25/ share. We value other assets at investment value and arrive at a total per share value of Rs. 284/ share for the Company (a 40% upside from CMP). We rate the stock "Buy" given our positive stance on the Company's long term ability to benefit in the infrastructure sector as mentioned above

Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY14	65,870	18,896	4,630	18.7	10.8	12.3
FY15E	70,873	22,335	5,280	21.4	9.5	11.4
FY16E	84,451	27,932	6,801	27.5	7.4	10.6

Initiating Coverage

Date	Sept 1, 2014
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Market Data

SENSEX	26665
Nifty	7958
Bloomberg	ILFT IN
Shares o/s	247mn
Market Cap	Rs. 52bn
52-wk High-Low	Rs. 258-93
3m Avg. Daily Vol	Rs. 70mn
Index member	BSE200

Latest shareholding (%)

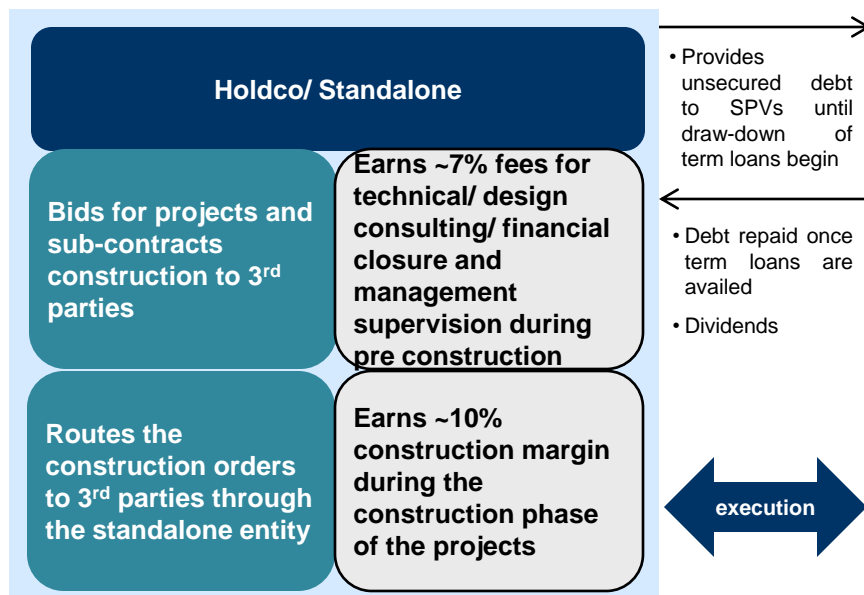
Promoters	70.8
Institutions	7.8
Public	21.4

Stock performance (%)

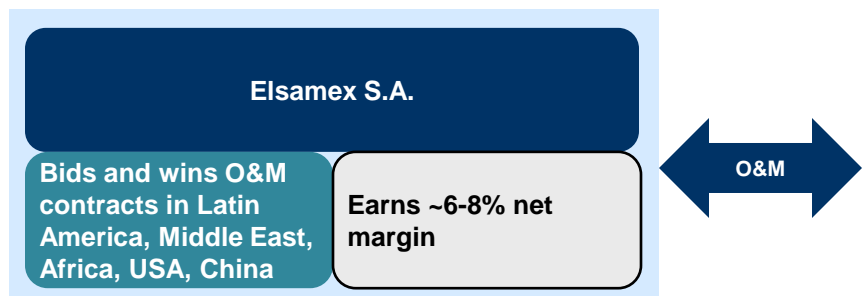
	1m	3m	12m
ILFT	-10.4%	8.4%	87.4%
SENSEX	2.6%	8.6%	48.1%
BSE200	2.9%	8.8%	56.3%

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Construction Segment



Roads O&M



BOT Road Assets

Operational

North Karnataka Expressway Limited (NKL)
 West Gujarat Expressway Limited (WGEL)
 Noida Toll Bridge (NTBCL)
 Vadodara Halol Toll Road (GRICL)
 Ahmedabad - Mehsana Road (GRICL)
 Andhra Pradesh Expressway (APEL)
 Thiruvananthapuram City Roads (Phase I & II) (TRDCL)
 Narketpally - Addanki (NAMEL)
 Mega Highways Project Rajasthan (RIDCOR) Phase I & II
 Beawar Gomti Road (IRIDCL)
 East Hyderabad Expressway Ltd (EHEL)
 Jharkhand Accelerated Road Development Programme (JRPICL)
 Hazaribagh Ranchi Expressway Limited (HREL)
 Pune Sholapur Road Development Company Limited (PSRDCL)
 Ramkey Elsamex Hyderabad Ring Road Ltd
 Chongqing Yuhe Expressway Co. Ltd., China
 Sociedad Concesionaria A-4, Spain (Elsamex, Soma JV)

Under Implementation

Thiruvananthapuram City Roads (Phase III) (TRDCL)
 Mega Highways Project, Rajasthan (RIDCOR) Phase II Improvement Project
 Chandrapur Warora (WCBTRL)
 Moradabad to Bareilly (MBEL)
 Chennani - Nashri (CNTL)
 Jorabat Shillong
 Jharkhand Accelerated Road Development
 Baleshwar Kharagpur Road (BKEL)
 Sikar Bikaner (SBEL)
 Mega Highways Project, Rajasthan (RIDCOR) Phase III
 Bewar Gomti (Additional) (IRIDCL II)
 Barwa Adda Panagarh (BAEL)
 Khed Sinnar (KSEL)
 Kiratpur Ner Chowk (KNCL)

*additionally, Company also has a metro rail project in Gurgaon, City bus project in Nagpur, check post project in Madhya Pradesh, car park project in Gandhinagar

IL&FS Transportation Networks Ltd (ITNL)

Details of BOT Road portfolio

CMP
Rs. 203
TP
Rs. 284
Rating
Buy

Road Project	Type	Client	State	kms	lanes	Lane kms	Operational	Stake	CoD	Cost, Rs. mn	Debt, Rs. mn
North Karnataka	Annuity	NHAI	Karnataka	118	4	472	Y	94%	Jul-04	5,995	2,345
West Gujarat Expressway	Toll	NHAI	Gujarat	97	4	389	Y	100%	Mar-08	2,758	1,625
Noida Toll Bridge	Toll	NOIDA	Delhi	8	8	60	Y	25%	Feb-01	5,888	251
Vadodara Halol	Toll	Govt. of Gujarat	Gujarat	131	4	523	Y	84%	Oct-00	4,663	518
Ahmedabad - Mehsana	Toll	Govt. of Gujarat	Gujarat	0	0	0	Y	84%	Feb-03	0	0
Andhra Pradesh Expressway	Annuity	NHAI	Andhra Pradesh	75	4	328	Y	100%	Sep-09	8,629	5,680
Thiruvananthapuram City Roads	Annuity	KRFB	Kerala	45	3	119	Y	50%	Feb-12	3,096	286
Narketpally - Addanki	Toll	Govt. of AP	Andhra Pradesh	213	4	888	Y	50%	Jan-14	17,614	10,677
Mega Highways Project Rajasthan (RIDCOR) Phase I & II	Toll	Govt. of Rajasthan	Rajasthan	661	4	2,643	Y	50%	Mar-14	21,751	22,432
Beawar Gomti Road	Toll	MoRTH	Rajasthan	124	2	248	Y	100%	Oct-09	3,550	3,380
East Hyderabad Expressway	Annuity	HUDA	Maharashtra	22	8	173	Y	74%	Dec-07	4,280	2,948
Jharkhand	Annuity	Govt. of Jharkhand	Jharkhand	0	?	418	Y	100%	Oct-12	13,748	18,455
Hazaribagh Ranchi Expressway	Annuity	NHAI	Jharkhand	71	4	319	Y	74%	Aug-10	8,692	7,701
Pune Sholapur Road Development Company Limited (PSRDCL)	Toll	NHAI	Maharashtra	101	4	571	Y	91%	Aug-13	14,027	9,426
Ramkey Elsamex Hyderabad	Toll	HUDA	Andhra Pradesh	19	8	152	Y	26%	Nov-09	3,994	NA
Chongqing Yuhe Expressway, China	Toll	Congqing Municipal	China	59	4	235	Y	49%	Dec-11	22,750	0
Sociedad Concesionaria, Spain	Toll	PWD Madrid	Spain	64	4	256	Y	49%	Nov-10	6,591	0
Thiruvananthapuram City Roads	Annuity	KRFB	Kerala	15	3	39	N	50%	Dec-14	613	848
Mega Highways Project Rajasthan (RIDCOR) Phase II	Toll	Govt. of Rajasthan	Rajasthan	49	4	195	N	50%	TBF	2,555	-
Chandrapur Warora	Toll	PWD	Maharashtra	64	4	275	N	35%	May-14	6,886	3,342
Moradabad to Bareilly	Toll	NHAI	Uttar Pradesh	121	4	522	N	100%	May-15	19,836	15,476
Chennani - Nashri	Annuity	NHAI	J&K	11	4	38	N	100%	May-16	37,200	25,604
Jorabat Shillong	Annuity	NHAI	Assam	66	4	262	N	50%	Jan-16	8,240	6,950
Jharkhand	Annuity	Govt. of Jharkhand	Jharkhand	0	2	245	N	100%	May-14	7,598	-
Baleshwar Kharagpur	Toll	NHAI	West Bengal	119	4	477	N	100%	Jun-15	6,600	2,440
Sikar Bikaner	Toll	PWD	Rajasthan	238	2	540	N	100%	Feb-15	9,013	1,440
Mega Highways Project, Rajasthan (RIDCOR) Phase III	Toll	Govt. of Rajasthan	Rajasthan	152	4	607	N	100%	TBF	6,113	1,785
Bewar Gomti (Additional)	Toll	MoRTH	Rajasthan	0	4	217	N	100%	TBF	13,600	-
Barwa Adda Panagarh	Toll	NHAI	Jharkhand	123	6	727	N	100%	Sep-16	24,199	-
Khed Sinnar	Toll	NHAI	Maharashtra	123	4	557	N	100%	Aug-16	20,000	-
Kiratpur Ner Chowk	Toll	NHAI	HP	84	4	327	N	100%	Nov-16	22,910	-
Total				2,970		12,822				333,389	143,609

IL&FS Transportation Networks Ltd (ITNL)

Geographical Spread of Road Assets

CMP

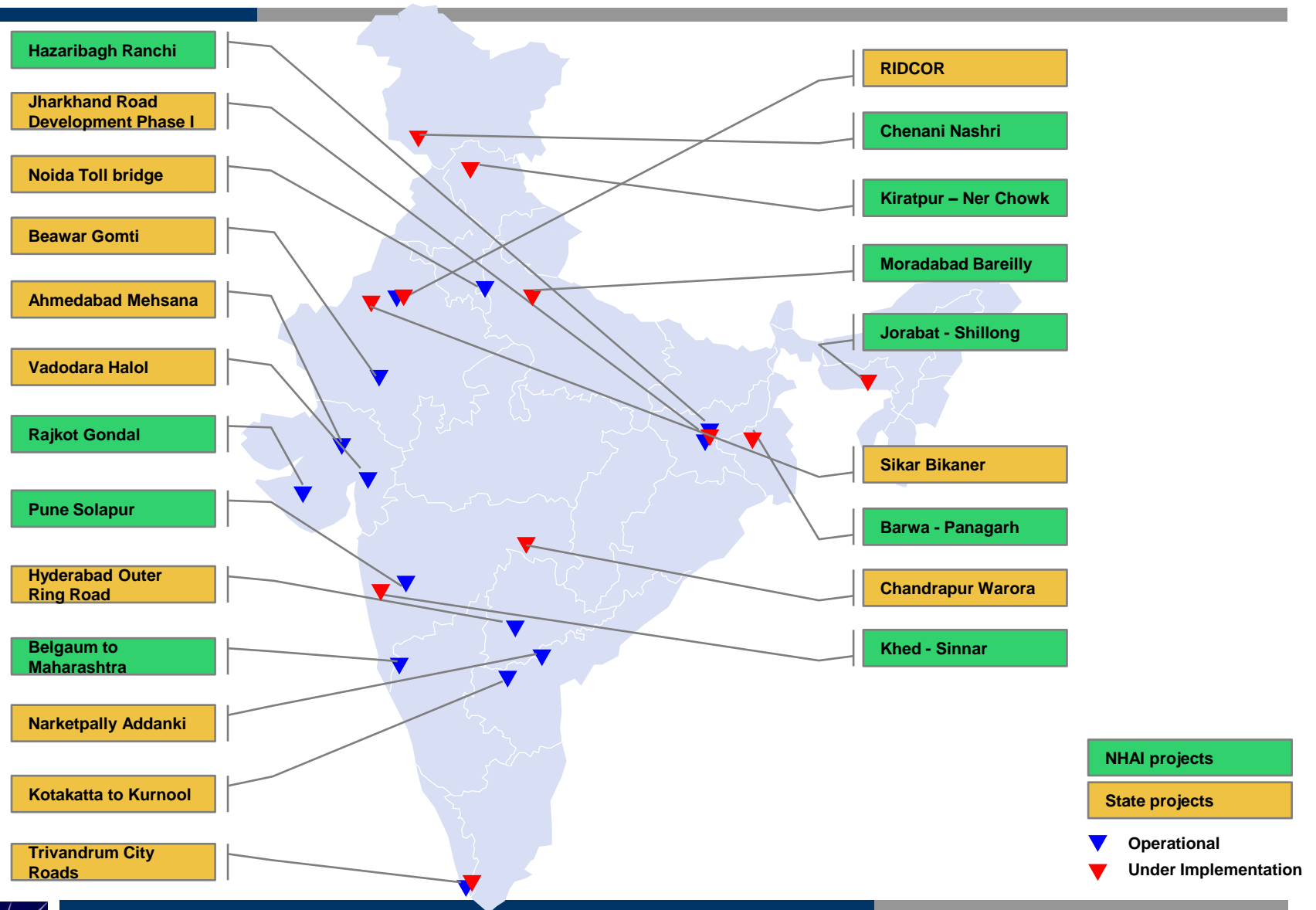
Rs. 203

TP

Rs. 284

Rating

Buy



IL&FS Transportation Networks Ltd (ITNL)

Details of BOT Road portfolio

CMP

Rs. 203

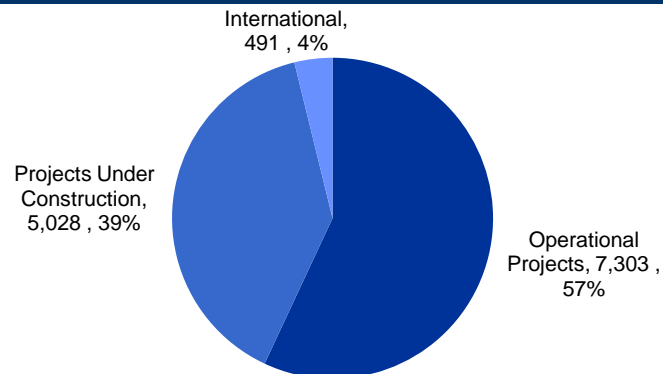
TP

Rs. 284

Rating

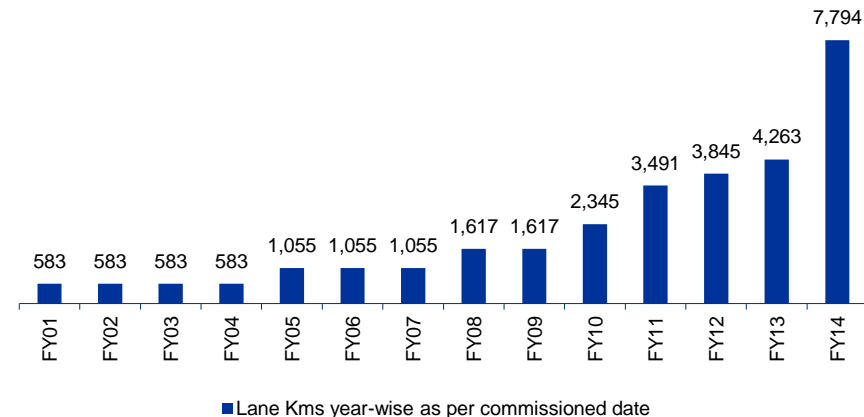
Buy

Road Portfolio, Lane Kms – total ~12,800kms



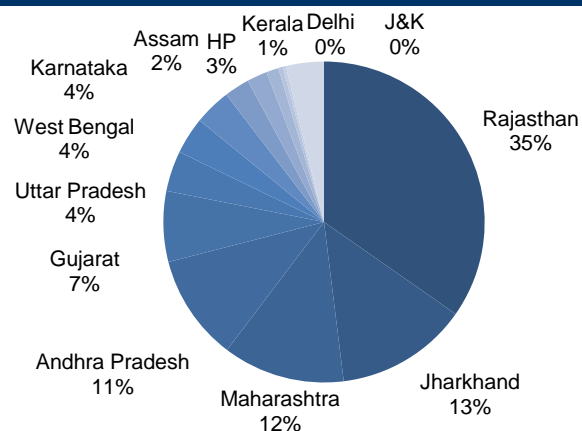
Source: Company

Historical growth in Lane Kms (as per commissioning)



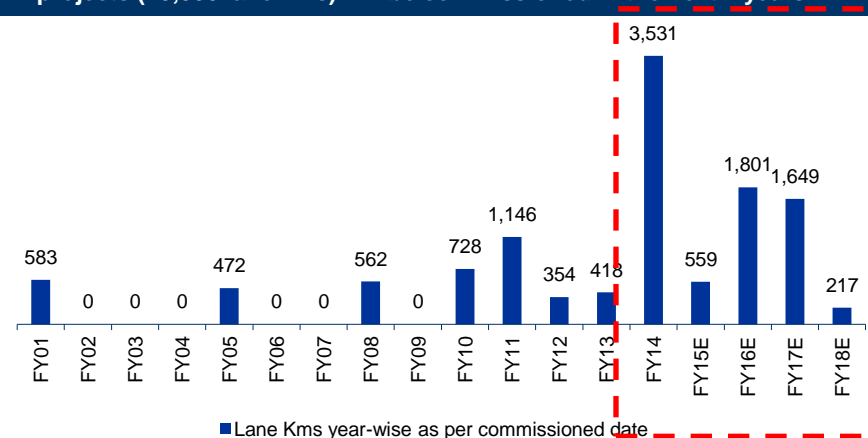
Source: Company

Road Portfolio, Lane kms – state wise



Source: Company

12 projects (~5,000 lane kms) will be commissioned in the next 4 years



Source: Company, Spark Capital Research

IL&FS Transportation Networks Ltd (ITNL)

Valuation of BOT assets

CMP
Rs. 203
TP
Rs. 284
Rating
Buy

SoTP Valuation or Road Assets	ITNL's Stake	Valuation Method	Equity Value	Value to ITNL	per share	% of total	Investment	Implied multiple
Projects	%		Rs. mn	Rs. mn	Rs.		Rs. Mn	x
Operational Road Projects								
Toll Projects								
West Gujarat Expressway Limited (WGEL)	100%	FCFE using 14% CoE	1,428	1,428	6	2%	4,000	0.4
Noida Toll Bridge (NTBCL)	25%	FCFE using 14% CoE	8,112	2,056	8	3%	1,872	1.1
Gujarat Road Infrastructure Company Ltd. (GRICL)	84%	FCFE using 14% CoE	9,928	8,300	34	12%	756	11.0
Marketpally - Addanki (NAMEL)	50%	FCFE using 14% CoE	3,978	1,989	8	3%	1,168	1.7
Mega Highways Project Rajasthan (RIDCOR) Phase I & II	50%	FCFE using 14% CoE	13,479	6,740	27	10%	988	6.8
Beawar Gomti Road (IRIDCL)	100%	FCFE using 14% CoE	889	889	4	1%	1,400	0.6
Pune Sholapur Road Development	91%	FCFE using 14% CoE	7,673	6,976	28	10%	1,600	4.4
Sub-total				28,378	115	40%	11,784	2.4
Annuity Projects								
North Karnataka Expressway Limited (NKEL)	94%	FCFE using 14% CoE	866	809	3	1%	555	1.5
Andhra Pradesh Expressway (APEL)	100%	FCFE using 14% CoE	342	342	1	0%	337	1.0
East Hyderabad Expressway Ltd (EHLE)	74%	FCFE using 14% CoE	664	491	2	1%	217	2.3
Thiruvananthapuram City Roads (Phase I & II) (TRDCL)	50%	FCFE using 14% CoE	(95)	(48)	(0)	0%	693	(0.1)
Jharkhand Accelerated Road Development Programme	100%	FCFE using 14% CoE	3,070	3,070	12	4%	2,891	1.1
Hazaribagh Ranchi Expressway Limited (HREL)	74%	FCFE using 14% CoE	811	600	2	1%	714	0.8
Sub-total				5,265	21	7%	5,407	1.0
Total Operational Road Projects				33,643	136	48%	17,190	2.0
Road Projects Under Implementation								
Toll Projects								
Chandrapur Warora (WCBTRL)	35%	FCFE using 15% CoE	1,941	679	3	1%	617	1.1
Moradabad to Bareilly (MBEL)	100%	FCFE using 15% CoE	8,092	8,092	33	12%	2,216	3.7
Baleshwar Kharagpur Road (BKEL)	100%	FCFE using 15% CoE	1,327	1,327	5	2%	1,785	0.7
Sikar Bikaner (SBEL)	100%	FCFE using 15% CoE	1,040	1,040	4	1%	1,240	0.8
Barwa Adda Panagarh (BAEL)	100%	FCFE using 15% CoE	3,345	3,345	14	5%	2,836	1.2
Khed Sinnar (KSEL)	100%	FCFE using 15% CoE	(624)	(624)	(3)	-1%	3,000	(0.2)
Kiratpur Ner Chowk (KNCL)	100%	FCFE using 15% CoE	1,531	1,531	6	2%	5,000	0.3
Sub-total				15,391	62	22%	16,694	0.9
Annuity Projects								
Chennani - Nashri (CNTL)	100%	FCFE using 15% CoE	4,415	4,415	18	6%	3,760	1.2
Jorabat Shillong	100%	FCFE using 15% CoE	487	487	2	1%	840	0.6
Sub-total				4,901	20	7%	4,600	1.1
Total Road Projects Under Implementation				20,292	82	29%	21,294	1.0
Total Roads				53,935	218	77%	38,485	1.4

IL&FS Transportation Networks Ltd (ITNL)

Standalone Entity and CAPEX requirements

CMP

Rs. 203

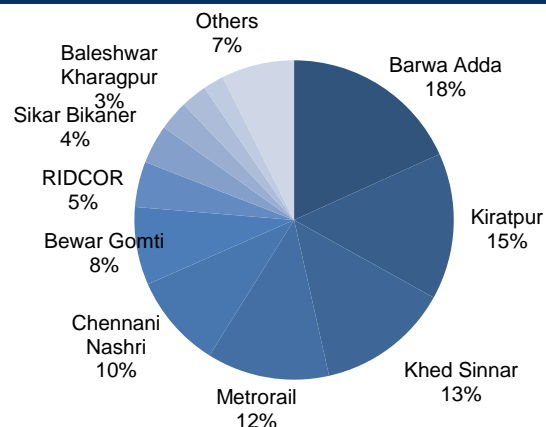
TP

Rs. 284

Rating

Buy

ITNL's order book stands at ~Rs. 130bn



Source: Company

Order book and cash requirements for the next 3 years:

- Company is of the 3 bidders who participated in the recent project awards in FY13, FY14 and YTD FY15. With a cumulative project win of Rs. 67bn with these recent projects, current order book stands at ~Rs. 130bn
- Company would require ~Rs. 16bn as equity in the next 3 years for these new projects and the under construction projects
- As the analysis on the adjacent table shows, with very little cash in hand and a ~Rs. 3bn of cash flow generation per year from the standalone business the Company needs to fund half of the requirement of ~Rs. 8bn through new debt in the next 3 years

Rs. mn	FY14	FY15E	FY16E	FY17E
Equity Requirement for projects under construction				
Equity Requirement each year for operational projects		6,762	7,798	1,826
Cumulative cash requirement		6,762	14,560	16,386
Standalone Revenues	34,046	38,722	46,469	48,291
<i>growth, %</i>	<i>1%</i>	<i>14%</i>	<i>20%</i>	<i>4%</i>
EBITDA	5,861	6,693	8,130	8,741
<i>margin, %</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>	<i>18%</i>
Operating Cash flows				
EBITDA	5,861	6,693	8,130	8,741
	2,674	2,496	1,745	1,755
Less: Tax	569	1,317	1,398	1,313
Less: Interest	5,197	5,086	5,526	6,406
Less: Equipment CAPEX	0	0	0	0
Cash Flows before working capital	2,769	2,785	2,950	2,777
Cash at end of FY14	111			
Cumulative Cash in hand		2,785	5,735	8,512
Debt in standalone	46,241	46,241	54,241	62,241

IL&FS Transportation Networks Ltd (ITNL)

SoTP Valuation

CMP

Rs. 203

TP

Rs. 284

Rating

Buy

Assumptions	FY16E	FY17E	FY18E	FY19E	FY20E
Traffic Assumptions	5%	6%	7%	8%	7%
WPI	5.8%	5.3%	4.8%	4.3%	4.3%

SoTP Valuation or Road Assets	ITNL's Stake	Valuation Method	Equity Value	Value to ITNL	per share	% of total
Projects	%		Rs. mn	Rs. mn	Rs.	
Total Roads				53,935	218	77%
Other Projects						
Rapid MetroRail Gurgaon Ltd. (RMGL)	81%	1x FY14 BV	3,869	3,149	13	4%
Rapid MetroRail Gurgaon South Ltd. (RMGSL)	81%	1x FY14 BV	1,603	1,304	5	2%
Madhya Pradesh Border Checkpost Development Co (MPBCDCL)	51%	1x Investment Value	960	489	2	1%
Charminar RoboPark Ltd.	89%	1x Investment Value	63	56	0	0%
Vansh Nimay Infraprojects Ltd. (VNIL)	90%	1x Investment Value	159	143	1	0%
Automated Car Park - GIFT City	90%	1x Investment Value	0	0	0	0%
Chongqing Yuhe Expressway Co. Ltd., China	49%	1x Investment Value	1,800	882	4	1%
Total Other Projects				6,024	24	9%
Elsamex S. A.	100%	1x FY14 BV	4,015	4,015	16	6%
Standalone Entity	100%	6x FY16 EBITDA	48,777	48,777	197	69%
Less: Net Debt in FY15E	100%		(42,528)	(42,528)	(172)	-61%
Total Value for Construction Business				6,249	25	9%
Total SoTP value for ITNL				70,223	284	100%

IL&FS Transportation Networks Ltd (ITNL)

Financial Summary

CMP
Rs. 203
TP
Rs. 284
Rating
Buy

Abridged Financial Statements (Consolidated)					
Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Profit & Loss					
Revenues	65,870	70,873	84,451	100,174	104,494
EBITDA	18,896	22,335	27,932	40,176	41,939
Other Income	2,155	1,949	1,275	1,363	1,600
Depreciation	1,510	2,085	2,808	3,786	4,703
EBIT	19,541	22,199	26,398	37,754	38,837
Interest	14,710	16,931	19,748	31,303	31,518
PBT	4,831	5,268	6,651	6,451	7,319
PAT after MI	4,630	5,280	6,801	5,782	6,189
Balance Sheet					
Net Worth + MI	54,626	58,391	62,925	67,059	71,757
Total debt	188,165	217,609	257,812	264,539	262,535
Other Non Current Liabilities	5,162	4,617	4,996	5,155	2,179
Long term provisions	527	500	500	500	500
Deferred Tax Liability	1,990	1,990	1,990	1,990	1,990
Total Networth & Liabilities	250,470	283,109	328,223	339,244	338,962
Gross Fixed assets	142,822	159,535	185,971	253,080	274,504
Net fixed assets	134,869	148,042	170,216	232,085	247,353
Goodwill	5,753	5,397	5,007	4,579	4,110
Non Current Investments	4,676	3,421	5,496	10,489	18,433
Non Current Assets	95,319	121,424	149,477	93,540	70,122
Inventory & Receivables	10,062	3,032	6,851	7,961	9,030
Cash and bank balances	6,713	9,891	1,873	1,709	1,635
Loans and other current assets	13,936	13,859	13,859	13,859	13,859
Current liabilities	20,857	21,957	24,556	24,977	25,579
Net current assets	9,853	4,824	(1,973)	(1,449)	(1,056)
Total Assets	250,470	283,109	328,223	339,244	338,962
Cash Flows					
Cash flows from Operations	17,972	14,385	6,881	8,184	10,145
Cash flows from Investing	(41,232)	(38,029)	(56,175)	(15,737)	(5,482)
Cash flows from Financing	24,369	27,717	39,426	7,553	(4,663)

Key metrics					
	FY14	FY15E	FY16E	FY17E	FY18E
Growth ratios					
Revenues	-1%	8%	19%	19%	4%
EBITDA	3%	18%	25%	44%	4%
PAT	-11%	14%	29%	-15%	7%
Margin ratios					
EBITDA	29%	32%	33%	40%	40%
PAT	7%	7%	8%	6%	6%
Performance ratios					
RoA (%)	2.1%	2.0%	2.2%	1.7%	1.8%
RoE (%)	10.7%	10.1%	11.9%	9.3%	9.2%
RoCE (%)	8.9%	8.3%	8.6%	11.3%	11.5%
Total Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Fixed Assets Turnover (x)	0.5	0.4	0.5	0.4	0.4
Working capital Turnover (x)	6.7	14.7	(42.8)	(69.1)	(98.9)
Financial stability ratios					
Net Debt to Equity (x)	3.3	3.6	4.1	3.9	3.6
Current ratio (x)	1.5	1.2	0.9	0.9	1.0
Working capital days	54	25	(8)	(5)	(4)
Inventory & Debtor days	55	15	29	29	31
Creditor days	114	112	105	90	88
Interest cover (x)	1.3	1.3	1.3	1.2	1.2
Valuation metrics					
Fully Diluted shares (mn)	247	247	247	247	247
Fully diluted M. Cap (Rs.mn)	50,141				
Fully Diluted EPS (Rs.)	18.7	21.4	27.5	23.4	25.1
P/E (x)	10.8	9.5	7.4	8.7	8.1
EV (Rs.mn)	231,593	257,859	306,080	312,971	311,041
EV/ EBITDA (x)	12.3	11.5	11.0	7.8	7.4
BV/ share (Rs.)	221	236	255	271	291
Price to BV (x)	0.9	0.9	0.8	0.7	0.7

IRB Infrastructure Developers (IRB)

Bellwether in the Indian roads space

Rating: ▲

Target price: ▲

CMP

Rs. 251

TP

Rs. 335

Rating

Buy

IRB Infrastructure Developers (IRB) is India's leading road developer and roads asset owner having a strong in-house integrated execution capabilities and having a portfolio of 18 operational roads and 3 projects under construction (with a total of ~9300 lane kms) spread across 7 states in the country (64% of this length present in the commercially and economically important states of Maharashtra and Gujarat).

Investment Rationale

- Massive sector opportunity of >US\$ 50bn opportunity is expected to unfold in the central roads & highways sector (toll / annuity roads and cash contracts) over the next 4-5 years and IRB is well placed to benefit from this with its integrated development model and a leading ~10% market share historically in garnering NHAI project awards
- Enviably track record of winning projects awarded by NHAI (Company is prequalified to bid for project sizes of ~Rs. 50bn p.a.) with all the company's new project wins coming from NHAI since 2007. This makes the Company a principal beneficiary of increased NHAI project award activity in the future post the lull in FY13 and FY14
- Profitable portfolio of toll roads to provide steady stream of cash flows over FY15-18E which will also benefit from the growth in road traffic to pre-2012 levels of 6% due to likely pick-up in economic activity (currently ~5%). We expect the average daily toll collections to grow by a CAGR of 21% from Rs. 45mn/ day to Rs. 94mn/ day on the back of a 16% CAGR in lane kms in the same period; this will drive a 18% CAGR on consolidated EBITDA for FY14-18E
- Highly profitable (~32% EBITDA margins) construction arm which caters almost exclusively to the Group's pipeline projects. This business benefits from the strong revenue visibility for the next 3 years (with ~Rs. 113bn orderbook), RM cost advantages and minimal working capital requirements given the prompt payments from the project companies
- Sound balance sheet with a net D/E of 2.7:1 and with cash of Rs. 10bn and ~Rs. 5bn of cash flow generation per year from the construction business will comfortably fund the ~Rs. 29bn equity commitments in the next 3 years

We value the stock on an SoTP basis assuming an average 5% traffic growth in FY16E and 6% in FY17E yielding a valuation of Rs. 199/ share for the road assets. We value the Construction business giving a higher 7x EV/ EBITDA multiple due to its superior margins arriving at a value of Rs. 139/ share (after deducting its net-debt). Given our optimism in the improvement of Indian macroeconomic scenario in the next 3 years we remain positive on the stock and upgrade the stock to "Buy" with a target price of Rs. 335/ share (earlier Rs. 277/ share)

Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	EV/EBITDA (x)
FY14	37,319	17,537	4,591	13.8	18.2	10.2
FY15E	51,817	24,111	5,750	17.3	14.5	9.0
FY16E	58,773	27,030	4,765	14.3	17.6	8.3

Company Update

Date	Sept 1, 2014		
Market Data			
SENSEX	26660		
Nifty	7958		
Bloomberg	IRB IN		
Shares o/s	332mn		
Market Cap	Rs. 84bn		
52-wk High-Low	Rs. 276-59		
3m Avg. Daily Vol	Rs. 1,757mn		
Index member	BSE200		
Latest shareholding (%)			
Promoters	61.1		
Institutions	29.2		
Public	9.7		
Stock performance (%)			
	1m	3m	12m
IRB	7.6%	28.4%	307.6%
SENSEX	2.6%	8.6%	48.1%
BSE200	3.0%	8.6%	54.3%

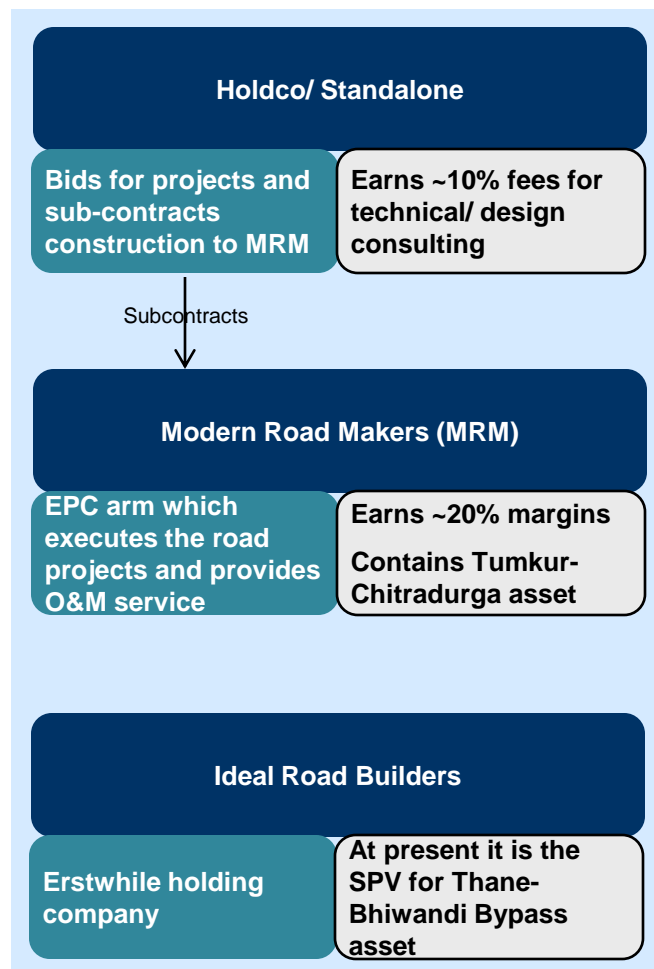
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IRB Infrastructure Developers (IRB)

Business Model

CMP	TP	Rating
Rs. 251	Rs. 335	Buy

Construction Segment



• Provides unsecured debt to SPVs until draw-down of term loans begin

• Debt repaid once term loans are availed
• Dividends

execution

BOT Roads



*additionally, Company also has an airport project and a real estate business

IRB Infrastructure Developers (IRB)

Details of BOT Road portfolio

CMP

Rs. 251

TP

Rs. 335

Rating

Buy

#	Road Stretch	Status	Length	Lanes	Lane Km	Client	State	Concessi on Till	Project Cost	Debt at 40% cost	Equity	Debt as at June'14	Grant
			km		km				Rs. mn				
1	Mumbai – Pune	operational	206	4	824	MSRDC	Maharashtra	FY20	13,016	7,810	5,206	7,243	-
2	Surat – Dahisar	operational	239	6	1,434	NHAI	Maha / Gujarat	FY21	25,372	15,223	10,149	11,395	-
3	Bharuch – Surat	operational	65	6	390	NHAI	Gujarat	FY22	14,700	8,820	5,376	6,736	504
4	Thane Ghodbunder	operational	15	4	60	MSRDC	Maharashtra	FY21	2,462	1,477	985	1,563	-
5	Tumkur Chitradurg	operational	114	6	684	NHAI	Karnataka	FY37	11,420	6,852	4,568	9,310	-
6	Talegaon Amravati	partial tolling	67	4	267	NHAI	Maharashtra	FY36	8,880	5,328	1,392	4,883	2,160
7	Thane Bhiwandi Bypass	operational	24	4	96	MORT&H	Maharashtra	FY18	1,040	624	416	1,245	-
8	Pune – Nashik	operational	30	4	119	MOSRT&H	Maharashtra	FY22	737	NA	NA	838	-
9	Pune – Sholapur	operational	26	4	104	MOSRT&H	Maharashtra	FY19	630	NA	NA	553	-
10	Ahmednagar – Karmala – Tembhurni	operational	60	4	240	PWD	Maharashtra	FY17	368	NA	NA	427	-
11	Mohol-Kurul-Kamtee-Mandrup	operational	33	4	134	PWD	Maharashtra	FY19	180	NA	NA	200	-
12	Bridge over Patalganga River	operational	1	4	6	MOSRT&H	Maharashtra	FY16	320	NA	NA	200	-
13	Kolhapur	operational	50	4	200	MSRDC	Maharashtra	FY40	4,300	2,580	1,990	2,467	(270)
14	Pathankot Amritsar	under construction	102	4	410	NHAI	Punjab	FY31	14,453	8,672	4,512	10,167	1,269
15	Jaipur Deoli	partial tolling	146	4	585	NHAI	Rajasthan	FY35	17,330	10,398	3,872	9,464	3,060
16	Ahmedabad Vadodara -	partial tolling	196	6	986	NHAI	Gujarat	FY37	48,800	29,280	19,520	20,325	-
17	Goa/ Karnataka Border to Kundapur	under construction	190	4	758	NHAI	Karnataka	FY41	26,000	15,600	5,038	2,830	5,362
18	Omallur -Salem – Namakkal	operational	69	4	275	NHAI	Tamil Nadu	NA	NA	-	-	2,188	-
19	Solapur –Yedeshi	FC by 2QFY15	99	4	395	NHAI	Maharashtra	FY43	15,000	9,000	4,110	0	1,890
20	Yedeshi Aurangabad	Letter of Award obtained	189	4	756	NHAI	Maharashtra	FY40	32,000	19,200	7,220	0	5,580
21	Kaithal–Rajasthan Border	Letter of Award obtained	166	4	665	NHAI	Haryana	FY40	23,000	13,800	6,860	0	2,340
Total			2,087		9,387*				260,008	155,106	81,509	87,860	21,895

Source: Company, Spark Capital Research; *will not exactly match with Company's figure of 9295kms

IRB Infrastructure Developers (IRB)

Geographical Spread of Road Assets

CMP

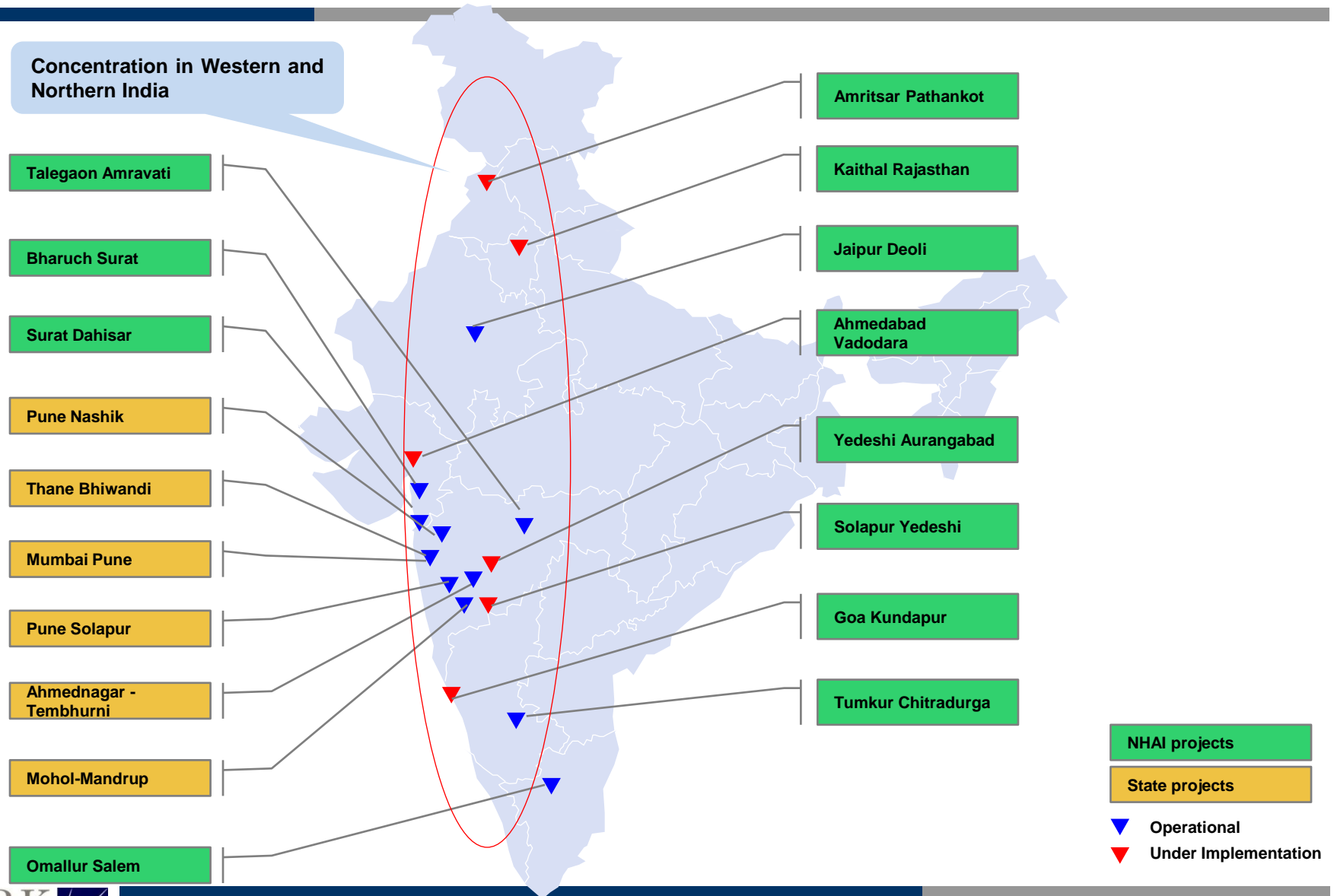
Rs. 251

TP

Rs. 335

Rating

Buy



IRB Infrastructure Developers (IRB)

Details of BOT Road portfolio

CMP

Rs. 251

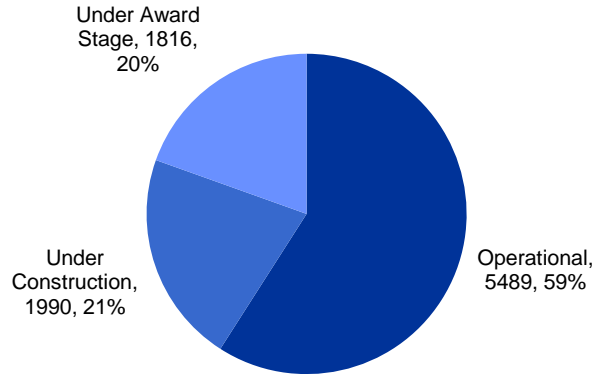
TP

Rs. 335

Rating

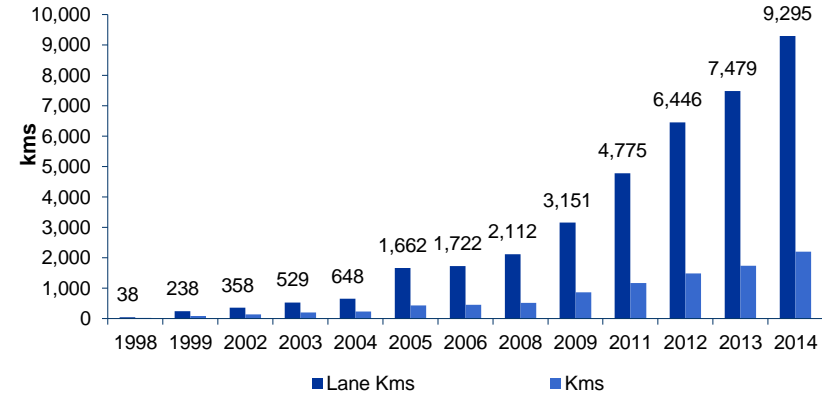
Buy

Road Portfolio, Lane Kms – total ~9295kms



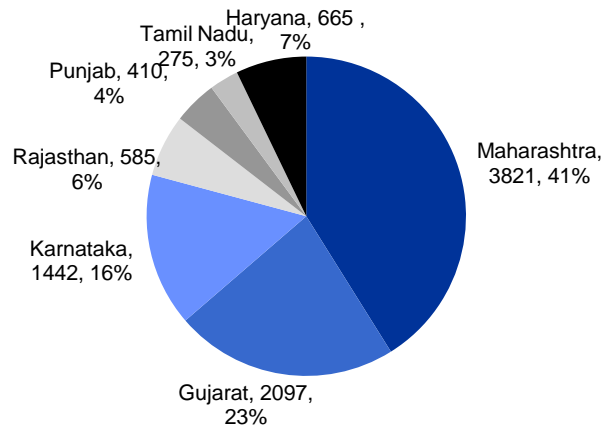
Source: Company

Historical growth in Lane Kms (as per date of securing project)



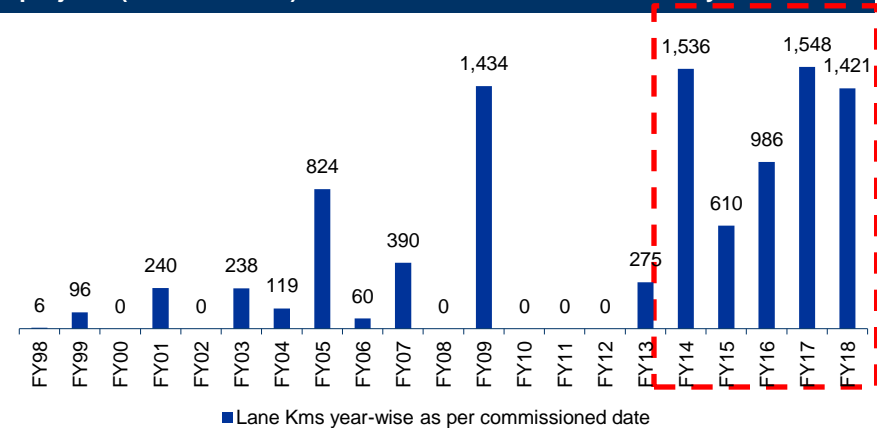
Source: Company

Road Portfolio, Lane kms – state wise



Source: Company

6 projects (3955 lane kms) will be commissioned in the next 4 years



Source: Company, Spark Capital Research

IRB Infrastructure Developers (IRB)

Valuation of BOT assets

CMP

Rs. 251

TP

Rs. 335

Rating

Buy

Assumptions	FY16E	FY17E	FY18E	FY19E	FY20E
Traffic Assumptions	5%	6%	7%	8%	7%
WPI	5.8%	5.3%	4.8%	4.3%	4.3%

SoTP Valuation of BOT assets	IRB's Stake	Valuation Method	Equity Value	Value to IRB	per share	% of total	Comments
Road Stretch	%		Rs. mn	Rs. mn	Rs.		
Mumbai – Pune BOT, MPEW & NH4	100%	FCFE using 14% CoE	19,860	19,860	60	18%	-
Surat – Dahisar Road, NH 8	90%	FCFE using 14% CoE	2,791	2,512	8	2%	-
Bharuch – Surat BOT, NH 4	100%	FCFE using 14% CoE	2,985	2,985	9	3%	-
Thane Ghodbunder Toll Road BOT	100%	FCFE using 14% CoE	264	264	1	0%	-
Tumkur Chitradurg, NH 4	100%	FCFE using 15% CoE	4,372	4,372	13	4%	Premium-back ending allowed
Talegaon Amravati, NH 6	100%	FCFE using 15% CoE	2,063	2,063	6	2%	-
Thane Bhiwandi Bypass BOT	100%	FCFE using 14% CoE	3,692	3,692	11	3%	-
Pune – Nashik BOT, NH 50	100%	FCFE using 14% CoE	1,942	1,942	6	2%	-
Pune – Sholapur BOT	100%	FCFE using 14% CoE	907	907	3	1%	-
Ahmednagar – Karmala – Tembhurni Road	100%	FCFE using 14% CoE	419	419	1	0%	-
Mohol-Kurul-Kamtee-Mandrup Road, SH 149	100%	FCFE using 14% CoE	519	519	2	0%	-
Bridge over Patalganga River-Kharpada BOT	100%	FCFE using 14% CoE	146	146	0	0%	-
Integrated Road Development in Kolhapur	100%	FCFE using 15% CoE	3,408	3,408	10	3%	-
Pathankot Amritsar, NH 15	100%	FCFE using 15% CoE	4,441	4,441	13	4%	-
Jaipur Deoli, NH 12	100%	FCFE using 15% CoE	5,106	5,106	15	5%	-
Ahmedabad Vadodara -NH 8	100%	FCFE using 15% CoE	5,785	5,785	17	5%	Premium-back ending allowed
Goa/ Karnataka Border to Kundapur, NH- 17	100%	FCFE using 15% CoE	4,105	4,105	12	4%	-
Omallur -Salem – Namakkal Section of NH-7	100%	at investment value	1,300	962	3	1%	-
Solapur -Yedeshi section of NH-211	100%	FCFE using 16% CoE	1,082	1,082	3	1%	Yet to achieve FC; assuming a project IRR of ~16% - 17%; more upside potential for valuation after the CAPEX phase
Yedeshi Aurangabad section of NH-211	100%	FCFE using 16% CoE	610	610	2	1%	
Kaithal-Rajasthan Border section of NH 152/65	100%	FCFE using 16% CoE	1,014	1,014	3	1%	
Total Value for BOT Road Assets			66,811	66,193	199	59%	

IRB Infrastructure Developers (IRB)

Construction Business

CMP

Rs. 251

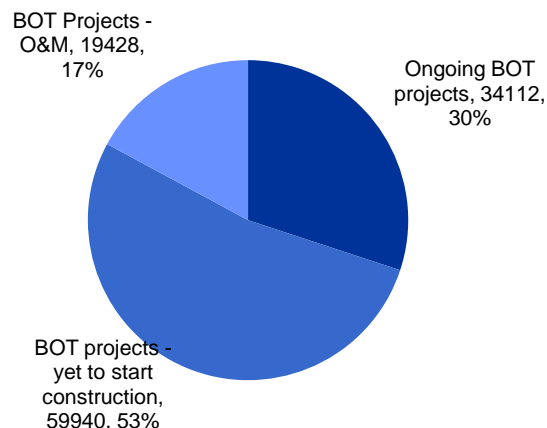
TP

Rs. 335

Rating

Buy

With the recent project wins the order book stands at Rs. 113bn



Source: Company

Order book and cash requirements for the next 3 years:

- Company is the single bidder/one of the 3 bidders who participated in the recent 3 project awards. With a cumulative project win of Rs. 70bn with these 3 projects, current order book stands at Rs, 119bn
- Company would require ~Rs. 29bn as equity in the next 3 years for these new projects and the under construction projects
- As the analysis on the adjacent table shows, with cash of Rs. 10bn and ~Rs. 5bn of cash flow generation per year from the construction business the Company needs to only take ~Rs. 6bn of debt in the next 3 years (debt numbers goes up as it is likely to be required for expected new projects to be won)

Rs. mn	FY14	FY15E	FY16E	FY17E
Equity Requirement for projects under construction				
Ahmedabad Vadodara		5,500	0	0
Goa Kundapur		5,220	0	0
Solapur Yedeshi		587	1,564	1,760
Yedeshi Aurangabad		406	3,857	3,857
Kaithal Rajasthan		300	2,850	2,850
Cumulative cash requirement		12,013	20,284	28,750
Construction Revenues	26,579	33,815	37,359	39,324
<i>growth, %</i>		<i>27%</i>	<i>10%</i>	<i>5%</i>
EBITDA	8,382	9,802	10,289	10,559
<i>margin, %</i>	<i>32%</i>	<i>29%</i>	<i>28%</i>	<i>27%</i>
Operating Cash flows				
EBITDA	8,382	9,802	10,289	10,559
Less: Tax	1,651	2,109	2,142	2,126
Less: Interest	2,879	2,591	3,340	3,840
Less: Equipment CAPEX	0	300	300	300
Cash Flows before working capital	3,851	4,801	4,507	4,293
Cash at end of FY14	10,200			
Cumulative Cash in hand		15,001	19,508	23,801
Debt in Construction segment	31,474	41,474	46,474	51,474

IRB Infrastructure Developers (IRB)

SoTP Valuation

CMP

TP

Rating

Rs. 251

Rs. 335

Buy

SoTP Valuation of IRB Infra Developers	IRB's Stake	Valuation Method	Equity Value	Value to IRB	per share	%
	%		Rs. mn	Rs. mn	Rs.	
Mumbai – Pune BOT, MPEW & NH4	100%	FCFE using 14% CoE	19,860	19,860	60	18%
Surat – Dahisar Road, NH 8	90%	FCFE using 14% CoE	2,791	2,512	8	2%
Bharuch – Surat BOT, NH 4	100%	FCFE using 14% CoE	2,985	2,985	9	3%
Thane Ghodbunder Toll Road BOT	100%	FCFE using 14% CoE	264	264	1	0%
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Omallur -Salem – Namakkal Section of NH-7	100%	at investment value	1,300	962	3	1%
Solapur -Yedeshi section of NH-211	100%	FCFE using 16% CoE	494	494	1	0%
Yedeshi Aurangabad section of NH-211	100%	FCFE using 16% CoE	47	47	0	0%
Kaithal-Rajasthan Border section of NH 152/65	100%	FCFE using 16% CoE	395	395	1	0%
Total Value for BOT Road Assets			65,040	64,423	194	58%
Construction Business	100%	7x on FY16E EBITDA	72,023	72,023	217	65%
Less: Net Debt			(25,873)	(25,873)	(78)	-23%
Total Value for Construction Business			46,150	46,150	139	42%
Other investments - Airports, Real Estate	100%	at investment value	586	586	2	1%
IRB Infrastructure Developers			111,776	111,159	335	100%

IRB Infrastructure Developers (IRB)

Financial Summary

CMP
Rs. 251
TP
Rs. 335
Rating
Buy

Abridged Financial Statements (Consolidated)					
Rs. mn	FY14	FY15E	FY16E	FY17E	FY18E
Profit & Loss					
Revenues	37,319	51,817	58,773	63,274	71,436
EBITDA	17,537	24,111	27,030	30,085	35,131
Other Income	1,214	1,621	1,678	1,788	1,921
Depreciation	4,771	5,901	7,314	8,814	10,521
EBIT	13,980	19,831	21,394	23,058	26,530
Interest	7,562	12,274	14,876	14,977	17,669
PBT	6,419	7,557	6,518	8,081	8,862
PAT after Minority	4,591	5,750	4,765	5,921	5,074
Balance Sheet					
Net Worth	35,607	41,356	46,121	52,042	57,116
Minority interest	356	293	265	328	422
Total debt	110,445	138,161	149,748	160,937	164,534
Other Liabilities	3,392	222,493	223,871	224,890	224,758
Total Networth & Liabilities	149,800	402,304	420,005	438,198	446,830
Gross fixed assets	92,029	173,020	387,525	400,315	447,027
Net fixed assets	84,428	159,496	366,688	370,810	407,365
CWIP	44,867	214,553	19,416	26,329	(4,273)
Goodwill	1,116	1,171	1,171	1,171	1,171
Investments & Long term Loans	3,098	16,213	20,240	30,505	37,273
Debtors & Inventories	2,739	3,376	3,924	4,228	4,479
Cash and bank balances	15,012	5,261	7,503	4,739	936
Short term Loans & Advances	5,516	10,845	10,845	10,845	10,845
Other current assets	343	2,622	2,622	2,622	2,622
Current liability and provisions	7,319	11,233	12,403	13,052	13,587
Net current assets	16,290	10,870	12,490	9,382	5,295
Total Assets	149,800	402,304	420,005	438,197	446,830
Cash Flows					
Cash flows from Operations	6,008	(125)	12,672	15,143	15,973
Cash flows from Investing	(29,495)	(263,847)	(23,395)	(29,968)	(22,878)
Cash flows from Financing	26,277	253,867	12,965	12,209	3,464

Key metrics					
	FY14	FY15E	FY16E	FY17E	FY18E
Growth ratios					
Revenues	1.2%	38.9%	13.4%	7.7%	12.9%
EBITDA	7.4%	37.5%	12.1%	11.3%	16.8%
PAT	-17.5%	25.2%	-17.1%	24.3%	-14.3%
Margin ratios					
EBITDA	47.0%	46.5%	46.0%	47.5%	49.2%
PAT	12.3%	11.1%	8.1%	9.4%	7.1%
Performance ratios					
RoA	3.3%	2.1%	1.2%	1.4%	1.1%
RoE	13.5%	14.9%	10.9%	12.1%	9.3%
RoCE	7.5%	9.2%	8.3%	8.3%	12.2%
Total Assets Turnover (x)	0.3	0.2	0.1	0.1	0.2
Fixed Assets Turnover (x)	0.3	0.2	0.2	0.2	0.2
Working capital Turnover (x)	2.3	4.8	4.7	6.7	13.5
Financial stability ratios					
Total Debt to Equity (x)	3.1	3.3	3.2	3.1	2.9
Current ratio (x)	3.2	2.0	2.0	1.7	1.4
Working capital days	157	76	77	53	27
Inventory & Debtor days	26	23	24	24	23
Creditor days	71	78	76	74	68
Interest cover (x)	1.8	1.6	1.4	1.5	1.5
Debt to EBITDA (x)	6.3	5.7	5.5	5.3	4.7
Valuation metrics					
Fully Diluted shares (mn)	332.4	332.4	333.4	334.4	334.4
Fully diluted M. Cap (Rs.mn)	83,423				
Fully Diluted EPS (Rs.)	13.8	17.3	14.3	17.7	15.2
P/E (x)	18.2	14.5	17.6	14.2	16.5
EV (Rs.mn)	178,856	216,324	225,668	239,621	247,021
EV to sales	4.8	4.2	3.8	3.8	3.5
EV/ EBITDA (x)	10.2	9.0	8.3	8.0	7.0
BV/ share (Rs.)	107.1	124.4	138.4	155.6	170.8
Price to BV (x)	2.3	2.0	1.8	1.6	1.5

Disclaimer

Absolute Rating Interpretation

Buy	Stock expected to provide positive returns of >15% over a 1-year horizon
Add	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
Reduce	Stock expected to provide returns of <5% – -10% over a 1-year horizon
Sell	Stock expected to fall >10% over a 1-year horizon

IRB Recommendation History

Date	CMP	Target price	Rating
1/Aug/14	252	277	Add
26/May/14	190	222	Buy
3/Feb/14	75	105	Buy
18/Nov/13	88	105	Buy
14/Aug/13	72	105	Buy

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Disclosure of interest statement	Yes/No
Analyst ownership of the stock	No
Group/directors ownership of the stock	No
Broking relationship with the company covered	No
Investment banking relationship with the company covered	No