K E Y N O T E
INSTITUTIONAL RESEARCH

Initiating Coverage
July 4, 2011

IL&FS Transportation Networks Ltd.

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IL&FS Transportation Networks Ltd.

Laying the smooth path…

July 4, 2011

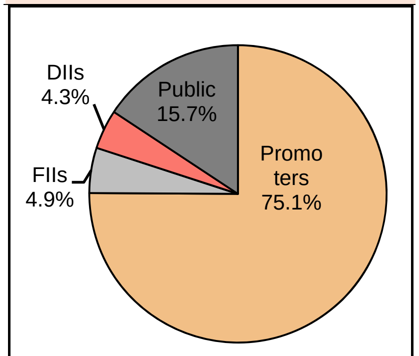
Key Stock Data

Sector	Infrastructure
CMP	₹215.50
52wk High/Low	367.7/185.3
Market Cap	₹41.87bn ($930.5mn)
6m Avg. daily vol	22656
BSE Sensex	18762.8
Beta	0.71
Reco	**'Buy'**
Target Price	₹248.77

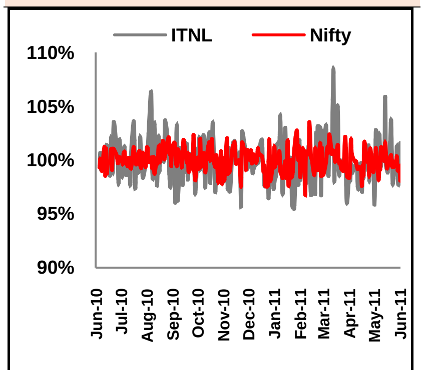
Stock Codes

Bloomberg Code	ILFT.IN
Reuters Code	ILFT.BO
BSE Code	533177
NSE Code	IL&FSTRANS
Face Value	₹10

Shareholding pattern (31st Mar, 2011)



Stock Price Performance



IL&FS Transportation Networks Ltd. (ITNL) is one of the largest surface transport infrastructure companies. The company has around 12000 lane kms of portfolio under various stages and is expected to post 24.2% CAGR growth over FY11-13 in revenue as well as PAT levels. In the past two years ITNL has bagged ₹15692Cr of new projects in the area of roads, metro rail, bus services, stadium, etc and has achieved 9% market share in terms of value awarded by NHAI.

- **ITNL in sweet spot to capitalize on emerging opportunities:** ITNL is well poised to leverage on the growing opportunities in the road segment owing to its: 1) strong parentage, 2) Expertise management; 3) Unique business model; and 4) Favorable developments at NHAI.

- **IL&FS' parentage helps in qualifying for large projects:** ITNL's promoter, IL&FS, has track record of promoting and financing infrastructure projects over two decades. Through the advantages of its promoters in arranging funds for the infrastructure projects, ITNL has achieved financial closure (FC) for all the projects where LOA is signed (except 2 projects where FC is in process). There is lesser risk of equity dilution in the near term as it has met 70% of equity commitment for current projects on hand and balance would be met through internal accruals or debt in FY12-14E.

- **Benefit from Government's future plan:** During FY11, NHAI awarded 5300Kms of projects which is 57.7% higher than that of awarded in FY10 (3369Kms). The government plans to start bidding process for 100 projects of over 14000kms and total estimated cost of ~₹1.0trillion during FY12 & FY13. Considering 9% market share, ITNL's would be in position to bag around 1300Kms of projects in FY12E and FY13E.

We expect company's consolidated revenues to grow at 20.5% & 17.1% for the year FY12 & FY13 respectively. Based on SOTP valuation, we initiate coverage on ITNL with a **'Buy'** recommendation at a target price of ₹248.77 with a potential upside of 15.4%.

Key Financials

(₹Cr)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net Revenues	1225.37	2402.88	4048.20	4876.53	5711.65
Growth (%)	*238.9%*	*96.1%*	*68.5%*	*20.5%*	*17.1%*
EBITDA	299.97	878.58	1232.86	1552.00	1853.66
Growth (%)	*11.7%*	*192.9%*	*40.3%*	*25.9%*	*19.4%*
Net Profit	32.11	338.39	449.13	594.68	711.13
Growth (%)	*-63.2%*	*953.8%*	*32.7%*	*32.4%*	*19.6%*
Earnings Per Share	1.56	14.76	19.59	25.94	31.02
Price Earnings	68.97	14.05	9.32	7.04	5.89
Book Value	44.63	74.31	102.64	128.58	159.59
Price to Book Value	2.50	2.85	1.78	1.42	1.14
EBIDTA Margin %	24.5%	36.6%	30.5%	31.8%	31.8%
PAT Margin %	2.6%	14.1%	11.1%	12.2%	12.2%
RONW %	3.5%	19.9%	19.1%	20.2%	19.4%
ROCE %	11.8%	18.3%	16.3%	15.3%	15.1%

E- Keynote Capitals Institutional Research Estimates

Company Background

IL&FS Transportation Networks Ltd. (ITNL) is an established ISO 9000:2001 surface transportation infrastructure company, and is one of the largest private sector BOT road operators in India. ITNL is a developer, operator and facilitator of surface transportation infrastructure projects, taking projects from conceptualization through commissioning to operations and maintenance. ITNL was incorporated in 2000 by IL&FS, an infrastructure development and finance company, in order to consolidate their existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation infrastructure. In March 2008, ITNL commenced international operations through the acquisition of Spanish company Elsamex S.A., a provider of maintenance services primarily for highways and roads in Spain and other countries.

Maintaining Market position in the Indian BOT road infrastructure sector

It is one of the business strategies by focusing on the operations & maintenance of the existing projects, development and improvement of the projects under development and by bidding for additional projects. The company's leverage experience, market position and its ability to execute & manage multiple projects across geographies helps to bid for new road projects.

Improve performance and enhance returns from our core business

It has streamlined operation & maintenance policies, increased the effectiveness of supervision which could provide value added services and enhance safety features for the BOT road projects.

International Foray

In March 2008, ITNL commenced its international operations with the acquisition of Elsamex for EUR12.1mn and another EUR40.1mn was invested taking the total consideration to EUR52.2mn. Elsamex is a provider of maintenance services for highways and roads in Spain and other countries. ITNL acquired Elsamex to complement its road BOT operations utilising its maintenance capabilities and facilitate entry into the international markets such as Spain, Portugal and Latin America.

Elsamex's primary business is the maintenance of roads, buildings and petrol stations mainly in Spain, with additional operations in Portugal in Europe and Columbia and Mexico in South America. Elsamex also provides consulting services for roads and water supply projects in the areas of quality control, safety, health and environment. Additionally, Elsamex conducts research and development for road maintenance projects, with particular focus on bitumen technology.

Elsamex has experience of providing operations and maintenance (O&M) services to over 21,000 lane km of roads across 10 countries in Latin America and the European region. It is also involved in the maintenance of 3,100 petrol stations in Europe. The company mainly provides O&M services along with consulting services for road and water projects. Overall, Elsamex not only provides ITNL direct leeway into the international market, but also imparts its expertise and niche technology in the emerging high margin O&M segment, which would be utilised by ITNL in India as well in future.

Investment Rationale

1. Market leader in the road development space

ITNL is a surface transport player, with an established track record of having successfully bid, develop and operate road BOT projects on a commercial basis. ITNL was one of the first movers in road development segment and bagged the Noida toll bridge project in 1998 & currently has 23 projects comprising more than 12000 lane kms which is spread across 14 states of India. The company has witnessed decent portfolio growth over the last couple of years from merely 190lane kms in 2001 to almost 4000 lane kms by 2010. With many projects going on-stream in next 4-5 years, the company is likely to witness 3-fold jump in its projects under operation from current 4000 lane kms to 12000 lane kms by FY16.

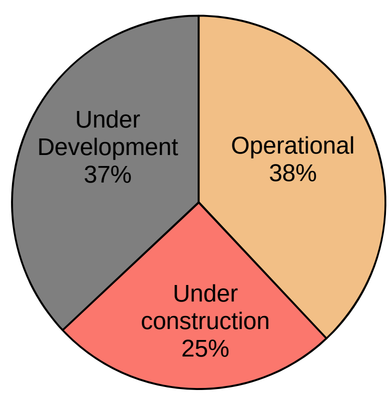
ITNL's road projects vis-à-vis its peers

Company	Total Projects	Length (kms)	Annuity	BOT
ITNL	22	4000	11	11
IRB Infra	16	1117	0	16
L&T	14	1000	-	-
Ashoka Buildcon	22	3500	0	22
GMR Infra	9	603	4	5
Nagarjuna Construction	5	250	2	3
IVRCL Infra	5	149	-	3
Reliance Infra	11	968	0	11

Source: Company & Keynote Capitals Institutional Research

Chart 1

Break-up of Road Portfolio (in Lane Kms)



Source: Company & Keynote Capitals Institutional Research

Of the total Portfolio 38% is already operational, 25% under construction & remaining 37% under development and expected to be operational by FY15-16.

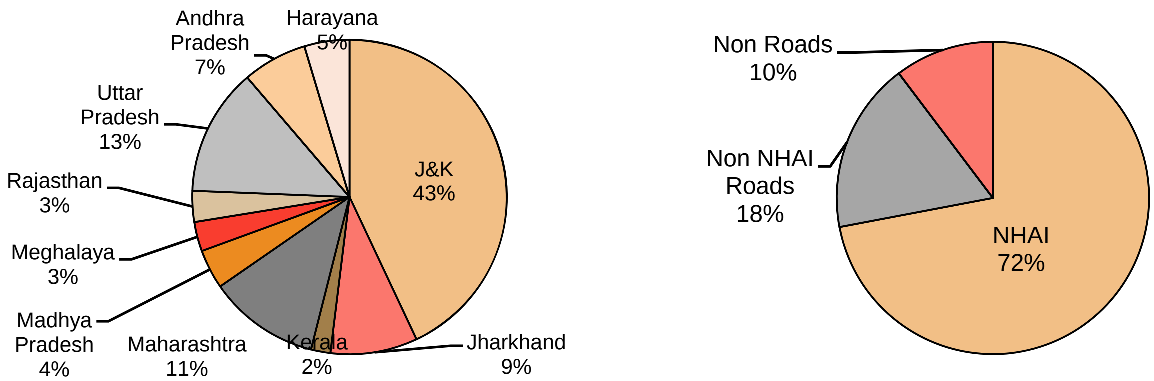
2. Strong Order book worth ₹9290Cr

Emerged as L1 projects worth ₹1660Cr (not including Almatty to Horgos project worth ₹9840Cr)

ITNL has bagged more than ₹15000Cr of projects in last two financial years and its order backlog stands at ₹9290Cr which is 5.5X of FY11 earnings, provides strong revenue visibility for next 30 to 36 months. The company has already done financial closure on almost all projects and construction work has also begun.

Chart 2

Geographical order book break-up | **Segmental order book break-up**



Source: Company & Keynote Capitals Institutional Research

Detail of projects bagged in FY10 & FY11

Project	Authority	Stake	Type	Cost ₹Cr	Year
Ranchi to Hazaribagh	NHAI	74%	Annuity	869	FY10
Pune to Sholapur	NHAI	100%	Toll	1402	FY10
Moradabad to Bareilley	NHAI	100%	Toll	1983	FY10
Three stretches under JARDP*	GoJ	90%	Annuity	1407	FY10
Mega Highways-II	GoR	50%	Toll	813	FY10
ChandrapurWarora	GoM	35%	Toll	700	FY10
Chennai to Nashri in J&K	NHAI	100%	Annuity	3720	FY11
Jorabat to Shillong in North East	NHAI	50%	Annuity	824	FY11
Narkatpally to Addanki in AP	GoAP	50%	Toll	1760	FY11
Madhya Pradesh Entry Point	GoMP	51%	Fee	1094	FY11
Gurgaon Metro Rail	HUDA	54%	Fee	1100	FY10
Nagpur City Bus Station	NMC	90%		20	FY10
Total				**15692**	

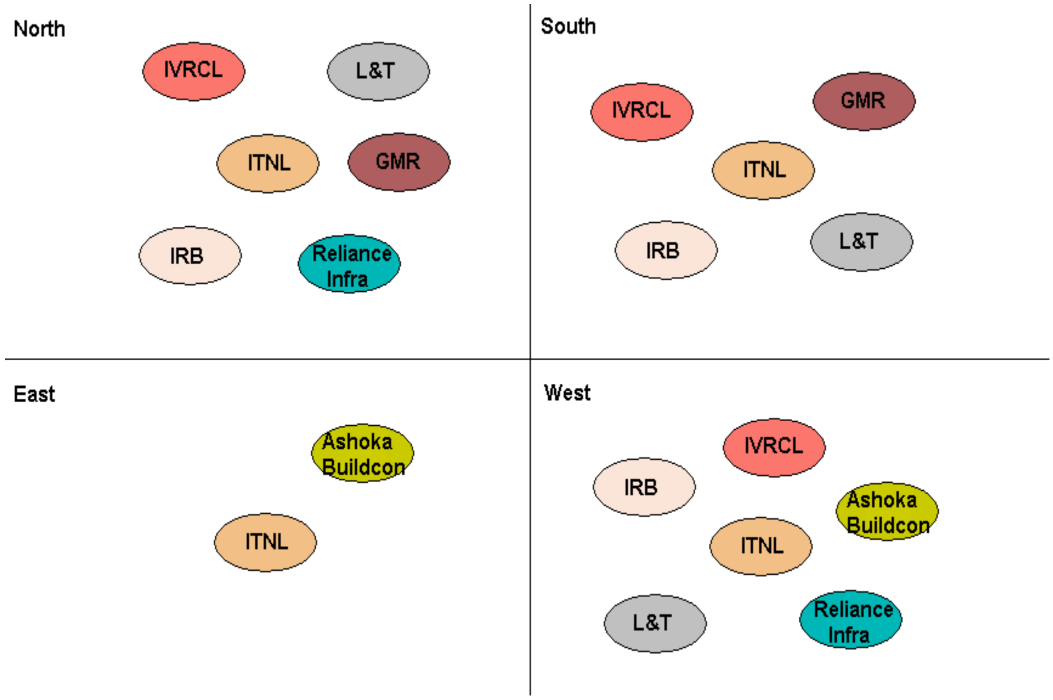
Source: Company & Keynote Capitals Institutional Research

3. Asset light model to mitigate risk

ITNL has adopted an asset – light model wherein the company undertakes design & engineering functions while outsources the construction activities. This model not only enables the company to mitigate construction related risk but also facilitates to have pan-India presence. It has diversified presence with its BOT projects spread over 14 states. Outsourcing of construction activities not only facilitates the company to quickly expand its reach to newer geographies but also helps it to lower the construction overheads and to avoid uncertainties related to work.

Chart 3

ITNl's Presence Vis-a-Vis its peers



Source: Company & Keynote Capitals Institutional Research

Since inception company carries design & engineering works and has gathered immense expertise in it. This has aided the company to bag various projects and also 9% stake in NHAI projects over last 2 years and will continue to do so in future as well.

4. Scalable execution model imparts flexibility

ITNL plays the role of facilitator by executing high margin jobs like designing, engineering & supervision in the overall development stage, whereas the remaining construction activities are sub contracted to local contractors. This allows company to ramp up execution in a faster manner with flexibility to expand geographically, which enhances the ability of the company to bid for future projects.

- **Outsourced construction imparts greater focus on flexibility**
  The company's business model thrives on sub contracting all the construction related activity. This leads to maintaining higher focus on executing high end works without being interrupted on day to day construction activities. The company appoints local contractor, who will execute projects with broad supervision of the company thereby leading to higher flexibility.

- **Flexibility in geographical and sectoral diversification**
  Sub contracting allows faster development across different geographies which have resulted in the company increasing its presence all over India. It has also expanded its offerings in other segments within surface transportation like metro rail & bus transportation which will offer significant opportunity as more & more sectors could open up for private participation.

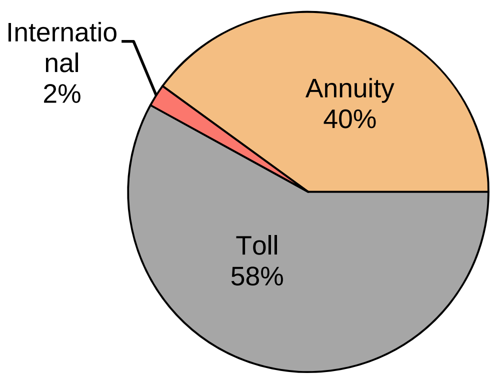
5. Diversified portfolio helps to de-risk its business model

➢ **Fair mix of annuity and toll reduces portfolio's traffic risk**

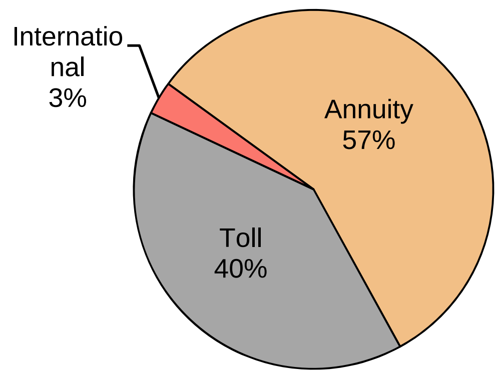
The company has 22 projects under its portfolio at various stages of development. In terms of lane Kms, 58% of the portfolio is contracted under the toll based model, 40% under annuity based model and 2% on international projects. Annuity based projects lead to overall risk mitigation as they are not exposed to traffic risks, thereby reducing volatility in cash flows. The overall project cost seems to imply that the company's revenue would be tilted in favour of annuity, once all the projects are operational in after five years.

Chart 4

Portfolio Mix - 10800 lane Kms



Portfolio Mix - ₹24830Cr



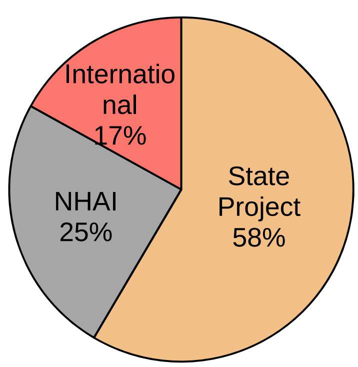
Source: Company & Keynote Capitals Institutional Research

➢ **Well balanced portfolio reduces dependence on NHAI**

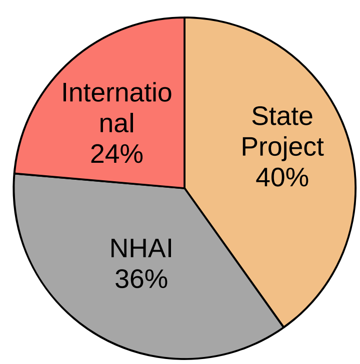
ITNL has well diversified offerings with fair share of projects from NHAI and state authorities. Diversification across 14 states and a strong track record of winning several state government projects has meant that the share of state projects in the overall portfolio has increased to ~51%.

Chart 5

Portfolio Mix – Authority wise 10800 lane Kms



Portfolio Mix – Authority wise ₹24830Cr



Source: Company & Keynote Capitals Institutional Research

With such a diversified offering under its portfolio, the company was not impacted by the awarding activity at NHAI. ITNL has still garnered road projects over ₹7000Cr in FY11, signifying the advantages of having a diversified offering.

6. Nascent foray across other transport verticals holds sizeable potential

ITNL also has presence in several surface transportation verticals, further immunizing the company. ITNL is also trying to spread its reach beyond India by participating in some international projects, which will further accelerate the growth of its overall portfolio

- **ITNL ENSO RAIL - Metro Rail**
  In Dec 2009, a consortium including ITNL was awarded a 99-year concession to develop a ~4.9km elevated metro rail line from Sikanderpur station to NH-8 in Gurgaon at a total project cost of about ₹1100Cr. ITNL holds around 54% stake in the project with the balance being held by DLF. Financial closure has already been done and construction works has also been started. It is expected to be operational in 2012.

- **NAGPUR BUS TRANSPORT - Bus transportation vertical**
  ITNL signed a concession agreement to mobilize, operate and maintain city bus services in Nagpur in Feb 2007 for a period of 10 years and renewable for another 5 years. ITNL holds 90% stake in the project. 370 buses have been deployed and another 158 buses are expected to be deployed in the near future.

- **Regional Airports**
  ITNL in consortium with Comet Group is developing two regional airports at Gulbarga and Shimoga in Karnataka. These projects were taken over from Maytas. ITNL has 40% stake in the consortium. The project cost is expected to be ₹400Cr and the concession period would be for 30 years.

- **MP BORDER CHECKPOST - Border check post management**
  ITNL has bagged an up gradation, modernization, development, operation & maintenance of 24 border check posts in Madhya Pradesh.

7. Acquisition of Elsamex helps strengthen BOT road project capabilities

The company expanded its presence in the international markets by acquiring Spain based company Elsamex SA which is engaged in the business of maintenance service for roads & highways in Europe. It currently has over 21000 Lane Kms of roads under maintenance in its geographical spread across Europe, Americas and Asian region. With this acquisition ITNL is the only Indian player with an integrated road sector presence across the entire value chain encompassing road development, financing and O&M. Apart from maintenance services, *Elsamex* also provides consulting services for roads and water supply projects in the areas of quality control, safety, health and environment. Additionally, *Elsamex* conducts research and development for road maintenance projects, with a particular focus on Bitumen technology.

Elsamex's Matrix (₹Cr)

Particulars	FY10	FY11
Net Sales	968.64	1027.20
Total Expenditure	908.10	943.74
Operating Profit	60.54	83.46
PAT	12.11	25.68
Net worth	301.29	256.80
Debt	-	385.20

Source: Company

Elsamex was loss making company which ITNL management streamlined and reduced Elsamex's finance cost. In FY2010, Elsamex contributed a significantly around 41% to ITNL's top-line. However, in FY11 its top-line remained flat at 160mn Euros, but owing to operational efficiency, its EBITDA margins have improved to 8% at 13mn Euros which has resulted in higher PAT of around 4mn Euros.

8. ITNL in sweet spot

We believe that ITNL being a market leader is well poised to leverage on the growing opportunities in the BOT space owing to 1) Strong parentage (belongs to the IL&FS group), 2) Experienced management at the helm of affairs, having rich experience of >22 years in infrastructure business; 3) Unique business model which is present across value chain, and 4) Recent favorable developments at the NHAI level.

- **Strong parentage**
  ITNL has a strong parent Infrastructure Leasing & Financial Services (IL&FS), which has rich experience in project advisory, project development and debt syndication. We believe that ITNL on account of having strong parentage would enjoy an edge over competition as it would leverage this advantage while bidding and qualifying for new projects or approaching lenders for financing its projects.

- **Experienced management**
  ITNL's Board comprises an experienced and professional management who have vast experience in the surface transportation segment. Some of the top personnel have also been associated with NHAI in the past, which we believe will benefit the company while bidding for upcoming projects.

- **Unique business model**
  ITNL's in-house engineering capabilities include a design & development unit, a testing laboratory and a web-based information management system. The company however does not have a construction arm on account of which it outsources it to third party contractors.

- **Favorable developments at NHAI**
  There has been a significant change in the functioning of NHAI from April 2009. The recent change in the requirement has taken net-worth criteria into consideration which will keep away the frivolous players off the road.

9. Increased in road sector outlay to benefit ITNL

India has one of the largest road networks (3rd largest) in the world, aggregating 3.3mn km and around 5% of world's total road network consists of 68.93mn km, it stands third after United States and China, aggregating 6.46mn km and 3.58mn km respectively. Roads carry ~65% of the freight and ~80% of the passenger traffic.

National Highways are the key constituents of India's road network since they carry ~40% of the total road traffic although they constitute only 2% of the total road network.

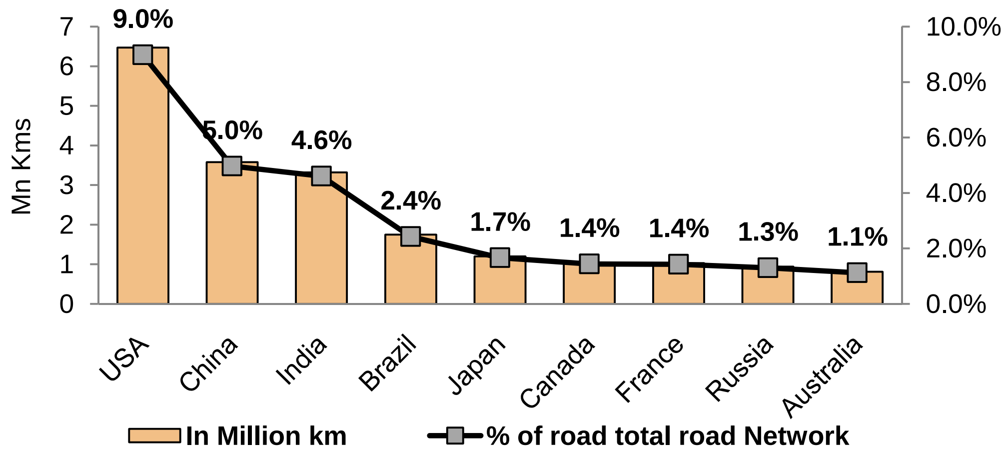
Indian Road Network

Particulars	Length (kms)
Expressways	200
National Highways	70548
State Highways	131899
Major District Roads	476763
Rural & other roads	2650000
Total	**3320410**

Source: MoRTH

Chart 6

World Road Network



Source: CIA World Fact Book & Keynote Capitals Institutional Research

Global ranking for road quality

Rank	Country	Score
1	Singapore	6.6
19	USA	5.7
35	UK	5.1
36	Thailand	5.1
53	China	4.3
55	Sri Lanka	4.2
62	Mexico	4.1
72	Pakistan	3.8
84	Indonesia	3.5
90	India	3.3
100	Bangladesh	3.0
105	Brazil	2.9

They are therefore very vital for economic development of a country as roads result in better connectivity, enhance accessibility and promote trade. Roads are the dominant segment in India's transportation sector. While India's road network is large, the quality of roads are poor. According to the World Economic Forum's Global Competitiveness Report 2010-2011, India ranks 90th with respect to quality of roads behind Asian counterparts such as Thailand, Sri Lanka, Pakistan and Indonesia. Further, a lot still needs to be done to improve to connectivity to villages given that 40% of India's villages do not have all-weather roads.

India will require US$70bn investment over the next three years to realize plans to build 20km of road per day to ensure future growth. For this NHAI is required to award at least 21000km over next 3-years so as to achieve the objective of constructing 7000km per year (equal to 20km per day). NHDP program comprises about 54000km, out of which, about 11000kms have already been 4-laned and another 6000km are under different stages of implementation. Thus, around 37000km is yet to be awarded for construction. However, these projects will be awarded over the next 3.5 to 4 years, assuming the construction period of 3 years.

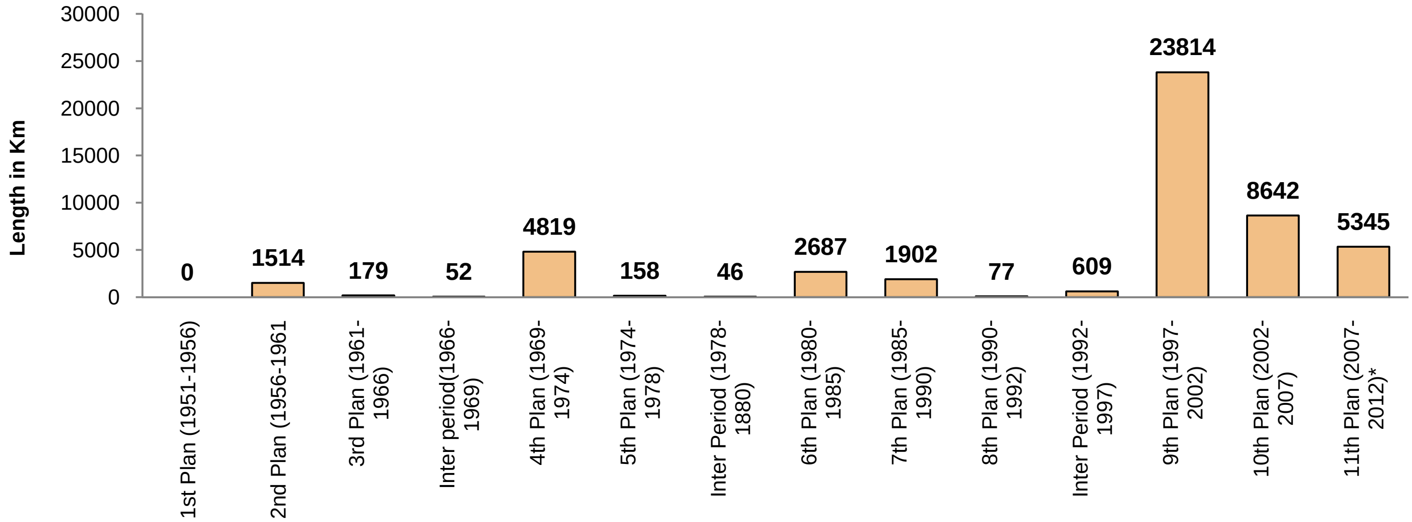
Phases of NHDP **(in Kms)**

Phases	Particulars	Length
I	Golden Quadrilateral, NS-EW corridor, port connectivity and others	7398
II	NS-EW corridor and other national highways	6647
III	Upgrading and four-laning of national highways	12109
IV	Improvement of national highways	14799
V	Six laning of existing four lane highways	6500
VI	Expressways	1000
VII	Ring roads, bypasses, flyovers	700

Source: NHAI, Company & Keynote Capitals Institutional Research

Chart 7

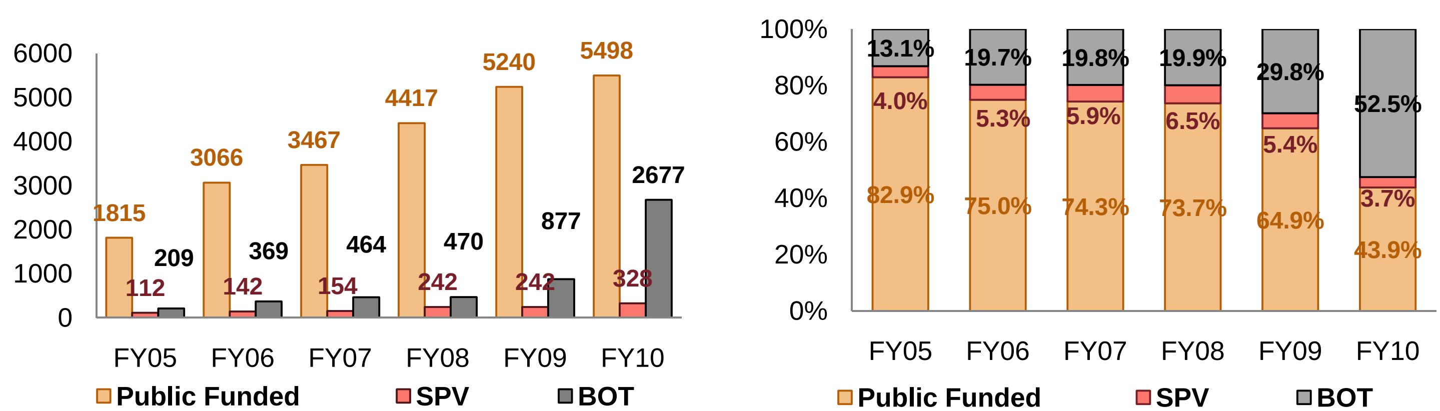
Plan wise addition of National Highways



Source: Ministry of Roads Transport & Highways, Keynote Capitals Institutional Research * XI plan till FY10

Chart 8

Toll Roads in India (NH) | **Toll Collection in India (NH)**



Source: Ministry of Roads Transport & Highways, Keynote Capitals Institutional Research

New initiative by Ministry of road transport & Highways

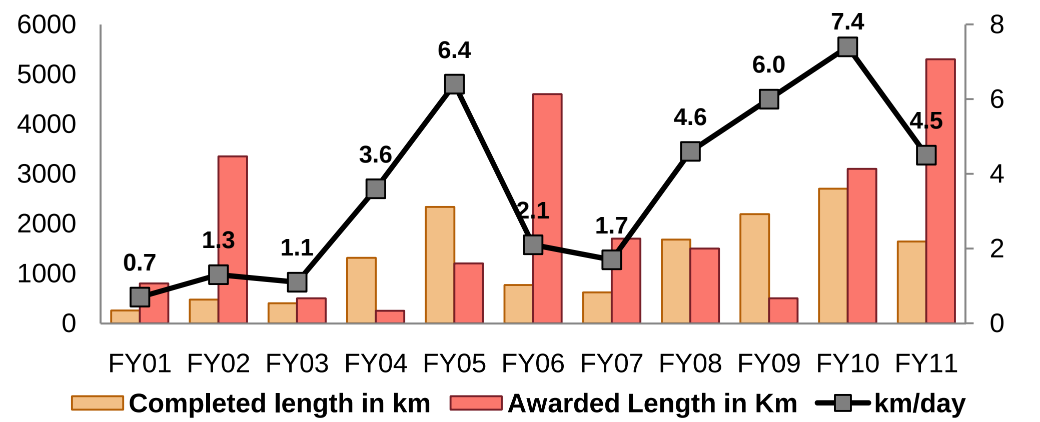
- Since January 2011, NHAI is on Facebook. More than 30,000 users visited and 971 registered themselves for participating in discussion forums/ complaints/ suggestions.
- 145 concession agreements on NHAI website are available for public viewing.
- All the tenders after August 2011 will be through e-tendering in order to speed up the process.
- Annual Pre-qualification of bidders introduced to cut delays and also the planning on Expressways intensified.

Ministry of Road, Transport and Highway targets to award around 7300km in FY12. In keeping with this, in Q1FY12, GOI invited bids for 2000kms and annual prequalification for 11151km. NHAI awarded ~5100km for FY11, far below its revised target of ~9000km for the year. However, the new minister is upbeat and is formulating favorable policies. Further, the recent decision for annual Request for Qualification (RFQ), would expedite the process.

Of the annual RFQs for 100 projects, 15 projects fall in Phase III of NHDP, 57 under Phase IV and 27 under Phase V and one project under SARDP-NE (Special Accelerated Road Development Program - North eastern region). If NHAI is able to achieve its new target we believe it would be able to catch up with the earlier target of constructing 20km/day of roads, which seems to be unlikely in the near future.

Chart 9

Execution and awarding trend



Source: Company & Keynote Capitals Institutional Research

NHAI awarding picks up

Awarding of new road projects had suffered for a delay period of 6-7 months (June-December 2010) due to several factors: 1) Delay in appointment of a new chairman of NHAI; 2) CBI raids on NHAI officials; and 3) Recent Issues of corruption that rattles the country. However, awarding by NHAI picked up and since February, 2011 it sanctioned projects worth ₹3330Cr. Following the cabinet reshuffle and taking of charge by the new minister who put in place schemes to fight corruption, NHAI seems better placed to speed up awarding of projects and meet its targets unhindered. The recent award momentum and newer achievable targets give us more confidence.

Projects	State	NH No	Length	TPC ₹Cr	NHDP Phase	Concessionaire	Type
Khagaria-Purnea	Bihar	31	140	664	Phase III	Punj Lloyd	Annuity
Barsaat-Krishnanagar	West Bengal	34	84	867	Phase III	Madhucon projects	Annuity
Krishnagar-Berhampore	West Bengal	34	78	702	Phase III	SEW Infra	Annuity
Gopalganj-chappra	Bihar	85	92	325	Phase III	Abhijeeet Infra	Annuity
Dhunkuri-Khargpur	West Bengal	6	111	1396	Phase V	Ashoka Buildcon	BOT-Toll
Ahmedabad- Varodara	Gujarat	8	102	3600	Phase V	IRB Infra	BOT-Toll

Source: NHAI & Keynote Capitals Institutional Research

National Highway Development Project (NHDP)

The National Highway Development Project (NHDP) initially included Golden Quadrilateral (GQ) and North-South and East-West corridor (NSEW) was later expanded to 54454km in seven phases. Of the total, the program has been currently implemented in four phases I, II, III, and V along with port projects covering total length of 34218km. Of this, 43% is already four-laned and six-laned, 26% is under implementation stage, and 30% is yet to be awarded. Until date, NHAI has expended totally to the tune of ₹115990Cr comprises of all phases.

Length in Kms	NHDP								Port Connected	Other NHs	Total by NHAI
	GQ	Phase I&II	Phase III	Phase IV	Phase V	Phase VI	Phase VII	Total			
Total Length	5846	7300	12109	14799	6500	1000	700	48254	380	1383	50017
Through BOT	864	2163	11609	12299	6500	1000	700	35135	-	-	35135
As a % of total length	14.8%	29.6%	95.9%	83.1%	100.0%	100.0%	100.0%	72.8%	-	-	70.2%
Completed	5817	5494	2048	0	467	0	0	13826	300	929	15055
Under Implementation	29	1227	5362	765	1833	-	41	9257	80	434	9771
Balance for award	-	421	4699	14034	4200	1000	659	25013	0	20	25033
Through BOT	-	421	4699	12299	4200	1000	659	23278	0	0	23278
Est Investment (₹Cr)	-	3800	51700	56100	52500	16000	7200	187300	0	200	187500
Est Investment in BOT (₹Cr)	-	3800	51700	49200	52500	16000	7200	180400	0	0	180400

Source: NHAI & Keynote Capitals Institutional Research

Recent funding initiatives

The Union Budget of FY12 had to some extent addressed the longstanding demand of infrastructure companies for long-gestation loans. The Budget increased FII investment limit in infrastructure corporate bonds to USD25bn from USD5bn. We view this development as a positive for the sector as it will address a number of issues faced by road developers: a) Long-term funding; b) Increasing the scope for SPV-level companies for external fund raising; c) Funding in domestic currency unlike in ECBs that carry currency risk. Although appetite for such papers may likely to increase from the present scenario for limited companies with AAA or AA+ rating in the road sector. Investors seem to prefer annuity projects to toll road projects and this move would benefit larger and quality companies in infrastructure space rather than smaller players.

Traffic growth to rise ahead

Considering the early stage of motorization in India, we believe traffic growth would not only sustain but will show an uptick in the coming years underpinned by favorable demographics, higher disposable income and economic activity and hence, we have estimated considerable growth in future.

B K Chaturvedi's Report – paving way for growth of road sector

The B K Chaturvedi committee was set up to resolve procedural impediments to the NHDP program and to arrive at a financial plan for the program. Acceptance of the B K Chaturvedi Committee's recommendation has been a blessing for the road sector and for developers since most projects had not taken during the period of economic slowdown. The revised concession agreement and regulations generated rejuvenated interest from investors and developers. This has resulted in NHAI awarding 5100km in FY11, which is highest in its history.

B K Chaturvedi committee recommendations

	Earlier Policy	Changes	Our View
Single Bid	Projects with single bid are rejected & re-tendered	Board is empowered to accept single bids after examining the reasonableness of the project	Would save time & speed up awarding activity
Land acquisition	NHAI to have 50% land in place before award.	NHAI to have 80% land in place before award	Reduce time consumption in land acquisition
Termination clause	Contract would be terminated, if avg. daily traffic exceeds designed capacity for three consecutive years, unless highway is augmented	If traffic exceeds, then DPR is prepared & based on that extension (max 5 yrs) is allowed at 15% IRR on incremental investment	Assured 15% IRR is positive & lend comfort to developer
Exit clause	Shareholding of the bidders in the SPV cannot be less than 51% during the construction period. 33% shareholding to be maintained for at least 3 years after commencement of operations. Post this 26% shareholding required till the end of concession period	Minimum 51% stake till COD, thereafter 26% till next two years, & then allowed to completely exit	Would free up capital for developer and allow to explore further opportunities
Pre - Qualification	Pre-qualification is done for individual project or a set of three	Pre-qualification would be an annual exercise, valid for 12 months or till 30th September, whichever is earlier	Would help developer save time
Award Mechanism	Priority given to BOT Toll project, in case of poor response, it is converted to BOT Annuity basis, & then further to EPC	Concurrent evaluation of all three modes of awarding	Would speed up awarding
Grant	40% grant was distributed during construction (20%) & during O&M (20%)	Now the entire 40% is available during construction phase	Would financially aide the project, as developer contribution reduces
Conflict of interest	A bid is rejected, in case a bidder holds above 5% in other bid across the same project	Crossholding of stake raised to 25%	Would help developer attract PE investors & infrastructure funds

Source: BKC Committee Report & Keynote Capitals Institutional Research

Recent policy changes

Issues	Existing regulation	Revised regulation	Our View
Pre-qualification	Individual projects are evaluated each time for bidding	Now a developer would be annually appraised for prequalification for a particular size of project	This move would save time both for developers and NHAI and in turn result in quicker awarding of projects
Networth requirement	Irrespective of project size, a consortium should have net-worth of 25% of project cost	• Up to project cost of ₹20bn, a consortium should have net-worth of 25% of project cost • From ₹20bn-₹30bn, a consortium should have net-worth of 25% of ₹20bn + 50% of incremental cost • For ₹30bn & above, a consortium should have net-worth of ₹10bn + 100% of incremental cost over ₹30bn	Definitely benefit large developers, as for large projects; it will reduce competition from smaller & non serious developers.
Financial closure	No criteria of Financial closure	Now, developers would be ineligible for bidding if three or more projects are not financially closed	Would again save time, as developers would prioritize to achieve financial closure as soon as possible to bid for another projects against waiting for projects.
Technical & financial score	Scores were assigned to consortium irrespective of their stake in JV	Now, scores are assigned proportionately to equity participation in the consortium	This will put a check on the 'Name lending' practice by which smaller developers used to get qualified

Source: Media & Keynote Capitals Institutional Research

Comparison of road development programs in other countries

Particulars	India	US	China
Programme	NHDP	Interstate Highway System	National Trunk Highway system
Implementing Authority	NHAI	State Government / FHWA	State Council
Who built it	State PWD / Private developers	State Government / transportation agencies	Provincial Transport Department
Who owns it	State PWD / Private developers	State Government	Majority by Government
Length	54454	68872	35000
Total Incurred Cost	$25.8bn*	$128.9bn	-
Initial Estimated Cost	$60bn	$127bn	$150bn
Reasons for Increased in Cost	Higher RM cost, Land Acquisition limitations	Increase in length, stricter design standard, & compliance with essential environment requirement & finally Inflation was a major factor	Completed 13years ahead of schedule
Funding	Budgetary allocation / Petrol Cess / Bonds / Tolls	Gasoline tax	Tolls / Provincial government funding
Toll	Majority roads are tolled	Few roads are tolled	Majority roads are tolled

Source: Company & Keynote Capitals Institutional Research
(***** 53.5% ongoing, ~28% completed and ~18.5% under implementation)

Concerns

- **Regulatory risk**

  The bidding process of BOT road projects, toll rates, etc is regulated by Government. Any major change in regulatory norms may affect the awarding and viability of projects.

- **Traffic risk at toll based BOT projects**

  Of the total road portfolio, 11 projects are toll-based and hence are directly linked to the traffic growth. Any decline in traffic which is lower than our expectations (assumed 5% growth p.a.) could adversely impact the forecasted toll revenue of ITNL.

- **Project execution risk**

  ITNL is totally dependent upon third party contractors for the construction activity. Inability to pick right contractor or lower bargaining power of the Company could have a negative impact on the margins of the Company.

- **Slowdown in awarding projects**

  Till the transition towards construction based revenue recognition is complete, the earnings are significantly linked to new award wins. Any big slow down in new award wins in future for ITNL could adversely impact E&C vertical's earnings.

- **Volatility in Interest Rate**

  The inherent nature of the BOT project requires high leverage. ITNL has one of the highest leveraged portfolios in the industry. Hence, its business model is vulnerable to interest rate fluctuations, and any hike in the interest rates could increase its interest costs.

- **Negative NPV**

  There are 2 projects (Beawar-Gomti & Andhra Pradesh Expressway) under ITNL's portfolio where the NPV comes to negative. This may affect the valuation by 1%.

Outlook & Performance

Standalone performance

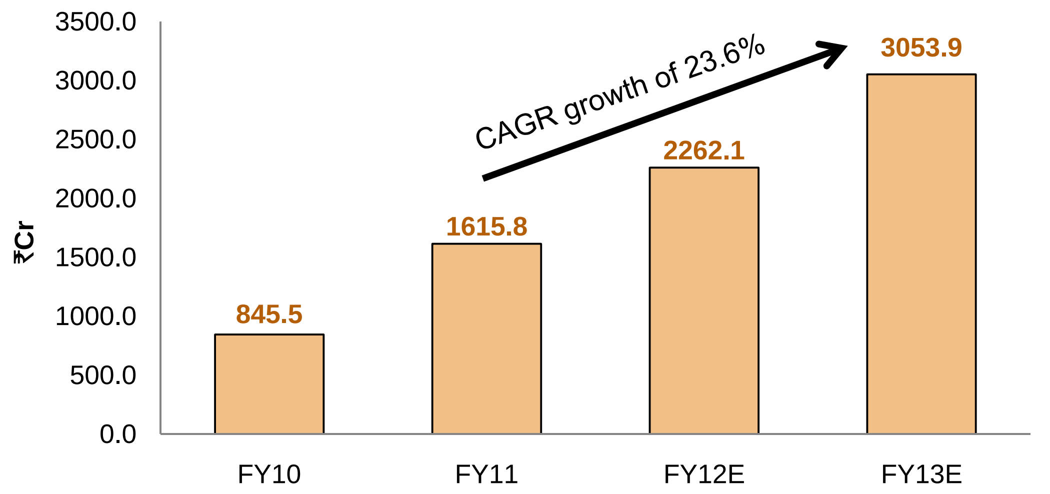
Earlier ITNL enjoyed high EBITDA margins in standalone accounts since bulk of the revenues were derived from advisory fees which are received upfront once the project achieves financial closure. Civil construction was directly awarded by the SPVs to third party contractors. Against the advisory fees key expenses the company had are employee cost and administrative and general expenses because of which the EBITDA margins were quite high. However, in FY10, the company moved to a model where the entire EPC contract is awarded to the parent company thereby allowing the parent company to earn EPC margins in addition to the advisory fees. The EPC contracts have much lower margins than the advisory fees.

Standalone revenues to grow at a CAGR of 23.6% over FY11-13E

Transition towards construction based revenue recognition policy coupled with an aggressive order inflow of ₹15692Cr during the last two years is expected to result in an explosive growth for construction segment. We expect ITNL's standalone revenues to grow at a CAGR of 24% from ₹1616Cr to ₹3054Cr over FY11-13E. We expect revenues to grow at a 40.0% & 35.0% in FY12E & FY13E respectively.

Chart 10

Standalone Revenues



E- Keynote Capitals Institutional Research Estimates

We expects order book to grow at a CAGR of 20% over FY11-13Eon the back of higher orders expected to be bagged from NHAI and State Government. Considering ITNL's share (9%) of orders from NHAI, we also expect sizeable order inflow in future.

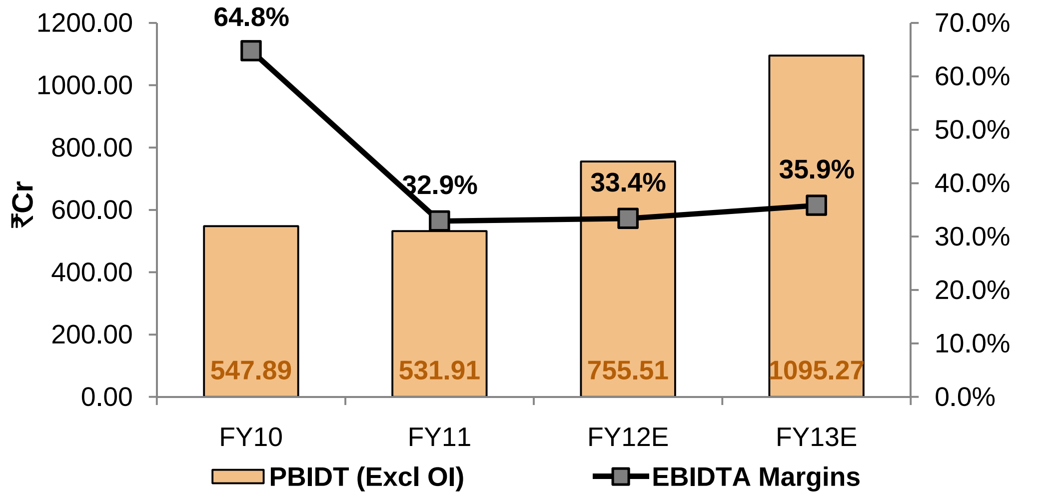
EBIDTA margins to normalize going forward

As per the earlier policy, the parent charged fees to the tune of 10-15% of the TPC to the SPV resulted in high EBITDA margins as the corresponding administrative expenses were minimal. However, now with the change in the policy, the parent books EPC revenues in two stages: initially the company books ~10% of the EPC contract as advisory fees, which results in high EBITDA margins of ~60-65%. However, in the second phase, it books revenues from the pure construction work, which fetches low margins of ~5-6%.

While revenue growth is expected to be strong, with the low margin EPC business contributing the bulk of revenues going forward, we expect EBITDA margin for the standalone business to reduce to 35.9% in FY13E from 64.8% in FY10 mainly due to effect of change in revenue model. However, we expect EBIDTA Margins to stabilize near 34-35% going forward.

Chart 11

EBIDTA & EBIDTA Margins



E- Keynote Capitals Institutional Research Estimates

Decline in EBIDTA margins leads to steady growth

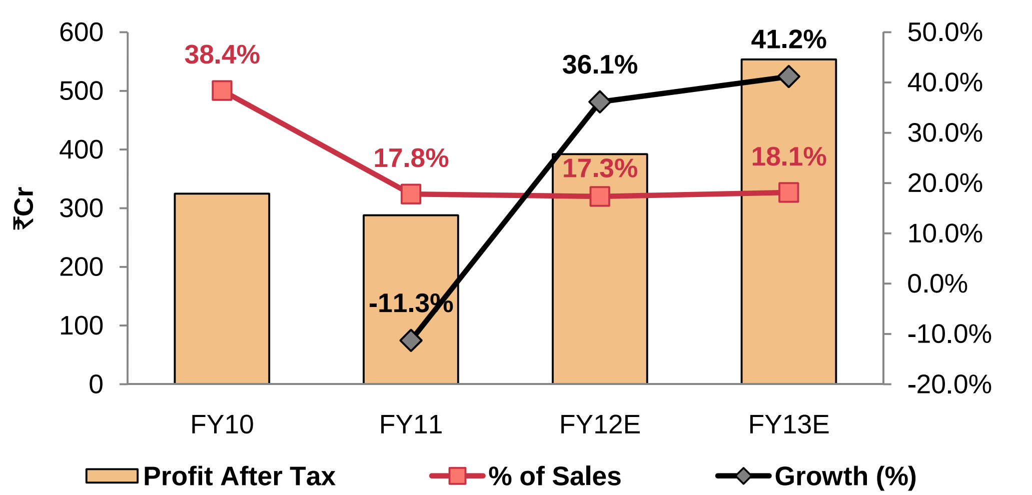
FY10 being windfall year with significant project wins and upfront recognition of fee related bookings, resulting into ₹531Cr EBIDTA. We believe that company will witness steady growth till FY13E to ₹1095Cr posting CAGR growth of 27.2%.

PAT margins to stabilize

PAT would grow at CAGR of 24.2% in line with top-line. However, it would be maintained around 17-18% due to rise in the interest rates resulting higher interest payments.

Chart 12

PAT Margins & Growth



E- Keynote Capitals Institutional Research Estimates

Consolidated performance

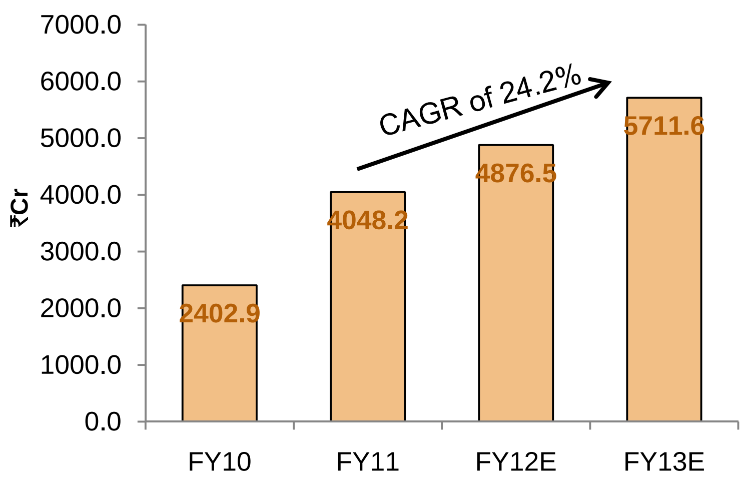
Revenue to grow at 24.2% CAGR

Revenues from new BOT concessions and faster execution of its E&C order book, we expect ITNL to post 24.2% consolidated revenue CAGR over FY11-13E. We believe that ITNL is on the verge of a steep growth trajectory led by aggressive asset accretion of BOT concessions, buoyant order backlog for the EPC division and transition from a fee based recognition policy to a construction based recognition policy. With 4 new projects (2 – toll and 2 - annuity) expected to commence operations during FY11-13. Elsamax revenues, which commanded major share till FY09, are expected to lose its overall significance in consolidated revenues as the company witnessing marginal growth in it.

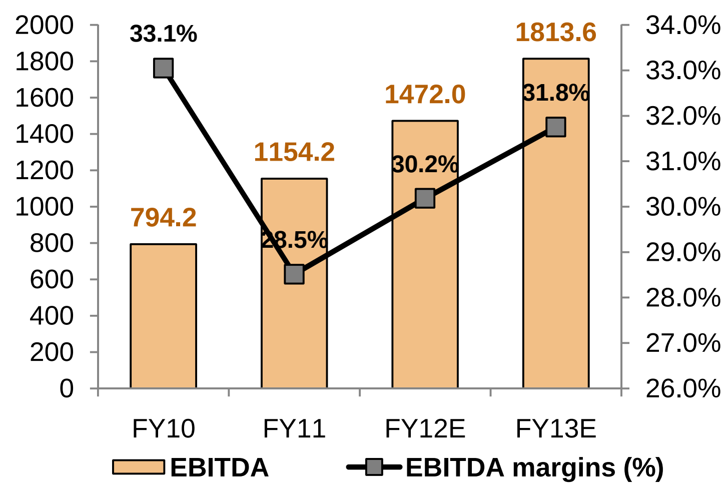
ITNL's consolidated revenue is expected to grow 20.5% and 17.1% to ₹4876.5Cr and ₹5711.6Cr in FY12E and FY13E respectively on account of higher construction income and toll/annuity receipts as more projects go under construction and become operational.

Chart 13

Top-line growth



EBIDTA & EBIDTA Margins



E- Keynote Capitals Institutional Research Estimates

EBITDA margins to be stabilize

There will be pressure in EBIDTA margins due to change in policy through rise in share of construction revenues. Thus, we estimate EBITDA margins to stabilize at around 30-31%. It is expected to grow at 27.5% and 23.2% to ₹1472.0Cr and ₹1813.6Cr in FY12 & FY13 respectively.

Valuations

We have valued the company on SOTP methodology. The value from the BOT projects comes to ₹154 which includes 1) ₹50.20 from operational projects and 2) ₹81.16 per share from projects which are under construction or development phase. While projecting the toll revenue, we have assumed 5% growth in traffic volume as well as in toll rates. We have taken discounted rates in the range of 12-14% for different projects considering the type and stage of execution/operation. EPC business is valued at FY12E PE multiple of 9x which is 25% discount to the core construction companies works out to ₹181.7 per share. Elsamex and other project like metro rail, MP Border check post, Nagpur Bus Service etc are valued at 1x of the book value. Hence, we arrive at target price of ₹248.91 per share which is 15.4% upside from the CMP. We initiate a coverage on the stock with **'Buy'** recommendation.

Particulars	**Method**	**Discount**	**ITNL's Value**	**Value per share**
Gujarat Toll Roads	FCFE	13%	570.88	29.38
West Gujarat Expressway	FCFE	13%	158.13	8.14
RIDCOR PH 1	FCFE	13%	138.99	7.15
Beawar-Gomti	FCFE	13%	-8.56	-0.44
RIDCOR PH 2	FCFE	14%	325.93	16.77
Warora-Chandarpur	FCFE	14%	23.50	1.21
Pune-Sholapur	FCFE	14%	288.73	14.86
Moradabad-Bareily	FCFE	14%	150.94	7.77
Narketpali-addanki	FCFE	14%	123.19	6.34
North Karnataka Expressway	FCFE	12%	35.35	1.82
Thiruvanthapuran City Rd	FCFE	12%	5.47	0.28
AP Expressway	FCFE	12%	-25.94	-1.34
Hyderabad Outer Rng Road	FCFE	12%	101.17	5.21
East Hyderabd Expressway	FCFE	13%	44.07	2.27
Hazaribaug-Ranchi	FCFE	13%	19.86	1.02
Jorbat-Shillong	FCFE	13%	114.06	5.87
Chenani-Nashri	FCFE	13%	301.95	15.54
Jharkhand Ph 1	FCFE	13%	98.59	5.07
Chattisgarh Expressway way	FCFE	13%	86.04	4.43
Total BOT			**2552.34**	131.36
Vansh Nirmay Infra	BV	1x	10.00	0.51
Metro Rail Projects	BV	1x	35.30	1.82
MP Check Post	BV	1x	25.50	1.31
Elsamex Ltd	BV	1x	272.20	14.01
Noida Toll Bridge Roads	M Cap	20%	94.41	4.86
EPC Business	P/E	9	3530.43	181.70
Net Debt at Parent Level			-1683.86	-86.66
Total Value				**248.91**

Peer Comparison

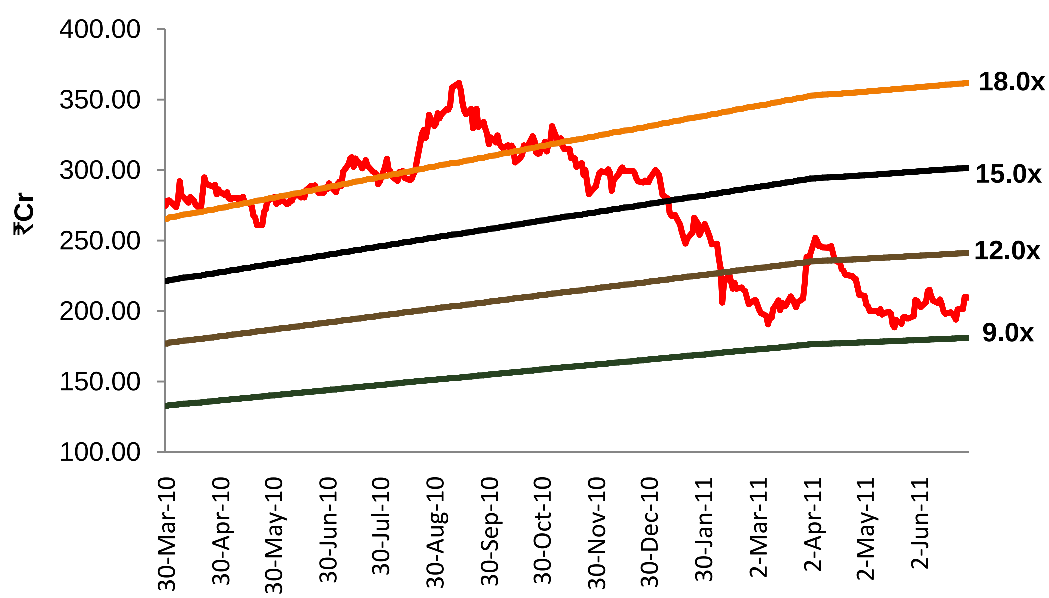
Key Operating parameters of Peer Group (FY11) **(₹Cr)**

Particulars	Ashoka Buildcon	IVRCL	L&T	Rel Infra	IRB	ITNL
Share Price	277.25	71.10	1807.75	541.65	174.35	215.50
Market Cap (₹Cr)	1458.3	1898.4	110272.8	14483.7	5795.4	4187.2
Revenues (₹Cr)	1302.02	6803.57	51552.03	14918.99	2438.11	4048.23
EBIDTA (₹Cr)	390.66	930.25	9311.38	2637.42	1365.06	1384.77
PAT (₹Cr)	208.00	50.60	4456.17	1551.61	452.38	432.88
EBIDTA %	30.0%	10.8%	15.1%	12.8%	44.9%	28.5%
PAT %	16.0%	0.7%	8.6%	10.4%	18.6%	10.7%
EPS (₹/Share)	39.54	1.89	72.45	58.16	13.61	22.28
Book Value	132.32	102.29	348.58	845.51	73.19	88.21
P/E (x)	7.01	37.62	24.95	9.31	12.81	9.32
P/BV (x)	2.10	0.70	5.19	0.64	2.38	1.78
EV/EBIDTA (x)	8.18	8.98	14.71	13.11	8.17	7.37
ROE (%)	29.9%	0.5%	8.6%	4.2%	6.7%	7.1%
ROCE (%)	30.1%	1.9%	31.2%	8.1%	20.2%	26.0%

Source: Company, Bloomberg & Keynote Capitals Institutional Research

Chart 15

1 Year Forward PE Band



Source: nseindia.com, Company & Keynote Capitals Institutional Research

Financials

Consolidated Profit & Loss Account

(₹Cr)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1225.37	2402.88	4048.20	4876.53	5711.65
Growth (%)	238.9%	96.1%	68.5%	20.5%	17.1%
Total Expenditure	1032.04	1608.67	2893.91	3404.54	3897.98
PBIDT (Excl OI)	193.33	794.21	1154.29	1472.00	1813.66
Other Income	106.64	84.37	78.57	80.00	40.00
Operating Profit	299.97	878.58	1232.86	1552.00	1853.66
Interest	174.30	294.09	498.06	675.63	796.54
PBDT	125.67	584.49	734.80	876.37	1057.13
Depreciation	35.30	60.31	61.42	83.47	108.95
PBT	90.37	524.18	673.38	792.90	948.17
Tax	48.26	185.79	224.25	198.23	237.04
Profit After Tax	32.11	338.39	449.13	594.68	711.13

E- Keynote Capitals Institutional Research Estimates

Consolidated Balance Sheet

(₹Cr)

Particulars	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	171.42	194.27	194.27	194.27	194.27
Reserves & Surplus	714.80	1474.37	2158.93	2753.61	3464.74
Shareholders Fund	886.22	1668.64	2353.20	2947.88	3659.01
Minority Interest	77.37	111.83	123.90	142.55	168.05
Loan Funds	1854.20	3321.52	5467.00	7600.31	9136.02
Total Liabilities	**2817.79**	**5101.99**	**7944.10**	**10690.74**	**12963.08**
Total Fixed Assets	1146.92	1894.67	4277.39	6303.99	7587.71
Investments	210.02	454.37	454.37	454.37	454.37
Cash and Bank	*160.14*	*550.21*	*566.23*	*617.84*	*761.92*
Total Current Assets	2339.93	3697.62	4958.25	6042.15	7255.99
Total Current Liabilities	770.37	831.77	1666.42	1998.86	2239.09
Net Current Assets	1569.56	2865.85	3291.83	4043.28	5016.90
Net Deferred Tax	-64.71	-77.87	-79.50	-110.90	-95.90
Total Assets	**2861.79**	**5137.02**	**7944.10**	**10690.74**	**12963.08**

E- Keynote Capitals Institutional Research Estimates

Consolidated Cash Flow Statement

(₹Cr)

Particulars	FY09	FY10	FY11E	FY12E	FY13E
Profit Before Tax	90.37	524.18	673.38	792.90	948.17
Add: Depreciation	35.30	60.31	61.42	83.47	108.95
Add: Interest Expenses	174.30	294.09	439.13	615.63	766.54
Changes In working Capital	-158.50	-140.10	-409.96	-699.84	-829.53
Cash Flow after changes in WC	91.57	737.28	763.97	792.15	994.13
Tax Paid	41.20	42.40	224.25	198.23	237.04
Cash From Operating Activities	50.37	694.88	539.72	593.93	757.09
Cash from Investing Activities	-708.90	-604.90	-2112.54	-1966.60	-1253.72
Cash from Financing Activities	407.60	331.90	1763.45	1424.28	640.72
Net Cash Inflow / Outflow	**-250.93**	**421.88**	**190.63**	**51.61**	**144.09**
Opening Cash & Cash Equivalent	**204.65**	**-46.28**	**375.60**	**566.23**	**617.84**
Closing Cash & Cash Equivalent	**-46.28**	**375.60**	**566.23**	**617.84**	**761.92**

E- Keynote Capitals Institutional Research Estimates

Consolidated Ratios

Turnover Ratios	FY09	FY10	FY11	FY12E	FY13E
Total Assets Turnover	0.43	0.47	0.51	0.46	0.44
Fixed Assets Turnover	1.07	1.27	0.95	0.77	0.75
Net sales to net WC	0.78	0.84	1.23	1.21	1.14
Net Working Capital Days	467.52	435.33	296.80	302.63	320.60
Inventory Turnover	49.93	82.40	60.83	60.83	73.00
Inventory Days	7.31	4.43	6.00	6.00	5.00
Advances Turnover	0.90	0.97	1.22	1.18	1.16
Advances Days	407.47	375.26	300.00	310.00	315.00
Debtors Turnover	1.56	3.71	4.06	4.06	3.84
Debtors Days	234.52	98.41	90.00	90.00	95.00
Creditors Turnover	1.75	3.45	2.69	2.68	2.81
Creditors Days	209.07	105.85	135.82	136.14	129.67

E- Keynote Capitals Institutional Research Estimates

Valuation Ratios (x)	FY09	FY10	FY11	FY12E	FY13E
Market Price (₹)	129.20	244.70	215.50	215.50	215.50
EPS (x)	1.56	14.76	19.59	25.94	31.02
Book Value Per Share	44.63	74.31	102.64	128.58	159.59
PE (x)	68.97	14.05	9.32	7.04	5.89
P/BV (x)	2.50	2.85	1.78	1.42	1.14
EV/EBIDTA (x)	29.29	10.00	7.37	5.86	4.90
Market Cap /Sales (x)	3.17	1.62	1.03	0.86	0.73

E- Keynote Capitals Institutional Research Estimates

Return Ratios (%)	FY09	FY10	FY11	FY12E	FY13E
ROCE	9.2%	15.9%	14.7%	13.7%	13.5%
ROE	3.5%	19.9%	19.1%	20.2%	19.4%

E- Keynote Capitals Institutional Research Estimates

Margins (%)	FY09	FY10	FY11	FY12E	FY13E
PBIDTA	24.5%	36.6%	30.5%	31.8%	31.8%
PBIT	21.6%	34.1%	28.9%	30.1%	30.1%
PBDT	10.3%	24.3%	18.2%	18.0%	18.0%
PBT	7.4%	21.8%	16.6%	16.3%	16.3%
PAT	2.6%	14.1%	11.1%	12.2%	12.2%

E- Keynote Capitals Institutional Research Estimates

Other Ratios	FY09	FY10	FY11	FY12E	FY13E
Payout Ratio (%)	-	14.7%	11.1%	10.4%	10.4%
Interest Cover (x)	1.52	2.78	2.35	2.37	2.37
EPS Growth (%)	-	848.8%	32.7%	42.6%	17.5%

E- Keynote Capitals Institutional Research Estimates

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