

IL&FS Transportation Networks Ltd.

Q2 FY12 Result Update

Nov 14, 2011

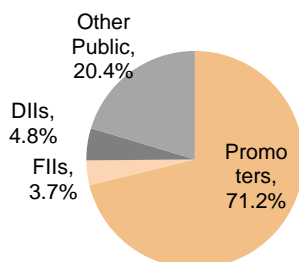
Key Stock Data

Sector:	Infra (Power)
CMP:	₹200.0
52wk High/Low:	₹327.7/170.0
Market Cap:	₹38.85bn (\$777mn)
6m Avg. daily vol:	15986
BSE Sensex:	17118.7
Reco:	'Buy'
Target Price:	₹248.77

Stock Codes

Bloomberg Codes:	ILFT.IN
Reuters code:	ILFT.BO
BSE Code:	53177
NSE Code:	IL&FSTRANS
Face Value:	₹10

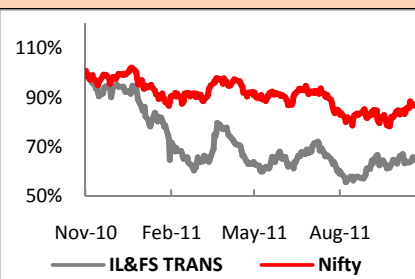
Shareholding pattern (Sep 2011)



Price Performance (%)

1 Mth	3 Mths	6 Mths	12 Mths
2.5%	7.6%	2.6%	-36.3%

Stock Price Performance



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IL&FS Transportation Networks Ltd. (ITNL) is one of the largest surface transport infrastructure companies in the country has posted Q2 FY12 results almost in line with our expectation with PAT falling short.

In Q2FY12, ITNL posted strong revenue growth, however higher interest cost led to fall PAT growth as expected. Growth in top-line was mainly due to pick-up in the execution of under construction projects. With financial closures achieved on all existing road projects (barring the recently bagged INR4.3bn stretch under JARDP), the company presently has ample jobs in hand for execution over 15-18 months. Consequently, we remain confident of a selective and sensible bidding strategy from ITNL forbids invited over 6-9 months.

Key Performance Highlights

- ITNL reported standalone revenues of ₹648.3Cr v/s ₹372.9Cr, EBIDTA of ₹162.7Cr v/s ₹157.2Cr and PAT of ₹61.0Cr v/s ₹78.5Cr for Q2 FY12.
- Consolidates Revenues grew 42.1% y-o-y to ₹1255.5Cr from ₹883.3Cr, EBIDTA grew 36.7% to ₹382.9Cr from ₹280.2Cr and PAT grew 19.0% to ₹132.3Cr from ₹111.2Cr.
- EBIDTA Margins have fallen down 120bps to 28.4% from 29.6% mainly on account of increased contribution from the comparatively lower margin construction segment.
- Moderate PAT growth of 19.0% was led by higher interest cost. PAT margins fallen down 210bps.
- The company's order backlog stands at ₹8900Cr as against ₹9280Cr as against previous quarter.

Outlook & Valuation

An existing order backlog of ₹8900Cr across 14 projects to be executed over 24-30 months coupled with rise in awarding activities from government over the next 12-15months make us confident of a significant ramp up in contracting income over the period FY11-13. A leadership position in the road vertical, strong parentage of IL&FS, partnerships and bilateral contracts with state governments coupled with relatively diversified and de-risked business portfolio make us positive on ITNL. There is no change in our estimates and we maintained BUY with 12 months target price of ₹248 per share.

	(₹ Cr)							
Particulars	Q2FY11	Q1FY12	Q2FY12	Y-o-Y	Q-o-Q	H1 FY11	H1 FY12	Y-o-Y
Net Sales	883.29	1093.12	1255.53	42.1%	14.9%	1659.36	2348.65	41.5%
Total Expenditure	621.81	761.88	898.86	44.6%	18.0%	1136.42	1660.74	46.1%
PBIDT (Excl OI)	261.48	331.24	356.67	36.4%	7.7%	522.94	687.91	31.5%
Other Income	18.69	22.50	26.21	40.2%	16.5%	37.51	48.71	29.9%
Operating Profit	280.17	353.74	382.88	36.7%	8.2%	560.45	736.62	31.4%
Interest	98.28	142.57	169.36	72.3%	18.8%	203.74	311.93	53.1%
PBDT	181.89	211.17	213.52	17.4%	1.1%	356.71	424.69	19.1%
Depreciation	14.19	16.08	16.02	12.9%	-0.4%	27.64	32.10	16.1%
PBT	167.70	195.09	197.50	17.8%	1.2%	329.07	392.59	19.3%
Tax	56.48	76.59	65.15	15.4%	-14.9%	110.61	141.74	28.1%
Profit After Tax	111.22	118.50	132.35	19.0%	11.7%	218.46	250.85	14.8%

Contribution from Elsamex

Revenues from Elsamex were lower at 57mn Euros and the EBIDTA and PAT was 5.7mn Euros and 1.5mn Euros respectively. There was operational efficiency which led to rise in EBIDTA margins of 10% compared with previous quarter margins of 9%.

Order backlog shows revenue visibility for next 24-30 months

ITNL current order backlog stood at ₹8900Cr which 5.5x of FY11 standalone revenues which doesn't include ₹1500Cr Udampur-Ramban project that has gone for rebidding and ₹160Cr outdoor stadium project, Kerala where ITNL is L1. No orders are received due to high intensity of competition in the road sector caused by drying up of orders in other sectors. However, the award activity has picked up in the last couple of quarters, thus presenting opportunities for road developers; ITNL is expected to perform well considering the current position of the company.

Improvement in execution of EPC business

ITNL's standalone revenue witnessed stunning growth of 73.8%% y-o-y to ₹648.3Cr v/s ₹373.0Cr due to ramp-up in execution of under-construction projects and increased fee income (supervision fee income) from Jharkhand road project, RIDCOR Ph-2 and other under-construction projects. As per management, ITNL has received environment clearances for the Pune-Sholapur project and expected to receive appointed date in few days but work has already been started on the project and around 15% of the work is completed. However, Revenue has not booked and will come in following quarter. ITNL's order book as of Sept 30, 2011, stood at ₹8900Cr (2x FY2011 revenue).

Two project awarded under Jarkhand Accekerated Development Program

During the quarter, ITNL has been awarded two project stretching 198kms worth ₹673Cr under Jharkhand Accelerated Development Program. We have not included in our estimates as the financial closure is still awaited. However it is expected to achieve financial closure by the end of FY12. These projects are annuity based project, thereby increasing strength on annuity projects.

Bidding pipeline worth ₹7177Cr

ITNL has already bid around ₹7177Cr worth of projects (1161kms). Six projects worth ₹4803Cr are from NHAI and remaining from states government.

Consolidation of Average Daily Toll collection at several projects (₹ Cr)

Projects	FY11	Q1Y12	Q2Y12	Half	
				Yearly	Q-o-Q
Ahmedabad Mehsana Road	0.13	0.16	0.16	22.0%	3.9%
Vadodara Halol Road	0.10	0.11	0.12	19.8%	7.1%
Noida Toll Bridge	0.19	0.19	0.20	3.1%	2.1%
Mega Highways Rajasthan Ph-1	0.29	0.40	0.40	37.1%	-1.2%
Rajkot Jetpur -Gondal (Gujrat)	0.09	0.10	0.10	7.6%	1.0%
Beawer - Gomti	0.04	0.04	0.05	-	4.5%
Total Average Daily Toll	0.85	1.01	1.02	20.4%	1.6%

Average daily collection has been growing significantly in few stretches. Overall average daily toll collection including annuity is up 9.63% Q-o-Q to ₹1.82Cr per day compared to ₹1.66Cr per day. Addition of Eastern Hyderabad expressway to the annuity project further improved the overall average daily collection for IL&FS Transportation.

Less than 10% of equity contribution remaining

The company at the parent level has already infused huge amount of ₹2650Cr in different SPVs. Now only equity contribution of ₹150Cr would be required of which major investment would be in Jharkhand projects, Hazaribad – Ranchi and would be funded through internal accrual.

EBIDTA Margins to improve in the coming years

Currently major portion of the revenues are from EPC division which has only 10-15% EBIDTA margins where the margins from BOT projects are in the range of 80-85%. As more and more projects are towards the completion stage revenue contribution from BOT projects would rise thereby improving the margins in the coming years. Currently contribution from EPC is around 80%, BOT is around 11% and remaining is fee based income. The EBIDTA margins would remain range of 25-30% for the current year.

Debt-Equity at Standalone Still below industry average

The Debt Equity at the standalone level has increased marginally on account of increase in borrowings for meeting cash flow requirement. It has increased from 1.09 at 31st March 2011 to 1.13 at 30 Sep, 2011 but still at the comfortable levels. However consolidated debt had increased to 2.68 as on Sep 2011 from 2.40 as on March 2011 mainly on account of drawdown happening from debt tied-up for each of the projects and is mostly project recourse debt.

Consolidated P&L					(₹ Cr)
Particulars	FY08	FY09	FY10	FY11	FY12E
Net Sales	732.70	991.90	1704.80	2438.11	2951.72
Total Expenditure	320.80	553.00	905.80	1344.20	1579.51
PBIDT (Excl OI)	411.90	438.90	799.00	1093.91	1372.20
Other Income	52.00	28.20	48.90	64.49	0.00
Operating Profit	463.90	467.10	847.90	1158.40	1372.20
Interest	195.80	137.70	249.40	357.20	397.21
PBDT	268.10	329.40	598.50	801.20	975.00
Depreciation	101.60	114.40	181.90	225.40	332.03
PBT	166.50	215.00	416.60	575.80	642.97
Tax	40.00	37.80	13.30	111.70	68.00
Profit After Tax	126.50	177.20	403.30	464.10	574.97

(E: Keynote Capitals Institutional Research Estimates)

Consolidated Balance sheet					(₹ Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E
Share Capital	332.4	332.4	332.4	332.4	332.4
Total Reserves	1288.3	1397.7	1707.5	2163.1	2726.8
Shareholder's Funds	1620.7	1730.1	2039.9	2495.5	3059.2
Minority Interest	28.1	59.9	77.9	95.0	110.0
Deferred Liabilities	2.6	18.2	26.7	30.0	26.4
Total Debts	2021.2	2485.9	2915.2	3379.9	4563.4
Total Liabilities	3672.6	4294.1	5059.7	6000.4	7759.0
Net Block	1884.9	2016.2	3467.4	4052.0	4901.8
Capital Work in Progress	888.8	1454.5	880.2	897.6	1200.8
Total Fixed Assets	2773.7	3470.7	4347.6	4949.6	6102.6
Investments	198.5	110.8	45.1	50.0	80.0
Total Current Assets	958.8	1018.1	1147.7	1630.5	2239.2
Total Current Liabilities	260.0	306.5	481.6	630.5	664.2
Net Current Assets	698.8	711.6	666.1	1000.0	1574.9
Total Assets	3672.6	4294.1	5059.7	6000.4	7759.0

(E: Keynote Capitals Institutional Research Estimates)

Consolidated Cash Flow					(₹ Cr)
Particulars	FY08	FY09	FY10	FY11	FY12E
Profit Before Tax	166.5	215.0	416.6	575.80	642.97
Add: Depreciation	101.6	114.4	181.9	225.40	332.03
Add: Interest Expenses	193.4	115.9	214.4	357.20	397.21
Op. profit before WC changes	411.6	444.1	799.5	1158.40	1372.20
Changes in working Capital	-158.5	-140.1	185.0	54.64	-198.34
Cash Flow after changes in WC	253.1	304.0	984.5	1213.04	1173.86
Tax Paid	41.2	42.4	81.2	111.70	68.00
Cash From Operating Activities	211.9	261.6	903.3	1101.34	1105.86
Cash from Investing Activities	-528.8	-604.7	-1022.3	-782.31	-1437.75
Cash from Financing Activities	407.6	330.9	142.6	257.27	708.49
Net Cash Inflow / Outflow	90.7	-12.2	23.6	576.29	376.60
Opening Cash & Cash Equivalent	20.3	111.0	98.8	122.44	698.73
Closing Cash & Cash Equivalent	111.0	98.8	122.4	698.73	1075.34

(E: Keynote Capitals Institutional Research Estimates)

Consolidated Ratios

Turnover Ratios	FY08	FY09	FY10	FY11E	FY12E
Total Assets Turnover	0.2	0.2	0.3	0.4	0.4
Fixed Assets Turnover	0.3	0.3	0.4	0.5	0.5
Net sales to net working capital	1.0	1.4	2.6	2.4	1.9
Net Working Capital Days	348.1	261.9	142.6	149.7	194.8
Inventory Turnover	14.6	4.8	10.0	12.0	12.0
Inventory Days	25.0	75.6	36.4	30.4	30.4
Advances Turnover	2.0	2.6	3.9	3.7	3.5
Advances Days	186.7	141.6	93.8	100.0	105.0
Debtors Turnover	62.1	76.3	57.4	40.2	42.9
Debtors Days	5.9	4.8	6.4	9.1	8.5
Creditors Turnover	3.1	4.2	5.7	5.5	6.6
Creditors Days	119.4	86.0	63.9	66.0	55.0
Valuation Ratios	FY08	FY09	FY10	FY11E	FY12E
Market Price (₹)	147.6	147.6	147.6	147.6	147.6
EPS (x)	3.8	5.3	12.1	14.0	17.3
Book Value Per Share	48.8	52.0	61.4	75.1	92.0
PE (x)	38.8	27.7	12.2	10.6	8.5
P/BV (x)	3.0	2.8	2.4	2.0	1.6
EV/EBIDTA (x)	16.0	15.9	8.8	6.4	5.4
Market Cap/Sales (x)	6.9	5.1	2.9	2.1	1.7
Return Ratios (%)	FY08	FY09	FY10	FY11E	FY12E
ROCE	9.9%	8.2%	13.2%	15.7%	13.3%
ROE	7.8%	10.2%	19.8%	18.6%	18.8%
Margins (%)	FY08	FY09	FY10	FY11E	FY12E
PBIDTA	63.3%	47.1%	49.7%	47.5%	46.5%
PBT	22.7%	21.7%	24.4%	23.6%	21.8%
PAT	17.3%	17.9%	23.7%	19.0%	19.5%
Other Ratios	FY08	FY09	FY10	FY11E	FY12E
Payout Ratio (%)	0.0%	28.1%	12.4%	10.7%	11.6%
Interest Cover (x)	1.9	2.6	2.7	2.6	2.6
EPS Growth (%)	0.0%	40.1%	127.6%	15.1%	23.9%

(E: Keynote Capitals Institutional Research Estimates)

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