

Pub Date:	29 Sep 2016	Publication:	The Hindu Business Line	Edition:	Mumbai
Journalist:	Priya Kansara	Language:	English	Page No.:	13
CCM:	43.14	MAV:	73332.89	Circulation	17718

## IRB Infra vs IL&FS Transport: which one will outperform?

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Mumbai, September 28

Investors have reacted differently to the news of approval by the Securities and Exchange Board of India for listing investment trusts of the two large road developers — IRB Infrastructure Developers and IL&FS Transportation Networks (ITNL).

Today, ITNL's stock soared 6 per cent intraday and closed up 2.5 per cent on the BSE post the company announcement

**Though IRB is a better stock in terms of fundamentals, ITNL has higher chances of outperforming it short-term.**

of SEBI's approval to its investment trust. However IRB's stock had closed down by around 3 per cent post similar news on September 11.

Though IRB is a better stock

due to strong fundamentals and robust execution track record of projects, ITNL's stock has higher chances of outperforming its closest peer in the short term.

### Savings in interest cost

This is because interest cost as percentage of sales for ITNL is higher at 31 per cent (vs 21 per cent for IRB in FY16), which partly led the company's profit decline by 30 per cent. Thus savings in interest cost

going ahead due to reduction in debt (post listing of the trust) will have a bigger positive impact on the profit growth of ITNL than IRB on account of a lower base.

Another reason for ITNL's likely outperformance over IRB is past stock performance. After tripling in 2015, IRB's stock is up 6 per cent year to date. However, ITNL's stock gained at a slower pace in 2015 with 40 per cent rally and another 12 per cent year-

to-date. Thus, the latter could continue to attract investor interest and catch up on valuation with IRB.

### Better biz visibility

IRB offers better business visibility with order-book-to-sales of over two times (including the recent order win of ₹2,100 crore) compared to ITNL's 1.8 times (as on March 31). IRB's interest coverage ratio of 2.5 times is also superior to ITNL (1.1 times)

due to strong execution of projects.

Consolidated revenues of IRB jumped 37 per cent year-on-year in the June 2016 quarter and was better than 33 per cent recorded in FY16. ITNL's consolidated financial performance is not available due to migration to new accounting standard to Ind-AS. ITNL's FY16 consolidated net debt to equity ratio of 3.3 times — a little higher than IRB's three times.