

Pub Date:	28 Sep 2016	Publication:	Business Standard	Edition:	Mumbai
Journalist:	Hamsini Karthik	Language:	English	Page No.:	12
CCM:	41.28	MAV:	52016.83	Circulation	29857

IRB Infra: More re-rating around the corner

Outlook is improving with high debt, dismal order book being addressed

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There was a little cheer for IRB Infrastructure's stock till mid-August when it was trading between ₹205 and ₹220. But, from there, it has raced to ₹257 (up 25 per cent after the June quarter results). While the results were in line with expectations, positive forecast on listing of its investment trust (InvIT) led to the re-rating. Filing the draft red herring prospectus for its InvIT with the Securities and Exchange Board of India (Sebi), further fuelled the rally.

Listing of InvIT will reduce IRB's consolidated debt by about ₹7,200 crore and bring some relief to its hefty debt-equity ratio. Its long-term borrowing is now over ₹33,900 crore. With six BOT (build-operate-transfer) projects moving out of its balance sheet, the debt-equity ratio will improve to 2.2x from 2.8x presently. This is after factoring stake sale in the InvIT (₹3,000 crore; likely by the end of the financial year) and the quantum of project-related loans (₹4,200 crore) that have been transferred to the InvIT; after stake sale, the debt of InvIT will not reflect in IRB's books according to the new accounting norms.

Notably, IRB's order book position is also improving. On Tuesday, it received letter of award for orders worth ₹2,100 crore for the six-laning of roads from Udaipur to Gujarat/Rajasthan border. With this, IRB's order book stands at ₹11,300 crore, providing revenue visibility for



over two years.

As debt and order inflow issues are being addressed effectively, analysts expect more upside for IRB's stock, though incremental gains will accrue from the listing of its InvIT. Analysts at Antique Stock Broking expect the success of InvIT at the current valuation would lead additional upside of ₹30 from their current target price of ₹289. Analysts at Kotak Institutional Equities while recently upgraded their target price for IRB Infra to ₹285, predict an additional 20 per cent upside if the InvIT issue is successfully subscribed and its proceeds are deployed towards augmenting IRB's capital. Analysts ascribe a value of 2 - 2.8x price to enterprise value (₹8,000 crore) to the InvIT and the Street expects the InvIT public issue to be received positively, given the strong earnings profile of the assets. All these add up well for IRB. Of the 18 analysts polled on Bloomberg post Q1 results, 14 recommend 'buy' on IRB Infra with average target price of ₹298 (potential upside of 16 per cent).