Toll Suspension Not a Long-term Worry for IRB

Pub Date:	24 Nov 2016	Publication:	The Economic Times	Edition:	New Delhi
Journalist:	Rajesh Naidu	Language:	English	Page No.:	8
CCM:	57.76	MAV:	384659.62	Circulation	138008

IN THE LONG RUN Co says NHAI would compensate for the loss of toll revenues; stable road business a strength

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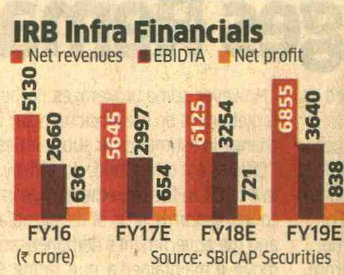

ET Intelligence Group: In the past one month, the stock of IRB Infrastructure Developers, one of the largest road companies in the country, has fallen 26.8% against a 12% drop in ET Construction Index, a composition of key road and construction companies. A large part of this fall can be blamed on suspension of toll collections across the country following the government's demonetisation move. However, investors need not be worried about the growth prospects of the company as suspension of toll collection is temporary.

In its conference call, the management stated that NHAI would compensate for the loss of toll revenues for the period road companies had to forego toll. NHAI would pay a specific amount which it would arrive at by taking average daily toll collection of a road developer in October and multiplying it with the number of days for which tolling was waived off. This measure should address investors' concern about the loss of toll revenues. Besides, investors should also take note of the fact that IRB's road business is stable and generates steady revenues, which is evident from its second quarter performance. In fact, revenue growth from this segment made up for the subdued execution in construction order book, which was hit due to above-normal monsoon.

Considering FY18E earnings, the stock is trading at an EV/EBIDTA 5.49, which is attractive

IRB's revenues from road segment showed an impressive growth of 19.5% to ₹570 crore, but its earnings from construction segment recorded a subdued 7.4% growth at ₹760 crore as compared with same quarter last year.

Currently, the company's construction order book stands at ₹9,600 crore. This gives revenue visibility of over two years for the company. For under-construction road projects, the company needs an equity commitment of ₹2,000 crore. Hence, in the coming quarters, a successful listing of its Infrastructure Investment Trust (InVIT) may result in re-rating of the company's stock.

CLSA in its report on the company said: "We have cut EPS by 5-10% in FY17-19 due to cut in traffic growth estimate for potential weak economic activity led by demonetisation. Also, decline in Indian G-sec yield is likely to increase attractiveness of InvIT to investors."

On the valuation front, considering FY18's earnings estimate, the stock is trading at an EV/EBIDTA 5.49. This is quite attractive given its three-year average EV/EBIDTA of 8.2.