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Revised SoTP for IRB Infra at ₹285

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IRB's infrastructure trust appears on way to becoming a reality given good portfolio (declining debt, 9% traffic CAGR, 100% shareholding in most projects) and clean InvIT structure (full pass-through of dividend, minimum 90% SPV cash-flows to go to trust).

Proceeds of fresh issue and OFS can take IRB's leverage closer to 2X (2.8X at present). Our revised SoTP of ₹285 (from ₹275) has upside risks from high trust valuation as per DRHP (9XEV/EBITDA, 2.8X invested equity) getting accepted (10% upside) and deployment of resulting growth capital (similar 10% upside). IRB has eventually floated its investment fund, pooling six of its operational projects. We note strengths of this portfolio in terms of average residual life of 11 years (though varies from 5 to 21 years), strong 9.4% volume CAGR over FY2014-16, large 80% revenue share of commercial traffic and declining debt profile (including deferred premium payments).

The portfolio of assets has a debt of ₹4,600 crore, subordinate debt of ₹700 crore and equity of ₹1,100 crore. The key negative for the portfolio are concentration of residual revenues in two projects (60% share of two projects), and high sensitivity of the key Tumkur-Chitradurga project to traffic given large premium payments committed (at 85% of FY2016 revenues; to grow at 5% y-o-y).

Based on management estimates, the trust values the portfolio at a Rs 80 billion EV and Rs 30 billion equity value. Our standard assumptions of 6% traffic growth and 12.5% cost of equity yield a lower Rs 20 billion value or 2X invested book.