

Pub Date:	27 Sep 2016	Publication:	The Financial Express	Edition:	Kolkata
Journalist:	Bureau	Language:	English	Page No.:	15
CCM:	82.58	MAV:	56156.03	Circulation	10202

IRB INFRASTRUCTURE DEVELOPERS LTD | RATING: HOLD

First InvIT closer to reality

Investor interest in the trust will be key given that enterprise valuation of ₹80 bn is fairly aggressive

INDIA's first Infrastructure Investment Trust (InvIT) will soon be a reality as IRB filed the DRHP (draft red herring prospectus) earlier this month for a fresh issue of ₹43 bn apart from offer-for-sale. Enterprise valuations of ₹80 bn implying 8.4x FY18 EV/Ebitda are higher than our estimates of ₹70 bn. DRHP valuations are based on traffic CAGR assumption of 6.5-7.0% (except Surat-Dahisar) and 5.5% inflation annually. We tweak our estimates and maintain Hold rating with revised TP of ₹250 (vs ₹240 earlier).

Six projects with 4-21 years of residual life: IRB expects to raise ₹43 bn by means of primary issuance apart from offer-for-sale by sponsor group companies. There is an option to retain 25% of oversubscription. Six projects will be part of trust: (i) Surat-Dahisar; (ii) Bharuch-Surat; (iii) Tumkur-Chitradurga; (iv) Omal-

lur-Salem; (v) Talegaon-Amravati; (vi) Jaipur-Deoli, which have a residual life of 4-21 years and traffic history of 2-5 years.

Regulatory framework sorted: Regulatory clearances from now on should not be a hassle as IRB has 100% stake in all projects except Omal-lur-Salem. The product is investor-friendly as recent budgets have cleared the taxation issues.

Investor interest key as valuations high: As per the DRHP, EV of the trust would be ₹80 bn implying 8.4x FY18 EV/Ebitda. Taking into account all external bank debt, subordinate debt and sponsor-group debt, implied equity valuation is ₹30 bn. But this is based on aggressive traffic CAGR assumptions of 6.5%-7.1% over the life of the assets (except Surat-Dahisar) along with 5.5% inflation linked toll hike. Based on our estimates of 5% traffic

CAGR and 5% inflation linked toll hike, we expect the EV to be ₹70 bn. Investor interest remains to be seen given management indication of 12% IRR.

Balance sheet improvement on the cards: Assuming an EV of ₹80 bn, this issue will unlock value of close to ₹10 bn for IRB. Immediately it may use all the proceeds from offer-for-sale (₹10 bn), repayment of subordinate debt (₹7 bn) and loans extended to SPVs (₹8 bn) to reduce debt, bringing down the net debt: equity leverage to 2.2x by FY17 end.

Valuation

Maintain Hold with revised SOTP based PT of ₹250 (vs ₹240 earlier).

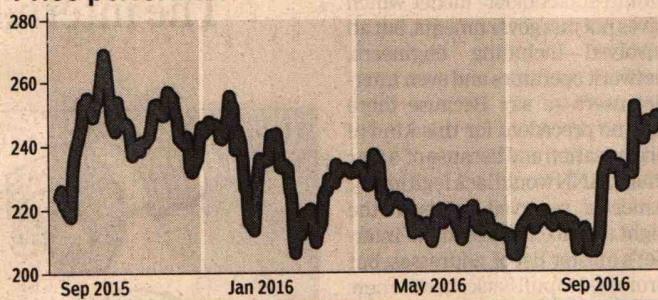
Valuation remains key to the success of issue: IRB has provided detailed valuation by a third party of the 6 road assets with underlying methodology and assumptions. Independent traffic consultant reports have been used as the basis for traffic assumptions. We believe these valuations are fairly aggressive and based on our estimates equity valuation of ₹19 bn is more realistic.

Financial leverage to reduce to 2.2x by FY17-end: IRB has a fairly low financial leverage of 2.5x as of FY16 compared to peers being above 4x. However, with potential value unlocking to the tune of ₹10 bn (assuming EV of ₹80 bn and equity valuation of ₹30 bn), we believe the leverage will reduce further to 2.2x by FY17 end.

Risks

Aggressive assumptions on traffic growth; 56% of the valuations of the trust are from two projects i.e. Tumkur-Chitradurga and Jaipur-Deoli; concentration of projects in western region where agitation against tolling in states like Maharashtra has happened in the past; ongoing CBI investigation against the promoter.

Price performance



₹ (m)	Prev	2016A	Prev	2017E	Prev	2018E	Prev	2019E
Rev. (MM)	51,282	51,302	58,006	57,924	69,437	69,275	-	76,333
Ebitda (MM)	-	26,606	29,899	30,043	37,186	37,226	-	43,277
Net Profit	-	6,358	7,074	6,615	7,258	6,997	-	8,015
Dividend	-	4.00	-	4.50	5.00	4.50	-	5.50
Div. Yield (%)	-	1.61	-	1.81	-	1.81	-	2.21
BV/Share	-	137	152	151	167	165	-	181
P/B	-	1.8x	-	1.6x	-	1.5x	-	1.4x
EPS growth (%)	-	17.0	11.0	4.0	3.0	6.0	-	15.0
EPS								
FY Mar	-	18.10	20.10	18.80	20.70	19.90	-	22.80
FY P/E	-	13.8x	-	13.2x	-	12.5x	-	10.9x

Source: Jefferies estimates, company data

—Jefferies