



IL&FS Transportation Networks

Steady but slow

Sustains stable execution, but falters on bottom-line

ITNL reported consolidated revenues of INR7.3bn for the quarter, down ~17%QoQ majorly owing to a reduction in the construction income from two projects commissioned during H1FY11, namely Beawar Gomti and Hyderabad Outer Ring Road. OPM, expanded 48bpsQoQ leading to operating profits of INR2.2bn. Higher interest charges (INR1.2bn) and tax outgo (@ 41.8%) though played spoilsport, containing adjusted net profits to INR616mn.

During the quarter, the company emerged as the lowest bidder for the construction of an outdoor Stadium at Karyavattom in Kerala on BOT Annuity basis from the National Games Secretariat valued at INR1.6bn.

No fund-raising needs even counting INR136bn of new projects

We calculate ITNL's equity contribution across all projects to be INR20.5bn to be funded till Mar'13. In addition, the company would be required to infuse equity worth INR12.3bn and working capital of ~INR11.9bn over FY12 and FY13 for additional project wins (~INR136bn) being modeled by us. While a fair chunk of the same requirement is expected to be met by the present cash balance and free cash flows generated over the next couple of years, the company would look to leverage its balance sheet to fund the remaining pie.

Toning down FY12 earnings by ~13%, maintain Buy

We tone down our FY11 and FY12 earnings by 9% and 13% respectively, factoring in additional interest charges now expensed out via P&L even during the construction stage for annuity projects. Our SOTP method pegs ITNL's fair value per share at INR305 indicating a 49% potential upside from the current levels. A leadership position in the road vertical, strong parentage of IL&FS, partnerships and bilateral contracts with state governments coupled with a relatively diversified and de-risked business portfolio make us positive on ITNL. Maintain 'Buy'.

Rating : Buy

Target Price : INR305

Upside : 49%

CMP : INR205 (as on 10 February 2011)

Key data*

Bloomberg /Reuters Code	ILFT IN/ILFT.BO
Current /Dil. Shares O/S (mn)	194.3/194.3
Mkt Cap (INRbn/US\$mn)	39.8/873
Daily Vol. (3M NSE Avg.)	86,452
Face Value (INR)	10

1 US\$= INR45.6

Source: Bloomberg; * As on 10 February 2011

Price & volumes



Source: Bloomberg

Share holding (%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoter	75.1	75.1	75.1	75.1
Institutional Investors	5.4	10.1	10.1	9.8
Other Investors	16.4	12.3	12.3	12.1
General Public	3.1	2.5	2.5	3.0

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(16.3)	(4.2)	9.7
ITNL	(36.1)	(31.0)	NA
IRB	(36.8)	(43.3)	(35.4)
Jaiprakash Associates	(45.1)	(37.7)	(40.6)

Source: Bloomberg

Y/E Mar (INR mn)	Q3FY11	Q2FY11	Q3FY10	QoQ (%)	YoY(%)	9MFY11
Net Sales	7,337	8,833	NA	(16.9)	NA	23,930
Operating Expenses	5,129	6,218	NA	(17.5)	NA	16,494
% of Sales	69.9	70.4	NA	NA	NA	68.9
EBITDA	2,207	2,615	NA	(15.6)	NA	7,437
EBITDA Margins (%)	30.1	29.6	NA	48bps	NA	31.1
Other Income (Net)	174	187	NA	(7.1)	NA	532
Interest	1,153	983	NA	17.3	NA	3,190
Depreciation	158	142	NA	11.4	NA	430
PBT	1,070	1,677	NA	(36.2)	NA	4,348
Tax	448	565	NA	(20.7)	NA	1,554
Effective Tax Rate (%)	41.8	33.7	NA	NA	NA	35.7
Reported PAT	622	1,112	NA	(44.1)	NA	2,795
NPM (%)	8.5	12.6	NA	(411)bps	NA	11.7
Minority Int./Share of Asso.	(6)	(38)	NA	NA	NA	(58)
Reported PAT	616	1,075	NA	(42.6)	NA	2,737

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	12,254	238.9	1,933	15.8	263	(71.8)	1.4	2.7	9.3	151.6	17.4
FY10	24,029	96.1	7,941	33.0	3,444	1,211.3	17.7	25.4	20.4	11.6	7.7
FY11E	31,180	29.8	9,065	29.1	3,604	4.7	18.6	19.0	16.3	11.0	8.6
FY12E	71,244	128.5	13,576	19.1	5,087	41.1	26.2	22.5	21.7	7.8	7.7
FY13E	91,493	28.4	16,809	18.4	6,447	26.7	33.2	23.3	22.9	6.2	8.8

Source: Company, Elara Securities Estimate

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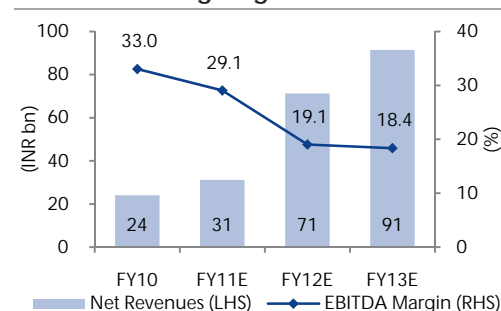
Elara Securities (India) Private Limited

Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Net Revenues	24,029	31,180	71,244	91,493
EBITDA	7,941	9,065	13,576	16,809
Add:- Non operating Income	844	676	769	947
OPBITDA	8,785	9,742	14,344	17,757
Less :- Depreciation & Amortization	603	538	737	960
EBIT	8,182	9,204	13,608	16,796
Less:- Interest Expenses	2,941	3,821	6,274	7,926
PBT	5,241	5,382	7,334	8,871
Less :- Taxes	1,859	1,691	2,183	2,387
Adjusted PAT	3,444	3,604	5,087	6,447
Add/Less: - Minority Int & P/L from Asso.	114	(63)	(33)	4
Reported PAT	3,444	3,604	5,087	6,447
Balance Sheet (INR mn)	FY10	FY11E	FY12E	FY13E
Share Capital	1,943	1,943	1,943	1,943
Reserves	15,544	18,466	22,871	28,636
Borrowings	33,215	49,415	76,015	120,715
Deferred Tax (Net)	779	779	779	779
Total Liabilities	51,480	70,602	101,608	152,073
Gross Block	35,792	46,395	47,946	59,758
Less:- Accumulated Depreciation	2,955	3,493	4,229	5,189
Net Block	32,837	42,903	43,717	54,569
Add:- Capital work in progress	57	9,415	37,144	69,602
Investments	4,544	1,544	1,044	1,044
Net Working Capital	15,161	17,871	20,850	28,025
Less: Minority Interest	1,118	1,130	1,146	1,167
Total Assets	51,480	70,602	101,608	152,073
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	6,197	7,374	11,393	14,423
Add/Less : Working Capital Changes	(3,008)	(2,932)	(3,559)	(7,692)
Operating Cash Flow	3,189	4,442	7,834	6,730
Less:- Capex* (Incl intangible assets)	(10,103)	(19,962)	(29,279)	(44,271)
Free Cash Flow	(6,914)	(15,519)	(21,444)	(37,541)
Financing Cash Flow	15,226	11,622	19,596	36,076
Investing Cash Flow	(4,483)	3,676	1,269	947
Net change in Cash	3,829	(221)	(580)	(518)
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	96.1	29.8	128.5	28.4
EBITDA Growth	310.8	14.2	49.8	23.8
PAT Growth	1,211.3	4.7	41.1	26.7
EBITDA Margin	33.0	29.1	19.1	18.4
Net Margin	14.3	11.6	7.1	7.0
Return & Liquidity Ratios				
Net Debt/Equity (x)	1.6	2.2	2.9	3.8
ROE (%)	25.4	19.0	22.5	23.3
ROCE (%)	20.4	16.3	21.7	22.9
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	17.7	18.6	26.2	33.2
EPS Growth (%)	1,211.3	4.7	41.1	26.7
DPS (INR/Share)	3.0	3.0	3.0	3.0
P/E Ratio (x)	11.6	11.0	7.8	6.2
EV/EBITDA (x)	7.7	8.6	7.7	8.8
EV/Sales (x)	2.8	2.7	1.6	1.7
Price/Book (x)	2.3	2.0	1.6	1.3
Dividend Yield (%)	1.5	1.5	1.5	1.5

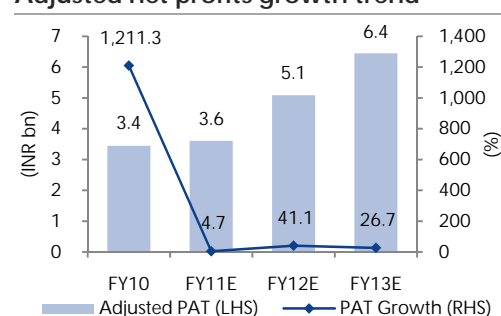
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



Source: Company, Elara Securities Estimates

Adjusted net profits growth trend

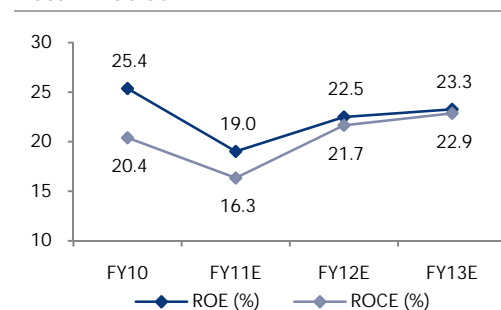


Source: Company, Elara Securities Estimates

Strong operating cash flows to drive superior return ratios

Strong growth in earnings owing to an asset light model

Return ratios



Source: Company, Elara Securities Estimates

Asset light business to fuel growth

ITNL excels in providing end-to-end solutions for BOT road projects, ranging from conceptualization, undertaking feasibility studies, design and value engineering, financial closure and project advisory, construction, commissioning, maintenance and management. While most of the aforementioned works being executed for various SPVs are done in-house, the company typically sub-contracts the entire construction part related to these projects, with it acting as the Project Developer-cum-Manager. Contractors generally procure all raw materials, and are paid based on the completion of construction milestones. The choice of contractor for a particular project depends on the size and nature of project, the contractor's capability, his presence and experience in the local region, relevant experience, quote and estimated time for completion.

Pros and cons: We believe this asset light business model of ITNL goes a long way, not only in transferring substantial project related risks (especially in case of fixed price contracts) to contractors but also enables a substantial ramp up across projects by deploying several contractors at one go for different projects, thereby keeping ITNL's 120 professionals strong team (primarily engineers and technical staff) well focused on monitoring the pace and progress of work across on a regular basis. The drawback of such a model though lies in excessive dependence on third party contractors for execution hence requires a highly trusted and reputed lot with whom it already enjoys well established relationships.

Order book: An existing order backlog of ~INR112bn across 12 projects (ongoing + under FC) to be executed over the next 30 months, standalone and consolidated net-worth at INR17.9bn and INR20bn respectively (as on 31 Dec'10), healthy debt to equity ratio of 0.87x (standalone business, Dec'10) and a blossoming return ratios make us confident of a significant ramp up in the contracting income on a standalone business over FY11-13. We estimate a revenue CAGR of 72.5% over the next couple of years as ITNL looks set to add at least an additional ~INR26bn of backlog (adjusted for ITNL's stake) from four projects in FY12, presently at the DPR/preferred bidder stage. While the operating profits during the same period are expected to witness 24.8% CAGR, driven majorly by the low margin contracting income, OPM is slated to drastically decline by 1,852bps and stabilize around 20.4%. A spurt in operational performance consequently, is expected to trickle down to the net profitability level leading to an 18.6% CAGR in earnings during FY11-13.

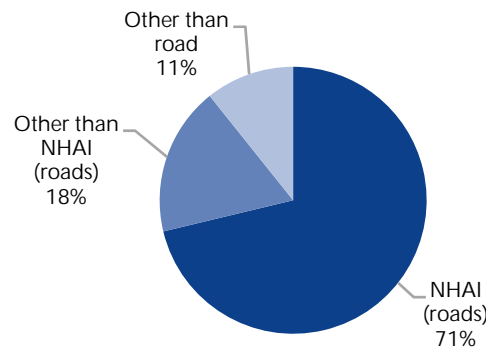
Exhibit 1: Growing order backlog

Order backlog (as on Dec'10)	INR mn
Of projects awarded till last quarter	112,000
Of projects under L-1 (excluding Almatty-Halgos project)	15,000
Total	127,000

* Not considering Jharkhand Highways Ph-II and Chhattisgarh Highways where DPR phase is currently underway

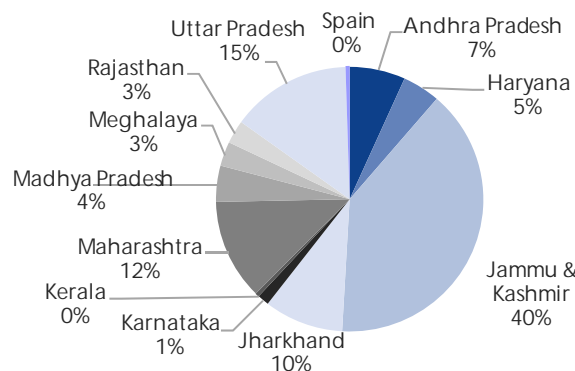
Source: Company

Exhibit 2: Major chunk of NHAH projects



Source: Company

Exhibit 3: Pan-India presence



Source: Company

Nascent foray across other transport verticals holds sizeable potential

Led by the policy thrust on infrastructure spending, ITNL made a related diversification within the surface transportation vertical in 2008 and forayed into the urban infrastructure space. Though nascent and miniscule (~INR28bn) as a percentage of the total asset portfolio, the company is presently undertaking five such PPP based projects in Nagpur (running city bus services), Gurgaon (Metro rail project), Karnataka (Gulbarga and Shimoga airports), Madhya Pradesh (24 border check post project) and Kerala (Outdoor Stadium). While we do not expect a meaningful contribution from these projects over the next couple of years to the ITNL Group (and as such valued each of them on a project specific P/BV basis), we are of a strong opinion that some of these projects come with very attractive concessions terms (99

Exhibit 4: Urban infrastructure projects portfolio

Project Name	Holding (%)	Concession Period (years)	Total cost (INR mn)	BV in INR mn (Adj. for ITNL stake)	Assigned P/B (x)	NPV/share (INR)
MPBCPDCL (develop 24 check posts in MP with Spanco Infra)	51.0	12.5	10,940	1,116	0.5	2.9
Regional Airport Development (Develop airports in Gulbarga & Shimoga in with Comet group)	40.0	30	4,000	320	0.5	0.8
Vansh Nimay Infraprojects Ltd (Operate & maintain Nagpur City Bus Service ; 228 buses deployed)	90.0	10+5	500	95	2.0	1.0
Rapid Metrorail Gurgaon Ltd (Metro link from Sikanderpur station to DLF Cyber city in Gurgaon)	53.6	99	10,880	1,621	1.0	8.3
Outdoor Stadium at Karyavattom, Kerala	100.0	15	1,610	-	-	NA
Sub Total			27,930	3,153	-	13.0

Source: Company, Elara Securities Estimates

years concession for Gurgaon Metro, land development rights alongside airports in Karnataka) capable of creating significant shareholders' wealth in the longer run.

No fund-raising needs even counting INR136bn of new projects

As of Sep'10, ITNL stands well qualified to submit proposals for projects worth INR85.6bn, and is in queue for getting pre-qualifications across projects amounting to INR761.4bn. Considering the company's dominant market position, historical track record, strong credentials and no pending financial closure in any of the NHAI projects, we back it to register at least 10% success rate till Mar'12 amongst the aforementioned gamut of projects. In addition, the company already enjoys the preferred bidder status across the twin projects of Udhampur-Ramban (J&K) and Almaty-Khorgos (Kazakhstan) cumulatively worth INR113.4bn (ITNL's share INR51.4bn).

We calculate ITNL's equity contribution across all projects (under construction + under FC + preferred bidder) to be INR20.5bn (including loans and advances of INR8.2bn) to be funded till Mar'13. In addition, the company would be required to infuse equity worth INR12.3bn and working capital of ~INR11.9bn over FY12 and FY13 for the additional project wins (~INR85bn) being modeled by us. While a fair chunk of the same requirement is expected to be met by the present cash balance and free cash flows generated over the next couple of years, the company would have to leverage its balance sheet to fund the remaining portion.

Consequently, we foresee the debt to equity ratio of the standalone balance sheet rising to 1.8x by FY13 (in line with management's comfort level). We wish to state here that our assumptions do not take into consideration additional capital available in the form of toll securitization which may be at the disposal of the company thereby limiting the overall leverage position.

Exhibit 5: Bid pipeline

RFP stage			
Client	No. of projects	Length (km)	TPC (INR mn)
NHAI	10	1,241	41,861
MORTH	-	-	-
State Government	14	1,630	43,774
Sub total	24	2,871	85,635
RFQ stage			
NHAI	51	6,435	555,896
MORTH	5	796	47,612
State Government	20	2,384	157,925
Sub total	76	9,615	761,433
Grand total	100	12,486	847,068

Source: Company

Exhibit 6: Building new projects wins

Amount in INR mn	FY11E	FY12E	FY13E
Opening Cash balance - (A)	1,429	1,345	1,262
Cash flow from operations	391	2,677	2,517
Less: Capex	(150)	(250)	(300)
Less: Interest Charges (net)	(657)	(1,233)	(1,650)
Less: Dividends	(682)	(682)	(682)
Free Cash Flow (FCF) - (B)	(1,097)	513	(115)
Equity Commitment - (C)	2,387	4,496	5,390
Road BOTs - Equity Requirement	2,076	3,796	4,683
Thiruvananthapuram Road Dev. Ltd Ph - II & III	244	162	-
Chhattisgarh Highway Development Co Ltd	772	772	661
Jharkhand Accelerated Road Dev Co Ltd Ph I	440	-	-
Jharkhand Accelerated Road Dev Co Ltd Ph II	348	1,217	1,390
Hazaribagh Ranchi Expressway Ltd	188	125	-
Jorbat to Shillong in North East, Mizoram	105	126	126
Chennani to Nashri in Jammu and Kashmir	1,039	1,299	1,558
Chandrapur Warora Road	123	216	216
Narkattpally to Addanki in Andhra Pradesh	202	353	404
Udhampur to Ramban in J&K	-	600	900
Almaty to Khorgos in Kazakhstan	-	1,456	2,549
Urban Infra Projects - Equity Requirement	310	700	708
Gurgaon Metro Rail Link	437	656	364
MP Road Development Corp Ltd	-	335	558
Regional Airport Development	80	112	128
Outdoor stadium at Thiruvananthapuram	-	64	129
Surplus/Deficit (A+B-C)	(2,055)	(2,638)	(4,243)
Additional Debt Infusion	3,400	3,900	5,450
Gross Debt	18,650	22,550	28,000
Net worth	18,081	21,304	24,848
Net Debt/Equity (x)	0.96	1.00	1.08

At 60% of total requirement, remaining factored in loans and advances to subsidiaries

Assuming 70% projects achieve FC in FY12 itself

Includes the remaining 30% projects achieving FC in FY13

Assuming 50% projects achieve 20% completion in FY12 itself

Assuming remaining 50% projects reaching 20% completion; initial 50% projects to complete additional 30% by Mar'13

Bidder Projects as of Sep'10 (INR mn)	-	-	-
Projects under RFQ Stage	761,433	-	-
Projects under RFP Stage	85,634	-	-
Total	847,067	-	-
Anticipated wins at 10% success rate till Mar'12	84,707	69.9	136,115
Total Equity required at 25% of TPC	21,177	-	-
Equity Infusion Analysis			
Equity requirement in FY12	4,447	11	-
Equity requirement in FY13	7,835	-	-

YoY growth in fresh inflow

Assign 0.5x P/B to equity to be infused by Mar'12

Working Capital Requirement Analysis

Additional WCap required in FY12 (at 40% of sales)	3,388	-	-
Additional WCap required in FY13 (at 40% of sales)	8,471	-	-

Balance Sheet Incorporating new wins

	FY11	FY12	FY13
Additional Debt Infusion (Equity + Working Cap)		7,835	16,306
Gross Debt (addition to earlier estimates)	18,650	30,385	44,306
Networth	18,081	21,304	24,848
Debt/Equity (x)	1.03	1.43	1.78

Note:

Our assumptions do not take into consideration additional capital from couple of avenues which can also be utilized as equity for new projects won; these being toll securitization of the operational BOT projects and profits from the contracting income pertaining to the new wins.

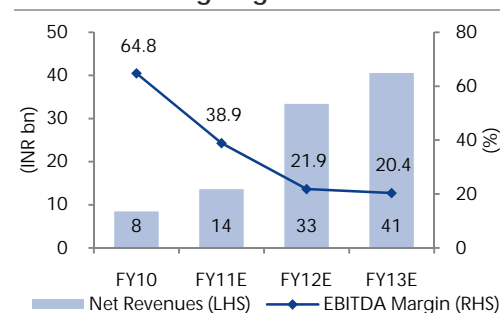
Source: Company, Elara Securities Estimates

Standalone Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Net Revenues	8,455	13,634	33,413	40,553
EBITDA	5,479	5,302	7,306	8,263
Add:- Non operating Income	961	801	951	1,131
OPBIDTA	6,440	6,103	8,257	9,393
Less :- Depreciation & Amortization	43	93	156	210
EBIT	6,396	6,011	8,100	9,183
Less:- Interest Expenses	1,425	1,458	2,184	2,780
PBT	4,971	4,553	5,917	6,403
Less :- Taxes	1,724	1,548	2,012	2,177
Adjusted PAT	3,247	3,005	3,905	4,226
Add/Less: - Minority Int & P/L from Asso.	-	-	-	-
Reported PAT	3,247	3,005	3,905	4,226
Balance Sheet (INR mn)	FY10	FY11E	FY12E	FY13E
Share Capital	1,943	1,943	1,943	1,943
Reserves	13,815	16,138	19,361	22,905
Borrowings	15,250	18,650	22,550	28,000
Deferred Tax (Net)	2	2	2	2
Total Liabilities	31,009	36,732	43,856	52,850
Gross Block	460	618	868	1,168
Less:- Accumulated Depreciation	81	174	330	540
Net Block	379	444	538	628
Add:- Capital work in progress	7	-	-	-
Investments	13,954	16,340	20,836	26,226
Net Working Capital	16,669	19,948	22,482	25,996
Other Assets	-	-	-	-
Total Assets	31,009	36,732	43,856	52,850
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	3,725	3,754	5,294	6,086
Add/Less : Working Capital Changes	(4,445)	(3,363)	(2,617)	(3,569)
Operating Cash Flow	(720)	391	2,677	2,517
Less:- Capex	(276)	(150)	(250)	(300)
Free Cash Flow	(996)	241	2,427	2,217
Financing Cash Flow	11,665	1,260	1,035	1,988
Investing Cash Flow	(9,267)	(1,585)	(3,545)	(4,259)
Net change in Cash	1,402	(84)	(83)	(55)
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	540.1	61.3	145.1	21.4
EBITDA Growth	1,071.9	(3.2)	37.8	13.1
PAT Growth	703.3	(7.5)	30.0	8.2
EBITDA Margin	64.8	38.9	21.9	20.4
Net Margin	38.4	22.0	11.7	10.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.9	1.0	1.0	1.1
ROE (%)	27.2	17.8	19.8	18.3
ROCE (%)	27.8	17.7	20.1	19.0
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	16.7	15.5	20.1	21.8
EPS Growth (%)	703.3	(7.5)	30.0	8.2
DPS (INR/Share)	3.0	3.0	3.0	3.0
Adj. P/E Ratio (x)	-	-	-	-
EV/EBITDA (x)	8.3	9.4	7.4	7.1
EV/Sales (x)	6.3	4.2	1.8	1.6
Price/Book (x)	2.5	2.2	1.9	1.6
Dividend Yield (%)	1.5	1.5	1.5	1.5

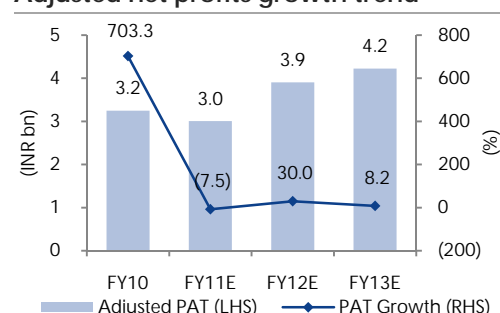
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



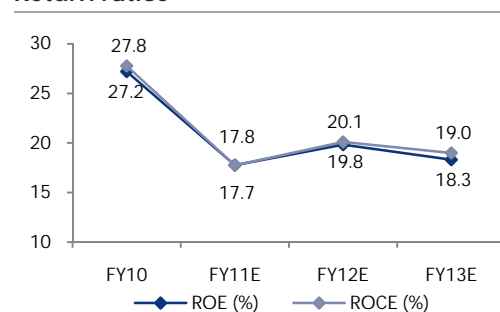
Source: Company, Elara Securities Estimates

Adjusted net profits growth trend



Source: Company, Elara Securities Estimates

Return ratios



Source: Company, Elara Securities Estimates

Valuation & Recommendation

Revise earnings estimates: We tone down our FY11 and FY12 earnings by 9% and 13% respectively factoring in additional interest charges now being expensed out via P&L even during the construction stage in case of annuity projects.

Exhibit 7: Revised estimates

INR mn	FY11E			FY12E		
	Old	New	% Chg.	Old	New	% Chg.
Revenues	31,757	31,180	(1.8)	75,737	71,244	(5.9)
EBIDTA	8,510	9,065	6.5	12,367	13,576	9.8
EBIDTA Margins (%)	26.8	29.1	228bps	16.3	19.1	273bps
Adj. Net Profits	3,971	3,604	(9.2)	5,860	5,087	(13.2)
EPS (Rs)	20.4	18.6	(9.2)	30.2	26.2	(13.2)

Source: Company, Elara Securities Estimates

Toll collection, Elsamex to remain overshadowed by contracting income

ITNL amassed tolls worth INR2.2bn (INR6.1mn/day) in FY10 from six operational projects as its share. We estimate the same to grow at 28.6% CAGR till FY13 to INR4.8bn (INR13.1mn/day) as the number of projects under tolling doubles to 12 by end FY13. Nevertheless, the healthy increase in toll collection as a percentage of gross sales during the same period is slated to slip from 9% in FY10 to 5% by FY13.

Exhibit 8: Toll collection from BOT projects

Operational	Holding (%)	FY11E	FY12E	FY13E	FY14E
NKEL - Annuity	93.5	1,010	1,010	1,010	1,010
GRICL - Toll	83.6	811	880	955	1,036
NTBCL - Toll	25.4	847	898	952	1,009
WGEL - Toll	49.0	341	375	413	454
RIDCOR 1 - Toll	50.0	1,029	1,132	1,362	1,498
TRDL 1 - Annuity	50.0	118	118	118	118
APEL - Annuity	100.0	1,130	1,130	1,130	1,130
EHEL - Annuity	74.0	167	666	666	666
IRIDCL - Toll	100.0	94	280	521	581
Sub total	-	2,281	2,924	3,260	3,422
Under construction					
TRDL II & III - Annuity	50.0	-	40	237	237
CHDCL (under DPR) - Annuity	74.0	-	-	-	400
JARDCL - I - Annuity	100.0	-	-	1,151	2,301
JARDCL II (under DPR) - Annuity	100.0	-	-	-	367
HREL - Annuity	74.0	-	-	320	1,282
PSRDCL - Toll	100.0	-	-	-	743
MBEL - Toll	100.0	-	-	-	1,175
JSEL - Annuity	50.0	-	-	-	363
RIDCOR II - Toll	50.0	-	-	-	562
Sub total	-	0	20	1,506	6,130
Grand total	-	2,281	2,944	4,766	9,553
% of ITNL's consolidated revenues	-	7.3	4.1	5.2	NA

Source: Company, Elara Securities Estimates

The Spanish subsidiary, Elsamex, has either incurred losses or barely broke even over the past couple of years owing to relatively high interest expenses and a high percentage of fixed costs. Besides fluctuation of maintenance revenues depending on the economic conditions in locations where it operates, changes in the government policies and budgetary allocations for spending on maintenance of roads or non-renewal of contracts are other factors contributing for its dwindling performance. Nevertheless, the company contributed 61.6% and ~40% to ITNL Group's turnover in FY09 and FY10 respectively. Over the period FY11-13 though, despite growing at a CAGR of 10% and improving operational efficiency backed by ITNL's ongoing restructuring efforts, we estimate the share of Elsamex's turnover to fall steeply from ~35% in FY11 to ~14% by FY13.

Exhibit 9: Elsamex's performance snapshot

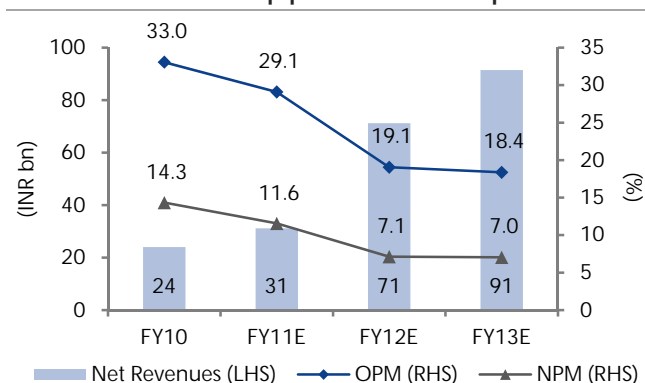
INR mn	FY11E	FY12E	FY13E
Revenues	10,766	11,842	13,026
Growth (%)	32.6	10.0	10.0
EBITDA	807	853	951
Growth (%)	-	5.6	11.5
EBITDA margin (%)	7.5	7.2	7.3
Net profits	187	193	244
Growth (%)	-	3.1	26.6
Net profit margin (%)	1.7	1.6	1.9
% of ITNL's consolidated net income	34.5	16.6	14.2

Source: Company, Elara Securities Estimates

Revenues to cross INR90bn, earnings to grow at ~34% by FY13

Driven by a substantial ramp up in the contract business volume, we anticipate the ITNL Group to post revenue CAGR of ~71% over the FY11-13 period, registering a topline of ~INR91.5bn for FY13. In line with standalone operations, though the operating profits during the aforementioned period would witness a CAGR of 36.2%, the OPM is slated to decline drastically by 1,070bps from 29.1% in FY11 to 18.4% by FY13. Nevertheless, the company should be able to report adjusted net profits CAGR of ~34% helped mainly by a quantum jump in operational performance.

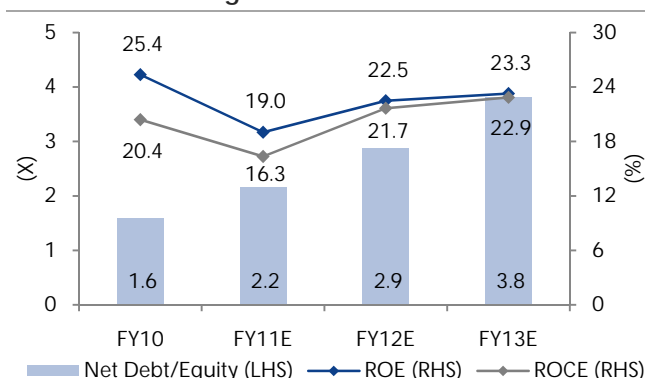
Exhibit 10: ITNL Group performance snapshot



Source: Company, Elara Securities Estimates

The return ratios, consequently, seem all set to surpass their FY10 highs over the next couple of years as ITNL brings more assets into operation. This growth phase, however, is expected to be more leverage driven as the consolidated net debt to equity ratio of the company peaks from 1.6x in FY10 to a concerning 3.8x by FY13 despite throwing ~INR19bn as free cash from operations over the period FY11-13 on a consolidated basis.

Exhibit 11: Leverage and return ratios



Source: Company, Elara Securities Estimates

Maintain Buy on riveting sectoral prospects, attractive valuations

We value nine operational and nine under construction road BOT projects of the company using our standard DCF methodology taking CoE as 12% and 13% respectively. With only single road project left under financial closure, we value two projects in the DPR phase and the remaining two at the preferred bidder stage at 0.5x of the equity to be invested. We use a similar methodology for valuing the urban infrastructure projects (Refer Exhibit 4), new project wins (Refer Exhibit 6) and the wholly owned Spanish subsidiary, Elsamex.

We argue for a conservative 5x FY12E earnings multiple for the standalone domestic business of ITNL factoring in heavy dependence on third party contractors, in-house loaded order backlog, miniscule amount of high margin design and engineering work and stretched working

capital cycle. We, however, maintain that with the successful completion of existing projects, the discount assigned should narrow down as ITNL would yield better return ratios on a comparable net debt to equity position vis-à-vis peers.

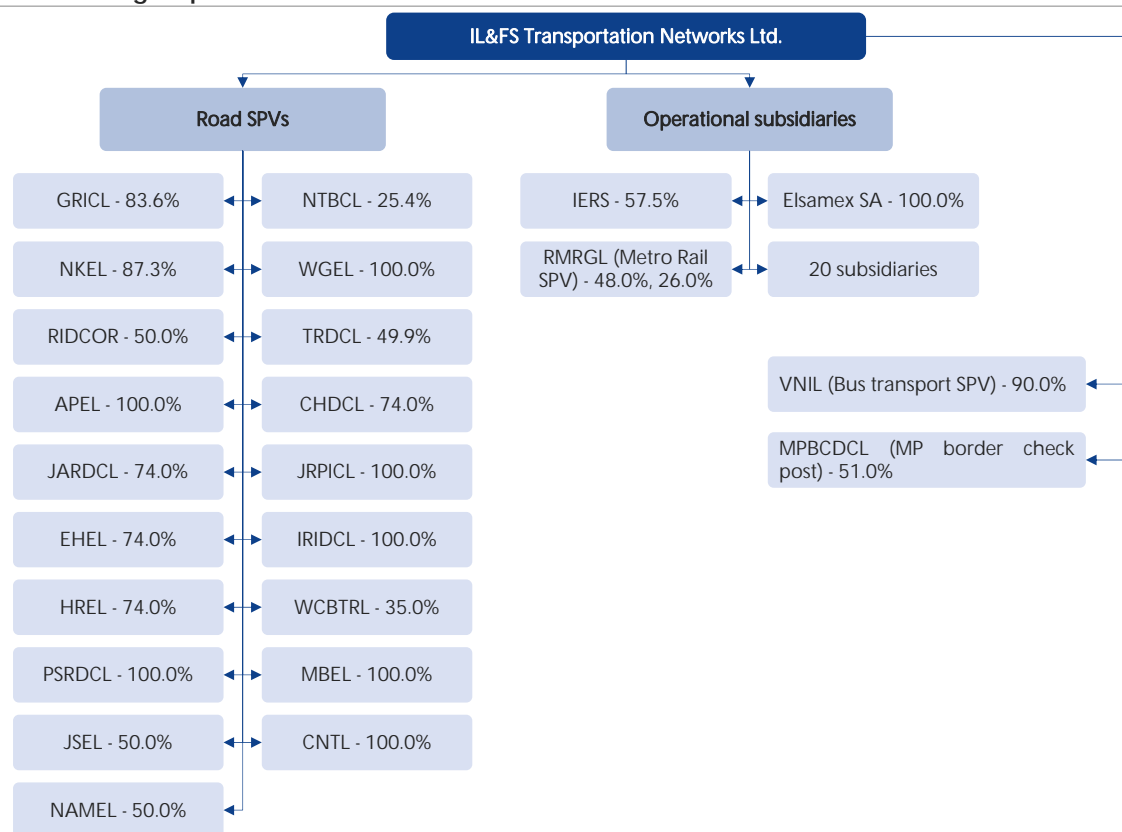
Our SOTP valuation pegs ITNL's fair value per share at INR305, indicating a 49% potential upside from the current levels. At the CMP of INR205, the company is trading at a P/E of 7.8x and EV/EBIDTA of 7.7x discounting its FY12 consolidated earnings estimates. A leadership position in the road vertical, proven track record of commissioning over 4,000 lane kms, strong parentage of IL&FS, partnerships and bilateral contracts with state governments coupled with a relatively diversified (fair mix of annuity and toll based projects) and de-risked (presence in Europe, Latin America and Mexico via Elsamex) business portfolio make us positive on ITNL. Maintain 'Buy' rating with Mar'12 based price target of INR305.

Exhibit 12: Valuation summary

BOT projects	INR/share
Operational (Refer Exhibit 14)	58.8
Under construction (Refer Exhibit 14)	101.3
Under FC (Refer Exhibit 14)	0.6
Urban infrastructure (Refer Exhibit 4)	13.0
Preferred bidder status (Assign 0.5x P/B to equity to be infused by Mar'12)	7.9
Fair value per share (A)	181.7
Build in value from new project wins (Refer Exhibit 6) – (B)	11
Standalone business	
FY12E Net profits (INR mn)	3,905
No. of shares (ITNL Cons.) (mn)	194
Core EPS FY12E	20.1
Assigned P/E multiple (x)	5.0
Fair value per share (C)	101
Elsamex	
H1CY10 Book value (INR mn)	2,270
No. of shares (ITNL Cons.) (mn)	194
EPS contribution to ITNL	11.7
Assigned P/BV multiple (x)	1.0
Fair value per share (D)	12
SOTP (A+B+C+D)	305
CMP	205
Potential upside (%)	49.0

Source: Company, Elara Securities Estimate

Exhibit 13: ITNL's group structure



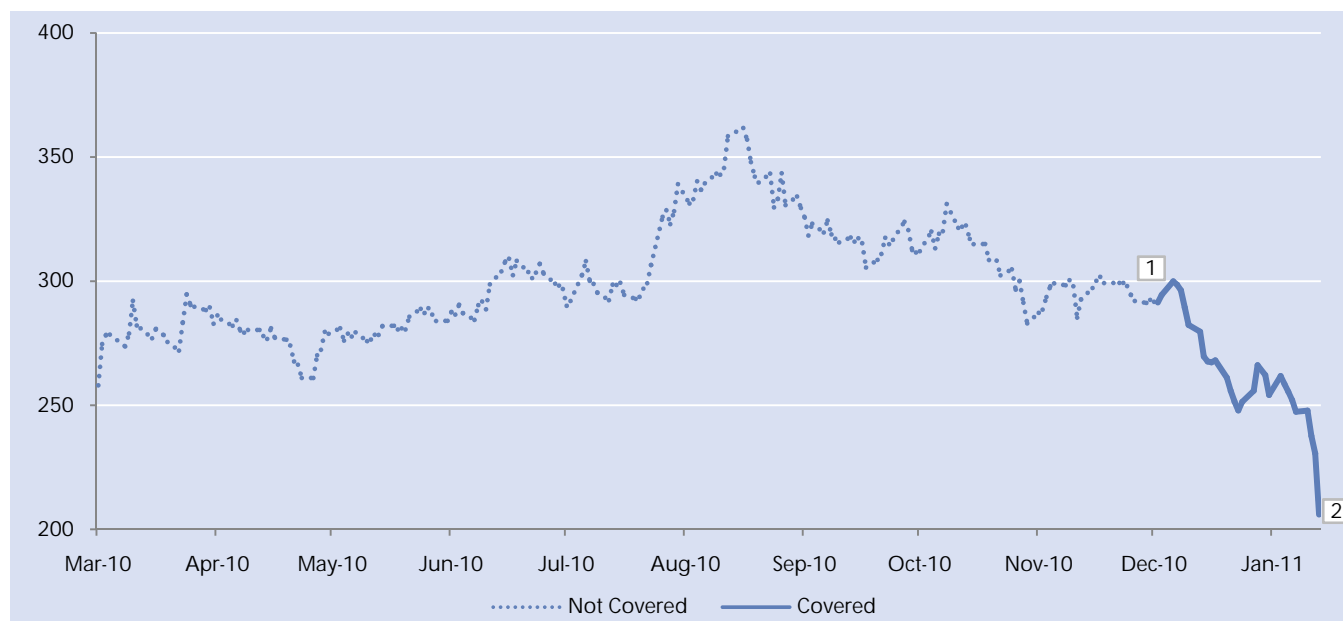
Source: Company

Exhibit 14: Impressive road BOT project portfolio

Project Name	Holding (%)	Concession Period (yrs)	Total cost (INR mn)	Debt (INR mn)	Net D/E (x)	NPV/share (INR)
Operational						
NKEL	93.5	17.5	5,423	4,851	4.8	3.8
GRICL	83.6	30	4,657	2,596	1.1	23.5
NTBCL	25.4	30	5,888	1,690	0.5	7.7
WGEL	99.0	20	2,758	1,974	3.4	5.5
RIDCOR I	50.0	32	16,180	14,355	5.4	13.0
TRDL I	50.0	20	1,098	625	2.1	0.1
APEL	100.0	20	7,871	7,534	22.4	0.6
EHEL	74.0	15	4,278	3,209	3.0	2.0
IRIDCL	100.0	11	3,459	2,689	3.5	2.7
Sub Total			51,612	39,523		58.8
Under Construction						
TRDL II & III	50.0	17.5	2,626	1,436	1.1	(0.3)
CHDCL (Under DPR)	74.0	17.5	23,466	19,946	5.7	6.7
JARDCL - I	100.0	17.5	14,078	12,375	7.3	9.7
JARDCL - II (Under DPR)	100.0	17.5	23,172	19,696	5.7	8.9
HREL	74.0	18	8,698	7,388	5.6	(0.5)
PSRDCL	100.0	20	14,027	9,577	2.2	12.1
MBEL	100.0	25	19,836	13,187	2.0	27.6
JSEL	50.0	20	8,240	7,400	8.8	2.3
CNTL	100.0	20	39,842	34,647	6.7	30.5
WCBTP	35.0	30	6,761	3,234	0.9	1.6
NAML	50.0	24	17,289	10,275	1.5	2.6
Sub Total			178,035	139,161		101.2
Under Financial Closure						
RIDCOR II	50.0	32	7,500	6,540	6.8	0.6
Sub Total			7,500	6,540		0.6
Grand Total			237,146	185,224		160.6

Source: Company, Elara Securities Estimates

Coverage History



	Date	Rating	Target Price	Closing Price
1	30-Dec-2010	Buy	INR375	INR289
2	10-Feb-2011	Buy	INR305	INR205

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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