

MAY 19, 2011
BUY
MEDIUM RISK
PRICE Rs. 190
TARGET Rs. 320

INFRASTRUCTURE

EARLIER RECO

Buy	
Price	Rs. 298
Target	Rs. 362
Date	23 rd Dec, 2010

SHARE HOLDING (%)

Promoters	75.1
FII	16.1
FI	4.3
Body Corporates	1.1
Public & Others	3.4

STOCK DATA

Reuters Code	ILFT.BO
Bloomberg Code	ILFT IN
BSE Code	533177
NSE Symbol	IL&FSTRANS

Market Capitalization*	Rs. 37154.1mm
	US\$ 825.7 mn

Shares Outstanding*	194.3 mn
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52 Weeks (H/L)	Rs.368 / 189
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Avg. Daily Volume (6m)	26,956 Shares
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Price Performance (%)		
1M	3M	6M
(17)	(12)	(37)

200 Days EMA: Rs. 255
***On fully diluted equity shares**

 Part of  **Classic**


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IL&FS Transportation Networks Ltd. (ITNL) has reported decent set of numbers for the year ended March'11 which was in-line with our expectations. Revenues grew by 68% YoY to Rs.40,488 mn whereas PAT grew by ~26% YoY to Rs.4328 million. We had an interaction with the management of the company and following are the key highlights of the results which are summarized below:

Key Highlights of FY11 results

- Revenues grew by ~68% YoY from Rs.24,028 mn in FY10 to Rs.40,488 mn in FY11 which was mainly on back of strong order-backlog & better execution by the Company. Also three of its projects namely Moradabad-Bareilly, Jorbat-Shillong & Pune-Sholapur has achieved its threshold limit of 10% resulting into higher revenues in the last quarter. Also ITNL has achieved financial closure for all its road projects. Total revenues include ~64% of construction income, 24% from Elsamex & 9% from toll / annuity.
- Strong top-line growth resulted into higher Operating profit which grew by 45% YoY from Rs.7941 mn in FY10 to Rs.11,548 mn in FY11, whereas margins declined by ~450 bps to 28.5% which was mainly on account of higher contribution from low-margin construction business. However going ahead we expect the margins to get stabilize around ~22-25%.
- Net profit grew by ~26% from Rs.3444 mn in FY10 to ~Rs.4328 mn in FY11 whereas margins declined by 360 bps from 14.3% to 10.7% due to higher interest cost which increased by ~69% YoY to Rs.4980 mn. EPS for the quarter ended March'11 and FY11 stood at Rs.8.4 & Rs.22 respectively.

Order-book Position & other developments

- ITNL has a healthy order-book position of ~ Rs.109 bn including L1 projects worth Rs.16.6 bn, thus providing strong revenue growth visibility over the next few years. Also the Company has strong bid pipeline to the tune of Rs.900 bn in various RFP & RFQ stages. Despite strong O/B position, the Company does not intend to compromise on its IRR by irrational bidding in unviable projects.
- Steady traffic growth coupled with new projects getting on-stream has resulted into higher average daily collection of Rs.11.3 mn/day in FY11 (up by 11%) (adjusted for ITNL stake).
- Elsamex, the Spanish subsidiary has reported decent set of numbers for the year ended 2010. Revenues stood almost flat at Euro 160 mn whereas PAT witnessed a growth of ~10% to Euro 4 mn. The management expects Elsamex to continue to perform better in future.

OUTLOOK & VALUATION

ITNL is one of the leading players in the road development space. Robust order-book position coupled with strong execution capabilities of the Company provides good growth visibility in future. Asset light model further facilitates in de-risking the business model and having pan-India presence. Considering the slowdown in awarding activities coupled with increase in raw-material & interest cost, we have downgraded our earnings estimates for FY12E by ~13%. However with likely revival in macro conditions and considering the good growth potential of the company, we maintain "Buy" on the stock with a revised target price of Rs.320 based on the SOTP method.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY10	24028.8	3444.0	17.7	----	10.7	12.8	26.5	2.2
FY11	40488.0	4328.8	22.3	25.7	8.5	11.8	22.4	1.6
FY12E	54477.8	5116.1	26.3	18.2	7.2	9.7	19.9	1.3
FY13E	70438.9	5820.3	30.0	13.8	6.3	8.1	19.2	1.1

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	24028.8	40488.0	54477.8	70438.9
Raw Material Cost	761.9	1370.3	2506.0	3381.1
Construction Exps.	9341.7	21601.6	30344.1	40784.1
Staff Cost	3565.1	3521.6	4903.0	6480.4
Other Expenses	2418.9	2445.6	2723.9	3169.8
PBIDT	7941.2	11548.9	14000.8	16623.6
Interest	2940.9	4980.6	6586.2	8351.6
Depreciation	603.1	614.2	643.5	721.2
Other Income	843.7	785.7	980.6	1267.9
PBT	5241.0	6739.8	7751.7	8818.7
Tax	1857.9	2242.5	2635.6	2998.4
RPAT	3444.0	4328.8	5116.1	5820.3

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY10	FY11E	FY12E	FY13E
Share Capital	1942.7	1942.7	1942.7	1942.7
Reserves & Surplus	14743.7	21589.3	25909.8	30823.4
Net Worth	16686.4	23532.0	27852.5	32766.1
Total Loan funds	33215.2	54000.0	87653.9	129183.1
Capital Employed	52598.6	80228.6	118280.6	164811.6
Net Block	28228.3	49519.7	84556.8	129819.2
Investments	4543.7	4543.7	4543.7	4543.7
Sundry Debtors	6478.1	11980.0	16119.5	20456.2
Cash & Bank Bal	5502.1	8646.0	7927.6	6633.0
Loans & Advances	9708.9	11165.2	12840.0	14766.0
Inventory	291.6	755.2	1058.5	1648.1
Curr Liab. & Prov.	7867.8	12194.9	14566.5	18909.2
Total Assets	52598.6	80228.6	118280.6	164811.6

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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