BUY

20 Oct, 2010

IRB Infrastructure Developers Ltd

Key Data	(₹)
CMP	247
Target Price	305

Key Data	
Bloomberg Code	IRB IN
Reuters Code	IRBI.BO
BSE Code	532947
NSE Code	IRB
Face Value (₹)	10
Market Cap. (₹ Bn.)	82.21
52 Week High (₹)	312
52 Week Low (₹)	227
Avg. Daily Volume (6m)	520530

Shareholding	%
Promoters	74.95
Mutual Funds / Bank/ FI	4.28
Foreign Institutional Investors	12.9
Bodies Corporate/Individuals/others	7.89
Total	**100**

₹ mn	FY10	FY11E	FY12E
Revenues	17,048.5	33,969.8	47,374.5
EBIDTA	8,479.5	12,755.8	16,595.6
Net Profit	3,854.1	5,286.4	5,024.2
Net Profit Margins	22.6%	15.6%	10.6%
EPS (₹.)	12.1	15.9	15.1
Book value (₹)	61.4	75.5	88.9

Analyst
Amit Nisar
research@acm.co.in
Tel: (022) 2858 3403

Investment Thesis

We initiate coverage on IRB Infrastructure Developers Ltd with **"Buy"** recommendation based on SOTP valuation with target price of ₹305. We have valued BOT projects based on NPV method and arrived at value of ₹128. EPC business is valued on the basis of relative valuation and we have arrived at value of ₹172 by assigning P/E multiple of 12x to FY12E EPS of ₹14. Despite the significant growth expected in the EPC business, considering the presence in only one segment and being a captive unit, we have assigned a P/E multiple of 12x (based on relative valuation) to FY12E EPS of ₹14 and arrived at value of ₹172. Other investments are valued at ₹5.2 on book value per share basis. The company on account of 10 operational projects is expected to continue its revenue growth at 22 -24%. In EPC business, it is expected to grow at CAGR of 63% for 2010-2013 due to commencement of construction of four new projects. There is tremendous growth opportunity in industry due to huge investments, this will also augur well for IRB based on its expertise. Effective cash flow management will help them to reduce burden of funding pressure for new projects. However, operating margin is expected to be contracted, as a result of higher share from EPC business in revenue, which has operating margins around 20% against 82-84% margin of BOT business.

Investment rationale

Road segment to continue to account for major share in the traffic

Roads are the dominant mode of transportation in India today. The Road Transport Sector has grown significantly during the past six decades from 13.8% share in goods traffic in 1950-51 but at present it is more than 60%, and 15.4% share in passenger traffic in the year 1950-51, which has increased to above 85% at present. We believe that the road segment will continue to account for major share in freight and passenger traffic. The freight and passenger traffic is expected to register significant growth on the back of growth being witnessed in the Auto sector. Further growth of vehicle traffic is an important key value driver for toll based road projects.

Accelerated investment in road sector is expected to boost planned implementation of projects

Government's focus on investments in infrastructure segment, especially in road sector is expected to increase which will result in award of nearly 37,000 km road projects from year 2009-10 to 2013-14 (Source: Report of the B K Chaturvedi committee on NHDP). Of this 37,000km, nearly 90% (33,000 km) of road projects will be awarded in next three years (2009-10 - 2011-12), as per estimation of committee report. However, we believe that award of 37,000 km in a year, is an aggressive target and difficult to achieve. We expect road development projects of around 25,000 - 27,000 Km to awarded during 2009-10 to 2013-14.

One of the largest and experienced toll based BOT player– Six projects are debt free, only one project in pre financial closure state

IRB is one of the largest toll based BOT player with 10 operational projects and 6 under construction projects and one pre-financial closure project under its portfolio. The company has also achieved financial closure for four new projects out of five projects bagged previously. Hence company is now eligible to bid for more projects as per new norm where company is not allowed to bid for new project if three or more projects are in pre-financial closure state. Therefore, we expect that IRB will continue to bag new projects based on its capability and past track record of efficiently executing road projects, which will help company to maintain growth momentum in future.

Project selection approach is key strategy of IRB

The key strategy is to bid for project from high traffic states such as Gujarat, Maharashtra and Rajasthan, large size projects and national highways that carry nearly 40% of total traffic of India. Approximately 22,700 km of new road projects have been planned in Maharashtra, Gujarat, Karnataka and Rajasthan. We believe there are huge investments opportunities in Indian road segment and IRB with its present strategy is likely to benefit from the same.

New business can open new opportunities for growth - its success will unlock additional values and new expertise that is not factored in our valuation.

IRB has one airport project, real estate business and two commercial property development projects under its new business portfolio. Although, all these projects are in pre-construction phase, success in its implementation can unlock more value. Lack of clarity about cash flow from these projects has restricted us to value them.

A Robust order book ₹97,584 mn gives EPC revenue visibility for next 3 years.

The company has robust order book of ₹97,584 mn. It comprises of EPC and ongoing BOT projects of worth ₹20,093 mn, O&M of worth ₹23,266 mn, funded projects of worth ₹615 mn and BOT projects which are under award of worth ₹53,610mn. Major portion of EPC for ongoing BOT projects is likely to be executed in FY11 and rest in FY12. Also EPC from the new award projects will be executed in next three years. IRB's current order book is nearly 5.5X of its FY10, hence gives clear visibility of high EPC revenue for next three years.

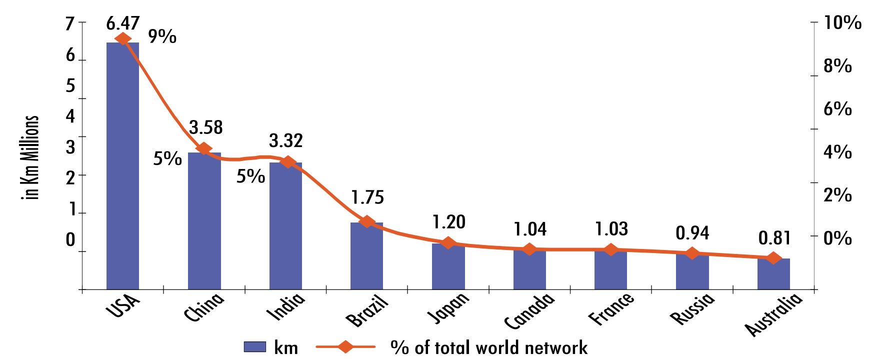
Industry Overview

Roads and Highways - Industry overview

Extensive road network of India - Third Largest in world

India has one of the largest road networks in the world, aggregating 3.3 million km and around 5% of world's total road network consists of 68.93 million km (Source: CIA world fact book), it stands third after United States and China, aggregating 6.46 million km and 3.58 million km respectively. The density of India's highway network at 0.66 km of highway per square kilometer of land – is quite similar to United States (0.65) and much greater than China's (0.16) or Brazil's (0.20). However, most highways in India are narrow and congested with poor surface quality. (Source: World bank)

World's Road Network



Source: CIA World fact book, ACMIIL Research

Indian road network spreads around 3.3 million km, which combines of national highways/ expressways of 70,748 km, state highways of 131,899 km, major district roads of 467,763 km and rural including other roads of 2,650,000 km with its contribution of 2%, 4%, 14% and 80% of total Indian road network respectively. Although national highways contribute only 2% to Indian road network, it plays a vital role in handling traffic on Indian roads. National highways alone handle 40% of traffic compared to rural roads, which consist 80% of total road network and handle only 20% traffic. State roads and major district roads, together handle 40% of traffic.

Indian Road Network

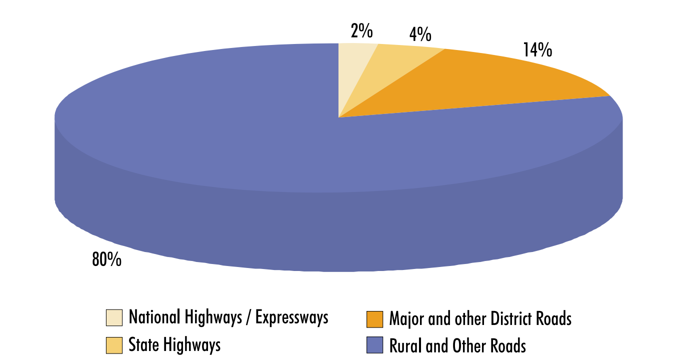
Road Type	Length (km)	% Share of Total Length	Traffic Distribution	Connectivity
National Highways/Expressways	70,748	2%	40%	Union capital, state capitals, major ports and foreign highways.
State Highways	131,899	4%	40%	Major centre within states and national highways.
Major and other District Roads	467,763	14%		Main roads and rural roads.
Rural and Other Roads	2,650,000	80%	20%	Production centre, markets, highways and railway station.
Project Roads				Projects like irrigation, power, and mines.
Urban Roads				Intra-city networking.
Village Roads				Village to nearby markets.
Total	**3,320,410**	**100%**	**100%**	

Source: NHAI, Crisil Research, ACMIIL Research

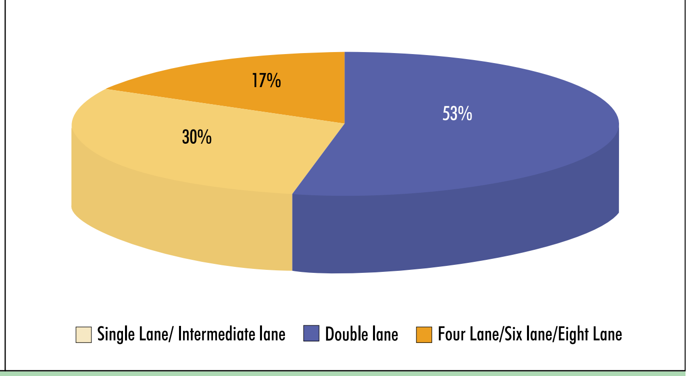
National highways are further divided into three categories based on their width:

1. Single/intermediate lane contributes 30% in the year 2008-09 (which was decreased from 35% in the year 2004-05).
2. Double lane contributes 53% in the year 2008-09 (which was decreased from 57% in the year 2004-05).
3. Four/six/eight lane contributes 17% in the year 2008-09 (which increased from 9 % in the year 2004-05)

Indian Road Network



Break up of National Highways and Expressways



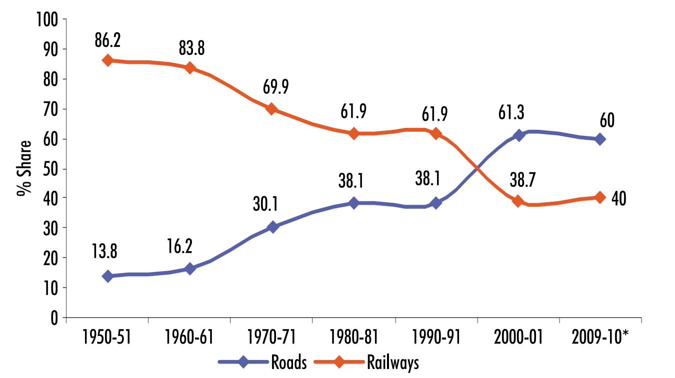
Source: NHAI, Crisil Research, ACMIIL Research

Roads being the lifeline of Indian transportation sector, the government has embarked National Highway Development Project (NHDP), which covers a length of about 55,000 km of highways and it is one of the largest road development programs in history of India.

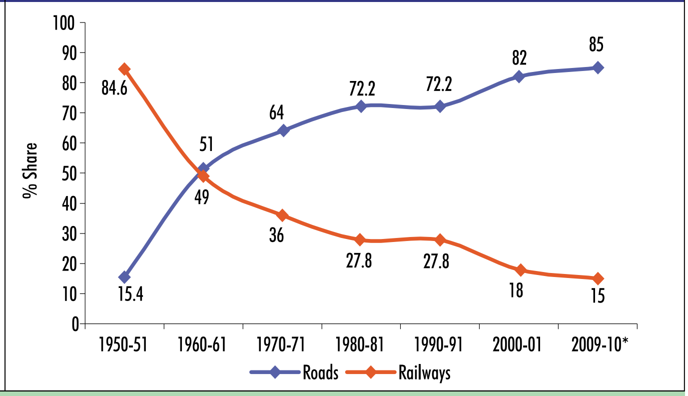
Road handles more than 60% of freight and 85% of passenger traffic in the country - The Lifeline of Indian Transportation System.

Roads are the dominant mode of transportation in India today. Roads are considered to be one of the cost effective and preferred modes of transport for both freight and passengers, as they carry more than 85% of the country's passenger traffic and 60% of total freight. The Road Transport Sector has grown significantly during the past six decades from 13.8% share in goods traffic in 1950-51 but at present it is more than 60%, and 15.4% share in passenger traffic in the year 1950-51, which has increased to above 85% at present. Preference of road transportation for freight movement is mainly on account of its easy accessibility, flexible operations, door-to-door service and reliability.

Goods Traffic - Roads vs Railways



Passenger Traffic - Roads vs Railways



Source: The Working Group Report On Road Transport For The Eleventh Five Year Plan, ACMIIL Research

Note- For 2009-10, road is estimated to carry more than 60% of freight and more than 85% of passenger traffic reported in Ministry Of Road Transport And Highways Outcome Budget 2010-11.

We believe that the road segment will continue to account for major share in freight and passenger traffic. The freight and passenger traffic is expected to register significant growth on the back of growth being witnessed in the Auto sector. Further growth of vehicle traffic is an important key value driver for toll based road projects. On the other side, better road connectivity will accelerate growth in number of vehicles. Development of road plays vital role for both segments

NHDP: ambitious and path-breaking initiative of the Government of India

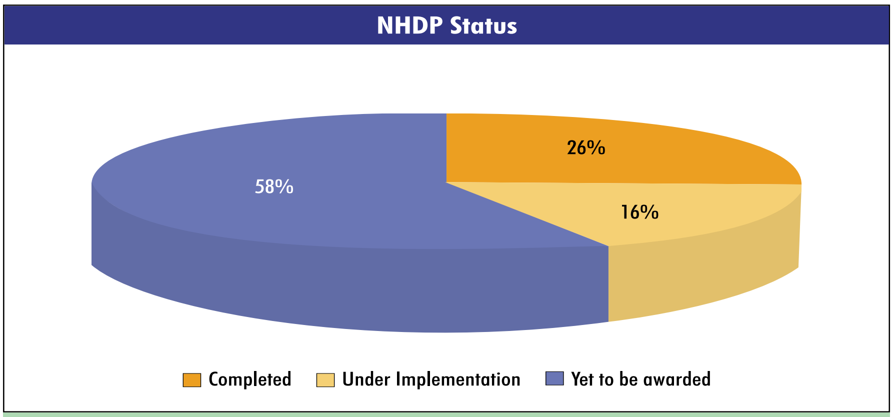
The Government of India has launched major initiatives to upgrade and strengthen National Highways (NHs) through various phases of the NHDP. NHDP, one of the largest road development programs involves widening, upgrading and rehabilitation of about 55,000 km, entailing an estimated investment of 3,000 millions (USD 60 billion) (Source NHAI).

Progress of NHAI projects: Status as on July 31st, 2010

NHDP Component	Total Length	Completed 4 lane	Under implementation	Balance Length for award
GQ Phase I	5,846	5,793	53	0
Port Connectivity Phase I	380	289	85	6
Other NHs Phase I	965	918	27	20
NS-EW Phase II	7,142	5,205	1,443	494
NHDP Phase-III	12,109	1,805	5,201	5,103
NHDP Phase- IV	20,000	0	0	20,000
NHDP Phase-V	6,500	302	1,998	4,200
NHDP Phase-VI	1,000	0	0	1,000
NHDP Phase-VII	700	0	41	659
Total	**54,642**	**14,312**	**8,848**	**31,482**

Source: NHAI

NHDP Project status:



Source: NHAI, ACMIIL Research

Pradhan Mantri Gram Sadak Yojna (PMGSY) – Further development plan of road network under rural segment

PMGSY program, a sub program of Bharat Nirman, has been launched for the development of rural roads, which contributes nearly 80% of total road network. The aim of this program is to construct all weather roads for 40% of villages that still don't have access to these roads and remains isolated during monsoon. This program will establish connection to nearly 172,000 unconnected habitations with new connectivity of 365,279 km. It has also been proposed to upgrade 368,000 km of existing network so as to ensure farm to market connectivity. PMGSY is centrally funded scheme that is funded by budgetary source, Central Road Fund (CRF) on high-speed diesel and loan assistance from National Bank for Agriculture and Rural Development (NABARD), World Bank and Asian Development Bank (ADB).

Immense investments in infrastructure sector to play key role for growth of Indian economy

Traditionally, fast growth of economy has necessitated high investment for development of physical infrastructure such as electricity, railways, roads, airports, irrigation, urban and rural water supply and sanitation, all of which have already suffered from deficit in past in terms of demand supply gap as well as efficiencies in the delivery of important infrastructure services. The government has identified infrastructure as key element for growth of Indian economy and hence outlay of around ₹20.5 tn investments in all major infrastructure segment mentioned above to support 9% GDP target for Eleventh five year plan. Outlay of ₹20.5 tn is expected to contribute 7% of total GDP estimated to be ₹271 tn of total eleventh five year plan (at 2006-07 market price).

Revised projected Investment as percentage of GDP (₹ bn)

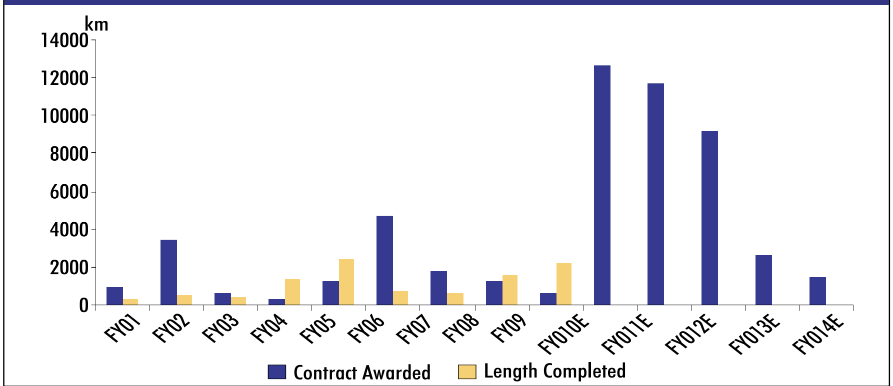
Years	Tenth Plan (Actual)	Base year of XI Plan (2006-07) (Actual)	2007-08 (Actual)	2008-09 (Actual/Est.)	2009-10 (RE/ BE/Proj.)	2010-11 (BE/ Projected)	2011-12 (Projected)	Total Eleventh Plan
GDP at market prices	178,409	42,840	47,172	50,035	53,638	57,929	63,143	271,917
Public Investment	6,809	1,737	1,995	2,381	2,630	2,908	3,199	13,113
Private Investment	2,252	708	1,043	1,211	1,399	1,692	2,084	7,429
Total Investment	9,061	2,445	3,038	3,592	4,028	4,601	5,283	20,542
Investment as percentage of GDP								
Public Investment	3.82	4.05	4.23	4.76	4.9	5.02	5.07	4.82
Private Investment	1.26	1.65	2.21	2.42	2.61	2.92	3.3	2.73
Total Investment	5.08	5.71	6.44	7.18	7.51	7.94	8.37	7.55

Source: GDP data for Tenth Plan, 2007-08, and 2008-09 are from CSO. GDP growth rates for 2009-10, 2010-11 and 2011-12 have been assumed as 7.2%, 8% and 9% respectively.

Accelerated investment in road sector is expected to boost planned implementation of projects

Government's focus on investments in infrastructure segment, especially in road sector is expected to increase which will result in award of nearly 37,000 km road projects from year 2009-10 to 2013-14 (Source: Report of the B K Chaturvedi committee on NHDP). Of this 37,000km, nearly 90% (33,000 km) of road projects will be awarded in next three years (2009-10 – 2011-12), as per estimation of committee report. However, we believe that award of 37,000 km in a year, is an aggressive target and difficult to achiev e. We expect road development projects of around 25,000 – 27,000 Km to awarded during 2009-10 to 2013-14.

Road Projects

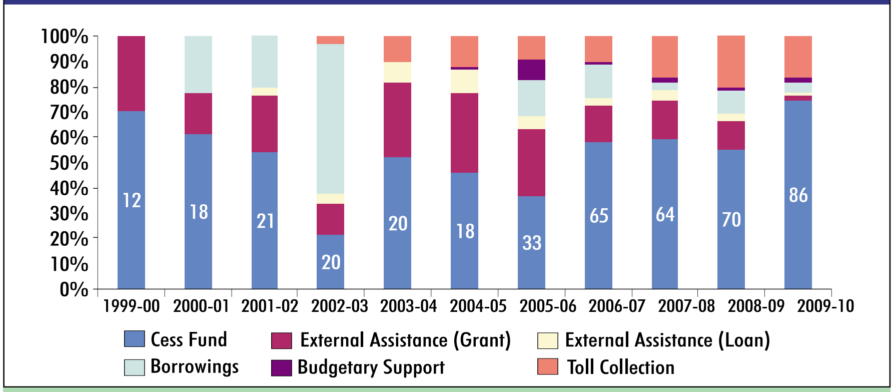


Source: Government of India January 2010, Report of the B K Chaturvedi committee on NHDP,, ACMIIL Research

Increase in private sector investment will partially release pressure of funding requirement from central level

In next five years (2009-10 –2013-14), an investment of ₹6.3 tn is expected in road sector (Source: crisil). Of ₹6.3 tn, a major part of investment will be funded by public sector in form of cess, external assistance, borrowings, budgetary support and toll collection. However, investment pie from private sector will continue to grow. Private sector will contribute around 31% (₹1.9tn) between year 2009-10 and 2013-14 against 20% between year 2007-08 and 2009-10 and rest will be funded by public sector nearly 69%, Rs 4.4 tn. Investments from private sector will play vital role as it will help to meet project resource deficit, improve the quality of road, speed up project execution and improve efficiencies through cost reducing technologies.

Financing Structure of NHAI



Source: Ministry Of Road Transport And Highways Outcome Budget 2010-11, Economic Survey 2009-10

Risks

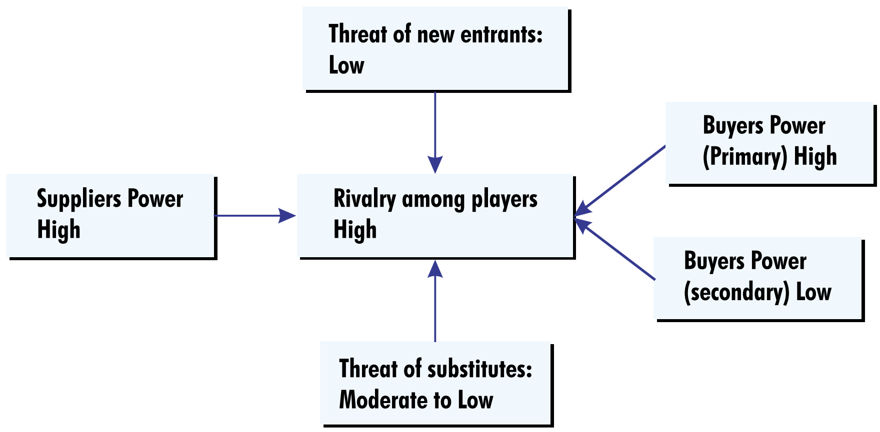
Economy slowdown: Slow down in economy can affect growth of industry output, trades are been transacted between countries (Import – Exports), investments and movement of goods occurs by commercial vehicles. Container traffic will also be affected due to impact on trades between countries; which will hamper movement of goods between ports to destination by roadways. It may also disturb growth in automobile sector, hence there is growth in population of commercial & passenger vehicles.

Interest rate movement: Increase in interest rate can have impact on cash flow of road projects, since most of the projects have reset clause for interest rate every three years. However, most of the projects have toll rates linked to WPI; increase in interest payment will be partially taken care by additional revenue from higher toll rates.

Policy and political risk: Adverse changes in policy will impact profitability and margins of the company. Company may find difficult to raise funds for project if policy hurts the confidence of lenders to lend on the projects. Procedural delays and political involvement in policy changing can also impact adversely.

Execution risk: Delay in completion of construction of road may result in cost overrun or may raise requirement of additional finance. Extended construction period will also cause loss of toll revenues for this extended period, as construction period is part of total concession period. Delay in execution can be cause of adverse law, land acquisition (however, low under new MCA) and clearance issues.

Porter's 5 forces model



Bargaining power of supplier: Bargaining power of suppliers is High. Suppliers to road developers are subcontractors, who build road for main road developers and raw material suppliers.

- **Subcontractors:** Although, there are large numbers of subcontractors available in industry, selecting high quality subcontractor may result in high cost of construction. Hence, it may result in lower margins for road developers. However, in-house construction capability (parent – subsidiary structure) of few road developers has reduced the bargaining power of high quality subcontractors. Subcontractors are poised for a risk of backward integration from those players who give subcontracting work to them.
- **Raw material suppliers:** Raw material suppliers have high bargaining power. Bitumen and aggregates (soil, rocks and clays) constitute more than 50% of total construction cost. Procurement of required raw material is very important for road developers, as shortfall in raw material may result in cost over run.

Bargaining power of primary buyer (Government): Bargaining power of government (primary buyer) is high as development of road sector in current scenario highly depends on investment allocation and implementation of road development plan outlined. This structure is called as monopsony structure in which only one seller (Government) faces many buyers (road developers). As government is the only buyer of road projects, they enjoy high bargaining power. Government allots projects to lowest bidder based on the criteria like lowest concession period, high revenue sharing, high upfront payment or low positive grant. Players quoting high premiums for various high traffic density corridors have led to various authorities like NHAI getting very attractive pricing for those projects.

Bargaining power of secondary buyer (end user of road): Bargaining power of road end users are low, as these users have to pay toll applicable to road they are using. Low cash flow due to lower than estimated traffic will be covered by an increase in the concession period as per new model concession agreement (MCA).

Threat of substitutes: Threat of substitutes (railways) is moderate to low. Reach of railway is restricted only to area under span of railway network compared to road, which has wide reach. As per new model concession agreement, government cannot allot new additional toll ways within a specified number of years (generally 8 years). If additional road has been built, then minimum user fee for additional toll way will be at-least 25% higher than the toll fee on the older project.

Threat of new entrants: Industry has high entry barrier, as player needs proven track record for execution of projects. As per financial qualification criteria, bidder/ consortium is required to have net worth equivalent to at least 25% of total project cost. Further the players should also have strong technical and financial capacity.

Rivalry among players: Rivalry among players is high. Any high return projects can attract large number of players for bidding. Hence, they may give up part of their margin to become lowest bidder.

Outlook

Overall road sector is expected to do notably well on account of huge plan under NHDP and PMGSY. On other hand, resolution of policy issues has imparted the following:

- Clarity related to bidding of projects.
- Reduction in delay of land acquisition as 80% of land required for project shall be acquired by NHAI before awarding project under new norms.
- Lowering of project cost.
- Increase in concession period and partial traffic risk mitigation provision.

It made road projects more attractive and bought more confidence in lenders to lend on new road projects. These new amendments in policy reduce risk factor for developers, as a result of which quantum of investments in road sector through private participants has paced up. This will lead to continuous growth and will ease funding pressure on central level. Although risk of changes in policy and political risk still cannot be avoided and can give negative surprises to industry. However, we believe that probability of these risk are lower and therefore expect outlook to be positive for next 2-3 years when nearly 30,000 km of road projects are planned to be awarded.

Company Overview

IRB Infrastructure Developers Ltd. (IRB), Incorporated in 1998, is one of the largest and most experienced BOT player in the country with total length of around 5,735 lane km of road projects under its portfolio. The company undertakes development of various infrastructure projects in the road sector through several SPVs (Special Purpose Vehicles). IRB's work spans from building of roads, highways, bridges to tunnels. Recently, company diversified its business into real estate development sector as well. The company has total 16 BOT projects out of which 10 are operational projects and 6 are under construction projects. Its road portfolio holds market share of 9.31% on the Golden Quadrilateral. BOT division of IRB generates daily toll revenue of ₹26mn on gross basis. The company also has in-house EPC division which does EPC work for its own road projects.

Management

Mr. Virendra D. Mhaiskar is the Chairman and Managing Director of the Company. He holds diploma in civil engineering from Shriram Polytechnic, Navi Mumbai. As a Civil Engineer, he has hands-on experience of more than 17 years in the construction and infrastructure industry to his credit. He is responsible for developing new business, executing road construction and BOT projects. He is providing overall vision and strategy to the company.

Business model

The company has presence in four business verticals, namely BOT, EPC, airport development and real estate development. Out of these four verticals, two-business verticals namely EPC and BOT contribute 60% and 40% to the revenues respectively. The other two verticals (airport development and real estate development) are at a very nascent stage.

Source: Company

BOT Business

IRB has total 16 BOT projects under its portfolio. Each BOT project operates under SPV (100% each except Surat-Dahisar which is 90%). Of 16 BOT projects 10 BOT projects are generating revenue and rest all are expected to be fully operational by 2014.

EPC Business

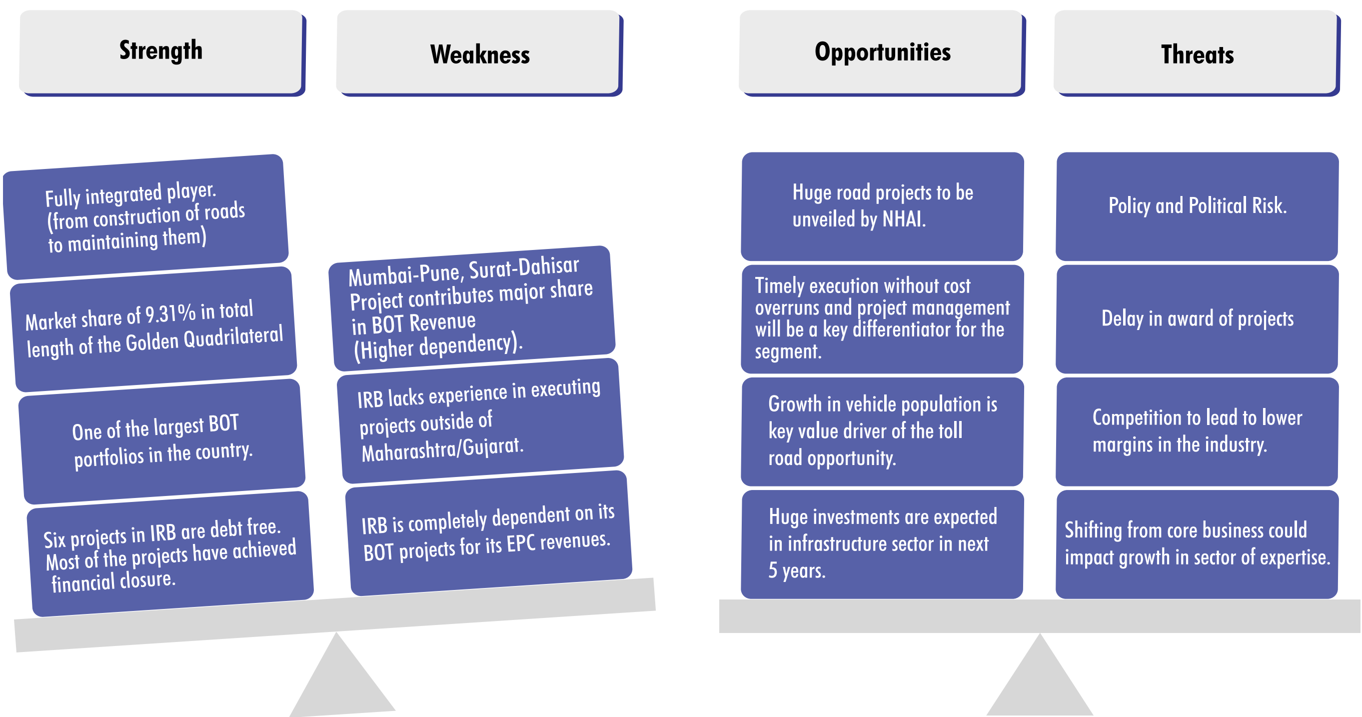
Modern Road Makers Pvt Ltd., 100% subsidiary of IRB, handles EPC business. This business does EPC work for IRB's own road projects.

Airport and Real Estate

IRB has recently entered into these two verticals. IRB has bagged one project in Sindhudurg for development of airport. The company has also proposed to develop township near Mumbai–Pune expressway and two commercial properties. All these projects are at a very initial stage.

BOT subsidiaries	Holding
Ideal Road Builders Pvt. Ltd	100%
ATR Infrastructure Pvt. Ltd.	100%
Aryan Toll Road Pvt. Ltd.	100%
Mhaiskar Infrastructure Pvt. Ltd.	100%
IDAA Infrastructure Pvt. Ltd.	100%
NKT Road and Toll Pvt. Ltd.	100%
IRB Infrastructure Pvt. Ltd.	100%
MMK Toll Road Pvt. Ltd.	100%
Modern Road Makers Pvt. Ltd.	100%
Thane Ghodbunder Toll Road Pvt. Ltd.	100%
IRB Surat Dahisar Tollway Pvt. Ltd.	90%
IRB Pathankot Amritsar Toll Road Pvt. Ltd.	100%
IRB Talegaon Amravati Tollway Pvt. Ltd.	100%
IRB Jaipur Deoli Tollway Pvt. Ltd.	100%
IRB Goa Tollway Pvt. Ltd.	100%
IRB Kolhapur Integrated Road Development Company Pvt. Ltd.	100%
Source: company	

SWOT Analysis



Investment Rationale

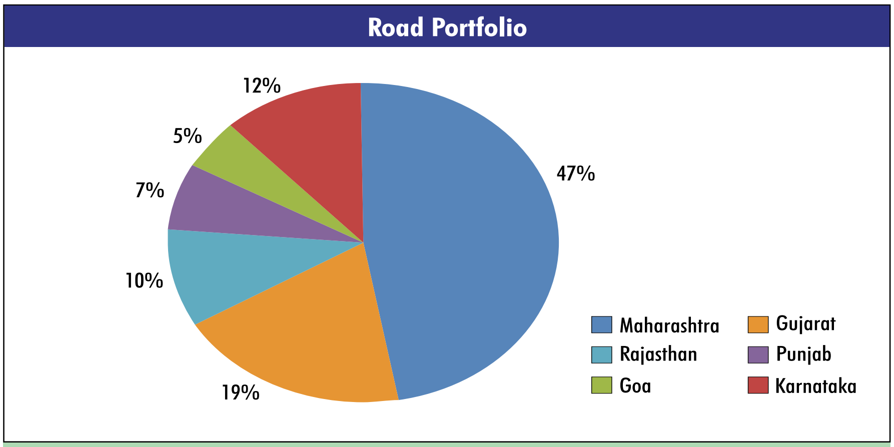
One of the largest and experienced toll based BOT player– Six projects are debt free, only one project in pre financial closure state

IRB is one of the largest toll based BOT player with 10 operational projects and 6 under construction projects and one pre-financial closure project under its portfolio. 6 projects of these 10 operational projects are generating revenue for more than 4-5 years. IRB has used cash flow from these projects to repay debt as a result of which six projects of IRB is now debt free. Further cash flow from these projects will be used efficiently in other projects as an investment or for other purpose such as debt repayment. The company has also achieved financial closure for four new projects out of five projects bagged previously. Hence company is now eligible to bid for more projects as per new norm where company is not allowed to bid for new project if three or more projects are in pre-financial closure state. Company's focused approach and efficiently managed cash flows have helped them to qualify for projects worth ₹250 bn or projects of around 2,000 km. Therefore, we expect that IRB will continue to bag new projects based on its capability and past track record of efficiently executing road projects which will help company to maintain growth momentum in future.

Project selection approach is key strategy of IRB

IRB is qualified for around 2,000 km projects, but its strategy is to bid for large size projects. More than 10 projects of IRB are national highway from NHAI. The company's major projects are located in western parts of country i.e. Rajasthan, Gujarat, and Maharashtra. The company also intends to bid for large-size projects which government is likely to announce in near future (development of 9-10 road projects, 500 km each worth of ₹50 bn). The key strategy is to bid for project from high traffic states such as Gujarat, Maharashtra and Rajasthan, large size projects and national highways that carry nearly 40% of total traffic of India.

Road Portfolio



Source: Company, ACMIIL Research

Approximately 22,700 km of new road projects have been planned in Maharashtra, Gujarat, Karnataka and Rajasthan. Out of 22,700km, major developments are planned in the state of Karnataka (approx 13,000 km) and Gujarat (approx 6,600 km). Maharashtra and Rajasthan together contribute development of 3,100 km.

We believe there are huge investments opportunities in Indian road segment and IRB with its present strategy is likely to benefit from the same.

State Road Projects		
State	**Road Network (km)**	**Up coming Development (km)**
Karnataka	143,592 (2005)	13,030
Maharashtra	85,521 (2006)	6,608
Gujarat	281,430 (2006)	1,659
Rajasthan	188,540 (2005)	1,394

Source: Crisil Research, ACMIIL

From in-house road development to road operations-Integrated business model

The company has experience in all the stages of road development business, starting from EPC work to complete operation of developed road. Very few specific road developers have that capability. Modern Road Makers Pvt. Ltd (MRM), 100% subsidiary IRB is engineering and construction arm which handles EPC business for IRB. The in-house EPC business units that constructs road for IRB's own SPVs, enables IRB to earn higher margins against companies who sub-contract EPC work to third party. Cash flow generated from this business unit is re-invested in SPVs as equity component that reduces funding pressure on IRB.

New upcoming opportunities in road segment to attract the attention of IRB

The Government is likely to award 9-10 mega projects of approx 500 km each in length at an investment of around ₹50bn. In order to complement NHDP program, government has also planned to develop expressway road project of 18,600 km in phases till 2022 along with conversion of approx. 10,000 km from state highways into national highways. There are new upcoming opportunities, where road projects worth ₹35bn is under Request for Proposal (RFP) stage and road project worth ₹276 bn is under Request for Qualification (RFQ) stage. IRB has set target of around 500km in FY11 and expects it to double in next two years. IRB has already bagged Tumkur project, an order of 114 km (nearly 25% of target). However, we have assumed shortfall in target km by approx 100km as we expect some delays in the award of the project, which we believe may shift to next fiscal year. Overall, there is tremendous opportunity for IRB to expand its road portfolio as government has embarked huge development plan.

Upcoming Opportunities			
Sr. No.	**Name of the Client**	**Request for Proposal (RFP) Stage**	**Request For Qualification (RFQ) Stage**
1	NHAI Projects – Phase III	1,755	4,741
2	NHAI Projects – Phase V	–	11,316
3	NHAI Projects – on OMT Basis	112	104
4	NHAI Projects – on BOT Annuity Basis – Phase III	–	4,035
5	NHAI Project – Collection of user fee	1,609	–
5	Other State/ Central Govt. Agencies	38	890
6	Power Projects	–	6,600
	Total	**3,514**	**27,686**

Source: Annual Report 2010, ACMIIL Research

New business can open new opportunities for growth - its success will unlock additional values and new expertise that is not factored in our valuation.

IRB has one airport project, real estate business and two commercial property development projects under its new business portfolio.

Sindhudurg greenfield airport project

- IRB bagged this project from MIDC on Design Build Finance and Operate (DBFO) basis to build airport with state-of-the-art technology and facility.
- Estimated cost: ₹1,750 mn.
- Concession period: 95 years.
- **Specification:**
  - Airport area for development – 670 acres.
  - Runway Length – 3,170 m.
- Small investment in this project is valued at book value of investment in our valuation.

Real estate development project

- It intends to develop integrated township alongside Mumbai–Pune Expressway.
- Already acquired land of approx 1,200 acres and proposed to acquire more.
- Already received permission from Directorate of Industries to purchase agricultural land up to 1,888.
- Existing land has been valued at book value in our valuation.

Commercial property development

- As part of terms of concession agreement of IRDP Kolhapur project, IRB has received commercial plot of 30,000 sq. m on lease for 99 years for commercial use at ₹1.
- IRB has executed Hotel Operating Agreement and Technical Services & Development Assistance Agreement with The Indian Hotels Company Ltd. to operate & maintain a Gateway Hotel, to be constructed at estimated cost of ₹4,300 mn.
- IRB can also use 50% of 670 acres land from airport project for commercial use.
- These projects are not factored in our valuation.

Although, all these projects are in pre-construction phase, success in its implementation can unlock more value. Lack of clarity about cash flow from these projects has restricted us to value them. We expect to get clarity about Kolhapur commercial property development project and airport business by next quarter to factor it in our valuation.

A Robust order book ₹97,584 mn gives EPC revenue visibility for next 3 years.

The company has robust order book of ₹97,584 mn. It comprises of EPC and ongoing BOT projects of worth ₹20,093 mn, O&M of worth ₹23,266 mn, funded projects of worth ₹615 mn and BOT projects which are under award of worth ₹53,610mn. Major portion of EPC for ongoing BOT projects is likely to be executed in FY11 and rest in FY12. Also EPC from the new award projects will be executed in next three years. Apart from this order book, company is likely to receive an order for approx 500km of road projects in FY11, of which 114km are already received. IRB's current order book is nearly 5.5X of its FY10, hence gives clear visibility of high EPC revenue for next three years.

Strong Order Book	
Order Book* Composition as on30thJune 2010	**in ₹Mn**
EPC and ongoing BOT Projects	20,093
BOT Projects in O&M Phase	23,266
Funded Construction Projects	615
BOT Projects under Award	53,610
Total	**97,584**
Source: Company, ACMIIL Research	

Risks

Along with industry risk mentioned in industry part, company is exposed to following risk.

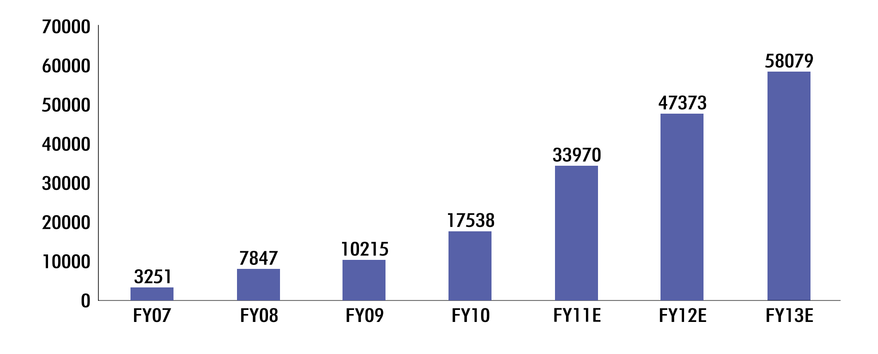
- **Traffic growth assumption:** Our assumptions for valuation play vital role. Vast difference between our assumption and actual outcome can change our valuation and our recommendation for IRB.
- **Interest rate movement:** Increase in interest rate can have impact on valuation since few projects have reset clause for interest rate every three years. However, toll rates is linked to WPI, increase in interest payment will be partially taken care by additional revenue from higher toll rates.

Financials

Revenue

The company's revenue has grown at CAGR of 75% for FY07-10. IRB has posted revenue of ₹5,120 mn in Q1 FY11, 23% increase from ₹4,141 mn in Q1 FY10. Revenue from EPC business has contributed 62%, ₹3,301 mn in Q1 FY11 against ₹2,749 mn in Q1 FY10. BOT revenue has contributed ₹2,035 mn in Q1 FY11 against ₹2,010 Q1 FY10. We expect contribution from EPC business to grow from 50% in FY09 to 76% FY13E on account of commencement of construction of four new projects.

Revenue Trend (In ₹ mn)

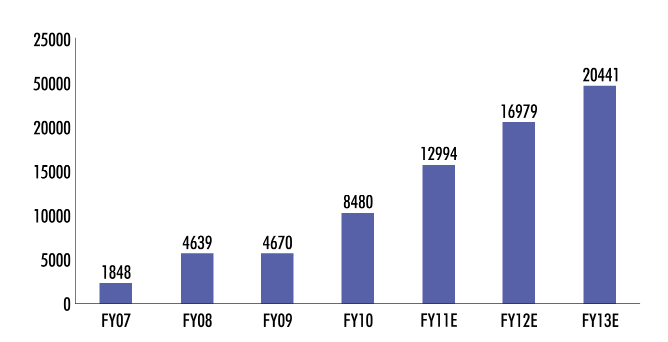


Source: Company, ACMIIL Research

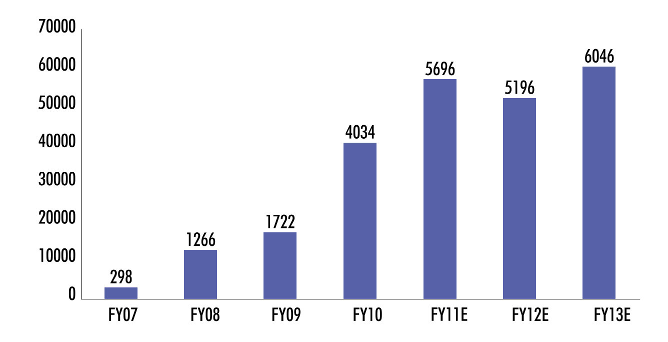
EBIDTA & PAT

EBIDTA and PAT of IRB has grown at CAGR of 66% and 138% for FY07-10 respectively. IRB has shown 44% rise in EBIDTA to ₹2,709 mn in Q1 FY11 against ₹1,876 mn in Q1 FY10. EBIDTA margin of IRB stood at 53% in Q1 FY11 against 45% in Q1 FY10, this increase of 8% is mainly due to 10% higher EBIDTA margin from EPC business. However, going forward we expect EBIDTA margin of IRB to fall from 50% in FY10 to 35% in FY13E due to high revenue contribution expected from EPC business. PAT for IRB has grown by 44% from ₹814 mn in Q1 FY10 to ₹1,175 mn in Q1 FY11. PAT margin has increased by 4% to 22% in Q1 FY11 from 18% in Q1 FY10. Increase in PAT margin was higher on account of 8% increase in PAT margin from EPC business in Q1 FY11 from Q1 FY10.

EBIDTA Trend (In ₹ mn)



PAT Trend (In ₹ mn)



Source: Company, ACMIIL Research

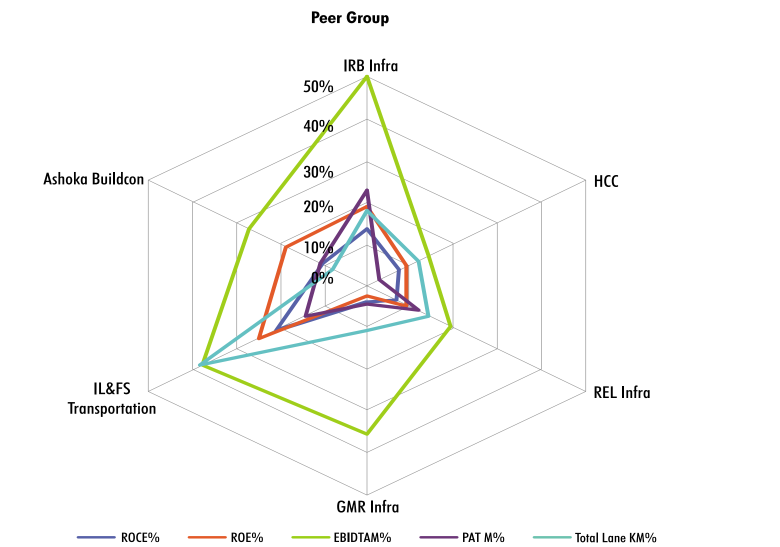
Peer group valuation – Well positioned among its peers.

IRB is well positioned among its peers in terms of return ratio and margins. IRB commands higher return ratios as compared to its peers GMR infra, Reliance Infra and HCC. These players have presence in other segments of infrastructure along with road segment and therefore high margin from road business is diluted by other business. In-house EPC business has also helped IRB to command higher margins. ILFS Transportation has higher return ratio compared to IRB, but in terms of margins, IRB still looks better. IRB and ILFS transport together have total lane km share of 56% with 18% and 38% respectively. Total lane km is calculated by adding total lane km capacity of all mentioned players. Along with IRB, ILFS transportation is also positioned well among its peers. However, both players have presence only in road segment, rest have presence in other segment of infrastructure along with road segment.

Peer Group

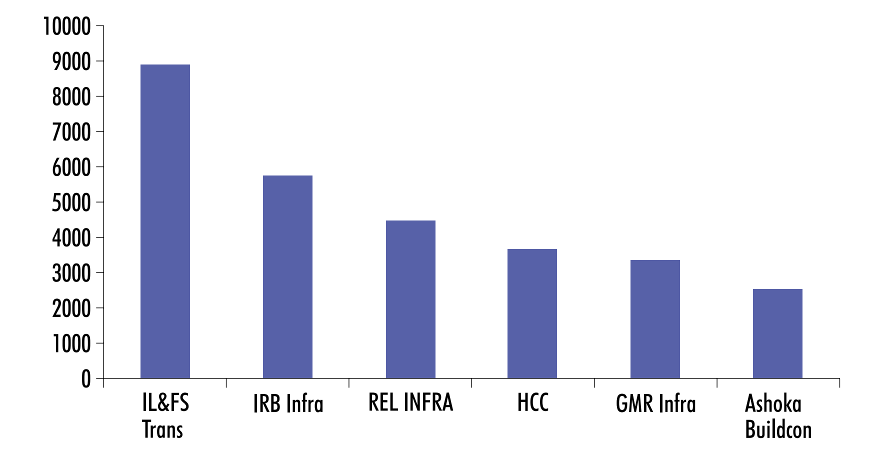
	ROCE %	ROE %	EBIDTAM %	PAT M %	total Lane KM %	P/E
IRB Infrastructure Developers Ltd	13%	19%	50%	23%	18%	19.8
Hindustan Const. Company Ltd	7%	9%	14%	3%	12%	36.7
Reliance Infrastructure Ltd	7%	9%	19%	11%	14%	17.3
GMR Infrastructure Ltd	4%	2%	36%	5%	11%	138
IL&FS Transportation Networks Ltd	21%	25%	37%	14%	38%	18.4
Ashoka Buildcon Ltd	10%	19%	27%	11%	8%	20.1

Source: ACMIIL Research.



Source: Company, ACMIIL Research

Lane Km of Players



Source: Company, ACMIIL Research

Valuation

BOT business is valued at ₹128 per share

Based on FCFE model, we have valued all the BOT projects and arrived at valuation of ₹128 per share. Mumbai–Pune project is valued at ₹40.5, highest amongst all the BOT projects followed by Bharuch–Surat project at ₹15.3 and Tumkur–Chitradurg project at ₹11.2. These top three projects contribute around 50% of total valuation for BOT business. We have assumed long term perpetual growth rate of 7% for traffic, 13% cost of equity for operational projects and 14% for project under construction. BOT segment is likely to grow at 22-25% for next 2-3 years. Most of the projects which have recently achieved financial closure, is expected to contribute revenue from FY14 onwards.

Revenue Table

Projects (₹Mn)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Mumbai Pune Project	2,352	2,880	3,063	3,282	4,131	4,408
Mohol-Kurul-Kamti-Mandrup Project	61	65	63	69	73	89
Pune Solapur BOT Project	136	127	133	141	157	168
Pune Nashik BOT Project	160	164	181	222	251	285
Nagar Karmala Temburni Project	110	113	135	161	180	202
Thane Ghodbunder BOT Project	270	265	277	330	354	378
Kharpada Bridge project	75	71	67	73	83	94
Thane Bhiwandi Bypass BOT Project	335	403	472	561	637	722
Bharuch Surat Project	0	0	663	1,452	1,628	1,828
Surat Dahisar Bot Project	0	208	2,065	2,603	2,884	3,178
Jaipur Deoli Toll Road	0	0	0	0	0	615
Talegaon Amravati Bot Project	0	0	0	0	0	329
Panji Goa Bot Project	0	0	0	0	0	233
Pathankot - Amritsar BOT Projects	0	0	0	0	0	605
IRDP in the City of Kolhapur Project	0	0	0	0	408	520
Tumkur Chitradurg BOT Project	0	0	0	0	197	270

Source: ACMIIL Research

EPC business will grow on higher trajectory - Valued at ₹172 per share

EPC revenues are expected from Jaipur-Deoli, Talegaon – Amravati, Panji Goa and Pathankot – Amritsar projects. We expect the EPC business to grow at CAGR of 63% for 2010-13E. These four projects have recently achieved financial closure in last fiscal year. All four projects has average construction period of 2.5 -3 years. We have assumed that 25% of construction will be completed in FY11, 40% in FY12 and remaining in FY13. Construction of Tumkur–Chitradurg project will start in FY12. We have also assumed new order of worth ₹28,600 mn in FY11 and ₹55,000 mn in FY12 which will also contribute some revenue in FY12 -13. We have valued this business based on P/E multiple. We have assumed multiple of 12x to FY12E EPS and valued at ₹172 per share.

Recommendation

We initiate coverage on IRB Infrastructure Developers Ltd with Buy recommendation based on SOTP valuation with target price of ₹305. We have valued BOT projects based on NPV method and arrived at value of ₹128. EPC business is valued on the basis of relative valuation and we have arrived at value of ₹172 by assigning P/E multiple of 12x to FY12E EPS of ₹14. Despite the significant growth expected in the EPC business, considering the presence in only one segment and being a captive unit, we have assigned a P/E multiple of 12x (based on relative valuation) to FY12E EPS of ₹14 and arrived at value of ₹172. Other investments are valued at ₹5.2 on book value per share basis. The company on account of 10 operational projects is expected to continue its revenue growth at 22 -24%. In EPC business, it is expected to grow at CAGR of 63% for 2010-2013 due to commencement of construction of four new projects. There is tremendous growth opportunity in industry due to huge investments, this will also augur well for IRB based on its expertise. Effective cash flow management will help them to reduce burden of funding pressure for new projects. However, operating margin is expected to be contracted, as a result of higher share from EPC business in revenue, which has operating margins around 20% against 82-84% margin of BOT business.

Valuation Table ₹mn

Road	Valuation	NPV (₹Mn)	Value per Share (₹)	Ke (%)
Mumbai Pune Project	FCFE	13,456	40.5	13%
Mohol-Kurul-Kamti-Mandrup Project	FCFE	381	1.1	13%
Pune Solapur BOT Project	FCFE	659	2.0	13%
Pune Nashik BOT Project	FCFE	1990	6.0	13%
Nagar Karmala Temburni Project	FCFE	485	1.5	13%
Thane Ghodbunder BOT Project	FCFE	2,036	6.1	13%
Kharpada Bridge project	FCFE	275	0.8	13%
Thane Bhiwandi Bypass BOT Project	FCFE	2,836	8.5	13%
Bharuch Surat Project	FCFE	5,080	15.3	13%
Surat Dahisar Bot Project	FCFE	3,319	9.0	13%
Jaipur Deoli Toll Road	FCFE	2,104	6.3	14%
Talegaon Amravati Bot Project	FCFE	1,442	4.3	14%
Panji Goa Bot Project	FCFE	1,007	3.0	14%
Pathankot - Amritsar BOT Projects	FCFE	1,209	3.6	14%
IRDP in the City of Kolhapur Project	FCFE	2,862	8.6	14%
Tumkur Chitradurg BOT Project	FCFE	3,706	11.2	14%
Total			**128.0**	
EPC	**P/E multiple**		**172.0**	**12x FY12E**
Other Investments	**BV**		**5.0**	**1x**
Total			**305**	

Source: ACMIIL Research

Financial Data

Profit & Loss Account					₹mn
Particulars	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Net sales	**9,918.8**	**17,048.5**	**33,969.8**	**47,374.5**	**58,082.0**
Other income	296.0	489.5	781.3	1,089.6	1,510.1
Total Income	10,214.8	17,538.1	34,751.1	48,464.1	59,592.1
Total Expenditure	5,544.9	9,058.5	21,995.3	31,868.5	38,806.3
EBIDTA	**4,669.9**	**8,479.5**	**12,755.8**	**16,595.6**	**20,785.8**
Interest	1,376.6	2,493.9	3,078.9	4,449.6	5,489.7
Depreciation	1,143.8	1,819.1	2,097.9	4,773.8	5,609.7
EBT	2,149.5	4,166.6	7,579.0	7,372.2	9,686.4
Taxes	377.8	133.0	2,120.9	2,432.8	3,196.5
Profit after tax before MI	1,771.7	4,033.5	5,458.1	4,939.4	6,489.9
Minority Interest	13.2	179.5	171.7	(84.8)	(91.6)
Profit after tax	**1,758.5**	**3,854.1**	**5,286.4**	**5,024.2**	**6,581.5**
EPS	5.3	12.1	15.9	15.1	19.8
Source: ACMIIL Research, Company					

Balance Sheet					₹mn
Particulars	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Sources of Funds					
Share Capital	3,323.6	3,323.6	3,323.6	3,323.6	3,323.6
Reserves and Surplus	13,977.1	17,075.3	21,778.4	26,219.3	32,217.4
Total Shareholders Funds	17,300.7	20,398.9	25,102.0	29,542.9	35,541.1
Minority Interest	599.2	778.7	950.3	865.5	774.0
Loan Funds					
Secured Loans	24,741.4	29,034.9	47,956.3	69,424.5	91,066.2
Unsecured Loans	117.5	117.5	117.5	117.5	117.5
Total loans	24,858.8	29,152.4	48,073.8	69,542.0	91,183.7
Deferred Tax Liabilities	181.6	267.2	267.2	267.2	267.2
Total Capital Employed	**42,940.3**	**50,597.2**	**74,393.4**	**100,217.7**	**127,766.0**
Application of Funds					
Gross Block	24,601.0	40,185.1	47,227.1	62,196.1	110,732.2
Less: Accumulated Depreciation	4,439.7	5,510.8	7,608.7	12,382.6	17,992.3
Net Block	20,161.3	34,674.3	39,618.3	49,813.5	92,739.9
Capital Work in Progress	14,545.4	8,802.4	23,218.2	43,018.5	30,190.0
Total	34,706.7	43,476.7	62,836.5	92,832.0	122,929.9
Investments	1,108.3	450.6	450.6	450.6	450.6
Net Current Assets	7,115.7	6,660.8	11,097.2	6,386.6	3,438.9
Deferred Tax Asset	-	-	-	539.4	937.6
Miscellaneous Expenditure (to the extent not written off)	9.6	9.1	9.1	9.1	9.1
Total Assets	**42,940.3**	**50,597.2**	**74,393.4**	**100,217.7**	**127,766.0**
Source: ACMIIL Research, Company					

Cash flow					₹mn
Particulars	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
PBIT	2,149.5	4,166.6	7,579.0	7,372.2	9,686.4
Depreciation	1,143.8	1,819.1	2,097.9	4,773.8	5,609.7
Interest	1,343.5	2,436.8	3,078.9	4,449.6	5,489.7
Other Adj.	(195.7)	(427.6)	-	-	-
Profit before working capital changes	4,441.1	7,994.9	12,755.8	16,595.6	20,785.8
Working capital changes	(1,420.8)	1,849.5	1,117.6	897.9	570.7
Cash Generated from Operating Activities after working capital changes	3,020.3	9,844.4	13,873.5	17,493.6	21,356.5
Tax Paid	(405.0)	(811.7)	(2,120.9)	(2,432.8)	(3,196.5)
Minority Interest	-	-	(171.7)	84.8	91.6
Net Cash flow from operating activities	**2,615.3**	**9,032.7**	**11,580.9**	**15,145.5**	**18,251.6**
Net Cash flow from Investing activites	**(6,046.6)**	**(10,223.1)**	**(21,457.7)**	**(34,769.3)**	**(35,707.6)**
Net Cash flow from Financing activities	**3,308.0**	**1,431.0**	**15,430.9**	**15,811.1**	**15,079.0**
Net increase /(decrease) in cash	(123.4)	240.6	5,554.1	(3,812.7)	(2,377.1)
Op. balance of cash and cash equivalents	1,111.2	987.8	1,228.4	6,782.5	2,969.8
Cl. balance of cash and cash equivalents	**987.8**	**1,228.4**	**6,782.5**	**2,969.8**	**592.8**

Source: ACMIIL Research, Company

Ratio					
Particulars	**FY09**	**FY10**	**FY11E**	**FY12E**	**FY13E**
Growth Potential Ratios					
Inventory Turnover	7.8	10.0	10.4	10.7	11.1
Inventory Turnover - Days	47.0	36.3	35.0	34.0	33.0
A/R Turnover	76.4	57.4	60.8	60.8	66.4
A/R Turnover - Days	4.8	6.4	6.0	6.0	5.5
Creditors Turnover	4.7	5.7	5.7	5.6	5.5
Creditors Turnover - Days	77.4	63.9	64.0	65.0	66.0
Gross Fixed Asset Turnover	0.4	0.5	0.8	0.9	0.7
Net Fixed Asset Turnover	0.5	0.6	0.9	1.1	0.8
Profitability Ratios					
Net Sales Year Change	35%	72%	99%	39%	23%
Net Income Growth(PAT)	54%	119%	37%	-5%	31%
Gross Margin	47%	50%	38%	35%	36%
EBIDTA Growth	1%	82%	50%	30%	25%
EBIDTA Margin	49%	50%	38%	35%	35%
Pretax Margin	22%	24%	22%	16%	17%
PAT Margin	18%	23%	16%	11%	11%
Return on Assets	4%	8%	7%	5%	5%
Return on Equity	10%	19%	21%	17%	19%
Return on Capital Employed (ROCE)	8%	13%	15%	12%	12%
Debt Factors Ratios					
Debt to Assets(%)	0.6	0.6	0.6	0.7	0.7
Debt/Equity	1.4	1.4	1.9	2.4	2.6
CFO to Debt	0.1	0.4	0.4	0.3	0.3
Per Share Ratios					
EPS	5.3	11.6	15.9	15.1	19.8
P/BV	4.8	4.0	3.3	2.8	2.3
Book Value per share	52.1	61.4	75.5	88.9	106.9
Cash per Share	15.8	16.7	33.4	21.9	14.8
P/CEPS	28.2	14.0	10.9	8.5	6.8
P/E	46.8	21.3	15.6	16.4	12.5
DPS	1.7	1.9	1.5	1.5	1.5
Source: ACMIIL Research, Company					

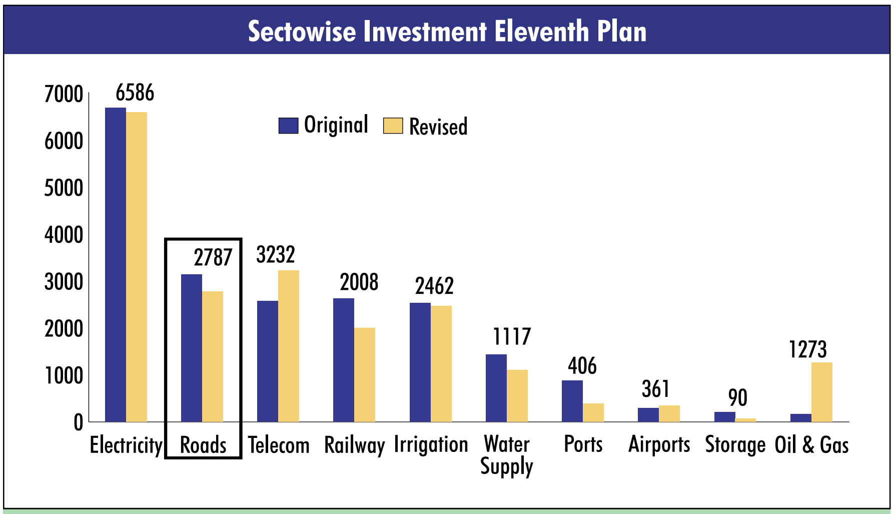
ANNEXURE

Work plan up to year 2013-14

Mode of Delivery	Year wise length in km.						
	FY10	FY11	FY12	FY13	FY14	Total	% of total
BOT (toll)	8,808	5,286	4,192	943	1,477	20,706	56
4 lane - Phase-III	4,373					4,373	12
4 lane - Phase-II	55					55	0
6 lane-Phase-V	2,403	1,200			1,477	5,080	14
Expressways -Phase-VI			436	604		1,040	3
2 lane with paved shoulders-Phase-III	1,977					1,977	5
2 lane -Phase-IV		4,086	3,075	339		7,500	20
4 lane -Phase–VII			681			681	2
BOT (Annuity)	3,014	4,645	4,000	1,355	-	13,014	35
4 lane -Phase-III	524					524	1
4 lane -Phase-II	380					380	1
J&K -Phase-II	239					239	1
2 lane with paved shoulders -Phase-III	1,477					1,477	4
2 lane -Phase-IV		4,645	4,000	1,355		10,000	27
4 lane -SARDP-NE	394					394	1
EPC	830	1,161	1,000	339	-	3,330	9
4 lane -SARDP-NE	330					330	1
2 lane -Phase–IV		1,161	1,000	339		2,500	7
2 lane with paved shoulders-Phase-III	500					500	1
Total	12,652	11,092	9,192	2,637	1,477	37,050	100
% of total	34	30	25	7	4	100	

Source: Report of the B K Chaturvedi committee on NHDP

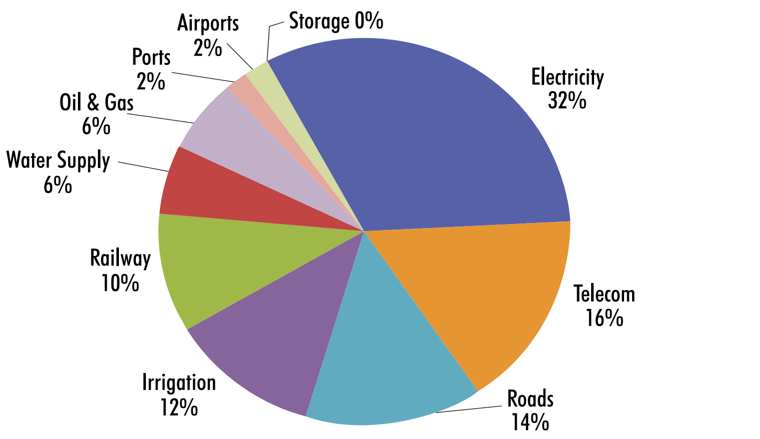
Sector-wise Investments: Eleventh Plan



Source: Mid term appraisal of Eleventh Plan by Planning Commission

Investment Pie - Eleventh Plan

Investment Pie-11th Year Plan



Source: Mid term appraisal of Eleventh Plan by Planning Commission

Revised Projections of Investment in Infrastructure during Eleventh Plan with sector contribution

₹ bn	Centre	States	Private
2007-08 (Actual)	129.6	227.7	70.1
2008-09 (Actual/Est.)	148.8	256.6	75.7
2009-10 (RE/BE/Proj.)	173.7	282.2	90.4
2010-11 (BE/Proj.)	217.7	310.5	103.7
2011-12 (Projected)	239.4	341.5	118.9
XI Plan (Revised Projected)	909.2	1,418.5	458.9
X Plan (Actual)	504.7	674.2	92.2

Source: Mid term appraisal of Eleventh Plan by Planning Commission

Status of NHDP Program

Phase I - Widening (to 4 lanes) and upgrading of 7,191 km of the national highway network

- Includes Golden Quadrilateral (GQ- connecting Delhi, Kolkata, Chennai and Mumbai), port connectivity (connecting 10 major ports) and other national highways.
- GQ is expected to complete in year June 2011; its major portion has been completed.
- Due to delay in payment from Chennai port, 85km is under implementation in port connectivity segment and 47 km is left in other NH segment.

Phase II - Widening and improvement of the North South-East West (NS-EW) corridors (not covered under Phase-I) covering a distance of 7,142 km

- Comprises mostly NS-EW connecting Srinagar - Kanyakumari (north – south) and Silchar – Porbander (East-West)) and other NHs.
- Expected to complete E-W corridor by 2013 and N-S corridor by 2015. It will be delayed by 5 years from expected completion by December 2010.
- Major part of E-W corridor has been completed but N-S corridor will be delayed, because building of roads and tunnels in Jammu & Kashmir will consume more time.

Phase III – Up-gradation of 12,109 km (mainly 4- laning) of high density NHs which is not included in above phases

- It consists stretch of NHs carrying high volume of traffic, connecting state capitals with the NHDP network under Phases I and II.
- Providing connectivity to places of economic, commercial and tourist importance.
- 1805 km is executed , 5,201km is under execution phase and 5103 km is yet to be awarded.
- Scheduled to be completed by December 2013 but delay is expected.

Phase IV – Up-gradation and 2-laning of 20,000 km highways with paved shoulders

- Government has approved the up-gradation/strengthening of 5,000 KM of single/ intermediate/two lane NHs to two lane with paved shoulders on BOT (Toll) and BOT (Annuity) basis
- Scheduled to be completed by December 2015 but delay is expected

Phase V - 6-laning 6,500 of the 4-lane highways comprising the GQ and certain other high density stretches

- Involves 6 laning of corridors, have been 4-laned as part of the GQ in Phase-I.
- Out of the 6,500 km under NHDP-V, about 5,700 km would be taken up from the GQ and the balance 800 km by other selected stretches.
- 1992km is under implementation and 4,200km is yet to be awarded. It is scheduled for completion by December 2012.

Phase VI - Development of 1,000 km of expressways

- No development is recorded as yet, but action is being taken for the preparation of feasibility report.
- NHDP-VI is scheduled for completion by December 2015.
- Phase VII - Other Highway Projects of 700 km
- Involves development of ring roads, bypasses, grade separators, flyovers, elevated roads, tunnel road over bridges, under passes and service roads.
- It has a feasible study phase and scheduled to be completed by December 2014.

Notes:

Institutional Sales:

Ravindra Nath, Tel: +91 22 2858 3400

Kirti Bagri, Tel: +91 22 2858 3731

Himanshu Varia, Tel: +91 22 2858 3732

Email: instsales@acm.co.in

Institutional Dealing:

Email: instdealing@acm.co.in

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1. Analyst ownership of the stock	NO
2. Broking Relationship with the company covered	NO
3. Investment Banking relationship with the company covered	NO
4. Discretionary Portfolio Management Services	NO

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