

IRCON International

BUY

Moved to competitive bidding in FY21

Summary

IRCON international (IRCON) Q4FY21 PAT was lower (11%) than our estimate. This was led by lower EBITDA margin. As segment wise, International EBIT margin was lower YoY. But execution (revenue) was better than estimate and in Q4FY21 it increased by 26% YoY and 82% QoQ. IRCON guides revenue to increase by 40% YoY in FY22 and EBITDA margin to increase by 200bps YoY as company is executing high margin orders in FY22E. In FY21 IRCON received order inflow of Rs42bn and 99% was from competitive bidding. FY21 Order book of Rs347bn, comprises 22% from competitive bidding. IROCN has increased dividend payout to 61% vs 46% In FY20 and paid DPS of Rs2.6/sh in FY21 (implying div yield 5.3%). On unchanged earnings, we have factored bonus of 1:1 in our financials. At our TP of Rs56, stock is valued at 9x FY23E EPS which is equal to its average valuation since IPO (exhibit 8). Maintain BUY Rating.

Key Highlights and Investment Rationale

- Q4FY21/ FY21 snapshot:** IRCON revenue in Q4 at Rs23bn has increased by 26% YoY. Execution has increased in Q4, as revenue increased QoQ by 82%. Q4 EBITDA/ PAT was up by 36%/ 51% YoY. Segment wise, International EBIT margin was lower YoY but domestic margin has healthy. In FY21, impacted by Covid, Revenue / PAT was down 5%/ 17% YoY. EBITDA was down 24% YoY at Rs3.6bn with EBITDA margin of 7.3% vs 9.2% YoY.
- FY21 Order inflow on competitive basis:** IRCON' order book at R347bn equals 7x TTM Revenue, with 95%/ 5% of order book from Railway/ Highway sector. Company has secured 99% of orders through competitive bidding basis in FY21. In Q4FY1/ FY21 IRCON has secured orders for Rs1.8bn/ Rs42bn. And in Q1FY22 company has incrementally bagged Rs7bn from Railways for electrification work.
- Reiterate strong revenue guidance:** IRCON targets FY22E revenue at Rs68-70bn. And, company is aiming for EBITDA margin at 9-9.5% for FY22. EBITDA margin is expected to be driven by execution of high margin order, higher contractual employee.

TP	Rs56
CMP	Rs47
Potential upside / downside	+18%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	5.3	6.2
Consensus	5.7	6.2
% difference	(7.0)	-

Shareholding Pattern (%)

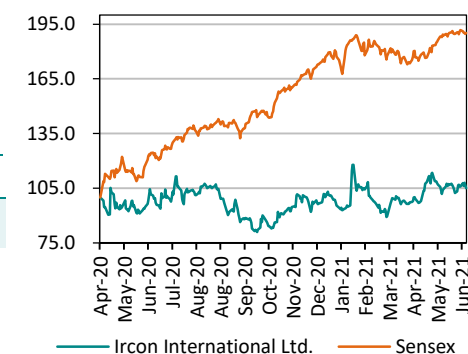
Promoters	73.2
FII	1.6
DII	0.3
Public	24.9

Price Performance (%)

	-1m	-3m	-12m
Absolute	1.0	5.5	3.4
Rel to Sensex	0.5	0.6	(42.3)

Key Stock Data	
Bloomberg/Reuters	IRCON IN /IRCN.BO
Sector	Infrastructure
Shares o/s (mn)	941
Market cap. (Rs mn)	44,580
Market cap. (US\$ mn)	596
3-m daily avg Trd value(Rs mn)	250.7
52-week high / low	Rs54 / 36
Nifty / Sensex	52,485 / 15,722

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	44,151	52,025	49,478	58,097	67,927
EBITDA	3,780	4,765	3,611	5,114	6,266
EBITDA (%)	8.6	9.2	7.3	8.8	9.2
Adj. PAT	4,447	4,898	4,046	4,962	5,806
EPS (Rs)	4.7	5.2	4.3	5.3	6.2
Adj. EPS Growth (%)	14.6	10.1	(17.4)	22.6	17.0
PE (x)	9.9	9.0	10.9	8.9	7.6
Adj. Dividend Yield (%)	4.5	5.1	5.6	6.8	8.0
EV/EBITDA (x)	10.7	7.9	3.2	2.0	1.6
RoE (%)	11.5	12.1	9.4	11.1	12.6
RoCE (%)	4.6	6.4	5.7	9.4	11.2

Source: Company; IDBI Capital Research

Conference call highlights of IRCON

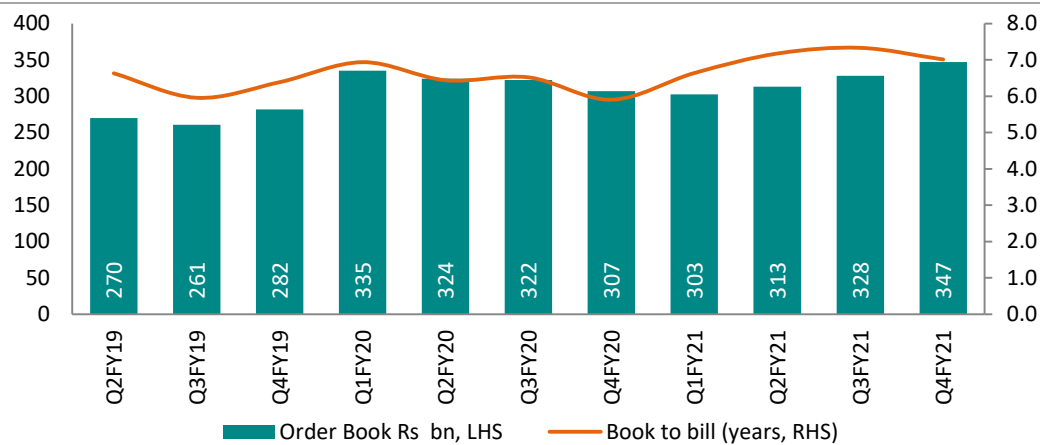
- Order book stood at Rs347bn equals 7x TTM Revenue. Out of the Total Order book, Rail/ Highway projects constitute 95%/ 5%.
- In FY21/ Q4FY21 IRCON has secured orders for Rs42bn/ Rs1.8bn. And in Q1FY22 company has bagged Rs7bn from Railways regarding railway electrification. Company has secured 99% of orders through competitive bidding basis in FY21.
- IRCON is going through execution of 2 projects which are not heavily profit making and having lower profit margins. This led to the drop in EBITDA margin in FY21.
- Company is expected to complete one of its projects in FY22 though company has certain claims lined up in the projects. Company expects the profitability to increase once the claims get settled.
- IRCON is well covered by the price variation of the materials cost, so there is not much effect in terms of project costs.
- Q4FY21 Other Income stood at Rs1bn vs Rs0.4bn YoY. This was led by claims settlement from NHAI. One of the claim settlement from NHAI came by way of interest income of ~Rs0.3bn
- Capex (core capex + equity investment to the SPV) for FY21 stood at Rs4.4bn. Company expects capex to be around Rs5bn for FY22.
- Company is working to change the composition of the workforce and will be engaging more contractual staff. This will have positive impact on EBITDA margin.
- Giving guidance, IRCON expects FY22 revenue to increase by ~25-30% YoY at Rs68-70bn.
- Going ahead, company is aiming for double digit EBITDA margin (incl other income) around 14-15% for FY22. Company is planning to have a mix of projects (consultancy in nature) in its turnover having higher margins. And Core EBITDA margin is expected to be ~9.5% in FY21E
- The Board has recommended a final dividend of Rs1.32/sh and including interim dividend total dividend stood at Rs2.62/sh (yield 5.3%)

Exhibit 1: Quarterly Snapshot

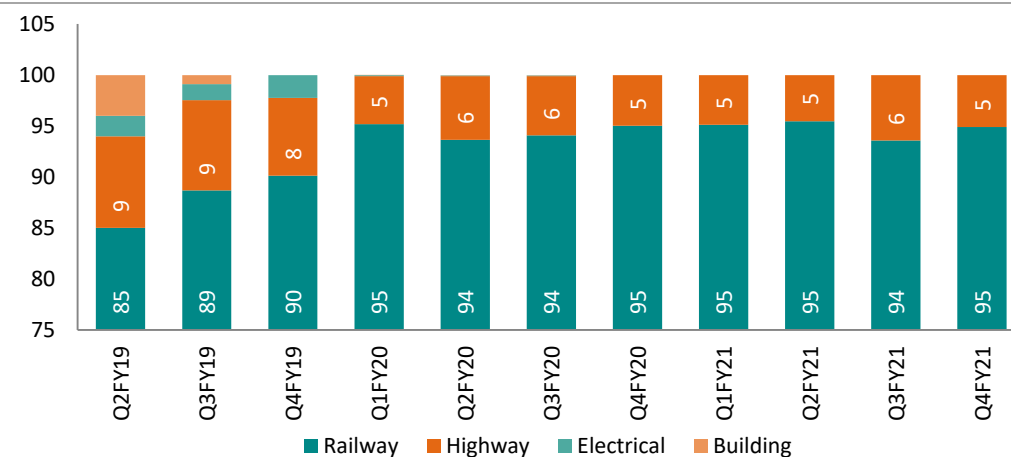
(Rs mn)

Particulars	Q4FY21	Q3FY21	QoQ Chg (%)	Q4FY20	YoY Chg (%)
Net Sales	22604	12445	81.6	17883	26.4
EBIDTA	1767	845	109.1	1295	36.4
<i>EBITDA margin (%)</i>	7.8	6.8		7.2	
Other income	1074	594	80.7	422	154.3
PBITD	2841	1439	97.4	1718	65.4
Depreciation	61	63	-2.7	59	3.7
Interest	19	35	-46.1	44	-57.5
Pre-tax profit	2761	1342	105.7	1615	71.0
Tax	908	311	192.0	391	132.3
Tax rate	33	23		24	
Profit after tax	1853	1031	79.7	1224	51.4

Source: Company

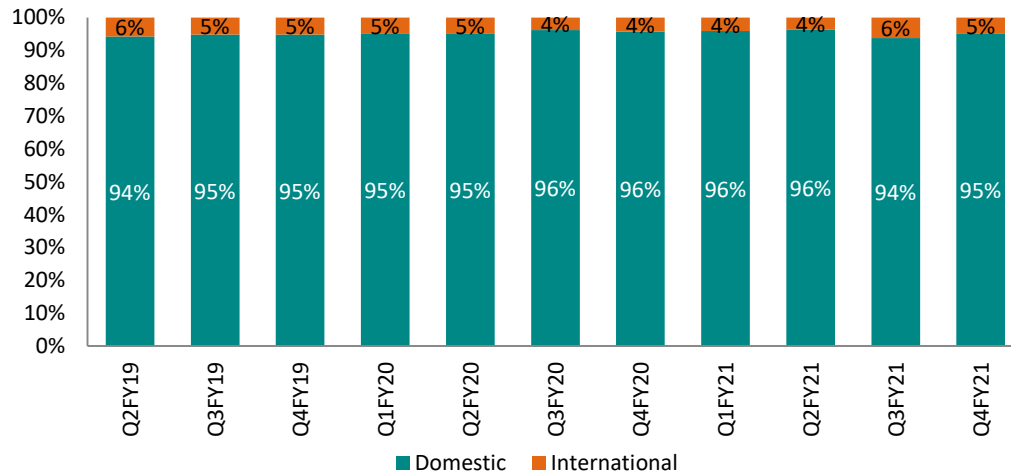
Exhibit 2: Order-book at 7x TTM revenue


Source : Company

Exhibit 3: Order book composition : Railway sector at 95%


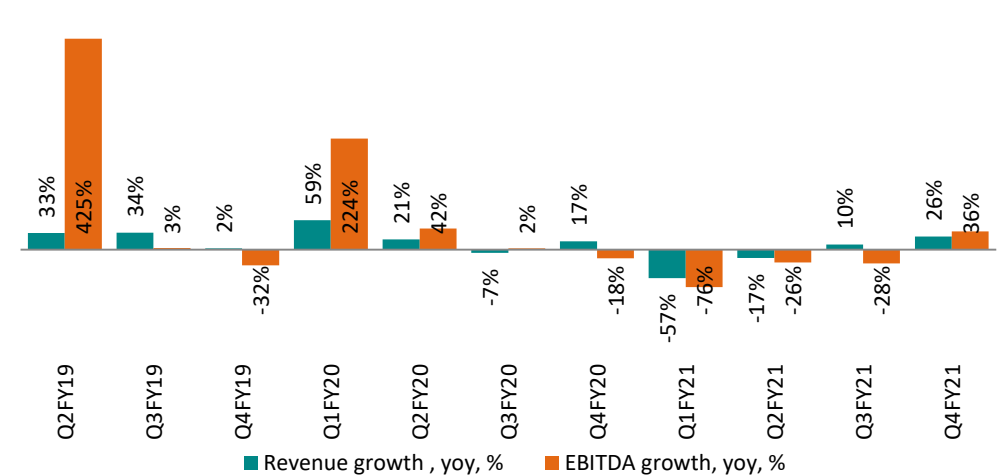
Source : Company

Exhibit 4: Order book composition: Geographic wise



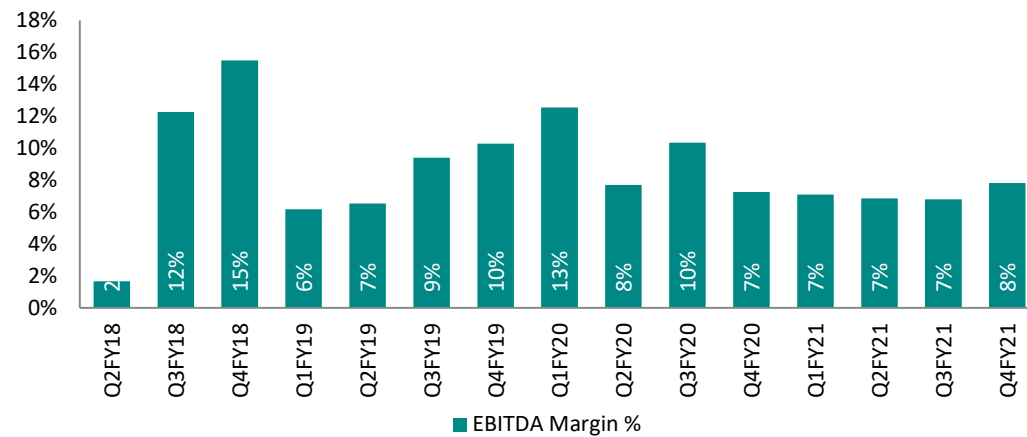
Source : Company

Exhibit 5: Execution over the years, lumpy in nature



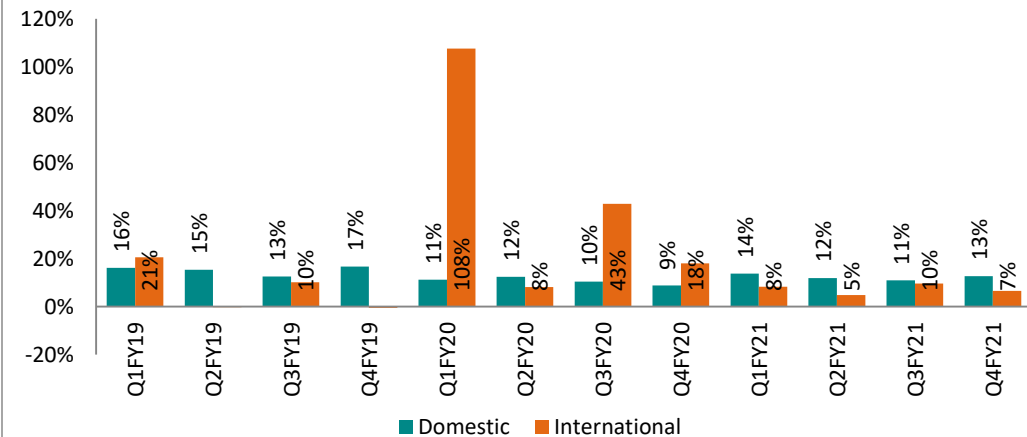
Source : Company

Exhibit 6: Q4FY21 EBITDA margin at 8%



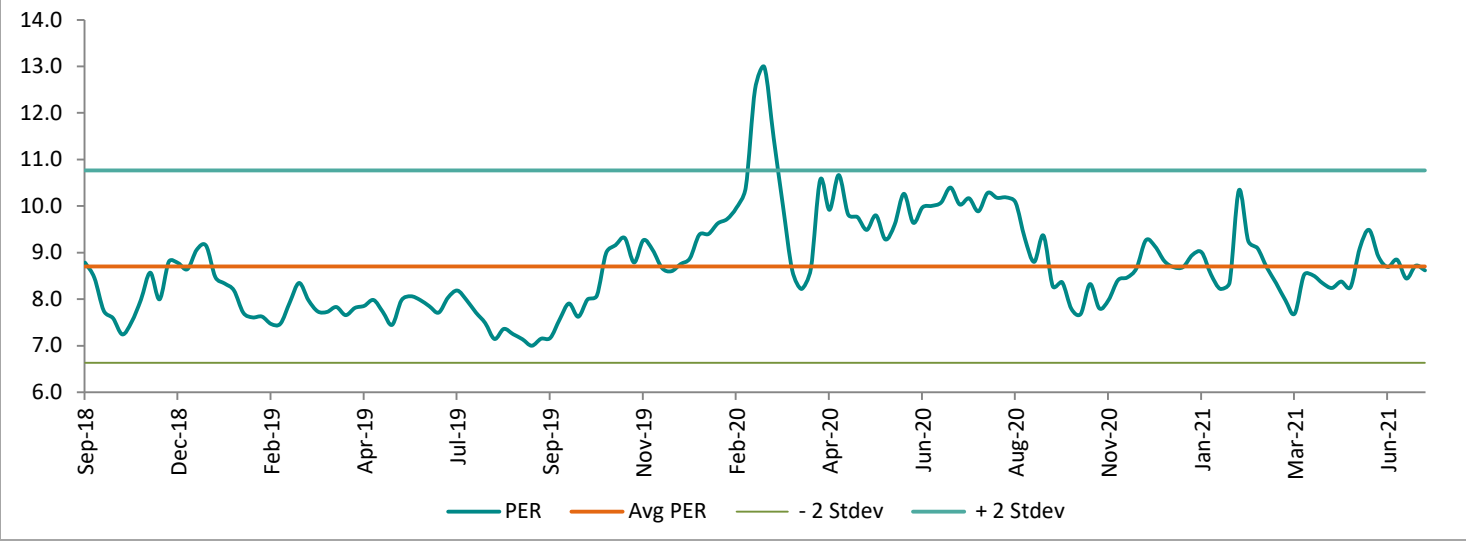
Source : Company

Exhibit 7: EBIT margin –Geographic wise



Source : Company

Exhibit 8: Valuation band PER



Source: Company

Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net sales	52,025	49,478	58,097	67,927	
<i>growth (%)</i>	<i>17.8</i>	<i>(4.9)</i>	<i>17.4</i>	<i>16.9</i>	
Operating expenses	(47,259)	(45,867)	(52,983)	(61,661)	
EBITDA	4,765	3,611	5,114	6,266	
<i>growth (%)</i>	<i>26.1</i>	<i>-24.2</i>	<i>41.6</i>	<i>22.5</i>	
Depreciation	(159)	(248)	(282)	(316)	
EBIT	4,606	3,362	4,832	5,950	
Interest paid	(273)	(147)	-	-	
Other income	2,393	2,525	2,209	2,288	
Pre-tax profit	6,726	5,740	7,040	8,238	
Tax	(1,828)	(1,695)	(2,078)	(2,432)	
<i>Effective tax rate (%)</i>	<i>27.2</i>	<i>29.5</i>	<i>29.5</i>	<i>29.5</i>	
Minority Interest	-	-	-	-	
Net profit	4,898	4,046	4,962	5,806	
Exceptional items	-	-	-	-	
Adjusted net profit	4,898	4,046	4,962	5,806	
<i>growth (%)</i>	<i>10.1</i>	<i>(17.4)</i>	<i>22.6</i>	<i>17.0</i>	
<i>Shares o/s (mn nos)</i>	<i>941</i>	<i>941</i>	<i>941</i>	<i>941</i>	

Cash Flow Statement					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Pre-tax profit	6,726	5,740	7,040	8,238	
Depreciation	159	248	282	316	
Tax paid	(444)	(377)	(2,078)	(2,432)	
Chg in working capital	5,762	4,149	4,535	1,862	
Other operating activities	(2,084)	(1,712)	(2,209)	(2,288)	
Cash flow from operations (a)	10,119	8,049	7,570	5,696	
Capital expenditure	(377)	(7,957)	(500)	(500)	
Chg in investments	(2,182)	2,448	(4,000)	(3,000)	
Other investing activities	(2,157)	6,611	2,209	2,288	
Cash flow from investing (b)	(1,645)	(7,056)	(2,291)	(1,212)	
Equity raised/(repaid)	-	-	-	-	
Debt raised/(repaid)	(6,781)	(0)	-	-	
Dividend (incl. tax)	(2,752)	(1,580)	(3,643)	(4,264)	
Chg in minorities	-	-	-	-	
Other financing activities	-	-	-	-	
Cash flow from financing (c)	(9,534)	(1,580)	(3,643)	(4,264)	
Net chg in cash (a+b+c)	(1,060)	(587)	1,635	221	

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	2,867	2,697	2,913	3,097
Investments	19,575	20,166	24,166	27,166
Other non-curr assets	36,352	15,894	15,894	15,894
Current assets	67,647	67,888	71,637	73,268
Inventories	3,207	1,176	1,490	1,742
Sundry Debtors	5,593	5,046	6,844	8,002
Cash and Bank	25,009	32,505	34,142	34,363
Marketable Securities	-	-	-	-
Loans and advances	628	940	940	940
Total assets	1,26,441	1,06,645	1,14,609	1,19,425
Shareholders' funds	41,611	44,065	45,383	46,926
Share capital	941	941	1,881	1,881
Reserves & surplus	40,671	43,124	43,502	45,045
Total Debt	18,459	-	-	-
Secured loans	18,459	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	7,338	6,790	6,928	7,085
Curr Liab & prov	59,033	55,790	62,298	65,414
Current liabilities	56,792	53,768	60,276	63,392
Provisions	2,241	2,022	2,022	2,022
Total liabilities	84,830	62,580	69,226	72,499
Total equity & liabilities	1,26,441	1,06,645	1,14,609	1,19,425
Book Value (Rs)	44	47	48	50

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	5.2	4.3	5.3	6.2
Adj. EPS growth (%)	10.1	(17.4)	22.6	17.0
EBITDA margin (%)	9.2	7.3	8.8	9.2
Pre-tax margin (%)	12.9	11.6	12.1	12.1
ROE (%)	12.1	9.4	11.1	12.6
ROCE (%)	6.4	5.7	9.4	11.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.4	0.5	0.6
Leverage factor (x)	3.2	2.7	2.5	2.5
Net margin (%)	9.4	8.2	8.5	8.5
Net Debt/Equity (x)	(0.2)	(0.7)	(0.8)	(0.7)
Working Capital & Liquidity ratio				
Inventory days	22	9	9	9
Receivable days	39	37	43	43
Payable days	45	59	59	59

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	9.0	10.9	8.9	7.6
Price / Book value (x)	1.1	1.0	1.0	0.9
PCE (x)	8.7	10.3	8.4	7.2
EV / Net sales (x)	0.7	0.2	0.2	0.1
EV / EBITDA (x)	7.9	3.2	2.0	1.6
Dividend Yield (%)	5.1	5.6	6.8	8.0



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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