

IRCON International

BUY

Margin is the key

Summary

IRCON international (IRCON) Q2FY22 PAT came 10% higher than our estimate. This is led by higher other income. H1FY22 revenue increased by 71% YoY and IRCON targets FY22E Revenue at ~Rs60-70bn but expect softness in margin. Based on guidance, H2FY22 implies revenue to increase by 1% to 29% YoY. But due to expectation of weak margin we have cut EPS for FY22E/23E by 9%/10% (exhibit 8). H1FY22 Order book at Rs349bn provides revenue visibility at 6x TTM Revenue. YTFY22 order inflow (won on competitive bidding) is at Rs27bn and additionally company emerged as L-1 bidder in project worth Rs86bn. We have roll forward TP to FY24E at Rs58, valued at PER of 10x (earlier Rs56). Company has announced second interim dividend of Rs0.7/sh (first was Rs0.45/sh). We have modeled total dividend of Rs2.9 for FY22E (implying div. yield of 6%). Maintain BUY rating on the stock.

Key Highlights and Investment Rationale

- Q2FY22 Snapshot:** IRCON Revenue was up 47% YoY at Rs14bn. EBITDA stood at Rs1bn (+49% YoY/ +39% QoQ) with EBITDA margin at 6.9%. Q2FY22 PAT at Rs1.3bn (+74% YoY, +57% QoQ). This is led by higher other income at Rs0.8bn vs Rs0.5bn YoY. Segment wise, Domestic EBIT margin was higher QoQ/ YoY. But International EBIT was at loss due to one-off.
- L1 in Rs86bn project:** H1FY22 IRCON's Order book stood at Rs349bn equals 6x TTM Revenue with 88%/ 5%/ 7% of order book from Railway/ Highway/ Other. In other it has solar power segment worth Rs26bn via e-Reverse auction with a Viability Gap Funding (VGF). Equity investment in solar project is expected at Rs4bn and IRCON has option to unlock the value at IRR of 14%. Geography wise international order book at 4% and domestic at 96%.
- FY22E PAT guidance at Rs4.8bn:** IRCON targets FY22E Revenue/ PAT at ~Rs60-70bn/ Rs4.8bn. And PAT margin is expected at 8-9% for H2FY22. Company re-iterated it's FY23E revenue target of Rs100bn.

TP	Rs58
CMP	Rs48
Potential upside / downside	+21%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	4.8	5.3	5.8
Consensus	--	--	--
% difference	--	--	--

Shareholding Pattern (%)

Promoters	73.2
FII	2.3
DII	0.2
Public	24.3

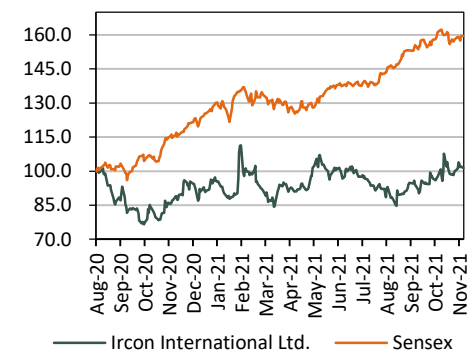
Price Performance (%)

	-1m	-3m	-12m
Absolute	2.6	11.3	15.9
Rel to Sensex	4.2	2.8	(22.3)

Key Stock Data

Bloomberg / Reuters	IRCON IN /IRCN.BO
Sector	Infrastructure
Shares o/s (mn)	941
Market cap. (Rs mn)	44,910
Market cap. (US\$ mn)	599
3-m daily avg Trd value(Rs mn)	19.1
52-week high / low	Rs54 / 40
Sensex / Nifty	60,322 / 17,999

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	52,025	49,478	58,097	67,927	79,481
EBITDA	4,765	3,611	4,498	5,104	5,799
EBITDA (%)	9.2	7.3	7.7	7.5	7.3
Adj. PAT	4,898	4,046	4,493	4,949	5,474
EPS (Rs)	5.2	4.3	4.8	5.3	5.8
EPS Growth (%)	10.1	(17.4)	11.0	10.2	10.6
PE (x)	9.1	11.1	10.0	9.0	8.2
Dividend Yield (%)	5.0	5.5	6.1	6.7	7.4
EV/EBITDA (x)	8.0	3.4	2.2	1.9	0.3
RoE (%)	12.1	9.4	10.1	10.8	11.6
RoCE (%)	6.4	5.7	8.2	9.0	10.0

Source: IDBI Capital Research;

Conference call takeaways

- H1FY22 Order book stood at Rs349bn (equals 6x TTM Revenue) comprising Railway/ Highway/ Other at 88%/ 5%/ 7% with nomination/ competitive bidding at 72%/ 28%. On geographical basis, domestic/ international at 96%/ 4%.
- In Q2FY22 out of the total 372km, IRCON has completed 100km of tracking linking on its DFCC project.
- IRCON is expecting an order inflow of Rs100bn will from competitive bidding as there will be no further orders from the India Rail Ministry. Going forward, IRCON is targeting to win projects in Myanmar and Bangladesh.
- In Q2FY22 IRCON entered into solar power segment to set up 500MW solar power plant worth Rs26bn through e-Reverse auction with a Viability Gap Funding (VGF). IRCON will be the asset owner and will do EPC in-house. Going forward, company plans to sign the PPA and operate it post commissioning of the project. Company also has an option to exit from the project off-loading its equity to the partner at pre-agreed IRR of 14%.
- IRCON also emerged as L-1 bidder in 2 projects- a) Signaling project in Sri Lanka worth USD15.47mn, b) High Speed rail projects in the domestic market. Total value of 2 projects stood at Rs86bn (including another project of Rs34bn which is awarded to a JV of IRCON with another partner). Company has also been appointed as Independent Engineer for Operation, Management and Development of Guwahati International Project for Rs0.1bn.
- On road asset portfolio, total equity committed on the road assets stood at Rs6.07bn. Out of this Rs5.54bn has already been invested and remaining will be invested in Gurgaon-Rewari project. Out of the loan committed to SPVs of Rs15.11bn, Rs10bn has already been paid and balance to be paid in due course.
- IRCON's total cash stood at Rs39bn. Out of this, Rs5.90bn is its own cash.
- On capex front, FY22 capex stood at Rs1bn which IRCON has already achieved till Q2FY22.
- IRCON has announced second interim dividend of Rs0.7/sh for FY22.
- On guidance front, IRCON expects Revenue/ PAT at ~Rs60-70bn/ Rs4.8bn for FY22E.

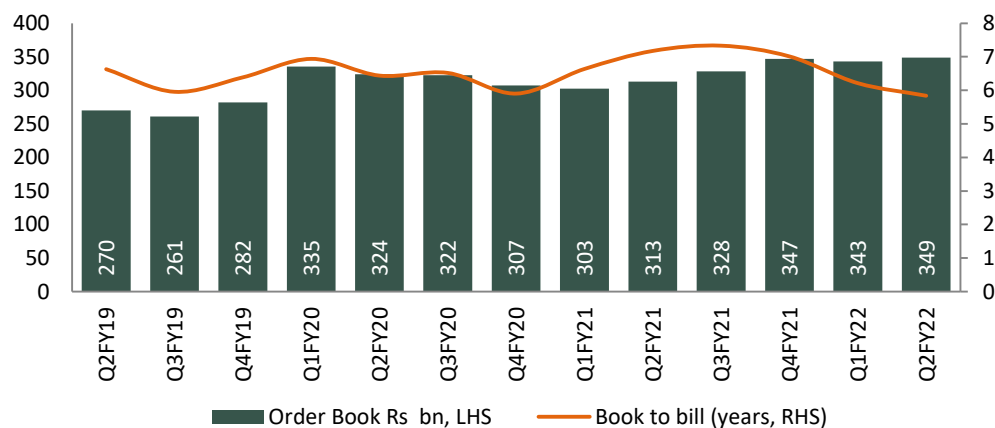
Exhibit 1: Quarterly Snapshot

(Rs mn)

Particulars	Q2FY22	Q2FY21	YoY Chg (%)	Q1FY22	QoQ Chg (%)
Net Sales	14211	9656	47	10511	35
EBIDTA	983	660	49	709	39
<i>EBITDA margin (%)</i>	6.9	6.8	8 bps	6.7	17 bps
Other income	822	496	66	524	57
PBITD	1805	1156	56	1233	46
Depreciation	61	63	-3	61	0
Interest	15	58	-75	31	-53
Pre-tax profit	1729	1035	67	1142	51
Tax	403	273	47	295	37
Tax rate	23	26		26	
Profit after tax	1326	762	74	847	57

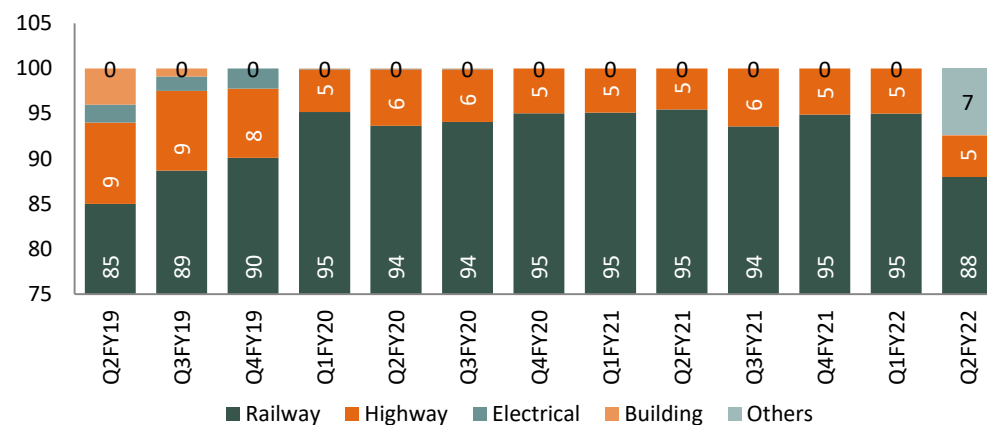
Source: Company

Exhibit 2: Order-book at 6x TTM revenue



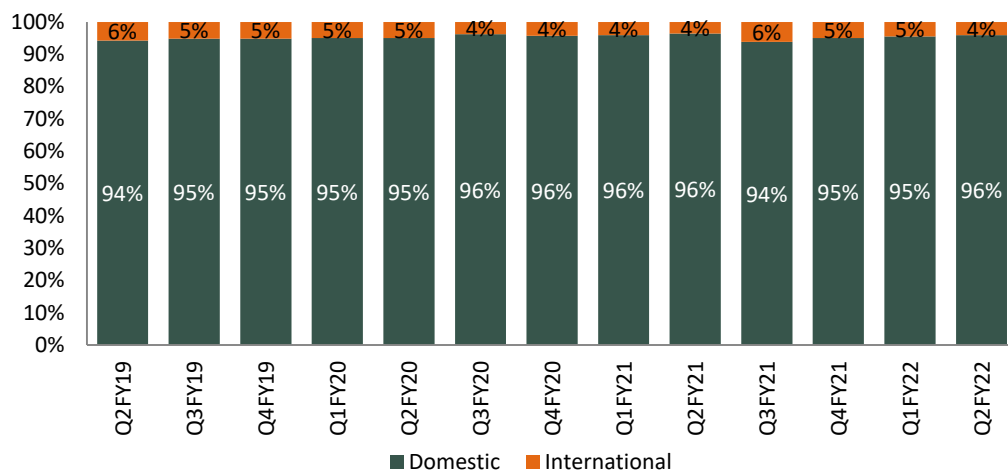
Source: Company

Exhibit 3: Order book sector wise : Railway sector at 88%



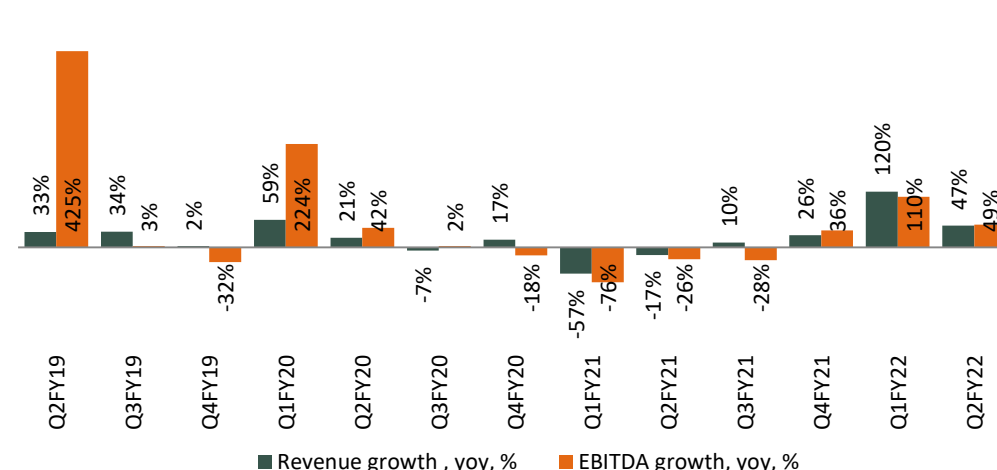
Source: Company

Exhibit 4: Order book composition: Geographic wise



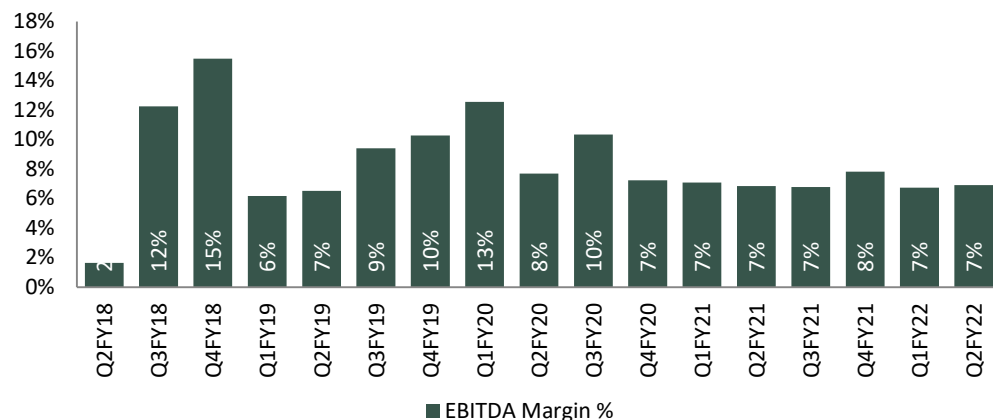
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Exhibit 5: Execution over the years, lumpy in nature



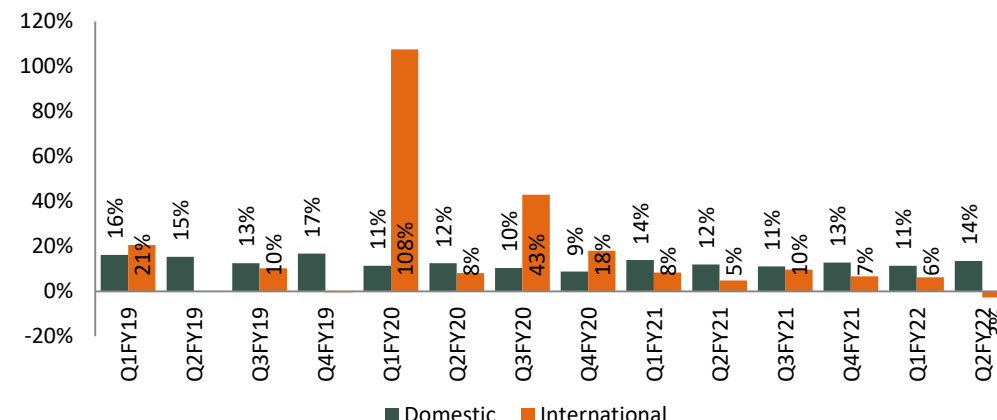
Source : Company

Exhibit 6: Q2FY22 EBITDA margin at 7%



Source : Company

Exhibit 7: EBIT margin –Geographic wise



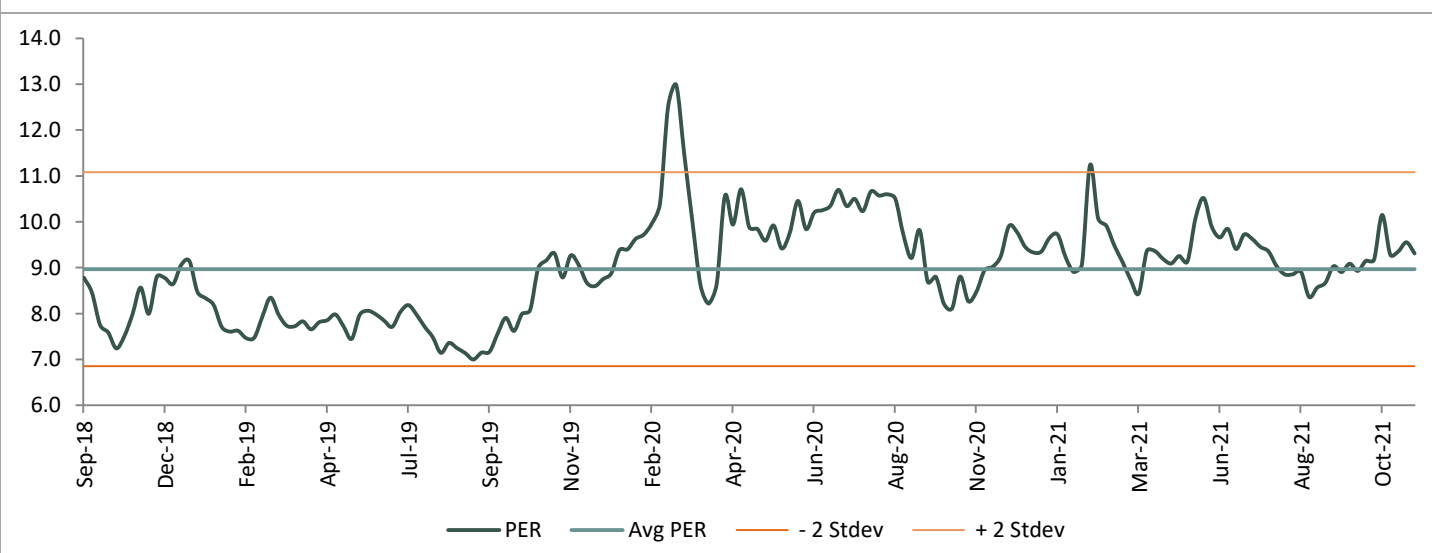
Source : Company

Exhibit 8: Change in estimate

	Earlier		Current		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	58,097	67,927	58,097	67,927	0%	0%
EBITDA	4,780	5,466	4,498	5,104	-6%	-7%
Margin %	8.2%	8.0%	7.7%	7.5%		
PAT	4,962	5,506	4,493	4,949	-9%	-10%

Source: IDBI Capital Research

Exhibit 9: Valuation band PER



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net sales	49,478	58,097	67,927	79,481
<i>Growth (%)</i>	<i>(4.9)</i>	<i>17.4</i>	<i>16.9</i>	<i>17.0</i>
Operating expenses	(45,867)	(53,599)	(62,823)	(73,682)
EBITDA	3,611	4,498	5,104	5,799
<i>Growth (%)</i>	<i>(24.2)</i>	<i>24.6</i>	<i>13.5</i>	<i>13.6</i>
Depreciation	(248)	(282)	(316)	(349)
EBIT	3,362	4,216	4,789	5,450
Interest paid	(147)	(50)	(55)	(55)
Other income	2,525	2,209	2,288	2,372
Pre-tax profit	5,740	6,374	7,022	7,767
Tax	(1,695)	(1,882)	(2,073)	(2,293)
<i>Effective tax rate (%)</i>	<i>29.5</i>	<i>29.5</i>	<i>29.5</i>	<i>29.5</i>
Net profit	4,046	4,493	4,949	5,474
Exceptional items	-	-	-	-
Adjusted net profit	4,046	4,493	4,949	5,474
<i>Growth (%)</i>	<i>(17.4)</i>	<i>11.0</i>	<i>10.2</i>	<i>10.6</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: Dec.	FY21	FY22E	FY23E	FY24E
Pre-tax profit	5,740	6,374	7,022	7,767
Depreciation	248	282	316	349
Tax paid	(377)	(1,882)	(2,073)	(2,293)
Chg in working capital	4,149	5,235	2,356	9,691
Other operating activities	(1,712)	(2,209)	(2,288)	(2,372)
Cash flow from operations (a)	8,049	7,801	5,333	13,143
Capital expenditure	(7,957)	(500)	(500)	(500)
Chg in investments	2,448	(4,000)	(3,000)	(3,000)
Other investing activities	6,611	2,209	2,288	2,372
Cash flow from investing (b)	(7,056)	(2,291)	(1,212)	(1,128)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(0)	-	-	-
Dividend (incl. tax)	(1,580)	(3,299)	(3,634)	(4,020)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(1,580)	(3,299)	(3,634)	(4,020)
Net chg in cash (a+b+c)	(587)	2,211	487	7,995

Balance Sheet

(Rs mn)

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Net fixed assets	2,697	2,913	3,097	3,248
Investments	20,166	24,166	27,166	30,166
Other non-curr assets	15,894	15,894	15,894	15,894
Current assets	67,888	72,212	74,109	83,762
Inventories	1,176	1,490	1,742	2,038
Sundry Debtors	5,046	6,844	8,002	9,364
Cash and Bank	32,505	34,718	35,205	43,200
Marketable Securities	-	-	-	-
Loans and advances	940	940	940	940
Total assets	106,645	115,185	120,266	133,069
Shareholders' funds	44,065	45,258	46,573	48,028
Share capital	941	1,881	1,881	1,881
Reserves & surplus	43,124	43,377	44,692	46,147
Total Debt	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	6,790	6,928	7,085	7,270
Curr Liab & prov	55,790	62,999	66,608	77,772
Current liabilities	53,768	60,977	64,586	75,750
Provisions	2,022	2,022	2,022	2,022
Total liabilities	62,580	69,927	73,693	85,041
Total equity & liabilities	106,645	115,185	120,266	133,069
Book Value (Rs)	47	48	50	51

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
Adj EPS (Rs)	4.3	4.8	5.3	5.8
Adj EPS growth (%)	(17.4)	11.0	10.2	10.6
EBITDA margin (%)	7.3	7.7	7.5	7.3
Pre-tax margin (%)	11.6	11.0	10.3	9.8
ROE (%)	9.4	10.1	10.8	11.6
ROCE (%)	5.7	8.2	9.0	10.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.5	0.6	0.6
Leverage factor (x)	2.7	2.5	2.6	2.7
Net margin (%)	8.2	7.7	7.3	6.9
Net Debt/Equity (x)	(0.7)	(0.8)	(0.8)	(0.9)
Working Capital & Liquidity ratio				
Inventory days	9	9	9	9
Receivable days	37	43	43	43
Payable days	59	59	59	59

Valuation

Year-end: Dec.	FY21	FY22E	FY23E	FY24E
PER (x)	11.1	10.0	9.0	8.2
Price / Book value (x)	1.0	1.0	1.0	0.9
PCE (x)	10.4	9.4	8.5	7.7
EV / Net sales (x)	0.2	0.2	0.1	0.0
EV / EBITDA (x)	3.4	2.2	1.9	0.3
Dividend Yield (%)	5.5	6.1	6.7	7.4



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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