IRB Infrastructure (IRB IN)

InvIT – One small step – Giant leap for the sector

INDIA | INFRASTRUCTURE | Company Update

27 April 2017

IRB Infra is finally ready to launch the first InvIT in the Indian markets. The issue opens on 3rd May 2017 and is being launched at an enterprise value of Rs 59.24bn – a 16% discount to the independent valuation in the DRHP. At this valuation, it offers an **IRR of 12.4-12.5% (depending on withholding tax) and a yield of 10-11% in the initial years**.

Giant leap for the infrastructure sector

We view the launch of IRB's InvIT as a big boost for the infrastructure sector. The successful listing of this InvIT will pave the way for many similar listings (three others are already lined up), and **help the sector discover a new source of capital**, other than equity (invested by developers) and debt (by financial institutions). It will enable BOT developers (such as IRB, Ashoka, Sadbhav, ITNL) to unlock value and 'rotate' capital in their portfolio.

IRB InvIT: Potential upside to the already robust IRR/yields

IRB's InvIT is structured to capitalise on all possible benefits accorded to the InvIT structures. The **IRR has been sweetened by 1.36% returns from buybacks, and 1.06% returns through the InvIT issuing NCDs @ 13%** (to benefit from the tax exemption on interest income earned from SPVs). It has arrived at valuations using **more practical assumptions of 5.5% traffic growth and 4.5% WPI** – as against aggressive estimates of 7.5% traffic and 5% WPI in the DRHP – leaving something on the table for investors.

In addition to the 12.4% IRR proposed by the InvIT, we see further upside to the InvIT's return profile from:

- Rebasing of traffic impacted in FY17 due to demonetisation
- Potential upside in revenue growth (10% assumption vs. 11.5% historical)
- Quarterly distribution of cashflows
- InvIT raising debt at 8.00-8.25% (being AAA rated) and deploying at higher returns

What's in it for IRB Infrastructure?

Keeping 15% stake with the sponsor (10% mandatory), the InvIT will raise Rs 50.35bn. Of this, Rs 33.5bn will be used for repayment of external debt, and the remaining Rs 17bn will accrue to IRB as repayment of sub-debt/equity-invested. This will **provide the company with Rs 17bn of cashflow,** which it can utilise to fund the equity requirement of current/future projects. It will also **reduce the gross debt at the consolidated level by Rs 50bn, reducing the leverage to 2x from the current 3x**, thereby possibly improving its credit rating and borrowing cost. At the same time, the company keeps 15% in the InvIT, ensuring it gains from the cash flows and potential upside in the InvIT units' price.

Why the sharp cut in valuations?

In the DRHP, IRB had sought an EV of Rs 79bn for the InvIT, which it is now listing at Rs 59bn. At current valuations, it is 'selling' its projects at a virtual cost of 12.4% (implied IRR) and 1x BV – which might not appear to be an attractive bargain for IRB Infra investors. We see three reasons for the same:

- Aggressive 7.5% traffic growth assumption in the DRHP
- Demonetisation leading to lowering of actual traffic numbers
- Sharp rise in G-Sec yield in last two months, necessitating the InvIT to increase the spread, and hence the yield.

We note that two of these factors were external, beyond management control. While a delay might have fetched the InvIT slightly better valuations, **it is a price the company has to pay for the being the first one to launch a new instrument**. The listing valuations are at only a 10% discount to our valuation, and with the benefits of Rs 17bn upfront cash and lower leverage, we still see the deal as a good bargain.

Changes to estimates / outlook for IRB Infra

We continue to like IRB Infra as the premier player in the BOT space. We would wait for the InvIT listing to make changes to our estimates and valuation for the stock. Maintain BUY.

BUY (Maintain)

CMP RS 254

TARGET RS 290 (+14%)

COMPANY DATA

O/S SHARES (MN) :	351
MARKET CAP (RSBN) :	89
MARKET CAP (USDBN) :	1.4
52 - WK HI/LO (RS) :	272 / 178
LIQUIDITY 3M (USDMN) :	10.5
PAR VALUE (RS) :	10

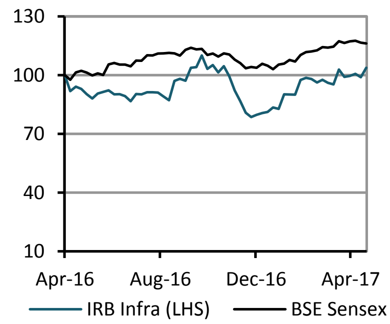
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	57.4	57.4	57.4
FII / NRI :	27.9	27.8	29.3
FI / MF :	7.4	8.0	6.9
NON PRO :	2.6	2.1	2.2
PUBLIC & OTHERS :	4.8	4.7	4.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	7.2	10.4	17.3
REL TO BSE	4.7	1.7	1.4

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY17E	FY18E	FY19E
Net Sales	56,453	64,322	70,167
EBIDTA	29,940	35,894	41,051
Net Profit	6,688	6,500	6,615
EPS, Rs	19.0	18.5	18.8
PER, x	13.3	13.7	13.5
EV/EBIDTA, x	8.1	6.9	5.9
P/BV, x	1.5	1.4	1.3
ROE, %	11.4	9.9	9.3
Debt/Equity (x)	2.8	2.6	2.4

Source: PhillipCapital India Research Est.

Vibhor Singhal (+ 9122 6667 9949)
vsinghal@phillipcapital.in

IRB InvIT – sweetened for investors

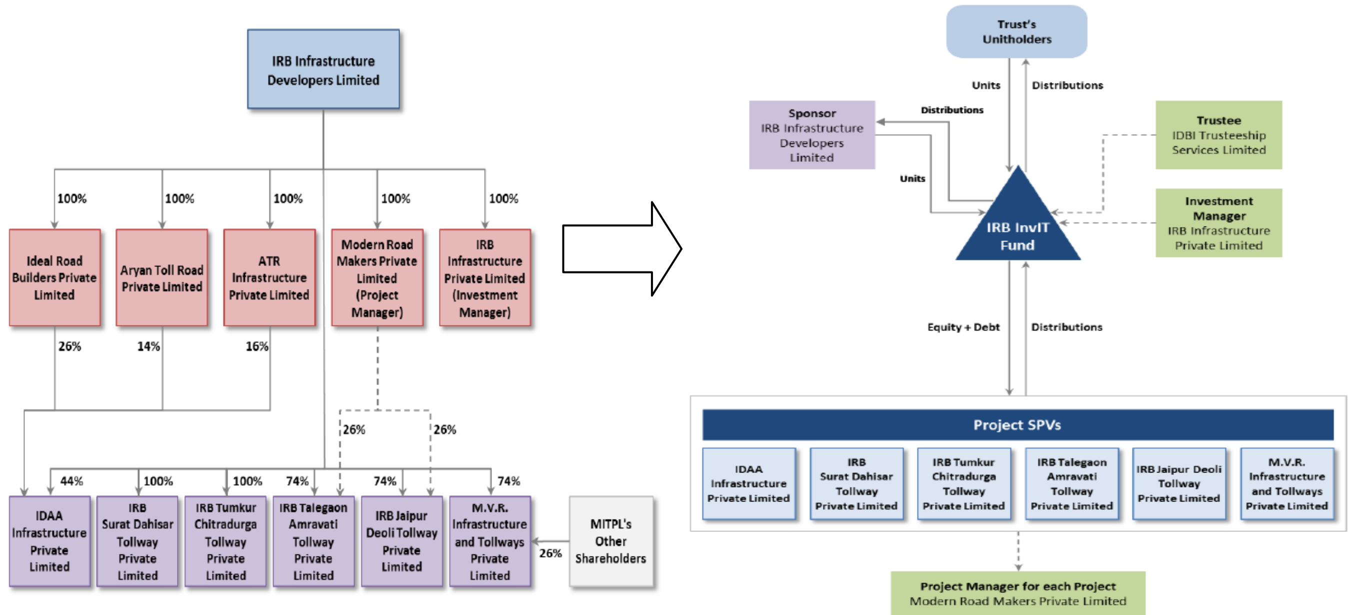
IRB's InvIT consists of six projects spread across five states. All projects are operational and adhere to the criteria defined in InvIT regulations. Total capital invested in these projects is Rs 80.8bn, with equity investment at Rs 21.5bn.

IRB InvIT – Constituent projects

Project	Length (Lane km)	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant/Share (Rs mn)	LoA Date	CoD Date	Concession Prd (yrs)	Residual Life (yrs)	Toll Revenue (FY16, Rs mn)
Bharuch-Surat	390	14,700	12,719	1,981	(5,040)	Jan 2, 2007	Sep 25, 2009	15	5.3	1,936
Surat-Dahisar	1,434	25,372	17,507	7,865	38%	Feb 20, 2009	Feb 20, 2009	12	5.3	6,135
Jaipur - Deoli	585	17,330	9,000	5,270	3,060	Jun 14, 2010	Sep 27, 2013	25	21.0	1,206
Talegaon - Amravati	267	8,880	4,750	1,970	2,160	Sep 3, 2010	Apr 24, 2013	22	20.3	472
Tumkur - Chitradurga	684	11,420	8,310	3,110	(1,404)*	Jun 4, 2011	Jun 4, 2011	26	20.7	2,019
MVR	275	3,076	2,234	1,280	22.4%	Aug 14, 2006	Aug 6, 2009	20	9.9	749
Total	**3,635**	**80,778**	**54,520**	**21,476**						**12,517**

Source: Company, PhillipCapital India Research

InvIT – Shareholding structure transformation



The InvIT is being listed at an Enterprise Value (EV) of Rs 59.24bn – 16% discount to the independent valuer's valuation that the DRHP had filed, and 10% discount to our valuation. After repayment of external debt of Rs 33.5bn, the InvIT listing will lead to value accretion of Rs 26bn for IRB – Rs 17bn cash and Rs 9bn in form of 15% stake in InvIT – 1x BV of the investment (equity, sub-debt) by the company.

IRB InvIT – capital structure and valuations

Projects (Rs mn)	Project Cost	EV as per InvIT Valuations	Amount to be raised by InvIT	External Debt O/S	Equity Valuation	Upfront Cash to IRB	Holding retained by IRB
Bharuch – Surat	14,700	6,849	5,822	2,512	4,337	3,310	1,027
Surat – Dahisar	25,372	13,104	11,138	6,618	6,486	4,520	1,966
Jaipur – Deoli	17,330	17,588	14,950	9,276	8,312	5,674	2,638
Talegaon – Amravati	8,880	5,876	4,994	3,728	2,148	1,267	881
Tumkur – Chitradurga	11,420	12,431	10,566	9,372	3,059	1,194	1,865
MVR	3,076	3,394	2,885	2,045	1,349	840	509
Total InvIT	**80,778**	**59,242**	**50,355**	**33,551**	**25,691**	**16,805**	**8,886**

Source: Company, PhillipCapital India Research

Deal and yield structure

The IRB InvIT has been structured to capitalise on all possible benefits accorded to InvIT structures. The valuations have been arrived at using more practical assumptions of 5.5% traffic growth and 4.5% WPI – as against aggressive estimates of 7.5% traffic and 5% WPI in the DRHP – leaving something on the table for investors.

IRB InvIT – dividend and yield profile

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	...	FY39	FY40	FY41
Dividend	-	216	452	1,082	1,614	983	878	...	6,029	5,910	1,082
Interest Income (from SPVs)	5,363	4,960	4,627	4,397	4,086	3,869	3,812	...	-	-	64
Post-tax return on new projects	-	73	188	235	482	728	635	...	3,331	3,568	3,858
Buyback of Units	2,310	2,403	2,369	1,910	1,427	2,019	2,269	...	-	-	39,272
Sub-Total	**7,673**	**7,653**	**7,636**	**7,625**	**7,609**	**7,598**	**7,596**	...	**9,360**	**9,478**	**44,276**
Less: WHT on Interest payment	268	248	231	220	204	193	191	...	-	-	3
Net distribution to Unit Holders	**7,405**	**7,405**	**7,405**	**7,405**	**7,405**	**7,405**	**7,405**	...	**9,360**	**9,478**	**44,273**
Yield to Unit holders	8.6%	8.4%	8.5%	9.3%	10.1%	9.1%	8.7%	...	15.8%	16.0%	8.4%
Buyback of Units	3.9%	4.1%	4.0%	3.2%	2.4%	3.4%	3.8%	...	0.0%	0.0%	66.3%
Total Yield	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	...	**15.8%**	**16.0%**	**74.7%**

Enterprise Value	**5,924**	**Buybacks**	**1.36%**
Return to Unit Holders	**12.43%**	**NCDs**	**1.06%**

Source: Company, PhillipCapital India Research

The InvIT structure smartly capitalises the tax exemption on 'interest income earned from SPVs' distributed to the unit holders directly by the InvIT. It proposes to replace the external debt on SPVs (Rs 33.5bn) by NCDs of an almost equal proportion (Rs 34bn) from the InvIT, as sub-ordinate debt. As for most sub-debt instruments, it plans to charge a 13% coupon rate to the SPVs, for the same. This serves two benefits:

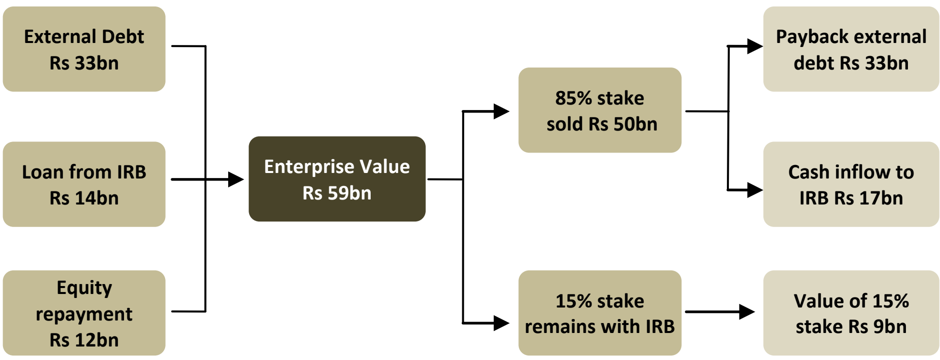
1) The SPVs receive tax benefit on the high interest rate charged on the NCD
2) The InvIT directly distributes this interest income earned from the SPVs to the unit holders – which is tax exempt.

Overall, the InvIT IRR has been sweetened by (1) 1.36% returns from buybacks and (2) 1.06% returns through the InvIT issuing NCDs.

Over and above the 12.4% IRR proposed by the InvIT, we see incremental upside to the return profile of the InvIT from:

- Rebasing of traffic impacted in FY17 due to demonetisation
- Potential upside in revenue growth (10% assumption vs. 11.5% historical)
- Quarterly distribution of cash flows
- InvIT raising debt at 8.00-8.25% (being AAA rated) and deploying at higher returns

IRB InvIT – deal structure – capital raising and its deployment



Source: PhillipCapital India Research

Growth option for the InvIT

IRB Infra has a portfolio of 18 BOT road assets spread across 2,070km in eight states, entailing an investment of Rs 283bn. Of these, 13 projects are operational, and five are under construction. Apart from the six projects transfered to the InvIT, the company can potentially sell seven more projects to the InvIT, over the next three years. Also, the three projects recently won in Rajasthan, would become eligible to be transferred into an InvIT later. The InvIT has the ROFR (Right of First Refusal) for any project that the parent company intends to sell or transfer to an InvIT.

IRB Infrastructure BOT portfolio

Project	Length (km)	Lanes	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant (Rs mn)	CoD	Period (yrs)
Thane Bhiwandi	23.0	4	1,040	700	340	-	Sep-01	18
Pune-Nashik	30.0	4	737	727	10	-	Sep-05	18
Pune-Solapur	26.0	4	630	610	20	-	Sep-04	16
Thane-Ghodbunder	15.0	6	2,469	2,066	403	(1,404)	Jun-07	15
Mumbai - Pune	206.0	4	13,017	11,814	1,202	(9,180)	Aug-04	15
Bharuch-Surat	65.0	6	14,700	12,719	1,981	(5,040)	Jul-09	15
Surat-Dahisar	239.0	6	25,372	17,507	7,865	38%	Aug-11	12
Talegaon - Amravati	66.7	4	8,880	4,750	1,970	2,160	Apr-14	22
Jaipur - Deoli	148.8	4	17,330	9,000	5,270	3,060	Sep-14	25
Tumkur - Chitradurga	114.0	6	11,420	8,310	3,110	(1,404)*	Apr-11	26
MVR	68.0	4	3,076	2,234	1,280	22.4%	Aug-09	20
Amritsar - Pathankot	102.4	4	14,453	9,240	3,944	1,269	Dec-14	20
Vadodara - Ahmedabad	195.6	6	48,800	33,000	15,800	(3,096)*	Jan-13	25
Goa - Kundapur	192.0	4	26,390	14,060	6,970	5,360	WIP	28
Solapur Yedeshi	98.7	4	14,920	9,100	3,930	1,890	WIP	29
Yedeshi Aurangabad	190.0	4	32,000	18,300	8,120	5,580	WIP	26
Kaithal - Rajasthan	166.0	4	23,000	14,660	6,000	2,340	WIP	27
Agra Etawah	124.5	6	25,230	16,500	8,730	(810)	WIP	24
Total	**2,070.7**		**2,83,464**	**1,85,297**	**76,945**			

Not eligible to be transferred to an InvIT

Already part of the IRB InvIT

Potential candidates for future transfer to the InvIT

Source: Company, PhillipCapital India Research

The company has indicated its plans to transfer Amritsar-Pathankot to the InvIT, in near future, contingent to approval of unit holders and the investment management team. However the traffic on the project has been adversely impacted by construction of a parallel state highway, which has led to significant underperformance of the project. Similar issues with Vadodara-Ahmedabad project, in our opinion, reduce the likelihood of these projects being transfered into the InvIT, in near future.

We believe that the four new projects under construction have higher probability of being 'accepted' into the InvIT, two/three years down the line. The projects are expected to generate EBITDA of Rs 6bn in FY19 – only slightly lower than the current InvIT portfolio. The same could provide significant boost to the InvIT valuations, and offers significant growth opportunity for the unit holders.

Potential four projects that could be transferred into the InvIT *(PC estimates)*

EBITDA	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Goa - Kundapur	1,467	1,418	1,599	1,795	2,014	2,258	2,498	2,790
Solapur Yedeshi	1,006	994	1,120	1,256	1,401	1,569	1,738	1,932
Yedeshi Aurangabd	-	1,992	2,242	2,511	2,812	3,148	3,482	3,884
Kaithal - Rajasthan	-	1,599	1,793	2,002	2,237	2,500	2,765	3,081
Total	**2,473**	**6,004**	**6,755**	**7,564**	**8,464**	**9,475**	**10,483**	**11,688**
Enterprise Value	**97,027**							
Equity Value	**30,498**							

Source: Company, PhillipCapital India Research

Beneficial to IRB, despite the drop in valuation

In the DRHP, IRB had sought an EV of Rs 79bn for the InvIT, which it is now listing at Rs 59bn. At current valuations, the company is 'selling' its projects at a virtual cost of 12.4% (implied IRR) and 1x BV – which does not appear to be an attractive bargain for IRB Infra investors. We see three reasons for the same:

- Aggressive 7.5% traffic growth assumption in the DRHP
- Demonetisation leading to lowering of actual traffic numbers
- Sharp rise in G-Sec yield in the last two months, necessitating the InvIT to increase the spread, and hence the yield.

10-year GOI bond yields rose sharply in Mar-17

Source: RBI, PhillipCapital India Research

Two of these factors were external, which were beyond management control. While a delay might have fetched the InvIT slightly better valuations, we believe it is a price the company has to pay for being the first company to launch such an instrument.

Successful listing of IRB's InvIT will still help the company in three ways:

- Repayment of Rs 33bn of external debt and cash infusion of Rs 17bn will lead to reduction of net debt by Rs 50bn. **This will reduce consolidated debt to Rs 126bn** from Rs 150bn as of March 2016 – reducing the leverage to 1.8x from 3x, which could lead to enhancement of credit rating and lower cost of debt.
- **Rs 17bn of cash infusion would help fund equity requirement** for the current portfolio (equity requirement of Rs 24bn over the next three years, including the three new projects won) and prepare a war chest for future projects.
- **The company retains 15% in the InvIT**, ensuring it gains from the cashflows and potential upside in the InvIT units' price.

The transfer of these assets will also boost the financials of the parent company, with a significant decrease in depreciation/interest – more than compensating for the drop in topline/EBITDA. Financial ratios too, will appear better, post the transfer.

Pro-forma change in IRB Infra's financials – due to InvIT

	Old		New		Change	
Rs mn	**FY18**	**FY19**	**FY18**	**FY19**	**FY18**	**FY19**
Revenue	64,322	70,167	52,056	56,725	-19%	-19%
EBITDA	35,894	41,051	28,506	32,343	-21%	-21%
Depreciation	-11,527	-12,960	-5,892	-7,189	-49%	-45%
Interest Expense	-16,307	-19,918	-11,456	-14,481	-30%	-27%
PAT	6,500	6,615	9,283	8,513	**43%**	**29%**
Gross Debt	**1,71,788**	**1,71,774**	**1,26,804**	**1,31,583**	**-26%**	**-23%**
Leverage	2.6	2.4	1.8	1.7	**-29%**	**-28%**

Source: PhillipCapital India Research

InvITs – a *GIANT LEAP* for the sector

We see InvITs as a *GIANT LEAP* for the infrastructure sector in India. This new mode of offering operational infrastructure assets to investors has the potential to transform the sector landscape, and relieve it of its most severe bottleneck – shortage of capital.

The structure of InvITs as proposed by SEBI is along the lines of various REITs (Real Estate Investment Trusts) listed across the globe. There are over 300 REITs listed in over 14 exchanges across the world that offer investors benefits from the rental yield and price appreciation of a basket of real estate property, without actually owning the property. REIT indices across the world have delivered far superior returns than the broader indices listed on the same exchanges.

InvITs offer the same proposition; the only difference is that the underlying asset is an infrastructure one instead of a real-estate property. Similarities with REITs – they offer stable cashflows over a long period (25-30 years), their dividend distribution is tax-exempt (making cash yield more attractive), and they minimise the execution risk associated with the development of the asset.

Benefits to the stakeholders

The InvIT structure is a perfect win-win situation for all stakeholders.

Unit holders:

- Stable cash flow over a long period
- Superior cash flow yield enhanced by tax exemptions
- Elimination of execution risk in an infrastructure asset
- Assured cash flow with minimum cash distribution floor

Promoter/Developer:

- Upfront monetisation of projects with long concession periods
- Rotation of capital by utilising the proceeds from 'selling' assets to InviTs, for new projects
- Better valuation of assets, with a diversified set of investors

Government/sector:

- Rotation of capital for developers, enabling them to bid for future projects
- Diversification of capital deployed from banks
- Government (NHAI) can now look to 'monetise' its own BOT projects to fund its EPC award pipeline
- Government (NHAI) can now look to award more projects on BOT format, reducing its own capital requirement

Incremental incentives by the government

Various government bodies (e.g. NHAI) and the regulator (SEBI) have provided incremental exemptions to 2014 SEBI regulations to make InvITs more attractive for investors, especially foreign investors looking for robust FCF yield, adjusted for their hedging costs.

- Minimum holding criterion modified to 10% from the proposed 25% – leading to release of higher amount of capital for the sponsor.
- Dividend and interest income from SPVs to trust exempted from DDT – this will enhance the cashflow yield and make the cash distribution process from SPV to InvIT to unit holders more transparent and predictable.

InvIT regulations – eligibility and responsibilities of various stakeholders

	Sponsors / Promoters	Trustees	Investment Manager	Unit Holders
Eligibility	Not more than 3 sponsors, (net worth > Rs. 100 Cr/each)	Registered with SEBI	Net worth > Rs 100mn, experience > 5 years	Min subscription amount: Rs 1mn for public offer Rs 10mn for private placement
	Sound track record (FM >5 years, developer - at least 2 projects completed)	Should have wherewithal with respect to infrastructure	> 2 employees, with min 5 years exp. in the sector	
Responsibility	Set up InvIT and appoint the trustees	Hold the InvIT assets in the name of the InvIT	Make investment decisions wrt assets or projects of the InvIT	Right to receive income or distributions as provided for in the offer document
	Transfer to the InvIT, its entire shareholding in the SPV	Appoint Investment Management/Project Manager	Oversee activities of the project manager with respect to revenue streams	Any matter requiring approval - Unit Holder: By votes cast
	Not hold less than 10% (not less than 3 years from the date of the listing)	Oversee activities of the IM	Ensure assets of the InvIT or SPV have proper legal titles	With respect to publicly offered InvITs: Annual meeting once a Year
		Review the status of unit holders complaints	Ensure investments made by the InvIT are in accordance with regulation 18	Unit Holders approval – (not be less than ½ times): i) any transaction, other than any borrowing, value of which is >25% of the InvIT assets, ii) any borrowing in excess of specified limit, iii) Any issue for which the designated stock exchanges requires such approval
	Any holding exceeding 10% (post issue basis), shall be held for a period of not less than 1 year from the date of listing	Subscription amount kept in a separate bank account and utilised only for adjustment/refund to applicants	Appoint the valuers, auditor, registrar and transfer agent, merchant banker	
		Remuneration of the valuer is not be linked to or based on the value of the assets being valued	Responsible for all activities pertaining to issue of units and listing of units of the InvIT	Unit Holders approval – (not be less than 3 times the votes cast against the resolution): i) change in investment manager/ auditor/ valuer /trustee, ii) Any material change in investment strategy, iii) any issue, not in the ordinary course of business requires approval
		Change in IM/PM: i) Take approval from unit holders, ii) Appoint new IM/PM within three months	Submit to the trustee - quarterly reports, valuation reports, acquire or sell for any asset/project	
		Cannot invest in units of the InvIT in which it is designated as the trustee	Audit of accounts is done not less than 2 annually and submitted to SEs within 45 days	

Source: SEBI, PhillipCapital India Research

InvIT regulations – constraints on InvIT and underlying assets

InvIT Assets	InvIT
Under construction assets NOT to form over 25% of the portfolio	Minimum 90% of NDCF (Net Distributable Cash flow) to be distributed as dividends
Operational Assets	Gearing to be less than 0.49x
Minimum 3 year tail period	
Minimum 1 year of revenue generation	

Source: SEBI, PhillipCapital India Research

The eligibility and restrictions ensure that the attraction of InvIT as an investment vehicle remains much above traditional infrastructure asset owners for long-term investors looking for a stable cash flow yields over 15-20 year horizon.

- The eligibility requirement of the sponsor, trustee, and investment manager ensure that the stakeholders have sound financial might and adequate experience in the infrastructure space.
- Minimum 10% holding remains with the sponsor, which ensures that it does not try to ‘cash-out’ at an expensive valuation and has a significant stake in remaining with the vehicle.
- The ceiling on under-construction assets in InvITs ensures minimum execution risk to the portfolio, leading to stable and predictable cashflows.
- Minimum one year operations and three year tail period criterion ensure that the portfolio has predictable cashflows in both the near and distant future.
- Minimum 90% of NDCF to be distributed as dividends – this provides high visibility to the cashflow yield of the InvIT.
- The gearing ceiling of 0.49x ensures the investment manager does not over-leverage the InvIT, which could lead to lower cashflows.

Benefits of InvITs over traditional securities

InvIT structure – minimum risk versus a traditional BOT company

		Traditional BOT company	InvIT Structure
Entity	**Variable**	**Risk**	**Risk**
NHAI	Order Award	Award risk	No risk
EPC Contractor	Project execution	Execution risk	Minimum risk as < 25% to be under construction projects
Developer	Toll Revenues	Traffic risk, Inflation risk	Traffic risk, Inflation risk
	Operating Margins	Relatively risk free	Relatively risk free
	Interest Expense	Interest rate risk	No risk as InvIT is expected to be debt free (max gearing of 0.49x)
	Cash flow	Risk of internal diversion	Risk free as: 1) No DDT 2) Mandatory 90% of NDCF to be distributed as dividends

InvIT regulations – tax treatment of various streams at the hand of various stakeholders

Nature of income -> Received by	Interest paid by SPV	Dividend on shares of SPV	Capital gains on sale of shares of SPV/sale held by InvIT directly	Other income	Capital gains on market transfer of units of InvIT by unit holders /sponsors*
Unit holder	InvIT distributing the interest from SPV subject to WHT at 5 % -Non-Residents; 10% for Residents	Exempt	Exempt	Exempt	STCG –15% (held for 36 months or less); LTCG –Exempt (held for more than 36 months)
InvIT	Exempt	Exempt	Tax rate applicable depending on period of holding etc.	Tax at 30%	NA
SPV (in the form of a company)	Tax break available on interest (subject to conditions), no WHT applicable on interest payment	Exempt as per Recent Amendment	NA	NA	NA

InvIT tax benefits over a traditional corporate structure

______________Traditional Corporate Structure______________		______________InvIT Structure______________	
SPV		**SPV**	
Interest on loan from parent Tax benefit	**Dividend distributed** DDT @ 17%	**Interest on loan from parent** Tax benefit	**Dividend distributed** No DDT
Parent		**InvIT**	
Interest income from SPV Taxable @ 30%	**Dividend received** Tax exempt	**Interest income from SPV** Tax exempt	**Dividend received** Tax exempt
Share holder		**Unit holder**	
Dividend distributed DDT @ 17%		**Income directly distributed** WHT @ 5/10%	**Dividend distributed** No DDT

InvIT structure – benefits versus listed and unlisted BOT portfolios

	InvIT (like proposed IRB)	Listed BOT (like SIPL)	Unlisted BOT portfolio (Ashoka)
Portfolio Composition	Only operational assets	Operational as well as under-construction projects	Operational as well as under-construction projects
Tax on dividend from SPV to holdco	No	Yes	Yes
Tax on entity to unit/share holders	No	Yes	Yes
Future capital raising requirements	No	Yes	Yes
Restriction on Cash distribution	Min 90% to unit holders	No	No
Restriction on promoter share holding	Min 25% to be held by promoters	No	No
Execution Risk	No	Yes	Yes
External risks (like EC, land acquisition)	No	Yes	Yes
Traffic Risk	Yes	Yes	Yes
Inflation Risk	Yes	Yes	Yes
Interest Rate Risk	No	Yes	Yes

Source: PhillipCapital India Research

Other potential candidates for InvIT

Successful listing of IRB's InvIT will pave the way for more developers to take a similar course and transfer their BOT road assets to an InvIT. We expect ITNL, Ashoka, Sadbhav, Reliance Infra, and Essel Infra to be the most likely candidates to follow suit.

Reliance Infra has already filed DRHP for its InvIT, in which it has put ten of its eleven BOT projects (remaining one is under construction), and is seeking an EV of Rs 83bn.

Reliance Infrastructure BOT portfolio

Project	Length (km)	Type	Lanes	Stake (%)	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant (Rs mn)	CoD	Prd (yrs)
Namakkal Karur	41.0	*T*	4	100	3,500	2,800	500	200	Aug-09	20
Dindigul Samayanallore	53.0	*T*	4	100	4,200	3,300	600	300	Sep-09	20
Trichy Dindigul	88.0	*T*	4	100	5,400	3,200	1,100	1,100	Jan-12	30
Salem Ulunderpet	136.0	*T*	4	100	10,600	6,400	2,100	2,100	June-12	25
Gurgaon Faridabad	66.0	*T*	4	100	7,800	5,800	2,000	(1,500)8	June-12	17
Jaipur Reengus	52.0	*T*	4	100	5,600	3,900	700	1,000	Jul-13	18
Pune Satara	140.0	*T*	6	100	19,900	10,900	9,000	(900)*	Oct-10	24
Hosur Krishnagiri	60.0	*T*	6	100	9,200	5,600	3,600	(700)*	Jun-11	24
Trichy Karur	80.0	*T*	4	100	7,300	5,100	700	1,500	Feb-14	30
Kandla Mundra	71.0	*T*	4	100	11,300	7,900	3,400	(400)*	Nov-15	25
Delhi Agra	180.0	*T*	6	100	29,400	19,100	8,500	1,800	UC	26
Total	**967.0**				**1,14,200**	**74,000**	**32,200**			

Projects in the box are proposed to be part of the InvIT, as per DRHP filed

Sadbhav Engineering BOT portfolio

Project	Length (km)	Type	Lanes	Stake (%)	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant (Rs mn)	CoD	Prd (yrs)
Aurangabad Jalna	69.0	*T*	4	100%	2,770	1,960	810	-	Jul-09	24
Ahmedabad ring road	76.2	*T*	4	100%	5,214	4,693	521	360	May-08	20
Nagpur Seoni	28.2	*A*	4	100%	2,780	2,050	730	-	May-10	24
Dhule Palasner	96.5	*T*	4	100%	14,200	10,650	3,550	-	Feb-12	18
Hyderabad Yadgiri	36.0	*T*	4	100%	5,131	3,802	1,329	-	Dec-12	23
Maharashtra Border	NA	*T*	NA	78%	14,264	10,964	3,300	-	Aug-12	25
Bijapur Hungund	97.0	*T*	4	77%	13,226	8,465	2,025	2,736	May-12	20
Rohtak Panipat	81.0	*T*	4	100%	12,134	9,707	2,427	-	Jan-14	25
Sreenathji - Udaipur	79.0	*T*	4	100%	11,515	8,400	3,115	(216) *	Dec-15	27
Rohtak Hisar	99.0	*T*	4	100%	12,716	9,524	1,077	2,115	Aug-16	22
Rajsamand Bhilwara	87.0	*T*	4	100%	7,200	3,206	1,330	2,664	Jun-16	30
Mysore Bellary	193.3	*A*	4	74%	7,893	3,980	1,521	2,392	WIP	10
Total	**1,041.8**				**1,09,043**	**77,401**	**21,735**	**10,267**		

Ashoka Buildcon BOT portfolio

Project	Length (km)	Type	Lanes	Stake (%)	TPC (Rs mn)	Debt (Rs mn)	Equity (Rs mn)	Grant (Rs mn)	CoD	Prd (yrs)
Bhandara	94.2	*T*	4	51.0	5,350	3,750	1,500	100	Oct-10	20
Jarora Nayagaon	85.1	*T*	4	62.0	8,350	5,620	2,730	(153)	Sep-09	20
Belgaum Dharwad	75.7	*T*	6	100.0	6,940	4,790	1,850	(310)	May-11	30
Durg bypass	92.1	*T*	4	51.0	5,870	4,100	1,770	-	Feb-12	20
Sambalpur baragarh	101.9	*T*	4	100.0	11,420	8,100	3,320	13	Sep-15	30
Dhankuni Kharagpur	140.1	*T*	6	100.0	22,050	17,400	4,650	(1,261)*	Apr-12	25
Chennai ORR	32.0	*A*	4	50.0	14,500	10,800	1,730	1,970	WIP	20
Total	**804.2**				**74,480**	**54,560**	**17,550**	**1,620**		

Source: Companies, PhillipCapital India Research

Annuity InvITs generating significant interest

Apart from the BOT toll based InvITs of IRB and Reliance Infra, two other InvITs are scouting investors. One of them is mix of annuity and toll road projects portfolio, floated by ILFS Transport Networks Ltd (ITNL). The other is an 'annuity like' portfolio of power transmission assets, floated by Sterilite InfraVentures. Both these InvITs have also been provided ROFR for few more assets from the portfolio of the parent company, to provide the growth option. We expect decent interest for these InvITs too, due to (1) annuity based revenues providing higher certainty to the yields, (2) smaller size of the InvITs.

IndiGrid InvIT portfolio – seeking EV of Rs 30bn

Project Name	Transmission Line	Configuration	Ckms	CoD	Rev Contribution	End Date
Bhopal Dhule Transmission Co Ltd	Bhopal - Indore	765 kV S/C	176	19-Nov-14	12%	31-Mar-49
	Dhule - Aurangabad	765 kV S/C	192	05-Dec-14	10%	
	Dhule - Vadodara	765 kV S/C	263	13-Jun-15	16%	
	Bhopal - Jabalpur	765 kV S/C	260	09-Jun-15	22%	
	Dhule - Dhule	400 kV D/C	36	06-Dec-14	4%	
	Bhopal - Bhopal	400 kV D/C	17	12-Aug-14	2%	
	Bhopal Substation	2x 1,500 MVA	0	30-Sep-14	17%	
	Dhule Substation	2x 1,500 MVA	0	06-Dec-14	17%	
Jabalpur Transmission Line Co Ltd	Jabalpur Dharamjaygarh	765 kV D/C	757	14-Sep-15	72%	31-Mar-49
	Jabalpur Bina	765 kV S/C	235	01-Jul-15	28%	

IndiGrid InvIT – ROFR projects

Project Name	Location	Status	Description	Ckms	Tenure
East North Interconnection Ltd	Assam, Bihar, West Bengal	Nov-14	2x 400 kV D/C	909	25
Purulia & Kharagpur Transmission Co Ltd	Jharkhand, West Bengal	Jun-16	2x 400 kV D/C	546	35
RAPP Transmission Co Ltd	Rajasthan, Madhya Pradesh	Feb-16	1x 400 kV D/C	403	35
NRSS XXIX Transmission Ltd	Punjab, J&K	Oct-18	3x 400 kV D/C and 1x 400/220 kV D/C	887	35
Maheshwaram Transmission Ltd	Telangana	Jun-18	2x 400 kV	477	35
Odisha Generation Phase II Transmission Ltd	Odisha	Aug-19	1x 765 kV/DC and 1x400 kV D/C	715	35
Gurgaon-Palwal Transmission Ltd	Gurgaon and Palwal	Sep-19	5x 400 kV D/C , 3x 400/220 kV substations, 2x 400 kV line bays	271	35
Khargone Transmission Ltd	Khandwa	Jul-19	Multiple lines	624	35

Source: Company, PhillipCapital India Research

ITNL InvIT portfolio – seeking EV of Rs 25bn

Project (km)	Length	Type	Lanes	Stake	TPC	Debt	Equity	Grant	CoD	Period	Client
North Karnataka Expway	118	A	4	93.5	5,995	4,989	1,006	-	Jul-04	17.5	NHAI
Jharkhand Road Projects	132	A	4	100.0	20,706	19,004	1,702	-	Sep-12	17.5	Jharkhand
Hazaribagh Ranchi	72	A	4	74.0	8,692	7,382	1,310	-	Aug-10	18.0	NHAI
Sikar Bikaner	270	T	2	100.0	9,013	4,000	2,540	2,473	Sep-15	25.0	MoRTH
Total	**591**				**44,406**	**35,375**	**6,558**	**2,473**			

ITNL InvIT – ROFR projects

Project (Rs mn)	Length	Type	Lanes	Stake	TPC	Debt	Equity	Grant	CoD	Period	Client
Pune Sholapur	101	T	4	91.0	14,027	9,577	1,600	2,850	Aug-13	20.0	NHAI
Chennani Nashri Tunnelway	41	A	4	100.0	37,200	33,480	3,720	-	WIP	20.0	NHAI
Baleshwar Kharagpur	119	T	4	100.0	6,600	3,960	2,640	-350	Jun-15	24.0	NHAI
Khed-Sinnar	139	T	4	100.0	20,153	13,250	3,937	2,966	WIP	20.0	NHAI
Total	**401**				**77,980**	**60,267**	**11,897**	**5,466**			

Source: Company, PhillipCapital India Research

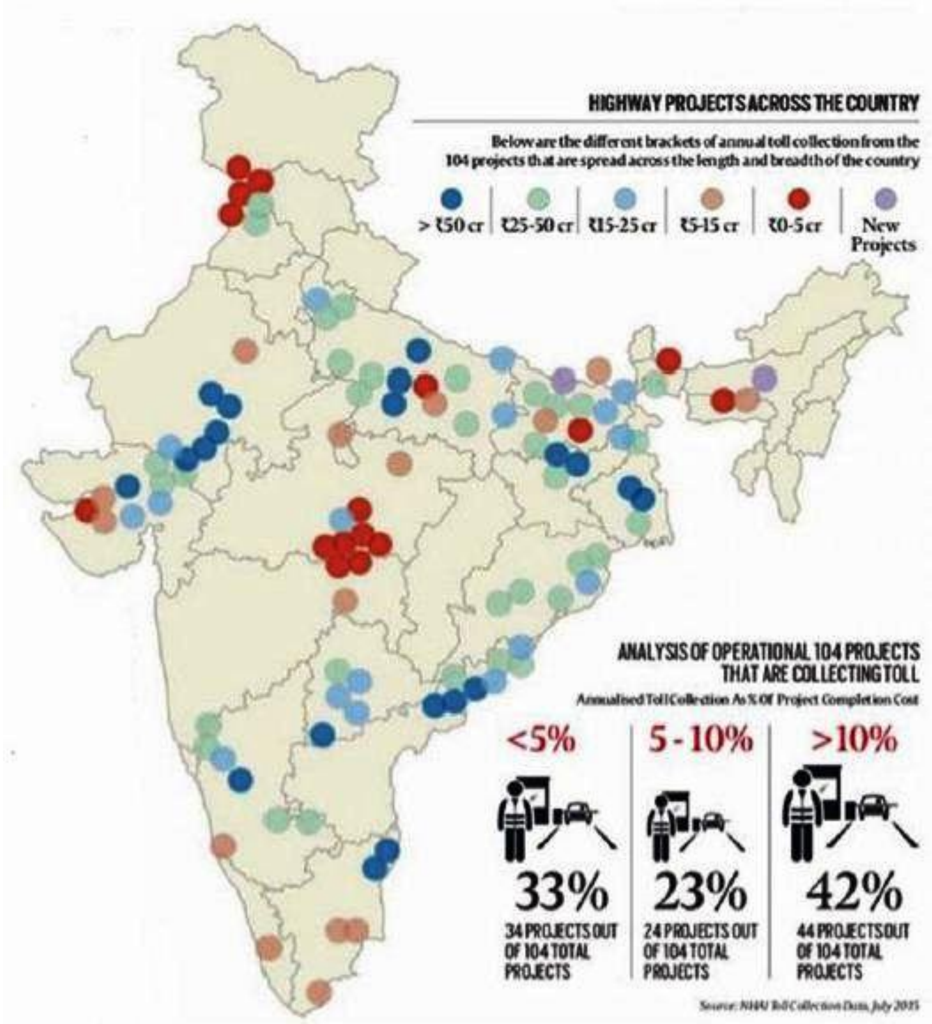
NHAI adopting InvIT through TOT

NHAI is currently working on a proposal to 'award' 100 road projects – which are owned and tolled by NHAI – to a set of investors. These 'investors' would then own the asset for a specific concession period (longer than the normal BOT project), and have the right to its cash flows. Foreign sovereign funds like Abu Dhabi Investment Authority and Norway Pension Fund have already evinced interest.

This TOT (Toll-Operate-Transfer) model that NHAI is contemplating is akin to the InvIT model being proposed for private developers. Both models involve 'monetisation' of 'operational' BOT projects to investors with an appetite for long-term projects with stable cash flows. Both the models will lead to upfront cash accruals, which can be used to fund future projects.

We note that over 42% of these NHAI projects are reporting toll collections greater than 10% of the project cost – implying high IRRs. Successful monetisation of these projects by NHAI will not only ease its burden to fund the upcoming pipeline, but will also lend credibility and elicit further interest from global investors in similar instruments with BOT projects as the underlying asset.

NHAI's 104 projects – proposed to be divested on the TOT model



Source: NHAI

Global REITs – delivering consistent superior returns

Over the last few years, Real Estate Investment Trusts (REITs) have gained popularity as investment tools, across the world. The total market capitalisation of REITs in the US alone, now stands at US$ 1tn – a growth of 15% yoy and 222% over the last decade. The number of listed REITs in the US has increased over the last decade to 222 from 197.

REITs provide multiple benefits over traditional equity/debt instruments:

1) **Buying real estate, without actually buying it:** REITs offer an attractive method to invest in real estate without buying real estate (cumbersome process), or stocks of real estate companies (execution risk). With the high liquidity that REITs provide, it is much more convenient and easy to buy/sell REIT units than an actual property.
2) **Long-term stable dividend yields:** Most markets regulations mandate REITs, or similar instruments, to distribute high share (generally 90%) of their net distributable cashflows (or profits) as dividends. With the REIT structure comprising of properties with long-term rental contracts, REITs offer stable and high long-term dividend yields.
3) **Hedge against inflation:** Since property prices/rentals are intrinsically linked to inflation, REITs provide a highly effective bet against inflation. Over the last three decades, US REITs have delivered returns higher than inflation.
4) **Tax benefits:** Most market regulations offer REITs an exemption from dividend distribution tax. This makes the instrument even more lucrative from the net post-tax return point of view.
5) **Diversification:** With varying forms of REITS listed across different segments (commercial, residential, retail, hospitals, healthcare), across different geographies (US, Singapore, Indonesia to name few), investors can select exposure to a certain kind of property in a specific geography – something that would not be possible while buying property or stock of a real estate company.

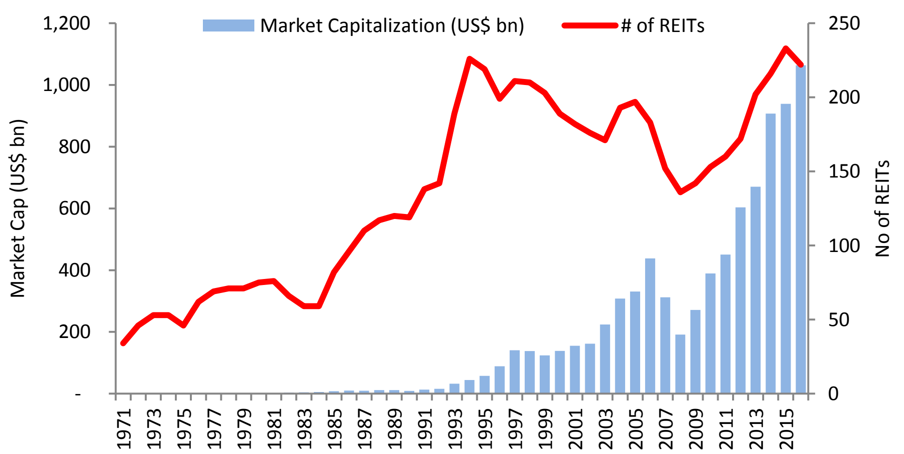
To understand more about REITs, we recommend

***Bobby Jayaraman's** book **Building Wealth Through REITs**.*

Mr Jayaraman also happens to be the Chairman of the Remuneration Committee for an SGX-listed real estate company, Second Chance Properties Ltd

As of August 2016, there were 189 REITs listed on the NYSE. Additionally, there are REITs that are not publicly traded (registered / not-registered with the SEC). Internal Revenue Service (IRS) shows that there are about 1,100 US REITs that have filed tax returns. On a similar note, the REIT market in APAC has been flourishing – especially in Singapore, HK, and Japan.

The market cap of US REITs crossed US$ 1tn in 2016



Source: NAREIT, APREA

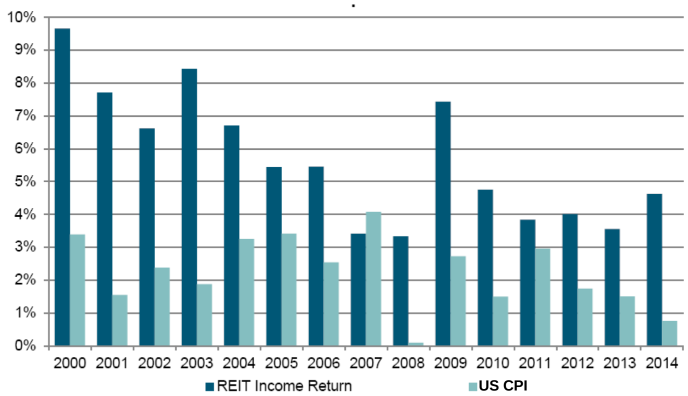
Country	# of REITs	Market Capitalisation (US$ bn)
US	222	1,064
Japan	53	110
Australia	47	92
UK	32	54
Singapore	35	48

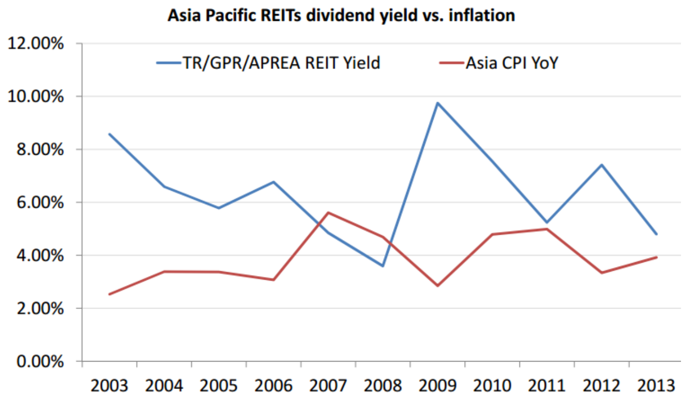
US REITs have delivered superior returns over most indices in the last 40 years

Returns (%)	All US REITs	S&P 500	Russell 2000	NASDAQ Composite	Dow Jones Industrial
2016: YTD	13.65	3.84	2.22	-2.66	4.31
1-Year	22.68	3.99	-6.73	-1.68	4.5
3-Year	13.11	11.66	7.09	13.85	8.99
5-Year	12.33	12.1	8.35	13.18	10.41
10-Year	6.97	7.42	6.2	9.48	7.66
15-Year	10.82	5.75	6.96	5.53	6.23
20-Year	10.65	7.87	7.61	7.29	8.38
25-Year	11.11	9.4	9.52	9.72	7.55
30-Year	9.37	9.82	8.54	8.62	7.78
35-Year	10.55	11.13	9.62	9.3	8.67
40-Year	11.92	11	-	10.47	7.48
1972 -2016	9.95	10.3	-	8.67	6.98

Source: NAREIT

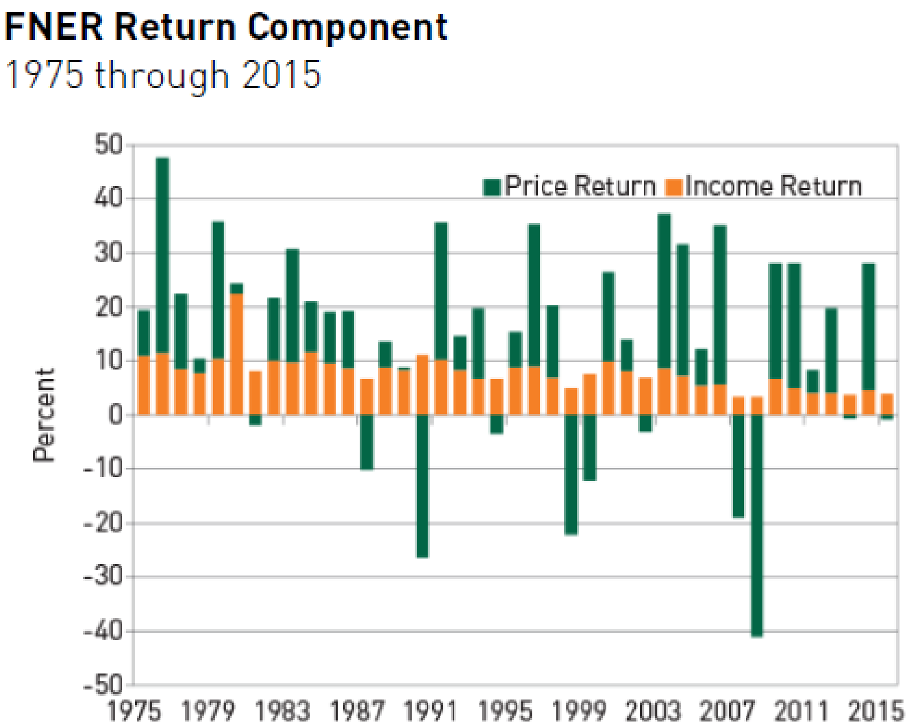
REITs have proven to be a highly effective hedge against inflation





Source: NAREIT, APREA

REITs have not only been about dividend, but also growth



Source: NAREIT

IRB: Financials and valuations

The transfer of six projects from the company to InvIT will lead to a reduction in revenue/EBITDA of Rs 12.6/7bn from consolidated financials. At the same time, depreciation and interest expenses of Rs 5bn and Rs 4bn will also be eliminated, leading to an overall boost to earnings. Along with this, Rs 17bn of cash accrual will reduce net-debt at the standalone level, reducing consolidated interest expense further.

But with the sale to InvIT happening at 1x BV of the projects, we do not expect material change to our SoTP valuation. We would wait for the final listing of the InvIT to make changes to our projections and valuations. Our current SoTP gives us a price target of Rs 290 (EPC Rs 115 + BOT Rs 175). We maintain BUY.

We have not yet factored the impact of the proposed InvIT listing in our valuation

We have not yet included recent projects won in Rajasthan – awaiting financial closure

SOTP valuation

DCF	Valuation	Project Cost (Rs mn)	Length (kms)	Equity Value (Rs mn)	Per share (Rs)
Operational BOT Projects					***NPV @ 13% CoE***
Thane Bhiwandi		1,040	23	-	-
Pune-Nashik		737	30	754	2.1
Pune-Solapur		630	26	199	0.6
Thane-GHB		2,469	15	51	0.1
Mumbai-Pune		13,017	95	7,515	21.4
Amritsar - Pathankot		14,453	102	2,723	7.7
Vadodara - Ahmedabad		48,800	196	(3,611)	(10.3)
Total Value		**81,146**	**487**	**7,632**	**21.7**
InvIT projects					***NPV @ 13% CoE***
Bharuch-Surat		14,700	65	4,495	12.8
Surat-Dahisar		25,372	239	4,387	12.5
MVR		3,076	68	1,664	4.7
Talegaon -Amravati		8,880	67	1,567	4.5
Jaipur - Deoli		17,330	149	6,518	18.5
Tumkur - Chitradurga		11,420	114	3,684	10.5
Total Value		**80,778**	**701**	**22,315**	**63.5**
New projects					***NPV @ 15% CoE***
Goa - Kundapur		21,030	192	7,102	20.2
Solapur Yedeshi		13,030	99	5,400	15.4
Yedeshi Aurangabad		26,420	190	10,189	29.0
Kaithal - Rajasthan		20,660	166	7,807	22.2
Agra Etawah		25,230	125	212	0.6
Total Value		**1,06,370**	**771**	**30,710**	**87.4**
E&C Business					***5x FY19E EV/EBITDA***
FY19E EBITDA				10,902	
Assumed EV/EBITDA				5.0	
Value to IRB				**54,508**	**155.1**
Others (Net Cash)				**(14,030)**	**(39.9)**
Price Target				**1,01,134**	**290.0**

Source: Company, PhillipCapital India Research

Infrastructure BOT sector valuations

Company	Mkt Cap	CMP	P/E		EV/EBITDA		ROE		D/E		P/BV	
	Rs bn	Rs	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
IRB Infra	89.3	254	13.7	13.5	6.9	5.9	9.9	9.3	2.6	2.4	1.4	1.3
Ashoka Buildcon	37.4	200	31.5	25.8	7.5	6.8	5.7	6.6	2.0	1.8	1.8	1.7
Sadbhav Engg*	55.4	323	NA	NA	9.8	8.8	NA	NA	4.4	4.0	2.8	2.5

Source: Bloomberg, PhillipCapital India Research *(*Bloomberg estimates)*

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Net sales	**51,302**	**56,453**	**64,322**	**70,167**
Growth, %	33	10	14	9
Total income	51,302	56,453	64,322	70,167
Raw material expenses	-20,540	-22,283	-23,609	-23,859
Employee expenses	-2,461	-2,481	-2,827	-3,084
Other Operating expenses	-1,695	-1,749	-1,993	-2,174
EBITDA (Core)	**26,606**	**29,940**	**35,894**	**41,051**
Growth, %	20.3	12.5	19.9	14.4
Margin, %	51.9	53.0	55.8	58.5
Depreciation	-8,533	-8,694	-11,527	-12,960
EBIT	**18,073**	**21,246**	**24,367**	**28,091**
Growth, %	20.1	17.6	14.7	15.3
Margin, %	35.2	37.6	37.9	40.0
Interest paid	-10,633	-13,552	-16,307	-19,918
Pre-tax profit	**8,679**	**8,979**	**9,353**	**9,466**
Tax provided	-2,316	-2,286	-2,849	-2,845
Profit after tax	**6,363**	**6,693**	**6,505**	**6,620**
Others (Minorities, Associates)	-4	-5	-5	-5
Net Profit	**6,358**	**6,688**	**6,500**	**6,615**
Growth, %	17.1	5.2	(2.8)	1.8
Unadj. shares (m)	351	351	351	351
Wtd avg shares (m)	351	351	351	351

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & bank	15,587	11,246	14,848	18,886
Debtors	1,037	85	97	106
Inventory	3,088	3,403	3,877	4,229
Loans & advances	9,784	10,827	12,336	13,457
Other current assets	553	553	553	553
Total current assets	30,049	26,114	31,711	37,231
Investments	68	68	68	68
Gross fixed assets	3,85,926	3,86,026	3,86,226	3,86,426
Less: Depreciation	-34,438	-43,551	-55,077	-68,037
Add: Capital WIP	40,198	78,496	98,438	1,08,530
Net fixed assets	3,91,687	4,20,971	4,29,587	4,26,919
Total assets	**4,21,811**	**4,47,160**	**4,61,373**	**4,64,225**
Current liabilities	10,282	10,845	13,007	13,126
Total current liabilities	10,282	10,845	13,007	13,126
Non-current liabilities	3,62,901	3,77,359	3,82,157	3,79,824
Total liabilities	3,73,183	3,88,204	3,95,164	3,92,951
Paid-up capital	3,515	3,515	3,515	3,515
Reserves & surplus	44,758	55,082	62,330	67,390
Shareholders' equity	48,627	58,956	66,210	71,274
Total equity & liabilities	**4,21,811**	**4,47,160**	**4,61,373**	**4,64,225**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

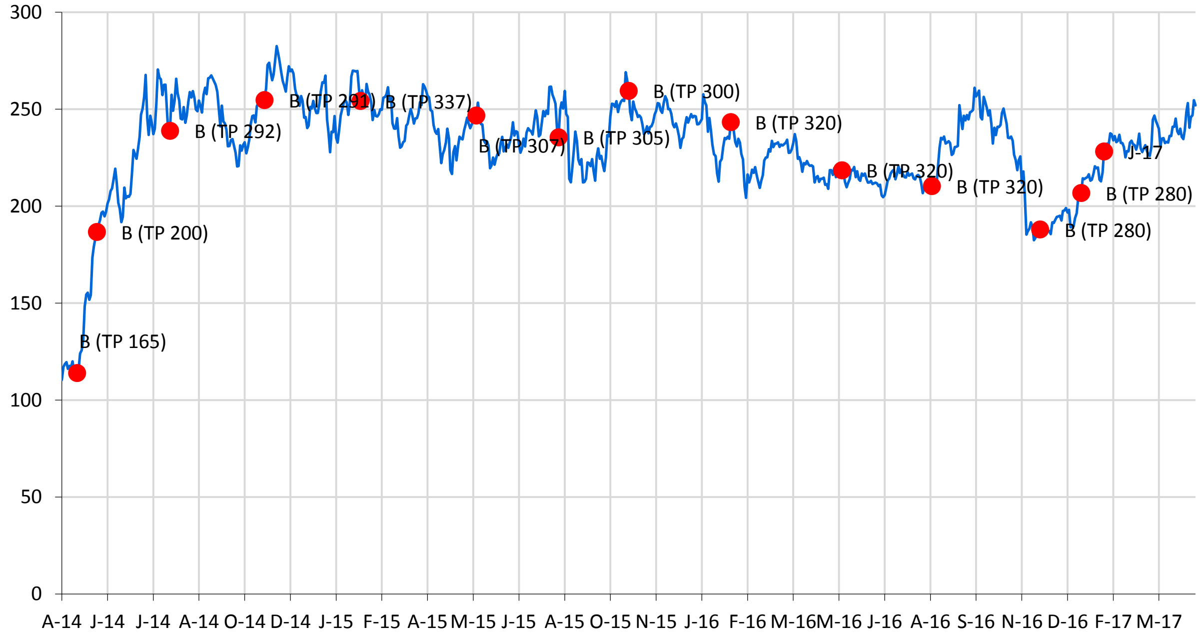
Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Pre-tax profit	8,679	8,979	9,353	9,466
Depreciation	8,533	8,694	11,527	12,960
Chg in working capital	-3,426	-1,030	-1,235	-3,681
Total tax paid	-2,337	-2,286	-2,849	-2,845
Cash flow from operating activities	**11,449**	**14,357**	**16,796**	**15,899**
Capital expenditure	-34,229	-37,978	-20,142	-10,292
Chg in investments	20	0	0	0
Cash flow from investing activities	**-34,209**	**-37,978**	**-20,142**	**-10,292**
Free cash flow	-22,761	-23,622	-3,346	5,607
Equity raised/(repaid)	0	5,192	2,304	0
Debt raised/(repaid)	24,244	15,644	6,200	-14
Dividend (incl. tax)	-1,555	-1,555	-1,555	-1,555
Other financing activities	-139	0	0	0
Cash flow from financing activities	**22,549**	**19,281**	**6,948**	**-1,569**
Net chg in cash	-212	-4,341	3,602	4,038

**Equity raised for FY17/18 represents the grant component of BOT projects*

Valuation Ratios

	FY16	FY17e	FY18e	FY19e
Per Share data				
EPS (INR)	18.1	19.0	18.5	18.8
Growth, %	10.8	5.2	(2.8)	1.8
Book NAV/share (INR)	137.4	166.7	187.4	201.8
FDEPS (INR)	18.1	19.0	18.5	18.8
CEPS (INR)	42.4	43.8	51.3	55.7
CFPS (INR)	29.0	37.2	44.1	41.6
DPS (INR)	3.8	3.8	3.8	3.8
Return ratios				
Return on assets (%)	3.2	3.5	3.7	4.1
Return on equity (%)	13.2	11.4	9.9	9.3
Return on capital employed (%)	3.3	3.6	3.8	4.2
Turnover ratios				
Asset turnover (x)	0.3	0.3	0.3	0.3
Sales/Total assets (x)	0.1	0.1	0.1	0.2
Sales/Net FA (x)	0.1	0.1	0.2	0.2
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	7.4	0.6	0.6	0.6
Inventory days	22.0	22.0	22.0	22.0
Payable days	127.0	126.1	145.3	143.4
Working capital days	29.7	26.0	21.9	27.1
Liquidity ratios				
Current ratio (x)	2.9	2.4	2.4	2.8
Quick ratio (x)	2.6	2.1	2.1	2.5
Interest cover (x)	1.7	1.6	1.5	1.4
Dividend cover (x)	4.8	5.0	4.9	5.0
Total debt/Equity (x)	3.1	2.8	2.6	2.4
Net debt/Equity (x)	2.8	2.6	2.4	2.2
Valuation				
PER (x)	14.0	13.3	13.7	13.5
Price/Book (x)	1.8	1.5	1.4	1.3
EV/Net sales (x)	4.4	4.3	3.8	3.5
EV/EBITDA (x)	8.4	8.1	6.9	5.9
EV/EBIT (x)	12.4	11.5	10.1	8.6

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6246 4101
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles

Dhawal Doshi	(9122) 6246 4128
Nitesh Sharma, CFA	(9122) 6246 4126

Banking, NBFCs

Manish Agarwalla	(9122) 6246 4125
Pradeep Agrawal	(9122) 6246 4113
Paresh Jain	(9122) 6246 4114

Consumer & Retail

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
Jubil Jain	(9122) 6246 4117
Preeyam Tolia	(9122) 6246 4129

Cement

Vaibhav Agarwal	(9122) 6246 4124

Economics

Anjali Verma	(9122) 6246 4115
Shruti Bajpai	(9122) 6246 4135

Engineering, Capital Goods

Jonas Bhutta	(9122) 6246 4119
Vikram Rawat	(9122) 6246 4120

IT Services

Vibhor Singhal	(9122) 6246 4109
Shyamal Dhruve	(9122) 6246 4110

Infrastructure

Vibhor Singhal	(9122) 6246 4109

Logistics, Transportation & Midcap

Vikram Suryavanshi	(9122) 6246 4111

Media

Manoj Behera	(9122) 6246 4118

Metals

Dhawal Doshi	(9122) 6246 4128
Yash Doshi	(9122) 6246 4127

Mid-Caps & Database Manager

Deepak Agarwal	(9122) 6246 4112

Oil & Gas

Sabri Hazarika	(9122) 6667 9756

Pharma & Specialty Chem

Surya Patra	(9122) 6246 4121
Mehul Sheth	(9122) 6246 4123

Strategy

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
Aashima Mutneja, CFA	(9122) 6667 9764

Telecom

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
Manoj Behera	(9122) 6246 4118

Technicals

Subodh Gupta, CMT	(9122) 6246 4136

Production Manager

Ganesh Deorukhkar	(9122) 6667 9966

Editor

Roshan Sony	98199 72726

Sr. Manager – Equities Support

Rosie Ferns	(9122) 6667 9971

Sales & Distribution

Ashvin Patil	(9122) 6246 4105
Shubhangi Agrawal	(9122) 6246 4103
Kishor Binwal	(9122) 6246 4106
Bhavin Shah	(9122) 6246 4102
Ashka Mehta Gulati	(9122) 6246 4108
Archan Vyas	(9122) 6246 4107

Sales Trader

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

Execution

Mayur Shah	(9122) 6667 9945

Corporate Communications

Zarine Damania	(9122) 6667 9976

Contact Information (Regional Member Companies)

SINGAPORE: **Phillip Securities Pte Ltd**
250 North Bridge Road, #06-00 RafflesCityTower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN: **Phillip Securities Japan, Ltd**
4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND: **Phillip Securities (Thailand) Public Co. Ltd.**
15th Floor, VorawatBuilding, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES: **Phillip Futures Inc.**
141 W Jackson Blvd Ste 3050
The Chicago Board of TradeBuilding
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA: **Phillip Capital Management Sdn Bhd**
B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

INDONESIA: **PT Phillip Securities Indonesia**
ANZTower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE: **King & Shaxson Capital Ltd.**
3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA: **PhillipCapital Australia**
Level 10, 330 Collins Street
Melbourne, VIC 3000, Australia
Tel: (61) 3 8633 9800 Fax: (61) 3 8633 9899
www.phillipcapital.com.au

HONG KONG: **Phillip Securities (HK) Ltd**
11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA: **Phillip Financial Advisory (Shanghai) Co. Ltd.**
No 550 Yan An East Road, OceanTower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM: **King & Shaxson Ltd.**
6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA: **Asha Phillip Securities Limited**
Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

INDIA
PhillipCapital (India) Private Limited
No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

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PhillipCapital (India) Pvt. Ltd.

Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013

Vibhor Singhal

Digitally signed by Vibhor Singhal
DN: c=IN, o=Personal,
pseudonym=b953701ae74349b9a6d1dcdb70bc07ec,
2.5.4.20=38334cc2f6600ca116f9e82eec06af4d32bc8004211a5009130aba428afe1674,
postalCode=400072, st=Maharashtra,
2.5.4.45=0341003737653264376662363065613630343162666335386462613965633562636237356335343866316337656430616464326636636338326639393361313230303030,
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cn=Vibhor Singhal
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