

IRCON International LIMITED

IPO Note

(SUBSCRIBE)

Analyst:

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17 September 2018

IPO details

Key Data	
Issue Opens	17-Sep-18
Issue Closes	19-Sep-18
Equity Shares Offered (in mn.)	6.98
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (₹)	10
Price Band (₹)	470-475
Max. Issue Size (₹ mn)	3,318
Lot Size (Eq. Shares)	30 and multiple thereof

Valuation	@ 470 per share	@ 475 per share
Market Cap (₹ mn)	44,204	44,674
Net Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	44,204	44,674
EV/ Sales	11.0	11.2
EV/ EBIDTA	6.2	6.2
P/B	1.2	1.2
P/E	10.9	11.0

Source: Red Herring Prospectus, Destimoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	93.8	99.7%	83.9	89.2%
Public	0.3	0.3%	0.3	0.3%
Offer for sale			9.9	10.5%
Fresh Issue			0.0	0.0%
Total	94.1	100.00%	94.1	100.0%

Object of Offer for sale

- To achieve benefits of listing
- To carrying out disinvestment
- General corporate purposes

Recommendation

IRCON is the largest PSU carrying out EPC projects in railways. It faces no competition domestically for all projects it bags from the railway ministry as they are on nomination basis.

Icon's revenues grew at 29.4% CAGR to Rs. 4001.2 crore in FY16-18. The order book was at a robust Rs. 22407 crore, which is 6x of its revenue, and we expect because of its huge order book its revenue is to get better in the upcoming years. At the IPO upper price band of ₹ 475, the stock is available at 11x FY18 EPS. Thus based on the business capabilities, industry growth prospects and valuations, we believe IRCON is attractively priced and recommend **subscribing** to the issue.

Largest PSU carrying railway EPCs

- ❑ IRCON is an integrated Indian engineering and construction company, specializing in major infrastructure projects, including, railways, highways, bridges, flyovers, tunnels, aircraft maintenance hangars, runways, EHV sub-stations, electrical and mechanical works, commercial and residential properties, development of industrial areas, and other infrastructure activities.
- ❑ Its Order Book as of a particular date comprises of the anticipated revenues from uncompleted portions of existing contracts (signed contracts for which all pre-conditions to entry have been met, including letters of intent issued by the client). As of March 31, 2018, it has an Order Book of ₹224,067.90 million.
- ❑ Since it commenced operations in 1976, it has serviced a diverse range of infrastructure and construction projects, its primary focus and strength are still deeply rooted in the railway sector, since then it has diversified progressively into other transport and infrastructure segments, such as, highway and road construction, and expanded its geographical coverage to many countries around the world.
- ❑ It has rich experience in executing major construction and infrastructure projects, both internationally and domestically. The scope of its services for such projects primarily includes design and engineering of the project, procurement of equipment and packages, project management, and commissioning..
- ❑ Our work force, as of
- ❑ Its work force, as of March 31, 2018, consisted of 1179 full-time employees on a stand-alone basis, which together with its debt-free financial profile and comfortable liquidity position, positions it well to win mandates for a growing number of large-scale projects.
- ❑ IRCON's consolidated total revenues for Fiscal Year 2016, Fiscal Year 2017 and Fiscal Year 2018 were ₹29,086.37 million, ₹33,013.48 million and ₹42,124.02 million, respectively. Its profit after tax (excluding OCI) for Fiscal Year 2016, Fiscal Year 2017 and Fiscal Year 2018 were ₹3,931.08 million, ₹3,839.79 million and ₹4,115.80 million respectively.

Source: Red Herring Prospectus, Destimoney research

Business Operations

❑ **Construction Business:**

- ❑ In its railway construction business, it is a turnkey construction company that specializes in new railway lines, rehabilitation/conversion of existing lines, station buildings and facilities, bridges, tunnels, signaling and telecommunication, and railway electrification.
- ❑ As of March 31, 2018, it was undertaking a total of 33 railway projects in two countries internationally and in 13 states in India, with an aggregate length of 1,664.74 km. Its Order Book for these ongoing projects amounted to ₹194,257.70 million as of March 31, 2018, accounting for 86.70% of its total Order Book. Revenue from railway projects accounted for 77.12%, 68.26% and 68.95% of its total revenue from operation for Fiscal Year 2016, Fiscal Year 2017 and Fiscal Year 2018, respectively.

❑ **Infrastructure Development Business:**

- ❑ In its infrastructure development business, it develops and maintains railways and roads on a BOT basis. As of March 31, 2018, it had one completed road project of 115 km in India. It operates this completed project on a toll basis where profit is realized largely by toll collection during the concession period. It further expects to complete two more BOT (toll) projects in Fiscal Year 2018 where it will start realizing toll revenues.
- ❑ It has currently placed strategic focus on executing projects under the EPC, DBFOT and hybrid annuity modes, as there has been an increase in high value projects being bid using these modes of project execution.

Source: Red Herring Prospectus, Destimoney research

Strengths

- ❑ **construction business operates in diverse sectors covering many countries:** It has diversified into various infrastructure sectors and it is now an established player in the field of railways and highways construction. It also cater to its customers' needs in many other areas such as construction of commercial and residential complexes, power transmission lines, industrial lighting, bridge/fly-overs, tunnels, commercial, residential and retail properties, electrical and mechanical work, signaling/telecom, coach factory, station building, multi-function complex, and aviation.
- ❑ With respect to geographically diversified business operations, it has so far completed more than 127 projects in more than 24 countries across the globe, and 380 projects in various states in India as of March 31, 2018.
- ❑ **Excellent execution track record through strong operating systems and controls:** Its track record of on-time and high quality project completion has helped it to develop a strong reputation and increased its opportunities to bid for larger and more prominent projects. For example, it has recently been given the opportunity to bid for coal connectivity projects in Chhattisgarh, Odisha and Jharkhand, and it is executing the Majuba Rail project in South Africa.
- ❑ **Strong financial performance and credit profile:** It has a strong credit profile that includes non-fund based standby bank limits of ₹ 31,200 million out of which ₹16,647.70 millions has been utilised. As of March 31, 2018, the financial profile of the Company is characterized by healthy profitability margins and a comfortable liquidity position. Its stable business model during the last three fiscal years ended March 31, 2018 contributed significantly to its financial strength.
- ❑ **Visible growth through robust order book and steady execution:** Its Order Book as of March 31, 2018 was ₹224,067.90 million which translates into approximately six times its total operating revenue in Fiscal Year 2018, and it provides evidence of its healthy revenue profile. As of March 31, 2018, domestic projects made up the bulk of its Order Book (93%) and it secured ₹61,057.40 million of new contracts in Fiscal Year 2018.

Source: Red Herring Prospectus, Destimoney research

Future road ahead

- ❑ **Continue expanding its geographical footprint within and beyond India:** It is actively focused on becoming a diversified infrastructure player, both in terms of sector and geographical coverage. It has diversified its infrastructure work expertise into transportation engineering, civil and industrial construction, and other infrastructure projects. Over the years, it has extended its operations to other geographies including countries like Algeria, Bangladesh, Indonesia, Iran Iraq, Jordan, Malaysia, Nepal, Saudi Arabia, Tanzania, UK and Zambia. Presently, it has projects in Malaysia, Sri Lanka, Algeria and Bangladesh.
- ❑ **Paradigm shift in revenue generation:** It is gradually moving from generating income only through individual projects to regularly generating revenue and profits through its Subsidiaries and Joint Venture companies. Its subsidiaries and Joint Venture companies are likely to generate revenue and profits on a sustained basis because of continued operation of existing projects and new projects.
- ❑ **Focus on high value projects in the construction business to benefit from economies of scale:** In its construction business, it intends to focus on undertaking projects having a high order value, which it considers to be projects above ₹5,000 million. As of March 31, 2018, it had 20 projects in its Order Book that exceed this threshold. In principle, projects having high order value typically have a smaller percentage of overhead cost as a percentage of total cost and therefore provide a greater potential for profit.
- ❑ **Actively bid for new projects:** Business growth continues to be attributed principally to increased bidding activities for more and larger projects awarded by government clients. Given its long standing reputation as one of the sectorial leaders in transportation infrastructure, with specialization in execution of railway projects on turnkey basis, a large part of its business is driven by projects directly awarded by government clients.

Source: Red Herring Prospectus, Destimoney research

Consolidated Summary Financials

Income Statement

₹ mn	FY15	FY16	FY17	FY18
Total Income	3,038	2,481	2,977	4,001
Operating Expense	2,442	2,332	2,746	3,609
EBIDTA	596	149	232	392
Depreciation	57	31	27	16
Other Income	391	557	321	242
Finance Costs	69	43	50	65
PBT & (EI)	861	632	476	553
Exp Income	-	-	79	5
PBT	861	632	556	558
Tax	277	219	172	147
PAT	583	413	384	412
Less : Minority Intrest	(1)	(1)	-	-
Share of Associate	-	5	-	-
Net Profit	582	418	384	412

₹ mn	FY15	FY16	FY17	FY18
EBIDTA Margin	24.1%	17.4%	4.9%	7.0%
Net Margin	20.0%	17.0%	13.8%	11.6%
ROE	16.2%	10.7%	10.0%	10.9%
ROCE	25.0%	16.0%	10.0%	9.0%

Balance Sheet

₹ mn	FY15	FY16	FY17	FY18
Liabilities				
Share capital	20	20	99	94
Reserves and surplus	3,285	3,619	3,718	3,668
Minority interest	21	22	20	-
Long-Term Borrowings	171	-	-	3,203
Deferred tax liabilities(Net)	(268)	(212)	(145)	(134)
Other Long Term Liabilities	487	1,076	1,956	1,236
Long Term Trade Payables	8	6	0	0
Long term provisions	949	150	76	75
Short term borrowings	-	-	-	-
Trade payables	469	400	361	510
Other current liabilities	1,722	2,430	2,819	3,590
Short term provisions	1,365	417	183	401
Total Liabilities	8,228	7,928	9,086	12,644
Assets				
Net Block	736	228	217	210
Intangible assets	-	-	-	-
Capital work in progress	15	2	2	3
Intangible assets under development	15	74	547	961
Non Current Investments	430	628	838	926
Long Term Loans & Advances	1,155	292	513	259
Other non current assets	51	68	71	2,658
Currents Investments	66	138	250	216
Inventories	124	141	139	141
Trade receivables	597	682	473	694
Cash and cash equi.	3,433	4,722	4,753	4,691
Short Term Loans & Advances	837	813	592	1,114
Other Current Assets	769	141	691	772
Total Assets	8,228	7,928	9,086	12,644

Source: Red Herring Prospectus, Destimoney research

Key Risks

- ❑ Its business and revenues are substantially dependent on construction and infrastructure projects undertaken or awarded by government authorities and other entities funded by the government. Any change in government policies, the restructuring of existing projects or delay in payments to it, may adversely affect its business and results of operations.
- ❑ If it faces adverse publicity and incur costs associated with warranty claims or from defects during construction, its business, results of operations and financial condition could be adversely affected.
- ❑ Projects included in our order book and our future projects may be delayed, extended, modified or cancelled which may materially and adversely affect its business, prospects, reputation, profitability, financial condition and results of operations.
- ❑ Railway sector projects contribute approximately 86.70% of its Order Book as of March 31, 2018. Any change in the sector causing decline in the numbers of project available may adversely affect its revenues and profitability.

Source: Red Herring Prospectus, Destimoney research

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