

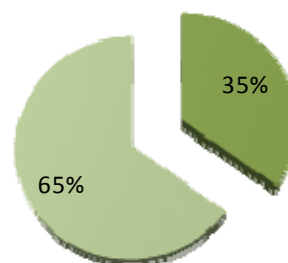
IPO Note

IL&FS Transportation Networks Ltd.

| Recommendation | Subscribe | Background |
|---|---|---|
| Price Band | 242-258 | |
| Bidding Date | 11 th March – 15 th March | <p>IL&FS Transportation Networks Limited (ITNL) is an established surface transportation infrastructure company and one of the largest private sector BOT road operators in India. ITNL was incorporated in the year 2000 by IL&FS to consolidate their existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation infrastructure. ITNL is involved right from the conceptualization of projects to the commissioning of operations and maintenance. The company went global in March 2008 by acquiring Elsamex S.A. (Elsamex) a provider of maintenance services primarily for highways and roads in Spain and other countries.</p> <p>ITNL has a pan-India presence in the BOT road sector with a diverse project portfolio consisting of 17 road projects, comprising approximately 9,397 Lane kms, which includes 4,086 Lane kms under operation and maintenance and 5,311 Lane kms under development (of which 1244 Lane kms under construction). ITNL has presence in state highways, roads, flyovers and bridges in the states of Andhra Pradesh, Delhi, Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Kerala, Jharkhand and Rajasthan.</p> <p>ITNL is currently developing 11 road projects (including the Mega Highways and Thiruvananthapuram City Road projects) in the States of Andhra Pradesh, Chhattisgarh, Jharkhand, Kerala, Rajasthan, Uttar Pradesh and Maharashtra in India and Madrid in Spain. Out of these 11 projects, five projects are currently in the construction phase and the remaining six projects are in the preconstruction phase of development.</p> <p>ITNL also plans to venture into other transportation infrastructure sub-sectors such as mass rapid transport systems and urban transportation infrastructure systems. The company has been selected for the development of the 4.9 km track of elevated metro rail link project in Gurgaon (Haryana). Apart from this ITNL is also operating and maintaining the Nagpur city bus services on a BOT basis.</p> <p>ITNL reported EBITDA margins of 35.1% for 1H FY10. At the upper band of 258 ITNL would be trading at a P/E of 21.2x and at the lower band it would be trading at 20.07x on annualized earnings of FY 10.</p> <p>The IPO has received a rating of IPO Grade 4 from CARE.</p> |
| Book Running Lead Manager | Enam, Nomura, JM Financial | |
| Sector | Infrastructure | |
| Retail Application- Detail At Cut off Price | | |
| Number of Shares | 375 | |
| Application Money | 96750 | |
| Amount Payable | 96750 | |
| Valuation | | |
| Diluted EV/ EBIDTA (U/L)* | 10.76/10.36 | |
| Diluted P/E (U/L)* | 21.2/20.07 | |
| No of Equity Shares Offered | 2.71/2.89 | |
| Post Issue Promoter Holding | 68/67.38 | |
| Offer structure for different categories | | |
| QIB | 60% | |
| Non-Institutional | 10% | |
| Retail | 30% | |
| Lot Size | 25 | |
| Post issue Equity (crores) (U/L) | 19.43/19.61 | |
| Issue Size (Rs. in crores) | 700 | |
| Face Value (Rs.) | 10 | |
| <p>Vivek Nair – Research Associate Ph –(022)-3027 2228 E-Mail: vivek.nair@nirmalbang.com</p> <p>Sunil Jain – VP, Equity Research Ph –(022)-3027 2211 E-Mail: sunil.jain@nirmalbang.com</p> <p>*(U/L) Upper and lower band</p> | | |

Road projects Break-up

■ Bot Projects ■ Annuity



Source: RHP, Nirmal Bang Research

Objects of the issue

The company plans to raise Rs. 700 crs through this issue at a price band of 242-258. Trinity Capital which currently holds 2.5% stake in the company will be exiting through this issue offering a further 42.79 lakh shares. The issue will result in an equity dilution of 12.57% at the lower end of the price band and 11.67% at the upper end.

Proceed of the issue will be used for

- ✓ Rs. 530 crs towards funding pre-payment and repayment of a portion of debt
- ✓ Remaining towards general corporate purposes and new projects

Elsamex

ITNL acquired Elsamex in March 2008 for a total consideration of 12.15 mn Euros representing 100% of the total paid up share capital of Elsamex. Elsamex's key business activities include maintenance of highways, roads and petrol stations, maintenance of buildings, consulting and road concession agreements. Elsamex's expertise in Road maintenance is a key contributor to the overall business operations of ITNL.

Investment Rationale

- **Huge Investments in the Road Segment**

In the 11th five-year plan investments worth Rs. 3141.5 bn are expected to be made in the Roads and Bridges segment at a growth of 116.8% over the 10th five year plan outlay of 1448.9 bn. In the Eleventh Five Year Plan the total projected investment in the private sector for road and bridges stands at Rs. 1067.90 bn. which has an enormous growth rate of 1425.6% over the 10th five-year plan outlay of Rs. 70 bn. NHAI has set a target of developing 20kms of roads till June 2010 as against existing development of 10 km per day. The share of PPP in road projects is further estimated around 85% of the road projects. For a company like ITNL having a vast expertise and dominance in Road projects, this provides tremendous opportunity for growth in the Road segment.

- **Diversified road project portfolio and revenue base**

ITNL operates mostly in the roads sector with operations ranging from designing and development of projects to maintenance of the roads after the project is completed. This would allow the company to reap the benefits and opportunities presented in the road sector to the fullest. ITNL has currently 5311 Lane kms under development out of which 1244 Lane kms are under construction. This provides good revenue visibility for the company going forward.

- **Global Presence will boost revenues and operations**

ITNL acquired Elsamex S.A in the year 2008 which has international presence in Spain, Portugal and Latin American countries. This provides ITNL with excellent opportunities to be an established player in the global markets. Also, Elsamex provides ITNL with expertise in road maintenance capabilities which compliments the parent company's Road project portfolio very well.

Investment Concerns

- **High level of leverage**

ITNL reported a debt to equity ratio of 2.38 for 1H FY10 which is higher than the current industry standards. The total amount of long term funds for the company as on 30th Sep 2009 stands at Rs. 2417 crs

- **Large portion of revenue comes from Elsamex**

Elsamex reported revenues of Rs.671.2 crs for FY 2008 whereas for the same year ITNL reported revenues of Rs.361.6 crs only. ITNL is therefore heavily dependent on Elsamex for its revenue operations. ITNL will be directly affected by any condition which might affect the revenues or profitability of Elsamex.

- **Long term nature of BOT projects**

BOT projects are typically spread over a period of 20-30 years and therefore have a long gestation period. Any unforeseen condition or instability which might be out of the company's control will affect its operations and financial performance of the project. Also, the cash flows generated through toll revenue may take time to materialize, which might put constant pressure on the operating cash flows of the company

Valuation

At the upper band of the price band (Rs.258), ITNL would be trading at a P/E of 21.2 x and at the lower band it would be trading at a P/E 20.07x on annualized earnings of 1H FY10. Post dilution, EV/EBITDA for the company would be 10.76 on the upper band and 10.36 on lower band on annualized EBITDA of 1H FY10. Compared to ITNL IRB Infra which is a similar player in the industry currently trades at a P/E of 28.2x and an EV/EBITDA of 15.6x. P/BV of ITNL at the upper band is at 3.12x (post issue) as compared to 6.9x of IRB. Considering that ITNL is a much larger player compared to IRB in terms of revenues we believe that at the upper band of Rs. 258 ITNL is not very expensive.

Based on the attractive valuation for ITNL we recommend to **SUBSCRIBE** to the IPO with a long term view.

| Company | M Cap (in Rs. Crs) | Revenues* | Total. No. of road projects | No. of Road proj. under const/devl | EBITDA Margins | PAT Margins | P/E | EV/EBITDA* | EV/Sales* | P/BV | D/E |
|-----------|--------------------------|-----------|-----------------------------------|--|-------------------|----------------|------|------------|-----------|------|-----|
| IRB Infra | 8588.2 | 1540.1 | 17 | 9 | 22.1% | 9.9% | 28.2 | 15.6 | 6.9 | 6.9 | 1.4 |
| ITNL | 5012.2 | 1914.8 | 19 | 8 | 35.1% | 12.3% | 21.2 | 10.8 | 3.8 | 3.12 | 2.4 |

Source Nirmal Bang Research

* 1H FY10 Annualized

Balance Sheet

| Particulars (Rs. Cr.) | FY 2007 | FY 2008 | FY 2009 | 1H FY 10 |
|---|----------------|----------------|----------------|----------------|
| Share capital | 162.5 | 171.4 | 171.4 | 171.4 |
| Reserves & surplus | 575.6 | 744.3 | 714.7 | 845.6 |
| Networth | 738.1 | 915.7 | 886.1 | 1,017.1 |
| Secured Loan | 1,029.0 | 1,077.5 | 1,043.4 | 1,405.7 |
| Other Unsecured Loans | 10.6 | 536.3 | 810.8 | 1,011.4 |
| Total Debt | 1,039.6 | 1,613.7 | 1,854.2 | 2,417.1 |
| Deferred tax Liability (Net) | 41.1 | 52.3 | 64.7 | 72.3 |
| TOTAL | 1,818.8 | 2,581.7 | 2,805.0 | 3,506.4 |
| Net book value | 633.7 | 817.2 | 853.2 | 1,293.8 |
| Capital WIP | 49.8 | 83.6 | 8.1 | 9.9 |
| Investments | 140.9 | 202.0 | 201.0 | 166.2 |
| Sub total | 824.4 | 1,102.8 | 1,062.3 | 1,469.9 |
| Current assets, loans & advances | | | | |
| Total C.Assets | 305.2 | 1,381.1 | 1,418.3 | 1,643.0 |
| Less: Current Liab & provisions | 106.9 | 845.1 | 725.0 | 753.2 |
| Net current assets | 198.3 | 536.0 | 693.3 | 889.8 |
| Misc Expenditure | | | | |
| Goodwill on consolidation | 121.3 | 266.7 | 285.5 | 293.1 |
| Toll recievable account | 189.9 | 189.9 | 189.9 | 189.9 |
| Deferred tax asset | 0.3 | 0.6 | 0.0 | 0.0 |
| Receivable under service conc. agreement | 623.8 | 646.9 | 731.8 | 851.6 |
| Minority interest | 59.2 | 76.2 | 77.4 | 107.8 |
| Pref. Shares issued by subsidairy | 35.0 | 35.0 | 35.0 | 35.0 |
| Advance towards capital | 45.0 | 49.9 | 45.4 | 45.0 |
| TOTAL | 1,818.8 | 2,581.7 | 2,805.0 | 3,506.4 |

Source: Nirmal Bang Research

Income Statement

| Particulars (Rs. Cr.) | FY 2007 | FY 2008 | FY 2009 | 1H FY 10 |
|------------------------|---------|---------|---------|----------|
| Income from Operations | 188.7 | 361.6 | 1,225.4 | 957.4 |
| Total expenditure | 92.2 | 178.6 | 1,032.0 | 621.4 |
| EBITDA | 96.6 | 183.0 | 193.4 | 336.0 |
| EBITDA Margins | 51.2% | 50.6% | 15.8% | 35.1% |
| Depreciation | 3.3 | 7.6 | 35.3 | 27.7 |
| EBIT | 93.3 | 175.4 | 158.0 | 308.3 |
| EBIT Margins | 49.4% | 48.5% | 12.9% | 32.2% |
| Other income | 9.4 | 75.9 | 79.4 | 21.2 |
| Interest | 21.5 | 107.0 | 174.3 | 127.9 |
| PBT | 71.2 | 134.3 | 80.3 | 202.6 |
| Total Tax | (25.5) | (47.1) | (46.6) | (79.1) |
| PAT | 51.4 | 93.3 | 27.9 | 118.2 |
| PAT Margins | 27.2% | 25.8% | 2.3% | 12.3% |

Source: Nirmal Bang Research

NOTE

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