

## IL&FS Transportation Networks Ltd

**PRICE BAND: Rs 242-258**
**SUBSCRIBE**

### Issue Details

<b>Issue Size to public</b>	Rs 700 cr
<b>Face Value (Rs)</b>	Rs 10
<b>Bid opens</b>	11-March-2010
<b>Bid closes</b>	15-March-2010
<b>Issue band (Rs)</b>	Rs. 242-258
<b>Issue Type</b>	100% Book Built Issue
<b>Lead Managers</b>	
Enam Securities Pvt Ltd, Nomura Financial Advisory & Securities (India) JM Financial Consultants Pvt Ltd, Aventus Capital Pvt Ltd, SBI Capital Markets Ltd	
<b>Registrar</b>	
Link Intime India Pvt Ltd	

<b>Issue Structure</b>	<b>Equity Shares (Rs Cr)</b>
Total Shares offered to Public	2.89/2.71
QIB Portion*	1.73/1.62
Non Institutional Portion	0.29/0.27
Retail Portion	0.86/0.81

\*Including for Anchor investor and MFs

No of paid up shares before the issue	17.14
No of paid up shares after the issue	20.03/19.85

Promoter and Promoter Group holding (Pre Issue)	85.09%
Promoter and Promoter Group holding (Post Issue)	72.80%/73.46%

### Sector: Construction

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### Background & Business

IL&FS Transportation Networks Ltd is a surface transportation (road transportation) infrastructure company with one of the biggest private sector BOT road projects portfolio in the country. IL&FS Transportation was incorporated in 2000 by IL&FS which is an infrastructure development and finance company in order to consolidate IL&FS's existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation infrastructure.

The company initiated its overseas operations in 2008 via the acquisition of Elsamex S.A. which provides maintenance services for highways & roads in Spain and other countries.

### Objectives of the Issue

IL&FS Transportation proposes to utilize the proceeds of the fresh issue for the following purposes

#### Funding pre-payment and re-payment of part of the debt

IL&FS Transportation plans to utilize the net proceeds from the fresh issue to pre-pay and re-pay its loans up to Rs 500 Cr during FH10 and FY11.

#### General corporate purposes

The surplus net proceeds from the fresh issue after debt repayment and pre-payment is intended to be utilized for general corporate purposes including strategic initiatives, brand building exercise and strengthening of their marketing capabilities.

### Recommendation

IL&FS Transportation Networks is a pure play BOT developers and operator with the highest BOT projects in its kitty in the country. The company has 8 operational BOT projects, 10 BOT projects under development and a further couple of BOT projects for which it is the L1 bidder in the country. We are buoyant on prospects of roads and highways developers in the country considering governments thrust and investment plans in the road infrastructure.

While due to an acquisition made in 2008, financial numbers for FY08 and FY09 are not comparable, the IPO is priced quite attractively compared to IRB Infra (the only other pure play BOT developer). We recommend to SUBSCRIBE to the issue.

## BOT portfolio of IL&FS Transportation

IL&FS Transportation has 18 roads and highways projects in India totaling to 9397 KMs of which 4086 KMs is under operation, 1244 KMs under construction and remaining is under development stage. The company is also lowest (preferred) bidder for projects of 2100 KMs. Of the total 9397 KMs, 6313 KMs are toll based whereas remaining are annuity based projects.

### Projects Under Operations

Projects	Type	Length (KM)	Revenue	% holding by IL&FS Trans. Direct & Indirect	% holding by IL&FS Trans. Beneficial Interest
North Karnataka Expressway Limited Maharashtra Border to Belgaum, Karnataka	BOT	472	Annuity	74.5	19
Gujarat Road and Infrastructure Company Ltd Gujarat	BOOT	523	Toll	83.61	
Noida Toll Bridge Company Limited Delhi to NOIDA, Uttar Pradesh	BOT	60	Toll	25.35	
West Gujarat Expressway Limited Jetpur to Rajkot, Gujarat	BOT	389	Toll	49	51
Road Infrastructure Development Company of Rajasthan Ltd Multiple Stretches under Mega Highways Project, Rajasthan	PPP	2106	Toll		50
Thiruvananthapuram Road Development Company Ltd Phase 1 Thiruvananthapuram City, Kerala	BOT	51	Annuity	49.93	
Andhra Pradesh Expressway Ltd Kotakatta to Kurnool, Andhra Pradesh	BOT	328	Annuity	49	51
Ramky Elsamex Hyderabad Ring Road Ltd Outer Ring Road, Hyderabad, Andhra Pradesh	BOT	152	Annuity	26	

**Projects Under Development**

Projects	Type	Length (KM)	Revenue	% holding by IL&FS Trans. Direct & Indirect	% holding by IL&FS Trans. Beneficial Interest
Road Infrastructure Development Company of Rajasthan Ltd Additional roads under Mega Highways Project, Rajasthan	PPP	476	Toll		50
Chhattisgarh Highway Development Company Ltd Multiple Stretches, Chhattisgarh	BOT	1368	Annuity		74
Jharkhand Accelerated Road Development Company Ltd Multiple Stretches, Jharkhand	BOT	1002	Annuity		74
East Hyderabad Expressway Ltd Hyderabad City - Outer Ring Road Andhra Pradesh	BOT	173	Annuity	74	
Thiruvananthapuram Road Development Company Ltd Phase II & III Thiruvananthapuram City, Kerala	BOT	107	Annuity	49.93	
ITNL Road Infrastructure Development Company Ltd Beawer to Gomti, Rajasthan	DBFOT	248	Toll	100	
Warora Chandrapur Ballarpur Toll Road Company Chandrapur to Warora to Bamni, Maharashtra	DBFOT	275	Toll	35	
Hazaribagh Ranchi Expressway Limited Hazaribagh to Ranchi, Jharkhand	BOT	319	Annuity	73.88	
Pune Sholapur Road Development Company Ltd Pune to Sholapur, Maharashtra	DBFOT	571	Toll	99.88	
Moradabad Bareilly Expressway Limited Moradabad to Bareilly, Uttar Pradesh	DBFOT	522	Toll	100	
<b>INTERNATIONAL PROJECTS</b>					
Sociedad Concesionaria Autovia A-4 Madrid S.A. Highway A -4 from Km 3.78 to 67.50 stretch Madrid-R4, Spain	Concession	255	Toll	48.75	

## Investment Rational

### Robust Track Record

IL&FS Transportation is an established roads and highways developer with a track record for successfully bidding, developing and operating BOT road projects. The company has a pan India presence which diversifies risks associated with a slowdown in any one region of the country. The company's Vadodara Halol Toll Road was designated as a best practices example for its environment risk mitigation and social rehabilitation plan by the World Bank.

### Strong Parentage

IL&FS Transportation was promoted by IL&FS in 2000 which has an unmatched track record of promoting and financing public infrastructure projects in India for more than 22 years. The long standing history of IL&FS in India enables IL&FS Transportation to enjoy strong brand recognition and its affiliation strengthens company's position while bidding for new projects and approaching lenders.

### Huge Opportunity in the Roads & Highways Development

The opportunity for Roads and Highways development in India is massive and NHAI is all set to award projects worth Rs 3 lakh Cr consisting around 32000 KMs over the next 4-5 years. The current government has taken some encouraging steps to make the awarding process faster and to make these projects attractive for developers. Going forward the government plans to build 20 KMs of road a day from the current pace of around 4 KMs a day. We believe this thrust of government of roads and highways projects would immensely benefit companies like IL&FS Transportation.

## Concerns

### Dependence on Elsamex

IL&FS Transportation bought Elsamex of Spain in 2008 March which is a maintenance service provider for roads and highways. This wholly owned subsidiary operates on thin margins owing to high interest and other fixed costs. Also, IL&FS derives majority of its revenue from this subsidiary which may impact its performance in future. In FY09 and 9MFY10, IL&FS derived 61.62% and 43.43% of its revenue from Elsamex.

### Policy Risks

The Company is significantly dependent various state and central government policies and budgetary allocations. Any unfavorable changes to those policies and/or lesser budgetary allocations may hamper company's current and future prospects. For example, in the recent budget, the government has increased MAT from 15% to 18% which means that all the BOT developers will now be paying 3% higher tax on their profits.

**Financials**

(RS Cr)

	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>YoY%</b>	<b>9M FY2010</b>
<b>Income</b>	<b>188.75</b>	<b>361.59</b>	<b>1,252.59</b>	<b>246%</b>	<b>958.33</b>
Operating Exp	90.67	172.58	1,026.62	495%	617.22
<b>Operating Profit</b>	<b>98.08</b>	<b>189.01</b>	<b>225.97</b>	<b>20%</b>	<b>341.11</b>
Other Income	9.40	75.86	79.42		21.23
Other Expenses	11.49	15.98	15.40		4.17
<b>EBIDTA</b>	<b>95.99</b>	<b>248.89</b>	<b>289.99</b>	<b>17%</b>	<b>358.17</b>
Depreciation	3.29	7.61	35.34	365%	27.71
Interest & Financial Charges	21.46	106.95	174.30	63%	127.86
<b>EBT</b>	<b>71.24</b>	<b>134.33</b>	<b>80.35</b>	<b>-40%</b>	<b>202.59</b>
Tax	25.46	47.06	46.61		79.14
<b>PAT</b>	<b>45.78</b>	<b>87.28</b>	<b>33.73</b>	<b>-61%</b>	<b>123.45</b>
Minority Interest	0.10	-1.35	-3.18		-0.81
Share in P/L of Associates	5.50	7.33	-2.68		-4.41
<b>Adj PAT</b>	<b>51.38</b>	<b>93.26</b>	<b>27.88</b>	<b>-70%</b>	<b>118.23</b>
<b>FD-EPS</b>	<b>2.59</b>	<b>4.70</b>	<b>1.40</b>		<b>5.95</b>
<b>OPM</b>	<b>51.96%</b>	<b>52.27%</b>	<b>18.04%</b>		<b>35.59%</b>
<b>NPM</b>	<b>27.22%</b>	<b>25.79%</b>	<b>2.23%</b>		<b>12.34%</b>

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