

Issue Details

Listing	NSE & BSE
Open Date	17/9/2018
Close Date	19/9/2018
Price Band	470-475

Issue Structure (In %)

Fresh issue	0.0
Offer for Sale	100.0

Shareholding Pattern (%)

	Pre	Post
Promoter	99.7	89.1
Public	0.28	10.8
Total	100	100.0

Business Overview:

IRCON International Limited is a government company incorporated by the central government (Ministry of Railways) in April 1976. It has widespread operations in several states in India and abroad (Malaysia, Nepal, Bangladesh, Mozambique, Ethiopia, Afghanistan U.K, Algeria and Sri Lanka).

Essentially an integrated Indian engineering and construction company, IRCON 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. However, Railway and Highway construction, EHP sub-station and MRTS are its core competence areas.

IRCON's business composition can be largely categorized into the following sectors:

Railways

IRCON undertakes railway projects on a turnkey basis. This primarily involves laying tracks, construction of bridges, railway electrification, signaling and telecommunication, supply of locomotive and rolling stock and setting up railway workshop.

Roads and Highways

The company is involved in the construction of roads, highways and expressways. It has executed major projects in India, Bangladesh and Nepal.

Electrical

IRCON International Ltd. Has been awarded electrification works for several segments of tracks, including the "Mathura-Kasganj-Kalyanpur" and "Katni-Singrauli" segments, as a part of "Mission Electrification" It is presently involved in railway electrification, power supply and distribution, general electrification and EHV power transmission.

Buildings

The company undertakes construction of different types of buildings, e.g., commercial /industrial /residential, airports hangars, station buildings and hospitals.

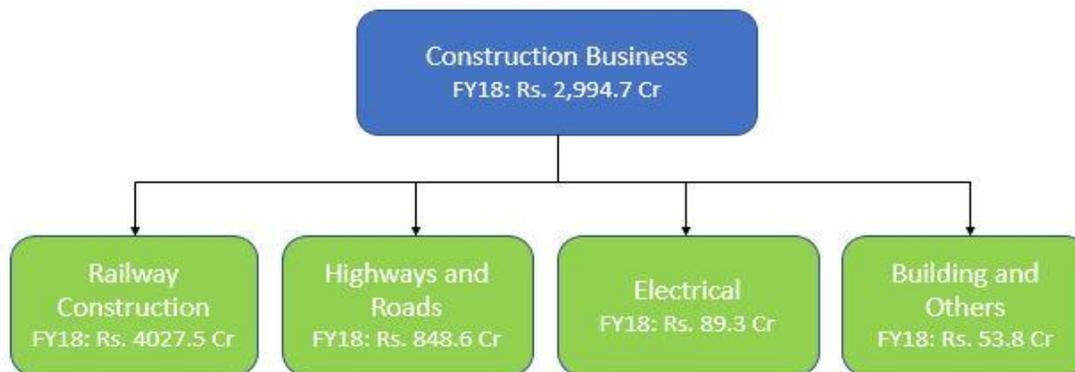
Others

In other sectors, IRCON constructs and provides services in signaling and telecommunications, solar energy generation and waste water treatment plants.

Core Business Operations.

➤ Construction Business:

Business Composition of Construction Segment



Source: Ventura Research, Company

Railway construction:

IRCON has undertaken a total of 33 railway projects in 2 countries internationally and in 13 states in India covering an aggregate length of 1,664.74 km. The order book for these ongoing projects amounted to Rs. 19,425.77 crores as of 31st March, 2018 and accounted for 86% of its total order book. Revenue from Railway projects amounted to 68.2% and 68.9% of the total revenue from operations for FY17 and FY18, respectively.

Highways and Roads:

The company is engaged in construction of highways and roads in accordance with international standards, both in India and abroad. In this sector IRCON recorded revenue of Rs. 589.29 crores and Rs. 848.69 crores for FY17 and FY18, respectively. As of March 31, 2018, the company is undertaking five road projects in all, within India and abroad, with an order book of Rs.1,278.02 crores.

Electrical:

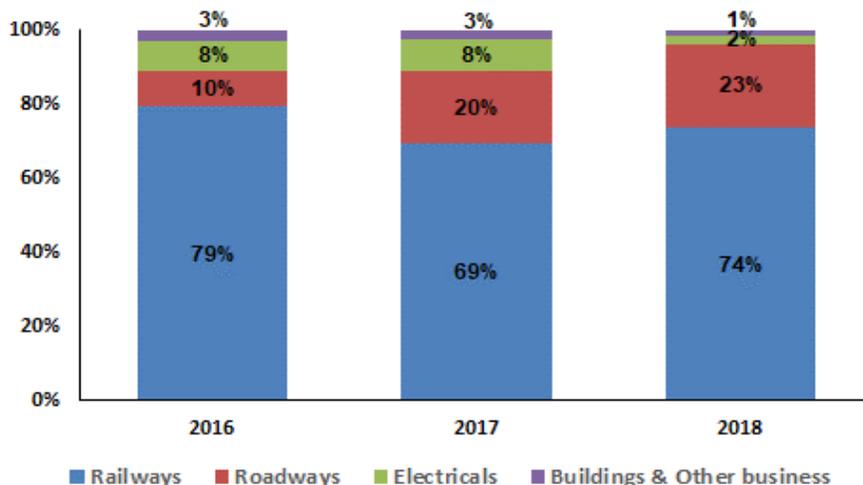
The company is also engaged in electrical projects, in which it carries out railway electrification and railway siding as turnkey projects.

Building & Others:

The company is undertaking three building projects in the India and abroad. IRCON also constructs and provides services in signaling and telecommunication, solar energy generation and waste water treatment plants.

Aggregate revenue from its construction business amounted to Rs.2,994.79 crores and Rs.3,896.39 crores for FY17 and FY18, accounting for 98.58% and 96.75%, respectively, of total operating revenue for these periods.

Revenue share of Construction segment Business verticals



Source: Ventura Research, Company

➤ **Infrastructure Development business:**

In the Infrastructure development business, IRCON develops and maintains railways and roads on a BOT basis. As of 31st March 2018, it had completed a project of 115 km in India. This completed project is on a toll basis where profit is realized largely by toll collection during the concession period. To drive development in less connected areas, the Government of India has adopted the "hybrid annuity" mode, where the Government of India shares a portion of the total project costs, thereby freeing up developers' capital tied-up in one project for investment.

Key Investment Highlights:

Operations in diverse sectors in many countries:

Since incorporation, IRCON has diversified into various infrastructure sectors and is now an established player in the field of railways and highway construction. The variety of its project types diversifies the company's construction business and reduces its dependence on any one sector or type of project. Additionally, with its broad range of clients within the government and private sectors, both domestic and international, the company is not overly dependent on a limited number of clients. With respect to geographically diversified business operations, IRCON 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. A significant number of projects have been implemented through special purpose vehicles formed for the respective projects; IRCON has a controlling interest in all its subsidiaries. These subsidiaries enter into concession agreements with other agencies and generate revenue.

Strong Financial performance and Credit Control:

The company has a strong credit profile that includes non-fund based standby bank limits of Rs.3,120.0 crores, out of which Rs.1,664.77 crores has been utilized. As of March 31, 2018, the financial profile of the Company was characterized by healthy profitability margins and a comfortable liquidity position. A stable business model during the last three fiscal years ended March 31, 2018 contributed significantly to IRCON's financial strength. According to CARE, credit rating for long- and short-term borrowing has been maintained at AAA/A+ since 2011. Working capital requirements for the projects is principally met through client advances as well as internal accruals, supported predominately by business growth and capability to execute large and complex projects in difficult terrains and territories.

Visible growth through robust order book and steady execution:

An order book is considered an indicator of future performance since it represents a portion of anticipated future revenue. The Order Book as of March 31, 2018 was Rs.22,406.79 crores which translates into approximately six times the total operating revenue in Fiscal Year 2018. IRCON's Order Book for the last three fiscal years ended on March 31, 2018 was Rs.17,568.86 crores, Rs.18,878.39 crores and Rs.22,406.79 crores, respectively, with railways projects and highways projects continuing to be the core areas of operations, contributing over 90% of its revenue throughout these periods.

Qualified and experienced employees and proven Management team:

IRCON International Ltd. has a qualified and trained workforce to take on large-scale projects with demanding timelines on deliverables. As of March 31, 2018, the senior management team includes Key Management Personnel, with an average of 27 years of experience and association for an average of nine years. The skillsets of employees give flexibility to adapt to the needs of its clients and the technical requirements of various projects that are being undertaken.

Issue Structure & Valuation

The proposed IRCON International Ltd issue size is of Rs. 465.5– 470.49 crore. An aggregate of up to 9,905,157 equity shares by way of an Offer for Sale by existing shareholders is being offered which shall constitute 10.53% of the post offer paid-up equity share capital. The price band for the issue is Rs. 470 per share (lower price band) to Rs 475 per share (upper price band).

Category	No. of shares Offered	% of Shares Offered
Employee Reservation	500000	5%
QIB	4702578	48%
Non institutional Bidders	1410774	14%
Retail	3291805	33%
Total	9905157	100%

The valuation on a trailing basis works out to 11.2x and 11.3x FY18 P/E on the lower and upper band of Rs 470 and Rs 475, respectively. We recommend a SUBSCRIBE.

SWOT ANALYSIS:

<p>STRENGTH</p> <ul style="list-style-type: none"> ➤ Construction business operates in diverse sectors in many countries. ➤ Backed by Indian Railways. ➤ Robust Order book and contract Management. ➤ Use of Innovations in designs and advanced technology. ➤ Strong Financial performance and credit profile. 	<p>WEAKNESS</p> <ul style="list-style-type: none"> ➤ The company has to compete with large players, which operate in several sectors including roads and irrigation, and with small unorganized players. ➤ Modest scale of operations.
<p>OPPORTUNITY</p> <ul style="list-style-type: none"> ➤ High-Speed Rail Corporation set up by Indian Railways for implementing Mumbai-Ahmedabad high-speed rail corridor under Japanese funding may afford business opportunities in the railway sector. ➤ Indian Railways has decided to electrify 24,400 km track by 2020-21 under 'Mission Electrification'. IRCON has been awarded the electrification work of 'Mathura-Kasganj -Kalyanpur' and 'Katni-Singrauli' 	<p>THREAT</p> <ul style="list-style-type: none"> ➤ Growing domestic companies in rail infrastructure pose as competition to IRCON. ➤ International business comes with a set of risks such as host country policy, competition, increasing cost of doing international business, etc.

Profit & Loss (Rs. in crore)

Particulars	FY15	FY16	FY17	FY18
Revenue				
Revenue from Operations	2886.4	2388.7	2977.4	4001.1
Add: Company share in JV	88.6	103.9	89.9	26.3
Other income	257.4	415.9	234.0	184.8
Total Revenue	3232.4	2908.5	3301.3	4212.2
Expenses				
Operating Expenses	2027.8	1923.5	2490.6	3287.9
Employee benefit cost	194.3	180.6	156.0	238.8
Other Expenses	30.7	26.8	36.6	41.9
Proportionate share of expenses in joint operations	86.2	97.2	56.3	9.4
Finance Cost	28.7	43.2	58.6	64.5
Depreciation & Amortisation	22.0	30.8	26.6	16.4
Total expenses	2389.7	2302.1	2824.7	3658.9
Profit before share of profits & Exceptional items.	842.7	606.4	476.6	553.3
Exceptional Income / Expenses	0	0	73.6	0
Share in profit & loss of JV	-7.8	5.4	5.6	5.1
PBT	834.9	611.8	555.8	558.4
Tax expense	271.5	218.4	171.5	146.7
PAT	563.4	393.4	384.3	411.7

Source: Ventura Research, Company

Balance sheet (Rs. in crore)

Particulars	FY15	FY16	FY17	FY18
EQUITY AND LIABILITIES				
Shareholder's Funds				
Share Capital	19.7	19.7	98.9	94.1
Other Equity	3433.5	3619.1	3717.9	3667.7
Sub-Total	3453.2	3638.8	3816.8	3761.8
Minority Interest	21.2	21.8	19.6	0.0
Total Equity	3474.4	3660.6	3836.4	3761.8
Non Current Liabilities				
Borrowings	0.0	0.0	0.0	3203.0
Trade Payables	8.2	5.6	0.5	0.5
Other Financial liabilities	97.1	161.3	210.1	321.5
Provisions	338.4	149.7	76.2	75.3
Other Non-current liabilities	82.7	914.3	1745.4	914.9
Sub-Total	526.4	1230.9	2032.2	4515.2
Current Liabilities				
Trade Payables	442.5	400.3	360.6	510.0
Other Financial liabilities	633.9	604.1	703.9	947.0
Other current liabilities	993.3	1826.2	1976.1	2764.5
Provisions	327.6	354.2	298.0	265.4
Current tax liability	122.3	62.5	23.8	14.1
Total Current Liabilities	2519.6	3247.3	3362.4	4501.0
Total Equity & Liabilities	6520.4	8138.8	9231.0	12777.9
ASSETS				
Non- Current Investments				
Property, Plant & equipent	161.9	156.3	145.6	140.5
Capital work in progress	1.1	1.4	1.9	3.1
Investment property	270.3	278.1	307.3	358.6
Other intangible assets	72.1	71.9	71.4	69.1
Intangible assets under devel	15.1	73.8	546.5	960.5
Investments	173.5	349.4	530.9	567.7
Loans	128.6	60.6	78.9	39.6
Others	53.0	49.8	101.3	2736.6
Deferred tax assets	267.5	211.6	145.0	133.8
Other Non-current assets	245.3	249.4	403.6	141.0
Total Non- current assets	1388.4	1502.3	2332.4	5150.5
Current Assets				
Inventories	114.4	140.6	139.3	140.7
Investments	68.3	138.0	249.9	216.1
Trade Recievables	471.7	510.0	472.8	693.7
Cash & cash equivalents	1321.2	2590.6	1453.7	1574.0
Bank Balance	2057.7	2131.3	3299.3	3116.4
Loans	20.4	1.7	80.2	1.9
Others	656.6	684.5	669.1	726.8
Current Tax assets	18.4	19.1	5.5	40.6
Other current assets	403.1	420.6	528.3	1116.5
Total Current Assets	5131.8	6636.4	6898.1	7626.7

Source: Ventura Research, Company

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