

IRCON INTERNATIONAL LIMITED - IPO RECOMMENDATION – SUBSCRIBE



Focus And Strength Deeply Rooted In The Railways Sector

The company has a robust order book, translating _into approximately 6 times FY 2018 revenues. The company has a rich legacy and strong execution track record

Over the next 4 years, the construction opportunity in Railways is expected to double

Incorporated in 1976 by the Ministry of Railways, Government of India (MoR), Ircon International (Ircon) is an integrated engineering and construction company specializing in major infrastructure projects, including, railways, highways, bridges, flyovers, tunnels, aircraft maintenance hangars, runways, EHV (extra high voltage) sub-stations, electrical and mechanical works, commercial and residential properties, development of industrial areas, and other infrastructure activities. The company provides EPC (engineering, procurement and construction) services on a fixed-sum turnkey basis as well as on an item-rate basis for various infrastructure projects. IRCON also executes on build, operate and transfer (BOT) mode in various projects. Ircon enjoys Miniratna (Category – I) status. 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.



Company's primary focus and strength is deeply rooted in the Railway sector. In the railway construction business, Ircon is a turnkey construction company that specializes in new railway

lines, rehabilitation/conversion of existing lines, station buildings and facilities, bridges, tunnels, signalling and telecommunication, and railway electrification. Revenue from railway projects accounted for 77.12%, 68.26% and 68.95% of the total revenue from operation for FY 2016, FY 2017 and FY 2018, respectively.

Apart from Railways, the company is also engaged in construction of highways and roads in accordance with international standards, both in India and abroad. Ircon also provide services to cover various activities including construction of different types of buildings, for example, commercial, industrial, institutional and residential buildings, airport hangars, station buildings and hospitals, as well as provide services such as electrification and plumbing. Apart from that the company also provides services in signalling and telecommunication, solar energy generation, and wastewater treatment plants. Overall more than 95% of the company's business is from construction including railway construction and construction of highway and roads and rest from infrastructure development.



As of March 31, 2018, Ircon had an order book of Rs.22406.79 crore. 86% of total order book is from Railway sector, 5.7% from Highways, 5.4% from Electrical works and rest 2.2% from building sector. 93% of the total order book is from domestic market and rest is from exports.

Investments in key segments such as new lines, gauge conversion, doubling, track renewals, and electrification will account for Rs 2.3 trillion (73%) of the construction opportunity during FY 2019-2022 with doubling accounting for the highest share at 31% during this period.

A fundamental aspect of company's business strategy is to gradually transform from a construction company to a diversified company having a portfolio of BOT, HAM and EPC and other contracts as well as project development and operations.

The company is headquartered in New Delhi and having overseas office in Malaysia. Additionally, they have 26 project offices in India and abroad including in Sri Lanka, Bangladesh, South Africa and Algeria and five regional offices to support and manage their business operations.

The Offer and the Objects

The offer comprises offer for sale by the government of India of 99.05 lakh shares, which at lower price band of Rs 470 per share, works out to Rs 465.54 crore and at higher price band of Rs 475, the issue size works out to Rs 470.49 crore. The minimum bid lot is 30 equity shares and in multiples of 30 equity shares. The objects of the issue is to carry out the divestment program of the government of India apart from the benefits of listing the equity shares on the BSE and the NSE and to enhance its visibility and brand image and provide liquidity to its existing shareholders. Government of India will hold 89.2% of total paid up equity share capital of the company post listing.

Strengths

Ircon has rich experience in executing major railway and road projects, both internationally and domestically. As per the planning commission, Railways will see an investment of around Rs 4.9 trillion in 13th Plan (till FY 2022) as compared to Rs 2.4 trillion in 12th plan which ended in FY 2017. CRISIL Research expects the investments in railway sector to increase by about 77% from Rs 3.9 trillion in fiscals 2015-2018 to Rs 6.8 trillion in fiscals 2019-2022. A significant increase in investments in the railway sector, especially by the government, will benefit the order book and earnings of Ircon. The company has a healthy order book position which translates into approximately 6 times FY 2018 revenues. The company has low working capital requirements (less than a month) and gets 30% advance for all railway projects. (However accrued interest from unused amount is plugged back to clients).

The company follows a dividend distribution policy of 30% of PAT or 5% of net worth, whichever is higher, for its dividend distribution in a particular year. The average payout of dividend over past five years has been more than 40% of profits.

Weaknesses

Is significantly dependent on Indian Railways and government policies and any change in decisions by MoR including scope of work, presence in geographical reach etc can significantly affect the revenues. The government has significant influence over its operation, restricting the company's ability to manage its business. Announcements by the government increasing salary and allowances of government and public sector employees will increase the expenses and may adversely affect the financial condition in the years of implementation.

Valuation

The company earned high profit margins during FY 2013-FY 2015, due to execution of export orders. Since FY 2016, the company is dominantly dependent on execution of domestic railway orders and revenue from foreign projects has fallen significantly. This has led to fall in profit margins and fluctuations in revenue and profit over the last five years.

For FY 2018, consolidated net sales were up 31% to Rs 4027.51 crore. The OPM stood at 11.2% up by 50 bps thus resulting in OP growth of 37% to Rs 449.28 crore. Other income stood at Rs 184.89 crore down by 21%. Interest cost stood at Rs 64.56 crore up by 10%, while depreciation stood at Rs 16.41 crore down by 38%. Thus, PBT stood at Rs 553.20 crore up by 16% YoY. There was an EO income of Rs 73.69 crore on profit on sale of investments in FY 17 as compared to Nil for FY 2018. Thus, PBT after EO for FY 2018 was up by only 1% to Rs 553.20 crore. After paying total tax of Rs 146.78 crore down by 14%, and with share of profit from associates at Rs 5.16 crore, consolidated PAT for FY 2018 stood at Rs 411.58 crore, up by 24%. Cash and cash equivalents stood at Rs 1574 crore (Rs 167 per share).

At higher price band of Rs 475, the P/E on FY 2018 EPS (on current diluted equity of Rs 94.05 crore) of Rs 43.8 works out to 10.9.

Recently listed Rites get its entire business from MoR but is more into services, design and consultancy. While Ircon is mainly in to construction services. Rites reported a consolidated net sales of Rs 1667 crore and PAT of Rs 363 crore and an EPS of Rs 17.4 for FY 2018. At current market price of Rs 268, Rites trades at around 15.4 times its consolidated FY 2018 earnings.

| Ircon International: Issue highlights | |
|--|-------------------|
| Offer for sale (in Rs crore) | |
| - On lower price band | 465.54 |
| - On upper price band | 470.49 |
| Total Issue size for fresh issue (in no of shares in lakhs) | 99.05 |
| Price Band (Rs) | 470-475* |
| Bid size (in no of shares) | 30.00 |
| Post issue share capital (Rs crore) | 94.05 |
| Post-issue Promoter & Group shareholding (%) | 89.2% |
| Issue open date | 17-09-2018 |
| Issue closed date | 19-09-2018 |
| Listing | BSE, NSE |
| *Discount of Rs 10 to retail investors | |

| Ircon International: Consolidated Financials | | | | | | |
|---|-----------------|-----------------|---------------------------|---------------------------|---------------------------|-----------------|
| Particulars | 1303(12) | 1403(12) | 1503(12) & | 1603(12) & | 1703(12) & | 1803(12) |
| Net Sales | 4293.93 | 3897.35 | 2975.07 | 2492.69 | 3067.31 | 4027.51 |
| OPM (%) | 20.8% | 23.5% | 21.4% | 10.6% | 10.7% | 11.2% |
| Operating Profit | 894.62 | 916.73 | 635.79 | 264.36 | 327.52 | 449.28 |
| Other income | 249.23 | 253.42 | 257.43 | 415.95 | 234.04 | 184.89 |
| PBDIT | 1143.85 | 1170.16 | 893.22 | 680.30 | 561.56 | 634.17 |
| Interest | 10.89 | 38.54 | 28.73 | 43.30 | 58.65 | 64.56 |
| Depreciation | 42.98 | 34.27 | 22.05 | 30.90 | 26.68 | 16.41 |
| Profit Before Tax | 1089.98 | 1097.35 | 842.44 | 606.11 | 476.23 | 553.20 |
| Extraordinary Income | 0.00 | 0.00 | 0.00 | 0.00 | 73.69 | 0.00 |
| PBT after EO | 1089.98 | 1097.35 | 842.44 | 606.11 | 549.92 | 553.20 |
| Tax (including Deferred Tax) | 285.61 | 349.14 | 271.55 | 218.49 | 171.54 | 146.78 |
| PAT | 804.37 | 748.22 | 570.89 | 387.62 | 378.38 | 406.42 |
| EPS (Rs)* | 85.6 | 79.4 | 59.9 | 41.8 | 35.4 | 43.8 |
| <p>*EPS is on post issue equity capital of Rs 94.05 crore of face value of Rs 10 each & FY 13 and FY 14 financials are as per Old Ind AS while FY 15, FY 16, FY 17 and FY 18 financials are as per New Ind AS # EPS not annualised due to seasonality of business Figures in crore Source: Capitaline Database</p> | | | | | | |

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