

IL&FS Transportation Networks Ltd

Issue Highlights

- IL&FS Transportation Networks Ltd (ITNL), incorporated in 2000, is a private sector BOT road operator in India involved in the development, operation and maintenance of national and state highways, roads (including urban roads), flyovers and bridges.
- ITNL is a developer, operator and facilitator of surface transportation infrastructure projects, taking projects from conceptualization through commissioning to operations and maintenance. ITNL was instigated by IL&FS, in order to consolidate their existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation infrastructure. In March 2008, the company commenced its international operations through the acquisition of Elsamex S.A. ("Elsamex"), a provider of maintenance services primarily for highways and roads in Spain and other countries.
- ITNL has pan-India presence in the BOT road sector having been involved in projects in Andhra Pradesh, Delhi, Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Kerala and Rajasthan. It has a diverse project portfolio consisting of 17 road projects, comprising approx. 9,397 Lane kms, which includes 4086 Lane kms under operation and maintenance and 5,311 Lane kms under development (of which 1,244 Lane kms under construction). It also is operating and maintaining the Nagpur city bus services on a BOT basis.
- In addition, ITNL is currently developing 11 road projects in the States of Andhra Pradesh, Chhattisgarh, Jharkhand, Kerala, Rajasthan, Maharashtra and Madrid in Spain. Out of these 11 projects, 5 projects are currently in the construction phase and the remaining 6 projects are in the pre-construction phase of development. ITNL has yet to commence the development of 4.9 km track of elevated metro rail link project in Gurgaon (Haryana).
- All of the BOT projects are implemented through special purpose vehicles (SPV's) and these SPV's enter into various types of concession agreements with Government agencies, which enable ITNL to generate revenues from toll receipts and annuities.
- With the Government of India's emphasis on accelerating India's infrastructure development through greater private sector participation by public private partnership (PPP) model, we believe, ITNL, with a strong parentage, established track record in operating toll roads, healthy revenue stream and extensive and advanced execution capabilities stands well equipped to capitalize the growing opportunity in the sector.
- At the price band of Rs.242-258, the stock trades at a P/BV of 3.2-3.3x post dilution. The stock quotes at PE of 22-23.6x its FY10E annualized EPS of Rs.10.9. Looking at the operational efficiency with high growth opportunity in the industry, along side its healthy revenue opportunity augers well for the company, hence we believe ITNL provides a good opportunity for investors and recommend "Subscribe at cut-off" to the issue.

Objects of the issue

Particulars	(Rs. Mn)
	Funds Requirement
<ul style="list-style-type: none"> Funding pre-payment and repayment of a portion of debt availed by our Company General Corporate Purposes 	5000.0 [.]
Total	[.]

Financial Summary (Rs. Mn)

Y/E	Total Income	Chng %	PAT	Chng %	Equity Capital	EPS	BV
FY07	1,887.1	-	513.8	-	1,624.9	3.2	22.0
FY08	3,615.9	91.6	932.6	81.5	1,714.2	5.4	18.7
FY09	12,253.7	238.9	278.8	(70.1)	1,714.2	1.6	19.3
H1FY10	14,361.0	17.2	2,173.4	679.6	1,985.5 *	10.9 [#]	74.8-79

* Post Dilution /# EPS Annualised,

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Issue Details

Issue Size	: Rs.7000mn
Face Value	: Rs.10
Issue Opens on	: 11th March, 2010
Issue Closes on	: 15th March, 2010
Price Band	: Rs.242 - Rs.258
Bid Lot	: 25 shares and in multiples thereof

Lead Managers

Enam Securities Pvt Ltd
JM Financial, Nomura
SBI Capital Markets Ltd &
Aventus Capital Pvt Ltd

Shareholding Pattern (%)

	Pre Issue	Post-Issue
Promoter & Promoter Group	85.1	73.5
Financial Institutions	14.9	18.9
Non-Institutions		3.5
Public	-	4.1

Pattern of Book -Building

	(No. of Shares)
Fresh Issue	22,852,938
Offer for Sale	4,278,844
Total Issue Size	27,131,782*
Issue Break Up:	
QIB Portion (60%)	16,279,069
Non-Institutional (10%)	2,713,178
Retail Portion (30%)	8,139,535

* Calculated at higher price band

COMPANY PROFILE

IL&FS Transportation Networks Ltd (ITNL), incorporated in 2000, is a private sector BOT road operator in India involved in the development, operation and maintenance of national and state highways, roads (including urban roads), flyovers and bridges. ITNL is a developer, operator and facilitator of surface transportation infrastructure projects, taking projects from conceptualization through commissioning to operations and maintenance. ITNL was instigated by IL&FS, in order to consolidate their existing road infrastructure projects and to pursue various new project initiatives in the area of surface transportation infrastructure. In March 2008, the company commenced its international operations through the acquisition of Elsamex S.A. ("Elsamex"), a provider of maintenance services primarily for highways and roads in Spain and other countries.

ITNL has pan-India presence in the BOT road sector having been involved in projects in Andhra Pradesh, Delhi, Gujarat, Maharashtra, Karnataka, Uttar Pradesh, Kerala and Rajasthan. It has a diverse project portfolio consisting of 17 road projects, comprising approx. 9,397 Lane kms, which includes 4086 Lane kms under operation and maintenance and 5,311 Lane kms under development (of which 1,244 Lane kms under construction). It also is operating and maintaining the Nagpur city bus services on a BOT basis.

Projects

Eight of the projects have commenced operations, which include:

- North Karnataka Expressway (from Belgaum, Karnataka to Maharashtra Border),
- West Gujarat Expressway (connecting Jetpur to Rajkot, Gujarat),
- NOIDA Toll Bridge (connecting Delhi to NOIDA),
- Vadodara Halol Toll Road (connecting Vadodara to Halol, Gujarat),
- Ahmedabad Mehsana Toll Road (connecting Ahmedabad to Mehsana, Gujarat)
- Andhra Pradesh Express Highway (Kotakatta to Kurnool)
- Ramky Elsamex Hyderabad Ring Road (Tukkugudu to Shamshabad, Hyderabad) and
- Mega Highways Road Project (comprising 5 road stretches from "Phalodi to Ramji-ki-Gol", "Hanumangarh to Kishangarh", "Alwar to Sikandra", "Baran to Jhalawar" and "Lalsot to Kota" all in the State of Rajasthan)

In addition, ITNL is currently developing 11 road projects in the States of Andhra Pradesh, Chhattisgarh, Jharkhand, Kerala, Rajasthan, Maharashtra and Madrid in Spain. Out of these 11 projects, 5 projects are currently in the construction phase and the remaining 6 projects are in the pre-construction phase of development. ITNL has yet to commence the development of 4.9 km track of elevated metro rail link project in Gurgaon (Haryana).

Through Elsamex, ITNL's primary business includes the maintenance of roads, buildings and petrol stations, mainly in Spain, with additional operations in Portugal in Europe and Columbia and Mexico in South America. Elsamex also provides consulting services for roads and water supply projects in the areas of quality control, safety, health and environment. Additionally, Elsamex conducts research and development for road maintenance projects, with particular focus on bitumen technology.

Project Portfolio

Project Description	Commercial Format	Length (in lane Km)	Main Revenue Source	% Holding by ITNL	
				(Direct & Indirect)	(Beneficial Interest)
Projects Under Operations - Road Sector		3,601			
North Karnataka Expressway Limited Maharashtra Border to Belgaum, Karnataka	BOT	472	Annuity	74.50	19.00
Gujarat Road and Infrastructure Company Limited Vadodara to Halol and Ahmedabad to Mehsana, 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	49.00	51.00
Road Infrastructure Development Company of Rajasthan Limited Multiple Stretches under Mega Highways Project, Rajasthan	PPP	2,106	Toll	-	50.00
Thiruvananthapuram Road Development Company Limited Phase-I Thiruvananthapuram City, Kerala	BOT	51	Annuity	49.93	-
Andhra Pradesh Expressway Limited Kotakatta to Kurnool, Andhra Pradesh	BOT	328	Annuity	49.00	51.00
Ramky Elsamex Hyderabad Ring Road Limited Outer Ring Road, Hyderabad, Andhra Pradesh	BOT	152	Annuity	26.00	-
Projects Under Development - Road Sector		5,274			
Road Infrastructure Development Company of Rajasthan Limited Additional roads under Mega Highways Project, Rajasthan	PPP	476	Toll	-	50.00
Chhattisgarh Highway Development Company Limited Multiple Stretches, Chhattisgarh	BOT	1368	Annuity	-	74.00
Jharkhand Accelerated Road Development Company Limited Multiple Stretches, Jharkhand	BOT	1002	Annuity	-	74.00
East Hyderabad Expressway Limited Hyderabad City - Outer Ring Road, Andhra Pradesh	BOT	173	Annuity	74.00	-
Thiruvananthapuram Road Development Company Limited Phase-II and III Thiruvananthapuram City, Kerala	BOT	107	Annuity	49.93	-
ITNL Road Infrastructure Development Company Limited Beawer to Gomti, Rajasthan	DBFOT	248	Toll	100.00	-
Warora Chandrapur Ballarpur Toll Road Company Chandrapur to Warora to Bamni, Maharashtra	DBFOT	275	Toll	35.00	-
Hazaribagh Ranchi Expressway Limited Hazaribagh to Ranchi, Jharkhand	BOT	319	Annuity	73.88	-
Pune Sholapur Road Development Company Limited* Pune to Sholapur, Maharashtra	DBFOT	571	Toll	99.88	-
Moradabad Bareilly Expressway Limited Moradabad to Bareilly, Uttar Pradesh	DBFOT	522	Toll	100.00	-
International Projects					
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	-
ITNL's Presence in Road Sector (Toll: 6,313 lane Km; Annuity: 3,972 lane Km)				Total 9,397 Lane km	
Other Projects					
Vansh Nimay Infraprojects Ltd. -Nagpur City Bus Transportation Service, Maharashtra	BOO	-	Ticket Receipts	80.00	-
Rapid MetroRail Gurgaon Ltd. (under Development) Gurgaon Metro Link Rail Project, Haryana	Concession	-	Ticket Receipts	70.00	-
Elsamex S.A. - Operating Subsidiary with projects in Europe, Mexico and Latin America covering road maintenance, building maintenance and petrol station concession.	Contracts	Road Maintenance ~21,000 Gas stations ~3,100	Fees	100.00	-

-PPP (Public Private Partnership) / BOT (Build Operate and Transfer) have different mechanisms such as:

- BOO : Build own and operate, - BOOT : Build own operate transfer

- DBFOT : Design, build, finance, operate and transfer

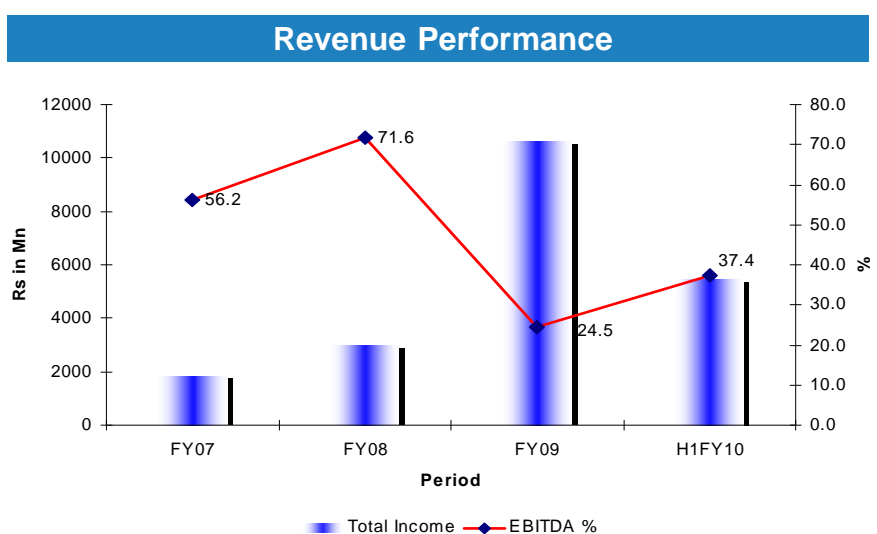
Source: RHP

Financial Performance

For FY09, the company registered substantial rise of 238% in consolidated revenues to Rs.12.3bn (Rs.3.6bn in FY08), EBITDA margins at 24.5%, while the net profits stood at Rs.278.8mn. For H1FY10, the consolidated revenues stood at Rs.9.5bn, with impressive margins at 37.4% and the net profits improving substantially to Rs.1182mn.

ITNL primarily generates revenue from maintenance business and from, annuity receipts, toll collection, operation and maintenance activities and advisory and project management fees from BOT road projects. In addition, the toll receipts are auctioned for certain toll road projects to third parties for twelve-month period in exchange for a fixed fee in order to mitigate the risk of volatility of toll revenues.

All of the BOT projects are implemented through special purpose vehicles (SPV's) and these SPV's enter into various types of concession agreements with Government agencies, which enable ITNL to generate revenues from toll receipts and annuities.



Source: RHP

ISSUE PROFILE

Investment Positives

Healthy revenue stream

ITNL primarily generates revenue from maintenance business, annuity receipts, toll collection, operation and maintenance activities, advisory and project management fees from BOT road projects. In addition, the toll receipts are auctioned for certain toll road projects to third parties for 12 month period in exchange for a fixed fee in order to mitigate the risk of volatility of toll revenues.

Significant competitive advantage

ITNL has established track record for successfully bidding, for developing and operating BOT road projects on a commercial basis. With pan-India presence and a diverse project portfolio consisting of 17 road projects, comprising ~9,397 lane kms in various stages of development, construction & operation, ITNL holds a significant competitive advantage. It has been involved in the development and operation of National and State highways, flyovers, bridges and roads in various parts of India, flagships being Vadodara Halol Toll Road and Noida Toll Bridge.

Strong Parentage

IL&FS, has a track record of promoting and financing public infrastructure projects in India for over 21 years. The shareholders of IL&FS include LIC, Central Bank of India, SBI, HDFC Ltd, Abu Dhabi Investment Authority and Orix Corporation of Japan. Hence ITNL enjoys greater synergy regarding the financing options and to negotiate bilateral contracts with State and Central Government entities.

Quality In-house techniques

ITNL banks on in-house testing methods for a number of our project development, operation and maintenance activities and tests the materials used for the construction of certain projects and those of third parties. Elsamex has a private laboratory in Spain for development and certification of new technologies and quality control.

Investment Concerns

Heavy reliance on Elsamex

Elsamex has been incurring losses over the years and may continue to generate losses further as it primarily does maintenance business which has very thin profit margins on account of relatively high percentage of fixed costs. Moreover, majority of ITNL's revenues are derived from Elsamex, hence any adverse economic condition may hamper the revenue flow.

Dependence on third party contractors & subcontractors

The company relies on sub-contractors & contractors for several projects over the timing & quality of services, facing risk of cost overruns, construction defects and failures to meet scheduled completion dates as the company does not receive any guarantee or indemnities from the contractors for the same.

Business Outlook

With the Government of India's emphasis on accelerating India's infrastructure development through greater private sector participation by public private partnership (PPP) model, we believe, ITNL, with a strong parentage, established track record in operating toll roads, healthy revenue stream and extensive and advanced execution capabilities stands well equipped to capitalize the growing opportunity in the sector.

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Valuation Metrics

(Rs. Mn)

Company	EPS	PE	P / BV (x)	RONW	BV	CMP	Mkt Cap
Gammon Infrastructure	0.4	61.6	2.7	4.0	9.0	24.7	17860.0
IRB Infrastructure	10.2	25.5	4.1	17.2	63.0	260.0	85750.0
IL&FS Transportation Networks	10.9*	22-23.6	3.2-3.3	14.0	74-79	242-258	48048-51225

Source: Bloomberg / Reliance Securities Ltd.
 * Annualised

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COMPANY FINANCIALS

Profit & Loss Statement (Consolidated)

(Rs. In Mn)

Y/E March	H1FY10	FY09	FY08	FY07
Income				
Income from Operations	5,462.8	10,587.2	2,965.9	1,833.3
Construction Contract revenue	4,111.3	1,666.5	650.1	53.8
Total Sales	9,574.0	12,253.7	3,615.9	1,887.1
Total Expenditure	6,213.9	10,320.2	1,785.6	921.6
Operating Profits	3,360.2	1,933.5	1,830.3	965.5
OPM %	35.1	15.8	50.6	51.2
Other Income	221.5	1,066.4	758.6	94.4
EBITDA	3,581.7	2,999.9	2,588.9	1,059.9
EBITDA %	37.4	24.5	71.6	56.2
Interest	1,278.6	1,743.0	1,069.5	214.6
Depreciation	277.1	353.4	76.1	32.9
PBT	2,025.9	903.5	1,443.3	812.4
PAT	1,182.3	278.8	932.6	513.8
NPM %	12.3	2.3	25.8	27.2
EPS	6.9	1.6	5.4	3.2

Balance Sheet Statement (Consolidated)

(Rs. In Mn)

Y/E March	H1FY10	FY09	FY08	FY07
APPLICATION OF FUND				
A. Fixed Assets				
Gross Block	16,061.2	11,163.8	10,393.6	6,566.4
Less: Depreciation	3,122.8	2,631.9	2,221.8	229.2
Net Block	12,938.5	8,531.9	8,171.7	6,337.2
Capital Work in Progress	98.7	81.2	836.2	498.3
Sub – Total	13,037.2	8,613.2	9,007.9	6,835.5
B. Goodwill on Consolidation	2,931.3	2,854.8	2,667.3	1,212.7
C. Investments	1,661.9	2,010.2	2,019.8	1,408.6
D. Toll receivable account	1,898.7	1,898.7	1,898.7	1,898.7
E. Deferred Tax Asset (net)	-	-	5.9	3.2
F. Receivable under service concession	8,515.8	7,317.6	6,469.3	6,238.3
G. Current Assets, Loans & Advances				
Inventories	246.8	245.4	200.2	438.1
Sundry Debtors	7,730.0	7,873.1	8,177.1	706.6
Cash and Bank Balances	1,974.5	1,601.4	1,823.7	773.9
Other Current Assets	929.3	1,027.2	1,067.3	513.8
Loans and Advances	5,549.1	3,435.8	2,542.7	619.8
Sub - Total	16,429.6	14,182.9	13,810.9	3,052.2
H. Total Assets (A+B+C+D+E+F+G)	44,474.49	36,877.32	35,879.78	20,649.1
SOURCES OF FUND				
I. Liabilities and Provisions				
Secured Loans	14,056.8	10,433.7	10,774.7	10,290.0
Unsecured Loans	10,114.5	8,108.3	5,362.7	106.4
Deferred Tax Liability (net)	722.6	647.1	523.3	410.9
Current Liabilities and Provisions	7,531.7	7,249.9	8,451.1	1,068.9
Sub- Total	32,425.6	26,438.9	25,111.8	11,876.2
J. Minority Interest	1,078.3	773.7	762.4	592.0
K. Preference shares issued by subsidiary	350.0	350.0	350.0	350.0
L. Advance towards capital	450.0	453.8	499.0	450.0
M. =(C-D+E)	10,170.6	8,861.0	9,156.7	7,380.9
I. Net Worth				
Represented by				
Share Capital	1,714.2	1,714.2	1,714.2	1,624.9
Reserves & Surplus	8,456.4	7,146.8	7,442.5	5,756.0
Net Worth	10,170.6	8,861.0	9,156.7	7,380.9

Source: RHP

Reliance Securities Limited:

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833

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