INSTITUTIONAL RESEARCH

Construction

4QFY18E Results Preview

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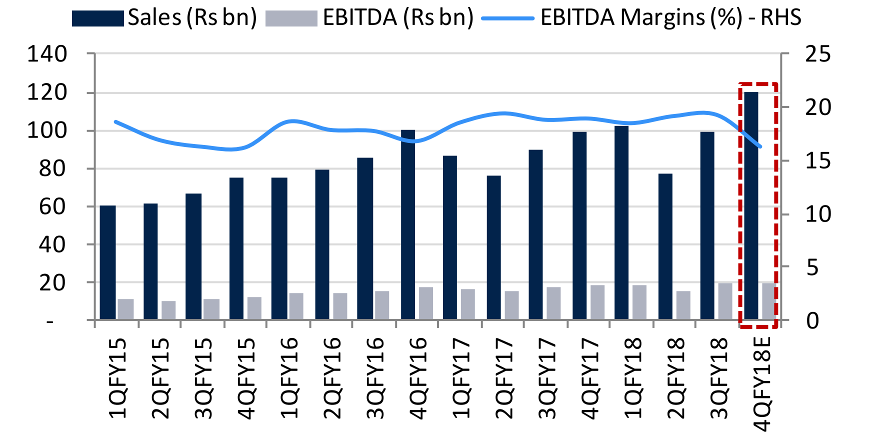
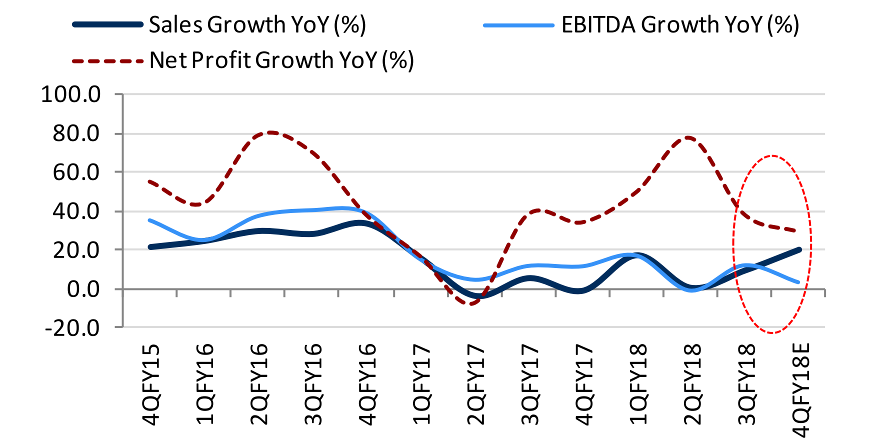
Construction (4QFY18E): Recovery well placed

- **Record ordering in 4QFY18, focus to shift towards execution:** NHAI increased the awarding pace in 4QFY18 post a muted 9MFY18 taking aggregate awards to ~7,400km. With EPC players order backlogs swelling, we expect focus to shift towards execution. NHAI is targeting another ~7,000-8,000km of awards for FY19E with Rs 1.2tn of combined value, order visibility is strong. Besides road, vertical, Buildings segment outlook remains buoyant led by institutional, government and retail/hospitality led spending.
- **EPC companies book to bill comfortable at 4x FY18E revenue:** Our coverage universe book to bill has increased to 4x on FY18E revenues, helped by the accelerated pace of NHAI tendering. We believe the current backlog lends sufficient growth visibility. Net D/E is comfortable at 0.37x (at decade low) and NWC days is stable at 125days.
- **4QFY18E to set tone for recovery, execution key for further re-rating:** We expect aggregate revenue for our coverage universe to grow 19.2% YoY as new order wins have moved into execution. Aggregate EBIDTA is expected to grow 3.4% YoY on back of lower margins in legacy order book and no one-off cost provsions reversals. Aggregate PAT would grow 28.8% led by lower interest rate and MAT benefit. We expect higher double digit YoY earnings recovery for our coverage universe from 4QFY18E and earnings traction is likely to build positively in ensuing quarters. Execution is key for further re-rating.
- **Top Picks:** Ashoka Buildcon, PNC Infra, JKIL & JMC Projects.

Aggregate Earnings Recovery



Aggregate Growth Metrics



Source: HDFC sec Inst Research

4QFY18E: Recovery well placed

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Dilip Buildcon	**GOOD**	▪ We expect 26.7% YoY revenue growth ▪ EBIDTA to grow 11.5% YoY to Rs 4.0bn ▪ Strong PAT growth of 44.2%YoY expected on back of receipt of early completion bonus	▪ Capex and further guidance for FY19E ▪ Commentary on funding equity for HAM ▪ Debt levels
IRB Infra	**AVG**	▪ We expect 21.4% YoY revenue de-growth on de-consolidation ▪ EBIDTA margins to contract 705bps to 43.5%. Higher share from EPC. EBIDTA to de-grow 32.4% YoY ▪ PAT to de-grow 6.9% YoY	▪ Commentary on consolidated debt levels ▪ Financial closure for HAM projects ▪ Update on toll growth
NCC	**GOOD**	▪ Expect revenue growth of 21% YoY ▪ EBIDTA margins to expand 97.7bps YoY to 9.1% ▪ Net profit to grow 7.6% YoY. We have not factored in any exceptional loss on account of real estate monetization	▪ Progress on real estate asset monetisation ▪ Debt levels ▪ Working capital cycle
Sadbhav Engineering	**AVG**	▪ Expect 10.7% YoY revenue growth ▪ EBIDTA margins to expand 82.6bps YoY to 11.4% ▪ PAT to grow 4.5% YoY	▪ Commentary on bidding for elevated Metro projects ▪ Debt levels ▪ HAM financial closure
PNC Infratech	**GOOD**	▪ Expect 95.2% YoY growth in revenues as the entire backlog is on the cusp of moving into execution ▪ Expect EBITDA margin of 13.7% ▪ Net profit to grow 291.1% YoY on the back of increased execution and early completion bonus in Lucknow Ballia of Rs 0.6bn	▪ Financial closure of Jhansi-Khajurao (Pkg I) and Appoined date for Bhojpur Buxar ▪ Updates on BOT monetization plans ▪ Bidding pipeline

4QFY18E: Recovery well placed

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Ashoka Buildcon	**AVG**	▪ We expect revenue growth of 26.3% YoY ▪ Expect EBIDTA margins of 12.2% (+181bps YoY) ▪ PAT to decline 11% YoY on higher taxes	▪ EPC order intake ▪ Toll collection growth ▪ Update on financial closure of HAM projects
KNR Constructions	**AVG**	▪ We expect 3.6% YoY revenue growth ▪ Expect EBIDTA margins of 19.4% as impact of provision reversals expected in 4QFY18E as well ▪ Net profit to decline 13.9% YoY on higher taxes lower OI	▪ Order intake ▪ Commentary on further bidding in HAM projects ▪ BOT assets monetization
ITD Cementation	**GOOD**	▪ We expect revenue growth of 12% YoY ▪ EBIDTA margins to decline by 343.5bps YoY to 11.1% ▪ APAT to grow 103.1% YoY on addition of associate profits	▪ Updates on Bangalore and Mumbai metro projects ▪ Commentary on bidding in marine/ irrigation segment ▪ Management outlook on bidding for HAM projects
Ahluwalia Contracts	**GOOD**	▪ We expect revenue decline of 2.1% YoY ▪ EBIDTA margins to expand 444bps YoY to 13.6% ▪ APAT to grow 59.9% YoY	▪ Comments on bidding pipeline and competitive intensity in building segment ▪ Update on margin trajectory
J Kumar Infraprojects	**GOOD**	▪ We estimate 98.7% YoY revenue growth driven by Metro and JNPT projects ▪ EBIDTA margins may decline by 145bps YoY and rationalize to 15.5% ▪ APAT to grow 38.4% YoY	▪ Revenue from MRTS projects ▪ New order inflow guidance ▪ Debt levels and status of pending Rs 1bn mob. adv. for line 3

4QFY18E: Recovery well placed

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
JMC Projects	**GOOD**	▪ Expect 10.2% YoY growth in revenues driven by buildings segment ▪ Expect EBITDA margin of 10.1% ▪ Net profit to increase 53.4% YoY	▪ Commentary on restructuring in BOT projects and estimated loss funding ▪ Update on L1 status in international infra projects ▪ Guidance on debt levels
PSP Projects	**GOOD**	▪ We expect 52.2% QoQ revenue growth on recognition from SDB project ▪ Expect EBIDTA margins of 11.1% ▪ Net profit to grow 22.5% QoQ to Rs 0.2bn	▪ Execution pace in the SDB project ▪ Commentary on bidding pipeline ▪ Update on fund receipts from SDB

4QFY18E: Financial summary

COMPANY	NET REVENUES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q FY18E	*QoQ (%)*	*YoY (%)*	4Q FY18E	*QoQ (%)*	*YoY (%)*	4Q FY18E	*QoQ (bps)*	*YoY (bps)*	4Q FY18E	*QoQ (%)*	*YoY (%)*	4Q FY18E	2Q FY18	3Q FY17
Dilip Buildcon	22.18	*14.2*	*26.7*	3.96	*14.7*	*11.5*	17.8	*8.1*	*(243.7)*	2.82	*71.5*	*44.2*	20.6	*12.0*	*14.3*
IRB Infra Developers*	12.79	*(1.3)*	*(21.4)*	5.56	*(11.9)*	*(32.4)*	43.5	*(518.3)*	*(705.4)*	1.92	*(7.5)*	*(6.9)*	5.5	*5.9*	*5.9*
NCC	25.89	*39.9*	*21.0*	2.36	*(7.5)*	*35.5*	9.1	*(467.2)*	*97.7*	1.20	*(8.4)*	*7.6*	2.0	*2.2*	*1.8*
Sadbhav Engineering	11.43	*22.2*	*10.7*	1.31	*23.7*	*19.3*	11.4	*13.3*	*82.6*	0.71	*34.0*	*4.5*	4.2	*3.1*	*4.0*
PNC Infratech	6.84	*44.8*	*95.2*	0.94	*41.6*	*98.0*	13.7	*(30.9)*	*19.2*	1.33	*206.6*	*291.1*	5.2	*1.7*	*1.3*
Ashoka Buildcon	7.71	*17.0*	*26.3*	0.94	*18.5*	*48.2*	12.2	*16.1*	*180.6*	0.59	*12.8*	*(11.0)*	3.1	*2.8*	*3.5*
KNR Constructions	5.00	*15.3*	*3.6*	0.97	*(1.7)*	*34.0*	19.4	*(335.3)*	*438.1*	0.45	*(31.4)*	*(13.9)*	3.2	*4.7*	*3.7*
ITD Cementation *	5.86	*2.0*	*12.0*	0.65	*(17.1)*	*(14.4)*	11.1	*(255.2)*	*(343.5)*	0.31	*(21.7)*	*103.1*	1.8	*2.3*	*0.9*
Ahluwalia Contracts	4.62	*28.0*	*(2.1)*	0.63	*0.5*	*45.6*	13.6	*(371.2)*	*443.9*	0.33	*11.9*	*59.9*	4.9	*4.3*	*3.0*
J. Kumar Infraprojects	7.06	*54.5*	*98.7*	1.09	*40.7*	*81.7*	15.5	*(151.4)*	*(145.0)*	0.36	*10.2*	*38.4*	4.8	*4.4*	*3.5*
JMC Projects	7.61	*7.7*	*10.2*	0.77	*9.1*	*30.9*	10.1	*12.7*	*159.3*	0.27	*15.5*	*53.4*	8.2	*7.1*	*5.3*
PSP Projects	2.60	*52.2*	*N.A*	0.29	*9.2*	*N.A*	11.1	*(438.6)*	*N.A*	0.19	*22.5*	*N.A*	5.2	*4.2*	*NA*
Aggregate	**119.60**	***21.3***	***19.2***	**19.46**	***2.6***	***3.4***	**15.6**	***(295.8)***	***(248.3)***	**10.47**	***22.2***	***28.8***			

Source: Company, HDFC sec Inst Research *Consolidated, ITD Cementation numbers are for 1Q15MFY19E

4QFY18E: Financial summary

Company	Old Rating	New Rating	Previous TP (Rs/sh)	New TP (Rs/sh)
Dilip Buildcon	BUY	BUY	1,449.0	1,449.0
IRB Infra Developers	BUY	BUY	313.0	313.0
NCC	BUY	BUY	155.0	155.0
Sadbhav Engineering	BUY	BUY	445.0	445.0
PNC Infratech	BUY	BUY	248.0	248.0
Ashoka Buildcon	BUY	BUY	348.0	348.0
KNR Constructions	BUY	BUY	364.0	364.0
ITD Cementation	BUY	BUY	211.0	211.0
Ahluwalia Contracts	BUY	BUY	486.0	486.0
J. Kumar Infraprojects	BUY	BUY	420.0	420.0
JMC Projects	BUY	BUY	842.0	842.0
PSP Projects	BUY	BUY	625.0	625.0

Source: HDFC sec Inst Research

4QFY18E: Peer Valuation

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Dilip Buildcon	156.0	1,141	BUY	1,449	50.1	63.1	68.6	22.8	18.1	16.6	13.2	10.1	8.1	31.2	29.1	24.2
IRB Infra Developers*	95.6	272	BUY	313	24.8	26.9	24.0	11.0	10.1	11.3	8.8	8.2	8.6	15.6	15.0	12.1
NCC	76.3	127	BUY	155	6.8	6.2	8.1	18.6	20.4	15.7	12.1	9.9	8.3	10.0	8.0	9.5
Sadbhav Engineering	68.4	399	BUY	445	12.4	15.8	16.2	32.1	25.2	24.6	12.7	10.5	8.4	11.5	12.9	11.8
PNC Infratech	45.2	176	BUY	248	4.7	7.6	10.4	37.4	23.2	16.9	12.7	8.8	6.7	7.2	10.3	12.8
Ashoka Buildcon *	49.6	265	BUY	348	2.2	7.6	8.6	120.4	34.8	30.8	10.0	9.3	7.9	2.5	8.3	8.8
KNR Constructions	41.9	298	BUY	364	15.1	12.9	13.9	19.7	23.1	21.5	9.7	9.6	7.9	21.1	14.9	13.7
ITD Cementation *	28.3	165	BUY	211	6.1	10.0	11.7	27.0	16.5	14.1	11.8	8.1	7.1	16.2	19.8	16.5
Ahluwalia Contracts	27.3	407	BUY	486	17.5	21.5	24.6	23.3	18.9	16.5	11.3	9.5	8.2	20.7	20.7	19.4
J. Kumar Infraprojects	21.5	284	BUY	420	15.6	23.4	28.0	18.2	12.1	10.2	7.9	5.6	5.1	8.4	11.7	12.7
JMC Projects	21.5	640	BUY	842	29.1	33.9	40.5	22.0	18.9	15.8	8.7	7.5	6.4	13.3	13.6	14.3
PSP Projects	19.3	536	BUY	625	16.7	27.7	35.5	32.1	19.3	15.1	18.8	11.1	8.3	28.4	28.0	28.4
Average					**16.1**	**20.5**	**23.2**	**34.6**	**22.6**	**19.7**	**11.8**	**9.3**	**7.9**	**14.9**	**15.5**	**14.9**

Source: Company, HDFC sec Inst Research * Consolidated, ITD Cementation FY18E/FY19E should be read as CY17/15MFY19E

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	:	Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

Disclosure:

We, **Parikshit D Kandpal, MBA & Kunal Bhandari, ACA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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