

June 27, 2020

Q4FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	205		205	
Sales (Rs. m)	42,498	59,782	45,734	59,001
% Chng.	(7.1)	1.3		
EBITDA (Rs. m)	5,801	8,519	6,243	8,880
% Chng.	(7.1)	(4.1)		
EPS (Rs.)	11.6	19.1	12.4	19.0
% Chng.	(6.2)	0.1		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	30,969	48,779	42,498	59,782
EBITDA (Rs. m)	4,573	7,643	5,801	8,519
Margin (%)	14.8	15.7	13.7	14.3
PAT (Rs. m)	3,249	4,603	2,972	4,889
EPS (Rs.)	12.7	17.9	11.6	19.1
Gr. (%)	29.4	41.7	(35.4)	64.5
DPS (Rs.)	0.5	0.9	0.6	1.0
Yield (%)	0.4	0.6	0.4	0.7
RoE (%)	16.6	19.7	11.1	16.0
RoCE (%)	16.3	24.3	14.9	19.8
EV/Sales (x)	1.2	0.6	0.8	0.6
EV/EBITDA (x)	8.0	4.0	5.9	4.0
PE (x)	11.0	7.8	12.0	7.3
P/BV (x)	1.7	1.4	1.3	1.1

Key Data

PNCL.BO | PNCL IN

52-W High / Low	Rs.219 / Rs.80
Sensex / Nifty	35,171 / 10,383
Market Cap	Rs.36bn / \$ 472m
Shares Outstanding	257m
3M Avg. Daily Value	Rs.37.1m

Shareholding Pattern (%)

Promoter's	56.07
Foreign	6.37
Domestic Institution	23.81
Public & Others	13.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	35.4	(27.7)	(31.3)
Relative	17.8	(15.3)	(22.6)

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Stellar execution, healthy revenue visibility

Quick Pointers:

- PNCL bagged three HAM projects worth ~Rs52bn in 4QFY20, substantially improving the revenue visibility over next two-three years.
- Construction activities resumed at all major project sites with 70-80% labour availability; Toll collection already at 80-90% pre-covid levels.
- Deal with Cube Highways for 35% stake sale in Gaziabad-Aligarh has been cancelled; Discussions with other prospective investors at advanced stage.

PNCL posted a strong operating performance in 4QFY20 with revenues up 7.6% and EBITDA margins stable at 13.5%, despite more than 10 days of revenue loss due to nationwide lockdown. Post relaxation in lockdown towards April'20 end, construction activity resumed across its project portfolio at ~75% efficiency levels with 70-80% (largest among its peers) labour availability. Toll collection have also recovered to 80-90% pre-covid levels led by pick up in commercial traffic, witnessed across its BOT portfolio. Management expects labour uncertainties to persist until monsoon and expects the execution to pick up pace from 2HFY21.

PNCL remains as one of our preferred pick in the road infra space given its 1) healthy order book (Rs86.3bn as at 4QFY20), 2) stellar execution pace with most projects getting completed within stipulated time (fetching early completion bonus of Rs1,095mn in FY20), 3) stable EBITDA margins (14-15%) 4) comfortable debt-equity ratio of 0.2x. At CMP, the stock trades at a P/E of 12x/7.3x on FY21E/FY22E EPS and is trading at an EV of 5.9x/4x FY21E/FY22E EBITDA. We maintain BUY rating on the stock with a TP of Rs205.

Robust revenues with strong margins: PNCL reported a 7.6% YoY rise in revenues to Rs11.6bn (above PLe of Rs9.1bn), led by strong execution in its HAM & large ticket size EPC projects. EBITDA increased by 3.4% YoY to Rs1,563mn, while EBITDAM came at 13.5% (above our estimates of 10.8%), on the back of better operating performance. On the bottom-line, PNCL reported a PAT of Rs761mn (vs PLe Rs308mn), indicating a fall of 46% YoY, led by higher finance cost, which grew 63% YoY to Rs316mn. During FY20, PNCL received bonus for early completion amounting to ~Rs1,095mn.

Strong order book; Healthy order inflows: PNCL's order book in 4QFY20 stands at Rs86.3bn (excluding EPC value of ~Rs70bn in five HAM projects where AD is pending/ recently received LoA). Including these projects order-book-to-sales stands strong at 3.2x trailing revenues, giving comfortable revenue visibility for next 2-3 years. Given healthy bid pipeline from NHAI (~60 projects out for bidding from July'20 to Oct '20), the company targets order inflows of ~Rs70bn in FY21E primarily in EPC mode.

Exhibit 1: Quarterly Financials (Standalone): Strong execution with stable margins support profitability (Rs mn)

Y/e March	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	10,757	13,218	11,802	12,180	11,579	7.6	(4.9)	48,779	30,969	57.5
Total Revenues	10,757	13,218	11,802	12,180	11,579	7.6	(4.9)	48,779	30,969	57.5
Expenditure	9,245	11,422	9,230	10,468	10,016	8.3	(4.3)	41,136	26,395	55.8
<i>as % of sales</i>	<i>85.9</i>	<i>86.4</i>	<i>78.2</i>	<i>85.9</i>	<i>86.5</i>			<i>84.3</i>	<i>85.2</i>	
Consumption of RM	7,342	9,429	7,595	8,460	8,225	12.0	(2.8)	33,710	21,140	59.5
<i>as % of sales</i>	<i>68.2</i>	<i>71.3</i>	<i>64.4</i>	<i>69.5</i>	<i>71.0</i>			<i>69.1</i>	<i>68.3</i>	
Employee Cost	544	591	583	853	623	14.6	(27.0)	2,651	1,923	37.8
<i>as % of sales</i>	<i>5.1</i>	<i>4.5</i>	<i>4.9</i>	<i>7.0</i>	<i>5.4</i>			<i>5.4</i>	<i>6.2</i>	
Other expenditure	1,360	1,402	1,051	1,154	1,168	(14.1)	1.2	4,775	3,333	43.3
<i>as % of sales</i>	<i>12.6</i>	<i>10.6</i>	<i>8.9</i>	<i>9.5</i>	<i>10.1</i>			<i>9.8</i>	<i>10.8</i>	
EBITDA	1,512	1,796	2,572	1,712	1,563	3.4	(8.7)	7,643	4,573	67.1
Depreciation	282	305	309	326	324	14.7	(0.9)	1,264	922	37.0
EBIT	1,230	1,491	2,263	1,386	1,240	0.8	(10.5)	6,379	3,651	74.7
Other Income	123	135	447	144	159	30.1	11.1	885	430	105.6
Interest	194	179	247	401	316	63.1	(21.2)	1,144	641	78.5
PBT	1,158	1,447	2,463	1,128	1,083	(6.5)	(4.0)	6,120	3,440	77.9
Total Tax	-241	445	394	356	322	(233.5)	(9.7)	1,517	191	693.1
Adjusted PAT	1,399	1,001	2,069	771	761	(45.6)	(1.4)	4,603	3,249	41.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	NA
PAT after MI	1,399	1,001	2,069	771	761	(45.6)	(1.4)	4,603	3,249	41.7
Extra ordinary items	0	0	0	0	0	0.0	0.0	0	0	0.0
Reported PAT	1,399	1,001	2,069	771	761	(45.6)	(1.4)	4,603	3,249	41.7
Adjusted EPS	5.5	3.9	8.1	3.0	3.0	(45.6)	(1.4)	17.9	12.7	41.7
						<i>bps</i>	<i>bps</i>			<i>bps</i>
EBIDTA	14.1	13.6	21.8	14.1	13.5	(55.5)	(55.7)	15.7	14.8	90.1
EBIT	11.4	11.3	19.2	11.4	10.7	(72.6)	(67.2)	13.1	11.8	128.9
EBT	10.8	10.9	20.9	9.3	9.3	(141.8)	8.9	12.5	11.1	143.7
PAT	13.0	7.6	17.5	6.3	6.6	(643.8)	23.7	9.4	10.5	(105.5)
Effective Tax rate	(20.8)	30.8	16.0	31.6	29.7	5054.4	(187.9)	24.8	5.6	1923.0

Source: Company, PL

Exhibit 2: SOTP Valuation

Particulars	Segment	Driver	PNC's share	Multiple	Value (Rs mn)	Value per share (Rs)	Proportionate (%) of value / share	Basis
PNC's construction business	Construction	4,889	100	10	48891	190.6	93.0%	10x on FY22 earnings
BOT								
Ghaziabad Aligarh	Toll	1181	35%	1.1	454.7	1.8	0.9%	Based on P/B multiple
Kanpur Kabrai	Toll	675	100%	0.8	540.0	2.1	1.0%	Based on P/B multiple
Gwalior Bhind	Toll	783	100%	0.8	626.4	2.4	1.2%	Based on P/B multiple
Bareilly Almora	Toll	746	100%	0.8	596.8	2.3	1.1%	Based on P/B multiple
Rae Bareli Jaunpur	Annuity	1396	100%	0.8	1116.8	4.4	2.1%	Based on P/B multiple
Narela Industrial	Annuity	350	100%	1	350.0	1.4	0.7%	Based on P/B multiple
Target Price						205	100%	

Source: Company, PL

Exhibit 3: Key Assumptions

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E
Order inflow	15,311	37,956	79,889	12,969	90,785	99,864
Revenues	16,891	18,566	30,969	48,779	42,498	59,782
Order book	53,790	73,180	1,22,100	86,290	1,34,577	1,74,658
Execution cycle (%)	24%	20%	20%	36%	24%	26%
Ob to sales (x)	3.2	3.9	3.9	1.8	3.2	2.9

Source: Company, PL

Concall Highlights

- The company expects a healthy bid pipeline from NHAI in FY20 with ~60 projects to be awarded between July'20 to Oct'20. Given a strong bid pipeline, the company expects order inflows of ~Rs70bn primarily in EPC mode.
- As at 4QFY20, order book stood healthy at ~Rs86.3bn (excluding EPC value of ~Rs70bn in HAMs project where AD is pending/ recently received LoA). Including these projects, order-book-to-sales look strong at 3.2x, giving comfortable revenue visibility for next 2-3 years.
 - The company bagged 3 HAM projects in 4QFY20: Unnao-Lalganj (Rs16bn), Jagdishpur - Faizabad (Rs15.3bn), Aligarh- Kanpur Pkg V (Rs20.5bn) and 1 HAM project in June'20: Meerut-Nazibabad (Rs14.1bn). Land acquisition for these projects stands at ~80% and company expects to receive AD by Q3FY21E.
 - NHAI is yet to acquire full land (80% already acquired) for Challakere-Hariyur HAM project and management expects to receive AD in 1 month.
- During FY20, company received ~Rs1,095mn as bonus for early completion in its projects.
- Gross debt stood at Rs3.3bn on standalone basis which comprises of equipment loan. Cash & Cash equivalents is ~Rs7.4bn making it a net cash company as on 4QFY20.
- PNCL infused a total equity of Rs4.4bn till date for its 7 under-construction HAM projects and is expected to infuse further equity of ~Rs4bn over the next two-three years. Additionally, 4 new HAM projects would require ~Rs6bn of equity. The company' incremental equity infusion would be Rs2.8mn/ Rs3.8bn/ Rs1.8bn in FY21E/ 22E/ 23E respectively.
- Post relaxation in lockdown and resumption of construction activities towards end of April 2020, all major projects restarted and are currently operating at ~70-75% efficiency levels.
 - Labour availability at the project sites stands at ~70-80% levels, however labour uncertainties still persist. The company expects full labour force to return and operations to reach pre-covid execution levels post-monsoon.
- Toll collection was resumed towards end of Apr'20 and have already reached 80-90% pre-covid levels on the back of strong commercial traffic.
 - Toll collections from its BOT projects for Q4FY20 - Ghaziabad-Aligarh(Rs490mn), MP Highways (Rs108mn), Kanpur highway (Rs90mn), Bareilly-Almora (Rs99mn).
- The company incurred capex of Rs1,094mn in FY20 and further plans to incur capex of ~Rs700-750mn for FY21E.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	30,969	48,779	42,498	59,782
YoY gr. (%)	66.8	57.5	(12.9)	40.7
Cost of Goods Sold	14,593	23,466	19,910	28,247
Gross Profit	16,376	25,313	22,588	31,535
Margin (%)	52.9	51.9	53.2	52.8
Employee Cost	1,923	2,651	2,762	3,288
Other Expenses	3,333	4,775	4,250	5,978
EBITDA	4,573	7,643	5,801	8,519
YoY gr. (%)	43.4	67.1	(24.1)	46.9
Margin (%)	14.8	15.7	13.7	14.3
Depreciation and Amortization	922	1,264	1,345	1,572
EBIT	3,651	6,379	4,456	6,947
Margin (%)	11.8	13.1	10.5	11.6
Net Interest	641	1,144	1,122	1,310
Other Income	430	885	637	897
Profit Before Tax	3,440	6,120	3,972	6,534
Margin (%)	11.1	12.5	9.3	10.9
Total Tax	191	1,517	1,000	1,645
Effective tax rate (%)	5.6	24.8	25.2	25.2
Profit after tax	3,249	4,603	2,972	4,889
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,249	4,603	2,972	4,889
YoY gr. (%)	29.4	41.7	(35.4)	64.5
Margin (%)	10.5	9.4	7.0	8.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,249	4,603	2,972	4,889
YoY gr. (%)	29.4	41.7	(35.4)	64.5
Margin (%)	10.5	9.4	7.0	8.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,249	4,603	2,972	4,889
Equity Shares O/s (m)	257	257	257	257
EPS (Rs)	12.7	17.9	11.6	19.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	8,602	9,596	10,346	12,096
Tangibles	8,602	9,596	10,346	12,096
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,467	3,731	5,076	6,648
Tangibles	2,467	3,731	5,076	6,648
Intangibles	-	-	-	-
Net fixed assets	6,135	5,865	5,270	5,448
Tangibles	6,135	5,865	5,270	5,448
Intangibles	-	-	-	-
Capital Work In Progress	62	-	-	-
Goodwill	20	16	16	16
Non-Current Investments	7,739	10,858	11,863	13,120
Net Deferred tax assets	1,673	1,215	1,215	1,215
Other Non-Current Assets	1,766	1,850	2,157	2,587
Current Assets				
Investments	-	-	-	-
Inventories	4,036	2,673	6,404	8,189
Trade receivables	6,154	8,035	9,315	12,284
Cash & Bank Balance	3,094	7,401	4,962	7,261
Other Current Assets	1,877	1,610	2,003	2,402
Total Assets	35,482	42,888	47,905	58,403
Equity				
Equity Share Capital	513	513	513	513
Other Equity	20,639	24,953	27,776	32,421
Total Network	21,152	25,466	28,290	32,934
Non-Current Liabilities				
Long Term borrowings	3,747	2,238	3,738	5,238
Provisions	-	-	-	-
Other non current liabilities	576	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,737	4,675	4,657	6,551
Other current liabilities	6,943	11,723	12,435	14,894
Total Equity & Liabilities	35,482	42,888	47,905	58,403

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	3,440	6,120	3,972	6,534
Add. Depreciation	922	1,264	1,345	1,572
Add. Interest	-	-	-	-
Less Financial Other Income	430	885	637	897
Add. Other	349	1,144	1,122	1,310
Op. profit before WC changes	4,711	8,528	6,438	9,416
Net Changes-WC	(841)	2,331	(7,008)	(3,241)
Direct tax	(171)	(1,517)	(1,000)	(1,645)
Net cash from Op. activities	3,700	9,341	(1,570)	4,531
Capital expenditures	(2,796)	(932)	(750)	(1,750)
Interest / Dividend Income	231	-	-	-
Others	(946)	(1,625)	(348)	(427)
Net Cash from Inv. activities	(3,512)	(2,556)	(1,098)	(2,177)
Issue of share cap. / premium	-	-	-	-
Debt changes	2,050	(1,509)	1,500	1,500
Dividend paid	(155)	(276)	(149)	(244)
Interest paid	(626)	(1,144)	(1,122)	(1,310)
Others	-	450	-	-
Net cash from Fin. activities	1,269	(2,479)	230	(54)
Net change in cash	1,458	4,306	(2,438)	2,299
Free Cash Flow	765	8,410	(2,320)	2,781

Source: Company Data, PL Research

Quarterly Financials (Rs m)

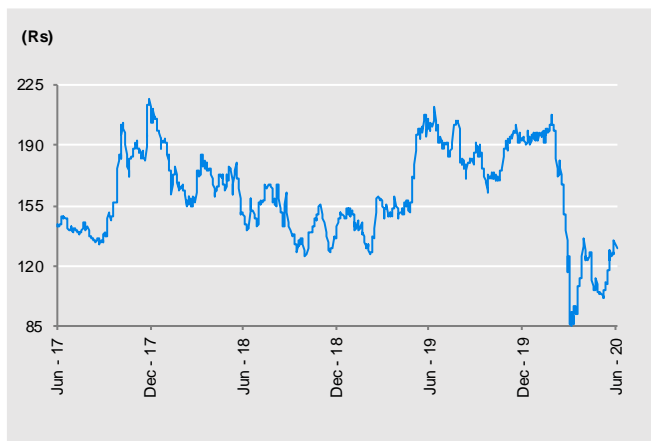
Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	13,218	11,802	12,180	11,579
YoY gr. (%)	79.7	111.3	67.5	7.6
Raw Material Expenses	9,429	7,595	8,460	8,225
Gross Profit	3,789	4,207	3,720	3,354
Margin (%)	28.7	35.6	30.5	29.0
EBITDA	1,796	2,572	1,712	1,563
YoY gr. (%)	38.7	244.8	67.6	3.4
Margin (%)	13.6	21.8	14.1	13.5
Depreciation / Depletion	305	309	326	324
EBIT	1,491	2,263	1,386	1,240
Margin (%)	11.3	19.2	11.4	10.7
Net Interest	179	247	401	316
Other Income	135	447	144	159
Profit before Tax	1,447	2,463	1,128	1,083
Margin (%)	10.9	20.9	9.3	9.3
Total Tax	445	394	356	322
Effective tax rate (%)	30.8	16.0	31.6	29.7
Profit after Tax	1,001	2,069	771	761
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,001	2,069	771	761
YoY gr. (%)	(2.3)	489.4	62.9	(45.6)
Margin (%)	7.6	17.5	6.3	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,001	2,069	771	761
YoY gr. (%)	(2.3)	489.4	62.9	(45.6)
Margin (%)	7.6	17.5	6.3	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,001	2,069	771	761
Avg. Shares O/s (m)	257	257	257	257
EPS (Rs)	3.9	8.1	3.0	3.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	12.7	17.9	11.6	19.1
CEPS	16.3	22.9	16.8	25.2
BVPS	82.5	99.3	110.3	128.4
FCF	3.0	32.8	(9.0)	10.8
DPS	0.5	0.9	0.6	1.0
Return Ratio(%)				
RoCE	16.3	24.3	14.9	19.8
ROIC	17.9	25.4	13.4	18.7
RoE	16.6	19.7	11.1	16.0
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	0.0	(0.1)
Net Working Capital (Days)	53	5	57	53
Valuation(x)				
PER	11.0	7.8	12.0	7.3
P/B	1.7	1.4	1.3	1.1
P/CEPS	8.6	6.1	8.3	5.5
EV/EBITDA	8.0	4.0	5.9	4.0
EV/Sales	1.2	0.6	0.8	0.6
Dividend Yield (%)	0.4	0.6	0.4	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-20	BUY	205	94
2	06-Feb-20	BUY	264	196
3	03-Jan-20	BUY	264	195
4	23-Dec-19	BUY	264	194

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	56
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	34	31
7	Capacite's Infraprojects	BUY	162	114
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	472	370
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	139	71
14	ITD Cementation India	BUY	67	50
15	J.Kumar Infraprojects	BUY	340	185
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	197
18	KNR Constructions	BUY	305	197
19	Larsen & Toubro	BUY	1,192	955
20	NCC	BUY	83	23
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	179
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	798	752
26	Triveni Turbine	BUY	83	68
27	Voltamp Transformers	BUY	1,244	1,020

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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